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Commodity Marketing

Strategies, Concepts, and Cases

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ISSN 2192-8096 ISSN 2192-810X (electronic)
Management for Professionals
ISBN 978-3-030-90656-6 ISBN 978-3-030-90657-3 (eBook)
https://doi.org/10.1007/978-3-030-90657-3

Translation from the German language edition: "Commodity Marketing" by Margit Enke et al.,

This Springer imprint is published by the registered company Springer Nature Switzerland AG.
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Preface

Many markets have become increasingly challenging environments for companies. One of the challenges that various companies face and that has a major impact on different stakeholders within and outside of companies is the "commodity trap." This trap refers to a situation in which companies lose their differentiated position and competitive edge and become alike. Different factors contribute to this situation, and escaping the commodity trap often takes major efforts. Manufacturers and service providers therefore have to develop and implement clever strategies to prevent or counteract commoditization.

The book *Commodity Marketing* aims to provide guidance in this regard. It explains key concepts and processes, discusses different strategies and tools, and illustrates the implementation of commodity marketing in specific contexts. As such, it provides a theoretical foundation on the one hand, while offering interesting practitioner insights on the other hand. The book is based on a previous publication that has been published in German language in three editions in the past few years. We thank all the authors who have contributed chapters to this volume as well as to past volumes.

The book *Commodity Marketing* illuminates the topic commodity marketing from multiple perspectives and in diverse settings. Taken together, the chapters provide a comprehensive overview which allows interested readers to explore different facets of commodity marketing. The book may serve as a textbook for students who want to learn about commodities, commoditization, and de-commoditization. It may also be of interest for executives in companies, whose offering includes commodities or products and services that gradually transform into commodities.

Overall, the intention of this book is to offer insights into important areas of commodity marketing and to provide impetus for a dialogue on the topic.

Freiberg and Ilmenau, Germany

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Part I

Fundamentals of Commodity Marketing

Commodity Marketing: An Introduction into Key Concepts and Processes

Margit Enke, Anja Geigenmüller, and Alexander Leischnig

1 Introduction

Positioning offerings and differentiating them from those of competitors are key tasks of marketing. For a particular category of products and services, namely commodities, these tasks create special challenges. Commodities are commonly referred to as products and services in a category that are perceived as largely similar. Typical examples of commodities include consumer goods (e.g. paper tissues, fruits or vegetables), industrial goods (e.g. chemicals, bulk material or metals) and services (e.g. logistics and transportation services, car rental services or call centres).

A major challenge for companies operating in commodity markets is the creation and communication of a unique selling proposition to differentiate offerings from those of rivals in the market. In addition to marketing commodities, commoditization requires companies to thwart the erosion of competitive advantages. Commoditization transforms products and services with a clear positioning and differentiation from competition into commodities, thus increasing the risk that companies get stuck in a "commodity trap". Commoditization implies that products and services lose

This chapter was originally published in German as Enke, M., Geigenmüller, A., & Leischnig, A. (2014). Commodity Marketing—Eine Einführung, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_1

their differentiating attributes and competitive edges and become alike and replaceable from the buyers' point of view. For companies having made major investments to create unique offerings, this process is a major challenge. It can lead to price wars, decreasing margins and financial losses.

While commodities and the process of commoditization have received some attention in the academic literature, the existing research landscape is rather fragmented. The purpose of this article is to further enhance the understanding of commodity marketing (1) by contributing to a deeper understanding of commodities and the processes of commoditization and de-commoditization, (2) by providing vision for drivers of commoditization and (3) by illustrating strategies to thwart the commoditization of offerings. This article contributes to the literature by distinguishing different types of commodities. Furthermore, it explains how factors falling into four categories (i.e. company-related, offering-related, buyer-related, and market-related factors) can increase the commoditization of offerings. Finally, this article contributes to prior work by illustrating de-commoditization approaches, thus providing guidance for companies in a commodity trap.

The remainder of this article is organized as follows. The next section focuses on the conceptual background and provides definitions of key concepts and processes. Next, attention turns towards the discussion of antecedents of commoditization. Hereafter, this article outlines de-commoditization strategies. The article concludes with a discussion of implications.

2 Conceptual Background

2.1 Types of Commodities

Since its first mentioning, the meaning of the term "commodity" has changed several times. Originally understood as a product classification to describe particular goods for which specific marketing strategies should be developed and implemented (Winzar, 1992), the term has been frequently used to describe agricultural products such as corn and wheat (e.g. Ferrell et al., 2014 for a more detailed discussion). Considering that the perception of competing offerings of various categories can change in such a way that offerings become alike, the understanding of what commodities are has changed. Commodities have been referred to as homogeneous products and services whose primary differentiating feature was the price (Chafin & Hoepner, 2002; Fackler & Livingston, 2002; Hayenga & Schrader, 1980; Lurie & Kohli, 2002).

This article seeks to further deepen the understanding of commodities by adding a buyer perspective to the predominant seller-based definition of commodities. "Steadily and deliberately as the market transforms into a commodity, many buyers begin to perceive the products and its suppliers to be homogeneous, and price becomes the predominant buying criterion" (Rangan & Bowman, 1992, p. 217). Buyers' purchase decisions typically depend on an offering's capacity to satisfy

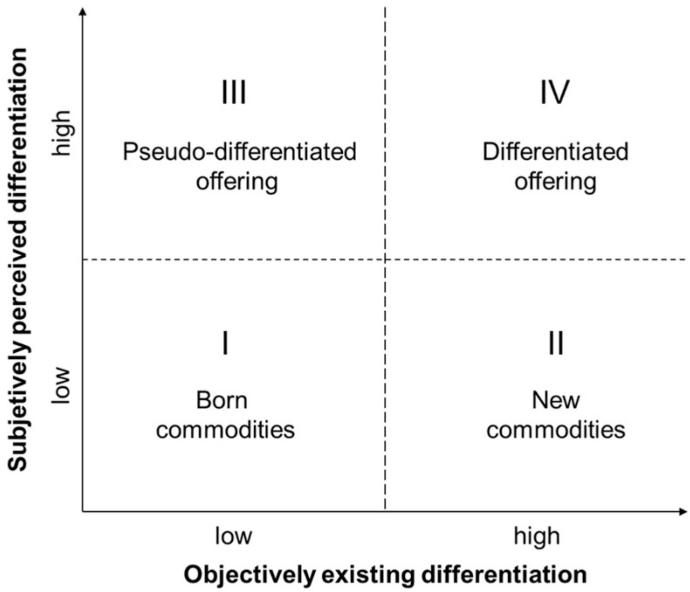

Fig. 1 Objectively existing vs. subjectively perceived differentiation between offerings

buyer needs (Garvin, 1988), which is influenced by the value that an offering may provide to a buyer. According to Woodruff (1997, p. 142), customer value refers to the "perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations". A company and its offering are differentiated when value-related activities are performed in such a way that they lead to perceived superiority for those attributes that buyers fancy (Day & Wensley, 1983). Besides an offering's (objective) features, it is the buyers' (subjective) perception thereof that matters (Dickson & Ginter, 1987). It affects the extent to which specific benefits and the positioning of an offering vis-à-vis competing offerings are recognized by buyers. It follows from this that competing offerings—though being objectively different—might be perceived as homogeneous and replaceable and thus commodities. In line with this, this article suggests the following definition:

> Commodities are products and services that buyers perceive as homogeneous and replaceable, even though they have more or less differentiating attributes.

Figure 1 seeks to further clarify the distinction between objectively existing and subjectively perceived differentiation of an offering from competing offerings in a market. Based on these two dimensions, Fig. 1 shows four areas that reflect different types of products and services. Commodities are the products and services in the quadrants I and II.

- *Born commodities* (quadrant I) are products and services with a low level of objective differentiation. In addition, these products and services are perceived as undifferentiated or homogeneous by buyers. Offerings in this category that are by nature due to their intrinsic attributes conceivable as born commodities include products and services such as agricultural goods, raw materials, water or energy supply.
- *New commodities* (quadrant II) are products and services with more or less existing objectively differentiating attributes. Yet, this differentiation is (almost) not perceived by buyers. As a consequence, the offerings in these categories are perceived as alike and replaceable. Examples include products and services whose former unique positioning has become blurred and fuzzy and whose competitive edge has disappeared over time.
- *Pseudo-differentiated offerings* (quadrant III) are products and services with a low extent of objective differentiation. Yet buyers perceive the products and services as different from rival offerings. Pseudo-differentiation (Dickson & Ginter, 1987; Lancaster, 1979) exists when companies create imaginary differences, for example, by means of branding and advertising activities. A major challenge for this type of offerings is to keep the perception of difference up.
- *Differentiated offerings* (quadrant IV) are products and services with objectively differentiating attributes that distinguish them from competing offerings in the market. In addition, these products and offerings are perceived as different by buyers. Differentiated offerings have a clear position in the mind of buyers, which can unleash many positive effects such as a high loyalty or a higher willingness to pay a premium price (e.g. Aaker, 1996; Keller, 1993).

2.2 Commoditization and De-commoditization

While the previous section has focused on different types of offerings, with some of them having a commodity status, this section adopts a process view and discusses the underlying process of commoditization that transforms formerly differentiated offerings into commodities.

> Commoditization is defined as a process through which products and services become commodities and are perceived by buyers as homogeneous and replaceable, even though they have more or less differentiating attributes.

Commoditization is a major challenge for differentiated and pseudo-differentiated offerings (quadrants III and IV in Fig. 1), as these products and services might lose their competitive edge. Through commoditization, these offerings transform into new commodities. As a consequence, competing offerings in a market are perceived as alike and buyers do not perceive differences anymore (Anderson & Narus, 2004; DeBruicker & Summe, 1985; Mathur, 1984).

The stronger the commoditization of offerings is, the higher are the challenges for companies to differentiate their products and services from those of competitors. The loss of perceived differentiation implies that buyers in a market can obtain products and services in subjectively similar quality from alternative sellers, which leads to an increasing price sensitivity, decreasing switching costs, and decreasing loyalty (Mudambi, 2002; Reimann et al., 2010a; Stanko & Olleros, 2013; Weil, 1996). To prevent such unfavourable effects, companies in many different industries take countermeasures and de-commoditize.

> De-commoditization is defined as a process through which products and services that are perceived by buyers as homogeneous and replaceable, even though they have more or less differentiating attributes, become (pseudo)-differentiated offerings.

Commoditization and de-commoditization are antagonistic processes. Prior work on the topic indicates they represent phases in an offering's lifecycle, starting with differentiation, which is then followed by commoditization, price competition and de-commoditization (DeBruicker & Summe, 1985; Mathur, 1988). When companies launch a new product or services, they usually position the new offering vis-à-vis competing offering and highlight its value proposition. Over time, however, a variety of factors such as the occurrence of follower products and competitor imitation or a loss of buyer interest in the product can trigger commoditization. As a consequence, the relevance of price as a purchase criterion increases and price competition increases. To prevent cutthroat price wars and re-establish perceived differentiation, companies pursue de-commoditization strategies.

While the transformation of new commodities into offerings that are perceived as different (again) can be achieved based on changes of core attributes (e.g. new functionalities) as well as the modification of more peripheral attributes (e.g. a new advertising campaign) (Dickson & Ginter, 1987; Matthyssens & Vandenbempt, 2008), for born commodities the repertoire of de-commoditization efforts is less comprehensive. Because born commodities are homogeneous by nature in their intrinsic attributes, de-commoditization strategies often concentrate on extrinsic elements (e.g. Araujo & Spring, 2006; Saunders & Watt, 1979; Stanton & Herbst, 2005).

3 Drivers of Commoditization

Different factors can trigger or strengthen the commoditization of offerings. Figure 2 gives an overview of different categories of commoditization drivers. Specifically, it distinguishes between company-related, offering-related, buyer-related and market-related factors.

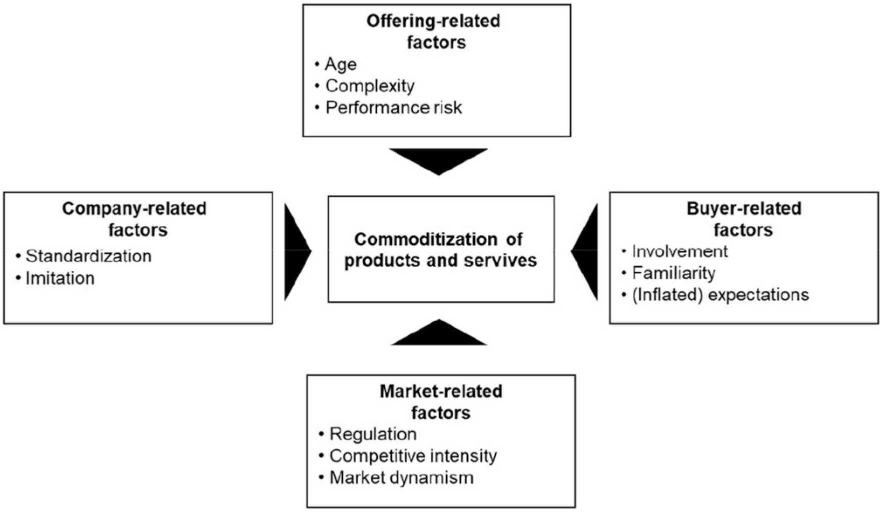

Fig. 2 Commoditization drivers

3.1 Company-Related Factors

Standardization of offerings and imitation of competition are two major forces that can increase commoditization. *Standardization* of products and services can vary from low ("one of a kind") to high ("commodities") (Brownell & Merchant, 1990). It aims at generating economies of scale in the production and delivery of goods and services and is a means for achieving operational efficiency (Baldwin & Clark, 2000; Perera et al., 1999; St. John et al., 2003). However, standardization of entire products or components (modularity) reduces the ability of competitors to differentiate their offerings (Mathur, 1984; Reimann et al., 2010a).

In addition to standardization, *imitation* of competition can increase the commoditization of offerings. As markets mature, first-movers often experience the occurrence of me-too-offerings sold by late-movers (Hax, 2005; St. John et al., 2003). One of the reasons for such a strategy is that imitation costs are frequently lower than innovation costs (Lieberman & Montgomery, 1998). In addition, late-movers may adapt their offerings to the standards set by a first-mover in an attempt to overcome market barriers, mitigate rivalry and reduce risk (Lieberman & Asaba, 2006). As a consequence of standardization and imitation behaviours, the availability of products and services with similar value propositions increases. For buyers, this makes it difficult to distinguish between alternative offerings, thus increasing commoditization.

3.2 Offering-Related Factors

Besides corporate factors, characteristics of the offering itself can increase commoditization. In particular, an *offering's age*, complexity and performance risk should influence commoditization. As products or services mature and progress in their lifecycle stage, offerings at similar quality levels and with similar features appear on markets (Day, 1981; Lambkin & Day, 1981). One of the reasons for such a development is that critical knowhow and technology diffuse (e.g. because the protection of intellectual property expires). Hence, production processes align and homogeneity of offerings increases (Homburg et al., 2009).

The *complexity (or simplicity)* of an offering can contribute to commoditization, too. Complexity can be conceived as a function of an offering's number, heterogeneity, and interconnectedness of components and features (Closs et al., 2008). High complexity may create market barriers to imitation and substitution. In addition, from the perspective of buyers, highly complex offerings are often associated with uncertainty and risk (e.g. pertaining to functionalities, reliability and quality). Thus, the purchase of highly complex offerings often involves extensive information search and evaluation processes, in which buyers screen and assess alternative options. For less complex or simple offerings, the barriers to imitation and substitution are lower, and buyers' inclination to engage in comprehensive information processing may be lower.

Finally, offerings' *performance risk* may influence commoditization. Performance risk refers to the possibility that products or services may not function as expected and do not provide the anticipated benefits (Grewal et al., 1994). The higher the likelihood for failure and unmet expectations, the more important are differences between competing offerings available on a market. Hence, a high performance risk provides a chance for differentiation (Homburg et al., 2009). When the performance risk is low, however, less opportunities for differentiation, for example, via reliability and predictability, exist. Thus, perceived homogeneity and commoditization of offerings increase.

3.3 Buyer-Related Factors

A further set of commoditization drivers are buyer-related factors, including buyers' involvement, their product experience, and expectations. *Involvement* refers to the extent to which an activity (e.g. a purchase act) or an object (e.g. a product or service) is of relevance and interest to an actor (e.g. Clarke & Belk, 1978; Howard & Sheth, 1969; Zaichkowsky, 1985). While involvement with products is associated with the perception of attribute differences and product importance (Howard & Sheth, 1969), involvement with purchases affects buyers' information search and the time spent for searching and selecting items (Clarke & Belk, 1978). Low involvement implies that buyers spend little time to evaluate offerings and may not perceive differences between competing offerings. As such, products available for purchase might appear as homogeneous and replaceable, which contributes to their commodity status.

Furthermore, buyers' *familiarity* with products and services can influence commoditization. Familiarity refers to a buyer's number of experiences with a product or service that have been accumulated over time (Alba & Hutchinson, 1987). Familiarity is based on a buyer's product-related purchase and consumption history and it grows with the number of experiences made. As familiarity with products and services grows, purchase confidence grows too and corporate activities aimed at supporting buyers in their purchase-decision making are of declining value (Hill, 1990). While inexperienced buyers with a low level of familiarity might appreciate comprehensive offering bundles, these offerings lose their differentiating value vis-à-vis competing offerings for more experienced buyers with a high level of familiarity (Albert, 2003; DeBruicker & Summe, 1985; Hill, 1990; Mathur, 1984, 1988).

Finally, buyers' expectations, and especially the *inflation of expectations*, can increase commoditization (Homburg et al., 2009). As a buyer's purchase history and relationship with a company develops, attributes of products and services that have been perceived as difference makers at the beginning of the relationship may lose their differentiating power due to increasing buyer expectations. The increase of expectations implies that the perceived value contribution of specific product and service attributes changes and what has been perceived as unique in an early relationship stage might become a basic factor in more advanced stages (Mooi & Frambach, 2012).

3.4 Market-Related Factors

Commoditization of offerings is also driven by characteristics of the environment in which companies are operating in. In particular, market regulations, competitive intensity, and market dynamism can trigger the commoditization of products and services. *Market regulation* is an element of the institutional environment and the normative context of companies (Oliver, 1996). Regulations encompass explicit and implicit rules and can come in various forms such as product standards (e.g. safety or environmental standards), industry norms (e.g. accepted forms of business conduct), or trade regulations (e.g. tariffs). In highly regulated markets, companies' opportunities to differentiate offerings from those of competitors might be smaller than in less regulated markets due to limitation of the organization's action space. In addition, standards ensure that products and services in a category offered by different companies meet the same predefined quality or performance levels, which, from the buyers' perspective, can contribute to perceived homogeneity.

Besides regulatory factors, the *intensity of competition* in a market should influence the commoditization of offerings. Competitive intensity refers to the extent of rivalry that a company experiences in a market (Jaworski & Kohli, 1993). While in highly competitive markets, buyers can choose from a variety of product and services options offered by different organizations, in the absence of competition, customers "are "stuck" with the organization's products and services" (Jaworski & Kohli, 1993, p. 57). Thus, under conditions of low competitive intensity, the pressure on companies to be market-oriented is lower than in highly competitive markets. Innovation activities and the differentiation of products and services from those of rivals have a less important role when competition intensity is low than when it is high. The absence of or weak competition in a market should therefore increase commoditization.

Finally, *market dynamism* should influence commoditization. Market dynamism is a key component of environmental uncertainty and refers to the rate of change in a company's environment (Achrol & Stern, 1988). Highly dynamic markets produce contingencies for companies (e.g. changes in customer demand, technology, competition, etc.). In highly dynamic markets, routinization of processes is difficult and established templates for the evaluation of different strategic options often do not exist (Homburg et al., 1999). In contrast, in stable markets, predictability and the opportunity to establish organizational routines are high. Market stability has been referred to as an important component of industry-level commoditization (Reimann et al., 2010a).

4 Strategies for De-commoditization

4.1 Overview of De-commoditization Approaches

Prior work reveals a variety of ways that companies could take to de-commoditize offerings and (re-)establish differentiated positions (e.g. Dickson & Ginter, 1987; Matthyssens & Vandenbempt, 2008; Rangan & Bowman, 1992; Sashi & Stern, 1995). Drawing on the strategy and strategic management literatures (e.g. Barney, 2002; Mintzberg, 1988; Porter, 1980, 1985), Matthyssens and Vandenbempt (2008) suggest three major approaches to de-commoditize (Fig. 3). While two of these approaches are non-price based, the third approach considers also the price of offerings and focuses on the provision of a fair value-price relation. Companies

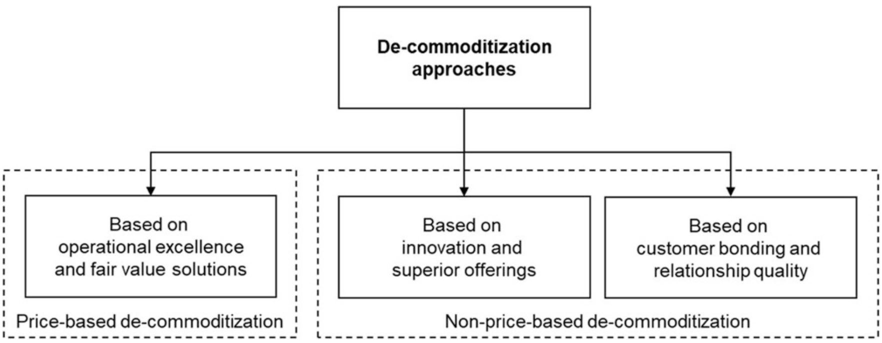

Fig. 3 De-commoditization approaches (based on Matthyssens & Vandenbempt, 2008)

exposed to commoditization may combine these approaches when they define de-commoditization strategies.

4.2 De-commoditization Based on Operational Excellence and Fair Value Solutions

One possible pathway to de-commoditize offerings and (re-)established a differentiated position is to aim at *cost leadership* and the provision of a fair value offer (Matthyssens & Vandenbempt, 2008). This approach implies that companies understand their value chain in order to be able to analyse costs, determine cost drivers and, eventually, achieve the position as the cost leader (Porter, 1980). Cost reductions could be achieved in a number of ways, such as expansion of production capacities, economies of scales, learning effects, outsourcing, relocation to low-cost destinations, etc. The magnitude of the cost advantage, however, and its transformation into a perceived price differentiation depend on the structure of the industry in which a company is operating in (Porter, 1980). Especially in high-technology industries, in which offerings suffer from commoditization, this approach has been mentioned as an effective countermeasure, as a steep drop in price could be achieved by new component parts with significantly enhanced performance-to-price ratios (Rangan & Bowman, 1992). Furthermore, increased automation and digitalization help companies establish smart manufacturing and accomplish efficiency gains in the production of offerings (Kusiak, 2018; Parhi et al., 2021).

Another way to enhance operational excellence involves the analysis of the existing product and services portfolio and the elimination of unprofitable items. By pursuing such a *compression strategy*, companies strip away those components of offerings, in which profitability will hardly be achieved (e.g. because cutthroat price wars in the market put companies under pressure) (Rangan & Bowman, 1992). Hence, this strategy helps reduce portfolio costs and might release resources that could be reassigned to more profitable products or product lines in a company's offering portfolio.

Although the approaches mentioned above could help companies (re-)establish a differentiated position, their effectiveness and long-term success depends on many factors. For example, when there is more than one aspiring cost leader in an industry, the intensity of competition between them is usually high, which can affect profitability negatively (Porter, 1980). In addition, product eliminations and the streamlining of an offering portfolio may decrease customer loyalty and could increase customer switching (Rangan & Bowman, 1992). Hence, companies that aim at developing a de-commoditization strategy should consider combinations of price-based and non-price-based efforts (Homburg et al., 2009).

4.3 De-commoditization Based on Innovation and Superior Offerings

In addition to de-commoditization based on operational excellence and fair value offers, companies could consider approaches based on innovation and product superiority. *Servitization* and the development of service-based revenue models is one approach to achieve a differentiated position vis-à-vis competing offerings in the market (Mathur, 1984; Matthyssens & Vandenbempt, 2008; McCune, 1998; Oliva & Kallenberg, 2003; Rangan & Bowman, 1992; Robinson et al., 2002). Servitization is based on the idea that manufacturers shift the focus from pure manufacturing to manufacturing and service delivery (Lay et al., 2010), which implies a transition from traditional product business to providing auxiliary service offerings and value-added solutions (Eggert et al., 2011). Servitization thus involves the reconfiguration of manufacturers' business models (Forkmann et al., 2017). The types of services offered by manufacturers can be classified as smoothing, adapting or substituting services (Cusumano et al., 2015). While smoothing services (e.g. warranties, maintenance and repair, or technical support) help create a seamless product sale or usage and do not change the product functionality significantly, adapting services (e.g. customization, solution provision, or advanced training and consulting) expand product functionality or help customers identify new uses cases or tailor the product to specific conditions (Cusumano et al., 2015). Finally, substituting services (e.g. software as a service, or data processing services) replace the purchase of a product (Cusumano et al., 2015). Digitalization provides companies with new opportunities for digital service infusion (Gebauer et al., 2021) and the creation of digitalized product-service systems (Mosch et al., 2021). An example is the use of digital twins in cyber-physical systems in manufacturing (Grieves, 2019).

A further approach to de-commoditize offerings relates to *branding* and the development of strong brands (Betts, 1994; Dumlupinar, 2006; McQuiston, 2004; Saunders & Watt, 1979; Sinclair & Seward, 1988; Stanton & Herbst, 2005). According to the American Marketing Association (2021), a brand is defined as "a name, term, design, symbol or any other feature that identifies one seller's goods or service as distinct from those of other sellers". Brands serve different functions, and prior work has demonstrated a variety of favourable product-related price-related, communication-related and channel-related effects (e.g. Keller, 2002 for an overview). For example, brands can enable companies to command a price premium and they increase customer loyalty (Aaker, 1996). Companies in commodity markets may use brands at the organizational level (corporate brands) as well as at the offer level (product or services brands) to distinguish themselves from rivals in the market. The relevance of the brand as a decision criterion for buyers in a purchase situation depends on the perceived benefits that the brand may provide (e.g. Fischer et al., 2010). For example, McQuiston (2004, p. 353) notes that branding of a commodity product can be effective "if the process is carried out in a logical manner that is focused around the brand being perceived as providing a total solution to the customer". Exemplary benefits are the functional, experiential and symbolic benefits that brands may offer (Park et al., 1986). By designing, configuring and using brand elements (e.g. names, logos, symbols, packaging, jingles, etc.), companies can determine the tangibles of a brand, which in combination with brand intangibles (e.g. brand image, personality and experiences) help create a differentiated position in a market (Keller, 2002). Furthermore, the formation of brand alliances, for example in the form of ingredient branding, has been mentioned as a useful strategy for companies to differentiate themselves and their offerings in commodity markets (Panwar & Khan, 2020). Ingredient branding means that an element or a component of a product is branded and becomes visible to buyers (Kotler & Pfoertsch, 2010). Ingredient brand is therefore conceived as a form of co-branding. A popular example is the brand "Intel" often seen on laptops and PCs together with the brand name of the machine, branding the processor used inside of the machine (Norris, 1993).

4.4 De-commoditization Based on Customer Bonding and Relationship Quality

A further de-commoditization approach centres around the relationships between companies and their customers (Matthyssens & Vandenbempt, 2008). This approach may be used for increasingly commoditized offerings as well as for born commodities (Blois, 1997; Johnson et al., 2006; Reimann et al., 2010b; Wolfe, 1977). For example, Alajoutsijärvi et al. (2001) highlight the role of customer relationship strategies to smooth industry-specific business cycles in the fine paper industry. In addition, studies in the commodity chemical sector indicate that service and relationship management "are key strategies used by companies to escape the commodity trap and gain competitive advantage" (Robinson et al., 2002, p. 149). Finally, Albert (2003) shows how companies can leverage micro-segmentation and customer-tailored communication to succeed in commodity markets. De-commoditization based on customer bonding and relationship quality requires that companies have customer orientation and install programmes to manage the ties and touchpoints with customers effectively.

Customer orientation "is the sufficient understanding of one's target buyers to be able to create superior value for them continuously" (Narver & Slater, 1990, p. 21). A customer-oriented company develops the necessary capabilities to understand an immediate target buyer's needs and wishes as well as the needs and wishes of more distal, derived markets (Slater & Narver, 1994). Prior research has shown that successful companies configure their business approach around customer orientation, using different ways for achieving high performance (Frambach et al., 2016). For example, an analysis of companies' sales approaches indicates that customer-focused selling is an element of all identified sales approach configurations leading to firm profitability (Leischnig & Kasper-Brauer, 2016).

The way in which companies manage customer relationships can contribute to de-commoditization, too. *Customer relationship management* (CRM) is "a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments" (Payne & Frow, 2005, p. 168). CRM entails the management of relationships from their beginning to end (Reinartz et al., 2004). It involves activities such as customer information management, customer segment value management and multi-channel management and has been shown to increase company performance through enhanced product performance (Ernst et al., 2011). Prior work indicates that the effect of CRM on company performance is mediated by the business strategies differentiation and cost leadership, whereby the relationship between CRM and differentiation is stronger when commoditization is high than when it is low (Reimann et al., 2010b).

Finally, companies may de-commoditize by creating unique experiences throughout the customer journey (Lemon & Verhoef, 2016). The total customer experience is a multi-facetted construct that has sensorial, cognitive, emotional, behavioural and social dimensions (Verhoef et al., 2009). It emerges from a buyer's contacts with touchpoints along the customer journey, spanning pre-purchase, purchase, and post-purchase situations (Homburg et al., 2017). *Customer journey design* and the definition of journey models have become an important means for companies to create value for buyers. Customer journey design affects the extent to which buyers "perceive multiple brand-owned touchpoints as designed in a thematically cohesive, consistent, and context-sensitive way" (Kuehnl et al., 2019, p. 552). Companies use different journey models when they design customer experience journeys. While in smooth journey models companies enrol customers in loyalty loops and create a convenience-oriented, easy and predictable customer journey (e.g. FedEx in mail/parcel delivery or British Gas in utility provision), companies favouring a sticky journey model enrol customers in involvement spirals and create an exciting, unpredictable and sticky customer journey (e.g. Instagram as a content network or Zara in fast fashion) (Siebert et al., 2020). Prior work shows that an effective customer journey design has a positive effect on customer loyalty (Kuehnl et al., 2019).

5 Conclusion

This article aimed to contribute to a better understanding of commodity marketing by illuminating the nature of commodities and the processes of commoditization and de-commoditization. This article suggests a classification of offerings based on their objectively existing and subjectively perceived differentiation and refers to commodities as those products and services that buyers perceive as homogeneous and replaceable, even though they have more or less differentiating attributes. In addition, this article discussed different drivers of commoditization and shed light on offering-, buyer-, market- and company-related factors. Finally, this article outlined approaches that companies could take to de-commoditize and thus prevent or counteract the commoditization of offerings.

Future studies on the topic could examine the antecedents of commoditization empirically and by so doing provide insights into the effect sizes of particular factors. Furthermore, future work could also examine the de-commoditization approaches, thus providing insights into the effectiveness of particular measures or combinations thereof in preventing or reducing commoditization. From an epistemological point of view, these studies should consider variance theories as well as configuration theories as inquiry systems to better understand the net effects and the configurational effects of the particular factors under investigation and their impact on the outcome of question. This article seeks to provide impetus for further work on commodities and the processes of commoditization and de-commoditization.

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Commodity Differentiation: A Cross-Industry Approach

Boas Bamberger, Christian Homburg, Matthias Staritz, and Stephan Bingemer

1 Introduction

The automotive supply industry finds itself caught in the commodity trap. Companies such as Bosch Automotive, Continental, or Saint Gobain Sekurit face a market where innovations get imitated ever more quickly and products become increasingly substitutable. This phenomenon also extends to other industries. Whether in mechanical engineering or chemicals, consumer goods, pharmaceuticals, or financial services, competing suppliers' offerings become increasingly similar. Differences are vanishing and customers increasingly perceive offerings as interchangeable. More than 70% of managers confirm this trend in a survey conducted by the Institute for Market-Oriented Management at the University of Mannheim.

This chapter was originally published in German as Homburg, C., Staritz, M., & Bingemer, S. (2014). Commodity-Differenzierung – Ein branchenübergreifender Ansatz, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_2

The consequences of this phenomenon, known in science and practice as commoditization, are increasing competition, falling prices, and shrinking profit margins. What can companies do? Is commoditization an inevitable fate? Our study, at least, does not support this assumption. The study shows that companies that operate a systematic and integrative product differentiation management can sustain their success even in commodity markets. These companies stay successful because they achieve a high product differentiation excellence level. This conviction derives from a cross-industry survey of about 350 marketing and sales managers, assessing the current state of product differentiation management in practice. The study is particularly informative due to its remarkable database. For over 100 of the participating companies, apart from interviewing marketing and sales managers, it was also possible to survey a representative selection of customers. This unique database enables a holistic view of the topic of product differentiation.

However, how exactly should companies proceed? What options are open to them? What are the key levers? Product differentiation is complex: Managers have an almost unmanageable selection of differentiation instruments at their disposal: Focusing on specific product features or product design, designing packaging and the product environment, offering value-added services, building and maintaining a brand and reputation, and shaping customer relationships are just a few examples. Extant research in economics, strategic management, and strategic marketing already deals with differentiation on a superordinate and conceptual level. In addition, there is a wide range of practice-oriented literature with tips and tricks for successful product differentiation—these usually only deal with individual instruments and facets of the topic. However, when it comes to designing and implementing an integrative product differentiation management system, this large body of literature often leaves busy managers stranded. As part of our study, we had many conversations with marketing and sales executives. Again and again, we heard rhetorical questions or statements such as: “When should I read all these articles and books? What we need is something that is comprehensive, understandable, and pragmatic!” Precisely these questions are the starting point of the present study. Drawing on an extensive empirical survey and many analyses, we derived a three-dimensional Product Differentiation Excellence approach that helps managers to navigate a way through the thicket of product differentiation. We present this Product Differentiation Excellence approach (PDE approach) below.

2 The Product Differentiation Excellence Approach

2.1 What Is the Product Differentiation Excellence Approach?

Our study shows that companies achieving above-average success with their differentiation management take an integrative approach to product differentiation instead of optimizing individual differentiation instruments in isolation. The central aspects repeatedly emerging from our various analyses fall into three foundational areas: Use

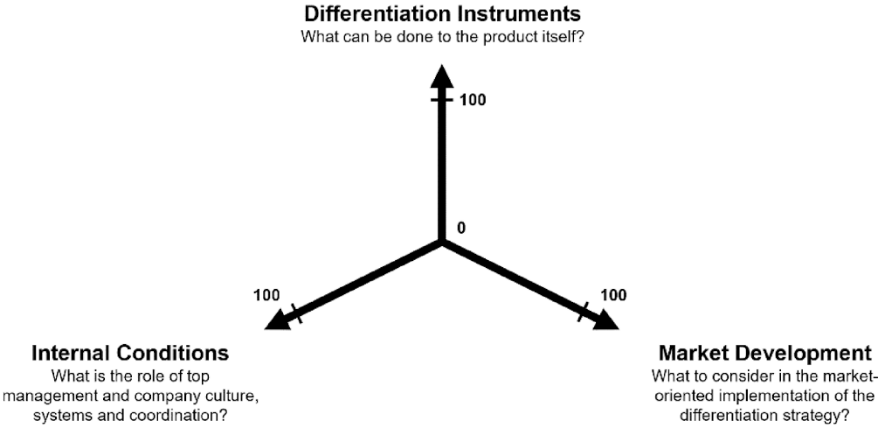

Fig. 1 Overview of the Product Differentiation Excellence approach

of differentiation instruments, appropriate orientation of market development, and ensuring suitable internal conditions. These three areas form the three dimensions of our PDE approach (see Fig. 1).

The differentiation instruments dimension stands for the intensity of product-related differentiation management. In other words, it is about what and how much is done to the product itself. However, product modifications alone are not enough. Differentiation management is only successful in conjunction with establishing appropriate internal conditions and optimizing market development, i.e., aligning both with the differentiation strategy's objectives. Therefore, the market development dimension focuses on the application of market segmentation (and prioritization) and an appropriate design of the marketing mix instruments. The internal conditions dimension deals with aspects including top management commitment, company culture, systems, and coordination. This comprehensive understanding is the basis of our Product Differentiation Excellence approach.

Comparing companies adopting a holistic approach to their differentiation management by balancing the three PDE dimensions with those exhibiting an unbalanced profile reveals significant performance differences. Balanced companies were 40% more successful (in terms of return on sales) than the rest, regardless of the extent of their Product Differentiation Excellence. This clearly shows that it is by no means sensible to strive for perfection in one or two dimensions and neglect another.

2.2 What Is the Benefit of Product Differentiation Excellence?

There is no single "magic" lever for achieving a high level of product differentiation excellence and subsequent success. For most companies, achieving a high level of Product Differentiation Excellence involves a time-consuming process of change at various points. The question therefore arises: Is the effort of optimizing product

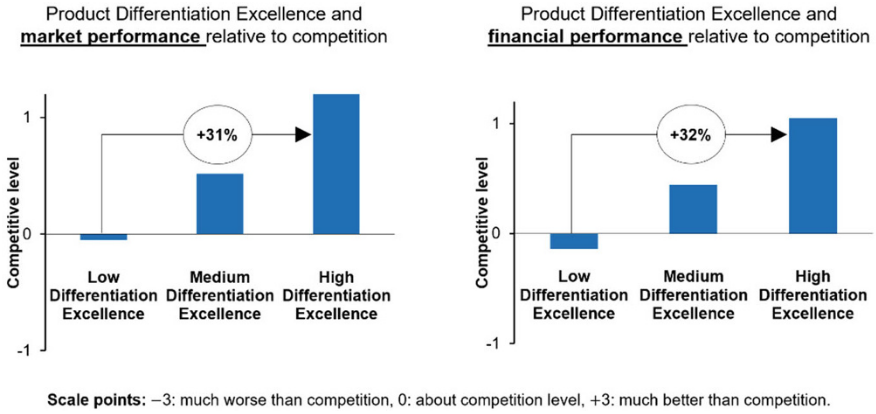

Fig. 2 Performance implications of Product Differentiation Excellence

differentiation management worthwhile for companies at all? What impact does the systematic management of product differentiation have on success? To this end, we compared companies with low, medium, and high product differentiation excellence in terms of two different success measures (see Fig. 2).

The first success measure is **market performance**. Market performance measures the company's customer- and market-related success compared to its competitors over the past three years. The success measure combines four key success dimensions: relationship-related, price-related, quantity-related, and a strategic dimension. The relationship-related dimension deals with issues such as customer satisfaction and customer loyalty. In the price-related success dimension, we measured customers' willingness to pay. The quantity-related dimension measures whether the company achieved its sales target. The strategic dimension covers, for example, questions about the strength of the product in the market. As can be seen, high Product Differentiation Excellence translates into higher market performance. The second success measure is the company's **financial performance**, represented by the average return on sales achieved over the last three years. Since the absolute level of return on sales varies significantly by industry, Fig. 2 presents financial performance relative to competitors. The figure reveals that a systematic approach to product differentiation management has substantial advantages for both market and financial performance. The mean differences shown are statistically significant.

2.3 How Can the PDE Approach Be Used in the Company?

Managers can use the PDE approach in a variety of ways. It is an ideal tool for structuring and sensitizing the essential success factors of a product differentiation strategy. Furthermore, this approach allows a systematic evaluation of one's own product differentiation's strengths and weaknesses. The checklists at the end of the introduction to each PDE dimension may guide such an evaluation. The various dimensions are evaluated by assigning point values for the fulfillment of the defined excellence criteria on a scale from 0 (“does not apply at all”) to 100 (“fully applies”). Appropriate evidence should always support the assessment. To obtain the total value for a dimension, compute the (weighted) average over the single criteria’ values. Weighting can be particularly useful if specific criteria do not apply to a company. Following the assessment, draw up the differentiation excellence profile, which gives an initial impression of product differentiation management’s strengths and weaknesses. For this purpose, plot the total values calculated for each of the three dimensions in a coordinate system (see Fig. 1). The single values are then linked together.

In this context, the question arises about the exact point value at which a company can be considered “excellent” on one dimension. There is hardly ever a company that achieves the maximum score of 100 points. From our experience, companies that achieve a score of around 80 or more points on one dimension in a (“self”-critical) assessment qualify already as excellent.

3 “Differentiation Instruments” Dimension

3.1 Fundamental Instruments for Product Differentiation

What opportunities are there for product differentiation at all? In practice, this fundamental question receives too little attention. From discussions with experts and our consulting experience, we know that managers rarely systematically consider which differentiation instruments should find use in their own companies and at what intensity. Many promising options, therefore, remain unconsidered. To structure the multitude of differentiation instruments and ensure not to forget any option, it is worth thinking about them as a shell model (cf. Homburg & Krohmer, 2009; see also Levitt, 1980). In this model, a product consists of a product core and various shells that wrap around this core—similar to onion skins (see Fig. 3).

The product core stands for those properties or components of a product that are indispensable for satisfying the customer’s basic requirements. Take, for example, a sports car for which specific driving characteristics such as acceleration and cornering behavior would be the product core. In the case of a flight, this would be simply the transport from A to B. The product core of a carton of milk in the supermarket would be the milk itself. The shells enrich this product core. There is a wide range of differentiation instruments from which to choose. Instruments include product enrichment through superior design or additional features, the design of the product environment through unique packaging, or the shaping of the physical environment at the point of sales. Complementary services are another way to differentiate products. Also, product and company brands and the quality of customer relations are essential differentiation instruments. Table 1 provides an overview of typical instruments and examples of their use in practice.

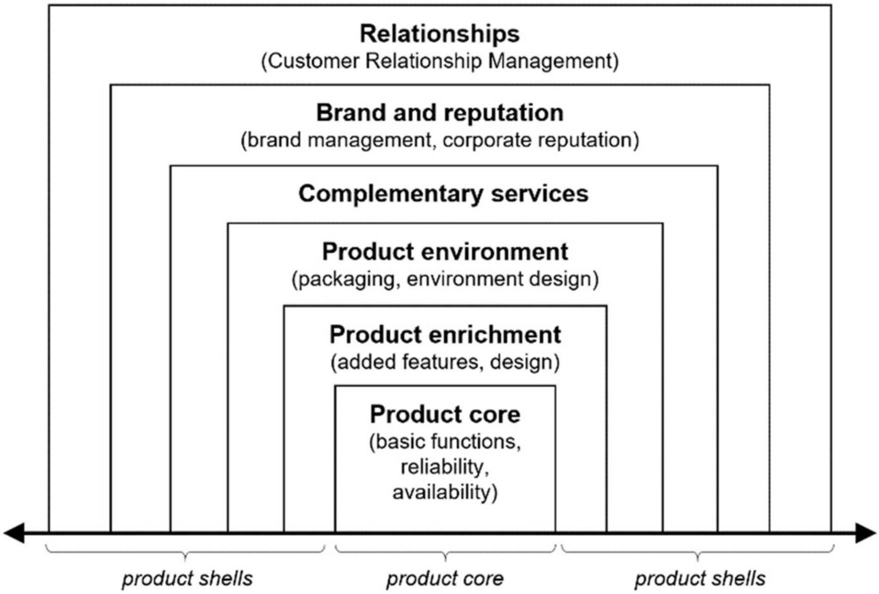

Fig. 3 Product model with product core and product shells

3.2 Combination of Differentiation Instruments

In practice, a wide variety of combinations of differentiation instruments occur. Therefore, we have conducted a cluster analysis to identify typical patterns or basic approaches in dealing with the issue of product differentiation. In simplified terms, five primary types or approaches occur regularly:

- **No differentiation**: In this approach, all differentiation instruments are low. The focus of this strategy is cost savings. This differentiation approach finds its main use by suppliers of commodities and utilities, but also in the low-end financial services industry.
- **Product-focused differentiation**: In this approach, the focus is clearly on the product. Quality management and product enrichment are strongly pronounced, while other differentiation instruments are relatively rare. This type reaches an extremely high product enrichment level: Companies employing this approach differentiate themselves through interesting product features and original design. This differentiation approach finds application in the field of consumer goods. However, it can also be found, for example, at a manufacturer of industrial saws for the professional sector.
- **Shell differentiation**: This differentiation approach shows high expressions for all shells. Companies that follow this approach strive to achieve the broadest coverage of all differentiation instruments except for the product core. This approach is pursued in particular by companies in the electrical engineering and

Table 1 Examples of product differentiation in business practice

Differentiation instruments	Exemplary aspects	Examples from business practice
Product core	Basic properties Reliability Availability	Bosch uses TQM techniques to improve the core properties of its products sustainably. Carl Zeiss Jena is known for its superior product quality in optical instruments on the market.
Product enrichment	Additional functionalities (e.g., features with performance or benefit enhancement) Irrelevant attributes (i.e., properties that merely suggest utility). Design (e.g., shape, color, melody, taste, smell) Ergonomics (e.g., ease of use, health-friendliness)	Minolta fundamentally shaped the camera market by introducing autofocus. Automobile manufacturers like Daimler and BMW are using new features to differentiate themselves from the competition. Shampoo manufacturers, such as L'Oréal or Procter&Gamble, rely on irrelevant attributes such as silk or pearl extracts as additives in their products.
Product environment	Design of the product packaging (e.g., optical design, shaping) Ergonomics of the packaging (e.g., transport-friendliness, transport-optimal batch size) Design of company buildings, production facilities, and representation rooms Design of the point of sale Design of company vehicles Uniforms	VW's Gläserne Manufaktur (transparent factory) explicitly uses the production environment to differentiate itself. At its branch of the future, Deutsche Bank offers a packaged checking account in a custom metal box. McDonald's, Burger King, and Starbucks, for example, use uniforms to design the product environment. Consumer goods manufacturers such as Procter & Gamble use packaging design specifically for differentiation.
Complementary services	Consulting services Operator services Convenience services Development services Financing services Warranty services Customization services Information services Logistics services Marketing and sales support Personnel services Repair, maintenance, and installation services Training services	Vehicle suppliers such as BMW, Daimler, and Renault offer financing concepts tailored to the vehicle's acquisition. Logistics service providers such as Kühne & Nagel or Gefco offer a range of additional services to enhance their core product. Deutsche Telekom offers business customers specific operator services.
Brand and reputation	Design of the brand image (e.g., trademark)	Companies such as Procter & Gamble, Freudenberg, and Nestlé use

(continued)

Table 1 (continued)

Differentiation instruments	Exemplary aspects	Examples from business practice
	Designing the image of the product brand (e.g., "innovative") Creation of corporate reputation	product brands to differentiate themselves. BASF and Cognis base their image advertising on corporate reputation in conjunction with their core competencies. The garage door manufacturer Novoferm uses image advertising to enhance its reputation in the industry specifically.
Relationships	Creation of personal relationships (e.g., personal sales, "one face to the customer") Professional customer relationship management (e.g., accessibility, complaint management, personal contact person, defined communication processes)	Personal sales play an essential role at companies like Trumpf or Würth. Companies like Deutsche Bahn or Lufthansa use special customer loyalty programs.

electronics sectors. However, exemplary companies, of course, also come from other sectors. Examples include a manufacturer of industrial yarns and a producer of films for the construction industry.

- **Service differentiation**: This differentiation approach relies on offering soft differentiation instruments such as services and relationships. Typical companies that use this differentiation approach are, for example, a manufacturer of heating boilers and a bank (salary account).
- **Full differentiation**: This approach uses the entire spectrum of differentiation possibilities (i.e., product core and shells) to a high degree. Typical companies can belong to the high-tech sector, such as a high spectrometer supplier and a producer of high-precision 2D laser cutters.

So when does which approach make sense? We compared the different groups based on their financial performance (return on sales). Also, we evaluated them concerning other variables, in particular the degree of commoditization. The following statements derive from these analyses:

- Differentiation makes sense in principle! While those companies that pursue a differentiation strategy generate returns on sales of over 7%, the group of "non-differentiators" performs by far the worst (0.5% return on sales).
- In principle, companies should use both the product core and additional differentiation instruments ("shells"). Further analyses reveal that both approaches are fundamentally suitable for creating superior customer value in any situation.
- Therefore, purely product-focused differentiation is not recommended—it often "fizzles out." Companies that also use shell differentiation as part of their strategy achieve more than 5% return on sales. By contrast, the purely product-focused

group achieves returns on sales that are only half as high. Instead of focusing too much on the product itself, suppliers of very mature products should look for further differentiation instruments, especially in the area of "soft" differentiation instruments.

- It is noteworthy that differentiation is a promising strategy regardless of the degree of commoditization of the industry. Further analyses validate this statement and reveal that differentiation via the "shells" is particularly effective even in the commodity sector. This finding contradicts the general assumption that only a cost minimization strategy is possible in the case of commoditization.
- When commoditization is high, approaches that rely on "soft" differentiation instruments such as complimentary services and relationships appear to be particularly suitable. This seems to make sense above all because differentiation instruments regarding the product core and product-related differentiation instruments, such as product enrichment, are mostly exhausted in this case.

Table 2 depicts the excellence criteria for the "differentiation instruments" dimension.

4 "Market Development" Dimension

The approach to market development plays a decisive role in the product differentiation strategy. Successful differentiation depends on a differentiated approach to customers or customer segments according to their needs and a value-oriented alignment of the marketing mix elements. There is an overarching goal of market development within the framework of a differentiation strategy: One must anchor the own product offering as valuable and superior in the customer's eyes and transform this perceived value into a price premium.

4.1 Market Segmentation: Differentiated Market Development

Our study reveals major differences between successful and less successful companies in terms of market development. Many companies (still) treat all customers the same. However, customers value different aspects, have correspondingly different demands, and show different willingness to pay (see Calori & Ardisson, 1988). A "one-size-fits-all" approach to market development is, therefore, neither effective nor efficient. For successful differentiation management, it is advisable to recognize and explicitly consider such differences when designing differentiation management. As a first step, companies need to be aware of their customer base's heterogeneity and segment them, for example, according to their needs into customer groups with similar characteristics (Freter, 1983; Freter & Obermeier, 2000; Krafft & Albers, 2000, 2003). While almost 80% of successful companies have understood this, just above half of the less successful ones have. The second step is to prioritize these customer segments and process them according to

Table 2 Excellence criteria for the "Differentiation Instruments" dimension

	Strongly disagree (100)	Disagree (75)	Neither agree nor disagree (50)	Agree (25)	Strongly agree (0)
Do we know the fundamentals?					
We know the difference between product core and shells and can apply these concepts to our products.	❑	❑	❑	❑	❑
We know the differentiation instruments of the product model and can apply it to our products.	❑	❑	❑	❑	❑
What differentiation instruments do we use?					
We optimally differentiate our products regarding customers' basic requirements, reliability, and availability.	❑	❑	❑	❑	❑
We use additional features and characteristics to differentiate our products.	❑	❑	❑	❑	❑
We differentiate our products with an aesthetically pleasing or functional design.	❑	❑	❑	❑	❑
We deliberately design the packaging of our products.	❑	❑	❑	❑	❑
We design the product's tangible environment systematically to differentiate it from other products.	❑	❑	❑	❑	❑
We deliberately offer our customers services complementing our products.	❑	❑	❑	❑	❑
We purposefully design our product's brand and build a corporate reputation in areas that the customer appreciates.	❑	❑	❑	❑	❑
We devote great attention to improving personal contacts as part of our differentiation strategy.	❑	❑	❑	❑	❑
We gear our customer relationship management specifically to differentiate our products.	❑	❑	❑	❑	❑
Do we combine the differentiation instruments sensibly?					
We systematically combine differentiation instruments after careful consideration.	❑	❑	❑	❑	❑
We make careful use of "soft differentiation instruments."	❑	❑	❑	❑	❑
We carefully consider whether we can apply any of the promising combinations.	❑	❑	❑	❑	❑
Even as a commodity supplier, we are not afraid to differentiate ourselves systematically.	❑	❑	❑	❑	❑

(continued)

Table 2 (continued)

	Strongly disagree (100)	Disagree (75)	Neither agree nor disagree (50)	Agree (25)	Strongly agree (0)
We avoid overemphasizing product enrichment and the associated costs.	❑	❑	❑	❑	❑
We avoid focusing too much on hard facts.	❑	❑	❑	❑	❑

their needs and skim off their willingness to pay (see Homburg et al., 2008). In particular, this involves how much to invest in market development for the individual customer (groups). In principle, the extent of the resources used should correspond to the respective customer's importance (group). In the area of prioritization, companies are still struggling. Even among the successful companies, only 60% implement this second step. At the same time, the difference between successful and less successful companies is even more remarkable: among the latter, only slightly more than 30% dare to prioritize customers.

However, differentiated market development is definitely worthwhile; a current example from the cement market shows this (Jacques, 2007): Lafarge, the world's largest cement manufacturer, was able to improve its earnings situation through market segmentation significantly. An analysis of the customer base, which was assumed to be homogeneous until then, surprisingly revealed three clearly distinguishable segments: the price-driven, the relationship-driven, and the performance-driven. If taking a closer look at the range of applications of the product cement, these different segments become understandable: Lafarge's customer base includes construction companies that need material for minor renovation work on single-family houses and large building construction companies that, for example, implement huge bridge constructions. Based on these findings, Lafarge optimized its differentiation through market development and addressed customers with more targeted offers.

4.2 Value-Based Communication: Highlighting Product Benefits

Product benefits are the primary target variable on the customer side. A marketing and sales manager of a leading mechanical engineering company remarks: "Even if our engineers don't want to admit it: Our customers don't buy our products because of their technical features, but because of the value they provide—most of our customers don't even begin to understand the many technical gimmicks of our products… Therefore, when we want to launch a new product, I always tell my people not to focus too much on technical data and technical details, but to clearly show the customer what the machine will do for him.—That's my mantra!" For example, a machine's customer benefit is not in properties such as throughput, energy consumption, or precision, but rather in categories such as cost efficiency, reliability, or increasing the quality of the products produced with it. One particular customer benefit of products from Caterpillar, the world's leading manufacturer of construction and underground mining equipment, diesel and natural gas engines, and industrial gas turbines, for example, is the guarantee of 24-hour spare parts delivery worldwide. For the customer, this service reduces the risk of production downtime and thus a potential increase in earnings.

Therefore, the focus of communication should be on the value the product creates for them (Homburg et al., 2008; see also Futrell, 2005). In a value-based communication, the customer becomes directly aware of the benefits offered by the product. Quantifying the customer's benefit can be particularly helpful in this so-called value-based selling. Sales employees of successful companies show customers how to increase their profits using the supplier's products and services (see Homburg et al., 2004, p. 51). A sales manager of a manufacturer of valves highlights: "As a salesperson, you have to think your way into the customer's profit and loss account and try to quantify the exact value of the products and services from the customer's point of view. This is the only way we can show our customers how to appropriate higher prices for their end products by using our high-quality valves—and that's all that matters."

Our study showed that more than 80% of successful companies have already understood the importance of value-based communication. By contrast, just above half of the less successful companies consciously use this tool.

4.3 Value-Based Pricing: Centering on Product Performance

Even if a company succeeds in creating a superior value perception among customers through its product strategy—i.e., appropriate use of various differentiation instruments and corresponding sales and communication efforts—it has only overcome the first hurdle. This value perception waits for conversion into commercial success. Price is a particularly important lever here. Price changes have a far greater influence on company profits than increases in sales volume or cost reductions (Marn & Rosiello, 1993). Therefore, it is all the more surprising that prices are still far too rarely managed strategically in practice. Of central importance in this context is the price and conditions system. Many companies have a price and condition system, but this has often grown historically and therefore is not subject to a systematic approach. In addition, there is often a certain "tendency" on the part of the sales department to lower prices rather than lose an order.

Two aspects are therefore particularly relevant when it comes to converting customer value into economic success: the content and the consistent use of the pricing and conditions system in day-to-day business (see Homburg et al., 2004, 2005b): Concerning the content of the system, the following paradigm must apply: "No service without consideration." Examples of customer quid pro quos for price discounts include bulk purchases, electronic ordering, joint market promotions, earlier payment dates, or even prepayments. This results in cost savings for the supplier that partially compensate for the price discounts. Another positive side effect of a performance-based pricing and conditions system for sales is that it creates transparency and helps sales justify price differences between customers. An explicit organizational anchoring of pricing competence supports the consistent application of condition rules in day-to-day business. This is an important basis for actually motivating customers to reciprocate.

Our study shows that companies across the board still have much work to do in the area of pricing and condition systems. Nevertheless, there is a clear trend here: 50% of successful companies already established a performance-based pricing and conditions system, compared with 3% of less successful companies.

4.4 Value-Based Selling: Standing by the Customer's Side

Sales plays a central role in market development. It is relevant for the success of the product differentiation strategy in two respects: As the company's interface to the customer, it naturally has the task of implementing the price and conditions policy and, to some extent, the communication policy. In this way, it supports the success of the various differentiation instruments with the customer. In addition, however, the sales department also has an original value-creating function: sales employees who have an in-depth knowledge of their own company's product range, the market, and their customers' business can create considerable added value for the customer by tailoring their range of services to create the best possible fit between customer requirements and product features (see DeVincentis & Rackham, 1998; regarding adaptive selling see also Spiro & Weitz, 1990; and for customer-oriented selling see Weitz et al., 1986; Saxe & Weitz, 1982).

Heidelberger Volksbank offers an excellent example of such customer-oriented sales in the area of investment consulting. Here, a small, excellently trained team provides holistic support to customers. What is particularly noteworthy is that salespeople do not have to sell any specific products—as usual for this kind of financial institution—and above all do not have to fulfill any quotas for specific product sales. Instead, the customer's needs are paramount. Based on a thorough and systematic analysis, salespeople tailor financial solutions to the customer's needs. The bank is very flexible when arranging appointments and focuses as much as possible on the customer's wishes. With this approach, Heidelberger Volksbank offers a private bank feeling even for smaller assets.

There are also examples of value-creating sales in other sectors: Particularly in the automotive supply industry, which is increasingly characterized by system suppliers, it is important to understand the role of the product in the customer's value creation process and to develop together with customers precisely what is needed. The success of companies such as Bosch Power Tools or Procter & Gamble is also largely based on recognizing the importance of customer-oriented sales. By establishing high-performance key account management, these companies are in close contact with their retail partners. Over time, this results in strong and fruitful business relationships in which both partners jointly develop their business.

Our study examined the relative importance of product- and sales-related activities of the company towards creating a superior value perception for the customer. Even though the product is the stronger lever, sales' influence is considerable: one-third of the customer's value perception is attributable to sales-related activities.

Table 3 shows the excellence criteria for the "market development" dimension.

5 "Internal Conditions" Dimension

Our study has shown that three internal company aspects are particularly relevant for successfully implementing and anchoring a product differentiation strategy: the company's mindset, systematics, and coordination.

5.1 Top Management Commitment and Corporate Culture: Tuning the Company's Mindset

The mindset must be right! Companies can only communicate their differentiation credibly strategy if themselves believing in its uniqueness and success. Many companies place themselves in the "commodity corner" and see their undifferentiated position as destiny. We have often heard: "Differentiation is not possible for us—we are in the commodity business." Many companies deny their opportunities for differentiation and claim that customers only look at the price.

In fact, we know from numerous consulting projects that even in very commoditized markets, where price undoubtedly plays a major role, the majority of purchasing criteria are nevertheless independent of the price (e.g., see Bestvater, 2005). Often, products or business models are indeed quasi-undifferentiated over a long period. Still, eventually, a resourceful entrepreneur finds a way out of the supposed impasse. For example, 20 years ago, who would have thought it would be possible to do your weekend shopping at German gas stations one day? A company's mindset is of central importance to recognize such opportunities, design a sensible strategy and then implement it. In this context, the marketing manager of a building materials manufacturer says: "The first step to achieving a differentiation perceived by the customer was when we ourselves regained the belief in the differentiated nature of our product. To this end, we had to learn to understand that the product is more than just glass wool." Both top management and the company as a whole play an important role here.

Role of top management. Top management plays two important roles in the context of differentiation. First and foremost, it must credibly embody that it stands behind the product differentiation strategy and believes in its success. Especially in

Table 3 Excellence criteria for the "Market Development" dimension

	Strongly disagree (100)	Disagree (75)	Neither agree nor disagree (50)	Agree (25)	Strongly agree (0)
Market Segmentation					
We have a precise understanding of the fundamental needs of our customers.	❑	❑	❑	❑	❑
We have clearly defined the benefits we want to create for our customers.	❑	❑	❑	❑	❑
We developed a tangible customer segmentation for the product, showing groups that clearly differ in behavior.	❑	❑	❑	❑	❑
We differentiated our market development to meet the needs of the different segments.	❑	❑	❑	❑	❑
We determined the attractiveness of the different segments.	❑	❑	❑	❑	❑
We orient ourselves by the attractiveness of the different segments when deploying resources for market development.	❑	❑	❑	❑	❑
We have clearly defined which instruments/ resources are to be used to retain which customers.	❑	❑	❑	❑	❑
We practice customer retention management based on clear economic considerations.	❑	❑	❑	❑	❑
Price Management					
We employ performance-based conditions (e.g., volume discount, self-pickup discount, or sales increase bonus) instead of simple conditions (e.g., basic discount or basic bonus).	❑	❑	❑	❑	❑
We only grant special prices if the customer reciprocates.	❑	❑	❑	❑	❑
We ensure through the condition system that less attractive customers receive less favorable conditions than more attractive customers.	❑	❑	❑	❑	❑
We only award special prices/discounts for exceptionally high order values/quantities and not for smaller orders.	❑	❑	❑	❑	❑
We have clearly defined rules for the granting of indirect conditions.	❑	❑	❑	❑	❑
We set prices and conditions centrally.	❑	❑	❑	❑	❑
We have defined precisely which customer segments receive special conditions and for what purpose.	❑	❑	❑	❑	❑
We are restrictive in our use of indirect conditions such as bonuses or credit notes.	❑	❑	❑	❑	❑

(continued)

Table 3 (continued)

	Strongly disagree (100)	Disagree (75)	Neither agree nor disagree (50)	Agree (25)	Strongly agree (0)
Communications					
We know the value of our products from the customer's point of view.	❑	❑	❑	❑	❑
We can quantify the value of our products in comparison with the competition.	❑	❑	❑	❑	❑
We have tools to calculate the economic advantages of the products for the customer.	❑	❑	❑	❑	❑
We can defend prices through savings in process costs that the customer can realize with the product.	❑	❑	❑	❑	❑
We developed negotiation guides to deal with possible customer objections in price discussions.	❑	❑	❑	❑	❑
We steer negotiations with customers toward joint value creation and away from pure price discussions.	❑	❑	❑	❑	❑
We develop specific price enforcement skills among employees (e.g., through training).	❑	❑	❑	❑	❑
Sales Management					
Our sales team understands the importance and content of our differentiation strategy.	❑	❑	❑	❑	❑
Our sales team sees differentiation from the competition as a core objective.	❑	❑	❑	❑	❑
Our sales team has an overview of the company's product range.	❑	❑	❑	❑	❑
Our sales team knows the features and characteristics of the individual products.	❑	❑	❑	❑	❑
Our sales team can form comprehensive problem solutions for the customer from individual products.	❑	❑	❑	❑	❑
Our sales team is also familiar with competitor products.	❑	❑	❑	❑	❑
Our sales team knows what the customer uses the product for and how.	❑	❑	❑	❑	❑
Our sales team knows the customer's value creation process and understands our products' importance in this process.	❑	❑	❑	❑	❑
Our sales team knows the key decision-makers at the customer and their decision criteria.	❑	❑	❑	❑	❑
Our sales team has expertise in the markets in which the customer is active.	❑	❑	❑	❑	❑
Our sales team understands the customer's strategies and goals.	❑	❑	❑	❑	❑

difficult times, such as at the beginning of the implementation phase of a differentiation strategy, top management needs to lead the way and motivate the team. Second to that, however, it is also a matter of supporting the strategy by creating suitable framework conditions. In particular, the provision of financial and human resources is of crucial importance. In this way, top management can ensure that their employees live the differentiation strategy and have sufficient freedom to implement it. Among the successful companies in our sample, more than 90% stated that top management showed outstanding commitment to the differentiation strategy. The picture presented by the less successful companies, by contrast, is astonishing: Here, top management showed commitment to the differentiation strategy in only 40% of cases—10% of the companies even explicitly stated that top management showed no interest in the differentiation strategy. Therefore, it is clear that the marketing department alone cannot control a successful product differentiation strategy.

Role of the corporate culture. The company as a whole must also carry the vision for successful differentiation. In this context, the corporate culture is of great importance. Numerous corporate examples show: On the one hand, the will to be a leader in the areas of technology and innovation is essential. In this way, it is possible to allow customers to benefit from technological progress in a timely manner. On the other hand, it is the consistent focus on the customer. This is the only way to ensure that customer needs find their way into the company and invest the effort to satisfy them. This is particularly evident for large corporations, which constantly changed and redefined themselves over the past decades. For example, over the years, IBM has evolved from a product to a solution provider that offers innovative solution concepts for its customers. Siemens is also a prime example of aligning its offering with its customers' needs in conjunction with constant innovation. Similarly, in our study, the successful companies differ from the less successful ones in expressing these two company mindset characteristics. Compared with the less successful ones, the successful companies are three times more likely to state that top management commitment and corporate culture are firmly rooted in its mindset.

5.2 Systems: Clearly Formulating and Implementing Measures

"A lot helps a lot" is not a motto that leads to successful product differentiation; instead, a systematic approach is required. The following three thoughts intend to illustrate this by way of example. First, for instance, the level of investment in product differentiation is by no means an indication that value is also created directly for the customer. If overloading products with additional features, as is the case in the consumer electronics sector, it is more likely to confuse the customer than provide additional benefits. Second, not all differentiation instruments are equally useful in all situations. For example, customer loyalty measures make little sense with customers who are more interested in anonymous transactions. Third and last, it is important to emphasize that only sustained efforts pay off. This becomes particularly clear in the example of brand management. Many failed brand projects, e.g., in the area of energy suppliers, clearly show that giving products a brand name does not build a brand.

Therefore, systems are important to ensure that the company's diverse efforts concerning the product also turn into perceived customer benefits. By this, we mean a targeted, reflective and sustainable approach to implementing the differentiation strategy. Successful companies know their customers and their needs precisely. To this end, they rely on solid market research and careful analysis. Building on such a foundation, they formulate their differentiation strategy. This guarantees that the use of differentiation instruments aligns with actual customer needs. About the implementation of the product differentiation strategy, successful companies formulate clear objectives and concrete measures. When implementing, they carry out regular success checks and, if necessary, revise the strategy. This "textbook" approach is not yet the norm in corporate practice. Our State of Practice paints a sobering picture. Although around 80% of successful companies have established similar processes, more than half of the less successful companies are far from implementing this advice.

5.3 Coordination: Avoiding Organizational Bermuda Triangles

Product Differentiation Excellence cannot be achieved by a few detached actions or by turning a few levers. Instead, our study shows that PDE requires extensive efforts and, if necessary, far-reaching changes in all areas of the company involved. Coordination, therefore, plays an essential role. Only if everyone pulls together can the product differentiation strategy be successful. Successful differentiators define clear processes and information routines. They also promote interaction between their various departments and functions, e.g., through cross-functional projects and working groups. In this way, they ensure smooth information flows and concerted action. Over 70% of successful companies practice this seemingly self-evident procedure. By contrast, the picture is shocking among the less successful companies: Here, intensive interaction between the involved functional areas occurs in only slightly more than 10% of the companies.

In this context, we particularly emphasize the importance of cooperation between marketing and sales (see Homburg et al., 2005a). Only if it has all product-related information (e.g., product modifications, quality problems, delivery situation) at its fingertips at all times can the sales team represent the company to the customer successfully. However, the information flow must also work in the other direction. Only if the sales team passes on customer criticism and any suggestions to product management products can improve.

A positive example of the coordination of different areas is the continuous coordination process between product marketing and product management at

TRUMPF, the world market and technology leader in industrial lasers and laser systems from the Swabian town of Ditzingen. The market-related further development of the TRUMPF product portfolio rests on the close interaction between product marketing and product management. The two functions have different tasks. On the one hand, product marketing represents the interface to sales and customers and ensures that market needs and current topics are brought into the company and ultimately result in new products. They collect information through customer visits and inquiries. Product marketing is responsible for identifying the requirements of products. Also, Product Marketing creates value-based sales prospects. This ensures consistency in product definition and value-based communication. On the other hand, product management drives technology topics forward and ensures that TRUMPF's innovation and technology leadership is secured. They define the product specifications based on the customers' requirements. Both areas (product marketing and product management) work very closely together on an ongoing basis and thus ensure that both market and technology topics receive constant attention. Product Marketing and Management both report directly to the Executive Board. These short information and decision-making paths enable rapid action taking and ensure management of the product portfolio in line with the market. Besides regular meetings, two consecutive events are held in the annual planning cycle to promote a market-oriented product development roadmap. The first event, the market symposium, aims to identify and discuss customer needs systematically. Moreover, an alignment of the development topics ensures that products currently under development meet current customer needs. In the subsequent strategy workshop, development topics are prioritized, creating the basis for the product development roadmap.

Table 4 shows the excellence criteria for the "internal conditions" dimension.

6 Conclusion

Effective (and efficient) product differentiation management is particularly important in times of increasing commoditization. As our study shows, many companies can still improve the design of their product differentiation strategy. The success of a product differentiation strategy is not usually achieved through one or two isolated measures but is the result of a comprehensive and systematic approach. Differentiation management is only truly successful if companies approach it integratively and systematically to achieve Product Differentiation Excellence.

Table 4 Excellence criteria for the "Internal Conditions" dimension

	Strongly disagree (100)	Disagree (75)	Neither agree nor disagree (50)	Agree (25)	Strongly agree (0)
Top Management Commitment					
Our top management believes it is important for the products to stand out positively from the competition.	❑	❑	❑	❑	❑
Our top management believes in the success of the differentiation strategy.	❑	❑	❑	❑	❑
Our top management shows a high level of commitment to the differentiation strategy.	❑	❑	❑	❑	❑
Our top management provides the resources required to implement the differentiation strategy.	❑	❑	❑	❑	❑
Our top management creates a positive environment for the implementation of the differentiation strategy.	❑	❑	❑	❑	❑
Corporate Culture					
Our corporate culture is more technology-oriented than that of our competitors.	❑	❑	❑	❑	❑
Our corporate culture sees technology leadership as an important value.	❑	❑	❑	❑	❑
Our corporate culture is characterized by a culture of innovation.	❑	❑	❑	❑	❑
Our corporate culture sees technological superiority as a key to achieving customer satisfaction.	❑	❑	❑	❑	❑
Our corporate culture sees customer satisfaction as an important value.	❑	❑	❑	❑	❑
Our corporate culture is characterized by a culture of customer orientation.	❑	❑	❑	❑	❑
Our corporate culture places the customer at the center of thought and action.	❑	❑	❑	❑	❑
Our corporate culture sees flexibility towards customer requirements as a high value.	❑	❑	❑	❑	❑
System					
We analyze customer needs with regard to the differentiation instruments.	❑	❑	❑	❑	❑
We pursue clear goals with the use of the differentiation instruments.	❑	❑	❑	❑	❑
We measure the success of the use of differentiation instruments.	❑	❑	❑	❑	❑
We analyze the profitability of the use of differentiation instruments.	❑	❑	❑	❑	❑
Coordination					
In the company, intensive interaction occurs between the functional areas involved to coordinate the implementation of the differentiation strategy.	❑	❑	❑	❑	❑
In the company, we regularly exchange relevant information between the parties involved to fulfill the differentiation strategy's objectives.	❑	❑	❑	❑	❑

(continued)

Table 4 (continued)

	Strongly disagree (100)	Disagree (75)	Neither agree nor disagree (50)	Agree (25)	Strongly agree (0)
In the company, we defined cross-functional processes for implementing our differentiation strategy.	❑	❑	❑	❑	❑
In the company, the collaboration between the functional areas involved is smooth.	❑	❑	❑	❑	❑

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Commodities in the Service Sector: Particularities and Implications for Marketing

Manfred Bruhn and Anja Zimmermann

1 Relevance of Commodity Services

The increasing homogenization of products and service offers is a phenomenon observable in numerous industries, and which has become known in the scientific discussion as the so-called **homogenization thesis** or homogenization trend (Hansen et al., 2001; Burmann et al., 2019). In the case of homogeneous offers, there are only limited possibilities for variation or differentiation, especially regarding the core service. The core benefit of a product can hardly be changed and is therefore largely homogeneous across different providers. Such homogenization, which in the past was primarily observed around classic commodities such as raw materials or basic food, can also be observed in recent years in the industrial as well as in the consumer branches.

The homogeneity across suppliers is a key characteristic of offers referred to as commodities. The commodity concept originally was applied to agricultural and industrial goods, but has increasingly been extended to other sectors, such as the consumer goods industry (Enke et al., 2014). However, a service-related view of commodities has been mostly neglected in science so far.

This chapter was originally published in German as Bruhn, M. (2014). Commodities im Dienstleistungsbereich, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_3

In this context, the fundamental question arises as to whether the topic of commodities has any relevance at all for services marketing. Services are characterized by specific attributes, in particular the individuality of the services as well as the necessary integration of the external factor into the process of service production, i.e., the simultaneity of supply and demand due to a common service creation process. Due to these **special characteristics of services,** the impression often arises that services are created individually. In addition, many developments in the offers of manufacturers and the associated marketing strategies are aimed precisely at creating value through the provision of product-accompanying or value-added services to escape substitutability and price competition. Based on the classic theoretical foundations of services, the topics commoditization and services are therefore initially almost in contradiction to one another.

However, for some years by now, the penetration of so-called low-budget providers can be observed in various service sectors. Those service offers are highly standardized and often simple services and thus competing with established service providers on price. Various industries bear witness to this development, for example, air travel, energy supply, telecommunications, hotel, advertising agencies, and logistic suppliers. The offer of a service, which is reduced as far as possible to the core benefit and functional need of the customer without further additional services, has become known as the so-called "**no-frills concept**". The concept is adopted above all from airlines such as easyJet or Ryanair, the hotel business (Motel One or ibis budget), fitness studios such as fit4less, and providers newly entering the telecommunications market as outsiders such as Alditalk or Tchibo mobil in Germany. No-frills concepts can be observed in many other industries today. The term "no frills"—named after the private label of the British supermarket chain Kwik Save—means no offering of non-core benefits with the clear goal of optimizing one's own service offer from a cost perspective. If one compares providers such as Singapore Airlines with Ryanair or a five-star hotel such as Steigenberger or Jumeirah hotels with ibis budget hotels, the differentiating characteristics become obvious. Table 1 shows the **differences between differentiated quality services and undifferentiated commodity services** based on two industries—airlines and hotels.

The outlined form of standardization and simplification leads to an alignment of services, which are increasingly becoming undifferentiated mass products in the sectors concerned and show the **characteristics of commodity services**. It is therefore reasonable to assume that also in the service sector certain services will increasingly develop into commodities for covering certain price segments in the future. Thus, commodity services will require appropriate treatment in marketing. In this chapter, the relevance of these commodities in the service sector, their characteristics, and different approaches for the strategic and operational marketing management of commodity services will be examined.

In addition to the reduction and focus on the core benefits of services as outlined by the no-frills concept, commoditization in the service sector can be seen, for

Table 1 Comparison of differentiated services with undifferentiated commodity services (no-frills services)

Attributes	Airlines		Hotels	
Positioning	Quality leader	Cost leader	Quality leader	Cost leader
Pricing	High-priced	Average 40–70% lower prices	High-priced	Average 30–50% lower prices
Core service	Transportation of people and goods	Transportation of people and goods	Overnight stay Reception Restaurant	Overnight stay Part-time reception at core times
Additional services	*Provider* Check-in Baggage service Service/catering on board Toys for children Reservation of seats On-board entertainment	*Customer* Check-in Baggage check-in Self-catering Self-entertainment	*Provider* Luggage service Wake-up service Room service Concierge Childcare Pool W-Lan and TV Minibar service Fruits and snack service	*Customer* Self check-in and check-out Luggage transport Use of beverage dispenser
Value-added services (chargeable)	Personal assistance Airport Lounges	–	Wellness and spa Limousine service	Breakfast
Interaction	Online, offline, and personal	Primarily online	Online, offline, and personal	Primarily online

example, in those industries which have undergone a transformation because of technology: services can increasingly be automated, simplified, or completely assigned to the customer. As companies adapt the respective technologies to remain competitive, these services are taken for granted by the consumer as basic or must-have services. For example, it has become a matter of course that stock purchases can be made in real time via Internet, or the delivery status of a parcel sent can be tracked online, or almost any person can be reached by cell phone at any time and in any place. The automation of basic services, such as check-in or baggage check-in when traveling, in combination with a conscious focus on the basic function of the service, is leading to observable commoditization.

Against the background of the observable **commoditization of services in different industries**, such as education (Kauppinen, 2014), legal services (Bruce, 2015), hospitality (Beldona et al., 2015), healthcare (Ozdemir, 2016), or IT services (Piccoli & Lui, 2014; Bronkhorst et al., 2019), a variety of different questions are of interest. First, it is important to discuss what distinguishes commodities in the product and the service sector, which defining characteristics they point out, and which drivers determine the development of commoditization in service sectors (see Sect. 2). The question of whether a commodity service is perceived as such by the consumer cannot be answered in total for all customer groups, as it is also the case with commodity products.

The classification of a service as a commodity must take place from the customer's perspective, so consumer behavior and consumer perception of services play an important role (see Sect. 3). Finally, it is important to consider strategic and operational options for the marketing of commodity services (Sect. 4).

2 Concept and Forms of Commodity Services

2.1 Conceptual Basics of Commodity Services

To define the term "commodity services," it is first necessary to make a typological classification of commodities in general and then define and differentiate commodity services from other services in more detail.

Commodities are offerings, i.e., products and services that are perceived as interchangeable by most consumers despite existing objectively differentiating performance characteristics (Enke et al., 2014).

Commodities thus comprise offers that are standardized to a high degree and homogeneous, i.e., functionally and qualitatively equivalent, irrespective of the manufacturer (Backhaus & Voeth, 2014). In the tangible goods sector, these primarily include products that are produced or classified according to objective standards and for which there are hardly any or no company-related differentiation features. As examples for such commodities agricultural raw materials and products of the processing industry such as flour, paper, or steel can be quoted. Commodities in the broader sense comprise also offers that are subject to the loss of differentiating features due to commoditization and therefore are regarded as interchangeable by customers. Those offers are referred to as "**new commodities,**" whereas raw materials are called "**born commodities**" (Enke et al., 2014), e.g., foodstuffs of different quality classes, which are perceived undifferentiated by the consumer, as well as (low-priced) electronic items, whose quality the customer cannot judge.

In connection with services, the concept of commodity has not yet been given much consideration. An initial service-specific consideration of commodities can be based on the defining features and the special characteristics of services derived from them. In comparison to tangible goods, services are described by three **constitutive characteristics** (Donabedian, 1980; Hilke, 1989; Meffert et al., 2018):

Table 2 Differences in commoditization between products and services

	Products	Services
Reference Object of Perception	• Product	• Service Structure • Service Processes • Service Outcomes
Reason for Commoditization	• Homogenization of products	• Homogenization of Core Services • Claim Inflation
Factors relevant for the Purchasing decision	• Product features • Price • Convenience	• Price • Convenience • Interaction • Individuality • Integration

- Necessity of providing performance potential (structure)
- Integration of the external factor (e.g., customer or disposal objects) into the process of service creation (process)
- High degree of immateriality of the service outcome (result)

These characteristics give rise to several special challenges in the case of services which initially do not appear to be compatible with the nature of commodities, as they counteract the standardization and undifferentiated perception typical for commodities. Table 2 shows a description and classification of commodities based on various criteria in the product and service area as well as their special features.

In the service sector, the term “commodities” includes, for example, electricity, water, and gas supply, but also Internet services such as online banking and information services. Commoditization has taken place in these areas primarily because the availability of the service is taken for granted. Differentiation is challenging in the case of homogeneous services, and the purchase decision is increasingly based on price due to the converging undifferentiated perception.

In the following, the characterizing features of commodity products are transferred to services. In this sense, **commodity services** can be defined as follows:

Commodity services are standardized, often routinized or automated services which are perceived by the customer as homogeneous and for which there are very few preferences for a provider based on performance characteristics. Commodity services are often provided in a similar or identical manner by different providers.

Due to the underlying **simultaneity of production and consumption** in the case of services (so-called uno actu principle), services require a continuous provision of performance potentials and physical facilities which can be used by the customer when needed. However, the assessment of the service by the customer is very limited before use. To provide him with assistance in the assessment beyond the service result, it makes sense to document and communicate the service competencies and the capability potentials assuming that the consumer is interested in such information. In the case of commodities in the sense of homogeneous goods, however, it is assumed that consumers have a rather low propensity to obtain information.

The **integration of the external factor**, i.e., the customer himself or objects at the customer's disposal such as cars in the car wash into the process of service creation, is another characteristic of services. Interaction in the case of personally provided services tends to mean a greater expenditure of time for the customer than in the case of material goods. In the process of service creation, interaction with the service provider is necessary, and this interaction can be a human–human, human–machine, or machine–machine interaction. It is assumed that the differentiation potential and thus also the differentiating perception of services by the consumer is significantly higher as in the case of commodity goods and lies above all in the personal interactions. In the case of services provided to individuals by individuals, the potential for standardization is usually lower than for products. In service interactions, the customer's role as pro-consumer and co-producer is crucial. Due to the roles of the individuals involved, commoditization is less imaginable in the case of service at first sight.

The perceived homogeneity of products can be explained by the fact that objective benchmarks or standards exist for the quality of a product. In the case of services those objective and interpersonal valid standards of quality often do not exist or are often not clearly verifiable. If, for example, one takes a quality characteristic such as speed or friendliness, in the case of services the perception of these service quality criteria is generally strongly influenced by the individual expectations of the customer (e.g., fast-food restaurant versus 5-star gastronomy). In the case of service, the objective assessment of the service result is difficult due to the high immateriality of the service output. Therefore, an objectively defined standard, which leads to an undifferentiated perception of services by the customer, can be hardly found.

Research on the relative importance of the three mentioned characteristics of services—structure, process, and outcome dimension—for assessing the quality of services assumes a high importance of the process dimension due to the interaction between customers and service providers and the associated multi-sensory experience of services. The research work of Parasuraman et al. (1988) known as **SERVQUAL** shows a relative importance weight of quality factors within the process dimension (responsiveness, reliability, and empathy) of altogether 70%, while the structure dimension only contributes with approx. 11% and the result dimension with 19% to the perception of the quality of services. If one assumes in the case of commodity services that, for example, a human–human interaction is reduced to human–machine interaction in favor of the cost structure, this means in consequence that the relative importance of the process dimension for the creation of commodity services presumably turns out to be less important and, in return, the availability of technology as a structural factor gets more emphasis.

In addition, the **uno actu principle** is often no longer given for commodity services which are continuously available in the sense of the structural dimensions (e.g., continues access to databases on the Internet, online information services). Here, production and consumption often do not take place at the same time in the original sense of service interactions. In commodity services, the relative importance of the three constitutive characteristics of services seems to be distributed differently than in non-standardized, personalized, and individual human–human service interactions. Preliminary evidence from various studies on changing service scales in the context of electronic services supports this hypothesis (Parasuraman et al., 2005; Hadwich et al., 2010; Giovanis & Athanasopoulou, 2014). Evaluating the relative importance of the structural dimension in relation to the process and outcome dimension for different types of commodity services is an interesting open research question to better understand the information process and the consumer buying behavior for commodity services.

Attempting to transfer the constitutive characteristics of services to commodity services leads to **ambiguous assessments**. On the one hand, based on homogeneity, it could be assumed that the structural factors as well as the process and the result of commodity services are interchangeable from the customer's point of view. On the other hand, the more differentiated analysis and transfer of the three characteristics of commodity services reveals differentiated assessments and raises the question of the relative importance of the various dimensions for the customer. The question of the extent to which the concept of commodity can be transferred from tangible goods to services therefore requires closer examination.

2.2 Characteristics of Commodity Services

Increasing homogenization of offerings from the customer's point of view has already been demonstrated for numerous services (Copernicus, 2000). For example, a high proportion of credit cards, telephone services, fast-food chains, department stores, and car rental agencies are perceived as undifferentiated. However, specific characteristics that lead to the perception of products and services as commodities are not mentioned.

The so-called 3 Is can be used to further differentiate and characterize various services in more detail: based on the dimensions of degree of **integration**, degree of **interaction** (which is associated with behavioral uncertainties for providers and consumers), and degree of **individuality**, services can be typologized by means of a combination of the characteristic attributes. With the help of these dimensions, it is possible to determine which services can be classified as commodity services and which can hardly be classified as such. Figure 1 shows a corresponding **classification of service types**.

Commodities are initially located mainly in that area of the octant which shows only low manifestations in all three dimensions. Commoditization is therefore particularly likely in the service sector if

- Standardization of services is possible.
- The services are provided autonomously, i.e., without integrating the customer into the service production processes.

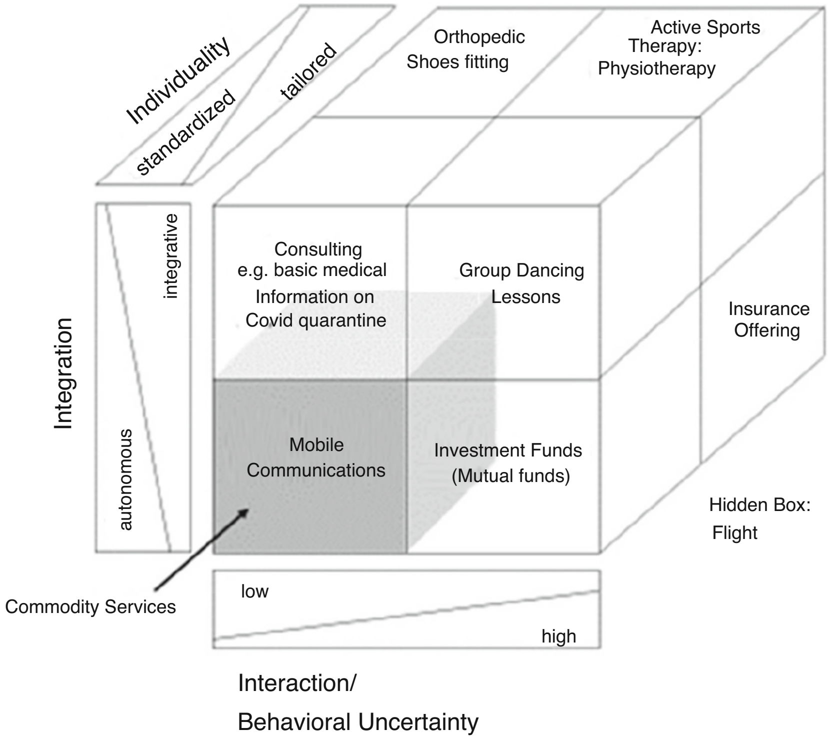

Fig. 1 Information economic classification of services (based on Woratschek, 2001, p. 265)

- There is little interaction between the customer and the service company, especially in person.
- There is little or no behavioral uncertainty.

This classificatory description of central attributes of commodity services can be extended by including the **customer perspective**. To capture the attributes that characterize commodity services as perceived by customers, an exploratory study was conducted at the University of Basel in 2014. In the context of a written survey, 39 participants of further education courses were asked about 13 selected services with varying degrees of integration, interaction, and individualization regarding various characteristics that are treated as commodity characteristics in the literature. The selection criterion for the examined services was the homogeneity or the exchangeability of services between providers (see definition in Sect. 2.1). The subjects were asked to rate the following characteristics on a 5-point scale:

- Perceived risk in purchase decision
- Comparison of offers prior to the purchase decision
- Price as a purchase-decision criterion

- Degree of standardization,
- Perceived quality differences between suppliers
- Perception of employees of different providers
- Attachment to the supplier for image or sympathy reasons
- Involvement
- Effort involved in the purchase decision

The explorative study shows that the characteristics attributed to the services studied contribute to the characterization of a commodity service to varying degrees.

First, mean values were formed from the assessments collected from the participants, which allow the categorization of the analyzed services as commodity services. In addition to electricity, which is considered a typical commodity service, respondents also perceived e-mail services, mail order services, travel insurance, fast-food restaurants, low-cost flights, mobile communication, and cleaning services as commodity services. Travel bookings on the Internet were also rated to a high degree as commodity services.

For the services classified as commodity services, the influence of the characteristics on the classification was investigated. The correlation analyses conducted revealed that a high perceived degree of commoditization is primarily associated with the lack of a strong brand or the fact that the brand is not decisive for the purchase. No or only a very low emotional attachment to the service provider can be assumed. Furthermore, in the case of the perception of a service as a commodity services it is irrelevant by which employee the service is created. This is particularly the case for online services (e.g., e-mail) and online services (e.g., online travel agencies). However, this characteristic also plays a role for other services to be classified as commodities.

Another reason for classifying a service as a commodity service is the missing perception of quality differences between the providers. In addition to price attractiveness, this may be another possible explanation for the fact that providers in the low-price segment from outside the mobile communications sector (e.g., Alditalk) are attracting large numbers of customers.

Finally, the classification of a service as a commodity service relates to a perception of a high degree of standardization of the service and a purchase decision that is made based on the lowest possible effort.

To date, only isolated studies have been conducted on the perception of commodity services, and these are often from the provider's rather than the customer's perspective, such as a study on commoditization in the US hotel market (Beldona et al., 2015). Understanding the characteristic features of service evaluation from the customer's perspective plays an important role for commodity marketing in services. They provide information on which levers can be used to control the perception as a differentiated service or as a commodity service. In addition, it should be noted that the relevant characteristics differ between the commodity services considered. In future, further research using representative samples and taking other services into account will be required to be able to derive more precise statements about the control parameters of commodity services that are relevant for marketing.

2.3 Drivers of the Commoditization in the Service Sector

The perception of services as commodity services is changing due to various factors driving commoditization. In particular, the alignment of the offerings of different service companies in many markets and the use of technologies that serve to standardize and automate the service creation process are leading to further commoditization in the service sector. The main drivers of commodity services include the following developments:

- Digital as well as digitally driven service-oriented business models
- Emergence of commodity product-service hybrids
- Increasing automation of services
- Increasing polarization of purchasing behavior
- Decreasing importance of ownership in favor of access to services

The currently observable **service transformation** in many industries is leading to companies gradually transforming their traditional business models into service-oriented business models (Böhmann & Zolnowski, 2013; Bruhn & Hadwich, 2016). One of the main drivers is digitization. However, commoditization of products is also driving this development (Kasper-Brauer & Enke, 2016). Observables are, for example, operator or subscription models as well as the formation of service networks and an associated increasing merging of commodity products and services into a hybrid service bundle (Shankar et al., 2009) or product-service systems (Baines & Lightfoot, 2013; Bruhn & Hadwich, 2016). These developments, in combination with the diminishing importance of ownership (Rifkin, 2000) and the increasing acceptance of sharing models not only in the B-to-C but also in the B-to-B environment, may also reinforce the emergence of commodity services.

The **automation of service processes**, i.e., the intensification of human–machine or machine–machine interactions, enables the creation of individualized services for the customer without having to use the relatively expensive human resource. AI-based assistance systems, such as those already offered by many manufacturers and retailers, are just one of many examples of a rapid development. Based on automation, services are increasingly becoming mass-produced goods with a correspondingly low price (Bruhn & Hadwich, 2020). The phenomenon of **polarization in customer behavior** describes that very high-value service offers and very low-price service offers are gaining market share at the same time (Rennhak, 2014). On the customer side, the polarization tendencies, e.g., between a prestige orientation and a turn to simplicity or between maximum service expectations and the do-it-yourself trend, open further potential for commodity services.

The effects of these drivers can be seen in telecommunications (flat rates or pay-per-use models), in knowledge-based services like translations, as well as in the IT business. Pay-per-click offers in connection with search engine marketing, Google ads or IT services from the cloud, IT as a service (ITaaS)model, or Platform as a service (PaaS) model are phenomena of the commoditization trend in the service sector. Even so far personal consulting services turn into commodity services (Greff

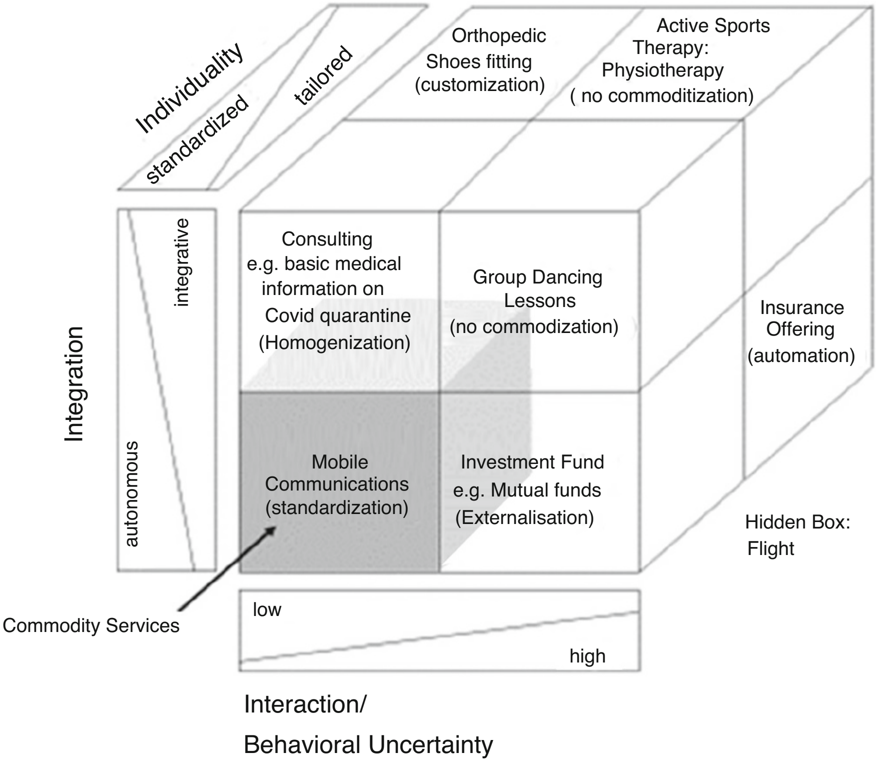

Fig. 2 Commoditization of services and its drivers (based on Woratschek, 2001, p. 265)

et al., 2018). Digital offerings in the education sector, predictive maintenance in the field of building management, and building automation are further evidence of this trend. For companies significant cost savings are realized, e.g., restriction to standardized and marketable IT solutions in the sense of commodity services can significantly reduce costs for companies through the associated reduction in applications, and there is talk of a “blessing of the standard solution” (Beyer, 2015).

Referring to the classification of service types in Fig. 1, various reasons and **drivers for commoditization** can be specified even further. Figure 2 shows examples of service types for which commoditization can be observed due to different developments.

The **degree of interaction** is primarily associated with the degree of behavioral uncertainty (see Sect. 3). A high degree of interaction is usually found in services that require explanation. Shifting (externalizing) numerous process steps to the customer (e.g., in the case of a travel booking, the individual combination of services from modular travel components, the entry of personal data, the printing of tickets and booking confirmations, and the independent entry of texts in professional translation software) reduces the level of human interaction between customer and service employee. From a company perspective, this offers high-cost reduction potential. However, homogenization, i.e., the commoditization of the service, consequently rises, since the employee, who is largely responsible for a differentiated perception of services through personal communication and interaction, is relegated to the background.

Commoditization is less likely in the case of a high **degree of integration** because the service is created individually, the presence of the customer is required, or the customer is at least involved in the selection of the service, which increases the potential for differentiation. Commodity services can therefore generally be assumed to have a low degree of integration. Here, too, it is possible for the customer to take over a large part of the service creation himself (externalization), the provider merely offering the prerequisites for this (e.g., online banking infrastructure) at a high degree of standardization. The integration remains, but nevertheless allows a greater distance between the customer and the provider in terms of contact, so that commoditization becomes possible. It is also conceivable that companies themselves drive commoditization by standardizing or automating services during rationalization and cost-cutting measures (Corsten, 1985; Böhmann & Krcmar, 2006; Bruhn & Hadwich, 2020). Service hotlines, for example, can be outsourced to professional, specialized call center providers who use the technology they have installed to serve several companies simultaneously. In this case, it is no longer important from which provider the core service is obtained, as differentiation is no longer possible nor necessary. Another example of commoditization on the part of the provider are flights, which are offered at a very low-price level due to extreme automation and the reduction (or price separation) of additional services from the pure core service. This eliminates the potential for differentiation.

A high **degree of individuality** goes hand in hand with a high potential for differentiation and a correspondingly low tendency toward commoditization. However, "mass customization," i.e., customized mass production, also offers opportunities for individual but at the same time automated service creation. This is the case, for example, when all the necessary customer data can be made available and transferred to a provider with little time effort, and the customer can thus obtain individualized services—from one of many providers who all have equivalent technologies at their disposal (Pine et al., 1995; Büttgen & Ludwig, 1997; Piller & Meier, 2001; Lee, 2002; Salvador et al., 2009; Ahmad et al., 2020). In this case, there is also a tendency to commoditize the service due to the homogeneity of the offering.

