

# PRINCIPLES OF MARKETING / 07

IBMS /  
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Based on *Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials*



1

## B-to-B MARKETING

### 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.

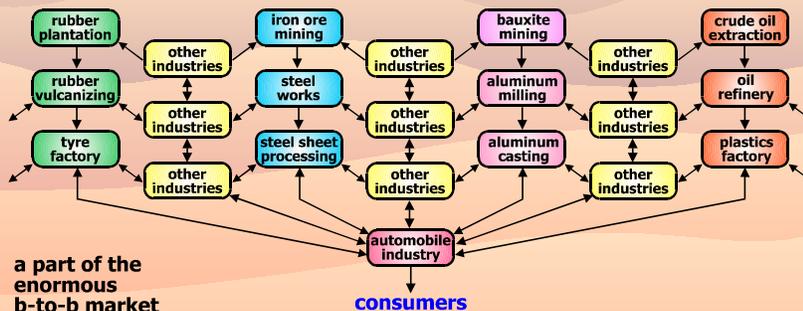


2

## B-to-B MARKETING

### Characteristics of business markets

- **Business markets**



3

## B-to-B MARKETING

### 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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4

## B-to-B MARKETING

### 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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5

## B-to-B MARKETING

### 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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6

## B-to-B MARKETING

### 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.

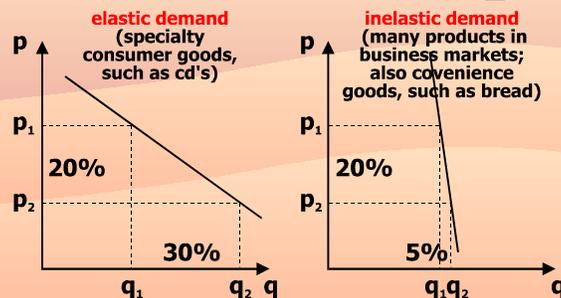
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7

## B-to-B MARKETING

### 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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8

## B-to-B MARKETING

### 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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9

## B-to-B MARKETING

### 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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10

## B-to-B MARKETING

### 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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11

## B-to-B MARKETING

### 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*.



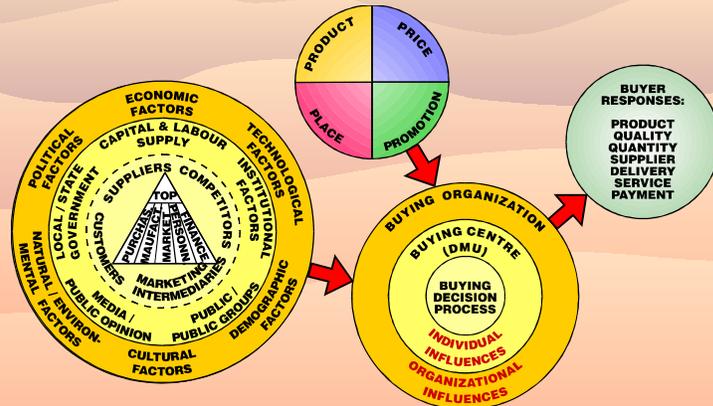
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12

## B-to-B MARKETING

### Business buying aspects

- Various influential factors



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13

## B-to-B MARKETING

### 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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14

## B-to-B MARKETING

### 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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15

## B-to-B MARKETING

### 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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16

## B-to-B MARKETING

### 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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17

## B-to-B MARKETING

### 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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18

## B-to-B MARKETING

### 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.**

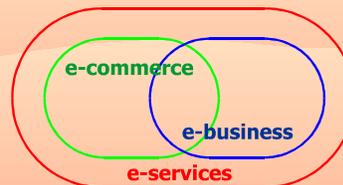
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19

## B-to-B MARKETING

### 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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20

## B-to-B MARKETING

### 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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21

## B-to-B MARKETING

### 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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22

## B-to-B MARKETING

### 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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23

## B-to-B MARKETING

### 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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24

## B-to-B MARKETING

### 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.

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25

## B-to-B MARKETING

### B-to-B purchasing: influential factors



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26

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Main influences on business buyers**
  - Although many businesses assume that the major influences on business buyers are mainly economic (in terms of price, service and quality), **business buyers actually respond to both economic and personal factors**. In short, they respond to both **reason and emotion**.
  - Some business and marketing managers believe that approx. 80% of a business purchase decision is based on emotions ('do I trust this brand?' 'does this company sound okay?' 'do I like this sales person?' etc.). The remaining 20% concerns the rational push to finalize the decision.

