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Chapter 1: Business-to-Business markets and marketing

Introduction

Lying behind every consumer purchase in a modern economy there is a network of business-to-business transactions. Even an apparently simple transaction at the supermarket is only made possible by a web of supporting b2b transactions. In this chapter our aims are to clarify just what is meant by business markets, to explain why it is considered necessary to distinguish them from consumer markets, and to show how business products and markets can be classified. In order to emphasize that business markets involve both goods and services, we start off by looking at the industrial structure of modern economies, to see how influential the service sector has become. The subsequent section deals with the core idea of this chapter. Namely that business markets can be differentiated from consumer markets along a number of dimensions: market structure differences, buying behavior differences, and marketing in practice differences.

The nature of Business Markets

The key distinguishing feature of a b2b market is that the customer is an organization rather than an individual consumer. Both tend to buy similar products and therefore one cannot distinguish unambiguously between a business market and a consumer market on the basis of the nature of the product.

A brief observation on terminology is necessary at this point. The generally accepted term for the marketing of goods and services to organizations is b2b marketing. This gradually superseded the older term 'industrial marketing' in the 80s and 90s. The expression b2b marketing is synonymous with business marketing; these will be the two terms that we use throughout this book.

It is important not to suppose that b2b marketing is synonymous with the marketing of goods and services to the manufacturing industries. There has been a prominent trend in recent years away from manufacturing employment towards service sector employment. From the perspective of marketing professionals, the trend should be seen as an important element of the marketing environment, which suggests that the opportunities to market goods and services to the manufacturing sector may decline, and will certainly grow more slowly than opportunities in the service sector of the economy.

This observation, however, suffers from at least two important deficiencies: first, it is based on the idea that the distinction between manufacturing and service activities is meaningful and, second, we have ignored the emerging BRIC economies – Brazil, Russia, India and China. In a moment we will turn to the importance of the BRIC economies, but first let's question the validity of the manufacturing/services dichotomy in marketing. Recent years have seen growing prominence for 'service-dominant logic' in marketing. The underlying idea behind service-dominant logic is that whatever it may be that the customer buys, in all cases it is service that generate value that customers desire. For example; businesses don't want cranes, they want the ability to move around heavy objects, which is a service delivered by cranes. Hence, according to the service-dominant logic, there is no difference between the marketing of goods or services.

Before moving on to the differentiating characteristics of business markets, it is important to emphasize the importance of the BRIC and other emerging economies to the global economic system. Much marketing attention has focused on the huge consumer market potential in these economies, as incomes grow and consumers demand many of the products that are common in rich countries. For our purposes, however, it is important to appreciate that these economies are fast-growing industrial powerhouses where much of the world's manufactured output is produced, so that their potential as b2b markets is virtually limitless.

Business markets: defining characteristics

Many authors have sought to identify the dimensions by which business markets can be distinguished from consumer markets, and then the specific characteristics of business markets and consumer markets on each of these dimensions. Table 1.2 provides a synthesis of these dimensions and characteristics. The table is organized into three columns. The first column identifies the dimension against which business and consumer markets are thought to differ, the second column provides the characteristic expected of a business market, and the third column provides the characteristic expected of a consumer market. The dimensions can be broadly categorized into three major sections: market structure differences, buying behavior differences, and marketing in practice differences.

Table 1.2 Differences between business and consumer markets

Market structure differences		
<i>Dimension</i>	<i>Business marketing</i>	<i>Consumer marketing</i>
Nature of demand	Derived	Direct
Demand volatility	Greater volatility	Less volatility
Demand elasticity	Less elastic	More elastic
Reverse elasticity	More common	Less common
Nature of customers	Greater heterogeneity	Greater homogeneity
Market fragmentation	Greater fragmentation	Less fragmentation
Market complexity	More complex	Less complex
Market size	Larger overall value	Smaller overall value
Number of buyers per seller	Few	Many
Number of buyers per segment	Few	Many
Relative size of buyer/seller	Often similar	Seller much larger
Geographic concentration	Often clustered	Usually dispersed
Buying behaviour differences		
<i>Dimension</i>	<i>Business marketing</i>	<i>Consumer marketing</i>
Buying influences	Many	Few
Purchase cycles	Often long	Usually short
Transaction value	Often high	Usually small
Buying process complexity	Often complex	Usually simple
Buyer/seller interdependence	Often high	Usually low
Purchase professionalism	Often high	Usually low
Importance of relationships	Often important	Usually unimportant
Degree of interactivity	Often high	Usually low
Formal, written rules	Common	Uncommon
Marketing practice differences		
<i>Dimension</i>	<i>Business marketing</i>	<i>Consumer marketing</i>
Selling process	Systems selling	Product selling
Personal selling	Used extensively	Limited
Use of relationships	Used extensively	Limited
Promotional strategies	Limited, customer-specific	Mass market
Web integration	Greater	Limited
Branding	Limited	Extensive, sophisticated
Market research	Limited	Extensive
Segmentation	Unsophisticated	Sophisticated
Competitor awareness	Lower	Higher
Product complexity	Greater	Lesser

Source: [unclear] et al., 2002; Lilien, 1987; Simkin, 2000;

Market structure differences

Derived demand

It is the convention in marketing to treat demand by consumers as direct and demand from businesses as derived. In essence, consumers want certain goods to satisfy their needs. Businesses require certain goods in order to produce products that satisfy customer needs. Therefore a business's demand is derived from consumer demand.

The accelerator effect

The accelerator effect describes the effect of a change in direct demand on the derived demand. In some cases, relatively small changes in direct demand can result in a relatively large (possibly temporary) change in derived demand, or the other way round. This is called the accelerator effect (see b2b snapshot 1.2 for an example). One task for the business marketer is to understand both the scale of the underlying accelerator exerted by conditions in the market and the behavior of managers in customer organizations.

Market concentration in b2b markets

B2b markets in general are characterized by higher concentration of demand than consumer markets. However, the degree of demand concentration varies from market to market and it is important to have some means of comparing markets to establish just how highly concentrated they are. A standard measure used is concentration ratio. This ratio reflects the market shares of the few largest firms in the market – known as the 'oligopoly group'. It usually consists out of the top 3 or 4 firms.

To a business marketer it is the perspective of the industry supplier that is generally most relevant, along with the implications of the industry structure for sales and marketing strategy. While economists are generally most concerned about the monopoly power that businesses have over their customers, business marketers are usually more interested in the monopsony power that businesses have with respect to their suppliers because of the concentration of buying power. However, since those firms that control large shares of the customer market are also the largest customers for suppliers to the industry, we can use the concentration ratio as a proxy for the concentration of buying power.

Other market structure differences

Demand elasticity – it is argued that businesses have less freedom simply to stop buying things than consumers, so that demand is likely to be less price elastic. Second, it has been suggested that there will be more instances of reverse price elasticity. Businesses need critical inputs if they are to continue trading. If prices on these critical inputs start to rise, it might mean that supply is running out (demand > supply). This might cause a business to increase their orders (reverse price elasticity). More heterogeneous, fragmented and complex – it is argued that organizations are even more diverse than consumers -> A local decorating business employing three people has almost nothing in common with a global electrical equipment manufacturer.

Buying behavior differences and marketing practice differences

In essence, organizations tend to have more professionalized buying processes than consumers, often involving formal procedures and explicit decision-making practices, which in many organizations are implemented by managers who are specifically employed as purchasing professionals.

Transaction values can be very high. As a result, sellers tend to tailor their product offerings to the needs of the buyer.

Classifying business products and markets

The standard approach to classifying business products is to use a classification system that is quite separate from the usual consumer product classifications. This classification is based on the use to which the products are put, and the extent to which they are incorporated into the final product. Something incorporated into the buying organization's final product contributes directly to the

finished product quality and so directly to the customer's business reputation. Other purchases affect the buyer's own customer less directly. The system of classification is as follows:

- Installations; major investment items such as heavy engineering equipment. Customers are expected to plan such investments carefully, perhaps involving the use of extensive financial analysis.
- Accessory equipment; consist of smaller items of equipment such as hand tools. Larger items of accessory equipment may be treated as investment items, while smaller items will be treated as expenses.
- Maintenance, repair and operating (MRO) supplies; individually minor items of expenditure that are essential to the running of the organization.
- Raw materials; unprocessed basic materials such as crude oil.
- Manufactured materials and parts; include raw materials that have been processed and component parts ready to be incorporated directly into finished products
- Business services; maintenance and repair, and business advisory services

A commonly cited classification of industrial manufacturing organizations is the division into original equipment manufacturers (OEM) and others. OEMs are businesses that buy components and incorporate them into an end product that is sold under their brand name to the consumer market. One can distinguish between the OEM market and the after-market. OEM customers are by definition business customers, while after-market customers may be either organizations or consumers.

There is a second classification system consisting out of four categories, based upon the effort involved in acquiring the product and the risk of making a poor decision:

- Convenience products; involve very little effort and negligible risk for the buyer. (e.g. MRO supplies)
- Preference products; involve a little more effort than convenience products but substantially more risk. (e.g. minor items of accessory equipment)
- Shopping products; a great deal more effort and perceived risk than convenience and preference products. (e.g. major items of accessory equipment)
- Specialty products; the highest rank in terms of effort and risk. (e.g. heavy engineering equipment)

The two principal classification systems should be regarded as complementary rather than as alternatives. The first of them is a seller-orientated classification scheme (implications for the seller). The second is a buyer-orientated classification scheme (implications for the buyer).

Chapter 2: Buyer Behavior

Organizational factors affecting purchasing decisions

The organizational factors discussed here inform the purchasing behavior of managers in customer companies.

The nature of company business

The way that a customer organizes their own activities in order to perform transformation processes that represents the essential components of their value-adding activities. A company can be categorized according to whether its activities are essentially based on unit, mass or process production technology.

-Unit production; involves the design and supply of products that are tailored to specific customer requirements. The unit production company typically requires the involvement of suppliers in its design and production/assembly phases and requires coordination amongst its various key suppliers to ensure the completion and financing of these major projects.

-Mass production; involves the design and supply of high volume, standard products. To maximize the efficient use of its resources, a company's production activities will be characterized by a high degree of inflexibility, requiring that the supply of materials and components used in primary operational activities be precise, regular and consistent. The company would expect key suppliers to adjust logistical and administrative procedures to suit its requirements. In addition, a mass production company's ability to compete is determined not only by its low cost base but also by the regular introduction of new products. Suppliers would be expected to contribute to new product development activities.

-Production process company; involved in the manufacture of high-volume products, with low costs, operational efficiency and therefore supply continuity being central to the organization's performance. A key distinction is that the process producing firm does not assemble finished products. It processes raw materials for use in other supply chains. Much of the sourcing will be done via commodity markets, with the occasional purchase of capital intensive equipment. Corporate management will be much involved with the buying company's purchasing. Also, suppliers will be involved from the early stages of equipment purchases.

Business strategy

In addition to thinking about a customer's operational 'technology', vendors could also consider the customer's business strategy as this can give some indication of the way in which the customer will deal with supply markets. Take for example a company that adopts a product leadership strategy. Product leadership requires that a company has excellent technical and creative abilities. As well as managing its own internal product development process, the involvement of suppliers in those processes is also key to the firm's ability to pursue a product leadership strategy. Business marketers striving to supply such companies will need an intimate knowledge of the customer's business, the ability to offer design and product expertise and sufficient responsiveness to support the customer's pursuit of innovation.

Purchasing orientation

We will discuss three classifications of the purchasing function; buying, procurement and supply management.

-The buying orientation: sole purpose is to cut costs. Decisions are driven by attempts to get the best deal for the buyer and to maximize power over suppliers. This might be done through target pricing, centralization of the purchasing function, multiple sourcing etc.

-The procurement orientation: for many companies, the cost of bought-in goods can account for up to 70% of net sales. The recognition that 'better buying' can have huge effects on profitability has resulted in the emphasis moving from 'best deal', to optimizing the purchase resource, to increase productivity. This is the procurement orientation.

-Supply management orientation:

Segmented purchase categories

All companies purchase a range of products and it is likely that the approach varies per product. To get a good idea of which approach to take, a firm might categorize their purchases on technical complexity, business risk, TCO etc. Think of the kraljic matrix (leverage, bottleneck, strategic and routine products)

Marketing implications of a customer's purchasing orientation

Knowing the purchasing orientations of customers and the way in which supplier products might be categorized by them can help business market managers decide which customers to target and how to formulate solutions for the supply needs of those customers. E.g. if a supplier's product is classed as strategically important, then the supplier has the scope to become a key contributor to the customer organization's strategy.

Purchasing process

Decision-making

Purchasing consists out of a number of linked activities:

- Need/problem recognition; purchases are triggered by the need to solve problems or the drive to improve its operational performance/pursue new market opportunities.
- Determining product specification; based on the satisfaction of supply need, the company draws up specifications. For vendors, this stage in the buying process can be critical. If they manage to get involved in this stage, they might be able to lock out competing suppliers.
- Supplier and product search; here the buyer will look for organizations that can satisfy the company's supply requirements.
- Evaluation will normally consider the compatibility of a supplier's proposal against the buying company's product specification and an assessment of the supplier organization itself.
- Selection of order routine; once a supplier has been chosen, the purchasing officer will be responsible for negotiating and agreeing processes for order delivery and payment.
- Performance feedback and evaluation;

Variations in the purchase process

The before described process will not necessarily always follow the described order, and time/effort put in this process may vary a lot per product. A key cause for this is risk associated with buying the purchase decision. For the business customer the decision-making process can vary depending on the buying organization's familiarity with and experience of the product to be purchased, such that it is faced with three different buying situations: new task, modified re-buy and straight re-buy. These different situations will affect the extent to which current or alternative suppliers are considered in order to solve the purchasing problem, as well as the amount of information sought and used to guide the decision at hand. The buygrid framework in Table 2.2 illustrates the effect of the purchase situation on the decision-making process.

Table 2.2 Organizational buying process – buygrid framework

<i>Buying stages</i>	<i>New task</i>	<i>Buy classes</i>	
		<i>Modified re-buy</i>	<i>Straight re-buy</i>
Problem recognition	yes	possibly	no
Product specification	yes	yes	no
Product and supplier search	extensive	limited	no
Proposal evaluation and supplier selection	extensive	limited	no
Selection of order routine	yes	possibly	no
Performance feedback and evaluation	yes	yes	yes

Source: Adapted from Robinson et al., 1967.

The buygrid framework does, however, consider only one factor likely to affect the buying process. By extending the range of factors likely to affect the decision process, further variations in it become apparent.

New tasks

New tasks involve purchases which have not been experienced before. This means that the customer organization needs large amounts of information so that they can consider alternative ways of solving the supply problem. The uniqueness of the task can also lead to the company considering a number of potential suppliers. A new-task buying decision can be split into those in which a judgmental buying approach is used, whilst in others a strategic buying approach is more likely.

- Judgmental buying approach; typically associated with the highest degree of uncertainty. This might be due to lack of experience, the product's technical complexity, or general uncertainty on the specifications of the required product. In these cases the purchase decision will be based on the personal judgment of a small group of managers.
- Strategic buying approach; is associated with buying decisions that are strategically important to the business customer. This means that considerable effort is invested in obtaining and evaluating information regarding suppliers and their proposed solutions, and in negotiating with those suppliers.

Guidelines for the business marketer in new-task buying situations

Suppliers that encounter customers dealing with a new-task buying situation can try to build a strong position by becoming involved in the decision making process at an early stage. By seeking information on the nature of the purchasing problem, suppliers can assist in forming specifications for possible solutions.

Modified re-buy

Modified re-buys are repeat purchases in which the customer deviates in some way from previous purchase decisions. Often, this is caused by the company's dissatisfaction with its existing supplier.

- Simple modified re-buy; involves the purchase of a product and involvement with a supply market with which the customer is already familiar, so the information search can be quite limited.
- Complex modified re-buy; purchase situations in which the customer is faced with little uncertainty and a large choice of possible suppliers, which in turn enhances the negotiating position of the buying organization.

Guidelines for the business marketer in modified re-buy situations

An in-supplier's objective is to move decision-makers from a modified re-buy to a straight re-buy. To do this, they should invest in understanding and satisfying the customer's purchase requirement. In contrast, an out-supplier should try to keep the customer in the modified re-buy situation as long as possible to enable the customer to evaluate alternative supply solutions.

Straight re-buy

This type of situation involves purchases made to satisfy recurring need. They are often of minor importance and therefore little effort is made to search for new information. In straight re-buys a customer may adopt two different approaches, namely casual and routine low priority.