In many cases—in terms of interaction, integration, and individuality—commoditization occurred primarily because of technological advances. Whereas, for example, in the early days of the mobile communications market, the ability to communicate with a cell phone at different locations was a special feature, the focus later shifted to complete network coverage, then to voice quality, and finally to numerous additional services such as availability, speed, and integrated data volume of the mobile Internet. The actual core service of being reachable at any location anytime and being able to reach almost any desired person anywhere anytime has by now become a standard service with commodity character, which is usually only perceived by the customer as a basic service when it is not available.

The latest developments in the field of **artificial intelligence (AI)** may result in further radical changes both in manufacturing companies and in the service business. AI is a key enabler for disruptive changes in business models (Cohen, 2018) and, depending on its use, may contribute to further commoditization of services. If, in the future, computers can learn from given data sets in the sense of AI, recognize patterns, derive actions, and thus adapt to changing environments, not only human thinking but also human behavior will be able to be imitated by AI systems (Russel & Norvig, 2016; Haenlein & Kaplan, 2019).

2.4 AI-based Commodity Services

Big data and enormous computing power as enablers of AI as well as the artificial generation of knowledge and experience, so-called machine-based learning, make it possible to learn human abilities based on the identification of data patterns in large amounts of data. This machine-based learning as a subarea of AI leads to increasingly better results the more users feed the system with data. The opportunities offered to service companies by AI appeal promising and are still far from being fully explored. Many companies and industries still stand in the early stages of developing and using AI and can only implement the developments in this interdisciplinary field of research and application step by step. In addition to enormous development efforts and data protection concerns regarding the collection, processing, and further use of data, ethical concerns must also be considered in the context of AI.

Applications of AI in services may take the form of improved services, radically changed service and interaction processes, better high-tech service experiences, or customer-centric service innovations, but further commoditization tendencies of services may also become apparent (Bruhn & Hadwich, 2021). AI is thus associated with risks and opportunities regarding the commoditization of services. Potentials for the AI-based commodity services are particularly evident in areas where analytical or mechanical service competencies are required and less so in the field of emotional-human or intuitive-creative service competencies. Mechanical intelligence exhibits lower degrees of learning and lends itself for repetitive services, such as image recognition at airport security checks. So-called weak AI is used here, i.e., AI systems that focus on solving concrete application problems. They reactively respond at a rather superficial level of AI and do not yet acquire a deeper understanding of problem solving (Russel & Norvig, 2016). Ostrom et al. (2019) provide insights into the use of AI in customer interactions. They can be AI-assisted, AI-augmented, or AI-autonomous, i.e., performed without any human assistance. Examples of AI-autonomous service interactions are the use of drones for parcel delivery (projects at UPS, FedEx, DHL "Paketkopter" or first drones tested in 2018 by Swiss Post in cooperation with the University Hospital Zürich for the transport of blood samples, which ended up in the Zürich lake). Autonomous driving in trains or cars are also conceivable fields of application for AI-autonomous services in the near future. These service types thus have high potential to become commodity services,

Table 3 Characteristics and exemplary forms of AI-based commodity services

Attributes	Examplary forms
Applications of AI-based commodity services	– Language translation programs such as DeepL or Google Translate – Chatbots in consulting and service (virtual assistants) – Streaming services for music and video – Digital voice assistants such as Google Assistant or Siri – Personalized service offers at online retailers such as Amazon – Google Ads, programmatic advertising in the area of online advertising – Automated image recognition in the area of security control at the airport – Image creation and recognition on smartphones
Features of AI-based commodity services	– Knowledge-based, cognitively oriented services – Low perceived personal risks for the user – Routine services – Repetitive services – Less suitable for emotional, intuitive services
Industries with AI-based commodity services	– Consulting services (e.g., tax or legal advice) – Education and entertainment – Linguistic services – Communication and advertising
Value for the providers of AI-based commodity services	– Productivity gains and economies of scale – High reproducibility of process quality – System-inherent continuous improvements – Growth leaps with reduced variable costs – Maximum capacity utilization without restrictions due to human factor – Independence from human resources
Value for the customers of AI-based commodity services	– Automated personalized service – Personalized services independent of time and place – Speed of the service – Reproducibility of the service and reliability – Anonymity and personal distance for sensitive, intimate concerns
Risks for the providers of AI-based commodity services	– Security of IT systems; data security against unauthorized access – Loss of control – Negative social effects (substitution of labor by machines) – Rejection due to unaccepted decisions of the AI (loss of reputation)
Risks for the customers of AI-based commodity services	– No human contact, isolation – Lack of empathy and customer proximity – Social, economic, and societal consequence (e.g., shopping virtually at the cost of stationary trade) – Data loss and dependency

since the customer does not directly perceive the basic service that is provided. Table 3 shows various exemplary **manifestations of AI-based commodity services**, structured according to different characteristics.

Commodity services based on AI can already be found in various industries, but they are not yet an everyday occurrence. The application field is developing rapidly, and it remains to be seen how AI will develop as a driver for commoditization of services. In addition to all the developments in technology outlined above, the behavior of customers is still decisive for commoditization. The customer's information behavior, the perception of commodity services, and the consumer's commitment and switching behavior are of particular importance here.

3 Peculiarities in the Consumer Behavior for Commodity Services

3.1 Impact of Information Behavior on the Purchase Decision Process

Marketing for commodity services requires insights into the information and purchase decision behavior of customers. Figure 3 shows various factors which influence the customer's perception of services as commodity services. Commodity services are classified as limited purchases or, in the case of repeat purchases, as habitualized purchases.

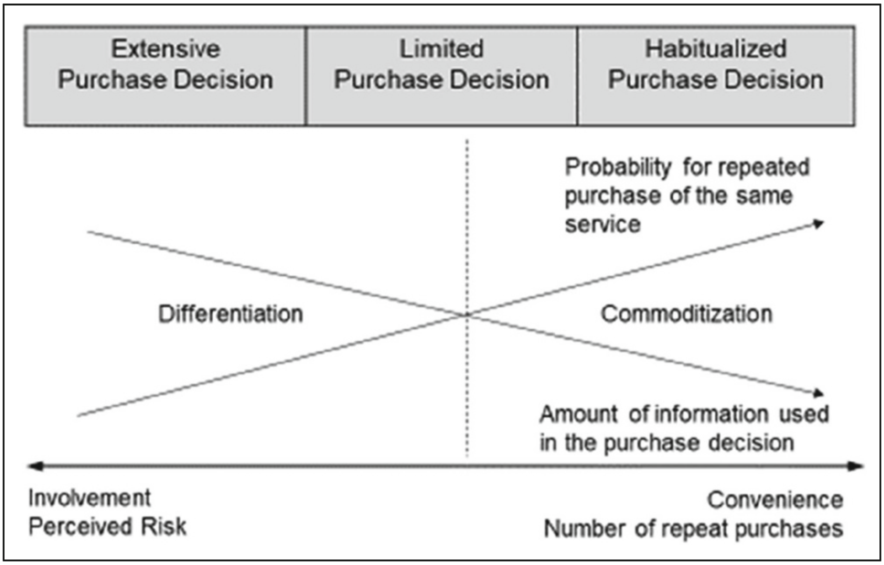

Fig. 3 Factors influencing customer perception of services as commodity services

An undifferentiated perception of different providers suggests a low **level of involvement** regarding to the offer. In the case of "typical" commodity services such as a cash dispenser, the low level of interest in the service means that there is usually passive information intake and a low level of information processing, with only a few service features being considered. Brand loyalty exists in this case only through habit (Cushing & Douglas-Tate, 1985; Kroeber-Riel & Gröppel-Klein, 2019). Since the goal of the purchase of commodity services is less to bring about a change in the customer than to maintain the status quo, an evaluation, if at all, only takes place after the purchase (Teichert & Trommsdorff, 2019).

In addition, there is a low **level of behavioral uncertainty** when purchasing commodity services, i.e., the consequences of a "wrong" purchase decision are not seen as serious (Wiedmann et al., 2001; Burmann & Bohmann, 2009; Billen & Raff, 2014). This low-risk perception is often related to the perception of a low price.

Furthermore, the **number of repeat purchases** plays a role (Kroeber-Riel & Gröppel-Klein, 2019). The more frequently a service is used from the same provider, the less effort is expended in terms of information search and evaluation of alternatives. Over time, therefore, a habitualization takes place, which is additionally favored by low involvement and a low perceived risk. This point becomes particularly clear in the case of subscription models for commodity services. The number of repeat purchases leads to further questions concerning the switching behavior and customer loyalty in commodity services.

3.2 Switching Behavior and Customer Loyalty

Regarding **customer retention**, it is necessary to differentiate between willingness to switch, intention to switch, and switching behavior. For some commodity services, long-term contracts with a provider are common (e.g., mobile communications). These contracts primarily benefit the provider in question (but also the customer) since the provider can plan its capacities relatively precisely and estimate future revenues. Although the customer avoids the expense of repeated use of the service, he can only switch to another provider after the contract term has expired, even if he intends to change. This creates a barrier to market entry for competitors, as the switching behavior of customers is impaired. However, high switching rates, especially in mobile communications or in the electricity sector, due to comparison portals such as CHECK24, winSIM or Verivox, make it clear that contractual forms of retention do not have a sustainable effect in the face of competitors' attempts to poach customers at aggressive prices.

Since **purchasing decisions** for commodities are mainly made with little cognitive and affective effort, it can be assumed that a change of provider—insofar as there is freedom of choice—can be considered for various reasons, but mostly presumably for price reasons. The following aspects are particularly worth mentioning here:

- Convenience
- Price advantages
- "De-commoditization" through external impulses
- Dissatisfaction with the current provider

Convenience is a factor showing a negative impact on the willingness to switch for numerous commodity services. Consequently, the habitualization process plays a primary role here. Habitualization is of particular importance for commodity services compared with commodities in the material goods sector because it requires interaction at least once (when a contract is concluded), which is associated with individualization (e.g., selection of a specific mobile phone flat rate) and integration of the external factor (e.g., provision of personal information). Once a provider has been selected and all the necessary personal data, bank details, etc. have been provided to it, the effort involved in using the service the next time can be avoided by repeatedly selecting the same provider (e.g., renewing the contract with the existing provider). This also applies to many Internet stores. In the case of some commodity services, contracts are also concluded for an indefinite period or are automatically renewed (e.g., electricity, gas, water, or telecommunications). There may be a willingness to switch, but there is no intention to do so because of the advantages of another provider, which are rated as low, or because of convenience reasons paired with low involvement.

Price advantages have a positive effect on the willingness to switch in the case of commodity services. As soon as these not only outweigh the transaction costs of the higher effort (see above), but also increase involvement in such a way that the barriers to switching are overcome, a change of provider can be expected. In the case of commodities in the material goods sector, conversely the transaction costs associated with switching suppliers are usually irrelevant because the effort involved in switching is very low (e.g., searching for flour or toilet paper with the lowest price in the assortment of a well-stocked retailer).

Factors that bring about the **"de-commoditization" of a commodity service** also tend to have a positive effect on the willingness to switch. They can lead to a sensitization for individual service components or to a preference for certain companies or brands. Possible influencing factors are explained in Sect. 4 in the context of marketing instruments. **Dissatisfaction** with the current provider has the same effect as "de-commoditization." If, for example, quality problems occur, these contribute to a more conscious perception and evaluation of the service. Since commodity services generally only fulfill basic requirements, but not requirements for service delight (Bruhn & Hadwich, 2017), in principle only deficiencies in the service creation are noticed, but a properly delivered service is not (e.g., no access to databases, incomplete cleaning of professional clothing, poor mobile phone reception). Here, habitualized buying behavior can be disturbed by negative experiences with quality that leads to a (temporarily) higher involvement with the service.

An empirical study on reasons for churn, which included commodity service industries such as energy, financial services, and telecommunications, shows the importance of price as the dominant reason for churn, while service quality and available alternatives were cited much less frequently as reasons for churn. In more than 80% of the analyzed churners, moreover, only one single reason was causal for the churn (Pick, 2016).

Different approaches for the marketing of commodity services result from the customer's information processing and their buying and retention behavior. Consumer research is an important basis for this, as the characteristics of customer behavior depend on the specific service offered and the markets in which the company operates.

4 Implications for the Marketing of Commodity Services

4.1 Strategic Marketing Options for Commodity Services

With the question of cost leadership or differentiation, two fundamental strategic directions can be used in numerous service industries, which are based on different assumptions about consumer behavior and how it can be influenced. If we assume that price is the dominant factor influencing consumer behavior in commodity services and that commodity services focus primarily on price-conscious buyer segments, there are initially few other strategies for shaping competition besides cost reduction and correspondingly attractive pricing in the sense of **a strategy of cost leadership**.

The **strategy of differentiation** of commodity services assumes that customers look for differentiating features even in the case of homogeneous services, instead of making their purchase decision based on price alone. In this case, the marketing strategy aims to differentiate the homogeneous business service offered from pure price competition by means of additional services or other differentiating factors. The positioning of electricity as "eco" and thus the provider as sustainable (Wüstenhagen, 2004) and the branding of homogeneous commodity services as "yellow" (Yellow Strom, German electricity provider) or also "Mr. Wash" as a car wash brand with a small service selection and a simple price structure show that a differentiation strategy is also pursued for commodity services. The development of sustainable or minimalist lifestyles, especially in young customer segments, can offer starting points for differentiation from commodity services as the impacts of commoditization on society and environment are discussed (Manno, 2019).

Another strategic option trying to avoid complete transparency of the service is the **strategy of bundling** one's own commodity service with other commodity services or products to offer a product-service hybrid. In respect to the hybrid consumer behavior, it is conceivable to bundle homogeneous service offerings with highly differentiated service components to form an overall offering.

The **strategy of integrating** one's own commodity services into an existing service network represents a further option for providers to avoid price competition and interchangeability. In the service transformation context, providers of homogeneous products endeavor to join forces with other providers, especially service providers. The intention in forming service networks is to be able to offer customers added value and a full range of services (Weigel & Hadwich, 2019). For commodity service providers such as IT commodity services, autonomous transportation services, or facility management services, it might be attractive to join an existing service network, which is built around one or many industries to create value from the customers' perspective. Such service networks are developing in many sectors and can by now also be observed in the field of social services and healthcare, e.g., in the form of multi-generation projects and housing which combine various differentiated as well as homogeneous services with product offerings from different manufacturers and service providers.

The appropriate strategy and the marketing instruments to be used as a matter of priority must be decided in the light of the special type of service, the commodity prerequisites, the intensity of competition, and consumer behavior.

4.2 Specifics in the Use of Marketing Instruments for Commodity Services

For commodity services, the use of the so-called **5Ps** (Meffert et al., 2018) is basically conceivable in the same form as for heterogeneous service offerings. Besides product, promotion, price, and place as external marketing instruments, the role of people in service business has been emphasized in service research and practice.

Considering specific attributes of commodity services makes it obvious that price and thus **pricing policy** are of particular importance in the marketing mix of commodity service providers. Commodity services, like commodities in the material goods sector, are characterized by a high degree of price transparency, as prices are compared easily with one another due to the services being perceived as interchangeable (Simon & Fassnacht, 2019). As a result, a high price elasticity of demand can be assumed. Subscription models or pay-per-use approaches are common pricing models to counteract the effect of absolute price levels as well as price transparency. In the case of measures offering price advantage, the dominant objective is to achieve cost leadership in the market served. If further transaction costs relevant to buying behavior are envisioned, perceived convenience of the commodity service might be of relevance for pricing. Convenience becomes particularly important in the case of commodity services, as they are generally associated with greater time expenditure due to the process character of services. In the case of commodity services, it is assumed that customers will choose the provider with whom the transaction is carried out with the least effort for reasons of convenience. Another pricing goal can be to additionally promote price transparency through unit prices (e.g., elimination of the basic fee for telephone providers) and communication (e.g., rate announcements on the telephone). In industries with a high potential for commoditization of services, e.g., banks, airlines, transportation, or shipping, price is an important signal to discourage new competitors to enter the market (Avlonitis & Indounas, 2005).

In addition to price, digitally supported or automated **service creation** with a tendency toward few product variations and highly standardized, reliable service processes are important for a successful performance of commodity services. As a further option for differentiation, **service modifications** can be implemented. Modifications are conceivable through changes in structure, the process of service creation, and changes in the performance outcome (Grönroos, 2007). **Physical facilities and structures** take on an ambiguous role in the context of commodity services, as their importance depends heavily on the degree of automation and the need for customer integration. If, for example, the service is a cloud service offered as a commodity service, data security, fast access, and availability are central and critical factors from the customer's point of view. In the case of no-frills fitness concepts, such as McFit or its subsidiary High 5, expensive high-tech fitness equipment such as treadmills or rowing machines with entertainment equipment in sight have been replaced by simple sandbags or weighted balls for purely functional training. There is no sauna or wellness areas, or a personally staffed reception area geared to the fitness guest or even gastro offerings.

The role of the **sales and distribution** of commodity services is not clear. The necessary scalability and mass production of commodity services often results in online distribution or, in the case of physical interaction, in franchise systems. For pure online commodity services, the focus is on smooth digital handling processes and in case of customer problems quick and easy access to support. Commodity services themselves often offer little potential for differentiation, and e-services additionally reduce the contact between companies and customers (Wirtz & Lovelock, 2018). Therefore, if there is a personal sales employee it plays a central role in shaping the customer relationship, especially in the B-to-B business of commodity services. This role includes not only sales and relationship management tasks, but above all the necessary elicitation of customer needs. The challenge of avoiding pure price argumentation in sales remains central.

Regarding **communication and branding**, highly standardized and uniform communication with a clear customer benefit promise appears important to do justice to the low level of customer involvement. The role of the brand in the perception of commodity services must also be considered. To achieve efficient and effective communication, a simple brand strategy such as the individual brand strategies of Mr. Wash, Motel One, or McFit should be applied instead of complex brand architectures. Due to the high media costs, classic advertising is hardly considered as a communication instrument. Instead, the focus will be on sales promotion and different social media, especially owned and earned channels of online communication, enhancing positive word of mouth.

With the reduction in performance as well as the automation of interaction, **people**, the human factor, and here in particular the customer contact personnel, which has so far been one of the most differentiating factors for services and the creation of customer experience (Wilson et al., 2016), play only a minor role in most cases. In automated services, the focus is on human–machine interactions, and in selected sectors avatars or robots are already taking over the role of people in service interactions. Service automation as a key enabler of commodity services minimizes the risks of personal service failures, but it can also lead to alienation (Bruhn, 2020). Without the human factor and the establishment of a personal relationship with the customer, customer loyalty also represents a particular challenge for commodity services. A differentiated view therefore also applies to the use of customer loyalty instruments to build up barriers to switching behavior (Fisk et al., 2013; Homburg & Bruhn, 2017; Wirtz & Lovelock, 2018). These can be simple instruments such as contractual ties (e.g., cell phone contracts) or technical retention (e.g., staying with a company's service due to incompatibilities with other systems). In addition, an economic retention can result from habitualized behavior being rewarded through discount or bonus systems. For commodity services, it is most likely to establish forms of "cold" loyalty rather than emotional attachment. If commodity providers succeed in building emotional retention a "de-commoditization" of their services is possible.

4.3 Self-Services as an Example of Commodities in the Service Sector

The development and implementation of technology-based service innovations is a key driver for commoditization**. Self-services** are an important technology-based form of such **technology-based services** (Hadwich, 2008). The increasing use of self-services in companies is an example of "commoditization" in the service sector that is already established and accepted by customers. The use of self-services standardizes individual employee–consumer relationships by allowing customers to shape the service process themselves using self-service technologies. Following Salomann (2008), self-services are defined as services in which mainly the customer is involved in the creation of the service and thus in charge of the production of services. In the case of self-services, the service provider does not personally interact with the customer. Interaction between employees and customers is replaced by interaction between customers and self-service technologies and leads to active customer integration in the creation process. At the same time, this implies that the absence of personal exchanges leads to a low level of individualization and thus a high level of standardization of the service. Examples of those self-services include cash dispensers, ticket machines, photo boxes in train stations, online banking services, touch screens in department stores, self-scanning, and self-checkout in supermarkets (Dabholkar & Bagozzi, 2002; Curran & Meuter, 2005; Zagel, 2016).

Particularly in (mobile) Internet-based self-services, there has been rapid growth, as these self-service technologies primarily offer companies a way to meet customers' increasing demand for constant availability of services. In this context, mobile self-services are gaining importance. Here, the customer has the option of using self-service applications at any time via his mobile device. The increasing spread of self-service technologies can be attributed to both provider and customer benefits. The focus is on the potential benefits that trigger revenue, cost, and profit effects for the provider and create benefit effects for the customer through a simplified purchasing decision process. These potential benefits act as drivers that

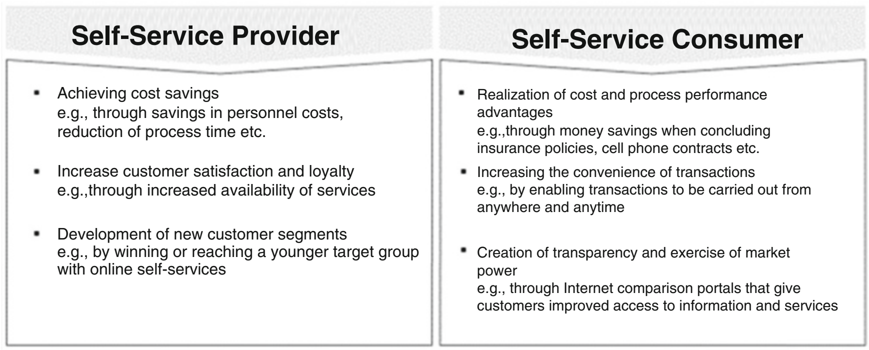

Fig. 4 Potential benefits of the introduction of self-services on the supplier and demand side (Sources: adapted from Dabholkar & Bagozzi, 2002, p. 184; Salomann, 2008, p. 30; Collier & Kimes, 2012, p. 103)

accelerate the introduction of self-services into the market. A selection of the relevant **potential benefits** discussed in the literature is shown in Fig. 4.

In addition to the advantages of self-services, however, the risks of offering self-services must also be considered and factored into the decision. Although the introduction of self-services generally leads to cost savings, it should be noted that both the installation and maintenance of self-service offerings produce additional costs. These costs must be compared with the savings that can be achieved through self-service technology. Inadequately planned self-service strategies can lead to an increase in costs if, for example, many customer inquiries are submitted to the company because the self-services are not user-friendly, which then must be answered by service employees (Salomann, 2008). For example, the introduction of ticket vending machines by the "Deutsche Bahn" (German railway) led to considerable acceptance problems due to a very complex and differentiated offer and price structure. Consequently, customer contact employees had to support rail customers by assisting them at the ticket vending machine. In the context of the introduction of self-service technologies, the consumer's need for human interaction is emphasized as a critical factor for the acceptance of the technology. Therefore, it is of great importance for companies to ensure customer satisfaction with self-services, as this will reduce the need for human interaction (Collier & Kimes, 2012).

In conclusion, self-services have become increasingly important in recent years and are increasingly influencing customer perception of the service and thus of the company. The standardization or "commoditization" of services through self-services becomes clear above all through a comparative consideration of the factors that shape service quality from the customer's point of view. Whereas the expertise, friendliness, and empathy of the employee are the most important factors in personal service encounters, factors such as user-friendliness and time saving are relevant factors in service quality from the customer's point of view in the case of self-services (Meuter et al., 2000; Curran & Meuter, 2005; ServiceXRG, 2008; Collier & Kimes, 2012; Hilton et al., 2013).

5 Summary and Further Development

Service companies are increasingly facing the general trend toward homogenization. Due to a high degree of immateriality and customer integration, the individualization and the perceived risk of most services are higher than for material goods, but nevertheless different factors contribute to commoditization in the service industry. On the supply side, the service providers' offerings are converging in cut-throat competition for the highest market share, and in many industries only companies that are technologically up to date can compete. This is accompanied by an inflation of customer expectations. Innovations and additional services quickly become standard, which customers subsequently take for granted. In the case of services, the possibilities for individualization in conjunction with a high degree of automation are particularly worthy to mention in this context. The result is an increasing tendency on the part of consumers to switch. This is promoted by the greater distance to individual employees of the company, since the cost-intensive interpersonal contacts become rarer due to automation or are only offered outside the routine services.

An explorative study revealed that several service types with small degree of integration, interaction, and/or individualization are perceived rather undifferentiated, i.e., classified as commodity services. Particularly missing or insignificant branding to the customer, missing or invisible quality differences, and the automated service creation reinforce the perception of services as commodities. The relevant characteristics for this perception differ however between individual services. Further research is needed to develop a detailed classification of commodity service types to draw sufficient conclusions for marketing.

Differentiation strategies for commodities are often given more space and a greater chance of success in the literature, since in a pure price war inevitably only a few competitors can survive. However, since the commoditization observed in practice suggests that commodity services will become increasingly important in the future, it is questionable whether such differentiation strategies will be successful. In many cases, this question must be answered regarding the specific service and evaluating whether the customer's perception of a service as a commodity can be changed by elaborated marketing measures in the sense of a differentiation strategy.

Due to the potential of automation and mass customization, the perceived homogenization of services probably will continue. The further developments in the field of technology, in particular the advancing automation and the development of AI, which holds out the prospect of automation with simultaneous personalization, will permanently change markets and challenge business models and thus also the marketing of companies (Haenlein & Kaplan, 2019; Rust, 2020). The impact of AI on the commoditization of services remains to be seen. Companies that have been able to offer their services in a differentiated manner up to now, but whose services show the potential for homogenization, will be forced to focus their market development on increasingly smaller niches or they need to realize service innovations at the level of technology, performance, or even the business model, e.g., through the establishment or participation of collaborative service networks, if they want to escape the price competition in future.

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Part II

Commodity Marketing Strategies and Tools

Commodity Pricing: Fast, Simple, Intelligent

Andrea Maessen, Bert Sebastian Strasmann, and Jan Haemer

1 What Makes Commodity Pricing Special

Commodities refer to interchangeable products. Their quality is standardized, based on clear and specific criteria or norms. The more interchangeable a product is, the greater the transparency generally is with respect to supply and demand and to prices. The more interchangeable and transactional a product is, the more its market is liquid and subject to short-term fluctuations.

Fluctuations in needs and demand for a commodity depend heavily on the economics of a given industry sector. Commodities are typically purchased in large quantities and produced in large plants in order to achieve scale effects. Upfront investments are necessary to expand capacity. Those decisions are based on underlying structural trends in demand. Commodity markets are thus rarely stable. They are either "long" (when demand is weak or capacity is growing) or "short" (when demand is strong or capacity is tight). As a result, prices decline in long markets and rise in short markets. Expectations regarding short-term price developments will influence the buying behavior of customers. Speculation, driven in part by financial markets, reinforces these trends and leads to greater price volatility.

This chapter was originally published in German as Maessen, A., Strasmann, B. S., & Haemer, J. (2014). Commodity Pricing – Was beliebig austauschbare Produkte einzigartig macht, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_4

Product characteristics	Specialty	Semi Commodity	Commodity
Product type and composition	Any fertilizer that includes micro nutrients such as B, Mn, Zn, MO, Cu	Liquid fertilizers covering N, P, K, S and fertilizers with Ca and Mg	All solid fertilizers convering the nutrients N, P, K, S
Customers' ability to switch product	Low: e.g. certification needed	Standard grades easy to replace	Only world-wide standards exist
Market liquidity	**Low**	**Medium**	**High**
Pricing cycle	Annual or longer	Coexistence of price lengths	Short-term, floating daily,weekly
Share of financial trades	Low, purely physical trade	Starting, with index providers, banks entering	Financial market participation, intermediaries

Fig. 1 Essential indicators and descriptors for commodities with respect to their market liquidity

In very liquid markets with many short-term transactions, the quotes on commodity exchanges such as the London Metal Exchange provide complete transparency on a daily basis. In other commodity markets, price information agencies such as S&P Global Platts or ICIS Chemicals aggregate prices into reference prices or indices, which they publish for market participants. The data inputs for these agencies include weekly or monthly transaction prices or the results of price negotiations with large customers. These indices also provide price transparency. Figure 1 uses fertilizer to show the essential indicators and descriptors for commodities with respect to their market liquidity.

Commodity production has high fixed costs. The higher the capacity utilization of a plant is, the easier it is for the supplier to spread those fixed costs across the volume, and thus to increase the unit contribution margin. For this reason, there is a lot of pressure to keep commodities volumes and capacity utilization high. In addition to fixed costs, the production of commodities is highly dependent on input or raw materials costs. These include the price of oil for the production of petrochemicals, the price of styrene for polystyrene, or the price of ethylene for PVC. Price fluctuations in input costs should be passed on immediately via price changes, in order to prevent margins from coming under pressure.

Although commodities are often traded globally, freight costs tend to constrain the size of the geographic market that a supplier can effectively serve. The greater share that freight costs have in the price, the more they suppress unit margins. This explains why suppliers concentrate their customer portfolios by region, in order to have the lowest freight costs and thus the highest unit margins.

Whether as raw materials or supplies, commodities have a strong influence on the cost positions of their buyers. Customers' price sensitivity is high and the decision to award a contract or bid to a supplier can often come to price differences of a few cents or less.

Recap *Commodities are interchangeable products in transparent and transactional markets. The prices are driven by supply, demand, and cost dynamics. In liquid markets, speculation also plays a role. Because of their high fixed costs,* *commodities manufacturers are under great pressure to produce high volumes, balanced by prices. Customers have high price sensitivity because commodities often make up a significant share of their cost positions.*

2 Price and Contract Management for Commodities

Price management for commodities means optimizing the balance between price and volume over time. An important prerequisite for this is the management of the contract portfolio. The time periods and price mechanisms specified in the contracts determine how much flexibility the supplier will have to adjust prices or volumes over time.

It is essential to distinguish between spot and contract business. For spot transactions, companies are completely exposed to fluctuations of supply and demand and thus at the mercy of market prices. These prices are a real-time reflection of market dynamics. Customers face the risk of unforeseen price increases, but also have buying opportunities if prices fall. At the same time, supply shortages can put volume levels at risk. Contracts, in contrast, provide the customer with greater security of supply because of the supplier's obligations. The benefit for suppliers, in turn, is that they lock in commitments for base load in capacity utilization, and therefore have more planning certainty regarding their production and shipping.

Contract prices are generally higher than spot prices. But short-term changes in the supply-and-demand situation can lead to fluctuations in spot prices and cause that relationship to flip. The more spot and contract prices deviate from one another, the greater the risk is that some contract parties will not be able—or willing—to meet their delivery or purchase obligations. The economic basis for risk mitigation in these cases is that the binding periods for buying and selling obligations match as much as possible. When, for example, raw material costs increase or supply becomes scarce, prices do not rise quickly enough when the contract periods are long. If costs fall again or supply becomes available before the price increase is initiated or completed, it can reduce the supplier's margin.

Because of these intense market dynamics, commodities require short price cycles. Price adjustments are typically made quarterly, monthly, weekly, or even daily. The share of spot business vs. contract business as well as the structure of the contracts determines the flexibility the supplier has—in terms of price management—to respond to market changes.

Critical elements for the structure of contracts are the clauses that govern price setting, such as fixed delivery volumes, price mechanisms, and price models. Practically speaking, "take or buy" clauses—which obligate a customer to take physical delivery or face penalties—are often not enforceable. On the customer side, there are too many factors in the value chain and in the markets that can influence how much supply they need. For these reasons, common practices are minimum or average volume commitments per period, e.g., week, month, or quarter.

Recap *Contract management is an important prerequisite for price management of commodities. We distinguish in this context between spot business (prices) and contract business (prices). Spot prices reflect real-time market dynamics. Contracts cover longer periods and provide greater planning certainty for suppliers and customers. The structure of the contracts determines how much flexibility a supplier has to manage prices and volumes over time.*

3 Price Models for Commodities

In this chapter, we will describe three price models that are frequently used in the contract business for commodities: price formulas, industry cost price models, and price forecasting models.

3.1 Price Formulas

These models attempt to express and quantify the drivers behind price developments. Price formulas become an explicit part of the contract, and the price is adjusted quarterly, monthly, or weekly as a function of the formula. There are no price negotiations. Contracts based on price formulas generally run from two to five years.

Price formulas rely on publicly available data from matching relevant time periods in order to establish an objective and common calculation basis. If, for example, the input costs are a fundamental price driver, the price of the commodity could be linked to a relevant input price (cost) index. If the price formula adequately accounts for the costs, it assures a stable percentage margin over the duration of the contract. The absolute margin, however, can fluctuate, especially when there is a slight mismatch between the cost index and the actual price trends. When costs decline, there are windfall profits, and when costs rise, there are windfall losses. Rising costs, however, typically go hand in hand with robust volume demand, and falling costs usually correspond to weak demand. Thus, the windfall profits are usually not sufficient to compensate for the losses over time. Calculations show that the time mismatches in the sliding-cost clauses can put up to 30% on the annual contribution at risk.

The price formula can also reflect other price drivers besides input costs. It could include a published price index or reference price of the commodity itself, such as the oil price, which petroleum companies use in their contracts with airlines. As with sliding-cost clauses, price adjustments happen automatically according to defined rules, based on a monthly oil price publication from Platts and on customer-specific factors.

Price formulas improve the predictability and transparency of price trends. They make it possible to "neutralize" price in the customer relationship and to avoid tedious, drawn-out negotiations. They are used often in transactions with large volumes in markets where there are only a few large customers and suppliers who are highly interdependent. But price formulas carry the risk of creating a lopsided advantage for one of the parties over time and friction in the business relationship. This can occur when there is a mismatch of time periods or when price drivers are not adequately taken into account in the formula.

3.2 Pricing Based on Industry Cost Curves

Setting prices using industry cost curves means taking the unit costs of the marginal supplier into account. To build an industry cost curve, one assumes that each production facility produces up to its maximum capacity, as long as the market price is higher than the unit costs. The supplier that is still barely producing at cost so that the total market demand is covered (i.e., the supplier at the demand limit) is called the marginal supplier (see Fig. 2). The unit costs of the marginal supplier set the bound for the market price.

Demand dynamics will change who the marginal supplier is and where the market price lies. If demand drops under a critical level, the production plants that have the highest costs can no longer operate competitively. The marginal supplier adjusts the supply by reducing capacity, even going so far as shutting down individual plants. In the short term, maintenance work can also lead to supply adjustments, but these are only rarely sufficient to cover demand cycles. In addition to demand dynamics, changes in unit costs should also be taken into account.

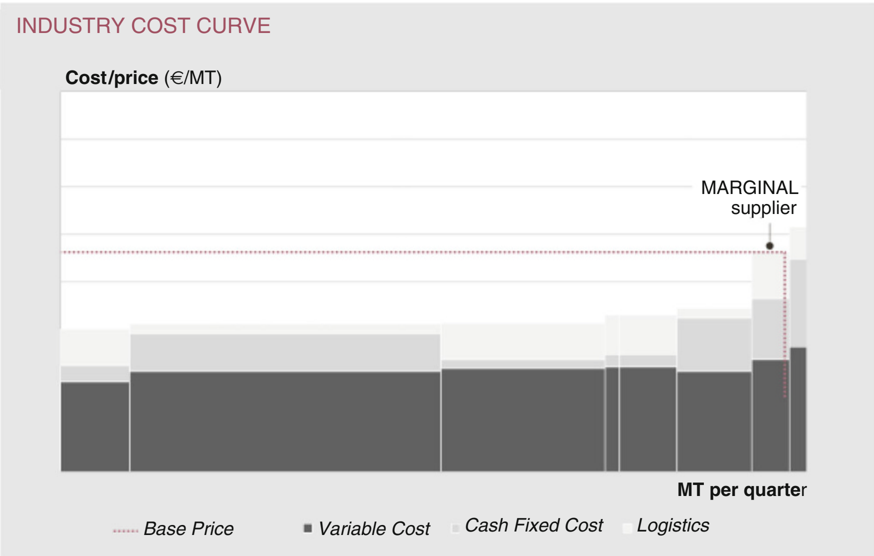

Fig. 2 Industry cost curve

Industry cost curves are used to set prices when there are only a few production plants in operation, when there is a high level of transparency around plant capacity and cost structures, and/or when there is no accepted price index in the industry.

3.3 Price Forecasting Models

Similarly to price formulas, price forecasting models for commodities systematically take all relevant price drivers into account in order to predict prices for the next price cycle. The difference is that these forecasting models are solely used internally by firms to determine price guidelines for price negotiations. But data availability and the matching of time periods also play an important role. It is not necessary for the data to come from publicly available sources as the models are for internal use only. They can also come from the company's own market intelligence. The supplier can, for example, also regularly and systematically collect the sales team's expectations regarding the price and market climate, and incorporate this subjective information into the model. Customer discussions or external publications can help identify short-term or structural shifts in supply and demand. Typically, the price from the previous period also plays an important role in the forecast as well. One manufacturer of petrochemicals developed an autoregressive forecasting model, which, in addition to the daily own oil price changes based on the previous period, included only the current production volumes and the changes in weekly inventory levels in the supply chain, in order to forecast the price for the next period.

Price forecasting models can be based on regression models, complex econometric models, or probability-based models such as the random forest model. Price forecasting models are becoming more and more popular as a way to set commodity prices, thanks to advancements in digitalization and the widespread availability of advanced analytics. Regardless of what model a company chooses, the overarching prerequisites for success are that the supplier identifies and correctly incorporates the relevant price drivers into the model, that the model is "trained" and thoroughly tested across a sufficient number of periods, and that black-box models—which can mask underlying cause-and-effect relationships—are avoided. The use of artificial intelligence (AI) will allow further optimization of the models in the future.

Price forecasting models not only help with price setting, but can also be used to manage volume. A global manufacturer in Asia used a 30-day forecast to set prices for a basic chemical in its monthly negotiations, and used a 90-day forecast with a trend forecast as a volume-management instrument. If the company expected prices to rise within the next 90 days, it would tend to hold back some supply rather than offer all available supply to the market.

Price forecasting models are generally used as decision-support tools. The ultimate decision on prices lies with management. They are tools for active price management and are used when prices are negotiated freely.

Recap *Price-setting models have a special significance for commodities because of market dynamics and price volatility. The key success factor is a comprehensive* *understanding of the relevant price drivers, the timely availability of data, and a proper alignment of time periods. While price formulas can effectively automate pricing, managers use industry cost curve models or forecasting models for decision support when they negotiate prices with customers.*

4 Price Differentiation for Commodities

In commodity businesses, products are interchangeable. Customers, however, are not interchangeable. Their value to the supplier can vary. This creates possibilities to use price as a means to differentiate and to extract value. A customer that regularly purchases large volumes over time is more efficient and thus more valuable than a smaller customer that buys only intermittently. Customers that compete in markets with high margins and strong growth face less price pressure than customers in markets with low margins and declining volumes. Customers with large volume potential are more attractive to the business than customers that are small today and will likely remain small. A company can therefore differentiate prices based on these factors, all of which are measurable.

Customer requirements can also differ. Some customers are very demanding with respect to order flexibility, shipping terms and conditions, or product packaging. These requirements generate transaction-specific costs that the customer should bear, if it asks for and receives that kind of special treatment.

The customer's ship-to location can also lead to differentiated prices because of the associated freight costs. Freight costs generally determine a commodity manufacturer's natural geographic market. These differentiated prices are often calculated applying a distance-based markup to the ex-works price: the greater the distance from the plant, the higher the markup will be. The resulting prices, however, do not take the customer's purchase alternatives into account. If the customer's site is closer to a competing supplier, the local price level is the more decisive factor, not one's own freight rates. As a result, the "delivered" prices within a regional market will gravitate toward the same level. This creates opportunities for regional price differentiation, because the further a customer is away from the nearest competing supplier, the more price potential there is based on the freight cost parity.

Price differentiation possibilities also arise from product variants that deliver added value. In steel, for example, there are different values from different alloys, different product types (blocks, bars, or half-finished products), different processing (re-melting or heat treatment), or different dimensions. Value drivers of industrial minerals, for example, are particle size, abrasiveness, opacity, or brightness. For each value driver, the supplier defines markups that, for the most part, remain consistent and are independent of the market cycles. In addition to the nature of the product itself, an environmentally friendly production process can also be a differentiating factor. In steel, some suppliers offer "green products" that have a better carbon dioxide balance. A higher willingness to pay results from savings on emissions allowances or the avoidance of potential penalties.

It is necessary to establish simple and clear price guidelines to ensure that adjustments to differentiated prices also occur swiftly and smoothly. The differentiation factors are markups or surcharges on a base price, and the calculation of product- and customer-specific target prices follows clearly defined rules. The base price moves in line with the market, while the product- and customer-specific factors remain stable.

Recap *Price differentiation for commodities is possible, especially when different levels of customer value exist. Differentiating factors include efficiency and costs in completing the transaction, as well as added value from product variants. All such opportunities should be systematically exploited. Every cent counts. Clear and simple rules for calculating markups and surcharges are essential, in order to be able to adjust prices quickly and consistently.*

5 Implementation Essentials for Commodity Pricing

Successful commodity pricing is by nature fast-paced, because it is tied to real-time market and cost dynamics. This places heavy demands on data, systems, and key indicators or metrics. We will now look at these three "essentials" of implementation in greater detail.

5.1 Data

Price models for commodities are a function of the available market intelligence within the organization as well as the timely available of (harder) data. These two aspects pose the greatest challenges to successful commodity pricing. It is not unusual for reliable market data from trusted sources and publications to be available only with some time lag, meaning they are not relevant for real-time or short-term price decisions. This is where leading indicators come into play. According to our own observations, intelligent market organizations have a balanced mix of experienced team members (diverse international employees and global team representation) and their own internal system for collecting, validating, and analyzing data and information.

On the demand side, the order book allows a supplier to make short-term volume forecasts. A more comprehensive view emerges from analyzing the most important customer levels along the value chain. Where are inventories building up, thus potentially indicating weakening demand? How are volumes trending among end users? The sales volume of t-shirts in the USA, for example, is a good indicator of the demand for textile fibers in Asia, assuming sufficient lead time. In many cases, secondary statistics are available. If not, then expert judgment—such as estimates from the sales team—can help to identify trends and assess the market climate in a structured way.

On the supplier side, information on capacity availability and utilization should be tracked very closely. The maintenance plans of the most important suppliers should be tracked, in order to draw insights into potential effects on volume. A good knowledge of the cost structures by plant is essential for constructing an industry cost curve. For globally traded commodities, rates for ocean-going freight influence the global flow of volumes as well as the price levels in other regions. Import parities are an important indicator for assessing changes in import volumes.

On the cost side, suppliers need to monitor the cost trends for the most important input factors. These trends serve as a good indicator, because of the time lag between procurement and production. There are often multiple input factors to track across the different levels of the supplier's value chain. Not all of them have the same predictive power, nor do the factors with greater predictive power always cover the cost situation sufficiently. This makes it very important to conduct thorough analyses of leading indicators.

5.2 Systems

Commodity pricing becomes sustainable and robust once the appropriate IT systems are in place. They make market data, real-time data, models, and specific analyses easily accessible. Advancements in digitalization led to the development of numerous modular software solutions that support these efforts. But creating customized solutions to support process efficiency is relatively straightforward to do nowadays. That is the case, for example, when the gathering of early indicators for demand, supply, and cost changes can occur without necessarily requiring a direct connection to ERP systems.

A wide array of software enables companies to take better control of the operational implementation of prices. CPQ ("configure, price, quote") software, for example, supports the generation and submission of offers that conform to predetermined price guidelines. After the submission and acceptance by customers, the agreed-to prices are automatically updated in the ERP system. Putting price lists into the systems allows for top-down price adjustments that apply to all customers without exception. Simplicity of the price guidelines and clarity of the processes are essential. If they are too complex or their implementation leads to a full-blown IT project, the systems are doomed to fail. Processes will run too slowly and, in general, will not meet the company's needs.

System-based contract management requires systematic capturing of the key elements of the mutually agreed price model, as well as how long it is valid and what the volume obligations are. A transparent contract portfolio allows the supplier to understand its degrees of freedom to adjust prices and protect volumes in the short term. The systematic documentation of contracts requires clearly defined standards. Systems reach the limits of the usefulness when there are highly individualized contracts and a huge number of contract elements that have accumulated over time.

5.3 Key Indicators

Average prices, margin per unit, or the absolute contribution does not provide any reliable guidance for effective price and volume management. In order to manage prices, a supplier needs to calculate product and customer mix effects as well as volume and currency effects. The simplest means to do this is to use a price index. If the supplier is highly dependent on raw materials costs, it can also use “margin above raw materials costs” as a metric. In addition to transparency into price and raw margin effects, a supplier should also monitor volume trends very closely, in order to achieve the best possible prices while remaining within the desired volume corridor. This volume corridor should be oriented not only on capacity utilization requirements, but especially on target market shares, in order to take market and competitive dynamics into account.

An additional indicator reflects the implementation of price differentiation guidelines and target prices. If the achieved prices deviate from product- and customer-specific target prices, it could indicate differences in how well individual salespeople are negotiating or could also serve as an early indicator of emerging trends in the market.

All of the indicators described above can be used to derive concrete actions to manage prices and volumes.

Recap *Several elements enable a supplier to manage commodity prices and volumes with precision. They include timely data availability, good data management, simple and fast end-to-end solutions in ERP systems, intelligent early indicators, and success metrics. Digitalization helps suppliers to get better and better at meeting their implementation challenges.*

6 Summary

- Commodities are interchangeable products in transparent and transactional markets, in which prices are driven by supply, demand, and cost dynamics. In liquid markets, prices can also be driven by speculation.
- Suppliers face inherent volume pressures due to high fixed costs in production and procurement and the need to keep capacity utilization high. Commodity pricing is therefore always a balance between volume and price.
- Contract management is an essential part of commodity pricing. The structure of the contracts determines how much flexibility the supplier has to manage price and volume over time.
- Price models play a particularly important role in commodity pricing, because of market dynamics and price volatility. While price formulas can help automate pricing, industry cost curve models and forecasting models provide decision support for management to negotiate prices with customers.
- Price differentiation in commodities is feasible because customer value varies, depending for example on the efficiency and costs of fulfilling the transaction.

Clear and simple calculation guidelines with markups and surcharges are essential for the supplier to make price adjustments quickly and consistently.

- Several elements enable a supplier to manage commodity prices and volumes with precision. They include timely data availability, good data management, simple and fast end-to-end solutions in ERP systems, intelligent early indicators, and success metrics. Digitalization helps suppliers to get better and better at meeting their implementation challenges.

Price Negotiations in Commodity Markets

Markus Voeth and Uta Herbst

1 Importance of Price Negotiations in Commodity Markets

By definition, commodity market pricing is of central importance within companies' marketing activities. Since a commodity is a difficult to differentiate service (Enke et al., 2005), a buyer can obtain it in an identical or, at least, in a similar way from many different market suppliers; the decision to purchase such products is essentially based on the price. Suppliers offering commodities therefore need to pay special attention to their marketing's pricing policy. This should, however, not be limited to a market price, or specifically, to competition-oriented pricing, but should also include the price enforcement field. The latter involves measures and decisions intended to actively ensure that the previously planned price can be implemented to the maximum extent possible in the market (Diller, 2007). Regarding commodities in industrial goods markets, it can specifically be assumed that buyers do not view the list prices as final price offers, but rather as initial supplier offers that can be negotiated. Furthermore, the removal of legal barriers (e.g., the German Rebate Act and the German Ordinance on Bonuses of 2001 [*Rabattgesetz und Zugabeverordnung*]) in consumer goods markets led to customers being far more

This chapter was originally published in German as Voeth, M., & Herbst, U. (2014). Preisverhandlungen auf Commodity-Märkten, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_5

willing to negotiate for commodities. In this respect, customers are also aware that the indicated price cs are not necessarily the final prices and that price reductions are therefore possible within the price negotiation framework.

Although price negotiations are normal in commodity markets and are an important factor of companies' pricing in these markets, they have to date played a subordinate (if any) role in marketing research and practice. Based on an extensive literature analysis, Herbst et al. (2011), for example, determined that only 78 publications in the most relevant marketing journals over the last 45 years—thus only 0.51% of all published articles—dealt with negotiations.

The result of marketing science's lack of attention to price negotiations has led to scientific findings regarding negotiations/price negotiations being more available outside the marketing field, in **general negotiation research** (Herbst, 2007). However, general negotiation research is a highly subdivided field of research. A multiplicity of individual research results and approaches can be applied to price negotiations, although most of them either refer to very specific issues, or are so general that they only offer assistance for concrete negotiation situations, and no situation-related help. With regard to price negotiation research, Diller (2007) therefore stated that no conclusive overall picture had been produced at that time.

Voeth and Herbst (2015) have now suggested a first approach to produce such an "overall picture" of the **management of price negotiations**. We will use the approach to systematic and comprehensive business negotiation management that can be readily applied to price negotiations as a special case of company negotiations (see Voeth & Herbst, 2011) as the basis of this chapter. It is presented in detail in the section "Commodity Differentiation - A Cross-Sectoral Approach." Thereafter, we draw a brief conclusion in the chapter "Commodities in the service sector," which primarily focuses on the future challenges that the management of price negotiations will face.

2 Management of Price Negotiations

Voeth and Herbst's (2015) approach to managing negotiations is essentially a very differentiated structuring approach. We propose a standard process for managing negotiations (see Fig. 1). This process starts with the initial negotiation situation' preliminary analysis (analysis), the negotiation and the negotiating team's organization (organization), the negotiation's detailed preparation (preparation), the negotiation's actual conduct (conduct), and the negotiation's final controlling (controlling). Companies can apply the latter to systematize their activities in the (price) negotiation area. The leadership perspective that we adopt underlines the distinctive feature of this approach, which we will discuss in detail below in the price negotiations case. The approach therefore adopts less the perspective of the negotiator than the perspective of the sending company. Consequently, the approach also includes those control and planning aspects related to negotiations that are more

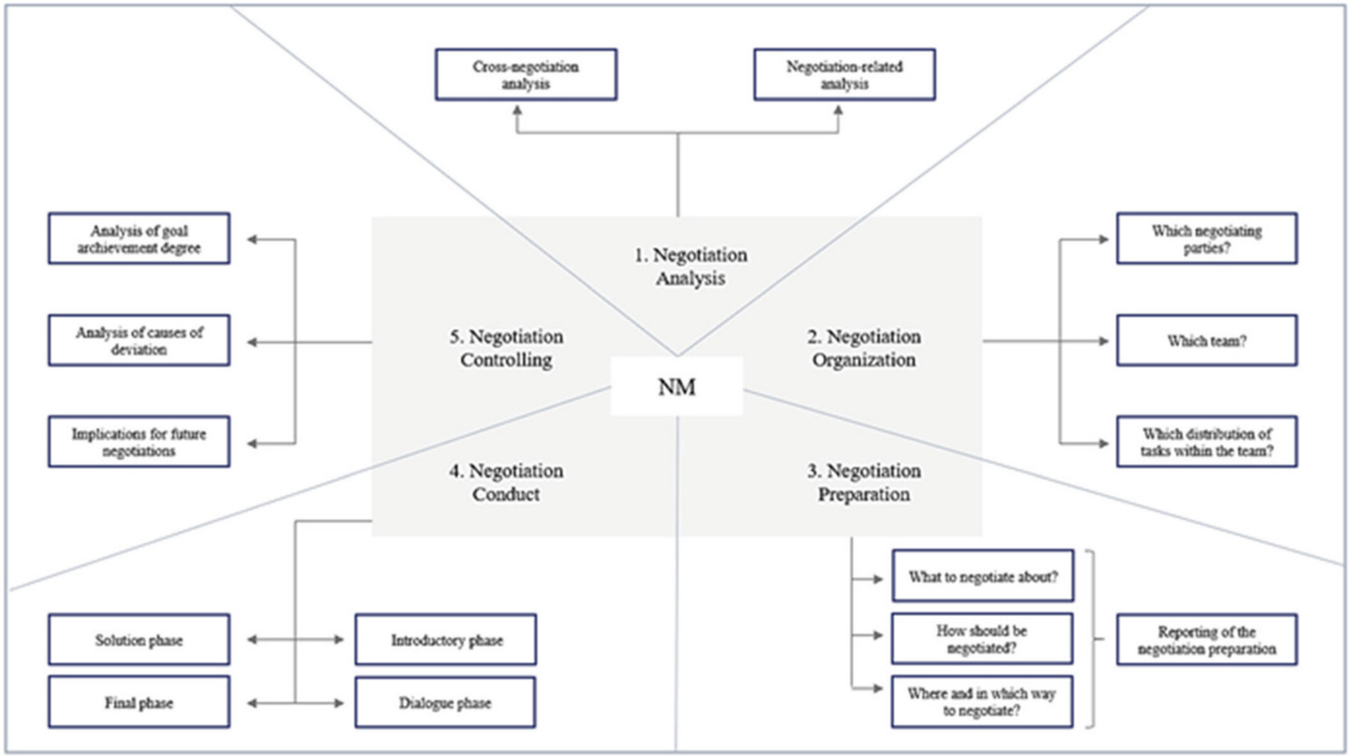

Fig. 1 Negotiation management tasks (based on Voeth & Herbst, 2015, p. 48)

strongly based on the company's higher interests (the negotiation team's organization, the negotiation results' controlling).

2.1 Analysis

The first price negotiation management step should be a comprehensive **analysis of the initial situation**. The initial focus is, for efficiency's sake, on whether and, if so, how intensively pending price negotiations should be managed. Initial work on computer-aided negotiation cost simulations from the 1970s already dealt with estimating the chance of success or failure when entering into negotiations (e.g., Bird et al., 1973). The use of specific negotiation management measures only appears to make sense if the negotiations are significant for the negotiating company in terms of the outcome (e.g., by volume) and/or could be classified as difficult with regard to the pending negotiation process. Only if this is the case will it be worthwhile undertaking detailed planning and striving for a specific management. However, since this question cannot be clarified separately in respect of each pending price negotiation, overlapping fields should be identified at the divisional or product level in which negotiation management seems sensible and necessary. General conditions that should be fulfilled in respect of the initiation of price negotiations' systematic management should therefore also be defined in this context. In this case, one could resort to the portfolio technique to identify particularly relevant cases. Figure 2 shows an example application: in the figure, products at the divisional level are ranked in a portfolio in terms of the negotiation results' importance and the negotiation process's expected level of difficulty. In this case, price

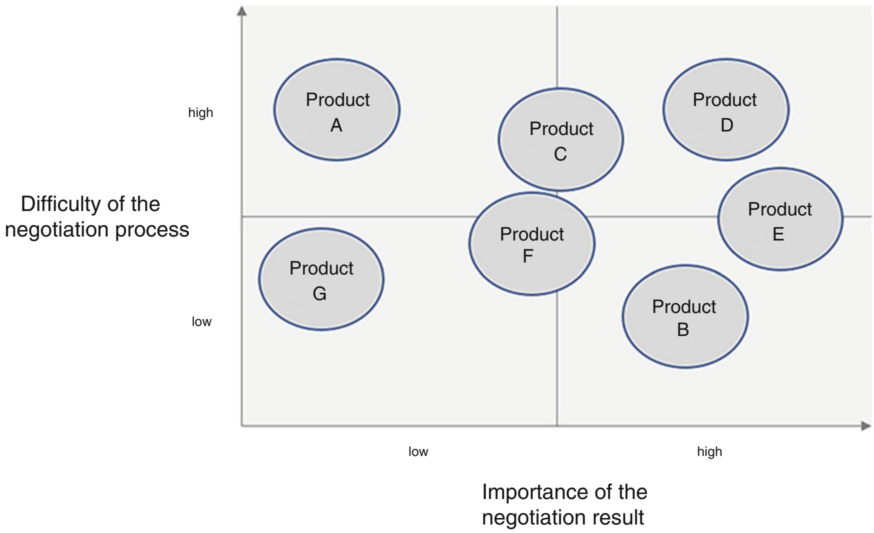

Fig. 2 Types of negotiation portfolios (based on Voeth & Herbst, 2015, p. 59)

negotiations should be managed systematically, especially if they are ranked on the right and/or at the top of the portfolio.

A negotiation-related analysis should subsequently be performed for such price negotiations. The aim is to determine all information about

- The customers in general
- The item to be negotiated
- The negotiation issues
- The negotiators
- The negotiation history

that is relevant for the subsequent negotiation.

The general economic situation, the volume potential that can be expected from the customer, and, above all, the customer's negotiating power are all points of interest with regard to the **customer** with whom price negotiations are to be conducted. If, for example, in the B2B area, sales are made with customers in many other places (e.g., with other products of the same business area, with products of other business areas), it can be assumed that the customer will be aware of the resulting negotiating power and will use it in the pending price negotiation. However, recent research (in the business-to-business area) also shows that manufacturer profits can increase as a result of increased trading power, if this increase in trading power is due to increased efficiency (Dukes et al., 2006).

In addition, information on the actual **negotiation item** and the potential negotiation issues should be obtained in advance. The transaction object's (possibly technical) special features might result in basic principles for the negotiation strategies, in negotiation tactics, and in the actual conduct of negotiations. During price negotiations it is important to take negotiation issues other than the price into account. If, for example, it is possible to integrate other negotiation issues into the negotiation and to not exclusively negotiate on price, the negotiation's level of conflict is usually reduced.

Information, if available, on the **counterparty's negotiator** should be obtained in advance. Since the negotiators' negotiation behavior depends, among other things, on their professional background, their cultural imprint, and their incentives (drive), this information should be provided to align one's own negotiating team and/or negotiation behavior accordingly.

Finally, special attention should also be paid to the **negotiation history** as part of the negotiation-related negotiation analysis. If, in the past, you negotiated with the negotiating partner in similar situations, it is important for the pending price negotiation to have knowledge about these negotiation results (e.g., agreement price, payment terms granted), but also with the course of the negotiation processes (e.g., entry prices, lines of argument). Only if this information is available can surprises during the negotiation and irritations with the negotiating partner be avoided.

2.2 Organization

Once all the relevant information regarding the pending price negotiation is at hand, decisions must be made about the organizing of the negotiation. The main issue here is which member of one's **negotiating team** should also lead the negotiations. It is essential that the decision of who on one's side should participate in the pending price negotiation should be made consciously. In practice this decision is, more often than not, left to chance. Consequently, the negotiation is delegated to the employee who is currently available. However, such an approach is risky, because the negotiation's success depends largely on the negotiating team's composition. A comprehensive management approach to price negotiations should therefore include informed decisions about:

- The size of the negotiating team
- Its composition.

In determining the **size of the negotiating team**, it should be noted that a negotiating team's performance does not necessarily increase with an increase in the team size (Thompson et al., 1996; Wood, 2001). It is therefore important that the negotiation-related "right" team size is determined. The basis for this determination might be the counterparty's presumed team size and the competencies that the negotiation team requires.

With regard to **team composition**, it should be noted that not all employees are equally qualified to conduct price negotiations. In this context, negotiation research has shown that sociodemographic, psychographic, and organizational characteristics are important (Levi, 2016). However, studies show quite different results with regard to sociodemographic characteristics (e.g., age, education). Only in terms of the characteristic "gender" do the study results show no real differences (Herbst, 2007). Many studies have shown that men are more inclined to enter into negotiations than women (Alserhan, 2009; Bear, 2010) and that they achieve better results than women in negotiations in which the main aim is to assert their own interests at the expense of those of the counterparty (Gilkey & Greenhalgh, 1984; Pinkley, 1990).

In the area of **psychographic characteristics**, the literature has, in addition to values (e.g., Wrightsman, 1966) and personality traits (Neale & Northcraft, 1986), specifically examined the meaning of experience. A distinction should be made between technical and negotiating experience. Both can have a positive effect on negotiations' outcome. In this context, the literature assumes that specialist experience is more essential at the beginning of negotiations, whereas negotiation experience counts more toward the end (Voeth & Herbst, 2015). This is justified by the consideration that technical aspects should first be clarified at the beginning of negotiations before an agreement can be reached on the negotiation's conflicting negotiation issues toward the end. Since the price is usually an adversarial negotiation issue, the negotiation team should include experienced negotiators.

Furthermore, in light of the increasing internationality of interaction processes, the importance of **intercultural communication competence** must also be taken into account. In this context, Elahee and Brooks (2004) showed that, in respect of cross-cultural negotiations, trust has a negative influence on the application of generally accepted tactics, but an even stronger (negative) influence on morally questionable negotiation ones (false promises, misrepresentation of position, attacking opponent's network, and inappropriate information gathering). Confidence building is therefore considered one of international negotiations' most important aspects. Relationship building through trust to achieve a positive negotiation outcome is particularly important in China (Leung et al., 2011).

Finally, organizational characteristics focus on attributes, such as hierarchical position, departmental, and role affiliation. The negotiation research field has provided various empirical studies on this topic. While Sherif and Sherif (1969) show that higher hierarchical levels can negotiate more efficiently, because due to their greater organizational responsibility they are better able to make concessions or enforce their negotiating positions, concludes that higher hierarchical levels do not negotiate more efficiently, but less so. In addition, their research shows that teams should not have a large hierarchy gap, since internal decision-making processes, for example, proceed less efficiently in such teams. Attention should therefore also be paid to this when staffing negotiating teams.

Once the decision about the negotiation team's composition has been made, the organizational task also includes getting the team members to agree on the **division of tasks within the team**. In this respect, a distinction must be made between a functional, procedural, and decision-related division of tasks. The latter type of task division is specifically important in price negotiations, since it should be decided in advance which team member should make the final decision on whether to accept a bid or not. This is the only way to avoid competence disputes within the negotiation team, but also with the negotiation counterparty.

2.3 Preparation

Although the other steps in price negotiation management are also important, the **negotiation preparation phase** (even when compared to the actual conducting of the negotiations) undoubtedly plays the greatest role in negotiation management. Thompson (2019) mentions the "80:20 rule," according to which the importance of negotiation preparation is four times greater compared to the subsequent handling of the negotiations; consequently, sufficient time should be reserved for this. It specifically involves:

- The analysis and design of the negotiation issues identified in the negotiation management's first step
- The definition of negotiation objectives, negotiation strategies, and tactics (including those of the counterparty).

2.3.1 Analysis and Structuring of the Negotiation Issues

With regard to the negotiation issues identified in the negotiation analysis, various analysis and design questions need to be answered during the negotiation preparation. If the negotiation has to deal with non-price elements in addition to the price, the first thing to do at the analytical level is to consider the other negotiation issues' significance and character. Are these important for your negotiating side, but also, above all, for the negotiating counterparty? Are there compatible preferences for these negotiation issues (similar desired characteristics)? Are non-compatible negotiation issues distributive (a constant win-set) or integrative issues (the win-set depends on the negotiation outcome and therefore on the parties' negotiating skills)? Answering these questions is important, because they influence the subsequent design tasks. In respect of a pure price negotiation, the parties' power constellation and their alternatives mainly influence the negotiation result. Especially in respect of selling, which tends to be (or viewed to be) in a weaker position than purchasing (in buyer markets), this means that the introduction of additional negotiation issues should be considered even when pure price negotiations take place. When integrating more negotiation issues, the subsequent negotiation situation becomes more complex, although it simultaneously provides scope to weaken the otherwise typical distributive character of price negotiations, or to make it more integrative. Integrative negotiations always occur when the negotiating parties have different preferences for different negotiation issues; therefore, a mutual concession regarding various negotiation issues means both sides are better off ("everyone concedes on the negotiation issue that is less important to them").

However, although commodities often have no further negotiation issues and only the negotiation issue "price" needs to be negotiated, a more integrative negotiating situation could be created by deliberately introducing new negotiation issues. Negotiators can do so by reverting to the following techniques:

- Splitting
- Side dealings

When **splitting**, a single distributive negotiation issue is deconstructed into a group of more integrative negotiation issues. For example, offering a nonlinear price—a combination of a quantity-independent base price and a quantity-dependent price for the quantity of units required (Voeth & Herbst, 2013)—might lead to the price negotiation developing an integrative potential. For example, if the customer is prepared to take risks and the supplier has high fixed costs, but low variable costs, both sides will find it relatively easy to reach an agreement when offering a nonlinear price, since the supplier is willing to accommodate the customer on the variable price component, whereas the customer might make concessions regarding the base price.

Side dealing is another way of integrating additional negotiation issues. This refers to the attempt to link one negotiation's outcome or process to that of another negotiation (Voeth & Herbst, 2015). Side deals can be concluded with regard to the factors "time," "object," and "partner." Whereas, in time-related side deals, the pending negotiation's conditions are linked to commitments in future negotiations on the same or similar negotiation issue ("we can make further concessions on the price if we also acquire the contract for next year's order"), object-related deals involve a link to other negotiation objects negotiated at the same time ("we can make further concessions on the price of product A if you make concessions on product B"). There are, after all, partner-related side deals when negotiating partners make commitments dependent on their counterpart's behavior in negotiations with third parties. Such deals are rather common in practice and are, for example, a typical purchasing negotiating practice ("we can accommodate you even further in terms of the price if you in turn agree not to supply our competitors").

2.3.2 The Definition of Negotiation Objectives, Negotiation Strategies, and Tactics

The next step in negotiation preparation comprises the tangible formulating of the negotiation objectives, negotiation strategies, and negotiation tactics. Negotiation objectives, driven by the negotiators' basic personal and organizational negotiation motives and interests (Schranner, 2018), are "desired characteristics of negotiation issues to be negotiated in a given negotiation" (Voeth & Herbst, 2015). Actually achieving these objectives requires specific negotiation strategies and tactics. While a negotiation strategy resembles a basic driving force or guideline for negotiation behavior, negotiation tactics represent the planning of the coordinated use of negotiation arguments, offers, and other behavior in relation to the negotiation process and negotiating counterparties (Bacharach & Lawler, 1981). These tactics therefore correspond to converting the underlying strategy into actual negotiation behavior.

2.3.2.1 Negotiation Objectives

Although the process objectives (e.g., achieving an appropriate negotiation conclusion with the least possible negotiation effort) should be taken into account in commodities' price negotiations, the outcome objectives should specifically be mentioned before the price negotiation. This is, however, often omitted in negotiation practice, which means that the negotiations tend to aimlessly follow the slogan: "We will try to gain as much from this as we can." The reason for not specifying negotiation objectives is often due to negotiators' fear that they will be judged on the basis of these, and therefore assessed on their negotiation performance. However, since this should actually be the aim of a comprehensive negotiation management system, negotiators should be prompted to accurately specify their price targets as part of the negotiation preparation.

Such a specification should be made in two ways (from the seller's point of view): On the one hand, the **lowest price limit** needs to be determined; if it falls below this limit, this leads to a non-agreement, i.e., the negotiations break down. This lowest price limit is also called the seller's reservation price (Walton & McKersie, 1991). On the other hand, the aspiration solution, corresponding to the "desired solution" for the specific negotiation issue (in this case: the price), should also be specified in more detail (Pruitt, 1981). In the case of "the price," the aspiration solution is usually vectorial (from the seller's point of view, "the higher the better"). However, a

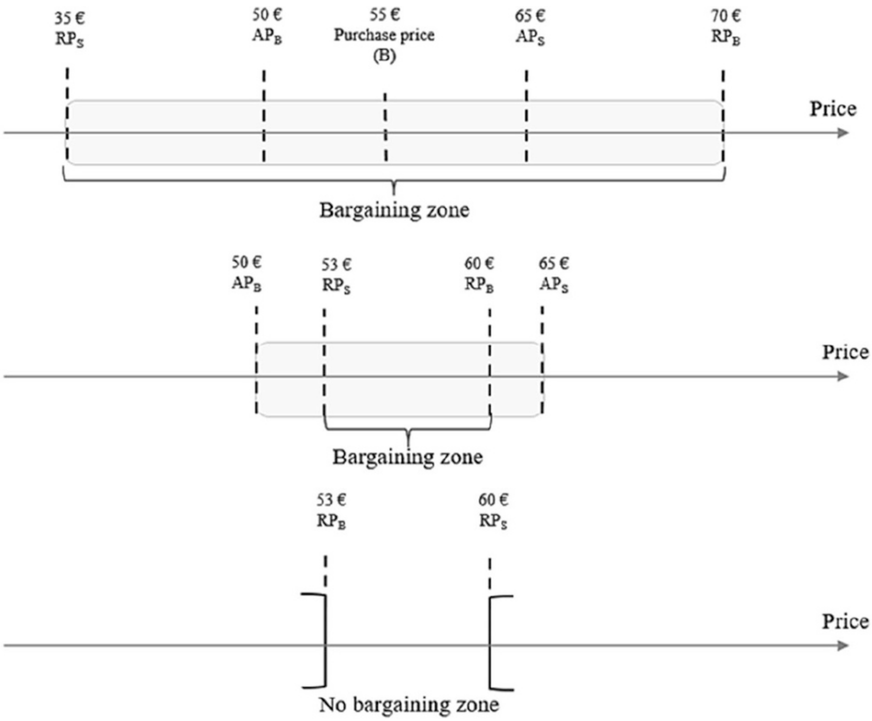

Fig. 3 Example of negotiation situations with different bargaining zones (based on Voeth & Herbst, 2015, p. 159 ff.)

negotiation team should attempt to determine a realistic point-based aspiration price by drawing on its past experience with other products and/or customers. However, the negotiating counterparty's reservation and aspiration solutions also determine this price. Negotiators should therefore think about the other party's objectives in the run-up to price negotiations, as these objectives influence their negotiation objectives. The seller also needs to deal with the reservation and aspiration prices of the procurement, since a comparison with the seller's price expectations might reveal that there is no "Zone of Possible Agreement" (ZOPA) (Lewicki et al., 2019) between the negotiating parties. In the different cases in Fig. 3, there is only a chance of an agreement in the first two situations, since the reservation price (RP) of the seller (S) is below that of the buyer (B). The seller will therefore only achieve his aspiration price (AP) in the first case, because only here is this price below the buyer's reservation price.

Determining the customer's reservation and aspiration prices is inherently fraught with difficulties, as this information is usually not available to the seller. However, analyzing the BATNA of the negotiating counterparty could provide the basis for determining these prices. A BATNA (Best Alternative To Negotiated Agreement) is defined as the best alternative available to the negotiating counterparty. If, for example, as in Fig. 3, a competitor has made the counterparty an offer of €53 for a commodity, it is obvious that the buyer's reservation price would also be €53, because the buyer would switch to the more favorable competitor's offer at prices above €53. Furthermore, an analysis of one's own BATNA could also help determine one's reservation prices.

2.3.2.2 Negotiation Strategies

One should determine how the negotiation objective, which the reservation and aspiration solutions previously restricted, could be achieved. An overarching **guideline for negotiation behavior** should therefore be developed to which the negotiators need to adhere in the subsequent price negotiation (negotiation strategy). The two fundamental negotiation orientations represent problem-solving strategies on the one hand and aggressive strategies on the other. Perdue and Summers (1991) define these generic perspectives for action as follows: "Problem solving primarily involves discovering ways to increase the benefits available in the buyer-seller relationship, whereas aggressive bargaining addresses the issue of how the available benefits are to be distributed between the two parties." These are also often applied to the international context, according to which, for example, the application of a problem-solving negotiation strategy could increase the negotiation results, specifically in Western cultures, whereas in negotiations with partners from Eastern cultures (e.g., China), more competitive strategies will increase the output (Campbell et al., 1988; Graham et al., 1988). In the literature, (result-related) negotiation strategies are further differentiated beyond this bipolar view in terms of the extent to which personal and opposing interests should be taken into account within the negotiation (e.g., Lewicki et al., 1998). As shown in Fig. 4, five different negotiation strategies can be distinguished.

With regard to pure price negotiations, a **competitive strategy** seems obvious at first glance. Since price negotiations are distributive negotiation situations, each side will try to maximize its share of the win-set, accepting that this strategy will automatically reduce the counterparty's share of the win-set. When choosing such a strategy, however, it should be kept in mind that the counterparty will also pursue this strategy—possibly as the result of its competitive strategy—and that this strategy's success depends on its negotiating power. If this negotiation power is not one-sided, you will be forced to switch to a compromise strategy later, even if you do initially pursue a competitive strategy. In this case, it is part of the strategy to accommodate the negotiating counterparty if he is also prepared to make concessions. Since concessions are an essential feature of the **compromise strategy**, it is also necessary to determine the sequence in which concessions will be made ahead of time (for models of concession sequence timing, see Pruitt & Drews, 1969; Kwon & Weingart, 2004).

The situation differs, however, when different issues, due to splitting or side dealing, have to be negotiated in the price negotiation process. In this case, it is always a good idea to first explore the possibilities of a cooperation strategy. The targeted use of package offers ("logrolling") could determine whether integrative

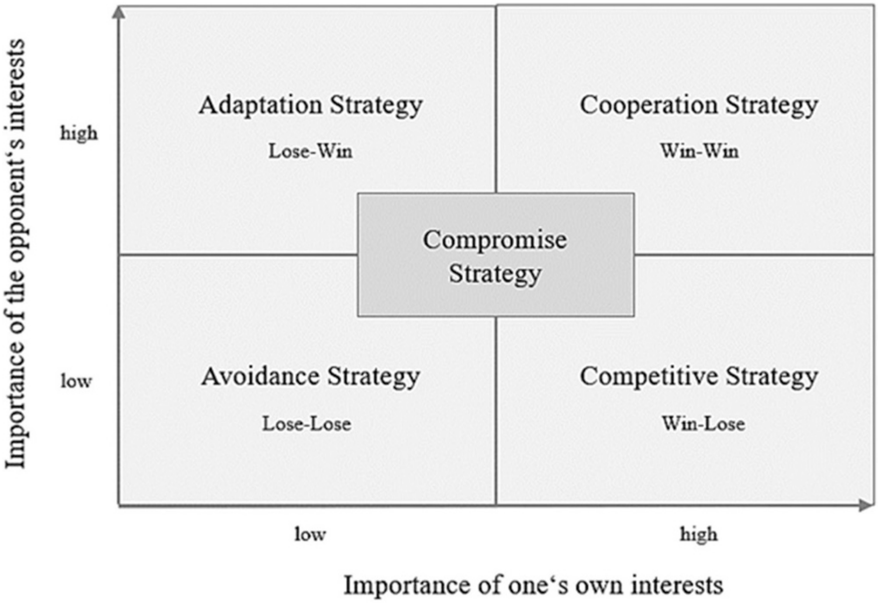

Fig. 4 Result-related negotiation strategies (based on Lewicki et al., 1998, p. 64)

potential exists and whether the negotiating partner is interested in realizing this through appropriate negotiation behavior.

Finally, **adaptation and avoidance strategies** can also be considered in certain price negotiations cases. The former are suitable, for example, if the buyer's aspiration price is above or at least close to the seller's aspiration price and the seller therefore does not need to explicitly pursue his own interests, as these are also achieved when the counterparty's interests are achieved. Such a strategy is also possible if the seller wants to build goodwill with the buyer by making concessions during the pending negotiation in order to use this in future negotiations, or in parallel negotiations on other negotiation items. Finally, an avoidance strategy aimed at not reaching an agreement should be used whenever the seller is aware that there is no bargaining zone, but assumes that the buyer is not yet aware of this. In this case, the only negotiation purpose is to clarify to the buyer that it is better for both parties not to reach an agreement.

2.3.2.3 Negotiating Tactics

Negotiation research and practice discuss numerous approaches in the context of negotiation tactics, intended to help plan the targeted use of negotiation arguments, negotiation offers, and other behaviors related to the negotiation process and negotiating counterparties. On the one hand, these are process-related tactics. Here, a distinction should be made between interaction-related tactics, such as playing for time and role-playing ("good guy/bad guy"), communication-related tactics (e.g., appealing to higher authorities, asymmetric communication), and partner-related tactics (e.g., saving face, flattery). On the other hand, there are many result-related tactics, some of which relate explicitly to price negotiations.

The **"first offer" tactic** should be employed first. According to this approach, being the first to make an offer is a promising tactic in price negotiations (Mussweiler & Galinsky, 2002). If, for example, the seller in the case shown in Fig. 3's upper part opens the negotiation with a price demand of €70, then the buyer is forced to deal with this cognitive anchor argumentatively, and to justify his lower bids that deviate from €70. It is also important to choose a reasonable amount for the initial offer. On the one hand, negotiation research has demonstrated that negotiating parties tend to agree mostly on a price midway between the extremes of their initial offers. From the latter one could conclude that it would be particularly advantageous to enter into a negotiation with an extremely high entry price. It should, however, be noted that "fictitious prices" harbor the risk that the counterparty will develop misconceptions regarding the bidder's **fictitious prices**, possibly assuming that there is no bargaining zone and consequently terminating the negotiation.

However, since sellers do not always succeed in placing "first offers," the question arises how one should react when the counterparty submits the first offer. In this case, negotiation research has shown that a first offer's effect is, at best, significantly weakened if it is possible to make a corresponding counter offer immediately. In the above case, if the customer opens the negotiation with an opening bid of €40, it is possible to avoid limited negotiation on this bid of €40 if the seller responds immediately with a counteroffer of €70 ("Your offer astonished us! We had presumed a price in the region of €70").

Ultimately, the **reciprocity tactic** is also important for price negotiations. This tactic comprises negotiations always comprising a mutual give and take (Putnam & Jones, 1982). Negotiating parties should therefore never make the mistake of making concessions in succession without the counterparty having simultaneously made concessions. With regard to the problem-solving-oriented negotiation behavior mentioned above, studies have also shown that its application is directly linked to the observation of the negotiating counterparty's behavior (Mintu-Wimsatt & Graham, 2004).

2.3.3 Negotiation Reporting

At the end of the negotiation preparation, the negotiation team should produce a **preparation report**. This report should cover all parts of the negotiation preparation and include all assessments of and derivations from the negotiation preparation (Kuthe, 2005). Having the negotiators produce such a report at the end of the negotiation preparation appears to be useful and necessary for various reasons: On the one hand, negotiators are then forced to consider all the sub-aspects listed in the preparation report in the run-up to a negotiation. Additionally, the report could serve as a "navigator" for the negotiators during the negotiation (Voeth & Herbst, 2015), which they can also use as a guide in difficult negotiating situations. The report will ultimately also fulfill a protective function for the negotiators. Specifically, if, with the help of the report, the sending company "approves" the negotiation objectives and strategies in the run-up to the negotiation, it is easier to justify the negotiation results achieved internally thereafter—provided they approximately correspond to the original negotiation objectives.

In order to ensure that the negotiators actually carry out the preparatory reporting and that the described benefits are realized, standard forms for reporting should be drawn up and made available to the negotiation teams. By standardizing the reporting, it can also be better utilized for the final negotiation controlling.

2.4 Administration

A systematic approach should also be followed during the actual negotiation phase. There is consensus in the literature that, during a negotiation, changing tasks need to be fulfilled over time, allowing the negotiation to undertaken in a phase-specific manner (Pesendorfer et al., 2007). Building on the findings of behavioral negotiation research (see Sect. 2.1), Voeth and Herbst (2015) differentiate between the:

- Entry phase
- Dialog phase
- Solution phase
- Completion phase

Voeth and Herbst (2015) assign the tasks, shown in Fig. 5, to these phases. The **introductory phase** should therefore start by introducing the negotiating counterparties and thereafter presenting the various negotiating positions. In respect of price negotiations, this means that both sides of the market should submit the first offers in this phase. Since these offers may not be self-explanatory—especially if, in addition to the price, agreement needs to be reached on other negotiation issue.

Introductory phase	Dialogue phase	Solution phase	Final phase
Getting to know the negotiating partners	Clarify facts	New negotiators	Determine closing time
Presentation of the negotiating positions	Make preferences clear	New negotiation issues	Make final offer
	Make reciprocal offers	New characteristics	Close contract
		New information	Make final offer (if necessary)
		Changed conditions	

Fig. 5 Phase-specific tasks during the negotiation process (based on Voeth & Herbst, 2015, p. 226 ff.)

Consequently, at the beginning of the dialog phase, one should check whether both sides of the negotiation have correctly understood the counterparty's offers and positions. In terms of more complex negotiations (negotiations on more than one negotiation issue), it is also useful to, at this stage, make it clear to the negotiating counterparty which of the negotiation issues are of particular importance. The last step in this phase is a mutual approach. At this stage, in order to retain the chance of an agreement, both sides of the market should make concessions if necessary. If no mutual approaches are made in this phase, the impression could arise that the negotiating parties are already close to their reservation prices and that both sides might consider terminating the negotiations.

At the end of the **dialogue phase**, there is usually a mutual approach, but not always an agreement. Instead, the parties are often no longer willing to make further concessions, because they now hope that, by avoiding further concessions, they will create the impression for the counterparty that their reservation limit has been reached and that the negotiating partner must therefore take the "last" step. However, since the counterparty uses similar tactics, there is a risk of the negotiation being delayed due to the parties blocking each other. At this stage, the only chance of bringing the negotiation to a successful conclusion is often to change the negotiation situation at a crucial point. This can be done, for example, in the **solution phase** by replacing the negotiators (new negotiators do not have to fear loss of face when deviating from previous positions), proposing side deals (new negotiation issues), and/or the deployment of new phrases, such as "yes, if the goods can directly be delivered at our Czech distribution warehouse."

In this way, it may be possible to bring the parties' positions closer together. There will be a desire for agreement on both sides at a certain level of the convergence of acceptance. The negotiation then enters the **final phase**. The first task in this phase is to correctly assess the timing of both sides' desire to reach an agreement. If the timing is misjudged, and only one side desires an agreement, a final offer would only result in one-sided accommodation. Consequently, before making a final offer (which should truly be a "final" one), the counterparty's desire for agreement should be examined very carefully. However, if the desire for agreement has been correctly assessed, the submission of a "final offer" usually means that there is a good chance that the counterparty will accept it—provided it lies between the two decided positions—if, after the contract's subsequent conclusion, there is still a need to renegotiate it, if there are subsequent changes in the negotiation premises, or if the power constellation between the parties shifts (Schoop et al., 2008). In this context, practice shows a tactical use of re-negotiation in order to increase a negotiator's gains if, for example, already signed contracts are deliberately ignored and attempts are made to negotiate more advantageous terms for individual negotiation issues (Iyer & Villas-Boas, 2003).

In general, the process phases of negotiation management mentioned above play different roles with regard to their significance for the negotiation outcome (Gulbro & Herbig, 1996). In particular, the first two phases lay the foundation for mutual profits through the reciprocal and influencing exchange of information. It is also crucial for negotiators to assess in which negotiation process phase the counterparty currently is, and when the right time has come to move the negotiation to the negotiation process's next phase.

2.5 Controlling

Negotiation controlling should conclude the management process's price negotiations. If controlling is generally understood to mean the "procurement, processing, and analysis of data to prepare for targeted decisions" (Berens et al., 1996), this management subsystem is primarily concerned with generating decision support from a company's available information for its future business activities, or obtainable from a company's prior business activities. If the basic controlling idea is applied in the area of price negotiations for commodities, the purpose of controlling is to derive support for future negotiations' design from information about past price negotiations.

In order to do justice to this task,

- The degree to which the negotiation objectives should be achieved should be set and determined in advance (target/actual deviations).
- The causes of possibly occurring target/actual deviations should be analyzed.
- The implications for future price negotiations should be derived.

The negotiation report created as part of the negotiation preparation can be used to determine the **target/actual deviations**. By comparing the ultimately achieved negotiation result with the originally aspired negotiation objective, it is possible to retrospectively determine the price negotiation's targeted achievement levels. If—as is normal in the industrial plant and supplier business—the negotiations did not focus exclusively on the price, the targeted achievement levels pertaining to the negotiation issues can still be calculated. By comparing these target achievement levels, it is possible to determine which negotiation issues were negotiated better and which worse.

If the examination of the targeted achievement levels has revealed deviations between the targeted and actual values, the question of the causes should be investigated in a second step. When analyzing the causes, however, it should be noted that deviations occurring across negotiations need to be classified differently from those that only appear in individual negotiations. While there may be structural reasons for the former, which cannot therefore be ascribed to the individual negotiators, negotiation-specific deviations should be subjected to a meticulous, individual cause analysis. The negotiators' lower negotiation performance might be a possible cause of negative deviations in respect of the negotiation.

Finally, implications should be drawn from the analysis for future price negotiations results of controlling negotiation. Negotiation controlling might provide extensive help with optimizing

- The negotiation analysis
- The negotiation organization
- The preparation of the negotiation
- The conducting of negotiations
- (Also) negotiation controlling

For example, in the analysis phase, it might become apparent whether the assumptions regarding the pending negotiations' importance and level of difficulty were correct. From this one can deduce whether it was necessary to use negotiation management. Where necessary, one can adjust the negotiation management application field. The results of controlling are also useful for improving negotiation teams' composition in future negotiations (negotiation organization), for identifying successful strategies and tactics (negotiation preparation), as well as for gaining insights into various forms of efficient negotiation management. Finally, the controlling results can also be used for optimizing the controlling system itself. It may also become apparent that further information on particularly meaningful metrics is needed from the preparation reporting, which should therefore be requested from the negotiators in the future.

3 Conclusion

It is very apparent that the commodity marketing price is an important factor for companies' success in commodity markets. Marketing should therefore focus on the pricing in these markets. The overall management attention should, however, not only focus on determining the price, but should also specifically focus on price enforcement. Marketing management should therefore focus more on price negotiations, which generally occur in commodity markets.

This chapter presented a comprehensive management approach to price negotiation management, allowing a thorough analysis, plan, and control price negotiations. One should keep in mind that if such a management system is introduced for price negotiations, companies will have to overcome resistance within their ranks. Those employees entrusted with the management of price negotiations tend to be specifically critical of such a system and, as arguments (cf. Voeth & Herbst, 2015, for the following) mention that:

- They have always used some of a negotiation management system's tools.
- The other tools that they have not yet used are actually superfluous (otherwise they would already have used them).
- A great deal of a negotiation cannot be planned in advance and they would therefore be reluctant to apply management techniques.
- For example, they feel that the designation of negotiation objectives, strategies, and tactics prior to negotiations would affect their ability to conduct negotiations flexibly, which would lead to the negotiation processes and outcomes deteriorating.

- Little can be learned from past negotiations' experience for future negotiations' successful design; consequently, the basic idea of negotiation management, namely gradually improving the negotiation processes and results, is irrational.
- Negotiation management as a whole is another form of "over-organization."

In view of such dissenting voices, occasionally expressed in connection with negotiation management systems, the design of the implementation process is of particular importance. This process should take place in a step-by-step, integrative manner while communicating the benefits. Only if this is observed will management be able to access price negotiations as a design domain in order to ensure the professionalization of pricing.

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A Behavioral Approach to Pricing in Commodity Markets: Dual Processing of Prices within and around Willingness-to-Pay Ranges

Florian Dost and Robert Wilken

1 Room for Behavioral Pricing Approaches in Commodity Markets

Pricing for an increased profit in commodity markets appears almost impossible. After all, commodities are goods that are indistinguishable along objective measures of quality, traded in buyers' markets with perfect competition. With rational buyers, any price differentiation is immediately exploited by competing sellers, such that all sellers' profit margins depend only on their number. Real buyers, however, rarely act only rationally; real products rarely are absolutely indistinguishable. It is then the degree of (non-)rational behavior and the degree of commoditization that set the framework for profitable pricing policies, even for commodities.

A strong tradition in behavioral research suggests that consumers act rationally only to a limited extent, i.e., they do not fully rely on cognitive considerations of alternatives (Homburg & Koschate, 2005a, 2005b; March, 1978; Simon, 1955). Instead of purely rational consideration, they apply decision heuristics based on experience, behavior, or feeling (Epstein, 1991; Gigerenzer, 2007; Kahneman,

This chapter was originally published in German as Dost, F., & Wilken, R. (2014). Verhaltensorientierter Ansatz zur Erklärung von Preisreaktionen bei Commodities und Empfehlungen für die Preissetzung auf Commodity-Märkten, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_6

2003). This lack of rationality, in turn, may offer some pricing leeway for the provider, depending on framing, price level, and context: for example, while consumers compare prices for a bottle of lemonade rigorously at the supermarket and hesitate for some time before eventually selecting the cheapest alternative, they accept high price premiums without hesitation during a sporting event.

Many behavioral heuristics are fast and frugal ways for buyers to cope with uncertainty. Therefore, the extent to which pricing can rely on heuristic consumer reactions depends on the specifics and the extent of uncertainties in the market. In markets with a high degree of commoditization, uncertainties about the product are by definition low. However, recent advances in studying buyers' preferences ascertain that buyers are also uncertain about their own preferences (Wang et al., 2007). Consequently, we advocate considering behavioral approaches to explain consumer reactions to price, even in a context of commoditization.

Specifically, we will propose and test a dual process framework for pricing around buyers' reservation prices. Such a dual process includes both rational and heuristic (or cognitive and affective) modes of choice. Our framework suggests reactions to prices are more or less influenced by heuristic choice, depending on their relation to a buyers' reservation price. We will use this framework to explain the interrelations between rational and heuristic modes of choice, willingness-to-pay ranges, and latitudes of price acceptance. We will also base a set of pricing and combined price-and-communication strategies on this framework. One interesting implication is that these pricing strategies are specific to target groups among buyers: as preferences and reservation prices are heterogeneous even in commodity markets, there are different potential buyers with a more rational or more heuristic mode of choice, for every price imaginable.

2 Purchase Decisions as a Dual Process with a Focus on Price

A dual process (Epstein, 1991; Kahneman, 2003; Sloman, 1996) describes two parallel forms of evaluation and decision-making. One of these forms relates to experience-oriented and thus past-related (Godek & Murray, 2008; Schul & Mayo, 2003) as well as emotional, affective heuristics. These are known to the acting individuals as "gut decisions" or also as "intuition" (Gigerenzer, 2007). Because such heuristic evaluation is fast and often unconsciously initiated, it has been described as system 1 (Kahneman, 2011, part I). The second system for evaluation and decision-making is present and future-oriented; it involves cognitive and deliberate evaluations of product information; and it results in constructed preferences and reasoned decisions (Bettman et al., 1998). As rationality is bounded and engaging in deliberate thought effortful, cognitive system 2 follows system 1 heuristics; system 2 processes are engaged when there is reason to spend the cognitive resources. Table 1 describes and compares both processes:

For purchase decisions at a given price, both affective and cognitive processes have been shown to explain the outcome. Affective processes rely on experience.

Table 1 Characteristics of the affective and cognitive process (based on Epstein, 1991; Godek & Murray, 2008; Sloman, 1996)

Affective process	Cognitive process
Holistic	Analytical
Automatic	Intentional
Affective	Intellectual
Quick processing	Slow processing
Behavior is influence by past and experience	Behavior is influenced by consciously perceived information
Reality is encoded by images, metaphors, and stories	Reality is encoded by abstract symbols, words, and numbers

With regard to price information, such experience is encoded in internal reference prices. Buyers use one internal benchmark price level, adopted from past observed prices (adoption level theory) (Helson, 1964). In case of varying prices or buyer uncertainty, a range of internal benchmark prices (and not a point) is used as a reference. According to the range-frequency theory, the heuristic adjustment is then relative to the distribution of the previous individual experiences and thus relative to a range (Parducci, 1965).

In contrast to the affective component, the best cognitive reaction to a given price can be constructed from context-specific information and deliberations about the future. This information includes current price levels, including competing product or seller prices, budget restrictions, and the subjective assessment of future value of the product, both in use or at resell value. The buyer's decision is then the outcome of a purely cognitive, rational process, as suggested by utility theory.

In any reaction to a price stimulus, both processes operate simultaneously, but with varied intensities, while the affective process predominates by default (buyers tend to avoid the more complex and time-consuming cognitive process). The cognitive component is therefore particularly prevalent when the observed price provides a cue or an incentive to think. This is the case when the observed price is either at the limits of heuristics based on experience or "surprisingly far away" from them (Park et al., 2011; Wathieu & Bertini, 2007). In the former case, the cognitive effort serves to reduce uncertainty. Some prices make consumers think more deeply, because there is a higher degree of uncertainty between buying and not buying at that price (e.g., close to the price limit in previous purchasing decisions). In the latter case, the price serves as cue for an unobserved quality (here: on product quality) (Wathieu & Bertini, 2007). This additional quality information provides an incentive for reflection: for example, an unexpectedly high price promises a higher quality than the learned heuristics suggest—prompting an incentive to resolving the inconsistency through thought and integrating the unexpected information into the judgment. In the same way, an unexpectedly low price raises doubts about the expected quality of the product (e.g., Janiszewski & Liechtenstein, 1999; Kalyanaram & Winer, 1995; Niedrich et al., 2001). Upon intensely reflecting these doubts, if product quality cannot be reliably asserted, a buyer could refrain from purchasing, despite the low price. Examples of this mechanism can be found in gastronomy: For example, a particularly high price for a "Döner Kebab" can trigger a cognitive information search and decision-making process, which leads to a purchase despite the high price (if the ingredients turn out to have superior quality). Similarly, a particularly low price could trigger a cognitive process, which leads the consumer to refrain from purchasing (if the quality doubts cannot be dispelled).

An interesting third possibility for increased cognitive processing exists at prices neither too high, nor too low, but close to the maximum price a buyer is willing to pay. Here, the buyer is indecisive about whether to make the purchase (Wang et al., 2007; Dost et al., 2014), which demands intensified deliberation. Specifically, consumers have remaining uncertainties about the product or about their own preferences that require resolving more pressingly when the price is closer to willingness to pay, but could remain unresolved in case of a bargain (much lower price) or perceived extortion (much higher price).

3 Concepts of Willingness to Pay in the Dual Process of Purchase Decisions

The considerations made so far have shown the following: in order to model consumers' reactions to price—i.e., decisions for or against a purchase, depending on the (set) price of a product—we should consider the interaction and relative dominance of the system 1 and system 2 processes mentioned above. Consumers may predominantly use heuristics when the price is low (high) compared to historical data, but not surprisingly low (high). On the other hand, other price ranges are characterized by high cognitive intensity, for example in the middle of the interval of prices where a consumer, in the past, was indecisive between buying and not buying.

To model the actual purchase decision or consumer reaction to the price, it is useful to use the individual purchase probability as a function of price. Various concepts of price reactions and willingness to pay refer to this purchase probability, as we will explain in the following (see also Fig. 1). According to the respective concept, we will also present common methods for measuring the respective point or range values.

(Point-based) willingness to pay represents the original case of an individual price reaction. This point, also called reservation price, (maximum) willingness to pay, or prohibitive price, is the price up to which the consumer buys the corresponding good with a probability of one. This choice is assumed to rely on a purely rational (i.e., cognitive) decision process with no uncertainty. Most common methods for measuring willingness to pay refer to this original conceptualization. Popular and proven methods besides the direct query are conjoint analysis and lottery methods, as well as the BDM lottery and price auctions (Backhaus et al., 2005a, 2005b; Völckner, 2006).

In reality, however, even with extensive cognitive efforts, consumers cannot fully diminish their uncertainty. Any "residual" uncertainty manifests itself in a range of reservation prices—i.e., in areas where consumers are indecisive about purchase. Thus, point-based willingness to pay represents the ideal case of zero uncertainty.

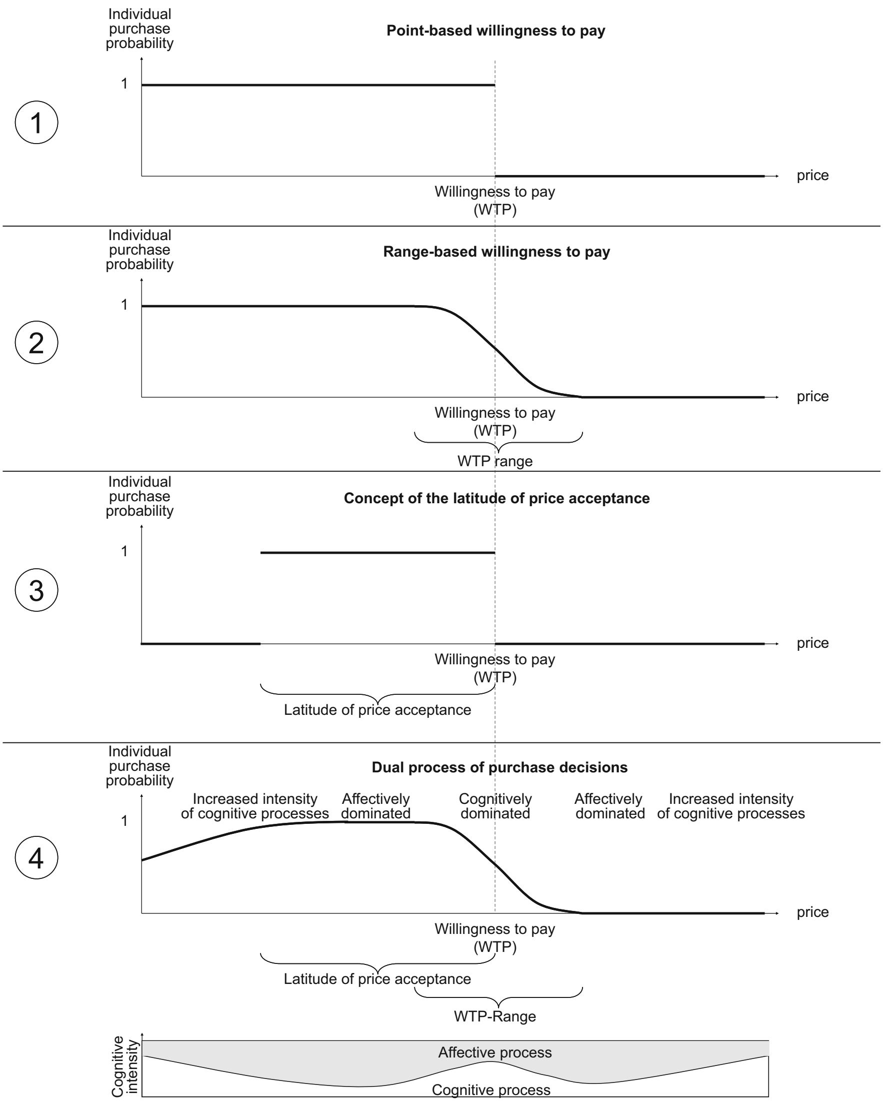

Fig. 1 Concepts of willingness to pay and the dual process of purchase decisions (based on own illustration)

Figure 1 illustrates the so-called WTP-as-a-range concept (Dost & Wilken, 2012; Wang et al., 2007). Within this WTP range, the consumer's purchase probability gradually decreases from one (definite purchase) to zero (definite non-purchase), following some probability distribution (e.g., linear, s-shaped). The unknown actual willingness to pay corresponds to the expectation of this probability distribution within the WTP range (Dost & Wilken, 2012). The reservation prices at the boundaries of the distribution, associated with a purchase probability of either one or zero, are called minimum ("floor reservation price") or maximum willingness to pay ("ceiling reservation price"). Several methods, including lottery procedures, have been developed to measure these boundary reservation prices and thus the extent of the WTP range (Wang et al., 2007; Dost & Wilken, 2012). Conjoint analysis procedures (Schlereth & Skiera, 2009; Schlereth et al., 2012) are also available for measurement.

