Business Marketing Face to Face

1

The Theory and Practice of B2B Marketing

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Design and setting by P.K. McBride

1 An Introduction to Business Marketing

Overview

This chapter explores some of the principal characteristics used to define business markets and marketing. It establishes the key elements of business-to-business (B2B) marketing and makes comparisons with the better-known business-to-consumer (B2C) sector. This leads to a consideration of appropriate definitions, parameters and direction for the book.

After setting out the main types of organisations that operate in the B2B sector and categorising the goods and services that they buy or sell, the chapter introduces ideas about the business marketing mix, perceived value, supply chains, interorganisational relationships and relationship marketing.

This opening chapter lays down the vital foundations and key principles which are subsequently developed in the book.

Aims and objectives

The aim of this chapter is to introduce and explore the characteristics and dimensions of business-to-business marketing.

The objectives of this chapter are to enable readers to:

1. Consider the nature, scope and characteristics of business markets.
2. Identify the different types of organisational customers
3. Categorise the goods and services that are sold and bought in the sector.
4. Explore the characteristics of B2B marketing.
5. Describe the perceived value and supply chain concepts.
6. Explain the importance of relationships in B2B marketing.

A Slice of Life – Bare Essentials

Finance companies lend money to businesses. This particular company lent money to small businesses and large corporates and every business in-between. Sometimes the money was lent directly to the business, but the primary lending channel was via an intermediary – a broker or financial advisor. So the market was broad and the channels were multiple. In every single case, the company was competing with larger, more visible high street banks. If your business needed to borrow money, you would likely make the initial decision of which lender to use based on the answer to the question: 'what's the interest rate?' Why would you pay more than you had to for your borrowing? But my client couldn't compete against the banks based on price alone – it would lose – so when the company approached me to assist with their channel marketing programme, I advised them that they had no choice but to compete on personality, in other words, using the company brand.

Unfortunately, there was no compelling reason to select this particular company and no indication that the customer experience would be anything other than… ordinary.

So the objective was to get noticed. To make the brand stand out from the crowd, to develop awareness and differentiation thereby creating the alternative to high street lenders for internal and external channels. The brand existed, but it was time to reposition it and reintroduce it to three very distinct audience types:

- Introducers – professional finance advisors (predominantly accountants and brokers) providing independent business advice and solutions to support the cashflow and financial stability of clients.
- Clients and prospects – Over 600 clients predominantly within the SME category. Growth companies were the preferred targets and managing directors/financial directors and owners/managers were the targeted audiences.
- Internal staff – C level, managers, and staff – the people who lived, breathed and needed to feel proud and engaged with the brand every day.

Through a combination of discussion, research and workshops, we refined the proposition. Those seeking finance would always have the option of the high street lenders, but, there were many prospective clients who would not readily embrace the one size fits all generic approach of the banks. Those potential clients had to be told that there was an alternative. They had the choice of the banks, or something different.

To achieve the agreed objective of 'get noticed', communications featuring images of corporate handshakes and pinstriped suits were clearly not going

to cut much ice. It was therefore agreed that creative development would be built around the message that 'Not all finance companies are the same'. For the communications to be effective however, it was the channel – the financial advisors and brokers who would recommend the company's services – that the brand really had to reach.

It turned out that the accountants who everyone assumed were dull and grey and boring maintained a much higher opinion of themselves. A little research revealed tales of wild celebrations, late night parties and general breaking-free of the 'corporate suit' label. They actively objected to the stereotype their industry had been given and confirmed that they would respond more favourably to communications that better reflected their 'true' personalities. To date, this had meant communications from banks featuring suited professional advisors shaking hands with business customers. Well, that was about to change…

The creative work I presented to the board featured a night-time image of a man at a party, looking slightly the worse for wear and stark bollock naked – apart from a tie covering his core assets. Next to the image was the word 'Exposed?' The supporting message explained that, 'Not all finance companies are the same'.



'That, gentlemen, is how you engage the channel,' I said. As you might imagine, it was very quiet in the boardroom that day. I was about to pack my bags and leave when the managing director started laughing. Then they were all laughing.

In the following year, that single campaign doubled the number of referrals made to the company by its channel. It reactivated more than half of the inactive brokers within the channel network. It attracted more new channel partners than had ever been achieved in a single year. And it generated a few million pounds of revenue.

Having established the communication strategy for the brand and assisted in delivering almost every conceivable tactical campaign material online and offline, I encouraged the company not to overlook one of its most important channels of business – its own staff. Internal communications are often overlooked by marketing departments under pressure to deliver external ROI. The reality however, is that without the understanding and support from internal staff, external communications can never achieve their full potential. This was particularly true because the company was perfectly positioned to secure business from staff referrals. Almost every member of staff would meet prospective clients in and out of working hours who they could influence – if

only they knew what to say (and were incentivised to do so…). The launch of the internal marketing scheme placed a formal structure around an existing policy of encouraging and rewarding prospect referrals from staff. Style and tone of communications to the internal audience were similar to the external communications in order to both keep the process of referral uppermost in staff minds and to strengthen the links between the internal team and the external advisor channel. The initial success led to the extension of the scheme to include combined sources of referral – an extended introducer channel, brokers and other partners now successfully participate in the referral process secure in the knowledge that their efforts will not go unrewarded.

I have been working with the brand for over 10 years now. Our work together has spanned all online and offline communication channels to deliver award-winning, market beating performance. The Creative Platform® on which the brand message has been built has evolved almost annually from initial awareness generation to consistent, reliable communications as the alternative provider of business finance – still under the single focused concept of 'Not all finance companies are the same'. My relationship with the company has transcended three changes of marketing director, three changes of marketing manager and two corporate acquisitions. The one constant throughout has been the growing ability of the brand to drive revenue for the business.

Scot McKee

Introduction

The market for goods and services bought and sold between businesses is huge. Far larger than the consumer market, the business market comprises many types and sizes of organisations that interact selectively and form relationships of varying significance and duration with one another. Although these organisations are often structurally and legally independent entities, a key characteristic is that they are also interdependent. That is, they have to work with other organisations to varying degrees in order to achieve their goals.

Imagine the complicated, multi-player chain of buying and selling for all the component parts that Airbus Industries needs in order to build an aeroplane. The operational complexity is enormous and the value of the total materials, components, labour and energy involved far exceeds consumer spending in either the confectionery or clothing markets. Regardless of whether they sell their products and services to consumers or to other organisations, all businesses buy and sell items in order to create their own offerings. In recognition of their added value, other businesses may then buy these products to use, to create other products or to sell as finished items to consumers.

