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Chapter 1: Business-to-Business markets and marketing

Introduction

Lying behind every consumer purchase in a modern economy there is a network of business-to business transactions. Even an apparently simple transaction at the supermarket is only made possible by a web of supporting b2b transactions. In this chapter our aims are to clarify just what is meant by business markets, to explain why it is considered necessary to distinguish them from consumer markets, and to show how business products and markets can be classified. In order to emphasize that business markets involve both goods and services, we start off by looking at the industrial structure of modern economies, to see how influential the service sector has become. The subsequent section deals with the core idea of this chapter. Namely that business markets can be differentiated from consumer markets along a number of dimensions: market structure differences, buying behavior differences, and marketing in practice differences.

The nature of Business Markets

The key distinguishing feature of a b2b market is that the customer is an organization rather than an individual consumer. Both tend to buy similar products and therefore one cannot distinguish unambiguously between a business market and a consumer market on the basis of the nature of the product.

A brief observation on terminology is necessary at this point. The generally accepted term for the marketing of goods and services to organizations is b2b marketing. This gradually superseded the older term 'industrial marketing' in the 80s and 90s. The expression b2b marketing is synonymous with business marketing; these will be the two terms that we use throughout this book.

It is important not to suppose that b2b marketing is synonymous with the marketing of goods and services to the manufacturing industries. There has been a prominent trend in recent years away from manufacturing employment towards service sector employment. From the perspective of marketing professionals, the trend should be seen as an important element of the marketing environment, which suggests that the opportunities to market goods and services to the manufacturing sector may decline, and will certainly grow more slowly than opportunities in the service sector of the economy.

This observation, however, suffers from at least two important deficiencies: first, it is based on the idea that the distinction between manufacturing and service activities is meaningful and, second, we have ignored the emerging BRIC economies – Brazil, Russia, India and China. In a moment we will turn to the importance of the BRIC economies, but first let's question the validity of the manufacturing/services dichotomy in marketing. Recent years have seen growing prominence for 'service-dominant logic' in marketing. The underlying idea behind service-dominant logic is that whatever it may be that the customer buys, in all cases it is service that generate value that customers desire. For example; businesses don't want cranes, they want the ability to move around heavy objects, which is a service delivered by cranes. Hence, according to the service-dominant logic, there is no difference between the marketing of goods or services.

Before moving on to the differentiating characteristics of business markets, it is important to emphasize the importance of the BRIC and other emerging economies to the global economic system. Much marketing attention has focused on the huge consumer market potential in these economies, as incomes grow and consumers demand many of the products that are common in rich countries. For our purposes, however, it is important to appreciate that these economies are fast-growing industrial powerhouses where much of the world's manufactured output is produced, so that their potential as b2b markets is virtually limitless.

Business markets: defining characteristics

Chapter 2: Buyer Behavior

Organizational factors affecting purchasing decisions
The organizational factors discussed here inform the purchasing behavior of managers in customer companies.

The nature of company business
The way that a customer organizes their own activities in order to perform transformation processes that represents the essential components of their value-adding activities. A company can be categorized according to whether its activities are essentially based on unit, mass or process production technology.
-Unit production; involves the design and supply of products that are tailored to specific customer requirements. The unit production company typically requires the involvement of suppliers in its design and production/assembly phases and requires coordination amongst its various key suppliers to ensure the completion and financing of these major projects.
-Mass production; involves the design and supply of high volume, standard products. To maximize the efficient use of its resources, a company's production activities will e characterized by a high degree of inflexibility, requiring that the supply of materials and components used in primary operational activities be precise, regular and consistent. The company would expect key suppliers to adjust logistical and administrative procedures to suit its requirements. In addition, a mass production company's ability to compete is determined not only by its low cost base but also by the regular introduction of new products. Suppliers would be expected to contribute to new product development activities.
-Production process company; involved in the manufacture of high-volume products, with low costs, operational efficiency and therefore supply continuity being central to the organization's performance. A key distinction is that the process producing firm does not assemble finished products. It processes raw materials for use in other supply chains. Much of the sourcing will be done via commodity markets, with the occasional purchase of capital intensive equipment. Corporate management will be much involved with the buying company's purchasing. Also, suppliers will be involved from the early stages of equipment purchases.

Business strategy
In addition to thinking about a customer's operational 'technology', vendors could also consider the customer's business strategy as this can give some indication of the way in which the customer will deal with supply markets. Take for example a company that adopts a product leadership strategy. Product leadership requires that a company has excellent technical and creative abilities. As well as managing its own internal product development process, the involvement of suppliers in those processes is also key to the firm's ability to pursue a product leadership strategy. Business marketers striving to supply such companies will need an intimate knowledge of the customer's business, the ability to offer design and product expertise and sufficient responsiveness to support the customer's pursuit of innovation.

