Meet Brian Oxley, a Decision Maker at Sash UK

Brian Oxley is Commercial Director at Sash UK Ltd, a supplier of PVCu industrial windows. The company was founded in 1965, then known as Bean & Morrell, and quickly established a reputation for traditional craftsmanship. During the initial ten years the company's business flourished, partly as a result of the buoyant housing market where the company had been highly successful in supplying to construction companies. During the next decade, the demand for replacement windows really took off, there was an emphasis on energy efficiency, with the introduction of double glazing at the forefront of governmental-led initiatives. The company moved into aluminium designs in the early 1980s. Following this period, the company launched its new range of PVCu windows, and managed to penetrate the UK market with remarkable speed. By continually monitoring the industrial and commercial markets, and through re-investing in the company in terms of innovation and design (and adding PVCu conservatories to its existing product range of high-quality windows and doors) – Sash enjoyed significant growth throughout the 1980s and 1990s. Brian joined the company some 23 years ago. He was appointed Commercial Director at Sash in 1999, where he holds responsibility for 70 per cent of the company’s sales turnover. Brian's role is to nurture and develop business in various B2B markets including local government, housing associations, education authorities, other governmental bodies, and large private sector businesses.

Chapter 5

Business-to-Business Marketing

Q & A with Brian Oxley

First job out of school: Pattern Maker for loom manufacturing at Wilson & Longbottom, UK.

Career high: I am still searching for it.

My hero: Lance Armstrong. He’s achieved his goals through adversity.

Don’t do this when interviewing with me: Tell lies. Be honest and truthful.

My pet peeve: Irony in all shapes and forms.

Favourite TV programme: House.
A new millennium was looming, the company had to make some tough decisions. In the midst of the national success that the company had experienced in the industrial marketplace, competition was becoming more intense. A number of highly reputable suppliers that had traditionally operated in the residential consumer marketplace had decided to expand their operations by establishing a presence in the industrial market. The market was about to become more competitively intense, as those suppliers in the market were forced to react to these new entrants; at the same time, because of new EU regulations, several German suppliers were looking to enter at the high quality end of the market, and other suppliers from Southern Europe were aiming to take advantage of their ‘low cost’ base to spearhead further attacks.

Whilst several European players were planning to enter an already somewhat saturated and competitive UK market, board members of Sash were considering export themselves. For several years the company had received unsolicited enquiries from the US but because it did not have the skills and knowledge to consider export, nor the production capacity to fulfil potential demand, decided against such ventures.

Brian and his team had to consider that their UK market position was vulnerable, and needed to react accordingly, and at the same time think long and hard about investing heavily in a new manufacturing plant, aimed at serving both domestic orders and potential US demand.

Brian considers his options . . .

Option 1 Do nothing and continue with the current strategy of competing at the high end of the UK industrial market

There are several advantages to this: (1) the company has a well-established market share, and a good reputation. As a result it may be able to maintain a similar position. (2) Sash would not need to risk a commercial loan of about €5 million, and more investment could be placed on defending the company’s market position. (3) Because Sash is a privately run limited company, and would not be subject to the pressures from the London Stock Exchange for quarterly earnings and rapid expansion, there may be less constraints on the board members of the company, who could be happy for the company to make modest returns. (4) The uncertainty of venturing into the US for a company that has never exported makes staying at home less risky. Sash is comfortable with its current business model. Any change requires learning new business processes and positioning strategies with new customers. On the other hand, Sash is experiencing growing competition, and further developments within Europe suggest that depending on the home market will continue to be more and more difficult.

Option 2 Continue with the current strategy of competing at the high end of the UK industrial market, but outsource production that can serve the demand for the US market

The advantages of this option include all those discussed above for option 1, and the company has the potential to increase revenues further through using the production facilities of another company. Of course there would be much lower start-up risks compared with the construction of a new production site, and as a company Sash controls the marketing arm, and importantly manages the customer relationship. The downside to this option is that when dealing with a third-party producer, the management and control of quality is more difficult. Remember that Sash has established a reputation for quality and service. Put simply, an outsourced company may not be able to deliver to the standards and specification associated with Sash and this could tarnish the company’s reputation and spoil the chance of breaking into the large potential US market.

The third-party manufacturing company would also be likely to become financially much stronger due to the US orders. Sash would of course live in fear of creating a competitor, that may even have the desire and drive to enter the US market itself. This may be an expensive option too, as profits need to be shared with the manufacturer which could otherwise be used for further investment at Sash.
CHAPTER 5  BUSINESS-TO-BUSINESS MARKETING

Option 3 Go for the plant investment and use this to update production and serve the needs of US demand

This would allow Sash to enter the US and not have to share profits with third-party manufacturers. At the same time Sash would benefit in the medium and long term from the economies of scale which a larger and more efficient production base could offer. Choosing this option would result in higher capital investment and a commercial loan. Sash would be able to build on its experience in the UK to enter a similar market in terms of culture – a realistic expectation. On the other hand, there is no guarantee of success, but US demand appears huge.

Now, put yourself in Brian’s shoes: Which option would you choose, and why?

Objectives
When you finish reading this chapter, you will be able to:

1. Describe the general characteristics of business-to-business markets
2. Explain the unique characteristics of business demand
3. Describe how business or organisational markets are classified
4. Explain the business buying situation and describe business buyers
5. Explain the roles in the business buying centre
6. Understand the stages in the business buying decision process
7. Understand the growing role of B2B e-commerce

Business Markets: Buying and Selling when the Stakes are High

You might think most marketers spend their days dreaming up the best way to promote cutting-edge web browsers or trendy shoes – not really. Many marketers know that the ‘real action’ more likely lies in industrial products like Sash offers, or in office supplies, work safety shoes, group medical insurance, machine components or construction products that other companies sell to businesses and organisations. In fact, some of the most interesting and lucrative jobs for young graduates are in industries you’ve probably never heard of because these businesses don’t deal directly with consumers.

Like an end consumer, a business buyer makes decisions – but with an important difference: the purchase may be worth millions of euros, and both the buyer and the seller have a lot at stake. A consumer may decide to buy two or three T-shirts at one time, each showing a different design. Leading companies such as British Airways, Shell and Pizza Hut buy hundreds, even thousands of employee uniforms embroidered with their corporate logos in one single order.

Consider these transactions: IBM produces computer network servers to sell to its business customers. Unilever has contracts with several advertising agencies to promote its brands at home and around the globe. The London Theatre Company buys costumes, sets and programmes. The EU in Brussels places orders for thousands of new computers.

All these exchanges have one thing in common: they’re part of business-to-business (B2B) marketing. This is the marketing of goods and services that businesses and other organisations buy for purposes other than personal consumption. Some firms resell these goods and services, so they are part of a channel of distribution. Other firms use the goods and services they buy to produce other goods and services that meet the needs of their customers or to support their own operations. These business-to-business markets, or organisational markets, include manufacturers, wholesalers, retailers and a variety of other organisations, such as hospitals, universities and governmental agencies.