At first glance, WTP ranges seem familiar and similar to latitudes of price acceptance. A closer look, however, reveals a theoretical and empirical difference between the two concepts. The "Latitude of Price Acceptance" (Rajendran & Tellis, 1994) uses the range-frequency theory of reference prices (i.e., observed prices and expectations about them), but not preferences (i.e., willingness-to-pay ranges). It assumes that previous observations and experience of consumers determine their ranges of acceptable prices. Being based on consumers' previous experiences, latitudes of price acceptance mark the range of prices suitable for a more heuristic decision process. The latitude is bound by the maximum acceptable price which approaches willingness to pay. A second boundary for acceptable prices exists at lower prices, where consumers may start to doubt the quality of the product; here, the information function of the price operates. The boundaries for accepted prices can be measured with the Price Sensitivity Meter (Van Westendorp, 1976), but this method is not uncontroversial due to poor predictive performance of actual behavior. For example, the concept of latitudes of price acceptance is assumed that consumers do not buy at prices below their latitude of acceptable prices, but empirical evidence is scarce, and anecdotes especially from commodity markets, such as gas stations erroneously posting mere cent prices per liter, suggest that many consumers actually do buy even at unprecedented bargains.

In our proposed dual process view, all concepts (WTP points, WTP ranges, and latitudes of price acceptance) are included: willingness to pay cannot be unambiguously determined, due to uncertainty such that it falls into a WTP range. That WTP range marks the upper boundary of the latitude of acceptable prices. Within WTP range, a dominant cognitive process could be expected, while within the latitude of price acceptance, a dominant affective or heuristic process is possible. For prices below that latitude, there is an increased induction of cognitive processes that emerge from increased doubts about quality. Cognitive processes do occur also in the case of very high prices, which equally trigger doubts of quality: The consumer considers whether the quality of the product has not been judged too low so far. Usually, however, such doubts do not result in an increased probability of purchase without being backed up by additional quality information.

Table 2 summarizes all conceptualizations and the associated measures.

The measurement of our conceptualization of the dual process can in principle be carried out in two ways: one possibility is to determine the individual distribution of purchase probabilities. A combination of methods to measure a WTP range with methods to measure an accepted price range seems promising. Another possibility is to indirectly measure the relative distribution of cognitive and affective processes over various prices—and thus infer the probability of purchase.

Table 2 Concepts, variables, and measures of price reactions

Concept	Variable			Measures
	WTP	WTP range	AP	
(1) Point-based willingness to pay	X			Individual purchase probability
(2) Range-based willingness to pay	X	X		Individual purchase probability
(3) Latitude of price acceptance	X		X	Individual purchase probability
(4) Dual process of purchase decisions	X	X	X	Individual purchase probability or relative distribution of cognitive and affective processes

WTP: willingness to pay; AP: acceptable price range

4 Empirical Illustration of the Dual Process of Purchase Decisions

We will now report the results of a study that empirically implemented the idea for indirect measurement through the distribution of cognitive and affective responses. Specifically, we tested whether the slower cognitive process predominates within WTP range, while prices outside the range are processed relatively quickly and without major cognitive effort (see Dost, 2012, p. 89ff). An experimental design was used in which participants had to make choices.

We first measured individual WTP ranges and then randomly assigned each participant into one of nine experimental groups. The experimental groups differed in terms of the (sales) prices shown in relation to the individually stated minimum and maximum willingness to pay ("floor" and "ceiling reservation price," respectively). The nine groups used the following rules to determine the price shown: 50%, 30%, or 10% below the minimum willingness to pay, 10%, 30%, or 50% above the maximum willingness to pay, and finally, the 25%, 50%, or 75% quartile of WTP range. For example, a respondent with a floor (ceiling) price of e.g. 5 € (10 €) thus saw only one of the following nine prices: 2.50 € (= FP − 50%), 3.50 € (= FP − 30%), 4.50 € (FP − 10%), 11 € (CP + 10%), 13 € (CP + 30%), 15 € (CP + 50%), 6.25 € (25%-quartile), 7.50 € (50%-quartile), or 8.75 € (75%-quartile).

The choice was elicited on a separate page. An offer for a dishwashing detergent of the brand "Tide" appeared, with the (sales) price determined according to the experimental group and the stated willingness to pay. The actual dependent variables, however, related to the efforts for making that choice, with our expectation being that the effortful cognitive process predominates at prices within, but not outside, WTP range. Hence, time spent on the offer page served as an objective measure of the cognitive effort required for the selection decision. On the next page, we also measured the subjectively perceived difficulty in making the decision. Demographic data and a question about the presumed purpose of the study concluded the survey. A few irrelevant control variables were measured between

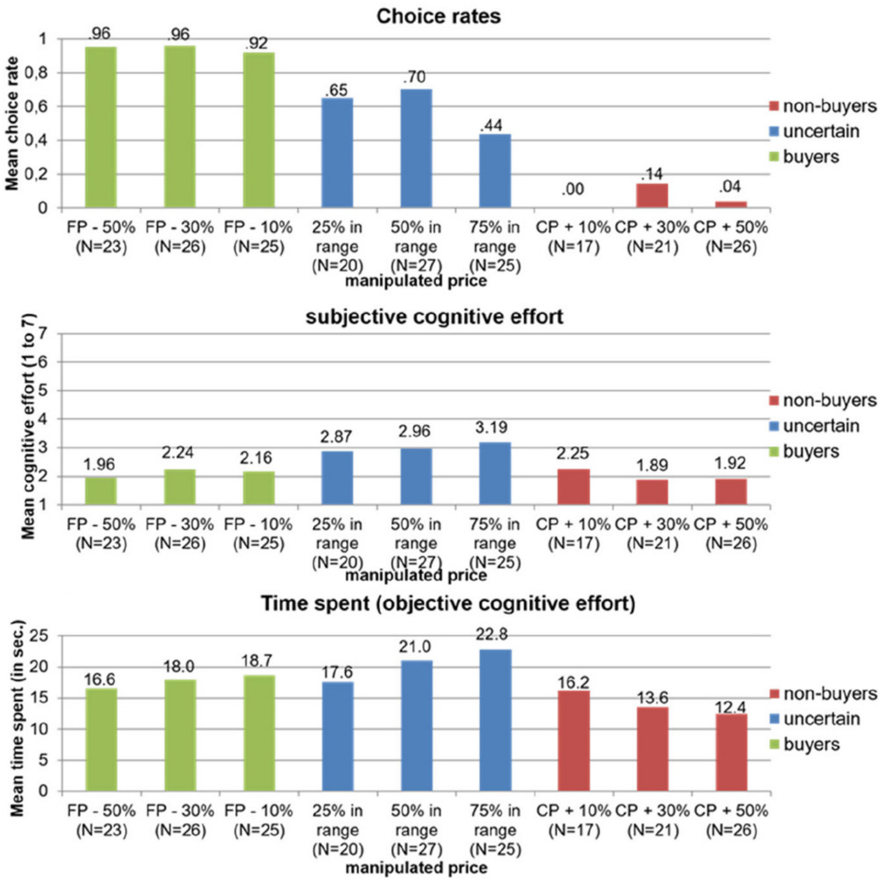

Fig. 2 Empirical results (based on own illustration). Notes: N = group sample size; FP = Floor Price; CP = Ceiling Price

eliciting floor and ceiling prices and the actual choice, in order to reduce anchor effects.

The sample initially consisted of $N = 297$ US-American subjects recruited via Amazon Mechanical Turk; each subject received an expense allowance of between \$0.20 and \$0.25. Those subjects were excluded who spent less than 1:30 minutes answering the questionnaire or who answered one of three questions on the attentive reading test incorrectly. After the exclusion of these subjects, $N = 210$ remained in the sample.

The experimental groups did not differ in terms of the control variables, and nobody guessed the purpose of the study. Figure 2 shows the choice rates, the perceived effort involved in the selection decision, and the time required for the selection, each by experimental group. There was a tendency for higher cognitive effort for prices within WTP range, both in subjective and objective measurement.

For statistical tests, we combined three experimental groups within, below, or above WTP range, so that we could compare test persons with prices below their minimum willingness to pay, above their maximum willingness to pay, and within their WTP.

The subjectively perceived effort to answer the selection decision was highest within WTP range (Mrange $= 3.01$) and significantly higher than below the floor price (MFP $= 2{,}13$; $T = 4{,}505$; $p < 0.001$) and above the ceiling price (MCP $= 2{,}00$; $T = 4{,}938$; $p < 0.001$). Similar results emerged for the objective measure "time expenditure" (Mrange $= 20{,}67$ s; MFP $= 17{,}80$; $T = 1{,}250$; $p = 0.213$; MCP $= 13{,}81$; $T = 3{,}346$; $p < 0.001$), although one of the two comparisons was not significant. Overall, however, the study results suggest that the cognitive process within WTP range and thus "close" to the average willingness to pay prevails, whereas for prices outside the range and thus "far away" from the average willingness to pay, a fast processing process with little cognitive effort prevails.

5 The Dual Process of Purchase Decisions in Commodity Markets

We will now discuss our conceptualization of the dual process of purchase decisions in the context of commodity markets. We start with the static perspective. At a given point in time, the extent of price differentiation in a commodity market will be relatively small. Consequently, reference prices on the consumer side are also much closer to each other than in non-commodity markets. Affective decisions are thus limited to a comparatively narrow reference price corridor. Likewise, the uncertainty range around willingness to pay, in which the cognitive process is triggered, is narrower compared with non-commodities, because in commodity markets uncertainty is probably quite low. Therefore, commodity markets are characterized by individual price response functions that almost follow original economic theory (see also Fig. 1, upper part). However, even relatively small deviations from reference prices lead to price-induced "surprises," which in turn trigger the cognitive process. Still, due to the transparency regarding (product) quality, this does not reduce the purchase probabilities at very low prices. Figure 3 illustrates individual purchase probabilities as a function of price, as well as the intensities of the underlying processes (affective; cognitive).

Regarding the measurement of purchase probabilities in a commodity market, we recommend using a WTP range-based method. The width of the WTP range can be considered a measure of the degree of commoditization of the market. In cases of an extremely high degree of commoditization, however, the most common methods for measuring the original (point-based) willingness to pay would also be meaningful. The relative intensities of the dual process components are more relevant for a dynamic perspective on commodity markets.

In such a dynamic perspective, the (more frequent) case of increasing commoditization is particularly interesting. In this case, products are increasingly indistinguishable, the degree of commoditization in a market increases, and their price levels get equalized. In the dual process model, commoditization leads to a reduction in the

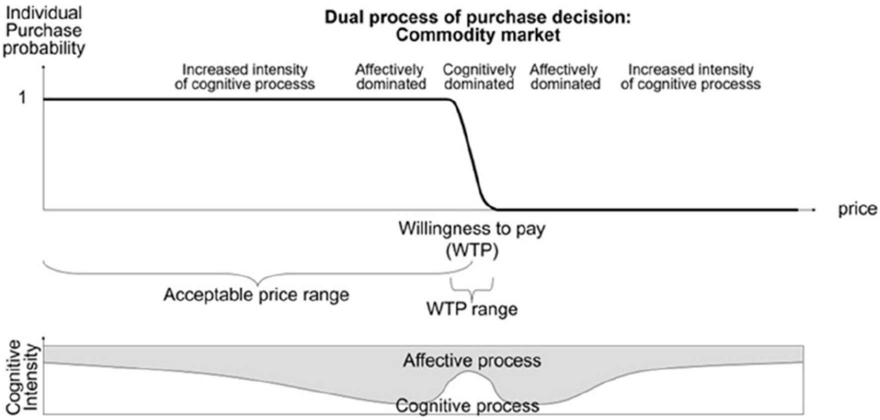

Fig. 3 Price reactions on a commodity market, based on the dual process model (based on own illustration)

range of experienced prices and thus to a reduction in the affectively dominated intervals. At the same time, the transparency of the market increases, which leads to less uncertainty. This also shrinks the range of the uncertainty-reducing, cognitively dominated process, so that the uncertainty interval between buying and not buying becomes narrower and narrower. For the consumer, this leads to ever faster, less considered purchasing decisions. For the seller, in contrast, the possible price corridor gets narrower. Even small deviations of the price from the reference price now trigger the surprise-induced cognitive process. Since there is generally a high degree of transparency in product quality and consumers do not interpret surprisingly low prices as a loss of quality, companies can increasingly easily transform price discounts into higher sales volumes. If there is competition in the market, prices will align with marginal costs—as in the traditional economic sense. Therefore, the process of commoditization tends to be disadvantageous from the seller's point of view.

We believe that the special features of commodity markets and the disadvantages caused by commoditization are even more true in a market with professionalized participants (B-to-B), where rational decision-making and the reduction of uncertainty are by tendency even more pronounced. This also leads to faster commoditization, for example by setting up professional commodity brokers or even a spot market that is transparent for all professional participants.

6 Recommendations on Pricing in Commodity Markets

Using the dual process framework for price setting on commodity markets, several strategies (including price communication) are possible. In general, the commodity market forces sellers to set the price equal (or very close) to the general market price. Competition then only takes place via cost advantages. Although discounts lead to a cognitively dominated process, they rarely give rise to doubts about product quality due to the high level of transparency in quality. "Underpricing" therefore works in a commodity market, so that a supplier can set an unexpectedly low price without raising doubts about the quality of its products, in an attempt to "steal" market share from its competitors. One example is the market for petrol. One day, a petrol station offered, by mistake, its petrol for one night at a price of a few cents. As there was no doubt about the quality of the fuel, e.g., due to legal requirements, this actually led to a (drastic) increase in demand. It should be noted, however, that such a drastic price reduction is not only economically but in many cases also legally questionable (so-called price dumping). A more strategic use of underpricing happens in price wars deliberately initiated by companies to increase their market share in a (technically) somewhat mature industry that, still, will experience growth as additional consumers are ready for modernization: The microoven market in China is a good example (Raju & Zhang, 2010, chapter 3).

Higher prices also quickly induce a cognitive process. However, a higher willingness to pay only allows this to happen if the higher price is coupled with a cognitive incentive to pay more. This is the case of "overpricing." We again offer an example in the petrol market: in 2003, Shell launched a super fuel with 100 octanes at a higher price ("Shell V-Power") (Adler & McLachlan, 2005). The high price was certainly cognitively stimulating. An allegedly higher engine performance due to the higher quality fuel, and an allegedly longer engine life due to the additives added, could have been emphasized in promotion activities, as they are potentially cognitively convincing. Still, the campaign for the launch focused primarily on emotional and thus more affective elements—inconsistent with the recommendations of the dual process model. Another example illustrating a marketing that matches the suggestions of the dual process is coffee with a "fair trade" label. Such coffee should have a higher price. The high price induces a cognitively dominated process; the "fair trade" label offers a rational justification for developing a higher willingness to pay as well.

Looking at the commodity market from a dynamic perspective, a continuous use of cognitive stimulus and higher price would create a new commodity segment with its own reference price. If this price jump can be achieved with lower cost than price increases, then it is worthwhile for the supplier to gradually switch completely to the "improved" commodity and thus to the new commodity market, which is characterized by a higher price level. In the vast majority of cases, however, this requires not only a combination of changed pricing and communication policies, but also moderate product variation.

The question remains as to whether a seller can also counteract the process of commodification by purely price-related measures. With the help of the dual process model, only the reference price range is suitable for this purpose. The seller would have to succeed in "softening" the reference price range and thus the range of affectively dominated purchasing decisions through continuous price fluctuations that deviate from the current price perception. The main beneficiaries of such a strategy, however, would be the respective competitors, whose price range would also increase, especially since they would not have to accept any losses due to their own fluctuating prices. Such a strategy is therefore more suitable for larger market participants and market participants with several brands in the same or similar markets. Furthermore, it is conceivable to reduce price transparency. This can be achieved, for example, through a complex tariff structure. One example are the highly complex and thus non-transparent tariffs on the mobile communications market, which allow providers to exploit additional profit potential (Lambrecht, 2005; Lambrecht & Skiera, 2006; Stingel, 2008).

In summary, commodity markets are very close to the economic ideal of markets with full competition. Opportunities for sellers to escape this disadvantageous situation include (1.) willful underpricing (if initiating a "price war" makes sense, i.e., likely leads to a consolidation of the market in favor of the supplier); (2.) the creation of products with higher prices, which are improved from the cognitive point of view of the buyer, (3.) the reduction of price transparency and, provided there is sufficient market power, and finally (4.) the targeted expansion of the range of perceived prices. Regarding (1.), the supplier would influence the price via market power itself: the more monopolistic the structure of a market is, the more likely it is that a supplier can set a profit-maximizing price. The question of targeted influencing of competition, however, would go beyond commodity marketing and instead is the task of strategic management.

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Price Knowledge and Price Expectations: Their Role for Customer Relationship Marketing of Telecommunications Providers

Doreén Pick

1 Introduction

After years of stagnation of turnover and a decline of telecommunications accounts, the telecommunications industry is consolidating. One means of this consolidation was the acquisition of E-Plus by the German subsidiary O2 of the Spanish Telefonicá in 2014. These days, the German telecommunications industry is dominated by three players: Deutsche Telekom, Vodafone, and Telefonicá. Smaller providers are Freenet and 1&1. Typically, consolidations of markets go hand in hand with higher prices. Interestingly, prices for telecommunications services in Germany are quite stable since 2014, with a slightly lower decrease than the preceding years (Statistisches Bundesamt, 2018). For several years, prices for flat rates or minutes have continuously decreased. In consequence, generating high(er) contribution margins from selling flat rates or minutes for making phone calls is quite improbable, more than ever. Further, means of bundling phone call services with other ones, such as Internet services, also helps partially only. The average volume of data of mobile contracts has tremendously increased to about 3,000 Megabyte per month (VATM TK, 2020, p. 25).

In management and marketing science, a steady decline of contribution margins is related to the concept of commoditization. Thus, offerings that provide only small or

This chapter was originally published in German as Pick, D. (2014). Die Rolle von Preiskenntnis und Preiserwartungen für das Kundenmanagement von Telekommunikationsanbietern, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_7

no differentiation from the consumers' perspective that are further sold on anonymous markets are called **commodities** (e.g., Backhaus & Voeth, 2014). Such commodities have been mostly goods that are offered from B2B companies and are sold at commodity futures exchange, such as raw materials and agricultural products. However, in marketing it is discussed that also goods for consumers can be characterized as commodities.

Therefore, for such consumer markets the question arises what price-related strategic routes might exist that—at least might not stop the whole process of commoditization—can decelerate this process. This chapter focuses on this question. In this chapter, literature of pricing and customer relationship marketing is reviewed to identify central facets of pricing strategies—price knowledge and price expectations. The empirical background for the different chapters is a study on price knowledge and price expectations in Germany. This chapter is structured as follows: in Sect. 2, the conceptual background of commodity services will be presented. Section 3 focuses on the basics of pricing strategies in the telecommunications industry. In this chapter, the findings of our study on price expectations of customers of telecommunications providers will be presented. The chapter finishes with a summary and outlook.

2 Services as Commodities

2.1 Perspectives of Commoditization

It is only two decades away when the term commodity was used for trade of products on B2B markets. Nowadays, the term commodity is also connected with products and services on B2C markets. In particular, for services commoditization is a remarkable phenomenon. Services are typically defined with different levels of customer integration and, thus, individualization. Accordingly, services should be differentiated to some extent to other services. Here, the question arises why services like telecommunications are perceived as replaceable. This question can be answered with the help of two perspectives of commoditization.

The **first perspective** covers the view of suppliers. A service is conceptualized and offered in a standardized way by one company (or an industry). This technology-related increasing standardization leads to the situation that "[. . .] service production becomes more like manufacturing. Service products, especially information services, can be stored and sold as commodities" (Sundbo, 1994, p. 253). Thus, commodity services are given because the industry has standardized the offering.

The **second perspective** relates to the perspective of a buyer or customer. The buyer perceives the services of a company (or a whole industry) as not differentiated. This might result from his or her demand for basic services. Hence, for his or her needs no differentiated good is necessary. The perception of homogenous services

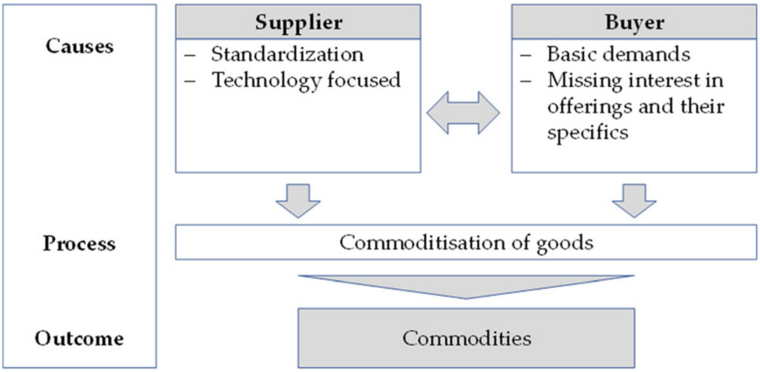

Fig. 1 Perspectives of commoditization of goods

might also result from a missing engagement of customers with the attributes or the benefit from a services. To the best of our knowledge, marketing research still lacks knowledge about the differentiation of the level of homogeneity by customers. Overall, it can be assumed that individuals that use a service over a longer period of time perceive its differentiation to other offerings to a lesser extent. This might be a consequence of a habituation effect. Customers that use a service the first time and, recently, might have a higher perception of difference between services. For companies it might be important to know about the level of the perceived service differentiation. Knowledge about such a degree might help in delineating means for doing business. In Fig. 1, both perspectives are summarized.

Both perspectives can exist independently. Thus, without an intended standardization of a service by a supplier, customers can perceive the offering as non-differentiated and thus standardized, like electricity services. However, the ongoing process orientation of service companies leads to greater standardization of offerings. Thus, a causality between standardization and perception of standardized services is very plausible. In such cases, service firms have the opportunity to influence the commoditization insofar that they focus on means of **heterogenization** of the service.

In marketing research, it is at times stated that any service will evolve into a commodity: “Furthermore, as the core service sooner or later becomes a commodity as competition increases and the industry matures” (Sharma & Patterson, 1999, p. 152). However, other researchers like Levitt (1980) expect that there are no commodities and every good is suitable for differentiation. According to him, commodities should be better termed as **generic goods**. Even such a good will be differentiated by the process of selling (including the different promotional means in the sales process). Levitt shows with the example of the chemical industry how even generic goods can be sold at differentiated (and also higher) prices. His reasoning is that B2B customers have differentiated price knowledge and price sensitivity. Accordingly, marketing of commodities is not necessarily price-related. We later reconsider this notion that prices for commodities do not have to be identical and/or low.

2.2 Definition of Commodity Services

As we outlined above, the development at the supplier side and perceptions of buyers are so-called **commodity services**. Such services are “services that are perceived as homogenous by customers and there are no attribute-related preferences for” (Bruhn, 2011, p. 63, translation by the author). However, this definition only refers to the perception of the customers and thus neglect the deliberate standardization of a service by the service provider. Consequently, a broader definition might be needed. We therefore follow the definition of Backhaus and Voeth (2014) and Bruhn (2011) and state that “commodity services are services that are perceived as homogenous, there is no preference of customers for a specific supplier and these services are standardized that no factual differences to other services of competitors exist.”

2.3 Heterogenization: Related Industries and Strategies

Commodity services can be found in many service industries. Retail banking with its online banking services, catering, dry-cleaning firms, call center companies, and logistic providers are perceived as commodities (Huang et al., 2007; Levitt, 1980; McDonald et al., 2001; Sundbo, 1994). Telecommunications services have been further classified as such services. Offerings in fixed line networks, mobile, and Internet are perceived less and less as differentiated (Bruhn, 2011). In consequence, the sales price of an offering seems to be the main purchase or repurchase criteria.

In this context, the question arises if telecommunications services have been commodities before the market liberalization at the end of the 1990s. It might also be that telecommunications services became commodities during the competition and the consistent emphasis on prices as the main criteria for purchases. Both lines of argumentation seem to be plausible. Taking into account that telecommunications services have been commodities before the market liberalization, the differentiation of such services might be difficult. Hence, increasing sales and profits might be only given by innovations and skimming the consumers’ rent at the beginning of the service lifecycle. This reasoning can be explained with the “run” on the UMTS licenses in 2000. The German government gained about 50 billion Euro revenue through the auction of these licenses.

In terms of the commoditization of telecommunications services after liberalization, there seems to be a potential for renewed heterogenization of such services. In this manuscript, we state that telecommunications service became commodities after the liberalization of the market. Accordingly, these firms might have an opportunity to invert the development by applying means of heterogenization. **Heterogenization** is the active shift of customer perception from a commodity service to an individualized service. The goal of such heterogenization is to recuperate the customers' perception of a differentiated service.

Regarding telecommunications services, we suggest to target heterogenization instead of the de-commodization. The term de-commoditization refers more strongly to the limitation or deceleration of the commoditization. Thereby, heterogenization refers to the recuperation of the commoditization process. Accordingly, the offering will be differentiated again at the very end of this process. One approach of heterogenization could be to increase the interaction with the customer during the purchase and consumption of the service but also after the consumption period. However, marketing research does not provide many recommendations to make a service heterogeneous again and, thus, to prevent staying in the "commodity trap." Bruhn (2011) entitled five such approaches: (a) price benefit approaches, (b) means of customer retention, (c) modification of offerings,[1] (d) value-added services, and (e) brand communication.[2] Regarding price benefit approaches, Bruhn (2011) states price transparency as one of the key facets. **Price transparency** can be given and communicated by the establishment of standard prices (e.g., discontinuation of basic fees of telecommunication). One means for **customer retention** is the generation of switching barriers, e.g., by contracts.

To summarize, there is only limited knowledge about commodity services and related marketing means for their heterogenization. Therefore, research is needed about how price transparency or other pricing means might help in recuperating the commodization of services. Therefore, in the following, we will analyze what kind of approaches in pricing might be suitable to respond toward the commoditization of telecommunications services.

2.4 Market for Telecommunications Services in Germany

The turnover of telecommunications services in Germany accounts for about 57 billion Euros in 2019 (Bundesnetzagentur, 2019, p. 44). The market is stagnating and shows an increase of about 28% in the past 20 years, only. Moreover, compared with 2005 the turnover decreases significantly from 67.3 billion Euro. The turnover across service categories in 2019 is as follows: fixed line (21.72 billion Euros; 38.22 million mainlines with most of them DSL based), mobile (26.57 billion Euros), and cable services (5.77 billion Euros) (Bundesnetzagentur, 2019, p. 45). Like in the past few years, the Deutsche Telekom is the main player with a turnover of 24.6 billion Euro in 2019. The second biggest company is Vodafone with a

[1] A recent study on mobile services in Spain showed that a complex bundling helps in preventing customer defection (García-Mariñoso & Suárez, 2019).

[2] Several telecommunication companies perceive brand communication as a highly suitable way to escape from the price competition in the industry. Therefore, several providers have positioned their advertising toward an emotional approach and toward corporate branding, e.g., "Es ist deine Zeit." (Vodafone), "Neue Wege gehen" (O2), and "Erleben was verbindet" (Deutsche Telekom). For approaches to evaluate the quality of telecommunication services, see Pick and Kannler (2012).

turnover of 10.7 billion Euros, and Telefonicá follows with 7.4 billion Euros. The number of SIM cards is 140.73 million (Bundesnetzagentur, 2020); this is a market penetration of 165.1. However, the telecommunications market is fundamentally changing. Less people make phone calls per day. In 2003, about 586 million minutes were communicated. Today, 2020, it is only 235 million minutes; although existing flat rates reduce the costs of single callings) (VATM TK, 2020, p. 8). This has consequences of the service bundles. Service bundles today focus more on the amount of Bytes that can be consumed than on the minutes the customer is able to use.

In consequence of this highly stagnating market, marketing strategies apply intensively low and competitive prices. The core requirement seems to be convincing customers to have a first-time contract for the first few months at a very low price. Over time, the prices are increased. This can be further seen how prices have developed over time. In years, where flat rates were rather novel and people paid per call, the prices for every minute reduced from 1997 to 2007 to 1 Euro Cent (BITKOM, 2007). A recent review in 2021 of the Verivox webpage with its price overview showed that flat rates prices start from 4.99 Euro per month (2 Gigabyte data volume, free SMS, free phone calls to all mainlines in Germany). Prices for bundles from the Deutsche Telekom start at 19.95 Euro per month (Magenta Zuhause S includes free calls in German mainlines, unlimited Internet access).

3 Pricing Approaches in the Telecommunications Industry

3.1 Fundamentals of Price Knowledge and Price Expectations

In marketing, price knowledge and price expectations of customers are evaluated as main variables of price perception, price evaluation, and prices memorization. From the perspectives of companies, insights into their existence and specification are essential for deciding about the adequate price for consumers. Despite this high importance, it is stunning that the conceptual and empirical literature has focused only selectively on price knowledge and price expectations of products and services.[3] Therefore, we will firstly define both constructs and secondly present these variables with their potential dimensions. In the following chapter, we will integrate both concepts into the customer relationship marketing.

[3] In English-language publications, in addition to the term “price knowledge,” the terms “price awareness” and “price consciousness” are used. Central works that have dealt with price knowledge are Dickson and Sawyer (1990), Monroe and Lee (1999), and Vanhuele and Drèze (2002). For an overview of the studies on price knowledge resp. on price knowledge see Homburg and Koschate (2005).

3.1.1 Price Knowledge

Price knowledge encompasses all price-related information about an object that individuals have memorized (Homburg & Koschate, 2005; Meffert et al., 2019). Overall, price knowledge can be differentiated into two types.

Implicit price knowledge is a weak recall of price information (Meffert et al., 2019, p. 503) or the subjective evaluation of individuals being an expert in terms of prices. Other researchers define the implicit price knowledge as the ability of consumers for being capable in evaluating if the price for an offering is too high or low priced.[4] The **explicit price knowledge** thereby encompasses price information about numbers for this the consumer is consciously (and relatively precise) recalling. Previous price research has shown that the explicit price knowledge of the consumer is apparently low, i.e., the range of prices quoted for various products is very large.[5]

In addition to the two constructs, Diller (2008) differentiates in six dimensions for the conceptualization of **price knowledge**: accuracy (precision, timeliness), availability, self-confidence, scope, form, and content (reference objects). The concept of price knowledge can also be differentiated into four areas: general price knowledge, brand-related price knowledge, store-related price knowledge, and price-promotion-related price knowledge.

The **general price knowledge** includes aspects such as the average price perception and can therefore be assigned to the implicit price knowledge. The **brand-related price knowledge** is also understood as a competitive comparison, i.e., the buyer rates different brands according to their price level. Also, this procedure can be assigned to implicit price knowledge. Finally, **price knowledge related to price promotions** includes the knowledge of buyers in relation to the times of price promotions and the resulting price reductions and should therefore be added to the explicit price knowledge.

Regardless of the various forms of conceptualization and operationalization, it is assumed that price knowledge develops from price observations and experiences of consumers (Diller, 2008) and thus represents a dynamic construct that can be influenced by both companies and consumers. Previous marketing research has primarily dealt with the price knowledge of material goods (e.g., Evanschitzky et al., 2004; Homburg & Koschate, 2005). Knowledge of the prices of services has so far hardly been the focus of empirical studies. In this respect, one can only guess how explicit and implicit price knowledge is pronounced among service customers. Only the relevance of different price facets of services has been examined so far.[6] However, the findings of product-related price research to date show that consumers often have little explicit knowledge of prices, i.e., they misjudge the price (Vanhuele,

[4]For an overview, see Monroe and Lee (1999).

[5]For an overview of the bandwidth, see Homburg and Koschate (2005).

[6]See the findings in Diller and That (1999) and Diller (2000). In both publications, ten potential elements of price expectations and price satisfaction were examined.

2002; Vanhuele & Drèze, 2002).[7] Interestingly, this finding does not seem to motivate companies to rethink their pricing strategies. In general, it can be assumed that a low level of price knowledge means that real changes in the price are hardly noticed by customers. In order to acquire or retain customers, only adequate communication of the price might be important. On the basis of the above, it can be assumed that the explicit price knowledge for services is also rather low, if not even less pronounced, since numerous service prices are made up of several components, e.g., compose a fixed monthly price and variable usage prices, as is often the case with telecommunications services.[8] In this case, customers have to remember several price components. However, it is to be expected that specific price knowledge will be very pronounced again in the case of complete offers (flat rates) for landline, mobile phones, and the Internet, since only one price has to be recalled.

3.1.2 Price Expectations

Price expectations can also be differentiated into two dimensions. Within the framework of the **normative price expectations** ("should"), it is examined which (maximum) prices should exist from the customer's point of view so that a service is assessed as fair and purchased. In contrast, there are **anticipatory price expectations** ("will"). These are asked to what extent buyers assume that a company will offer a certain price or corresponding conditions. This represents a probability analysis of the occurrence of a situation. Anticipatory price expectations were examined above all in the context of price promotions (e.g., DelVecchio et al., 2007; Kalwani & Yim, 1992; Krishna, 1992). Normative price expectations can differ from anticipatory price expectations. Hence, a service customer can expect that a provider should offer a certain price, while the probability that the provider will offer this price is assessed as low. For service providers, the normative price expectations are likely to be rather low, while no clear statement can be made with regard to anticipatory price expectations. Failure to meet high normative price expectations is likely to lead to high customer dissatisfaction. The over-fulfilment of anticipatory price expectations could on the one hand lead to a purchase via a kind of surprise effect (the customer is aware of the particularly low prices). On the other hand, under-fulfilment could motivate the consumer not to buy, since he or she is driven by a lack of appreciation the company could run out. Price expectations therefore are expected to have a different influence on customer behavior.

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[7] This low price knowledge can also be found among satisfied customers (Homburg et al., 2006). For a criticism of the basic procedure of asking buyers about price knowledge as a conscious memory, see Monroe and Lee (1999).

[8] On the price problems associated with services, see Diller (2008).

3.2 Price Importance and Price Satisfaction in the Telecommunications Sector

For service customers, the price can essentially be used as a (a) **(purchase) criterion** at the beginning of a business relationship and (b) a **criterion for ending a business relationship**.

For (a): A study of service customers has shown that for 19.5% the low cost of mobile phone contracts is the main purchase decision. Even if this is a high value, compared to other examined service sectors, this variable shows only a below-average importance for the respondents (Diller, 2000; Diller & That, 1999). In the following ranks, the price-worthiness is at 18.1% and the clarity and comprehensibility of the price information at 11.3%. Significantly higher values for price-related purchase decision criteria were identified in another study. The very cheap call minutes (79% of multiple answers) and a low or no basic fee (73%) are in the foreground (Hansen, 2006). Customers are willing to forego services and, for example, accept online invoices. Another, practice-oriented study by the Gesellschaft für Konsumforschung (GfK) has shown that the price for choosing a telecommunications provider is important for 69.2% of those surveyed (Congstar, 2008). Also, service and customer orientation (57.8%) and quality (39.5%) were important to the respondents. A third more broadly based study examined the minimum requirements of customers for telecommunications services. In addition to the availability of the service provider and the individual adaptation to customer requirements, the price was an important purchase criterion (Danaher et al., 2008). And finally, a fourth and our study showed that the majority of respondents (94%, $n = 67$) consider the price of a mobile phone contract to be very important.[9]

For (b): In marketing literature, the price is also given as the central criterion for ending a relationship with a firm (Jüttner et al., 2006; Keaveney, 1995; Liang et al., 2013; Rauchut, 2009; Roos, 1999; Roos et al., 2004). In a study with customers from a publishing house, it was found that the changed financial personal situation was the main reason for 32.5% of subscribers to defect (Pick, 2008). Although they did not cite price as a central factor, the publishing house could vary the price in response to changes in the financial situation of its former customers and thus possibly prevent churn. Stauss and Seidel (2009) analyzed the price as a reason for churning in more detail and found that the majority of defectors from an insurance company were poached price quitters. Similar to the telecommunications industry, customer acquisition in this industry is often only possible by winning customers from other providers (Kim & Yoon, 2004; Seo et al., 2008). This is particularly evident in the offers from numerous telecommunications providers to take over the switching costs for customers and even to pay them premiums for switching. Another factor that is important for companies in the service industry to derive pricing strategies is **price satisfaction**. It was found that the most important variables for explaining price

[9] The scale ranged from 7 to 1, 7: totally agree, 1: totally disagree. Those subjects who gave values from 7 to 5 were combined.

Table 1 Implicit price knowledge of mobile account offers, in percentage

Implicit price knowledge (being an expert about prices)			
	Women	Men	Sum
Low (1-3)	21.74	16.67	18.46
Medium	13.04	23.81	20.00
High (7-5)	65.22	59.52	61.54
Sum	100.00	100.00	100.00

satisfaction of mobile customers are price worthiness, followed by the comprehensibility of the pricing and individual price-performance advice (Diller, 2000).[10] The price satisfaction also has a significant effect on the willingness to repurchase and the willingness of mobile customers to refer the company to others. However, price satisfaction explains only a small part of the variance of these constructs, which indicates that there are other predicting variables that have not yet been identified. The two dependent variables were only explained as 28.0% and 25.8%, respectively. Diller (2000) also found that mobile phone customers have the lowest price satisfaction compared to other service branches.[11]

3.3 Price Knowledge and Price Expectations in the CRM Phases

3.3.1 Implicit Price Knowledge

As already outlined, there are hardly any studies on the service-related price knowledge of consumers, while some publications have appeared on price knowledge in relation to products. Our study has shown that mobile phone customers perceive themselves to be very differentiated as **price experts** (implicit price knowledge).[12] On a scale of 1–7, the arithmetic mean of this implicit price knowledge is 4.90. The respondents therefore rate themselves as experts in pricing questions for mobile phone contracts. The picture is different if one looks at the distribution of the answers. 59.7% of the respondents see themselves as price experts (answers 7-5), but 20.9% also say that they are not price experts (answers 3-1). Differentiated according to gender, the answers are distributed as follows (see Table 1).

It is noticeable that women see themselves either as no or quite great price experts—the assessment of experts outweighs with 65.2%—while men perceive themselves as medium to large price experts with regard to mobile phone offers. One possible explanation for this could be that, on average, women often have a lower income and, due to financial restrictions, spend more time looking for price

[10] The multidimensionality of price satisfaction was also demonstrated by Matzler et al. (2006).

[11] At this point, the question arises whether there is a difference between the price satisfaction of customers and the actual price level. It can therefore be assumed that due to the immense price-related advertising by service providers, customers are influenced to the extent that they always regard their contract price as being too high, even if it is cheap. One way out of this could be seen in changing the price communication.

[12] The investigation took place in July 2009. A total of 67 people took part in the online survey.

information.[13] In the next sections, we will now look at price knowledge and price expectations in the individual phases of the customer life cycle.

3.3.2 Customer Acquisition

As shown, the telecommunications industry has been characterized by intense price competition since its liberalization. This is characterized by high price discounts and the communication policy's emphasis on low prices in order to win new customers (Diller, 2008). For example, the cost of acquiring a new cell phone customer is estimated at up to 300 US Dollars (Brown, 2004). What role do price knowledge and price expectations play in customer acquisition?

In analogy to studies from retail research, a low level of **explicit price knowledge** can also be assumed for telecommunications services. In terms of customer acquisition, this would mean that a price reduction is only recommended to a limited extent and should not be used for communication. Communication of the value for money or the price-performance ratio appears to be more promising from our point of view. But even if customers had a high level of explicit price knowledge, phenomena such as the so-called flat rate bias could mean that the level of price knowledge has no effect on price-related buying behavior. Accordingly, a study on the selection of Internet tariffs has shown that customers prefer flat rates even if they are more expensive than usage-dependent tariffs.[14] This bias can be justified with the help of four effects: insurance, taximeter, convenience, and overestimation effects.[15] This means that customers can have a high level of explicit price knowledge of flat rate offers, but if the actual sales price is within an accepted range, the contract tends to be concluded.

This assumption should also apply to **implicit price knowledge**. We assume that the level of implicit price knowledge depends on previous experience with a service. Basically, a high level of experience from broad sections of the population can be assumed with telecommunications services. In particular, the age of people and the previous period of use could be used as indicators for the possible implicit price knowledge and treatment of customers. It can be expected that a high level of implicit price knowledge in relation to the ability to rank prices will also have a positive influence on the customer's security in their purchase decision. Nevertheless, it is expected that customers with a high perception of being a price expert will place significantly higher demands on a telecommunications service provider. For customer acquisition measures, companies should therefore segment according to the implicit price knowledge. Another facet of the identification of measures for customer acquisition should be the investigation of the simultaneous effect of high explicit and high implicit price knowledge. It is expected that customers with a high

[13] The relationship between income level and price knowledge is documented for example by Gabor and Granger (1961).

[14] Similar results were identified for telephone tariffs. For a literature review, see Lambrecht and Skiera (2006).

[15] On the effects and the empirical results, see Lambrecht and Skiera (2006).

level of explicit price knowledge and a high level of awareness of personal pricing expertise are very demanding customers who can only be won with higher price commitments. Here, it is important to analyze which alternative offers for price focusing could be effective. However, the assumptions made here still require empirical evidence. Finally, it should be mentioned that the intensive price advertising measures of telecommunications companies are likely to increase explicit price knowledge in the short term, but also have an impact on implicit price knowledge in the long term, as buyers feel they are price experts; at the same time they could also feel unsettled by the "flood of advertising" and the assessment of being a price expert is decreasing again.

Only assumptions can be made with regard to the identification and evaluation of the **price expectations** of potential telecommunications customers. In general, it can be assumed that consumers have certain price expectations with regard to future telecommunications services, since the market for fixed network, mobile communications, and Internet services is already in the late phase of maturity or saturation. The price expectations should therefore be based on the current price of the contract, the contract or usage price of friends and acquaintances, or the current market prices. With regard to the **normative price expectations** ("should"), it is assumed that the expectations of future customers focus on not being worse off than other buyers. The market prices should therefore be used as price anchors or reference prices for the purchase decision. Dissatisfaction and "purchase refusal" could arise if communicated prices are not actually available to the customer.[16]

With regard to the **anticipated price expectations** ("will"), it can be assumed that potential buyers expect price reductions from the providers in the future due to price competition in the telecommunications industry. This means that it would hardly seem possible to acquire customers without reduced price offers. Similar to the retail trade, such anticipatory price discount expectations can lead to the purchase decision being postponed or buyers prefer short-term contracts (Congstar, 2008, 2009)[17] in order to be able to switch quickly when a cheaper offer is available. The development of the contract-free prepaid offers supports this thesis. In conclusion to the price expectations, it should be examined to what extent the forms of price knowledge influence the price expectations. It can be assumed that a high individual perception of being a price expert leads to the fact that the customer expects the provider to also give certain prices or discounts (normative price expectations).

3.3.3 Customer Retention and Churn Management

The retention of given customers is described in numerous studies as significantly cheaper and easier than the acquisition of new customers (e.g., Seo et al., 2008).

[16] The role of the "asterisks" in price information in advertising is particularly addressed here. It can be assumed that too many price restrictions, which are defined by the "asterisks," make purchasing decisions more difficult for customers and thus ultimately have a counterproductive effect.

[17] According to these studies, 80% prefer a high degree of flexibility in terms of contract duration, e.g., sometimes even without any minimum term.

Consequently, most studies also focus on the investigation of suitable marketing measures, such as loyalty programs. Measures to retain telecommunications customers are, for example, the offer of complex service plans (i.e., basic fee, usage costs). Such service plans increase the switching costs for customers and thus their loyalty (Seo et al., 2008).[18] Upgrade programs to existing customers with more complex service plans also support customer loyalty. Nonetheless, it can be stated that in the literature on customer loyalty only a few price strategies have been dealt with (Diller, 2008). What significance do the variables price knowledge and price expectations play in (a) customer loyalty and (b) churn management?

For (a): We consider the importance of the customers' **price knowledge** to be of secondary importance for the phase of customer maintenance. One reason for this is that telecommunications companies do not record price knowledge, either explicitly or implicitly, from their customers. Another reason can be seen in the fact that customers do not constantly perceive prices of services. Continued preoccupation with the price would lead to high cognitive search and processing costs for the consumer.[19] This tendency to avoid cognitive costs can also be illustrated using the example of flat rate bias given above, where it was shown that consumers avoid a constant reflection about the price. Similar to the concept of customer inertia, such behavior could be described as "price reaction inertia." However, it should be emphasized that constant communication of price discounts for telecommunications services should generally increase explicit and, in particular, implicit price knowledge, even if the customer does not consciously seek this information. It is particularly assumed that intensive price communication measures on the part of the provider increase implicit price knowledge in the form of price expertise. Nonetheless, an empirical study indicates that customers are very much concerned with the price in the retention phase. The study showed that around 20% of all post-purchase complaints are price-related. The share of price complaints is particularly high in service markets. The greatest number of price complaints was found during national telephone calls (Estelami, 2003). This means that there is implicit price knowledge in the form of an assessment of whether something is, for example, too expensive. It can be assumed that the implicit price knowledge, measured as ranking or expertise, increases through long-term customer loyalty. The implicit price knowledge then does not refer to a single provider, but to the entire industry.

For the stability of customer loyalty, the phase when the contract expires is likely to be a major risk point. In this phase, numerous customers rethink their contract and the associated prices and consciously look for price information on alternative offers. Explicit and implicit price knowledge will then both increase, but the implicit knowledge will be much stronger. Especially price discounts for new customers are likely to have a particularly strong effect on the willingness of existing customers to loyalty and their **price expectations**. It can be assumed that customers who perceive new customers to be better off through lower prices tend to be dissatisfied

[18] On the concept and the influencing factors of switching costs, see Pick and Eisend (2014).

[19] On the concept of inertia, see Bakay (2003).

and are therefore more willing to migrate. The associated price expectation is normative in nature, i.e., the company should therefore accommodate the customer in terms of price. The termination of such a business relationship can be final or strategically motivated. A strategic termination is to be understood as a signal from the customer to want to improve the existing contract conditions (Naß, 2012; Pick & Kannler, 2009; Pick & Krafft, 2009). A customer who terminates strategically can consequently be satisfied with all aspects of its business relationship, including the price of the service.[20] However, in order to catch up on the perceived price "lag" toward new customers, he or she terminates the business relationship and initiates a kind of negotiation situation. It is estimated, however, that the number of those customers who quit, for example in order to get a new mobile phone at a lower price, is relatively low (Gerpott et al., 2001).[21] It is expected that the resulting price expectations of the existing customers relate to equality with new customers (normative price expectations). It is also conceivable, however, that customers expect that they will receive a higher price discount or something similar from the company because of their loyalty. This increased normative price expectation could be positively related to the duration of the entire business relationship. In the context of the anticipatory price expectations, we do not assume that customers believe that telecommunications providers (will) give them a loyalty bonus. If normative price expectations with regard to a discount are higher than the anticipatory price expectations, the development of customer dissatisfaction is very likely. This effect will increase the longer a person is a customer and the more has been spent during this time, i.e., economic value has been created for the company. This again addresses the question of strategic termination as a consequence.

For (b): Not all customers aim to build a (real) business relationship with a provider. The reasons for this can vary, e.g., dissatisfaction with performance in general or the perception of a small benefit from the business relationship (Noble & Phillips, 2004). This group of customers is more likely to be at risk of ending a business relationship and switching between providers more frequently in order to maximize the benefits of a contract. A study found that this customer share in the mobile communications industry is around 39.8% (Danaher et al., 2008). These relationship-averse customers can be characterized primarily by a high price focus. Companies react to this threat and implement measures to prevent migration. In literature, these activities are summarized under the term **churn management**. The literature focuses primarily on the identification of factors influencing churn and the measurement of inactivity of a customer (Rauchut, 2009). In the following, we will therefore have to rely on a few findings to argue the role of price knowledge and price expectations for churn management.

[20] The level of price satisfaction is therefore not the only variable that can explain a customer churn. Companies that observe a high level of price dissatisfaction among their previous customers must therefore analyze whether their own price campaigns for new customers have not led to this dissatisfaction.

[21] The authors also refer to this customer group as maximizing benefits.

In the telecommunications industry, two central strategies are pursued to prevent churn: (a) **offering a service upgrade at the same price** (e.g., more data transfer)[22] and (b) **offering the same scope of services at a lower price** (Pick & Kannler, 2009; Rauchut, 2009). In the majority of the prevention talks, customers who are at risk of churning are explicitly informed of their current price situation. The price information is often even used as an introduction to the conversation. Overall, it can be assumed that such preventive measures increase the customer's **explicit knowledge of prices** in the short term. So far, however, there have been no studies that examine the extent to which this explicit price knowledge in turn influences the extension of the contract or the change of contract with the same provider. What is interesting is the finding from practice that many customers apparently have no knowledge of the price of the service, e.g., in some cases they even overestimate the price (Rauchut, 2009). For companies, this is only positive news insofar as the customers are likely to perceive a short-term profit when communicating the actual, lower price, but at the same time, there is also the risk that customers will rather leave the provider due to the high price perception.[23] A short-term influence of the price information in the context of prevention talks on the implicit price knowledge is not expected from us. However, the implicit price knowledge can influence the manner of prevention discussions, in the sense that customers who see themselves as price experts negotiate more sustainably with a provider.

3.3.4 Customer Win-Back

Numerous service industries are characterized by high customer churn rates. In the telecommunications market, too, churn rates of up to 25% per year are recorded (Griffin & Lowenstein, 2001).[24] The costs per defected mobile customer were estimated to be around 676 US Dollars in 1998 (Kim & Yoon, 2004). As already outlined, there are numerous studies that have identified the price as a reason for migration.[25] Observations of the recovery practices of telecom providers suggest that the focus has been on price-related measures, i.e., companies have offered their lost customers specific discounts to return.[26] This practice seems to have changed in the last few years as many providers try to win back customers by keeping the price constant and expanding the range of products (upgrades). The literature search has shown that there are neither scientific nor practice-related studies that report the

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[22] A recent study investigates the antecedents of churn announcements in the telecommunications industry (Gerpott & Meinert, 2018).

[23] This phenomenon addresses the price image, which makes generalized statements about the price level of a provider (Diller, 2008).

[24] For example, the current churn rate of Deutsche Telekom is less than 10% p. a., while in 2006 it was around 26% for the fixed line network (Rauchut, 2009). Even lower numbers of 1–1.5% churn rates per month can be found for the first three-quarters of 2020 (Deutsche Telekom, 2020).

[25] See Sect. 3.3. For example, the price was included indirectly via the variable tariff level. The satisfaction with the tariff level consequently has a negative effect on the churn of telecommunication customers (Kim & Yoon, 2004).

[26] See also the previous information on churn management.

extent to which the variables price knowledge and price expectations are incorporated into recovery management. Therefore, it was first examined which studies on recovery actually included price-related variables.

A total of four empirical studies are devoted to selected price aspects in customer recovery. In the first study, a positive effect of the quality of the recovery offer, which was operationalized as an attractive price, was found on the probability of the return of mobile phone customers (Sieben, 2002). In relation to the types of price knowledge, the implicit form of price knowledge is used with the attractive price. The second study looked at the effect of specific price offers for recovery and found that customers are most likely to be won back with very low prices, but in this case they do not stay with the provider for long (Thomas et al., 2004). Here, it can only be assumed that the magazine customers used the previous contract prices as a basis for comparison, but a final distinction cannot be made between explicit and implicit price knowledge. The third study, a scenario survey, examined the importance of a low price on the intention to return (Tokman et al., 2007). In the fourth survey, it was found that every second respondent in the telecommunications market normatively expects that a previous provider should offer a price in the context of customer recovery (Pick & Kannler, 2009). That study from 2007 showed that price expectations were highest when the following reasons were decisive for the churn: company failure, the aim of achieving better conditions ("strategic termination"), and a lower price from competing companies (Pick, 2009). For telecommunications providers, the question consequently arises whether it is really appropriate to start with the price when winning back customers.[27]

However, none of the studies listed explicitly addressed the two forms of price knowledge. In order to be able to analyze the existence of price knowledge and price expectations and their importance for customer recovery, a descriptive study on these two price facets for the mobile communications market was carried out in the summer of 2009. We have already presented the existence of implicit price knowledge in Sect. 3.3, so we will concentrate below on the description of the findings on price expectations. The concept of price expectations can also be transferred to those customers who have decided to migrate from a provider. As shown, price expectations relate to the level of the future price. As part of the study, we examined the extent to which price discount expectations, i.e., expectations of discounts for the explicit return of a customer. These **price discount expectations** were differentiated into normative and anticipatory price discount expectations. With **normative discount expectations**, customers expect a previous supplier to give them discounts on their return. **Anticipatory price discount expectations**, however, relate to the assessment of whether the previous provider will also give discounts for the customer's return. The study found that 80.5% of respondents say that a previous provider should give them discounts for a return (normative discount price expectations),[28] while only 26.9% expect this to actually happen (anticipatory

[27] Nonetheless, for some customer groups it might be a beneficial strategy (see Pick et al., 2016).

[28] Ratings ranged from 7 to 5, 7: totally agree, 1: totally disagree.

discount price expectations). This is an interesting finding, as it indicates that, from the customers' point of view, only a few telecommunications providers offer price discounts or that they have not yet had any experience with them.

It was also examined whether former customers differentiate between discounts for themselves and other customers, i.e., assess the other customers as less important than themselves for a provider. Here we found that the level of normative, total customer-related price discount expectations deviates downward from individual expectations by 9.0 percentage points. This means that customers on average claim higher discounts for themselves than for other customers. This indicates that (some) customers may know (or suspect) that customers are and should be treated differently by companies and perceive themselves as the more valuable customers.[29] An indicator of the company's own perceived customer value for the company could be the monthly expenses for a mobile phone contract. However, the cross-tabulation did not reveal any significant difference in the normative price discount expectations between the individual expenditure groups. This means that customers have the same high normative price discount expectations of a provider regardless of their monthly expenditure. Accordingly, customers who spend less than ten Euros per month therefore have normative discount expectations that are comparable to those who spend more than 50 Euros per month.

Furthermore, we analyzed the extent to which normative price discount expectations lead to customers who have left the company seeing a need to negotiate prices with the provider. The findings illustrate a positive significant relationship, i.e., customers with high normative expectations also rate the need to negotiate as high.[30] This customer group makes up around 30% of those questioned and is therefore a considerable customer segment. For telecommunications providers, this results in an approach to recovery with the help of price negotiations. In marketing research, it has not yet been clarified whether a high or low level of implicit price knowledge favors the success of negotiations for both sides, the customer and the firm. In any case, practice relies on the use of **price corridors** to win back customers (Pick & Kannler, 2009). Within the scope of these price corridors, telecommunications providers negotiate with customers about a price that is optimal for both sides. We believe that this is a promising way of determining willingness to pay. The main advantage of this approach is that not only intentions are recorded, but concrete behavior (via the conclusion of the contract) can be observed.

Due to the criticism of Monroe and Lee (1999) of the collection of explicit price knowledge, the analysis of the price behavior within the recovery process should be a clear instrument for starting with previously unconscious attitudes regarding the (reference) price. In the case of studies on customer churn and win-back, it must therefore be fundamentally questioned whether the direct survey of the main reasons

[29] However, this effect seems to be relatively small. Rather, customers with high normative price discount expectations also expect higher discounts for all customers personally. This indicates a certain right to equal treatment of all customers.

[30] On price negotiations by consumers, see Evans and Beltramini (1987).

for churn is even appropriate. It is to be expected that existing and previous customers of a provider are well aware that today's customers should be price conscious. The consequence would be a socially desirable answer. In this respect, the question of the perception as a price expert can lead to a more meaningful measurement of price knowledge, since ultimately the personal assessment of the customer alone should be decisive for purchases and not whether a service is de facto more expensive or cheaper than that of the competitor. Companies that start with these different forms of price knowledge and price expectations are likely to achieve higher profit margins, as they might be able to escape price competition and commoditization.

4 Summary and Outlook

Markets with standardized or perceived as homogeneous services (commodities) are characterized by high price competition. In many service industries, numerous companies assume that the price is the most important decision criterion for a customer's (re-) purchase. A large part of the marketing activities therefore refers to the emphasis on the price level or the price-performance ratio. The telecommunications market is also assigned to the commodity services. There are two approaches to differentiating between commodity services. While the first approach focuses on performance and relationship differentiation, the second approach encompasses the question of cost leadership. This cost leadership is sought in order to keep the prices for the services low and consequently to achieve a high market share. However, there are far more business options in price management for telecommunications companies than pure price reductions in order to assert oneself successfully in the market. In this chapter, price knowledge (knowledge of market prices) and price expectations (requirements for market prices) were described as possible starting points. For this purpose, these two price facets were examined to determine which role they can play in customer acquisition, customer loyalty, churn management, and customer recovery.

Overall, it can be said that price knowledge and price expectations can be differentiated into two dimensions. When it comes to price knowledge, a distinction can be made between explicit and implicit price knowledge. The price expectations, in turn, can be divided into **normative** and **anticipatory price expectations**. In all three phases of the customer life cycle, implicit price knowledge, operationalized as a ranking of prices or as price expertise, plays an important role. It can therefore be assumed that telecommunications customers' assessment of being familiar with the prices is relevant for the purchase, loyalty, and return decisions. In particular, implicit price knowledge is likely to play an important role in price negotiations, as customers with a high level of implicit price knowledge are likely to place higher demands on a provider. A new facet, the price discount expectations, has been introduced for price expectations. It has been empirically shown that such normative price discount expectations are apparently very high among telecommunications customers. Between 50% and 80.5% of the respondents expect a price reduction for their return to a provider. In contrast, there are low anticipatory price discount expectations. This means that only one in four actually reckons with specific price discounts for recovery. Telecommunications providers who offer specific prices, e.g., in the context of a negotiation, could thus maintain these customers for a longer period of time through a special treatment. In this context, the revision of customer acquisition and customer loyalty strategies is also conceivable, as existing customers of companies are no longer disadvantaged in terms of prices compared to new customers. The telecommunications providers have so far created their own customer churn and high expenses for constantly acquiring new customers. These results indicate that the determination of price knowledge and price expectations of the respective target customers is important for the derivation of adequate marketing strategies within the framework of the entire customer life cycle in the telecommunications market. Future studies might investigate this different types of price expectations, their consequences, and antecedents.

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On Price Roles and Budget Branding

Björn Ivens, Brigitte Müller, Steffen Wölfl, and Alexander Leischnig

1 Introduction

Today, companies in many industries offer a portfolio of brands that cover different price-quality tiers within a product or service category (Aribarg & Arora, 2008; Geyskens et al., 2010). For example, in the airline industry, Lufthansa Group announced the launch of "Eurowings" as a flanking low-tier brand for the established "Lufthansa" brand: "For several years now we've been facing fierce competition from the rapidly-growing low-cost carriers in the point-to-point travel segment, not only in Germany but throughout Europe, too. [. . .] Our 'New Eurowings' is our innovative response, which will enable us to fashion our own markets here," explains Carsten Spohr, chairman of the executive board and CEO of Deutsche Lufthansa AG (Lufthansa Group, 2015).

Low-tier brands (e.g., value or budget brands) include brands that economize on expensive features and ingredients to cut costs and are typically available at price points lower than the average price point in a category. High-tier brands (e.g., premium brands) demarcate the opposite end of the pricing continuum and—in contrast to low-tier brands—offer premium quality, and typically charge higher prices than the standard product or service in a category. While consumers often purchase high-tier brands to signal financial wealth and/or social status, the primary reason for consumers to buy low-tier brands is price (e.g., Verhoef et al., 2007).

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_8

The purpose of this research is to advance current knowledge on brand tiers and consumers' price assessment by further illuminating the role of the price cue for consumers' reactions toward brands, especially low-tier brands. Prior research shows that price is a complex stimulus whose positive and negative roles affect the way in which consumers respond to offerings (Lichtenstein et al., 1993). Building on these insights, this research examines how perceptions of price consistent with its positive and negative roles affect consumers' awareness and evaluation of low-tier brands. The research questions guiding this study are: (1) Which consumers are aware of low-tier brands? (2) Which consumers evaluate low-tier brands favorably?

From a theoretical point of view, answering these questions envisions the complex causal patterns of factors underlying consumers' brand recognition and assessment and contributes to the behavioral pricing and the branding literatures. From a managerial point of view, answering these questions provides guidelines for brand managers who wish to improve consumer profiling and segmentation, and the development of brand positioning and communication strategies.

To achieve these goals, this research conducts an exploratory comparative case analysis based on a sample of consumers from Switzerland. Fuzzy-set qualitative comparative analysis (fsQCA; Ragin, 2008) helps assess the complex causal pattern of factors for the outcomes of interest and offers novel insights into necessary and sufficient conditions. The results of this research indicate that low prestige sensitivity is an essential condition for both high low-tier brand awareness and positive low-tier brand evaluation. In addition, the results show that both outcomes emerge from distinct consumer profiles that differ in their particular composition. In summary, the findings of this chapter offer new insights into the complex causal patterns of factors for low-tier brand awareness and evaluation and contribute to the understanding of equifinality, causal asymmetry, and valence reversals in the study of price.

2 Conceptual Background

Lichtenstein et al. (1993) suggest that consumers' price perceptions cover two primary perspectives reflecting the positive and negative roles of price. While the positive role of price builds on its quality-signaling function, the negative role comes from the outlay of consumers' economic resources.

The positive role of price refers to the concepts of price-quality schema and prestige sensitivity. Price-quality schema involves the belief that the price of a product is positively related to its quality (Lichtenstein et al., 1993). Studies show that a low price can act as a signal of low product quality for some consumers (Dodds et al., 1991) and that perceived low product quality can decrease consumers' purchase intentions (e.g., Erickson & Johansson, 1985; Grewal et al., 1998). Besides effects on perceived product quality, the price of a product can also function as a status signal to other people. The concept of prestige sensitivity captures this notion and reflects the positive perception of price that higher prices signal status and prominence about the purchaser (Lichtenstein et al., 1993).

Perceptions of price concerning its negative role emerge from value consciousness, price consciousness, coupon proneness, sale proneness, and price mavenism. Value consciousness reflects a consideration about the ratio of quality received to price paid (Lichtenstein et al., 1993). Studies indicate that value conscious consumers tend to evaluate private labels positively because these brands deliver a certain level of quality for a low price to pay (Garretson et al., 2002). In contrast to value consciousness, price consciousness refers to the extent to which consumers exclusively focus on paying low prices (Lichtenstein et al., 1993). Prior work indicates that consumers' price consciousness in a product category influences the purchase of private labels in this category (Sinha & Batra, 1999). Coupon proneness refers to a propensity to respond to purchase offers in coupon form because these offers positively affect purchase evaluations. Lichtenstein et al. (1990) show that coupon proneness, besides value consciousness, drives general coupon redemption behavior. In addition, some consumers show sale proneness, which refers to an increased propensity to respond to purchase offers in which the price appears in a positive sales form (e.g., discount) (Lichtenstein et al., 1993). Finally, price mavenism refers to the degree to which a consumer is a kind of resource for price information on many products and places to shop for low prices (Lichtenstein et al., 1993). Research shows that price mavens show lower price-quality perceptions (Voelckner, 2008).

The basic rationale of this research is that consumers' responses to low-tier brands are the result of specific consumer profiles reflecting configurations of the abovementioned price-related constructs. The focus of this study is on two primary outcomes of interest: low-tier brand awareness and low-tier brand evaluation. Brand awareness is a rudimentary level of brand knowledge that involves, at the least, recognition of a brand name (Hoyer & Brown, 1990), and brand evaluation refers to how favorably consumers perceive a brand (Bagozzi, 1981). The selection of these outcomes draws on prior research which establishes that both concepts are important and distinct predictors of choice (e.g., Hoyer & Brown, 1990; Kardes et al., 1993; Nedungadi, 1990).

Personality research lends support for the rationale of this research. Studies show that an individual's personality persists as a whole rather than a string of independent personality traits (Percy, 1976). Single traits operate under the existence of several other traits and a profile of personality traits reflects all the possible linear and nonlinear interactions between the specific personality traits. Empirical research indicates that such profiles of personality traits are more effective in explaining consumers' use of products than independent personality traits (Sparks & Tucker, 1971). In addition, studies indicate that personality profiles are strong predictors of consumer attitudes and behaviors (Percy, 1976). Therefore, awareness and evaluation of low-tier brands should depend on configurations of consumers' price-related dispositions rather than single, isolated dispositions. A question that now arises is what do these configurations look like? To answer this question, this research conducts an empirical study as reported below.

3 Research Approach

3.1 Data Collection and Sample

A shopper intercept study with customers of retailers in Switzerland provides the empirical data for this research. 908 respondents completely answered the questionnaires. Approximately 52% of these respondents are male. In terms of age, approximately 36% are younger than 24 years, 38% are between 25 and 44 years old, 23% between 45 and 64 years, and 3% are 65 years or older. The average customer in the sample shops one to three times per week.

Established multiple-item measures shown on seven-point Likert-type rating scales with the anchors 1 for "I completely disagree" and 7 for "I completely agree" capture the price-related constructs (Lichtenstein et al., 1993). An aided recall test based on a listing of low-tier brands captures low-tier brand awareness in terms of awareness set size (i.e., as a ratio scale). In addition, a five-item seven-point semantic differential scale captures consumers' low-tier brand evaluation (Machleit & Wilson, 1988; Madden et al., 1988). Validation of the measurement models (Bagozzi et al., 1991; Gerbing & Anderson, 1988) leads to the exclusion of some of the items. Table 1 provides information on the purified construct measures used for subsequent analyses. Overall, the measurement validation procedure indicates an acceptable overall model fit ($\chi^2 = 2013.55$, df = 674, χ^2/df = 2.99; CFI = 0.93; TLI = 0.92; RMSEA = 0.05). Cronbach's alpha ranges from 0.75 to 0.93 and exceeds the threshold of 0.7 (Nunnally, 1978). Composite reliability values range from 0.75 to 0.93 and average variances extracted range from 0.50 to 0.74 and thus meet or exceed the standards of 0.6 and 0.5, respectively (Bagozzi & Yi, 1988). Analysis of discriminant validity based on the procedure proposed by Fornell and Larcker (1981) indicates satisfactory discriminant validity. In summary, these results suggest that the measurement models fit the data well. For subsequent analyses, this research combines the multiple-item measures of the focal constructs into composite scores.

3.2 Data Analysis Procedure

This study uses fsQCA to analyze the data. FsQCA is a case-oriented, set-theoretic method that examines relationships between constructs in terms of set relations and that expresses these relations in terms of necessity and sufficiency (Ragin, 2008). Necessity means that an antecedent condition must exist for an outcome to occur and sufficiency means that an antecedent condition can produce an outcome (Ragin, 2008). In this study, the fsQCA involves two steps: (1) calibration of the fuzzy sets and (2) analyses of necessity and sufficiency.

For the transformation of construct measures into fuzzy sets, this study employs the direct method of calibration (Ragin, 2008) and uses three qualitative anchors to structure the calibration: the threshold for full membership, the threshold for full non-membership, and the crossover point. To avoid fuzzy set scores that exactly

Table 1 Information on construct measures

Scale	Example item	Indices
Value consciousness (6 items)	"I am very concerned about low prices, but I am equally concerned about quality"	CA = 0.87; CR = 0.87; AVE = 0.53
Price consciousness (3 items)	"I will grocery shop at more than one store to take advantage of low prices"	CA = 0.75; CR = 0.75; AVE = 0.50
Price mavenism (6 items)	"People ask me for information about prices for different types of products"	CA = 0.91; CR = 0.91; AVE = 0.63
Coupon proneness (5 items)	"Redeeming coupons makes me feel good"	CA = 0.84; CR = 0.84; AVE = 0.51
Sale proneness (5 items)	"If a product is on sale, that can be a reason for me to buy it"	CA = 0.85; CR = 0.85; AVE = 0.54
Price-quality schema (4 items)	"Generally speaking, the higher the price of a product, the higher the quality"	CA = 0.87; CR = 0.87; AVE = 0.63
Prestige sensitivity (5 items)	"Buying a high priced brand makes me feel good about myself"	CA = 0.85; CR = 0.86; AVE = 0.56
Attitude toward low-tier brands (4 items)	Semantic differential scale: "bad/good"	CA = 0.93; CR = 0.93; AVE = 0.74
Awareness of low-tier brands(ratio scale)	"Do you know the brand [brand1, . . ., n]?"	n.a.

CA = Cronbach's alpha; CR = composite reliability; AVE = average variance extracted

meet the crossover point and cause difficulties when intersecting sets (Ragin, 2008), this study adds a constant of 0.001 to all scores below full membership (Fiss, 2011). The outcomes of interest in this study are low-tier brand awareness and evaluation. For the calibration of low-tier brand awareness, this study sets the threshold for full membership in the set of high awareness at value five, the threshold for full non-membership in the set at value zero, and the crossover point at value two. Thus, customers who are unable to recall any low-tier brand (and thus are likely unaware of such brands) are fully out of the fuzzy set, whereas customers who know five and more low-tier brands are fully in the set of high awareness. Customers who can recall only one low-tier brand are more out than in the fuzzy set and customers who can recall more than two but less than five low-tier brands are more in than out of the set of high low-tier brand awareness. For full membership in the set of favorable evaluation, this study sets the threshold at value 7 (i.e., the scale maximum on a seven-point semantic differential scale). For full non-membership in this set, this study set the threshold at value 1 (i.e., the scale minimum). Value 4 (i.e., the scale midpoint) denotes the crossover point to calibrate this fuzzy set. The antecedent conditions in this study encompass the price-related constructs that relate to the positive and negative roles of price. For the calibration of these fuzzy sets, this study set the threshold for full membership in the sets at the scale maximum (i.e., value 7 on a seven-point Likert-type scale) and the threshold for full non-membership in the set at the scale minimum (i.e., value 1). The scale midpoint (i.e., value 4) serves as the crossover point.

After calibration of the fuzzy sets, analyses of necessity help examine whether or not any of the seven price-related dispositions represents a prerequisite for high low-tier brand awareness and a positive low-tier brand evaluation. To evaluate necessity, this study follows previous QCA studies and uses a consistency threshold of 0.9 (e.g., Leischnig et al., 2015). Next, analyses of sufficiency help disentangle combinations of the seven price constructs that lead to the outcomes of interest. Following recommendations in the QCA literature (Fiss, 2011; Ragin, 2008), this study creates two truth tables (i.e., one for each outcome of interest), refines these truth tables based on thresholds of frequency and consistency, and analyzes the data using the truth table algorithm as implemented in the fs/QCA software program (Ragin et al., 2006). The solution tables below outline the exact analysis thresholds used.

4 Findings and Discussion

4.1 Summary of Findings

Table 2 shows the results of the analyses of necessity. Of the seven price constructs (and their negations) one condition (i.e., ~prestige sensitivity, where ~ denotes logical not) represents a necessary condition because its consistency score equals or exceeds the threshold of 0.9. This finding suggests that high low-tier brand awareness and a positive low-tier brand evaluation unlikely occur unless consumers have low prestige sensitivity.

Table 3 shows the results of the analyses of sufficiency and depicts four configurations sufficient for a large low-tier brand awareness set and three configurations sufficient for achieving a positive assessment of low-tier brands. An adapted version of the notation developed by Ragin and Fiss (2008) summarizes the findings of this research. Full circles indicate the presence of an antecedent condition and circles with a cross-out indicate the negation of an antecedent condition. In addition, large circles indicate core conditions and small circles indicate peripheral conditions. Finally, blank spaces in Table 3 indicate the absence of an antecedent condition in a configuration.

The overall solution consistency scores and the consistency scores of the particular configurations are high (i.e., 0.92 or higher) and indicate consistently sufficient solutions. For low-tier brand awareness, the results show an overall solution coverage score of 0.48 and for the evaluation of low-tier brands the results indicate an overall coverage score of 0.60. These results reveal that the solutions can “explain” substantial proportions of the two outcomes.

Table 2 Results of the analyses of necessity

	Brand awareness (i.e., number low-tier brands in mind)		Brand evaluation (i.e., attitude toward low-tier brands)	
Antecedent conditions	Consistency	Coverage	Consistency	Coverage
Value consciousness	0.83	0.78	0.84	0.80
Price consciousness	0.54	0.87	0.53	0.87
Price mavenism	0.37	0.91	0.37	0.92
Sale proneness	0.68	0.79	0.67	0.79
Coupon proneness	0.73	0.84	0.73	0.85
Price-quality schema	0.60	0.82	0.57	0.79
Prestige sensitivity	0.36	0.90	0.34	0.88
~Value consciousness	0.50	0.81	0.48	0.80
~Price consciousness	0.77	0.73	0.77	0.74
~Price mavenism	0.89	0.69	0.88	0.70
~Sale proneness	0.68	0.84	0.68	0.84
~Coupon proneness	0.65	0.80	0.63	0.78
~Price-quality schema	0.75	0.79	0.77	0.82
~Prestige sensitivity	0.90	0.71	0.91	0.73

Notes: ~ = negation (i.e., logical not); necessity threshold = 0.9

4.2 Contributions to the Literature

The findings of this research make several contributions to the literature. First, this research provides novel insights into the necessity and sufficiency of price-related concepts for the perception and assessment of brands (here low-tier brands). An interesting finding of this research is that low prestige sensitivity is a necessary condition for both high low-tier brand awareness and favorable low-tier brand evaluation. This finding is consistent with prior research (Lichtenstein et al., 1993), which suggests that prestige sensitivity should relate to responses that are more socially visible.

Second, this research contributes to the literature by providing insights into alternative, equally effective configurations of price perceptions sufficient for explaining low-tier brand awareness and evaluation. The results reveal four configurations for high low-tier brand awareness and three configurations for a favorable evaluation of low-tier brands. This finding points to equifinality which means that alternative but equally effective constellations of elements can lead to superior effectiveness (Gresov & Drazin, 1997). These constellations can vary in their particular composition, but they are equally effective in bringing about the outcomes of interest (e.g., Woodside, 2014). For example, configuration 1 for awareness combines the presence of value consciousness and price consciousness with the negation of sale proneness and price-quality schema. In contrast, configuration 2 for awareness combines the presence of value consciousness, price consciousness, and coupon proneness with the negation of price-quality schema.

Table 3 Results of the analyses of sufficiency

Antecedent conditions	Brand awareness[a] (i.e., number of low-tier brands in mind)				Brand evaluation[b] (i.e., attitude toward low-tier brands)		
	1	2	3	4	5	6	7
Negative role of price							
Value consciousness	•	•	•	•	●	•	•
Price consciousness	•	●	●	●		●	●
Price mavenism			⊗	●			●
Sale proneness	⊗		⨂	⨂		⨂	⨂
Coupon proneness		●	⨂	•	●	●	
Positive role of price							
Price-quality schema	⊗	⨂			⨂		⨂
Prestige sensitivity[c]							
Consistency	0.94	0.94	0.96	0.96	0.93	0.95	0.97
Raw coverage	0.42	0.43	0.35	0.27	0.57	0.40	0.27
Unique coverage	0.01	0.04	0.01	0.01	0.19	0.02	0.01
Overall solution consistency	0.93				0.92		
Overall solution coverage	0.48				0.60		

[a]Analysis thresholds: frequency = 5 (97% of all cases), raw consistency = 0.96, PRI consistency = 0.80
[b]Analysis thresholds: frequency = 5 (97% of all cases), raw consistency = 0.96, PRI consistency = 0.82
[c]Necessary condition (excluded from both sufficiency analyses)

Third, and with focus on the particular price-related constructs, this research contributes to the literature by detecting valence reversals. Valence reversals involve situations, in which one or more antecedent conditions have both positive and negative effects on the outcome under study, depending on how they combine with other conditions to form a configuration (e.g., Leischnig et al., 2015). The results of the fsQCA show that both the presence and the negation of price mavenism and coupon proneness can lead to high low-tier brand awareness. For price mavenism, this finding implies that consumers may have high low-tier brand awareness when they are price mavens (configuration 4), or not (configuration 3). In addition, the results indicate that whether a consumer is a price maven may not even matter at all (configurations 1 and 2). Thus, simple assumptions about price mavenism and its implications for low-tier brand awareness may lead to misleading interpretations. A similar pattern of results applies for coupon proneness. The existence of valence reversals may explain some of the conflicting results in extant research on price mavenism and coupon proneness (e.g., Barat & Paswan, 2005; Chandon, 1995; Cronovich et al., 1997).

Fourth, this research identifies different levels of causal coreness with respect to the five negative and the two positive roles of price. Causal coreness relates to the essentiality of a condition within a configuration for an outcome (Fiss, 2011). For low-tier brand awareness, all but one price concept (i.e., value consciousness) can be core or peripheral conditions. For price-quality schema and sale proneness, the core function comes into play only when this type of price perception is present at low levels. In the case of coupon proneness both the presence and negation may act as core conditions for awareness. Regarding low-tier brand evaluation, the analysis reveals similar results. Except for value consciousness, all conditions act as core conditions. However, price-quality schema and sale proneness are core conditions only in their negation. Interestingly, a favorable low-tier brand evaluation requires more systematically strong perceptions about the roles of price. This finding is consistent with prior research, for example, studies on value consciousness (e.g., Dutta & Biswas, 2005; Garretson et al., 2002).

4.3 Managerial Implications

The findings of this research have important managerial implications. First, knowledge of configurations of price factors sufficient for high low-tier brand awareness and a favorable evaluation of low-tier brands provides important insights for consumer profiling and market segmentation. Thus, price segmentation should involve a holistic perspective, which requires consideration of combinations of several price-related concepts rather than single conditions. The configurations identified may serve as starting points for price segmentation and the identification of relevant target segments for low-tier brands.

Second and related to the point above, knowledge about the alternative profiles may provide guidance for brand positioning. For positioning a new brand or for repositioning an existing brand, several choices are available to marketers (e.g., Sujan & Bettman, 1989). In some conditions, scarcity of company resources may limit the set of available options (e.g., for sales promotion activities and coupon programs). Given the equifinality of the configurations identified, brand managers responsible for the positioning of low-tier brands may select an option that matches the available resource base. In addition, the size of a potential target market determines what positioning may be best for a particular brand. Here, the coverage scores for the alternative configurations may serve as proxies for evaluation since they express the relative empirical importance of the particular configurations.

A third implication that derives from the findings of this research relates to brand communication. Specifically, the price-related concepts examined in this research and the particular configurations obtained may help define the content of brand communication strategies and may help prioritize relevant topics for increasing low-tier brand awareness and forming favorable attitudes toward low-tier brands. For example, an interesting finding of this research is that consumers who are aware of low-tier brands and who rate these brands favorably show low prestige sensitivity. This finding implies that the promotion of the prestige function of price should have a rather subordinate role in communication campaigns for low-tier brands—or should be incorporated in such a way that its negation takes a prominent role. In addition, the findings of this study suggest that brand communication campaigns should appeal to consumers' price consciousness and value consciousness. Both concepts are integral elements in almost any of the configurations for the two outcomes and thus should receive consideration in brand communication campaigns.

5 Conclusion

Brand pricing is a topic of great importance for both marketers and consumers. This study is among the first to empirically examine the complex causal pattern of price concepts consistent with both the positive and the negative role of price to predict consumers' reactions to brands, especially low-tier brands. The findings of this study advance extant work in the fields of behavioral pricing and commodity branding by offering novel insights into the necessity and sufficiency of consumers' price-related dispositions for predicting awareness and evaluation of low-tier brands. Additional research is undoubtedly still needed to fully understand the roles of price as a complex stimulus of consumer behavior. This research seeks to provide impetus for such research and further studies based on set-theoretic methods.

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Customer Participation and Commodity Marketing

Frank Jacob and Thomas Aichner

1 Introduction

Commodities have been described as a specific category of products and services. To a substantial degree, they lack salient characteristics to distinguish them as originating from different suppliers. Also, most customers perceive commodities as interchangeable and replaceable (Enke et al., 2014). Typical examples include raw materials, agricultural products, utilities, telecommunication services, logistics services, and any product or service in the later stages of a product life cycle. Commodities impose specific challenges on suppliers in their marketing efforts since they hinder standard methods for market differentiation and, often, force suppliers to apply strategies which solely build on cost and price advantages (Ferrell et al., 2014). Typically, this comes along with lower margins, a lack of competitive advantage, and, finally, a lower overall firm profitability. Therefore, commodities are often considered as a category with limited attractiveness to a supplier. Some commentators even speak of the "commodity trap" (e.g., Chesbrough, 2011) and others of the "commodity magnet" (Rangan & Bowman, 1992).

However, commodities make up for a major proportion of all market transactions in many markets, be it business markets or consumer markets (for service markets,

This chapter was originally published in German as Jacob, F., & Sievert, J. (2014). Die Kundenmitwirkung als Instrument des Commodity Marketings, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_9

see Bruhn, 2014). This puts businesses in commodity markets under pressure to engage in what can be called commodity marketing (Rangan & Bowman, 1992). Here, a core recommendation to the marketer consists in making any effort possible to escape the commodity trap. Mostly, this means altering market offerings such that they shift from the commodity category to the opposite, i.e., they become non-commodities. Branding or packaging are two strategies typically aiming into that direction (e.g., Wiedmann & Ludewig, 2014). Despite the many merits these strategies have, a paradox remains with commodity marketing as it is reflected in the overall quest: to de-commoditize what remains a commodity.

In their search for conceptual guidance to escape the commodity trap, practitioners and academics can resort to the so-called managerial school of marketing (Sheth et al., 1988). This approach looks back at a very long tradition, also in commodity marketing (e.g., Brian Jones and Monieson, 1990). In academic and managerial writing, it is considered a central building block for contemporary marketing thinking. Writings by Levitt (1960) and Drucker (1974) are central to it. The concept of the four Ps for marketing management (product, price, promotion, and place), also referred to as the "holy quadruple" (Kent, 1986), became emblematic for this perspective. For any product from any product category, marketing managers put together a unique marketing mix by combining decisions on each of the four marketing instruments. The appropriateness of this mix to match external market conditions, including customer needs, market demand, and competitors' positioning, determines a company's market success.

However, the process of new concepts in marketing to be developed in academia or to emerge from the reality of markets has not stopped since. Haase and Kleinaltenkamp (2013), for example, point to new schools of marketing thinking building, among others, on a new and better understanding of relationships with customers (Plinke, 1989), the relevance of solutions (Tuli et al., 2007), a reconceptualization of value (Ng & Smith, 2012), and an overall shift from a product focus to a service focus (Vargo & Lusch, 2004). Despite many lines of continuation that connect the new schools to the traditional managerial approach, one dimension clearly separates new from traditional: the role of the customer. While the managerial perspective views the customer as entirely passive, the new frameworks treat the customer as an active party in market exchange. Put differently: customer participation was discovered as a relevant dimension in marketing.

Commodity marketing is considered as under-researched and, overall, publications on the topic are scarce (Meyer, 2009). Explorative research efforts, therefore, are needed, and helpful (Neumann, 2020). Against the backdrop of common foundations, linking customer participation and commodity marketing could be an interesting avenue for this endeavor. Analyzing customer participation through a commodity lens could help identifying new ways of how to escape the commodity trap, and, therefore, solving the commodity paradox. To our own best knowledge, no other authors before us ever undertook efforts into this direction.

To achieve this research goal, we ask two questions: (1) Which forms of customer participation are relevant for commodity marketing? (2) How can a customer participation perspective help to overcome the commodity trap in commodity marketing?

With this effort, we meet different contemporary requests for research. Despite its long-standing relevance, commodity marketing is a neglected domain within the marketing discipline. Our first contribution, therefore, consists in helping to extend the map of this field and to establish the ground for it more broadly (Enke et al., 2014). Second, we also contribute to a request for increasing the breadth of research on customer participation. Linking customer participation to the domain of commodity marketing helps to achieve exactly this (Dong & Sivakumar, 2017).

For the remainder of this chapter, we will proceed by, first, summarizing and organizing findings on customer participation in extant literature. After that, we will present for two genuine variants of customer participation how the latter can play a helpful role in commodity marketing. We will end with a discussion that points to some practical implications and also present suggestions for further research.

2 Foundations of Customer Participation

The traditional marketing concept limited the role of customers to the sole aspect of making a buying decision. Preparing and undertaking a choice were considered a customer's only genuine forms of activity. This also implies a strong differential in the level of control over market exchange with the supplier being in a superior position. A customer participation view on marketing extends a customer's role substantially (Auh et al., 2019). Instead of being limited to the choice maker, customers are ascribed much higher levels of autonomy, authority, and impact in market exchange (Heinonen et al., 2010).

Forms of customer participation are manifold and customer participation research developed into a wide range of directions (for an extensive literature review, see Dong & Sivakumar, 2017). Consequently, various definitions exist inhibiting the emergence of a shared understanding (Straus et al., 2016). To gain orientation, typologies help to provide clarity. Many of those exist for customer participation. Here, we refer to a framework proposed by Grönroos and Voima (2013). These authors go beyond mere enumeration of customer participation variants by also providing a conceptual foundation for their framework. In their effort for a better understanding of the nature of value, they acknowledge that its creation always includes actions by both the supplier and the customer. They propose distinguishing three different so-called spheres that reflect loci of variated customer participation: a provider sphere, a joint sphere, and a customer sphere. Figure 1 illustrates the spheres.

The provider sphere encompasses a supplier's autonomously undertaken activities of preparing and facilitating value opportunities for customers. Typically, this involves design, development, manufacturing/deployment, and delivery of a product or a service. Of course, value facilitating requires a strong customer

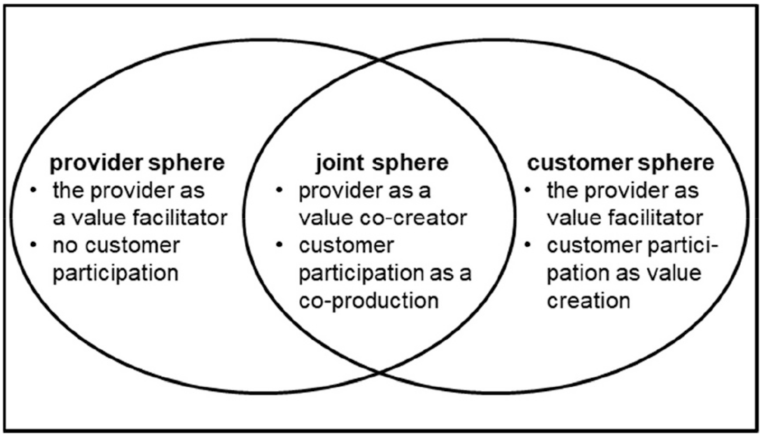

Fig. 1 Customer participation in different spheres (cf. Grönroos & Voima, 2013)

orientation, for example via standard marketing research activities of the firm. These intend to capture the voice of the customer. However, there is no role for the customer as an active participant and no active customer participation takes place (Heinonen et al., 2010). The customer remains a passive unit; active customer participation is absent. This is the perspective emerging when firms adhere to the traditional concept of marketing management.

In the joint sphere, the supplier and the customer encounter with intensified direct interaction between them. Sometimes, this interaction is limited to the exchange of information only and physical activities may remain separate for the supplier and the customer. On the other hand, it could go as far as the customer integrating his or her own resources into a joint process of co-production (Edvardsson et al., 2014). We could, for example, imagine an owner taking his private passenger car to a self-service car wash and actively engaging in vacuum cleaning the interior of the car. Both the supplier and the customer may cross the boundaries into the other party's sphere. To conclude, in the joint sphere, the customer is in charge and actively participates as a co-producer. Notably, a marketing paradigm as summarized under the label of customer integration takes this perspective (Haase et al., 2015).

Traditionally, focusing on a supplier role as a value facilitator in marketing was considered as natural. Viewing a customer sphere as a locus of value emergence is novel. Here, value emerges once a product or service helps a customer to achieve his or her individual goals (Macdonald et al., 2016). For this purpose, more resources may be needed to be combined with the product or service. However, the supplier is not a source of these additional resources. Instead, they belong to the customer, or other actors from a customer's ecosystem contribute them. Here, customer participation extends to a maximum since the customer is the sole creator of value and independently controls any value process. To continue our previous example, customer sphere value creation emerges if the clean car now helps the owner to impress some other person through the car's tidiness. Interestingly, since goals are behind any form of consumption, value creation via customer participation in the customer sphere, in fact, is not optional. Put differently: customer sphere value creation is an omnipresent phenomenon. Researchers coined the term value-in-use to describe the common denominator of this perspective (Hartwig & Jacob, 2018).

To conclude, Grönroos and Voima's framework proposes to distinguish settings of no customer participation from settings where a customer either participates as a co-producer or as a value creator (for a similar conclusion, see Aichner & Shaltoni, 2019; Dong & Sivakumar, 2017). Next, we will look at customer co-production and customer value creation in more detail and, also, establish links to determinants and challenges of commodity marketing.

3 Customer Co-Production for Commodity Marketing

Dong and Sivakumar (2017) explain the meaning of co-production by pointing to the concepts of collaboration and production as the semantic origin of this term. Thereby, they delineate co-production from similar concepts such as pure self-production and pure self-service where either production or collaboration is missing. A group of researchers, mostly around Michael Kleinaltenkamp, proposed a more detailed conceptual framework for co-production which is also founding on production theory. They refer to it as the concept of customer integration (Fließ et al., 2015; Kleinaltenkamp et al., 1996). Figure 2 provides an overview on the concept.

Customer integration thinking in this sense builds on two pillars (Kleinaltenkamp & Jacob, 2002). The first one is the resources-process-outcome (RPO) scheme as adopted from production theory (Haase, 2008). In line with this, all operations for

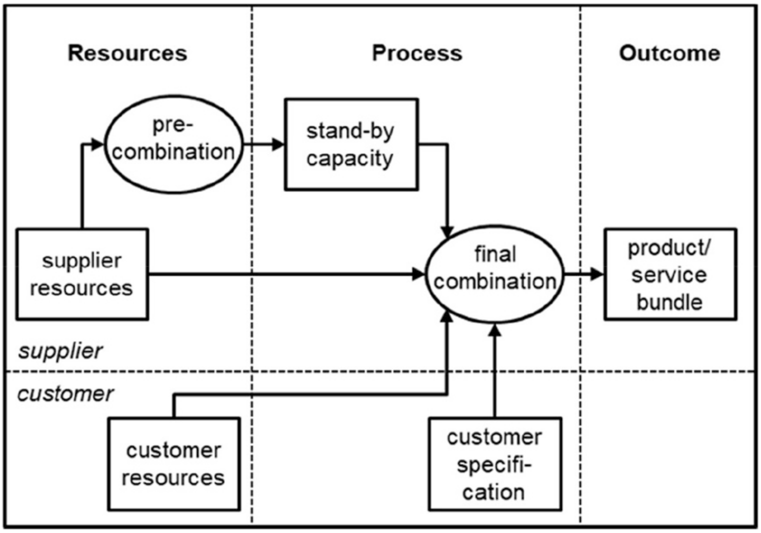

Fig. 2 The customer integration framework

product manufacturing or service provisioning start with the procurement and deployment of resources. Once deployed, resources become the input of different kinds of processes which, eventually, yield a tangible or intangible outcome. The second pillar for customer integration is the duality of both the supplier and the customer as active parties within the RPO scheme. Specifically, they are both involved in resource provisioning and process execution. Resources contributed by a supplier include different resource categories such as facilities, equipment, people, know-how, and technologies. In a first step and mostly independent from specific customer orders, the supplier will deploy those resources within a process of resource pre-combination resulting in the emergence of stand-by capacity. Customer resources to be contributed, often, are less tangible and include categories such as time, knowledge, and information. All resources become input of a final combination, manifesting as manufacturing operations and/or service execution. However, unlike in pre-combination, in this final combination the supplier cannot operate independently. Instead, the customer becomes a co-decider, for example via providing individual customer specifications for the final outcome. Typically, this final outcome contains both products and services as components, i.e., product/service bundles.

Customer integration has been portrayed as specifically relevant for the business of solutions (Jacob, 2006). In a rather broad sense, solutions are characterized by a certain degree of customization and bear the capacity to solve customers' idiosyncratic problems (Nordin & Kowalkowski, 2010; Trentin et al., 2020). Becoming a solutions provider—in contrast to a product supplier—has become part of the contemporary set of basic strategic orientations for companies, on business markets in particular (Jacob & Ulaga, 2008). Interestingly, authors repeatedly linked a solutions strategy explicitly to commodity marketing (Nordin & Kowalkowski, 2010; Stremersch et al., 2001). Solutions are a genuine vehicle to escape the commodity trap. This role rests on a logic according to which solution strategies potentially combine advantages from economies of scale as they are inherent to the commodities business and economies of differentiation as they come along with the customer problem-solving business. The so-called order penetration point from the customer integration framework (Jacob, 1996) is key to understanding this. Broadly defined, this order penetration point is a stage in firm operations from which product manufacturing or service provisioning becomes linked to a specific customer order (Olhager, 2003). In other words, an order penetration point delineates pre-combination activities from final combination activities. Variating the locus of this order penetration point allows a novel type of strategic positioning for commodity companies.

For consumer goods, typically, this strategic positioning will manifest as that of mass customization for commodity firms. Reichwald and Piller (2009) describe mass customization as the provisioning of products and services to large markets which still can meet individual and idiosyncratic needs and demands of individual customers. In this sense, mass customization is a solutions strategy with the order penetration point putting pre-combination or pre-fabrication to the largest possible extent. The customer's role is limited, though active. These authors (Reichwald &

Piller, 2009) list three categorical variants reflecting practical applications of mass customization strategies:

- Fitting size and adjusting shape to individual body dimensions of customers are a first option for mass customization. This, typically, includes the large area of body-related products such as clothing or shoes. Though, those, perhaps, are not extremely typical for the category of commodity goods, one can think of interesting applications. Rubber boots or work cloth items often meet the commodity criteria but still appear as apt for the application of mass customization in this sense. Commercial customers, for example, could order standardized work cloth items from a work clothes manufacturer but still have it fitted individually for each individual staff member of the customer company.
- Product functionality is another dimension for mass customization. This pertains to properties of a product or a service. The stringing of a tennis racket is given as an example. More typical for the commodity category, one can also think of a supplier of breakfast muesli cereals doing individualized blends of ingredients on the specification of individual customers.
- Finally, the visual appearance of an object could be subject to customization. Standard household item such as a toothbrush, coffee cups, or bathroom towels may be delivered with a name engraved in or printed on. A non-branded wristwatch could come with design components, color schemes, or combinations of those as determined by the customer.

In a separate study, Piller et al. (2004) demonstrate the economic and commercial viability of mass customization strategies. What all the examples have in common is their nature as commodity offerings, the role of the customer as an active co-producer, and the power of customer participation to overcome the threats from the commodity trap.

4 Customer Co-Creation of Value-in-Use for Commodity Marketing

Customer participation in the customer sphere follows a different logic compared to customer co-production in the joint sphere. Grönroos and Voima (2013) refer to it as customer value creation. However, based on earlier writings (Vargo & Lusch, 2004), most authors use the term customer co-creation instead of customer value creation (e.g., Heinonen et al., 2010). Despite some terminological ambiguity (Dong & Sivakumar, 2017) and for reasons of simplicity, we chose to also refer to customer co-creation in this contribution.

The concept of customer co-creation belongs to a set of central tenets of what is called a service-dominant logic of marketing. Writings by Vargo and Lusch are essential to this strand in marketing literature (Vargo & Lusch, 2004, 2008, 2016). The main motivation of these authors was to establish an alternative framework to traditional marketing thinking, the latter being referred to as a goods-dominant logic of marketing. As one element of a set of fundamental premises or axioms (Vargo & Lusch, 2016), the service-dominant logit envisions the customer always as a co-creator of value. Heinonen et al. (2010) note that the customer's role as a co-creator extends largely beyond the limits of a market exchange and, hence, a supplier's limits of control. Instead, it stretches into a customer's life and all the tasks an offering is related to. In this sense, co-creation pertains less to what a product or service is and how it is designed, manufactured, or delivered. Instead, co-creation denominates how a product is used and its role in a customer's idiosyncratic use processes.

