

## **Towards Effective Reference Marketing Programs**

### **ABSTRACT**

The available literature on buying behavior does not clarify the factors affecting the ability of reference marketing to deliver its benefits. The purpose of this research is to study organizational buying behavior and relationship formation in interactions between customers and suppliers of capital equipment and the factors affecting the ability of reference marketing to deliver its value outcomes. This work combines a critical realist approach to ontology with a qualitative research method consisting of in-depth interviews with purchasing managers from the energy industry. The findings of the study confirm that customer references play a critical role in organizational purchasing. By presenting a new theoretical model that aims to explain the referencing phenomenon, this study offers a deeper understanding of the referencing phenomenon and therefore, new perspectives on how an under what circumstances customer-suppliers relationship can be leveraged. A deeper understanding of this phenomenon allows suppliers to pursue strategies based on efficient reference marketing programs. The paper ends by presenting five useful recommendations for superior reference marketing practice.

### **Keywords**

B2B marketing, business relationships, capital equipment, critical realism, customer references, energy industry, industrial purchasing, reference marketing.

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## Introduction

Reference marketing plays an important role in business markets (Godes, 2012, Hada, Grewal and Lilien, 2014; Kumar, Petersen and Leone, 2013; Rese, Pick and Maiwald, 2012). The literature on organizational buying behavior suggests that customer references have a positive impact on vendors' reputations (Helm and Salminen, 2010; Salminen, 1997; Salminen and Möller, 2003, 2006). It also presents customer references as a source of competitive advantage and as a foundation for competitiveness (Jalkala and Salminen, 2010; Terho and Jalkala, 2017). Accordingly, customer references play an important role in increasing vendors' credibility and brand equity by raising their perceived competence. At the same time, they decrease buyer uncertainty and perceived risk.

Nevertheless, empirical studies that could ground a comprehensive theory of customer referencing have yet to be undertaken. The existing research is insufficient to the extent that the empirical work thus far has mainly focused on the supplier as the unit of empirical observation and has almost ignored the other two constituents of the reference triad. Thus, empirical work that features the purchasing manager as the unit of observation represents an open opportunity for research into organizational buying behavior and, more specifically, into the ways in which reference marketing influences capital buying decisions.

By reviewing the literature on organizational buying behavior, we can better understand the extent of the role played by customer referencing in a firm's growth. Nevertheless, the literature is silent on the facts and circumstances within the potential customer purchasing department. Given this gap in the literature, this research aims to investigate the factors affecting the ability of reference marketing to deliver its value outcomes.

Jalkala and Salminen (2010) define customer references as the customer relationships and related value-creation activities that a firm leverages externally or internally in its marketing efforts. They view customer reference marketing as a way to demonstrate a solution's potential value and the business benefits that a supplier can deliver. According to Johnston and Lewin (1996), customer referencing helps to reduce the risk associated with major purchases. In customer reference marketing processes, existing customers act as advocates for the firm. They provide testimonials, receive visits from potential customers and yield information on the characteristics of the adopted solutions and their performance. The relationships established with these customers can be considered a marketing asset, which points to a resource-based perspective (Barney, 1986, 1991; Wernerfelt, 1984, 1995) as a valid framework of analysis (Salminen and Möller, 2006). In this way, firms are able to build strategic assets, either by increasing credibility and reputation or by reducing the perceived risk associated with the purchasing of services and products from a particular supplier.

This work combines a critical realist approach to ontology with a qualitative research method consisting of in-depth interviews with purchasing managers from the energy industry.

## The research problem

Different dimensions of customer reference practice have been studied, e.g. different practices for promoting customer references and their key messages. One of the

interesting facets of the research thus far concerns the triadic relationship (Hada *et al.*, 2014; Helm and Salminen, 2010; Salminen, 2001; Salminen and Möller, 2006) established during the generation, development, and promotion of customer references. This particular triadic unity – also referred to as the reference triad – involves three actors: the reference customer, the potential customer and the supplier. This relationship benefits each actor (Jaakkola and Aarikka-Stenroos, 2018).