To put the size and complexity of business markets into perspective, let’s consider a single product – a pair of jeans. A consumer may browse through several racks of jeans and ultimately purchase a single pair, but the shop at which the consumer shops has purchased many pairs of
jeans in various sizes, styles and brands from different manufacturers. Each of these manufacturers purchases fabrics, zips, buttons and cotton thread from other manufacturers – that in turn purchase the raw materials to make these components. In addition, all the firms in this chain need to purchase equipment, electricity, labour, computer systems, legal and accounting services, insurance, office supplies, packing materials and countless other goods and services. So even a single purchase of the latest style of Diesel jeans represents the culmination of a series of buying and selling activities among many organisations.

In this chapter, we’ll look at the big picture of the business marketplace, a world in which the success of business buyers and sellers can hang in the balance of a single transaction. Then we’ll examine how marketers categorise businesses and other organisations to develop effective business marketing strategies. We’ll look at business buying behaviour and the business buying decision process. Finally, we’ll talk about the important world of business-to-business e-commerce.

**Characteristics that make a Difference in Business Markets**

In theory, the same basic marketing principles hold in both consumer and business markets – firms identify customer needs and develop a marketing mix to satisfy those needs. For example, take the company that made the desks and chairs at your university. Just like a firm that markets consumer goods, the furniture company that supplies university establishments first must create an important competitive advantage for its target market of universities. Next the firm develops a marketing mix strategy beginning with a product – the lecture/seminar room furniture that will withstand years of use by thousands of students while providing a level of comfort required for a good learning environment. The firm must offer the furniture at prices that universities can afford and that will allow the firm to make a reasonable profit. Then the firm must develop a sales force or other marketing communications strategy to make sure your university (and many others) consider, and hopefully choose its products when it furnishes classrooms.

Although marketing to business customers does have a lot in common with consumer marketing, there are differences that make this basic process more complex. Figure 5.1 provides a quick look at some of these differences.
CHAPTER 5  BUSINESS-TO-BUSINESS MARKETING

Large Buyers

In business markets, products often have to do more than satisfy an individual's needs. They must meet the requirements of everyone involved in the company's purchase decision. If you decide to buy a new chair for your room or apartment, you're the only one who has to be satisfied. For the lecture/seminar room, the furniture must satisfy not only students but also faculty, administrators, campus planners, financial controllers and the people at your institution who actually do the purchasing. In some cases the furniture may also have to meet certain governmental and safety standards.

<table>
<thead>
<tr>
<th>Organisational Markets</th>
<th>Consumer Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Purchases made for some purpose other than personal consumption</td>
<td>• Purchases for individual or household consumption</td>
</tr>
<tr>
<td>• Purchases made by someone other than the user of the product</td>
<td>• Purchases usually made by ultimate user of the product</td>
</tr>
<tr>
<td>• Decisions frequently made by several people</td>
<td>• Decisions usually made by individuals</td>
</tr>
<tr>
<td>• Purchases made according to precise technical specifications based on product expertise</td>
<td>• Purchases often based on brand reputation or personal recommendations with little or no product expertise</td>
</tr>
<tr>
<td>• Purchases made after careful weighing of alternatives</td>
<td>• Purchases frequently made on impulse</td>
</tr>
<tr>
<td>• Purchases based on rational criteria</td>
<td>• Purchases based on emotional responses to products or promotions</td>
</tr>
<tr>
<td>• Purchasers often engage in lengthy decision process</td>
<td>• Individual purchasers often make quick decisions</td>
</tr>
<tr>
<td>• Interdependencies between buyers and sellers; long-term relationships</td>
<td>• Buyers engage in limited-term or one-time-only relationships with many different sellers</td>
</tr>
<tr>
<td>• Purchases may involve competitive bidding, price negotiations, and complex financial arrangements</td>
<td>• Most purchases made at ‘list price’ with cash or credit cards</td>
</tr>
<tr>
<td>• Products frequently purchased directly from producer</td>
<td>• Products usually purchased from someone other than producer of the product</td>
</tr>
<tr>
<td>• Purchases frequently involve high risk and high cost</td>
<td>• Most purchases are low risk and low cost</td>
</tr>
<tr>
<td>• Limited number of large buyers</td>
<td>• Many individual or household customers</td>
</tr>
<tr>
<td>• Buyers often geographically concentrated in certain areas</td>
<td>• Buyers generally dispersed throughout total population</td>
</tr>
<tr>
<td>• Products often complex; classified based on how organisational customers use them</td>
<td>• Products: consumer goods and services for individual use</td>
</tr>
<tr>
<td>• Demand derived from demand for other goods and services, generally inelastic in the short run, subject to fluctuations, and may be joined to the demand for other goods and services</td>
<td>• Demand based on consumer needs and preferences, is generally price-elastic, steady over time and independent of demand for other products</td>
</tr>
<tr>
<td>• Promotion emphasises personal selling</td>
<td>• Promotion emphasises advertising</td>
</tr>
</tbody>
</table>

Figure 5.1 Differences between Organisational and Consumer Markets

There are many major and minor differences between organisational and consumer markets. To be successful, marketers must understand these differences and develop strategies that can be effective with organisational customers.
Organisational customers are few and far between compared with end consumers. In Europe, there are several million consumer households but significantly fewer businesses or organisations. Dutch giant Philips Medical, which markets sophisticated electrical products to hospitals, health maintenance organisations and other medical groups, has a limited number of potential customers compared with its consumer electronics division. This means that business marketing strategies may be quite different from consumer marketing strategies. For example, in consumer markets Philips may use TV advertising, but in its business markets a strong sales force is vital for promoting the product.

Business-to-Business Demand

Demand in business markets differs from consumer demand. Most demand for business-to-business products is derived, inelastic, fluctuating and joint. Understanding these differences in business-to-business demand is important for marketers in forecasting sales and in planning effective marketing strategies.

Derived Demand

Consumer demand is based on a direct connection between a need and the satisfaction of that need. However, business customers don’t purchase goods and services to satisfy their own
needs. Business-to-business demand is **derived demand** because a business's demand for goods and services comes either directly or indirectly from consumer demand.

Consider an airline carrier such as KLM (from the Netherlands). Demand for the purchase of aircraft (Boeing or Airbus orders) comes from the demand for air travel and holidays. Likewise, demand for a marketing textbook is likely to come from the demand for business and marketing education. As a result of derived demand, the success of one company may depend on another company, and it could be in a different industry. The derived nature of business demand means that marketers must be constantly alert to changes in consumer trends that ultimately will have an effect on business-to-business sales.

### Inelastic Demand

Inelastic demand means that it usually doesn’t matter if the price of a business-to-business product goes up or down – business customers still buy the same quantity. Demand in business-to-business markets is mostly inelastic because what is being sold is often just one of many parts or materials that go into producing the consumer product. It is not unusual for a large increase in a business product’s price to have little effect on the final consumer product’s price.

For example, you may be able to buy a BMW Z4 Roadster 3.0i ‘loaded’ with options for about €60,000. To produce the car, BMW purchases thousands of different parts. If the price of tyres, batteries or stereos goes up or down, BMW will still buy enough to meet consumer demand for its cars. As you might imagine, increasing the price by €30, €40 or even €100 won’t change consumer demand for this type of cars, so demand for parts remains the same (if you have to ask how much it costs, you probably can’t afford one).