- A casual re-buy; involves low-value and low-importance items that are purchased incidentally.
- A routine, low priority re-buy; the sourcing of products that are of some importance to the buying organization, and compared to the casual purchase it represents more of a repetitive buying decision.

Guidelines for the business marketer in straight re-buy situations

In-suppliers have to make sure that there is no reason for the customer to switch to alternative suppliers. Regular contact might be necessary. A company can also look at ways of reducing the customer's buying effort, such as automated re-ordering.

Buying teams

Purchase decisions are usually made by teams (decision-making unit (DMU)) consisting out of six different roles:

- Initiators; requesting the purchase item and therefore triggering the decision making process
- Deciders; making the actual purchase decision. Not necessarily formal authority.
- Buyers; selecting the suppliers and managing the buying process such that the necessary products are acquired
- Influencers; contributing to the formulation of product and supply specifications, and recommending which vendors to consider or which products best satisfy the organization's needs
- users; frequently initiating the purchase as well as actually using the product
- Gatekeepers; controlling the type and flow of information in to and out of the company and members of the buying team

Members of the DMU may be drawn from a wide variety of departments in the firm. To influence purchase decisions successfully, the business marketer needs to know who the key members of the DMU are and what their specific concerns or requirements are.

Trying to determine influential DMU members can be challenging. As well as assuming that those in senior management positions might exert considerable influence, the business marketer can try to identify employees who:

- work in boundary-spanning roles
- have close involvement with the buying centre in terms of flow of activities
- are heavily involved in communication across departments in the buying organizations
- have direct links with senior management

The business marketer has to be aware that the decision-making process is a dynamic one. Therefore the business marketer has to determine:

- what happens to the structure of the DMU during different phases of the buying process;
- the effect that the change in structure will have on the communication and influence patterns inside the unit; and
- the information needs of DMU members at any given point in time

The effect of risk on buying teams

The use of purchasing teams and the effort that is put in to the process by these teams is primarily linked to the risk attached to the purchasing decision. Normally perceived risk will be heightened in new task buying or more complex modified re-buy situations. As the level of risk increases:

- the buying centre composition changes, both in terms of the number of members and the authority of those members;
- the buying team actively searches for information and uses a wide range of sources, including personal contacts, to guide the decision process;
- members of the buying team invest effort in the process and consider each stage of it more deliberately; and
- suppliers with a proven track record tend to be preferred by the buying team.

Business buying and the individual manager

Personal factors

As business marketers, we have to be aware that purchasing decisions are made by people, not by the organizations they represent. Therefore we have to take into account personal factors. In other words, we have to understand what makes managers tick to try to influence the behavior of key players in the buying company. Factor we should consider is: risk taking/aversion, rewards (for good performance, e.g. good purchase decisions) and backgrounds (education, experience etc.).

The purchasing professional

The scope of the purchasing manager's responsibilities will vary, but generally speaking they have to be familiar with a firm's specific needs and must be able to use negotiating techniques and pricing methods so that purchase costs can be minimized. There are a set of generic tasks that purchasers have to perform and skills they need to enable them to do this.

Buyer tasks:

- consulting with colleagues in other departments;
- determining the necessary parts, materials, services and supplies;
- calculating needed volume;
- searching for suppliers and requesting quotations;
- negotiating contracts; and
- monitoring the performance of the organization's various suppliers

Buyer skills:

- keeping detailed and accurate records;
- collecting and analyzing information;
- using math;
- working under pressure;
- making decisions using experience and personal judgment;
- managing and supervising people;
- working well with suppliers and colleagues; and
- negotiating and bargaining

The effect of information technology on purchase behavior

Next to the costs incurred in the actual purchase of an item, buying companies incur a lot of costs in the actual process. IT has significantly reduced these costs through making it easier to communicate to the external market, but also improve communication within the organization.

Communicating with external markets

In recent years we have witnessed the growth of electronic markets. These are essentially online markets where companies are able to exchange information, do business and collaborate with each other. Many are run by independent third parties and can be accessed by buyers and sellers in a particular industry or region. Others operate as industry consortiums, in which a limited number of companies either combine their supply capabilities in order to deal with a large customer base, or combine their product requirements in order to deal with known suppliers and so improve the efficiency of the purchasing process. There are horizontal marketplaces, which are used by buyers for items that do not contribute directly to the company's own product; and there are vertical marketplaces in order to buy and sell items that contribute directly to a product chain.

Auctions

There are two main types of auctions; English and Dutch. English auctions are used to auction off an unwanted item. The highest bidder wins and receives the item in return for the price he bid for it. Dutch auctions are the reverse. The buyer offers the opportunity to satisfy a product requirement to a range of interested suppliers, with the order going to the company that makes the lowest bid. Auctions conducted via electronic marketplaces operate under the same principles and have led to a large growth and broadening in the use of this market mechanism.

Dutch auctions have become a key point of interest and a trading mechanism for business buyers. In reverse auctions a buying organization hosts the online auction and invites suppliers to bid on announced request for quotation (RFQ). Before the bidding can start:

- the buyer must clearly articulate the specifications, quality requirements, delivery lead time, location and transportation needs, order quantity and service issues;
- some communication may take place between the buyer and interested suppliers in order to further clarify details of the RFQ;
- potential suppliers have to go through a qualification process to ensure that they have the capability to meet the tender conditions should they be awarded the contract.

For these auctions to be worthwhile, they usually concern high-value orders. The high value of transactions typically conducted via reverse auctions means that they frequently form part of a company's strategic procurement activity.

Reverse auctions offer opportunities and risks to both buyers and sellers. These are summarized in table 2.3.

Catalogue purchasing

Catalogue purchasing involves an intermediary collating a wide range of items within a particular product category from a range of suppliers. The catalogue lists the items and provides detailed product specifications as well as current market prices. Buying organizations will normally use catalogue purchasing to handle a wide range of casual and routine re-buys.

Internal coordination of buying activities

The range of products bought, the different departments that have some purchasing authority and the geographical dispersion of many decision-makers present many large organizations with a major challenge in trying to operate a more efficient purchasing process. However, IT implementation has so far been very helpful in coordinating a more centralized and structured approach to procurement.

Inter- and intra-firm coordination

For companies whose purchasing orientation centers around supply management, the ability to minimize waste and costs along its supply chain is critical. To do this, companies will align their administrative and operational activities and the flow of materials between the various parties in the supply chain. IT is essential to the firm's capacity to do this.

Chapter 3: Inter-firm Relationships and Networks.

Introduction.

This chapter commences with a reappraisal of the earlier coverage of organizational buying behaviour, identifying the shortages(deficiencies) of a marketing approach based solely upon an analysis of buying centres, and attempts by the marketer to influence the buying behaviour of the customer. Next to that it proceeds to re-examine the basis for business marketing, arguing that successful b2b-marketing comes from an understanding of value creating exchange. In exploring exchange, a selection of key theoretical perspectives is introduced, along with the key variables that they use, to indicate the contribution they make to our understanding of relationships. Business marketing means constantly evaluating relationships in terms of these variables and making changes within relationships, knowing the effects upon the variables and the relationship at large. These are enduring tasks for the business marketer. The chapter then goes further than the level of relationship. It extends the relationship concept to incorporate the network of relationships that surround any single relationship; the strategic understanding of a relationship comes from an understanding of the network within which it is embedded and that affects it directly or indirectly.

Inadequacies of Traditional Approaches to Business Marketing.

Traditional approaches to b2b-marketing, often listed under the 4 p's (product, price, promotion, place) or 'marketing mix' labels, tend to make several assumptions:

1. The marketer and customer operate separately and at odds with each other. Marketers market and customers purchase, and as a consequence each has essentially conflicting interests in exchange.
2. The marketer is active while the customer is relatively passive.
3. The marketing process typically involves the study of buying behaviour of business customers, as detailed in chapter 2, then attempts by the marketer to influence that behaviour in their own favour.

The traditional approach to marketing embodied in the 4 p's has been criticized more specifically for lacking relevance to the way in which business markets actually work. Success in any market comes from a strong understanding of customers and their needs, in business markets, customers are often as active as suppliers, with the process of involving substantial interaction between the two over time rather than a cool detachment.

Furthermore there is often a clear understanding that the economic well-being of both parties depends substantially upon the relationship.

Matching the Uncertainties and Abilities of Both Parties.

Success in business markets comes from the recognition that the customer and marketer together create value in exchange by each providing solutions to the other's problem. Hakansson et al. (1976) proposed that a business buyer faces particular kinds of uncertainties either concerning the basis of the need itself, or the nature of changes in the marketplace, or the transaction associated with meeting the need or each of these. Successful business marketing involves cultivating the ability to reduce these uncertainties.

Customers face uncertainties.

1. Need uncertainty: relates to the difficulties of knowing exactly what or how much to buy. The lack of knowledge upon which to make a decision is fundamental here, and thus need uncertainty is typically higher for new-buy tasks. It is also typically higher when the need itself is more important.

2. Market uncertainty: arises from the degree of choice a buyer perceives in the supply base and the difficulty in knowing which supply choices to make. The degree of difficulty is a function of how different the alternative suppliers are from each other and how dynamic those differences are. Increased knowledge is the route to reducing the difficulty but it comes at a cost: increased time and effort in evaluating the different suppliers before purchase commitments are made.
3. Transaction uncertainty: refers to the degree of exposure that the buyer is faced with once a transaction has been agreed. The integrity of a product may be affected in transit. Delay problems are particularly significant when coordinated production schedules are involved. The extent of transaction uncertainty is also related to how well the buyer and seller know and communicate with each other.

Supplier abilities can reduce customer uncertainties.

The problem-solving abilities of a supplier in meeting the customer need and/or their ability to transfer the solution create the basis for a successful match as far as the customer is concerned.

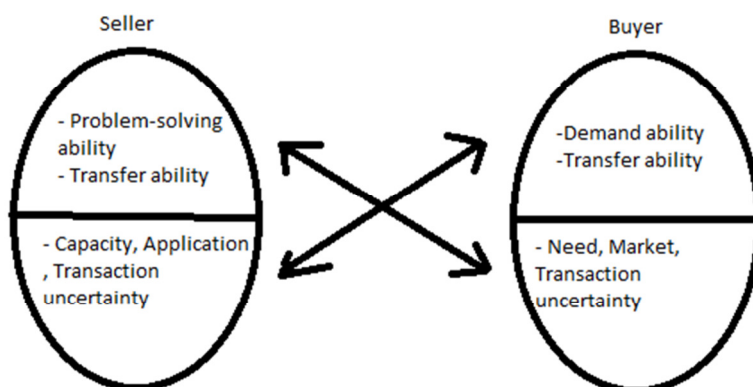
1. If a supplier can demonstrate a superior knowledge of the need then it is in the best position it can be.
2. Further, if a supplier can demonstrate convincingly that it can reduce the customer's market uncertainty then again it is in the best position it can be. (e.g. limiting contract lengths)
 - Agreements like this do not only limit how exposed the buyer is in the first place, they give the supplier the opportunity to demonstrate its transfer ability, reducing transaction uncertainty at the same time.

Customer abilities can reduce supplier uncertainties.

The primary task for the business marketer is to determine the customer's uncertainties and then look at their own abilities to provide solutions to those uncertainties. There is another dimension to this task, which is proposed by Ford et al. (1998). It indicates that specific uncertainties faced by suppliers revolve around:

1. the capacity that they must plan for → capacity uncertainty.
2. the sorts of application that the market will demand → application uncertainty.
3. Suppliers are subject to transaction uncertainty just as buyers → transaction uncertainty.

The relative needs and uncertainties of buyers and sellers are presented in the following figure:



The need to match uncertainties and abilities in order to achieve business marketing success provides a clear indication that relationships matter. The relationship constitutes the context within which value-creating activities take place, and thus the next level of management activities for both parties involves the

relationship.

Knowing what relationships to focus upon, what is possible in such relationships, the resource requirements for initiating changes in any relationship and the implications of such changes upon the

relationship, the wider portfolio of customer relationships, and beyond, are just the sort of concerns that a business marketer must have. It is the bases of relationships that our attention is now turned.

Relationship Theories and Variables.

A wide variety of variables have been used to study relationships and there is no consensus set to explain a relationship. Relationship-based theories however provide us with a set of perspectives that can be drawn up when trying to understand any relationship, of which each emphasize different relationship aspects. Here you have a list of the various perspectives, of which all have a contribution to make us understand relationships as a whole.

Principal variable(s)	Level of emphasis	Major theoretical source	Theory type(s)	Typical reference sources
Risk and its management	Ind. Transactions agent	Principal-agent	Political-economic	Arrow, 1985 Bergen et al. 1992
Distribution of transaction costs	Individual transactions	Transaction costs economics	Economic	Williamson 1979
Dependence; power and its exercise; switching costs	Transactions or relationship	Resource dependence	Political	Pfeffer and Salancik 1978
Social embeddedness; trust and commitment	Relationship	Social exchange	Social	Granovetter 1985
Interaction processes	Individual exchanges and relationship	Interaction	Social/interactional	IMP group (Hakansson 1982; Ford 1990/1997/2001)

Exchange risk and its management.

All forms of commercial activity involve risk. We talked about uncertainties, which are sources of risk, and organizations spend much time trying to eliminate uncertainty or reduce their exposure to it. Perception of risk = the possible negative outcomes and the probability to those outcomes arising.

In the exchange between organizations, the risk arises from one party relying upon the other to undertake its part in the interaction in a fair way.

The parties in relationship exchange may not necessarily react in the same way to the level of uncertainty because they may have differing attitudes towards risk. This arises, looking at the principal-agent theory, because both parties have different goals in the exchange. This assumption stems from the concern with establishing the contractual basis in agency transactions. The difficulty for the company(principal) that is forced to retain an agent to work on its behalf is that there are unknowns and unknowable's. These are:

1. Hidden characteristics of the agent (e.g. actual abilities)
2. Hidden actions (e.g. the way in which the agent undertake tasks on the principal's behalf)
3. Hidden intentions (e.g. whether the agent really have the principal's interest at heart)

Principal-agent theory argues that the **contract** is the basis for the management of the exchange risk because it is through the contract that risk is distributed between parties! The extent to which a

contract is formally stated will depend upon the parties' attitude to risk within the relationship and the propensity to cooperate. → where greater formality is sought in a relationship, several questions need to be born in mind when it comes to drafting a contract:

1. Can performance be seen as behavioural, a set of specific activities with descriptions of how to undertake them, or does performance is seen as specific outcomes?
2. Who controls the contract and thus has greater potential to influence the terms? Most of the time the party with the greater relative power is in the strongest position.
3. After a contract has been established, there are operational elements to be considered. The nature of the standard operating procedures within the contract may also need to be established.

Allocating exchange costs.

All transaction incur costs. These costs arise from initiating, handling, controlling, modifying and terminating contracts, as well as opportunity costs. The levels of these transaction costs are directly linked to the nature of market conditions.

The task for companies, according to the transaction cost theory, is to find an exchange partner and a way of working with that partner that create the most economically efficient transaction possible.

The following three factors affect transaction costs:

1. Uncertainty, concerns the completeness of information. From general market structure knowledge to specific details of the transaction is what it involves. The less that is known, the greater the uncertainty.
2. Asset specificity is the relative amount of assets or resources that need to be committed specifically to the transaction. There is a range of asset types: site assets; physical assets; human assets; other dedicated assets.
3. The frequency of the transaction can reduce the costs, because the more often it happens, the greater the total transaction costs are.

Transaction cost analysis = this helps us to understand how relationships change and develop in response to changing levels of uncertainty, assets specificity and transaction frequency.

Dealing with relative power dependence.

Dependence is inevitable as a consequence of exchange. Requiring access to the resource held by others creates dependence. Both buyer and seller have dependence.

1. A customer may be relatively more dependent upon a supplier of a critical or scarce resource because the customer's business requires that specific resource or because that there are only a few suppliers.
2. Despite having very strong brand positions, even big brands owners sometimes have to give way to the demands of very important retail customers, particularly in times of a recession.

From the point of view of either party to exchange there are several major tasks that must be undertaken:

1. Establish the relative levels of dependence and thus the degree of autonomy of the firm.
2. Understand the behavioural consequences of that interdependence, including potential for the exercise of power.
3. Consider the consequences of actions that may change the levels of relative dependence. This typically revolves around switching costs.

The social dimensions of relationships.