ViewPoint 1.1: Enormity, complexity and the Olympics

When it was announced that London had won the bid to host the summer Olympic Games in 2012, a huge wave of excitement was released. For individuals in London, the UK and internationally this represented a significant spectator event. For many businesses there were many opportunities resulting from the many infrastructure and other business projects. Not least of these was the building of stadia where the various activities would take place.

The Olympic Delivery Authority was the body set up to manage such projects including the construction of the focal point athletics stadium. Work commenced on the site in the east end of London in May 2008, some four years in advance of the start of the Games.

Initial clearing of the site involved the removal of 800,000 tonnes of soil to be used elsewhere in the Olympic site area. 6,500 cubic metres were recycled from other site areas to create a platform to support construction works. At the height of construction works around 1000 staff were based on-site including engineers, architects and general construction workers.

A consortium of businesses was responsible for the main elements of the overall project.

- Sir Robert McApline Ltd were the main Construction Contractor
- HOK Sport Ltd were the Architect and Sports Venue Designer
- Buro Happold Ltd were the Structural and Building Services Engineers
- HED were the Landscape Architects and
- Savills Hepher Dixon the Planning Consultants.

The overall cost of the stadium construction was a little under £500 million. It was completed ahead of target date, and on budget.

Source: www. London2012.com; www.e-architect.com (accessed 23/02/2011)

Question: What might be the marketing implications for the businesses involved in such complex projects?

B2B marketing is fundamentally different from consumer goods or services marketing because buyers do not consume the products or services themselves. Unlike consumer markets, where goods and services are consumed personally by the people who buy them, the essence of business markets is that individual organisations undertake the act of consumption. This text is developed around this important principle which has critical implications for the marketing strategies and associated programmes that are used to satisfy organisational buyers.

Before looking at the characteristics of business markets and B2B marketing, it is important to note that, although there are several vital differences to consumer marketing, organisations which have a market orientation, regardless of the sector in which they operate, share at least two key similarities:

1. Both have a customer orientation and work backwards from an understanding of customer needs.
2. Both need the ability to gather, process, and use information about customers and competitors in order to achieve their objectives.

This market orientation is an essential foundation upon which to begin exploring the exciting and dynamic world of business markets and the contribution of B2B marketing.

This chapter introduces various fundamental aspects of B2B marketing. It is designed to provide an overview and to set out the parameters for exploring the subject. It is not intended to provide an in-depth analysis or understanding, but to outline issues and concepts that are covered in detail in later chapters.

The Characteristics of Business Markets

Business markets are characterised by a number of factors, the main ones being the nature of demand, the buying processes, international dimensions and, perhaps most importantly, the relationships that develop between organisations in the process of buying and selling. These are now considered from an introductory point of view.

The nature of demand

One of the key factors is the nature of demand in business markets. Three aspects of demand are considered: derivation, variance and elasticity.

- **Demand is derived** in business markets. It is derived from consumers (Gummesson and Polese, 2009). With respect to the Airbus example, consumers (and business travellers) determine, through the number of flights they make and what they are prepared to pay, the number of aircraft that airlines make available. However, each aircraft is the product of hundreds of organisations interacting with one another. Air passengers stimulate demand.
- **Demand is variable** in business markets. Simply because it is derived, fluctuations develop according to changes in consumer preferences and behaviour. This means that organisations should monitor and anticipate demand as cycles emerge. Note the decline in the demand for air travel following the events of 9/11 and the subsequent impact on airlines, support services, aircraft manufacturers and the whole array of suppliers and subcontractors in the commercial aviation market.

- **Demand has limited elasticity** in business markets. Once a manufacturer has incorporated a differentiated product into its processes, unforeseen and uncontrollable supplier price increases have to be absorbed until a revised or redesigned product can be developed, eliminating the original materials or part. On the basis that manufacturers are generally reluctant to let their customers down by a delayed or failed delivery while searching for new suppliers, these price increases have to be incorporated, at least over the short to medium term, hence the inelasticity or low price sensitivity.

It should not be a surprise therefore to understand that demand generation is a key activity within business marketing. This topic is explored further in Chapter 10.

Buying processes

Another major aspect of B2B marketing concerns the buying processes used to purchase goods and services. In consumer markets, decisions are made relatively quickly, the level of risk is low, at least for everyday items, and the focus is primarily on the emotional aspects attaching to a purchase.

In B2B markets the potential risk is often quite large so decisions take much longer and involve considerably more people. Consequently, the nature and form of interaction between organisations is based on an understanding of individual business customers' needs and a willingness to provide and share information.

In consumer markets, purchases are generally made, and often consumed, individually. Purchasing in B2B markets is essentially a group activity, with the composition and size of the group changing according to the significance of the item being purchased. The group is referred to as the decision making unit (DMU) or buying centre. Consumption, or product usage, is an organisational activity. However, the basis on which each member of the unit makes their decision can vary considerably. For example, the decision making unit for an engineering company considering the purchase of solar energy may consist of the following, all of whom will have different criteria when selecting suitable suppliers.

Senior management	Reduce costs, use and be seen using latest technology
Financial director	Achieve best value solution and financial propriety
Purchasing manager	Get value for money, increase own credibility and colleague satisfaction
Plant engineer	Use modern equipment and provide cover for power breakdown
Production manager	Reduce operating costs and improve reliability
Consultants	Improve plant efficiency, improve staff working conditions

International aspects

Increasingly B2B organisations are engaging in international markets. Advances in technology, most notably the Internet, have enabled organisations to do business more or less anywhere. In comparison to consumer markets, international business is easier. In B2C markets there are a wide range of issues concerning the culture and values that consumers hold, and how products and promotional activities need to be adapted to accommodate colour, ingredient, style, buying processes, packaging and language requirements to ensure success. By contrast, B2B organisations benefit from a lower diversity in product functionality and performance. This is partly because of the inherent nature of the products and materials but also due to various trading associations across the world agreeing standards relating to content and performance. For example, the steel, plastic, chemicals and paper industries all have common agreed standards which facilitate the interorganisational exchange process. Thus, B2B organisations are able to work together to help shape their trading environment.

Relationships

A fundamentally key characteristic of business marketing concerns the significance of relationships. In B2C markets, relationships between manufacturer and consumer, or reseller and consumer have been regarded, at least in the past, as relatively weak and unimportant. Although many organisations have now recognised the importance of developing these relationships, the nature of the products, their perceived value to consumers, and competitive factors, particularly in the fast-moving consumer goods (FMCG) markets, suggests that such relationships will remain difficult and costly to establish and maintain.