But business-to-business demand isn’t always inelastic. Sometimes producing a consumer good or service relies on only one or a few materials or component parts. If the price of the part increases, demand may become elastic if the manufacturer of the consumer good passes the increase on to the consumer. Steel, for example, is a major component in cars. Vehicle manufacturers will need to pay a lot more for steel should its price rise. An increase in the price of steel can drive up the price of vehicles so greatly that consumer demand drops, and eventually decreases the demand for steel.

### Fluctuating Demand

Business demand is also subject to greater fluctuations than consumer demand. There are two reasons for this. First, even small changes in consumer demand can create large increases or decreases in business demand. Take for example air travel – and even a small increase in demand for air travel can cause airlines to order new equipment, creating a dramatic increase in demand for planes.

A product’s life expectancy is another reason for fluctuating demand. Business customers tend to purchase certain products infrequently. Some types of large machinery may need to be replaced every 10 or 20 years. Thus, demand for such products fluctuates. It may be very high one year when a lot of customers’ machinery is wearing out, but low the following year because everyone’s old machinery is working fine. One solution for keeping production more constant is to use price reductions to encourage companies to order products before they actually need them.

### Joint Demand

Joint demand occurs when two or more goods are necessary to create a product. For example, the BMW Z4 needs tyres, batteries, and spark plugs (a range of products). If the supply of one
of these parts decreases, BMW may find it difficult to manufacture as many vehicles, and the company may not buy as many of the other items either.

Types of Business-to-Business Markets

As we noted earlier, many firms buy products in business markets so they can produce other goods. Other business-to-business customers resell, rent or lease goods and services. Still other customers, including governments and not-for-profit institutions such as the Red Cross or a local church, serve the public in some way. In this section, we’ll look at the three major classes of business-to-business customers – producers, resellers and organisations (Figure 5.2). Then we’ll look at how marketers classify specific industries.

Producers

Producers purchase products for the production of other goods and services that they in turn sell to make a profit. For this reason, they are customers for a vast number of products from raw materials to goods manufactured by still other producers. For example, in our introductory case, Sash buys PVCu and uses it to manufacture its windows. Airbus buys engines, high-tech navigation systems, passenger seats and a host of other component parts to put into its planes. The French hotel chain Accor purchases linens, furniture and food to produce the ambiance and meals its guests expect.
Resellers

Resellers buy finished goods for the purpose of reselling, renting, or leasing to other businesses. Although resellers do not actually produce goods, they do provide their customers with the time, place and possession, by making goods available to consumers when and where they want them. For example, French supermarket chain Carrefour buys toothpaste, soft drinks, clothing and thousands of other product lines to sell in its retail shops.

Organisations

Governments may be the only customers for certain products – Tornado fighter jets for example. But much governmental expenditure is for more familiar and less expensive items. In any one year, the national government in any one of the largest EU countries is likely to purchase a range of goods and services, ranging from thousands of note pads and paintbrushes, to rail tickets, hotel rooms and the like.

To inform possible vendors about purchases they are about to make, governments regularly make information on forthcoming purchases available to potential bidders. The EU government provides information on business opportunities and tenders through the *Official Journal of the European Union*, and suppliers can easily seek opportunities through scanning the journal.

Not-for-profit institutions are organisations with educational, community and other public service goals, such as hospitals, churches, universities, museums and charitable and lobby groups. These institutions tend to operate on low budgets. Because non-professional part-time buyers who have other duties often make purchases, these customers may rely on marketers to provide more advice and assistance before and after the sale.

The Standard Industry Classification (SIC) System

In addition to looking at business-to-business markets within these three general categories, marketers can identify potential customers using the *Standard Industrial Classification* system (SIC). This is a numerical coding system whereby companies that operate within specific industrial sectors (their SIC code) can be identified.

Firms may therefore use the SIC system to find new customers. A marketer might first determine the SIC industry classifications of his current customers and then evaluate the sales potential of other firms occupying these categories. For example, Brian at Sash may find that several of his large customers are in the commercial construction industry. To find new customers, he could contact other firms in the same industrial group.

The Nature of Business Buying

So far we’ve talked about how business-to-business markets are different from consumer markets and about the different types of customers that make up business markets. In this section, we’ll discuss some of the important characteristics of business buying. This is important because just like companies that sell to end consumers, a successful business-to-business marketer needs to understand how his or her customers make decisions. Armed with this knowledge, the company is able to participate in the buyer’s decision process from the start. Take a firm that sells equipment to hospitals. Understanding that doctors who practise at the hospital (rather than buyers who actually purchase medical supplies) often initiate new equipment purchases means...
that the firm’s salespeople have to be sure that they establish solid relationships with such individuals as well as with the hospital’s buyers – if they expect their products to be taken seriously.

The Buying Situation

Like end consumers, business buyers spend more time and effort on some purchases than on others. Devoting such effort to a purchase decision usually depends on the complexity of the product and how often the decision has to be made. A buy class framework identifies the degree of effort required by the firm’s personnel to collect information and make a purchase decision. These classes, which apply to three different buying situations, are called straight re-buys, modified re-buys and new-task buys.

Straight Re-Buy

A straight re-buy is the routine purchase of items that a business-to-business customer regularly needs. The buyer has purchased the same items many times before and routinely reorders them when supplies are low, often from the same suppliers. Reordering takes little time. Buyers typically maintain a list of approved suppliers that have demonstrated their ability to meet the firm’s criteria for pricing, quality, service and delivery. Such products for example could include paper or stationery.

Because straight re-buys often contribute the ‘bread and butter’ revenue a firm needs to maintain a steady stream of income, many business marketers go to great lengths to cultivate and maintain relationships with customers who submit reorders on a regular basis. Salespeople, for example, regularly call on these customers to handle orders personally and to see if there are additional products the customer needs. The goal is to be sure that the customer doesn’t even think twice about just buying the same product every time he or she is running low. Re-buys keep a supplier’s sales volume up and selling costs down.

Modified Re-Buy

Life would be sweet for companies whose customers automatically do straight re-buys. Unfortunately, these situations do not last forever. A modified re-buy occurs when a firm wants to shop around for suppliers with better prices, quality, or delivery times. This situation also can occur when the organisation has new needs for products it already buys. A buyer who has purchased many office printers in the past, for example, may have to evaluate several lines of printers if the firm has a new need for office equipment.

Modified re-buys require more time and effort than straight re-buys. The buyer generally knows the purchase requirements and a few potential suppliers. Marketers know that modified re-buys can mean that some vendors get added to a buyer’s approved supplier list while others may be dropped. Astute marketers routinely call on buyers to detect and define problems that can lead to winning or losing in such situations.

New-Task Buy

A first-time purchase is a new-task buy. Uncertainty and risk characterise buying decisions in this classification, and they need the most effort because the buyer has no previous experience on which to base a decision.

Your university, for example, may decide (if it hasn’t done so already) to go into the ‘distance learning’ business, which is delivering courses to off-site students. Buying the equipment to set up classrooms with two-way video transmission is an expensive and complex new-task
buy. The buyer has to start from scratch to gather information on purchase specifications that may be highly technical/complex and require detailed input from others. In new-task buying situations, not only do buyers lack experience with the product, but they also are often unfamiliar with firms that supply the product. Supplier choice is critical, and buyers gather much information about quality, pricing, delivery and service from several potential suppliers.