The central role of business relationships is to manage economic exchange. The general assumption is that the parties to an exchange are essentially self-seeking, seeing exchange as a necessity but seeking to control it. Relationships also have a social dimension. They are, after all, social constructions, and the parties to an exchange exist embedded within a wider social structure. The economic value created within the relationship can only be maximized when the two parties cooperate with each other. The social exchange view throws relief upon processes that create reasonable conditions. Foremost are the concepts of trust and commitment:

1. Trust is seen to be central to relationship, capturing the confidence a party has with the reliability and integrity of a counterpart, and building expectations.
2. Commitment goes hand-in-hand with trust since it is state of organizational mind or intentions, where the relationship has significance for the party, and where it wishes the relationship to endure. It's the commitment which establishes trust and maintains it.

Social-exchange theory makes a clear contribution to our understanding of exchange relationships, by showing that factors other than economic ones, such as trust and commitment play in moderating the impact that power dependency plays in relationships.

Business marketing: an interaction perspective.

Relationships unfold through a whole series of actions and reactions of the parties involved. The Industrial Marketing and Purchasing Group (IMP) provides a comprehensive conceptual framework within which to locate a whole host of relationship actions.

- It considers the exchange to represent more than the basic exchange of a market offering money. It covers all forms of interaction between the relationship parties; financial, product, informational and social.
- It has a dyadic view, meaning that both parties to the exchange have the potential to act with, against, through or in spite of the other.
- It embodies the politico-economic perspective in respect of the structure of power in an exchange relationship, while also focusing upon the processes by which the interaction takes place.

In business markets the buyer may be as active as, or more active than, the seller. **The exchange process is not one of action and reaction, but it is one of interaction!** Customers in business markets come in all sizes with widely differing product/service requirements, and marketers seem to talk about them individually so that each seems to be more or less important to the seller.

The interaction model, proposed by the IMP group, captures the diversity and complexity of the relationships witnessed in business markets.

The IMP interaction MODEL → page 73!!!

To understand interaction over time between parties, a distinction can be made between what happens in any individual interaction and what happens at the level of the relationship itself, as a combination of and essence of these individual interactions → called **Episodes** by IMP Group.

The interaction may be of several types:

1. Product/service: The relationship is built around this central element. The nature of the product/service affects the interaction between two companies.
2. Financial: The amount of money involved in the exchange is also likely to affect the interaction.
3. Informational: There is often a large amount of informational contact which affects the interaction, e.g. technical details or commercial material.

4. Social exchange: This plays an important role in maintaining a relationship between economic transaction and seems particularly important in reducing uncertainties between parties that arise from cultural or geographical distance.

As a result of the elements of interaction above, relationship partners come to know each other better and develop clear expectations of the relative roles and responsibilities of each other. This constitutes a degree of institutionalization (they do not really have to think about every step they take with each other).

A relationship of course requires parties to the relationship. The parties are the two organizations and individuals (at least two people) from those organizations. It is the organizations, or more precisely the individuals, who interact.

The IMP interaction model posits that the organizational factors include physical characteristics of the firms in terms of:

1. Size → has a strong bearing upon relative power in a relationship and established the pecking order in the interaction. The dominant party, based on size, has greater capacity to call the shots.
2. Structure → the forms of structure adopted by the parties and the degree of centralization of authority, formalization and standardization of rules, or levels of specialization of jobs, all affect interaction. They do this to the extent that they allow for more or less interaction of different types between people from different levels and departments within the firms.
3. Technological resource bases → Interaction brings together the technological resource bases of the two relationship parties and so these bases provide the conditions under which interaction occurs. The technological systems extend beyond equipment-based resources or technology infrastructure. They also include the knowledge bases of the individuals working in the two firms.

They also include less tangible factors such as: organizational strategy and the experience of the firms. The IMP interaction model also posits that the personalities, experience and motivations of the individuals working for the firms will very directly affect the interaction between two firms.

- What either party seeks to gain overall, and – perhaps more importantly – through its relationships, affects its interaction.
- The previous relationship experiences of organizations may affect their propensity to become more or less involved with other relationships.
- Ultimately, it is the interactions between individual participants that create and sustain a relationship. The personalities of these people affect the relationship.
- Individual experiences in general relationships in particular will also affect the way an individual interacts, as will the individual's motivation to interact.

The external environment in which a dyadic relationship unfolds is likely to affect the behaviour of the firms in the relationship. These effects can be seen in many ways:

1. Market structure, affects a relationship in terms of availability of and scope for switching to alternative relationship partners.
2. An individual relationship's position in the manufacturing channel, or the characteristics of the wider social system may also be significant, particularly where the strategies of companies elsewhere in the supply chain are able to influence the behaviour of a firm in that dyadic relationship.

Over time, interactions leads to a relationship that is more than the sum of individual episodes. The relationship is dynamic in that it is affected by the individual episodes. However, the passage of time

in the relationship brings a degree of stability. This establishes an atmosphere within which relationship participants act. Within the IMP model this atmosphere can be described in terms of the power-dependence relationship between the companies, the degree of cooperation/conflict and the overall closeness/distance in the relationship, as well as in terms of the companies' mutual expectations. Inevitably, trust also affects the atmosphere of the relationship. With repeated interaction comes the ability of each party to more strongly ascertain the trustworthiness of its counterpart and for trust to affect the atmosphere of the relationship.

The IMP interaction model captures the various elements that may affect the relationship interaction process in the short/long term as well as clearly showing that the interaction itself may affect the parties to the relationship, either directly or through the atmosphere surrounding the relationship. When it comes to drawing from the model to help with management relationships, there are several preliminary points that must be made:

1. Relationships are two-way. This means that managers need to consider the aspirations, potential and behaviour of both parties to the exchange if they want to obtain clarity about the way the relationship is and could be.
2. Relationships in general are complex and can be described using a multitude of variables, some of which may be of more explanatory use in some relationships than others. The situational diversity and the range of variables that could explain any individual relationship mean that simple prescriptions for action are not easy to obtain. Rather, managers have to reflect upon the relationship that confronts them, understanding its entirety in its natural setting. Only from THAT understanding, aided by analytical tools that this book provides, will sensible development of the relationship result.
3. Whether a relationship is long/short term, at any particular point in time there is a history leading to that moment. The history both makes it what it is and sets the jumping-off point for the future. Understanding the history of a relationship is a prerequisite for establishing what it can be in the future.

Business Marketing as Network Analysis and Management.

It is through relationship that companies achieve objectives. However, the decisions taken in relationships and their motivations do not necessarily originate at the level of the relationship (Ford and McDowell, 1999).

1. Often for the business marketing organization there are considerations that extend across the whole portfolio of customer relationships in which it is involved.
2. Further, how it behaves in any one relationship will be conditioned not just by its customer relationship at large, but potentially by its own supply relationships.
3. Beyond that, it may even be affected by its links with other agencies, governments, banks, universities and industry associations. All of these have the potential to affect the single relationship because of connectedness → all relationships are connected to the wider network within which they are embedded.

The Network View means that the firm has to accept that it is interdependent and embedded, and that this limits its ability both to think and to act independently. Thus, the task for the firm, managerially, is to analyze the network in order to establish its network position and engage in relationship behaviour that will enhance that position.

According to Hakansson and Snehota (1995a) there are three important components that networks bring together from all those organizations within the network:

1. Actors, who engage in relationship behaviour. → Actor bonds.
2. Resources, that are created or used in the relationships. → Activity links.

3. Activities, that are undertaken in relationships. → Resource ties.

ARA analysis = The activity of examining each of these (Actors, Resources, Activities).

On the basis of the analysis of network position, a focal company is better able to consider how it changes its position. However, in examining their own network positions, stronger network parties are unlikely to welcome relationship advances from any party that does not maintain or further enhance their existing positions. Furthermore, stronger network players are likely to be highly sought after. → Network positional change has to be achieved more gradually using existing relationships to forge the sort of actor bonds, activity links and resource ties that will strengthen the parties involved.

Chapter 4: Business-to-Business Marketing Strategy.

Introduction.

Mintzberg et al. (1998) argue that strategy needs five definitions → the five P's for strategy:

1. Strategy as a plan; This is the intended strategy, what is set out to achieve.
2. Strategy as a pattern; This is the realized strategy, meaning that strategy is a consistency in behaviour over time.
3. Strategy as a position; The locating of particular products in particular markets.
4. Strategy as a perspective; A company's fundamental way of doing things.
5. Strategy as a ploy; Strategy can refer to clever moves designed to outwit competitors.

We take a look at different approaches to marketing strategy formulation: The rational planning approach, resource-based view, and the relationships and networks view. Next to that we will look at a general framework for analyzing the effects of new technology on marketing strategy.

Strategy: meaning and process.

- Business unit strategy = concerns how an individual business competes with its rivals, with what it does and what could do to stay in business and to beat the competition.
- Corporate strategy = concerns decisions made in an organization comprising multiple businesses, often called Strategic Business Units BSU's.

Strategic marketing management is concerned with business unit strategy, also known as competitive strategy. Strategy is concerned with strategic decision-making. McDonald (1996) identified four characteristics of strategic decisions:

1. They are concerned with the long-term orientation of the organization rather than day-to-day management issues.
2. Strategic decisions define the scope of the organization's activities.
3. Characteristics of strategic decisions both concern the matching of the organization's activities.

Jain (2000) identifies the following significant features of strategic marketing:

1. Emphasis on long-term implications. → Monitoring the business environment is such a central element of strategic marketing planning.
2. Corporate inputs. → In making strategic marketing decisions, managers need to consider the corporate culture, the corporate stakeholders and corporate resources.
3. Varying roles for different products/markets. → Strategic marketing means looking at the whole of a company's portfolio of products and markets, and managing, the portfolio to achieve the company's overall goals.

The Purpose of Strategy: Value and Value Creation.

The purpose of marketing exchanges is to create value for all parties to the exchange.

- Consumer surplus = amount that the buyer would be prepared to pay over and above the selling price.
- Producer surplus = the difference between the actual price and the minimum price that the seller would have been prepared to accept.

It is a particular characteristic of business-to-business exchanges that the process of value creation can become complex, involving several parties and multiple interconnected exchanges. Uncertainties can arise from factors internal to a project/business as well as external. For that reason, paying

explicit attention to the value created through exchange processes is often a matter of particular concern to business marketers.

Customer value: give-get definitions.

Zeithaml (1998) proposed this definition of customer perceived value: 'Perceived value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given ... value represents a tradeoff of the salient give and get components'. Both the give and get components included a range of attributes, in particular, the give components include monetary and non-monetary elements.

She found that customers thought of value in four ways:

1. Value is low price.
2. Value is whatever I want in a product.
3. Value is the quality I get for the price I pay.
4. Value I what I get for what I give.

Customer value: means-end chain definition.

Woodruff (1997) identified a number of common aspects in the definition of customer value:

- It is linked to product use.
- It is a customer perception rather than an objective phenomenon.
- It involve a tradeoff between what the customer receives and what the customer gives up.

However, he argued that customer value should be conceptualized as a means-end chain, with desired product attributes leading to the achievement of desired consequences in use situations and then to the fulfillment of customer goals and purposes. His approach suggest a longer-term perspective, in which the customer has the opportunity to evaluate the performance of the product and its impact of lifestyle. → The distinction between the mean-end chain (Woodruff) and the give-get (Zeithalm) approach is perhaps one of timescale!

Conclusion of Give-Get Vs. Means-end Chain.

- Means-end chain definition of value seems more suited to high-involvement purchases.
- Give-get definition of value seems more suited to low-involvement purchases.

Perceived customer value for an Organization.

An unresolved issue in the conceptualization of value is the nature of value for an organization.

When an exchange decision affect more than one person, how can we define perceived or subjective value for the organization? Some solutions:

1. One solution is to assert that a superordinate organizational goal is the only relevant decision criterion, for example shareholder value.
2. Walter et al. (2001) proposed that value rests in the perceptions of key decision-makers in the organization, which is clearly NOT a solution.
3. Blois (2003) focused on customer and supplier value in b2b markets but did NOT explain how the aggregate benefits and sacrifices to the organizations involved in the exchange are calculated from the benefits and sacrifices incurred by different stakeholders.
4. Woodruff and Gardial (1996-70) discussed the issue in the following terms: The desired end states of buying organizations might include longevity, a sense of unity or community, customer responsiveness, quality, or shareholder wealth. However:
 - Organizations are abstractions and do not have desired end states.
 - Customer responsiveness and quality are not desired end states at all.

Customer lifetime value.

A straightforward use of the term 'customer value' is found in the context of relationship marketing strategies. Such strategies are built upon the creation of customer loyalty and, consequently, the reduction of customer defections and the retention of customer business.

It is immediately clear that 'lifetime customer value' is quite different from the 'customer-perceived value'. The concept of lifetime customer values measures value to the supplier, not value to the customer. Meaning that the concept of lifetime customer value is an expression of supplier value, not of customer value.

Relationship value.

Gassenheimer et al. (1998) used three bases for the analysis of value in relationships between firms:

1. The economic (transaction costs analysis)
2. The social (social-exchange theory)
3. The distributive (distributive justice theory)

They argue that most inter-firm exchange relationships required both economic and social value to endure. Their definition of economic value was of a financial give-get nature, while their definition of social value was 'satisfaction with the exchange situation'. He argued that:

- Economic value tends to predominate where relational distance is high.
- Social value tends to predominate where relational distance is low.

Approaches to strategy:

We move on to examine alternative approaches to strategy:

1. The rational planning approach

The rational planning approach to strategy development is the idea that a formal strategic planning process is the mechanism that is most likely to create a successful strategy. In the marketing field, this is known as strategic market planning, or simply marketing planning.

The aim of strategic market planning is to create a competitive advantage over rival firms. Michael Porter (1985) provided a two-fold classification of the forms of competitive advantage that can be achieved →

- differentiation of the product/service
- cost leadership.

Next to that Porter provided a four-fold classification of competitive strategies depending on whether these competitive advantages applied across a whole market or only to a single market segment →

- differentiation
- cost leadership
- differentiation focus
- cost focus

Next to that Porter was responsible for formalizing the competitive environment into his famous five forces →

- Competitive rivalry
- Power of buyers
- Power of suppliers
- Threat of new entrants
- Threat from substitutes

Porter's tools provide a guidance on what should be done, which contains a series of logical, sequential steps through which organizations can arrive at their best strategy. The core components of these logical steps are:

- An external audit; examining the competitive environment and the wider macro-environment to identify key opportunities and threats.
- An internal audit; examining the differential strengths and weaknesses of the organization compared to key competitors.

- A summary of the marketing audit in a SWOT analysis.
- Identification of strategic alternatives
- Evaluation of strategic alternatives.
- Implementation of the strategy through the budgeting and operational planning systems, and control through a monitoring mechanism.

We refer to this as the rational planning approach, because the underlying intellectual framework is an optimization routine employing rational choice theory. All the possible alternative strategies are evaluated to see which provides us the optimum results, and the best strategy is chosen.

2.The resource-based view.

The resource-based view of competitive advantage operates in the assumptions that firms are heterogeneous in terms of their control of important strategic resources and that resources are not perfectly mobile between firms. Firm resources are defined as 'strengths that firms can use to conceive of and implement their strategies'. Resources can be classified as:

1. Physical capital resources(plant/equipment/location)
2. Human capital resources(experience/intelligence)
3. Organizational capital resources(formal reporting structure/formal and informal planning).

In order for a resource to be a potential source of sustained competitive advantage it must be valuable, rare, inimitable and non-substitutable. → Unique historical circumstances simply mean that a firm was in the right place at the right time and was therefore endowed with a unique resource. This is often called path dependency)!!

Every firm comprises a very complex bundle of attributes and it is often not a simple matter, or perhaps not even possible, to identify exactly which characteristics of the firm make it more or less successful.

Socially complex attributes, meaning characteristics of the firm that are embedded in its internal and external relationships, are a particularly difficult resource to imitate. This insight is one of the reasons why, in b2b markets, so much effort has been devoted to understanding inter-organizational relationships and networks!

To summarize: The resource-bases view of the firm concludes that a firm can only build a sustained competitive advantage if it controls physical, human or organizational assets that are valuable, rare, inimitable and non-substitutable.

3.Strategy as the management of relationships and networks.

- Business marketing consumer goods and services could benefit from adopting a relationships and network perspective, particularly in relation to the management of their supply chain. However, b2b marketing organizations, which interact with identifiable networks of heterogeneous suppliers and customers, certainly have the most to gain from the relationships and networks perspective on strategy.