Purchasing orientation
We will discuss three classifications of the purchasing function; buying, procurement and supply management.

In recent years we have witnessed the growth of electronic markets. These are essentially online markets where companies are able to exchange information, do business and collaborate with each other. Many are run by independent third parties and can be accessed by buyers and sellers in a particular industry or region. Others operate as industry consortiums, in which a limited number of companies either combine their supply capabilities in order to deal with a large customer base, or combine their product requirements in order to deal with known suppliers and so improve the efficiency of the purchasing process. There are horizontal marketplaces, which are used by buyers for items that do not contribute directly to the company's own product; and there are vertical marketplaces in order to buy and sell items that contribute directly to a product chain.

Auctions

There are two main types of auctions; English and Dutch. English auctions are used to auction off an unwanted item. The highest bidder wins and receives the item in return for the price he bid for it. Dutch auctions are the reverse. The buyer offers the opportunity to satisfy a product requirement to a range of interested suppliers, with the order going to the company that makes the lowest bid. Auctions conducted via electronic marketplaces operate under the same principles and have led to a large growth and broadening in the use of this market mechanism.

Dutch auctions have become a key point of interest and a trading mechanism for business buyers. In reverse auctions a buying organization hosts the online auction and invites suppliers to bid on announced request for quotation (RFQ). Before the bidding can start:

-the buyer must clearly articulate the specifications, quality requirements, delivery lead time, location and transportation needs, order quantity and service issues;

-some communication may take place between the buyer and interested suppliers in order to further clarify details of the RFQ;

-potential suppliers have to go through a qualification process to ensure that they have the capability to meet the tender conditions should they be awarded the contract.

For these auctions to be worthwhile, they usually concern high-value orders. The high value of transactions typically conducted via reverse auctions means that they frequently form part of a company's strategic procurement activity.

Reverse auctions offer opportunities and risks to both buyers and sellers. These are summarized in table 2.3.

Catalogue purchasing

Catalogue purchasing involves an intermediary collating a wide range of items within a particular product category from a range of suppliers. The catalogue lists the items and provides detailed product specifications as well as current market prices. Buying organizations will normally use catalogue purchasing to handle a wide range of casual and routine re-buys.

Internal coordination of buying activities

The range of products bought, the different departments that have some purchasing authority and the geographical dispersion of many decision-makers present many large organizations with a major challenge in trying to operate a more efficient purchasing process. However, IT implementation has so far been very helpful in coordinating a more centralized and structured approached to procurement.

Inter- and intra-firm coordination

For companies whose purchasing orientation centers around supply management, the ability to minimize waste and costs along its supply chain is critical. To do this, companies will align their administrative and operational activities and the flow of materials between the various parties in the supply chain. IT is essential to the firm's capacity to do this.

explicit attention to the value created through exchange processes is often a matter of particular concern to business marketers.

Customer value: give-get definitions.
Zeithaml (1998) proposed this definition of customer perceived value: 'Perceived value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given … value represents a tradeoff of the salient give and get components'. Both the give and get components included a range of attributes, in particular, the give components include monetary and non-monetary elements.
She found that customers thought of value in four ways:

1. Value is low price.
2. Value is whatever I want in a product.
3. Value is the quality I get for the price I pay.
4. Value I what I get for what I give.

Customer value: means-end chain definition.
Woodruff (1997) identified a number of common aspects in the definition of customer value:

- It is linked to product use.
- It is a customer perception rather than an objective phenomenon.
- It involve a tradeoff between what the customer receives and what the customer gives up.

However, he argued that customer value should be conceptualized as a means-end chain, with desired product attributes leading to the achievement of desired consequences in use situations and then to the fulfillment of customer goals and purposes. His approach suggest a longer-term perspective, in which the customer has the opportunity to evaluate the performance of the product and its impact of lifestyle. → The distinction between the mean-end chain (Woodruff) and the give-get (Zeithalm) approach is perhaps one of timescale!

Conclusion of Give-Get Vs. Means-end Chain.

- Means-end chain definition of value seems more suited to high-involvement purchases.
- Give-get definition of value seems more suited to low-involvement purchases.

Perceived customer value for an Organization.
An unresolved issue in the conceptualization of value is the nature of value for an organization. When an exchange decision affect more than one person, how can we define perceived or subjective value for the organization? Some solutions:

1. One solution is to assert that a superordinate organizational goal is the only relevant decision criterion, for example shareholder value.
2. Walter et al. (2001) proposed that value rests in the perceptions of key decision-makers in the organization, which is clearly NOT a solution.
3. Blois (2003) focused on customer and supplier value in b2b markets but did NOT explain how the aggregate benefits and sacrifices to the organizations involved in the exchange are calculated from the benefits and sacrifices incurred by different stakeholders.
4. Woodruff and Gardial (1996-70) discussed the issue in the following terms: The desired end states of buying organizations might include longevity, a sense of unity or community, customer responsiveness, quality, or shareholder wealth. However:
   - Organizations are abstractions and do not have desired end states.
   - Customer responsiveness and quality are not desired end states at all.

physical ease of getting offerings to the customers.
- *Substantial / Profitable;* the segment needs to be big enough to justify the costs of serving a small segment.
- *Actionable;* a company should be able to actually bring offerings that will meet the needs of the segment.