The motivation for each member of the reference triad to participate in customer referencing is well documented in the literature on referencing (Helm and Salminen, 2010; Jaakkola and Aarikka-Stenroos, 2018, Salminen, 2001; Salminen and Möller, 2006). The potential customer benefits from referencing to the extent that the latter: (i) provides an opportunity to learn from the reference customer experience, like for instance observing a supplier's equipment in real working circumstances, (ii) facilitates the buying practices, negotiations and the closing of deals, (iii) reduces buying risks, facilitates the evaluation of suppliers and allows for better purchasing decisions, and (iv) builds trust between a company's own personnel and the supplier's. Unfortunately, there is no current research on what takes place following the collection of referencing data. Just how and in what circumstances the organizational buyer will use this data is therefore unclear, as is the extent to which the resulting insights are considered in buying decision processes.

As noted above, the existence of the reference triad presupposes that some level of relationship adaptation occurs with regards to all of its members. Unfortunately, however, we currently lack a firm understanding of the adaptation that takes place on the side of the potential customer. In order to be effective, this relationship-specific adaptation should take place at the level of the potential customer's purchasing department. If the persuasion capability of the referencing discourse is, in fact, strong, it should have some degree of influence on the potential customer, and specifically on its purchasing behavior. This effect should also be mirrored in the relationship established between the potential customer and the reference customer. With this said, the research question portrayed in this article is:

*What factors can affect the ability of reference marketing to deliver its value outcomes?*

By responding to this question, five recommendations for superior reference marketing practice emerged. These practical recommendations will allow suppliers to pursue efficient reference marketing programs.

### **Methodology**

This study works from the hypothesis that a gap exists between the organizational discourse described in the literature on customer referencing and reality (regarding the corporate handling of customer references). In order to test this hypothesis, this study requires an appropriate methodological approach. Critical realism (Archer, Bhaskar and Collier, 1998; Easton, 2002; Sayer, 1997, 2000) enables rigorous theoretical development in the complex field of business relationships and networks (Ryan, Tähtinen, Vanharanta and Mainela, 2012). Furthermore, critical realism accommodates a wide range of analytic techniques. Among others, it accommodates qualitative research. Combining critical realism with a qualitative method is a relevant, congruent

and accessible approach to the study of the social phenomenon and aims to enhance the methodology consistency of this research.

Ruokolainen (2008b) suggests that more theoretical models featuring customer references are needed. Salminen and Möller (2006) argue that future research on customer's references should take place in the context of the industrial networks approach. There is also a need for additional qualitative research to the degree that this increases our understanding of customer referencing and allows us to further discern the related variables (Ruokolainen and Mäkelä, 2007; Salminen and Möller, 2004, 2006).

The energy sector is the empirical focus of the present study. Jalkala and Salminen (2010) recommend that future research on referencing consider industry sectors beyond those already examined in the literature. According to these authors, by following this recommendation it is possible to broaden the scope of the theory of referencing. Ruokolainen and Mäkelä (2007) refer to the market for complex technology products as a reference business because in this setting references are relied on by corporate customers. The energy industry has the features of a reference business (Morgado and de Castro, 2016).

Customer references play a key role in capital equipment businesses (Salminen, 2001), more precisely in capital equipment bidding processes (Salminen and Möller, 2004). Salminen and Möller (2006) argue that high-tech and market uncertainty increases the relevance of customer references by increasing the potential customer's perceived risk. In addition, the total amount of investment and the innovation embedded in the offered product or system affect the relevance of customer references.

This is an interesting context because all players in the energy sector are committed to high capital investments. Unlike other industries, such as telecommunications, energy firms possess a broader scope of vendors to work with, as the buying of capital goods is neither prearranged via a vendor's shortlist nor bound by strategic partnerships. The buying of capital goods has already proved to be a fruitful field of research (Cunningham and White, 1974).

Primary data were gathered in face-to-face, non-structured interviews, which took place at the interviewees' office. Interviewing techniques recommended by Granot, Brashear and Motta (2012) were adopted. The data gathered from the interviews provide the empirical foundation for the theoretical claims offered in this research.

