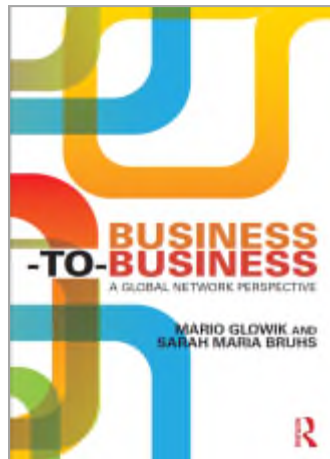
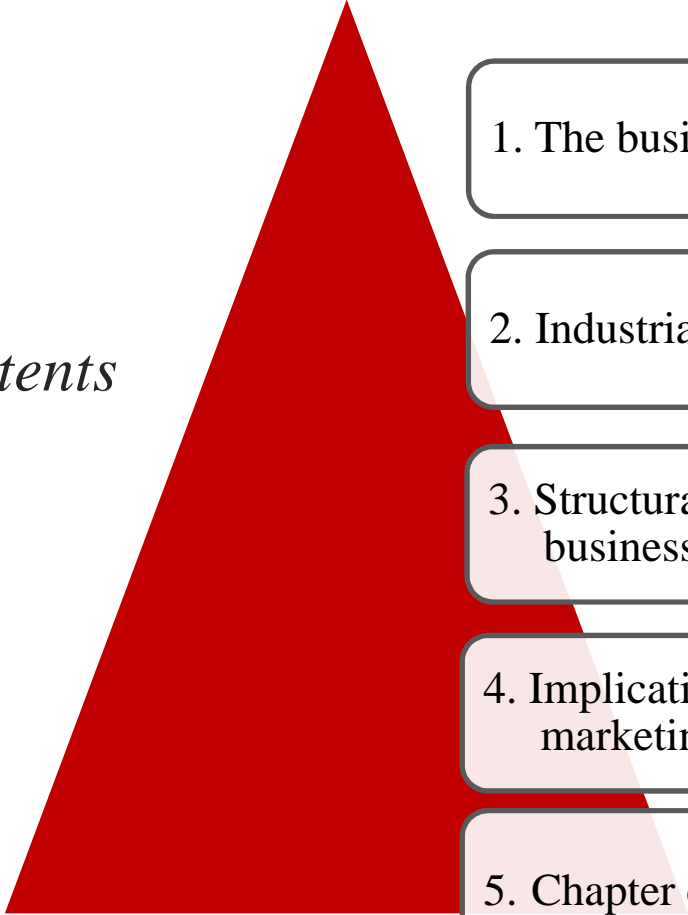

Characteristics of business-to-business markets



Mario Glowik and Sarah Maria Bruhs

CHARACTERISTICS OF BUSINESS-TO-BUSINESS MARKETS

Chapter 2 Contents



1. The business-to-business product

2. Industrial buying behavior

3. Structural aspects of business-to-business markets

4. Implications for management and marketing practice

5. Chapter case: Apple Inc., USA

THE BUSINESS-TO-BUSINESS PRODUCT

- often highly **technical** in nature
- clear physical and performance-related **specifications**
- influences efficiency and effectiveness of business buyer's operations
- products often tailored towards individual needs and intended usage
- '**customizing**' is significant source of competitive advantage and differentiation
- seller provides **technical assistance** on-site and maintenance
- **personal selling** of great importance

THE BUSINESS-TO-BUSINESS PRODUCT

Product category	Description
<i>Capital-intensive equipment</i>	<ul style="list-style-type: none">▪ often complex manufacturing equipment,▪ involves major financial investments, depreciated over the years of expected usage,▪ high risk for buyer's production,▪ requires lengthy decision-making process, involving a number of people,▪ extended negotiations between buyer and seller

Source: Adapted from Dwyer and Tanner (2009: 15–16); Biemans (2010: 11–15); Brennan *et al.* (2011: 19–21).

THE BUSINESS-TO-BUSINESS PRODUCT

Product category	Description
<i>Raw and processed materials</i>	<ul style="list-style-type: none">▪ integrated into buying organization's manufacturing processes with little or no alteration;▪ categorized as processed materials whenever raw materials have to undergo some sort of transformation before incorporation into buyer's operations

Source: Adapted from Dwyer and Tanner (2009: 15–16); Biemans (2010: 11–15); Brennan *et al.* (2011: 19–21).

THE BUSINESS-TO-BUSINESS PRODUCT

Product category	Description
<i>Components</i>	▪ directly assembled into the final end product without any further alteration

Source: Adapted from Dwyer and Tanner (2009: 15–16); Biemans (2010: 11–15); Brennan *et al.* (2011: 19–21).