Essential to this is how the nature of value changes alongside. Value has always been an object of interest in management and marketing research (Ng & Smith, 2012). When confined to a market exchange context, value is determined by and intrinsic to the object which is traded between a supplier and a customer, i.e., value-in-exchange. This understanding of value dominated traditionally. In contrast to that, value as co-created by the customer comes out as value-in-use (Vargo & Lusch, 2004). In this sense, value is not limited to a single moment (i.e., moment of exchange) but rather extends over the entire duration of usage by a customer. For illustrating the meaning of the new concept, SDL researchers resorted to the case of the baking soda brand Arm & Hammer (Nariswari, 2011). Interestingly, baking soda originally clearly qualifies as a commodity. Its main purpose to households is as an ingredient for the preparation of baked food products. However, as the observation of household practices demonstrates, customers co-created various kinds of different outcomes from this product. Because of its chemical compositions, customers, for example, redefined it as a deodorizer or cleaning solutions for kitchen refrigerators. Others reported even using it for whitening teeth. Consequently, the company repositioned the product in the market in several different directions giving it unique distinctions and differentiation beyond its origin as a simple baking soda. This, clearly, rescued the brand from sharing the fate of many other commodity products that cannot escape the commodity trap. In a similar vein, Aspers (2006) explicitly states: "The commodity itself is to some extent a result of the market and cannot be understood as extrinsic to the market" (p. 14).

The concept of value-in-use has been the objective of intensive debate and discussion (e.g., Hartwig & Jacob, 2018). Lately, Macdonald et al. (2016) provided a more fine-grained definition by capturing value-in-use as "all customer-perceived consequences arising from a solution that facilitate or hinder achievement of the customer's goals" (p. 98). This builds on an established tradition to consider goals as highly relevant in value research (Woodruff, 1997). Hence, goals and goal achievement become central to understanding the concept of value-in-use. For the category of mobile apps as used in connection with smartphones, a study by Bruns and Jacob (2014) brought to the surface a set of goal dimensions that typically underlie customer use processes, including convenience, indulgence, proficiency, productivity, self-expression, and social belonging. Later, Hartwig and Jacob (2018) identified for the same type of offering (i.e., apps for smartphones) modes of assessment customers apply for value-in-use. These modes may be input related, output related, market related, or related to the social context of a customer. Insights on value-in-use as goal achievement of that type can guide the development of management approaches to use customer co-creation for the purpose of commodity marketing. What different approaches for this purpose have in common is the shift from product characteristics to aspects of the use process as the terrain to shape uniqueness, distinction, and differentiation.

In the context of business or industrial markets, customer success management marks one such approach (Eggert et al., 2020). Ulaga et al. (2020) explicitly link customer success management to Grönroos and Voima's sphere framework and define it as "all activities of the customer and the provider firm aiming at aligning their customer and supplier goal achievement" (p. 369). They give examples from the software industry, industrial component manufacturing, and real estate-related services, including electricity, heating, ventilation, and air conditioning (HVAC), lighting, plumbing, refrigeration, and waste management. In all those cases, firms started to establish organizational units around the concept of customer success management. The customer success manager emerged as a new job profile within supplier organizations. Often, customer success management parallels subscription-based business models defined as "businesses whose customers pay a periodically recurring fee for access to a product or service" (McCarthy et al., 2017, p. 17). Note that customer success management does not discharge the customer in his role as a co-creator of value-in-use. Instead, the purpose is twofold: to provide real support to the customer in the co-creation of value-in-use but also for the supplier to regain some level of control in usage stages of the customer journey. Also, note that the viability of customer success management is independent of the underlying nature of the marketing offering. Thus, customer success management works for commodity offerings as it does for any other offering. Hence, customer success management, indeed, offers a unique opportunity to extend the toolbox of commodity marketing by uniquely exploiting opportunities from variants of customer participation.

Reverse use of customer data was identified as another managerial approach related to customer co-creation of value-in-use (Jacob et al., 2020). Saarijävi and colleagues (2016) describe this as companies converting existing customer data into information that is meaningful for the customer. In today's digital world, customer data accumulates to suppliers almost freely as big data. Suppliers know a lot about customers' purchasing and consumption habits. Instead of using customer-related big data for purposes of more sophisticated and subtle customer intelligence, this approach suggests funneling information back to the customer to help him improve his use processes. As an example, Saarijävi and colleagues (2016) point to food and grocery retailing. Here, information provided by the supplier on a customer's previous shopping patterns can help the latter, for example, to reconsider quantities of food items or probably search for alternatives in an endeavor to live more healthily or more sustainably. The authors link the approach of reverse use of customer data directly to the service-dominant logic of marketing but also to transformative service research as another school of thought for marketing (Anderson et al., 2013). The basic notion here again is that the shift toward use processes and customer co-creation of value-in-use liberates the supplier from constraints as set by the underlying category of the offering. Put differently, like customer success management, reverse use of customer data offers novel avenues to the marketing manager for escaping the commodity trap.

5 Summary and Discussion

In this contribution, we shed light on the specific challenges of commodity marketing. When trying to overcome these challenges, marketers often find themselves confronted with a unique paradox. The latter exists because, so far, efforts of commodity marketing aim at altering the commodity to become a non-commodity. We presented customer participation as an alternative route for commodity marketing avoiding this paradox. As we could demonstrate, well-managed customer participation bears the potential to bring commodities successfully to the market without ever neglecting their basic nature as mostly standardized and exchangeable products or services. We identified two variants of customer participation as either customer co-production or customer co-creation of value-in-use.

Customer co-production manifests in real markets as mass customization. Technically, mass customization receives strong support from digitization and automation in manufacturing. One very interesting example beyond the one given before is the case of electronic manufacturing services as typical for contemporary consumer entertainment electronics (Nordin & Kowalkowski, 2010). These companies collaborate with popular household brands in the category and produce electronic devices typically matching current and rather uniform technology standards. Sometimes, the same device is delivered to more than one brand. The difference comes from small adjustments for each brand, such as imprinted brand logos and names, color, or other outer design elements. It is an EMS company's capacity for helping the customer in his or her role as a co-producer and provider of specifications for these adjustments that sets the company apart from other competitors and gives it an advantage on its markets. Put differently, managing customer co-production is a viable strategy to EMS companies for commodity marketing.

Customer co-creation of value-in-use attributes an even more active role to the customer by shifting the focus entirely from production processes to use processes. In line with base ideas of the service-dominant logic of marketing, value-in-use emerges from a supplier's offering when it helps the customer to achieve goals. Customer goals can be ranging from rather specific to rather general. Some companies already have started to understand this; in some industries, it has even become a widespread contemporary practice. The software business, for example, is considered to have transitioned from a product philosophy (software-as-a-product) to being service centered (software-as-a-service). Some commentators point to a shift from license pricing to pay-per-use schemes as the most important change coming along with this transformation. However, we believe that a software-as-a-service business model also requires the company to rethink modes of customer management and establish activities such as customer success management. Since goal achievement is largely independent of an offering as a commodity or as a non-commodity, this novel understanding of customer management becomes another promising avenue for modern ways of commodity marketing.

The major limitation of our research as presented here pertains to its purely conceptual nature. More efforts in regard to empirical investigation and substantiation, therefore, are needed.

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An Economic View on Group Buying as Marketing Approach for Commodities

Andreas Klein

1 Group Buying as Marketing Approach

Many industrial (B2B) and consumer markets (B2C) experience an increasing level of market saturation over the last few years due to the globalization of commerce. In such markets, suppliers can hardly realize competitive advantages by just offering their products as done for years now. In addition, in many of these markets products are highly standardized with regard to technical features (e.g., consumer electronics, food products, or logistics), and sales volumes stagnate or companies can generate sales growth only to the detriment of other suppliers. These general framework conditions force companies to develop alternative marketing strategies and approaches to successfully compete and survive. One way is the concept of group buying, which has gained importance primarily due to the growth of the Internet over the last 20 years (Bhagat et al., 2009; Kauffman & Wang, 2001; Kauffman et al., 2010; Klein & Bhagat, 2010; Tsai et al., 2011; Shiau & Luo, 2012; Cheng & Huang, 2013; Sharma & Klein, 2020). This led to a reduction of communication and coordination efforts for economic actors on many markets alike.

The concept of group buying appeared with the dot.com bubble at the beginning of the twenty-first century (e.g., Letsbuyit.com or Mercata), vanished a few years later, and successfully reappeared on B2C markets for some years now. In the B2C

This chapter was originally published in German as Klein, A. (2014). Nachfragerbündelung als Vermarktungsansatz im Commodity-Geschäft, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_10

world, the phenomenon became famous again with the advent of the Groupon website or as so-called Groupon clones in various other countries (Sharma & Klein, 2020). From a global perspective, group buying is also very prominent in China (e.g., Pinduoduo) or India (e.g., Teamkaro), where consumers buy highly standardized fast-moving consumer goods, consumer electronics, apparel, food products, and the like by using team-buying websites. Nevertheless, in comparison to the bundling of products, where packages of the same or different products are offered in order to generate additional value for customers (e.g., Adams & Yellen, 1976; Dansby & Conrad, 1984; Guiltinan, 1987; Janiszewski & Cunha, 2004; Yadav, 1994, 1995), the bundling (grouping) of customers has only been discussed in the business literature more recently. Terms that have been additionally used for such transactions were aggregate buying, consumer flocking, we-commerce, or cooperative commerce (Chen & Lu, 2014; Klein & Bhagat, 2010; Klein & Sharma, 2018; Klein & Sharma, 2022; Sharma & Klein, 2020), and, more recently, the so-called deal-of-the-day format (Boon et al., 2015; Eisenbeis et al., 2015; Liu & Sutanto, 2012).

From a theoretical perspective, one cannot only distinguish between the type of product (i.e., physically and technically same or different products) and the time of purchase (i.e., same or different times), but also between a third perspective, which is the number of buyers (i.e., single or multiple buyers) as discussed in Voeth (2002) and Klein (2004, 2005). Hence, the group-buying phenomenon stems from the extension of the classic understanding of bundling to a third dimension as displayed in Fig. 1. However, from the seller's perspective, such an extension increases efficiency of the marketing and sales process only, if the economically independent multiple customers act quasi as a-single buyer at the time of purchase of either the same or different products. In a stricter sense, this view excludes the purchase of the same or different products by several customers at different times. Such phenomena are present on B2B markets as so-called purchasing groups or purchasing cooperatives initiated by the demand side. They organize their buying cooperation through master agreements in order to achieve permanently more favorable procurement conditions. Such co-operations are known, for example, in the health care industry as group purchasing organizations (GPOs) for hospital supplies (e.g., Novation or Amerinet), which is especially efficient for small and medium-sized enterprises to gain price advantages by pooling demand to larger quantities through a particular GPO. In addition, due to the lack of synchronicity, the classic trade function of reducing contact between manufacturer and buyer (Baligh & Richartz, 1964), for example, as seen with traditional or online retailers like Amazon, are also not a group purchase in the above-mentioned sense. By focusing on the economic perspective and the efficiency of the marketing process in either B2C or B2B markets, the two cases highlighted in gray in Fig. 1 result as typical group-buying situations as discussed in this chapter. Hence, the group buying as a marketing approach includes two options, that is, several customers purchase similar (in a narrower sense) or different products (in a broader sense) at the same time. Only in these two particular cases, the customers act as one single buyer and the seller is able to develop the full economic potential of a group purchase.

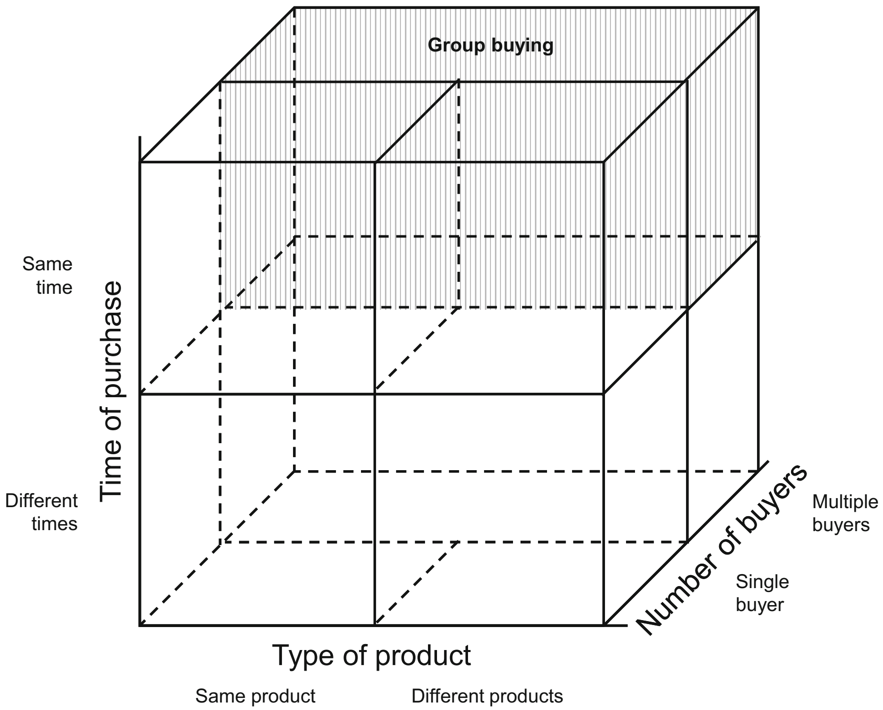

Fig. 1 Three-dimensional classification of group buying

To sum, the synchronicity of the demand (same time) of multiple buyers and their order volume are in the focus of the following economic analysis of group buying as marketing approach for commodities. Such occasions are, for example, collective orders in mail order or online businesses, the joint procurement of IT equipment of small and medium-sized enterprises, or the reduction of overstock on Groupon-clone websites. Hence, buyers can either buy the same or different products, also in different quantities, but they definitely have to buy them at the same time. The concept of group buying is perfectly applicable for commodities, that is, products that are highly standardized, or, for example, the reduction of old or overstock (Klein & Sharma, 2022; Sharma & Klein, 2020). Moreover, the Internet in general, and its reduction of search, communication, and coordination costs in particular, which are generally termed as transaction costs (Williamson, 1985), became a key factor for group buying as marketing approach for the marketing and sales of commodities.

2 Importance of Group Buying for Commodities

The term commodity goes back to basic products, bulk goods, and raw material, whereas the more recent marketing literature divides commodities into soft and hard commodities (Meffert, 2001). Soft commodities are marketable basic products, which, unlike hard commodities, are non-metallic in origin. While this view primarily focuses on industrial goods traded on stock markets, the so-called commodity approach takes the analysis a step further by classifying different types of goods (Copeland, 1923, 1925; Murphy & Enis, 1986). However, according to the commodity approach there is no restriction on specific goods so that both industrial and consumer goods are applicable for the analysis (Aspinwall, 1958; Miracle, 1965). The overall objective of the commodity approach is to classify types of goods according to their characteristics and similar marketing problems. Subsequently, for related products the same optimal marketing mix, that is, the same product, pricing, distribution, and communication policies, is applicable (Lipson et al., 1970; Miracle, 1965). The commodity approach represents one of the more traditional methods of marketing alongside institution- and function-oriented approaches (Knoblich, 1995; Meffert et al., 2018).

Recent literature in marketing defines commodities, in a more practical way, as such products that are largely interchangeable due to a high standardization of their features and their general nature. According to Murphy and Enis (1986), customers can acquire commodities without much effort and with a manageable risk, independent of the B2B or B2C perspective. Thus, B2B marketing describes commodities primarily as, for example, chemical raw materials or highly standardized products such as steel, chipboards, paint, or ingredients used in the food industry such as grain, fats, or sugar. In the terminology of many business typology approaches, these goods are termed product or, explicitly, commodity business, which itself has much in common with the traditional B2C marketing (e.g., Backhaus & Voeth, 2014; Weiber & Kleinaltenkamp, 2013). In B2C markets, for example, the food sector (e.g., tinned food, salt, and sugar) offers a strong commodity character. The same applies to numerous products of the consumer electronics industry (e.g., Blu-rays, DVDs, CDs, or USB drives) or to the apparel industry (e.g., socks or underpants). In addition, energy sources such as fuel, electricity, or gas are commodities in both B2B and B2C markets.

Approaches of the new institutional economics, especially the economics of information, classify commodities as products with a high proportion of search characteristics (Darby & Karni, 1973; Nelson, 1970, 1974). In this context, commodities are products with little need of explanation and products expose their characteristics before the contract is sealed. Ultimately, high degrees of standardization of these goods or their components lead to a focus on price-oriented strategies for their marketing and sales. In combination with the growing importance of the Internet and reduced costs of logistics, many commodities are thus facing strong global price competition. Such price competition severely limits the scope for the marketing mix in the commodity business. For example, the possibilities of influencing customer preferences through value-added services or other types of product differentiation and the building of well-known brands with a strong unique selling proposition are at least diminishing. For this reason, it is particularly important for the suppliers of commodities to consider alternative marketing approaches. One such approach is the concept of group buying, which is particularly suitable for commodities that have a high degree of standardization (Klein, 2004; Klein &

Sharma, 2022; Sharma & Klein, 2020), where consequently only a few alternatives exist on the market. The high degree of standardization of such products makes it easier and cheaper for customers that are willing to purchase as part of a group, and, consequently, to persuade other potential customers to participate in such a group purchase. Once again, the Internet has significantly contributed to the prominence of group buying by offering efficiency gains for customers and providers alike, that is, reduction of their transaction costs as mentioned above (Williamson, 1985).

However, from an economic context the homogeneity of customer preferences and their thriftiness in consumer behavior and the purchase process are the main drivers of success of group buying as marketing approach. For example, extensive heterogeneity, that is, customers tend to prefer individual products that are specially tailored to their needs, represents a negative factor influencing the tendency to join a group purchase (Bhagat et al., 2009), because concessions have to be made about individual product characteristics. Nevertheless, in the commodity business it is likely that such problems far less frequently occur due to the characteristics of such products. An additional factor influencing the acceptance of group buying in the commodity business is that buyers have to be willing to synchronize their demand. If these conditions on the customer side are met, the suppliers of commodities can transfer communication and distribution tasks to their market partners when offering group purchases, thus helping to reduce their own transaction costs (Williamson, 1985). The main advantage for customers results in the corresponding price reduction for their additional efforts of bundling and synchronizing with other members of the potential group (Klein, 2004).

3 Two-Sided Benefit Analysis of Group Buying as Marketing Approach for Commodities

3.1 Group Buying from the Seller's Perspective

From the supplier's perspective, it is possible to identify both short- to medium-term and long-term economic advantages of group buying as marketing approach for commodities (see Table 1). Potential short- to medium-term advantages emerge, for example, from the expansion of market share/volume or financial benefits by reducing stock as well as on the cost side by the reduction of production, marketing, and sales costs. Among the long-term benefits, additional positive effects on the company's reputation, an increase in customer satisfaction, cross-buying potential, and the acquisition of information about potential buyers arise. However, from an economic view there is always a conflict between advantages of the seller and their corresponding advantages of potential buyers, which mainly consist of an additional price reduction. This leads to a reduction of the marginal return per unit. Moreover, the group offer might initiate a negative price spiral and irritate other customers in the market that pay the regular price. Finally, group offers might build additional buyer power, which is especially relevant for B2B markets and companies with only

Table 1 Benefit analysis from the seller's perspective

Advantages	Disadvantages
+ Expansion of market share/volume	– Reduction of marginal return per unit
+ Financial benefits from stock reduction	– Initiating a negative price spiral
+ Reduction of production costs	– Irritating other customers
+ Reduction of marketing and sales costs	– Building buyer power
+ Positive effects on the company's reputation	
+ Increasing customer satisfaction	
+ Cross-selling potential	
+ Gathering of information about potential buyers	

a few customers. For B2C markets, there seems to be a lower chance of creating buyer power since markets or market segments are generally by far bigger.

3.1.1 Advantages for Sellers

Companies in the commodity business can improve their own market position with group buying through market share effects, which lead to new supplier-related customers (Voeth, 2002). On the one hand, this may be due to the fact that customers switch from competing companies that do not offer group buying and whose prices are higher than the group purchase price. On the other hand, this may be due to acquisition activities by customers already participating in the group purchase. In this context, it is even possible that the additional sales volume creates market barriers for competitors. To a limited extent, suppliers can additionally generate advantages through market volume effects, because customers now purchase the company's products that would not have been purchased previously due to a higher individual price. Their maximum willingness to pay lies below the price level of the supplier or the market segment in general. If the price of the group purchase is either, the same or falls below the maximum willingness to pay, these customers may now be willing to buy the product at the lower price as part of a group (Voeth, 2003). Such a second group of new customers simultaneously expands the market volume currently realized by all suppliers, since the lower price additionally addresses more price-sensitive market segments.

Moreover, financial benefits may also result for suppliers of group-buying offers because of either stock reduction or early demand. Thus, the supplier's capital tied up in the pre-production or the storage of finished products decreases, which at the same time creates new planning leeway that may overcompensate the discount granted. Such an advantage becomes particularly relevant if only those customers participate in the group purchase who would have bought even without the offer but later. The faster turnover of products can also result in financing advantages on the supplier's procurement side because the company demands larger quantities from its own suppliers as a result.

With an expansion of the market share or market volume as well as possible financial benefits, there is also potential for opportunities from the cost perspective of the company. This applies especially for commodities with low margins in general. For example, a reduction of production costs through economies of scale might contribute to an improvement of the company's market position. On the one hand, economies of scale are possible for the supplier through higher sales volumes. In this case, the company benefits from a correlation between increasing cumulative production numbers and the experience gained over time, which contributes to an overall reduction of costs per unit. On the other hand, the company is able to exploit the effect of fixed cost degression, since it now shares fixed costs per period between larger production volumes. This effect helps in amortizing, for example, the investment in new technologies and specific machinery.

In addition to the discussed cost effects, the company's distribution tasks might now be transferable to potential buyers that take part in the group purchase and, hence, suppliers realize further savings in sales and logistic costs. Cost reductions are also possible in the processing of orders by creating larger units, and some customers might take over some of the company's communication since they inform other potential customers about product features and they encourage them to participate in the group purchase. Such positive word of mouth (e.g., De Matos & Rossi, 2008), that is, recommendation behavior toward other potential customers, reduces the frequency of interaction with customers and allows for communication cost savings. Hence, the supplier of a group offer for commodities is able to transfer free capacities of sales personnel to more profitable products or market segments. Overall, group buying thus holds a lot of potential for increasing efficiency in sales.

From the marketing perspective, positive effects on the company's reputation may occur as long-term effects of group buying, as customers view an innovative pricing policy of the company as positive. In the case of commodities, homogeneity of the supply and a high degree of price transparency mean anyway that classic instruments of pricing policy, and in particular price differentiation, can be bypassed by potential customers easily. Thus, under certain circumstances, other instruments of pricing policy are more likely to damage the reputation of the supplier. Group buying for commodities, on the other hand, is a way of differentiating from competition and generating acquisition potential for the company.

Group buying can also have an impact on customer satisfaction. From the customers' perspective, the perception of price fairness is central since the price of the group purchase is lower than the individual price (Xia et al., 2004). A perceived price fairness in addition to price satisfaction arises in the customer's mind when he or she believes that the price for the received product was appropriate. Hence, the higher the perceived price fairness, the higher the satisfaction with a specific transaction (Oliver & Swan, 1989). The customer's satisfaction resulting from price fairness can subsequently have an impact on his or her word of mouth (De Matos & Rossi, 2008), which might have an impact both on the size of the group and the acquisition of additional customers in the individual purchase option. Overall, increased customer satisfaction also generates stronger customer loyalty and, hence, more profit to the provider in the long term (Chenet et al., 2010; Melewar et al., 2017).

Finally, the cross-buying potential of a customer that takes part in the group purchase contributes to improving the company's market position. Cross-buying potential refers to additional business that the customer conducts in other areas of the company and thus has a positive effect on customer value (De Matos & Rossi, 2008). Under certain circumstances, a customer mentally transfers the perceived price advantage to other offers of the seller, which he also buys as a result. Such products may, in the case of group buying, lie outside the actual group purchase and possibly even outside the commodity business itself, where the supplier receives higher marginal returns. In addition to these advantages, the seller can generate information about customers that take part in the group purchase as well as their general buying behavior, for example, by collecting data as part of a registration form for collective orders. Furthermore, in combination with addresses and purchasing habits the company is able to collect other characteristics relevant to purchasing, such as willingness to pay or analyses of future demand and the like.

3.1.2 Disadvantages for Sellers

However, in addition to the abovementioned supplier advantages, there may also occur some disadvantages which, depending on the specific initial situation, might be classified as potential risk and which may restrict or even prevent the use of group buying as marketing approach in the commodity business. From the customers' perspective, one of the main reasons for participating in a group purchase is the resulting group price, which is usually lower than the individual price, as otherwise buyers have only little incentive to participate in the group purchase. Yet, for the supplier, this price discount leads to a reduction in the marginal return per unit. Depending on the degree to which the lower group price reduces the seller's margin, the existing fixed costs may only be covered to a much lesser extent or even much later. The reduced margin must therefore be overcompensated by sales numbers. Such an overall negative effect is even more pronounced if a larger number of the company's regular customers participate in the group purchase who would have bought from the supplier even without the group offer. If the seller offers customers additional services in return for the effort of grouping together, the company realizes further costs, which also have to be taken into account in the price calculation.

Moreover, the group offer entails the risk that the reference price of the customers, that is, the price anchor based on which the customers judge the favorability of an offer, will decrease as a result of the lower group price (Monroe, 1973; Winer, 1986). Hence, customers would interpret a return to the old price level as a price increase (Kalyanaram & Winer, 1995), which leads to the assumption that group buying creates a risk of triggering a negative price spiral for suppliers. In industries with a high level of competition, competitors are also forced to react to the supplier's group offer and either offer the same group buying option, possibly with an even lower price, or, depending on their market position, they lower the price level in general. This leads to further increase of competition, which in the long term can only be sustained by larger companies with better financing potential or due to possibilities of cross-subsidization. Finally, if several suppliers offer a group purchasing option, this reduces advantages for all sellers alike.

The group offer can also lead to irritation among customers in the company's residual market, which are not able to participate in the group purchase due to specific circumstances. Examples of this are regional group offers or excessively tight time limits for joining the group. Moreover, there may be a risk that customers will take notice of the group purchase only later after its closure. A possible negative consequence of this could be that angry customers now buy from competitors. This probably always happens when the difference between the individual price and the bundle price is very large.

Finally, there is a risk that the supplier may build up additional buyer power when there are relatively few customers as in some B2B markets. This situation also becomes critical if the supplier makes specific investments, for example, to expand its production facilities in order to be able to meet the additional demand. Under a long-term perspective, this puts the company in a position of dependence that strengthens the bargaining power of potential customers in such markets. Group buying is therefore particularly appropriate in markets that are not too competitive and have a sufficient number of buyers. In the case of most B2C markets, the literature assumes that, due to the large number of potential buyers, the problem of additional buyer power seems lower, since suppliers generally depend on their customers and the risk is considered to be lower as long as positive margins are achieved.

3.2 Group Buying from the Buyer's Perspective

3.2.1 Advantages for Buyers

When considering economic advantages of a group offer from the buyer's perspective, the focus lies on the lower price granted by the supplier. Hence, a reduced price makes a particularly large contribution to the perceived benefit of group buying. Marketing literature refers to this as transaction utility (Thaler, 1983, 1985). Such transaction utilities are those components of a market transaction from the customer's perspective that go beyond the actual product utility, and which are also not influenced by it. In addition, a transaction utility may also emerge for the participants of the group purchase when the seller grants special financing conditions, which the company only offers to those customers who participate in a group purchase. From the customer's perspective, this would be, for example, installment payment at a lower than the usual interest rate or the complete waiving of interest rates and fees. However, these further parts of the overall transaction utility additionally reduce financial benefits for the seller. The conditions granted for group participants thus represent a second monetary contribution in addition to the price reduction. Other components of the transaction utility, such as the friendliness of the staff or the reputation of the provider, are not included in the analysis, as these apply equally to group and individual purchases as long as they are not going above and beyond regular circumstances.

Nevertheless, in addition to the transaction utility further advantages for customers are possible. For example, the seller can generate benefits by providing value-added services for group buyers if these additional services would otherwise have to be paid for by the regular customers (Voeth, 2003). These include free delivery, the provision of additional information material on the use of the product or possible alternative uses, or training of staff and the like. In some cases, the grouping of buyers also makes it easier for the supplier to adjust value-added services or even a modification of the product due to the larger sales quantity. Thus, the satisfaction of specific customer needs can be an additional advantage of group buying from the buyers' perspective. However, especially in the commodity business, additional advantages and individual customization are critical due to the high degree of product standardization (e.g., chemicals or different types of wood as raw material in B2B markets), so that there is often little scope for specific designs of the group contract. To sum, from the customers' perspective the received discount, that is, the lower group-buying price, is likely to be the main driver of group purchases, both in B2B and B2C markets.

3.2.2 Disadvantages for Buyers

As the most significant disadvantage, and thus the main obstacle to group buying from the buyers' perspective, literature considers their costs of grouping together, in the following called bundling costs (Klein, 2004, 2005). Hence, sellers have to compensate for the bundling costs by the lower group price or the offered discount. Bundling costs result from the fact that individual customers have to find additional participants or companies in order to achieve the required group size as long as, for example, in B2C markets under the so-called deal-of-the-day format, an intermediary does not significantly reduce search costs for customers and to a certain extent also the costs of agreement between buyers. If not, customers have to coordinate between each other. Moreover, they have to face the costs of compromising as long as the offered product does not fully meet their expectations. This happens, for example, if the seller offers older stock for a reduced price as often seen in the apparel industry. Hence, only if the bundling costs are not too high, individual customers are willing to switch from an individual to a group purchase.

However, bundling costs are not costs that are usually captured by accounting terminology. Rather, from an economic perspective, they are transaction costs (Williamson, 1985), which customers experience as either so-called out-of-pocket costs or which they perceive because of the efforts of coordination and the time spent on it or a possible compromise with regard to the received product. In the context of bundling cost analysis, literature describes cost components on the demand side as search, coordination, and compromise costs (Klein, 2004, 2005). The use of the Internet, for example, in the case of the deal-of-the-day format in B2C markets, significantly reduces bundling costs. Yet, it is not expected that bundling costs will completely disappear. Figure 2 displays examples of bundling cost components under the terms of search, coordination, and compromise costs.

In an initial search phase of the group-buying process, potential group members essentially experience costs from the search for applicable offers and the requested number of group members. In addition, price comparisons to ascertain that the seller's offer is favorable are an important part of the overall search costs. In the subsequent coordination phase, search costs increase by so-called coordination costs (i.e., travel expenses, costs of communication with one another, and the like) due to

Fig. 2 Bundling costs on the buyer side

Search costs

Search for suppliers and potential participants, time for price comparison, out-of-pocket costs (e.g., Internet, phone, or travel expenses)

Coordination costs

Time for agreement, preparation of minutes or sub-contracts between participants, out-of-pocket costs (e.g., Internet, phone, or travel expenses)

Compromise costs

Omission of product features, dissatisfaction with the purchasing process, longer waiting time till delivery, bonding to the group, out-of-pocket costs (e.g., delivery or collection of goods)

the coordination of the group participants or negotiations with the seller about product features. Particularly in the case of a single product offered by the seller it must be assumed that the coordination period and thus the agreement of the participants on a specific product take a relatively long time and, thus, causes higher costs due to the tying up of resources. In a third phase of settling the contract, additional compromise costs may arise for some buyers. For example, individual customers may have to bear costs due to a compromise because the product received, which the participants in the group have agreed on, does not fully meet their expectations or specific needs. This equals an adjustment of the individual aspiration level. Costs arise primarily from the fact that customers give up their previously individual freedom of decision making in favor of a compromise within a group of customers with the aim of achieving a lower price. The supplier of a group purchase must therefore keep an eye on the bundling costs incurred by the customers in all three phases when designing offers or estimating them in advance in order to use group buying as a promising marketing approach.

Following these thoughts, in an overall benefit analysis from the customer's perspective, both the positive components, that is, the reduced price as transaction utility, and the negative components, that is, the customer's bundling costs, have to be taken into account. Economically speaking, thus, potential participants of a group purchase use the difference between the perceived individual utility out of the transaction and the perceived individual costs out of the bundling, the so-called perceived net utility (Plinke, 1997; Weiber & Kleinaltenkamp, 2013), as an assessment criterion in the context of their evaluation process about the offer's advantage. Hence, the perceived net utility decides as a necessary condition whether or not to buy a product within a group purchase, since the customer is usually only prepared to

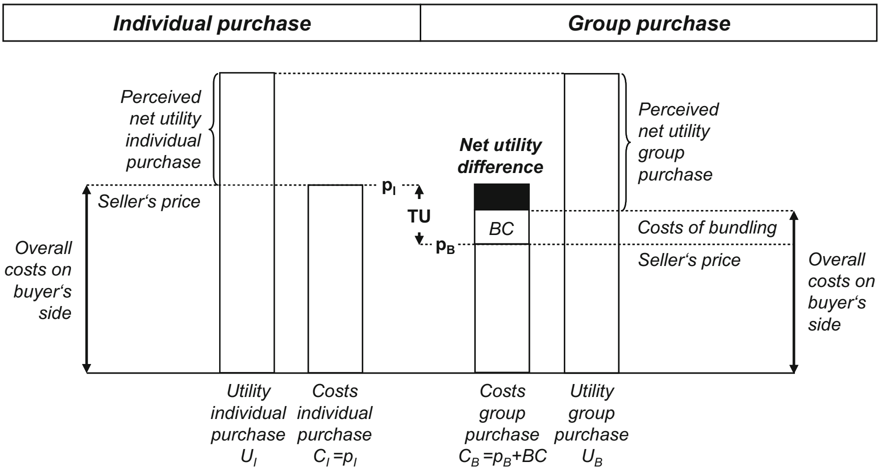

Fig. 3 Net utility difference between individual and group purchase

buy a product if the net utility is positive for him. In contrast, a perceived negative net utility would always result if the customer perceives the bundling costs arising from the group purchase offer as higher than the resulting utility. For example, due to the effort involved in travel and coordination and the time required for these activities. However, whether a buyer, based on the net utility perception, makes an individual purchase or joins a group ultimately depends on the comparison of the two net utilities of the purchase alternatives, that is, individual or group purchase.

Figure 3 shows an example of such net utility comparison for an individual buyer as sufficient criterion for buying within a group purchase. For reasons of simplification, we assume that both perceived utilities resulting from the product are the same. Hence, the utility for the product in the individual (U_I) and the group purchase (U_B) are independent of the purchasing alternative and thus have the same level (if no product modifications are applied in the group purchase). Moreover, the transaction costs of the individual purchase are also disregarded, for example, those arising from the collection of the goods. This causes no further problems, if these additional costs are comparable with parts of the transaction costs of the group purchase that do not represent specific bundling costs.

Thus, on the one hand, the price of the individual purchase (p_I) equals the costs of the customer (C_I). However, since the supplier grants a price discount for participating in the group purchase, it can be assumed that $p_B < p_I$. This price difference equals the initially perceived transaction utility $TU = p_I - p_B$. Nevertheless, on the other hand, the costs for the group purchase include not only the price of the product (p_B) but also the individual bundling costs (BC), which results in overall costs of the group purchase that equal $C_B = p_B + BC$. Hence, the perceived bundling costs reduce the initially perceived transaction utility since finally $TU = p_I - (p_B + BC)$. From an overall perspective, the customer now takes the perceived net utility difference for evaluating both purchasing alternatives into account. Figure 3 also displays the difference between both net utilities as black area. It reflects the relative advantage and thus the customer's preference, that is, his or her final choice (Backhaus & Voeth, 2014). Thus, the black area as net utility difference determines the level of advantage of the group purchase compared to the individual purchase, which is positive in Fig. 3. Assumingly, the customer is in favor of the group purchase. We define the net utility difference (NUD) for an assessment of group and individual purchase as follows:

$$\mathrm{NUD} = (U_B - C_B) - (U_I - C_I)$$

$$\leftrightarrow \mathrm{NUD} = (U_B - (p_B + BC)) - (U_I - C_I)$$

U_B = utility of group purchase
C_B = costs of group purchase
U_I = utility of individual purchase
C_I = costs of individual purchase (equals price pI)
p_B = price for the group purchase
BC = bundling costs

If $(U_B - C_B) < (U_I - C_I)$, assuming that $U_I - C_I > 0$, the right side of the equation, and thus the net utility difference, would result in a negative value. Hence, customers only consider participating in a group purchase, if the sum of bundling costs and reduced price of the group offer does not equal or is lower than the net utility of the individual purchase. At the same time, this highlights the importance of bundling costs: only if the perceived bundling costs of the participating customers are not too high, it is economically advantageous for a supplier in the commodity business to include group buying as a marketing approach. Thus, the customers' bundling costs have an important influence on the seller's own benefits when determining the group-buying modalities, especially when determining the price advantage for customers. In addition, this also shows that the supplier should analyze bundling costs on the demand side in more detail by making the resulting search, coordination, and compromise costs accessible for measurement. Otherwise, there is always a risk of not addressing all potential group-buying customers or not realizing the calculated sales volume, which would ultimately lead to profit losses.

In the marketing literature, conjoint analysis has proven to be a valid multivariate tool for measuring bundling costs (Klein, 2004). Conjoint analysis is an individual and indirect method of measurement of perceived utility that allows for analyzing part-worth utility values and, hence, different parts of the customer's perceived bundling costs. In addition, conjoint analysis has the advantage of better representing the customer's choice in the purchase process. That is, customers rather form global judgements about various alternatives than an evaluation of individual product or purchase process characteristics. Literature considers this as being more realistic, and it improves data quality. Moreover, conjoint analysis in general is able to measure the individual customer's willingness to pay in different purchasing processes by modeling various alternatives (Hair et al., 2018; Lilien et al., 2017; Malhotra & Das, 2019). To determine the individual's willingness to pay, it is necessary to include the price as a characteristic in the analysis. Method variants of classical conjoint analyses, such as hierarchical-individualized limit conjoint analysis (Voeth, 2000) or the adaptive choice-based conjoint analysis (Johnson & Orme, 2007; Orme, 2007; Orme & Johnson, 2008), have proven to be suitable for this purpose. Further, they were already used for the measurement of bundling costs. Based on such individual measurements, the supplier is able to optimize target prices and sales volumes, taking into account the company's cost situation. In addition, a measurement of the structure of the individual bundling costs carried out by means of conjoint analysis can be used to develop possibilities for reducing parts of them, or all bundling costs at the same time, to such an extent that additional customers participate in the group purchase and the bundling profit of the provider is thereby increased. To sum, the measurement of bundling costs significantly contributes to the successful use of group buying as a marketing approach for commodities.

4 Conclusion

Even if group buying as a marketing approach is not advantageous in all markets, there are numerous opportunities to use group purchases or variations of this approach for commodities due to their high degree of standardization. As explained, the central advantages on the market side lie, on the one hand, in a possible improvement of the seller's market position compared to relevant competitors. On the other hand, the expansion of the company's own production quantities and savings in marketing and distribution costs may also have a significant effect on the cost side. Soft factors include the chance to increase customer satisfaction, because customers perceive the company's pricing policy as innovative, appropriate, and fair. In addition, however, there are also risks, such as the initiation of a negative price spiral or the irritation of customers in the company's residual market, which can lead to a situation where group buying as marketing approach is not advisable. In order to be able to assess the economic advantageousness in detailed situations, it is necessary for the supplier to measure the perceived bundling costs of individual customers or on average within a specific market segment. Only if the supplier succeeds in determining the level and structure of the perceived bundling costs can he or she calculate the given price advantage and include it into considerations about his own profitability. On this basis, the company can then calculate further modalities in order to convince a sufficient amount of customers to participate in the offer.

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Commodities and Customer Loyalty: Squaring of the Circle?

Peter Billen, Tilmann Raff, and Craig Thorrold

1 The Importance of Customer Loyalty for Commodity Suppliers

"Be different!" This mantra is the law that a company's marketing strategy must follow. By differentiation from the competition, it is possible to build up preferences among customers in order to bind them to oneself (Kotler & Keller, 2012). In many markets, however, it appears that most companies do not pay enough attention to this motto. Service offerings are becoming increasingly similar. Product quality is becoming a matter of course, as there is a relatively standard quality level. Customers increasingly perceive the services as interchangeable. The interchangeability of brands across all industries is now 64% (BBDO, 2009). The consequences for the supplier side are correspondingly devastating. 77% of all brands are meaningless from the customer's point of view (Havas Media Group, 2019).

This chapter was originally published in German as Billen, P., & Raff, T. (2014). Kundenbindung bei Commodities—Die Quadratur des Kreises?, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_11

Due to the largely homogeneous technical status of the suppliers of commodities, objective performance characteristics are only a limited starting point for building competitive advantages. However, exchangeable service offers do not provide any indication of an independent company profile. Given the central decision criterion of the customer to choose a range of services which enables the highest possible benefit at the lowest possible cost (Weiber, 2006), the pricing policy for gaining competitive advantages must inevitably come to the fore. The lack of differentiation in commodities forces companies to use low prices as a sales argument (Enke et al., 2014). After all, customers have learned that they cannot do much wrong when buying and therefore focus on the price tags of the offers. The ruinous price competition that can currently be observed in many cases is an expression of this.

In addition, vagrant buying behaviour can be observed in markets with a high proportion of commodities (Meyer & Mattmüller, 1991). The perceived interchangeability of service offerings reduces the risk of a false purchase for the demand side, which promotes orientation towards the purchase price in the selection of offers and makes it easier to change suppliers. For the supplier, this results in negative effects on the profit situation. On the one hand, the acquisition of new customers becomes increasingly difficult and can only be achieved by making price concessions. On the other hand, there is a risk of losing customers if they encounter suppliers who sell the desired service at a lower price. It is immediately obvious that price concessions have a negative impact on company profits. Increasing customer loyalty increases the profitability of a company (Zeithaml et al., 2018; Kotler & Keller, 2012; Anderson et al., 1997; Reichheld, 1996). Thus, regular customers represent real earnings potential.

These considerations show that in order to achieve their goals, providers must primarily orientate themselves towards the criterion of effectiveness. Effectiveness refers to a behavioural programme aimed at creating customer benefits (Drucker, 1973). The preferability of a service offer results from a comparison of the cost–benefit ratio, which leads to customer preferences (Thibaut & Kelley, 1959). Customer preferences can be used to increase customer loyalty and thus avoid vagabonding buying behaviour. Customer loyalty and thus the management of existing customers should, therefore, take on a central role within companies' target system.

Against this background, the present contribution aims to examine whether it is at all possible to build customer loyalty in the commodity sectors. Neither the pricing policy instruments nor the core services of commodities should be the focus of attention, but rather measures that are suitable for differentiation without being exposed to ruinous competition. Beyond differentiation as the goal of marketing, however, the question of how customers, who in the original sense regard commodities as interchangeable, can be made aware that the range of services offered differs from that of the competition should also be investigated. In accordance with this objective, Sect. 2 first presents general possibilities for bonding in the exchange process and then examines their relevance for commodities, which leads to the identification of three central starting points for customer bonding. Building on this, Sect. 3 concretizes the findings by developing measures to increase customer loyalty to commodities for the individual starting points. The article concludes with a critical summary of the results.

2 Factors Influencing Customer Loyalty in the Commodity Sectors

2.1 Loyalty Factors According to Different Levels of the Buying Process

A buying process can be analytically broken down into three levels, namely the performance, information and transaction levels. This distinction makes sense because different factors influence buying behaviour at each level, so that influencing variables for customer loyalty can be derived (Adler, 2003).

The *service level*: The central motivation of a customer to carry out a purchase act is the acquisition of a service to satisfy needs. Customers will only make a purchase if they can achieve an improvement on their previous situation (Kotler & Keller, 2012). The benefit associated with the service must, therefore, exceed the costs incurred. The difference between benefits and costs is called net benefit (Zeithaml, 1988). In the context of the repurchase decision, the net benefit of the alternative currently in use can be used as a reference yardstick for assessing the purchase alternatives (Levy, 1992). This is immediately obvious, as the customer does not want to see the situation worsen in subsequent purchases compared to the previous situation. Against this background, a differential analysis is to be assumed, i.e. the current supplier is compared with subjectively relevant alternative suppliers. Net benefit is, therefore, not based on the absolute level of net benefit but on the subjective *net benefit difference* between the current supplier and alternative suppliers. The perceived net benefit of the previous purchase serves as a yardstick for assessing the attractiveness of potential alternatives. Empirical studies show that the willingness to change provider correlates positively with the attractiveness of alternatives and negatively with the global satisfaction with the current provider (Ping Jr, 1993).[1] According to this, it can be stated that customers do not necessarily make a new purchase because they are satisfied, but possibly because they are not aware of or do not have better alternatives (Thibaut & Kelley, 1959).

The *information level takes* into account the information and uncertainty problems in the buying process. Service offers are not bought because of their concrete performance characteristics, but because of their consequences (Peter & Olson, 2010). The so-called evaluative performance criteria, therefore, serve to check whether a service offer is able to meet existing needs. In theory of information, three types of qualities are distinguished. Search qualities can be assessed from the

[1] In the context of behavioural scientific analysis of the emergence of customer satisfaction, the confirmation-disconfirmation approach (CD paradigm), according to which customers compare their subjective expectations with the user experience, has become established (Oliver, 1981).

demand side by inspection before purchase (Nelson, 1970). Experience qualities, on the other hand, can only be assessed after the purchase of a service. Credence qualities cannot be assessed at all because either the relevant assessment know-how is lacking, or the assessment is associated with very high costs (Darby & Karni, 1973).

The uncertainty problem of buyers is also discussed in the context of the perceived risk. According to Bauer (1960) the perceived risk can be traced back to the fact that every action on the demand side is associated with consequences that cannot be anticipated with certainty in advance, some of which may be unpleasant. The perceived buying uncertainty is based on the risk of making a wrong decision, which ultimately leads to dissatisfaction on the part of the buyer. Problems in performance assessment increase the risk of making the wrong decision, as they limit the acquisition of product knowledge relevant to the decision. If negative deviations between expectations and experiences and thus dissatisfaction cannot be ruled out, the perceived uncertainty regarding undesired consequences of action increases (Halk, 1993). Purchase uncertainty results from imperfect information about the prices and/or quality of service offers (Hirshleifer & Riley, 1979). Although the purchase of a certain product is desired to satisfy a certain need, the customer doubts whether the assessed alternative offer is better suited to satisfy the need than the previously used service offer due to incomplete product knowledge, which increases the purchase uncertainty accordingly. The decision to repurchase is, therefore, influenced by the perceived uncertainty difference between the alternatives previously used and a “new” service offer. Thus, it can be stated that the experience with previous suppliers has an uncertainty reducing effect, because the experience has enabled the buyer to reduce his uncertainty with regard to search and experience qualities. In the case of an alternative provider, the customer can only assess search qualities of the offer with certainty. Against this background there will be a difference in uncertainty between the previous supplier and an alternative supplier.

The transaction level refers to the actual act of purchase, i.e. the exchange of service and payment. This exchange is associated with transaction costs, which include the costs of initiation, agreement, control and adaptation (Furobotn & Richter, 2005). In addition, transaction costs can be divided into sunk costs, running costs and direct switching costs. The decision to repurchase will depend on the amortization of specific investments and direct switching costs. The former express the difference between the amount of specific investment and the loss of value if specific resources are used differently. The specific investments can be attributed to several aspects, e.g. location specificity, specificity of physical assets, human-asset specificity, brand name capital (Williamson, 1991). Typically, the *amortization of the specific investment* plays a role in situations where a decision has to be taken to either reverse a chosen course of action, even though an investment has been made and has not yet been amortized by the return on that investment, or to maintain the chosen course of action and make further investments (Garland & Newport, 1991). The *direct switching costs* include the subjectively perceived costs incurred by a change of supplier (Heide & Weiss, 1995). A distinction must be made between additional costs resulting from the change (e.g. switching from standing orders when changing banking institution) and the so-called learning costs (e.g. different menu navigation for different software programmes) (Klemperer, 1995).

In summary, the willingness to repurchase a service offer will depend on whether the net benefit is greater than that of competing offers (net benefit difference) and whether the customer can assess the level of service with relatively greater certainty (uncertainty difference). In addition, the customer will take transaction costs into account in the purchase decision. In the following, we will examine the extent to which these loyalty factors are significant for commodities.

2.2 Analysis of the Relevance of the Loyalty Factors

At the *service level*, the focus is on the benefit of the service for the customer. The benefit of a service offer results from its performance capacity. Commodities are characterized by interchangeability. There are only few, if any, fundamental differences perceived between the various service offers (Ehrenberg et al., 1997). Furthermore, it can be stated that "(f)or many of these brands the advertising messages ... are fundamentally similar too" (Uncles et al., 1997, p. 12). The perceived performance and thus the benefits of the service offerings are more or less identical. For this reason, the activation of a need leads to the association of a number of supply alternatives which appear to customers to be suitable for fulfilling this need. This competitive situation can be illustrated graphically with the help of a spatial map. In a spatial map developed from the results of the analysis procedure called Multidimensional Scaling (MDS),[2] competing offers of commodities will be very close to one another (Fig. 1). This means that all providers offer an average performance and none of them can stand out from the competition. The short distances between items on the spatial map indicate that the intensity of competition is very high. There is no net benefit difference attributable to benefit components that would give an incentive to buy again.

On the *information level*, uncertainties are the main focus. However, if customers believe that the services offered are similar, they must subjectively feel able to assess the performance of an offer and thus to estimate the consequences (benefits) associated with a purchase. In the case of commodities, search qualities and experience qualities dominate from the point of view of the understanding of interchangeability. If search qualities are in the foreground, buyers are able to judge whether the services are interchangeable. This assessment also extends to experience qualities if the buyer has used service offers over time. The buyer learns from inspection and experience that the services offered in a sector are interchangeable. However, it also follows from this consideration that there can be no subjectively significant credence qualities in commodities. The customer cannot judge the credence qualities of the service offers. Neither can the buyer come to the overall conclusion that the services

[2] On this procedure, see Malhotra (2020).

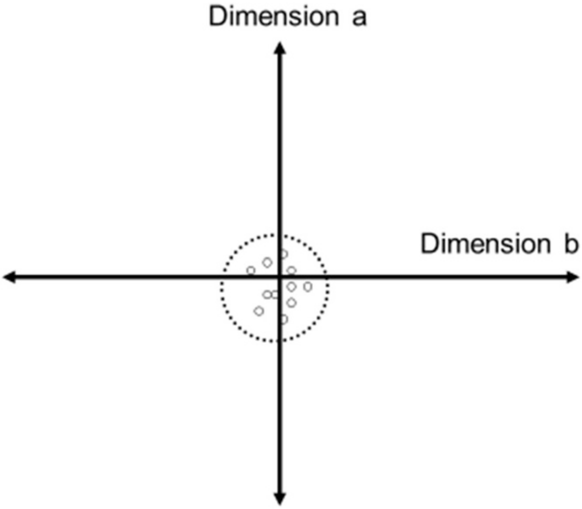


Fig. 1 Spatial map of a commodity provider

offered are interchangeable. The customer can only identify the advantages of a service offer if these service qualities can be assessed before buying or if experience potential can be drawn upon. Objectively speaking, this does not have to be the case, but it is not important for the uncertainty perception of the customer. The inability to assess alternative suppliers, from which the uncertainty in demand results, and which could discourage a change of supplier, will not exist in the case of commodities.

With regard to the *transaction level*, in the case of commodities the customer will always strive to avoid both direct switching costs and specific investments in order to avoid a loss of value of resources used. Since, in the buyer's view, competitors' services are interchangeable, unilateral disadvantages can in principle be avoided. According to the understanding of commodities, there are no product-technical or organizational reasons that lead to high transaction costs for the customer. Overall, *specific investments* in commodities thus remain rather low.

In the case of low specificity, transaction cost theory identifies the transaction form of the market as suitable (Williamson, 1985). Thus, in the case of commodities a close cooperation between supplier and buyer will be less frequent. The customer has no interest in such cooperation in the sense of a close business relationship which would be accompanied by a close customer relationship. The reason for this is the necessary expenditure or investment in the business relationship, which is not matched by a corresponding benefit. Consequently, from the point of view of commodity suppliers, customer loyalty management with the aim of differentiation from the competition will be more difficult.

2.3 Approaches to Differentiation

The focus of the *service level* is on customer satisfaction and the resulting net benefit. For commodities, as for almost every other service offering, the company is exposed to a competitive situation. Since suppliers of commodities are confronted with the problem that their offers are perceived as homogeneous, a tendency towards higher competitive pressure can be expected. This leads to two central considerations. On the one hand, commodity suppliers must always ensure that their services are consistent. What each supplier is able to provide from the point of view of demand is considered a "must". This is the level of service that the customer "simply" expects; failure to provide these service components will lead to great dissatisfaction among customers (Clemmer, 1990), which might directly result in migration. Satisfaction management is, therefore, a very important issue for commodities. On the other hand, suppliers should try to differentiate themselves from other suppliers by increasing the net benefit in order to avoid the perception of the interchangeability of their product.

The idea of counteracting the interchangeability of services by increasing net benefits can be extended to the *information level*. Buyers may think that they are able to assess the performance of commodities well, so that differences in the certainty of assessing the individual service offers are not perceived. From the supplier's point of view, it could now be a strategy to supplement the existing range of services with performance characteristics that are difficult to assess, which would increase the uncertainty of assessment. Uncertainty of judgement can be caused by the supplier if it succeeds in conveying to the customer that other service features are relevant. In addition to experience qualities, credence qualities are particularly suitable for this purpose due to their never-before-judged nature, for example, environmental friendliness (Hüser & Mühlenkamp, 1992). However, these measures, which serve to increase the relevance of experience and credence qualities, only make sense if the increase in uncertainty relates to the entire market—i.e. also to competing offers. Furthermore, the uncertainty of assessment represents a central obstacle to purchase (Kotler & Keller, 2012).[3] Therefore, if such a strategy is to be successful, the uncertainty regarding the supplier's own company must at the same time be reduced. The supplier must offer suitable uncertainty reduction strategies. With regard to the experience and credence qualities, the reputation building of a supplier is regarded as a suitable instrument (Shapiro, 1983a). If, however, this uncertainty reduction is not successful, the increased uncertainty of the buyer in terms of purchasing will have negative consequences on sales due to the emphasis on performance characteristics that are difficult or impossible to assess. This underlines the danger of such an approach.

At the *level of the transaction*, it was argued on the basis of transaction costs that differentiation from competitors in commodities is difficult. In the case of

[3] It was already shown in the 1960s that purchasing behaviour is influenced by the extent of perceived uncertainty (Juster, 1966).

exchangeable services, it can generally be assumed that transaction costs are rather low when changing suppliers. The customer is not subject to any obligation to commit to the provider in organizational or economic terms. Direct switching costs, location specificity, physical capital specificity, human capital specificity and specificity of dedicated physical assets will be low; otherwise there would be no interchangeability. In this way, customers will avoid transaction costs where they are bound by their own investments, as they fear losing these investments. The situation may be different, however, with regard to a psychological commitment.[4] Here the supplier has the possibility of unilateral differentiation—i.e. without any action on the part of the customer—from competing offers. In this way, the provider can invest unilaterally in the psychological bond with the customer. Brand management is an instrument for building a psychological bond. This can also lead to an increase in customer loyalty among the so-called fence sitters, i.e. those who are indifferent to the choice of brand (Aaker, 1996; Neal & Wurst, 2001). For the customer, the brand serves as an orientation in the buying process that simplifies the search for and evaluation of information as well as the decision-making process. Instead of comparing commodities on the basis of their qualities, which are in any case very similar from the subjective point of view, customers can orientate themselves by means of the overall quality communicated by the brand name. Thus, the brand name provides an additional benefit that could bind the customer. In contrast to investments in economic or organizational terms, the customer has no motivation to negatively sanction the development of a brand name. The customer will probably even evaluate this positively, as it confirms the choice of supplier and thus avoids cognitive dissonance (Festinger, 1957). For the customer, brand building does not represent a disadvantage. At a later stage, however, the benefit of a strong brand name may be a reason not to migrate to the competition. The brand then functions as a psychological barrier to change that initiates customer loyalty through trust and habit.

In summary, measures for customer retention can be derived from the three levels of the buying process for commodities. On the information level, satisfaction management, on the information level reputation building and on the transaction level brand management were identified as possible starting points. Since reputation building can be achieved through brand management, the two instruments will be discussed together in the following section (Fig. 2).

[4]For the various forms of loyalty, see Berry and Parasuraman (1991).

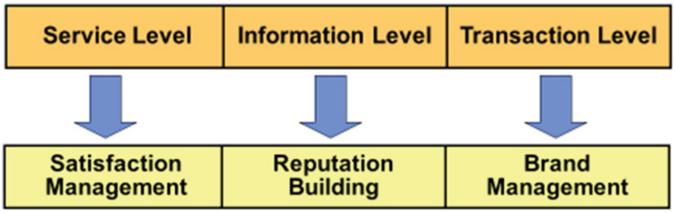


Fig. 2 Differentiation approaches according to performance, information and transaction level

3 Measures for Customer Retention in Commodities

3.1 Satisfaction Management as an Instrument of Customer Loyalty

3.1.1 Explanation of the Net Benefit Based on Satisfaction Models

The goals of a commodity provider—just like those of other companies—are both customer retention and the acquisition of new customers. However, this article focuses on customer retention. According to Homburg and Bruhn (2017), the probability of customer loyalty increases if the customer is satisfied with the services of the supplier. For this reason, satisfaction used to explain customer loyalty is of central importance.

In the following, satisfaction models are examined with regard to their central shared characteristics. The focus here is on those models that explicitly take into account the benefit effects of fulfilling the demands of the buyer. The previous explanations came to the conclusion that the benefits of commodities are identical due to the perceived interchangeability of the offers. If an increase in net benefit, which increases customer loyalty, is not to be achieved through price reductions, then the benefit component must be placed at the centre of considerations. From the satisfaction models presented, the relevant factors with regard to customer loyalty in commodities should be derived.

3.1.1.1 Brandt's Two-Factor Theory

Depending on the service component of an alternative, the target-performance comparison of the customer can lead to different results, i.e. satisfaction levels, which have corresponding consequences on the degree of customer loyalty. Herzberg (1959) first elaborated a differentiation of satisfaction components.[5]

Building on Herzberg's approach, Brandt's approach (1987, 1988) distinguishes two types of performance characteristics—penalty factors and reward factors. Properties "that address the minimal expectations and demands of customers"

[5]For criticism of this approach, see, e.g., King (1970), Lindsay et al. (1967), Matzler (1999), Neuberger (1974a, 1974b), Schneider and Locke (1971).

(Brandt 1987, p. 61) are called penalty factors. The absence of these attributes influences the perception of the customers in such a way that dissatisfaction on the part of the customer arises. An example of this may be baggage transport in the context of passenger transport by an airline. If the baggage appears on the carousel, this does not affect the level of customer satisfaction. However, if the luggage does not appear, dissatisfaction occurs. On the other hand, reward factors include such attributes, "that facilitate positive disconfirmation of customer expectations" (Brandt, 1987, p. 61). With such attributes an additional value is realized for the buyers. If these attributes are present, customer satisfaction can arise. Conversely, a lack of these performance attributes will not directly lead to dissatisfaction. For example, an airline's attention on the occasion of a passenger's birthday may lead to satisfaction. On the other hand, since the customer does not expect the airline to pay attention to passengers' birthdays, the lack of attention will not lead to dissatisfaction.

As with Herzberg, Brandt's satisfaction and dissatisfaction are, therefore, not to be seen as extreme points of a continuum—rather, the two factors lie on two different dimensions. However, a critical analysis shows that only a *rough systematization* of performance characteristics of a service offer is achieved. For a more precise systematization of the benefit elements, it makes sense to use the model of Kano et al. (1984).

3.1.1.2 The Kano Model for the Differentiation of Utility Elements

Kano et al. (1984) differentiate between three different types of requirements that buyers place on a service offer and that have a different influence on their level of satisfaction.

Must-Be Quality Elements are all services that are required by the customer. These are basic requirements which are taken for granted by the customer and are, therefore, not explicitly requested. These basic requirements must be fulfilled without fail, otherwise a customer will be extremely dissatisfied with the range of services. However, fulfilling the basic requirements can only prevent dissatisfaction. Such "simple" service features have a very basic character in the service provision process. Due to their fundamental character, basic requirements generate very little customer benefit.

One-Dimensional Quality Elements represent *performance requirements* that are explicitly demanded by customers. Failure to meet performance requirements leads to dissatisfaction, while meeting them generates moderate satisfaction. An increase in performance increases the level of satisfaction. According to this, there are other performance characteristics in addition to basic requirements, but these are more important from the customer's point of view. It can be assumed that performance requirements generate a low to medium customer benefit.

The third type of customer requirement, the *Attractive Quality Elements*, is *enthusiasm requirements*. These performance characteristics are not expected by the customer and, therefore, have a disproportionate influence on customer satisfaction. Enthusiasm requirements are to be understood as unexpressed wishes that are latently present in the customer and are, therefore, not (yet) articulated verbally

(Saatweber, 2011). The non-fulfilment of these requirements has no negative influence on satisfaction. A fulfilment of these only latently existing expectations causes high satisfaction and increases the degree of customer loyalty accordingly positively.

Depending on the type of customer requirements and the degree of fulfilment of the respective requirements, customer satisfaction or customer dissatisfaction can be generated, which accordingly influences the loyalty of customers to a provider. What is particularly positive about this approach is that it focuses on the *actual service elements*. This is target-oriented, as the concretely offered and perceived performance features generate the actual customer loyalty. Thus, the degree of effectiveness as well as the relative influence of individual measures on customer loyalty can be determined.

3.1.1.3 Influence of the Buyer's Involvement on Satisfaction

The target value is of particular importance for the satisfaction judgement, as it determines the expectations of the customer regarding a service. This is influenced by the involvement of the customer and the available knowledge.[6] Involvement refers to the commitment to decision-making with which the customer turns to an offer (Zaichkowsky, 1985). If the involvement is low, the customer behaves passively and is indifferent towards an offer. In addition to personality traits that vary greatly from customer to customer, involvement is influenced in particular by product involvement and brand involvement. Brand involvement expresses the interest in certain brands. In contrast, product involvement shows the interest in a certain product category. In addition to price, product involvement is determined by the perceived purchase risk, the social conspicuousness of the product and the perceived risks of product use. Product involvement has an emotional and a cognitive component. High cognitive involvement occurs when service offerings show strong differences from competing brands. Purchase risk is perceived in technical, functional or financial terms. A high level of emotional involvement, on the other hand, means that a customer hardly ever thinks about a service offer. Emotional involvement depends strongly on personal values and motives. For example, the purchase of jewellery is linked to personal desire.

Esch and Billen (1994) have developed a heuristic approach that allows for differentiated measures to manage customer satisfaction. This approach is based on product involvement, which can be of an emotional and/or cognitive nature. This approach seems to be appropriate for commodities. Brand involvement is unlikely to be present because of the interchangeable services of commodities—what should the preference for a brand be if all brands offer the same thing?

In the case of *low involvement*, average demands on service offerings can be assumed. The assessment is rather ad hoc and superficial. Although one can assume low expectations, this does not result in a correspondingly high level of satisfaction in the case of average or high objective product quality. The target-performance

[6]The influence of involvement on satisfaction was already shown in 1983 (Oliver & Bearden, 1983).

comparison on which the satisfaction judgement is based only functions to a limited extent with customers who are not very involved: with the exception of the minimum requirements, there are neither clearly defined target ideas nor a differentiated examination of expectations. It only counts whether the offer meets the minimum requirements. An over-fulfilment of the requirements may be perceived, but it is not positively evaluated due to a lack of interest. As a consequence, confirmation, i.e. “latent” satisfaction, can almost always be expected, regardless of the objective quality of the offers. Such customers must always be classified as potential supplier changers, as they either stay with the same product for convenience or switch to another supplier due to situational influences. Although the customers are not dissatisfied, it is questionable whether they will buy the same product again. Measures to increase customer satisfaction are unlikely to have much effect.

In the case of *high emotional involvement*, there are only a few alternatives that meet the customer’s requirements, so the “evoked set” is accordingly small. A limited number of characteristics play a role in the purchase of an offer, although there are clear ideas and high expectations with regard to these characteristics. Expectations of performance characteristics beyond these core features are rather diffuse. In the case of such customers, one can expect supplier loyalty and satisfaction. Due to the subjectively distorted perception caused by emotional influences, these customers fluctuate between two extremes: high satisfaction and absolute dissatisfaction. Great satisfaction arises because the target-performance comparison often takes place with a strong emotional emphasis and the fulfilment of expectations leads to corresponding satisfaction. On the other hand, absolute dissatisfaction arises because the non-fulfilment of expectations in the few, decisive characteristics can in no way be compensated for by other characteristics. Here, it is important to strengthen the purchase confirmation through targeted repurchase measures and thus increase satisfaction.

With *high cognitive involvement*, the customer makes a rational decision because he or she is intensively involved in the services offered. The number of relevant purchase decision criteria and the number of purchase alternatives considered are high. A high level of product knowledge can be assumed, which also affects the performance of the individual alternatives. From this, realistic expectations can be concluded. For example, the demands of a car expert are different from those of a novice with little interest in cars. Due to their strong product interest, car experts deal more intensively with cars and have more extensive knowledge about cars than other customers, which has a corresponding effect on the target expectations. The target-performance comparison is carried out for a large number of features. It is to be expected that the alternative should not fall short of expectations in any feature, because the customer is familiar with the current performance of the alternatives. However, even in the case of a confirmation, a repurchase can by no means be assumed, because an emotional bond to the alternative is missing. A customer who encounters an offer that promises higher satisfaction will switch to this offer. On the other hand, the pronounced product knowledge can also lead to supplier loyalty. This can be expected if the risk of changing supplier is perceived as high due to the knowledge of the complexity of the category of offer.

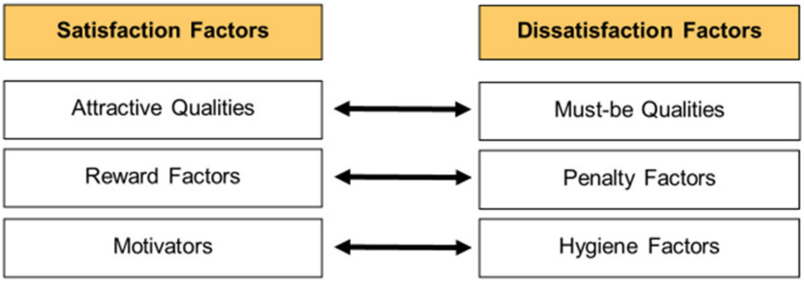


Fig. 3 Common features of the influencing factors in satisfaction research

3.1.2 Differentiation for Commodities Through Satisfaction Management

The comparison of the satisfaction models shows that there is general agreement with regard to the core concern of satisfaction research. On the one hand, there are extensive similarities regarding the enthusiasm characteristics of the Kano model, the reward factors and the motivators according to Herzberg. On the other hand, the basic requirements of the Kano model, the penalty factors and the hygiene factors are comparable according to Herzberg. The models of satisfaction research can thus be summarized in the core idea that in the subjective perception of customers there are *satisfaction factors*, on the one hand, and *dissatisfaction factors*, on the other hand (Fig. 3).

It should be obvious that commodities are characterized by basic needs. Commodity providers do not meet these requirements because the features that they all offer are no longer special from the customer's point of view. They are largely unsuitable for achieving a change of preference in a market. For the supplier side, it follows that basic requirements must be met, as otherwise customers will be dissatisfied with the service offer, regardless of which other service features are offered. Therefore, care must be taken to avoid any loss of quality. Failure to provide services would be directly punished with loss of customers, as it is associated with loss of benefits. Moreover, alternative providers are not far away. The quality management of suppliers must be geared towards standardizing production processes, quality specifications for the purchasing department and effective final inspection. However, these measures can only prevent dissatisfaction, but cannot generate customer satisfaction. These measures do not contribute to differentiation from competitors, as this level of performance is assumed as standard. For long-term market success the fulfilment of basic requirements is, therefore, not sufficient.

Differentiation from the competition is only possible by means of enthusiasm requirements, because their fulfilment or the offer of such performance features goes hand in hand with strong increases in benefits and allows a differentiation from the competition. Differentiation is possible for commodities by means of unexpected features (Levitt, 1980). However, the expectations of a service offer do not remain constant over time. The fulfilment of enthusiasm requirements, for example, usually leads to decreasing customer satisfaction after a certain period of time, so that such performance features mutate into basic requirements. The cause is a habituation effect due to the so-called homeostasis. This leads to demand inflation (Dichtl & Müller, 1986). The introduction of cash dispensers can be mentioned here as an example. At first, customers were surprised and enthusiastic: ATMs allowed cash to be dispensed even outside counter opening hours. Today this service is standard. Against this background, a company must constantly look for new ways to increase customer satisfaction or at least keep it constant. From the Kano model it can thus be concluded that suppliers must always offer their customers enthusiastic services in addition to the basic requirements if they want to operate successfully in the market in the long term. However, the wear and tear of the enthusiasm services over time must be taken into account by the supplier.

A particular challenge is likely to be the generation of enthusiasm among demand groups with high cognitive involvement. Due to their expert status, they tend to be demanding and positive surprises in the form of—unknown and unexpected—performance characteristics are likely to be rare. However, the existence of a situation of high cognitive involvement is unlikely in commodities.

With regard to the importance of satisfaction and dissatisfaction factors for customer loyalty, a differentiated consideration of commodities is necessary. If, on the one hand, commodities are regarded as interchangeable products, but, on the other hand, a differentiation from the competition is required, then a different understanding of the concept seems to exist, since services can either be interchangeable or differentiable, but not both at the same time. In spite of the apparent contradiction, both views are not incompatible. It is rather necessary to make a *procedural distinction* between commodities. Thus, commodities are interchangeable in the sense of their original characteristics from the customers' point of view. However, since commodity suppliers also have an interest in differentiation from their competitors, they will seek to promote the importance of performance characteristics that allow differentiation despite the original interchangeability. Nevertheless, since differentiation may not be sought or possible to the same extent for all commodities, those with extended service offerings *(extended commodities)* can be differentiated from commodities in the original sense *(pure commodities)*. For example, a differentiation can be achieved by offering green electricity to customers as a pure commodity. This transforms the service offer into an extended commodity.

If the objective of customer retention is pursued, the situation of low involvement can be assumed for pure commodities. The customers do not intensively deal with service offers either before or after the purchase. Commodity providers only have to make sure that the minimum requirements are met in the form of basic features. The occurrence of dissatisfaction factors would force a change of supplier. A concentration of the supplier on satisfaction factors would, therefore, be avoided for reasons of efficiency—unless a buffer is to be built up to compensate for a possible future non-performance of dissatisfaction factors. This idea actually falls short. As already described, there is a so-called latent satisfaction, which does not necessarily have to lead to repurchase. If an offer can be found which is "more convenient" to buy, the probability of switching is high. In this case, the recommendation can only be to encourage the customer not to take a closer look at the various offers, but to buy "tried and tested" products as a matter of habit. Of decisive importance here is the constant theming of the offer in order to create a certain familiarity with the product via the so-called mere exposure—effect (Esch & Billen, 1994). Against this background, in addition to constantly updating the range of products, a high degree of distribution and the avoidance of out-of-stock situations must be ensured. However, in this case an offer is not linked to concrete characteristics, which would ultimately not change the situation of perceived interchangeability. This is intended to make a service "top of mind", which leads to improvements in attitude. The topicality of the service has a positive influence on the attitude and choice of provider (Hoyer & Brown, 1990). In addition, the provider must fear that the competition for its part will try to exploit differentiation potential in order to entice customers away. In this case, a concentration on satisfaction factors—in addition to meeting the minimum requirements—is necessary to a much greater extent.

3.2 Reputation Building and Brand Management as an Instrument of Customer Loyalty

3.2.1 General Differentiation Through Reputation Building and Brand Management

If reputation is used as a decision-making aid in the purchase decision process, the customer is guided by his or her own experience gained in the course of using a service offering (Shapiro, 1983b). A customer who has not yet been able to collect quality information will use the experience reports of third parties (Rapold, 1988). Reputation is based on the *transfer of these past experiences* into future expectations (Shapiro, 1982; Teas & Agarwal, 2000). The buyer draws conclusions from the past actions of a provider about the provider's future behaviour (Simon, 1981). If the level of performance shown in the past is also expected in the future, then the past performance level serves as an indicator of the future performance level.[7] Accordingly, reputation is built up when a high quality of service is provided over a longer period of time and this positive assessment is passed on to other customers (Spremann, 1988).

If customers have a good opinion of a service offer, a high reputation exists, for which the term "goodwill" is used (von Ungern-Sternberg, 1984; von Weizsäcker, 1980). In theory of information, reputation is also referred to as trust capital (Kaas, 1990; Simon, 1985). A company possesses this capital if the majority of customers are convinced that the company has a high level of performance. For the previous level of performance, it can, therefore, be stated that a supplier will only have

[7] For example, samples of turkey meat from various suppliers were presented to test persons. The meat objectively had the same quality. The only difference was that the individual samples had two different supplier names. Brand A was known to the test persons, while brand B was unknown. It was found that 56% of the test persons preferred brand A meat. (Makens, 1965).

goodwill with the buyers if they were satisfied with the previous performance of the supplier, because the demands of the buyers with regard to search and experience qualities were fulfilled. Satisfaction requires high-quality services, because there is a positive correlation between the level of service and reputation.[8] Reputation is based on experience with the overall offer and not only on experience with a few service characteristics. Reputation is a variable that is able to bundle all or at least a large part of the performance characteristics relevant to the decision (Johansson, 1989). In analogy to attitude, reputation can be broken down into a cold, cognitive component and a warm, affectively dominated component (Schwaiger, 2004a).[9] In his reputation model, Schwaiger (2004b) assigns the terms sympathy, identification and attachment to the emotional component, while the cognitive component is characterized by competence, performance capacity and recognition of performance.

As has been shown, the positive effect of reputation is due to the fact that customers extrapolate from the positive experience with the performance of a supplier to the supplier's future behaviour. The performance expectations of the customer determine the subjectively assessed reputation of a supplier (Simon, 1981). "In this sense, reputation formation is a type of signaling activity: the quality of items produced in previous periods serves as a signal of the quality of those produced during the current period" (Shapiro, 1983a, pp. 659). Thus, a customer will assume that a supplier with high goodwill will continue to offer high quality in the future (von Weizsäcker, 1980), since the latter does not want to jeopardize the investments made in reputation building through poor performance.

However, a customer must also be able to identify a supplier with a good reputation. For this purpose, it is advisable to mark the offer. A brand is a name, sign or signal used to identify a service offer or an object of opinion (American Marketing Association). By means of this marking, service offers can be differentiated from competing offers (Blackett, 1989; Gotta, 1988).

The primary goal of brand policy is to make a range of services identifiable and thus stand out from the crowd (Domizlaff, 2005). The brand is a value indicator that reveals its various characteristics, i.e. the usage and affection value as well as individual value for the customer (Kapferer, 1992). In this respect, the brand assumes the function of a so-called information chunk, which represents not only a certain range of services, but all the impressions, feelings and positive and negative associations associated with it. It is a symbol for all perceived denotative and connotative performance characteristics (Hätty, 1989). Furthermore, a brand has a trust and security function (Farquhar, 1989). The customer can rely on a constant supply of services, resulting in a feeling of security in the variety of offers (Billen, 2003; Farquhar, 1989). This reduces the complexity of the decision-making process due to subjective brand enhancement. The latter leads to a brand being perceived as a

[8] A positive correlation between brand name and quality assessment has been proven several times (Rigaux-Bricmont, 1982; Stern, 1981; Raju, 1977).

[9] However, the consideration of emotional aspects goes beyond the theory of information.

better alternative in the competitive environment (Mayer & Mayer, 1987). The perceived higher benefit characterizes the utility function of a brand (Hätty, 1989).

However, the brand name can only develop its potential impact on the buying process if performance information is associated with it, which in turn is the basis for reputation. *Brand schemes* contain the characteristic performance features of alternatives and link them to their names (Hayes-Roth, 1977).[10] In the presence of brand schemes, the perception of a brand name triggers associations that have been stored by the customer on the basis of product experience and communication (Strassburger, 1991).[11] Empirical findings show that the brand name, or rather the reputation, is used especially by customers with product knowledge and experience (Bettman & Park, 1980; Jacoby et al., 1971; Raju, 1977).[12] In the case of established product groups, the number of such customers will be very large, so that the brand name functions as key information, i.e. as a "shorthand for quality" (Zeithaml, 1987, p. 9).

Thus, the value of a brand name results not only from the brand's familiarity but also from the brand image—i.e. from what is associated with the brand in terms of content. These associations must fulfil certain conditions in order to have a positive influence on the value of the brand. They should apply as little as possible to other brands (uniqueness) and should be of great importance from the point of view of the customer (advantageousness). In addition, there should be strong associations with the brand, because the stronger the association, the more likely it is to be remembered (Keller, 1993). With commodities, the image dimensions are the same for all brands. This means that they are minimum requirements on the demand side for the acceptance of brands, so they do not represent a special feature for a particular brand.

Based on the positioning in the spatial map, two measures for changing the image position are suitable in order to achieve a differentiation with regard to central positioning dimensions vis-à-vis competitors:

- Increasing the level of performance of the offer in one or more assessment dimensions: This offers the possibility to leave the position in the average range. First of all, however, it would be necessary to ask about the satisfaction of the customers. If the requirements of the customers are met, an increase in the level of performance is not very promising. An improvement in the so-called performance requirements only brings a moderate increase in customer satisfaction. The net benefit increases without being of particular relevance to the

[10] The associative learning of performance characteristics of individual brands forms the basis for the development of a brand equity (Keller, 1993).

[11] If brand knowledge is based on personal and external experience, which is the basis for reputation, then it can be concluded that the brand name is also associated with the specific reputation that an alternative is entitled to in the subjective assessment of the customer.

[12] For example, in the case of frequent product purchase or high product familiarity, price information has little influence on the quality judgement (Gerstner, 1985; Olson, 1977; Raju, 1977; Rao & Monroe, 1989; Venkataraman, 1981).

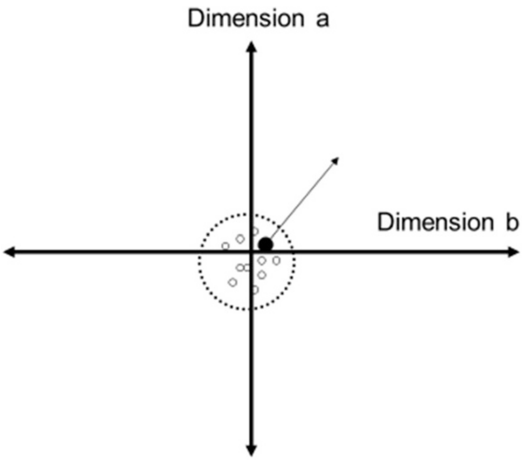


Fig. 4 Change in the positioning of a commodity provider within the spatial map

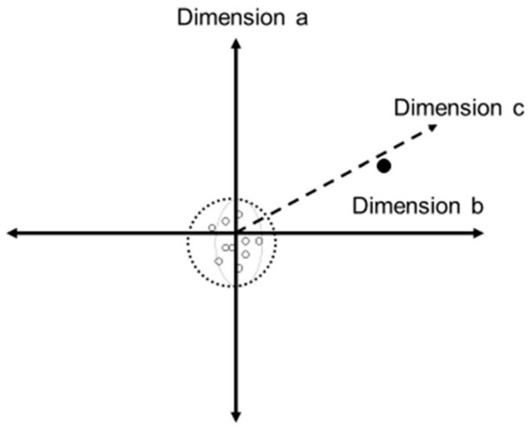
customers. Only in the case of dissatisfaction would the increase in performance be perceived as an improvement. However, it is more likely that the requirements of the customers are met and that a similar level of satisfaction exists among all suppliers. The situation of interchangeability arises over time, when the marketing activities of the suppliers align themselves in orientation to the customer needs (Fig. 4).[13]

- Changing the perceptual space of the buyers by integrating a new assessment dimension (positioning): The unique position of the provider is based on the provider's own image dimension, so that there would no longer be a common spatial map of the service offers. This procedure seems to be promising and is particularly suitable if the position of the "best" brand is already occupied and a profiling with established characteristics would appear to have little prospect of success. The idea of a common, uniform image feature space for all brands is not compatible with the low-involvement reality of buying behaviour (Trommsdorff, 2008). In order to increase the perceived net benefit of the customer, however, the supplier must ensure that image dimensions relevant to purchasing are focused on. This is where the performance characteristics described by Kano et al. (1984) as enthusiasm requirements come into play, which "slumber" unarticulated in the customer. In addition, however, cross-connections must be taken into account, i.e. the extent to which one image component affects the buying intention of another brand (Rother & Link, 1994).

The question arises as to which characteristics should be used for positioning. For before attempting to realize a competitive advantage with the help of pricing policy,

[13] Buyers perceive this functional interchangeability (Hildmann, 1991).

Fig. 5 Change in the spatial map



a provider should first examine whether and to what extent it is possible to transform pure commodities into extended commodities (Fig. 5).

A change in the position of a brand can be made quality-oriented-physically or communication-oriented-psychically. In the former case, the brand characteristics behind the image dimensions are changed, but this presupposes that the physical product variation is also perceived, which is by no means certain due to the low product involvement of the buyers. In the second case, impressions of a brand are changed with the help of communication policy, but without an objective product variation (Trommsdorff, 2008). Due to increasing technical product homogenization, the importance of psychological product differentiation is growing. One can also speak of brand experience positioning (Weinberg & Diehl, 2005). For example, the positioning of Marlboro was a matter of psychological differentiation. The cowboy world conveyed the experience of "adventure and freedom". The definition of positioning goals can refer to emotional or factual performance characteristics. The involvement of the relevant demand group(s) can serve as a benchmark for positioning goals.

With low involvement, there is no interest in a product category, so that only an offer thematization can be considered to ensure that the offer is up-to-date. In contrast, with high emotional involvement, the aim is to convey experiences, as they are centrally connected with emotions. In the case of high cognitive involvement, interest in product information is high and customers actively collect information about performance features. A property-oriented positioning is suitable.

3.2.2 Differentiation for Commodities Through Reputation Building and Brand Management

With regard to differentiation, brand management also plays a central role in commodities (Leischnig & Geigenmüller, 2011). As described above, the mere fulfilment of basic requirements does not lead to satisfaction with the service offering. Moreover, commodity suppliers cannot have a high reputation either, as they do not offer anything outstanding from the demand side. A service offer that has only a low level of goodwill is also correspondingly worth little to buyers (Esch, 1993). In contrast, a high brand value is an indicator for a high appreciation of a certain brand (Bekmeier, 1994). However, goodwill is very important for customer loyalty, as both values correlate positively (Crimmins, 1992).

The value of a brand is based in particular on what customers know about the brand in question. This brand knowledge can be captured through brand awareness and brand image, which are the associations with the brand (Keller, 1993). For commodities, brand awareness can tend to be assumed. On the other hand, deficits can be identified with regard to the brand image. Due to their averageness they are perceived as interchangeable. There is no unique position in the psyche of customers (Domizlaff, 2005), which means that all commodity suppliers will have a similar reputation. Commodities have hardly any goodwill with the customer, which has a correspondingly negative effect on customer loyalty.

For suppliers, this implies the need to change their brand image in order to differentiate themselves from their competitors (Rother & Link, 1994). However, it is difficult to build up a reputation for such services (Schwaiger, 2004b). Kroeber-Riel (1984) already saw the greatest opportunity for differentiation from the competition in the 1980s in an emotionalization of service offers through experience-based marketing strategies. In this process, an additional benefit is associated with the brand over and above the original product benefit in order to differentiate the brand from the competition. The service offers are given an eventful symbolic content (Weinberg, 1992). The Marlboro Cowboy World (cigarettes) is one example of a perceptible profiling through the communication of emotional experiences.

If, in the case of commodities, a *change in positioning within the spatial map* or a *change in the spatial map* is sought, then the range of services offered will change over time. Such a process-related change implies that commodities have to be differentiated according to different phases of the service offer. On the one hand, there is an early phase of the service offer in which a commodity is considered interchangeable by the customers *(unmarked commodity)*. On the other hand, after successful brand management, in a later phase the commodity will be able to free itself from the problem of lack of differentiation *(marked commodity)*.

The particular challenge of a commodity provider in the context of brand management is the difficulty in dissuading customers from the existing perception of interchangeability. Differentiation from the competition requires differentiation advantages. In the case of commodities, however, these may not lie in the core product, but exclusively in the area of so-called additional benefits. In this context, the feature of competitive differentiation must be capable of generating a subjective added value. With regard to the objective-technical performance characteristics, there will generally be few differences in commodities. Thus, it will tend to be difficult to establish new dimensions in the perception space. However, there are exceptions—for example, the detergent Persil, which was the first to use the phosphate-free nature of its product for differentiation, thus adding the dimension "environmental friendliness" to the spatial map for detergents. As a rule, however, cognitive associations will be less available for differentiation with commodities than with other goods. Thus, it can also be observed that commodity suppliers try to achieve a unique positioning with customers, especially through *emotional associations*. Emotional positioning is suggested as the "silver bullet" for interchangeable products. Information about mature service offers is trivial and does not promote sales. Buyers' interest in product information is low. Thus, positioning should be based on emotional characteristics, which generates additional benefits beyond the basic factual benefit. The aim must be that a commodity triggers feelings and emotions in the relevant customer groups. The particular advantage of experience positioning is that it makes it much harder for the competition to imitate the supplier. In the case of experience-based positioning, the greatest differences are perceived in individual product areas (Biel, 1992). A US study supports these statements. Increased advertising pressure only leads to increased sales of brands in saturated markets in the case of commercials with emotional content (MacInnis et al., 2002, quoted after Esch, 2018). In the case of emotional positioning, the emotional involvement of the customer increases. Against this background, a high level of emotional involvement can be found in product categories in which there is little or no difference between the offers in terms of specific performance features. Overall, the same emotions are very often used in the context of brand management for commodities, so that again no unique positioning in the spatial map can be achieved. If the implementation of an independent positioning concept is not possible, there is also the chance to develop an independent communicative implementation of the positioning concept in order to distinguish oneself (Esch, 1992). In addition, it is necessary to strengthen the emotions that the customer associates with the offer by means of coordinated follow-up purchase measures. This creates "psychological barriers to exit", which increases customer loyalty and immunizes against competitors' poaching campaigns. One measure could, for example, be the creation of a "we-feeling" in order to distinguish oneself from other demand groups. This we-feeling could be built up through special customer events. In addition, advertising must continuously convey the emotional core contents of the offer (Esch & Billen, 1994).

In addition, increasing *awareness of the commodity* through a high repetition rate of the communication measures is of great importance. However, it should be stressed that the chances of success for the latter measures will be lower. It is true that commodities are likely to have a low product involvement, which suggests a positioning through topicality. However, the situation of interchangeability would not change.

3.2.3 Efficient Differentiation for Commodities in the Case of International Marketing

In an international context, efficient marketing is achieved through standardization. Although there are good reasons for a standardized approach (Levitt, 1983), targeted positioning can often be better achieved with a strategy of "adaptation" (Shoham, 1995, 2003). In contrast, stock costs' reduction and easier planning and control, but also reasons such as economies of scale in production, research and development and promotion, global uniformity and image, consistency with the mobile customer and synergetic and transferable experience are mentioned (Vrontis et al., 2009). Although the international standardization of brand strategy should lead to consistent brand meanings, the same customers may have different brand meanings when they purchase a service abroad (Bengtsson et al., 2010). Standardization can also be problematic if different customers from different cultures are involved. For example, members of different cultures may have different strong brand emotions (Jakubanecs et al., 2019).

For pure commodities, a higher potential for standardization can be assumed, as there is hardly any difference in the core product. However, the decision on standardization in different countries is not an either-or decision, but rather a question of the degree of standardization. One way of determining a compromise between standardized and non-standardized approaches is to group the country markets into homogeneous country markets.

The aim must, therefore, be to group countries with similar characteristics. The so-called *grouping procedures* help here (Backhaus et al., 2003). A grouping of country markets makes it possible to judge in which countries similarities can be expected, so that no major adjustment of the marketing concept would be necessary.

The clustering of country markets is based on characteristics that allow similarities between countries to be identified. An important clustering criterion is behavioural relevance (Freter, 2008). For the internationalization of the marketing of service offers, cultural differences between different countries must be taken into account in particular (Homburg, 2020). Cultural similarities indicate that customers in the respective countries react similarly to a marketing concept. “The dimensions of culture include values and attitudes, which are shared beliefs or norms that individuals have internalised” (Cavusgil et al., 2020, p. 119). Culture shapes our behaviour from everyday habits to ideological attitudes. Culture determines which behaviour is accepted in an individual’s environment.

A standardization of brand positioning only seems appropriate if the attitudes and values of the target groups are similar in the respective country markets. However, depending on the product category, homogenization of markets can be observed, e.g. in fashion or cars. Nevertheless, country-specific conditions still exist for food, beverages, household and personal care products (Homburg, 2020). Depending on cultural characteristics, communication strategies can also be more or less standardized. In this paper, the extent to which the communication message is standardized must be mentioned here.

The requirement to match the cultural fit of the brand with the foreign market implies two fundamental problem areas. Firstly, the foreign markets must be assessed in terms of their culture. Then, the culture-related characteristics of the brand perceived by the customers must also be described.

A concept for describing the cultures of different countries, which is also suitable for explaining consumer behaviour and brand management, was developed by Hofstede (de Mooij & Hofstede, 2011). According to his comprehensive studies, countries can be described by their similarity to other countries in terms of one or more of these cultural dimensions. Hofstede (1984) first distinguishes the following cultural dimensions:

- *Power distance: This expresses the extent to which an unequal distribution of power in a society is accepted or expected. A high power distance thus implies that an unequal distribution of power in a society is accepted or even expected.*
- *Individualism/collectivism: These describe the extent to which a member of society is bound to other members or is integrated into groups.*
- *Masculinity/Femininity: According to Hofstede, masculinity describes a society characterized by a strong gender role distribution. While men are supposed to be more materially oriented, for example, women are more sensitive. In a feminine society, on the other hand, the roles of the sexes overlap to a greater extent or feminine values are at least not judged to be inferior.*
- *Uncertainty avoidance: It refers to the extent to which members of a society feel threatened by uncertain and unknown situations.*
- *Long-term and short-term orientation: Long-term orientation is demonstrated by, among other things, a high degree of persistence in pursuing goals and a high savings rate, as well as a ranking based on status.*

A sixth cultural dimension was introduced at a later date—Indulgence versus Restraint (Hofstede et al., 2010). "Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms" (Hofstede Insights, n.d.).

One method that can use all the available characteristics simultaneously to form groups is cluster analysis (Malhotra, 2020). The goal of cluster analysis is to identify homogeneous subsets of objects; i.e., cluster analysis creates groups. Within a group, the associated elements are very similar; however, they differ significantly from other groups. Raff and Billen (2004) used this analysis method to group country markets based on cultural similarities. The cluster analysis was conducted for the 18 countries for which all five dimensions were originally surveyed. The following dendrogram shows the result of this cluster analysis.

The cluster analysis could indicate a six-cluster solution, because the sum of error squares increases significantly with the next fusion step. According to these results, the Netherlands and Sweden, for example, would be characterized by cultural similarity. However, if a higher degree of standardization is sought in order to achieve greater efficiency, the two-cluster solution would be preferable. In addition to this finding, the results of the first merger steps are particularly interesting with regard to internationalization. For example, with regard to the cultural characteristics under consideration, the viability of the market should not be assessed in isolation for Taiwan, but against the background of an option of internationalization in the geographically close countries of South Korea and Thailand (Fig. 6).

While a very high degree of standardization may still be possible for pure commodities, a lower degree of standardization is desirable for extended commodities. This can be justified by the fact that the extensions may relate to

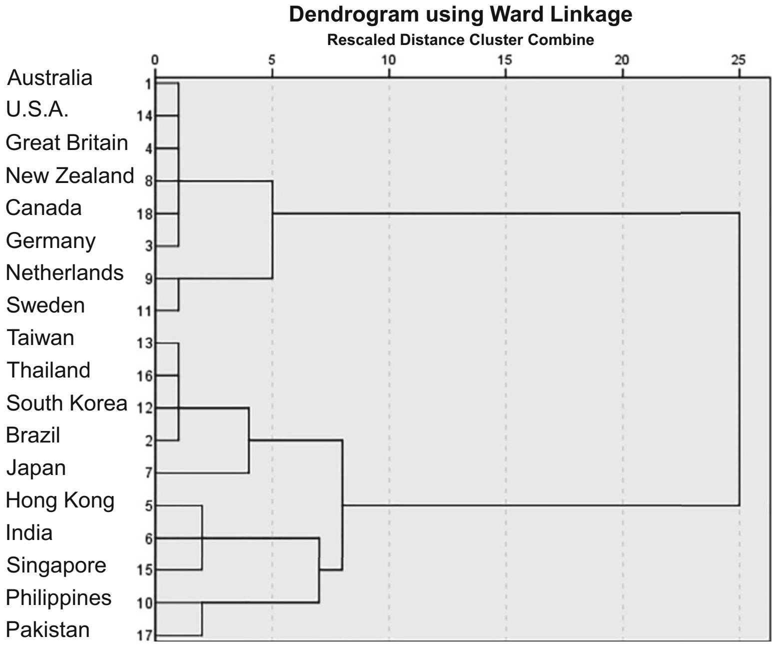


Fig. 6 Cluster analysis for grouping based on the five cultural dimensions (based on Raff & Billen, 2004, p. 166)

performance characteristics which have a different relevance in different countries. This may be illustrated by the above example of the extension of the service offer of an electricity supplier. For example, the supply of green electricity will be differently suited to different countries due to the different perceived importance of green electricity generation, and it will require appropriate labelling. The change in the area of perception should be based on the relevant positioning dimensions in the respective countries, so that no standardization can take place. However, in order to be able to implement an efficient procedure for commodity suppliers, the above-mentioned grouping of country markets can serve as a basis for standardization for each country cluster. In doing so, criteria should be used that go beyond the cultural dimensions and are suitable for the respective sector with regard to the creation of extended commodities. The challenge for commodity providers is to identify possible additional benefits in the targeted country markets, in particular emotional associations, which can be used to enable a country grouping. This in turn should be used to strive for a standardized spatial map in the country clusters and thus create marked commodities.

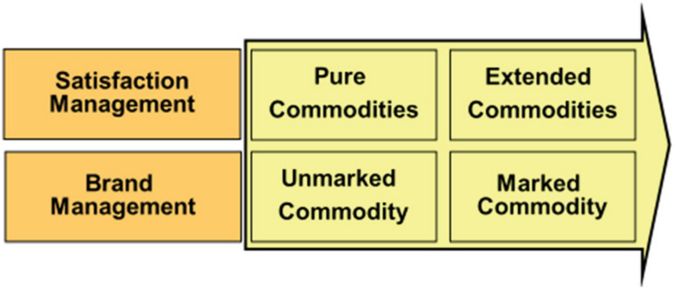


Fig. 7 Effect of differentiation measures on commodities

4 Non-Price Competition as an Alternative for the Commodity Supplier

Against the background of the understanding of commodities as interchangeable service offers, the question arose whether customer loyalty is not equivalent to squaring the circle. After all, customer loyalty is based on performance-based incentives to repurchase. Providers of commodities have the opportunity to differentiate themselves in terms of building customer loyalty by taking measures of satisfaction management and reputation or brand building. On the basis of the measures described, service offers are changed in such a way that an expansion from the demand perspective takes place in the direction of an expanded and marked commodity. In fact, a process-related development of the performance characteristics of the service offers, originally defined as pure and unmarked commodities, must be established. Accordingly, there is no squaring of the circle, but rather a differentiation from the competition over time, whereby the position of pure and unmarked commodities is abandoned (Fig. 7).

The appropriacy of the term commodity might be questioned, but it is immediately obvious that a differentiation strategy can be useful in the situation of pure commodities. For customer loyalty, this is virtually mandatory. Against this background of the difficulties outlined above with regard to differentiation, there is a need for further research in the identification of indicators of when non-price competition is successful for a commodity provider.

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Updates on the Connection Between Customer Relationship Management and Commoditization

Gustavo Martinez-Lira and Martin Reimann

1 Introduction: Commoditization and CRM as an Alternative for Differentiation

There are different perspectives and concepts regarding commoditization. In practical terms, a commodity is a product that cannot be differentiated among competitors. However, for authors like Levitt (1980), "There is no such thing as a commodity" (p. 1). When product differentiation is not feasible, there are other approaches to advancing differentiation and customer intimacy and customer relationship management (CRM) is an option that offers great potential. Most customers make purchase decisions based not on price but quality and service (Forsyth et al., 2000), but this decision is based only on price when considering commodities. From an industry view, commoditization is a condition in which a specific industry is stable, the product is homogenous, customers are price-sensitive, and any attending costs for customers to change suppliers are relatively low (Reimann et al., 2010a). Commoditization can occur in different industries to a higher or lower extent, as competing by-product is a strategy that can be easily replicated; once a firm has a unique product, it is only a matter of time before a competitor offers its equivalent. The identification of successful approaches for competing when an industry becomes more commoditized is critical for every organization. Day (2011) revealed the evolution of competence in the markets using the example of the mobile phone industry. In ten years, mobile service providers developed and implemented micro-segmentation, creating hundreds of offers for customers, increasing the number of

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_12

distribution channels, and tailoring pricing plans that exceeded 500,000 per firm (Day, 2011).

In highly commoditized industries, there are some alternatives for differentiation. Innovation is one way to escape from commoditization and price wars (Tournois, 2016). By applying innovation to product design, a firm can move from a low price to a premium price. Innovation allows firms to find and serve niche segments. Organizations can explore new market territories by expanding their value propositions and identifying previously untapped customer segments.