- In practice, supplier and customers in business markets often do business together for many years, forming dyadic business relationships within which the parties of the relationship often make substantial relationship-specific investments that create structural bonds between the organizations in addition to the social bonds that are often created within business relationships.

- Each relationship has a unique atmosphere, which is the cumulative outcome of exchange episodes that have taken place. Relationships are path-dependent, and are connected together in networks that can be characterized in terms of actors, resources and activities.

- One cannot hope to understand behaviours at the level of the individual relationship without understanding something of the network context within which it takes place.

- The relationships and networks approach to strategy has something in common with the resource-based view, in that the current resources of the firm are considered to be the key factor in

determining its strategic behaviour. The relationships and network approach identifies the firm's portfolio of relationships, and its network positional resources as key factors in strategy formulation.

- The relationships and network approach has very little in common with the rational planning approach to strategy, since there is no list of steps to be followed and no optimization procedure.

According to Ford et al. (2003) and his colleagues it is the 'Myth of interdependence' what distinguishes it from both the rational planning approach and resource-based view. A company is able to act interdependently. It can carry out its own analysis of the environment in which it operates, develop and implements its own strategy based on its own resources, taking into account its own competences and shortcomings. To the contrary, from the relationships and networks perspective:

- Companies have a restricted view of the surrounding network.
- Firms have limited freedom to act independently, and the outcomes of their action will be dependent upon the actions of other firms within the network.
- Strategizing is not simply concerned with competition.

When strategy is conceived as the management of relationship and networks, the primary focus ceases to be the internal allocation and structuring of resources, and becomes the way in which the organization relate its activities and resources to other parties in the network.

Ethics, Corporate Social Responsibility(CSR) and Sustainability.

There are two key strategic issues that address specific aspects of business-to-business marketing. These are, first, the interrelated subjects of ethics, CSR and sustainability. And, second, the impact of new technology.

1. The interrelated subjects of ethics, CSR and sustainability

1b. Ethics and CSR

Marketing ethics = the systematic study of how moral standards are applied to marketing decisions, behaviours, and institutions.

Four approaches to marketing ethics are generally distinguished:

1. **Managerial egoism.** → The basis for egoism is the pursuit of self-interest. For now we will assume that the interest of the management of the organization are aligned with the interest of the owners, so that the ethical principle underlying managerial egoism is the maximization of shareholder value.
2. **Utilitarianism.** → utilitarianism is the best-known form of consequentialist ethical theory. Consequentialism refers to the those ethical theories that judge whether an action is right or wrong on the basis of the consequences of the action. In the case of utilitarianism, the consequences of actions are evaluated in terms of the balance between utility (happiness) and disutility (unhappiness).
3. **Deontological ethics.** → In contrast to consequentialist approach of utilitarianism, deontological or duty-based approaches to ethics focus on the ethical nature of actions, rather than on the consequences of those actions. Many religious people adopt a deontological approach to ethics, based on the religious faith that they fold. However, deontological ethical systems need not be based on religious teachings. Professional associations for marketing and sales managers, and large employers, typically have codes of conduct that members or employees are expected to abide by.
4. **Virtue ethics.** → The ethical theories outlined above provide, in principle, criteria that can be used to choose between alternative courses of action. By contract, virtue ethics stresses the

cultivation of virtuous principles and the pursuit of a virtuous life. The foundation of morality is said to lie in the development of good character traits as virtues.

1b. Sustainability

How can firms conduct their business, while doing as little damage as possible to the natural environment? The context for this managerial issue is the obvious degradation suffered already by the natural environment as a result of human actions. → This has led to the conclusion that business organizations must play an important role in achieving a sustainable global economy, defined by Hart (1997) as: 'an economy that the planet is capable of supporting indefinitely'. This idea is usually referred to simply as 'sustainability'. Hart proposed that companies must incorporate sustainability into their strategic thinking, and provided a four-stage model for achieving this:

1. Stage 1 → **pollution prevention.**
2. Stage 2 → **product stewardship.**
3. Stage 3 → **clean technology.**
4. Stage 4 → **Sustainability vision.** → The stage where all of the ideas are pulled together into a coherent whole.

2. New Technology and Business Marketing Strategy

Rather than deal with new technology as a separate and distinct aspect of marketing, we take the view in this book that it will be intergraded into marketing practice, affecting various aspects of the marketing manager's job in different ways. We discuss these impacts of new technology under the various functional aspects of marketing addressed in subsequent chapters. However, there is also an overall strategic impact of new technology, which is discussed briefly here. There are three aspects to this overall impact:

1. Buying organizations are using new technology extensively in their buying processes, and this affects the structure and processes of the buying centre, which in turn affects business marketing strategy.
2. The adoptions of new technology is expected to influence the way in which inter-organizational relationships are formed, develop and are managed – this affects relationship management strategy.
3. New technology has created new, online market forms – this affects the context within which business marketing strategy is conducted.

The adoption of e-commerce tools alters the structure of the buying centre and the processes that take place within it. In general, using e-commerce tools for business procurement can be expected to lead to a smaller buying centre, involving fewer hierarchical levels and fewer functional areas but with increased participation by individual buying centre members.

Overall, it is to be expected that buying centre efficiency will improve with the adoption of e-commerce tools, in terms of both cost savings and better decision-making.

Marketers should take account of the wider and easier access of a more technically astute buying centre to external information that may be perceived to be more 'objective' in developing marketing and selling strategies.

The internet is the most ubiquitous of the new technological tools affecting business-to-business marketing and purchasing.

Chapter 5: Researching Business-to-Business Markets.

Introduction.

The only way to answer questions for specific markets and specific customers is to undertake market research. An example from a practical research in B2B markets is that an average buying centre consists of four people. The buying centre of a firm tended to be largest for a new-buy situation.

The Value of Marketing Information.

Bill Gates pointed out that accuracy, timeliness, relevance and uniqueness are the most important characteristics of information. Getting accurate information is largely a technical matter. Getting the right (relevant) information, at the right time (timeliness) is mainly a managerial matter.

Another overall conclusion of several researchers is that top-performing B2B firms have a proactive approach to collecting information. Newman argued that improvements in data gathering and analysis did not address the important question of how to get the results of marketing research more in the decision-making act. This means that gathering information is nice, but involving it in managerial decisions is hard and most important. Moorman et al. added that it is through the effective use of this wealth of information that firms will gain a competitive edge.

Market Research and the Nature of Business Markets.

Of particular relevance are the following three aspects of business markets:

- *Derived demand*: is relevant for business markets since organizations buy goods and services in order to pursue business goals and not for any intrinsic satisfaction. Because of derived demand, business-marketing organizations cannot simply focus on their immediate customers but may also need to be aware of factors affecting demand further downstream.
- *Accelerator effect*: occurs in capital goods industries, where relatively small changes in downstream demand can bring about much larger changes in demand for investment goods. A shift in downstream demand will have a multiplied effect on demand for capital goods. For the derived demand and accelerator effect, firms most often use secondary sources to keep up to date since primary research is too time-consuming and expensive.
- *Concentration ratios*: in B2B markets, high concentration ratios are not unusual, meaning that only a few buying companies make up a large proportion of the total buying power in an industry. In markets with high concentration ratios, primary market research is normal since there are only a 'vital' few companies.

Research Fundamentals in Business-to-Business Markets.

Sampling techniques are used more frequently in B2B markets because of the structure of such markets, in particular because the relevant population is usually fairly small and some members of the population are much more important than others in terms of their buying power. The aim of sampling is to obtain a representative sample, meaning a sample that reflects the overall population in terms of important characteristics.

There are two general types of sampling techniques: *probability* and *non-probability* sampling. Probability sampling means that every member of the target population has a known, non-zero probability of being included in the sample. Probability sampling contains a couple of narrower techniques:

- *Simple random sampling*: every unit within the sampling frame has an equal chance of being selected for the sample. The disadvantage is that the sample may not guarantee a representative

sample.

- *Stratified sampling*: population and sampling frame are divided up into meaningful groups and then samples are taken from each of the data according to their representation in the population. This avoids the problem of simple random sampling.
- *Systematic sampling*: is a systematic way of selecting your sample. If we need a sample of 1/9th of the firms we can look at a list of companies and simply select number 1, 9, 18, 27 etc.
- *Cluster/Multi-stage sampling*: this can be used where there are naturally occurring units in the population, like firms, trade associations, factories, schools and departments within firms.

The other main sampling technique, *non-probability sampling*, states that the units in the population do not have a known, non-zero probability of being selected for the sample. It contains four types:

- *Convenience sample*: is simply a group of respondents who are ready and available to complete the survey.
- *Snowball sampling*: the researcher relies on previously identified members of the target population to identify other sample members.
- *Quota sampling*: divides the relevant population into subgroups. The key difference with stratified sampling is that members of each subsample are not selected randomly.
- *Focus groups*: represent a form of non-probability sampling that is often used for purposes of exploratory market research. It could be a discussion with involved and relevant people to gain more knowledge about a certain topic.

The purpose and logic of sampling are straightforward; the results should be good enough to generalize for a whole population. However, even when a sample is selected sufficiently well, there is no guarantee that the effective sample of those who actually respond to the survey will conform to the original sample. This introduces the issue of *response rate*, being the ratio of responses you get on a survey.

Diamantopoulos and Schlegelmilch concluded that response rates in B2B markets are considerably lower and falling. A typical response rate according to Stacey and Wilson is around 25%.

Diamantopoulos and Schlegelmilch investigated the criteria that might affect response rates, they concluded that there are eight main aspects that affect the response rate:

- *Survey sponsorship*; sponsorship by an organization with which the respondents are likely to feel some sympathy is likely to increase the response rate.
- *Covering letter*; a covering letter with a hand-written signature is likely to increase the response rate.
- *Questionnaire*; response rate is higher when the topic is of interest to the respondent, next to that a shorter questionnaire will increase the response rate.
- *Anonymity/Confidentiality*; both factors are likely to improve the response rate.
- *Contacts*; telephone pre-notification improves the response rate.
- *Postage*; supply a stamped addressed envelope to increase the response rate.
- *Monetary incentives*; these are not very usual in B2B research; therefore we cannot say whether this improves the response rate (although my gut feeling obviously says yes).
- *Non-monetary incentives*; when possible, respondents should be offered a summary of the study's results. This is the only incentive that appears to improve the response rate.

Standard Industrial Classification.

A standard industrial classification (SIC code) is a systematic method of classifying economic activity. In everyday language it is sufficient to say the 'banking industry', but for the purpose of research it is important to have clearly agreed definitions of precisely what is included and what is excluded from a definition of an industry.

The principle behind SIC codes is to put every form of economic activity into a unique numeric category. Starting with a single letter or digit, after which each successive digit in the classification subdivides the industry into smaller and smaller industry sectors. These SIC codes have two purposes; (1) to make an unambiguous definition of an industry, and (2) as a means of specifying a sampling frame from which a sample will be drawn for purposes of data gathering.

Using Market Research Agencies.

Often primary data gathering is carried out on behalf of the marketing manager by a professional market research agency. These agencies are professional services organizations, therefore we can analyse the client-agency relationship using the same framework as we introduced in chapter 3.

Peterson and Kerin concluded that effective management of the client-agency relationship required the client to open lines of frank and honest communication with the research seller early in the research process. The factors with the greatest influence on the use of marketing information were:

- Research conducted for exploratory purposes.
- The degree of formalization in the organizational structure.
- The degree of surprise in the research findings.

The question whether businesses should adopt an arm's length approach towards research agencies or work closely together is answered by Nowak et al. Adopting more of a partnership approach towards market research agencies is positively associated with client perceptions of service quality, cost effectiveness, research quality, research timeliness and overall satisfaction.

Secondary Research in Business Markets.

Secondary market research is particularly important in B2B markets because of the costs. Secondary research is relatively inexpensive, and marketing budgets are usually less generous in B2B marketing than in B2C marketing. Furthermore, since demand is derived it is necessary to study markets beyond the immediate customer market. This makes the marketing research problem much more complicated and means that secondary sources must play a greater part. It would be too expensive to research all of these downstream markets using primary research.

The internet have made available an unparalleled number of sources of information on a very wide range of topics, from the level of an entire economy, down to the level of a single firm. However, one has to be careful to examine the information critically.

Chapter 6: Business Market Segmentation.

Introduction.

The fact that all customers are unique does not mean that for the B2B marketer all individual relationships need to be managed differently and uniquely. It may be necessary for a couple of strategically important customers, it is also the case that there will be a substantial number of customers that do not really require a wholly customized offering. This understanding is at the heart of segmentation. Through a process of segmentation a marketer can establish a degree of homogeneity in respect of the different customers.

Principles and Value of Segmentation.

In the real world, markets are imperfectly competitive. This means that there is scope to differentiate the products of different suppliers and to identify different market segments. Single over-generalized offerings to the whole market, despite its operating efficiencies, lead to problems for companies in achieving their objectives. The difficult task of understanding customers and delivering market offerings involves adopting a position somewhere in between the over-generalized and the over-customized.

The pioneering view of segmentation put forward by Wendell Smith was that it 'consists of viewing a heterogeneous market as a number of smaller homogeneous markets in response to differing product preferences among important market segments'. Shapiro and Bonoma pointed to the value of industrial segmentation in three areas:

- Facilitating better understanding of the whole marketplace including the behaviour of buyers and why they buy.
- Enabling better selection of market segments that best fit the company's capabilities.
- Enabling improved management of the marketing activity.

The process of segmentation involves an iterative (step-by-step) classification of the market in terms of sets of meaningful groupings. As far as the process is concerned, the most common difficulties that managers face are knowing the combination of descriptive or explanatory segmentation variables to use, and where to stop with a set of meaningful segments.

Segmentation Bases.

In the earliest published consideration of industrial segmentation bases, Frederick lists five factors that should be taken into account: industry, geographic location, channels of distribution, product use and company buying habits. Many different variables have been used to classify segments, this means that there is agreement that there are different levels of segmentation. This involves moving from the use of more general or easily observable criteria at initial levels through to more specific and less observable measures in the later stages. The larger-scale analysis is often referred to as *macro-segmentation* while the finer-level analysis is *micro-segmentation*.

Shapiro and Bonoma captured this movement from macro- to micro-segmentation in a figure (page 148). Moving from firmographics down to personal characteristics.

1. Firmographics; are the macro-factors of a firm, divided into several subsections:

- *Industry*; knowing an industry that may have use for your technology enables you to very quickly distinguish interesting companies from less interesting ones. The use of SIC codes helps a lot in this.
- *Customer location*; it is possible to segment on where prospects (future) might be. Customer concentration in one location seems favourable, but this really depends upon the nature of the industry.

- *Customer size*; the size of customer companies may be a sensible basis for distinguishing one from another. The basis for measuring size differs, depending upon what is being purchased. You have high volume for low-priced products customers, but also low volume for high-priced products.

2. Operating variables; this involves more precise descriptions of what customer companies can do. However, they are still relatively easily observed. Again, this is sub-divided:

- *Company technology*; in selecting possible customers, there is an element of technological readiness involved.
- *Product and brand-use status*; it is only sensible that companies would use the behaviour of customers with respect to products or brands to aid their segmentation.
- *Customer capabilities*; exchange involves matching the abilities and uncertainties of buyers and sellers. Given this, a supplier might want to establish what customers are capable of doing.
- *Customer strategic type*; using Miles and Snow's four-part typology – prospector (innovative), defender (efficient), analyser (efficient and adaptive) and reactor (no consistent strategy) – predicts buying behaviour better than firmographics. However, the determination of the strategic type of a company is difficult, it relies for measurement on either self-indication, observation, or content analysis of company's marketing plans.

3. Purchasing approach; how buying companies are organized may constitute valuable intelligence to a marketer, as it may enable them to produce an offering that is most valuable to a target segment that is defined in terms of its purchasing approach. Again, sub-divisions:

- *Purchasing function organization*; each firm differs in how they organize themselves for procurement. A big issue for the marketer is whether procurement is handled centrally or whether responsibility is delegated to each division.
- *Power structures*; the relative influence of different departments within the firm may have an impact upon the nature of the buying process or the criteria that are applied.
- *Buyer-seller relationship*; Jackson distinguished between customers on basis of their tendency to behave transactionally (always-a-share customers) or relationally (lost-for-good customers).
- *General purchasing policies*; marketers can use knowledge of policies to determine whether they want or would be able to meet the policy needs of a buyer.
- *Purchasing criteria*; knowing the specific criteria would enable segmentation to be undertaken more precisely. However, buying companies do not express completely the criteria and their relative importance.