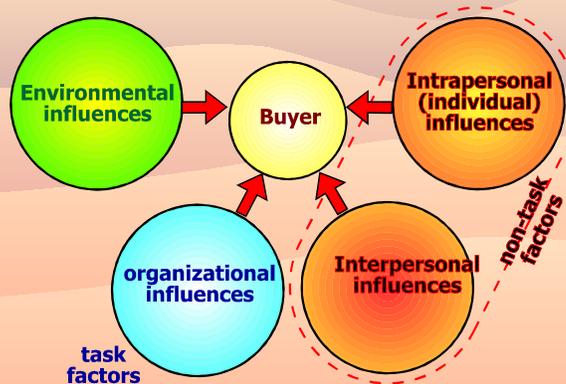
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27

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- Influential factors



28

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- Environmental influences

- **Economic**, such as:
  - **business outlook** (tendency of the market): economic uncertainty resulting in investment cut-backs and inventory reductions;
  - **cost of money**: exchange rates, degree of devaluation, revaluation, depreciation or appreciation.

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29

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- Environmental influences

- **Economic** (explanations):
  - **devaluation** (official reduction in the exchange value of a currency by lowering its gold equivalency or its value relative to another currency; ex.: Hfl / DM);
  - **revaluation** (official increase in the exchange value of a currency by linking to another currency which is higher in value; ex.: Mexican Peso / US\$);
  - **depreciation** (the lowering of a currency's value in response to supply and demand; ex.: less demand for the US\$);
  - **appreciation** (the increase of a currency's value in response to supply and demand; ex.: more demand for the €).

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30

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Environmental influences**
  - **Customers / buyers**, for example:
    - **level of primary demand**: concerns the level of total demand for all brands of a certain product or service, such as the total demand for cars.
  - **Suppliers / supply chain**, such as:
    - **supply conditions**: for instance, shortages in key (raw) materials, resulting in companies holding larger inventories of scarce materials to ensure adequate supply.

32

31

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Environmental influences**
  - **Competition**, for instance:
    - **competitive developments**: not only regarding the **immediate rivals** in the branch of industry itself (such as within the airline industry), but also **potential competitors** operating in other branches of industry offering similar services (such as high-speed train companies) or offering different solutions (Learjet, Bell helicopters, aircraft time sharing, etc.).

32

32

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Environmental influences**
  - **technology**, for example:
    - **rate of technological change**: for example as being experienced in the ICT industry (cellular phones, computers, the Internet, etc.).
  - **political**, such as:
    - **political and regulatory developments**: for example, purchasing bans that exist in certain areas in the world (based on political, religious or fundamentalistic laws).

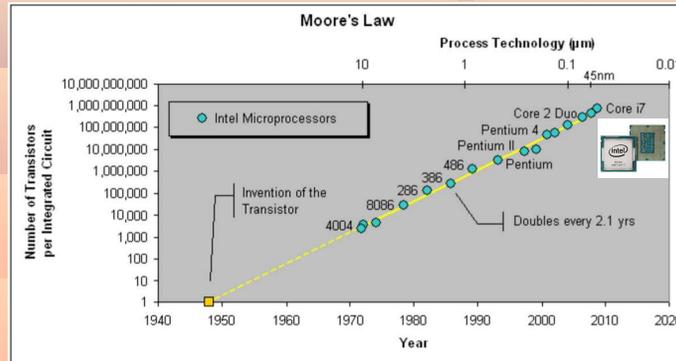
32

33

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Environmental influences**
  - **technology, rate of technological change:**



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34

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Organizational influences**
  - **Organizational factors**, such as:
    - **objectives, policies & procedures, organizational structures & systems**: what is the buyer's corporate objective? what is the significance of buying this product or service? how many people are involved -directly and indirectly- in the buying decision? who are the key figures? what are their evaluative criteria? what are the company's policies and limits to its buyers? etc.