In B2B markets, by contrast, the development and maintenance of positive relationships between buying and selling organisations is pivotal to success. Collaboration and partnership over the development, supply and support of products and services is considered a core element of B2B marketing. Indeed, Morgan and Hunt (1994) recognise this when they refer to relationship marketing and the importance of marketing activities that seek to establish, develop and maintain successful exchanges with customers. Unlike consumer markets, where relationships are often considered to revolve around an active seller and a passive buyer, understanding of relationships in B2B markets now encompasses networks of relationships in which participants are regarded as interactive. This means that both buyers and sellers are actively involved in initiating and maintaining relationships. All parties to a network have the capability to influence a wide range of relationships, either directly or indirectly.

The importance of this aspect of B2B marketing cannot be underestimated nor should it be understated. This book adopts a relationship-based marketing perspective.

Types of Organisational Customers

Business-to-business marketing was previously referred to as industrial marketing, but this phrase failed to recognise the involvement of a range of other, non-industrial enterprises. For example, governments and the not-for-profit sector also contribute a significant amount of commercial activity. Think about the economic transactions necessary to support the prison and military services. The sheer volume and value of pharmaceutical and medical supplies necessary to provide adequate health services, alone represent a major slice of the B2B sector. In addition, charities and institutions generate a substantial level of economic transactions. Therefore, the term organisational marketing has been adopted for this book and encompasses all these activities and types of organisation.

One way of characterising organisations is by size, to differentiate between the very large and the very small. For example, there are a number of differences between global and national organisations, the public sector, small and medium-sized enterprises (SMEs) and small office/home office (SOHOs) not least in the ways they specify products and services (Macfarlane, 2002). Although this approach based on size and structure may be suitable for market research purposes, it is not entirely appropriate for understanding different purchasing procedures and buyer needs.

The approach presented here considers three broad types of organisation yet encompasses a number of sub-sections all based on their roles within marketing channels. These are commercial, government and institutional organisations (see Figure 1.1).



Figure 1.1: Types of B2B organisations

Commercial organisations

There are four main sectors in commercial B2B, all characterised by the different ways in which they use products and services. They share common buyer behaviour characteristics and associated communication needs. These four commercial organisational types are:

- distributors
- original equipment manufacturers
- users
- retailers.

Distributors

These organisations are sometimes referred to as intermediaries. The most common types are wholesalers, distributors/dealers and value added resellers. Their role is to facilitate the transfer of products through the marketing channel and to add value-creation opportunities, perhaps by providing credit facilities, storage or service support.

Ownership and physical possession of the goods often pass from one distributor to another, but there are occasions when this might not always be true. For example, the involvement of an agent in negotiations may mean that ownership passes over, rather than through, it to the next intermediary or customer.

Distributors fulfil a vital service. As middlemen they enable manufacturers to reach customers who do not require sufficient quantities to buy directly from them. Breaking bulk is an important concept and is examined further in Chapter 6. It allows manufacturers to concentrate on their core activities and leave the skills associated with distribution to others, namely the dealers and distributors.

- *Distributors/Dealers* supply both end-user business customers and original equipment manufacturers. They take full title to the industrial goods they purchase for resale and fulfil the important role of providing a wide range of products from a number of different manufacturers, offering easy access to them for their customers. In addition dealers and distributors provide advice, repair and credit facilities where necessary.
- *Value added resellers* are a relatively recent type of intermediary. Their role is to bring together a variety of software and hardware products to design customised systems solutions for their business customers. They provide integrated systems by drawing on a network of providers and in doing so create a value network, at the business customer level.

Original Equipment Manufacturers

Original equipment manufacturers (OEMs) purchase materials that are subsequently built into the products that they market to their customers. These materials may take many forms, such as parts, finished and partly finished goods, and even sub-assemblies which have been outsourced.

For example, a number of car manufacturers buy in radio components and assemble their own branded car radios. They source light bulbs directly from a range of authorised manufacturers and tyres from a variety of suppliers all of whom meet specific quality and performance standards. A finished Ford car, for example, might have Michelin tyres, a radio branded as Ford, and other equipment such as headlight bulbs where it is not possible to identify the manufacturer(s).

Users

Users are organisations that purchase goods and services to support their production and manufacturing processes. Users consume these materials, they do not appear in the final offering but contribute to its production.

Ford will purchase many support materials; for example, machine tools, electrical manufacturing equipment, vending machines, office furniture and stationery. None of these can be identified within the cars they manufacture.

Retailers

Technically, retailers are intermediaries, but their role is different. A retailer's customer is an end-user, the consumer. Retailers need to purchase goods in order to offer them to consumers but the buying processes, although similar, are not always as complex or as intricate as those in the DMU.

Recognition of the role and significance of retailers is an important aspect of B2B marketing. Organisations need to sell into retailers and understand the needs of this market and accommodate them accordingly. Retailing is a specialist activity and, although the roles and tasks of retailers are considered in Chapter 6, it does not form a major part of this book.

In all of the situations described above, organisations are involved in the buying of products and only in the last are consumers at all involved. The nature and form of cooperation, and the interorganisational relationships that develop from the various exchange transactions, influence the type of marketing activities used. The degree of cooperation between organisations will vary, and part of the role of marketing is to develop and support the relationships between partner organisations.

■ Government

Governments, and related institutions, are responsible for a huge volume and enormous value of business purchases. Health, environmental protection, education, policing, transport, national defence and security are just some of the areas that attract funding and sellers.

The procedures and guidelines relating to buying behaviour in a government context are in many ways radically different from those encountered in commercial organisations. However, despite many of the differences outlined below, the principle remains that a continual focus on customer needs is paramount. Suppliers that fail on a regular basis to win government business might well be

too product-orientated. Many of the larger projects that concern governments, ministries and regional and local councils are not only massive, but also complex and involve a huge number of stakeholders. It is unsurprising that many encounter problems, delays and run way over their original budgets and planned timescales. For an example of these types of challenges see ViewPoint 1.2.

Of the many differences between government and private commercial purchasing, van Weele (2002) cites the following as the more prominent: political objectives, budget policies, accountability and EC directives.

ViewPoint 1.2: Political turbulence in the Shetlands

The development of a 150-turbine wind farm in the Shetlands caused considerable difficulties for all the key stakeholders. It was estimated that the 540-megawatt wind farm could supply approximately 20% of Scotland's domestic electricity needs. At a local level the scheme would generate a return of about £37 million a year to the local Shetland community. This would include about 230 construction and 50 maintenance jobs, plus rental payments.