THE BUSINESS-TO-BUSINESS PRODUCT

Product category	Description
<i>Operating supplies</i>	<ul style="list-style-type: none">▪ bought to sustain and maintain buyer's operations, but do not commonly become part of customer's final product;▪ less expensive products compared to capital-intensive equipment▪ frequently characterized by rather low investment risk

Source: Adapted from Dwyer and Tanner (2009: 15–16); Biemans (2010: 11–15); Brennan *et al.* (2011: 19–21).

THE BUSINESS-TO-BUSINESS PRODUCT

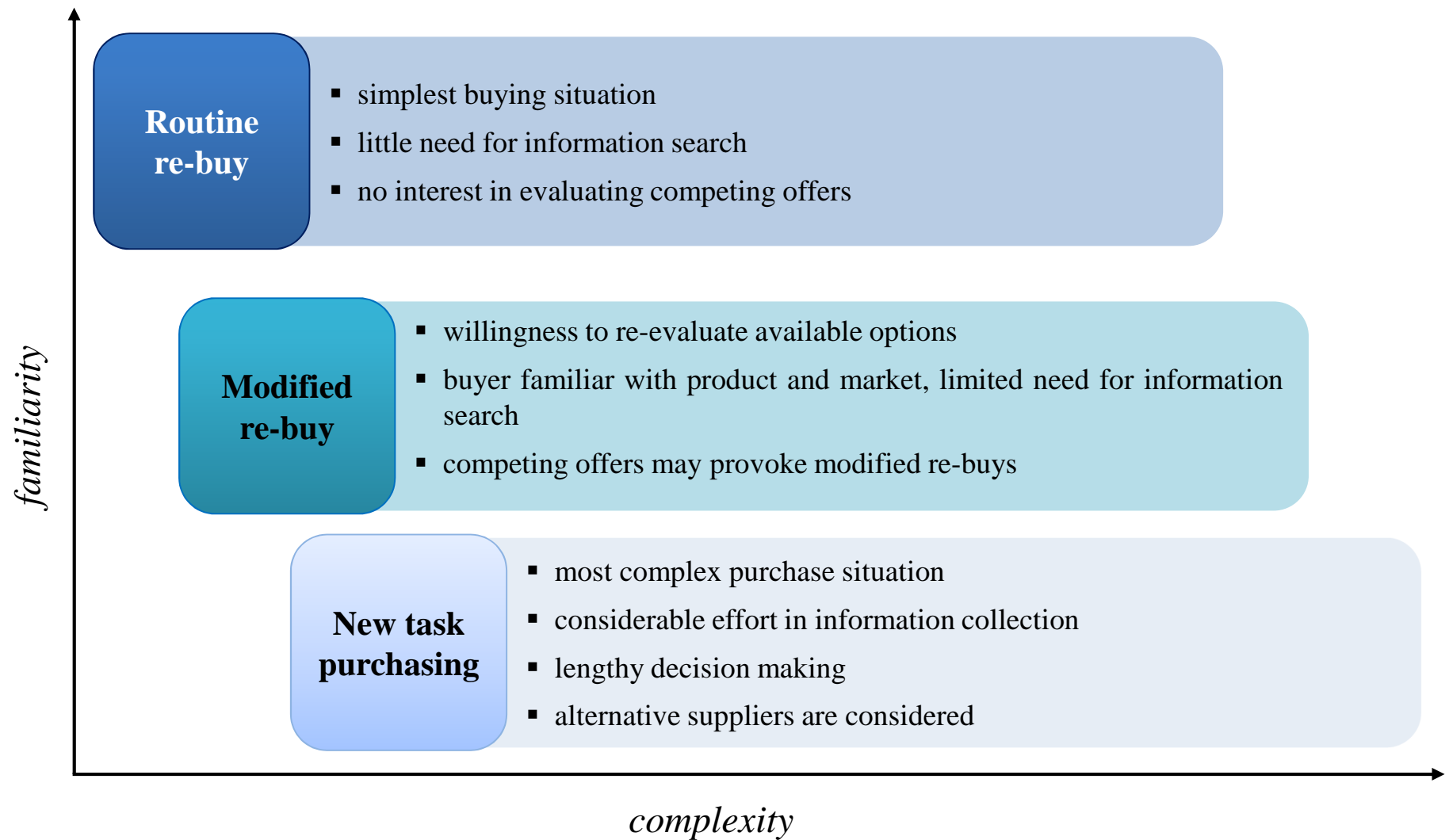
Product category	Description
<i>Services</i>	<ul style="list-style-type: none">▪ all activities that are carried out by a third party provider▪ might include regularly performed/standardized services or more individualized services

Source: Adapted from Dwyer and Tanner (2009: 15–16); Biemans (2010: 11–15); Brennan *et al.* (2011: 19–21).