A prospective customer’s new-task buying situation represents both a challenge and an opportunity. Although a new-task buy can be significant in itself, many times the chosen supplier gains the added advantage of becoming an ‘in’ supplier for more routine purchases that will follow. A growing business that needs an advertising agency for the first time, for example, may seek exhaustive information from several firms before selecting one, but then it may continue to use the chosen agency’s services for future projects without exploring other alternatives. We can see through ‘Marketing Metrics’ how Dow Chemicals has invested in identifying ways of retaining business customers – trying to influence them to move towards a straight re-buy.

Marketers know that to get the order in a new-buy situation, they must develop a close working relationship with the business buyer. Keep in mind that these relationships aren’t just important in industries like industrial glass. There are in fact many situations where marketers focus on selling their product or service through inspiring people to recommend their products – over and above the end consumers who actually buy them. To use an example, think about all of the products and services that make up the higher education industry. For
instance, even though you are perhaps the one who paid the money for this textbook, your tutor was the one who made the wise decision to assign it. He or she may have made their choice only after carefully considering numerous textbooks and talking to several publishing sales representatives.

At the start of the chapter, you met Brian Oxley of Sash. He needs to figure out a strategy. Read the ‘Real People, Other Voices’ box on page 196 to learn how other people advise Brian.

The Professional Buyer

Just as it is important for marketers of consumer goods and services to understand their customers, it is essential that business-to-business marketers understand who handles the buying for business customers. Trained professional buyers frequently carry out buying in business-to-business markets. These people typically have a title such as purchasing manager, purchasing director or head of purchasing.

While some consumers like to shop till they drop almost every day, most of us spend far less time roaming the aisles. However, professional purchasers do it all day, every day. These individuals focus on economic factors beyond the initial price of the product, including transportation and delivery charges, accessory products or supplies, maintenance, and other costs. They are responsible for selecting quality products and ensuring their timely delivery. They shop as if their jobs depend on it – and they do.

The Buying Centre

Many times in business buying situations, several people work together to reach a decision. Depending on what they need to purchase, these participants may be production workers, supervisors, engineers, secretaries, shipping clerks or financial controllers. In a small organisation, everyone may have a voice in the decision. The group of people in the organisation who participate in the decision-making process is referred to as the buying centre. Although this term may conjure up an image of offices buzzing with purchasing activity, a buying centre is not a place at all. Instead, it is a cross-functional team of decision makers. Generally, the members of a buying centre have some expertise or interest in the particular decision, and as a group they are able to make the best decision.

Hospitals, for example, frequently make purchase decisions through a large buying centre. When making a decision to purchase disposable oxygen masks, one or more doctors, the director of nursing and purchasing personnel may work together to determine quantities and select the best products and suppliers. A separate decision regarding the types of pharmaceutical
Real People, Other Voices
Advice for Brian Oxley

Dr John Desmond,
University of St. Andrews

My suggestion is for option 3, but with certain caveats. In the short term, Sash should as a priority, adopt a defensive position in the UK. Given the strong likelihood of declining UK margins it makes sense for Sash to consider establishing operations in the USA. However the directors should beware that this market is likely to have quite different dynamics to that of the UK. There is a lengthening list of UK companies that have tried to enter North America and failed, including Marks & Spencer and some of the biggest banks. Currently Tesco is engaged in a major retail development, following years of research. Sash does not have the resources of these larger companies and must be careful not to dilute its position. Option 2 is risky. Sash is a relatively small business and so will probably find it has little clout when it comes to negotiating with larger producers. It may also experience production time overruns and may experience difficulties in controlling quality, which would be disastrous for a company seeking entry to a new market.

Option 3 is potentially even more risky and would be unthinkable for a company of Sash’s size, without some kind of tie-in to another party. Sash needs to be able to cushion the risk of entry into the US as far as possible, perhaps by seeking out a similar family-run US partner, which is seeking to add to its range. It needs to quickly come up to speed with US market intelligence – by buying industry reports and paying industry insiders for information about competition and the buying process. If that looks favourable, it should commission research to seek potential partners. The directors should consider setting up a separate company to focus on these developments.

Dr Deborah Roberts,
Nottingham University

Sash UK presents an interesting dilemma as its home market is becoming saturated yet it does not appear to have relevant expertise to venture into overseas markets. Although option 1 is the least risky option it is just an attempt to maintain the status quo. Making modest returns would not provide Sash UK with enough funds for reinvestment and is essentially a slow exit strategy. Similarly, option 2 bears less risk but may be regarded as a conventional supply chain arrangement. Here the company may lose the advantages of a close and direct relationship with its customers. Therefore, I would choose option 3. This would enable the company to be proactive in its strategy and approach to learning about the marketplace. Companies no longer necessarily follow the traditional staged models of internationalisation starting with exporting. By moving straightaway to a joint venture with companies operating in the American market, value can be created for all concerned. It is a strategy which recognises that value can be created through the development of relationships and networks and is not just product related. It will also enable Sash UK to learn about its new marketplace and adapt production accordingly.

supplies to stock might need a different cast of characters to advise the purchasing manager. Marketers must continually identify which employees in a firm take part in every purchase and develop relationships with them all.

Depending on the complexity of the purchase and the size of the buying centre, a participant may assume one, several, or all of the six roles (Figure 5.3).

- The initiator begins the buying process by first recognising that the firm needs to make a purchase. A production employee for example may notice that a piece of equipment is not working properly and notify a supervisor. At other times, the initiator may suggest purchasing a new product because it will improve the firm’s operations. Depending on the initiator’s position in the organisation and the type of purchase, the initiator may or may not influence the actual purchase decision. For marketers, it’s important to make sure that individuals who might initiate a purchase are aware of improved products they offer.

- The user is the member of the buying centre who actually needs the product. The user’s role in the buying centre varies. For example, an administrative assistant may give his
input on the features needed in a new copier that he will be 'chained to' for several hours a day. Marketers need to inform users of their products’ benefits, especially if the benefits outweigh those that competitors offer.

- The **gatekeeper** is the person who controls the flow of information to other members. Typically the gatekeeper is the purchasing agent who gathers information and materials from salespeople, schedules sales presentations and controls suppliers’ access to other participants in the buying process. For salespeople, developing and maintaining strong personal relationships with gatekeepers is critical to being able to offer their products to the buying centre.

- An **influencer** affects the buying decision by dispensing advice or sharing expertise. By virtue of their expertise, engineers, quality control specialists and other technical experts in the firm generally have a great deal of influence in purchasing equipment, materials, and component parts used in production. The influencers may or may not end up using the product. Marketers need to identify key influencers in the buying centre and work to persuade them of their product’s superiority.

- The **decider** is the member of the buying centre who makes the final decision. This person usually has the greatest power within the buying centre. He or she often has power within the organisation to authorise spending the company’s money. For a routine purchase, the decider may be the purchasing officer. If the purchase is complex, a manager, director, or chief executive may be the decider. Quite obviously, the decider is key to a marketer’s success and deserves a lot of attention in the selling process.