For the application process to receive the go-ahead from the Scottish Government, the application must first be approved by the local council. However, each of the 22 councillors is a trustee of a local funding body, the Shetland Charitable Trust. The Trust has a substantial stake in Viking Energy, which is one of the companies behind the wind farm application, and set up by the local community.

Individual trustees have a statutory requirement to act in the charity's best interest. However, there was strong opposition to the proposal and the people fighting the application felt it was difficult for the councillors to hold an objective debate about the application. How could the trustees reconcile their position as trustees? It was even suggested it was a breakdown of local democracy and proper representation in Shetland.

Whilst this problem had been known about for a long time it was the sheer scale of the project that brought the trustee issue to the surface. Apart from the conflict of interest, objections to the scheme were based on fears that the number of tourists visiting the Shetlands would be hit and that there would be a considerable loss of revenue at a local level.

Source*:* Based on Haworth (2009) and Forrest, (2010)

Question: Make a list of the key issues the construction company Viking Energy, might have to deal with once permission had been granted.

Political objectives

The balance between meeting different goals can be difficult in the public sector. The drive to meet efficiency targets might not accord with the need to satisfy political or social goals. For example, in ViewPoint 1.2, Viking Energy, a partnership with the Scottish and Southern Energy, experienced considerable political hurdles trying to get permission to build a large wind farm in the Shetland Islands.

Budget policies

All government spending is bounded and constrained by central government policy and, in that sense priorities are predetermined and generally immovable. For example, budgets associated with projects to build or extend the road network may be modified on a change of government (and road transport policy) or subject to serious downgrading, even withdrawal, should the overall economy move into recession such that spending has to be reduced or switched into other areas.

Government budgeting techniques and policies are very different from those in the private commercial sector. Government budgets are subject to public scrutiny and, as a result, some decisions regarding major projects are deliberated for a considerable time. Procedures are normally detailed and protracted, involving a large number of people. The Department of Health in the United Kingdom publicises its purchasing policy, as required by EC regulations. Interested readers can review it at the website www.doh.gov.uk/purchasing/policy.htm.

If the allocated funding is not spent within the prescribed budget period, any under spend (or saving) may not be retained. Indeed, the budgeting process might have to be started again, causing delay, frustration and possibly a decrease in the amount of money made available.

Accountability

The hierarchical nature of government institutions means that purchasing procedures are invariably slow as each manager is required to give authorisation. The root cause is that these managers are spending public money and they are accountable for the money they authorise. As a result the whole system becomes bureaucratic, with an emphasis placed on procedure rather than the quality of the purchase itself.

Associated with the notion of accountability is the practice of contract management, quite common in many countries. Under this approach, contracts are awarded to contractors when both parties are fully aware that the actual cost will be far in excess of that originally agreed. This process leads to a failure to implement significant and consistent purchasing procedures, resulting in inefficiency and inappropriate spending of public money.

Partly in response to these failings the UK government introduced the Office of Government Commerce (OGC) in order to improve the purchasing procedures. Readers particularly interested in this aspect of business-to-business purchasing should visit the OGC website at www.ogc.gov.uk.

One of the more recent initiatives by the UK government has been the Private Finance Initiative (PFI). This involves partnership between the public and private sectors to access the skills and expertise of the private sector in providing public services and facilities. It is about the financing of capital investments and exploiting the full range of private sector management, commercial and creative skills.

These schemes promote the development of new partnerships and relationships and, of course, new ways of purchasing products and services for the public sector. There is debate about whether these schemes are in the best interests of the public and, in particular, public sector employees. However, this new approach is expected to be the model for government financing of major capital projects.

EC directives

The European Commission has tried to regularise purchasing and contract procedures throughout member countries. The detail concerning procedures is beyond the scope of this book. Interested readers could start by visiting the portal at www.ojec.com. However, the EC directives that have evolved attempt to achieve two main aspects. One is to specify who and what is covered by any directive, and the second is to regularise or standardise the procedures by which public expenditure on contracts worth over €200,000 are communicated, tendered, suppliers selected and contracts, including the technical specifications, are prepared, awarded and managed.

Just as individual countries have purchasing procedures, policies and guidelines, so the European Commission also has a set of purchasing directives and procedures. Table 1.1 sets out the three types of procedure that are available for the award of public supply contracts.

Table 1.1: Three types of procedure for the award of public supply contracts

Procedure	Explanation
The open procedure	This involves the submission of tenders from a huge variety of suppliers, most of who will not be known to the government.
The restricted procedure	This involves only those suppliers previously invited (and vetted) by the contracting organisation to tender for the work.
Negotiated procedure	Subject to special conditions, specified by the EC, the contracting authority may choose five suppliers and enter into negotiations with them, as long as, among other things, all parties are treated fairly.

Source: Based on van Weele (2002).

Institutions

There are a range of other organisations, which are neither entirely governmental nor private and commercial in nature. For example, there are not-for-profit organisations such as churches and charities, there are government-related organisations such as hospitals, schools, museums, libraries and universities and there are community-based organisations such as housing associations. This brief list serves to demonstrate the breadth and variety of institutional markets and the impact that these types of organisations can have on the overall B2B market. All these organisations need to buy a range of goods, materials and services as part of their drive to satisfy their customers' needs.

In many respects, these organisations adopt some of the characteristics associated with both commercial and government markets. Purchasing in some institutional markets can be significantly constrained by political influences (for example, schools under the direct control of local education authorities), while in others the drive for corporate efficiency is an overriding influence.

One of the main characteristics of this market is the willingness of organisations to unite to form large buying groups. The primary advantage of group purchasing is the ability to command increased discounts based upon volume purchases. For example, local health services combine and agree a list of drugs and medicines from which all doctors must prescribe. This enables discounts and hence lower costs and better value for the public they serve. This 'formulary list' both constrains the range of suppliers and items purchased and also provides improved efficiencies. Supplier organisations must adapt their marketing approaches, as the processes and personnel associated with group purchasing can be very different to individual institutional buying procedures. With group purchasing, members of the purchasing team may be motivated by needs that differ from those of personnel responsible for purchasing at individual institutions.

Therefore, relationships will need to be determined and developed, communications adapted, and price will inevitably be paramount while delivery and support is required at individual group member level.

Finally, the impact of multiple buying influences in institutional markets can be strong. In service-based institutions, for example schools, universities and hospitals, the primary provision is delivered by professionals such as teachers, lecturers and doctors. It has been known for their purchasing departments to impose restrictions on certain supplies or materials or to deny access to particular products or suppliers. This can lead to resentment and conflict between those in 'administration' and the professional staff. From a marketing perspective, supplier organisations need to be aware of this potential conflict and communicate with all parties.

