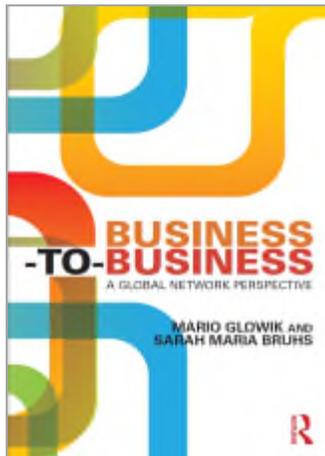


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## Characteristics of business-to-business markets



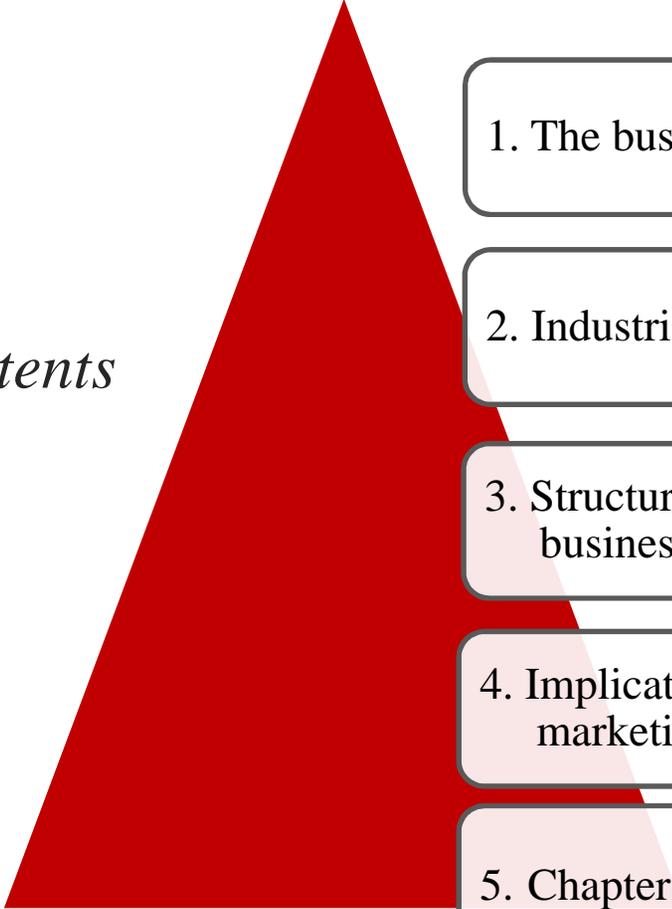
Mario Glowik and Sarah Maria Bruhs

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# CHARACTERISTICS OF BUSINESS-TO-BUSINESS MARKETS

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## *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

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- 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

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

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

# THE BUSINESS-TO-BUSINESS PRODUCT

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

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

# THE BUSINESS-TO-BUSINESS PRODUCT

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<b>Product category</b>	<b>Description</b>
<i>Components</i>	▪ <b>directly assembled</b> 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