- The **buyer** is the person who has responsibility for executing the purchase. Although the buyer often has a role in identifying and evaluating alternative suppliers, this person’s primary function is handling the details of the purchase. The buyer obtains competing bids, negotiates contracts, and arranges delivery dates and payment plans. Once a firm makes the purchase decision, marketers turn their attention to negotiating the details of the purchase.
with the buyer. Successful marketers are well aware that providing exemplary service in this stage of the purchase can be key to future sales.

### The Business Buying Decision Process

We’ve seen there are several players in the business buying process, beginning with an initiator and ending with a buyer. To make matters even more challenging to marketers, members of the buying team go through several stages in the decision-making process. The business buying decision process, as Figure 5.4 shows, is a series of steps similar to those in the consumer decision process. To help understand these steps, let’s say you’ve just started working at the ‘Big Skateboard Company’ and you’ve been assigned to be in the buying centre for the purchase of new web page design computer software (a new-task buy) for your firm.

#### Step 1: Problem Recognition

As in consumer buying, the first step in the business buying decision process occurs when someone sees that a purchase can solve a problem. For straight re-buy purchases, this step may result because the firm has run out of paper, pens or bin bags. In these cases, the buyer places

**Figure 5.4** Steps in the Business Buying Process

The steps in the business buying decision process are the same as those in the consumer decision process. But for business purchases, each step may be far more complex and require more attention from marketers.
the order, and the decision-making process ends. Recognition of the need for modified re-buy purchases often comes from wanting to replace outdated equipment, from changes in technology, or from an ad, brochure or some other marketing communication that offers the customer a better product or one at a lower price. Two events may occur in the problem recognition step. First, a firm makes a request or requisition, usually in writing. Depending on the complexity of the purchase, the firm may form a buying centre.

The need for new-task purchases often occurs because the firm wants to enhance its operations in some way, or when a smart salesperson tells the business customer about a new product that will increase the efficiency of the firm’s operations or improve the firm’s end products. In the case of Big Skateboard’s new software purchase, your marketing department has previously had its web page designed and maintained by an outside agency. The company has become dissatisfied with the outside supplier and has decided to move the design function in-house. Now the company needs new software to create a website.

Step 2: Information Search

In the second step of the decision process (for purchases other than straight re-buys) the buying centre searches for information about products and suppliers. Members of the buying centre may individually or collectively refer to reports in trade magazines and journals, seek advice from outside consultants, and pay close attention to marketing communications from different manufacturers and suppliers. As in consumer marketing, it’s the job of marketers to make sure that information is available when and where business customers want it. This can be achieved by placing ads in trade magazines, through mailing out brochures and other printed material to prospects, and via having a well-trained, enthusiastic sales force regularly call on customers. For Big Skateboard’s purchase, you may try to find out what software your outside supplier has been using (if the supplier will tell you), talk to the information technology experts in your firm, or review ads and articles in trade magazines.

There are thousands of specialised publications out there that cater for just about any industry you can think of, and each is bursting with information from competing companies that cater to a specific niche.

Developing Product Specifications  Business buyers often develop product specifications. That is a written description of the quality, size, weight, colour, features, quantity, training, warranty, service terms and delivery requirements for the purchase. When the product needs are complex or technical, engineers and other experts are the key players in identifying specific product characteristics and determining whether standard off-the-shelf or customised made-to-order goods and services are needed. Although there is excellent web design software available, for some computer applications custom-designed software is necessary.

Identifying Potential Suppliers and Obtaining Proposals  Once the product specifications are in hand, the next step may be to identify potential suppliers and obtain written or verbal proposals, or bids, from one or more of them. For standardised or branded products in which there are few if any differences in the products of different suppliers, this may be as simple as an informal request for pricing information, including discounts, shipping charges and confirmation of delivery dates. At other times, the potential suppliers will receive a formal written request for a proposal, or ask for a quotation that requires specific detail such as price and terms for supplying the product. For the Big Skateboard’s software, which is likely to be a standardised package, you would probably just ask for general pricing information.
Step 3: Evaluation of Options

At this stage of the business decision process, the buying centre assesses the proposals. Total spending for goods and services can have a major impact on the firm’s profitability, so all other things being equal, price is the primary consideration. Pricing evaluations must take into account discount policies for certain quantities, returned-goods policies, the cost of repair and maintenance services, terms of payment and the cost of financing large purchases. For capital equipment – such as large machinery, cost criteria can also include the life expectancy of the purchase, the expected re-sale value, as well as the disposal costs. In some cases, the buying centre may negotiate with the preferred supplier to match the lowest bidder.

Although a firm often selects a bidder because it offers the lowest price, there are times when the buying decision is based on other factors, and these may be related to a number of factors including reputation, quality, previous experience, history or even environmental concerns, as explained in Marketing Ethics. See how Marks & Spencer has been inspired to consider ‘green’ issues.

The more complex and costly the purchase, the more time buyers will spend searching for the best supplier (and the more marketers must try to win the order). In some cases, a company may even ask one or more of its current customers to participate in a reference programme where they recommend products to others. For example, Siebel Systems once asked over 350 corporate buyers of its computer systems to explain to new prospects how their system worked.
and why they chose Siebel’s products. The payoff for customers was that they could network with other existing customers to gain insights about how to use the company’s products. As a Siebel executive observes, customers become heroes – and by involving them in speaking engagements and articles in trade magazines, a real win–win scenario is evident for everyone.2

Marketers often make formal presentations and product demonstrations to the buying centre group. In the case of installations and large equipment, marketers sometimes arrange for buyers to speak to or even visit other customers to examine how the product performs. For less complex products, the buying firm may ask potential suppliers for samples of the products to evaluate alternatives. For the Big Skateboard Company website, your buying centre may ask salespeople from various companies to demonstrate their software for your group, so that you can compare the capabilities of different products.

Step 4: Product and Supplier Selection

Once buyers have assessed all proposals, the next step in the buying process is the purchase decision, that is the selection of the best product and supplier to meet the firm’s needs. Reliability and durability rank especially high for equipment and systems that keep the firm’s operations running smoothly without interruption. For some purchases, warranties, repair service and regular maintenance after the sale are important. For the Big Skateboard Company, the final decision may be based not only on the capabilities of the software itself, but also on the technical support provided by the software company. What kind of support is available and at what cost to the company?

One of the most important decisions of a buyer is how many suppliers can best serve the firm’s needs. Sometimes a single supplier is more beneficial to the organisation than having several suppliers. Single sourcing occurs when a buyer and seller work quite closely together. It is particularly important when a firm needs frequent deliveries or specialised products. However, reliance on a single source means that the firm is at the mercy of the chosen supplier to deliver the needed goods or services without interruption.

In contrast, multiple sourcing means buying a product from several different suppliers. Under this system, suppliers are more likely to remain price competitive. If one supplier has...
problems with delivery, the firm has others to fall back on. However, using one or a few suppliers rather than many has its advantages. A firm that buys from a single supplier becomes a large customer with a lot of clout when it comes to negotiating prices and contract terms. Having one or a few suppliers also lowers the firm’s administrative costs because it has fewer invoices to pay, fewer contracts to negotiate, and fewer salespeople to see than if it used many sources. Many hospitals are now moving towards single sourcing where possible. Historically, hospital buyers have had to negotiate with hundreds of suppliers for a vast range of products from disposable gloves to surgical implants. Some hospitals have more recently tried to reduce their supplier lists by only working with specific suppliers that can provide a diverse range of items.