Types of Business Goods and Services

Following the above examination of market characteristics and customers in the B2B sector, this section highlights the variety and complexity of the goods and services that are bought and sold.

If the production process is adopted as the template it is possible to discern three main categories of goods. These are input goods, equipment goods and supply goods (see Table 1.2).

Table 1.2: A categorisation of business market goods

Type of goods	Explanation
Input goods	Raw materials and semi-manufactured parts, which become part of the finished item
Equipment goods	Capital items that are not part of the finished item but necessary to enable production process to take place (e.g. land and buildings)
Supply goods	Materials necessary to keep the production process running (e.g. electricity and oil)

Input goods

Input goods become part of the finished item. There are two main types, raw materials and semi-manufactured parts.

- *Raw materials* have been subject to minimal processing and enter the production process in their natural state, e.g. copper, iron ore, coffee and oranges.
- *Semi-manufactured parts* have undergone some processing before entering the main manufacturing process. For example, car manufacturers buy in sheet metal and cloth for the interior, previously prepared by other organisations. Components such as pistons, headlights and radios are bought in and physically unchanged. They are assembled into the finished product.

In addition to this there are finished goods. Retailers and resellers buy finished products and physically add very little, if anything to them. For example, mobile phone manufacturers, such as Nokia and Motorola, may offer carry cases and hands-free attachments as additional items but these are made by specialist suppliers and bought in as required.

Equipment goods

Items that are purchased to enable the production of finished goods, yet are not part of the finished product, are referred to as equipment, capital or investment goods. They are depreciated in value over time because they are not consumed immediately. For example, land and buildings, computer systems and machine tools are all necessary to support the production process, but are not an integral part of the finished product.

Supply goods

Each production process requires consumable materials to keep it running. These are not assets and are not depreciated. They appear as an expense item. Sometimes these are referred to as **maintenance, repair and operating materials** (or MRO items). For example, lubricants, paint, screws and cleaning materials may all be necessary to maintain a firm's operations.

In addition to MROs are **services**. Normally managed on a contract basis with a third-party organisation, services are necessary for the smooth running of the organisation. For example, computer servicing is necessary to maintain operations and to avoid down time, while accounting audits are a legal requirement.

Developments in technology have led to an increase in IT and related services, for example, website design and hosting eCommerce/eBusiness facilities. These services have to be outsourced when organisations do not have sufficient internal skills or expertise. They often do not want to hire and develop these skills internally because they prefer to concentrate on their core business activities.

ViewPoint 1.3: Procurement targets for Unilever

Unilever, the global supplier of home, personal care and food products, has claimed that procurement improvements have saved them £1.2 billion in 2010. This has largely resulted from supply chain savings. Systems and processes have been improved allowing faster and higher quality information to assist in procurement decision making.

The group sources raw materials and packaging from over 10,000 suppliers and non-production goods and services from almost 100,000. In October 2010, Unilever introduced a revised Supplier Code which provides a framework which details the group's approach and responsible sourcing requirements. All suppliers must demonstrate adherence to the Code including the need for management systems to ensure compliance.

In North America the group has two major divisions, Unilever Bestfoods and Unilever Home and Personal Care. These two divisions utilise an extensive enterprise resource planning (ERP) system, supported by a number of vast databases.

Supplying 400 brands in 14 product categories across both divisions, presents a major logistical challenge and a need to ensure the highest level of control of sourcing, manufacturing and distribution.

Source: Based on www.logisticit.com; www.supplymanagement.com /news; www.unilever.com

Question: What do you believe are the three most important indicators that procurement strategies are working?

The Characteristics of B2B Marketing

So far in this chapter, the characteristics of the business market, the different types of products and services, the variety of customers and different approaches to pricing have been considered. What do these factors contribute to an understanding of B2B marketing?

Overall, the marketing of goods and services between organisations is not the same as consumer goods marketing and, because there are a number of fundamentally different characteristics, diverse marketing strategies and operations need to be implemented to meet the needs of business customers.

However, many products and services are targeted at both consumers and organisations. Products such as office furniture, software and cellular phones can be sold into consumer and business markets. Business marketing is distinguished from consumer marketing by two main ideas: first, the intended customer, which is an organisation; second, the intended use of the product to support organisational objectives. As a result, different marketing programmes are required to reach and influence organisational buyers as opposed to consumers.

In the business sector, organisations buy a range of products and services either to make new products or to enable the production or added value process to operate successfully. Defined processes and procedures are used to buy products and services, and the decisions attached to securing the necessary materials very often involve a large number of people. Fuller details about these characteristics can be found in Chapter 3. However, central to an understanding of organisational purchasing is the decision making unit and the complexities associated with a variety of people and processes. There are pivotal implications for suppliers in terms of timescales and the communication mix and messages necessary to reduce the levels of risk inherent in these buying situations. These issues are examined in the next section and throughout the rest of this book.

B2B Marketing Mix

The first main approach to marketing was based on the marketing mix concept, popularly known as the 4Ps. McCarthy (1960) identified the elements of the original mix and Borden (1964) popularised the concept as the 4Ps. Sometimes referred to as the *Marketing Management* approach, the mix has been applied equally in B2B and B2C markets. The main differences concern the nature of the individual variables and the way the mix is deployed. The traditional 4Ps interpretation of the marketing mix was subsequently challenged with the rise of services marketing and the increasing complexity of industrial marketing, as business marketing was then known. As a result the marketing mix incorporated people, physical evidence and processes, 4 had become 7Ps.

Products

In consumer markets products are traditionally made available with limited opportunities for adaption or customisation. Increasingly, manufacturers are seeking ways in which customers feel they can customise a product. For example, some cars can be ordered via a dealer showroom directly from the production unit. This enables customers to specify the interior and exterior finishes, grade of in-car entertainment and perhaps a range of other cosmetic touches. However, the norm is to provide relatively little flexibility within different product ranges.

In the B2B market the entire offering (product and service components) can often be reconfigured to meet a customer's particular requirements. It is quite usual for more technical products to be developed and specified through joint negotiations and partnership arrangements. The result is an offering that is unique to the buying organisation.

Pricing

Price is a measure of the value that both parties assign to their contribution to an exchange. In consumer markets, list prices are usually the norm and limited discounts applied to them, especially for more expensive items. Hire purchase and credit-based schemes are designed to spread the financial risk, make purchase more accessible for a greater number of consumers and so increase the perceived value to a consumer. Negotiation is not usually a feature of pricing in consumer markets, the exceptions being cars and houses.