Let us consider "Grupo PROAN," a Mexican enterprise that is famous for its egg brand "San Juan." Mexico is the leading egg consumer worldwide, consuming 360 eggs per capita or 22 kg a year (Anderson, 2017). Grupo PROAN owns 25% of the market share. PROAN has differentiated itself from competitors in multiple ways (PROAN, n.d.). First, leveraging contemporary technology, PROAN created an app that reads a stamp on each egg, enabling the customer to track the journey of the egg that is about to be eaten, and learn precisely which hen laid the egg, on which farm, and at what time. Second, PROAN has increased its customer base with the added value of the flagship products. They began producing boiled eggs (Huevocados), egg whites in Tetrapacks, liquid eggs, and albumin (for which Japan is one of the main destinations). Third, PROAN diversified its value proposition by taking advantage of its facilities and channel distribution for the production and distribution of pig meat, milk, and frozen bakery products.

In a highly commoditized industry, one recommended strategy is to move from product to service-based value propositions (Matthyssens & Vandenbempt, 2008). As a global tire provider, Michelin is challenged by product commoditization with intensive competition. The company not only provides its customers a product, but also a service solution (Palmatier & Steinhoff, 2019). The enterprise launched Michelin Fleet Solutions for large European transportation companies. With this solution, customers get three- to five-year agreements for their fleets and vehicles; they sell by kilometers instead of tires. This service offers a better deal, while also lowering administrative effort for customers (Wolfgang Ulaga, 2013). Michelin also created a Digital Service Platform (DSP) that allows its fleet customers to access services such as mechanical repair. DSP connects customers and providers, avoiding administrative inefficiencies (Gupta & Godwin, 2020). Michelin's strategy in 2017 was to diversify its business to non-tire areas and focused on four areas: tires, experiences, services and solutions, and high-tech materials. Michelin transformed its value proposition from a tire company to a mobility company that is truly customer-centric (Gupta & Godwin, 2020).

As demonstrated by the above examples, applying innovation and moving from product to service-based value propositions offers an excellent opportunity for CRM in industries with high commoditization levels. The results of commoditization, globalization, and market saturation demand that firms increase customer loyalty (Mascarenhas et al., 2006). The impact of the challenges of commoditization on performance is even higher for organizations in highly commoditized industries in comparison to industries of low commoditization (Reimann et al., 2010a). As a product becomes more homogeneous, firms can strategize to advance and expand customer relationships as a source of differentiation (Johnson et al., 2006).

There are four distinctive aspects of commoditization, and CRM can strategically address each one, as described below.

1.1 Product Homogeneity

Customers often perceive no difference in the same products provided by different competitors, so the market conceives such products as interchangeable (Bakos, 1997; Greenstein, 2004). Lumber, plywood, wood chips, and logs are examples of commodity-like products that are practically identical in quality and performance to those of competitors (Narver & Slater, 1990).

Levitt (1980) explains that a product can be developed in four different degrees, including the generic product, the expected product, the augmented product, and the potential product. A generic product is the rudimentary version of a product; it is similar to a commodity, without difference between competitors, a simple credit card, no matter the bank or steel, no matter the provider. An expected product complies with the minimal customer expectations and can include some kind of service added to the product. An augmented product is above customers' expectations. This requires that a firm obtain specific customer knowledge to offer something the customer has not even imagined. CRM provides a process for gaining customer insights and converting a generic product into an augmented one. Moving from a generic product to a higher version requires skills in new product development. CRM is an essential catalyzer of new product development, as it provides customer knowledge to analyze to spur the development of new product design (Ramaswami et al., 2009). Consider "Grupo Hidrosina" (*Corporativo | Grupo Gasolinero*, n.d.), an important gasoline provider in Mexico, with more than 200 gas stations in 24 states in the country, serving more than 100 thousand vehicles in than 4 million visits per month *(Caso de Éxito*, n.d.). Hidrosina is a leader in the design and implementation of customer payment methods, having collected customer needs and government requirements to create valuable service solutions for its customers. Hidrosina offers different payment cards that allow companies to control expenses and for individuals to avoid using cash.

1.2 Price Sensitivity

Customers are sensitive to price in highly commoditized industries because differences among competitors are not perceived. Companies must avoid price wars, which negatively affect them, reducing margins and customer equity, as well as stifling space for innovation (Heil & Helsen, 2001). Price wars represent the most dangerous risk in highly commoditized environments. Firms should prepare in advance to avoid entering into a price war. The development of service that is based on customer knowledge produces invaluable differentiation that is worthy of a higher price. Identification of customers, segmentation, and effective one-on-one interaction leads to product personalization that allows for a higher price. Consider "Grupo Financiero Bital," a local bank in Mexico (Berg & Marcus, 2002) that later became "HSBC Mexico" (Business Wire, 2005). In a time when Mexican retail banks had entered into a price war, lowering fees for checking accounts or annual membership fees for credit cards, Bital initiated a CRM program, personalizing the service and product features for its customers. Bital did not compete on the basis of price, but through differentiation, by leveraging customer knowledge. HSBC Mexico changed the rules of the market, positioning itself as a convenient bank, with local strategies dependent on the actual feedback and insights of the local market and approaching customers one by one.

1.3 Switching Costs

Switching costs are generated to a customer when she or he decides to change providers. Switching costs represents a combination of buyers' economic risk, evaluation, learning, set-up, benefit loss, monetary loss, personal relationship loss, and brand relationship loss costs (Burnham et al., 2003). Switching costs is described as being low-risk, low-effort in commoditized markets (Reimann et al., 2010a). When commoditization in an industry is high, customers can easily change providers, as the effort to do so is low. Quantifiable resources implied in the decision are also low, and breaking the current relationship to start a new one is expedient. Firms can create entry barriers for new competitors trying to enter into the industry and output barriers to prevent customer attrition. By building strong one-on-one relationships with customers, firms can raise the perceived cost of its customers' departure. CRM allows the firms to move quickly in building a relationship learning curve, one customer at a time, which establishes customer loyalty. By developing such relationships, generating a new relationship with a different provider will be perceived as a cost that is higher than that of monetary considerations for the customer. Consider "Nacional Monte de Piedad" (*Nacional Monte de Piedad,* n.d.), a private organization that offers social financing through pledge loans in Mexico, with more than 300 branches across the country serving more than 37,000 customers per day *(Así se vive el negocio prendario de Nacional Monte de Piedad*, 2019). With customers that have different options from competitors and with low cost to switch, Nacional Monte de Piedad started a CRM program to track customer interaction, starting from the prospecting phase through the repayment phase, the company implemented an expedient digital customer interface, loyalty programs, and customized conditions depending on payment behavior. As a result of this CRM implementation, Nacional Monte de Piedad improved its customer retention rate in 20% (*Rhino Systems | Nacional Monte de Piedad*, n.d.).

1.4 Industry Stability

Industry stability comprises predictable market demand, a consistent competitive structure, and few changes in the set of customers (Day & Wensley, 1983). Competition intensifies when the market ceases to grow. Under such conditions of intense competition, it is essential for firms to strengthen customer orientation (Theodosiou et al., 2012). Firms must go deeper into relationship-building with current customers, making segmentation by customer value fundamental. Competitors are not after your unprofitable customers but will try to get your most valuable customers. CRM allows firms to segment current customers based on value (current and potential) and on expressed needs, interacting in an efficient way with them. Most valuable customers receive special attention. Some firms have created special business processes, product conditions, and even a special brand for their most valuable customers based on insights provided by CRM. CRM processes enable firms to identify and focus on market niches or even find new potential customers. Let us consider "Grupo Urrea," a Mexican firm that provides "Total Solution in Tools and Locksmithing" (*Nosotros, Grupo Urrea*, n.d.). Alfonso Urrea Carroll, the second CEO of the company, said, "If we compete on price, there will always be someone who produces cheaper. But good quality is hard to match" (Martin, 2020). In a very stable industry, Grupo Urrea chose to focus on meeting customer needs. They increased the number of products from 1000 to more than 15,000 in a few decades. In addition to having distributors, Grupo Urrea also developed specialty stores to provide customers with a complete solution, creating three separate brands to serve different customer segments. Their value proposition to their customers is to offer all the tools and hardware products they need to complete a task in a simpler, faster, and safer way.

Other cases of firms in highly commoditized industries that built strong customer relationships are described in previous research. Forsyth et al. (2000) describe the case of a resin manufacturer that had long sold its products without engaging in systematic efforts to understand its customers and meet their specific needs. After implementing processes that helped improve customer relationships, the company increased its sales by 15% in a single year (Reimann et al., 2010b).

Schneider Electric is also an excellent example of CRM best practice in a highly commoditized industry. Schneider Electric created differentiation through CRM by integrating apps in a single platform, with which CRM methodologies are also used for advancing internal processes and relationships (Schneider Electric, 2020).

In sum, empirical evidence demonstrates that CRM can improve position differentiation in a highly commoditized industry more than in a less commoditized industry (Reimann et al., 2010b). The logic behind this finding is that in highly commoditized industries, CRM enhances customer experience in combination with product offerings. CRM generates insight to inspire the creation of differentiators in communication, pricing, distribution, and branding. Highly commoditized environments present significant opportunities for CRM implementation. As competitors evolve, products become more commodity-like, and the solution for differentiation is the development of service that leverages information gathered

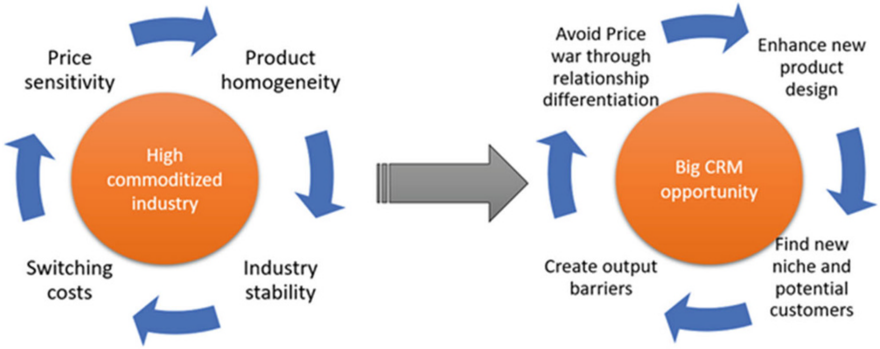


Fig. 1 A highly commoditized environment represents a significant opportunity for CRM

through customer intimacy provided by CRM. "The way a company manages its marketing can become the most powerful form of differentiation" (Levitt, 1980). Figure 1 presents the challenges and solutions for companies engaged in highly commoditized environments.

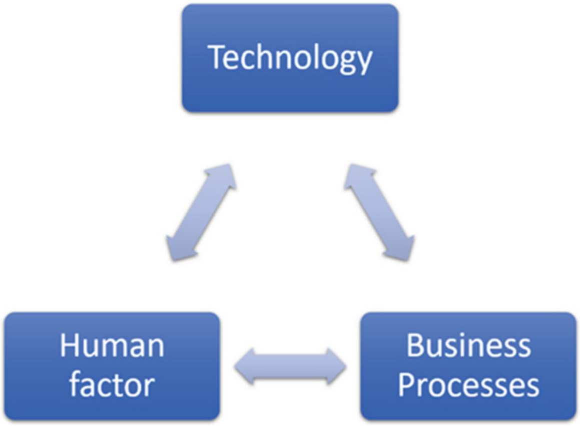
2 Theoretical Views on CRM Strategy

2.1 CRM Definition

Organizations of any size and across industries have adopted CRM as a marketing strategy that improves firm performance by increasing the value of the customer base (Payne & Frow, 2005). During the 1990s and at the beginning of the 2000s, the expected results of CRM were overestimated, with many projects failing (Boulding et al., 2005). This led to a reductive understanding of CRM as an application of salesforce automation, emphasizing an investment in information technology (IT). However, CRM implementations should also involve leadership commitment, organizational change, and process support (Shah et al., 2006). To produce accurate estimations of CRM results, researchers recommend including additional elements, such as relationships between employees, customers, and shareholders, when analyzing the impact of CRM on organizational performance (Payne & Frow, 2005). This led to other researchers' inclusion of some moderators, such as business models and level of commoditization, in their investigations (Reimann et al., 2010a).

Additional research on the impact of CRM implementation and the ways in which different individual roles and environments are involved is needed (Payne & Frow, 2005). The human factor is fundamental to the success of CRM (Verhoef et al., 2010). A successful CRM strategy implementation fundamentally requires the enthusiastic adoption of salespeople and relationship managers (Ahearne et al., 2007). As presented in Fig. 2, there are three important components of a successful

Fig. 2 Three important components of CRM implementation



CRM implementation: business processes, technology, and the human factor (Rapp et al., 2010).

There is evidence that the implementation of CRM processes positively impacts company performance (Reinartz et al., 2004). By mobilizing and leveraging improved customer knowledge, CRM improves customer satisfaction (Mithas et al., 2005). In the service-to-profit chain, service quality to customers raises customer satisfaction, which impacts customer loyalty that translates into revenue growth (Maxham III et al., 2008). Marketing has moved from a brand-centered perspective to a customer-centered strategy, as evidence demonstrates that strategic management of customer relationships will increase firms' profits (Mithas et al., 2005). A CRM strategy's source of profits derives from two principal sources, customer retention increment and customer value increment provided by cross-selling activities. CRM can be defined from at least three perspectives, tactically, as a particular technology solution, as a wide-ranging technology, or from a customer-centric view (Payne & Frow, 2005). We adopt Reinartz et al.'s (2004) definition of CRM as a systematic process to manage customer relationships during the complete customer lifecycle, which includes initiation, maintenance, and termination; a multichannel environment that creates value for both the organization and the customer. A holistic vision of CRM includes five key processes of strategy development, value creation, multichannel integration, information management, and performance assessment (Payne & Frow, 2005).

2.2 CRM as a Marketing Capability to Build a Sustainable Competitive Advantage

According to Resource-based theory (Rapp et al., 2010), firms have different resources and should identify those that are valuable and unique in order to highlight these differences and create a competitive advantage. This perspective emphasizes the importance of firm-specific resources over market characteristics when considering competitive advantage and firm performance (Conner, 1991). Morgan (2012) identifies three essential cross-functional marketing capabilities of brand management, customer relationship management, and new product development. Vorhies et al.'s (2011) empirical research reveals the positive financial impact of improvements in marketing capabilities, such as brand management and customer relationship management. When marketing capabilities are embedded in formal and informal organizational processes, this makes it difficult for competitors to replicate (Moorman & Day, 2016). Cultivating strong relationships with customers fits in the category of valuable and unique resources and firms could create a sustainable competitive advantage with this strategy. Day (1994) refers to customer-linking capability as a firm's competence to create and manage customer relationships, asserting it as one of the most distinctive features of a market-driven organization. Market orientation contributes to the development of customer-linking capabilities that positively impact customer satisfaction, loyalty, sales, and profits (Hooley et al., 2005). A firm is customer-oriented when it gathers, uses, and shares customer insights as input for coordinated business actions (Deshpandé et al., 1993). A customer-oriented company develops strong relationships with its customer base and cultivates enhanced capabilities. Customer orientation supports CRM activities firmwide, with all departments focused on building strong and long-term customer relationships. Positive CRM outcomes are more likely to occur when a firm is organized around customer groups, the management system is customer-oriented, and employees are rewarded, not for selling, but for building valuable customer relationships (Wang & Feng, 2012). Strong relationships with customers also reduce customer attrition and increase customer satisfaction (Heskett et al., 1994).

Firms must develop specific capabilities to implement CRM as a competitive advantage. It is fundamental to cultivate a customer-centric and market-oriented culture in order to increase customer satisfaction and loyalty (Hooley et al., 2005). Many firms are abandoning product-centered orientations to concentrate on specific customer segments (Moorman & Day, 2016). When firms are organized to serve customers, the commitment of collaborators increases, customer knowledge flows in the entire organization, opportunities are detected and maximized, and everyone feels accountable for improving customer relationships (Moorman & Day, 2016). Managing customer apps requires data repositories (i.e., data warehouses or data lakes), analytics technology, campaign management capabilities, salesforce automation solutions, and integration across an entire firm's IT structure (Jayachandran et al., 2005). Creating replicable customer experiences necessitates firms' having clearly defined processes using technology. A customer-centric culture impacts business processes across a firm, from HR recruitment to service delivery, from product design to operations, from finance to marketing. Marketing is such an important function that cannot be accomplished by only one department. When a firm is oriented to the market and develops customer-linking capabilities, resulting strong customer relationships and remarkable performance will follow.

3 CRM Implementation Ideas Based on Practical Experience

3.1 CRM as an Organizational Unit and CRM Thinking Through the Firm

In the authors' experience, firms need to establish and foster specific elements in order to build and sustain strong customer relationships. Empowerment is a fundamental component. Employees should not only have accountability but the authority to serve customers. Profits and sales budgets are built from the business unit and bottom-up. Meritocracy is fundamental; it allows people to be rewarded based on their results. Empowerment allows teams to compete on a micro-market level and create their own locally oriented strategies. A general strategy provides guidelines on actions, but such strategies are refined at a micro-market level, based on specific conditions of the customer, market, and competitors. Sales and service employees should have access to actionable information; a centralized analytics team can provide valuable information regarding customers to initiate, maintain, and expand relationships. Leadership can emanate from anyone within the organizational structure. People can be organized into small teams to improve the processes of meeting customer needs that are continuously identified through CRM. Successful market- and customer-oriented firms are not comprised of siloed departments that act independently of one another but operate together in an agile organization that is oriented to serve the customer.

In the product design function, product managers strive to provide the best products at a competitive price. Product design should be based on customer needs that are identified by CRM processes. Product departments must not work in silos, endeavoring only to accomplish their own goals, but focus on a holistic value proposition for each customer based on meaningful feedback. Product managers must work in teams with customer segment managers, so a firm is organized to serve customers and is not only focused on selling products. On the Operations side, all processes should be designed in a front-to-back manner, collecting customer information and feedback, establishing service level agreements, and meeting customer requirements and needs. Employees that are in contact with customers should always be considered right unless an opposing view can be convincingly demonstrated. When establishing CRM programs, an in-depth reengineering process of the entire organization is required to establish system-wide customer orientation and a culture of service. Every employee should have access to metric reports with everyone's insights and perspectives showing how his or her work is contributing to serving the customer. All the operative work should be centralized, so front-end areas are released and oriented only to serve customers. All contact channels should be synchronized in a unique strategy to deliver value for each customer. Variable compensation is a key factor in motivating all employees to work to focus on making every customer relationship mutually valuable to both the company and the customer. Employee rewards are not only earned for sales but for maintaining and expanding current relationships and avoiding deterioration. No single channel "owns" the customer; the relationship belongs to all members of the entire company.

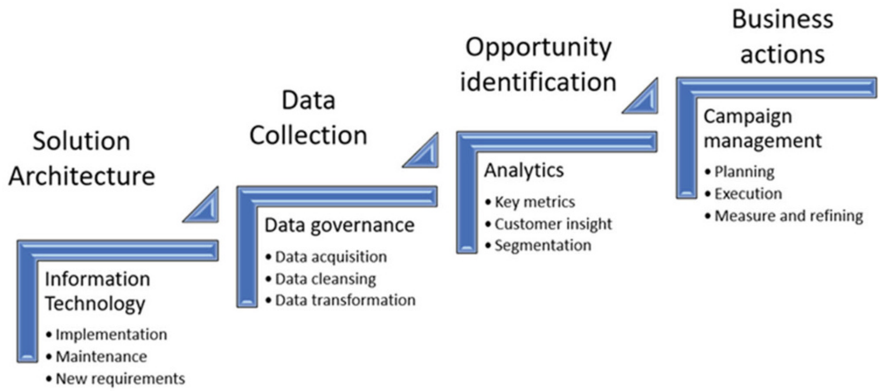


Fig. 3 Different functions of a CRM team

Even as the entire organization needs to be involved in a CRM strategy, there is a convenience to having a specific team dedicated to particular CRM activities. Figure 3 shows the essential functions of a centralized CRM team.

The solution architecture team, a special team from the IT department is fundamental for CRM. Many firms have IT teams focused on transactional systems, and only a few have created teams specialized in business intelligence, data analytics, and CRM operations. A dedicated team specialized in CRM technologies will increase the velocity in response to business processes. In the middle of the relationship between business people and IT people, a functional group is required. They transform business requirements into functional documents that can be processed by the IT team. Often, the pressure of projects is on the IT team's shoulders, and it is imperative to recognize them, emotionally and financially, when results and goals are achieved.

For the data collection team, this is where customer profiles begin to become complex. The appropriate employees for these activities have some sort of technical training, but also possess business sense. Some of them are former IT people that specialize in database management and have developed an understanding of what is relevant for business. A data governance committee is fundamental to regulating data quality and building data repositories that represent accurate and up-to-date customer information. Every data source should have a person that owns the process for providing the information. The service levels are determined by the business processes: what information, with what periodicity, and to whom it should be available.

The opportunity identification team includes people that understand technology, business, and statistics. This team oversees the analysis of data to transform it into actionable information and insights. Such positions are usually occupied by people with a strong statistics background that are familiar with managing databases who have also developed business sense to identify the kind of findings that translate into meaningful and actionable business insights.

The business actions team plans, executes, and refines all CRM business actions. They transform analytics outputs into personalized offers to customers. They continuously review contact channels and coordinate with product managers and customer segment managers. They use the marketing automation tools to plan, execute, measure, and refine every CRM campaign. Businesspeople that like to use marketing applications, with a combination of communication skills and analytical skills are usually found in these positions.

Leadership is essential to guide, inspire, and motivate the CRM team. Different people possess different skills. The leader has the task of making the space for everyone to excel in what they do and ensuring that goals are achieved with excellence. Strong communication with product managers, operations, IT, customer management, and channel management is required as the CRM strategy touches the entire organization.

3.2 Functional Components of a CRM Strategy

Specific skills are required to execute a successful CRM strategy. This includes a combination of knowledge and processes to identify and attract potential customers and to initiate and maintain relationships of mutual value (Payne & Frow, 2005). CRM competencies ensure that firms build and nurture beneficial relationships with customers (Jayachandran et al., 2005). CRM skills include customer interaction, which requires customer identification, acquisition, and retention; customer relationship upgrading, which opens opportunities for cross-selling and up-selling; and customer relationship win-back, which refers to the recovery of lost valuable customers (Reinartz et al., 2004).

Technology is another complementary component for effective CRM implementation. Specific technology must be deployed for better management of customer relationships (Reinartz et al., 2004). CRM technology includes software applications for the service and sales staff, the marketing team, customer analytics, and the backend to integrate information (Wang & Feng, 2012). CRM can be split into analytical CRM and operational CRM (Tanner Jr et al., 2005). The analytical aspect focuses on the processes that capture information and provide insights about customers. The operational CRM is oriented toward interaction with customers through automated processes of marketing, salesforce, and service. Alavi et al. (2012) describe an additional aspect of CRM that they call collaborative CRM, which facilitates the integration of different parts of the organization in order to improve productivity and profitability and to provide a better customer experience. Figure 4 presents an example of CRM technology for a fictional retail bank.

Transactional data is collected from operational systems and organized into a data warehouse. This could also include external information. Ongoing data cleansing, transformation, and updating are essential to maintain the data integrity of this repository as the single version of the truth. An analytics environment is also necessary. This is like a sandbox in which information is prepared for analyses through data mining and analytics processes using specialized software. The

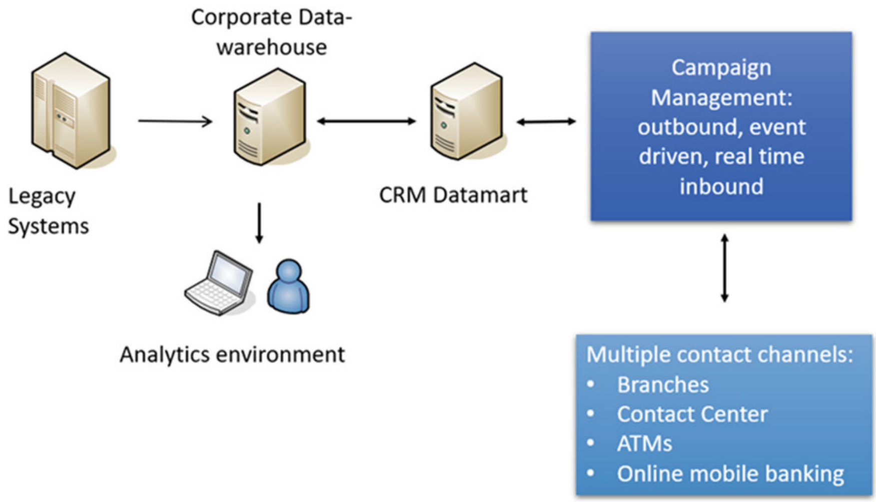


Fig. 4 CRM technology example for a retail bank

analytical findings provide the input for business actions, which are then executed with a campaign management tool. A campaign management tool is a software that enables marketing automation to plan, execute, measure, and refine ongoing campaigns. Campaigns deliver communication to customers through various channels. Another CRM component of particular importance is a real-time personalization server. This application selects the best offer for a customer that is being served at the contact channels in real time. The campaign management tool implements outbound campaigns (communication initiated by the firm). The real-time personalization server is used to implement real-time inbound campaigns in which the customer initiated the contact, and the firm delivers the required service, immediately communicating a personalized offer. Finally, each contact channel at the end of the CRM solutions chain is enabled to efficiently interact with customers. For sales and service people, there are salesforce automation applications that provide relevant information regarding the customer, the list of targeted campaigns (business actions toward the customer), metrics, real-time offers (next best action), and the capability to collect new information from customers. Direct channels (self-service channels like kiosks or ATMs) integrate applications that deliver services required by customers and also present CRM offers to the customer, while collecting responses and new information. The entirety of these contact channels are synchronized to build the capacity for generating meaningful, intelligent, and informed conversations with customers.

Technology is not the end but the means. It delivers the capability of accelerating business actions. Processes are the way in which technology achieves its purpose; business goals provide the purpose, and, of course, processes are operated by people. We identify at least 5 CRM-specific processes, as shown in Fig. 5.

Fig. 5 CRM specific business processes

First, data collection and transformation. Data is the raw material of customer knowledge. Consequently, disorganized data is not very helpful. Customer data has to be collected, transformed, and organized to maintain a single version of the truth. Data governance is fundamental to every organization. The establishment of consistent processes for collecting, validating, cleaning, transforming, updating, storing, and distributing meaningful and actionable information across the entire organization are critical. Data collection and transformation is the first step, the keystone in the CRM process that will transform information into insightful action. The type of customer data includes transactional, demographic, and product holding. A firm assesses and acts on customer value that is determined through this critical transformed information. The entire organization should understand the importance of collecting, protecting, updating, and leveraging customer data.

Second, customer insights. Customer data is transformed into customer insight through analytical processes. The most common algorithms include segmentation, propensity models, estimation of the customer lifetime value, and the arbitration to choose the next best action (the best offer to present to the customer). Analytics is not accomplished only once or by request but is an ongoing process that must be integrated into the business model. Analytics is the source of information that spurs further business actions, new product design, or marketing campaigns based on customer insights.

Third, business actions. We mainly consider CRM campaigns as a set of specific business actions to target customers. Campaigns communicate offers to customers. An offer could be for retention, cross-selling, up-selling or to strengthen the relationship, like a happy birthday message to the customer that includes a discount on a product or service. There are at least three kinds of CRM campaigns. Outbound campaigns, which represent enterprise-initiated or marketing-driven business actions. Such campaigns are developed as a result of insights gained from data analytics, such as scores produced by propensity models to calculate each customer's likelihood of accepting an offer. A list of target customers is built and distributed through various channels to facilitate contact. When a product is offered through this kind of campaign, extraordinary conditions in the process or in the price or service may be applied. Acceptance rates can be around 2% (closed sales divided by total communicated offers). Customer-triggered or event-driven campaigns are reactions to an action that the customer took or something that happened. Immediate action is required to avoid a business threat or to take advantage of a business opportunity. Finally, real-time campaigns are customer-initiated and relationship-driven campaigns in which the customer initiated the contact through a channel requesting a specific service. The firm has to be exceptionally seamless in delivering the required service and in communicating a particular offer driven by customer

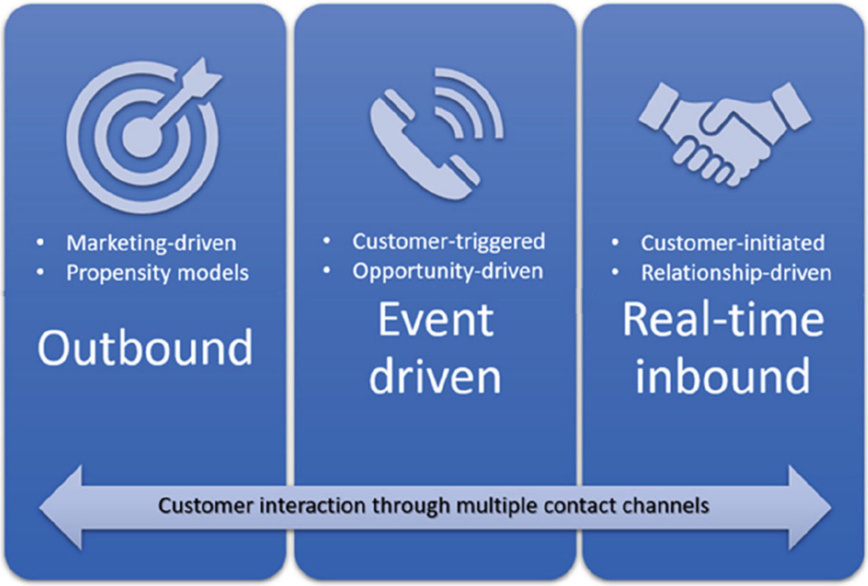


Fig. 6 Different approaches to customers

insights. No offer is the same for any customer but constitutes a special offer that was determined after a real-time data mining process. This kind of campaign has a higher positive response than outbound campaigns since a good experience in the service opens the door for new business with the customer. Figure 6 presents the different approaches to customers

Finally, metrics are required to refine CRM actions. Every campaign and every action must be tracked and analyzed to improve future business actions. It is important to measure which offers were communicated to customers and what the response was. Control groups can also be useful for a more accurate measure of campaign effectiveness.

3.3 The CRM Implementation Timeline

CRM is a journey, not a destination. It is a program, not a project. There is always something to improve in the CRM process. There are always new experiences to create for customers. Nonetheless, there are some significant initial achievements in the CRM journey. The first goal is to integrate and organize all data, from internal and external sources, ensuring the right quality and continuous updating processes. One of the first achievements is the establishment of a data warehouse, data mart, or data lake. Any additional steps will be very difficult without this first fundamental part. Customer identification across all transactional systems is an issue in many organizations. This challenge needs to be solved through a unique customer key to

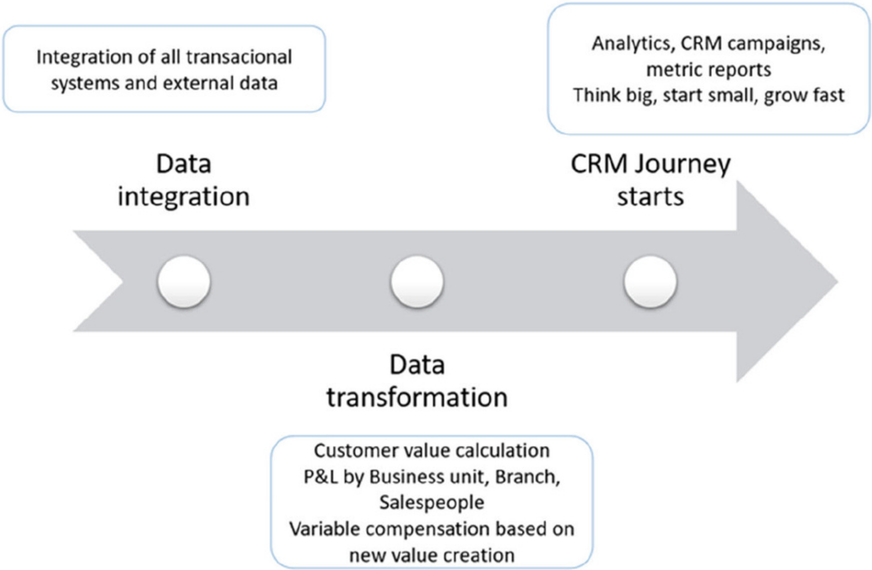


Fig. 7 Main achievements in the CRM Journey timeline

creating a complete customer view. With the primary data in place, the first important transformation can start. Customer value calculation is one of the priorities. Once the customer value has been calculated, value creation can be reported at any level in the structure, from customer accounts to unique customers, sales representatives, branch offices or stores, regions, and the entire organization. Profit and loss (P&L) at the sales representative level and aggregated to every branch or store, area, and the organization as a whole is then feasible to obtain. This P&L does not have to precisely match with finance numbers but needs to be reliable enough to enable to informed business decisions and actions. When this information is available for every person in the organization, it is possible to build the right diagnostics with specific actions to take in the near future. This is the point when the CRM journey begins. Information and valuable insights are in place, everybody knows their numbers, so there is now a fertile field for CRM action. We recommend starting with small programs or pilots and then refining and expanding. Do not invest in technology until you have a clear business goal. Do not automatize a process until the idea has been confirmed as working. Many CRM actions can be deployed in a semi-automated way. Only then can a firm begin to focus on automating and investing in technology. Figure 7 presents the main achievements in the CRM timeline implementation.

3.4 It Is Always About Customer Experience

There is no successful CRM implementation without the positive experience of the customer. Strong relationships positively affect customer experience. Loyalty is created by delighting customers and meeting their needs. Customer experience is based on differentiation strategies, personalization of products and services, and efficient interaction with each customer. There are specific business goals for three different segments based on customer value. For customers with low current and low potential value, the goal is efficiency in serving them. This can be achieved by establishing the right pricing, use of direct contact channels, and avoiding investment in targeted marketing promotions. For customers with low current value but high potential value, the goal is to grow profitability through applying cross-selling and up-selling actions. Finally, the most valuable customers (MVCs), that 20% of customers that create 80% of the profits. The goal with such customers is to keep them. These are the customers that the competitors want to steal. Special programs can be created for these MVCs. Some firms create special processes, special staff, and even special brands to serve such customers. When a firm recognizes that 80% of its profits come from 20% of its customers, all the efforts to build strong relationships to keep them are worthwhile. Those efforts improve the customer experience.

3.5 Some Good CRM Implementation Cases

Adopting CRM only for mimetic reasons will not provide good results (Hillebrand et al., 2011). But when CRM is implemented with the right business vision, it will increase customer satisfaction, customer loyalty, and firm performance. CRM technology investment is one of the largest and has the fastest growth. According to Gartner (2019), investments in CRM software increased 15.6% worldwide, reaching USD $48.2 billion in 2018. Previous research that involved a sample of 125 hotels showed that CRM processes impact firms' performance and that organizational commitment and knowledge management fully mediate this relationship (Garrido-Moreno et al., 2014). We will provide some examples of best practices in CRM implementation in the rest of this chapter.

In general, financial services could be considered a highly commoditized industry. For CEOs, leading a bank seems less attractive following the global financial crisis of 20008 (Forbes-Staff, 2018). Profits have decreased, restrictions have grown, and competition is more intense. Some banks have entered into scale competition by merging and creating larger firms (The Economist, 2019). Bank products are on a high maturity level. The vast majority of retail banks have the following value proposition for individual customers.

Deposit accounts: saving accounts, checking accounts, and payroll accounts. These products allow customers to receive money by making withdrawals, making debit card purchases, or paying bills through money transfers. An individual customer cannot expect the bank to pay interest on her checking account or saving account balance, but different fees can be charged for monthly average balance less than the minimum for transactions, ATM withdrawals, etc.

Investment accounts: this could be traditional, like time deposits that generate interest for the customer on a specific period, or nonconventional, like investments in trust funds and money markets.

Credit cards: customers can spend money under a credit limit and make a monthly payment of the total balance or a minimum required. Annual fees are often charged like a membership fee. Most banks offer a loyalty program in which customers can earn points based on their purchases.

Loans: the vast majority of the banks offer personal loans based on customer income and also auto loans or mortgages.

It is notable that there are only a few features that a bank can differentiate with its products: interest rate (price), means of delivery, or time response. So, banks need ways to distinguish offerings other than product differentiation. One way is through the incorporation of technology.

The incorporation of new technology is changing the financial services industry: mobile technologies, the internet, social networking, artificial intelligence, and big data analytics have resulted in innovations in financial technology (fintech) (Lee & Shin, 2018). This technological innovation has resulted in process disruption and business transformation (Gomber et al., 2018). Some authors refer to the fintech revolution as new "challenger banks" have emerged (Ortiz, 2019). These new fintech firms target young people, offering fee-free digital accounts, with apps that allow customers to manage their money in making deposits or receiving transfers. Since fintech banks do not have branches, and the costs to customers are reduced compared to traditional banks. They seem to be more customer-centric, as they provide 24 × 7 services and have achieved new levels of personalization based on data analytics and digital platforms (Gomber et al., 2018).

As competition in the financial services industry increases among traditional banks and fintechs, customer management is crucial for attracting, maintaining, and expanding customer relationships (Lee & Shin, 2018).

The former Mexican Bank, Bital, acquired in 2002 by HSBC, and winner of the CRM Gartner Excellence Award in 2002 and 2005 (Business Wire, 2005) used to compete in a stagnant and risky market. Bital competed not on price basis, but through customer insight. With a very strong CRM program, the bank started cross-selling one-on-one campaigns with customers that managed only a checking account with the bank but had additional business with competitors (Jaimes & Cerezo, 2002). By using propensity models, a risk analysis was implemented to get customers that seemed to be low credit risk pre-approved. Bital used outbound campaigns through their relationship managers in the branches and call center agents to communicate the offers to customers. Bital also implemented inbound campaigns, with synchronized channels that allowed agents to give a next best offer to customers that initiated contact with the bank. Branches were an essential channel in the strategy. They were responsible for micro-market regions and functioned as independent businesses (business units). Units created their competition strategies, using the brand image, taking advantage of CRM information, and reviewing monthly

P&L and business intelligence metrics. Variable compensation based on profit growth motivated people to achieve monthly goals. Direct channels such as ATMs, call center IVR, and internet banking also contributed to sales and retention by communicating relevant offers to customers. All the bank's areas, such as marketing, branches, call center, internet banking, direct channels, IT, operations, were focused on delivering the value proposition to each customer (Reforma, 2002). Before CRM, Bital executed a process reengineering across its whole enterprise, aligning the entire organization to customer requirements.

Specifically, the credit card industry can be conceptualized as a highly commoditized industry. The product is homogeneous, customers are sensitive to price, switching costs are low, and the industry is stable in many ways. Competitors have tried to get market share by waiving annual fees or lowering interest rates (Al-Najjar & Malik, 2005). Some banks started changing pricing based on customer behavior and providing additional benefits such as money return or cash back (Al-Najjar & Malik, 2005). Different credit card firms have competed in different ways. Others, such as MBNA, are oriented to specific market niches. MBNA is focused on the highest part of the pyramid, providing the "highest credit line in the wallet" for its customers (Al-Najjar & Malik, 2005). Former Providian Financial (acquired by Washington Mutual in October 2005) was oriented to the subprime segment, assuming a higher risk by setting higher interest rates. Capital One is another example of CRM excellence implementation. Capital One defines its strategy as "the right product to the right consumer at the right time for the right price" (Al-Najjar & Malik, 2005, p. 2). Their approach is based on customer information analysis and extremely oriented to CRM (Wiehr, 2003). Think of the UK credit card industry in the late 1990s, with a few big competitors and some new internet competitors. The way to compete was mainly by lowering interest rates. Capital One built a sustainable competitive advantage through a CRM strategy that included several elements. First, customer segmentation, by customer value and then by customer needs. Capital One identified two main segments: customers that pay the complete balance to avoid interest charges and customers that keep balances and pay interest; some are riskier than others. Second, product personalization: the value proposition is different for each segment. Capital One was the first to provide different credit terms to customers, depending on segment, value, and customer needs. Third, customer-centered organizational structure: a marketing and analysis department, worked closely with the operations and the IT department to design and deliver products and services to customers. Fourth, customer knowledge is embedded in the processes: when a Call Center agent is in contact with a customer, all the existing information, including past contacts and the next best offer, is provided to build an intelligent and informed conversation. Fifth, customer-centered culture: this is a capability that is exceedingly hard to imitate. From hiring, performance evaluation, and rewards, all the HR processes are designed to warranty the creation of valuable relationships with customers.

From successful cases, we identify some of the crucial factors for implementing CRM. CRM processes are designed to be operated on all levels in the organization. CRM does not belong to a specific department but involves the complete organizational structure. Focus on the most valuable customers first. Differentiation based on customer value is fundamental to allocate firms' resources. Build conversations based on continuous interaction in which relevant past information is kept and used. Focus on current and future customer value. Always think about not only the current sale but also the long-term relationship. Wallet share and customer profitability complement traditional metrics like market share or awareness. In order to create valuable relationships for both customer and firm, customer satisfaction should be continuously increased. This is achieved with excellence in building relationships that provide relevant products and services. Create an excellent experience for employees; from the personalization of their worksite to the compensation structure, employees should receive benefits that increase their job satisfaction. Variable compensation is an important component in the compensation package. This compensation is based on results and competence development. Channel synchronization and systems integration: coordination of interaction with customers across all contact channels is an important priority. This is supported by systems integration. Organized and decentralized information: information is centralized in a single repository but is disseminated throughout the organization to be meaningfully used in daily work. This factor is especially important when interacting with customers.

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Customer Engagement as an Approach to De-Commoditisation

Anna Nauen and Margit Enke

1 Introduction

The purpose of a business is to create a customer (Drucker, 2011).

The market-oriented objectives of many firms are different today than they were in the past due to the high intensity of competition and the corresponding dynamics. Whereas a few years ago the focus of marketing policy considerations was on acquiring new customers, today the long-term retention of existing customers is coming to the fore (Ashley et al., 2011; Kumar et al., 2019). Social media has also changed the way people communicate (Hennig-Thurau et al., 2010; Libai et al., 2010; Patterson, 2012; Verhoef et al., 2010). Geographical and temporal boundaries are less relevant since the exchange of information is possible at almost any place and any time (Hennig-Thurau et al., 2013; Labrecque et al., 2013; Peters et al., 2013). The strong focus on customer wishes and needs is based on market changes. Factors such as ongoing technological change, high saturation levels, and increasing internationalisation of markets result in firms having to make greater efforts to build competitive advantages and to achieve lasting customer loyalty (Kumar & Pansari, 2016; Kumar, 2018).

German retail has been in a state of upheaval for years due to changes in the market, in competition conditions, and in customer demands/requirements. The German retail trade is a saturated market (Schwertfeger et al., 2012) as a result of globalisation and digitalisation. Digitalisation affects all business areas, including the customer relationship. In addition, from the customers' point of view, competing services lose their uniqueness and become interchangeable (Enke et al., 2014). The services of similar retailers are perceived by customers as decreasingly differentiated, and there is a danger of the 'commoditization trap'. This poses a

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_13

challenge; the perceived interchangeability of services threatens the loss of competitive advantages as well as the danger of price wars.

As a result, providers are discovering new potential in building and securing a stable customer base which forms the starting point of economic success and long-term growth (Algesheimer et al., 2010; Algesheimer et al., 2005). In this context, the concept of the customer is changing decisively. For firms, the customer is now a valuable resource that must be integrated into the firm process (Vargo & Lusch, 2016). Studies have shown that the perception of services on the part of the customers is decisively influenced by interactions.

Thus, interactions have a high explanatory share of customer satisfaction and customer loyalty (Garbarino & Johnson, 1999).

In theory and practice, the term customer engagement has been used for several years to describe the ways in which the customer is involved in firms' value creation process (van Doorn, 2011; Verhoef et al., 2010). While there were only nine studies on customer engagement issues in 2005 (Brodie et al., 2011), since then the number of publications has increased many times over. Due to its intensive involvement in customer engagement, the Marketing Science Institute (MSI) noted it as a priority research area in 2010. From 2018 to 2020, customer engagement is considered a key research topic with the question: 'What are the most effective strategies to drive deeper and lasting customer engagement with the firm?' (MSI, 2018, p. 3).

One of the reasons for the great interest in customer engagement is that transaction-oriented customer management is insufficient to achieve long-term success. Rather, the generation of superior customer relationships is essential for corporate success (Enke et al., 2014; Kumar et al., 2010; Pansari & Kumar, 2017). The rapid development of communication technology and the affirming changes in communication lend additional relevance to this approach. As digital networking is becoming increasingly common and people influence one another to an increasing degree, it is also essential for firms that their customers act as positive multipliers (Vivek et al., 2012). In addition, firms need their customers to act as co-value creators and thus actively contribute to the firm's success (Vargo & Lusch, 2004, 2008, 2016). Within this value creator chain, customers can assume various roles such as consultant or advertising ambassadors (Kumar et al., 2010) and thus generate value through recommendations or ideas for improvement.

Ideally, customers become ambassadors of a product, firm, or brand and are not only willing to repurchase a firm's products or services but also to actively engage as value creators for the firm. This is reflected, for example, in online recommendations or feedback (Gruen et al., 2007; Kumar & Pansari, 2016). Gruen et al. (2007) explain that it is precisely this function of customers who recommend products and thus actively contribute to the firm's success that is of increasing interest in the field of marketing: 'marketing studies have also emphasized the influence of other customers on perceived value, service quality, and customer satisfaction in service encounters for focal customers' (p. 537). Customer-to-customer (C2C) communication can, therefore, have a more significant influence on how other customers perceive the product or service.

For firms, the concept of customer engagement represents a ground-breaking, strategic orientation. Its relevance is illustrated by the following quote from Rogers (2014, p. 104): 'The desire to engage with relevant, sensory, and interactive content is at the heart of customer networks. Whether your organization is an automaker, a hospital, or a financial service firm, an ENGAGE strategy can help you cut through the clutter of media messages and build powerful relationships with your target audience'.

2 Customer Engagement Phenomenon

2.1 Theoretical Foundation

Customer engagement has its theoretical origin in service-dominant logic (Vargo & Lusch, 2016) as well as in social exchange theory (Blau, 1964; Homans, 1961). Service-dominant logic concentrates primarily on the importance of active customer involvement for customer-business relationships (Brodie et al., 2011). Social exchange theory addresses the motives which stimulate customers to participate actively in business relationships (Hollebeek, 2011a).

With the concept of service-dominant logic, Vargo and Lusch (2004, 2008, 2016) describe the paradigm shift from a product-related to a service-related perspective. Vargo and Lusch (2008) explicitly distinguish between 'services' (plural) and 'service' (singular) as the 'fundamental basis of exchange' (Vargo & Lusch, 2016, p. 8). Only when an offer is also accepted by the customer and the service is applied, is value generated. The firm itself cannot generate value directly but can only make value offers—that is, value propositions (Vargo & Lusch, 2008).

The customer is at the centre of the value creation process. Although interactive value creation depends on both the actions of the supplier and those of the customer, it is ultimately determined by the customer. This view differs fundamentally from the goods-dominant logic view in its implications for corporate marketing practice (Vargo & Lusch, 2006). Since customers and suppliers determine the interactive value creation process as co-creators, value creation must be viewed as a holistic process (Grönroos & Voima, 2013).

When and how relationships begin, are strengthened, or end can be explained by social exchange theory. According to social exchange theory, actors are in a reciprocal relationship in which they exchange positive resources to achieve a benefit (Sin et al., 2005). In this context, Blau (1964) defines social exchange as the voluntary action of individuals motivated by the expectation of a receipt of reciprocation from others. Individual behaviour is determined by the fact that the value of the exchange is to be remunerated with a corresponding countervalue (Bagozzi, 1975). Social exchange theory serves to substantiate customer engagement behaviour in the context of interpersonal exchange processes, whereby it is important to consider the circumstances under which interactions occur.

Customer interactions are highly relevant to customer engagement from the perspective of service-dominant logic and social exchange theory. Interactions represent the current and future basis for joint value creation and enable customers' individual value creation experiences. This form of co-creation in relation to value creation is an act of engagement (Brodie et al., 2011; Hollebeek et al., 2019; Hoyer et al., 2010; Prahalad, 2004; van Doorn et al., 2010). The concept of customer engagement is part of the larger domain of relationship marketing (Brodie et al., 2013). The need to expand relationship marketing is based on changes in consumer behaviour and new ways of creating value. The inclusion of customer engagement in relationship marketing does justice to these changes. It can be used to capture co-creative experiences that are made in the course of interactions with different actors. It no longer matters whether these are existing customers or prospective customers, nor whether interactions occur within or outside of social exchange relationships (Vivek et al., 2012).

2.2 Conceptualisation of Customer Engagement

Originally, the concept of customer engagement was explored in disciplines such as social and organisational psychology (e.g. Schaufeli et al., 2002). In the field of marketing, the concept has been increasingly discussed since 2005 (Brodie et al., 2011), with various relevant perspectives. For example, a distinction can be made between consumer engagement (e.g. Vivek et al., 2012); customer engagement (e.g., Brodie et al., 2011; Patterson et al., 2006); and customer engagement behaviour (van Doorn et al., 2010). Pansari and Kumar (2017) note that constructs such as customer satisfaction, involvement, experience, and commitment are often incorrectly interpreted as customer engagement, although these constructs represent antecedents and consequences of customer engagement (Brodie et al., 2011; Pansari & Kumar, 2017).

The conceptualisation of customer engagement has received much attention in past research, although despite numerous attempts in recent years, no universal and holistic definition exists (e.g. Brodie et al., 2011; Hollebeek, 2011a; Pansari & Kumar, 2018; van Doorn et al., 2010). Some authors characterise customer engagement as multi-dimensional with cognitive (experience); emotional (feelings); behavioural (participation) (e.g. Patterson et al., 2006; Brodie et al., 2011, 2013; Hollebeek, 2011a; Hollebeek & Chen, 2014), and social (interaction) components (e.g. So et al., 2014; Vivek et al., 2012). Other authors describe the construct as one-dimensional, focusing on either the cognitive and emotional or the behavioural aspect of customer engagement (e.g. Bowden, 2009; van Doorn et al., 2010; Jaakkola & Alexander, 2014). In this context, the behavioural component forms the most common view (Brodie et al., 2011; Islam & Rahman, 2016). The existing conceptualisation approaches can be structured in terms of content and illuminated from different perspectives (Brodie et al., 2011; Vivek et al., 2012). Some authors consider customer engagement to be a state (Brodie et al., 2011; Higgins & Scholer, 2009; Hollebeek, 2011a, 2011b; Hollebeek et al., 2014; Patterson et al., 2006), others as a process (Bowden, 2009; Roberts & Alpert, 2010; Sashi, 2012), and still others as a behaviour (Kumar et al., 2010; van Doorn et al., 2010; Verhoef et al., 2010; Pansari & Kumar, 2017). A common denominator is that customer engagement is a component of customer relationship management with the aim of creating, maintaining, and expanding relationships with potential and current customers (Brodie et al., 2013; Verhoef et al., 2010; Vivek et al., 2012). With the behavioural perspective of the engagement concept, a frame of reference is developed in marketing that enables the analysis of various behavioural manifestations (van Doorn et al., 2010). In addition, it is possible for firms to directly observe and evaluate these behaviours (Libai et al., 2010; van Doorn et al., 2010). Engagement is understood as an observable phenomenon that includes both transactional and non-transactional customer behaviours. These behaviours are becoming the focus of firms, which are increasingly initiating engagement initiatives (Kumar et al., 2010; Verhoef et al., 2010).

This contribution adopts a behavioural perspective and utilises the conceptualisation by Pansari and Kumar (2017). Customer engagement is defined as a behavioural construct triggered by motivational drivers. Customer value contributions can be both transactional and non-transactional. Customer engagement represents a value-oriented concept that results from the sum of four independent components: customer lifetime value (CLV), customer referral value (CRV), customer influencer value (CIV), and customer knowledge value (CKV).

2.3 Customer Engagement Value

2.3.1 Customer Lifetime Value

Customer lifetime value is one of the main used and researched metrics of customer value (Gupta et al., 2004; Kumar & Reinartz, 2016; Kumar & Reinartz, 2018; Kumar et al., 2010). Kumar et al. (2010) use CLV to summarise customer purchasing behaviour, including repeated purchases or cross-buying (i.e. subsequent or additional purchases). Loyal customers can increase the value of the CLV through a longer customer relationship, as well as through lower/less sensitivity to price (Kumar & Reinartz, 2018). Customer lifetime value is defined as the present value of the future cash flow that a customer brings in during their business relationship with the firm. It considers the total financial contribution through transactions—that is, revenues minus costs—of a customer over their entire lifetime with the firm, reflecting the customer's future profitability (Kumar & Reinartz, 2016). This is an intensively discussed aspect of customer engagement and thus forms an important key performance indicator. It has been shown that a focus of marketing activities on CLV can lead to an increase in marketing success by a factor of 10 for the same marketing effort, which is a valuable indication of its importance (Kumar et al., 2010).

2.3.2 Customer Referral Value

Kumar et al. (2010) define CRV as the value that a customer generates for the firm in terms of their recommendations. In contrast to CLV, CRV assumes that an engaged customer will not only generate further value for the firm through their future transactions, but also recommend the firm accordingly. Following the assumption that recommendations increase the probability of new customers acquisition, CRV is a significant indicator for firms. Kumar and Pansari (2016) argue that customer referral behaviour is extrinsically motivated and refers to the acquisition of new customers through supplier-initiated and incentive-based concepts such as customer-acquiring-customer programmes. Referring customers are considered non-employees who receive a commission and effectively contribute to new customer acquisition. Customer referral value focuses on existing customers who convert potential customers from their social networks (on- and offline) into customers, for which they then receive a reward. Customer referral value captures how referral programmes can increase the customer base profitability through the cost-effective acquisition of potential customers. One must consider the referral rate, acquisition costs, potential savings, partial effects of repeated referrals to the same prospect, and the fact that a potential customer would have bought goods or used a service without the referral (Kumar & Reinartz, 2016; Kumar et al., 2007, Kumar et al., 2010).

2.3.3 Customer Influencer Value

Customer influencer value comprises the influence that a customer exerts on others (e.g. through word of mouth; WOM), which is neither initiated by the firm nor supported by incentives. Influencing behaviour is typically intrinsically motivated, as individuals become active when they are convinced by a product or service and want to encourage others to use these services (Kumar et al., 2010; Kumar & Reinartz, 2018). Through the exchange of information, WOM, interaction, and help from existing customers, other customers can be shown ways to maximise benefits with regard to a product or service. While CRV refers to the extent to which customers are able to turn prospects into customers, CIV focuses on influencing both prospective and existing customers, for example, to help them make the best use of the products they have purchased, find information, or provide support. Typically, such behaviour is demonstrated in newsgroups or in forums (Kumar et al., 2010). It is important to note that CIV and CRV are two separate constructs, although the differences between them are subtle.

2.3.4 Customer Knowledge Value

Customer knowledge value captures customer feedback behaviour that relates to generating ideas for innovations; suggesting improvements to products, services, and processes; and contributing to knowledge development. This behaviour can be extrinsically as well as intrinsically motivated (Kumar et al., 2010; Ryan & Deci, 2017). Customer feedback not only has the potential to make the product range more attractive, but also to optimise process efficiency. Additionally the willingness to give feedback is an attitude-related factor that maximises CKV. Former customers contribute to increasing CKV by sharing the reasons for their move, which enables firms to identify new areas of activity and raise awareness of customers leaving the firm (Tokman et al., 2007; Kumar et al., 2010). Furthermore, the degree of connectedness of customers with prospects and other customers provides the ability to better absorb information from their networks and, consequently, from the market, which increases customers' insight value for the firm (Kumar et al., 2010).

2.4 Relationships Between Customer Engagement Components

The proposed components of customer engagement influence each other and are interrelated. Building on the customer engagement value components described above, the full value for an individual customer can be captured by combining CLV, CRV, CIV, and CKV. A common driver of the customer engagement value components is the interconnectedness of customers (Kumar et al., 2010). The larger a customer's network, the more knowledge they will have about other customers' experiences with a firm's services, which enables them to provide the firm with qualitative feedback. The effect of customer's activities with regard to CIV (e.g. social media posts, WOM) depends as much on the experience gained with the firm as on the customer's expertise (Senecal & Nantel, 2004). A high CLV implies authenticity and credibility, which give the customer more power. In addition, loyal customers may be more competent in expressing their experiences and ideas, which increases their influence. A strong CLV is an indication that the firm's services meet the customer's expectations. Due to the high level of customer satisfaction, it is assumed that these customers have less incentive to provide feedback to the firm (Kumar et al., 2010). It has been shown that, in addition to the relationships between CEV components, the intensity of the relationships (i.e. loose or close) influences the relative impact of the incentives used to initiate recommendations (Ryu & Feick, 2007). The personality of the customer also plays an important role; an outgoing, extroverted customer has more influence on people in their network than an introvert (Islam et al., 2017; Kumar et al., 2010; Marbach et al., 2016). Therefore, the degree of networking and personality traits have a similar effect on CIV and CRV, regardless of whether they are market experts or not. Positive or negative attitudes towards the firm also have an effect on CIV and CRV. Finally, synergies can exist between activities related to CRV and CIV. Especially, a potential customer who engages in unpaid marketing activities for the firm (i.e. influencer behaviour) is also more likely to engage in an incentive-based recommendation activity, thus increasing the effectiveness of the recommendation. However, it is also conceivable that incentives displace voluntary activities. Once people become accustomed to being rewarded for an activity, the likelihood that they will perform the same activities for free decreases (Ryan & Deci, 2017; Kumar et al., 2010).

3 Managing Customer Engagement Value Through the Customer Lifecycle

3.1 Customer Engagement Value During Customer Relationship Phases

This section explores the four components of customer engagement during the customer relationship phases of the customer lifecycle (Bleier et al., 2018; Kumar, 2008). A customer's relationship with a firm typically develops through three main phases which are accompanied by specific engagement goals: customer acquisition, customer development or retention, and customer attrition or win-back. What has been explored and what needs to be explored for each relationship phase in the customer lifecycle is discussed from a firm's perspective. Firms must make decisions related to the management of existing and potential customers using the four components of customer engagement—CLV, CRV, CIV, and CKV.

3.1.1 Acquisition

The goal in this phase is to acquire customers with potential for value creation. The acquisition phase starts with the first communication between the customer and the firm and continues until the first purchase. Research to date which has focused on CLV has shown that firms can acquire new customers with higher CLV through multiple acquisition channels or via referrals from existing customers (CRV) (Kumar et al., 2010; Venkatesan, 2017; Villanueva et al., 2008). Research related to CKV is scarce (Venkatesan, 2017). Moreover, little is known about how firms benefit from CIV and CKV during the customer acquisition effort (Venkatesan, 2017). Is it possible to identify customers with high influence and knowledge? What is the ideal way to acquire these potential customers?

3.1.2 Retention or Development

After a customer has been acquired, the firm aims to promote direct customer engagement (e.g. repeat purchases, cross- and up-selling) to develop the relationship. In addition, firms should be aware of customers who may leave the business. A large body of research on customer development and retention identifies drivers and develops models of cross- and up-selling potential for customers (Li et al., 2005; Kumar et al., 2008; Venkatesan, 2017). However, little is known with regard to customer experiences that result in cross- and up-selling (Venkatesan, 2017). Firms have made extensive investments to enhance their customers' experience, giving the firms more leeway for cross-selling (Senior et al., 2016). There is a gap in the research with regard to the role customer experience plays in stimulating customers to make referrals (CRV), influence others (CIV), and give feedback (CKV). The links among customer development or retention, CRV, CIV, and CKV are also unclear. Research has suggested that lead users are a valid source of innovation (Von Hippel, 1986). An example is the 'My Starbucks Idea' website which encourages Starbucks customers to suggest new product ideas. In this way, the firm creates a dialogue with the customer, which not only addresses customer suggestions and wishes, but also creates a platform for discussions on cross-product topics. Firms must explore the ideal ways to motivate customers to discuss their experiences.

3.1.3 Attrition or Win-Back

When a customer leaves, the firm must decide whether to attempt to win the customer back or not. Research which focused on customer attrition or win-back has examined win-back offers to reacquire lost customers (Tokman et al., 2007; Venkatesan, 2017). Research about customer win-back addresses the potential value of the customer's second lifetime (Kumar et al., 2015). However, research on the customer's potential second lifetime value is scarce (Venkatesan, 2017). What needs to be explored is whether consideration of CKV, CRV, and CIV is useful when assessing which customers to attempt to win-back. Customers with high CIVs continue to influence others even if they leave the firm. What influence will the customer have once the relationship with the firm is over?

3.2 Customer Engagement Goals and Measures Through the Customer Lifecycle

Especially in increasingly saturated markets, a focus on repeat purchases and the willingness of customers to recommend the firm is necessary. Nevertheless, the focus is mostly placed on the conquest of new customers and quick sales. While all efforts are put into acquiring new customers, there is a risk that the firm's regular customers will leave because they have the impression that extras are only available in the event of disloyalty. Differentiation via price can lead to a downward spiral when loyal customers receive less attention and, in the worst case, are replaced by disloyal opportunity buyers. An upward spiral develops through appreciation towards existing customers. Firms which neglect their loyal customers do not receive referrals. Figure 1 shows the phases of the customer life cycle, as well as customer engagement goals and measures, which will be explained below.

3.2.1 Acquisition: Engagement Goals and Measures

The main objective of customer engagement in the acquisition phase is to arouse the customer's interest in the firm's offering so that a relationship begins through an initial act of purchase (Bleier et al., 2018). Today, it is no longer primarily what firms communicate about themselves to the outside world that counts as decisive, but rather what others have to say about them. Positive experiences and WOM are the focus. Consumers follow user discussions in forums, count stars on rating portals, and search for online reviews and product tests. Third-party opinions play a key role. If the majority of customers online discuss poor service, even the firm's best advertising campaigns will have little effect. Firms with negative reviews may not even be contacted. Engagement behaviour of existing customers is key for the acquisition of new customers. Above all, recommendations and WOM from existing customers can help to acquire new customers (Baker et al., 2016). Credible

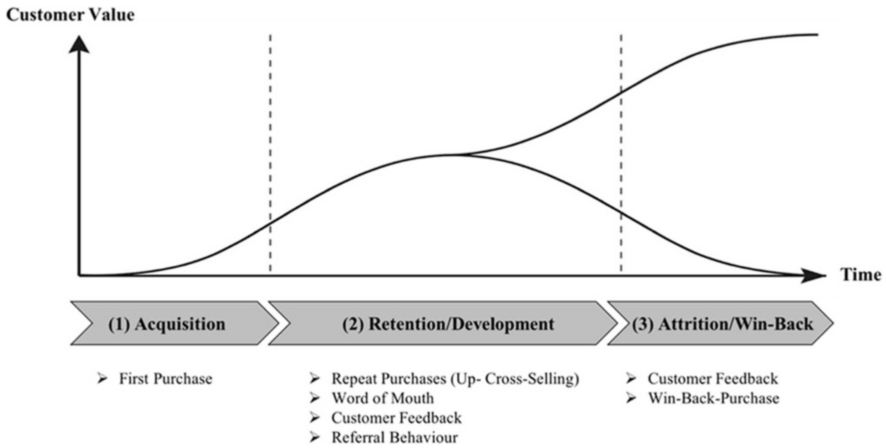

Fig. 1 Customer life cycle phases and engagement goals

recommendations from loyal customers are the most valued form of communication, as they are based on experiential knowledge.

Against the backdrop of advancing digitisation, the issue of data protection, and increasing regimentation through consumer protection laws, it is becoming increasingly difficult for firms to address prospective customers. Reliable recommendations from existing customers offer prospects orientation and thus reduce both the complexity and effort required to make a decision. New customer discounts, on the other hand, can appear untrustworthy and harbour the risk of losing existing customers. Instead of using monetary incentives to win new customers, firms should ensure that the initial contact is differentiated from the competition and enables engagement.

Bait offers and service promises dominate the Internet. However, the focus should not be on what a firm wants to communicate, but rather what customers want to know. Engagement marketing requires a change of perspective, away from a provider-centric view to a customer perspective. For example, brochures, websites, and consultations are mostly self-centred, while websites could say 'your contacts' instead of 'our team' or 'for you' rather than 'about us'. In addition, a testimonials tab could be included with videos, comments, and reviews from customers.

The customers show in which direction the firm can be further developed and thus act as consultants. Ideally, new customers are acquired on the basis of personal recommendations from existing customers and through positive WOM on the Internet. Firms can provide support by making the necessary platforms and tools available so that customers and interested parties have the opportunity to exchange, communicate with, and recommend each other. Search engine optimisation and content marketing help achieve reachability in a high-quality manner.

3.2.2 Retention or Development: Engagement Goals and Measures

In the customer retention or development phase, the main objective is to promote direct engagement in the form of repeated and cross-purchases, as well as indirect engagement in the form of recommendations, WOM, and feedback behaviour (Bleier et al., 2018; Kumar, 2013; Kumar et al., 2010). At this phase, customers have a certain amount of trust in the firm. Repeat customers in particular have the potential to become regular customers. It is important to continue to nurture the customer relationship, for example, by giving a token of appreciation on special occasions, in line with the saying, ‘Small gifts keep friendships alive’. This could be a voucher for a meal or an individual surprise. Customer data should be recorded in a database which includes a section with individual engagement behaviours. Knowledge of preferences, hobbies, and family characteristics provides a crucial link. To retain customers once they have been acquired, firms should invest primarily in high-quality interactions. A study by Accenture shows that 48% of regular customers expect special treatment (Accenture, 2017). Firms should, therefore, develop campaigns which are exclusively for regular customers. For example, a series of events could be held for regular customers. Dreze and Nunes (2009) found that loyalty programmes are helpful in making customers feel better about themselves and that, among other things, the need for self-affirmation can be satisfied by loyalty programmes. Customers who belong to an elite group compare themselves with customers who do not belong (e.g. downward comparison) and accordingly feel special.

If an existing customer recommends a firm to a prospective customer, the effect of this recommendation depends on the experience of the customer making the recommendation (Senecal & Nantel, 2004). Recommendations not only contribute to the acquisition of new customers, but also strengthen the loyalty of existing customers. The first step is to determine which customers are loyal and why, and one indicator of this is CLV. Instead of investing in mass media advertising campaigns, firms should engage with their customers. Even if a customer is satisfied with the firm’s services, this does not mean that a recommendation will be made. While some customers take the initiative to make recommendations on their own, other customers wait until they are asked. This can be explained by a person’s introversion or extraversion, among other things (Islam et al., 2017; Marbach et al., 2016).

Recommendations are not coincidental and must be systematically stimulated. As the first step, regular customers should be asked why they continue to come back, what the most important reason is for them to remain loyal, and how the firm can improve services. Products and services may be interchangeable, but the relationship between customer and supplier and the shared experience is not. Employees in customer contact must be trained to listen to the customer and learn what is recommended from the customer’s point of view. The best employee of a firm is not the salesperson but the engaged customer who recommends a firm to others. Most of the time, however, engaged customers go unrecognised because firms do not take advantage of opportunities to stimulate engagement behaviour. Asking the recommender and making a note in the database are elementary.

A recommendation is proof that a customer is convinced of a firm’s services. These customers bring the firm favourably into the conversation and arouse curiosity about its services. With recommendations, customers can strengthen their self-esteem, distinguish themselves, strengthen friendships, help others, and do good

(Hennig-Thurau et al., 2004). In most cases, giving recommendations is intrinsically motivated and is thus experienced as self-determined (Ryan & Deci, 2017). The success of the engagement is based on voluntariness, whereas monetary incentives often attract the wrong customers. If a prospect learns that a customer has received money for a recommendation, this is to the detriment of credibility and trust. Incentivised referral programmes do not necessarily work; attention that money cannot buy is more promising (Li et al., 2020; Rocklage & Fazio, 2020). For example, at a car dealership in Bavaria, customers could choose between a voucher for a free inspection or a VIP ticket for a 24-hour race at the Nürburgring. Most of them opted for the race. The event was reported on the web with photos and comments. Other means include rankings, appreciative badges, or special symbols shared on Facebook.

Most importantly, the engaged customer should be thanked for the recommendation. The recommendation of a customer is to be regarded as a gift and should be rewarded with something in return, according to exchange theory (Blau, 1964; Homans, 1961; Sin et al., 2005). The customer expects appreciation for a recommendation and feedback on what has become of the recommendation (i.e. by telephone or in person). In the customer database, specific notes should be made on whom a customer has recommended and how often an existing customer has acquired new customers. A well-maintained database with information about the customer' allows for new opportunities to stimulate commitment. No one knows the recommendation recipient as well as the customer who recommended them. The key driver for engagement is non-monetary (Hennig-Thurau et al., 2004). Exclusive offers for fans, tastings, idea competitions, calls for evaluations, opportunities to participate, and competitions promote interaction between customers and the provider. It is essential that stimuli are offered so that customers have the opportunity to engage.

In the digital age, a customer's influencing behaviour is significantly affected by the ratings and complaints of others. These digital activities are also relevant for firms, as they can provide new knowledge and thus contribute to CKV (Füller et al., 2008). Customer feedback provides insight into customer preferences, wishes, and needs, which in turn helps improve existing contact points and offerings (Joshi & Sharma, 2004). Extensive questionnaires are a common practice of enterprises, which are irritating from the customer's point of view. It is crucial to recognise the motives of the customers by listening to them. Complaints should be accepted so that customers who have had a negative experience complain to the firm rather than online. Customers should be asked what they like best and what should be changed.

3.2.3 Attrition or Win-Back: Engagement Goals and Measures

With regard to customer attrition or win-back, the first step should be to analyse why a customer would want to turn away. Was the service unsatisfactory? Were there any complaints? The termination of a relationship can be initiated by the customer (van den Poel & Lariviere, 2004) or firm-initiated (Fournier & Avery, 2012). Firms should identify lost customers and obtain customer feedback to determine the reasons for the termination of the relationship. While certain customers officially end a business relationship, others leave the firm silently. It is also important to clarify when a customer is considered lost. For this purpose, the customer's history should be consulted. Repurchase behaviour, the number and type of complaints, unrealised sales, and elapsed time since the last customer contact provide valuable information.

Many customers end a business relationship due to a lack of appreciation, which can lead to negative engagement. Return offers can be both monetary in nature and take place at the relationship level. Customers often expect attention in order to win them back (e.g. a clarifying conversation, an apology, recognition of importance, and appreciation). Return bonuses, free additional services, credit notes, and special rates are suitable means. The decisive factor is that these appeal to the customer and that the return offer is experienced as fair in the sense of equity theory.

Changes in the customer's life circumstances (e.g. unemployment or retirement age) can also lead to a termination of the relationship with a firm. Other transactions may result in continued referrals and positive WOM. A firm's goal may also be to end the relationship with undesirable customers, such as bargain hunters who require a great deal of advice. Feedback from lost customers can be used for service and process improvements (Kumar et al., 2015).

Overall, it is recommended to establish an engagement strategy in writing and to digitise the data, starting with the analysis of which customers engage with the firm and how. Goals could be, for example, to increase the recommendation rate, to determine the most important reasons for recommendations from existing customers, and to collect feedback or references. After the goals have been formulated in concrete terms, the strategic direction must be considered. Which target group, industry, opinion leaders, and so forth should be reached in the future? Whether the measures implemented have brought the desired success must be checked and optimised as part of the monitoring process.

4 Conclusion

The offerings of competing providers are becoming increasingly similar across industries. Differentiating features are disappearing, and customers perceive offerings as increasingly interchangeable. This may lead to differentiation via price. For service providers who find themselves in a 'commodity trap', the phenomenon of customer engagement represents an approach to de-commoditization. This contribution shows how customer engagement can create value across the customer lifecycle including acquisition, development or retention, and attrition or win-back.

Satisfied customers are no longer sufficient to make a firm marketable today, nor will they be in the future. Not only the relationship between retailer and customer, but also the players within the value chain are being redefined. Identifying and fostering the engagement of customers and prospects is a source of value creation. A change in management thinking with the goal of the customer becoming the most important 'employee' in the firm is needed to enable joint value creation. From the perspective of service-dominant logic, customers should become co-determinants and co-creators. However, what is plausible in theory occurs insufficiently in practice. The customer should be integrated into all processes to be able to take an active role in shaping customer relationships and be part of the organisational chart. This requires, above all, a renovation of internal corporate structures and processes, as well as an upgrading and intensification of the interactions between the customer and the firm, which goes hand-in-hand with the qualifications of personnel. Firms must learn that their role lies primarily in listening and must not be limited to a supplier- or provider-centric sense of mission. In summation, this implies a change of perspective away from a supplier-centric view towards a customer-centric view.

Digitalisation enables a new form of relationship building and thus also the promotion of customer engagement. Knowledge of the customer is essential, and digitisation enables an understanding of the customer's lifestyle and needs. The secret to success lies in satisfying customer needs. Digitisation favours the existence of a constant source of information for new and existing customers. Today, digitised customers are loyal only until a better offer arises. The principle of reciprocity is becoming more relevant in the digital world. People tend to reward or punish the gestures and behaviours they receive with their behaviour. The higher the appreciation of a firm, the more gratitude it will receive from the customer. Customer gratitude (e.g. through repeat purchases) ultimately leads to more revenue for the firm (Palmatier et al., 2009; Wetzel et al., 2014). Digitalisation, strengthened by social media, provides the opportunity for firms to assume the function of an exchange partner with whom people share their experiences; digital is personal. The credo of firms should be to operate with the future in mind and involve customers as co-creators in firm processes so that they are engaged and inspired to share their positive experiences.

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On Becoming Market Oriented in a Commodity Market: Aligning Internal Operational Capabilities with Customer Needs

Victoria L. Crittenden and William F. Crittenden

1 Introduction

In the late nineteenth century, mathematical economist Léon Walras (1896) developed the concept of perfect (or pure) competition. Arrow and Debreau (1954) refined the concept to explain a theoretical market situation in which all supplier firms sell identical products (i.e., a homogeneous commodity), where market share has no influence on market prices and suppliers cannot influence the market price of their product (i.e., they are price takers). Half a century later, Greenstein (2004) referred to commodities as products that are available "without distinction" from vendors and refers to what he calls a commodity paradox. The paradox is, of course, that businesses in any commodity industry must differentiate their commodity products without making them so unique that they are no longer competitive product offerings.

Floriculture is used often in examples of near perfect competition in a commodity market. The global market for floriculture is wide reaching and geographically diverse, with many buyers and sellers. Interestingly, strategic marketing tends to

This chapter was originally published as Crittenden, V. L., & Crittenden, W. F. (2014). Market Orientation in Commodity Marketing: The Necessary Link between Marketing and Production, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_14

neglect several key variables that are especially evident in commodity markets such as floriculture: (1) high fixed costs, (2) perishable products, (3) fixed volume, (4) multiple products, (5) time lags, and (6) indirect variable costs. For example, most product and pricing planning processes assume that fixed costs are negligible, yet product and price have been the focus of agricultural marketing research.

Payne et al. (2017) suggested that commodity-like markets may have a supplier-focused customer value proposition, which offers keen insight into a necessary driver in commodity marketing. Coltman and Devinney (2013) referred to this driver in terms of allocating operational capabilities to align with customer needs, which is consistent with the call for greater interdepartmental connectedness to facilitate a market orientation (Jaworski & Kohli, 1993). The research presented here shows the necessary link between a firm's operating capabilities and marketing in a commodity, agricultural market. In the next section, a brief overview of marketing research in commodity markets is offered. Then, marketing in agricultural markets is introduced, and the analysis of linking supply and demand within the floriculture marketplace follows. We conclude with commentary on what it means to be market oriented in a commodity market.

2 Marketing in Commodity Markets

In today's world in which commodity-like offerings are more and more the norm, designing effective marketing strategies is critical to success (Reimann et al., 2010). Specific marketing research in commodity markets has tended to follow two approaches. In one approach, researchers explore traditional marketing concepts within the context of commodity markets. In particular, the marketplace has given credence to product homogeneity and price sensitivity (Reimann et al., 2010).

With respect to product homogeneity, Mudambi et al. (1997) proposed that branding plays a powerful role in markets in which meaningful differentiation is difficult based on product quality or price, and Morrison and Eastburn (2006) examined consumer behavior factors (e.g., self-image congruence and consumer involvement) that influenced brand equity in the Australian domestic beef market. Within a different commodity market context, Remaud and Lockshin (2009) sought to understand brand equity within a commodity-based wine region. Earlier, Ritson (1997) addressed the branding of food products and contended that the food marketing sector, in particular, offered a considerable opportunity for understanding business activities in relation to consumer needs:

> . . .as we move from farmer to consumer through marketing channels. . .advantages by manipulation of the marketing mix progressively increase; and in the case of branded food products, marketing techniques have been as sophisticated. . .as in any sector of the economy (p. 289).

Price has long been the focus within agricultural marketing research since price is the major variable in the efficient market hypothesis, particularly as related to the grain marketplace (Anderson & Brorsen, 2005; Tomek & Peterson, 2005). As noted by Shapiro (1987), price sensitivity and significant price fluctuations are paramount in commoditized environments. Additionally, price wars have historically been a mainstay of any commodity industry (Heil & Helsen, 2001).

The other approach to exploring marketing issues within the commodity domain is from a broad, strategic perspective. This strategic perspective explores commodity marketing within the context of value related to customer intimacy, product leadership, and operational excellence (Treacy & Wiersema, 1993). According to Jacques (2007), understanding customers is key to creating value in commodity markets. While the empirical analysis by Reimann et al. (2010) showed that firms leverage operational excellence and that product leadership drives performance to a much lower extent than customer intimacy in highly commoditized markets, the research also suggested that firms could create value by leveraging customer intimacy to enhance operational efficiency.

Framed within this strategic perspective, the research reported here focuses on this necessary linkage between the customer and operational efficiency in the floriculture commodity market of fresh-cut flowers. Given the unique aspects of many agriculture markets with long lead times for production and seasonal consumer demand, the ability to align operational capabilities in terms of supply and marketing efforts toward demand generation is critical to becoming market oriented.

3 Commodities, Agricultural Markets, and Aligning Operations and Marketing

In the 1990s, Christopher Ritson, then president of the Agricultural Economics Society, focused on the topic of "marketing" in his presidential address at the society's annual conference. Later written as a journal article, Ritson (1997) inferred that marketing as a subject area was "embracing issues and approaches long familiar to agricultural marketing" (p. 279). Interestingly, the study of agricultural marketing has been around much longer than the study of business marketing within our academic institutions.

The roots of our study of marketing as a functional business are derived from the study of the processes by which the farming sector brought products to market (Webster, 1992). Thus, it is not surprising that two decades prior to these comments by both Ritson and Webster, Breimyer (1973) referred to the "uncertainty of identity" (p. 115) within the marketing of farm products. In this treatise on agricultural marketing, three schools of thought were identified: (1) the "what happens" to farm products once they leave the farm, (2) the allocative and distributional efficiency of the plant or firm, and (3) the operating efficiency of the production system.

Within these three schools of thought is the focus on both the production and the consumption of agricultural products. Unfortunately, individual functional level decisions made by production and marketing are the source of much conflict and can impede a firm's overall success (Crittenden, 1992). Essentially, marketers often ignore the production concerns in bringing an agricultural product to market and a production team is unlikely to be focused on consumer desires. To this end, Steen (2014) advised that strategic marketers should engage in systemic surveillance of issues such as perishability and seasonality, and she went so far as to suggest that flower producers could rely on the available calendar to predict market prices. Ignoring marketing concerns is thus common, with Rickertsen et al. (1995) suggesting no positive effects on advertising on vegetable consumption. Not surprisingly given the market size, marketers have explored the consumption side of the supply and demand equation in the fresh-cut flower marketplace.

3.1 The Fresh-Cut Flower Marketplace

Floriculture is a multi-billion dollar growth market, with production taking place in a variety of countries (Steen, 2014; Rihn et al., 2014; Society of American Florists, 2018; Holt & Watson, 2008). A significant product offering in the floriculture marketplace is the disposable fresh-cut flower, a product for which consumer attention is often drawn ex post since longevity is a key product characteristic (Bordalo et al., 2016; Rihn et al., 2014).

Marketing terminology and concepts are used extensively to aid in the understanding of consumer behavior and business practices in the floral marketplace (Behe, 1993). From a consumer behavior perspective, Hunt (1972) and Yue and Hall (2010) suggested that flowers serve little, if any, utilitarian purpose and, instead, are used mainly as expressions of sentiment, ornament, and symbolic meaning. Doyle et al. (1994) went so far as to contend that there is a language of flowers—that flowers communicate both information and emotion.

While marketers target potential customers and attempt to differentiate flower options within the consumer decision-making process so as to create customer intimacy (Huang & Tzu-Fang Yeh, 2009), concepts of crop quality and its management (i.e., operational efficiency) are critical to success in the fresh-cut flower marketplace (Kappert & Balas, 2007). The production and marketing of fresh-cut flowers, including cost structure, delivery guarantees, and operational constraints are important strategic considerations for customer satisfaction (Chatterjee et al., 2002; Jahan, 2009). Success in a commodity market such as fresh-cut flowers relies on a delicate blending of supply and demand variables in order to align operational capabilities with customer needs.

4 Linking Crop Production and Customer Intimacy in the Floriculture Marketplace

In the floriculture marketplace, neither crop production information nor consumer demand rank higher than the other in the profit equation (Behe, 1993). The example we provide here shows how supply and demand for a commodity product were examined simultaneously at a relatively large agricultural firm headquartered in Colombia, South America.

4.1 Floral Farms

Floral Farms (pseudonym) grew and marketed fresh-cut flowers (Crittenden & Crittenden, 2002). The company's mission statement was as follows:

> We are in the business of growing floral products. We will grow high-quality products, of a wide variety, and distribute these products worldwide. We will have the reputation as a high-quality producer. As well, we will seek to optimize investments, maximize long-term profits, and develop human resources.

The privately owned business operated farms in Colombia, South America and distributed the products worldwide. The company was attempting to do a better job of balancing supply and demand (and, thus, margin) by aligning its marketing and production functional areas.

4.1.1 The Marketing Side of the Firm

Customers Floral Farms' customers included: (1) local wholesalers in different cities, accounting for 95 percent of the company's sales, (2) direct-to-supermarket retail chains, and (3) direct-to-consumer via a company-owned retail operation in New York City (USA). The USA and Canada accounted for 95 percent of the company's total sales, with the remaining 5% to select importers in Europe, the Caribbean, and South America.

Products The company produced 11 major products, and each product had one to four grades (e.g., low to high quality):

1. Alstromeria
2. Carnations
3. Miniature Carnations
4. Freesia
5. Gerbera
6. Gypsophila
7. Lilies
8. Pompons
9. Roses
10. Spider Mums
11. Statice

The quality of Floral Farms' products was very high. Some lines had received various floral awards for consecutive years. While the company did use the company name as the brand name on all of its products, there was no name recognition among end consumers.

Prices As in most commodity markets, price is an exogenous variable determined solely by the marketplace. Fresh-cut flower prices followed a seasonal pattern. In reality, the market-determined price received for each unit of the products varied by the minute. However, historical weekly pricing patterns exhibited consistency. For example, rose and carnation prices were highest around February 14, while pompon prices were lowest during North and South America summer months (May–July).

Distribution All products, packed in cardboard boxes of 100 to 1000 units depending upon the variety and packing size, were air-shipped to Miami (USA), clearing customs at the Miami International Airport. The products were then reshipped to airfreight or trucking companies to the next point of destination.

Marketing Communications As noted previously, buyers and sellers within the business-to-business marketplace knew and recognized the company's name. However, name recognition was reflected in the pricing strategy of all firms in the commodity market. The company did not engage in any trade or consumer advertising or promotion.

4.1.2 The Production Side of the Firm

Floral Farms was one of around 200 floral growers in Colombia and one of the largest and most respected operations. The company owned three farms, located in Las Palmas and Jardines de Colombia. Each of the three farms had a general manager who reported to the company's vice president for production.

The company had approximately 175 hectares available for flower production. Table 1 provides the typical production cycle for the 11 major products grown by the company. Due to year-round demand for floral products and company's reputation as a full-line supplier, production for any of the products could never be zero. Yet, the company sought to have the most product volume available when product prices were highest in the marketplace (e.g., demand for roses on Valentine's Day).

Production wise, the company experienced a fixed volume constraint since it grew its own product and did not outsource production. As well, product output could not be increased by hiring more workers or purchasing more/better equipment. If new capacity was brought online (e.g., if more hectares were purchased), the time period before flower product availability (i.e., the "vegetative period") varied by product type. For example, one product might take 12 weeks from planting to product availability while another product might take 24 weeks. However, the fixed capacity of 175 hectares meant that planting more of one product would reduce the available production capacity of another product.

Table 1 Production cycle of major crops

Flower crop	Vegetative period (weeks)	Production period (weeks)	Number of plants per square meter	Production per square meter by production cycle
Alstroemeria	24	156	2.84	590 stems
Carnations	21	83	22.82	380 flowers
Mini carnations	21	83	21.64	42 bunches
Freesia	19	6	53.3	5.26 bunches
Gerbera	16	88	5.1	255 flowers
Gypsophila	13	10	3.42	9 bunches
Lilies	14	2	65	61 flowers
Pompons	12	1	68.9	9 bunches
Roses	18	520	5.58	900 flowers
Spider mums	12	2	58	5.6 bunches
Statice	16	36	4.62	24 bunches

4.2 Linking Crop Production and Customer Intimacy

Crittenden (1992) described the intricacies of the simulation model that enabled production and marketing at Floral Farms to begin to work together to create a market orientation within a commodity market. In brief, the model results showed that, if driven by a production-oriented approach to the marketplace, the firm would realize a lower contribution per capacity unit across all product offerings than if driven by a market-oriented approach. Developing a decision support system that enabled marketing and production to incorporate demand (when are particular fresh-cut flower products most desired by consumers?), supply (what flower products are currently in the vegetative state?), and profit considerations into an easy-to-use tactical model provided a tool for the commodity, agricultural company to understand the margin implications for various planting scenarios.

5 Becoming Market Oriented in a Commodity Market

The Floral Farms example portrays the efforts of an agricultural firm to become market oriented. The development and operationalization of the decision support system, as well as the subsequent discussion about the simulated results with the marketing and production managers, led to improved cross-functional decision-making within the firm (Crittenden & Woodside, 2006). Thus, the Floral Farms example provides a managerial experience of aligning operational capabilities with customer needs that helped decision makers manage and market a commodity product in a much more profitable manner.

However, the Floral Farms story does much more than just offer an example of successful cross-functional decision-making. It shows that commodity marketing

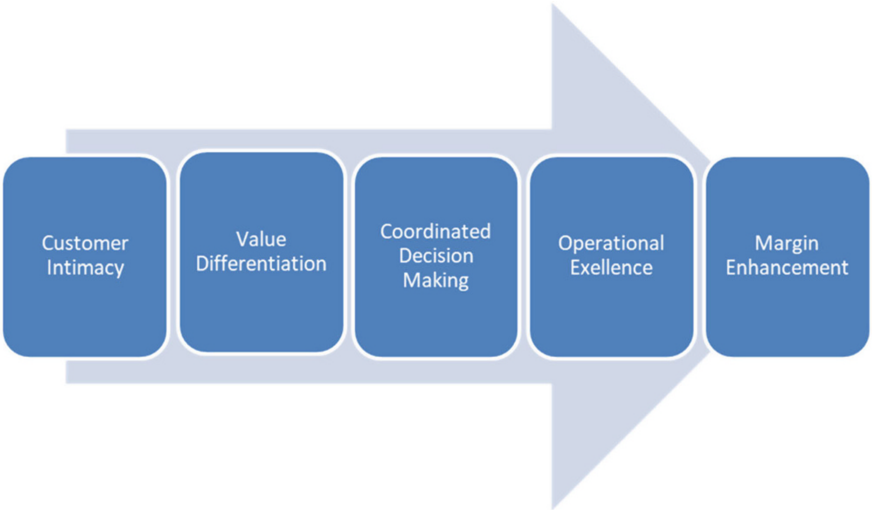

Fig. 1 Implementing a strategic market orientation in a commodity market (For further discussion of strategy implementation, see Crittenden and Crittenden (2008)

can and does benefit from a strategic orientation. Many years ago, Bonoma (1985) claimed that successful marketing relied on both good formulation and good implementation. Even in the world of agricultural marketing, the "what" of the marketing strategy formulation comes through from the viewpoint of what goods to produce to satisfy customer demands, while the "how" of marketing strategy implementation is prevalent in the efforts to bring these products to market in such a way so as to provide both customer satisfaction and firm profitability.

Kohli and Jaworski (1990) defined a market orientation as the implementation of the marketing concept, identifying three core themes: customer focus, coordinated marketing, and profitability. Shapiro (1988) described a market orientation as a set of internal processes that enabled a company to focus on the customer. These internal processes included: information on all important buying influences permeates every corporate function, strategic and tactical decisions are made interfunctionally and interdivisionally, and divisions and functions make well-coordinated decisions and execute them with a sense of commitment.

Mapping these elements of a market orientation onto this example from an agriculture business shows that commodity markets can have a market orientation even though the product itself has few aspects of differentiation. Value differentiation for a commodity product can be created and delivered to the customer via the firm's operational excellence. This operational excellence can then allow the firm to bypass concerns over product differentiation—a concern that has plagued commodity products for decades. The customer receives value through the delivery of a high-quality commodity product at just the right time, while the agricultural firm receives value via its ability to produce and deliver the right product to enable receipt of the highest margin at a particular point in time. Figure 1 captures these elements of a strategic market orientation through the lens of strategy implementation.

Increasingly, managers offering products with seemingly uniform equivalence will need to have a multifaceted strategic orientation. This orientation will require a detailed understanding of the customer that goes beyond price and basic quality. This customer intimacy must lead to customer-valued differentiation, coordinated decision-making, and operational excellence. When implemented successfully, this market orientation will help create margins often lacking in commodity businesses.

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Differentiating the Indifferent: Dealing with Commoditization Paradox Through Innovation

Sabrina C. Thornton

1 Introduction

Commoditization has been seen as a negative destiny of any products as they lose their novelty to increasingly competitive landscape filled with similar offerings. All is left is intense price competition and decreased profit margin. The phenomenon permeates widely in many industries and is accelerated by the technological advancement and competitive dynamics (Rangan & Bowman, 1992; Shih, 2018). It is dubbed a "trap" (Chesbrough, 2011), "hell" (Lane, 2008), and "battle" (Lager & Blanco, 2010), which indicate the challenges posing firms that operate in a relatively mature market and/or have commoditized products on their hands. In dealing with this, firms face a paradoxical situation where either competing on price or further investment in rejuvenating a commoditized product may lead to further profit erosion. It is argued that organizational mindset matters when it comes to dealing with such paradox. For instance, Schrage (2007) argues that commodities need not to be a destiny, and that through segmentation, differentiation, and innovation, a so-called commodity can be rejuvenated and redefined to ensure a competitive position in the market.

To sustain the competitiveness and profitability of a product, firms could employ either cost leadership strategy to ensure a low-cost advantage, or a differentiation strategy that focuses on creating unique value in order to warrant a price premium (Porter, 1980). Whatever strategies that are adopted, how customers perceive the value they obtain from a product justifies the price. Value is perceived by customers in a cognitive process, where the ratio of the benefits given by a product and the sacrifice paid in exchange, is assessed (Monroe, 1990). This implies that when a customer perceived an increase in benefits, they are likely to be willing to pay a higher price so long as the value ratio remains positive in their assessment.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_15

Therefore, a differentiated product would only entice customers to buy when there are distinct values they cannot get elsewhere. Similarly, low-cost offering would only be considered by customers when the benefits match or exceed the sacrifice they made.

Both cost leadership and product differentiation strategies require a clear focus on two aspects of business functions: marketing and innovation, which enable firms to create what customers want (Drucker, 2007). Marketing and innovation go hand in hand to ensure that the innovation endeavors are driven and governed by a clear definition of value propositions that capture customer needs (Levitt, 1960; Simmonds, 1986). Research indicates that an organization's marketing and innovation capabilities interplay to create synergies that are not easily imitated, thereby ensuring a superior performance (O'Cass & Ngo, 2011; Song et al., 2005). However, research in marketing and innovation tends to be isolated in its own field, and a more processual and holistic approach is needed to generate richer insights (Holmlund et al., 2016). Within this context, a more holistic understanding is needed on how marketing and innovation as key functions or capabilities are configured and combined in an organization from a processual perspective for delivering superior customer values in order to achieve a competitive advantage.

This article takes the view that understanding, imaging, and planning what can be differentiated is the first step in making a commoditized product differentiated through ways of innovative efforts (Dougherty, 2001). Different types of innovation provide a toolbox for differentiation. The key to dealing with the commoditization paradox is through continuous redefining the meaning of the offerings from a customer's perspective in order to create and capture value through an innovation process (see Fig. 1). It is argued that commodity providers can be as profitable as their specialty counterparts through strategic use (when and how) of innovation, customer relationship management, and value for money tactics (Rangan & Bowman, 1992). On the one hand, segmentation (marketing) helps firms realize what values are sought and unfulfilled, thereby informing the decision on where (which segment) and how (which product) to compete. On the other, it is through the process of innovation the desired values are created or transformed, which either add benefits or reduce costs of the product. Commoditized product markets are characterized by its low growth rate, well established industry processes and norms, and heightened price competition, which make cost reduction inevitable as a byproduct of product differentiation that aims to offer a superior value for money (Hill, 1988; Levitt, 1980).

A change in market position entails resource allocation and configuration for innovation activities. Innovation here refers to "the generation, development, and adaption of novel ideas on the part of the firm" (Damanpour, 1991, p. 556). A wide range of innovation can be adopted for the purpose of de-accelerating or avoiding the commoditization, thereby capturing the commercial value of a product. Innovation can be categorized into: (1) product and service innovation; (2) process innovation; (3) marketing innovation. The first two types of innovation are the direct, technical manipulation on the products or services in order to improve/develop new product or

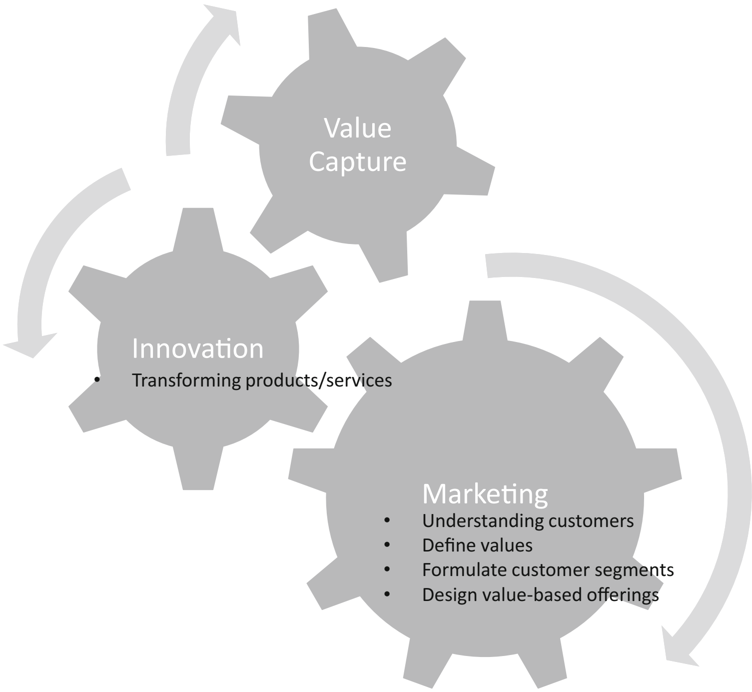

Fig. 1 Marketing, innovation, and value creation and capture

services and the associated process of the production (Bantel & Jackson, 1989; Damanpour, 1991). Marketing innovation is non-technical, referring to improvements of new ideas in the design, placement, pricing, and promotion of the offerings (Deshpandé & Farley, 2004; Hurley & Hult, 1998). This framework gives a point of departure in explicating how firms can deal with the issues of commoditization and sustain their exploitation of a product through different types of innovation.

The following discussion draws on the literature in different disciplines in marketing, innovation, and strategy. The concept of differentiation is closely examined through a whole product framework by Levitt (1980). This framework provides a way to thinking about on *what* basis a product (or service) can be differentiated. Two cases drawn from consumer technology and retail banking industries are presented to provide illustrations to the framework. Following this, the focus shifts to *how* to differentiate through different approaches to innovation. It is not the intention of this article to exhaust the full extent of the literature, but to introduce and draw some insights from the relevant research coupled with practical examples that are either from prior work or applicable, contemporary cases.

2 What to Differentiate: Possibilities

> Any product or service can be differentiated, even the commodity that seems to differ from competitors' offerings only in price (Levitt, 1980, p. 83).

According to Levitt (1980), the basic principle for dealing with issues in relation to indifferent commoditized product market is creating points of differentiation, which can be done through modifying and/or enhancing the core elements of a product, i.e., the generic product, which may be indifferent from that of competitors. The commoditized products here refer to raw materials (e.g., wheat), processed materials (e.g., steel and carbon fiber), end-user products (e.g., computers), and services (e.g., investment banking). No matter what form the product is, ranging from raw materials to finished products or services, there are different tangible and intangible elements in the offering. In the heart of the offering lies the generic product, which is the most fundamental element to a product. In the context of the commoditized product market, it is the seemingly indifferent products that are offered by multiple competitors. Levitt (1980) argues that the generic product as the core of an offering can be expanded to the expected product, augmented product, and potential product, which can all provide points of differentiation based on the generic product. Figure 2 is an adapted depiction of the whole product system.