This study adopted a theoretical sampling (see Flick, 1998; Glaser and Strauss, 1967, chap. 3, "Theoretical Sampling"; Woodside, 2010) approach to selecting respondents. In this non-random sampling procedure, respondents were able to provide an explanation of and valuable insight into the phenomenon under study and were recruited based on personal contacts and referrals. Informants had been in their current jobs for at least the last five years.

17 purchasing managers from four different European energy companies were interviewed, delivering 24 hours of recorded interviews. Some interviews spread over more than one session on different days. This set of managers was in charge of purchasing goods and services for eight different countries (e.g. Belgium, Brazil, France, Poland, Portugal, Romania, Spain, and the United States of America). The interviews took place between the years 2015 and 2017. By the end of the 17<sup>th</sup> interview, the same issues were recurrent, and no new findings emerged from the data. At this point, after reaching saturation (Guest, Bunce and Johnson, 2006), the data collection process was brought to an end.

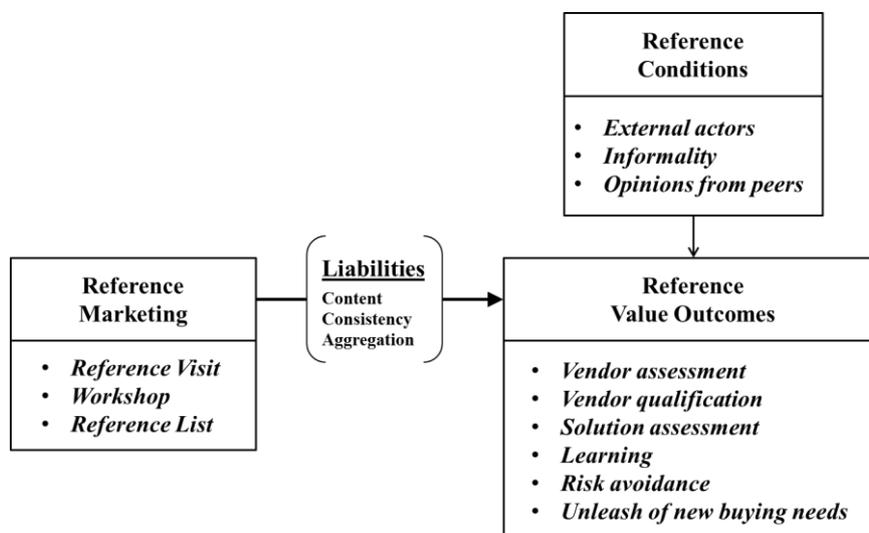
The study's findings are the outcome of rigorous data analysis and not the simple acceptance of what respondents said during interviews. Qualitative data were not available or immediately accessible for analysis and instead required systematic treatment. The data retrieved from tape recordings of the interviews were transcribed, edited and converted into text. The data analysis (see Yin, 2011, chap. 8 and 9, "Analyzing Qualitative Data, I" and "Analyzing Qualitative Data, II") proceeded with the help of the software MAXQDA, which allowed for the disassembling and coding of the available data. A conceptual model that explains the phenomena emerged from the analysis of the empirical data.

An external, independent coder who was not familiar with this study assessed the coding scheme. In addition, the external coder went through random samples of interview transcripts to confirm the overall consistency of the adopted methodology.

### The theoretical model

This study's empirical setting allowed for the gathering of useful and interesting data. Critical realism helps to shed light on the referencing phenomenon because of its view on causality and its acceptance of causal mechanisms rather than causal relations; in other words, this ontological approach rejects the idea that causality must involve consistencies among sequences of events, or cause-effect regularities. On this view, the influence of customer referencing on buying behavior may not always be detectable since its manifestation depends in part on external conditions and liabilities, and since the decision model may not be universal.

By adopting a critical realist perspective, this research moves toward understanding the liabilities and conditions that can affect the ability of the referencing mechanism to deliver the desired effect. Diverse referencing practices become objects that belong to the same structure: reference marketing. This structure may contain causal powers and liabilities. To the extent that this is so, it produces effects that will only emerge under specific conditions. This study uncovers the liabilities, conditions and additional effects in terms of which reference objects operate. The present research uncovers these elements in order to introduce a new conceptual framework (see Figure 1) that further explains the referencing phenomenon.