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

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

# THE BUSINESS-TO-BUSINESS PRODUCT

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

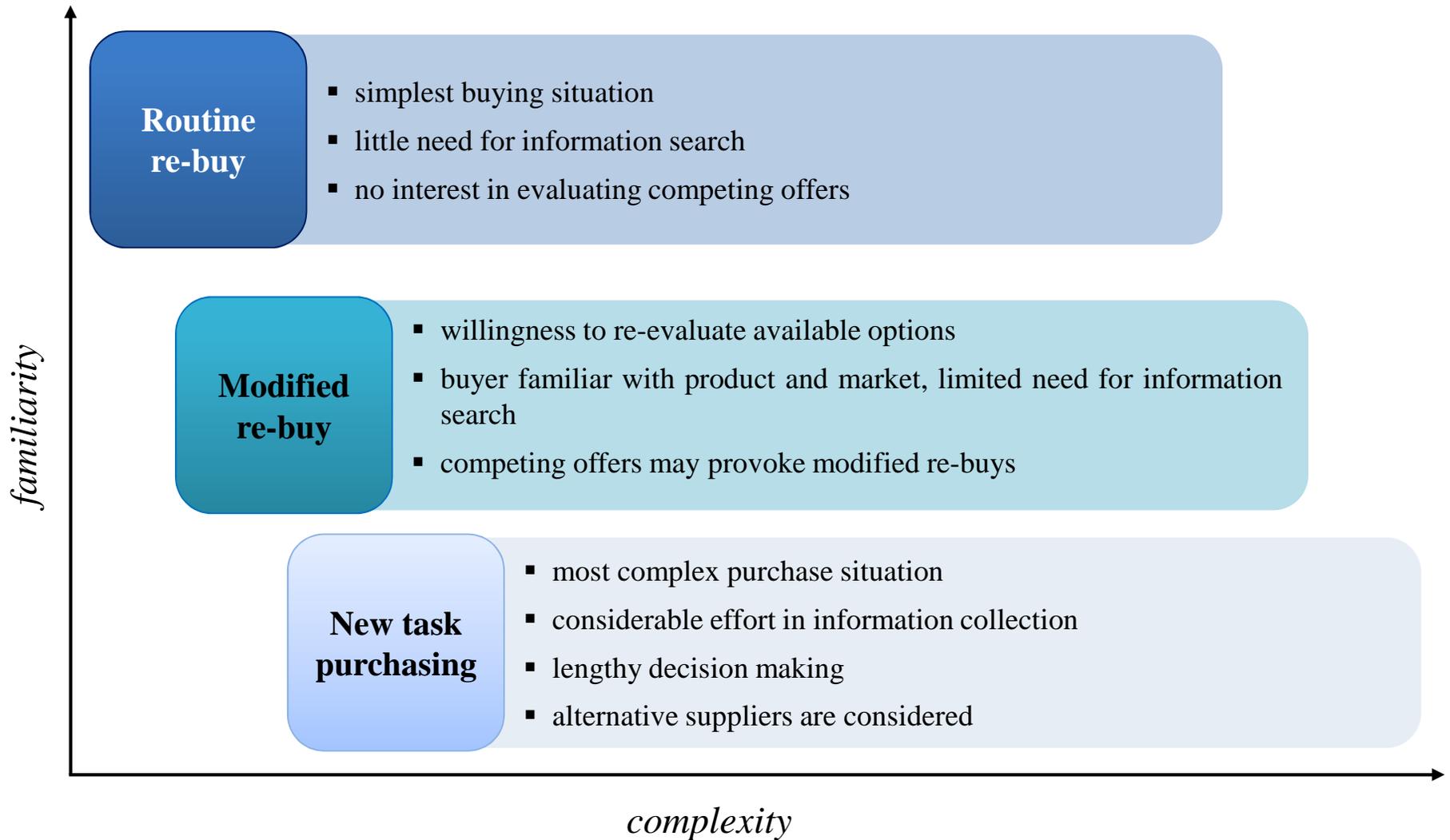
*Source:* Adapted from Dwyer and Tanner (2009: 15–16); Biemans (2010: 11–15); Brennan *et al.* (2011: 19–21).

# INDUSTRIAL BUYING BEHAVIOUR

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- 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

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## 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)