4. Situational factors; situations arise where companies are instead guided temporarily by the prevailing factors in the business environment. So, rather than defining all companies requiring a product as equivalent and thus putting them in the same segment, it may often be possible to define a segment in terms of the prevailing need.

5. Personal characteristics of buyers; ultimately, buying companies are only human. For a company to segment on basis of personal characteristics it must have some degree of contact with the buying company.

Where to Stop? Successful Segmentation.

The greater the number of segmentation steps undertaken, and thus the number of differentiating criteria that are applied, the smaller and more fragmented are the segments produced. When the fragmentation begins to reach a point where further separation does not really lead to meaningful differences, the process should be stopped. There are a series of tests that business marketers can use to establish the quality of the segmentation process and the usefulness of the segments that are proposed;

- *Measurable / Distinctive*; criteria for segmentation must be clearly measurable.
- *Accessible*; for a segment to be targeted successfully it needs to be accessible. 'Reach' includes the

physical ease of getting offerings to the customers.

- *Substantial / Profitable*; the segment needs to be big enough to justify the costs of serving a small segment.
- *Actionable*; a company should be able to actually bring offerings that will meet the needs of the segment.

Another factor, thought of by Gross et al, is *compatibility* between buyer and seller. However, this is not a measure of quality, it is a characteristic of the purchasing approach of customers.

Targeting.

Targeting involves making choices about those segments that should be pursued, and devising the most appropriate strategies for pursuing them. A company will need to consider its possible competitive position in relation to each segment in order to determine whether it merits the company's attention. A step-wise segment selection process as shown in figure 6.2 on page 161 gives a good example of the process in choosing segments.

In observing how companies target market segments, it is often argued that there are three strategic approaches:

- *Undifferentiated*; companies that engage in this form make essentially the same offer to all segments. It has advantages in terms of operating efficiency and economies of scale. However, companies risk over-generalization.
- *Differentiated*; this involves choosing a variety of different segments and providing offerings that are focused on meeting the needs of those targets more specifically.
- *Niche targeting*; this concentrates the customer focus to one or a small number of segments. A more concentrated approach is more likely to be necessary for smaller companies that lack the resources to meet the needs of a larger number of segments.

Business-to-Business Positioning.

When it comes to each individual segment there is a need to consider the position that the marketer occupies in the mind of the buying company. The reasons for this are two-fold: (1) the offering from a marketer occupies a space in the mind of the buyer, and (2) the relative position becomes the basis by which the supplier is compared to others as well as the ideal.

Chapter 7

Brands

The meaning of a brand in business markets = “a shared desirable and exclusive idea embodied in products, services, places and/or experiences” (Kapferer, 2008: 13).

A brand also consists of both **functional** and **emotional values**, for business customers the functional value is most important.

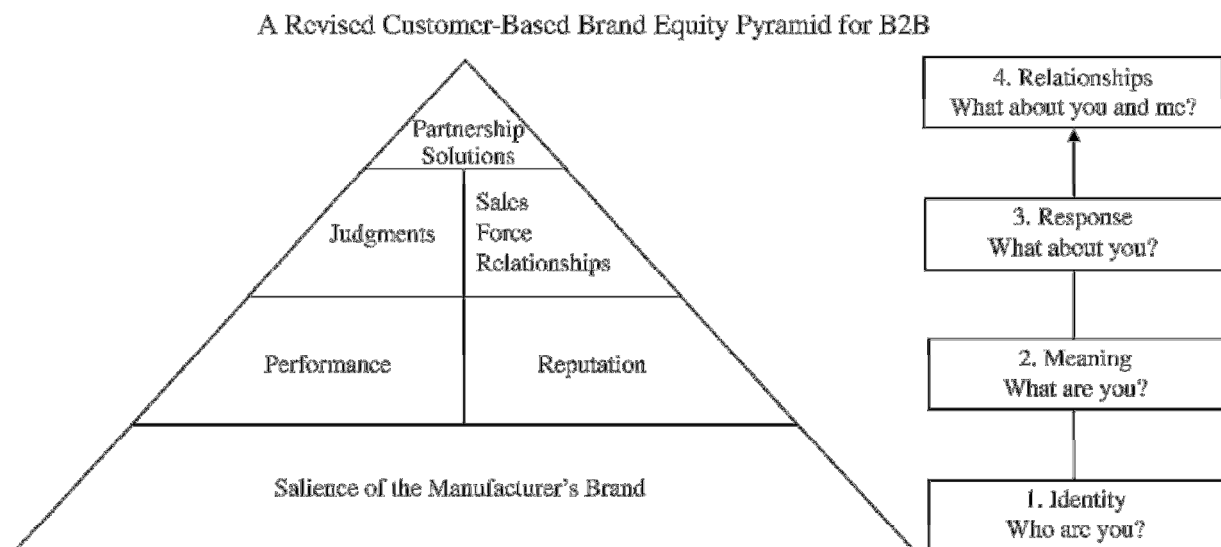
Identity, image and reputation

A brand develops an identity in the organization resulting in the expression to target audiences of a company’s enduring traits via selected symbols, behavior and communication activities (internal), the image and reputation is mostly happening outside of the company (external).

The relative importance of tangible/intangible attributes captured within the identity of a brand are determined by the type of product (For example, a supplier who sells leather deals with buyers who have a high degree of knowledge of the product and therefore the quality of the leather itself is the most important attribute of the brand) Over time the intangible attributes become more important than before because of the relationship with the supplier.

The **image** of an organization is as said before external; it signifies the meaning by which an organization is known and the way how people describe it, remember it and relate to it.

The **reputation** of an organization = “representing stakeholder judgements of a firm’s actions and achievements” (LaRocca and Snehota, 2008) Immediate customers have the greatest influence on an organizations reputation.



Source: Keller (2003) and the current study

Brand architecture: product or company

House of brands = organization has a number of independent brands, managed separately

Branded house = organization has one brand that covers multiple offerings (although sub-brands may be used, there is one over-arching brand (dominant brand))

Co-branding = the act of presenting multiple brands from different companies together in the market

→ A form of co-branding which is used a lot is called “**ingredient branding**” which basically means that multiple brands feature in a single product.

Integrated communication strategy

It is important that companies formulate communications strategies which are integrative, to ensure that *consistent!* messages are received by the target audience. The target audience will assimilate the given information and the result differs, for instance they can;

- arrange the information as intended by the marketer
- ignore the information
- put the information together in a way the marketer didn't even think of.

The best a company can do to control this process is "*try to understand the integration process and to modify their own approaches to maximize the return on the integration which occurs naturally*" (Schultz, 1996: 140). The formulation of such a communications strategy involves:

- setting communications objectives
- dividing on the role of each component to be used in the communications mix
- determining the communications budget; and
- selecting specific strategies for each component of the communications mix

Communication objectives

Communication objectives can be related to 'what does a firm want its audience to do with the information transmitted via its communication tools'. Many objectives are associated with "*buyer readiness states*" or the "*hierarchy-of-effects model*". The model describes the stages through which the buyer progresses when engaging with communications material.

Communication objectives	Potential customers / target segments	Communication tools
Awareness	Leads	Advertising / direct mail / conferences
Interest	Enquiries	Brochures / videos / recorded demonstrations / website / trade shows
Evaluation	Prospects	Telemarketing / field sales visits
Trial	New customers	Inside sales calls
Purchase	Established customers	Transactional and relationship sales teams

Awareness is developed when potential customers become familiar with a product/brand.

At this stage a company is trying to generate "*leads*" by directing its communications campaign to all potential customers within a particular target market segment. To ensure exposure to what might be a large group of potential customers a company is likely to use (impersonal) mass communication such as *advertising, public relations* or even *direct mail*

The next step is **interest**, reflecting a potential buyer's desire to learn more about the product/brand. "*Enquiries*" (questions) arise out of this interest. A company responds to this by either handing out *brochures*, show *videos* (of recorded *demonstrations* or just general information), refer to the *website* or participate in *trade shows*.

When a need for supply arises, so does "*desire*", this results in **evaluation** of the suppliers. *Prospects* play a big role in this part, they are the potential customers for the product/service. At this stage a company uses *telemarketing* and *field sales visits*.

Trial is the next step and this is done by *inside sales calls* to *new customers* to try and get them excited and/or used to their product.

When it comes to **purchase**, the last communication objective in the table, a company uses *transactional and relationship teams* to try to maintain a bond with *established customers*.

Communications mix

The **communications mix** is the set of objectives and tools used by marketers to achieve their goals, these vary for different types of products, also the product life cycle (intro, growth, maturity, decline) should be taken into consideration since different types of tools offer different types of results.

Budgeting

When it comes to setting a budget for marketing and/or sales-activities it's hard to set an appropriate budget, to counter these tough decisions there are few methods which are used often:

- I. Objective and task (Difficult since it requires a lot of analysis and estimating)
- II. Percentage of sales
- III. Competitive parity (Using competitors as a guideline)
- IV. 'All that can be afforded'

Advertising strategy

When formulating an advertising strategy, a firm must make a number of decisions, namely;

- I. Setting advertising objectives (performance goals / target audience)
- II. Formulating a creative plan (development of a message / in B2B less emotion, more rationality)
- III. Media selection; and (digital / broadcasting / search engine / display etc)
- IV. Evaluating the effectiveness

Sales promotion

When a company aims for short-term results, a sales promotion could be handing out *incentives* to those who sell well. This is used a lot in one-off transactional sales situations, this may hurt a company when they are trying to develop relationships with customers since employees tend to go for the incentives.

Trade missions and trade shows/exhibitions

Trade shows bring buyers and sellers together in one physical location. Sellers showcase and/or demonstrate their products/services to a fairly well-qualified (international) audience.

A **trade mission** is a government-sponsored promotional activity typically to increase economic welfare in a particular region/country. An example could be the government of country A sponsoring such an event in country B to stimulate export from A → B.

Sales-related functions of a trade show;

- Identification of prospects
- Gaining access to key decision-makers in current and potential customer companies
- Disseminating facts about vendor products, services and personnel
- Actually selling products/winning orders; and
- Servicing current accounts' problems via contacts made

Sales-related functions are the main reason for companies to participate trade shows but there are a few *non-selling functions* which are also important;

- Building or maintaining company image
- Gathering competitor information
- Product testing/evaluation
- Maintaining company morale

Visitors who attend to a trade show will be on the look-out for a combination of the following points;

- See new products / developments
- Try new products and go to demonstrations
- Obtain technical or product information
- See new companies
- Discuss specific problems and talk with experts
- Compare products / services
- Make business contacts; and
- Meet a specific company (Blythe, 2002)

Companies have to take a lot into consideration for *trade-show selection*;

- The type of products typically featured
- The costs of exhibiting
- The availability of suitable space at the show location
- The timing of the event
- The reputation of the show
- The number and types of visitors that would normally attend the show; and
- The geographic scope of an event (regional / national / international)

Crucial to the success of involvement in a trade-show are the *tactics*.

Promotional activities to support participation are convenient because people need to that your company is attending a trade-show!

The design and location of a firms' stand is important because the bigger a trade-show is, the more people have to choose from and the higher the change gets that your stand will be forgotten or skipped. Therefore an eye-catching stand is recommended and of course a trade-off has to be made regarding the site, for instance; a place close to high-traffic areas will be more expensive but on the other hand raise more attention to yourself.

The selection and behavior of staff on the stand; since not everyone who attends a trade-show has purchasing responsibilities it's not a good idea to just have sales people. Less trained employees could help with easier questions people might have.

Post-exhibition follow-up: after a show it is important that potential customers are contacted before their interest starts to decline. This is usually done by the sales department.

Post-show evaluation: Assessment of the effectiveness of the tradeshow is important. The objectives should be measurable, attainable and realistic for this to be possible.

Public relations (PR)

Public relations is used to manage a company's image with its stakeholders and to close the gap between a company's desired image and the way it is actually perceived by its various publics.

PR's importance is increasing, it can be used to;

- Attract and keep good employees

- Handle issues and overcome misconceptions relating to an organization
- Build goodwill amongst publics such as governments, local communities, suppliers, distributors and customers
- Build an organization's prestige and reputation; and
- Promote products

Public relations activities include;

- Lobbying
- Charitable donations
- Press releases
- Corporate advertising
- Seminars
- Publications

A relatively new development is the use of *blogs* and *social media*. These offer the opportunity of community involvement and feedback, although a code-of-conduct needs to be set for employees who participate in these PR-activities.

Chapter 8

Direct marketing (direct mail / telemarketing)

Direct marketing involves *“interaction between individual customers and the vendor organization, with customer responses to communication from and transactions with the vendor being recorded and the data used to guide the formulation, execution and control of relationship management programmes with those customers”*

Key features of direct marketing include;

- The absence of face-to-face contact
- The use of on- and offline media for direct, one-to-one communication and transactions
- The facility to measure responses to communications (which can be difficult for offline advertising and personal selling); and
- The use of a database from which targets for communications activities are drawn and to which responses and transactions are added

The database is central to the operation of all direct marketing, this provides a company with the means to store and access a variety of information relating to areas such as;

- Customers and prospects *(names / contact details / company size / influencers)*
- Transactions *(frequency / timescale / amount / product categories)*
- Promotions *(campaigns to which a customer is exposed / pg.204)*
- Products *(where promotion campaigns are used and to which customers respond)*
- Industry, market or geographic regions *(that may impact on opportunities and customer behavior)*

Personal selling

Personal selling involves a supplier's employees communicating directly with managers from a customer company. This direct exchange allows;

- The customer to communicate and the business marketer to determine precise supply requirements
- The negotiation of adjustments to the suppliers products offer or the formulation of a bespoke offering to match the customers need; and
- Interaction between representatives from both organizations, which underpins the initiation, development and ongoing handling of supplier-customer relationships.

Sales responsibilities and people

The main function of sales people is of course actually selling, but next to that they have more tasks like; *maintaining customer files* and *feeding back information* (resulting from exchanges with customers) back into the company. Next to that they *represent* the company and they sometimes have to *handle sales-related complaints*.

The sales function can take a variety of forms:

- I. Missionary salespeople (No direct selling, rather more influencing / lobbying)
- II. Frontline salespeople (Winning orders from new or existing customers)
- III. Internal salespeople (Administering the order process)

The relationship communication process

Having considered general aspects of direct marketing and personal selling we can now go on to look at how they are used to acquire new customers and build relationships. There are 5 stages involved;

1. *Lead generation*
2. *Prospecting*
3. *Call preparation*
4. *Selling*
5. *Order fulfillment*

When lead generation has been done by the company, these leads need to be handled, the marketing department can use a simple qualification process in which potential customers are asked a series of questions, such as;

- Whether the company is using a similar product or is considering purchasing one offered by the marketing organization
- The timescale and value/volume for likely purchases
- Who the ultimate decision-maker is (if it is not the person with whom the company has contact);
- Whether funding for purchase has been approved

Before any contact is made with prospective customers, sales representatives must plan communication activities. Objectives have to be set for sales calls or a visit, for instance;

- Making the customer aware of the company as a viable alternative source of supply
- Establishing customer difficulties with their existing product supply; encouraging the customer to reveal information on future sourcing strategies; and / or
- Presenting supplier solutions to previously discussed sourcing requirements; and / or
- Negotiating supply contracts with and getting definite purchase decisions from customers

Script-based selling involves the use of a standard presentation or dialogue to engage the customer and can be effective when there is little difference in the way in which prospective customers use a supplier's product and where the product itself is relatively easy to understand.

Needs-satisfaction selling is a way in which the seller asks questions but mainly to satisfy the needs of a customer with matching products from the company's portfolio.

Strategic partner selling; this approach is less about sales pitches and instantly trying to sell, the goal of this approach is to combine resources and expertise with a supplier to pursue opportunities that benefit both parties.