First, the expected product indicates the bare minimum of an offering that a customer is willing to pay for the generic product. Differentiation can, therefore, be based on meeting or exceeding a set of expectations that are attributed to the generic product (Ford et al., 2001). Second, the augmented product goes beyond what customers expect in a product. Instead, the product can be augmented based on what customers do not expect. "The unexpected" values could provide points of differentiation only if they are desired by customers. Third, in its widest scope is the potential product, which captures all possible improvements or changes in order to entice customers that lead to an increased competitive strength in the marketplace. The potential product could be substantially different from the current product and may require investment into new technologies that enable substantial cost reduction and/or innovative features. To illustrate on what basis companies develop points of differentiation for their commoditized offerings, two cases are presented, one focuses more on products and the eco-system, the other on services.

2.1 Case 1: Differentiation in Consumer Technologies

High-tech industries have experienced an acceleration of commoditization due to the fact that even tacit knowledge, accumulated and developed overtime by an organization, could become transpired to the wider industry sector. This is due to the connectivity and embeddedness of tools, methods, and applications that are used to develop and manufacture products (Shih, 2018). Such situation lowers the entry barrier considerably in certain hi-tech products, which allows new entrants to compete effectively without having to learn the know-how from scratch. This further

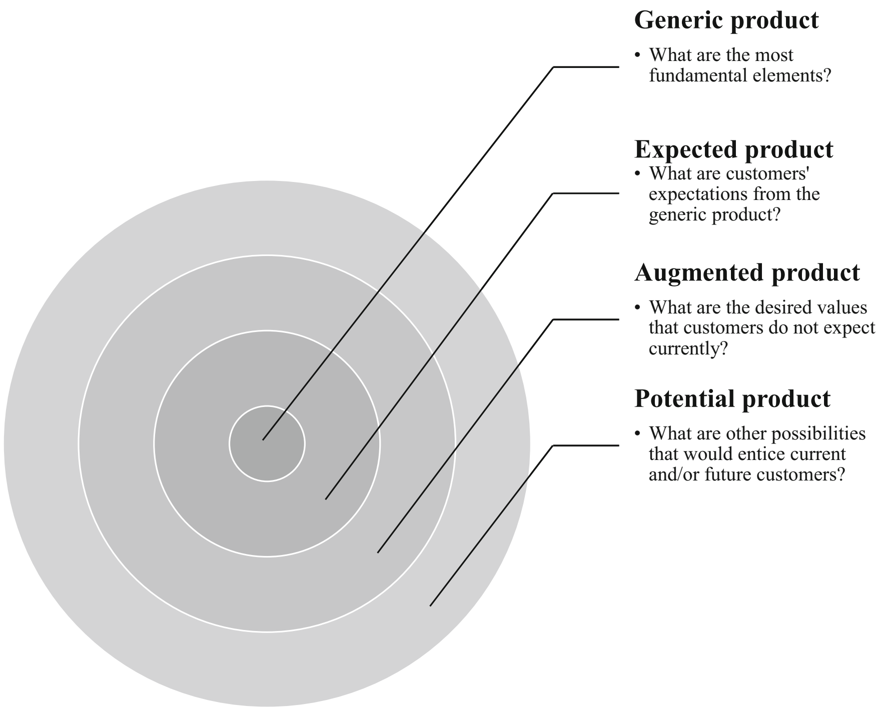

Fig. 2 Generic, expected, augmented, and potential product (Adapted from Levitt, 1980, p. 86)

accelerates the maturity of the market, which drives price competition—a typical commoditized product market is taking shape. However, hi-tech companies can still differentiate their offerings through redefining the values that are based on the fundamental elements of a product. This requires a thorough understanding on how customers perceive such values. For example, how consumers perceive the values they gain from a smartphone today is substantially different from when the first generation of Apple iPhone came to the market in 2007. Through expanding the utilities and connectivity, and redefining the meanings, a smartphone has become something that is integrated into many people's everyday life that they may not have previously anticipated. Apple has been a front runner in the smartphone market as it sets the industry standards. Even with fierce competition from major players in the market both on technologies and price in an increasingly saturated market, Apple's brand value has been consistently rising, now standing at $352 billion in 2020.

Apple has transformed the consumer technology appliances and services industry by building an ever expanding, enhanced, and integrated eco-system based on a range of intra-functional devices, applications, and services, e.g. personal computer (Mac), tablet (iPad), smartphone (iPhone), smartwatch (Apple Watch), TV (Apple TV), music content (Apple Music), and cloud service (iCloud). Such an eco-system provides their customers with a comprehensive solution to their personal productivity and entertainment needs that are sometimes unanticipated by themselves. It also becomes a mechanism to lock in their customers and breed loyal customers (Zhang et al., 2011). Apple has built a strong foundation for the expected product and focused on developing augmented and potential product, which provide points of differentiation that separate Apple from their major competitors. As the market matures, customers become more sophisticated in their understanding and decision making as they know better what matters for them from a high-tech product. Apple's increased options in all product lines have reflected a more sophisticated segmentation to different customer groups that have varying needs and budgets. This approach provides a mindset that drives continuous development in products and services that not only meet and exceed customers' expectations, but also offer unexpected benefits. The unexpected always keeps their customers and the media guessing prior to their highly anticipated product launch events each year, which create a sense of hype and excitement. Such approach is a source of a sustained competitive advantage and can only be afforded by combining strong and unique marketing and innovation capabilities (Ngo & O'Cass, 2012).

2.2 Case 2: Differentiation in Retail Banking Services

Retail banking in the UK has long been a well-developed and regulated sector that is widely used by the public for accessing credit and managing money in a secure manner. Banks in this sector offer some key banking services, such as saving account, current account, and mortgage, which can be seen as generic products. Generally, any bank could offer these fundamental services to their customers and, therefore, as far as product portfolio is concerned, there is little differentiation across competing banks. However, changes in the wider environments, most prominently regulation and technology, shape the market and prompt attitudinal and behavioral changes in consumers. The banking reforms, such as Open Banking, together with Payment Services Directive, have allowed consumers to share their financial data so that they can get better services that suit their needs and budgets from other banking service providers. These reforms aim to bring about more competition and innovation that would benefit bank users. The changing operating environment and power shifting toward consumers prompt banks to redefine what their core services are so that they become meaningful and relevant to their customers. Within this context, competitors can differentiate their offerings on "how" their seemingly indifferent services are delivered that meet or exceed their expectation on service quality to ensure customer satisfaction (Parasuraman et al., 1991).

For instance, customer service has been the point of differentiation for First Direct Bank, an UK online banking service provider, which is a subsidiary of HSBC. While First Direct offers whatever other banks offer, such as bank accounts, mortgage, loans and credit cards, insurance and travel and international finance products, the differentiator is not necessary on the generic product, but on expected product. While the product portfolio does not set the bank apart from other banks, the focus has been placed on customer service interface. First Direct's marketing communication is revolved around a simple message: "We never sleep, so you can. Real people, available however and whenever you need us. Banking you deserve. Always open 24/7." This is a direct confrontation to the commonly known problem in retail banking in that customers are often directed to an endless queuing system, which requires them to input information so that they can be directed to the right customer service departments. This is often a frustrating experience as customers expect to be served right away so that their problems are resolved in a timely manner. Technologies have been used to tackle the high volume of service requests in retail banking, such as automated customer system, using Interactive Voice Response (IVR), that could offer standardized and timely service. However, this often results in dissatisfied customers, whose problems and queries are complicated that require a customized response from "a real person." First Direct offers a unique proposition to their customers: "If you want to talk to us, you'll always be able to speak with a fellow human here in the UK, 24 hours a day, 7 days a week."

3 How to Differentiate: Approaches to Innovation

This section explores approaches to innovation that realize points of differentiation and transform them into values, sought and perceived favorably by customers. The discussion here is, therefore, firmly placed on approaches that fit such purpose, which are not limited to only product-focused, technical, innovation. Specific to commoditized markets, product and process innovation have mostly been exploited to capture the early adopters, who focus on performance and technical details of an offering (Moore, 2004). Research shows that as the market becomes more commoditized, firms benefit less from a product- or process-focused strategy, and instead marketing and customer insights become more important as customers know better what they want in a mature market (Reimann et al., 2010).

Innovation in its broader sense is not limited to the novelty of tangible features of a product. Chesbrough (2011) argues that product-focused innovation has its limits due to the commoditization, which makes it ineffective for sustaining a long-term competitive advantage. Product-focused firms encounter a differentiation bottleneck as they are faced with difficulties in maintaining a long-term advantage on the basis of product-focused innovation alone. This is due to the fact that knowledge and know-how permeate the wider sector, and this means that competitors can catch up on the technical improvements quickly. Low-cost production and shorter product lifecycle add further difficulties to product-focused firms in sustaining the differentiated position through innovation. While technical capability is one of the key aspects to innovating successfully, capturing the commercial value of the innovation in a saturated, mature market requires specific approaches to innovation that focuses on providing customers better experience and value (Moore, 2004). To realize the points of differentiation based on the core elements of a generic product as discussed in Sect. 2, firms need capabilities and capacity in innovation to translate the ideas into deliverable values. This section presents three approaches through which firms can explore and exploit the commercial value of their commoditized products.

3.1 Approach 1: Innovating for Customer Experience

Services provision has been the driving force and the source of growth for developed economies, and even manufacturing firms increasingly employ service strategies to compensate the stagnant growth in their products and drive the overall growth (Ostrom et al., 2010). Services have become a strategic option that provides an opportunity for manufacturers to develop a sustainable competitive advantage since services deliver desired values that contribute to customer satisfaction and loyalty, eventually leading to a competitive, profitably position in the marketplace (Heskett et al., 1994). The shift from a product-focused to a service-focused approach becomes important in a commoditized market where customers have sophisticated understanding of the products and may have diverse needs that could be satisfied by additional services, which enhance the utility and experience of the product. For instance, a supplier in the commodity chemicals sector that offer the generic materials, such as plywood, salt, plastic tubing, strip steel and nails, cannot differentiate on the generic product level, but can differentiate through augmentation that integrates additional services and relationship management into their offerings (Robinson et al., 2002). To satisfy customers' varying needs requires an adequate innovation capability as a vehicle for transforming the generic product into a customer-centric offering (Gebauer et al., 2011).

Services can be conceptualized in a offering as support to products or support to customers, according to Eggert et al. (2014). They investigated 513 German mechanical engineering companies that offered industrial services to their business customers. These services are not generic and have varying degree of customization, which is determined by level of risk, competition, and competitive advantage. Their findings suggest that services that are aimed at supporting customers have positive impact on revenue growth and profitability, while services that support the products only indirectly affect financial performance through customer service provision. However, for customer services provision to become effective and provide financial reward, it depends largely on a substantial base of loyal customers.

Similarly, Fang et al. (2008) argue for the benefit of transitioning from a product-centric to a service-centric providers in dealing with commoditization and globalization. They examined specifically what level of service intensity should be adopted to supplement a product in order to provide a total solution for customers. They suggest that manufacturers should utilize their expertise and knowledge in the product and develop suitable, complementary services that enhance customer usage of the product. In turn, this enhancement would increase customer loyalty when they perceive intangible aspects of the offering, such as brand related qualities and relationships, become more important to them. Based on the investigation on 477 US manufacturers between 1990 and 2005, it was found that for service-centric innovation to contribute to an overall competitive position, services sales should account for more than 20–30% of the total sales of a firm. Such service innovation strategy is also contingent on industry dynamics and is found to be more effective in a slow growing and turbulent (e.g., unpredictable and uncertain demand fluctuation) environment.

There is a clear motivation for manufacturing firms to embark on service innovation as it provides points of differentiation against their competition and increases customer intimacy and proximity, thereby increasing customer satisfaction. However, such substantial shift in focus from product to service also challenges a firm's innovation capability and capacity as the existing resources may not be geared up for developing and implementing services smoothly and efficiently. The cost associated with service transition or servitization may hurt firm performance, particularly at the start of the process. Kastalli and Van Looy (2013) argue that service innovation and its associated implementation of processes and transformation of the business model may not always guarantee competitiveness and performance. They conducted a longitudinal econometric study to investigate 44 national subsidiaries of a global manufacturing firm. The results suggest that when the service activity scale is low, the profit margin decreases and when it reaches to sufficient economies of scale, the profit margin increases. This highlights that the initial investment in service activity design and implementation may initially affect profitability. Furthermore, this highlights the critical role of fitting innovation capabilities to the transitioning from product-centric to service-centric business model where the implementation of services and integration with products reduce cost overtime due to the learning effect.

3.2 Approach 2: Innovating for Superior Value

Due to the process of commoditization, any product or service becomes increasingly standardized in a market that is characterized by competition imitation and more sophisticated, knowledgeable customers. One way to tackle the inevitable price competition is to focus on adding values, so the competition and differentiation are on the total value as perceived by customers, rather than price (Matthyssens & Vandenbempt, 2008). Building on a strong brand, marketing (non-technical) innovation provides a range of options that enhance the competitiveness of the product (Gupta et al., 2016). Marketing innovation is defined as "the implementation of a new marketing method involving significant changes in product design or packaging, placement, promotion or pricing" (Manual, 2005, p. 49). Marketing innovation aims to increase market share and sales and addresses issues in relation to positioning in the market, exposure of the products, responsiveness to customer needs, developing customer relationships, and adapting to customization (Manual, 2005).

Finetuning and calibrating value propositions through innovative marketing initiatives provide opportunity to engage existing and potential customers, e.g. non-users and competitors' customers. For instance, bundling, as part of pricing innovation, has been one of the effective tactics that aims at providing customers with a unique bundle of values through combining a range of products and/or services. This is to break off the "like for like" comparison in the marketplace that customers can easily assess with individual product specifications across different providers. When products are bundled in a way that is uniquely configured to give customers a superior benefits/price ratio, i.e., value, it becomes a strong differentiator that cannot be easily imitated by competitors, thereby ensuring a competitive advantage (Lawless, 1991) and profitability (Hinterhuber & Liozu, 2014).

This approach provides firms with an opportunity to leverage their existing products and/or services in a way that offers a superior value that does not provide a like for like comparison, thereby breaking the price competition. Apple One, for example, is a new bundle subscription plan based on Apple's existing services, which could be purchased separately. Three modular offerings based on the main components, Apple Music, Apple TV+, Apple Arcade, and iCloud storage, target at three segments, individual, family, and premium. These packages provide different levels of services, such as storage and sharing capacity as well as additional services, such as Apple Fitness+ and Apple News+. Price is determined by the total value of each package based on the services provided. Although these services are drawn from the existing portfolio, the innovation is the way they are combined that create a "new" offering, which redefines the value these services could offer separately. Bundling in this instance is a form of pricing innovation where value configurations are used to segment customer groups, which provides each segment with the desired value they are willing to pay for. This allows a firm to capture a large customer base that has varying valuation of the individual components (Hinterhuber & Liozu, 2014), e.g. valuation on music content offerings, Apple Music vs. Spotify.

The counter example of bundling is unbundling, which has been adopted by service providers, such as airlines. In the case of the airline industry, it is about unpacking different services and distinguish the core and peripheral elements. The core service is the safe and reasonably comfortable transportation of an individual to a destination. The peripheral services are on-board services (food, drinks, WiFi, etc.), check-in luggage, seat selection, and other services at the airport, such as the use of the airline dedicated lounge. The so-called no-frill airlines embrace such unbundling approach to lower their price substantially based only on the core services, which provides a superior benefits/price ratio. All peripheral services will be added to the core service either at the time of booking or on-board to determine the final price. Customers have control over what they actually need and pay for, and therefore it is more likely to result in satisfied customers, who have clear expectations of what they will receive in return against what they pay for. This allows service providers to differentiate the values sought by their customers, which can be further conceptualized and operationalized to determine levels of services based on quality and comprehensiveness of the offering (Song & Li, 2018).

Effective marketing innovation requires a functional, efficient system within the organization. Gunday et al. (2011) found that manufacturing firms with high level of organizational innovation are more innovative in their marketing approaches, owing to effective business practices, organization of activities, and external relations with key stakeholders, such as customers and suppliers. In turn, marketing innovation drives product and process innovation, particularly in a customer-focused market (Reimann et al., 2010).

3.3 Approach 3: Innovating for Value Creation

The last approach to innovation is business model innovation, which is pertaining to redefining “existing value proposition to the customer or a company’s established role in the value chain or both” (Moore, 2004, p. 88). Business model innovation aims to develop a framework or system that creates and delivers values to customers (Teece, 2010). Technology advancements are often the catalyst for business model innovation as real-time information and communication enable firms to deliver values in a speed that was previously not possible. The Internet has revolutionized the business landscape and provides limitless possibilities to create and deliver values that fulfill varying customer needs. Contents are created and shared instantly through information platforms, which bring together a valued network that connects organizations and consumers. The examples of such business model can be seen in some ecommerce markets, such as airlines, financial services, energy, grocery, and telecommunications, where consumers are connected with a constellation of providers that have a common goal to attract “traffic” (Holland et al., 2020). New business models, such as AirBnB, Uber Eat, and TripAdvisor, to name a few, are all built on platforms where consumers look for best suited offerings from a large number of providers that they would not have been able to identify in their own search. The differentiation is on the basis of how value is created and delivered, not necessarily on the products or services that are being considered. In addition, technologies have helped companies to understand their customers timely and precisely, owing to the use of sophisticated loyalty program, data analytics, and applications of big data. This makes targeted marketing and customization feasible.

Amazon’s continuous business model innovation since 1994 has seen it become the largest ecommerce company in the world with over $386 billion revenue in 2020. Its business model has been transformed from an online book seller to an all-encompassing ecommerce business that offers 26 major product categories, and a superior, ever increasing value to their customers. It has simplified an integrated process of searching, ordering, delivery, and return through their technologies, warehousing, and value network management. Its business model has changed over time to create and deliver a superior value to customers. For instance, Amazon Prime membership started out as a subscription for customers to save delivery costs so that they can order when and as they need to. Overtime, the Prime membership has become a powerful way to engage and develop relationships with customers through added values, such as free streaming of contents, early access to special deals, etc. Such continuous business model innovation and transformation has given Amazon a sustainable competitive advantage.

Ocado as the first UK online supermarket has a business model that is different from all other supermarkets that offer in-store grocery shopping. The kinds of grocery products that Ocado offers are similar to that of the big four supermarkets in the UK, Tesco, Asda, Sainsbury's, and Morrisons. Ocado has a completely different business model from their inception in 2000. Initially, it formed a partnership with Waitrose and carried and delivered Waitrose's products alongside their own labels to customers in the UK. They redefined grocery shopping, which captures customer's need to save time. They have no physical stores to display and accommodate the products, but they have the state-of-the-art automatic warehousing facilities, customer interface that is designed to maximize customer experience and a loyalty program (SmartPass) that helps in understanding, engaging, and delivering values to their customers. Most importantly, they have the know-how of the online grocery shopping business model that they can leverage and franchise to other supermarkets globally. Ocado only captures a small fraction of the grocery market share at 1.7% in 2020, compared to the big four, ranging from 10–27%, but it overtook the leader, Tesco, to become the most valuable retailer in the UK, owing to its unique business model that encompasses technologies, processes, and know-how to create and deliver values.

4 Conclusion

The purpose of this article is to provide a way of thinking for firms to identify what and how to differentiate their commoditized products and services that are subject to increasing price competition. A clear focus on customer needs and perceived values, whether they be current, potential, anticipated, or unanticipated, is essential to first evaluate the possibilities of differentiation based on the seemingly indifferent generic product. This underscores the importance of the market orientation of a firm that informs and drives an overall strategic intent that is firmly and clearly focused on customer needs (Kohli & Jaworski, 1990; Narver & Slater, 1990). Commoditization might seem to be an eventuality, but the possibilities to create and capture values beyond an existing product manifest themselves through customer insight and changing business landscape. Innovation is the vehicle that transforms and realizes the values that are sought by customers. In this sense, marketing function has to be seamlessly connected to the innovation if a firm is to successfully compete and ensure a differentiated position in the market (Han et al., 1998), especially in a highly competitive environment such as a commoditized market that is characterized by intense price competition (Grinstein, 2008).

The three approaches to innovation that address commoditization necessitate changes in resource utilization and innovation capabilities. The first approach that deals with customer experience entails, at a basic level, adding services to an existing product, and as a total offering it enhances customer experience. It aims at moving away from competing on a like for like product, and instead offering a solution package that enhances customer intimacy and satisfaction. Economies of scale and the smooth implementation of the additional service provision are key to ensuring a profitable and competitive position. Therefore, firms need to be mindful of necessary capabilities needed for innovation as well as resources in place for implementation that captures the commercial potential. The second approach is utilizing marketing innovation to influence customer perceptions and strategically position the offering based on a more desirable, differentiated value proposition. An established marketing function, which is embedded in an efficient system of organizational arrangement and operation, is necessary to facilitate marketing innovation through effective business practices, organization of activities, and external relations with key stakeholders, such as customers and suppliers. The third approach requires a redefinition of values and a business system that can create and deliver values. Embracing technologies is important in creating and delivering values, but without a sound business model, the value cannot be fully realized (Chesbrough, 2010).

It is apparent that firms are operating in an increasingly complex, interconnected business landscape with customers becoming more sophisticated and knowledgeable as a result of technological advancements. In this situation, innovation is a resource intensive process with a complex set of resources and activities, which go beyond organizational boundary (Chesbrough, 2003). This means that firms need to be able to mobilize resources that reside outside of the organization through their network of counterparts, such as customers, suppliers, distributors, competitors, academic and professional research institutions (Thornton et al., 2019). Such an open system perspective is not particularly the focus of this article, but it provides a wider framework for firms to gather and make sense of important market intelligence, such as customer insights, competition, technological developments, supply and demand trends and potentials, etc. Following this, how marketing drives innovation to create, deliver, and capture values can be built upon this open system perspective, which requires firms to be continuously evolved in its use of resources and development of capabilities.

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A Configurational Perspective on Brand Relevance in Commodity Markets

Alexander Leischnig and Anja Geigenmüller

1 Introduction

Differentiating offerings from those of rivals is a major challenge for companies operating in commodity markets. *Commodities* are goods and services that are perceived as alike by the vast majority of buyers, despite they have more or less objectively differentiating features (Enke et al., 2021). Examples of commodities are goods such as fruits or chemicals, and services such as transportation services or energy supply services (Bruhn & Zimmermann, 2021; Reimann et al., 2010). Some products are commodities by nature, the so-called born commodities (McCune, 1998), other products can transform into commodities over time through *commoditization*.

To combat commoditization and (re)establish a differentiated positioning, prior work suggests different approaches (e.g. Matthyssens & Vandenbempt, 2008; Rangan & Bowman, 1992). One of them is branding and the development of strong and powerful brands. A brand is defined as "a name, term, design, symbol or any other feature that identifies one seller's goods or service as distinct from those of

This chapter was originally published in German as Leischnig, A., & Geigenmüller, A. (2014). Wie wichtig sind Marken bei Commodities? Eine konzeptionelle Analyse, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_16

other sellers" (American Marketing Association, 2021). Prior work indicates mixed results regarding the relevance of brands in commodity markets (e.g. Betts, 1994; Saunders & Watt, 1979; van Riel et al., 2005).

To further the understanding of brands and branding for commodities, this article provides a definition of the concept and explains its theoretical underpinnings. Next, this article briefly discusses selected studies on brand relevance for commodities. This article outlines how a configurational view could contribute to a better understanding of brand relevance and provide novel pathways of theorizing. The article concludes with a discussion of directions for further research.

2 Conceptual Background

2.1 The Relevance of the Brand as a Purchase Criterion

Buying decisions usually involve the weighing of a large number of different criteria (Ozanne & Churchill, 1971). The purchase decision made depends not only on the particular criteria chosen, but also their importance as perceived by buyers (Caspar et al., 2002). Both tangible and intangible factors can influence purchase processes (e.g. Abratt, 1986; Lehmann & O'Shaughnessy, 1974). This article focuses on the brand and the importance of this criterion for buyers in commodity markets.

The brand relevance construct has been examined from different perspectives. Some studies examine the relevance of specific brands, while others focus on the criterion brand in general; some studies assess the relevance of brands for a specific buyer group, while others assess it for buyers in general (e.g. Donnevert, 2009; Fischer et al., 2010). For example, Kapferer and Laurent (1992) discuss customers' brand sensitivity, which refers to the general influence of the brand criterion on customers' purchase decision. Aaker (2004a, 2004b, 2011) notes that for brand relevance to exist three requirements should be met as follows: (1) There is a product (or service) category or sub-category, which can be characterized by certain characteristics, user groups, applications or other differentiating features. (2) There is a need or desire for this category or sub-category on the part of a customer segment. (3) The brand is available in the category which is considered important by the segment to satisfy their needs. Similarly, other studies examine brand relevance in category and refer to it as the role of brands in buyers' decision-making with regard to a specific category (e.g. Caspar et al., 2002; Donnevert, 2009; Fischer et al., 2010). In line with this work, this article defines *brand relevance as the importance that buyers attach to the brand criterion when selecting and buying commodities.*

Prior studies suggest that an information-economic perspective (Nelson, 1970, 1974; Spence, 1973, 1974) provides a useful theoretical lens to further the understanding of the role of brands (e.g. Erdem & Swait, 1998; Erdem et al., 2006; Leischnig & Enke, 2011; Swait & Erdem, 2007). Purchase decisions as part of the buying process are often based on evaluation and selection processes. Buyers need to gather and process information about the items, brands, producers, etc., and eventually form judgements for or against particular offerings. Oftentimes these situations are characterized by imperfect information states and information asymmetries, leading to risk perceptions. To reduce the risk, market actors engage in communication activities in the form of signalling and screening, which can take different forms (e.g. Kirmani & Rao, 2000).

With signalling the better informed market actor sends information to the less informed market actor, while with screening the less informed market actor searches for information to support their decision-making and reduce uncertainty. An essential element in both processes is the use of signals, that is, “manipulable attributes or activities that convey information about the characteristics of economic agents” (Erdem & Swait, 1998, p. 134). In market exchanges, sellers use signals to inform about the features and benefits of their offering as well as the company as a whole. Buyers use signals to assess the quality and performance of an offering (and its producer). The cues that buyers process may include intrinsic cues about an object to be bought (e.g. ingredients or functionalities) as well as extrinsic cues (e.g. brand, price or packaging) (Richardson et al., 1994). Brands can serve as cues allowing buyers to draw conclusions about the quality of a product or service (Dawar & Parker, 1994; Erdem et al., 2006; Kirmani & Rao, 2000; Leischnig & Enke, 2011).

Within this context, studies indicate that brand benefits affect the relevance of brands (e.g. Backhaus et al., 2011; Fischer et al., 2010; Leischnig & Geigenmüller, 2011; Michell et al., 2001; Mudambi, 2002;). Brand benefits refer to the personal value that buyers attach to the attributes of a branded offering (Keller, 1993). Depending on the underlying needs that are addressed, different brand benefits can be distinguished such as functional, experiential and symbolic benefits (Park et al., 1986). Studies show that information efficiency, risk reduction and image benefits are three important brand benefits that increase the importance of brands in purchase situations (e.g. Backhaus et al., 2011; Fischer et al., 2010; Leischnig & Geigenmüller, 2011). For example, brands provide product identity and serve as information chunks that capture plenty of information about an offer (Jacoby et al., 1974; Jacoby et al., 1977). As such, they reduce information search and processing costs and increase information efficiency. Brands also reduce the risk in purchase situations (e.g. Backhaus et al., 2011; Leischnig & Enke, 2011). Risk perceptions relate to the anticipation of losses associated with the purchase of an item (Peter & Ryan, 1976). The promises that a brand makes can address this risk and increase trust in the actual and future performance of a product, thus strengthening a buyer’s product confidence and reducing the perceived risk (Ambler, 1997; Keller & Lehmann, 2006; Leischnig & Enke, 2011). Finally, image benefits relate to the brand image that a specific brand has and that may transfer to a buyer once the brand has been bought. Image benefits are based on the notion of brands as symbolic devices and include aspects such as reputation, prestige and social demonstration (Fischer et al., 2010).

2.2 Perspectives on the Relevance of Brands in Commodity Markets

Studies examining the relevance of brands in commodity industries have approached the topic from the seller and/or the buyer perspective (see Table 1 for an overview of selected articles of both research strands). There seems broad consensus in prior work adopting a *seller perspective* that companies operating in commodity markets can generate added value by developing brands and thus differentiate themselves from competitors (Dumlupinar, 2006; McQuiston, 2004; Stanton & Herbst, 2005). In a case study of the steel industry, McQuiston (2004) illustrates that the branding of industrial goods can be effective when brands are understood as a promise of a holistic solution to customers. In addition, this study shows that building a brand helps create strong relationships between a company and its customers. Stanton and Herbst (2005) also highlight the relevance of brands in commodity markets. Based on three agri-business cases, the authors conclude that commodities should "begin to act like branded companies" (Stanton & Herbst, 2005, p. 7). In line with this, Dumlupinar (2006) points to branding as a possible way to escape the commodity trap by achieving a differentiated position in the market. Finally, Panwar and Khan (2020) suggest that ingredient branding might serve as a useful strategy to generate added value for customers and differentiate offerings in competitive commodity markets.

Studies adopting the *buyer perspective* indicate mixed results regarding the relevance of brands in commodity markets. Several studies reveal that companies offering commodities or commodity-like products should focus on corporate branding rather than product branding (Betts, 1994; Saunders & Watt, 1979; van Riel et al., 2005). For example, a study in the synthetic fibre industry indicates branding alone is unlikely to be of value and the development of multiple product brands can increase confusion on the side of customers (Saunders & Watt, 1979). In addition, a study in the wood industry reveals that retailers of wood panels base their procurement decisions largely on the criteria price and availability (Sinclair & Seward, 1988). However, this study also shows that some manufacturers of wood panels have been able to achieve a high brand awareness, brand preference and premium price through branding. In a study in the wallpaper industry, Betts (1994) finds that although customers are aware of the use of names for wallcoverings, they often fail to associate the brand names with the actual products. The study, therefore, suggests that companies should focus on developing a corporate brand identity. The notion that corporate brands appear to be more important in commodity markets than product brands finds further support in a study in the chemical industry. Specifically, van Riel et al. (2005) show that the effect of corporate brand equity on customer loyalty is slightly stronger than the effect of product brand equity on customer loyalty. The ability of corporate brands to de-commoditize offerings and generate a differentiated position has been also demonstrated by studies in the logistics services industry and the energy industry. Davis et al. (2008) show brands can differentiate logistics services and brand equity can be built for this commodity service. Furthermore, with focus on the energy industry, Wiedmann (2005) and

Table 1 Overview of selected articles on brand relevance in commodities

Study	Focus	Context	Key findings
Seller perspective			
McQuiston (2004)	Branding of industrial goods	Steel industry	– Branding of industrial goods is successful if the brand is understood as a promise of a holistic solution to customers. – Building a strong brand helps create strong relationships with customers.
Stanton and Herbst (2005)	Relevance of brand management for commodities	Agricultural goods industry	– Marketers of agricultural commodity goods should act like branded companies. – Brand management should identify customer needs, segment customer markets, determine target groups and position the brand.
Dumlupinar (2006)	Approaches to de-commoditize	No industry focus	– Differentiation of commodities requires the provision of added value. – Building strong brands by creating brand equity is a route to differentiation.
Panwar and Khan (2020)	Ingredient branding	No industry focus	– Ingredient branding may serve as a differentiation approach for commodity products.
Buyer perspective			
Saunders and Watt (1979)	Relevance of brand names to differentiate identical industrial goods	Synthetic fibres industry	– Branding alone is unlikely to be of value in the fibre industry. – Brands can increase consumer confusion. – Corporate image advertising is more effective than promoting several product brands.
Sinclair and Seward (1988)	Branding effectiveness for commodities	Wood industry	– Price and availability are the most important purchase decision criteria for retailers of commodity-like wood panels. – Through their brand strategy, some manufacturers were able to achieve a high brand awareness, brand preference and a premium price.
Betts (1994)	Importance of brands to differentiate commodities	Wallpaper industry	– Customers often conceive brands as product names in the wallcovering market. – Retail companies can

(continued)

Table 1 (continued)

Study	Focus	Context	Key findings
			influence brand perception at the point of sale. – Manufacturers should build a strong corporate brand image.
Wiedmann (2005) and Wiedmann and Ludewig (2014)	Brand equity and brand management	Energy industry	– A differentiated brand association network helps companies to differentiate in competitive markets. – Such an association network might centre around local branding for the German energy market. – Brand equity-oriented brand management can pay off for companies in commodity markets.
van Riel et al. (2005)	Industrial branding and brand equity	Chemical industry	– Brand equity has a significant role in industrial branding. – Buyers' perceptions of marketing mix elements affect brand perception and evaluation. – Corporate brands seem slightly more important than product brands in industrial markets.
Davis et al. (2008)	Brand relevance in industrial services	Logistics services industry	– Brands differentiate the offerings of logistics service providers. – Service providers and customers differ regarding the relative influence of brand image and brand awareness on brand equity.
Leischnig and Geigenmüller (2011)	Brand relevance for commodities	Food industry	– Brand relevance depends on brand benefits. – Brand relevance increases brand loyalty and customers' willingness to pay.
Larsen (2014, 2017)	Brand differentiation	Energy industry	– Brands can contribute to differentiation in the energy sector via five dimensions: price, service, green factors, image and infrastructure.

Wiedmann and Ludewig (2014) demonstrate that energy providers can escape cutthroat price competition by stimulating a differentiated brand association network centred around a local brand strategy. Energy providers should pursue an integrated brand concept that expresses customer orientation, competence and local relevance. Finally, Larsen (2014, 2017) suggests based on a study in the energy industry that brands can help achieve a differentiated position based on factors including service, price, infrastructure, image and sustainability.

3 A Configurational View on Brand Relevance

As the preceding sections have shown, prior studies have produced a rich body of work on brand relevance in general and in commodity markets in particular. The studies have illuminated the concept from different viewpoints, thereby contributing to a better understanding of the construct. From an epistemological point of view, the majority of these studies can be categorized as variance theoretical investigations. *Variance theories* aim to explain phenomena by analysis of relationships between independent and dependent variables that represent characteristics of units of analysis (Mohr, 1982; Van de Ven & Poole, 2005). Variance theories involve the formulation of cause-and-effect statements about associations between the variables that are then empirically tested, thereby explaining change in the dependent variable through the independent variables under investigation (Blalock, 1972; Van de Ven & Huber, 1990; Van de Ven & Poole, 2005). Variance theories can be generalized when their uniformity across different contexts is established, that is, the "range of cases, phenomena, or situations that the causal explanation applies to" (Van de Ven & Poole, 2005, p. 1383). Studies on brand relevance that fall into this category have shown how, for example, brand benefits influence the importance of brands or how brand relevance affects attitudinal and behavioural responses of buyers. The studies thus provide valuable insights into important net effects (Ragin, 2008) of factors.

Recent research suggests that configurational thinking and the investigation of configurational effects may provide additional insights and offer new ways of theorizing and empirical testing (e.g. Furnari et al., 2021; Misangyi et al., 2017; Woodside, 2014). *Configuration theories* are based on the notion that many phenomena are characterized by causal complexity, that is, a situation "in which a given outcome may follow from several different combinations of causal conditions—from different causal 'recipes'" (Ragin, 2008, p. 124). Configurational thinking and configuration theories are based on the ideas of conjunction (an outcome may depend on multiple factors that work together), equifinality (different configurations of factors for an outcome can coexist), and asymmetry (configurations for an outcome and its negation are not necessarily mirror pictures) (Fiss, 2011; Ragin, 2008). As such, configuration theories may serve as inquiring systems to further the understanding of brands and brand relevance by contributing to a better understanding of configurational effects.

The configurational approach based on (fuzzy-set; fs) qualitative comparative analysis (QCA) has been proven as useful to examine and probe configuration theoretical propositions (e.g. Misangyi et al., 2017). (Fs)QCA is a set-theoretic method that has sparked a number of configurational studies in different academic disciplines in the past years. It understands empirical cases as combinations of conditions and builds upon the premise that the relationships between the conditions can be described as set relations: subset and superset relations (Fiss, 2011; Ragin, 2008). Analysis of the set relations then provides insights into the explicit connections between the concepts under investigation, which are described in terms of necessity and sufficiency. A condition (or a configuration of multiple conditions) is necessary if its occurrence is a prerequisite for an outcome, and a condition (or a configuration of multiple conditions) is sufficient if it can bring about an outcome (Ragin, 2000, 2008). A unique feature of QCA is its ability to accommodate the tenets of configuration theory and thus contribute to a deeper understanding of causal complexity. Specifically, the method considers that an outcome of interest hardly ever depends on a single antecedent and that multiple antecedents rarely operate in isolation from one another to bring about an outcome (Greckhamer et al., 2008; Rihoux, 2006). In addition, it incorporates the notions of asymmetry and equifinality, thus having the capacity to provide insights into (multiple) pathways leading to an outcome of interest and its negation (Ragin, 2008).

Configurational thinking and the configurational approach have been used in the branding literature. For example, Grohs et al. (2016) investigate equifinal pathways to generate brand strength in two product categories (i.e. gasoline and toothpaste). In addition, Chatzipanagiotou et al. (2016) conduct a configurational analysis to better understand brand equity.

4 Discussion

Development and probing of configuration theories may also contribute to a better understanding of commodity branding and brand relevance. The following sections seek to sketch avenues for further research using a configurational approach.

As studies have shown, brand benefits are important antecedents of brand relevance (e.g. Backhaus et al., 2011; Fischer et al., 2010; Leischnig & Geigenmüller, 2011). Here, an interesting avenue for future studies involves the investigation of *configurations of brand benefits* that are sufficient for a high brand relevance. Such a study would provide insights into the compound effect of multiple brand benefits and, perhaps, indicate alternative configurations (i.e. patterns of brand benefits) that can lead to a high brand relevance. Inspection of the composition of (equifinal) configurations could reveal reinforcing effects between brand benefits (i.e. what particular brand benefits form a configuration and work together in predicting brand relevance), thus allowing researchers to draw conclusions about possible reasons for coherence and themes of patterning. Overall, the insights produced by such an analysis could complement those of existing studies, which have most commonly looked at the net effects of specific brand benefits on brand relevance.

A further avenue for future studies involves an extension of the above-mentioned model and the *analysis of contexts* in which brand benefits contribute to brand relevance. Buyers can vary greatly in terms of their value appraisal and therefore react differently when exposed to communications promoting different brand benefits (Orth et al., 2004). Thus, the question arises when brand benefits bring about brand relevance. Using a configurational approach, future studies could examine configurations of brand benefits and additional buyer-related (e.g. personality traits) and situation-related factors (e.g. shopping purposes) to better understand the interplay between brand benefits and contextual conditions in forming configurations that indicate a high brand relevance.

Finally, a third avenue for research could involve a *configurational analysis of multiple purchase criteria* (i.e. the brand and other extrinsic and intrinsic cues such as price, packaging, quality, material, etc.) as predictors of buyer behaviour. Such a study could offer insights into configurations of purchase criteria sufficient for explaining buyers' purchase intentions. It might help understand when the brand criterion is part of a sufficient configuration and what other cues are required to form a configuration to bring about high purchase intentions. The findings of such a study could advance the knowledge about cue effects on buyer behaviour (e.g. Richardson et al., 1994) and complement the findings of existing studies with novel insights into configurational effects and patterns of cues that affect buyer behaviour.

5 Conclusion

The purpose of this article was to further the understanding of brand relevance in commodity markets by summarizing key findings of prior work and by pointing to configuration theory as an inquiring system for new ways of theorizing and empirical investigation. Many phenomena in branding and brand management are characterized by complex causation. Configuration theories and methods may help approach and explain such phenomena. This article, therefore, calls for further configurational studies on brands and branding.

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Influencer Marketing as a Counterstrategy to the Commoditization of Marketing Communications: A Bibliometric Analysis

Mandy Pick and Marko Sarstedt

1 Introduction

Advertising seems to be everywhere. We wake up in the morning and immediately glance at our smartphones. Pop-up notifications of various apps and newsletters are already waiting on us in our inboxes. As the day progresses, we are exposed to billboards, newspaper advertising, radio and TV commercials, and many other types of advertisements. Consumers are increasingly overwhelmed by the sheer volume of advertising appeals, making it difficult for companies to reach them. This information overflow has drastically reduced advertisements' effectiveness (e.g., Anderson & de Palma, 2012), leading to their commoditization.

As marketers became aware of the difficulties of communicating with clients through traditional advertising, they turned to new online marketing formats. A particular promising communication type in this regard is *social media-based influencer marketing* (IM), which has gained prominence in marketing practice. For example, the Influencer Marketing Hub Institute, which regularly surveys marketing agencies, brands, and other industry professionals, estimates the market size of the IM industry at US$9.7 billion (Influencer Marketing Hub, 2020). According to Relatable (2019), 94% of all marketing practitioners consider IM as a useful marketing tool.

These figures are mirrored in various research studies, which offer empirical support for IM's effectiveness. For example, Dost et al. (2019) underline IM's seeding potential, showing that it can increase the sales of fast-moving consumer goods by up to 18%. Schouten et al. (2019) find that influencer campaigns result in greater advertising effectiveness than traditional celebrity advertising, because consumers trust influencers more. In light of these results, it is unsurprising that

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_17

Voorveld (2019) considers IM as one of six essential directions for future research on brand communication in social media.

Several researchers have conducted systematic literature reviews of prior research to summarize the state of IM research. For example, Hudders et al.'s (2020) review discloses three research streams that characterize the field: consumers' perception of influencers, the classification of content strategy types, and the perception and efficacy of their content. In previous but related research reviews, Sundermann and Raabe (2019) focused on influencer communication and de Veirman et al. (2019) on the impact of IM on children.

While these reviews provide a qualitative summary of the state of research, they do not reveal the collaboration networks that have shaped the field over the years. More specifically, they do not offer any insights into the structure of networks of joint scholarly work, which serve as the basis of the IM domain's state of knowledge (Adler & Sarstedt, 2021; Fritze et al., 2018; Khan et al., 2019).

Addressing this concern, this chapter presents the results of a comprehensive bibliometric analysis of IM research. Bibliometric analyses differ from qualitative literature reviews since they allow the statistical evaluation of a large number of research papers with the aim of measuring their impact on the scientific community (Broadus, 1987; Diodato & Gellatly, 2013; Pritchard, 1969). By relying on citation patterns, keywords, and other paper information, bibliometric analyses offer unique insights that extend beyond qualitative literature reviews and that increase the transparency of the research process, thereby maximizing the reproducibility of results (Aria & Cuccurullo, 2017).

Our bibliometric analysis of 132 papers—published between 2011 and 2020 in 65 peer-reviewed journals with a specific focus on marketing—discloses four prominent research streams in the IM field (principles of IM, advertising disclosure effects, source credibility and endorsement, and para-social interaction) and reveals several research gaps. We also find that the past two years have seen a surge in IM research, involving many authors who have already formed initial collaboration networks on various topics, such as advertising disclosure and its effects on children and adolescents or para-social interaction, and its decisive role in consumer buying behavior. Finally, our keyword analysis also discloses research trends that have emerged over the past 4 years.

Our findings not only offer insights into the state of IM research but suggest promising areas for future research. They also provide recommendations to marketers, which will allow them to avoid the commoditization of marketing communications by using IM.

2 Theoretical Background

2.1 Marketing Communication Commoditization

When consumers regard services provided by different suppliers as homogeneous and interchangeable, these services turn into a commodity (Rangan & Bowman, 1992). This is the current position of marketing communication. Advertising is omnipresent and companies often fail to adequately differentiate their marketing communication from that of competitors. Companies' response to the COVID-19 pandemic is an excellent example of this commoditization of marketing communications. Practically all COVID-19 pandemic response ads emphasize that we are living in "*uncertain times,*" but that "*we're here for you*." The companies insist that their main priority is "*people*" and "*families*" and by bringing their services to the "*comfort and safety of your home,*" conclude that "*we're all in this together!*"[1]

This homogenization of advertising appeals has had a detrimental effect on the consumers' experiences, decreasing their involvement and ultimately leading to passive information processing behavior. Similar developments have been observed in other contexts, such as banner advertising (e.g., Braun & Moe, 2013) and mobile in-app advertising (Sun et al., 2017), which drastically reduce the effectiveness of these types of advertising after repeated exposure.

Marketing communication is regarded as a "New Commodity," implying that a service or a good has lost its power of differentiation and has turned into a commodity. In the process, marketing communication has also lost most of its effectiveness.

To de-commoditize new commodities requires re-establishing the differentiation by changing the content or perception of particular service characteristics (Dickson & Ginter, 1987; Matthyssens & Vandenbempt, 2008). As we will argue, IM is a vehicle that caters to this aim.

2.2 Influencer Marketing

Influencers, more specifically social media-based influencers, "are content creators who accumulated a solid base of followers" on one or more social media platforms and "provide their followers an insight into their personal, everyday lives, their experiences and opinions" (de Veirman et al., 2017, p. 801). We speak of IM when influencers use their reach to convince their community of a product, brand, or service (Brown & Hayes, 2008; de Veirman et al., 2017). Institutions such as the European Advertising Standards Alliance (EASA) and the US American Federal Trade Commission (FTC) have formulated their own definitions of IM, serving as a standard for regulatory activities (EASA, 2018; FTC, 2017). For example, EASA defines IM as a type of marketing communication "if marketers or brand owners approach users to generate content in exchange for payment or other reciprocal arrangements, and have control of the content" (EASA, 2018, p. 7).

Sundermann and Raabe (2019) differentiate between influencers and regular celebrities in terms of four dimensions: Influencers (1) gain prominence by their social media work; (2) are considered more accessible and connected than celebrities; (3) can create more authentic messages by co-producing and modifying

[1] https://www.youtube.com/watch?v=vM3J9jDoaTA.

the content of the original advertised message; and (4) have the means to develop unique content since they are usually not employed by a specific company.

Marketing research offers insights into the effectiveness of this marketing type. Followers assume that influencers' intentions are not to sell—as is the case with direct advertising—but to communicate and inform their community by creating content on social media platforms (Abidin, 2016; Brown & Hayes, 2008; de Veirman et al., 2017). They appear more credible than celebrity endorsers because their origins and circumstances are often the same as those of the customers; they communicate directly with their followers (Djafarova & Rushworth, 2017), turning themselves into new role models and opinion leaders.

Initially, IM was used to primarily address younger target groups, as they have become increasingly difficult to reach through traditional advertising media (Audiencenet, 2018; Pick, 2020). However, in recent years, IM has also been successfully used to target older consumer groups. For example, according to ThinkNow (2019), 26% of 39- to 54-year-old US online users pay attention to influencer recommendations.

2.3 Influencer Marketing to De-commoditize Marketing Communication

Prior research has shown that companies can de-commoditize a product or a service by differentiating their offering through superior customer relationships. To establish superior customer relationships, companies need to communicate directly and individually with their customers. IM offers a suitable means to achieve these goals. The possibility of direct communication and a high level of individualization of the advertised products and services' messages considerably strengthen the relationship between followers and influencers. The higher perceived proximity results in an increased acceptance of the advertising and a greater willingness to buy the product or service (e.g., Gong & Li, 2019; Munnukka et al., 2019). Customers' voluntary choice to follow influencers and their content further contributes to IM's effectiveness. This type of self-selection eases the targeting of followers with specific interests.

In addition, IM allows companies to implement better co-marketing strategies that further increase differentiation in marketing communications, thereby contributing to the de-commoditization (Matthyssens & Vandenbempt, 2008; Windahl & Lakemond, 2006). By analyzing the interaction content between influencer and followers and their comments, a company can refine its customer orientation and better meet customer needs, ultimately leading to more profitable customer relationships (Matthyssens & Vandenbempt, 2008).

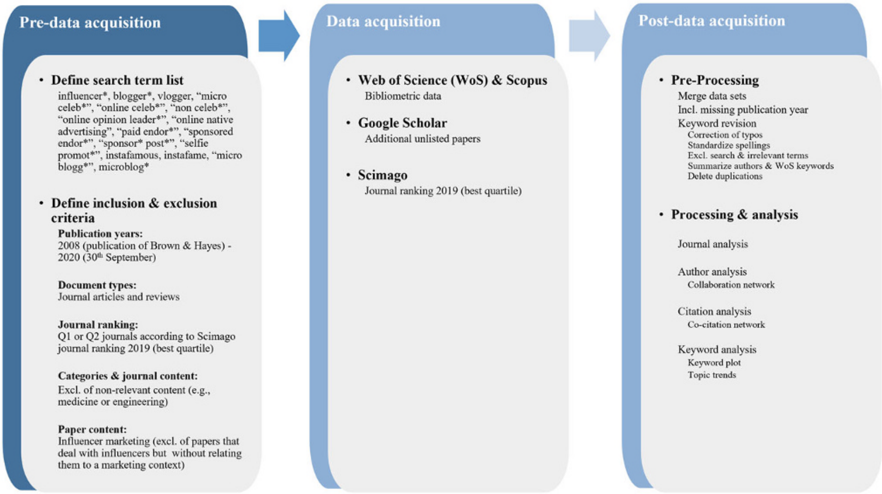

Fig. 1 Workflow of data acquisition and the processing of the subsequent bibliometric analysis

3 Method

Our bibliometric analysis builds on data from the Web of Science (WoS) and Scopus. To ensure the inclusion of all relevant and most recently published papers, we supplemented the WoS and Scopus data with manual entries. We compiled a comprehensive search term list and defined exclusion or inclusion criteria to identify the relevant papers. After this, we searched the databases with the assistance of the predefined search query and acquired the data. In a final post data-acquisition process, we pre-processed the data and commenced with the data analysis. Figure 1 illustrates our research process.

3.1 Keyword and Paper Search

We conducted a detailed review of previously known literature on IM to extract the most frequently used keywords, in order to generate the search term list. We selected several search terms covering the terms *influencer* (e.g., online celebrity, instafamous) and *influencer marketing* (e.g., sponsored endorsement, selfie promotion), as well as their applications. Based on this analysis, we conducted a first WoS search using the platform's advanced topic search. We reviewed the papers' keywords and WoS keywords (keywords Plus®, Garfield & Sher, 1993) for the most frequently used keywords and added missing but relevant keywords, related to

Table 1 Reduced list of subject categories

Area Studies	Cultural Studies	Language & Linguistics	Psychology, Multidisciplinary
Asian Studies	Development Studies	Linguistics	Psychology, Social
Behavioral Sciences	Economics	Management	Social Issues
Business	Environmental Sciences	Multidisciplinary Sciences	Social Sciences, Interdisciplinary
Business, Finance	Environmental Studies	Music	Social Work
Communication	Film, Radio, Television	Operations Research & Management Science	Sociology
Computer Science, Artificial Intelligence	Food Science & Technology	Political Science	Sport Sciences
Computer Science, Cybernetics	Green & Sustainable Science & Technology	Psychology	Statistics & Probability
Computer Science, Information Systems	Hospitality, Leisure, Sport & Tourism	Psychology, Applied	Telecommunications
Computer Science, Interdisciplinary Applications	Humanities, Multidisciplinary	Psychology, Developmental	Urban Studies
Computer Science, Theory & Methods	Information Science & Library Science	Psychology, Experimental	Women's Studies

the terms influencer and influencer marketing and their applications, to our initial list.

Using this final list of keywords, we initiated the paper search. We restricted our search to those papers published in journals ranked in the first and second quartile (Q1 and Q2) in the 2019 SCImago journal ranking (SCImago, n.d.). In addition, we set our research's time frame to the period from 2008 to 2020 (data generation date: September 30, 2020). We selected 2008 as the starting year, being the year of publication of Brown and Hayes' (2008) seminal work, "*Influencer Marketing: Who really influences your customer.*" As our analysis solely focuses on marketing-related topics, we excluded papers that did not fit the categories (e.g., medicine, engineering). Table 1 contains the reduced lists of subject categories considered in our analysis.

In addition, our analysis focused explicitly on IM literature in the context of social media networks like YouTube, Facebook, and Instagram. Papers dealing exclusively with weblogs (e.g., Colliander & Dahlén, 2011; Lu et al., 2014) were therefore excluded from the list. These weblogs have lost most of their importance in the context of IM, particularly in recent years, as consumers tend to follow the content of influencers on other platforms (Morning Consult, 2019).

3.2 Bibliometric Analysis

To investigate our data, we ran a series of bibliometric analyses in R (R Core Team, 2021), drawing on Aria and Cuccurullo's (2017) Bibliometrix tool and Biblioshiny app. We specifically examined the publications per year, journals, authors, citations, and the topic structure. To determine the first thematic connections, we carried out an author analysis that extracts information on each author's prominence in the network. We searched for research collaborations, thematic foci, and co-authorship developments in collaboration networks and presented them graphically. In order to identify thematic structures, we created a reference co-citation network, which contains the citations between and within the papers' references. Using the network data as input, we applied the Louvain clustering algorithm (Blondel et al., 2008) and used the corresponding Shiny app for the visualization (Aria & Cuccurullo, 2017). Finally, we performed a keyword and related topic analysis to identify additional research themes and topic trends.

4 Results

4.1 Data Pre-Processing

The WoS search yielded 1663 results. Following a screening of the keywords, titles, abstracts, and journals, we excluded 1404 publications because of their content. The term "influencer," in particular, resulted in many redundant publications that we excluded from the analysis, yielding a preliminary data set containing 259 papers. In the next step, we screened these papers in order to identify those that deal with IM in a marketing context. This analysis yielded a final data set of 132 papers (129 empirical papers and 3 review papers), 112 (84.85%) of which appear in Q1 journals.

Before initiating a further analysis, we merged the authors' keywords and the WoS keywords (keywords Plus®; Garfield & Sher, 1993). We also corrected typing errors and different spellings (e.g., eWOM and electronic Word of Mouth, singular and plural spelling), and merged terms with the same meaning (e.g., purchase intent and purchase intention). In addition, we excluded the search terms and non-expressive keywords (e.g., social media, model, internet). Finally, we removed duplicates from the data set.

An initial content analysis showed that the papers cover a broad range of products, brands, and services. Not surprisingly, a large proportion of the studies deals with fashion ($n = 25$) (e.g., de Lenne & Vandenbosch, 2017; McFarlane & Samsioe, 2020), emphasizing IM's importance in this product category (e.g., Esteban-Santos et al., 2018; Lee & Watkins, 2016). Considering the social media platforms, most studies focus on Instagram ($n = 45$) and YouTube ($n = 30$), which is understandable since they are the most important global platforms for influencer-brand cooperation (eMarketer, 2018). However, other platforms were considered, including Twitter ($n = 9$), Facebook ($n = 4$), and Weibo ($n = 2$).

4.2 Publication Year

Our search results show that although Brown and Hayes (2008) are regarded as the pioneers of IM, scholarly research on this topic only started some years later with Freberg et al. (2011). While a scant interest was shown in IM during the early years, research picked up in 2015, culminating in a surge of papers in 2019 and 2020. Even though our analysis only covers papers until September 2020, these two years account for 70% of all published papers. Our results nonetheless provide evidence of a substantial increase in research interest during 2020. Figure 2 provides a detailed illustration of these developments.

4.3 Journal Analysis

The 132 papers were published in 65 journals, confirming that IM research covers a wide range of research outlets.[2] The ten most frequent journals are *Computers in Human Behavior* ($n = 9$), *International Journal of Advertising* ($n = 8$), *Journal of*

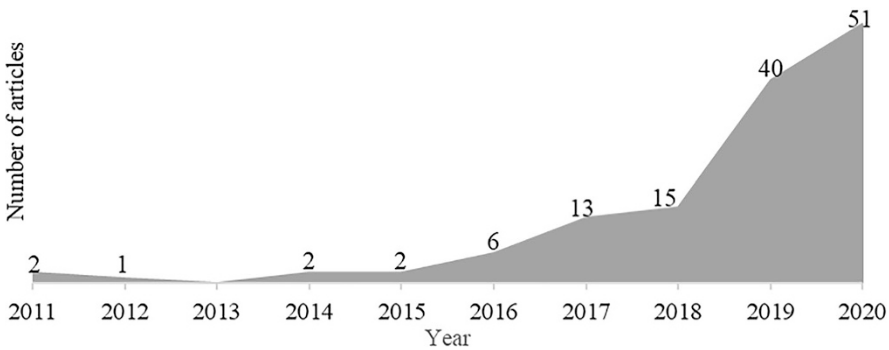

Fig. 2 Number of papers per year

[2]Due to the large number of journals, we were unable to examine journal citation networks, which allow the analysis of citation ties between the various journals. Furthermore, because of the relatively small number of published papers in the early years (2011–2018, $n = 41$), we were unable to disclose any temporal developments of papers per journal.

Table 2 Ten most frequently represented countries

Country	Frequency
USA	84
Netherlands	21
UK	20
Germany	16
Belgium	15
Spain	15
China	14
Australia	12
Portugal	9
South Korea	9

Retailing and Consumer Services ($n = 7$), *Journal of Fashion Marketing and Management* ($n = 6$), *Journal of Business Research*, *Journal of Marketing Management*, *Psychology & Marketing*, *Social Media + Society* (all $n = 5$), *Frontiers in Psychology*, and *Journal of Advertising* (both $n = 4$).

We also considered the most frequently locally cited journals, that is the number of times a journal was cited in the references of the data set (Aria & Cuccurullo, 2017). The most frequently locally cited journals are the *Journal of Advertising* ($n = 359$), *Computers in Human Behavior* ($n = 317$), and *Journal of Consumer Research* ($n = 299$). The first two journals not only play a key role in the publication of IM research, but they also serve as important references for researchers working in the field. However, according to our search criteria, it is interesting to note that although the *Journal of Consumer Research* features prominently as a reference, it has not published a single paper on IM as of the date of data collection (September 30, 2020).

4.4 Author Analysis

The 132 papers in our data set have 320 different authors. Only 12 were single-authored papers. The average number of authors was 2.4 per paper. The authors originate from 32 different countries, mainly from the US ($n = 84$), the Netherlands ($n = 21$), and the UK ($n = 20$). Table 2 lists the ten most frequently represented countries.

To further analyze the author data, we created collaboration networks in which the nodes refer to the authors and the node sizes to their importance for the network, representing the number of interactions with other authors in the network. Authors are connected via edges, the weights of which refer to the number of co-authored papers. To ensure the networks' explanatory value, we only considered networks containing at least two papers. Table 3 lists the most relevant authors in terms of their publication output and their corresponding collaboration network. The analysis disclosed nine collaboration networks (Fig. 3) comprising 55 authors.

Table 3 Most relevant authors, who published at least two papers, and their corresponding collaboration network

Authors	Authors (short)	Papers	Collaboration network
Hudders, L.	HUDDERS L	6	1
Reijmersdal, E. van	VAN R E	5	1
Veirman M. de	DE V M	4	1
Jin, S. V.	JIN S	4	5
Cauberghe, V.	CAUBERGHE V	3	1
Rozendaal, E.	ROZENDAAL E	3	1
Ryu, E.	RYU E	3	5
Lou, C.	LOU C	3	9
Boerman, S.	BOERMAN S	2	1
Jans, S. de	DE J S	2	1
Sompel, D. van de	VAN D S	2	1
Boyland, E. J.	BOYLAND E	2	2
Christiansen, P.	CHRISTIANSEN P	2	2
Coates, A. E.	COATES A	2	2
Halford, J. C. G.	HALFORD J	2	2
Hardman, C. A.	HARDMAN C	2	2
Colliander, J.	COLLIANDER J	2	3
Stubb, C.	STUBB C	2	3
Carpender Childers, C.	CHILDERS C	2	4
Evans, N. J.	EVANS N	2	4
Grubbs Hoy, M.	HOY M	2	4
Phua, J.	PHUA J	2	4
Muqaddam, A.	MUQADDAM A	2	5
Luoma-Aho, V.	LUOMA-AHO V	2	6
Maity, D.	MAITY D	2	6
Munnukka, J.	MUNNUKKA J	2	6
Reinikainen, H.	REINIKAINEN H	2	6
Campbell, C.	CAMPBELL C	2	7
Djafarova, E.	DJAFAROVA E	2	8

In the first and most prominent network, Liselot Hudders, Eva A. van Reijmersdal, Esther Rozendaal, Marijke de Veirman, and Veroline Cauberghe are the five authors playing a central role. The studies conducted by these authors and their co-authors mainly concern the effects of advertising disclosure, particularly on children and adolescents. For example, research in this network examines the positive impact of advertising disclosure in IM on the brand recall of children in particular (Boerman & van Reijmersdal, 2020) and followers in general (Boerman, 2020). Folkvord et al. (2019) show that children's brand recall increases through influencer campaigns, like vlogs, even without considering advertising disclosure.

Two concepts play a decisive role in the authors' considerations, namely *advertising literacy* and *para-social interaction* (PSI). Advertising literacy is the ability of

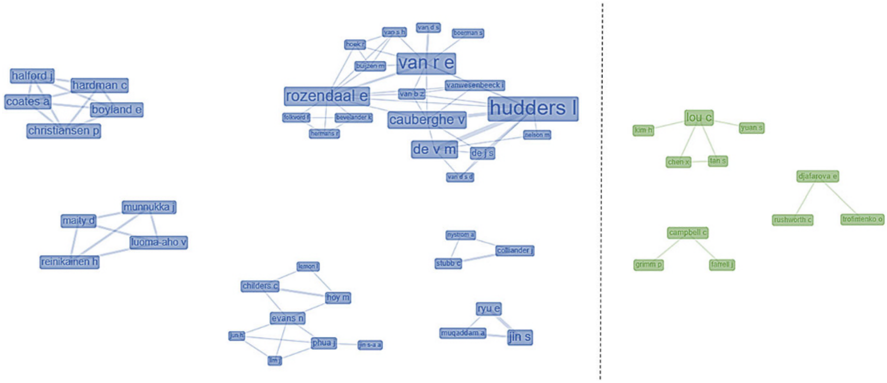

Fig. 3 Collaboration networks—left: author networks; right: authors who have published more than once but are not further connected

individuals to cope with advertising; that is, when persons are exposed to advertising, they can recognize it as such (Boush et al., 1994). PSI is defined as the relationship that consumers develop with media characters (Horton & Wohl, 1956). This relationship transforms these characters into essential sources of information (Rubin et al., 1985). Research in this field finds no direct effect of advertising disclosure on PSI with the influencer (Boerman, 2020). Instead, PSI serves as a moderator for the effects induced by disclosure (Boerman & van Reijmersdal, 2020). The higher the PSI between children and influencers, the lower the disclosure's negative influence (Boerman & van Reijmersdal, 2020). Advertising disclosure, however, encourages advertising literacy; disclosure causes an increase in children's (Boerman & van Reijmersdal, 2020) and adolescents' advertising literacy (de Jans et al., 2019), which in turn decreases the influencer's trustworthiness and PSI and subsequently consumers' purchase intention (de Jans et al., 2019).

In addition, advertising disclosure has adverse effects on attitudes toward the brand (Hoek et al., 2020; van Reijmersdal et al., 2020), content, and the influencer (van Reijmersdal et al., 2020). De Veirman and Hudders (2020) confirm the negative effects of advertising disclosure, through increased advertising recognition and skepticism, on brand attitude and perceived influencer credibility. However, these negative effects only become apparent when the influencer campaign is exclusively one-sided; that is, when the product is exclusively viewed in a positive light. According to these authors, influencers should communicate a post if it is a genuine recommendation, even if regulations force them to mark the post as advertising because it positively affects brand perception (de Veirman & Hudders, 2020).

Van Reijmersdal and van Dam (2020) find that early adolescents' persuasion knowledge and information processing are less developed than those of middle adolescents, resulting in more information to incite their persuasion knowledge and to process the advertising disclosure. However, in both age groups, the purchase intention remains unaffected by disclosure (van Reijmersdal & van Dam, 2020).

The timing of the advertising disclosure also plays a decisive role. If the advertising disclosure occurs before the start of the content, children and adolescents internalize the advertising more strongly (van Reijmersdal et al., 2020). A further consideration is that adolescents accept the placement as long as a balance is maintained between content and advertising content. If not, the advertising triggers negative brand evaluations (van Dam & van Reijmersdal, 2019).

Two papers, assigned to this network, cover topics other than advertising disclosure or children and adolescents. First, de Veirman et al. (2017) find that the number of followers positively affects the influencer liking and that influencers with many followers do not provide the best option to promote products with unusual and unique product designs. Second, by comparing the posts of the influencer and the posts of the brand, de Jans et al.'s (2020) research indicates their respective advantages and disadvantages.

The second network comprises further research on IM's impact on children and their eating habits. Anna E. Coates, Charlotte A. Hardman, Jason C.G. Halford, Paul Christiansen, and Emma J. Boyland's (2019a, 2019b) papers show that children who watch influencer content on unhealthy snacks increase their consumption of these snacks, which is not the case with healthy snacks (Coates et al., 2019a). They also conclude that advertising disclosure compared to untagged content increases children's food consumption (Coates et al., 2019b).

The third network is a collaboration between Jonas Colliander and Carolina Stubb. These authors' research shows that the emphasis on advertising's impartiality positively affects the message's perceived credibility and the influencer in general (Stubb & Colliander, 2019). Even if it is paid advertising, the influencer should justify it, since this leads to better evaluations of the influencer (Stubb et al., 2019). Furthermore, according to these authors, linking an influencer's social media post to a product landing page can have a negative impact on purchase intention and brand attitude. Instead, marketers should provide links to their company's homepage and not to the product landing page (Stubb & Colliander, 2019).

The fourth network, developing around Nathaniel J. Evans, also deals with advertising disclosure. Studies in this network consider how different wording affects the perception of the disclosure. For example, *#Paid-Ad* causes a significantly higher advertising recognition compared to *#SP*, *#Sponsorship*, or a non-disclosure (Evans et al., 2017), which has a negative impact on attitude and behavioral intentions (Evans et al., 2017; Hoek et al., 2020; van Reijmersdal et al., 2020). Evans et al. (2019) also examined the influence of disclosure on children and the impact of parental response. Their results suggest that marketers should use sponsored pre-roll advertising to make parents aware of the sponsorship (Evans et al., 2019). Other research in this network deals with the impact of advertising agencies (Carpenter Childers et al., 2019) and influencer characteristics (e.g., the number of followers) on consumer perceptions (Jin & Phua, 2014).

Research in the fifth network, authored by S. Venus Jin, Ehri Ryu, and Aziz Muqaddam, also deals with influencer characteristics and the impact thereof on followers. For example, according to Jin et al. (2019), consumers regard influencers as more credible than traditional celebrities. Consequently, influencers have a more positive impact on the brand, a higher social presence, and make people more envious; all of which increase the purchase intention, especially of men. For women, the increase in purchase intention is caused by PSI. Jin and Ryu (2020) examined the effect of the influencer presentation in an image, finding that men prefer selfies and photographs taken by others, whereas women prefer group photos. When influencers present themselves with the product in an image, this has a significant positive effect on corporate credibility and on the attitude toward the post. Researchers attribute this finding to the impact of PSI (Jin & Muqaddam, 2019). Additionally, Jin and Ryu (2019) find that luxury brand recognition is higher for influencer posts with product-centric images (i.e., images that show only the product) than for consumer-centric images (i.e., images that show the influencer with the product). Brand posts show no such effect. To summarize the research in this network, it is evident that gender and the form of presentation are crucial factors in attracting an intended target audience.

The sixth network of Juha Munnukka, Hanna Reinikainen, Juha Maity, and Vilma Luoma-aho investigates the causal chain between PSI, source credibility (SC), brand trust, and purchase intention (Reinikainen et al., 2020). These authors show that the number of user comments moderates the effect of PSI on SC. Munnukka et al. (2019) find that PSI is significantly higher when the audience comment valence regarding the IM campaign is high.

The main characteristic of the three remaining networks is that one particular author is involved in all the papers linked to each of them. The seventh network, involving Colin Campbell, focuses on the classification of influencer types, their functions (Campbell & Farrell, 2020), and challenges (Campbell & Grimm, 2019). Research in the eight network, co-authored by Elmira Djafarova, deals with the characteristics that distinguish influencers from celebrities and their impact on marketing communication effectiveness (Djafarova & Rushworth, 2017; Djafarova & Trofimenko, 2019). Research in the last network, involving Chen Lou, examines the effects of influencers' trustworthiness, attractiveness, content value, and similarity, showing that these factors positively impact brand awareness and purchase intention (Lou & Kim, 2019; Lou & Yuan, 2019). The research also finds that influencer posts receive fewer negative comments than brand posts (Lou et al., 2019).

Considering the results of the collaboration analysis, it is evident that the research has not settled in stable networks. Instead, it is conducted in isolated silos. Initial collaborations are evident in the following main areas: advertising disclosure, effects on children and adolescents, SC, the influence of PSI, types of influencers, and the post's presentation. We expect that, over time as research on IM progresses, the collaboration networks will stabilize.

Table 4 Top ten, most frequent local documents with their global citations

Document	Local citations	Global citations
Veirman et al. 2017	45	109
Djafarova and Rushworth 2017	36	100
Lee and Watkins 2016	30	88
Freberg et al. 2011	22	100
Uzunoğlu and Misci Kip 2014	21	69
Jin and Phua 2014	21	172
Khamis et al. 2017	20	111
Kapitan and Silvera 2016	14	32
Marwick 2015	11	196
Abidin 2016	10	68

4.5 Citation Analysis

Table 4 provides an overview of the ten papers with the most local citations (i.e., number of citations in the data set), along with their global citations (i.e., citations in the WoS). Considering the content of these papers, it is evident that they reflect the starting points of different influencer research topics. The most cited paper is that of de Veirman et al. (2017). It serves most other papers by providing the basis for the definition of influencers and IM. Moreover, it is among the first papers to conduct an empirical investigation in the Instagram context. The next most cited paper by Djafarova and Rushworth (2017) was the first to show that influencers are more effective than traditional celebrities because they are perceived to be more credible. Other papers in this list define and categorize influencers (Freberg et al., 2011; Marwick, 2015), describe the process of IM (Abidin, 2016), and develop a model to understand the underlying communication (Uzunoğlu & Misci Kip, 2014). The remaining papers serve as the starting points for specific areas of research, among others, PSI (Lee & Watkins, 2016), self-branding (Khamis et al., 2017), influencer type and related follower numbers (Jin & Phua, 2014), and the attainment of a celebrity status as a prerequisite for celebrity research (Kapitan & Silvera, 2016).

In the next step, we analyzed 6633 references included in the papers to disclose citations between and within the papers' reference lists (Fig. 4, Table 5). In the resulting networks, the nodes refer to references, the size of the nodes to their centrality degree, the edges to co-citations between the references, and the edge weights to the number of citations. Closeness indicates the number of steps required to reach any other node from a given node, and betweenness is an approximation of the number of shortest paths between nodes that pass through a given node (Aria & Cuccurullo, 2017). For the analysis, we used the Louvain clustering algorithm (Blondel et al., 2008), removed isolate nodes, and set the minimum edge to two. This analysis resulted in four clusters.

Cluster one covers the IM principles and includes several IM papers that use the literature as a theoretical background to the research. We explained the largest node containing de Veirman et al. (2017) and additional papers (e.g., Freberg et al., 2011)

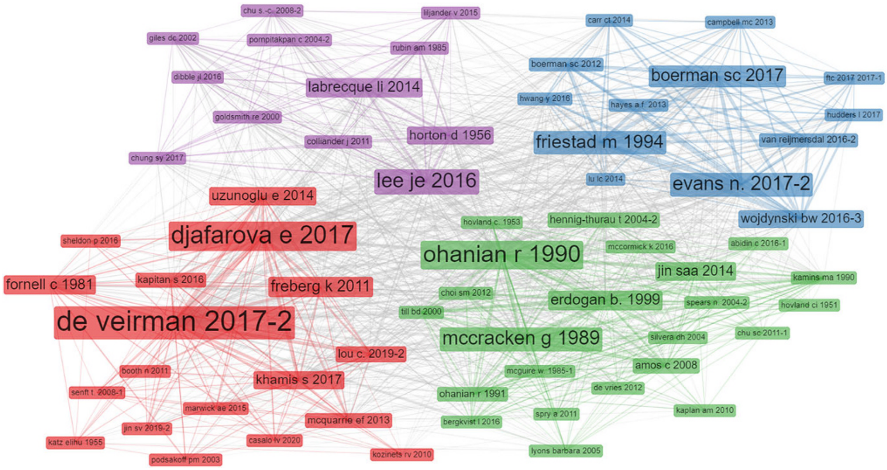

Fig. 4 Document co-citation network

in our previous discussion of frequently cited papers. This cluster's remaining papers provide insights into the motivations to use IM (Petrescu et al., 2018), the importance of contemplating a second person's experience in the decision process (Seeler et al., 2019), the establishment of frameworks to develop brand endorsement during an influencer's career cycle (Nascimento et al., 2020), and influencer communication (Enke & Borchers, 2019).

Cluster two covers advertising disclosure research and includes seminal papers by Boerman et al. (2017), Evans et al. (2017), and Friestad and Wright (1994). Evans et al. (2017) dealt with advertising disclosure, Friestad and Wright (1994) introduced the persuasion knowledge model, and Boerman et al. (2017) found that advertising disclosure not only activates persuasion knowledge but results in a higher level of distrust in the advertising. Additional research revealed the positive effect of disclosure on awareness (Dhanesh & Duthler, 2019), and that micro-influencers with disclosure increase purchase intentions (Kay et al., 2020). However, the research also produced contradictory findings, suggesting that disclosure has no effect on advertising outcomes (Hayes et al., 2020) such as purchase intention, electronic word-of-mouth (eWOM), and persuasion knowledge (Lee & Kim, 2020). Disclosure may have become the norm, considering that an increasing number of countries are introducing strict labeling rules.

Cluster three focuses on celebrity endorsement and SC-related topics, and several of the representative papers are grounded in McCracken (1989) and Ohanian's (1990) seminal works on the characteristics of celebrity endorsers and the classification of SC dimensions (attractiveness, trustworthiness, and expertise), respectively. These studies document how social media changes the perception of celebrity

Table 5 Documents, clusters, and centrality determinants of the document co-citation network

Document	Node	Cluster	Betweenness	Closeness
Veirman et al. 2017	de veirman 2017-2	1	110.701	0.015
Marwick 2015	marwick ae 2015	1	1.440	0.010
Uzunoğlu and Misci Kip 2014	uzunoglu e 2014	1	20.228	0.014
Casaló et al. 2020	casalo lv 2020	1	1.181	0.010
Djafarova and Rushworth 2017	djafarova e 2017	1	73.572	0.015
Fornell and Larcker 1981	fornell c 1981	1	11.839	0.012
Freberg et al. 2011	freberg k 2011	1	25.094	0.013
Kapitan and Silvera 2016	kapitan s 2016	1	6.669	0.011
Khamis et al. 2017	khamis s 2017	1	19.780	0.013
Lou and Yuan 2019	lou c. 2019-2	1	9.268	0.012
McQuarrie et al. 2013	mcquarrie ef 2013	1	10.998	0.012
Podsakoff et al. 2003	podsakoff pm 2003	1	0.427	0.009
Katz and Lazarsfeld 1955	katz elihu 1955	1	1.049	0.009
Sheldon and Bryant 2016	sheldon p 2016	1	0.529	0.009
Booth and Matic 2011	booth n. 2011	1	2.513	0.010
Jin and Muqaddam 2019	jin sv 2019-2	1	1.024	0.010
Kozinets et al. 2010	kozinets rv 2010	1	0.840	0.009
Senft 2008	senft t. 2008-1	1	1.119	0.009
Boerman et al. 2017	boerman sc 2017	2	24.299	0.013
Friestad and Wright 1994	friestad m 1994	2	35.422	0.013
Lu et al. 2014	lu lc 2014	2	3.933	0.011
Evans et al. 2017	evans n. 2017-2	2	49.363	0.014
FTC 2017	ftc 2017 2017-1	2	0.779	0.010
Hayes 2013	hayes a.f. 2013	2	1.458	0.010
Hudders et al. 2017	hudders l 2017	2	1.183	0.010
Reijmersdal et al. 2016	van reijmersdal 2016-2	2	6.386	0.011
Wojdynski and Evans 2016	wojdynski bw 2016-3	2	9.378	0.011
Hwang and Jeong 2016	hwang y 2016	2	11.860	0.012
Boerman et al. 2012	boerman sc 2012	2	3.172	0.010
Carr and Hayes 2014	carr ct 2014	2	2.063	0.010
Campbell et al. 2013	campbell mc 2013	2	1.128	0.010
Abidin 2016	abidin c 2016-1	3	2.656	0.011
Jin and Phua 2014	jin saa 2014	3	20.247	0.013
McCracken 1989	mccracken g 1989	3	46.555	0.014
Choi and Rifon 2012	choi sm 2012	3	13.394	0.012
Lyons and Henderson 2005	lyons barbara 2005	3	2.298	0.010
Kaplan and Haenlein 2010	kaplan am 2010	3	0.826	0.009
McCormick 2016	mccormick k 2016	3	0.823	0.009
Spears and Singh 2004	spears n. 2004-2	3	4.107	0.011
Spry et al. 2011	spry a 2011	3	3.948	0.011
Erdogan 1999	erdogan b. 1999	3	34.234	0.014

(continued)

Table 5 (continued)

Document	Node	Cluster	Betweenness	Closeness
Hovland et al. 1953	hovland c. 1953	3	7.461	0.012
Ohanian 1990	ohanian r 1990	3	86.762	0.015
Silvera and Austad 2004	silvera dh 2004	3	5.764	0.012
Bergkvist and Zhou 2016	bergkvist l 2016	3	2.760	0.011
Ohanian 1991	ohanian r 1991	3	9.684	0.012
Kamins 1990	kamins ma 1990	3	8.876	0.012
Till and Busler 2000	till bd 2000	3	8.253	0.012
Amos et al. 2008	amos c 2008	3	14.340	0.013
Chu and Kim 2011	chu sc 2011-1	3	1.723	0.010
McGuire 1985	mcguire w. 1985-1	3	2.254	0.010
Vries et al. 2012	de vries 2012	3	3.798	0.011
Hovland and Weiss 1951	hovland ci 1951	3	1.089	0.010
Hennig-Thurau et al. 2004	hennig-thurau t 2004-2	3	8.124	0.011
Dibble et al. 2016	dibble jl 2016	4	1.334	0.011
Horton and Wohl 1956	horton d 1956	4	14.604	0.013
Labrecque 2014	labrecque li 2014	4	14.442	0.012
Lee and Watkins 2016	lee je 2016	4	35.762	0.014
Liljander et al. 2015	liljander v 2015	4	1.791	0.010
Rubin et al. 1985	rubin am 1985	4	3.621	0.011
Chung and Cho 2017	chung sy 2017	4	2.042	0.011
Colliander and Dahlén 2011	colliander j 2011	4	12.410	0.012
Chu and Kamal 2008	chu s.-c. 2008-2	4	1.959	0.010
Goldsmith et al. 2000	goldsmith re 2000	4	4.982	0.011
Pornpitakpan 2004	pornpitakpan c 2004-2	4	1.896	0.010
Giles 2002	giles dc 2002	4	2.483	0.010

culture (Jerslev, 2016). Abidin (2016) notes that "influencers are one form of microcelebrity" and are perceived to be more credible and trustworthy than celebrities (e.g., Schouten et al., 2019; Trivedi & Sama, 2020). However, celebrity endorsement is still effective and the processes are comparable (Cheah et al., 2019). However, studies showed as well opposite relations (Agnihotri & Bhattacharya, 2020; O'Neil & Eisenmann, 2017).

Jin and Phua (2014) were the first to explore the role of SC in an IM context. Berne-Manero and Marzo-Navarro (2020) showed that a higher number of followers positively affects SC, while Hill et al. (2020) found a similar effect for perceived popularity. However, the number of followers is not the only relevant metric in this regard (Ladhari et al., 2020) and marketers should not neglect the like-to-follower ratio, as low values negatively influence followers' account perception (de Vries, 2019).

A different research stream evaluated the factors that impact on influencer credibility, showing that it is positively influenced by trustworthiness, expertise, message credibility (Esteban-Santos et al., 2018), PSI (e.g., Reinikainen et al., 2020), influencer-brand-fit (Breves et al., 2019), and influencer-product-fit (e.g., Park & Lin, 2020). By contrast, a strong commercial orientation and a high level of perceived sponsor control (Martínez-López et al., 2020) have a detrimental effect on perceived credibility. In addition, knowing the person personally (Cooley & Parks-Yancy, 2019), positive experiences (Konstantopoulou et al., 2019), perceptual homophily, users' interaction, content quality (Miranda et al., 2019), and avoidance of "muscle display" (Su et al., 2020) increase influencer trustworthiness.

Credibility has positive effects, for example, on purchase intention, attitude toward advertising (e.g., Gong & Li, 2019), attitude toward the brand (Chetioui et al., 2020; Johnson et al., 2019), and perceived psychological ownership (Pick, 2020). In the long run, SC positively influences brand image (Fink et al., 2020) and loyalty (de Cicco et al., 2020). In conclusion, as Balabanis and Chatzopoulou (2019) show, all SC dimensions have a positive influence on consumers. Trustworthiness has the most persuasive power (Martensen et al., 2018) as it positively influences eWOM impact (Konstantopoulou et al., 2019) and information credibility (Xiao et al., 2018).

Cluster four deals with PSI and Lee and Watkins' (2016) paper, which builds on fundamental PSI literature (e.g., Giles, 2002; Horton & Wohl, 1956; Rubin et al., 1985). Research in this cluster shows that PSI has a positive impact on brand perception (e.g., Lee & Watkins, 2016), purchase intention, and eWOM intention (e.g., Hwang & Zhang, 2018). In addition, PSI is positively influenced by attractiveness (e.g., Liu et al., 2019), empathy (Hwang & Zhang, 2018), identity similarity (Hu et al., 2020), self-influencer congruency (Shan et al., 2019), opinion leadership (Quelhas-Brito et al., 2020), and credibility (Sakib et al., 2020).

4.6 Keyword and Trend Analysis

The pre-processing produced 573 terms for the keyword analysis. Figure 5 depicts the keyword frequencies. *Word-of-mouth* (WOM) ($n = 43$) is the most frequent keyword and, unsurprisingly in light of influencers' role in this regard (Brown & Hayes, 2008), is closely related to *eWOM* ($n = 12$). For example, Ki and Kim (2019) show that influencers' visual and verbal characteristics positively affect WOM through consumers' desire to mimic influencers. In addition, Casaló et al. (2020) show that Instagram account characteristics (e.g., originality, uniqueness) positively affect perceived opinion leadership. The latter, in turn, positively affects consumer behavior intention, including the intention to interact and recommend the influencer, resulting in increased WOM. The next most common keyword is *consumer* ($n = 26$). The decisive role of the consumer was apparent in the earlier discussion of the literature. For example, the literature confirms the influence of age (e.g., Hoek et al., 2020) and the influence of gender (Coco & Eckert, 2020; Jin & Ryu, 2020). Additional papers consider specific age groups (Johnstone & Lindh, 2018; Mañas-Viniegra et al., 2020; McFarlane & Samsioe, 2020) or character traits (Valsesia et al., 2020).

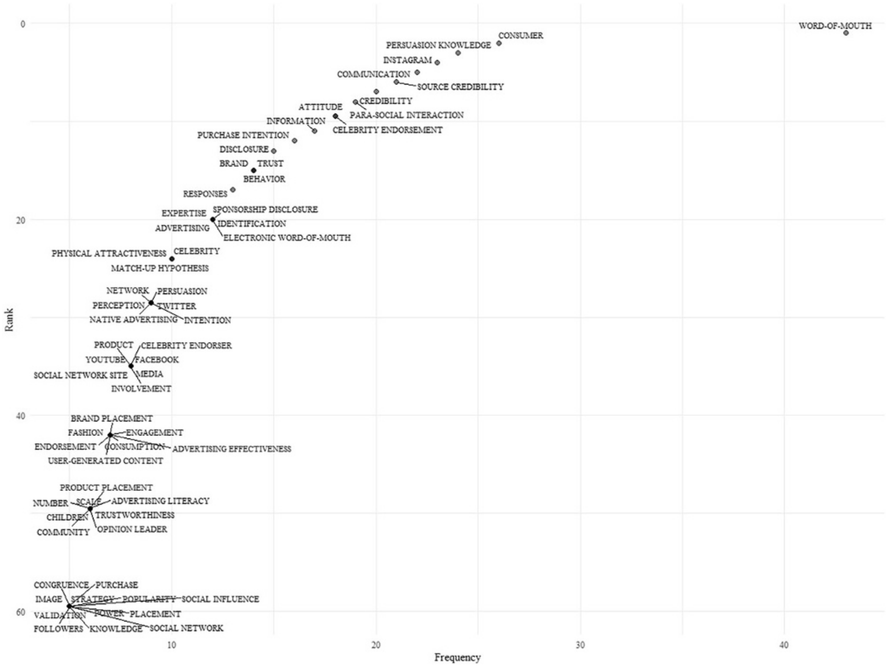

Fig. 5 Keyword plot

The keywords *persuasion knowledge* ($n = 24$) and *PSI* ($n = 19$) are, as previously indicated (see Sect. 4.4), closely related. In addition, the frequency of the keyword *Instagram* ($n = 23$) reflects this platform's relevance for IM. The keywords *source credibility* ($n = 21$), *credibility* ($n = 20$), and *celebrity endorsement* ($n = 18$) are also closely related. Other keywords that play a role in IM research, but which have not been considered in the aforesaid analysis, are *brand* ($n = 14$), *identification* ($n = 12$), and *match-up hypothesis* ($n = 10$).

We find that a large body of literature underlines the relevance for brands (e.g., Carter, 2016). Influencers can strengthen the consumer-brand relationship (Sashittal & Jassawalla, 2020) and brand alliances with human-influencer brands can lead to an increase in product sales (Kupfer et al., 2018). Brand engagement in self-concept (BESC), which refers to consumers' "tendency to include important brands as part of their self-concepts" (Sprott et al., 2009, p. 92), plays an important role in this context. People with a greater BESC engage more with posts from other users than with branded posts from influencers and brands (Giakoumaki & Krepapa, 2020). Influencers' perceived influential power can increase BESC, which in turn increases the recommendation behavior of their followers (Jiménez-Castillo & Sánchez-Fernández, 2019). According to Page (2012), self-branding and influencers operate on a continuum, but the brand content diffusion can differ between influencer types (Araujo et al., 2017) and content creator types (Chatterjee, 2011; Johnson & Hong, 2020). In addition, a sponsored post from a brand generates more likes and a higher purchase intention than a post received from a layperson (Johnson & Hong, 2020).

The diversity of studies conducted to identify influencers explains the frequency of the keyword *identification*. Research in this stream developed a methodology to quantify and classify influencers (Agostino et al., 2019) and a general strategy to identify them, also across countries (Akdevelioglu & Kara, 2020). Other models detect characteristic subgroups (Litterio et al., 2017), categorize the influencer type (Liu et al., 2015), and identify influencers based on popularity and productivity (Lahuerta-Otero & Cordero-Gutiérrez, 2016). In addition, studies have tried to quantify the output generated by influencers as a means to identify relevant influencers (Arora et al., 2019; Gräve, 2019; Li et al., 2017; Schwemmer & Ziewiecki, 2018).

Another notable keyword is *match-up hypothesis* ($n = 10$). Introduced by Kamins and Gupta (1994), the match-up hypothesis deals with the importance of fit (congruency, similarity, relevance, and consistency) between the spokesperson and the product or brand. According to this hypothesis, influencers are assumed to be more effective when they appear to fit the product. Xu and Pratt (2018) confirmed this notion in respect of travel destinations. Congruence between the influencer and the advertised product or brand also has general positive effects (e.g., Breves et al., 2019; de Cicco et al., 2020; Torres et al., 2019). The congruency of the influencer and the follower shows similar positive effects as confirmed, among others, by Zhang et al. (2017) in a rebroadcasting context.

Concluding the analysis, Fig. 6 depicts the results of our trend analysis. Due to the low number of published papers prior to 2017, our analysis only considered papers published between 2017 and 2020. The results show that although Twitter was central to IM research in 2017, Instagram has more recently assumed this role. In addition, a clear thematic development is evident. In 2017 the research focused on social networks and their influence (e.g., Araujo et al., 2017; Litterio et al., 2017), in 2018 on communications and recommendations, and their impact on communities (e.g., Esteban-Santos et al., 2018; Hwang & Zhang, 2018), and in 2019 on celebrity endorsement and the associated SC (e.g., Cheah et al., 2019; Djafarova & Trofimenko, 2019; Jin & Muqaddam, 2019). The most recent research gives more consideration to the links between PSI and persuasion knowledge (e.g., Jin & Ryu, 2020; Reinikainen et al., 2020).

5 Discussion

Our bibliometric analysis extends prior review studies (de Veirman et al., 2019; Hudders et al., 2020; Sundermann & Raabe, 2019) and offers a more comprehensive overview of and insights into the IM research field. Figures 7 and 8 summarize and depict the paper topics of our data set. Our analysis indicates that 2011 constitutes the starting point of IM research, which peaked in recent years. Typical of emerging

Fig. 6 Topic trends

General Information			Characteristics										Influencer Evaluation									Content									
			Consumer					Influencer																					
ID	Authors and year	Principles of IM	Age - Children (c), Adolescents (a), Millennials (m), Others (o)	Gender	Character (c), Involvement (i), Online Behavior (o)	Self-Product Congruency	Culture	Number of Followers (fr), Followees (fe), Ratio (r)	Influencer Type	Celebrity vs. Influencer	Celebrity Endorsement	Source Credibility	Source Attractiveness	Credibility (c), Trustworthiness (t), Relibility (r), Expertise (e)	Homophily (h), Authenticity (a)	Likeability(l), Admiration (a), Popularity (p), Familarity (f)	Self-Influencer Congruency (c), Relationship (r), Similarity (s)	PSI (p), Persuasion Knowledge (pk)	Self-Branding	Opinion Leadership	Disclosure - Type (t), With or without (w), Handling (h), Timing (ti)	Content Influence	Brand vs. Influencer	Product Type	Brand Evaluation	Brand-/ Product-Influencer Congruency or Relationship	Advertsing Literacy	Design & Presentation	Sustainability	Measurement & Identification
1	Abidin, 2016	x																												
2	Agnihotri & Bhattacharya, 2020						x			x	x							p								x				
3	Agostino et al., 2019								x																					x
4	Akdevelioglu & Kara, 2020						x																							
5	Al-Emadi & Ben Yahia, 2020						x					x			h					x		x						x		
6	Araujo et al., 2017								x																x					
7	Argyris et al., 2020																c, s											x		
8	Arora et al., 2019																													x
9	Audrezet et al., 2020														a															
10	Balabanis & Chatzopoulou, 2019				i			fr	x				x	e, t	h, a							x								
11	Berne-Manero & Marzo-Navarro, 2020								x					c															x	
12	Boerman, 2020								x									p			w									
13	Boerman & Reijmersdal, 2020		c															p			w				x		x			
14	Breves et al., 2019											x	x	e, t				p								x				
15	Campbell & Farrell, 2020	x							x	x																				
16	Campbell & Grimm, 2019																				h									
17	Carpenter Childers et al., 2019	x																												
18	Carter, 2016																								x					
19	Casaló et al., 2020				o												c			x										
20	Chatterjee, 2011							fr	x													x	x							
21	Cheah et al., 2019									x	x																			
22	Chetioui et al., 2020											x		c, e, t			c													
23	Cicco et al., 2020											x									t									
24	Coates et al., 2019a		c																		w			x	x					
25	Coates et al., 2019b		c																					x						
26	Coco & Eckert, 2020			x										r	a							x								
27	Cooley & Parks-Yancy, 2019		m, o						x				x	t														x		
28	Dam & Reijmersdal, 2019		a															pk			t, h						x			
29	Dhanesh & Duthler, 2019																r				w									
30	Djafarova & Rushworth, 2017		m	x						x				c																
31	Djafarova & Trofimenko, 2019											x																		
32	Dost et al., 2019	x																							x					
33	Driel & Dumitrica, 2020													t	a				x				x					x		
34	Enke & Borchers, 2019	x			c				x	x																				
35	Erz et al., 2018																		x											
36	Esch et al., 2018													c, t	a		c, s													
37	Esteban-Santos et al., 2018		m									x		c, e, t				p			w									
38	Evans et al., 2017																				h									
39	Evans et al., 2019		c															pk			t,w,h,ti									
40	Fink et al., 2020										x	x																		
41	Folkvord et al., 2019		c		o																			x	x					
42	Freberg et al., 2011								x																					x
43	García-Rapp, 2017				i																	x								
44	Ge & Gretzel, 2018																					x						x		
45	Giakoumaki & Krepapa, 2020																						x		x					
46	Gong & Li, 2019										x	x	x					p								x				
47	Gräve, 2019																													x
48	Hayes et al., 2020		m																		w	x			x					
49	Hill et al., 2020													c		p								x						
50	Hoek et al., 2020		c																		w				x		x			
51	Hu et al., 2020																c, s	p												
52	Hughes et al., 2019													e								x		x						
53	Hwang & Zhang, 2018				c							x						p, pk			t									
54	Jans et al., 2019		a											t				p			w	x								
55	Jans et al., 2020		a									x				a					t		x							
56	Jerslev, 2016	x								x																				
57	Jiménez-Castillo & Sánchez-Fernández, 2019																								x	x				
58	Jin et al., 2019									x				t																
59	Jin & Muqaddam, 2019											x						p					x							
60	Jin & Phua, 2014							fr	x	x		x													x					
61	Jin & Ryu, 2019			x																x			x		x			x		
62	Jin & Ryu, 2020			x					x	x				t				p										x		
63	Johnson et al., 2019											x						p, pk					x		x					
64	Johnson & Hong, 2020																					x	x							
65	Johnstone & Lindh, 2018		m											t															x	
66	Kapitan & Silvera, 2016	x								x	x																			

Fig. 7 Literature overview

General Information			Characteristics									Influencer Evaluation									Content									
			Consumer					Influencer																						
ID	Authors and year	Principles of IM	Age - Children (c), Adolescents (a), Millennials (m), Others (o)	Gender	Character (c), Involvement (i), Online Behavior (o)	Self-Product Congruency	Culture	Number of Followers (fr), Followees (fe), Ratio (r)	Influencer Type	Celebrity vs. Influencer	Celebrity Endorsement	Source Credibility	Source Attractiveness	Credibility (c), Trustworthiness (t), Relibility (r), Expertise (e)	Homophily (h), Authenticity (a)	Likeability(l), Admiration (a), Popularity (p), Familarity (f)	Self-Influencer Congruency (c), Relationship (r), Similarity (s)	PSI (p), Persuasion Knowledge (pk)	Self-Branding	Opinion Leadership	Disclosure - Type (t), With or without (w), Handling (h), Timing (ti)	Content Influence	Brand vs. Influencer	Product Type	Brand Evaluation	Brand-/ Product-Influencer Congruency or Relationship	Advertsing Literacy	Design & Presentation	Sustainability	Measurement & Identification
67	Kay et al., 2020							fr	x												w									
68	Khamis et al., 2017																		x											
69	Ki & Kim, 2019				c								x	e			c			x		x								
70	Konstantopoulou et al., 2019		m											t	a															
71	Kostygina et al., 2020								x																					
72	Kupfer et al., 2018								x																x					
73	Ladhari et al., 2020													e	h	p														
74	Lahuerta-Otero & Cordero-Gutiérrez, 2016																													x
75	Lanz et al., 2019								x															x						
76	Lee & Kim, 2020											x									t, w									
77	Lee & Watkins, 2016					x							x		h			p								x				
78	Lenne & Vandenbosch, 2017		m																										x	
79	Li et al., 2017																													x
80	Lin et al., 2018	x							x					e						x				x						
81	Litterio et al., 2017																			x										
82	Liu et al., 2015													t																x
83	Liu et al., 2019				i								x					p							x					
84	Lou et al., 2019															l					t, w		x		x					
85	Lou & Kim, 2019		a		c				x			x					s	p				x								
86	Lou & Yuan, 2019												x	t			c, s													
87	Mañas-Viniegra et al., 2020		a, o	x																					x			x		x
88	Martensen et al., 2018											x		e, t		l, f	c, s			x										
89	Martínez-López et al., 2020								x	x				t												x				
90	Marwick, 2015							fr	x																			x		
91	McFarlane & Samsioe, 2020		o																									x		
92	Messina & Lindell, 2020			x																								x		
93	Miranda et al., 2019											x		e, t	h							x								
94	Munnukka et al., 2019											x						p												
95	Nascimento et al., 2020	x							x		x														x					
96	O'Neil & Eisenmann, 2017								x			x												x						
97	Packard & Berger, 2017																					x					x			
98	Page, 2012																		x											
99	Park & Lin, 2020					x							x	t								x				x				
100	Petrescu et al., 2018	x																			h									
101	Pick, 2020										x	x					c													
102	Quelhas-Brito et al., 2020				i													p												
103	Reijmersdal et al., 2020		c, a																		t, ti									x
104	Reijmersdal & Dam, 2020		a															pk			w									
105	Reinikainen et al., 2020											x						p												
106	Sakib et al., 2020						x					x	x		h			p												
107	Sashittal & Jassawalla, 2020																								x	x				
108	Schouten et al., 2019									x		x					s									x				
109	Schwemmer & Ziewiecki, 2018																													x
110	Seeler et al., 2019	x																												
111	Sette & Brito, 2020																					x								
112	Shan et al., 2019																c	p												
113	Sokolova & Kefi, 2020											x	x		h			p												
114	Stoldt et al., 2019	x																												
115	Stubb et al., 2019											x									w, h		x							
116	Stubb & Colliander, 2019											x									t, w, h									
117	Su et al., 2020			x										t														x		
118	Sundermann & Raabe, 2019	x																												
119	Topaloglu et al., 2017																							x				x		
120	Torres et al., 2019												x			l, f										x				
121	Trivedi & Sama, 2020		m						x	x				e											x					
122	Uzunoğlu & Misci Kip, 2014																			x										
123	Valsesia et al., 2020				c, o			fr, fe																						
124	Veirman et al., 2017							fr, fe, r								p				x				x		x				
125	Veirman et al., 2019	x	c																		w, h									
126	Veirman & Hudders, 2020											x									w, h	x								
127	Voorveld, 2019	x																												
128	Vries, 2019							fr						c								x								
129	Wang et al., 2020																					x								
130	Xiao et al., 2018				i									e, t	h	l						x								
131	Xu & Pratt, 2018		m								x						c													
132	Zhang et al., 2017					x																x								

Fig. 7 (continued)

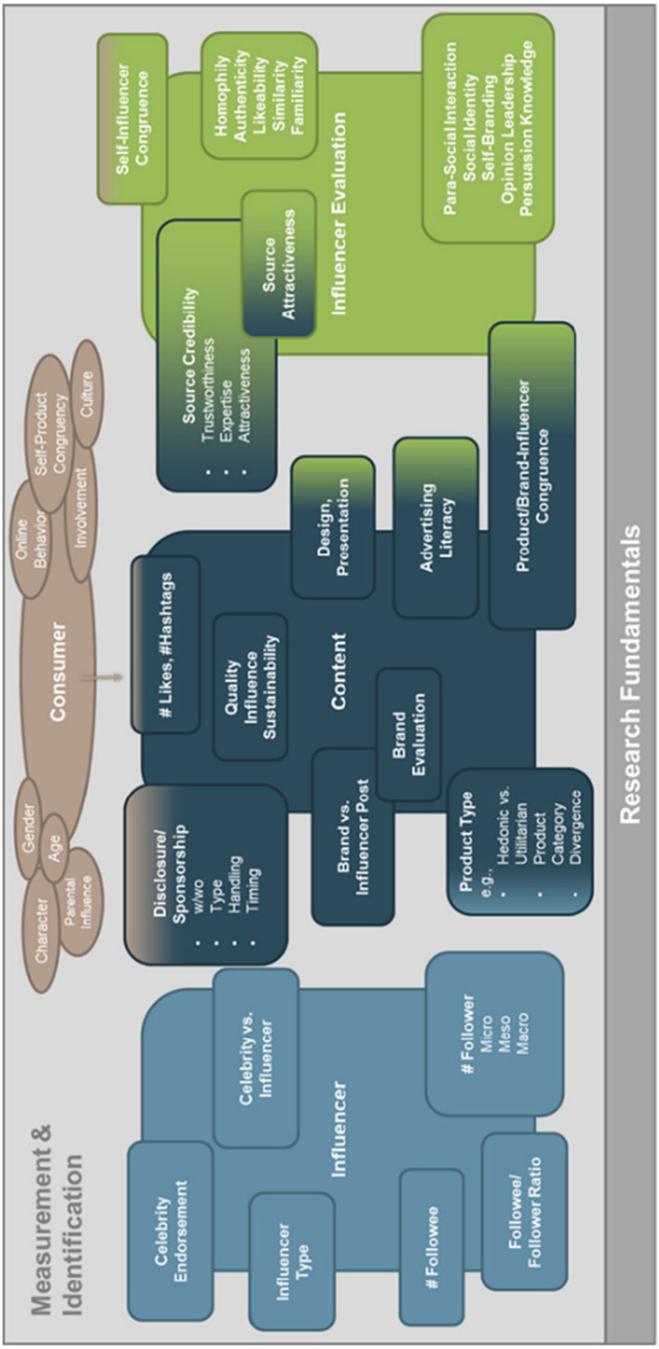

Fig. 8 Literature overview

research fields, IM research is extremely diverse, covering a range of journals and topics. We also find that IM researchers are gradually developing research networks, along with the emergence of trends.