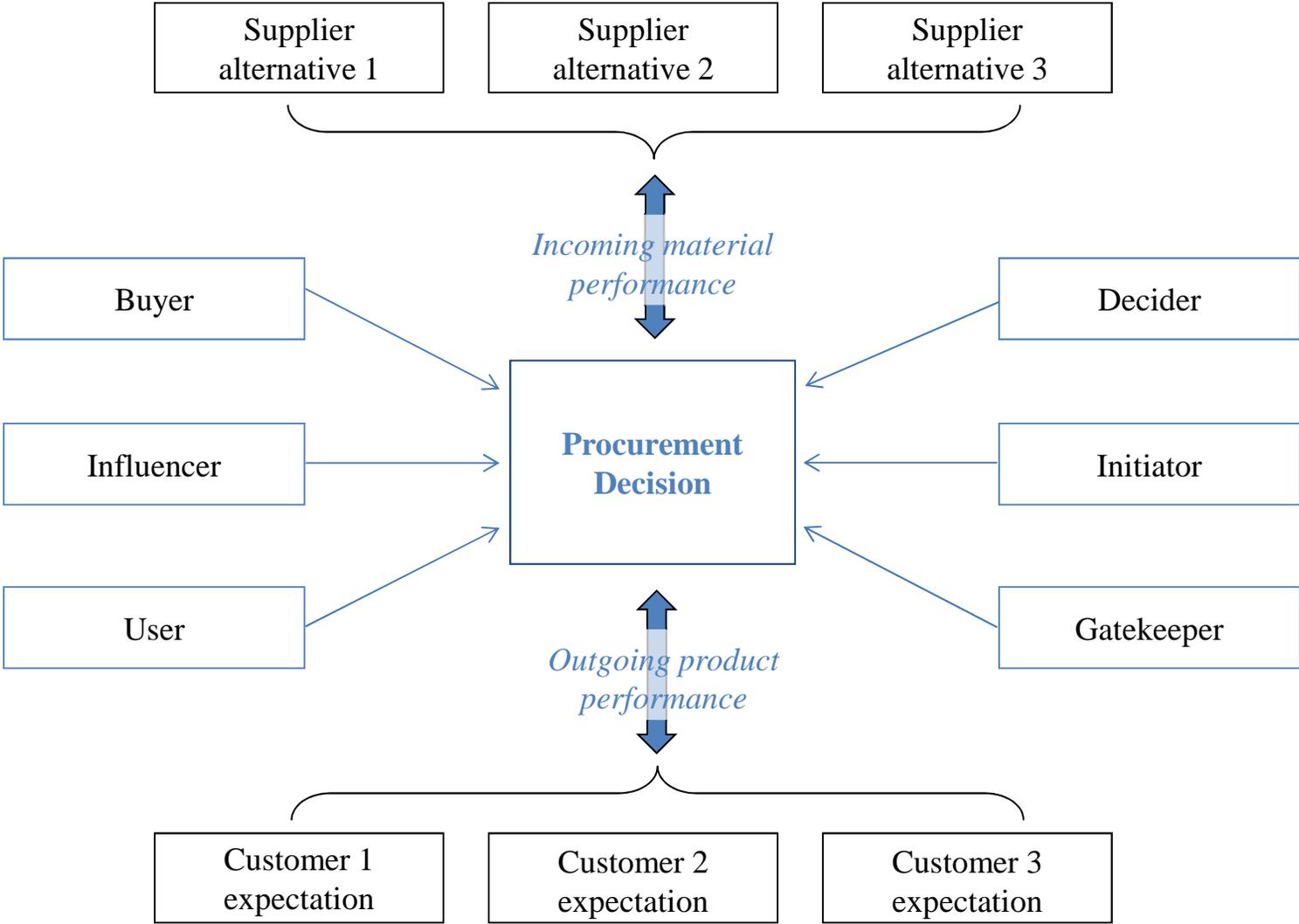
# INDUSTRIAL BUYING BEHAVIOUR

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## 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

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## 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