Relationship building

The principal tasks for a sales representative in relationship building are;

- Overseeing the handling of ongoing contracts
- Obtaining and acting on feedback from the customer regarding the supplier's performance
- Determining the scope for and negotiating the expansion of the supplier's share of the customer's existing product requirements
- Responding to and seeking to resolve new sourcing problems communicated by the customer
- Monitoring developments within the client organization and identifying new product opportunities for the business marketer; and
- Negotiating new contracts

Customer participation	Steps in order management cycle	Sales	Marketing	Customer service	Engineering	Purchasing	Finance	Operations	Logistics	Top management participation
Plans to buy	1. Order planning	○	✱	○	○	○	○	✱	○	coordinates
Get sales pitch	2. Order generation	✱	○	○	—	—	—	—	—	some
Negotiates	3. Cost estimation and pricing	○	✱	○	○	○	○	○	○	some
Orders	4. Order receipt and entry	○	○	✱	○	—	—	○	○	none
Waits	5. Order selection and prioritization	○	✱	○	○	—	○	○	○	some
Waits	6. Scheduling	○	○	○	○	○	—	✱	○	none
Accepts delivery	7. Fulfilment	○	○	○	○	○	—	✱	○	none
Pays	8. Billing	○	○	○	—	—	✱	—	○	none
Negotiates	9. Returns and claims	✱	—	○	○	—	○	○	○	some
Complains	10. Post-sales service	○	—	✱	○	—	—	○	○	none

✱ leading role ○ supporting role — no role

Figure 8.2 Functional contributions to order management cycle (Shapiro et al., 2004: 164)

Culture

When a company does business internationally it is highly likely that they encounter companies with different cultures, these cultures can be explained by different factors;

Low-context	High-context	Hall (1976)
Individualism	Collectivism	Hofstede (1980)
Lower power distance	Higher power distance	
Femininity	Masculinity	
Low uncertainty avoidance	High uncertainty avoidance	

Coordinating relationship communication

Inter-firm

There are various ways a company organizes its sales force, depending on the nature of the product and the market in which the company is involved, the marketing organization's strategy for dealing with customers and the type of communication necessary to enable satisfactory exchanges between both parties. The ways are divided into 3 broad categories;

1. *A geographically based sales force*; the most basic form where one or more representatives are responsible for a certain area.
2. *A product-based sales force*; one or more representatives are responsible for a certain product instead of a certain area.
3. *A customer-based sales force*; this is more used in markets where the product is highly complex and thus extensive knowledge is required by the seller.

When a firm is dealing with high-priority customers, the use of *key-account management* is not uncommon, key account management is the practice in which a special team centers on the performance of tasks for a specific customer, this is further explained in the next chapter.

Customer Relationship Management (CRM), has a strategic focus and is concerned with identifying and investing in valued customer relationships, matching problem-solving abilities to customer requirements, and making relationship decisions based on the vendor's performance with those customers.

Relationship promoters

Employees that interact with customers play key *boundary-spanning* roles: they operate as relationship promoters (Walter and Gemünden, 2000), linking the customer with the supplier

company and working to coordinate activities inside the supplier organization to support the development of relationships with selected customers.

The principal objective of relationship promoters is to influence the attitudes, behavior and decisions of managers so that the customer relationship can be developed and maintained. Personal attributes that relationship promoters should possess include;

- *Social competence*, thus skilled in communication, conflict management and coordination
- *Knowledge*, being familiar with the resources, needs and strategies of buyer and supplier
- *Portfolio of relationships*, “they need to be well connected and have good personal relationships with managers in partner organizations who control resources that contribute to the development of the supplier-customer relationship” – (Walter and Gemünden, 2000)

Chapter 9: Relationship Portfolios and Key Account Management

Introduction:

B2B Marketing asks for a focus on the level of a company's relationships instead of only their products. Business marketers recognize difference between customers and manage the relationship portfolio in order to add value (portfolio management to identify key account relationships). Portfolio analysis will enable day2day marketing decisions and is divided into different criteria and variables to enhance a balanced relationship portfolio.

Principles of Portfolio Management:

This section is based on the view that relationships are the basis for creating (future) value (monetary or else) for your firm with your customers as foundation of your business. A well balanced portfolio ensures earning a steady stream of value over the long term. The strategic options for relationships are "build", "maintain", "harvest" & "reduce" (see p.237 for further information). It is essential to divide relationships into customer categories because it is not sensible to treat every customer uniquely but to divide them into clusters of customer relationships (8-14 clusters), this should lead to different customers having a degree of commonality within their group.

The Relationship Classification Process:

Jackson (1985b) talks of a dichotomy of the customer base into customers where a supplier can always get a share of in business and those that want stability in supply dealings (meaning closer relationships). "Always-a-share" customers are price-driven and highly opportunistic, which means that it is always possible to win them as customers back once lost. Customers that ask for greater stability may often subordinate price-based issues, but will end a relationship once a supplier has let them down; meaning they are "lost-for-good". Sako (1992) detected after a research in the automobile industry that many used formal and controlling mechanisms for their relationships which lead to being characterized by basic mistrust and tendency to conflict; she called this "arm's length contracting approach". A comparison with Japanese assemblers showed greater amounts of trust and mutual respect with partners and their work with some particular obligations and guidelines in the way they work, called "obligational contracting". The relationship continuum, described by both Jackson and Sako, include a whole bunch of indicators to distinguish both ends of the spectrum. Splitting up the customer base is useful to reduce the size of analysis space to focus on customers that are interested in closer relationships. Though other customers should definitely not be ignored but the basis for trading with them should be negotiating and not collaborating. Important to note is that there are several classificatory variables to distinguish customers into clusters; variables and criteria that are sometimes easily available or very subjective. Still identifying and knowing these variables is important in order to establish a financially stable and balanced portfolio of relationships.

Classification Criteria: More Easily Observed:

More easily observed criteria for classifying customers are a good starting point as they can be taken from sources like e.g. the accounting system (sales volume, etc.) and already differentiate between customers before further analyzing the relationship on softer and more subjective issues .

Sales: Amount of sales is a means of ranking customers (units sold, etc.) in comparison to proportion of total sales. Keep in mind that sales alone do not tell anything about profitability of the customer/account.

Profits: The point above is enriched by notions of profitability (break even point); Shapiro 1987 states both "net price achieved" and "cost-to-serve", which need to be calculated over a fixed time span to be a reliable depiction. With the two principles above Shapiro established four different customer types: "Bargain basement customers" (low net price & low cost-to-serve); "Carriage trade customers" (high net price & high cost-to-serve); "Passive customers " (pay high prices despite no big

quality or service expectations) and last but not least “Aggressive customers” (want it all = lowest price for best quality), they are different to carriage trade customers in the way that they normally get what they want as they have relative power and use it “aggressively”.

Cost Savings: This is a very obvious point and compares customers on their specific potential of reducing costs. Krapfel (1991) argues that cost savings are essential in generating relationship value, which asks for using existing cost information, further analysis and judgment calls about the future.

Relationship Age: This is the only aspect that includes a temporal dimension, but appropriate time spans will differ per sector and what is to be seen as a “normal” relationship length. Several researchers discussed relationship live-cycle notions stating that relationships change over time and clustered breakdown of relationships depend on natural industry bandwidths in respect to propensity for relationships to be whether collaborative or more transactional.

Classification Criteria: Less Easily Observed:

This part will focus the objectively defined clusters, which need further subdivisions according to other criteria and variables that come from non-standard evaluations and rely on judgment calls of the analysts (or people who have sufficient strategic knowledge of the firm).

Replaceability of a customer: This section is to be understood as the issue of to what extent a customer can be replaced. In how far are plant, people and procedures linked to a customer and how can we trade off any additional costs on acquiring an alternative customer.

Use of critically important products or processes: Krapfel (1991) suggested that critical products (relative dependence) demonstrate a supplier's specific technical/market competences and establishes a competitive position in the marketplace; keep in mind that critical products/processes may and will change over time.

Shared vision of the future: This part is linked to the idea of in how far customer and supplier view of the industry or sector is shared (which will enhance a relationship). A shared vision is a basis for distinguishing between relationships and is called “interest commonality”. Krapfel (1991) established four relationship types on the basis of “interest commonality (low or high)” and “relationship value (low or high)”: Acquaintance (low value, low commonality); Rival (high value, low commonality); Friend (low value, high commonality); Partner (high value, high commonality).

A source of learning for the company: this is about valuing relationships on the basis of in how far the partner has problem-solving abilities in technical requirements, commercially, etc. Additionally learning opportunities with very good partners may even provide compensation for direct financial loss.

The supplier's share of customers' purchases: At hand this seems as a very hard data but more specifically it is very subjective by e.g. deriving an average of weighted estimates (of purchases = based on an index of credibility of supporting evidence).

Short-term advantage taking: B2B relationships are not always about being nice and do not necessarily have to have mutual benefits. If there are no longer-term profits in the relationship a company might also take existing opportunities. Relationships with companies which enable achieving short-term sales volume or profit increases or gain technical/commercial knowledge are prime targets for poor treatment and are called by Fort (2002) as “fall guys”.

Combining Classification Variables to Produce Varied Clusters:

The ultimate goal of undertaking a relationship portfolio analysis is to generate a series of different but consistent clusters of customer relationship types. All the variables given above can be combined differently but there are two examples in the book. Firstly Campbell and Cunningham (1983) combined 5 different variables and based their research on companies with an innovation strategy and will be likewise interested in technical development expenditure and that the greatest sales proportion stems from today's customers and not past customers. Secondly there was a research by Turnbull and Zolkiewski (1995) whose combination was based on more financially derived measures and used the hard measures like e.g. profitability of customers before differentiating further between customer relationships on the basis of more judgmental measures (2-stage process).

Relationship Life-cycles:

This is based on the general life-cycle concept for marketing strategies (which was criticized for being too idealized, etc.) but is generally more supportable than its predecessor as is based on the organic nature of every relationship (which has a life of its own) and the highly flexible interactions of culture affiliation on a relationship. Ford (1980) examined the relationship life-cycle in terms of these variables: experience of dealing with each other, uncertainty, social-geographical-cultural-etc. distance between the parties, commitment to each other & specific adaptations made to what and how they do things.

Relationship stages:

- Pre-relationship stage (time during which a need for change is established-no commitment)
- Early stage (need to deal with unknowns, inexperienced, uncertainty and great distances)
- Development stage (commitment grows, reduced uncertainty, informal adaptations-benefits foreseeable)
- Long-term stage (little distance and way parties work together starts to become automatic)
- Final stage (which is only manifest in stable markets over the long-term)

Dwyer (1987) developed a model with four phases: "Awareness", "Exploration", "Expansion" & "Commitment".

Value of the relationship life-cycle concept: One clear advantage of the model is that marketers can control levels of relationship indicators over time to control in how far relationships develop although there are managerial limitations to the concept. Two major difficulties are that managers can never be sure that the relationship was meant to be a close one and when or where a relationship should be on the life-cycle. The potential of the concept lies in the idea that informs strategic decision-making and can help on judging where a relationship is heading (a close future or an abrupt end).

Key Account Management:

"key accounts" are the customers which are of critical importance to the business and therefore receive special treatment; concurrently KAM is an important business topic since the 90ies. It is a management strategy to increase sales to selected customer accounts and even more (Spence 1999). Boles (1999) raised questions on further investigation like e.g. which customers should be seen as key accounts, etc. There are several terms in business life for essentially the same thing (KAM) like e.g. national account management, strategic account management, major account management, etc.

Defining KAM and the KAM life-cycle(proposed by Millman and Wilson (1995):

- Pre-KAM (identify key account candidates)
- Early KAM (explore opportunities)
- Mid-KAM (develop a wider range of contacts)
- Partnership KAM (supplier viewed as external resource)

- Synergistic KAM (partners create joint value)
- Uncoupling KAM (dissolution of the KAM relationship)

Key accounts are of strategic importance and may go beyond economic importance like e.g. reference value, access to knowledge, etc. and may hold a power advantage over the supplier. The role of the Key Account Manager is to facilitate the relationship and be a problem solver to both customer and supplier and therefore must be able to easily talk to both parties top managers. There are a range of B2B relationships: "spot market transactions" "repeated transactions" "long-term relationships" alliances" and "vertical integration" of which all besides spot market transaction and vertical integration relationships can be Key Account relationships.

Implementing KAM: Sometimes KAM are seen as part of the sales department but they are much more than a super sales person; as Pardo (1999) states the role of the KAM is to add a new dimension to how the customer is seen by people including being a sales representative. Boles identified 6 reasons for starting a KA program: increase market share, change business strategy, increase customization, improve relationships, marketplace pressures & become more attractive to large clients. Additionally Boles stated 6 reasons for selecting a customer for a KA program: volume of potential business and past sales, competitors actions, size of customers, industry of customers & management discretion.

KAM: benefits and risks: Many researchers dealt with the benefits and risks of KAM like e.g. Cardozo (1987) who stated that companies should not focus its attention and resources fully on KAM to the exclusion of the traditional sales role as it is necessary to maintain profitable relationships with customers that are no key accounts. Foster and Cadogan (2000) increased the emphasis on trust and loyalty which leads to customers recommending a supplier to other firms. Abratt and Kelly (2002) identified factors which influence the success of a KA program: knowledge and understanding of the KA, good implementations of the program and commitment, suitability of the KAM and essentially trust. Risks which are associated with KAM are opportunity-loss risks (Cardozo), risk of opportunism (Lambe and Spekman) and the risks of relying too heavily on few large suppliers or that KAM relationships could attract attention of anti-trust regulators (Piercy and Lane).

Chapter 10: Managing Product Offerings

Introduction:

This chapter is about managing product offerings with e.g. problem-solving abilities that constitute a source of value to a customer. It is about creating product offerings that satisfy the customer's needs and by constantly adapt to changing needs in a dynamic process which can be illustrated by the development cycle for product offerings. It starts with examining the offering concept on nature and extent before we try to make right interventions and manage each individual offering as part of a balanced portfolio. The long term health of a company depends on how successful it is in bringing new products to the market and therefore this chapter is a very essential one.

Business-to-Business Product Offerings:

It is more precise to use the term product offering instead of only product as it is more generic and includes not only physical/tangible but all sorts of products. Products are divided into several attributes, physical attributes, service elements which can create value to the offering as well (see Rolls Royce Case) and all of them need to be seen as intrinsic part of the whole product offering. Often it is difficult to separate tangible from intangible parts of the product but companies have several opportunities in order to differentiate by e.g. price, service range, etc. which all come together in the term of *design of offerings* (Ford et al.). Close relationships and collaborations can enhance simplifying production processes or product formulations in order to add further value. Instead also extra costs seen as investments can help in order to improve the value in the long term. All together we talk about the *adaptation space* that surrounds an offering. Further topics are e.g. adaptive behavior which can show how parties view a relationship and all in all it is always important to have an eye on *potential product offerings*.

Strategic tools for Managing Product Offerings:

There are many strategic tools and two examples of them are the life-cycle tool and the portfolio analysis as already presented in previous chapters.

Managing product offerings using the life-cycle concept: different strategies are appropriate at different life-cycle stages and the recognition of this is very important to managers in order to be able to use the most fitting strategy in the right point in time like e.g. the *pre-launch phase* and we will roughly go through those different stages and appropriate strategies. The *introduction stage* is a time when the product may be costing more than it brings the company and it is important to realize that much communication is needed to generate primary demand and to secure distribution channels, cope with trial offers and several other arising problems that should be identified and resolved directly. The *growth stage* is the phase when sales and profits start to increase more rapidly just as competition and price pressure. Market share can be gained and defended by differentiating and gaining secondary demand. The *maturity stage* now is the time when sales growth slows down again and only cost reductions like e.g. cheaper marketing strategies (from personal to telemarketing) may lead to a positive profit trend. It is important in this phase to stay capable of adapting to customer needs for e.g. maintenance, etc. The *decline stage* is as the name says the time when profit margins decline and marketers must look for ways to extract further value by e.g. dropping unprofitable customers when it comes to relationship portfolio management. Criticisms of the life-cycle approach: As already discussed in the last chapter this approach has a very idealized pattern and offerings may not necessarily correspond to the life-cycle shape despite it is very valuable as a conceptual tool for strategic management.

Managing offerings using portfolio analysis: It can be very useful to analyze a set of market offerings as some products may require some more and others some less attention and looking at a portfolio can give a good overview of your daily operations etc. Two well established frameworks on this are

firstly the Boston Consulting Group market share/growth matrix (also known as the *Boston Box*) or the General Electric market attractiveness/strength matrix. All in all they focus on relative market share (presented on a logarithmic scale) and relative market growth (presented as an annual percentage rate) and market attractiveness and business strength respectively. The Boston box is easier to use and gives a clear overview on current offerings. When looking at product offerings there are generally four types of offerings: *question marks* have relatively low share in a fast growing market and many new offerings start in this position. Support in early stages is necessary and a reasonable investment in order to move them up into another box, if the offering does not have potential of moving on decisions are necessary on whether it should be continued or not. *Dogs* are often seen as formerly successful offerings which decline and therefore there should not be a high commitment to them as they are candidates for deletion unless a value-creating strategy could be revised. A offering that has become market leader is called a *star* and also needs money invested in order to maintain or enhance the market leading position by e.g. gaining economies of scale, etc. *Cash cows* will make the greatest contribution to a company's profit and efforts will be needed to maintain the market share but changes on price, etc. have to be taken cautiously. Conclusively it is important to make the best use of relationships and use portfolio management in order to ensure that the firm is obtaining the best value from the set of offerings.