The model involves three objects: (i) reference visits, (ii) reference lists and (iii) workshops. These three objects are included under the same structure: (supplier) reference marketing. A reference visit is a visit that a potential customer makes to the site of a supplier's satisfied customer with the aim of verifying the previously sourced reference description. A reference list is one of the possible formats a company may select to present its customer references. In workshops, vendor companies meet at the potential customer's facilities to introduce new products or services, often by presenting customer references in the form of success stories. Although the literature on referencing describes reference visits as one of many reference practices (Jalkala and Salminen, 2009; Salminen and Möller, 2003, 2004), to our knowledge workshops are not mentioned by any authors. This research thus identifies a new form of reference practice – one not yet described in the literature on referencing.

Workshops are private meetings where suppliers aiming to sell outside the scope of qualification present their products and services by introducing success stories. Occasionally, in this marketing effort vendors are accompanied by real customers, which enhances the credibility of their messages. For example, one respondent referred to the example of a firm that made its first purchase of an innovative technology as a result of having participated in a supplier workshop.

The theoretical model features a mechanism that has causal power. In this model, the relevant causal power is the capacity of reference marketing to influence capital buying decisions by delivering its expected and desired effect – that is to say, the value outcome or benefit of customer referencing. Referencing benefits take place at the supplier level and at the level of the potential customer. Liabilities may inhibit the causal mechanism's ability to deliver its expected effect. In the theoretical model presented above, causal power is affected by three liabilities: content, consistency, and aggregation. If reference marketing is not able to provide the right content in a consistent way and aggregate it to other marketing efforts, it will lose its causal power.

The first liability described in the theoretical framework is content. References and reference marketing materials will not be of any use if they do not provide useful content to purchasing managers. Good reference content allows decision-makers to collect relevant information on the basis of which to act. In addition, content credibility should not be questionable, and purchasers should be able to access reference sources, e.g. the purchasing managers or members of the engineering team, in order to confirm the information made available by reference marketing. Suspicious or conflicting information, no matter how minor, leads to skeptical attitudes on the part of potential buyers. It is also important for the content to highlight the similarities between the present purchase context and the relevant past transactions with regards to company or business unit size, geography and, if possible, business context. This is emphasized by Dean and Biswas (2001), who argue that the reference customer must be in some respect similar to the potential customer in order for reference marketing to be effective, and by Helm and Salminen (2010), who suggest that firms acting as references should have needs that are similar to the potential customer's needs and should be easily accessible to potential customers. In sum, marketing messages should resonate with potential customers' problems and needs; that is to say, good customer reference communication should stress the similarity between the customer awarding the reference and the potential customer, along with the relevant benefits.

The second liability described here is consistency. Consistency in terms of years of supply is a key element of reference lists since inconsistency generates doubt.

Vendors who demonstrate consistency or regularity give confidence to buyers. Running a consistency analysis is the first evaluation performed by buyers working with reference lists. It is sometimes the only analysis performed by purchasing managers. Uncovering this liability was a major achievement to the extent that the literature is silent on this phenomenon.

The third liability is aggregation. The positive effect of reference marketing increases to the degree that it is bundled with other forms of marketing action. If it is complemented by other marketing activities, then account managers will be able to build a comprehensive case for their offer. Customer references on their own are not sufficient to support a winning sales pitch. The acquisition of capital equipment goods often involves a long process in which complex interactions take place. From the vendor's point of view, the sales argument must be built according to the movements of both the customer and other competitors.

The theoretical model presents three conditions: (i) external actors, (ii) informality and (iii) opinions from peers. These external mechanisms affect the causal power of reference marketing. The collected data offers examples of external actors who are members of the buying centers of the studied cases. Shareholders' representatives and external consultants are often cited. Their presence in the buying center may be permanent, from the beginning to the end of the buying decision, or they may attend (or contribute to) a specific moment of the buying process. Their capacity to influence the buying decision may also vary according to several factors, such as their degree of expertise and technical capabilities. The augmentation of the buying center to include external actors (such as consultants) can be a prudent decision, in particular when capital equipment is being acquired and past experience cannot be called upon to help with the process. One context where consultants are more likely to support a buying center is thus a new task situation (cf. Robinson, Faris and Wind, 1967).