In terms of content, our analyses present a detailed consideration of disclosure effects, with an added focus on children and adolescents. In addition, our analysis summarizes the large number of research papers dealing with the distinction between influencers and celebrities (e.g., Schouten et al., 2019), or influencers and brands (e.g., Lou et al., 2019). Investigations regarding PSI, fit between the influencer, the product, and the follower, and the consideration of influencer types are crucial areas of interest. Our results also underline the role of SC, for example, evoked by a close influencer-consumer fit (e.g., van Esch et al., 2018), that has a positive effect on consumers' brand perception, probability of purchase (e.g., Fink et al., 2020), and loyalty (Coco & Eckert, 2020).

The author and collaboration network analyses reveal that although this relatively young research field does not yet have a stable core, there are initial collaborations focusing on the indicated research fields. The citation analysis reveals four distinct clusters: principles of IM, advertising disclosure effects, source credibility and endorsement, and para-social interaction. IM's principles contribute to the understanding of this type of marketing. For example, research in this field suggests that advertising disclosure should not in general be seen as unfavorable, as it does not necessarily negatively impact advertising outcomes (Hayes et al., 2020; Lee & Kim, 2020). Furthermore, as illustrated by cluster three, there is a large body of literature available on the topic of credibility and celebrity endorsement. Lastly, cluster four demonstrates PSI's relevance for and positive effect on, among others, brand awareness (Lee & Watkins, 2016; Reinikainen et al., 2020) and eWOM (Hwang & Zhang, 2018). Both determinants are important means to counter commoditization of marketing communications.

The concluding trend analysis provides a rewarding understanding of the development of the papers' contents from 2017 to 2020. The analysis not only indicates changes in the use of social media platforms (from Twitter to Instagram), but also the thematic development of the research fields. Considering these findings, we conclude that IM is an excellent method to de-commoditize marketing communications. Influencers can use the content they create to counteract the homogeneity of present-day marketing communications. Through creativity (Sette & Brito, 2020), the multitude of created content (Kostygina et al., 2020) and direct communication, IM significantly improves consumer experience. This de-commoditization has the potential to increase eWOM (Hwang & Zhang, 2018) and customer loyalty (Coco & Eckert, 2020).

6 Limitations and Further Research

Our analysis not only offers unique insights into the IM research field but also suggests future research areas. Similar to any bibliometric study, our analysis has certain limitations. Among others, it relies on databases that may contain erroneous entries and may not cover the most recent research. Furthermore, the identification of papers is inherently limited by the choice of keywords, which is partially subjective.

In addition, we were unable to clearly classify 15 of the 132 identified papers in our bibliometric analysis. One topic not covered in our analysis is the content of IM campaigns, due to its diversity. Studies on this topic have diverse content as they analyze different content types (García-Rapp, 2017; Hughes et al., 2019), the influence of visual congruency (Argyris et al., 2020), the creativity of influencer content (Sette & Brito, 2020), and even the preference for the left side of the cheek (Messina & Lindell, 2020). We also did not include studies related to the language used (Packard & Berger, 2017), the integration of hashtags (Erz et al., 2018) and emojis (Ge & Gretzel, 2018), as well as the decisive role played by the posts' timing-as shown by some researchers (Topaloglu et al., 2017). We did not cover van Driel and Dumitrica (2020) and Audrezet et al.'s (2020) reflections on the topic of authenticity, as well as Wang et al.'s (2020) work on the topic of social power and satisfaction. Finally, other studies not considered in our network analysis include the interaction between agencies, marketers, and influencers (Lin et al., 2018; Stoldt et al., 2019) and the general seeding process using high and low-status users (Lanz et al., 2019).

Our research offers several areas for future research. Only a few papers examined IM's impact and application with reference to cultural differences (e.g., Al-Emadi & Ben Yahia, 2020; Sakib et al., 2020). Furthermore, very little research has been done on the influence of consumer characteristics. A possibility, similar to prior research in social media marketing, is to consider the Big Five personality dimensions (John et al., 2008) in an IM context. For example, future studies should test whether extraversion and openness are also the strongest predictors of influencer-following behavior, as verified by prior research in the context of social networking sites (Liu & Campbell, 2017).

Moreover, the topic of co-creation in relation to the influencers' content creation is also a promising field for future research, as previous studies have confirmed its positive impact in other areas (e.g., Hair et al., 2016). Further thematic areas of interest are the more detailed consideration of older age groups and the analysis of the effect of new platforms like TikTok. The IM research field is not yet exhausted but certainly has much potential for more detailed investigations.

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Part III

Commodity Marketing in Specific Contexts

An International Perspective on Commodity Marketing

Michael R. Czinkota and Margit Enke

1 The Power and Responsibility of International Business

The rapid expansion of globalization has been driven in large parts by international business. As economic liberalization has opened the door for billions of people to enter the world marketplace from countries like China, India, and the former Soviet Union, there has been dramatic growth in disposable income and quality of life in these markets and others. Along with the rapid economic expansion have come revolutionary improvements in communications and transportation systems. Thereby, world trade has increased exponentially in the past several decades. International business has never been more important or more powerful. Yet there are also fears and challenges emanating from the field and its activities. Just like the Roman God Janus, who had two faces and has come to embody the notion of contradiction to modern thinkers, international business brings both good and bad to the global marketplace (Czinkota & Skuba, 2011). Exploitation of factory workers by global apparel and footwear companies or by electronics and computer brands, exemplifies the negative consequences of globalization.

The role of global businesses and marketers in the financial crises that began in 2008 has led to public anger and increased scrutiny by society particularly those who

This chapter was originally published as Czinkota, M. R., & Enke, M. (2014). An International Perspective on Commodity Marketing, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_18

experienced great hardships. As a consequence of the financial crisis, there have been recent legislative efforts to increase regulation of business such as curbs on bank bonuses in the EU. These efforts have a moral foundation in the need by societies to ensure social justice while also promoting prosperity.

Professors typically provide a long-term perspective of issues, campaigns, and phenomena. The past can teach us, not only by understanding what was done before us, but by appreciating the context of changes. Over the decades, international business and trade have mushroomed in importance. Social and economic shifts have taken us from the smoke-filled back-room discussions of experts to public disputes around the world. From ignorance, we may have entered the stage of too much information. A new sense of transparency and accountability offers new directions to businesses and their executives. The emergence of a public moral sense and scrutiny about injustices in connection with many international issues encourages companies and governments to reduce corruption and abandon unsavory practices.

The role of governments has changed drastically, first shrinking in the 1980s and 1990s, but now coming back with a vengeance, dictating the direction and strength of international business activities. After decades of aiming for more open markets, even the liberal trading nations and the trade supporting politicians within them, are developing a tendency to restrict imports and encourage exports. In blatant disregard that someone's export has to be someone else's import, governments try to keep home industries protected and their own economies stable and revitalized. Yet, global imbalances are persistent and distortive. We can distinguish patterns of ebb and flow in the international business and trade arena. Today, we often find the claim that "if it's not on Google it doesn't exist." However, long-term observers recognize that, just like Saint Augustin who prayed in about 400 AD. "Lord, make me chaste, but not yet" policy makers and executives often develop strong and nontransparent measures to delay or even defeat the easing of international trade and investment flows. There are also times where change cannot happen quickly enough, where everyone aims to streamline and fast-track legislation.

There are subtle and sometimes not so subtle efforts at sanctions and disruptions of trade flows. They are often met by opposing interest levels, which are often from historical developments. When one side loses contracts, blame falls on the corruption and nepotism on the part of the winners. Yet, culture may be seen as an obligation to provide for family.

One discusses and often evaluates the meaning and adjustment of key business pillars such as risk, competition, profit, and ownership, which perhaps gradually prepares us for a new environment. Many of today's business executives discover that their activities are but one integral component of society. Politics, security, and religion are only some of the other dimensions that historically, and maybe again in the future, are held in possibly higher esteem than economics and business by society at large. Those who argue based on business principles alone may increasingly find themselves on the losing side.

1.1 Recognizing Challenges and Dilemmas

With increased power comes increased concerns and responsibility. International businesses are playing a leading role in societies and the lives of people around the world. There are serious social impacts that need consideration. If firms do not respond to these, governments will impose their own rules.

There are many who, in times of transition, have come new to market and even new to marketing. Changes have made life more complex, both for marketers and those to whom they market. For example, some slogans offered routinely to customers in markets with some experience of marketing promotion, such as "you may have won a new car," maybe interpreted quite differently by newcomers to the marketing world. Their high expectations may lead to disappointments and even hostility. Because marketers are the initiators of new practices, it is their responsibility to avoid causing harm.

As economic growth in emerging and developing markets allows millions of people to enter the middle class, it brings great new opportunities for them to experience and enjoy a better quality of life with goods and services that help them in many ways. It also exposes them to the challenge of rising aspirations with limited income. Indeed, the gap between the rich, the rising middle class and the poor presents practical and ethical dilemmas. New international consumers must learn how to manage their aspirations as they experience emotional marketing appeals for products and services that might not be considered practical or "good for them." Philip Kotler has posed three dimensions of "**the marketing dilemma**": (1) What if the customer wants something that is not good for him or her? (2) What if the product or service, while good for the customer, is not good for society or other groups? (3) How consumers, businesses, and societies manage that dilemma in international markets will need to be resolved on a country-by-country and culture-by-culture basis.

All too often cultures are insufficiently studied or wrongly interpreted by newly entering outsiders. Cultural differences continue to challenge international businesses and can significantly affect the success or failure of deals. Though there is frequent talk about how we understand each other so much better than in the past, the reality looks different. The actual overlap between societies is typically miniscule. There may be a number of Chinese industry leaders who have been to the United States or Europe and have developed a clear understanding of Western cultures, but they represent a very small fraction of the Chinese population. The average Chinese person may knowledgeably understand as much about Columbus, Ohio as the average Buckeye State resident knows about Tianjin. The consequence of that limitation is a danger of misunderstandings and susceptibility to hostility.

One key Western business dimension is the glory of victory in competition. Such an adherence to victory often means that there is no mercy for the vanquished. This plays out in particularly harsh dimensions in regard to the loss of jobs and feelings of security about a way of life for many employees of Western firms. Not everywhere are such approaches supported, desired, or accepted. In some regions, the goal becomes for the victor to mend fences, reinvigorating a feeling of togetherness and providing a cause for standing together. In many societies, it is expected that one should not take advantage of what could be done, but rather consensually do what ought to be done, particularly given the cultural importance of long-term relationships. Such context makes it far less acceptable to practice what we have called "vampire marketing," where the airline or hotel, or communications company extracts bloodsucking prices for additional services or products from its captive audience after the major purchase decision has been made. Perhaps global businesses can learn valuable lessons from this context and consequently make themselves more valuable to their customers (Skuba, 2011)?

International business and societal orientation interact closely. For example, in the United States, the individual is considered the key component of society. But such a perspective is not uniformly taken around the world. In socialist or tribal societies, it is typically the group that receives preference over the individual and the family is accorded top billing. In such cases, just imagine how different emphases in making financial decisions can be reinterpreted in various settings. What may be corruption and bribery to some may turn out to be filial devotion to others.

The saying goes that "distance makes the heart grow fonder.". But in international business, distance can also provide temptation for the abdication of responsibility. Businesses sometimes clearly demonstrate their desire not to know. When host country regulations have been less demanding than those in home countries, some firms sell products that may not meet home country expectations in terms of quality or benefit. As developing nations develop greater regulatory capability and more expectations of the responsibility of firms, irresponsible marketers may encounter a less tolerant face in host countries. The chairman of a multinational corporation may feel removed from local issues. Due to the evolution of a firm through mergers and acquisitions, he or she may see actions as being strictly business issues. However, the locals take all of the firm's actions very personally.

International businesses will confront dilemmas and challenges. How well they pursue the confluence of highly effective marketing and ethical practices and social responsibility will inevitably be reflected in the loyalty of customers and the judgment of host governments (Czinkota & Skuba, 2011; Czinkota et al., 2020).

1.2 The Increased Role of Government

Ongoing with the described dilemmas, today, there is also a substantial transformation characterized by the response of governments to the failures and weaknesses in the global economy and financial system that triggered the economic crisis in 2008. In the developed economies, public anger and frustrations arising from the crisis led to massive government interventions to prevent systemic collapse, stabilize financial markets, and reinvigorate economic activity. Political pressures to correct currency and trade imbalances have also increased in many countries. Policy and regulatory efforts to "reform" the system to correct mistakes and abuses that were seen to have caused the crisis, will have continuing major implications for the private sector in the coming years. Governments have increased regulation of complex financial instruments and require greater securitization for banks. There are limitations on the size of banks and the extent of their activities.

Ironically, while the financial and economic crises caused a loss of confidence in “American-style capitalism,” it may have also worked to demonstrate the resilience and underlying strength of market economics. It certainly revealed the importance of emerging markets and showed the extent of interconnectedness among markets worldwide. Emerging markets and developing countries have a “greater say” in the global economic system. This means that they must expect that the system is working in their interests and not just the interests of the developed economies. The gap between rich and poor nations and the potential for developing countries to close that gap will play a more important role going forward on the global economic stage.

Leaders of the G20 nations have pledged to work together to grow the global economy, avoid protectionism, and strengthen international systems and institutions. They promised to avoid the mistakes made during the Great Depression of the 1930s when protectionist legislation in the United States led to similar actions by other countries and escalating trade sanctions. The G20 nations intend to focus on the private sector. In November 2011, G20 Leaders’ Summit in Cannes, France, the leaders specifically pledged to work together to reform the financial sector and enhance market integrity. They promised: “We will not allow a return to pre-crisis behaviors in the financial sector and we will strictly monitor the implementation of our commitments regarding banks, OTC markets and compensation practices” (G20 Leaders Summit, 2011). A tangible sign of this being practiced is the Basel Committee on Banking Supervision, the forum based at the Bank for International Settlements in Geneva, Switzerland for regular international cooperation on banking supervision. This committee develops guidelines and standards for implementation by individual countries. Basel III is the set of reform measures that this committee developed to strengthen the “regulation, supervision, and risk management for the banking sector” in response to the financial crisis that began in 2008. In 2013, half of the G20 countries had issued regulations to implement Basel II with the remainder committed to do within the year (Communiqué, 2013).

Increased government involvement will also be manifested in interrelated efforts to tackle climate change, energy consumption, environmental damage, poverty, malnutrition, and food security. The G20 leaders have specifically committed to “improving energy markets and pursuing the fight against climate change” (G20 Leaders Summit, 2011).

Whenever “new sources of funding” come up in government circles, it is likely to have a major impact on private sector firms since it refers to either higher taxes or greater voluntary funding expectations. Governments cannot be expected, for the sake of the theoretical ideals of “free trade” and “laissez faire economics” to sit back and watch the disadvantages and detrimental effects that capitalism and international marketing often bring alongside their benefits. In every country, there is deep suspicion among many powerful interest groups about market economics. The most that can be expected from leaders and legislators in the major economies is that they will permit an open-market orientation subject to the needs of domestic policy. Such open-market orientation will be maintained only if governments can provide reasonable assurances to their own citizens and firms that the openness applies to foreign markets as well. Therefore, unfair trade practices such as governmental subsidization, dumping, and industrial targeting will be examined more closely, and retaliation for such activities is likely to be swift and harsh. When firms are seen to violate societal norms through their customer, labor, and environmental practices, they are likely to face stern government reactions and stiff penalties. As shown in "Quick Take—Apple Apologizes to Chinese Customers," international businesses must be increasingly sensitive to issues that might trigger governmental involvement in any country. Government is now a key player in the international business environment, much more than in the past several decades, and is likely to remain that way.

1.3 Diminished Trust

The size and scope of global corporations in the twenty-first century are unprecedented (Fortune Global 500, 2011). Global corporations have vast reach and enormous economic power. The Coca-Cola Company sells its branded products in over 200 countries (The Coca Cola Company, 2012). With operations in 80 countries, Procter & Gamble estimates that 4 billion of the world's 7 billion people buy P&G brands in 180 countries every year (Procter & Gamble, 2012). If one were to equate the annual revenues of the largest global corporations with the size of the world's leading economies, many firms would rank among the top economic powers. Wal-Mart Stores, with 2010 revenues of approximately 422 billion dollars would rank as the 23rd largest economy in the world, ahead of countries like Norway and Venezuela, while Royal Dutch Shell would rank 26th, ahead of Austria, Saudi Arabia, Argentina, and South Africa. This analysis also reveals that 45 companies would be listed in the top 100 economies (World Bank, 2010).

With such economic power comes greater expectations for corporate governance, responsibility, and ethics across many fronts from many stakeholder audiences. Businesses do not have impunity in the global economy. The capitalist system and the corporations that it creates exist at the will of the societies and nations in which and across which they operate. The tolerance of these nations for allowing market capitalism latitude is always subject to their confidence that good business brings good benefits to societies. Business does not enjoy carte blanche at any time and especially when societies evidence distrust in the truthfulness and responsibility of business to perform for the greater good.

Public trust in business may be seen as a measurement that corresponds to the willingness of societies to allow international firms greater leeway to do business. Since 2000, the public relations firm Edelman has been conducting a global survey of public trust toward government, business, and other institutions—the Edelman Trust Barometer. Observing the findings of that survey since its inception, one can conclude that trust in business is generally stronger when a greater number of people are realizing the benefits of business. The level of trust in businesses in the developed economies was severely shaken by the economic disruptions caused by the financial crisis and recession. Trust in business in developed economies reached a nadir in the depths of the crisis in early 2009 with less than 40% of respondents in the United States, Germany, and France indicating that they trusted business "to do what is right" (Financial Times, 2011). In 2013, although trust in business had rebounded from its 2009 lows, trust in government had dropped. Public frustrations resulting from the continuing euro currency crisis, the anemic economic growth rates in the developed economies, the daunting debts of governments, and the inability of political leaders to work together effectively to solve problems in the United States had damaged the credibility of governments.

2 Curative International Marketing

2.1 New Steps for Marketers

What are the new steps marketers should concentrate on, to remain important in setting societal direction, and improving the state of the world? "**Curative international marketing**" is the answer and indicates a new direction in international marketing in the spirit of social responsibility. It is "curative" in the sense of restoring and developing health, for all of us. "Restoring" is to indicate that there is something lost that was once there, but no longer is sufficiently present right now. "Developing" refers to new issues and areas which have to be addressed with help of new tools and frames of reference. The use of the word "health" in turn positions the issue as important to our overall lives, for which a marketing orientation has created difficulties, stress, and problems, and which a marketing orientation needs to address, resolve, and improve. Marketing can do so by aiming beyond its traditional focus of consumer, cost and price, communication, and distribution, but by incorporating in its activities a determination of joy, contribution to pleasure, fulfillment, safety and personal growth, and also its advancement toward a better society. The international part, of course, indicates the need to think across borders, and to take joint actions (Shams et al., 2021).

Curative international marketing lets us look back to problems that have been generated by marketing, and will allow us to use the discipline in moving beyond globalization. It will redefine our interaction with individuals and the world, and to inspire us to reach a new level of contentment. The goal is to have international marketing, with all its capabilities to analyze, inform, and persuade move away from holding us hostage to ongoing increases in consumption. Rather it should show us the way how to achieve satisfaction where quality outdistances quantity. Curative marketing should increase the wellbeing of the individual on a global level.

Addressing global problems requires a global approach. It demands the bringing together of a variety of disciplines and to understand the dynamics of their interaction and consequences when we analyze market forces. Curative international marketing needs to cover jurisprudence, cultural anthropology, philosophy, and history. Such a broad perspective acknowledges that there is more to life than markets. Marketing is too important to be left to marketers. Marketers are not the only ones calling the tune—nor should they be. Even Keynes questioned in 1948 "how and whether economics should rule the world."

There are two perspectives that urgently need to be addressed by international marketers. One concerns the looking back, checking on what marketing had wrought on people. International marketers need to identify and amalgamate processes between disciplines, their effects, and the risk of mistakes. There also needs to be a key focus on past errors and mistakes inflicted by international marketing. These need to be addressed in the spirit of reparation or restitution. So, we all tend to expect more, citius, altius, fortius (faster, higher, stronger) may be a great motto for the Olympics, but can lead to unexpected repercussions when applied to marketing.

All these negative effects have come about either due to proactive misleading of consumers by marketing or due to simple neglect. On a global level, the consumer's interest in and preparation for marketing are not evenly distributed. Crucially, it is the obligation of international marketing to understand local conditions and to limit possible damages. Whenever new practices are initiated by marketers, it is their responsibility to avoid causing harm and to make up for any damages. Not everything that can be done should be done. There needs to be the marketing equivalent of the Hippocratic Oath of medical personnel which is: "First do no harm." And then marketers need to do everything possible to make people be better off and actually feel better.

In consequence to these problem areas which have been generated by the marketing discipline, those in it need to have as their key concern the outlook for the future—how can marketing make up for its past transgressions, and set things right again?

2.2 Good Souls Bring Curative Marketing

A good soul promotes the qualities of humility, empathy, and reflections for human developments at a time when society often perceives business as soulless. Today, concern over the lack of soul in business life creates a fine layer of transparent filigree that negatively shadows and biases public impressions. Eventual fossilization may turn out to be very costly since it influences society's willingness to allocate, spend, play, and nudge.

People and society generally seek pursuits which advance wealth and good feelings. But nowadays, wealth seems to have won out. Concurrently, technology and artificial intelligence may contribute to further alienating business from the soul. The environment appears to weaken the overall qualities of a soul. Two fatal crashes involving Boeing 737 Max 8 planes have faltered public confidence in the aviation giant. Volkswagen's Teutonic attraction to honesty was deflected by its cheating on the emissions of diesel engines. Churches' child abuse scandals reveal a faith's failure to govern human behavior. All these cases may lead to a separation of business and society, where business becomes a mere supply chain member without influence or respect.

The events are not just contemporaneous. More than a century ago, the Chinese Empress Dowager Tz'u-hsi, in order to renovate her summer palace, impounded government funds that had been designated for China's shipping and its navy. Almost totally isolated from world trade, China missed out on knowledge transfer, the inflow of goods, global innovation, and the productivity growth that derive from international trade.

Passage of time may lead to the forgiveness of misdeeds but such mercy does not exempt one from recognizing responsibility. Curative marketing may well be the upcoming direction to restore the good soul by raising wonderment about the triple helix linkage of business, faith, and society.

Businesses must look back and accept responsibility for past errors. A more emotionally appealing approach, for example, should have been taken by the Boeing company in recognition of its responsibilities. Merchants should be reliable, trustworthy, and bridge-building partners. For now, American firms, when compared to their global competitors, should strive for a transparent, humble, and discerning leadership.

Since the 1990s, governments again have begun to play a growing role in business. New global regulations and restrictions have emerged because markets do not always succeed with constraints and self-regulation.

Today, the traditional role and effectiveness of the World Trade Organization are challenged. Multilateral agreements appear to be at a standstill or even in retrenchment. At the same time, the Trump administration's deregulation brings confidence to the domestic economy. A 2018 survey by the National Association of Manufacturers showed that more than 92 percent of respondents suggested a positive outlook for their firms. Nearly a half-million new manufacturing jobs were created in the past two years.

The new and crucial joint responsibility of humanity, business, and faith can and should be used to humanize behavior, expectations, and cultivation. Religious connectivity with commerce has had an important role for ages. There is, for example, the ejection of the money changers from the synagogue by Jesus and the creation of the honorable merchant, developed by the German Hanse Trading Group in the thirteenth century.

Curative marketing helps overcome past shortcomings and leads to a healthier economy. China, for example, tries to heal past wounds in areas such as food safety, environmental protection, and medical security.

In the preface of my book "In Search for the Soul of International Business," Dr. Szabo, the Hungarian ambassador to the United States, states that "one of my goals is to strengthen business ties between Hungary and the United States. I would like to see businesses flourish that have multidimensional levels of depth and a natural concern for a good soul so that these connections can be meaningful, long-lasting, and honorable."

Good souls should not only point business to an exchange of human development for profit. Curative marketing should be the next step to help create an environment of global responsibility and growth.

2.3 The Shifting of International Marketing

Today, we encounter and often reevaluate the meaning and adjustment of key **traditional business pillars**, namely risk, competition, profit, and ownership. These business pillars have become insufficient for our modern age. Many of today's business executives are beginning to discover that their activities represent but one component of society. Newly forged emotional subcomponents such as politics, security, and religion are only some of the other dimensions that society at large, historically, holds in higher esteem than economics and business. Those who act and argue based on business principles alone may increasingly find themselves ignored because the soul and innovation often inspire new business perspectives.

Furthermore, the old pillars need refurbishing, placing a seat on top to give the customer his rightful priority. The concept of the soul of business recognizes the load-bearing **columns** of **truthfulness, simplicity, participation, and responsibility**, which managers must incorporate into their business practices for a shining performance. Crucial is competitiveness based on quality, value, and ethics with a strong financial bottom line. There is newly emerging attention to the issue of whether market activities alone are sufficient to ensure individual happiness. Companies cannot just reuse old approaches but must respond to changing societal requirements. Innovative and comprehensive responses to requirements in products, packaging, pricing, distribution, and promotion are necessary.

But how to instill these new columns into business operations? One solution is to promote mindfulness in corporate life. It is easy to lose sight of what is important, when spending each day laboring in an office far from the impacts of one's work. The same mindfulness also needs to be considered under conditions of work-from-home offices. Such conditions will refurbish the productivity goals and capabilities of traditional employees. One can also specifically focus on how to bring the soul back into the business curriculum. For this, we can look to the tenets of the Jesuits, whose vigorous promotion of honor and service deserves our praise and emulation. If businesses are to thrive in this era, they must rediscover their soul. We need companies like the old GM—a car company of car people. Passion and commitment to excellence is the soul of business, and just as the body can die.

2.3.1 Truthfulness

There have been many occasions where international marketing has either actively misled expectations, or left its participants with a sense of substantial ambiguity. Marketing must base its activities and pronouncements on fact rather than emotions, on insights rather than speculation, and do so within the context of environmental changes. Many social science truths may not be eternal but rather subject to change over time. Every time a customer feels gauged by marketing, the infrastructure of the discipline is weakened. This responsibility of each action for the position of the entire field places a burden of honesty on each marketing actor.

To all this, we must bring a holistic perspective of linkages and consequences to bear. We must do so with the understanding that there are many people who are either not interested in or not cognizant of differences, or who think that "they all want to be like us." When made aware of key differences the reaction might even be a questioning of intent, dedication, or even patriotism. How to bring the cultural dimension closer to them, without making them feel threatened, needs to be a key marketing concern.

2.3.2 Simplicity

We must recognize and understand ways to simplify life, to let institutions understand what consequences their action might have, and to let us all see the impact of decisions. Research shows that simplicity adds value. The Global Brand Simplicity Index states that up to 23 percent of consumers are now willing to spend extra for an uncomplicated experience. Simplification is also crucial for communicating the whole truth about our approaches and making sure that people understand the implications. It is hard to be truthful about something one does not understand. Truth and simplicity, therefore, go hand in hand. The understanding of how a product or even a system works and is interconnected is a valuable product attribute in itself.

We need to use systems thinking, where in an overarching way we tie together the activities, requirements and needs of our suppliers, their suppliers, our customers and their clients so that we can achieve results which are reasonable, or even good for all, rather than just for one party. We need to recognize and eliminate incongruities. For example, it makes little sense and creates little warmth when we make a phone call to a supplier and spend much time on hold, but regularly hear the message that "your call is important to us." If the call were truly important, then the firm would hire more employees to answer the phones. The best firms understand the value of customer relationships and avoid jeopardizing them with such inconveniences. If they do not, their competitors will. Customer service expectations will then increase further.

2.3.3 Expanded Participation

We must also communicate much more with the field's critics. Opponents are a constituency that must be brought into the tent. For example, there is an innate human tendency to focus on and celebrate winners. Nonetheless, not everyone touched by international marketing will come out a winner. International marketing relies heavily on market forces, which implies a competitive race for limited resources. That, in turn, requires a fundamental belief in the virtues of risk, competition, profit, and private property. Not everyone considers these four dimensions as crucial or even acceptable. The international marketing field must increase its focus on those who are less likely to emerge victorious from the battle of the marketplace. Our future rests on working with the underserved majority.

2.3.4 Responsibility

Personal involvement is crucial. The best international marketers take this very seriously and actively work to improve factor conditions, such as distribution networks, improved health systems for communities near production facilities, technical education infrastructure, and governance capabilities that benefit both the firm and the host countries.

As this chapter explains, governments are playing a new and growing role in international marketing. In part, this has been the outgrowth of global crises which had not been anticipated or addressed by market forces. Today, there are new global regulations and restrictions. However, we have not yet established what indicators are more accurate, the siren calls of the marketplace with its market signals or the plans and sometimes even mandates of governments. We know that markets are not always successful in their constraints and self-regulation. We also realize that governments are not always free from fault and ambition. The marketing discipline must help us understand the advantages and disadvantages of following one direction over the other.

Curative Marketing has as its key component the goal to have marketing help us all, doing so by assisting us in how to overcome past shortcomings and how to avoid future ills. Of course, that would mean that it is also important to preserve space for compassion, and sometimes even for the overpayment. We should base part of our decisions on the notion that we all are just trying to make it through life with honor and dignity. We should forcefully profess our perspectives and views of curative marketing. We are the agents of change and need to be directly involved in change. As the great Ludwig von Wittgenstein stated: "A philosopher who is not taking part in discussions is like a boxer who never goes into the ring."

There are new mountains to climb and new frontiers to cross. International marketers should be at the center of social change and become the architects of improvements in the quality of life, so that for our discipline, the best is yet to come.

3 The Leadership Challenge: Aligning Strategy, Products, and Societal Interests

Apart from already discussed trust- and governmental-related changes, the confluence of multiple global trends such as population growth, demographic shifts, disparity in incomes, endemic poverty, urbanization, resource scarcity, climate change, natural disasters, endemic diseases, cultural clashes, and the threats of terrorism, piracy, and cyberattacks and ongoing technological and scientific advances requires high-level leadership qualities among government, societal, and business leaders. The World Economic Forum poses the problem in terms of the risks that leaders must manage: "We are living in a new world of risk. Globalization, shifting demographics, rapidly accelerating technological change, increased connectivity, economic uncertainty, a growing multiplicity of actors and shifting power structures combine to make operating in this world unprecedentedly complex and challenging for corporations, institutions and states alike" (World Economic Forum, 2021). It is no longer sufficient for a business CEO to "mind the store." Among the major challenges and opportunities for international businesses is the choice of leaders with the skills and capabilities to lead an organization with its multiple customers, employee, and other stakeholder audiences toward a competitive vision for the future.

Companies like IBM, GE, and Siemens are aligning their corporate strategies as well as their product offerings with societal interests and the global trends that are impacting societies. Many of their largest customers are national, state, and municipal governments that are confronted with complex challenges. With product and service offerings in areas like healthcare, aviation, energy, electrical distribution, railroad engines, water treatment, and lighting, GE has a large intersection with societal interests. GE's marketing positioning reflects the needs of its government customers and is centered on the notion of using imagination and innovation "to solve the world's biggest problems." The company claims that "GE works on things that matter. The best people and the best technologies taking on the toughest challenges. Finding solutions in energy, health and home, transportation and finance. Building, powering, moving and curing the world" (GE, 2013). Similarly, as a major competitor to GE, Siemens provides products and services in areas like energy, healthcare, rail systems, power grids, construction, information technology, transportation and logistics management, and infrastructure logistics. Siemens is a huge global employer with over 360,000 employees from over 140 countries in operations in 190 regions (Siemens, 2013a). Siemens positions itself as "a pioneer of our time" and to "reap particular benefit from the megatrends demographic change, urbanization, climate change and globalization" (Siemens, 2013b). One of Siemens newest initiatives is its "Infrastructure & Cities sector" which is specifically designed to bring its product and service offerings to address the needs of global urban governments and to meet societal goals.

Not all companies make products that directly contribute to meeting societal goals. However, all international businesses have an integral relationship with the home and host countries in which they do business. Part of that relationship is the responsibility of the company to act as a responsible citizen. We must appreciate that governments are playing a new and growing role in international businesses. In part, this has been the outgrowth of global crises which had not been anticipated or addressed by market forces. Today, there are new global regulations and restrictions. However, we have not yet established what indicators are more accurate, the siren calls of the marketplace with its market signals or the plans and mandates of governments. We know that governments are not always free from fault and ambition (Czinkota & Skuba, 2014). International businesses must learn the advantages and disadvantages of following one direction over the other. They must understand new paths to follow in order to operate successfully in different countries. International business in the twenty-first century requires a new kind of leader to see and navigate these unfamiliar paths. In the end, a firm is nowadays forced to internalize its responsibility for society.

4 Propositions for Commodity Marketing

As shown in this chapter, international businesses are playing a leading role in societies and the lives of people around the world. There are serious social impacts of business operations that need consideration by firms. If firms do not respond to them, governments will impose their own rules. These conditions can be adapted to commodities, which Enke et al. (2022) define as goods and services, which are perceived as homogeneous by the majority of the consumers despite the existence of more or less objectively differentiating product features.

Following the explanations of this chapter, commodity firms are forced to adjust their international business activities to changing business conditions. Therefore, from a marketing perspective, commodity marketing activities have to be adjusted, too.

Commodity marketing includes two levels (Enke et al., 2022). In the narrow sense, commodity marketing refers to the development and realization of strategies and instruments that differentiate homogenous goods and services, especially in the areas of industrial and agricultural goods (the so-called "born commodities"). In a wider sense, it is a question of market-oriented decision behavior referring to goods and services that are exposed to the loss of differentiating features due to commoditization. These products are perceived as substitutable by consumers (the so-called "new commodities"). From an international perspective, commodity marketing has to focus on the basic conditions of international business. In respect of the line of reasoning presented above, we put forward the following propositions that should summarize the chapter's key approaches from a commodity marketing point of view:

1. **Cultural and knowledge-based differences of customers stimulate the direction of commodity marketing in international business.** This proposition relies on the close relationship between international marketing and customers' respective societal orientation. The source of a firm's international business is customers' desires and needs. These desires and needs can diverge based on cultural and knowledge-based differences. Therefore, the marketing department of commodity firms as the "speaking tube of the customers" has to generate, interpret and spread customer information within the firm. Although, there are just minor differences between the products available on a commodity market, customers' needs differ regarding promotion, pricing, and distribution aspects. Therefore, marketing departments of commodity firms are forced to identify these differences and implement matching marketing strategies. Additionally, these commodity marketing strategies have to be formulated in consideration of differences in international commodity markets.
2. **Continuing and emerging governmental regulations directly influence commodity marketing.** Based on the concept of the strategic triangle, commodity marketing is influenced by internal as well as external market conditions. Internal market conditions are customer-, competitor- or company-related. On the other hand, external conditions reflect the environmental conditions of the market. While commodity marketing is forced to take political and legal frameworks into account, it has to consider technological, economical, and societal restrictions, too. Those governmental political regulations can make the difference between similar-oriented firms on a commodity market. Without keeping

them in mind in the course of strategy formulation, negative performance consequences become likely.

3. **The key objectives of commodity marketing are directly influenced by societal goals that firms have to meet.** Customers can be regarded as key objects of all local or international business activities. Customers should be considered as both consumers and as opinion leaders. No firm is actively trying to lose customers or alarm opinion leaders. Therefore, commodity marketing is forced to align its strategies as well as its operative activities with societal interests and the global trends that are impacting societies. From a commodity marketing perspective, that task is even more difficult than it appears to be because commodity firms do not have a plethora of starting points to differentiate from competitors—therefore, forfeiting connection with the society might destroy a firm's international business.
4. **The general orientation of "curative marketing" influences the orientation of commodity marketing.** We already explained that we understand "curative" in the sense of restoring and developing health, for all of us. "Restoring" indicates that there is something lost—"developing" refers to new issues and areas which have to be addressed with help of new tools and frames of reference—and "health" positions the issue as important to our overall lives. Based on the special characteristics of commodity firms, commodity marketing should think outside the traditional box that just focuses on consumer, cost and price, communication and distribution, but does not incorporate in its activities a determination of joy, contribution to pleasure, fulfillment, safety, and personal growth, and also its advancement toward a better society. At the same time, commodity marketing has to recognize the need to think across borders, and to take joint actions.
5. **Commodity marketing must be driven by truthfulness.** As Enke et al. (2022) define in the introductory article commodities are undifferentiated goods that are generally perceived as homogenous. Based on these product characteristics, commodity marketing is challenged to ensure that the firm stands out from the crowd of competitors that offer almost identical products. However, this product homogeneity makes it difficult to get embedded in the memory of potential customers. In turn, this difficulty leads to commodity marketing activities that are rather based on emotions and speculations than on facts and insights. Particularly from a communication point of view, commodity firms often present themselves on an emotional level because, from an objective fact level, there are few design approaches that are based on facts and insights and that are simultaneously attractive, stimulating, and promotional. However, establishing a relationship with (potential) customers based on missing facts and insights can be bad for the firm's image. Therefore, commodity firms, and particularly their marketing managers, are forced to establish serious relationships with (potential) customers that are found on truthfulness, honesty, and emotion.
6. **Commodity marketing will be perceived as more valuable if it follows the guiding idea of simplicity.** All too often, marketing campaigns are launched that do not reach customers due to problems with recognition and understanding. Particularly, commodity firms try to differentiate from competitors by using

stimulating ads. However, these ads lead to misunderstandings and simultaneously dissatisfied customers that do not know whether the ad is confusing or addresses more intelligent people. So, the real task is to launch ads that activate, motivate, and stimulate but that do not cause misunderstandings. Although, it is very complicated to implement this task on the local market, it becomes even more complicated if the marketing department of a commodity firm is forced to take international conditions into account. So, internationalized commodity marketing has to implement simple but promising campaigns.

7. **Anticipating changes in international commodity marketing trends early is crucial for sustained success.** International commodity marketing has to become more international. Actually, the US marketing community dominates international marketing orientations—both in non-commodity and in commodity markets. However, purely concentrating on marketing trends that were created in the United States might someday generate a momentous crash. In order to convert that crash into a soft landing commodity marketing managers should pick up national specific approaches in the course of formulating successful and sustainable marketing strategies. Particularly, commodity marketing managers have to be trend-setting to differentiate a commodity from competitors. Therefore, they should not be too concentrated on trends developed in the United States but rather focus on local and culture-specific conditions.
8. **Commodity marketing's focus on performance-related strategy dimensions beyond financial targets is one of the key drivers of business success.** Often, daily business on international markets is driven by risk, competition, profit, and private property. Also, commodity marketing tries to orient its business direction on those aspects. On the one hand, commodity marketing wants to give customers the continuous feeling that a business relationship with the firm is characterized by private property instead of risk. On the other hand, in the course of a firm's market orientation, the marketing department fosters a companywide orientation on competitors. The extracted information allows firms to better position and to increase profit. However, there are more than just four dimensions that are important for commodity firms and for commodity marketing activities. Nowadays, nonfinancial performance figures become more important—sure, without profit generation, a firm cannot survive—but marketing objectives related to potential and market success determine a firm's financial objectives. Therefore, commodity marketing managers should be aware of nonfinancial performance figures like image, brand awareness, and market share and implement these figures in the process of strategy formulation.
9. **Commodity marketing has to focus on employees' desires and needs to guarantee an effective and efficient business environment.** All too often, marketing managers are blinded by customer and competitor orientation and forget to guarantee a professional environment within the firm. Particularly in commodity firms in which products do not show a high differentiation level, the employees are forced to be creative and motivated to find at least small differentiation factors that can be used to be silhouetted against competitors. Therefore, commodity marketing should capture the level of employee satisfaction as well as

employee performance. Based on these information, key factors should be identified that would increase the employees' satisfaction and performance. By doing so, the firm's crucial resource, the human dimension, will drastically increase in value which in turn affects and stretches overall firm performance.

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Non-price-Related De-commoditization: An Exploratory Study in the Refractories Industry

Anja Geigenmüller and Christos G. Aneziris

1 Introduction

Both academics and managers agree that companies' capabilities to effectively differentiate their services in a competitive environment have a central role in marketing. This holds especially for commodities, which, despite more or less objectively differentiating characteristics, are perceived as relatively interchangeable. The challenge for commodity suppliers is to (re)create unique selling propositions for a product or service that are both perceptible and relevant to the customer. Sustainable differentiation enables commodity suppliers to avoid price competition.

The academic literature discusses generic competitive strategies relatively extensively. However, considering the specific characteristics of commodities, there is still a need for research on differentiation strategies.

Current discussions in science and practice are focused primarily on questions of strategy formulation, whereas systematic studies on strategy implementation in the context of de-commoditization are lacking. Regarding strategy formulation, the perspective of an "either-or" decision has been prevalent. However, effective

This chapter was originally published in German as Geigenmüller, A., & Aneziris, C. G. (2014). Umsetzung einer nicht-preisbezogenen De-Commoditisierung: Eine explorative Untersuchung in der Feuerfestindustrie, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_19

de-commoditization, i.e., the strengthening of unique selling propositions to reduce perceived substitutability of commodities, requires an integration of existing differentiation approaches (Homburg et al., 2009; Matthyssens & Vandenbempt, 2008).

In this context, this paper focuses on the implementation of non-price de-commoditization. Based on case studies within a selected commodity industry, the article aims at answering the following questions:

1. Which non-price de-commoditization approaches are used for differentiation?
2. How do commodity suppliers implement a non-price related de-commoditization?
3. Which requirements exist for the implementation of a non-price related de-commoditization?

The structure of the paper is as follows: After the introduction, a conceptual framework will be developed. It provides the foundation for the exploratory investigation based on case studies and secondary analyses in the refractories industry. This industry inheres typical characteristics of a commodity industry and is, therefore, a suitable context to identify relevant approaches and implementation measures of de-commoditization. The context of the research and the methodological approach are presented, before attention turns toward the results of the case studies. The paper ends with a summary and an outlook on further questions in research and practice.

2 Conceptual Framework

2.1 Generic Approaches to De-commoditization

The literature knows three basic approaches to commodity differentiation (see Enke et al., 2021 for a detailed discussion): **Price-based differentiation** focuses on superior cost structures, allowing commodities to achieve cost leadership and thus the realization of a low-price strategy. Since this strategy is only feasible for a few companies, this paper focuses on approaches of non-price-based differentiation (Homburg et al., 2009; Rangan & Bowman, 1992).

Non-price-based approaches include differentiation based on superior products and services or superior customer relationships. Differentiation based on **superior products and services** means enriching commodities with services to achieve differentiation from competing services. There are various studies that show the importance of additional services for effective de-commoditization (Albert, 2003; Auguste et al., 2006; Robinson et al., 2002).

In addition, **superior customer relationships** can achieve differentiation by creating valuable, long-term relationships between a commodity supplier and its customers. Commodity suppliers generate competitive advantages, if from the customer's perspective the perceived benefit of such a relationship is higher than the economic advantage that the customer could realize by switching to another supplier.

Regarding the relevance of these three generic approaches for commodity suppliers, the literature reveals some contradictory findings. Some authors underline the relevance of a cost leadership strategy by stating that "(. . .) the driving force in the commodity market is cost efficiency and economies of scale with respect to both manufacturing and marketing operations" (Sheth, 1985, p. 4). Therefore, commodity suppliers should pursue a high level of operational efficiency, i.e., continuous optimization of corporate processes, with a strict focus on profitability and budget targets (Davis & Schul, 1993; Miller, 1988; Phillips et al., 1983).

Other authors argue that only a few firms in typical commodity industries can exploit cost savings and process optimizations (Bush & Sinclair, 1992; Matthyssens & Vandenbempt, 2008). Despite the fact that cost efficiency is a necessary condition in a commodity market, it does not provide a sufficient basis for longer-term competitive advantages (Lewin & Johnston, 1997). Moreover, it would force particularly service providers with a potential to differentiate (so-called "new commodities"; see Enke et al., 2021) to change their strategy and to risk unfavorable adjustments of their organizational structures and management systems (Fleck, 1995).

Hence, approaches of non-price-related de-commoditization, i.e., based on superior services or superior customer relationships, are generally considered to be more relevant in commodity industries (Matthyssens & Vandenbempt, 2008; Reimann et al., 2010). However, investigations on their effectiveness are limited. In particular, insights are lacking on whether and how commodity suppliers can implement non-price-related de-commoditization (Araujo & Spring, 2006).

Approaches to service differentiation are often discussed from the perspective of additional, product-related services (e.g., programming, construction, or logistics services). Other approaches, such as the design of the product environment, brand strategies, or the relevance of corporate reputation are rarely considered in a systematic manner. Regarding differentiation based on superior customer relationships, several authors question whether commodity suppliers benefit from such a strategy. Interestingly, there is episodic evidence that characteristics and behaviors of commodity suppliers, especially competence and reliability, have a beneficial effect on the relationship with a customer (Blois, 1997; Lewin & Johnston, 1997). However, investigations on the effect of supplier characteristics on the ability to create long-term relationships are rare.

2.2 Pathways to a Non-price De-commoditization

Based on the generic approaches of differentiation based on superior services or superior customer relationships, Matthyssens and Vandenbempt (2008) propose a modified, two-dimensional framework for mapping transitions from basic products to solutions. Inspired by this framework, we distinguish between differentiation by **customized solutions** (i.e., what is offered?) and differentiation by **customized**

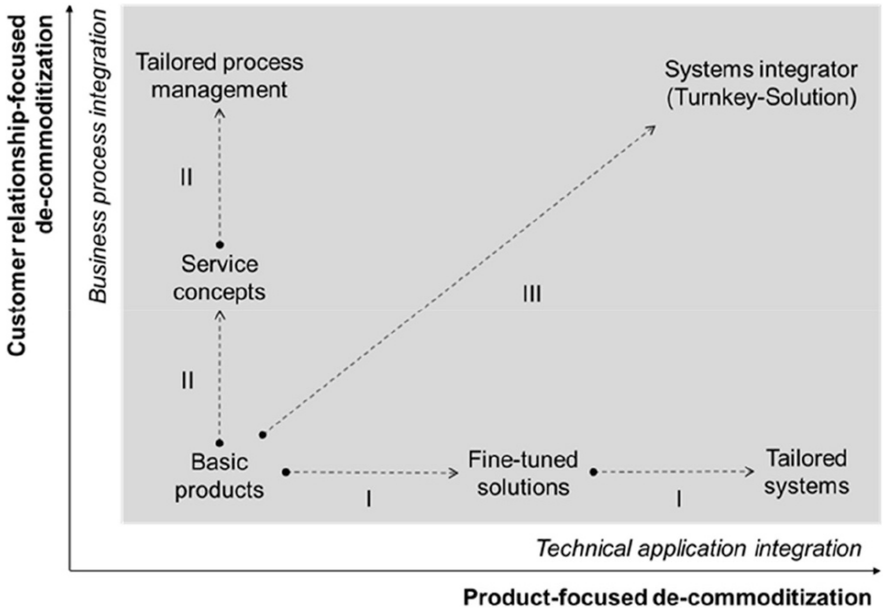


Fig. 1 Dimensions and pathways of non-price de-commoditization (inspired by Matthyssens & Vandenbempt, 2008, p. 323)

processes (i.e., how is it offered?). Whereas the former refers to the differentiation of products and product-related services, the latter refers to a service-related differentiation. Service-related differentiation means that independent services are introduced into the supplier's operational processes in order to leverage process quality and outcome (Engelhardt & Reckenfeldenbäumer, 2006).

In their framework, Matthyssens and Vandenbempt (2008) label the dimensions as "technical application integration" and "business process integration." Within these two dimensions, they define pathways to implement tailored solutions and customized processes (Matthyssens & Vandenbempt, 2008). Figure 1 illustrates these dimensions and pathways.

Path I describes the pathway to customized solutions by adapting service offerings to individual customer needs. In this case, the basic service is supplemented by product-related or additional services that create added value for the customer. The potential for differentiation is generated by combining services in a system that offers a superior solution to a specific customer problem, based on superior technical application knowledge. This approach corresponds to the incremental integration of a commodity provider into a customer's (technical) application processes (Homburg et al., 2005; Matthyssens & Vandenbempt, 2008).

Path II illustrates the integration of a commodity provider into the customer's business processes, based on deeper insights into customer business processes. The basic service is embedded in the provision of value-adding processes for the customer. The differentiation potential is based on stand-alone services that are created for the customer independently on the core service (e.g., by taking over specific administrative, engineering, financing, and/or logistical tasks). The customer benefits primarily from reduced total cost-of-ownership or operation (Matthyssens & Vandenbempt, 2008).

Path III corresponds to the integration of both approaches to de-commoditization, in the sense of creating so-called "**turnkey solutions**." As a result, differentiation potential would arise from both offering customized solutions and customized processes. However, as the degree of commoditization of an industry increases, it becomes increasingly difficult to implement this hybrid strategy (Matthyssens & Vandenbempt, 2008).

These three pathways represent ideal types of de-commoditization strategies. The question arises, whether and how commodity suppliers could follow these pathways and which steps have to be taken for an implementation. In addition, more insights are needed on relevant prerequisites for implementing these approaches. These questions will be answered in the following. For this, an explorative study is employed. In what follows, the context, the methodological approach, and results of this study are presented.

3 Empirical Investigation to Implement Non-price De-commoditization

3.1 Context of the Investigation

The empirical study investigates manufacturers of so-called refractory products. These are materials and components that have a high resistance to extreme thermal and chemical influences. Such aggressive environments can be typically found in high-temperature processes, e.g., in the large-scale melting of metals and glass, the production of iron, steel, cement, and ceramics as well as in energy generation or waste combustion. At temperatures ranging between 600 up to 2000 °C, refractory products are used in the form of unshaped mixes, bricks, or components to protect surfaces and coverings. For example, refractory materials are indispensable for lining steel converters or for coating blades and combustion chambers of gas turbines (Deneen & Gross, 2010; Routschka & Wuthnow, 2011).

Refractory materials do not only serve as protection against high temperatures. Because of their material properties, refractory products also influence the quality and energy efficiency of high-temperature processes as well as emission and pollution levels. The complex requirements for refractory products and the wide range of industrial applications result in a large variety of product forms and variants with very different properties and performance capabilities.

Refractory products have to be maintained and frequently replaced as they are subject to high wear due to extreme environmental conditions. Therefore, market activities of companies in the refractory industry include both the provision of physical products as well as services such as logistical or technical services. Such services include on-site delivery, i.e., the installation of refractories in customers' production facilities.

The refractories industry is highly dependent on upstream and downstream supply chain levels. The quality and cost of basic raw materials have a considerable influence on the quality and price of refractory products. There is intense competition for rare high-quality raw material sources, which continuously increase prices for specific raw materials. However, high procurement costs cannot be fully compensated by corresponding market prices. On the one hand, sales fluctuations in the customer industries, such as the steel industry, have a direct impact on the demand for refractory products. On the other hand, customers of refractory products are highly price-sensitive (Deneen & Gross, 2010).

Against this background, the commoditization of the refractory industry manifests mainly in two aspects. Refractories are technologically advanced materials and components with a significant impact on the quality, reliability, and safety of a large number of industrial processes. Consequently, from an objective point of view, these products have a differentiation potential. In contrast, however, customers are often not aware of this differentiation potential. Refractory products are often a part of larger, more complex systems and, as typical auxiliary products, perish during the production process. For customers in downstream supply chain levels, refractories are often more or less "invisible" (Deneen & Gross, 2010).

In addition, market saturation is becoming evident for many refractory products. In Europe and North America, the demand for refractories has been declining for years. For example, the introduction of advanced production processes has reduced the consumption of refractory products in steel production to a third over the past 20 years. For highly specialized refractory products, markets grow, whereas for mass products market growth decreases. Being in a late stage of the product life cycle, suppliers of refractory materials face a high intensity of (price) competition (Baaske et al., 2012).

3.2 Method

In order to explore complex, uncharted, and largely unstructured phenomena, often qualitative research methods are employed (Bonoma, 1985; Eisenhardt, 1989, Johnston et al., 1999). That is especially true for studies in industrial markets. They are characterized, among others, by complexity, multiple organizational players, and a high importance of personal interactions between suppliers and buyers (Backhaus & Voeth, 2010; Turnbull et al., 1996). The result is a large number of relevant context variables that cannot fully be captured by quantitative methods (Johnston et al., 1999; Yin, 2006).

The explorative study uses case studies based on in-depth interviews conducted over a period of 26 months with executives of national and international refractory manufacturers as well as selected raw materials suppliers and customers. The sample included interview partners in four companies in the refractory industry, in three companies in the steel industry as typical customers of refractory products, and in

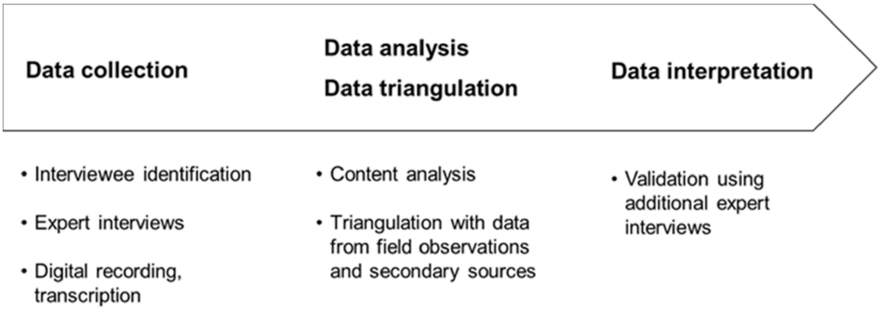


Fig. 2 Research process

two raw materials supplier companies. The selection of suitable companies for the case studies was mainly driven by their market relevance. Three of the four companies in this study are international leading suppliers for refractory products (Deneen & Gross, 2010). Further selection criteria encompass the type of products offered (mass products, special products) and the reputation of the manufacturing companies.

In addition to these data, further interviews were conducted with industry experts from scientific and research institutes, industry associations and industry-related institutions. Altogether, the study was based on more than 20 interviews. Finally, the data collection included an evaluation of secondary materials in the form of market analyses, industry reports, press releases and publications of the companies included (e.g., annual reports, company brochures, press releases).

For the interviews, semi-structured interview guidelines were used. An important object was to understand the main characteristics of the commodity industry, its structure as well as relevant customer expectations. The range of interview partners aided a reflection of both company-internal perspectives and the perspectives of external stakeholders (e.g., customers, suppliers, third-party institutions). This data provided the basis for identifying (1) approaches to non-price-related de-commoditization, (2) ways of implementing these approaches, and (3) prerequisites for an implementation.

The study was conducted in three steps, as shown in Fig. 2.

First, potential interview partners were identified and contacted. Then the interviews were conducted, which usually took 90 to a maximum of 120 minutes. The interviews were recorded and transcribed afterward.

Second, content analysis was applied to analyze the interview material. Moreover, data triangulation of the data with additional sources broadened the data basis. On-site observations allowed further exploration, consolidation, and supplementation of data gained from the in-depth interviews (Woodside & Wilson, 2003) as well as analyzing internal validity of the data (Johnston et al., 1999).

Finally, data was processed, anonymized, and interpreted. To this end, further, interviews were conducted, primarily with industry experts from scientific institutions and industry associations. This provided the opportunity for feedback and external validation of the results (Johnston et al., 1999).

3.3 Case Study Results

3.3.1 Identification of Non-price De-commoditization Approaches

Regarding relevant approaches of de-commoditization in the refractory industry, the case studies offer three relevant findings. First, both generic approaches of non-price differentiation are relevant for this industry: Companies in this industry pursue both customized solutions and customized processes to overcome the perceived homogeneity of their products. The results suggest that for refractory suppliers creating valuable customer relationships becomes increasingly important.

Second, companies differ with respect to the importance of each dimension (customized solutions versus customized processes). While some providers pursue a strategy of customized solutions, embedded in more or less standardized service offers, others emphasize the value of customized service processes to enrich customized technical solutions and thus to differentiate from competitors.

Interestingly, the results suggest that approaches of de-commoditization vary over time. When initiating customer relationships, i.e., when acquiring new customers and expanding customer contacts, suppliers tend to follow pathway I. As customer contacts intensify and customers become more familiar with a supplier, suppliers switch to path II. Stepwise, they establish service concepts, leading to an increasing integration into the customer's business processes.

Thirdly, the study shows that, given strong customer relationships, both approaches get intertwined. Companies investigated in this study offer their key accounts both customized technical solutions and customized processes, creating so-called "**turnkey solutions**," in order to develop competitive advantages.

3.3.2 Implementing the Approach of Customized Solutions

For the purpose of product or service differentiation, commodity suppliers chose four alternative measures: They enriched their basic products or added value to the product environment, offered value-added services, or employed a brand strategy. Figure 3 provides a systemization of the identified measures.

Enriching products involves a variation of physical product properties in order to fulfill customer-specific requirements. For example, one of the companies studied used its market-leading position within a product category to offer about 1000 different material compositions. The supplier created customer benefits by exploiting its expertise on relevant material properties in various industries and tailoring refractory products to different industrial settings, including iron and steel production, cement production, power generation, or the production processes in foundries.

Enriching the product environment refers, among other things, to the usage of high-quality packaging. On the one hand, tailored package solutions serve regular purposes of transport and storage. On the other hand, packaging is of importance

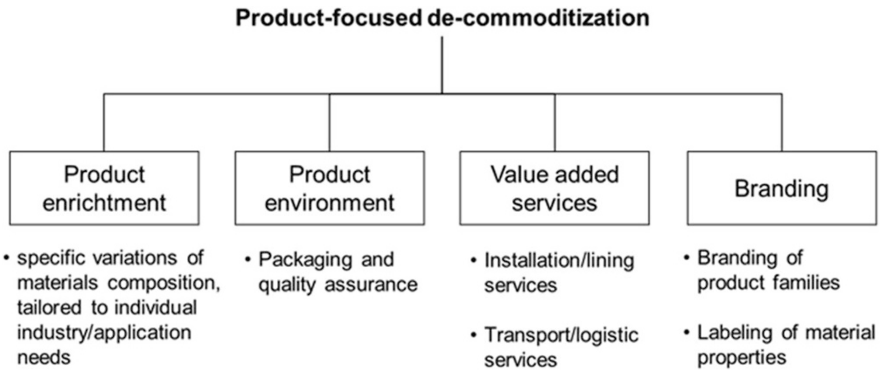


Fig. 3 Four alternatives to create customized solutions in the refractory industry

with regard to an effective protection of refractory materials and quality assurance, especially when operating under extreme climatic conditions. Material-efficient high-quality packaging technology, therefore, aids a differentiation of refractory products.

Value added services include transport and logistics services as well as the modification of processing technologies according to customer needs. To be more precise, type and method of installation of refractory products are accurately adapted to specific on-site conditions and production requirements. This allows high quality, long-life lining of high-temperature facilities, efficient facility maintenance routing, as well as the reduction of facility downtimes.

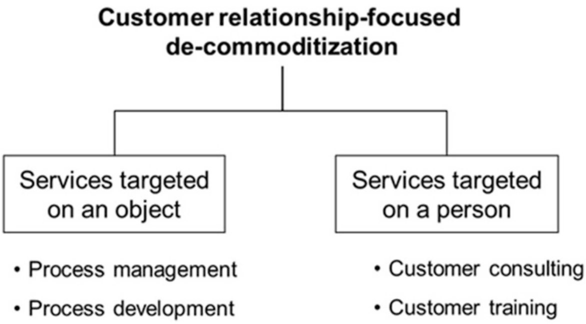
Alternatively, suppliers try to actively influence the perception of their differentiation potential by branding refractory products. To this end, some firms label products and product families using terms and symbols which denote the target industry (e.g., steel industry). Additional labels within such product families are used to highlight further product properties, such as material compositions, processing technologies, or materials performance during lining processes.

3.3.3 Implementing the Approach of Customized Processes

To enable customized processes and to create customer benefit, some refractory suppliers offered additional, non-product-related services to leverage customers' operational processes. Such services include object-oriented and person-oriented services. Figure 4 illustrates these two service types.

Findings of the case studies suggest that **object-related services** are primarily targeted at customers' process management. Besides product-related services, such as lining services, some suppliers, in addition, take care of monitoring, control, and optimization of entire manufacturing processes of customer firms. Customers benefit from an increased efficiency due to outsourcing processes to the upstream value chain. Such services involve upstream and downstream process management tasks, for example, product tests and simulations prior to a manufacturing process or waste management and recycling.

Fig. 4 Service types to create customized processes



Furthermore, suppliers offer services for project development, such as planning and designing new production facilities for customers and, if inquired, constructing and building plants on the customer's site. Customer benefit is created by, for instance, recording relevant parameters, performance calculations, the design of adapted lining concepts, construction and assembly services, or the review and coordination of legal regulations, relevant standards, and norms.

Person-related services include customer consulting and customer training. In many cases, consulting and training services are provided regarding the selection and optimization of suitable refractory materials, the design and optimization of production facilities, and assistance regarding technical or legal regulations. Furthermore, training programs for customers introduce new technological solutions and help customer companies to train and qualify employees.

3.3.4 Requirements for Implementing Non-price De-commoditization

Figure 5 shows internal and external factors as well as factors at strategic and operational levels this study identified as relevant to a successful de-commoditization. With respect to internal factors, the study finds three important factors, namely, **customer orientation, service orientation**, and **innovation orientation**.

Customer orientation refers to the supplier's focus on customer needs. To create beneficial customized solutions or customized processes, extensive knowledge on customer needs as well as the ability and motivation to identify these needs and to transform them into customer-oriented services is required (Homburg et al., 2004). In particular, understanding customer processes including relevant process parameters are decisive to successfully integrate tailored services into customer technical application processes or to carry out valuable activities, that enhance the quality and effectiveness of customer business processes. In line with this, identification and prioritization of key accounts is highly relevant, in order to assign supplier resources according to the expected individual customer revenue (Droll, 2008).

Service orientation refers to a supplier's emphasis on customer service and service offerings, which translates for instance into a strong service climate or service-oriented attitudes and behaviors of employees (Bowen & Schneider, 2014;

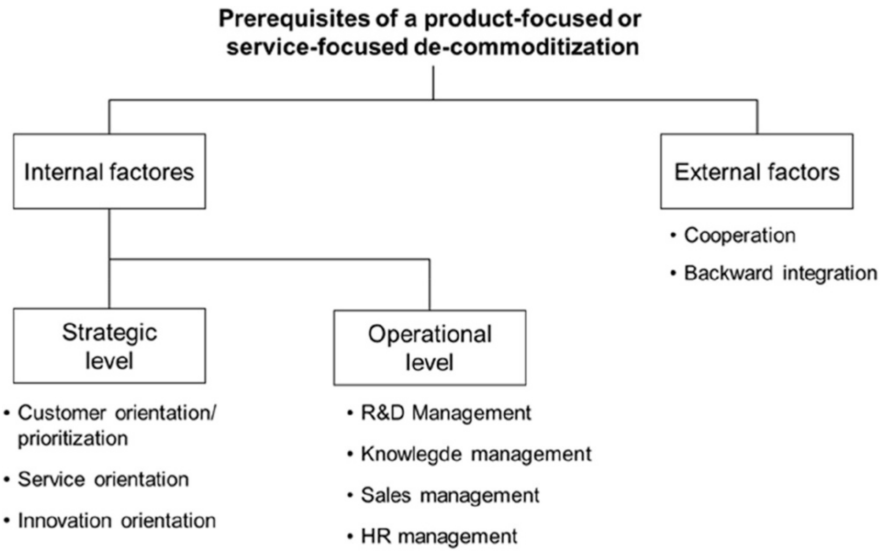


Fig. 5 Requirements for implementing non-price de-commoditization

Homburg et al., 2003). Adding value to a customer's business processes requires a high level of service orientation. As the case studies reveal, successful service orientation was built on structural and personnel adjustments in order to implement valuable service concepts and to create customer benefit.

Innovation orientation is reflected by investments into internal research capacities or collaboration with external research partners, e.g., research institutes, colleges, and universities, to anticipate innovative technologies and co-develop them together with the customer.

On an operational level, the study points to an effective research and development management in order to systematically develop novel products and services. Moreover, the development and optimization of services and processes requires an effective knowledge management within the supplier company as well as within the supplier-customer relationship. A customer-oriented sales management supports the identification of customer needs, productive customer interactions, and customer satisfaction, which may result in close and valuable ties with customers. These requirements have of course an impact on human resource management and, in particular, on planning, management, and qualification of employees. Not only the acquisition of talented workforce matters, but also a continuous training and qualification regarding technical as well as economic and managerial tasks.

Considering external conditions, two interesting factors emerge from the case studies. First, **interfirm cooperation** is important, especially for small-size companies. Facing substantial resource constraints, SME often need partners to implement de-commoditization measures and to position themselves as providers of customized solutions. Second, the **access to high-quality raw materials** turned out as a serious bottleneck for product variation and the composition of a diversified product portfolio. Against this background, many manufacturers in the refractory industry have chosen the strategy of backward integration in order to secure the access to raw material sources.

4 Summary

Whereas marketing strategies in commodity markets have attracted a certain attention in the literature, insights into an implementation of these strategies are scant. Although especially **non-price related approaches of de-commoditization** are considered to be highly relevant, our understanding of dimensions, measures, and prerequisites of an implementation is rather limited. Against this background, the aim of this paper was to shed light on the implementation of differentiation strategies in a typical commodity industry, focusing on three aspects:

1. Which non-price de-commoditization approaches are used for differentiation?
2. How do commodity suppliers implement a non-price-related de-commoditization?
3. Which requirements exist for the implementation of a non-price-related de-commoditization?

Employing case studies in the refractory industry, the article shows that, first, both dimensions of a de-commoditization strategy—customized solutions and customized processes—are relevant. In addition, market-leading companies often combine both strategies and, exploiting strong customer relationships, create what has been labeled as "turnkey solutions."

Second, the article shows ways to create customized solutions in the refractory industry. Customized solutions often exploit a supplier's capability to enrich basic products and/or to offer value-added services. To customize business processes tailored service concepts are important, which fit into customer's operational processes and increase process efficiency.

Third, the paper identifies external and internal factors that support the effective implementation of non-price-based de-commoditization. The study highlights the importance of cooperation with partners upstream and downstream in the value chain. Likewise, customer and service orientation as well as innovation orientation play a crucial role as well as adjusted organizational structures and processes, not only in R&D management but also in sales or HR management.

This paper points to interesting avenues for future research. Answering the call for more insights into strategy implementation by analyzing typical commodity industries (Matthyssens & Vandenbempt, 2008), it adds industry-specific insights to the existing literature.

This paper employs qualitative methods, namely case studies and secondary analyses, in order to cope with the complexity of the research subject and the research context. Yet, as with any piece of academic work, there are some limitations to consider, especially regarding the generalizability of the results. Future research should therefore include also quantitative methods in order to make generalizable statements on the relevance and implementation of de-commoditization approaches.

The article identifies several internal and external determinants. Further empirical studies should clarify the individual effect of each determinant on suppliers' economic success, in order to derive implications for the management of companies in commodity industries.

Not only in commodity industries, there is a considerable academic and managerial interest in the effectiveness of business and marketing strategies. Further research should add to this knowledge and help firms not only to identify appropriate strategies but also to find ways to implement these strategies in an effective and efficient manner. This is particularly relevant for commodities, which suffer from a limited potential to differentiate and to create competitive advantages.

This paper derives several **implications for the managerial practice**. The competitiveness of companies in industries such as the refractory industry depends on their ability to apply relevant approaches to differentiate from competitors. The empirical findings in this paper support the notion, that non-price-based differentiation approaches could be of great value. Furthermore, the paper illustrates that a combination of differentiation approaches could make a difference.

In recent years, firms not only in the refractory industry become increasingly aware of the need for differentiation. Interestingly, offering customized solutions prevails over the idea of customized business processes. One explanation for this phenomenon may lie in a strong focus of traditional producing companies on products instead of customer service and service concepts, resulting in inadequate service concepts and ineffective service management (Engelhardt & Reckenfeldenbäumer, 2006). In this regard, not only commodity suppliers face the challenge of a service transformation in order to create and sustain competitive advantages.

Acknowledgments This paper originates from research results obtained in the priority program 1418 "Feuerfest—Initiative zur Reduzierung von Emissionen—FIRE," funded by the Deutsche Forschungsgemeinschaft DFG. The authors thank DFG for its financial support within the program.

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CRM in the Energy Market: Customer Relationship Management in Commodity Industries Using the Example of an Energy Service Provider

Manuela Künzel and Lutz Lohse

1 Relevance of Customer Relationship Management in the Energy Market

In recent years, the energy industry has undergone fundamental changes. Until liberalisation in 1998, the German energy market was divided into regional territorial monopolies. Every energy supply company (Energieversorgungsunternehmen, EVU) had statutory monopoly rights in historically developed regions. Customer orientation played a subordinate role, as consumers were bound to the suppliers' conditions. Switching energy suppliers was not possible for customers, meaning that concepts for customer acquisition, retention and recovery were not necessary for enterprises until the liberalisation of the electricity market.

The Directive (EU) on Common Rules for the Internal Market for Electricity and its transposition into national law through the amendment of the Energy Industry Act (Energiewirtschaftsgesetz, EnWG) changed the political, legal and thus the economic framework conditions. The 1998 amendment to the energy law resulted in the opening of the electricity market to competition. Henceforth, all customers were free to choose their electricity supplier. The removal of barriers to market entry led to an increasing number of new energy suppliers, while co-operations and mergers also changed the competitive landscape. The most recent example is the complex transaction between RWE and E.ON where RWE took over E.ON's generation

This chapter was originally published in German as Lohse, L., & Künzel, M. (2014). Customer-Relationship-Management im Energiemarkt, In M. Enke, A. Geigenmüller, & A. Leischnig (eds.), Commodity Marketing. Springer Gabler, Wiesbaden. Translated and updated with permission.

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_20

business while E.ON is focused on grid, distribution and innovative business activities and purchases the retail brand innogy. In addition to regional energy service providers and the major groups E.ON, Vattenfall and EnBW, numerous new and non-industry players are entering the energy market (e.g. VW, Shell and Lidl). At the same time, several suppliers went bankrupt (e.g. TelDaFax in 2011, FlexStrom in 2013, BEV in 2019).

Adopted in 2010, the **energy transition** [*"Energiewende"*] redefines the rules of the energy industry: the phasing out of nuclear energy, the expansion of renewable energies and the promotion of energy efficiency, as well as the exiting of electricity generation from hard coal and lignite are causing all market players to adapt their market cultivation and expand their business models.

Summarising the above, intensified competitive activity, well-informed consumers and increased switching rates are factors that lead to increased customer losses, in particular among established energy providers with many existing customers. **Customer Relationship Management (CRM)** remains an important issue for energy service providers in order to maintain market share in the sales territory and secure the company's long-term success. In addition to growth, the major challenge facing established energy service providers is to consolidate customer loyalty and retain customers willing to switch.

This chapter aims to reveal the capabilities of CRM within the energy industry. The next chapter, therefore, fundamentally characterises electricity and gas as commodities and outlines the current challenges the energy industry is facing on both the market and the customer side.

2 Characterisation of the German Energy Market

2.1 Electricity and Gas as Commodities

In Germany, electricity is indispensable in everyday life and is available in almost every household and business. Besides its **omnipresence**, there are further characteristics of electricity and most of them also apply to natural gas (in short: gas):

- *Immateriality*: The product electricity or the supply of electricity itself is intangible, having no mass or volume (Schikarski, 2005, p. 8). In contrast, gas is a combustible natural gas extracted from underground deposits (Monopolkommission, 2011, p. 71). As both energy sources have no colour, surface finish, smell or taste, branding the products is complicated.[1] Accordingly, it is difficult for customers to perceive or judge the products distinctly (Busch

[1] Natural gas is generally an odourless gas, but depending on its origin it may contain a considerable amount of strong-smelling organic sulphur compounds.

et al., 2009, p. 357). Furthermore, the provision of electricity or gas more closely resembles a service (as opposed to a delivery of goods).

- *Product homogeneity and interchangeability*: Electricity is a standardised, homogeneous product with standardised quality (e.g. 230 volts). Gas is not completely identical in its composition, as a distinction is made between the quality categories L (Low) and H (High) depending on its methane content (Monopolkommission, 2011, p. 72). Nevertheless, a differentiation from competitors by virtue of the core products electricity and gas is difficult, as both energy sources have an objectively low potential for differentiation (Laker, 2001, p. 101). Due to their indistinguishable characteristics, they belong to the category of **commodity services** "which are perceived by the customer as homogeneous and where no preference for a supplier based on performance characteristics exists" (Bruhn, 2010, p. 63). Consequently, marketing faces the challenge of designing product policy and communicative design features around the interchangeable product core (Dressler & Nickening, 2009, p. 335).
- *Indirect yielding of benefit*: Electricity and gas do not generate any customer benefit themselves. For the customer, the benefit/value of electricity arises only through the use of electrical appliances and of gas mainly in the heating of living and working spaces or as fuel for vehicles. The customer benefit is therefore only secondarily perceptible (indirect yielding of benefit) (Busch et al., 2009, p. 357; Schikarski, 2005, p. 8).
- *Grid-bound nature*: Electricity is distributed via power supply lines and gas via piping systems or pipelines to private households or industrial enterprises. Differentiations from the competition, e.g. in the form of diverse packaging, are not possible due to the grid-bound nature of the business (Laker, 2001, p. 101; Schikarski, 2005, p. 9; Monopolkommission, 2011, p. 76).
- *Low involvement*: The use of electricity and gas (products) is characterised by low customer involvement. "Electricity comes out of the socket" (Busch et al., 2009, p. 357) and is only given consideration in the event of a shortage, e.g. a power failure. Meanwhile, studies show that interest in energy is generally increasing: over half of German consumers are more intensively involved with the topic of energy than in the past and pay more attention to the origin of the electricity, e.g. when choosing an electricity supplier (Sander & Dörner, 2012).

Summarising the above means that electricity and gas supplies—similar to the banking and insurance sectors—have more the character of a membership-like relationship with a consistent service provision. The challenge is primarily to upgrade these low involvement products by appropriate measures from the marketing mix.

2.2 Current Challenges in the Energy Sector

More than virtually any other sector, the energy industry is characterised by a variety of changes on both the customer and the market side. In the following, the market side will be addressed first.

Particularly **strong market changes** are associated with the **energy transition** adopted in 2010 and the "Energy Efficiency Strategy 2050" adopted in 2019. In this context, the German government stipulated the following targets:

1. The emission of greenhouse gases is to be reduced by at least 80 percent by 2050 compared to 1990 (BMWi, 2012, p. 4.).
2. The Federal Government wants to shut down all nuclear power plants by 2022.
3. By 2050, primary energy consumption in Germany is to be halved in comparison to 2008 (BMWi, 2019).

The energy transition has implications for all players in the market: energy companies are planning to invest billions in the expansion of renewable energy over the next few years and to significantly expand the grid infrastructure. The topic of energy system transformation is also piquing great interest among the German population: 93 percent of consumers stated that the issue is very important to them. However, there is dissatisfaction with the way it is being implemented, because the expansion of renewable energies is taking too long or delays in policymaking are preventing progress (Graichen et al., 2019, p. 6.).

In addition to changing political and regulatory framework conditions, the energy market is distinguished by a **diversity of market participants**: around 1300 electricity and 1050 gas suppliers participate in the German energy market, more than in any other country in Europe (BDEW, 2020a, p. 14.). The major groups (E.ON, EnBW, Vattenfall and regional distribution companies) and their subsidiaries (e.g. eprimo, E WIE EINFACH and Yello Strom) are among the market participants, as are municipal utilities and regional energy suppliers (e.g. Stadtwerke München), supra-regional energy discounters (e.g. ExtraEnergie and Gas.de), pure green suppliers[2] (e.g. LichtBlick and Greenpeace Energy) and other new providers (e.g. lekker Energie and Shell Privatenergie). In both the electricity and the gas market, municipal utilities and groups have the largest market share with around 80 percent. New energy suppliers currently account for almost 20 percent (Fig. 1) (Kreutzer & Nordlight, 2020).

Especially in the last ten years, the number of energy suppliers has increased significantly. Besides the energy discounters, municipal utilities have mostly been newly founded as a result of the ongoing **remunicipalisation**[3] (Verivox & Kreutzer,

[2] Among them are also eco-energy discounters (e.g. Grünwelt Energie). In addition, green electricity is now sold by many energy suppliers in all supplier segments.

[3] Remunicipalisation means the takeover by municipal companies (e.g. public utilities) of formerly private companies or of the supply tasks previously performed under private management.

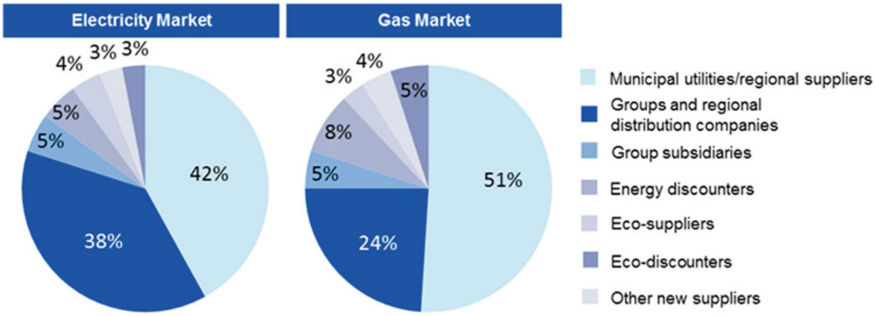

Fig. 1 Shares of energy suppliers in the electricity and gas markets (adapted from Kreutzer & Nordlight, 2020)

2012, 2013). In the electricity and gas markets, an increasing number of classic suppliers are active throughout Germany. In addition, large groups outside the industry are pushing into the energy market (e.g. Dt. Telekom in 2017, Deutsche Bahn in 2017, Volkswagen in 2019). Here, high brand awareness, customers in their millions and correspondingly frequent customer contacts are an asset. Furthermore, the market entry of suppliers with new business models (e.g. EnergieRevolte with its prepaid electricity solution) and foreign companies (e.g. GAZPROM) is becoming apparent.

Besides new suppliers entering the market, the trend towards **consolidation** is continuing: amalgamations, mergers, takeovers and cooperations aimed at expanding the energy services and electromobility segments and developing new business fields are increasing rapidly. Furthermore, insolvencies are boosting the **dynamics in the energy sector**: The illiquidity of the electricity supplier TelDaFax in 2011 was the largest insolvency in German economic history in terms of the number of creditors (approx. 750,000) (Flauger & Iwersen, 2013, p. 18.), followed in 2013 by FlexStrom, FlexGas, Dandelion, Optimal Green (approx. 500,000 consumers). At the beginning of 2019, Bayerischer Energieversorger (BEV) filed for bankruptcy (approx. 600,000 consumers had to find a new supplier) (Verivox, 2020). Fierce price competition, high distribution costs and low customer loyalty are frequent reasons for the insolvency of energy suppliers.

The **rising intensity of competition** is causing more and more energy companies to open up new sales territories and to offer supra-regional, Germany-wide products. In addition, companies are increasingly differentiating their offerings: new electricity and gas products such as smart metre electricity, regional electricity or football electricity are designed to appeal to more targeted customers (Verivox & Kreutzer, 2020b). Internet **comparison portals** (especially Check24 and Verivox) are the preferred means of marketing electricity and gas products. Some discount providers are using multi-brand strategies in order to take as many top positions as possible in online portals.[4] The portals strongly influence market prices and are one of the most prominent sales channels.

Against the background of increased competition and the energy transition, energy companies are developing **new business fields**. Energy consulting, prosumer products and energy efficiency services are continuously expanding the portfolio of electricity and gas products on offer. E-mobility solutions range from automotive power products, shared electric mobility to electric car leasing (Verivox & Kreutzer, 2020b). Germany already has one of the most developed markets for energy services. In the future, the importance of the new business models will continue to grow, as they will play a central role in implementing the energy transition (BDEW, 2012b, p. 5.).

Considering this challenging market situation with volatile political and legal conditions and increasing competitive and earnings pressure, **professional CRM** is imperative, in particular for established energy service providers. For three-quarters of the energy suppliers, the topics of sales/marketing/customer care/CRM will become even more prominent in the future, and for 83 percent of the suppliers surveyed, the issue of "digitalisation" will strongly gain in importance (Ernst & Young & BDEW, 2019, p. 11.).

2.3 Changing Needs and Expectations of Energy Customers

In addition to the market side, the customer side of the energy sector is also subject to far-reaching changes, as consumer attitudes, needs and expectations are increasingly transforming.

The topic of energy is gaining in importance for consumers in all spheres of life, whether in building a house, buying a car or purchasing entertainment electronics (Sander & Dörner, 2012, p. 22). Information is globally available on the Internet and price comparison websites provide quick and easy comparisons of providers and products. Using this transparency option improves the **customers' knowledge of the market**, which is also enhanced by media reports (Zweigle, 2009, p. 309). Overall, customers are significantly more price-aware and readily prepared to switch energy suppliers (Reith, 2012).

For customers, switching suppliers is uncomplicated and can be carried out without any major effort. The amendment of the German Energy Industry Act (EnWG) in 2011 has particularly contributed to the **strengthening of customer rights**: in addition to the increased transparency of customer invoices, a maximum processing term of four weeks for consumer complaints, the establishment of a conciliation office for customers, the change of supplier must take place within three weeks (BDEW, 2012).

[4]For example, the discounter ExtraEnergie has introduced three electricity brands (Extrastrom, Hitstrom, Priostrom) as well as three gas brands (Extragas, Hitgas, Priogas) in order to be listed multiple times.

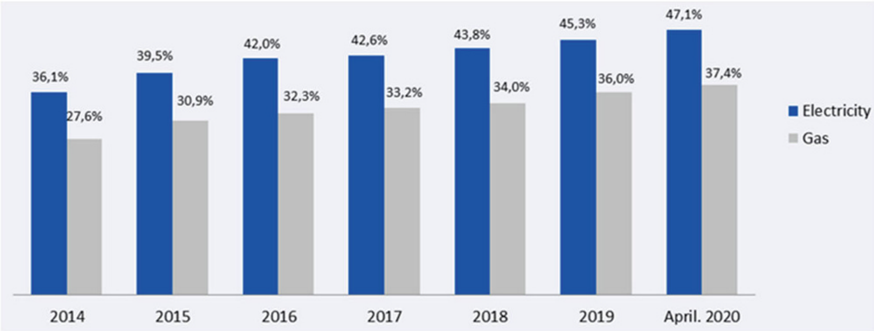

Fig. 2 Cumulative switching rate for electricity and gas in private households (adapted from BDEW, 2020a)

The customers' increasing willingness to switch is reflected in **rising switching rates**. By April 2020, almost half of all private households had switched their electricity supplier at least once (Fig. 2). The major **comparison portals** on the Internet serve as the **main source of information** on electricity and gas for customers willing to switch. The websites of energy suppliers are visited by one in three customers willing to switch suppliers. Recommendations from friends, family and acquaintances also play a key role in the energy market (Kreutzer & Nordlight, 2020, p. 69).

The main **reason for customers to terminate** a contract is to reduce their energy costs. Price rises of the current supplier or increased payments on account are key reasons for electricity and gas customers to consider **switching their energy supplier**. More and more customers, however, are expressing the wish to switch to an eco-supplier (Kreutzer & Nordlight, 2020, p. 22). Among the **motives for staying**, customers cite the good service and customer care, the familiarity and regionality of the energy provider and a sound green energy portfolio even before the price (Kreutzer & Nordlight, 2020, p. 31).

Interest in **eco-products** is growing among both electricity and gas customers. In the first half of 2020, two-thirds of those switching to green electricity opt for a green electricity tariff, 19 percentage points more than in 2019 (Verivox & Kreutzer, 2020a, p. 2, 44). **Price guarantees** remain important: in 2019, over 70 percent of those switching to green electricity chose an electricity contract with a 12-month price guarantee (Verivox & Kreutzer, 2020b, p. 181).

According to Kundenmonitor Deutschland 2020, energy customers are for the most part satisfied with their supplier. The electricity suppliers were able to achieve a score of 2.2 in the **customer satisfaction** survey. This places them in the mid-table of the industry comparison (Servicebarometer, 2020). Nevertheless, the energy market shows **lower customer loyalty** compared to other industries. According to the monitoring report of the Federal Network Agency, 4.75 million households switched their electricity supplier in 2018 (Bundesnetzagentur & Bundeskartellamt, 2020, p. 271).

Besides the increasing willingness to switch within the electricity and gas market, **customer expectations** of the energy provider regarding new products and services are also rising. Consumers are more concerned with the issue of energy than ever in the past, want to reduce their energy consumption and pay more attention to the origin of electricity when choosing an energy supplier. Sander and Dörner speak of a new energy customer called "**Homo energeticus**" (Sander & Dörner, 2012, p. 22). In the future energy system, customers will no longer act as mere energy consumers, but will also intervene retroactively in the energy management system, e.g. as a **decentralised energy producer**. In the future, half of the energy customers can imagine producing electricity for their own needs themselves and actively participating in shaping the energy supply system. The passive energy consumer is thus transforming into an active "**prosumer**" (Sander & Dörner, 2012, p. 21; Ernst & Young, 2013, p. 5).

Summarising the above, the majority of consumers expect far more than just electricity and gas from their energy supplier in future. In addition to innovative products for managing the energy budget or reducing their inhouse energy consumption, advice on all aspects of private energy management, energy suppliers should also offer products for regenerative power generation such as wind and solar power systems. From the customer's point of view, the current energy supplier is to become the **central energy manager** (Sander & Dörner 2012, p. 26).

2.4 Conclusion

The current developments in the German energy industry on both the market and the customer side require energy companies to adapt more intensively (Fig. 3). The energy supplier's consistent orientation towards customer needs within the

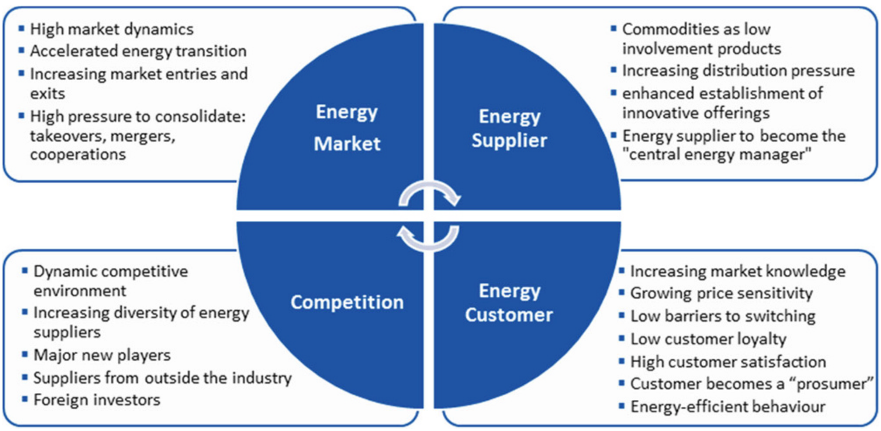

Fig. 3 Current developments in the German energy market

framework of effective Customer Relationship Management can be the most promising strategy for securing long-term market success.

3 The Customer Lifecycle in the Energy Market

In marketing, the lifecycle concept is often applied in the form of the product lifecycle, according to which the temporal development of a product in the market is controlled in five ideal-typical stages (introduction, growth, maturity, saturation, decline) on the basis of economic variables (e.g. turnover). This concept can also be extended to the development of customer relationships and can be described as a customer relationship lifecycle (Bruhn, 2009a, p. 53 f.).

The relationship lifecycle can be divided into three central core phases (Garcia & Rennhak, 2006, p. 10; Georgi, 2008, p. 252; Bruhn, 2009a, p. 60, 2009b, p. 43 f.).

1. Customer acquisition
2. Customer retention/development
3. Customer recovery

The lifecycle of an electricity or gas customer does not substantially differ from the customer relationship patterns in other service industries. If it follows an ideal-typical pattern, the strength of the customer relationship in the **customer acquisition phase** is initially low (Bruhn, 2009a, p. 60). In the initiation phase, the consumer inquires about the offer and reacts to the company's communication measures. If the customer makes use of the company's services for the first time, the business relationship is established and the customer enters the socialisation phase (Stauss, 2006, p. 433). Since energy service providers in Germany have a general basic supply obligation for electricity and gas, customers can use the energy service immediately when moving in or out, for example without having to conclude a separate written contract.

If the customer can be satisfied with the product or service, its loyalty increases and the **customer retention phase** begins. During this phase, the intensity of the relationship increases continuously (Bruhn, 2009a, p. 60). If the customer extends the use of services to other products (cross buying: e.g. energy consulting), this describes the transition to the growth stage (Stauss, 2006, p. 433). In the maturity phase, the customer's potential is largely exhausted and the strength of the customer relationship is at its peak (Bruhn, 2009a, p. 63). If the customer's revenue contributions stagnate or decrease compared to the previous period, e.g. due to a switch to low-cost products, the relationship enters a degeneration phase. In this phase, but also during the entire duration of the relationship, the customer relationship is endangered (Stauss, 2006, p. 433). During the endangerment phases, the customer plays with the idea of no longer using the service due to various causes (e.g. service shortcomings and price increases) (Bruhn, 2009a, p. 63). In the energy sector, it is important to note that customers in the basic supply segment do not have a longer contract term and are therefore (especially due to increasing competitive

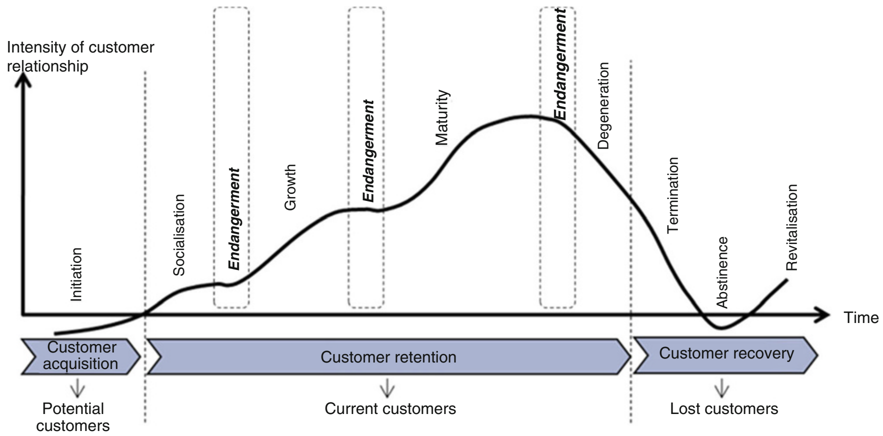

Fig. 4 Phases of the customer lifecycle in the energy market (adapted from Stauss, 2006, p. 434)

measures) always endangered to churn. In contrast, customers with a special contract have actively opted for it and are usually bound to their energy service provider for a certain term of contract.

In contrast to the first two core phases, the **customer recovery phase** (regain management) is characterised by stagnating or even declining relationship intensity (Bruhn, 2009a, p. 60). In this phase, customer satisfaction, customer retention and customer value decrease either by leaps and bounds or continuously (Bruhn, 2009b, p. 43). The customer's notice to terminate leads to the final termination of the business relationship in the event of unsuccessful defence against or prevention of termination. As a result, the abstinence phase begins in which the customer no longer uses the company's services (Bruhn, 2009a, p. 63). Recovery measures make sense primarily for profitable customers who have churned (Bruhn, 2009b, p. 44). If a lost customer can be regained by the company during the revitalisation phase, a new customer relationship lifecycle begins (Stauss, 2006, p. 434).

Figure 4 reveals that **endangerment phases** may occur not only at the end of the customer relationship lifecycle, but throughout the entire duration of the customer relationship, i.e. whenever the customer may have cause for dissatisfaction or is considering terminating the business relationship for other reasons (Stauss, 2006, p. 434). Besides concrete dissatisfaction, this can be caused by price changes or simply by market and competitive stimuli. Against the background of the growing willingness to switch and the enhanced switching behaviour of customers, the energy service provider should pay particular attention to the endangerment phases.

From the company's point of view, the overall objective is to derive strategic and operational recommendations for marketing, sales and service. The tasks of a professional Customer Relationship Management of the energy service provider are described with reference to the relationship phases in the following chapter.

4 Customer Relationship Management Using the Example of an Energy Service Provider

Implementing and executing effective Customer Relationship Management, in addition to efficient cost management, is the promising strategy for an energy service provider to meet the increasing challenges in the market and to maintain its competitiveness.

Explanations of the term Customer Relationship Management are often limited to the technical IT component, by equating CRM with a CRM system. The technical aspect, however, is only one of several. In 2006, Hippner defined CRM as follows: "**Customer Relationship Management** is a customer-oriented corporate strategy that uses modern information and communication technologies to attempt to establish and consolidate profitable customer relationships in the long term through holistic and individual marketing, sales and service concepts" (Hippner, 2006, p. 18; Hippner et al., 2006, p. 198).

According to this definition, CRM represents a strategic, holistic approach to the management of customer relationships and thus a conceptual topic. The corresponding CRM software provides only the technological support (Dangelmaier et al., 2004, p. 5; Helmke et al., 2008, p. 7). The key success indicator of CRM is the profitability of the customer relationship, comprising not only the value and stability (customer satisfaction and loyalty) of the relationship itself, but also the company's usage of resources over the entire customer lifecycle (Homburg & Sieben, 2008, p. 503).