INDUSTRIAL BUYING BEHAVIOUR

- organizational buyers (individuals) procure a good or service on behalf of a third person (the company)
- managed by specially trained **purchasing professionals**
- supported by technical experts from manufacturing unit and/or top management (dependent on investment sum or strategic importance)
- **safeguarding measures:**
 - ex-ante negotiation of exhaustive product specifications,
 - written and approved procurement orders,
 - guidelines for supplier selection or,
 - instructions about single/multiple sourcing policies (Kotler *et al* . 2008 : 294).

INDUSTRIAL BUYING BEHAVIOUR



INDUSTRIAL BUYING BEHAVIOUR

The buying centre

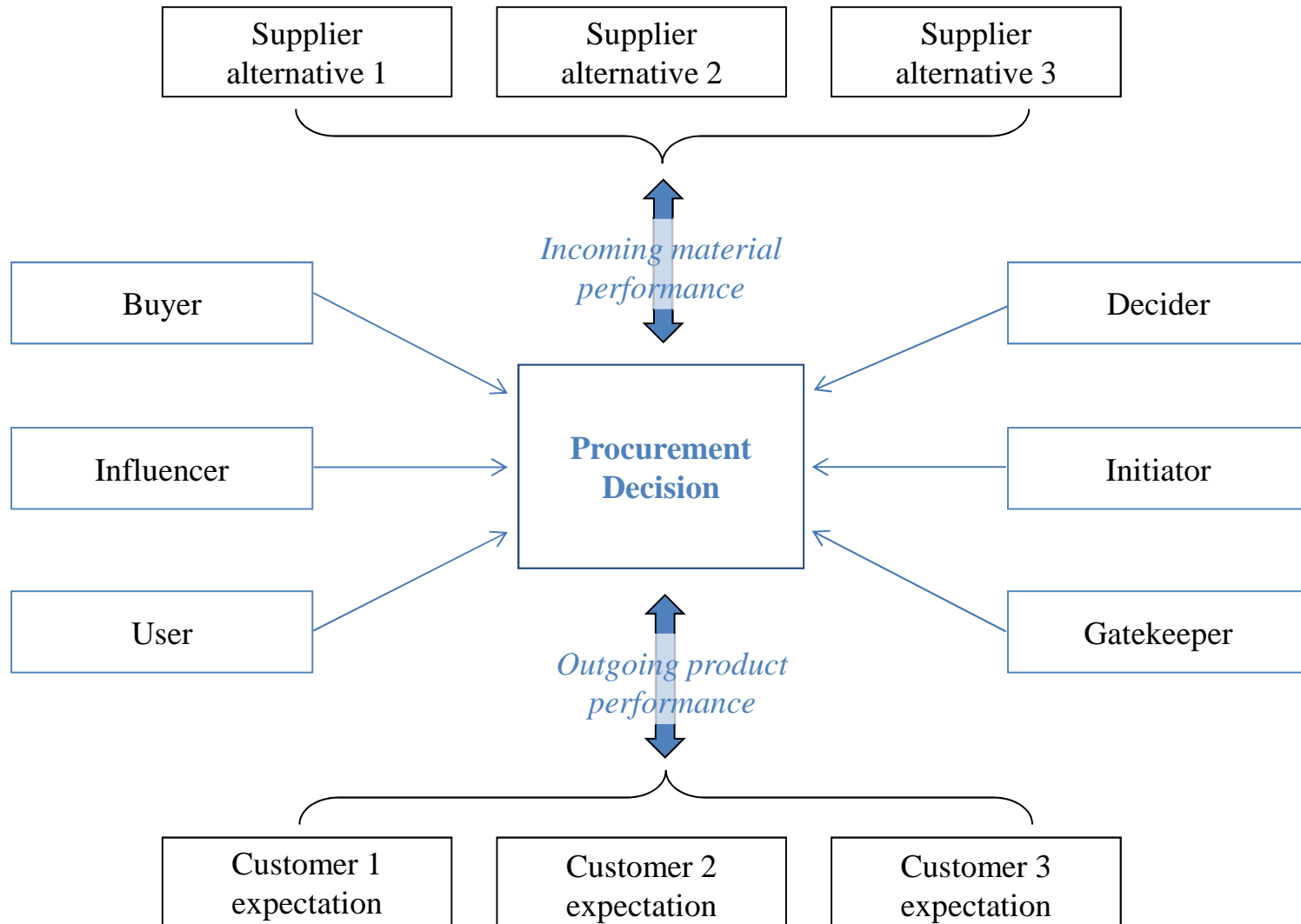
- *User* a person or group of people who use the product
- *Buyer* usually employed at the firm's procurement department;
takes control of procurement budget and formal purchase processing
- *Influencer* affects the procurement decision process (e.g. sales person)