Managing Innovation in the Business-to-Business Context:

Relevance of innovation management: Adapting and innovating is sometimes not only important but may be also necessary to survive like during the credit crisis. It is not just about new product development but concerns nearly every activity around a company. The source of value for firms thereby may not have to be the end product itself and value-creating potential may stem from anywhere in and around the firm. Therefore it is important on how the firm is organized to encourage innovation and how relationships are used for this goal.

Organizing for innovation: Trott (2005) stated that "innovation is invariably a team game" and companies typically need to create an environment where creative heads can work. An innovative company likewise requires some characteristics in order to enable this operating of creative heads like e.g. ability to adapt, willingness to invest, become aware of threats & opportunities and so on. One step in this direction could for example be organizing the company more organically than mechanistic.

Role of business-to-business relationships in innovation management: As said above innovation is a team game and therefore companies could include their relationships, sometimes even their whole supply chain and other agencies to become aware of threats and opportunities. Important is to find an answer on the question of how to encourage external linkages to add value to the firms innovation process. Several aspects should be considered like: the type of innovation project and degree of innovativeness required, degree of knowledge sharing and formality of the mechanisms for knowledge sharing (formal or informal), etc.

New Product Offering Development:

Firms also need to develop successful new offerings and a research by McKinsey (2009) showed that a focus on continued product adaption is a frequently followed approach to innovation. To ensure a balance of financial investments over the long term new offerings need to be added to the existing portfolio of offerings as others may be in the declining phase already.

New product offerings: an unavoidable risk: new product development and bringing them to the market can bring along serious risks. As failure rates are high one could understand if companies did not want to innovate. But often the proportion of sales spent on R&D is a good indicator of the level of new product activity and as we know nearly every company has that kind of department looking for new opportunities to gain value. Individual companies could e.g. compare their spent to key

competitors or the sector's norm. Risk is often compounded by the cost of development like e.g. 11 billion for the new Airbus A380 but smaller firms will not face amounts like that. Still compared to their size it might be the case that they encounter series costs and therefore they are probable to innovate more incrementally. This seems to be a lower-risk approach and may also deliver incremental increases in sales. But to be stated is that incremental innovation may, due to the volume of new aspects and ideas to a whole bunch of products, lead to a even more complex and difficult portfolio and offerings and e.g. possibilities for economies of scale might diminish.

New product offering development process: There has been serious effort put into establishing one valid and clear development process. By managing the process well managers are helped in making appropriate and right decisions at each stage and risk becomes more manageable. There are several different models on the development process by e.g. Crawford and DiBenedetto, Gross et al. Dwyer and Tanner, Gross et al. and so on with different amounts of stages. The one we will have a look at in this chapter is an 8 stage process.

1. *Identify opportunities/generating ideas:*

The development is a very creative process and therefore requires as many seeds (ideas) as possible. Regardless of where they come from it is of importance to establish a repository of ideas and to introduce someone who has an eye on these ideas.

2. *Screen ideas and make preliminary investigations:*

A steady stream of ideas is a good starting point but discarding useless ideas on issues like company's capability, fit with objective or production, etc. as early as possible is just as important.

3. *Analyze the business case:*

The emphasis shifts to trying to establish which ideas have the most potential and there is a need to involve careful financial estimates of market size, growth rate and potential of the new offering. Costs may include nature of investments, staff costs, etc. but with information on financial issues it becomes possible to compare the offering as prospective project.

4. *Develop the concept and specify the features:*

Reactions during the preliminary investigations on the offering allow to specify the features. It becomes possible to state what the concept of the offering includes and which benefits it will bring to the customer.

5. *Develop prototypes and develop marketing support:*

With a clear concept at hand the offering can be prototyped. The intention is to develop a series of prototypes that can be fine-tuned towards final offering. Marketing support activities for the offering should be established around topics like e.g. packaging, labeling designs, pricing, distribution strategy, etc.

6. *Undertake limited-scale trial marketing:*

By now the offering is ready to be used by customers and it is best to identify remaining adjustments and the production costs. When it is possible test-marketing in small market areas could be beneficial.

7. *Take offering to commercial launch:*

Final changes can be made to the offering and the strategy on how to bring it to the market. The launch can be planned and depending on the company's size it may be sensible to roll out the offering sequentially (maybe on a geographical basis).

8. *Evaluate the process and draw lessons for next time:*

This last step is not strictly an element of the offering development process but it is always good to reflect on the soundness of decisions and the effectiveness of implementation, etc which could later lead to a good series of new product offerings in the future and to solving

problems of customers more effectively and have more chance to grow and bring value to shareholders.

Chapter 11: Routes to Market

Introduction

This chapter looks at the means by which a business marketer might try to reach target markets and reach maximum market coverage for their problem solving capabilities, many organizations choose to do this by intermediaries, such as agents and distributors. These people are not isolated but part of a supply chain. We start by examining the nature and role of supply chain management and logistics.

Supply chain management

Critical to the success of an organization is its ability to maximize customer value whilst minimizing costs in doing this. Very few companies deal directly with end-customers whilst at the same time performing all tasks in-house to deliver value to that end-customer. We know that a variety of companies are involved in this process, these all represent a supply chain. Fundamental to SCM (supply chain management) is the responsiveness of a supply chain and the integration of all organizations that are part of it. To realize this potential requires a close relationship that involves information sharing (strategic, product development point-of-sales transaction and customer data). SCM performance is underpinned by the following goals:

- *waste reduction*
- *Time compression – through improvement information flow, but also reduced cycle time*
- *Flexible response – faster adjustment to changing market*
- *unit cost reduction*

An important contributor to meeting these objectives is ERP (enterprise resource planning), which integrates different processes such as sales, forecasting, procurement, operations and customer service. SCM is the mechanism for the integration along the supply chain, logistics management covers the coordination of activities that contribute to the forward and reverse flow of information, goods and services between the point of origin and the point of consumption. These activities can include: Transport (in-outbound), warehousing, product handling, order fulfillment and inventory.

Logistics management is increasingly an important element in business marketing strategy because:

- The significant cost savings which can be achieved through improved logistics performance
- The explosion in product variety that in turn heightens the complexity of handling the movement of products
- Improvements in information technology such as web-based logistics systems, *RFID*₁, uniform product codes and electronic transfer of order and payment data, which increase logistical efficiency.

Reaching and satisfying Customers: Third-Party Involvement

Few organizations have the resources to deliver superior value to all customers in all locations. So at some point a company has to decide whether to involve third parties in helping to reach and satisfy customers. Traditionally, the composition of routes to market has been approached from a linear/hierarchical perspective, with the principal company deciding on the type of intermediaries to use.

Bespoke/complex offerings

In complex situations a company may choose to deal with the customer directly. This could be used for products and services alike, allowing a company to have complete control. The challenge for an organization comes when it wants to enter new markets with which it is unfamiliar. In such situations a company might rely on a sales agent (see chapter 8). These representatives act as a link between the supplier and end-users, make contact with the customers, introduce the supplier's capabilities and act as a mediator in the formulation and presentation of product offerings to customers and the negotiating and handling of contracts. Common in the use of independent sales representatives is payment by commission for orders actually won by a supplier. Be aware that this form of payment can

create problems, for example, how is the customer 'maintained' by the agent after he won a deal, this has to do with customer relationship management.

Uniform product offerings

Where risk/uncertainty is lower and involves a more standard product offering, the organization has less intention to have control over all exchanges with the customer. The marketing organization's expertise centres on the design and efficient production of products that match end-customer needs. To make these available to customers, a company that produces tangible goods would use distributors. They can act as a key link between a company and its end users. Distributors income is derived from a margin on the of the price they bought it from the supplier, these costs have to be made for initiating and handling all exchanges with end-customers. Activities associated with these exchanges include:

- Communication
- Modification and assembly
- Product supply
- Service and repair

This works for physical products, however not for service-based products that require the physical presence of the service operation in close proximity of its customers. Where the product is essentially standard the company can use franchising, which is a form of licensing where the franchisee gets the right to perform business in a specific manner, by, for example, using their name and brand.

From single to multiple routes to market

IT companies used to sell products via direct sale channels, using their own sales force. However, changes in the market caused problems for IT companies. So the companies developed multiple routes to market in order to make use of the new opportunity's in the market. Manufacturers representatives (agents) and Value-Added Resellers (VAR) became important intermediaries in the IT industry.

A pluralistic multi-channel system

In this system a company uses multiple routes to market, each organized that they are responsible for a separate group of products and in doing so targets quite distinct market segments

A monolithic multi-channel system

In this systems the company uses one structure, consisting of direct and indirect channels to reach the customers, with each channel member adjusting the functions it performs according to the segment that it is dealing with.

Improving Channel Performance

In this section we take a more detailed look at how external and internal factors can determine the structure of routes to market, the types of parties involved and the contribution that they make.

Customer expectations

In many industries have to deal with increasing value expectations from customers. For standard products this could mean they do not longer meet customer needs, because they are used to buying products that have been customized according to their own individual specification. Moreover, customers also demand more of services to support purchases. We are going to look at the impact of these demands

The rethinking of value/distribution chain activities

In response to the previous discussed customer demands, companies transferred activities to other points in the value chain where organization's are better able to handle these demands. As well as rethinking activities, we know that many organization's outsource non-value-adding activities. This is often the case with the supply of MRO goods (maintenance, repair and operating supplies), given the transaction costs involved in sourcing for what are typically low value/low-importance items, some companies opted to transfer the management of their MRO supply needs to distributors. This presents opportunity's for the distributor but it can also stretch their resources. The point we want to make across is that supply/distributor chains frequently consist of a network of organizations, of a confederation of specialists that are flexible and specialized (duh), and complementary resources and skills to reach shared goals, instead of just a company making a decision which route it wants to use to market and which intermediary to use.

Coordination: The contribution of IT

Repeated exchanges associated with relationships between companies become routine and the various parties in that channel do not have to invest time and effort in repeatedly searching for and learning about/accommodating new exchange partners. Indeed, the routinization of tasks performed by channel members and the sharing of information can be automated by IT systems such as CRP (continuous replenishment program) and JIT delivery. The use of IT to facilitate the coordination of distribution channels raises some interesting and apparently contradictory issues. The first one that intermediaries gain more power in channel relationships, because they deal with the end-customer, which enables them to obtain sales data. Others say the role of intermediaries can be diminished because a company does not have to produce to stock anymore, but thanks to JIT can produce to order.

Web enabled technology

Whatever the number and functions of organizations involved in a route to market, the fact is that in order to create responsiveness and flexibility, the integration of IT systems in the form of an extranet is needed.

Extranet: [Restricted network](#) of [computers](#) that allows controlled [access](#) to a firm's internal [information](#) to authorized outsiders ([customers](#), [suppliers](#), [joint venture partners](#), etc.) by connecting them (usually [via Internet](#)) to the firm's [intranet](#).

Coordination: handling channel partners

Whatever the structure and functioning of the routes to market used by an organization, a number of factors have to be taken into account to ensure the effective management of channel operations and the relationships with other parties in the channel system. These include:

1. Selection of channel members
2. Support provided to channel partners
3. Means of controlling channel behaviour
4. Dealing with channel conflict

1. Selection of channel members

Before a company can make a selection decision, it has to be able to find potential intermediaries. Sources used for identifying possible channel members include trade sources and the intermediaries themselves. A particularly useful means of finding potential members is via trade fairs and exhibitions. Selection will normally depend on a partner's resources, product and marketing capabilities. It needs to know if a company has enough resources to support its marketing plan. Also, the company has to ensure that an intermediaries product range complements its own, that it has to necessary physical facilities to handle stock and perform some light manufacturing or assembly (in case of customization or postponement). Look at figure 11.4 for evaluating criteria

2. Support provided to channel partners

In addition to recruiting intermediaries, a company has to develop programs of activity to support channel members, including methods of motivating and training intermediaries as well as reviewing intermediaries. Incentives and behaviour to encourage the intermediary can include:

- Financial incentive (attractive commission rates, bonuses)
- Territorial exclusivity
- Provision of supplier resources (sharing market information, market communication support, training of intermediary or staff)
- The working relationship approach to intermediary dealings (such as joint planning or strategy for a region)

While the above represents a variety of ways in which a supplier might try to motivate channel members, those actually used would depend on the requirements of the intermediary themselves. Given the potential contribution of intermediaries to a supplier's position in target markets, the evaluation of channel member performance is important. Table 11.3 details criteria against which intermediary performance might be evaluated. Evaluation should allow a company to spot weaker intermediaries, to identify gaps in necessary capabilities (offering training to help close gaps) and where necessary to terminate contracts. It might be expected that criteria and actual measures would be agreed by both parties. However, research has shown us that sales volume and revenue were the only measures against which mutually agreed target were set. Not every intermediary is willing to cooperate, powerful intermediaries may be unwilling to participate or may at best contribute infrequently to supplier reviews of channel performance.

3. Channel control: power, contracts and trust

The mechanisms by which activities between various channel partners are coordinated are key concerns, and interest has been devoted to determining the contribution of power-, contractual- and trust-based means of controlling inter-firm behaviour. Of these three means of organizing routes to market, the one which has attracted considerable attention in channel research is the means and effect of a single organization using its position of power to control the activities of other channel members. The ability to do this occurs as a result of the more powerful organization having more resources that are valued by the less powerful channel member. Power lies not only with suppliers but also with intermediaries. Particularly where they have large volume requirements and provide suppliers with significant market coverage and access to a fragmented and dispersed customer base. The use of power in channel relationship can be viewed negatively if one party is forced into acceding to the demands of the more powerful party. It can also lead to conflict in relationships where coercion restricts the ability of the weaker organization to achieve objectives that it might seek from involvement in a channel relationship.

An alternative to one organization from using its position of authority to coordinate activities in a channel relationship is for companies to use contractual arrangements as the principal means of control.

Rather than using power or contracts to control actions, coordination might be trust-based, where companies develop norms – patterns of behaviour as a result of repeated interaction and ongoing dealings with channel partners. One of the principal mechanisms for facilitating such relationship norms is through collaborative communication between channel members. This consists of:

- A high frequency of interaction across all communication media
- Extensive two-way communication consisting of ongoing dialogue between supplier and intermediary
- The use of formal policies guiding communication behaviour

- The use of influence tactics that place priority on common goals

Whilst collaborative communication reflects the apparent shift in many industries from competitive to collaborative relationships between suppliers and intermediaries, it is not necessarily suited for all market or relationship conditions.

4. Channel conflict

Whatever approach is used to coordinate activities, conflict between channel parties is inevitable and can vary from minor disagreements to significant disputes that can lead to discordant relationships. The principal cause of conflict include the following:

- Differences in objectives
- Differences in desired product lines
- Multiple routes to market (frustration because intermediaries are restricted targeting certain customers because the principal company wished to deal with those customers directly)
- Inadequate performance

What, then, can channel members do to avoid and manage conflict? We discussed previously the contribution of collaborative communication to channel relationships. Also frequent communication is important in avoiding and managing conflict. Where an intermediary is not reaching targets, training could help improving performance. Where companies use multiple routes to market, conflicts can be avoided by partitioning markets between the various intermediaries based on geographic area, industry application, customer size or product group. For this to be effective, channel members have to agree to the basis for the partition and operate according to their individual allocation. A supplier can also try to eliminate conflict by taking control of the channel relationship; this might be via forward integration or, as we have previously discussed, by using power or contractual arrangements such as franchising.

Chapter 12: Price-setting in B2B Markets

Introduction

Paradoxically, pricing is both one of the most important and yet one of the most neglected aspects of B2B marketing. On average, a 5% increase in price, increases EBIT by 22%, whereas a 5% increase in sales increases EBIT with 12%. Despite this, there is evidence that relatively few companies do research on pricing. Moreover, there is research that buyers often regard price to be comparatively unimportant as to other buying-aspects. The business environment in which companies have to set their prices is growing ever more challenging. There are deflationary tendencies, some of them coming from reduced costs through experience, but also from availability of new low-cost manufacturing capacity in emerging economies (BRIC), reductions in trade barriers, deregulation and perhaps the impact of internet, which enabled customers to compare prices. On top of that purchasers become better trained and qualified.