Sometimes, supplier selection is based on reciprocity, which means that a buyer and seller agree to be each other’s customers by saying essentially, ‘I’ll buy from you, and you buy from me’. For example, a firm that supplies mechanical component parts to a company that manufactures vans would agree to buy their fleet vans only from that company.

Reciprocal agreements between firms often limit the effect of free market competition. New suppliers simply don’t have a chance against the preferred suppliers. In certain less developed countries, reciprocity or counter trade is a practice that is common and even expected in business-to-business marketing.

Outsourcing occurs when firms obtain outside suppliers to provide goods or services that might otherwise be supplied in-house. Outsourcing is an increasingly popular strategy, but also a controversial one. Many critics object when companies contract with firms or individuals in remote places like China or India to perform work that used to be done at home. These tasks range from complicated jobs like writing computer code to fairly simple ones like manning reservation desks and call centres for telephone sales. Controversy aside, many companies are finding that it may be both cost-efficient and productive to call upon outsiders from around the world to provide such assistance. However, they must ensure that service is not compromised by moving their operations to less developed economies. The experience gained is now leading some companies to reconsider their initial strategies.

Yet another type of buyer–seller partnership is reverse marketing. Instead of sellers trying to identify potential customers and then ‘pitching’ for business, buyers try to find suppliers capable of producing specific needed products and then attempt to ‘sell’ the idea to the suppliers. The seller aims to satisfy the buying firm’s needs. Through advertising in well-regarded international trade directories, like Kompass, European companies have been able to receive unsolicited business orders from buyers as far away as Saudi Arabia that are keen to acquire supply of a European standard.

**Step 5: Post-purchase Evaluation**

Just as consumers evaluate purchases, an organisational buyer assesses whether the performance of the product and the supplier is living up to expectations. The buyer surveys users to determine their satisfaction with the product as well as the installation, delivery and service provided by the supplier. For producers of goods, this may relate to the level of satisfaction of the final consumer of the buying firm’s product. Has demand for the manufacturer’s product increased, decreased or stayed the same? By documenting and reviewing supplier performance, a firm decides whether to keep or drop the supplier. Many suppliers recognise the importance of conducting their own performance reviews on a regular basis. Measuring up to a customer’s expectations can mean winning or losing a big account. Many a supplier has lost business because of a past history of late deliveries or poor equipment repairs and maintenance.
Business-to-Business e-Commerce

The internet has brought about massive changes in marketing, from the creation of new products to providing more effective and efficient marketing communications, as well as assisting with the actual distribution of certain products. This is particularly true in business markets.

Business-to-business (B2B) e-commerce refers to an online exchange between two or more businesses or organisations. B2B e-commerce includes the exchange of information, products, services and payment. It's not as flashy as consumer e-commerce, but it has changed the way businesses operate. Multinational enterprises are now saving significant amounts through obtaining supplies over the internet. For sellers, e-commerce also provides remarkable advantages. Boeing, for example, received orders worth over €100 million in spare parts in the first year that its website was established.²

Using e-commerce allows business marketers to link directly with suppliers, factories, distributors and their customers. It radically reduces the time necessary to order and deliver goods, track sales, and obtain customer feedback.

Across the Hall

Shane Redding

Shane Redding is founder of Think Direct, experts in business-to-business marketing, and Chair of the Institute of Direct Marketing’s B2B Council.

I strongly recommend the board invest in further market research before proceeding with any of the options outlined. However, looking at each of the options in turn it is clear that none provides the ideal solution, but in combination would deliver results.

Option 1 – doing nothing in a highly competitive, saturated market will result in an eventual decline in the company’s fortunes. The threat of new entrants, with a cheaper cost base cannot be ignored. The board needs a strategy for defending its strong domestic market. It is clear that Sash has a proven history of diversification, moving from the manufacture of wooden timber windows, to aluminium and eventually UPVC, as well as extending the product line to include doors and conservatories. It also extended its market from domestic new build, into refurbishment and eventually the industrial market. Based on this and Brian's engineering and B2B sales experience, together we have spotted a new opportunity for manufacturing highly energy efficient ‘instant’ offices, using existing materials and production line, that could be a high-end alternative to the Portakabin. Market research shows that demand is potentially high, with pressure on existing office space at a premium within the existing customer base of local government, education and large private sector businesses. This option is low risk, with high potential return and should be adopted.

Option 2 – outsourcing production and potentially reducing manufacturing costs is important for Sash to consider to remain competitive. One approach would be to identify suitable partners amongst the potential new low cost entrants (from Southern Europe – or Eastern Europe). In return for Sash’s expertise in quality control, innovation and design; manufacturing capacity could be expanded quickly and at lower cost base. This gives a higher return for Sash to invest in the UK diversification outlined above. Risk of competition would be reduced and clear agreement could be reached over which markets each partner operated in, with Sash taking the UK, Eire and North America.

Option 3 – based on a few unsolicited enquiries from the US, the company has decided that the potential US demand is huge. Not only does the company admit that it has no exporting knowledge or skills, it also has not undertaken any robust market research into the true market size, local competitors, pricing, tax and legislation. This, coupled with exposure to exchange rates (at the current $1.95 = £1 exporting is difficult for any UK company!) and high shipping costs, will make pricing difficult. To base the expansion of plant investment requiring a loan on a new market with unproven sales is an extremely high-risk strategy. A much-lower-risk option would be to look for existing American sales channels with business customers that Sash could use to test the US market; before investing in any expansion in production. Extra capacity would be provided through the new European partner.
In the simplest form of B2B e-commerce, the internet provides an online catalogue of products and services that businesses need. Companies find that their website is important for delivering online technical support, product information, order status information, and customer service to corporate customers. Many companies, for example, save thousands of euros equivalent a year by replacing hard-copy manuals with electronic downloads.

Intranets, Extranets and Private Exchanges

Although the internet is the primary means of B2B e-commerce, many companies maintain intranets, which provide a more secure means for conducting business. The intranet is an internal corporate computer network that uses internet technology to link company departments, employees and databases. Intranets give access only to authorised employees. They allow companies to process internal transactions with greater control and consistency because of stricter security measures than those they can use on the entire web. Businesses also use intranets for videoconferencing, distributing internal documents, communicating with geographically dispersed branches and training employees.

In contrast to an intranet, an extranet allows certain suppliers, customers and others outside the organisation to access a company’s internal system. A business customer that a company authorises to use its extranet can place orders online. Extranets can be especially useful for companies that need to have secure communications between the company and its channel members like dealers, distributors and/or franchisees.

Intranets and extranets can prove to be very cost efficient. Prudential Health Care’s extranet allows its corporate customers to enrol new employees and check the eligibility and claim status themselves. This saves Prudential money because it can hire fewer customer service personnel. There are also no packages of insurance forms to mail back and forth, and Prudential doesn’t even have to input policyholder data into the company database.4

In addition to saving companies money, extranets allow business partners to collaborate on projects (such as product design) and build relationships. Hewlett-Packard and Procter & Gamble swap marketing plans and review ad campaigns with their advertising agencies through extranets. They can exchange ideas quickly without having to spend money on travel and meetings.