INDUSTRIAL BUYING BEHAVIOUR

The buying centre

- *Decider* usually belongs to firm's management and makes final procurement/investment decision
- *Gatekeeper* selects, holds, blocks or transfers information from external environment to other members of the buying centre
- *Initiator* creates the idea to procure a certain product or service

INDUSTRIAL BUYING BEHAVIOUR



INDUSTRIAL BUYING BEHAVIOUR

The selling centre

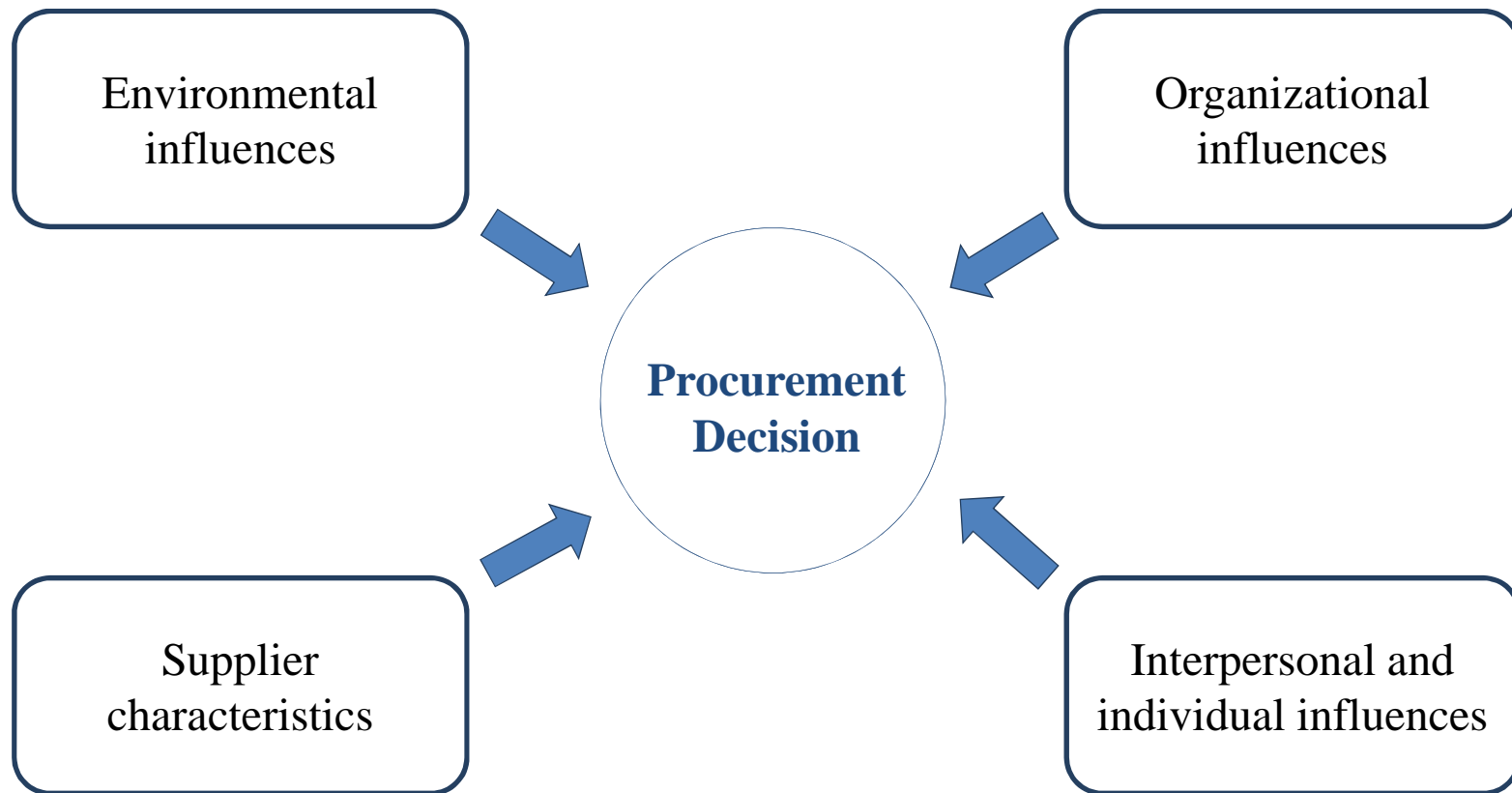
- *Seller* a person or group of people who maintain and develop customer relations and sell the product
- *Influencer* quality assurance department that reviews the product quality and evaluates technical specifications as requested by customer
- *User* technicians of the engineering and/or operations department