Shareholders' representatives provide experience and knowledge to the buying center. This capability stems from past transactions led by shareholders. Yet shareholders' representatives may act within the framework offered by agency theory (Fama and Jensen, 1983; Jensen and Meckling, 1976). In this context, shareholders' representatives may intend to guarantee that the principal's and the agent's goals and attitudes towards risk are aligned – that is to say, that they do not conflict. In addition, the presence of shareholders' representatives in the buying center may be a less expensive way for the principal to verify what the agent is actually doing.

Demanding customer references in the tendering process is a common practice. For instance, many firms demand reference lists for the qualification of potential vendors. Companies might analyze reference information offered by suppliers informally, however. The effect of customer references on buying behavior depends on the degree of informality associated with their assessment. A firm that relies on reference marketing might assess its content in a more formal way. Present findings suggest that when customers assess referencing content in a formal way, references have a more explicit impact on the buying decision. By contrast, if customers assess customer references informally, these references have a less explicit impact on the buying decision.

The external mechanism of opinions from peers is consistent with the theory of perceived risk. Risk reduction is relevant to industrial buying decisions (Choffray and Johnston, 1979; Greatorex, Mitchell and Cunliffe, 1992; Hawes and Barnhouse, 1987; Puto, Patton and King, 1985). According to Hawes and Barnhouse (1987), people

involved in the buying decision may suffer from anxiety and stress. Industrial buyers attempt to reduce uncertainty by gathering additional information (Puto et al., 1985; Webster and Wind, 1972). The greatest impact on risk reduction comes from positive opinions from informal influencers located outside the buyer's firm (Henthorne, LaTour and Williams, 1993). Questioning actual clients about the supplier's performance is an important proactive purchasing strategy (Greatorex et al., 1992; Mitchell, 1990). The usefulness of colleagues' opinions increases as the buying process progresses (Mitchell, 1998).

The theoretical model highlights six value outcomes: (i) customer learning, (ii) risk avoidance, (iii) solution assessment, (iv) the unleashing of new buying needs, (v) vendor assessment and (vi) vendor qualification. These effects operate at the level of the potential customer. From this list, the theoretical framework introduces one new effect of referencing practices which have not yet been described by the literature: the unleashing of new buying needs. By observing other companies' buying decisions and by analyzing the impact of buying decisions on their businesses and activities, a firm may project itself onto that decision and consider the benefits it would gain if it were to acquire a similar product or solution. Reference stories serve as prompts for firms when it comes to initiating formal processes of needs assessment. This is especially valid where the solution being offered addresses so-called hidden pains. Hidden pains are buying needs that have yet to be made explicit by engineering departments or other functional areas of the company. By exhibiting a real case, vendors' sales teams are able to unleash or make explicit new buying needs, which will often evolve into a future call for tender.

### **Suggestions for superior reference marketing practice**

Sales managers wishing to undertake more compelling customer engagement approaches need to implement enhanced processes for marketing resource usage. This research offers a contribution to the improvement of management practice to the extent that it delivers five fruitful insights on reference marketing for capital equipment vendors. Based on the findings provided by this study, we can now look at reference management from a wider perspective. By integrating this broader view into their marketing strategies, managers can pursue marketing strategies based on more effective customer referencing practices.

#### *Consistency is key*

The principal recommendation prompted by this study is the need to manage the liabilities and conditions involved in customer referencing activity. This recommendation is made in the interest of helping firms to profit from the expenditures they make in the context of reference marketing programs. Purchasers base their evaluations in part on the consistency of reference lists. A good reference list will, therefore, be consistent. It should exhibit references for a certain project without regional or temporal gaps. Such gaps are viewed negatively by purchasing teams, who become suspicious about the reasons for what they judge to be order interruptions. The geographic areas across which references span are also assessed by customers. Customers often feel more comfortable with references from their own geographic areas. When a certain region dominates others in a reference list, this may raise doubts in the purchaser's mind regarding the vendor's ability to serve other markets. This is

even more relevant if the markets in which the vendor is present are less sophisticated than the target market.