In business markets the designated value is likely to increase as a relationship becomes more collaborative and partnership-orientated. Therefore, prices associated with transaction exchanges will be based largely on list prices, quantity discounts and competitive bidding. As exchanges become more relational, so price becomes an integral part of the design, specification, development, trial and finishing processes. Discounts and allowances become more varied and complicated and reflect the risks and opportunities faced by the two parties. Negotiation becomes an important aspect of pricing in B2B markets. Large projects and intricate technical offerings often require complex financing arrangements, while pricing for international markets introduces new risks and financial uncertainties.

Place

In consumer markets, intermediaries provide utility in terms of reducing the complexity of the range of goods consumers are offered, by providing a level of specialisation and support (advice) and enabling consumer expectations to be met. Consumer preferences in terms of location, the quantity of items that need to be purchased and the ease with which they can be acquired are deemed to be of value to consumers and so effort is concentrated in satisfying consumer

needs in these areas and enhancing the level of perceived value. However, these services still need to be aggregated and provided on a group basis.

In B2B markets, the utility principles are similar but the main difference lies in the length of the channels and the number of intermediaries deemed necessary to deliver the level of functionality required. Individual attention and customisation of product offerings, plus the need to deliver in the quantities and at the time required by the buyer, result in a shortening of the marketing channel. This leads to direct relationships and new dimensions in terms of the way in which offerings are made available.

Promotion

In consumer markets, advertising has long been regarded as the focal point of the marketing communications mix. Some of the reasons for this concern the need to reach large, widely dispersed audiences, with relatively simple messages relating to awareness, interest and beliefs. Feedback is minimal and relationships between reseller and consumer are more commonly temporary and not very close. In recent years increased use of the other tools in the mix has reduced the high reliance on advertising, but it remains the focal part of a consumer organisation's promotional strategy.

Advertising is a relatively impotent marketing communications tool in B2B markets because of the need to provide more detailed, often technical information. Audiences are small in number and can be more closely defined and easily targeted with less wastage. Messages need to provide means of differentiation, reinforcement and persuasion. Feedback is important in B2B and so the emphasis is traditionally placed on personal selling. This helps the development of both a dialogue and also a relationship. Relationships between organisations in business markets are expected to be close and their duration much longer than in consumer markets.

Direct marketing is also important in B2B markets and, in some situations, can be used effectively to support the personal selling effort. Technology can be used to support all aspects of an organisation's marketing communications strategy and some applications are considered in this book.

People

In business marketing, and service industries in particular, people who represent the manufacturer or service provider, are extremely important. This is because they have a direct impact on the way customers, and other stakeholders, make judgements about the quality of the overall service.

Staff representing the service should deliver their element of the service process consistently. The appropriate recruitment, training, and rewarding of staff is an imperative if the required standards and expectations associated with customer interaction are to be achieved.

Ensuring that the right physical and electronic environments are in place, can also be significant in business/service marketing. For example, enabling business customers to electronically access pertinent information, or ensuring a suitable tone of voice is used throughout all communications can improve business performance, for both buyer and seller.

Physical evidence

The intangibility of a service means that it is important to provide tangible cues for potential customers. This is to enable them to understand the product quality. One of the more common approaches is to use sales literature and brochures to give signs about the quality and positioning. Staff deportment and dress also provide clues about a service provider's attitude and attention to tidiness, routines, safety, and customer orientation.

Physical evidence can be considered as essential evidence or peripheral evidence. (Shostack, 1977). Essential evidence refers to those few, key elements that are important criteria when customers make purchasing decisions. For example the quality of cars used by a car rental company, the newness of planes, or the location and architecture of cinemas provide essential information.

Of lower importance when evaluating the overall quality of the service provision, is peripheral evidence. Downloadable white papers, repeat showings of webinars, and sales literature which can be taken away by customers and used as a reminder of the product/service offering are examples of peripheral evidence.

Processes

Processes include all the activities, tasks, schedules, systems and routines that enable a product/service to be delivered to a customer. Overall success requires that the processes customers use when interacting with a supplying organisation, work effectively and appropriately.

Processes vary in their complexity. These can be simple, as in ordering stationery, or complicated, for example, when ordering a fleet of new aircraft, or a satellite. However complex it may be, marketers need to understand the process so that they can integrate benefits into key steps. This helps to provide differentiation, assist any repositioning and at an individual level, avoid boredom and enhance the brand experience.

Introducing Perceived Value

The Marketing Management approach based on the 7Ps has been superseded by ideas relating to relationship marketing. This is explored in detail in Chapter 4 and forms the basis for many of the ideas and approaches adopted in this book. However, in order to better appreciate the relationship marketing concept it is helpful to first have an understanding of perceived value and related concepts.

The concept of value and the importance of providing it for customers has become an increasingly significant aspect of business and marketing strategy. It has long been understood that customers buy benefits not features. Business customers buy solutions to business problems not just stand-alone products. They buy products and services because they have the potential to add value to the offerings they make available. These benefits and solutions constitute a potential added value opportunity for customers, and represent the reason why one offering is selected in preference to another. For both consumers and business customers, value is determined by the net satisfaction derived from a transaction, not the costs to obtain it.

Another way of viewing these solutions and benefits is to consider them as customer needs. Customers seek to satisfy their needs through their purchase of products and services. The satisfaction of needs therefore is a way for suppliers to offer value generation opportunities. Kothandaraman and Wilson (2001) argue that the creation of value is dependent upon an organisation's ability to deliver high performance on the benefits that are important to the customer and this in turn is rooted in their competency in technology and business processes, or core competences. Doyle (2000) regards the creation of customer value to be based on three principles. These are:

1. Customers will choose between alternative offerings and select the one that (they perceive) will offer them the best value.
2. Customers do not want product or service features, they want their needs met.
3. It is more profitable to have a long-term relationship between a customer and a company rather than a one-off transaction.

Value is a customer's estimate of the extent to which a product or service can satisfy their needs. Customers determine a product/service's value potential by considering alternative solutions and the costs associated with satisfying their need. Therefore, value is relative to a customer's needs, expectations, and experience of competitive offerings.

Value can be derived from sources other than products and prices. For example, it can be generated through the provision of additional services, such as:

- Training or support facilities, for example those normally provided by Carphone Warehouse for their customers;
- Association with a highly regarded brand, for example the co-branding arrangement between Adidas and Porche and between Disney and Mattel;
- Legal or insurance provision, for example the financial support provided by government and some regional councils for start-up entrepreneurs and small businesses;
- Joint working relationships between government and building/finance schemes such as those associated with the Private Finance Initiative.