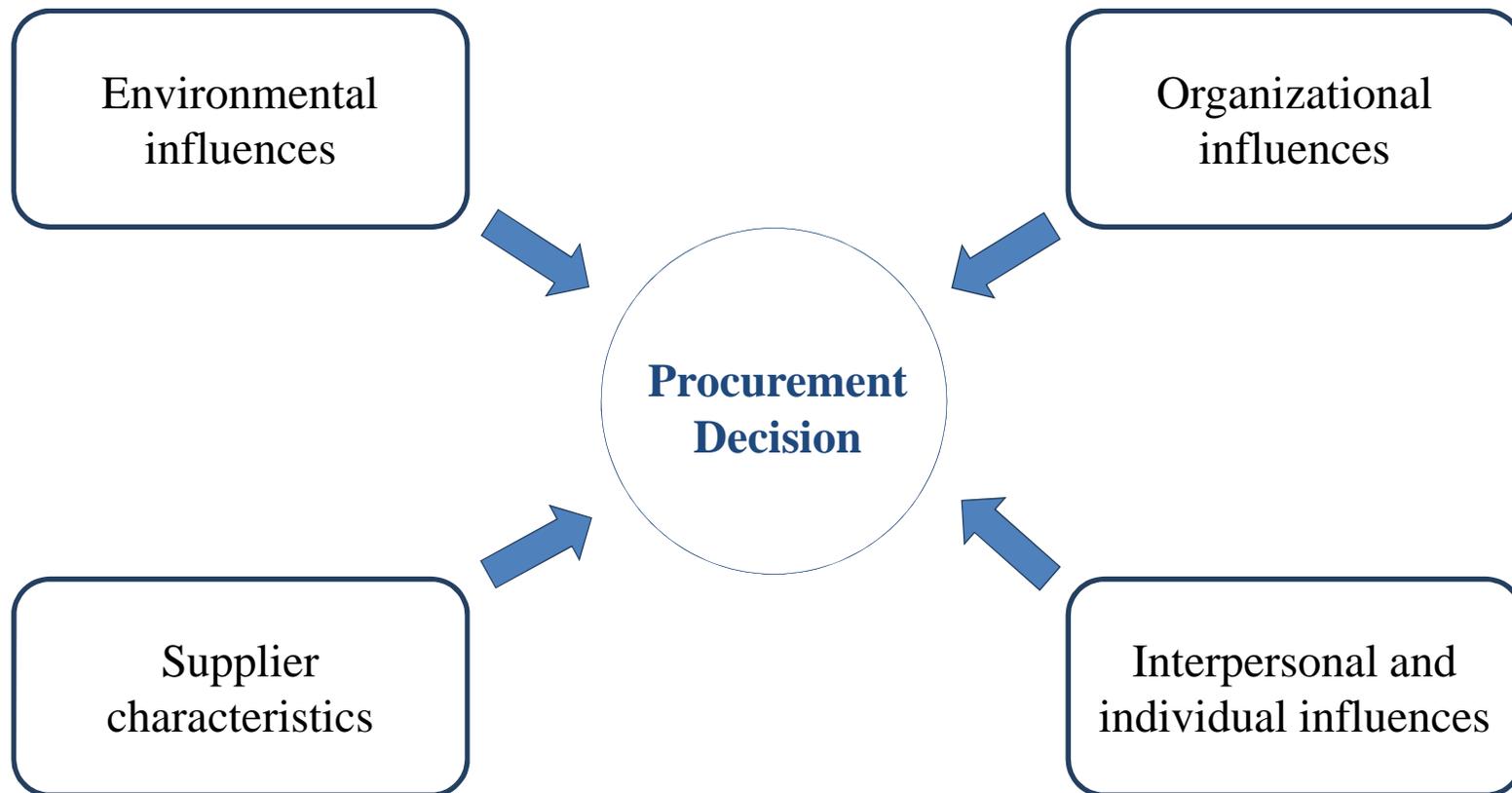
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## The selling centre