Some of the most interesting online activity in the B2B world is taking place on private exchanges. These are systems that link a specially invited group of suppliers and partners over the web. A private exchange allows companies to collaborate with suppliers they trust – without sharing such sensitive information with others.

Security Threats

There are several security threats related to B2B e-commerce. You may be concerned about someone obtaining your credit card number and charging even more to your account. However, companies have even greater worries. When hackers break into company sites, they can destroy company records and steal trade secrets. Both B2C and B2B e-commerce companies worry about authentication and ensuring that transactions are secure. This means making sure that only authorised individuals are allowed to access a site and place an order. Maintaining security also requires firms to keep the information transferred as part of a transaction, such as a credit card number, from criminals’ hard drives.

Well-meaning employees also can create security problems. They can give out unauthorised access to company computer systems and be careless about keeping their passwords secret. For example, hackers can guess at obvious passwords, such as nicknames, birth dates, hobbies or a
spouse’s name. To increase security of their websites and transactions, most companies now have safeguards in place, firewalls and encryption devices, to name the two most common methods.

**Firewalls**

A firewall is a combination of hardware and software that ensures that only authorised individuals gain entry into a computer system. The firewall monitors and controls all traffic between the internet and the intranet to restrict access. Companies may even place additional firewalls within their intranet when they wish only designated employees to have access to certain parts of the system. Although firewalls can be fairly effective (even though none is foolproof), they require costly and constant monitoring.

**Encryption**

Encryption means scrambling a message so that only another individual (or computer) that has the right ‘key’ for deciphering it can unscramble it. Otherwise, the message is unreadable. The message is inaccessible without the appropriate encryption software. Without encryption, it would be easy for unethical people to get your credit card number by creating a ‘sniffer’ program that intercepts and reads messages. A sniffer finds messages with four blocks of four numbers, copies the data, and voilà – someone else has your credit card number. Even with basic encryption software, hackers have been able to steal thousands of credit card numbers from various online retailers.

Now that you’ve learned the basics of B2B commerce, read ‘Real People, Real Decisions: How it worked out at Sash’ to see which strategy Brian and the board members at Sash decided on.

---

**Real People, Real Decisions**

How it worked out at Sash . . .

Brian and his colleagues chose option 3, and Sash began to embark on a strategy to invest and build a new production site and establish a US presence. Because of the physical size of the US market and the relatively greater complexities that this would bring compared with the UK, Sash decided to join forces with Veka (UK), the local subsidiary of a German firm that supplied Sash with high-quality PVCu profiles and ancillary items. Veka already had established a network of subsidiaries in the US and it was suggested to Brian that Sash should try and develop commercial links with Veka’s US operations. The result was a four-way joint venture involving Sash, Veka (UK), Veka (Germany) and Veka (America).

It was suggested to Brian that Sash should try and develop commercial links with Veka’s US operations. A commercial decision was then made at Sash to jointly exhibit and share a large stand with Veka (America), at a trade convention in Las Vegas (Sash supplying the large portal structure to complement Veka’s product lines). This convention paved the way and created huge interest for the Sash-designed portal structures, and subsequently enabled sales opportunities to flow in the US via Veka. On the back of this venture, further reciprocal business also emerged, and Sash was able to complement its own product line in the UK through acting as a distributor for Veka (America) and taking on the responsibility for marketing its fencing and decking materials.
Marketing Metrics

How Sash Measures Success

Sash uses three metrics that are applied to evaluate any capital investment: return on capital, internal rate of return and cash payback. In addition, the company uses a set of marketing metrics to test the success of the strategy. These include:

- Delivery to customer request: Is the delivery in full and on time? The firm’s target is 95% delivery in full and on time.
- Market share of the window market.
- Market growth in the US in terms of revenue and units supplied.

Despite these and other measures, web security for B2B marketers remains a problem. The threat to intranet and extranet usage goes beyond competitive espionage. The increasing sophistication of hackers and internet criminals who create viruses, worms and other means for disrupting individual computers as well as entire company systems means that all organisations and consumers are vulnerable to attacks and need to remain vigilant.
1. Describe the general characteristics of business-to-business markets. Business-to-business markets include business or organisational customers that buy goods and services for purposes other than for personal consumption. Business customers are usually few in number, may be geographically concentrated and often purchase higher-priced products in larger quantities.

2. Explain the unique characteristics of business demand. Business demand is derived from the demand for another good or service. It is generally not affected by price increases or decreases, is subject to great fluctuations, and may be tied to the demand and availability of some other good.

3. Describe how business or organisational markets are classified. Business customers include producers, resellers, governments and not-for-profit organisations. Producers purchase materials, parts and various goods and services needed to produce other goods and services to be sold at a profit. Resellers purchase finished goods to resell at a profit as well as other goods and services to maintain their operations. Governments and other not-for-profit organisations purchase the goods and services necessary to fulfill their objectives. The Standard Industrial Classification (SIC) system provides a numerical coding system that is widely used in business and organisational markets.

4. Explain the business buying situation and describe business buyers. The business buying class identifies the degree and effort required to make a business buying decision. Purchase situations can be straight re-buy, modified re-buy and new-task buying. Business buying is usually handled by trained professional buyers.

5. Explain the roles in the business buying centre. A buying centre is a group of people who work together to make a buying decision. The roles in the buying centre are (1) the initiator who recognizes the need for a purchase, (2) the user who will ultimately use the product, (3) the gatekeeper who controls the flow of information to others, (4) the influencer who shares advice and expertise, (5) the decider who makes the final decision and (6) the buyer who executes the purchase.

6. Explain the stages in the business buying decision process. The stages in the business buying decision process are similar to, but more complex than, the steps in consumer decision making. These steps include problem recognition, information search during which buyers develop product specifications and obtain proposals from prospective sellers, evaluating the proposals, selecting a supplier and formally evaluating the performance of the product and the supplier. A firm’s purchasing options include single or multiple sourcing. In outsourcing, firms obtain outside vendors to provide goods or services that otherwise might be supplied in-house. Other business buying activities include reciprocity and reverse marketing.

7. Explain the growing role of B2B e-commerce. Business-to-business (B2B) e-commerce refers to the online exchange of information, products, services or payments between two or more businesses or organisations and allows business marketers to link directly to suppliers, factories, distributors and their customers. An intranet is a secure internal corporate network used to link company departments, employees and databases. Extrnests link a company with authorized suppliers, customers or others outside the organisation. Companies can address security issues by using firewalls and encryption.