Menon *et al*. (2005) refer to these as add-on benefits and suggest these may be more important than the core benefit arising from product and price attributes.

Lindgreen *et al*. (2009) refer to value creation through financial value (Anderson and Narus, 1998), emotional bonds (Butz and Goodstein, 1996), subjective interpretations of the product or service (Neap and Celik, 1999) and feelings about the amount of resources sacrificed in making these decisions (Zeithaml, 1988).

Perhaps the most potent representations of value can be observed in the relationships between buyers and sellers (Simpson *et al*., 2001). Indeed, the creation and the sharing of value is a critical aspect of buyer–seller relationships (Anderson, 1995), if only because they are longer lasting and difficult for competitors to copy or destroy. This is important when considering marketing channel relationships which are an integral and critical aspect of B2B marketing.

The customer value concept should be considered from two complementary perspectives according to Lefaix-Durand *et al*. (2009). These are *value-to-customers* and *value-of-customers*. *Value-to-customers* focuses on the net-value customers realise from using the products/services provided by suppliers. *Value-of-customers* assumes a supplier's perspective of the net value they derive from their customers (Ulaga and Eggert, 2005). These ideas are explored in Chapter 4.

The Value Chain

Customers choose among competitive offerings on the basis of their perceptions of the relative value they can derive from each supplier. Each selling organisation competes for business by offering enhanced value creation opportunities. These are developed internally, through a coordinated chain of activities. These activities include product design, production, marketing, delivery and support. Porter (1985) referred to these activities as the *value chain*, which is depicted at Figure 1.2.

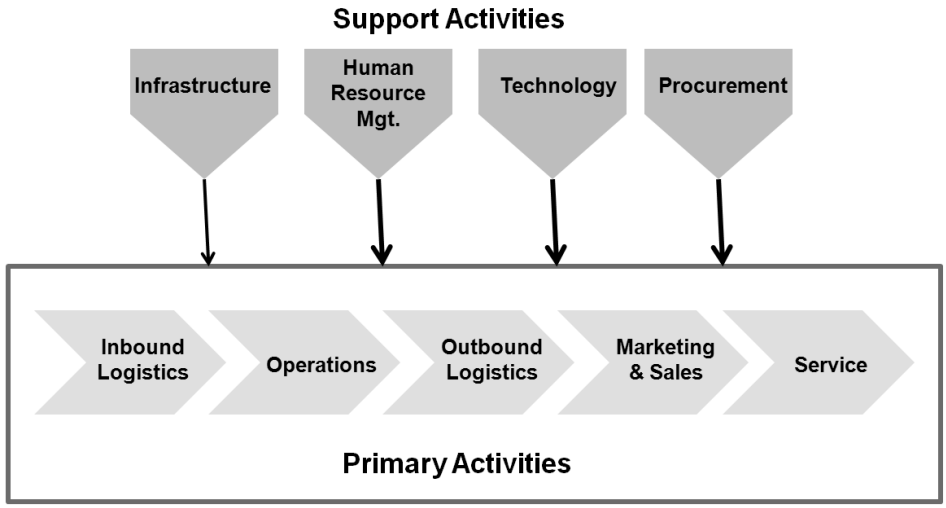


Figure 1.2: Porter's value chain

The value chain was devised as a tool to appraise an organisation's ability to create what Porter terms differential advantage. It consists of nine activities, five primary and four support, all of which incur costs but together can (and should) lead to the creation of value.

The primary activities are those direct actions necessary to bring materials into an organisation, to convert them into final products or services, to ship them out to customers and to provide marketing and servicing facilities. Support activities facilitate the primary activities. For example, the purchase of parts and materials, the recruitment of suitably trained personnel and the provision and maintenance of suitable technology are important support activities. Management should attempt to create value by reducing costs or improving the performance of each of the activities. However, real value is generated by linking together these activities through processes and in such a way that customers perceive they are getting superior value.

The value generation processes used by an organisation become a critical part of the way in which they can add value. Customers, however, lie at the heart of the value chain. Only by understanding particular customer needs and focusing value chain activities on satisfying them, can superior value creation opportunities be generated. This has implications for B2B segmentation strategies and is explored further in Chapter 5.

ViewPoint 1.4: Xerox adds value in more ways than one

Xerox's association with paper copying had led to the brand becoming synonymous with the process. People made Xeroxes rather than copies. Significant product competition from such firms as Hewlett Packard, Toshiba, Canon and others was led from a technology perspective. The printing facilities offered via desktop computing led to further market challenges. The company had to readdress what value they were offering customers. This led to a shift from being positioned as a copier machine manufacturer to a business solutions provider.

In order to provide differentiation from the competition and to overcome customer perceptions of the brand as just a machine supplier, an advertising campaign was devised to promote an emotional connection between Xerox and the users of their equipment. This focused on the creative applications of their machines and the positive feelings of those users resulting from having produced high quality documents.

In order to continue adding value to customers, further developments of this concept have led to the creation of a number of business partnerships. The Xerox Premier Partners Global Network Community provides customers with opportunity to share ideas, find out about latest technologies and access product information.

Source: Based on Precourt (2009); www.xerox.co.uk

Question: How else might Xerox have differentiated themselves?

Supply chains

So far the value chain has been considered within an internal context. However, organisations do not exist in isolation but combine with others in order to provide a consistent stream of resources. Therefore, organisations join their value chains together and form supply chains. The operation of the overall supply chain helps generate sustainable value for each business. Issues concerning supply chains and marketing channels are explored in more detail in Chapter 7.

The concepts of value and the value chain are important because they provide a reminder of basic principles. First, customers buy superior value-enhancing opportunities, which means that the creation of profits can only be achieved through value propositions that customers want. Trimming costs to save money and to improve the bottom line may result in removing the element that constitutes a customer's reason to buy. Many organisations cut back on aspects of their offerings in times of recession or economic difficulty. The objective is to save costs and improve profits but this short-term approach can damage the long-term prospects if it dispenses with a crucial part of the value that customers perceive to be important.

Second, value can be perceived in many ways, for example by providing associations with prestige (exclusivity or membership), reliability, modular formats, ease and speed of servicing, stock and delivery flexibility, ease of customisation and access to new markets, to name a few. Therefore, the whole of an organisation's activities must be considered and their contribution to the generation of superior value creation appraised. Among other things, this means looking at pre- and post-purchase customer support, pricing, communications, distribution and logistics and positioning.