- *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

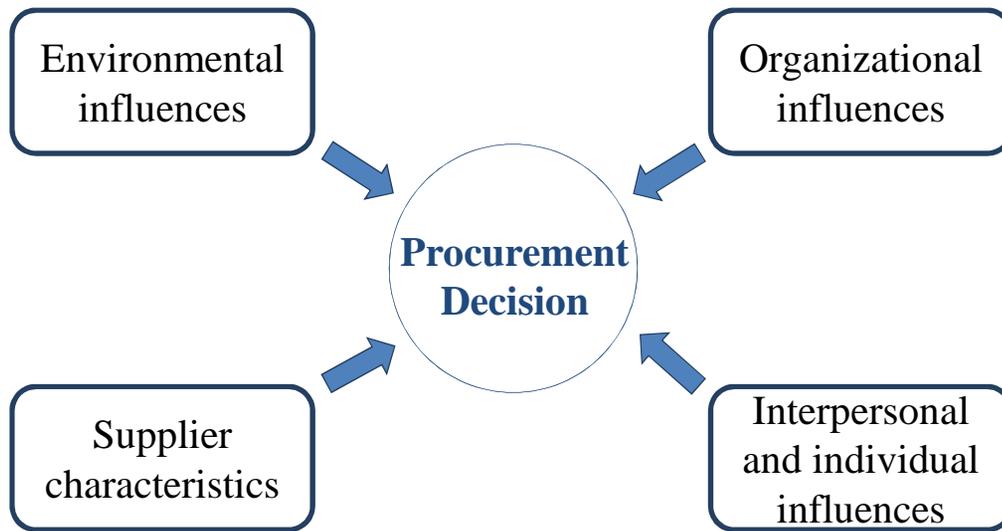
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*Source:* Adapted from Blythe (2009: 154–155), Kotler *et al.* (2008: 302–303), Chandler and Johnston (2012: 43), Armstrong and Kotler (2013: 181–182)

# INDUSTRIAL BUYING BEHAVIOUR

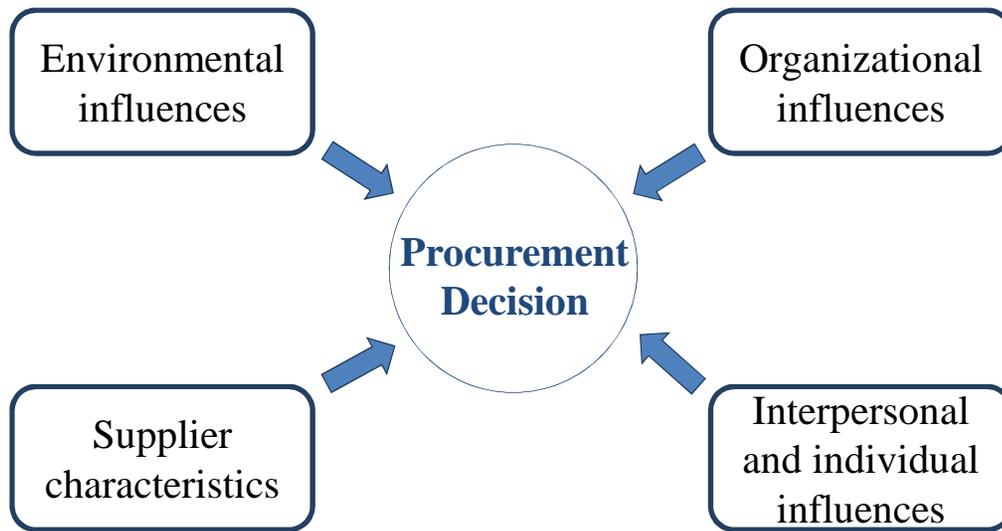
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- levels of primary demand
- taxation schemes
- general economic outlook
- political stability
- governmental subsidies
- trade sanctions and cross-border trade barriers
- national laws
- safety standards
- DIN Norms