INDUSTRIAL BUYING BEHAVIOUR

The selling centre

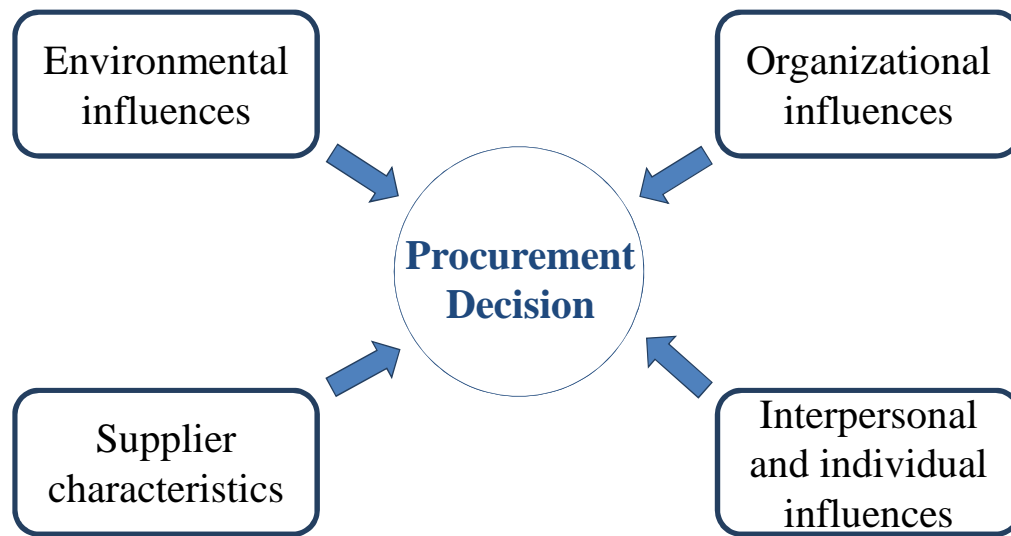
- *Decider* usually belongs to firm's management and makes the final sales approval
- *Gatekeeper* member of marketing department who selects and evaluates markets and potential customers
- *Initiator* creates the idea to sell a product or service in a certain market

INDUSTRIAL BUYING BEHAVIOUR



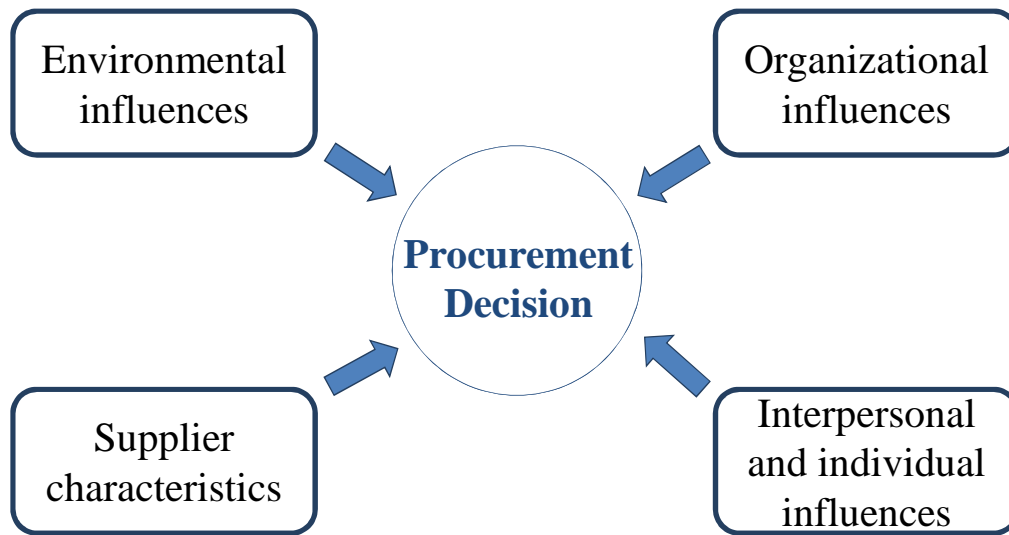
Source: Adapted from Blythe (2009: 154–155), Kotler *et al.* (2008: 302–303), Chandler and Johnston (2012: 43), Armstrong and Kotler (2013: 181–182)