The development of new technology and the increasing breadth and depth of business applications has provided new value creation opportunities for organisations. Consistent advances in information systems and technology (IST) can lead to new forms of value opportunities being created. Apart from the obvious impact on speed and accuracy of information transfer between organisations, value can be enhanced through product development and customisation, production and manufacturing, supply chain management, marketing communications and, of course, closer interorganisational understanding and relationships (Sharma *et al*., 2001).

The Importance of B2B Relationships

Following on from the introduction to value and value chains, the supply chain concept raises interesting points about the nature and scope of the relationships that exist between sellers and buyers. Organisations interact with other organisations to provide superior value-creation opportunities for their customers.

However, it should come as no surprise to read that the quality, duration and level of interdependence between organisations in the supply chain can and does vary considerably. The reasons for this variance are many and wide-ranging but at the core are perceptions of value shared by both parties. The value that organisations offer each other can be visualised as a continuum, as set out at Figure 1.3.

At one end of the continuum are transactional or market exchanges, characterised by short-term, commodity or price-orientated exchanges, between buyers and sellers coming together for one-off exchanges independent of any other or subsequent exchanges. Both parties are motivated mainly by self-interest.

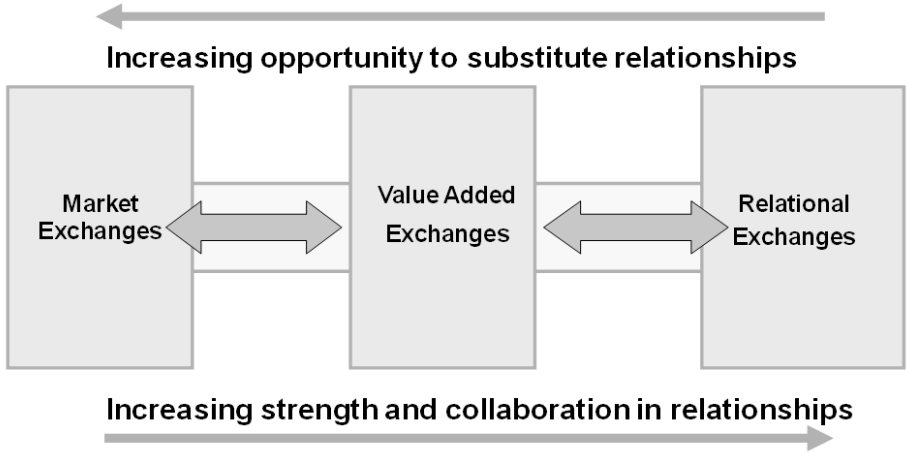


Figure 1.3: Continuum of exchange relationships, adapted from Day (2000)

Movement along the continuum represents increasingly valued relationships. Interactions between parties are become closer and stronger. The focus moves from initial attraction to retention, cooperation and a mutual understanding of each other's needs.

At the other end of the continuum are relational exchanges or what Day (2000) refers to as collaborative exchanges. These are characterised by a long-term orientation, where there is complete integration of systems and processes and the relationship is motivated by partnership and mutual support. Trust and commitment underpin these relationships and these variables become increasingly important as relational exchanges become established.

B2B marketing is characterised by a portfolio of relationships that all need managing. Some relationships are price-orientated and some are fully collaborative, while the large majority fall somewhere between the two. This book seeks to explore B2B marketing by taking into account the rich variety of interdependent activities that occur between organisations.

It is important to put these ideas in the context of organisational practice. Pels *et al.* (2009: 323) report a series of independent research studies that 'provide clear evidence' that 30% of B2B companies practise transactional marketing, as

advocated by the Marketing Management school of thought. A further 30% practise a combination of transactional and collaborative marketing. The numbers practising pure collaborative marketing are not itemised but it would clearly be a minority.

Summary

The following material is intended to help readers consolidate their understanding of the key points introduced in this chapter and the learning objectives.

1 Consider the nature, scope and characteristics of business markets.

The market for goods and services bought and sold between businesses is far larger than the consumer market. It comprises many types and sizes of organisations that interact selectively and form relationships of varying significance and duration with one another.

Business markets are characterised by a number of factors, the main ones being the nature of demand, the buying processes, international dimensions and, perhaps most importantly, the relationships that develop between organisations in the process of buying and selling.

2 Identify the different types of organisational customers

It is possible to classify business customers by their size but in order to understand purchasing needs and processes a categorisation based on commercial, government and institutional organisations is helpful.

3 Categorise the goods and services that are bought and sold in the sector.

These organisations consume a variety of goods and services all of which can be considered as input goods, equipment goods and supply goods.

4 Explore the characteristics of B2B marketing.

Business marketing is distinguished from consumer marketing by two main ideas: first, the intended customer, which is an organisation; second, the intended use of the product to support organisational objectives. As a result, different marketing programmes are required to reach and influence organisational buyers as opposed to consumers. The way products and services are bought, the numbers of people involved, the length of time for decision making, the size of orders, the configuration of the communications used to reach and interact with customers are just some of the differences between consumer and business markets.

5 Describe the perceived value and supply chain concepts.

Value is a customer's estimate of the extent to which a product or service can satisfy their needs. Customers choose among competitive offerings on the basis of their perceptions of the relative value they can derive from each supplier.

Each selling organisation competes for business by trying to offer enhanced value creation opportunities. These are developed internally, through a coordinated chain of activities, known as the 'Value chain'. These activities include product design, production, marketing, delivery and customer support and constitute a critical part of the way in which they can add value. Organisations join their value chains together to form supply chains. The operation of the overall supply chain helps generate sustainable value for each business.

6 Explain the importance of relationships in B2B marketing.

Organisations interact with other organisations to provide superior value-creation opportunities for their customers. B2B marketing is characterised by the variety of relationships that all need managing. Some relationships are price-orientated and some are fully collaborative, while the large majority fall somewhere between the two. Organisations manage a portfolio of relationships.

Discussion Questions

1. Identify the key characteristics associated with B2B markets and suggest how they might impact on B2B marketing activities.
2. Explain why demand is said to be derived from consumers.
3. Commercial organisations can be considered as distributors, original equipment manufacturers, users, or retailers. Describe the core characteristics associated with each of these.
4. Discuss the key differences between B2B and B2C marketing. What are their similarities?
5. Draw the value chain as depicted by Porter (1985) and include the nine constituent elements.
6. Examine the contention that the traditional concept of the marketing mix (4Ps) is now redundant and should be replaced by a relationship-centred approach to marketing activities.

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