# INDUSTRIAL BUYING BEHAVIOUR

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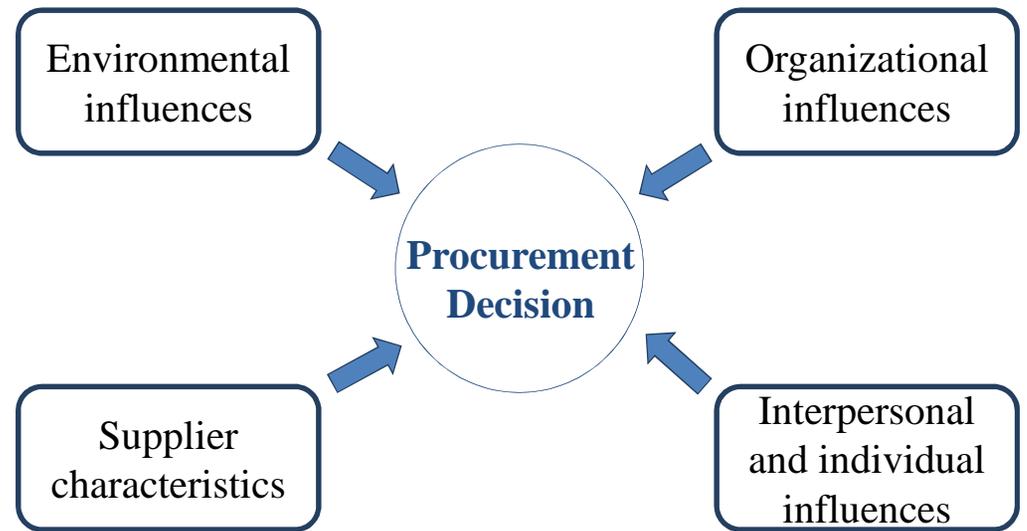


- ability to meet the customer's purchase specifications
- quality and price of products (as compared to alternative offers)
- punctuality in supply
- availability of after-sales services

# INDUSTRIAL BUYING BEHAVIOUR

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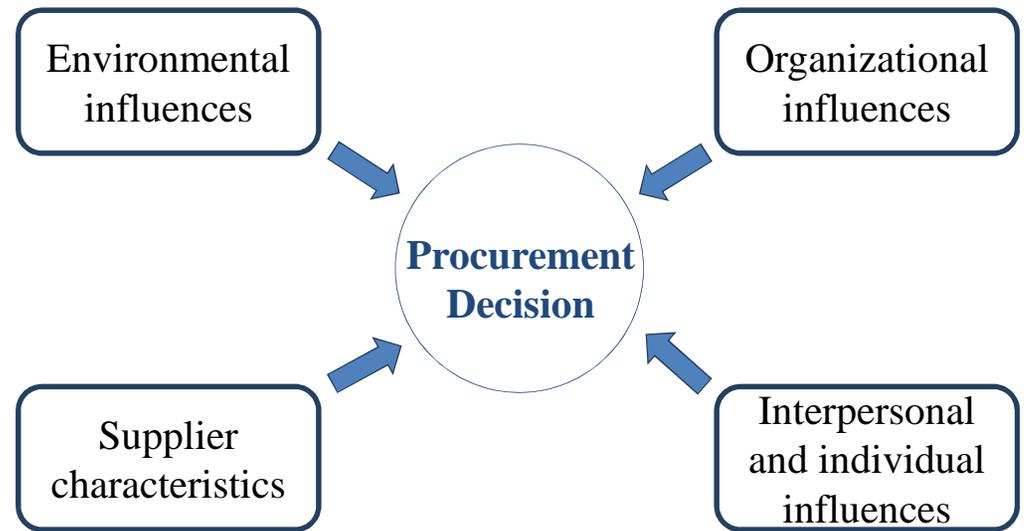
- company size
- hierarchical structure
- strategic orientation
- business objectives
- technology and procedures



# INDUSTRIAL BUYING BEHAVIOUR

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- 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