4.1 Acquisition Management

The customer acquisition phase covers all company activities related to the establishment or initiation of the relationship between the company and the customer. The purpose of a company's **management of customer prospects** (acquisition management) is therefore to attract the attention and interest of potential customers and persuade them to make an initial purchase (Stauss, 2006, p. 435). The aim is to profitably acquire new customers (Haas, 2006, p. 448).

In common with other companies, energy suppliers are faced with the choice of whether to acquire new customers via direct or indirect distribution channels. For traditional customer acquisition via **direct sales/distribution**, the energy supplier undertakes the marketing of its products autonomously. Concluding the electricity or gas contract directly with the supplier can be achieved via the supplier's website, search engine marketing and optimisation (SEM and SEO), banner advertising, social media, door-to-door sales (with own field service), mailings (with or without personalisation), inbound and outbound telephone calls or in the supplier's customer office (Fig. 5).

The importance of online distribution channels in the energy industry is constantly growing due to digitalisation. **Chatbots** are an increasingly used sales tool.

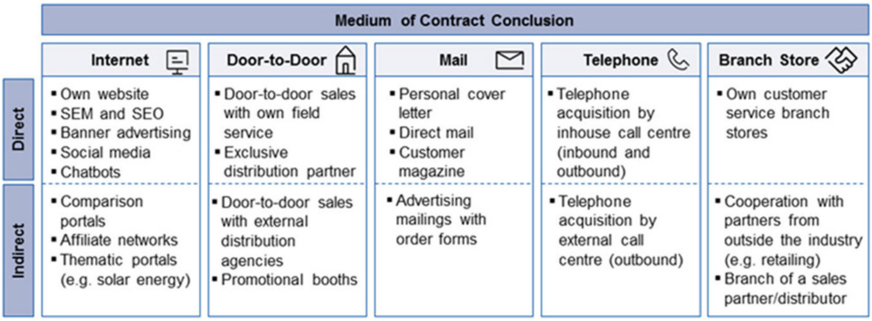

Fig. 5 Distribution channels in the energy market (adapted from Kreutzer & Nordlight, 2020)

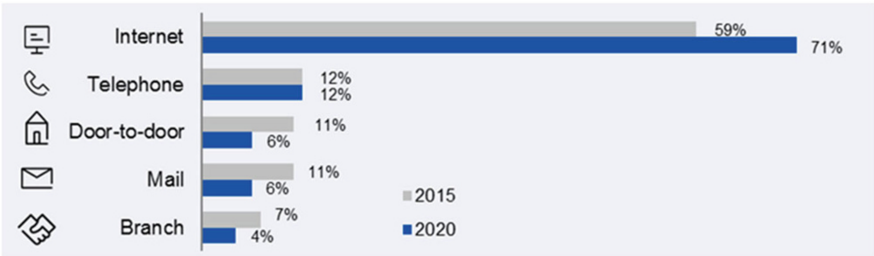

Fig. 6 Development of distribution channels in the energy market (adapted from Kreutzer & Nordlight, 2020)

They provide the customer with standard information on energy provider websites and can also respond to customer enquiries about new contracts.

In addition, acquisition opportunities are provided by **indirect distribution channels**, where economically and legally independent sales agents act as intermediaries between energy suppliers and customers. Gaining new customers is promoted through door-to-door business with external sales agencies, within the framework of partner programmes with chain stores (e.g. Lidl), sales representatives, housing associations, real estate agents or energy consulting offices, or through telephone acquisition in cooperation with external outbound call centres.

As regards customer acquisition, for the distribution channel **Internet**, cooperation with sales and service portals is of relevance. In 2020, for example comparison portals accounted for the largest share of switching in the electricity and gas markets. The Internet is the most important information and conclusion medium for customers willing to switch. In recent years, the online medium has seen enormous growth, accounting for 71 percent of contracts concluded, and is thus increasingly superseding the other distribution channels (Fig. 6) (Kreutzer & Nordlight, 2020, p. 12).

Affiliate networks or **thematic portals** (e.g. on eco-energy) can also support the acquisition of new customers on the Internet: the energy supplier places its link in the online presence of a website operator (e.g. blog) and pays a commission if the set link leads to success.

Concluding the **contract by telephone** is used by twelve percent of the switching customers and has remained stable over the years. Telephone distribution is mostly carried out by external call centres and is considered an efficient distribution channel. The most challenging task here is to obtain from the customer a legally secure declaration of consent (opt-in).[5]

Direct distribution and personal contact via **door-to-door selling** has declined by six percent. Due to the high number of reports of unfair distribution methods, doorstep distribution is sometimes viewed sceptically. In this context, fines are increasing. For energy suppliers, however, the advantages lie in the fact that electricity and gas products can be presented directly and that, in addition to price, other factors such as quality and regionality can be included in the benefit argumentation (Verivox & Kreutzer, 2020b, p. 142).

Due to digitisation, the importance of the **mail** distribution channel is also declining. Concluding a postal contract is used by six percent of the customers and is often the result of previous advertising.

Personal advice, especially on new products requiring explanation (such as Smart Home), is best provided in **branch stores** and **customer centres**. Although currently only four percent of customers switching the supplier conclude a contract in person, municipal utilities and large energy suppliers are using and launching interactive shops as customer centres with a digital focus and to increase their local presence (Kreutzer & Nordlight, 2020).

Distribution cooperations between retailers or service providers and energy suppliers (e.g. Yello Strom/Postbank and Lichtblick/Deutsche Bahn) can also facilitate the gaining of new customers. In this context, the energy supplier benefits from the reach, the positive image and the strong, well-known brand of the cooperation partner (Verivox & Kreutzer, 2012).

Since **referrals by friends and acquaintances** represent an activation reason for switching suppliers, a customers-recruit-customers programme can be used for acquisition. In this way, satisfied private customers actively contribute to the energy service provider's new customer acquisition through positive advertising and recommendations. The successful referral of a current customer can be rewarded with a material or monetary bonus. The customers-recruit-customers programme is relatively cost-effective, as credits for customers are more favourable than commissions for distribution partners.

The willingness to recommend can also be exploited when implementing a **multiplier concept** for customer acquisition. In this case, prospects are not addressed individually, but rather entire institutions or persons with a high multiplier and recommendation potential are specifically addressed, acquiring in turn larger

[5] Furthermore, with the introduction of the "Act on Fair Consumer Contracts" in 2021, a confirmation solution by the customer in text form shall be obligatory for contracts concluded by telephone.

groups of people for the energy supplier (e.g. associations and clubs) by actively recommending the energy products.

Market partnerships and corporate networks also feature prominently. The market partners comprise equipment manufacturers, architects or technical building planners. Of central importance—in particular in communication with energy customers—is the specialist trade. Due to regular personal contacts with customers (e.g. in connection with new installations and maintenance of equipment), it is an important sales intermediary for energy companies and constitutes a link between energy suppliers and customers. By involving market partners, energy service providers can make use of a neutral customer approach to acquire new customers or to improve their own image (BDEW, 2012a).

4.2 Customer Retention Management

Customer Retention Management aims to retain current customers and to consolidate and expand the relationship with them (Stauss, 2006, S. 435). In the energy sector, too, the classic standard instruments for customer retention are used such as loyalty products, customer magazines, newsletters, benefit schemes with cultural subscriptions and discounts, customers-recruit-customers programmes, birthday cards, as well as events and functions for private and business customers and much more.

Despite a variety of retention measures, established energy service providers have recently experienced higher customer churn rates than new contracts. Accordingly, the Churn Prevention Management plays a particularly important role in the context of endangerment phases. The business relationship of current customers is endangered in its relationship status, but not yet terminated. The aim of churn prevention is therefore to stabilise the endangered business relationships in order to prevent terminations and reduce the churn rate of customers (Michalski, 2006, p. 586).

A **Churn Prevention Management** fulfils primarily three tasks:

- Analysing specific framework conditions and identifying relevant early warning indicators
- Developing an early warning system
- Implementing prevention measures

When **determining relevant early warning indicators**, meaningful sector- or company-specific signals, indicating that a customer is highly likely to switch within a defined period of time, are to be identified first (Meyer, 2009, p. 242). In the energy industry, an imminent termination is not generally distinguished by a decrease in the use of services (declining electricity or gas consumption) (Schieder & Frye, 2008, p. 70).

Information on relevant early warning indicators is provided by the results of surveys of churned and new customers or through systematic data analyses of former and current customers. Thus, for example announcements of a change, expressed directly or indirectly, or product enquiries in written, telephone or personal contact can be taken as the first indicators of an impending termination. Customer complaints can also be seen as an indicator of potential customer churn. Dissatisfied customers complaining to the energy supplier represent a higher risk of churn. In addition, changes in the customer's living conditions, such as moving house, changing jobs or marriage, can lead to the termination of a contract with the energy provider. In such drastic situations, people often review existing solutions to a much greater extent. As a result, the propensity to change increases.

In addition, contractual benchmarks, such as the expiry of the initial contract period, the price guarantee or the period of notice, may encourage customer churn. The annual energy bill or a price adjustment communicated by the energy supplier can be taken as further reasons for termination in the energy market. Once the early warning indicators have been established, it is necessary to define setpoints above or below which the customer is classified as at risk of churn (Seidl, 2009, p. 12).

In a second step, the **development of an early warning system** is to be implemented. With the help of data mining methods, the early warning indicators in the dataset must be determined and the individual customer churn probability predicted. The aim of the early warning system is to identify customers at risk of switching. For the management of customer relationships, it follows that through the systematic surveillance of customer relationships with regard to the early warning indicators identified (active monitoring), churn trends can be recognised in advance and, at best, prevented (Bruhn, 2009a, p. 204; Stauss, 2006, p. 437; Seidl, 2009, p. 13).

Finally, the third task of the energy service provider is to counteract the impending churn through **targeted customer retention and prevention measures** (Stauss, 2006, p. 204; Seidl, 2009, p. 13). To this end, private customers are first segmented according to customer value and the probability of churn in order to give priority in the churn prevention strategy to profitable customers who are willing to churn (Fig. 7).

It is obvious that the most successful customer retention and prevention measures are those addressing the most frequent reasons and occasions for termination. Figure 8 shows that a wide range of tools can be used to promote customer loyalty throughout the entire lifecycle. As part of new customer retention management, welcome mailings and calls serve to reduce the termination rate at the beginning of the lifecycle by reducing post-purchase dissonance, by checking and completing customer data and demand-oriented product advice.

New product and price offerings can prevent future terminations in the growth phase through cross-selling and up-selling campaigns (e.g. tying products electricity & gas, extension of price guarantees and value-added services). These **contractual customer retention measures** lead to the customer being tied (involuntary state of retention) through initial contract periods. Price increases are one of the most frequent motives for switching. Optimising them can contribute to reducing the churn rate: the price adjustment letter generates increased attention from the

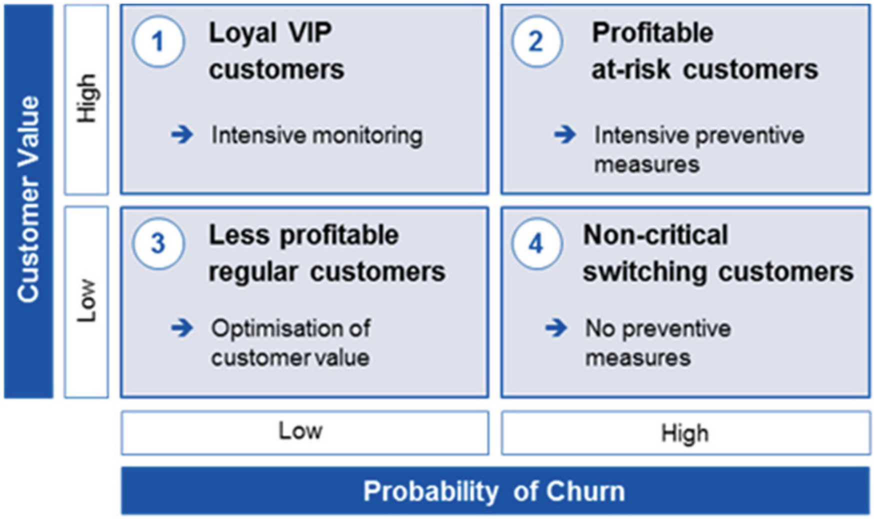

Fig. 7 Segmentation by customer value and probability of churn

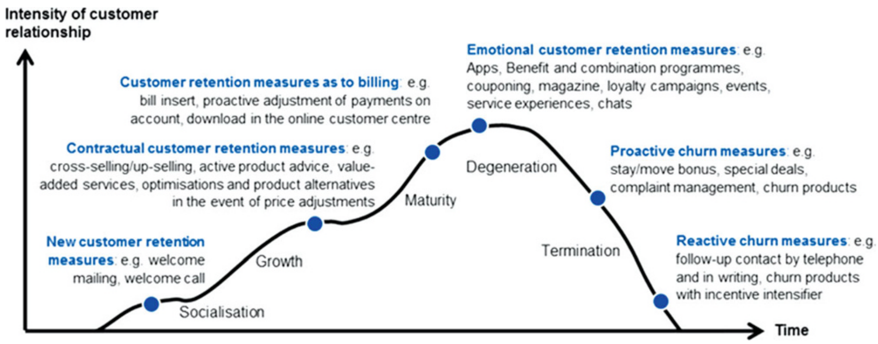

Fig. 8 Customer retention tools in the customer lifecycle

customer, thus providing the opportunity to offer further attractive products the customer can alternatively choose.

Against the backdrop of current market developments, energy service providers are building innovative fields of business to satisfy valuable customers and prevent them from terminating their contracts. Decentralised business models in particular, such as energy consulting, energy efficiency services, the sale of systems and technologies (e.g. heat pumps and photovoltaics), contracting models,[6] Smart

[6]Contracting means the consulting, planning, financing and operation of facilities within a contractually fixed period by a service company.

Home,[7] or energy management systems (e.g. Smart Metering[8]) can yield significant benefit for the customers and bind them to the energy company in the long term. Citizen participation models in cooperation with local financial service providers such as savings banks serve to finance renewable energy generation plants. In addition to a positive image effect, such offerings also contribute to customer retention, for example when customers are promised a higher interest rate than non-customers (Verivox & Kreutzer, 2013). At the same time, the above-mentioned facilities and technologies generate multifarious data which can provide the basis for further considerations.

As part of the annual billing, it can be reasonable to use a bill insert, which is adjusted depending on the current product and the amount of the bill (refund vs. additional payment). The bill insert can provide information on the breakdown of the electricity price to make customers aware that only barely a quarter of the price is formed on the market. Three-quarters of the electricity price, however, are not influenced by the energy supplier itself, as this larger share of the customer bill is determined by taxes, levies and regulated grid fees (BDEW, 2020b). On the Internet, an online customer centre enables data management, metre reading entry, bill download or the conclusion of contracts for additional or new special products, thus contributing to customer retention.

Emotional customer retention measures are used to build customer loyalty and bonding (voluntary state of retention) in the maturity phase. The greatest backlog demand in the energy market consists in rewarding customer loyalty. While switching bonuses are common for winning new customers, loyalty products and bonuses can also be used for long-standing customers to express the appropriate appreciation and motivate them to extend their existing customer relationship and to diminish their interest in third-party offerings. A popular tool for achieving loyalty is the bundling of several contracts: With its "Plus" programme, for example E.ON rewards contract bundling with a €60 discount per contract per year. At the energy supplier NATURSTROM, customers can use the car electricity tariff to combine household and charging electricity (Kreutzer & Nordlight, 2020, p. 140). Energy suppliers achieve innovative service experiences on their website through online-based information and explanatory videos. Chat solutions or voice control functions promote interactive customer communication.

If the customer is dissatisfied in the course of its customer relationship, if they express complaints or their intention to terminate the contract, the energy service provider can react by taking **proactive churn measures**. This could be an exclusive advantage offering (e.g. extra-long price guarantee), made to the valuable customer who is at risk of churning. The use of a loyalty bonus can be a supporting tool to retain the customer intending to terminate the contract. A professional complaint

[7] Smart Home is used for the automated control of home functions such as heating, electrical appliances, multimedia equipment and security systems.

[8] Smart metres are electronic devices for measuring, monitoring and analysing one's own consumption with the aim of reducing energy costs.

management system is also capable of turning dissatisfied customers endangered by churn back into satisfied, loyal customers.

Once the termination of an electricity and gas contract has been received, **reactive churn measures** help to avert the termination immediately and convince the customer to continue its customer relationship. Attractive churn products with appropriate incentive intensifiers (e.g. loyalty bonus and free kWh) in outbound or written communication can persuade the customer to revoke the pending termination and stay with the current energy supplier.

4.3 Recovery Management

Recovery management deals with the reacquisition of valuable lost customers who have explicitly cancelled the business relationship and left the company. In this phase of the customer relationship lifecycle, the aim is to reactivate the customer relationship already terminated (Stauss, 2006, p. 435 ff.; Bruhn, 2009a, p. 61 ff.; Bruhn & Michalski, 2008, p. 273). In this way, recovery management is applied where customer retention measures have so far been unsuccessful. Compared to the acquisition of new customers there are some distinctions, as former customers already know the company with its strengths and weaknesses. The aspects to be mentioned here include service experience, emotionalization and, in particular, communication.

The management of customer recovery at the energy supplier's side comprises the following four stages:

- Identification of lost customers
- Customised recovery analysis and classification
- Planning and implementing recovery measures
- Support of regained customers

The **identification of lost customers** is the first step in the win-back process. In the energy market, the loss of a customer is identifiable through the termination of a contractual relationship. This termination is either given by the customer itself or by the new energy provider on behalf of the customer. The identification out of the CRM system of those who have quit thus forms the basis for winning back customers. The selection process must take into account possible initial contract periods with the new energy supplier, the legal framework conditions, inter alia, in terms of data protection, and simply the fact that customer data may have become outdated.

In addition to the essential master data of the lost customers, further information about the customers switched must be gathered using a **customised recovery analysis**. The main focus is on determining the reasons for switching, which may be attributed to the customer itself, to the entrepreneurial conduct or to competitors' behaviour (Schöler, 2006, p. 612 ff.). The motives for terminating the contract can be determined by means of a customer exit survey or, alternatively, by using generally accessible market research. Here, for example it is clear that customer churn is to a large extent initiated by the energy supplier itself, since company-related reasons for switching (poor price-performance ratio, price increases, lack of product features) are mentioned most frequently. Nevertheless, competition-induced reasons (e.g. visits by sales representatives or offers from competitors), as well as customer-related motives (e.g. relocation, price comparisons on the Internet, recommendations from friends and acquaintances) are important drivers for switching the supplier.

General market research also states that satisfaction with the energy provider does not alone create customer loyalty. Although most of the terminating private customers were (very) satisfied with their energy service provider, they nevertheless switched providers. Obviously, the loyalty of the satisfied customers to their energy supplier was only slightly pronounced. Competitor and customer-related reasons for switching may be an explanation why, despite general satisfaction, customers have churned. Moreover, variety seekers and hybrid customers are also encountered in the energy sector (Hannemann, 2001, p. 26 ff.). In general, it must be noted that switching a supplier cannot generally be attributed to one reason alone, but usually represents a combination of several causes.

An important aspect of recovery management is the **probability of returning** to the former energy supplier. Many customers are open to a return provided the price performance ratio is attractive. Only few customers do not contemplate a return as a matter of principle.

Customer exit surveys and analyses are thus an important tool for every energy service provider to obtain information about former customers. The findings on individual reasons and occasions for switching gained through monitoring are incorporated into the design of the recovery measures. At the same time, the analyses provide a wealth of information that can be used for customer-oriented performance improvement and continuous quality improvement.

Customer value considerations to segment former customers into profitable and unprofitable ones constitute the next step in the recovery analysis. Using a scoring method, it makes sense to pre-select those customers who were valuable and can be won back to the company due to their general willingness to return.

In the third phase of the process, **planning and regular implementation of measures to win back customers** is carried out according to the strictest possible cost-benefit considerations. Initially, the contact channel is to be selected, preferably oriented towards the communication path the customer is accustomed to or prefers (Schöler, 2006, p. 617). Today, due to legal regulations (e.g. data protection and distance selling law), written communication with former customers is common practice.

The recovery stimulus plays an important role when designing the offer for reactivation. Basically, different schemes can be distinguished: financial incentives are usually provided in the form of return bonuses, credits or welcome gifts. A direct monetary incentive can be, for example, a price reduction, whereas indirect monetary incentives are usually additional services. Furthermore, intangible incentives can be used that have a performance-related (in the form of guarantees) or

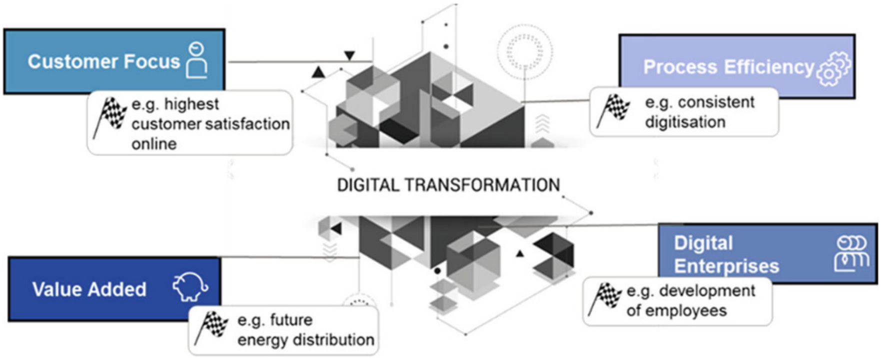

Fig. 9 Perspectives of digital transformation

communication-related (in the form of price comparisons, explanations, benefit argumentations) effect (Schöler, 2006, p. 618). The previous contractual relationship is relatively rarely referred to.

With the implementation of reacquisition measures, the recovery process is not yet complete. The phase of **reintegrating reactivated customers** marks the end of the customer recovery process, meaning that the reacquired customers must be integrated through the customer loyalty management or the responsible service unit. This will ensure that the promises made during the recovery process (e.g. payment of switching bonus) are kept and any previous shortcomings are eliminated (Schöler, 2006, p. 620).

4.4 Digitalisation as an Enabler

The aforementioned approaches to Customer Relationship Management are subject to various changes due to digitalisation. These changes occur at all levels of value added in the energy market, starting with (self-)generation, through distribution on the basis of more flexible grids (e.g. for wind energy or charging stations) up to sales. Particular drivers are, inter alia, new digital technologies (artificial intelligence, cloud, mobile computing) or increased customer requirements for digital services, processes and performance.

To meet these challenges, the digital transformation ideally encompasses four perspectives (Fig. 9):

- Value added or Business model
- Customer focus / Customer centricity
- Process efficiency / Lean management
- Digital enterprises / Culture

Only the integrated consideration and networking of all perspectives will result in a competitive advantage or customer preference. Nevertheless, hardly more than 17% of energy suppliers have an implemented digital strategy (BDEW, 2016, p. 11).

As regards **value added**, the main objective is to generate customer utility through new or improved products and services aimed at securing a continuous contribution to earnings. In addition to the traditional commodity products, this can also include other (hardware) offerings such as SmartHome, services (e.g. insurances and analyses) or the development of new target groups.

The decisive criterion for **customer centricity** is aligning all processes and contact points towards the customer itself. Customer centricity begins, for example, with the involvement of the customer in product development or the establishment of an online service. It also implies largely superseding an "inside-out" view. Success is indicated by key figures, such as frequency of use, sales success, customer satisfaction or the usage frequency of processes or portals.

Process efficiency, in turn, focuses strongly on internal operations and procedures with the aim of developing an end-to-end view, e.g. based on customer journeys. Success benchmarks include, inter alia, process costs, throughput times, error rates or resource commitment. The effects achieved can impact on the customer as an increase in quality or through price advantages and must always be reconciled with the customer centricity.

The **digital enterprise** should describe what it needs, for instance, inside a public utility company, to be capable of surviving. In addition to the classic entrepreneurial virtues, the ability to change and innovate, compatibility with cooperation partners such as start-ups or the use of modern methods (Scrum, Kanban etc.) are among the key factors in an increasingly digital world. Not least, this includes the consequential development and enhancement of digital skills and resources among employees.

4.4.1 Data as an Enabler of Transformation

In the energy market, the internal and external sources of data are diverse and growing rapidly. For example, intelligent electricity metres (smart metres) are gaining ground, allowing consumption data to be readout continuously. Where otherwise only an annual value was available, there is now quantity information for every quarter of an hour.

Internal corporate customer data continues to provide the basis for the use of data mining analysis methods to calculate, for example the probability of churn. In addition to identification data (e.g. name and form of address), contact data (e.g. address, telephone, e-mail), descriptive data (e.g. consumption, creditworthiness and method of payment), product and contract data (e.g. tariff designation, duration and end of contract), as well as data on contact and communication history (e.g. complaints, use of customer card and response to mailings) are available. External data, which can be obtained from marketing service providers (e.g. Schober and Deutsche Post), is suitable for supplementing the internal corporate customer data. With the aid of this data, the customer database can be upgraded, especially in terms of quality, to prevent churn. Internal customer data can, inter alia, be supplemented by microgeographic data containing information on household structures, flat sizes, residential area classification and Internet affinity. In addition, online-based evaluations (e.g. the customer's search for information using Google queries) also provide important insights and are suitable for use as an indicator of switching.

In addition to the above-mentioned smart metres, there is also a rapidly growing market as regards sensor technology or Internet of Things (IoT) for both private and business customers (Lufthansa Industry Solutions, 2017). Typical examples are sensors for process states, environmental parameters, quantities or smart home applications, ranging from temperature monitoring, parking space utilisation to a filling level or aggregate status, generating thus a wide range of information apart from the relationship between customer and enterprise.

Process mining offers a completely different view of the data. Here, the focus is on the comparison of real-world actual processes with target models. Examples to be mentioned in this context are processes in the areas of order-to-cash (from revenue recognition to payment/receivables management), new customer acquisition or creation of contracts (PwC Deutschland, 2017). In other words, the data in question are those generated by the process itself. All steps, e.g. with regard to a customer contract (data changes, cancellations, releases, complaints etc.) are considered. In the end, analysis tools (e.g. Celonis) produce a graphic representation of the processes or process deviations or a compliance rate. Process mining can also be useful for the analysis of throughput times. Where do processes "accumulate"? At which process points can be optimised through automation or robotic process automation (RPA)? Solutions to this issue are visible, for instance, in written customer service, allowing AI-based recognition of customer enquiries and their corresponding routing or processing (Lufthansa Industry Solutions, 2017).

There are also initial activities in the energy sector to integrate **blockchains**. A trending topic here is electromobility, which, on the one hand, has a high demand for a nationwide charging infrastructure and, on the other hand, has many different operators. At the same time, transactions between charging stations and customers via Smart Contracts are conceivable. Other examples are the development and operation of a neighbourhood electricity grid or peer-to-peer trading, as well as the purchase of electricity from a residential quarter. The use of blockchains in the certification of green electricity, in contracting or for payments by the customer (C2B) is also an obvious option (BDEW, 2017, pp. 34–39).

4.4.2 Inferences for Market Cultivation

On the basis of data analytics, it is already possible to derive sophisticated customer segmentation and persona concepts. For a few years now, the development of a digital and data strategy has provided opportunities to further differentiate oneself in the commodity market.

As described above, smart metres likewise enable a detailed evaluation of consumption behaviour. Through appropriate products or pricing, customers can be motivated to change their electricity consumption in such a way that the offtake is made at a time when generation is cost-effective. This can be either a price signal from the energy supplier for night-time consumption or the self-generation of energy, using a PV system during the daytime, for example. Offerings such as regional electricity marketplaces or energy efficiency measures are tailored to meet these ambitions.

Especially for data-based marketing, in addition to the concrete promise of performance, the individual approach to the customer—taking into account a customer value calculation based on data analytics—has become a success factor. Data-based marketing ultimately leads to modelling and predicting customer and market reactions.

Building on these findings from data-based marketing, further tailor-made offerings to customers—such as a "Happy Weekend" product with reduced prices at the weekend—are conceivable to satisfy individual needs. Further research is required to answer the question of whether the customer's (basic) needs and attitudes motivate a sustainable change in consumption behaviour or whether more "convenient" models, such as the flat rates familiar from other industries, will prevail in the long term (DIGITALE WELT, 2018).

5 Conclusions

In recent years, in the energy market, too, Customer Relationship Management, aimed at systematically establishing and expanding long-term and profitable business relationships, has become increasingly important. In particular against the background of high costs for acquiring new customers and declining customer loyalty associated with rising churn rates and intensified competitor activities, it is becoming increasingly imperative for energy suppliers to intensively address the issues of customer retention, early recognition and prevention of customer churn, as well as of recovering lost customers.

This chapter gives an insight into different approaches to customer management in the energy sector. In this context, it is of importance that the presented instruments and concepts are not perceived as single, independent thematic complexes or exclusively as an IT topic.

For the energy market, a further increase in switching rates is expected in the coming years. The appearance of other market participants from outside the industry is most likely. As a result, competition for customers willing to switch will strengthen even more in the future. Last but not least, the energy transition and the associated development of innovations, as well as the optimisation of existing business models pose great challenges for energy service providers. Consequently, the issue of CRM will continue to play an important role in the future as part of integrated acquisition, customer retention and recovery processes. Highly competitive energy markets such as the UK or Scandinavia show that companies focusing on effective Customer Relationship Management processes can grow successfully.

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Illuminating Organizational Processes Behind the Rising Phenomenon of Industry Commoditization

Isabel Luther

1 Introduction

More than a decade ago, the author Bülent Dumlupinar (2006, p. 104) stated "the driver towards commoditization is perhaps the most powerful force in business today." Taking a closer look at present businesses, this statement still holds true. Many product categories in our daily life undergo the process of commoditization, ending up being composed of homogenous products that differ in neither function nor performance (Enke et al., 2014). Electronics such as smartphones and televisions, food products such as frozen pizza and chocolate, or hygiene products such as shampoo and detergents are just a few examples of categories that become more and more homogenous (Dumlupinar, 2006). Service categories such as telecommunications, delivery services, and streaming services are subject to the process of commoditization, too, ending up comprising highly similar offerings. Even if the product and service offerings show visual differences toward competitive offerings, consumers might not perceive these differences as distinguishable benefits, making the offerings interchangeable to one another (Enke et al., 2014). In consequence, consumers base their purchase decisions on prices (Dumlupinar, 2006).

Reimann et al. (2010) moved the process of commoditization from product/service level to industry level by adding two more characteristics. The authors defined industry commoditization "as occurring when competitors in comparatively stable industries offer increasingly homogenous products to price-sensitive customers who incur relatively low costs in changing suppliers" (p. 188). Given these characteristics, industry commoditization evolves as a major threat for firms' competitive advantage and economic performance (Matthyssens & Vandenbempt, 2008; Narver & Slater, 1990; Rangan & Bowman, 1992). As all industries are prone

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_21

to commoditization (Mathur, 1984), and today's extent of digitalization as well as globalization reinforces market competition, the threat of commoditization is greater than ever. Thus, the question comes up, what is it that drives the commoditization of industries?

Referring to the categorization of Enke et al. (2014), this chapter introduces and empirically examines a direct firm-related driver of industry commoditization: institutional isomorphism. Institutional isomorphism indicates the homogenization of firms within the same industry due to environmental pressures (DiMaggio & Powell, 1983; Hawley, 1968). The European general data protection regulation (entered into force in 2017) and the emission standard Euro 6 (entered into force 2015) show that firms underlie different environmental pressures. To comply with such pressures, firms adapt their structures, processes, and behaviors in a similar manner striving for compatibility with social norms and legitimacy (Meyer & Rowan, 1977). The present chapter assumes that similar manners of adaptation not only lead to the homogenization of structures, processes, and behaviors. The chapter postulates that the compliance behavior of firms in the same industry affects the homogenization of approaches for differentiation as well, leading to perceived product homogeneity accompanied by high price sensitivity and low switching costs in stable industries. Going beyond the direct driver of industry commoditization, the chapter further sheds light on organizational impacts on institutional isomorphism, which then function as indirect drivers of industry commoditization.

The chapter generally questions if the homogenization of firms and its underlying environmental pressures in an industry drive the commoditization of that industry. In addressing this question, the chapter makes two main managerial contributions. First, the chapter looks outside the box. The study examines the marketing phenomenon of industry commoditization uncoupled from marketing theory, instead exercising concepts rooted in organizational theory. Second, the chapter illuminates organizational processes behind the phenomenon of industry commoditization, thereby offering alternative starting points for combating commoditization.

To do so, the chapter first introduces the marketing phenomenon of industry commoditization and its previous role in research and literature. Subsequently, the chapter refers to the process of institutional isomorphism as the main driver of industry commoditization followed by the illumination of organizational processes that increase institutional isomorphism and, thus, enforce industry commoditization indirectly. Finally, the chapter presents a quantitative empirical study conducted among top managers and marketing executives to examine the postulated theoretical relationships.

2 The Phenomenon of Industry Commoditization

The phenomenon of industry commoditization arises from the commoditization at product level that is defined as a process leading to the commodity status of a product (Dumlupinar, 2006; Enke et al., 2014). Thereby the term commodity, once developed from hardly distinguishable agricultural goods, nowadays stands for products and services, which the majority of consumers perceive to be homogenous. Special emphasis is dedicated to the consumers' perception. In particular, even if products or services of the same category show visual differences, consumers do not recognize them as unique distinguishing features. As long as the features perform similar in function and quality, consumers perceive the products or services to be interchangeable (Enke et al., 2014). As a result, commoditization represents a procedural view of how products and services become homogenous to competitive offerings in the eyes of consumers, pushing the consumers' basis of decision-making toward prices (Dumlupinar, 2006; Enke et al., 2014).

Whereas academic definitions primarily take the procedural view of commoditization at product level, the study by Reimann et al. (2010) revealed a broader understanding of commoditization. Previous authors pointed out the process of commoditization as a critical factor in competitive markets where the huge range of competitive products makes it even more difficult to distinguish offerings and to identify unique features competitive offerings might not exhibit (Mathur, 1984; Olson & Sharma, 2008; Sharma & Sheth, 2004). Under the aspect of a more competitive and environmental view, Reimann et al. (2010) shifted the level of commoditization from product/service to industry. The authors complemented the characteristics of product homogeneity and price sensitivity with two more characteristics theoretically mentioned in previous literature: low switching costs and high industry stability (Hambrick, 1983; Pelham, 1997; Rangan & Bowman, 1992; Reimann et al., 2010). The authors argue for a four-dimensional conceptualization of industry commoditization. The initial characteristic of offerings similar in function and quality comes along with consumers who are looking for the best price for a standard offering that can easily be replaced at low switching efforts in stable markets where changes in product, technology, and customer base are low (Reimann et al., 2010).

Yet, Reimann et al. (2010) are the first and only authors who conceptualized and operationalized a comprehensive measure of industry commoditization. Given the threats and thereby high practical relevance of commoditization, it is even more surprising, that the authors are the only scholars applying the measure in empirical research. Several scholars, for instance, stressed the threat of industry commoditization for economic performance, arguing that the loss of differentiation results in a lack of competitive advantage. Thus, consumers make purchase decisions based on prices, triggering intense price competition among firms in that industry (e.g., Bertini & Wathieu, 2010; Davenport, 2005; Matthyssens & Vandenbempt, 2008; Narver & Slater, 1990; Rangan & Bowman, 1992). Furthermore, scholars postulated the spread of commoditization among an increasing number of industries (e.g., Greenstein, 2004; Olson & Sharma, 2008; Sharma & Sheth, 2004). According to this trend, the author speaks of true shortcomings in commoditization research. Instead, academics pushed a theoretical focus toward strategies that beat commoditization in order to regain competitive advantage (e.g., Homburg et al., 2009; Olson & Sharma, 2008; Rangan & Bowman, 1992). As an example, Dumlupinar (2006) discussed the survival of firms in a commoditized world. The author made de-commoditization strategies such as branding, value-added services, and cost leadership subject to his theoretical explanations. Similarly, Enke et al. (2014) considered superior cost structures, superior offerings, and superior customer relationships to be suitable approaches for escaping commoditization.

In addition, Enke et al. (2014) started at the very beginning of the process, not only discussing strategies to combat commoditization but also discussing determinants that enforce commoditization. The authors assigned relevant determinants to four distinct categories. Product-related determinants refer to characteristics of the product, such as the age and complexity of a product. Whereas customer-related determinants embed characteristics of the customer, such as product involvement and expertise. The third category mentions market-related drivers of commoditization, for example, intensity of competition. The fourth category represents firm-related determinants, such as standardization and firm imitation, and thereby builds the category of relevance for the present chapter. Taking the latter category up, this chapter introduces and empirically examines a firm-related driver of commoditization: institutional isomorphism. The concept is popular in organizational theory where it is used to explain and examine organizational life (Meyer & Rowan, 1977; Mizruchi & Fein, 1999). Institutional isomorphism describes the homogenization of firm structures, processes, and behaviors when firms in the same industry face the same environmental pressures (DiMaggio & Powell, 1983). Assuming that the homogenization of firms affects the homogenization of firm products and differentiation strategies as well, and considering the firm-related background of the organizational driver, the author sets up a theoretical relationship between institutional isomorphism and commoditization at industry level. Going even further, the chapter sheds light on organizational processes that affect institutional isomorphism and result in industry commoditization in the next step.

The following chapter, for one thing, presents the concept of institutional isomorphism and then focuses on organizational processes as direct causes of the homogenization of firms and indirect causes of the commoditization of industries, thus, providing tangible starting points for de-commoditization.

3 Organizational Drivers of Industry Commoditization

3.1 Institutional Isomorphism

The concept of institutional isomorphism is embedded in the neo-institutional theory that evolved as a leading and powerful theory for analyzing organizational change and behavior (Meyer & Rowan, 1977; Mizruchi & Fein, 1999). Whereas the old institutionalism implied the progress of organizational life and the occurrence of organizational change due to rational actors aspiring to firm efficiency; the new institutionalism assumes pressures outside the firm to be responsible for organizational change and behavior (Meyer & Rowan, 1977; Selznick, 1996). According to that, new institutionalism introduced organizational fields where firms face environmental pressures, interact with and influence one another. In particular, organizational fields indicate industries that comprise all the relevant firms in organizational life: suppliers, consumers, agencies, and competitors (DiMaggio & Powell, 1983). Whereas the population approach of Hannan and Freeman (1977) viewed competitors as the only part of firms' organizational environment, and the interorganizational network approach of Laumann et al. (1978) solely referred to firms that actually interact with one another, DiMaggio and Powell (1983) viewed industries as a collection of all the relevant firms.

The totality of actors then regulates economic activities by setting the rules of the game as well as the environmental expectations in an organizational field. The rules and expectations define the framework of what is socially legitimate and acceptable in that field. Thus, they can be seen as environmental pressures forcing firms in that field to comply (Meyer & Rowan, 1977). In doing so, firms adapt their structures, processes, and behaviors in a similar manner—the manner that is expected to be compatible with social norms (Deephouse, 1996). Thus, firms simply resemble other firms that face the same environmental pressures, thereby enhancing homogeneity among firms in the respective organizational field (DiMaggio & Powell, 1983). The concept that best captures the homogenization of firm structures, processes, and behaviors due to environmental pressures is institutional isomorphism (DiMaggio & Powell, 1983; Hawley, 1968).

The homogenization of firms in one industry comes along with reduced diversity and differentiation between the firms. Therewith the concept of institutional isomorphism corresponds to the theoretical starting point of the process of commoditization (Enke et al., 2014). In addition, the similar compliance behavior of firms can involve structures, processes, and behaviors concerning product development, firm innovativeness, or brand differentiation. Thus, institutional isomorphism can restrict firms' capacity for differentiation by homogenizing the respective structures, processes, and behaviors. On this basis, the author postulates the following hypothesis.

H1: The level of institutional isomorphism in an industry positively influences the level of commoditization in that industry.

DiMaggio and Powell (1983) further pointed out the determinants of institutional isomorphism by identifying three forms of environmental pressures, which are coercive, normative, and mimetic in nature. The environmental pressures all find their roots in the aspiration to social legitimacy (Deephouse, 1996). Coercive pressures result from external power holders who define social rules and expectations, and then pressure firms to comply with these settings (DiMaggio & Powell, 1983; Pfeffer & Salancik, 1978). Mimetic pressures arise in situations of high uncertainty, for example, toward technologies or firm objectives. Firms then seek out ways to cope with uncertainty within their competitive environment. They model themselves after competitors whose problem solutions seem to be successful and legitimate (DiMaggio & Powell, 1983; Heugens & Lander, 2009). Finally, normative pressures stem from formal education institutions and corporate networks. In order to gain social legitimacy, the firms' employees practice social behaviors learned from education institutions and exercise socially acceptable business practices spread over corporate networks (DiMaggio & Powell, 1983; Heugens & Lander, 2009).

The following chapters provide a detailed understanding of the three main pressures and their related organizational processes. While coercive, mimetic, and normative pressures find their roots outside the firm, the pressures impact firm-internal processes, which then initiate institutional isomorphism. Moreover, the chapters argue the chain of effects from the pressure-related organizational processes to the homogenization of firms and the commoditization of industries.

3.2 Coercive Pressures

DiMaggio and Powell (1983) identified coercion as the first form of environmental pressure toward institutional isomorphism. Coercion stems from the firms' dependency on external power holders. Particular powerful and thereby highly influential toward firms in a common field are other firms upon which they are dependent for critical resources as well as government entities (Heugens & Lander, 2009). The former root of coercive pressure corresponds to propositions of the resource dependence model (Pfeffer & Salancik, 1978). The model postulates that firms can constrain their dependents by exerting their power as the supplier of critical resources such as money, human resources, know-how, or manufacturing materials. To bring themselves in line with the demands of the power holders, firms adapt their organizational processes (DiMaggio & Powell, 1983).

The ISO standards serve as an accurate example for coercive pressure exerted by other firms. The perhaps most prominent ISO standard used all over the world is the ISO 9000 group. The norm group comprises requirements concerning the organizational process of quality management, which regulates product design, product development, installation, and maintenance. Certain industries adapted these ISO standards, thereby creating tailored expectations toward the firms that operate in the respective organizational field (Davenport, 2005). The US automotive industry, for example, set up new standards that certified supplier quality. The established QS-9000 standard forced automotive suppliers to meet the QS requirements in order to qualify as a legitimate supplier for big automobile manufacturers like General Motors and Ford. Thus, supplier firms in that industry adapted their processes of quality management and product manufacturing according to predefined standards. Since the standards narrow the scope for action, firms converge in their processes enhancing institutional isomorphism. Further, commoditization in that industry increases in the way that QS-9000 standards restrict firms' options for differentiation. Supplier firms are pressured to meet the requirements in a similar manner, because the predefined character leaves little scope for variations. Hence, supplier firms become more comparable, thus, costs for switching to competing suppliers, which fulfill the same quality standards, are low. In addition, strict regulations leave limited scope for innovation and competitive advantage, making the industry less attractive for new entrants but rather stable instead (Davenport, 2005; Reimann et al., 2010).

The second root of coercive pressure corresponds to cultural expectations of the society within which firms operate (DiMaggio & Powell, 1983). To a big part, cultural expectations are defined and regulated by laws and governmental regulations. Whenever laws and regulations are passed, they force concerned firms to action (Deephouse, 1996; DiMaggio & Powell, 1983). Immediately, firms strive to comply with the specifications in order to achieve conformity with social norms and to prevent economic sanctions (Meyer & Rowan, 1977; Mezias, 1990). Thus, the existence of a common legal environment requires the adaptation of organizational processes resulting in institutional isomorphism (DiMaggio & Powell, 1983).

As an accurate example of coercive pressure exerted by government entities, the chapter relates to regulations of the automobile industry, particularly automobile manufacturers. In this context, government entities set thresholds for car emissions on a regular basis (Euro 6 entered into force 2015) in order to follow the societal demand for reduced environmental pollution. Since the thresholds become stricter over time, firms more often rely on the revision of car platforms, the use of lighter materials, and the adaptation of the car body toward a more ergonomic design. Also, latest technological progress in electric mobility underlies specific requirements, for example, the safety standards defined in ISO 6469. Additionally, automobile manufacturers are exposed to product design regulations such as the maximum car width of 2.5 m on German roads (§ 32 StVZO). These rules pressure automobile manufacturers to organizational change. The firms adapt related organizational processes such as product development, technological development, order management, and manufacturing according to what is prescribed to be socially legitimate, thereby increasing the homogenization of firms.

A second example refers to the European roaming regulation of mobile contracts (entered into force in 2017). The European Commission and Parliament passed a law that largely abolished roaming costs for calls, SMS, and Internet usage in European countries. Therewith, the services of mobile firms not only became more transparent and comparable, but also more alike. Again, regulations pushed firms to similar adaptations in communication and pricing processes. Consequently, processes tend to converge and result in institutional isomorphism. In the next step, similar processes increase commoditization by diminishing differentiation across firms in the mobile industry. Given these explanations, the author states the following hypothesis:

H2: Coercive pressures increase the level of institutional isomorphism in an industry and thereby positively affect the level of commoditization in that industry.

3.3 Mimetic Pressures

The second form of environmental pressure toward institutional isomorphism is mimicry as a response to uncertainty (DiMaggio & Powell, 1983). Organizational environments often are characterized by high complexity, high dynamics, and intense competition. This context confronts firms with unpredictable challenges resulting in great uncertainty about how to behave and how to react (Meyer & Jepperson, 2000). Political imbalance, terrorism, new regulations, and changing consumer demands represent examples of external challenges that cause uncertainty, whereas internal challenges, such as poorly understood technologies and ambiguous firm objectives, can lead to uncertainty as well (Bondy et al., 2012; March & Olsen, 1976). Consequently, firms attempt to respond to uncertainty in modeling themselves after other firms rather than relying on their own ingenuity (DiMaggio & Powell, 1983). In conclusion, mimetic pressures force firms within a common field to deliberately imitate other firms in that field whose behaviors and actions seemed to be more successful or legitimate (DiMaggio & Powell, 1983).

When seeking reliable models for reacting to uncertain conditions, firms systematically observe specific actions of others in the field (Heugens & Lander, 2009). Haunschild and Miner (1997) introduced three forms of mimetic imitation. Within the scope of trait-based imitation, firms observe those firms in the field that stand out in terms of traits or characteristics. Superior traits can be seen, for example, in firm size and firm success. Further examples are market leaders who stand out in trust, qualitative offerings, expertise, and experience. Under uncertainty, firms build upon such characteristics when deciding which problem solutions to mimic, because the characteristics serve as an indicator for social acceptance of the firm and its solution model (DiMaggio & Powell, 1983). Within the scope of frequency-based imitation, firms focus on those models that have already been adopted by numerous other firms in the field. Thus, the number of current adopters serves as the pivotal indicator to see if the model to be imitated is legitimate (Haunschild & Miner, 1997; Heugens & Lander, 2009). Last, outcome-based imitation focuses on the outcome of the model to be imitated. If the model proved successful in producing positive outcomes for other firms, the model is perceived to be superior and legitimate—according to the assumption that non-legitimate models are refused by society, thus, cannot produce positive outcomes (Haunschild & Miner, 1997; Heugens & Lander, 2009).

In contrast to coercive pressures, firms facing mimetic pressures are not only assumed to converge in structures, processes, and behaviors, but do actively converge by deliberately imitating other firms. Thus, mimetic pressures trigger institutional isomorphism as well.

The battle of the smartphone firms serves as a proper illustration of mimicry. Whereas Apple in 2006 launched a real and affordable novelty in telecommunications, Apple in 2020 launched a successor smartphone that is comparable to competing offerings concerning quality and function. When smartphone technology became an issue for the first time, respective firms followed the models of pioneer firms such as Apple and changed their production and marketing processes accordingly. Apple itself, a few years later, changed its distribution process from exclusive to intensive distribution according to new environmental conditions. Nowadays, as soon as one of the big players Apple, Samsung, or Huawei launches innovation in smartphone technology, other firms in the field immediately offer comparable products. Innovations such as touchscreen technology, integrated high-performance cameras, or full screens did not result in resistant unique selling points.

A similar example of recent times refers to the German industry of hardware stores. The Corona pandemic and its related governmental measures pervade modern life with uncertainty. In this context, hardware stores adapted their business models in order to react to changed market conditions and guarantee firm survival in times where offline sales activities of most stationary trade are prohibited. In particular, primary offline hardware stores such as Obi, Bauhaus, and Hornbach invested in digitalization processes, offering advanced distribution services. For one thing, customers can reserve products online for pickup in store under strict Corona regulations. On the other hand, customers can shop online and profit from hardware stores' personal delivery services. Thus, to legitimate and meet current demands in the organizational field, firms cause homogenization in their field when imitating "best practices" solutions to the problems being faced.

This explanation is in line with the study of Fay and Zavattaro (2016) who examined the effect of mimetic isomorphism on branding processes in the case of universities. The authors showed that universities are more likely to adopt strategic marketing and branding initiatives, the higher the number of adopters is. As well, universities pursued strategic marketing and branding initiatives similar to those of higher-performing peers. The results correspond to frequency- and trait-based imitation, respectively, supporting theoretical considerations of mimetic pressures driving firm homogenization. As the models to be imitated can involve marketing related processes, which then are homogenized too, differentiation among firms' offerings, market segmentation, and product pricing diminishes. Again, the starting point of industry commoditization is set. Therefore, the author proposes the following hypothesis:

H3: Mimetic pressures increase the level of institutional isomorphism in an industry and thereby positively affect the level of commoditization in that industry.

3.4 Normative Pressures

Lastly, normative pressures build the third form of environmental pressures toward institutional isomorphism (DiMaggio & Powell, 1983). Emerging from professionalization, normative pressures homogenize firms in two ways: professional education and professional networks (Heugens & Lander, 2009). According to Larson (1977), professionalization stands for the definition of working conditions and methods shared by an occupational group. The objective is to establish a common cognitive base that builds the framework for legitimate behavior (DiMaggio & Powell, 1983). Formal education institutions are the first major hub in defining and spreading legitimate working standards. Professional networks represent the second major hub (Heugens & Lander, 2009).

In formal education, universities and professional training institutions play a central role since these institutions usually build the last stage before entering the job market. To groom graduates for their career in a specific occupational field, the institutions impart legitimate professional methods, procedures, strategies, and models, respectively (DiMaggio & Powell, 1983). Besides, educators impart acceptable patterns of behavior, speaking, dressing, thinking, and communicating in that field (Ouchi, 1980). The graduates later rely on these learnings in order to meet social legitimacy (DiMaggio & Powell, 1983). As a result, graduates run organizational business in a similar manner, react upon problems in a similar fashion, and make decisions in much the same way (DiMaggio & Powell, 1983). Consequently, formal education institutions create a pool of employees who exhibit great similarity to their counterparts in other firms of the respective industry, thereby driving the homogenization of firms resulting in institutional isomorphism (DiMaggio & Powell, 1983; Perrow, 1974). This statement is in line with the study of Hankinson and Cowking (1997) who yielded great consistencies among brand managers of different industries in the UK in terms of academic background, age, and responsibilities.

This development strengthens with firms' process of hiring individuals from firms within the same field (DiMaggio & Powell, 1983). The hiring process results in frequent turnover rates of managers and employees (Curtis, 1997; Simms, 2008). The professionals bring their learnings and experiences of how to get things done from firm to firm. Thereby, they support the diffusion and application of common frameworks and methods among various firms, which increases the degree of homogenization within the field (Geletkanycz & Black, 2001).

Professional networks represent a further source of diffusing frameworks and methods (DiMaggio & Powell, 1983). To name a few examples of professional networks the chapter refers to professional and trade organizations, the use of common consultancies as well as managers' representation among various boards (Useem, 1979). The exchange between the members of professional networks not only concerns frameworks and methods to run the business successfully but also analytic tools, strategies for decision-making, popular management models, and appropriate problem solutions (DiMaggio & Powell, 1983). In conclusion, normative pressures first trigger tendencies toward common behavioral processes in order to respond to professional norms spread by educators and network members. Next, the commonalities in running a business restrict the differentiability of firms in the field. According to that, the author hypothesizes:

H4: Normative pressures increase the level of institutional isomorphism in an industry and thereby positively affect the level of commoditization in that industry.

4 Empirical Examination of the Organizational Drivers

4.1 Questionnaire Design and Measures

To test the postulated hypotheses capturing the effects of coercive, mimetic, and normative pressures on institutional isomorphism and further on industry commoditization, the author conducted a quantitative survey study. Center of the data collection was a standardized questionnaire grouped in three sections. The first section contained questions related to the degree of commoditization within the industry. The second section queried data of the firms' degree of institutional isomorphism and the firms' compliance with coercive, normative, and mimetic pressures. The third section collected sociodemographic data of the respondents and the firms.

The measures of the first section referred to an existing scale drawn from Reimann et al. (2010). The authors measured industry commoditization as a second-order construct of type II (reflective first-order, formative second-order) (Jarvis et al., 2003). They developed multi-item scales to measure the four dimensions of industry commoditization: product homogeneity, price sensitivity, low switching costs, and industry stability. The items were presented on seven-point Likert-type rating scales (1 = "I fully agree" and 7 = "I fully disagree").

Constructs and items of the second section were generated based on an intense literature review of marketing and management journals. The author adapted existing scales from previous literature, as appropriate scales could not be identified. Institutional isomorphism is measured—based on the work of Heugens and Lander (2009)—as a multi-item, reflective construct concerning similarity of firms in structures, processes, and behaviors. Inspired by Heugens and Lander (2009) as well, mimetic pressures were measured as a multi-item reflective construct concerning competitor scanning. The remaining two constructs, normative pressures and coercive pressures, were measured as second-order constructs of type II (reflective first-order, formative second-order) (Jarvis et al., 2003). The generation of dimensions and items of normative pressures was guided by the considerations of Heugens and Lander (2009) and Zhang et al. (2015). The construct was measured using four items concerning pressures from formal education and pressures from professional networks, respectively. Dimensions and items of coercive pressures were generated based on the work of Heugens and Lander (2009) in conjunction with the work of DiMaggio and Powell (1983). The construct was measured using three items concerning the influence of powerful firms and four items concerning state influence. All items of the second section were presented on seven-point Likert-type rating scales (1 = "I fully agree" and 7 = "I fully disagree").

Single-item measures captured the sociodemographic variables of questionnaire section three. The author measured the following respondent-related characteristics: gender, age, position in the firm, length of firm affiliation, and length of position affiliation. The author also asked for the following firm-related characteristics: founding year, number of employees, annual sales, range of offerings, and industry affiliation.

4.2 Data Collection and Sample Characteristics

Data Collection Given the standardized questionnaire as the central data collection instrument, the author conducted a quantitative online survey with executives from multiple firms in various industries. The executives were identified through a commercial database according to their professional backgrounds. The author supposed respondents to be capable of the subject at hand, thus, selected the sampling frame accordingly. Chief executive officers, top managers, marketing executives, and sales executives were assumed to have sufficient knowledge of the organizational environment and respective market conditions. Respondents then were contacted via e-mail and provided with an invitation link to the online survey, followed by two reminders. The sampling frame consisted of 1695 German-based firms. The author received a total of 242 responses, which resulted in 209 usable responses after the assessment of response patterns such as missing values and knowledgeability (response rate: 12.33%).

Respondent Characteristics Descriptive analyses of respondent characteristics indicate high familiarity with the subject at hand. 40.7% of the respondents are chief executive officers, 43.1% are marketing executives, 7.2% are sales executives, and 9.1% of the respondents are executives of related firm divisions. In addition, 23% of the respondents have up to 5 years, 20.6% have 5 to 10 years, and 56.4% have 10 and more years of experience with the firm. Further, 35.4% of the respondents have up to 5 years, 22.5% have 5 to 10 years, and 42.1% have 10 and more years experience with their position. The majority of respondents (69.9%) are male managers. The average respondent's age is 46 years.

Firm Characteristics The average firm was established 60 years ago, shows annual sales of € 1450 million, and employs 4400 employees. 21.1% of the firms are manufacturing firms, 23.4% are service providers, and 55.5% offer both products and services. Thereby 64.6% of the firms dedicate their offerings to businesses, 24.9% dedicate their offerings to consumers, and 10.5% cover both businesses and consumers. The firms operate in one of the following ten industries: service industry, machinery and plant engineering, commerce, production of goods, handcraft and construction, agriculture and food production, electronics, healthcare, software and IT, energy, and plastics and raw materials.

Nonresponse Bias Following the recommendations of Armstrong and Overton (1977), this study controls for nonresponse bias by comparing early and late respondents. The author conducted a *t*-test of group means for multi-item as well as multidimensional constructs, which indicated no significant differences. Responses in the single-item sociodemographics of questionnaire section three undergone a $\chi 2$-test that also revealed no significant differences between early and late respondents. Thus, nonresponse bias was not considered a problem in the present investigation.

4.3 Results

Estimation Approach The author tested hypotheses using the variance-based structural equation modeling approach partial least squares (PLS). The procedure of PLS is directed to maximize the variance of the endogenous variables that are explained by the exogenous variables (Chin, 1998). The estimation approach is oriented toward prediction and therefore especially useful for predicting an outcome variable and identifying the main drivers of the outcome variable (Hair et al., 2011). Besides, PLS entails further benefits for the present study. Since PLS does not model relationships simultaneously, it produces parameter estimates with small sample sizes (Henseler et al., 2014). Additionally, the procedure makes no distributional assumptions and avoids the parameter identification problems of covariance-based procedures when formative measurement models are included (Hair et al., 2011; Reinartz et al., 2009). The present PLS analysis specifies the reflective-formative second-order constructs by applying the embedded two-stage approach that is based on the repeated indicator approach to specifying higher-order constructs using all indicators of the lower-order components (Lohmöller, 1989; Sarstedt et al., 2019).

Evaluation of Reflective Measurement Models Following the recommended procedure of Hair et al. (2011), data analysis begins with the evaluation of the measurement models in terms of reliability and validity. All indicator loadings are high (> 0.63) and significant (t-value >1.965) suggesting a satisfactory level of indicator reliability (Hulland, 1999). In addition, the values of Cronbach's alpha, composite reliability, and average variance extracted exceed the thresholds of 0.7, 0.6, and 0.5, respectively, which indicates satisfactory internal consistency reliability as well as satisfactory convergent validity (Bagozzi & Yi, 1988; Hair et al., 2017; Nunnally, 1978). Further, the author assessed discriminant validity based on cross loadings and the Fornell-Larcker-criterion (Fornell & Larcker, 1981; Hair et al., 2017). All indicator loadings on the respective conceptualized construct were higher than their highest cross loadings on other constructs. As proposed by Fornell and Larcker (1981), the average variance extracted of each latent variable was higher than its highest squared correlation with another latent variable. Thus, the results suggest satisfactory discriminant validity. Together with content validity ensured by expert ratings, the results provide empirical evidence for reliability and validity of the reflective constructs "mimetic pressures" and "institutional isomorphism" as well as of the reflective first-orders of the higher-order constructs "normative pressures," "coercive pressures," and "industry commoditization" (Table 1). Solely the industry stability construct shows problems with the thresholds of Cronbach's alpha and average variance extracted. Since the construct is well-established and provides satisfactory levels of composite reliability and discriminant validity, the author retains the construct for further analyses (Hair et al., 2017).

Evaluation of Formative Measurement Models The formative second-orders of the higher-order constructs "normative pressures," "coercive pressures," and "industry commoditization" require a different assessment approach (Hair et al., 2017).

Table 1 Assessment of reflective first-order measurement models (Parts 1 and 2)

Construct	Indicator	Item text	Indicator loading	*t*-value	Highest cross loading
Part 1					
Influence of powerful firms (Mean = 4.03 SD = 1.35 CA = 0.722 CR = 0.844 AVE = 0.644 HSC = 0.132)	CP_FI_1	Unsere unternehmerischen Handlungen werden von Akteuren beeinflusst, die uns wichtige Ressourcen liefern.	0.850	34.568	0.300
	CP_FI_2	Der Einfluss unserer Zulieferer zwingt unser Unternehmen zu Anpassungen.	0.807	24.843	0.330
	CP_FI_3	Andere Unternehmen haben Einfluss auf unsere Entscheidungen über wichtige Ressourcen.	0.746	14.566	0.237
State influence (Mean = 3.24 SD = 1.40 CA = 0.810 CR = 0.875 AVE = 0.637 HSC = 0.232)	CP_SI_1	Unser Unternehmen wendet viel Zeit zur Umsetzung rechtlicher Vorschriften (bspw. Umweltvorschriften) auf.	0.755	20.243	0.426
	CP_SI_2	Die Betriebsabläufe unseres Unternehmens werden vom Staat beeinflusst.	0.787	30.529	0.348
	CP_SI_3	Die Aktivitäten unseres Unternehmens werden durch rechtliche Vorschriften (bspw. Umweltvorschriften) beschränkt.	0.809	30.456	0.413
	CP_SI_4	Unser Unternehmen unterliegt starken öffentlichen Vorgaben.	0.840	38.287	0.362
Mimetic pressures (Mean = 3.70 SD = 1.26 CA = 0.916 CR = 0.937 AVE = 0.749 HSC = 0.110)	MP_1	Unser Unternehmen imitiert Praktiken, die von erfolgreichen Unternehmen angewendet werden.	0.816	21.931	0.279
	MP_2	Praktiken führender Unternehmen dienen unserem Unternehmen als Vorbild.	0.875	37.445	0.304
	MP_3	Unser Unternehmen orientiert sich stark an erfolgreichen Unternehmen in unserer Branche.	0.903	53.490	0.331
	MP_4	Unser Unternehmen sucht nach Ansatzpunkten zur imitation erfolgreicher Unternehmen.	0.902	49.199	0.263

(continued)

Table 1 (continued)

Construct	Indicator	Item text	Indicator loading	*t*-value	Highest cross loading
	MP_5	Unser Unternehmen orientiert sich an Strategien, von denen andere Unternehmen bereits profitiert haben.	0.827	25.164	0.332
Pressures from formal education (Mean = 2.60 SD = 0.99 CA = 0.837 CR = 0.891 AVE = 0.671 HSC =0.194)	NP_FE_1	Unsere Mitarbeiter/innen weisen den gleichen Ausbildungshintergrund auf wie andere Mitarbeiter/innen auf einer vergleichbaren position in anderen Unternehmen.	0.819	24.359	0.360
	NP_FE_2	Das know-how unserer Mitarbeiter/innen gleicht dem know-how anderer Mitarbeiter/innen, die eine vergleichbare position in anderen Unternehmen innehalten.	0.818	25.606	0.358
	NP_FE_3	In unserer Branche stellen Unternehmen ähnliche Stellenanforderungen an vergleichbare Mitarbeiterpositionen.	0.790	21.840	0.383
	NP_FE_4	In unserer Branche werden vergleichbare Mitarbeiterpositionen mit Mitarbeitern besetzt, die ähnliche Qualifikationen aufweisen.	0.848	41.409	0.416
Pressures from professional networks (Mean = 4.30 SD = 1.44 CA = 0.904 CR = 0.933 AVE = 0.777 HSC = 0.109)	NP_PN_1	Unsere unternehmerischen Entscheidungen werden von Wirtschaftsverbänden stark beeinflusst.	0.857	42.566	0.276
	NP_PN_2	Unsere Normen für Arbeitsbedingungen und Arbeitsweisen werden durch den Austausch mit Wirtschaftsverbänden beeinflusst.	0.900	56.803	0.304
	NP_PN_3	Unser Unternehmen entwickelt Verhaltensnormen auf basis unseres Austauschs mit Wirtschaftsverbänden.	0.863	39.271	0.267

(continued)

Table 1 (continued)

Construct	Indicator	Item text	Indicator loading	*t*-value	Highest cross loading
	NP_PN_4	Unser Unternehmen wird von Wirtschaftsverbänden bestärkt, sich an branchenübliche Normen anzupassen.	0.904	57.071	0.313
Part 2					
Institutional isomorphism (Mean = 3.43 SD = 1.06 CA = 0.783 CR = 0.859 AVE = 0.604 HSC = 0.206)	II_1	Unser Unternehmen ist anderen Unternehmen in unserer Branche sehr ähnlich.	0.773	26.158	0.380
	II_2	Die Prozesse verschiedener Unternehmen aus unserer Branche gleichen sich an.	0.738	15.106	0.393
	II_3	Unternehmen in unserer Branche stimmen in ihren Strukturen weitgehend überein.	0.825	26.050	0.410
	II_4	Im Wesentlichen sind die Unternehmensformen in unserer Branche gleich.	0.771	20.831	−0.342
Product homogeneity (Mean = 3.51 SD = 1.29 CA = 0.795 CR = 0.868 AVE = 0.623 HSC = 0.275)	IC_PH_1	In unserer Branche weisen die meisten Produkte keine wesentlichen Unterschiede zu Konkurrenzangeboten auf.	0.851	35.584	0.458
	IC_PH_2	In unserer Branche sind Produktangebote stark standardisiert.	0.681	11.568	0.403
	IC_PH_3	In unserer Branche sind Technologien und Märkte sehr homogen.	0.786	24.075	0.430
	IC_PH_4	In unserer Branche sind viele Produkte identisch in ihrer Qualität und Leistung.	0.829	29.053	0.419
Price sensitivity (Mean = 3.45 SD = 1.42 CA = 0.790 CR = 0.878 AVE = 0.708 HSC = 0.154)	IC_PS_1	In unserer Branche überprüfen Kunden sogar Preise von Produkten mit geringem wert.	0.731	14.400	0.263
	IC_PS_2	In unserer Branche kaufen Kunden das preisgünstigste Produkt, das ihren Bedürfnissen gerecht wird.	0.906	61.572	0.420
	IC_PS_3	In unserer Branche fokussieren Kunden sehr stark auf den Preis, wenn sie ein Produkt auswählen.	0.876	40.945	0.310

(continued)

Table 1 (continued)

Construct	Indicator	Item text	Indicator loading	*t*-value	Highest cross loading
Switching costs (Mean = 3.41 SD = 1.58 CA = 0.875 CR = 0.914 AVE = 0.727 HSC = 0.275)	IC_SC_1	In unserer Branche entstehen für Kunden geringe Kosten beim Wechsel zu einem anderen Anbieter.	0.839	29.850	0.445
	IC_SC_2	In unserer Branche könnten Kunden mühelos ein Produkt von einem anderen Anbieter verwenden.	0.846	34.886	0.511
	IC_SC_3	In unserer Branche gestaltet sich der Prozess, zu einem neuen Anbieter zu wechseln, einfach und schnell für den Kunden.	0.875	37.145	0.400
	IC_SC_4	In unserer Branche birgt der Wechsel zu einem neuen Anbieter kein Risiko für den Kunden.	0.849	30.234	0.426
Industry stability (Mean = 3.40 SD = 1.16 CA = 0.500 CR = 0.721 AVE = 0.480 HSC = 0.094)	IC_IS_1	Die Kundenpräferenzen in unserer Branche ändern sich regelmäßig.	0.417	1.898	−0.118
	IC_IS_2	In unserer Branche gibt es keine regelmäßigen Änderungen im Produktmix der Anbieter.	0.848	8.812	0.306
	IC_IS_3	In unserer Branche sind Technologiewechsel langsam und vorhersehbar.	0.741	6.089	0.180

Notes: Mean and SD refer to the seven-point Likert-type rating scales ranging from 1 = "fully agree" to 7 = "fully disagree"
Abbreviations: SD = standard deviation, CA = Cronbach's alpha, CR = composite reliability, AVE = average variance extracted, HSC = highest squared correlation

Unlike reflective indicators, which are interchangeable to some degree, high correlations between formative indicators are not desired since formative indicators capture distinct characteristics of the latent construct (Jarvis et al., 2003). The author checked for collinearity issues between the indicators by measuring the variance inflation factor. All variance inflation factors were below the stricter cut-off value of 5, thus, collinearity might not be an issue (Diamantopoulos & Winklhofer, 2001; Hair et al., 2011). In addition, the relevance of a formative indicator requires significant indicator weights (*t*-value >1.965), which is confirmed for all formative indicators of the present study (Hair et al., 2011). Table 2 displays the results of the formative measurement model assessment.

Table 2 Assessment of formative second-order measurement models

Construct	Indicator	Indicator text	Variance inflation factor	Indicator weight	*t*-value
Coercive pressures	CP_FI	Influence of powerful firms	1.151	0.492	19.575
	CP_SI	State influence	1.151	0.710	21.792
Normative pressures	NP_FE	Pressures from formal education	1.757	0.581	20.804
	NP_PN	Pressures from formal networks	1.233	0.644	23.030
Industry commoditization	IC_PH	Product homogeneity	1.757	0.454	17.954
	IC_PS	Price sensitivity	1.233	0.296	11.429
	IC_SC	Switching costs	1.415	0.460	17.207
	IC_IS	Industry stability	1.130	0.130	3.819

Evaluation of the Structural Model After providing evidence for the appropriateness of the measurement models, the author examined the structural model. First, the predictive power of the entire model is analyzed by the coefficient of determination R^2 for endogenous constructs and the effect sizes of exogenous constructs (Hulland, 1999). In the model, the independent variables explain 24.2% of the variation in institutional isomorphism and 23.7% of the variation in industry commoditization, thus, indicating acceptable R^2 values for research in marketing. The effect sizes q^2 of the exogenous constructs yield a small effect for mimetic pressures ($q^2 = 0.054$), medium effects for normative pressures ($q^2 = 0.174$) and for institutional isomorphism ($q^2 = 0.301$), and no effect for coercive pressures ($q^2 = 0.000$) (Hair et al., 2011; Henseler et al., 2014). Second, the author assessed the size and significance of the path coefficients performing a nonparametric bootstrapping procedure with 5000 subsamples to test the hypothesized relationships (Hair et al., 2017). The author first analyzed if coercive, normative, and mimetic pressures lead to institutional isomorphism. The missing effect size for coercive pressures already indicates that the construct has no effect on institutional isomorphism, which is confirmed by the assessment of its path coefficient ($\gamma = 0.011$, t-value $= 0.131$), leading to the rejection of H2. The missing effect might derive from the fact, that firms pursue different strategies to fulfill external requirements, thus, the formal compliance does not necessarily result in a change of organizational processes (Meyer & Rowan, 1977). The results for mimetic pressures and normative pressures yield positive and significant influences on institutional isomorphism, respectively ($\gamma_{\text{mimetic}} = 0.212$, $t\text{-value}_{\text{mimetic}} = 2.867$; $\gamma_{\text{normative}} = 0.383$, $t\text{-value}_{\text{normative}} = 5.381$). Further, the author found support for H1. The results yield a positive and significant influence of institutional isomorphism on industry commoditization ($\beta = 0.481$, t-value $= 8.645$). The positive significant influence of mimetic and normative pressures on institutional isomorphism and the positive significant influence of institutional isomorphism on industry commoditization are indicative for indirect effects of mimetic and normative pressures on industry commoditization (H3 and H4). The analysis of their

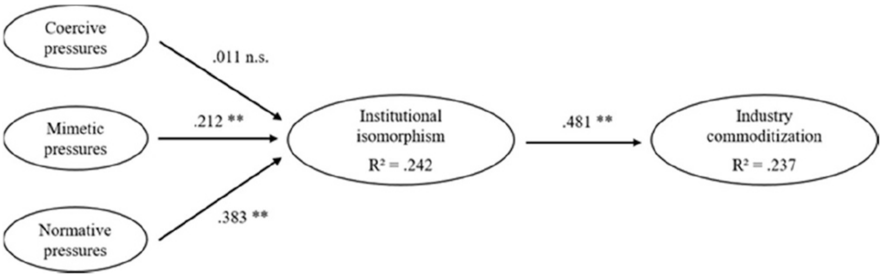

Fig. 1 Results for the structural model. (Notes: ** $p < 0.01$, n.s. not significant)

indirect effects conclusively supports H3 and H4 ($\gamma_{\text{mimetic}} = 0.102$, t-value$_{\text{mimetic}} = 2.718$; $\gamma_{\text{normative}} = 0.184$, t-value$_{\text{normative}} = 4.184$). Fig. 1 summarizes the findings of the present study.

5 Conclusion

The process of commoditization illustrates that managers' professional assessment of a subject often is not in line with consumers' perception of the subject. Managers know what competitors have to offer, and managers know how much they have spent in innovation to differ from that. They can name specific features that are distinct, and they can explain their values. In managers' eyes, their products are differentiated (Bertini & Wathieu, 2010). From an objective point of view, the professional assessment of differentiation might be correct, but the truth for an ever greater number of industries is somewhere in between. When asked, consumers probably admit that one product does not look like the other, but they do not seem to be aware of the products' unique values. Consumers perceive the products to be similar in quality and performance, thus, to be interchangeable with one another (Enke et al., 2014). Faced with an increasing number of options available, the only price seems to be the real matter in purchase decisions. Adding the fact, that consumers pay low switching costs when products are standard offerings, Reimann et al. (2010) described these trends in stable industries as the commoditization of industries.

Since commoditization comes from diminished differentiation between products and firms, previous literature particularly discussed strategies to regain competitive advantage. The ways out of commoditization have been discussed rather theoretically, thus, the present chapter contributes to the minor presence of empirical studies in this field. The chapter has drawn upon firm-related determinants of industry commoditization that function as starting points to fight the rising phenomenon. In particular, the chapter introduced concepts of organizational theory that explain why organizational processes become common within an industry, thereby leading to the homogenization of firms in that industry, and further driving the commoditization of that industry. The origin of these concepts is seen in the firms' aspiration to social legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Coercive pressures from powerful firms or governmental regulations, mimetic pressures from models to handle uncertainty, and normative pressures from formal education and professional networks can trigger firms to organizational change (DiMaggio & Powell, 1983). The pressures define social norms, give secure guidance in terms of uncertainty, and spread behavioral norms for respective industries that require firms to comply. Consequently, firms adapt their processes in a similar manner, namely the proposed manner. The convergence of firms' processes to run their business homogenizes the firms within an industry, what is called institutional isomorphism (DiMaggio & Powell, 1983). As processes such as quality management, product management, innovation management, or brand management, in particular, can converge among firms in an industry; institutional isomorphism diminishes differentiation and thereby corresponds to the origin of industry commoditization.

The quantitative survey study with 209 top managers and marketing executives found support for mimetic and normative pressures resulting in homogenized firms of common industry and thereby driving the commoditization of that industry. In the case of coercive pressures, findings did not yield significant effects. This result might derive from the fact, that governmental regulations rather concern formal adaptations that do not necessarily require organizational change in the set of activities and processes (Meyer & Rowan, 1977). In conclusion, the chapter illuminated mimetic and normative pressures as well as their related organizational processes that need to be distinctive in order to make differentiation succeed. Accordingly, the chapter provides a tool of orientation when managers need to revisit the basis for competition in their industry. Finally, the chapter invites managers to view the marketing phenomenon of industry commoditization from an organizational perspective—to not only apply marketing related solutions but to rethink the core of the problem.

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De-commoditization in B2B Markets: A Communication Perspective

Anja Geigenmüller and Elisabeth Kuhn

1 Introduction

A growing number of B2B companies experience a decreasing potential to differentiate their products and services from their competitors (Kasper-Brauer & Enke, 2016). Firms seek to avoid the commodity trap by restoring or recreating the differentiation between their products and services and competitive offerings (Matthyssens & Vandenbempt, 2008). Against this background, several authors emphasize the relevance of complementary services as well as valuable B2B customer relationships for de-commoditization (Saveedra, 2016). With regard to the latter, Saveedra (2016) stresses that manufacturers need to understand the in-use benefits of their products in order to effectively differentiate their offers. To this end, not only the selling proposition matter, but the customer experience with a given offer through all stages of the buying process: purchasing, integration/installation, and product use. This holds especially in markets, where customers seek tailored solutions and offerings with specific properties according to their individual needs.

The marketing literature strengthens the notion that communication between suppliers and their customers has a significant impact on the quality and duration of their relationship. Information sharing between exchange partners becomes a central building block of industrial customers' positive experiences, thus enhancing customer satisfaction and trust (Ahearne et al., 2005; Agnihotri et al., 2009, 2016; Morgan & Hunt, 1994; Palmatier et al., 2006). Describing obstacles for effective buyer–supplier relationships, Lascelles and Dale (1989) identify, among others, deficiencies in communication and feedback as main reasons for dissatisfying customer experiences. In his concept of customer integration competence, Jacob (2006) points to a firm's ability to effectively communicate with their customers in order to obtain customer or transaction-related information required to customize

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M. Enke et al. (eds.), *Commodity Marketing*, Management for Professionals,
https://doi.org/10.1007/978-3-030-90657-3_22

solutions. Yet, surprisingly, communication as an approach for de-commoditization in B2B markets has received much attention neither from academics nor from practitioners.

Against this background, the chapter aims at systemizing the role of communication between supplier and customer throughout the buying process. Employing a case study of a medium-sized mechanical engineering company, the chapter sheds light on varying customer communication needs, supplier communication objects, and instruments dependent on various stages of the buying process. Based on conceptual foundations and empirical observations, the chapter concludes on managerial implications as well as future avenues for research in B2B marketing.

2 Conceptual Foundations—Buying Phases and B2B Buyer–Seller Relationships

Throughout the buying process, customer firms continuously evaluate suppliers and their offerings. Understanding customers' purchasing process is therefore important for suppliers to obtain information needed to manage their selling process and to realize in-use benefits for their customers.

The literature knows several conceptual models of organizational buying behavior. As part of the buygrid model (Robinson et al., 1967), the buy-phase model proposes several stages industrial customers go through to make a buying decision. These stages encompass: (1) need recognition; (2) determination of characteristics and quantity; (3) description of characteristics and quantity; (4) search for potential sources; (5) acquire and analyze proposal; (6) evaluate proposals and select suppliers; (7) select an order routine; and (8) performance feedback and evaluation (Hutt & Speh, 2008). As Johnston and Lewin (1996) note, although these models provide general categories of important phases and constructs, they fall short to detail relevant variables and instruments involved in each of the stages. In particular, to our best knowledge, there is only limited research in the role, objects, and instruments of B2B customer communication that affects customer–supplier interactions in each of these phases. This, however, would be relevant to suppliers in order to improve customer communication, to facilitate favorable outcomes of each of the stages and, finally, to turn mutually beneficial interactions into profitable customer relationships.

Suppliers and customers are partners in value creation. Grönroos (2011) develops a model that marries customer buying process and supplier selling process, showing relevant interactions throughout these processes (see Fig. 1). The author underlines the supplier's basic role in the value-generating process by facilitating customers' value creation. To this end, the supplier needs to employ resources and interactive processes that support customer practices and enhance the value of customer business processes. As Grönroos (2011) notes, supplier's activities should correspond with customer's activities and encompass not only the market offering itself, but also order taking and deliveries, product specifications and features, maintenance, invoicing up to complaints handling or service recovery.

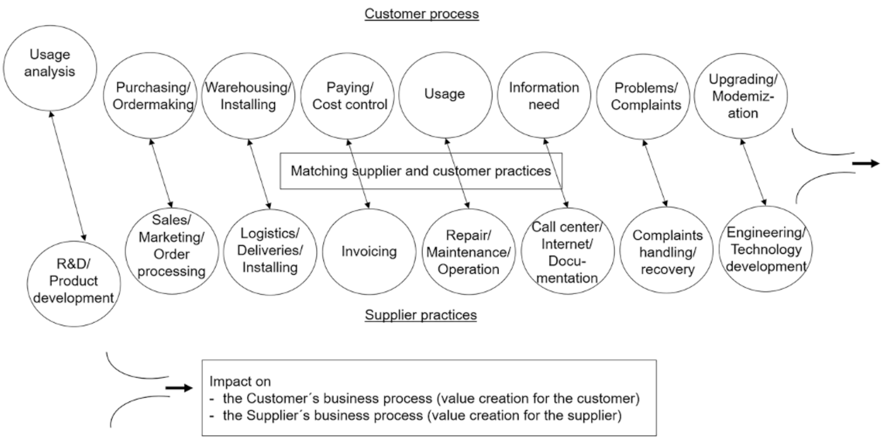

Fig. 1 The customer and supplier processes and their impact on the business processes (adapted from Grönroos, 2011, p. 241)

Interactions between suppliers and customers are inevitable to joint value creation. Interactions are reciprocal in nature, which means that parties involved influence each other. Mutual actions and effects imply that parties are connected to each other, which allows that customers can influence activities and processes on the supplier's side and, vice versa, suppliers influence the value creation on the customer's side. Ballantyne (2004) considers such interactions as *communicative interactive processes* (also: Ballantyne & Varey, 2006). Communication between suppliers and customers drives mutual understanding and the development of trust. Moreover, it aids in generating new business knowledge, specifying customer expectations, developing tailored solutions, and, thus, value through customized solutions and value in-use (Ballantyne, 2004). Surprisingly, academic research lacks concepts and empirical studies on how value creation is supported by communication strategies, objects, and instruments and which communication skills are needed to facilitate value creation (Salomonson et al., 2012).

3 Case Study

3.1 Methodology and Research Context

This chapter applies a case study approach to investigate a contemporary phenomenon within a real context and to understand the relation of the phenomenon to its context (Johnston et al., 1999; Yin, 1994). The study bases on direct research, which means that the researcher goes into the B2B context and observes this context for a while (e.g., a week, a month, and a year). Observations, on-site interviews, and face-to-face observations of processes taking place in this context as well as anecdotical findings are central to describe, analyze, and understand the research object

Fig. 2 Conceptual model of purchasing phases (adapted from Backhaus & Günter 1976, pp. 257–264)

(Mintzberg, 1979). Research interest lies in detecting patterns, consistencies as well as breaks of patterns in order to make sense of a given context (Woodside & Baxter, 2013). During a 3-month observation period, data was obtained by analyzing the customer communication within the past three years (Grove & Fisk, 1992; McMillan & Schuhmacher, 2014; Ngulube, 2015).

For the analysis, we found inspiration in a five-stage phase model from Backhaus and Günter (1976), which emphasizes interactions with customers during the purchasing process. The model entails five stages: (1) initiation, (2), presentation, (3) negotiation, (4) production, and (5) operating (see Fig. 2).

This framework was used in order to detect stepwise communication objects and instruments the firm utilizes to interact with its customers, to realize joint production activities and, hence, to provide tailored solutions, to gain customer satisfaction, and to obtain sufficient differentiation from competitors based on strong and valuable customer relationships.

Data has been collected in a German branch of a Swiss machine tool manufacturer, which positions itself as a solution provider in the market of sheet metal forming, offering laser cutting systems, press brakes, tube processing, and automation. Within the mechanical engineering sector, the company specializes in machine tools that are required for the machining of various metals with different thicknesses and hardness. Based in Switzerland, the company runs several R&D and production facilities in Switzerland, Germany, Italy as well as in China, and in the USA. In more than 30 countries, the company has established sales and service companies. Additionally, it is represented by agents in numerous other countries. Worldwide, around 3000 employees work for this company. In 2020, the company realized net sales of about 800 Mio. CHF (about 744 Mio. euros).

In 2020, the global market for machine tools has been estimated at 67.6 Billion US-Dollars. The European machine tool industry employed about 150.000 employees and realized an annual turnover of approximately 20 Billion euros (CECIMO, 2021). As of 2019, the top three machine manufacturing firms in Europe (by revenue) were all based in Germany. DMG Mori, as the top player in the industry in Germany, generated over 1.4 billion euros from its machine tool sales (Statista, 2021).

In Germany, main customers of the machine tool industry are the automotive industry and component suppliers (43%), followed by mechanical engineering companies (24%) and manufacturers for metal products (12%), aerospace (7%), precision mechanics, and medical technology (3%) as well as the electrical industry (3%) (VDW, 2020).

The metal industry worldwide faces commoditization tendencies, resulting in the need for cost cuts to sustain their competitive position (Bergman et al., 2006;

McQuiston, 2004; Popper & Buskirk, 1992; Rangan & Bowman, 1992; Shih, 2018). At the same time, companies must continue to grow. Growth, though, requires a thorough understanding of customer needs and preferences, to create new demand, to provide value to customers and, as a result, to differentiate themselves from rival players in the market (Rotering et al., 2017).

Moreover, the industry is affected by standardization and increasing market transparency. This leads to a higher need for differentiation and, in particular, for a non-product-based differentiation approach (Levinthal, 1995; O'Cass & Weerawardena, 2010; Rosen, 1994).

In mechanical engineering, a moderate number of suppliers (65,500 in Europe) (Statista, 2020) compete for a limited customer base, with products that often do not offer enough potential for differentiation, due to the characteristics of the core products (McQuiston, 2004; Shih, 2018). Facing intense competition, some market participants follow an imitation strategy by coping offers and strategies of market leaders, such as DMG Mori and Trumpf (Rosen, 1994). Increasing imitation provokes growing homogenization of products and services and, hence, of commoditization.

3.2 Empirical Findings

The presentation of our empirical findings builds on the five-stage phase model by Backhaus and Günter (1976). We first describe each phase. Then, based on observations and interviews, we identify communication needs of customers and communication instruments used to respond to these needs. Table 1 summarizes our findings.

3.2.1 Initiation Phase

As soon as customers have recognized a need or problem, they start gathering information about solutions, offerings, and suppliers (Rodriguez Cano et al., 2005). At the same time, supplier's sales representatives, seeking new leads, start identifying promising customers and intensifying selling activities. Initiation starts, when one or more partners become aware of other market participants and related business opportunities (Edvardsson et al., 2008). Hence, initiation includes all activities prior to the actual meeting of a prospect and a salesperson as well as the meeting itself and the establishment of initial rapport with the customer (Moncrief & Marshall, 2005).

Initiation phase includes both direct and non-direct contacts between suppliers and customers. In the case of direct contacts, customers—and vice versa salespersons—contact the other side directly, for instance via e-mail, telephone, or by personal contact at a trade fair. Non-direct contacts include positive word of mouth from third parties, customer's visit to the company's website, or the company's social media presentation (Edvardsson et al., 2008; Moncrief & Marshall, 2005).

Table 1 Empirical findings

Phase	Definition	Communication objects	Communication instruments
Initiation	Start of a supplier–customer exchange by recognizing each other as prospecting business partners	Overview of products and services in the market Gathering information Reducing information asymmetries	Magazine, information brochures, e-mails, newsletters, telephone calls, personal contact on trade fair, positive word of mouth from third parties, company's website, company's social media channels and video-sharing platforms, blogs, customer events, and sponsorship
Presentation	Providing information about the offer and demonstrating relevant features and benefits	Need-specific and product-related information exchange of information expert knowledge practical experience (hands-on) reduce of uncertainties	Exhibitions, events, personal meetings), virtual showrooms, e-mails, phone calls and video telephony, social media channels and video sharing
Negotiation	Defining the order and preparing the contract	Reducing information asymmetries Legal certainty Formality and legitimacy	Written documents and e-mails, telephone calls, and face-to-face communication
Production	Order fulfillment by generating the product or service according to customer specifications	Order-related information Planning security Reduce of uncertainties Confirmation	Telephone calls, e-mails, and social media
Operation	"after sales"-activities, including the delivery of value-added services, such as maintenance, training, or updating	Continuous support for questions and problems at any time, fast and flexible help, fast repair and exchange	Websites, own magazine, product brochures, exhibitions, events, social media, video-sharing platforms, e-mails, newsletters, face-to-face communication, and telephone calls

In order to initiate a valuable exchange and to raise the mutual awareness of the potential partners, in the initiation phase important communication objects include providing valuable information and reducing information asymmetries (Andzulis et al., 2012), demonstrating the supplier's favorable (brand) image, expertise, and trustworthiness (Bocconcelli et al., 2017; Geigenmüller & Greschuchna, 2011; Paschen et al., 2020; Weber & Haseki, 2021). In order to achieve these communication goals, in our case study a wide range of communication activities was observed:

The company published its own magazine and information brochures, managed websites, newsletters, blogs, and social media channels, including video-sharing platforms. In addition, the company employed exhibitions, customer events including sponsored events (e.g., open days and sports races), sponsorship, and word-of-mouth. Also, personal communication via telephone, e-mail, and face-to-face communication was utilized to initiate contact with customers.

3.2.2 Presentation Phase

The presentation phase occurs after salespersons have identified customer needs and requests. Depending on the state of the prospect (first-time buyer, existing customers), presentations of the offer or product demonstrations take place in order to provide relevant and rich information about the product offer and, in the case of first-time buyers, to enhance customers' understanding of the product's benefits. Importantly, presentations should be well prepared and, in particular, foresee potential objections or hesitancies customers may raise (Moncrief & Marshall, 2005).

The literature acknowledges several communication objects for this phase: Customer needs must be translated into specific performance requirements the supplier should meet (Andzulis et al., 2012). The exchange of information is affected by a high level of expert knowledge, detailed and technical in nature (Rodriguez Cano et al., 2005). The goal of the presentation phase is to convince the customer and to differentiate the supplier sufficiently from the competition. This requires the establishment of a personal relationship by establishing personal contact and face-to-face conversation to convey competence and expertise, to increase trust and reduce uncertainties (Andzulis et al., 2012; Fraccastoro et al., 2021; Rodriguez Cano et al., 2005; Weber & Haseki, 2021). Ultimately, salespeople strive for completing the sales presentation and closing the sale.

To achieve these goals, in our case study the following communication activities have been observed: The supplier firm used exhibitions including presentation tools (e.g., product configurators), events, and personal meetings on the customer's location or in the supplier's showroom or experience center, in order to enable direct exchange. Due to the Corona pandemic, the firm employed video telephony and virtual showrooms as well as social media (Andzulis et al., 2012; Fraccastoro et al., 2021). These activities were supported by other media, such as video-sharing platforms, websites, industry magazines, and product brochures. In addition, personal contact was established by face-to-face conversations, telephone calls, or e-mails.

3.2.3 Negotiation Phase

After customers have gained a comprehensive overview of the product range of different suppliers, the buying center evaluates the offers. Based on certain criteria, the buying center selects one or more suppliers whose products can be considered for purchase. That leads to the negotiation phase, in which the supplier and the customer negotiate about the offer and its components, features, services, price, discounts as well as delivery times, and other contractual conditions. The exchange of information is targeted and, in contrast to the prior phase, also focused on the clarification of legal requirements. In most cases, more than just the customer and the seller are involved in the negotiations. On the customer's side, members of the buying center may be involved in their roles as buyers and deciders (e.g., management and controlling) as well as persons from the legal department. On the supplier side, it is primarily the seller who negotiates.

The negotiation phase is characterized by the following communication objects: Both sides aim at reducing information asymmetries and conveying formality and legitimacy of their actions (Rodriguez Cano et al., 2005). Salespersons, focusing on closing the sale, seek agreement with the customer and commitment to the supplier and its products and services (Andzulis et al., 2012; Hite & Bellizzi, 1985; Moncrief & Marshall, 2005).

Due to the individual, confidential, and sensitive nature of exchange, mainly written communication instruments like e-mails or other written documents are used to fix the agreements and negotiation results and make them legally secure. Face-to-face communication or telephone conversations are often recorded in written form afterward, e.g., as an e-mail, which is then sent to the communication partner (Bocconcelli et al., 2017; Rodriguez Cano et al., 2005).

3.2.4 Production and Delivery Phase

After the contract is signed, the follow-up takes place. This includes the recording of the order, the initiation of order processing, inventory management, and order processing via supply chain and procurement systems (Paschen et al., 2020). This involves new actors on the supplier and customer side, who have to manage processing and delivery. For example, the supplier's order management has to coordinate with the responsible department of the customer regarding the organization and timing of delivery. In this phase, the supplier could prove, that the trust the customer has placed in them so far is justified and that the customer really is the center of all company activities. Putting the customer in the center of the supplier's activities and involving the customer in joint production and value creation activities increases the probability of a valuable and strong customer relationship (Moncrief & Marshall, 2005).

Typically, in this phase, decisions in production, installation, test, and delivery become important. The supplier is focusing on order fulfillment. Vice versa, the customer awaits the transfer of the ownership of the product or service as well as the satisfaction of contractual obligations (Rodriguez Cano et al., 2005). From the customer's perspective, the need for complex information decreases, since in the negotiation phase potential conflicts or ambiguities have been solved and the purchasing decision has been made. Customers expect to get promises fulfilled and to affirm their decision to start a business relationship with this supplier. In this regard, the supplier more than the customer accounts for the relationship's success (Rodriguez Cano et al., 2005).

This would call for customer-directed communication, intending to support the supplier's trustworthiness and to build strong ties with the customer. However, as Rodriguez Cano et al. (2005) observe, in this phase suppliers often misunderstand customers' communication preferences. In the production and delivery phase, customers often seek rich communication media, whereas suppliers are rather inclined to communicate, limiting their communication activities to more general information about the company, competencies and the brand, predominantly via e-mails, phone calls, and social media.

A majority of selling process models do not look into the production or operation phase. Hence, there is a lack of potential communication goals relevant in the production phase. Looking into the findings of our case study, it becomes obvious that the supplier firm needs several weeks to fulfill the order. During this phase, communication activities focus on rather general information about the company, competencies, or the brand customers. However, to demonstrate joint value creation, communication should not only focus on the delivery of order-related information, but also building credibility and trust, improving customer experience, strengthening the supplier's value proposition and supporting value creation for the customer, in order to create strong and profitable relationships (Weber & Haseki, 2021).

3.2.5 Operating

The operating phase begins with commissioning, which can take several weeks depending on the type of machine and configuring additional services that customers can take advantage of, such as training, technical updates, repair, and customer support. The phase is often referred to as "after sales" (e.g., Popper & Buskirk, 1992; Zackariasson & Wilson, 2004). Several authors have underlined the importance of this phase for customers to obtain maximum value of a product purchased. As Grönroos (2011) emphasizes, value co-creation with the customer implies not only the purchase itself, but also using, maintaining, updating, and serving the product sourced from the supplier.

In line with that, in the literature several communication objects for this phase are listed, such as strengthening the company's value proposition and brand, increasing brand awareness, increasing trust and credibility as well as generating customer satisfaction, and positive word of mouth (Andzulis et al., 2012; Bocconcelli et al., 2017; Rodriguez Cano et al., 2005; Weber & Haseki, 2021).

The company observed in our case study, employs a wide range of communication activities, including websites, own magazines, product brochures, exhibitions, events, social media, video-sharing platforms, e-mails, and newsletters as well as face-to-face communication or telephone calls.

4 Discussion

Based on conceptual arguments and findings from a single case study, we show that customer communication is an important driver for customer relationships and therefore for a de-commoditization strategy. In order to implement effective and efficient communication measures, it is important to consider different phases of the sales process on the supplier's side and the purchasing process of the customer's side. Recognizing different phases and different communication needs, suppliers should 1) increase their awareness of these differences and 2) adapt their communication activities to relevant customer needs and expectations (Andzulis et al., 2012; Fraccastoro et al., 2021; Rodriguez Cano et al., 2005).

Whereas at the beginning of the initiation phase more general information is provided and directed to potential and existing customers, later an important goal of supplier communication efforts is to enhance trust between customer and supplier and thus strengthen the relationship (Rodriguez Cano et al., 2005). Accordingly, different communication instruments are used in this phase in order to reach and address customers through every possible communication channel. Current research results suggest that the company website, social media, and sponsorship have a greater relevance within the initiation phase (Bocconcelli et al., 2017). As the sales process progresses, the exchange of information becomes more customer specific. Customers are primarily interested in order-related information during the phases of presentation, negotiation, and production. Correspondingly, communication intensifies and becomes more personal and direct, taking place predominantly face-to-face or by telephone. E-mail, on the other hand, is used more or less intensively in every phase.

Having said this, surprisingly little is known on the role of supplier communication during the production phase. Value co-creation goes beyond value propositions or a specific offer. It includes all activities, which support customer practices and customer business processes (Grönroos, 2011). Hence, also during the production phase customer-oriented communication is relevant, to create and sustain supplier's credibility and to develop trust in the supplier–customer relationship. From our anecdotical evidence, we conclude that suppliers especially in this phase may not fully exploit the potential for value creation and relationship building. Obviously, not only order fulfillment as such matters but order fulfillment is embedded in customer-oriented communication activities. Delivery and commissioning of a machine influence important customer processes including its own order acceptance and fulfilment.

For example, for the integration of a new machine into an existing business process, the customer has to train staff in advance, to prepare required equipment and infrastructure and to reorganize production in order to avoid delivery delays for its customers. Being dependent on the supplier's decision, the customer has nearly no influence on supplier's decisions and activities. This increases the customer's uncertainty and the need for trust in the supplier relationship. This holds especially for first-time buyers with limited or no prior experience with a supplier.

Our findings resonate with observations in the literature, how sales processes and strategies change toward the approach of relationship selling. As Moncrief & Marshall, (2005) explain, the function of selling and selling organizations has changed significantly, shifting the focus from selling to customer orientation. In line with this, selling is not limited to a single department or unit, but occurs across functional units and positions within a company. As a result, besides multiple forms and ways of customer communication, also internal, cross-functional communication has to be changed in order to implement true customer orientation and to gain sustainable differentiation of a supplier's value propositions from those of its competitors.

Hence, future research should pay attention to the impact of communication on the sales process and sales outcomes. Moreover, the advent of modern technologies and sophisticated information use gives rise to interesting and valuable research questions regarding the role of customer communication in B2B relationships and their contribution to de-commoditization. Customers could, for example, receive automatically generated updates on the progress of production on a mobile device during the waiting time, or see an actual-sized machine in their own production hall with the help of VR. The possibilities of AI can support the customer in making all the necessary preparations to ensure a smooth commissioning of the new machine. There is an extensive repertoire of technological possibilities available that suppliers could use for customer communication. In this regard, the customer perspective is of utmost importance. Hence, future studies should shed light on customer perceptions and customer needs for communication dependent on the phase of the customer buying process.

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