INDUSTRIAL BUYING BEHAVIOUR



- levels of primary demand
- taxation schemes
- general economic outlook
- political stability
- governmental subsidies
- trade sanctions and cross-border trade barriers
- national laws
- safety standards
- DIN Norms

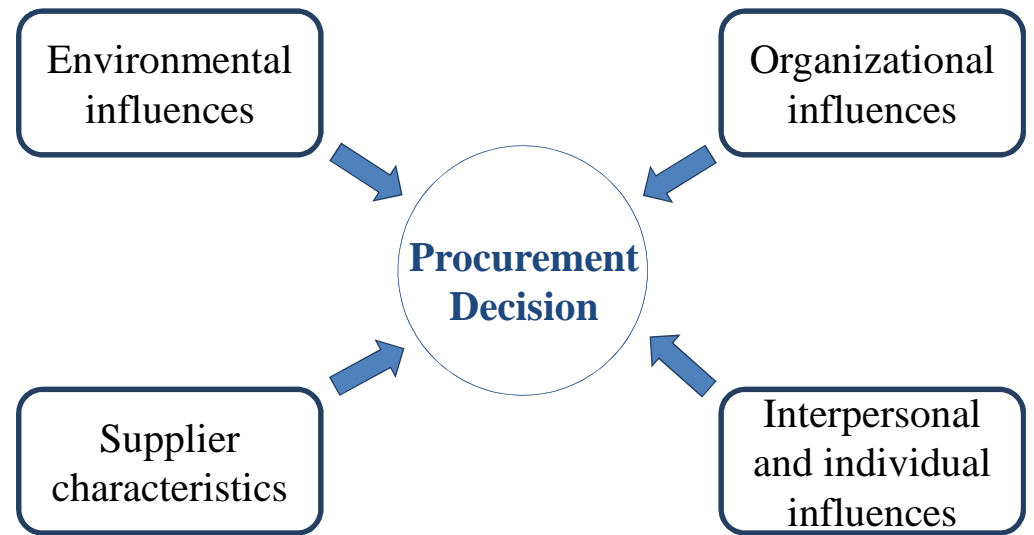
INDUSTRIAL BUYING BEHAVIOUR



- ability to meet the customer's purchase specifications
- quality and price of products (as compared to alternative offers)
- punctuality in supply
- availability of after-sales services

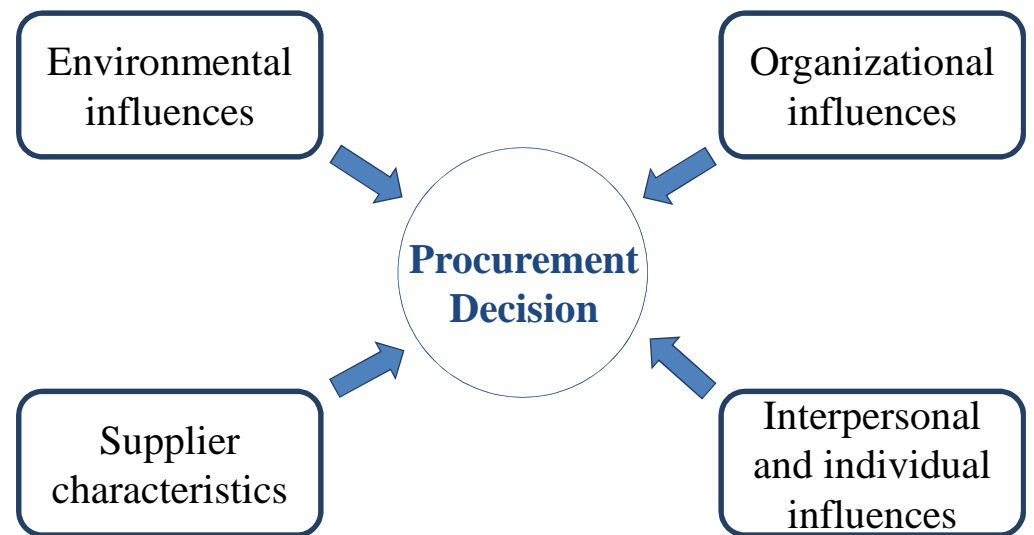
INDUSTRIAL BUYING BEHAVIOUR

- company size
- hierarchical structure
- strategic orientation
- business objectives
- technology and procedures