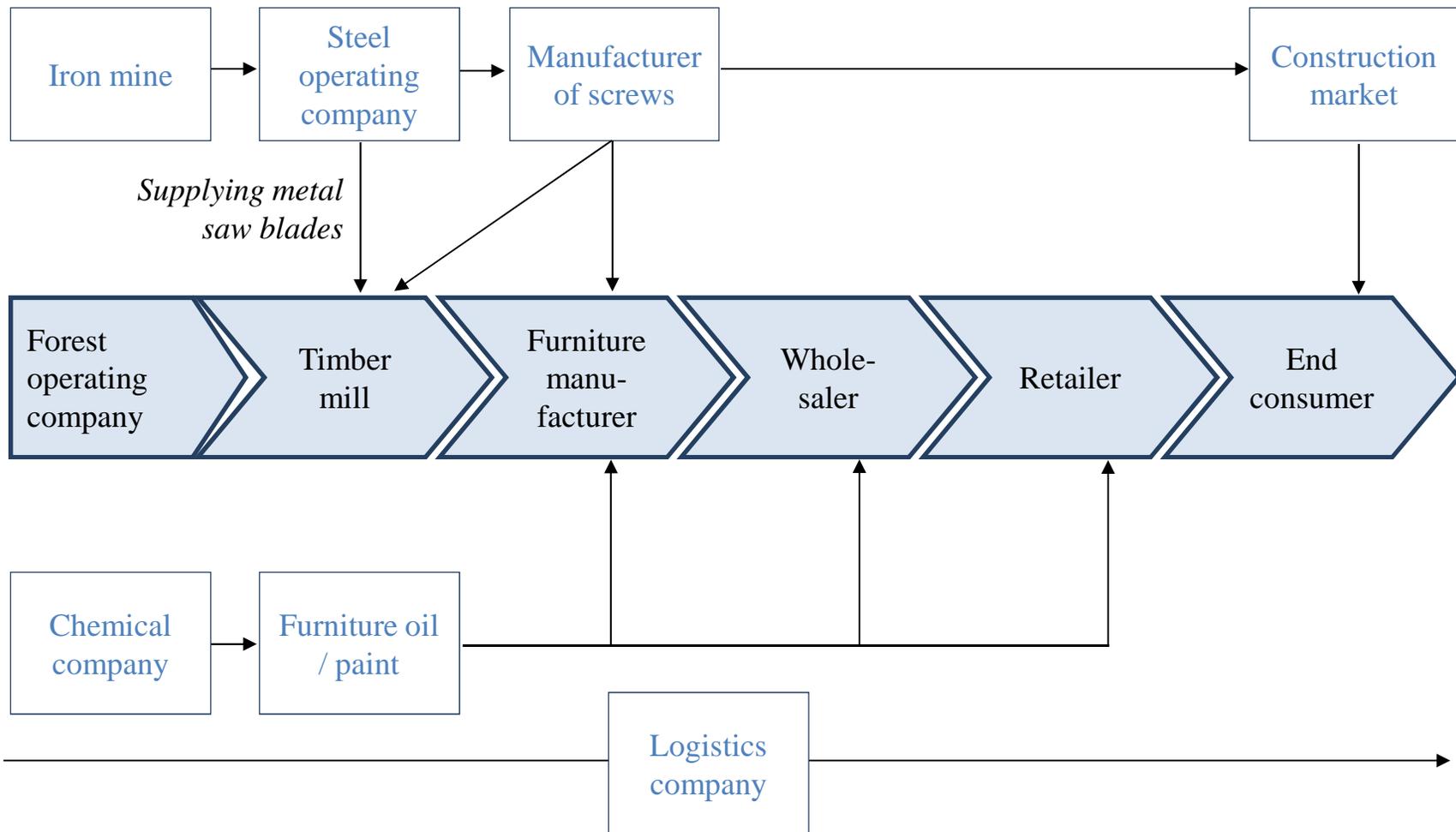
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## The business-to-business value chain

- 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

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## **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

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

*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

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

*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

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

*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

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

*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

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### **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

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### **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.?