

BUSINESS MARKETING / 02A

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Based on Dr. W.G. Biemans' Business marketing management, Prof. Ph. Kotler's Principles of marketing / Strategic marketing management and miscellaneous designer's lecturing materials



BUSINESS MARKETING / MARKETS

Characteristics of business markets

● Business markets

- The B-to-B market is *enormous*: most businesses just sell to other businesses, and sales amongst businesses exceed sales to consumers by far.

Each business link buys several materials from many other businesses in order to manufacture products that ultimately end up as specific consumer goods.

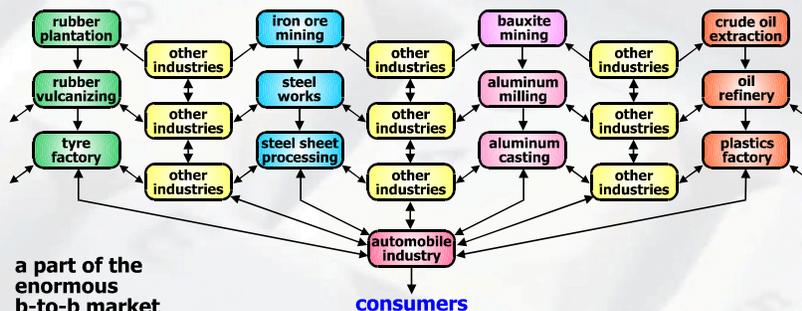
For example: automobiles.



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Characteristics of business markets

● Business markets



BUSINESS MARKETING / MARKETS

Characteristics of business markets

- **Business markets**
 - In some ways, business markets are similar to consumer markets:
 - both markets involve people who assume buying roles;
 - both markets involve people who make purchasing decisions to satisfy certain needs.
 - The key differences are in: **market structure** and **demand**, the **nature of the buying unit**, the **types of decision** and the **decision process**.

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Characteristics of business markets

- **Business markets & business marketing**
 - **Business market:** all the organizations that buy goods and services to use in the production of other products and services, or for the purpose of reselling or renting them to others at a profit.
 - **Business marketing:** all the marketing activities of an organization that are focused on (aimed at) other organizations, and thus *not directly* aimed at consumers.

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Characteristics of business markets

- **Market structure and demand**
 - Usually: business markets have *far fewer but far larger buyers* than in the consumer market.
 - Business markets are *more geographically concentrated* (steel industry, financial services, petrochemical industry, etc.).
 - In business markets, buyers (purchasers) and sellers (vendors) are more *interdependent*.
 - As such, business buyers (and sellers) often practice *reciprocity* (= selecting business partners that also buy from them, or *expand their business in other ways*).

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Characteristics of business markets

- **Market structure and demand** (cont'd)
 - Business demand is **derived demand**, as it ultimately derives (\approx *originates*) from the demand for consumer goods.
 - As such, the **demand is relatively less predictable**. Market research should be concentrated on the end-users.
 - Business purchasing is usually **consistent with demand**: buyers will prefer to buy more and different parts and components from the same business seller.

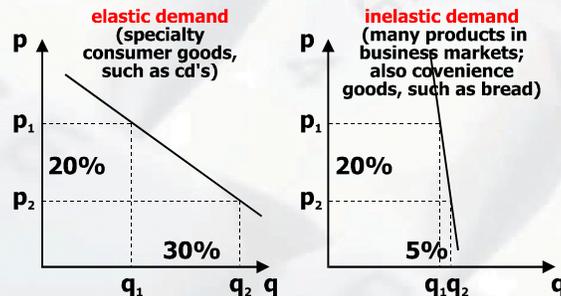
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Characteristics of business markets

- **Market structure and demand** (cont'd)
 - Many business markets have **inelastic demand**; the total demand for many business products is not effected much by price changes:



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Characteristics of business markets

- **Nature of the buying unit**
 - Business purchase usually involves **more buyers** and **a more professional purchasing effort** than consumer purchasing.
 - Often, business buying is done by **trained purchasing agents**, and / or by specially formed buying committees made up of technical experts and top management: the **decision making unit (DMU)**.
 - DMU's are usually **temporary buying units**; in exceptional cases, DMU's can be formed permanently.

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Characteristics of business markets

- **Types of decision**
 - Business purchasers often face *more complex buying decisions* than do consumer buyers.
 - Purchases often involve *large sums of money, complex commercial, technical and economic considerations*, and interactions among many *people at many levels* of the buyer's organization.

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Characteristics of business markets

- **Types of decision**
 - Business buying processes tend to be *more formalized* than consumer buying processes, requiring *more detailed product spec's, written purchase orders* and *careful supplier searching*.
 - Business buyers often *purchase directly* from manufacturers rather than through intermediaries, especially for items that are technically complex or expensive.

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Characteristics of business markets

- **Types of decision**
 - Business buyers are *increasingly leasing equipment* instead of buying it outright. Leasing offers *several advantages*, such as having *more available capacity*, getting the seller's *latest products*, receiving *better servicing* and gaining certain *tax benefits*.