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35

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Organizational influences**
  - **Organizational factors**, cont'd:
    - **upgraded purchasing**: in the past many purchasing departments were underrated within their organizations. This has changed in recent years, mainly because:
      - purchasing often involves managing **50%-80% of the total costs**;
      - keen purchasing can **earn major sums of money** for the organization;
      - purchasing plays a **key role in quality, innovation and safety processes**.

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36

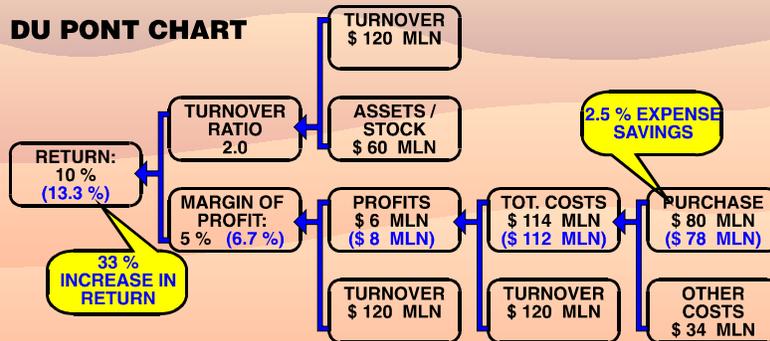
## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Organizational influences**

- **Organizational factors**, cont'd:

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37

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Organizational influences**

- **Organizational factors**, cont'd:

- **centralized purchasing**: in many companies that consist of several divisions, much of the purchasing takes place at the divisional level. Evidently, a certain degree of inefficiency occurs.

For this reason many companies have centralized their purchasing, thus offering them more purchasing power and substantial savings.

Consequently, this means dealing with fewer, though higher level buyers.

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38

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Organizational influences**

- **Organizational factors**, cont'd:

- **long-term contracts**: in imitation of the Japanese business / quality models, many companies -especially car manufacturers such as Ford and GM- set up long-term contracts with their suppliers. Typically, many of these suppliers establish plants close to their buyers, and maintain direct communications through, for instance, **electronic data interchange (EDI)**.

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39

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Organizational influences**
  - **Organizational factors**, cont'd:
    - **Just-in-time (JIT) production systems**: also, following the Japanese business / quality models, many companies rely heavily on their Just-in-time operation. This development has, of course, had a great impact on business purchasing policies. The goal of JIT is **zero inventory with 100% quality**, which calls for close co-operation between buyer and supplier and their production departments.

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40

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Interpersonal influences**
  - **Interpersonal factors**, such as:
    - **group factors**: DMU's usually include many participants who influence each other in many ways. The highest ranking participant within the DMU won't always have the most influence. At the same time, the most powerful, influential participant might seem invisible to vendor representatives.

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41

## B-to-B MARKETING

### B-to-B purchasing: influential factors

- **Intrapersonal -individual- influences**
  - **Individual factors**, such as:
    - **personalities**: in many cases buying decisions depend to a large degree on the personalities of the individual vendor representatives and the DMU participants. As such, the buying process frequently depends on emotional factors such as liking each other and **granting businesses** for non-rational reasons.

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42

# B-to-B MARKETING

## Business buying process

### ● The decision process

- |                                     |                             |   |  |
|-------------------------------------|-----------------------------|---|--|
| ① Orientation phase                 | Product specification phase | } | 1/ Problem recognition   |
|                                     |                             |   | 2/ General need description: functional / technical spec's, amounts & ordering procedure |
| ② Commercial phase                  | Suppliers selection phase   | } | 3/ Supplier search   |
|                                     |                             |   | 4/ Proposal solicitation   |
| ③ Administrative finalization phase |                             |   | 5/ Negotiation process   |
|                                     |                             |   | 6/ Supplier selection  |
|                                     |                             |   | 7/ Contracting and order-routine specification   |
|                                     |                             |   | 8/ Order monitoring  |
|                                     |                             |   | 9/ Performance review  |

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43

# B-to-B MARKETING

## Business buying process

### ● The decision process

- **Problem recognition:**
  - **problem determination / identification:** in this stage someone in the company recognizes a 'problem' (*a situation or an opportunity*) or -in many cases not yet defined- need that can be met by acquiring or creating a good or a service.  
For example:
    - **Internal:** production improvement, or replacement of machinery or materials
    - **External:** competition-driven or technological impulses.