#### *Relevance reigns*

A good reference presents content that is relevant to the customer. Potential customers need customer references that feature challenges similar to their own. Both reference visits and success stories should, therefore, be presented as opportunities for customers to learn from others' experiences with a key issue. Putting in place reference visits and presenting success stories that do not address real customer needs is a waste of marketing expenditure and, most importantly, of the customer's time. This point should be kept in mind at workshops, and vendors should envisage this concern by selecting the right content and the most adequate success stories to present to customers. Often, meetings with customers only serve the purpose of technology evangelization and include the presentation of irrelevant references by pilot customers. The usefulness of these meetings can be questioned, and their return is often non-existent. However, if the account management team works in advance to identify customer challenges, they will be able to organize useful workshops from which customers gain relevant insights. Partnering with customers to share information and knowledge is a challenging process with which vendors must become comfortable. With this said, it is not often the selected path.

#### *Integrate references within the overall marketing strategy*

The buying decision is the outcome of complex interactions between buyers and sellers. References should be considered marketing pieces within a broader persuasion strategy. Although they provide strong evidence for several lines of sales arguments, they can be combined with other marketing and sales tools. These different marketing tools can be used at the same time, enhancing the strength of the argument, or they can be used as pieces of a complex sales strategy, where any action is contingent on the competitive context shaped by customers and competitors. Suppliers should, therefore, incorporate references with other marketing tools since the positive effect of reference marketing increases to the degree that it is complemented by other marketing and sales efforts.

#### *Influence the broader community*

Suppliers should not forget to influence and/or manage the external mechanisms that affect customer references. In particular, the presence of external actors, informality and the opinions of peers should appear on the radar of sales teams. Every so often, an external actor (e.g. a shareholder representative or an external consultant) infiltrates the buying center in charge of purchasing capital equipment. This presence becomes more relevant in situations where the procurement organization is not skilled enough to perform a specific buying task or does not have the purchasing capabilities to handle a specific project or technology. In these cases, the sales team should also be available and proactive in involving these external actors by making them targets of their referencing activity. If a reference visit is planned, for instance, sales teams should not forget to invite external consultants and shareholder representatives.

#### *Avoid informality*

Informality and opinions from industry peers go hand in hand to the extent that both can jeopardize vendors' selling efforts. The existence of opinion leaders is a phenomenon

that is well understood by firms operating in the context of B2C. An analogy might be established between opinion leaders and opinions from peers, the first of which is associated with the B2C context, the second with a B2B setting. Suppliers wishing to boost their reputations and credibility in a specific domain or technology should, therefore, direct their marketing efforts towards these industry experts and communicate their references as part of their strategy. Firms should be able to anticipate customer movement in the direction of their industry peers. Firms should also be able to ask for information on a vendor or on the viability of adopting a specific technology. Industry summits and exhibitions work as catalysts for this sort of activity as they facilitate the collection of opinions from various peers with low effort. Informality with regards to the handling of customer references increases the competitive advantage of less prepared and capable competitors. Therefore, firms that invest in reference marketing should make an effort and insist with purchasing departments to include a referencing evidence request in their formal procurement processes.

### Conclusion

The present research is an original contribution to the theory. It presents a new theoretical model that aims to explain the referencing phenomenon. The model portrays the causal mechanism at work between reference marketing and its outcomes at the purchasing manager level. This work extends the empirical fields of research on the referencing phenomenon by focusing on a new industry (the electrical power sector). Further, it identifies a reference practice (workshops) that has yet to be given attention in the literature on referencing theory. Workshops are meetings where vendors make pitches to their customers by introducing success stories. This occurs outside the scope of tender qualification, and vendors are sometimes accompanied by other customers. Finally, this research makes a novel contribution by applying a critical realist approach to the study of customer referencing.

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