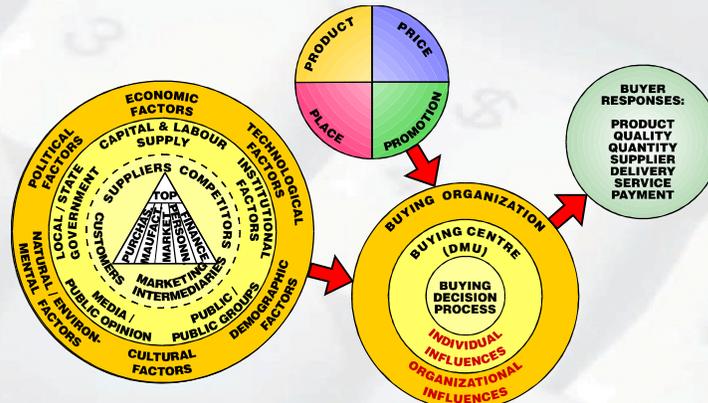
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Business buying aspects

- Various influential factors



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Business buying aspects

- Key issues

- What **buying decisions** do business buyers make?
- Who are the **participants** in the business buying process?
- What are the **main influences** on business buyers?
- How do business buyers make their buying decisions (**decision process**)?

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Business buying aspects

- Main types of buying situation

- The business buying process is usually very complicated. The number of decisions depends strongly on the type of **buying situation**.
- **3 main types** of business buying situation:
 - New task buy situation
 - Modified rebuy situation (**changes concerning product and/or supplier**)
 - Straight rebuy situation

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Business buying aspects

- **Main types of buying situation**
 - ***New task buy situation***: the buyer purchases a product or service for the first time;
 - the greater the cost or risk, the larger will be the number of decision participants and ***the greater their need and efforts*** to gather information;
 - new task buy situations often involve **systems buying**: a packaged solution to a problem or situation, without having to be involved in all the intermediate decisions.

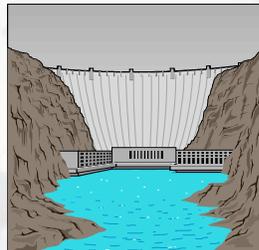
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Business buying aspects

- **A special type of new task buy situation...**
 - ***Systems buying and selling***:
sometimes systems buying and selling involves ***BOOT-operations***: build-own-operate-transfer, such as building electricity dams in developing countries.



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Business buying aspects

- **Main types of buying situation**
 - ***Modified rebuy situation***: the buyer wants or needs to modify product specifications, prices, terms or suppliers;
 - modification may become necessary when product specifications alter, or in cases when another supplying organization is required (when, for instance, the supplier has been taken over by a competitor);
 - modified rebuying usually involves several decision participants.

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Business buying aspects

- **Main types of buying situation**
 - ***Straight rebuy situation***: the buyer routinely reorders products without any specification;
 - these purchases are usually handled on a routine basis by the purchasing department;
 - more than 50% of all business purchases involve straight rebuys.**Most of these routine business transactions are conducted through Internet.**

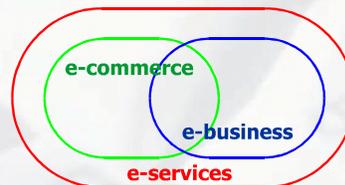
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Business buying aspects

- **e-commerce, e-business, e-services**
 - As from the mid 1990's millions of businesses started to use the Internet commercially (***e-business***). As time went by, more and more consumers started buying products through this channel (***e-commerce***). Now, more and more services are being offered through the Internet (***e-services***).



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Business buying aspects

- **Participants in the business buying process**
 - The DMU includes all members of the organization who play any of 5 typical roles regarding the purchase decision process:
 - **users / initiators**
 - **buyers**
 - **influencers**
 - **gatekeepers**
 - **deciders**

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Business buying aspects

- **Participants in the business buying process**
 - **Users / initiators:** members of the organization who will use the product or service. Users are often the initiators of the buying proposal, and help define the product specifications.
 - **Buyers:** people in the organization or in the DMU who make the actual purchase. Sometimes buyers will help define product specifications, however, their key role involves selecting vendors and participating in the negotiations. For example: top management.

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Business buying aspects

- **Participants in the business buying process**
 - **Influencers:** people in or outside the DMU who affect the buying decision. Their views and advice carry a certain weight in making a final buying decision. As such they often help define specifications and also provide information for evaluating alternatives. For example: R&D management or the internal or external accountant.

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Business buying aspects

- **Participants in the business buying process**
 - **Gatekeepers:** people in the DMU who control the flow of information to others / other members of the DMU or organization.
 - **Deciders:** people in the organization's DMU who have formal or informal powers to select or approve the eventual suppliers. For example: the directing manager, or a project manager, etc.

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Business buying aspects

- **Participants in the business buying process**
 - The DMU is usually **not a fixed and formally identified** group within the buying organization.
 - The **size and composition of the DMU** will vary for different products and for different buying situations.

For some routine purchases, one person may assume all the DMU roles, including the buyers role. In other, more complicated situations, the DMU might include several dozens of people from different levels and departments in the organization.