INDUSTRIAL BUYING BEHAVIOUR

- type of purchase task
- the product type and complexity
- perceived risk
- prior experience
- time pressures
- availability of decision-guiding information



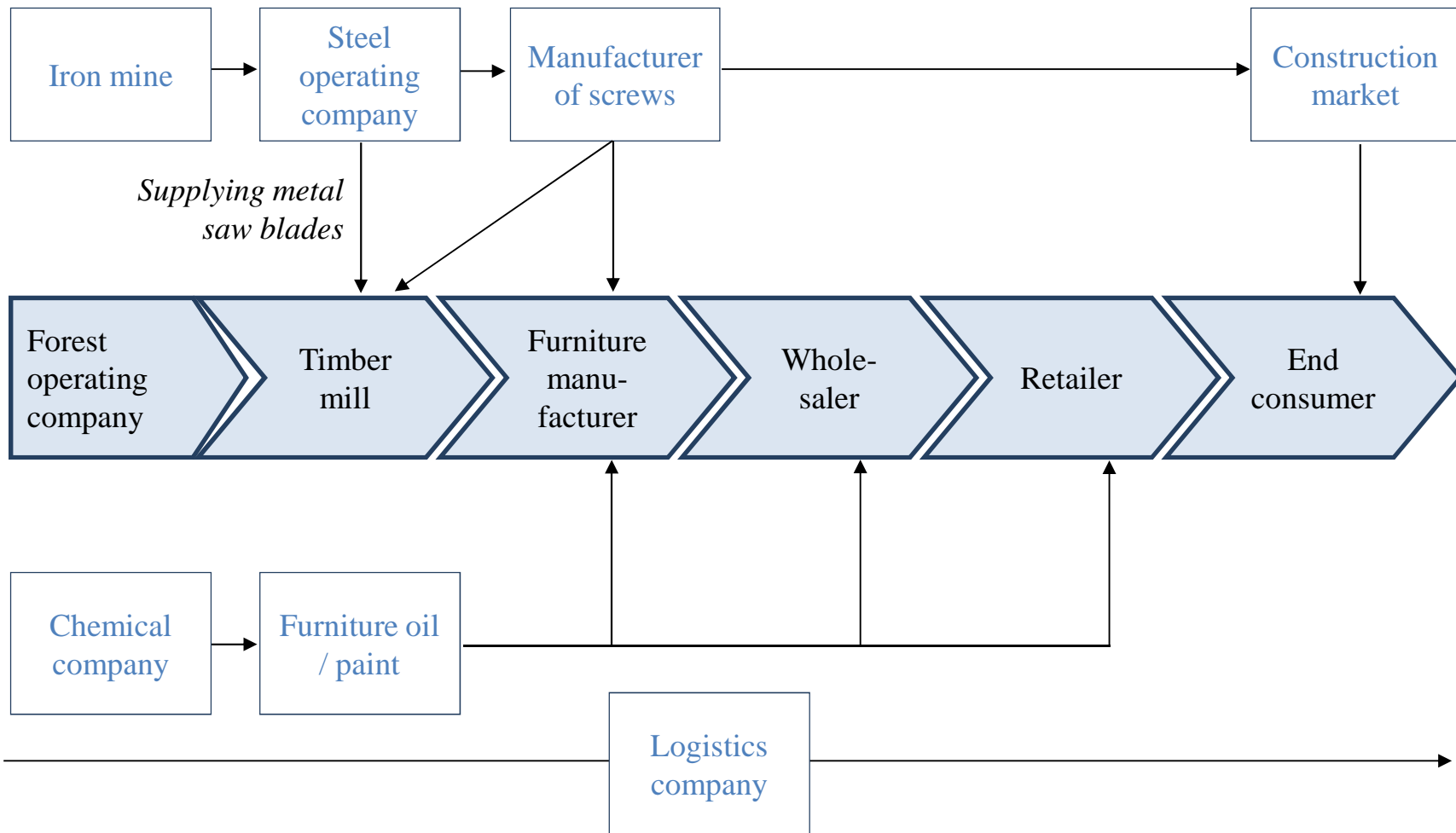
STRUCTURAL CHARACTERISTICS OF BUSINESS-TO-BUSINESS MARKETS

The business-to-business value chain

- actors **interlock** their **business activities** along stages of the value chain
- business seller becomes engaged in value adding operations of its industrial buyer
- series of business-to-business transactions usually **not visible** to end consumer
- industrial purchases differentiated from B2C buying situations based on
(1) **nature of intended use** and (2) **type of customer**