Chapter Summary

Now that you have finished reading this chapter, you should be able to answer any of the following potential examination questions:

1. Describe the general characteristics of business-to-business markets.
2. Explain the unique characteristics of business demand.
3. Describe how business or organisational markets are classified.
4. Explain the business buying situation and describe business buyers.
5. Explain the roles in the business buying centre.
6. Explain the stages in the business buying decision process.
CHAPTER 5  BUSINESS-TO-BUSINESS MARKETING

Key Terms

Business-to-business (B2B) e-commerce 203
Business-to-business (B2B) marketing 186
Business-to-business markets 186
Buy class 193
Buying centre 195
Derived demand 190
Extranet 204
Government markets 190
Inelastic demand 190
Joint demand 190
Modified re-buy 193
Multiple sourcing 201
New-task buy 193
Product specifications 199
Single sourcing 201
Standard Industrial Classification System (SIC) 192
Not-for-profit institutions 192
Outsourcing 202
Private exchanges 204
Producers 191
Product specifications 199
Resellers 192
Reverse marketing 202
Reservation 201
Straight re-buy 193

Chapter Review

Marketing Concepts: Preparing for the examination and testing your knowledge

1. How do business-to-business markets differ from consumer markets? How do these differences affect marketing strategies?
2. Explain the unique characteristics of business demand.
3. How are business-to-business markets generally classified? What is the SIC system?
4. Describe new-task buys, modified re-buys and straight re-buys.
5. What are the characteristics of business buyers?
6. What is a buying centre? What are the roles of the various people in a buying centre?
7. What are the stages in the business buying decision process? What happens in each stage?
8. How are the stages in the business buying decision process similar to the steps in the consumer buying process? How are they different?
9. What is single sourcing? Multiple sourcing? Outsourcing?
10. Explain how reciprocity and reverse marketing operate in business-to-business markets.

Marketing Concepts: Discussing Choices

1. E-commerce is dramatically changing the way business-to-business transactions take place. What are the advantages of B2B e-commerce to companies? To society? Are there any disadvantages of B2B e-commerce?
2. The practice of buying business products based on sealed competitive bids is popular among all types of business buyers. What are the advantages and disadvantages of this practice to buyers? What are the advantages and disadvantages to sellers? Should companies always give the business to the lowest bidder? Why or why not?
3. When firms implement a single sourcing policy in their buying, other possible suppliers do not have an opportunity. Is this ethical? What are the advantages to the company? What are the disadvantages?
4. Many critics of government say that strict engineering and other manufacturing requirements for products purchased by governments increase prices unreasonably and that taxpayers end up paying too much because of such policies. What are the advantages and disadvantages of such purchase restrictions? Should governments loosen restrictions on their purchases?
5. In the buying centre, the gatekeeper controls information flow to others in the centre. Thus, the gatekeeper determines which possible sellers are heard and which are not. Does the gatekeeper have too much power? What policies might be implemented to make sure that all possible sellers are treated fairly?
6. The chapter discussed how Siebel Systems operated a reference programme where previous purchasers of products were encouraged to discuss their experiences of a product with potential new customers. What are the advantages and disadvantages of such progress for companies like Siebel Systems? For previous customers? For prospective customers? For competitor firms?

7. Some critics complain that outsourcing sends much-needed jobs to competitors overseas while depriving our own national workers of these opportunities. Should a company consider this factor when deciding where to obtain raw materials or brainpower in order to compete efficiently?

Real People, Real Surfers

Exploring the Web

Sash isn’t the only company that provides PVCu windows to business markets. Visit Sash’s website (www.sashuk.com). Then explore the websites of one or more other similar manufacturers.

On the basis of your experience, answer the following questions:

1. Who are Sash’s main competitors?
2. In general, how do the competitors’ websites compare? Which are easier to navigate, and why? Which are more innovative and attractive, and why?
3. Evaluate each site from the perspective of a building construction manager. What feature in each site would be useful? What information is available that a manager might need? Overall, which site do you feel would be most useful to the manager? Why?

Now, take a look at the website at www.pearsoned.co.uk/solomon to see some videos from YouTube relating to aspects of this chapter.

Marketing in Action Case

Real decisions at Airbus

Does the world really need an airplane that will carry up to 555 passengers at once? The executives at Airbus Industries, the airplane manufacturer located in Toulouse, France, hope that the answer to this question is a resounding yes.

Airbus is a company that began in 1970 with funding provided by owners from Germany, Spain, Britain and France. It focuses on the business-to-business market as a producer of passenger airplanes. As such, the company is dependent on other companies, mostly airlines located throughout the world, to purchase its products.

To date, the company has been very effective at developing and building airplanes that compete successfully with its only world competitor, Boeing, which has its headquarters in Chicago and has been in existence for almost 90 years. For example, Airbus’s current product line features planes like the A320 and A330, which are configured to carry up to 150 and 200 passengers, respectively. These planes compete very effectively against planes of similar size produced by Boeing, such as the 737 and 777.

At first, Airbus had no plans to produce a plane that competed in the ‘jumbo’ category – the category dominated by Boeing’s 747. That situation changed in 2005 when Airbus’s A380 airplane was launched. The A380 is a complete double-decker plane, the first of its kind. It can carry 35 per cent more passengers than a Boeing 747. In addition, the plane was designed to cost approximately 2 cents per seat-kilometre to operate. Such a low cost makes the A380 the least
expensive plane to fly in the world. However, despite the size increase and low operating cost, Airbus had to ask whether there was a market for this larger plane and whether introducing the 380 was the right decision to make.

As noted earlier, Airbus operates in a business-to-business environment. This means the company must gauge the potential demand for the new products such as this ‘superjumbo’ jet. Gauging an airline's demand for such a large plane is difficult because an airline's demand for new and larger planes is derived demand; that is, it depends on consumers’ need for travel. As many airlines can confirm, determining travel trends and habits by consumers has been anything but an exact science lately. Such factors as terrorism, war, global economic uncertainty and the SARS outbreak have contributed to reduced travel. As a result, airlines around the world have lost approximately €30 billion since 2001, and many have cut back on plans to upgrade or expand their fleet of planes.

Another factor affecting the decision Airbus faces in the acceptance of this new plane is the selling effort that Airbus must put behind it. Purchasing a plane that costs around €280 million and lasts approximately 40 years will require a tremendous amount of study and research on the part of the potential customer airlines. Consequently, even though an airline may already be a customer of Airbus, the decision process to purchase the A380 will resemble more of a new-task purchase than a modified or straight re-buy.

In addition, the number of people involved in the purchase process for this plane will probably be rather large and could include people from the board level all the way down to flight attendants and maintenance personnel. As a result, identifying the right people with whom to discuss the merits of the A380 will be extremely important.

Finally, the size of the A380 requires Airbus executives to consider the potential that airports may not be large enough to handle the plane. Because of this factor, Airbus is working with 16 airports that will have to spend about €80 million each to get ready for the plane.

One advantage Airbus has when trying to sell the plane is that it knows who its customers are likely to be. Airlines flying large numbers of passengers on long routes, such as across the Pacific Ocean, are candidates. This means that Singapore Airlines, United, Northwest, British Airways and Japan Airlines were the most likely customers. Other potential customers are freight haulers such as FedEx and UPS. In fact, the first commercial flight was with Singapore Airlines in 2007.

However, the next few years saw the big jet programmes at both Airbus and Boeing run into technical and workforce problems and aircraft deliveries were delayed. Then the global economic downturn hit. However, at the start of 2009, Louis Gallois, chief of EADS, the European aerospace and defence group that owns Airbus, said most of the internal problems were behind the company. He told the Financial Times: ‘The 2008 performance is globally satisfactory, EADS is back to business. But now we are facing the financial crisis and the economic downturn changes our perspective.’

Things to Think About

1. What are the issues facing Airbus?
2. What factors are important in understanding the situation?
3. What are the choices?
4. What decision(s) do you recommend?
5. What are some ways to implement your recommendation(s)?

References