Another factor, thought of by Gross et al, is *compatibility* between buyer and seller. However, this is not a measure of quality, it is a characteristic of the purchasing approach of customers.

Targeting.

Targeting involves making choices about those segments that should be pursued, and devising the most appropriate strategies for pursuing them. A company will need to consider its possible competitive position in relation to each segment in order to determine whether it merits the company's attention. A step-wise segment selection process as shown in figure 6.2 on page 161 gives a good example of the process in choosing segments.

In observing how companies target market segments, it is often argued that there are three strategic approaches:
- *Undifferentiated;* companies that engage in this form make essentially the same offer to all segments. It has advantages in terms of operating efficiency and economies of scale. However, companies risk over-generalization.
- *Differentiated;* this involves choosing a variety of different segments and providing offerings that are focused on meeting the needs of those targets more specifically.
- *Niche targeting;* this concentrates the customer focus to one or a small number of segments. A more concentrated approach is more likely to be necessary for smaller companies that lack the resources to meet the needs of a larger number of segments.

Business-to-Business Positioning.

When it comes to each individual segment there is a need to consider the position that the marketer occupies in the mind of the buying company. The reasons for this are two-fold: (1) the offering from a marketer occupies a space in the mind of the buyer, and (2) the relative position becomes the basis by which the supplier is compared to others as well as the ideal.

Chapter 9: Relationship Portfolios and Key Account Management

Introduction:

B2B Marketing asks for a focus on the level of a company´s relationships instead of only their products. Business marketers recognize difference between customers and manage the relationship portfolio in order to add value (portfolio management to identify key account relationships). Portfolio analysis will enable day2day marketing decisions and is divided into different criteria and variables to enhance a balanced relationship portfolio.

Principles of Portfolio Management:

This section is based on the view that relationships are the basis for creating (future) value (monetary or else) for your firm with your customers as foundation of your business. A well balanced portfolio ensures earning a steady stream of value over the long term. The strategic options for relationships are "build", "maintain", "harvest" & "reduce" (see p.237 for further information). It is essential to divide relationships into customer categories because it is not sensible to treat every customer uniquely but to divide them into clusters of customer relationships (8-14 clusters), this should lead to different customers having a degree of commonality within their group.

The Relationship Classification Process:

Jackson (1985b) talks of a dichotomy of the customer base into customers where a supplier can always get a share of in business and those that want stability in supply dealings (meaning closer relationships). "Always-a-share" customers are price-driven and highly opportunistic, which means that it is always possible to win them as customers back once lost. Customers that ask for greater stability may often subordinate price-based issues, but will end a relationship once a supplier has let them down; meaning they are "lost-for-good". Sako (1992) detected after a research in the automobile industry that many used formal and controlling mechanisms for their relationships which lead to being characterized by basic mistrust and tendency to conflict; she called this "arm´s length contracting approach". A comparison with Japanese assemblers showed greater amounts of trust and mutual respect with partners and their work with some particular obligations and guidelines in the way they work, called "obligational contracting". The relationship continuum, described by both Jackson and Sako, include a whole bunch of indicators to distinguish both ends of the spectrum. Splitting up the customer base is useful to reduce the size of analysis space to focus on customers that are interested in closer relationships. Though other customers should definitely not be ignored but the basis for trading with them should be negotiating and not collaborating. Important to note is that there are several classificatory variables to distinguish customers into clusters; variables and criteria that are sometimes easily available or very subjective. Still identifying and knowing these variables is important in order to establish a financially stable and balanced portfolio of relationships.

Classification Criteria: More Easily Observed:

More easily observed criteria for classifying customers are a good starting point as they can be taken from sources like e.g. the accounting system (sales volume, etc.) and already differentiate between customers before further analyzing the relationship on softer and more subjective issues .
Sales: Amount of sales is a means of ranking customers (units sold, etc.) in comparison to proportion of total sales. Keep in mind that sales alone do not tell anything about profitability of the customer/account.

Profits: The point above is enriched by notions of profitability (break even point); Shapiro 1987 states both "net price achieved" and "cost-to-serve", which need to be calculated over a fixed time span to be a reliable depiction. With the two principles above Shapiro established four different customer types: "Bargain basement customers" (low net price & low cost-to-serve); "Carriage trade customers" (high net price & high cost-to-serve); "Passive customers " (pay high prices despite no big