STRUCTURAL CHARACTERISTICS OF BUSINESS-TO-BUSINESS MARKETS

Derived demand / joint demand



STRUCTURAL CHARACTERISTICS OF BUSINESS-TO-BUSINESS MARKETS

Business market concentration

- **few** but larger buyers (accumulate great portion of purchasing power)
- customer retention crucial for business-to-business supplier
- **concentration ratio** = added value of market shares of the few largest firms in an industry
- high concentration ratio signals **dependency of suppliers** on few large buyers

IMPLICATIONS FOR MANAGEMENT AND MARKETING PRACTICE

	Business-to-business	Business-to-consumer
<i>Product and market characteristics</i>	<ul style="list-style-type: none"> ▪ fewer but resource-richer buyers ▪ often larger quantities of a specific product ▪ products as input variables to fulfill business functions ▪ derived demand ▪ market value of industrial product exceeds that of consumer goods ▪ rather complex and customer-tailored products 	<ul style="list-style-type: none"> ▪ typically larger group of buyers ▪ purchasing power of individual consumer usually smaller than organizational buyer ▪ products to satisfy personal needs; no intention for resale ▪ rather direct demand ▪ market value and quantities of consumer goods smaller ▪ usually rather standardized, less customized products

Source: Adapted from Yoder *et al.* ('1961: 117–19); Corey (1991: xi); Brennan *et al.* (2011: 11–16); Armstrong and Kotler (2013 : 176–7); Brassington and Pettitt (2013: 98).

IMPLICATIONS FOR MANAGEMENT AND MARKETING PRACTICE

	Business-to-business	Business-to-consumer
<i>Customer buying behavior</i>	<ul style="list-style-type: none">▪ formalized buying process (guidelines and procedures) involving different functional experts▪ purchase professionals▪ tendency to centralize main buying responsibilities	<ul style="list-style-type: none">▪ usually rather straight-forward buying process▪ rather low purchase professionalism▪ buying decisions are made by individuals or in family constructs

Source: Adapted from Yoder *et al.* (1961: 117–19); Corey (1991: xi); Brennan *et al.* (2011: 11–16); Armstrong and Kotler (2013: 176–7); Brassington and Pettitt (2013: 98).

IMPLICATIONS FOR MANAGEMENT AND MARKETING PRACTICE

	business-to-business	business-to-consumer
<i>Implications for the supplier firm's management</i>	<ul style="list-style-type: none"> ▪ high importance of personal selling ▪ close supplier-buyer relationships ▪ need to clearly understand individual customer demands and unique product specifications ▪ sales personnel provides close technical assistance (on-side assistance) 	<ul style="list-style-type: none"> ▪ less importance to personal selling ▪ rather distant customer relationships ▪ regular research about needs of a broader customer group ▪ technical assistance and after-sales service usually not at the buyer's premises (hotlines, in-shop assistance)

Source: Adapted from Yoder *et al.* ('1961: 117–19); Corey (1991: xi); Brennan *et al.* (2011: 11–16); Armstrong and Kotler (2013 : 176–7); Brassington and Pettitt (2013: 98).

IMPLICATIONS FOR MANAGEMENT AND MARKETING PRACTICE

	Business-to-business	Business-to-consumer
<i>Implications for the supplier firm's management</i>	<ul style="list-style-type: none"> ▪ direct, customer-specific promotion (sales calls) ▪ close product adaption towards customer specifications and technical requirements ▪ high relevance of new product development ▪ increasingly customer involvement into new product development activities 	<ul style="list-style-type: none"> ▪ frequently mass market promotion

Source: Adapted from Yoder *et al.* ('1961: 117–19); Corey (1991: xi); Brennan *et al.* (2011: 11–16); Armstrong and Kotler (2013 : 176–7); Brassington and Pettitt (2013: 98).

IMPLICATIONS FOR MANAGEMENT AND MARKETING PRACTICE

A dual marketing approach

- offers the potential for generating **additional sales**
- serving a **broader customers base**
- benefiting from **economies of scale**
- combining information and experiences from both market types can enhance **innovation capability**
- serving both markets increases market knowledge and deepens understanding of customer needs

CHAPTER CASE

Supplier relationships of Apple Inc. (USA)

Chapter case review questions

- (1) What are the internal resource strengths and weaknesses of Apple Inc.?
- (2) What challenges come along with Apple's current supplier and customer relationship networks?
- (3) Taking a business-to-business network perspective, how would you develop the future business of Apple Inc.?