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44

# B-to-B MARKETING

## Business buying process

### ● The decision process

- **General need description:**
  - **functional specifications:** determination of what the product or solution should *do*.
  - **technical specifications:** determination of what (technical) *requirements* the product or solution must meet, for instance: dimensions, capacities, quality standards, etc.

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45

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **General need description:**
    - **amounts needed**: this depends on what is needed, for instance:
      - **machinery**: amount will depend on the (consumers-)demand for a certain product. For instance: a machine to manufacture shoes.
      - **materials & components**: amounts will depend on expected numbers or series of sales or production. For example: the leather needed to manufacture shoes.

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46

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **General need description:**
    - **ordering procedure**: in this stage authorities (who will be in charge) will be determined concerning this order or assignment.
    - Furthermore, **budgets** will have to be determined, as well as **procurement** (the right to act on behalf of the company / management), lines of communication and procedures (who-what-how-when).

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47

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **Supplier search:**
    - **short listing**: in this stage, where the buyer tries to find the best vendor(s), usually a so called **short list** will be drawn up, involving possible, qualified suppliers, based on good experiences (his own or those of other organizations), reputations and impressions. Eventually this will result in a so called **approved vendors list**, involving actually preferred suppliers.

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48

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **Proposal solicitation:**
    - **proposals, quotations:** in this stage, the buyer invites qualified suppliers to submit proposals. More often, these proposals will be based on a well specified briefing (intake). In some cases, such as with relatively less complicated products, a written specification (for instance by fax or through the Internet) will be quite sufficient, instead.

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49

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **Negotiation process:**
    - **negotiating details:** in this stage, the assigned members of the DMU start negotiations with the remaining possible suppliers. Negotiations concerning the proposals usually involve special conditions to be taken into consideration, delivery details, after sales service aspects, etc. Also, as far as possible, potential problem areas will be discussed, such as additional labour.

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50

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **Supplier selection:**
    - **evaluation of proposals, selection of supplier(s):**  
in this stage, the members of the DMU will review the proposals and select one or more suppliers (perhaps for further explanation). Comparison of the proposals and the suppliers is usually based on **technical, commercial and financial criteria**.  
**Technical**, ex.: will this product meet our technical (quality) requirements?; **commercial**, ex.: can we make a profit on it?; **financial**, ex.: what will this product cost us?

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51

## B-to-B MARKETING

### Business buying process

- The decision process
  - Vendor rating (*subjective method*):

| Supplier:  | Purchasing factors:  | Vendor rating  |
|------------|--|--|
| Supplier A | a: delivers good quality<br>b: sticks to deadlines<br>c: has qualified sales eng's<br>d: available for help / Q&A<br>e: ..... etc. | always 5<br>mostly 3<br>mostly 3<br>seldom 1<br>..... .. |
| Supplier B | a: delivers good quality<br>b: sticks to deadlines<br>c: has qualified sales eng's<br>d: available for help / Q&A<br>e: ..... etc. | mostly 3<br>always 5<br>mostly 3<br>mostly 3<br>..... .. |

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52

## B-to-B MARKETING

### Business buying process

- The decision process
  - Contracting and order-routine specification:
    - *contracting*: in this stage of the business buying process, the assigned members of the DMU will set up contracts with the appointed supplier(s).  
In many cases this will involve only 1 supplier (*single sourcing*), however, contracting more than 1 supplier also occurs (*dual, multiple sourcing*).

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53

## B-to-B MARKETING

### Business buying process

- The decision process
  - Contracting and order-routine specification:
    - *order routine specification*: in this stage the buyer will write the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies and guarantees.  
In case of maintenance, repairs, etc., a *blanket contract* might be used, arranging several conditions of possible re-supply orders in the future.

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54

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **Order monitoring:**
    - ***monitoring details***: in this stage the purchasing officer or department will monitor the delivery / deliveries of the ordered products or components, especially regarding **timeliness** (being on time), **quantities** and **quality**.  
Note that in JIT-environments, monitoring will occasionally take place, usually based on ***random tests***.

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55

## B-to-B MARKETING

### Business buying process

- **The decision process**
  - **Performance review:**
    - ***reviewing details***: in this stage the buyer, purchasing officer or purchasing department will rate the organization's satisfaction with the supplier(s), in order to decide whether or not to continue doing business with them, or to modify the order.

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56