Costs, Customers and Competitors

Clearly it is the case that costs, customers and competitors all have an important part to play in pricing decisions. However, it would be misleading to think that any of these factors necessarily determines price. The relevant costs associated with making a product or delivering a service determine the price floor, the benefits that the customer perceives the product or service to deliver determine price ceiling, while the intensity of competition affect the feasible pricing region that lies between price floor and price ceiling.

Costs and Break-even analysis

Cost-plus pricing is a common approach to pricing. The price is determined by calculating the average cost of production and put a margin of profit on that. This approach gives a false feel of security, because you feel like your costs have been covered and you have a safe profit margin. But this approach ignores competitors and customers. In fact, cost-plus pricing contains a fundamental logical flaw at its very heart:

- In order to set price one must know average costs of production
- One cannot know production costs without knowing sales and production volume
- Sales volume is expected to vary with price
- Therefore, in order to set price one must first know.....PRICE!

In order to calculate the full average costs of production the fixed overheads of the business have to be allocated, and this allocation is based on a sales volume estimate. A particular danger of cost-plus pricing arises when sales fall below estimate. They are two key questions that managers will invariably be interested in concerning pricing decisions, and for which an understanding of costs is essential. They are:

1. If we cut price, then by how much must sales volume increase so that we increase our profit
2. If we raise price, then by how much can sales decline before we incur a loss

These questions can be answered with the help of break-even sales analysis, which is illustrated in B2B Snapshot 12.1 on page 324.

Customers and demand analysis

It is clear from preceding analysis that the responsiveness of demand to price changes is a critical issue in pricing decisions. In making pricing decisions managers are forced to make assumptions about demand responsiveness, which is most conveniently measured using the elasticity of demand with respect to price – this is usually simply referred to as demand elasticity. Figure 12.3 illustrates three forms of elasticity. Curve A displays elastic demand, Curve B inelastic and Curve C perverse demand, above a certain point the demand curve is normal, but below that price, demand declines

as prices decrease. The lower section of this curve indicates that firms wish to buy more of the product as the price rises (they believe something cheap can't be good, in essence). Most of the time and in most market segments business marketers are dealing with normal demand.

- Elastic demand – 1% change in price causes demand change of more than 1%
- Inelastic demand – 1% change in price causes demand change of less than 1%

Thus:

- Where demand is elastic, a price increase will reduce revenue and price cut will increase revenue
- Where demand is inelastic, a price increase will increase revenue and a price cut will decrease revenue

According to Shippley and Jobber (2001:305)(Fags), demand will tend to be inelastic for industrial brands that:

- Customers need urgently
- Are strongly differentiated
- Compete against few alternative customer solutions
- Are complex and difficult to compare
- Are complementary to other highly priced products
- Involve high switching costs
- Customers see the price as a quality indicator
- Customers buy for flamboyant motives
- Account for a small proportion of the buyer's total expenditure
- Where the price can be shared by multiple buyers

In addition, it is generally the case that the elasticity of demand for the products of a single company is lower (more inelastic) than the elasticity for the whole industry. The reasons for this is that demand will be more inelastic where more close substitute products are available – within an industry, the products of competing suppliers are normally regarded as fairly close substitutes for each other.

Competitor analysis

In practice, virtually all markets lie nowhere the extremes of perfect competition or a monopoly. Instead, most markets are dominated by a few dominant players. Each with a substantial market share. These are the conditions of an oligopoly. The key feature of an oligopoly, is that the decision of a company directly affects its competitor (interdependence), which means that in terms of economic theory there is no determinate solution to the strategic problems of oligopoly, and oligopoly can be conveniently analyzed as a formal game (hence, game theory). If one firm cuts its prices and increases its market share, then that market must have been lost by one or more rivals. Under an oligopoly there is always the danger of price wars, which reduced profit for all firms.

Two types of legal price behaviour are designed to avoid the risk of a price war. Firstly, there is price leadership, where the acknowledged leader in the industry is closely watched by its rivals. When demand is slack and there is overcapacity, the price leader is the first to cut prices, its competitors will follow. When the industry is producing it almost full capacity, the leader is the first to raise its prices. Where there is no acknowledged price leader, prices can become very sticky (unchanged over a long period of time), and the firms in the industry rather adjust their volume than their prices.

While the circumstances described are the common legal methods of handling price-setting under

oligopoly, this type of market structure lends itself to illegal and unethical practices of price fixing and collusion.

Pricing: Strategy and Organization

Shipley and Jobber (Jews) proposed a comprehensive, multi-stage pricing process that takes into account of all the relevant factors affecting pricing effectiveness – a process that they called the ‘pricing wheel’, see figure 12.4. The point of the pricing wheel is to emphasize that pricing is not a decision that is taken once and then forgotten about, but a continuous process, constantly updated for changing conditions, such as new product features. In industries with highly customized products that are designed specifically to meet the needs of each specific customer, price is a comparatively unimportant component of marketing strategy. Even within a single industry sector, there is scope for a firm to put more or less emphasis on price as a component of its marketing strategy – if the firm positions itself as a differentiator offering enhanced customer value, then it will de-emphasize price as a factor in its marketing strategy. Although B2B organizations may pursue a very wide range of price objectives, research has shown that the most common objectives are concerned with:

- Profits
- Survival
- Sales volume
- Sales revenue
- Market share
- Image creation
- Competitive parity or advantage
- Barriers to entry
- Perceived fairness

Price positioning

Price positioning strategy takes account of three elements: the price itself, the customer benefits from the service or product, and competitor positioning. Following figure illustrates an approach to price positioning strategy recommended by Shipley and Jobber (2001):

		Perceived benefits of competing supplier’s offering		
		LOW	MEDIUM	HIGH
Price	LOW	Chancer	Thrifer	Market ruler
	MEDIUM	Bungler	Also-ran	Thrifer
	HIGH	No-hoper	Bungler	Chancer

Market ruler: This position is difficult to achieve, because offering high perceived value usually involves additional costs. This makes it difficult to offer a relative low price while also achieving a reasonable profit margin. The market ruler makes sense on the long. Thus, if the strategy involves becoming the established brand. This means more focus on market share than profit in the short term. The thrifer (medium price/high ben.) is usually more sustainable than thrifer (low price/med. Ben.). The chancer position becomes viable where the thrifer and market positions are already occupied, but both positions are vulnerable. At last, it is clear that the no-hoper and bungler offer poor customer value and are unlikely to be sustainable. Usually these positions arise in periods of shortage of supply. The also-ran is very vulnerable to attack, since rivals can attack on its price or customer benefits alone, or on both simultaneously.

The pricing plan and the pricing committee

The pricing plan comprises seven components:

- Overall summary

- Overview of the current marketing situation
- Pricing SWOT analysis
- Pricing strategy
- Pricing objectives
- Pricing programmes
- Pricing control and review

These seven components are characteristic of many types of planning process. In essence, they can be reduced to analysis of the current situation, strategy determination, and an implementation and control process. The two hurdles to establishing a pricing are, first, the perception that pricing is too interdependent with other elements of the marketing mix and, second, difficulties in establishing pricing organization in the firm. Clearly, marketing strategy involves a wide range of elements such as target market selection, positioning, distribution strategy, product features and quality, many of which interact with price. Similarly, just as price affects and is affected by so many other elements of the marketing mix, a wide range of different functions within the company have a legitimate interest in pricing decisions. Pricing is inherently a cross-functional activity that involves people from several different departments. For this reason, many firms have a pricing committee which oversees the pricing process. Membership of the pricing committee is likely to include finance, accounting, marketing, sales, operations and senior management personnel. Each department brings its own perspective.

Intra-organizational aspects of pricing

Obstacles to the development of effective pricing strategies can arise from internal organization factors. Each department tends to have his own perspective on pricing decisions. The finance department often seeks to control the whole of the pricing process and tends to have a short term perspective. This can cause problems because marketing department may wish to sell one or two products at a loss in the short term for a variety of reasons. In general, the finance and accounting departments are far less inclined than the sales and marketing departments to respond quickly to competitor action and customer preferences. Clearly, although a concern for customers and competitors it is essential, it must be tempered by a realistic assessment of the impact of pricing decisions on the short- and long-term profitability.

The role of the sales force in pricing

The sales force has a particularly important role to play in mediating between the company and its customers with respect to pricing decisions. The conventional view is that since sales people are the closest to the customer, it follows that they understand the customer's valuation of the company's products offerings better and so they should have considerable delegated authority concerning pricing decisions, as long as the remuneration structure for the sales is based on profit and not on revenue. Stephenson found that those firms that gave salespeople the least pricing authority generated the highest level of gross margin. They suggested that five factors caused salespeople to make pricing decisions that resulted in sub-optimal profits:

- Sales people tend to give discount to save time and effort involved in creative selling
- Sales people may not have sufficiently objective knowledge of the customer's response to price
- When sales people are given more price discretion this may alter competitive behaviour in the market
- Using a sales incentive scheme based on gross profit margin may not be sufficient to ensure that salespeople make optimal pricing decisions. First, sales people may not understand the implications of such an incentive scheme. Second, on any one deal the loss of commission

resulting from giving the customer an extra discount may appear significant, compared to the sense of satisfaction arising out of making the sale

Joseph developed a formal model where he considered the effort of making a sale. He concluded that sales people should be given high pricing authority when the sales effort is relatively low or high, but should be given limited pricing authority when the sales effort is medium. When sales are easy to achieve the salesperson does not need to abuse the delegated pricing authority in order to make the sale; where sales are hard to achieve the salesperson needs to have extra pricing discretion as a tool in the armoury. However, in intermediate sales situations, limited pricing authority removes the possibility that the salesperson will take the easy route to making the sale and simply offer a discount.

Relational aspects of B2B pricing

The pricing effects of long-term buyer-supplier relationships

The reader might reasonably wonder what the implications of long-term buyer-seller relationships are for strategy. Research in business markets has suggested that there are both costs and benefits to suppliers from entering into long-term buyer-seller relationships with customers.

The advantages arise from increased sales and greater sales stability, and from using loyal customers as a source of new product ideas, as a test-bed for new product development and as showcase accounts. In addition, long-term customers may be locked in to the relationship through high switching costs.

On the other hand, there are costs associated with being tied into a long-term buyer-seller relationship. Customers that are willing to enter into such relationships may be particularly demanding and difficult to serve; they may demand short-term price concessions from the supplier while continuing to expect a long-term orientation, so it is not clear that the investment in the relationship pays an economic rate of return.

Kalwani and Narayandas (1995) found that supplier firms involved in long-term customer relationships generally benefited from higher sales growth and reduced costs. However, they also had a less gross profit margin. Nevertheless, the firms engaging into long-term customer relationships had performed better than comparable transactional marketing firms of term of return on investment.

Supply chain pricing

Changes in the environment of global business have encouraged companies to concentrate on their core competencies and to outsource an increasing number of business activities. Under these circumstances SCM becomes a critically important management process, and companies seek to build partnerships with preferred suppliers. When this becomes the case, the traditional role of price must change. Traditionally, pricing has been regarded as the way in which the value associated with a transaction is divided up between the buyer and seller. In this traditional view, price is seen as the means of dividing up a 'fixed' pie of value that is created during a business transaction, and the predominant approach to pricing is win/lose or a zero-sum game, meaning that if one party is better off than the other party must be worse off.

In supply chain pricing the various companies involved at the different stages of the production process are seen as collaborators in the production of an end product, rather than rivals in a single transaction. This is the concept of supply chain pricing. First, the participants in the supply chain should collaborate to ensure that the realized value from the sale of the end product is optimized, and then a second, and subsidiary, question is how that value is distributed between members of the supply chain. A more collaborative approach to pricing will increase overall profitability.

Bid pricing

Types of bidding process: four basic auction mechanisms

- English – Most familiar auction – an ascending-price auction in which the last remaining bidder receives the good and pays the amount of their bid.
- Dutch – Starts with a high public price and the price falls until the first participant finds the price low enough to submit a bid. The first bidder is the winner and receives the good at the price prevailing when the clock was stopped
- First-price sealed-bid – Unlike the previous two sealed-bid auction are not in real time, each bidder submits a bid and the bids are opened at a stipulated time. With this variant the bidder pays the price he bid for
- Second-price sealed bid – The same as the previous, only here the highest bidder pays the second highest bid

Internet auctions

The internet auction is an important and fast-growing mechanism for facilitating B2B transactions. Major companies started to investigate the use of internet auctions in the mid 1990's. General Electric was a pioneer in developing its own in-house auction site, subsequently, many other large firms have developed their own in-house auction site.

Internet auctions can be conveniently categorized into the English or the Dutch/reverse auction. In an English auction, the seller starts the bidding at a reserve price and the buyer offers higher and higher prices until no one is willing to offer any higher. Highest bid wins the auction.

A Dutch auction is a descending price-auction. The original meaning of a Dutch auction arose where a seller offered a good for sale at a very high, with that price gradually declining until a willing buyer could be found and a bargain struck. In the case of B2B commerce, buyers post a RFQ and sellers respond to the RFQ. A particular problem that can arise with reverse auctions is the winner's curse. Reverse auctions often take place in conditions of uncertainty, where the buyer nor the seller can be sure of the true costs of fulfilling the contract. If price is used as the most important measure, the winning seller will be the one who made the lowest estimate of costs, it is entirely possible that the seller underestimated the costs and therefore stands to make a loss on the contract – the winner's curse.

The costs involved in buying and selling are lower, geographical proximity is no longer an issue and the time of the auction can be more flexible. You have two different endings of an auction: soft close and hard close. With soft close the bidding goes on as long as there is a substantial amount of continuing bids. With a hard close, the bidding ends at a stipulated time, so companies may use 'sniping' tactics (bidding in the last minute to win).

Bidding decisions

Figure 12.6 outlines in a simplified way the decisions that face a company which has the opportunity to bid for a contract through a competitive tendering process. In this figure, the bidding strategy decisions has been simplified into three categories: to bid at or near costs, to bid for a normal level of profit or at a price that would yield a much bigger level of profit than normal. The very process of bidding for a process can be very time consuming and costly. For example, when buying marketing research services a firm will typically prepare a brief and then invite between three and five qualified market research firms who submit proposals. In order to put together a competitive research proposal each market research firm has to do some preliminary research and expend considerable managerial time. Clearly, there are costs associated with submitting a bid.

A low-price bidding strategy makes sense where the bidding firm has spare capacity, or where there is a good chance that by winning one contract with the customers, there will be more to follow.

A high-price bidding makes sense where the bidder believes that they have certain special competencies that make their bid more attractive to the customer on non-price grounds. Under most normal business conditions a supplier responding to a competitive tender will aim to achieve a standard rate of profit. This still provides fairly wide scope for variations in the quoted bid-price.

Ethical aspects of B2B pricing

Pricing – common ethical concerns

Pricing is an aspect of the marketing mix within which ethical issues often arise. Research from two Jews found out that 'unfair price' was perceived to be the second most common out of a list of ten unethical practices. The principal ethical issues that arise concerning B2B pricing decisions are anti-competitive pricing, price fixing, price discrimination, and predatory pricing or dumping. Anti-competitive pricing occurs where a group of producers collude to raise prices above the level that would apply in a freely operating market. Companies may also feel tempted to enter into explicit price-fixing arrangements to reduce risks of price wars. Unethical pricing practices arise particularly in industries where competitive tendering is in common use. Collusive tendering occurs where there is an exclusive agreement between competitors, either to tender or to tender in such a manner as not to be competitive with one of the other tenderers.

Dumping is 'the selling of exported goods in a foreign market below the price of the same goods in the home market'. There are two sides to this, on the one hand, it can be seen as an aggressive action that will cause harm to domestic industry, on the other hand, it is offering consumers lower-priced goods.

Responding to ethical issues in pricing

Nagle and Holden (2002) arrange their five ethical levels from the least restrictive ethical principle, to the most restrictive ethical principle:

1. Pricing is ethical where the buyer voluntarily pays the agreed price
2. Pricing is ethical where both parties have equal information
3. Pricing is ethical where there is no exploitation of a buyer's essential needs
4. Pricing is ethical where it is justified by the costs

Pricing is ethical where everyone has equal access to goods and services regardless of ability to pay