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## Understand Business-to-Business Markets



### Chapter Questions

- What is the business market, and how does it differ from the consumer market?
- What buying situations do organizational buyers face?
- Who participates in the business-to-business buying process?
- How do business buyers make their decisions?
- How can companies build strong relationships with business customers?
- How do institutional buyers and government agencies do their buying?



## Organizational Buying

Decision-making process by which formal organizations establish the need for purchased products and services, and identify evaluate, and choose among alternative brands and suppliers.

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## Top Marketing Challenges

- Understanding customer needs in new ways;
- Identifying new opportunities for growth;
- Improving value management techniques
- Calculating better marketing performance and accountability metrics;
- Competing and growing in global markets
- Countering the threat of product and service commoditization
- Convincing C-level executives to embrace the marketing concept

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## Characteristics of Business Markets

- Fewer, larger buyers
- Close supplier-customer relationships
- Professional purchasing
- Many buying influences
- Multiple sales calls
- Derived demand
- Inelastic demand
- Fluctuating demand
- Geographically concentrated buyers
- Direct purchasing

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## Buying Situation

There are three major types of Buying Situations

- **Straight rebuy**  
*A business buying situation in which the buyer routinely reorders something without any modification.*
- **Modified rebuy**  
*A business buying situation in which the buyer wants to modify product specifications, prices, terms or suppliers (requires modification prior to purchase).*
- **New task**  
*A business buying situation in which the buyer purchases a product or service for the first time.*

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## Systems Buying And Selling

- Many business buyers prefer to buy a total problem solution from one seller. Called **systems buying**, this practice originated with government purchases of major weapons and communications systems.
  - The government solicited bids from prime contractors that, if awarded the contract, would be responsible for bidding out and assembling the system's subcomponents from second-tier contractors. The prime contractor thus provided a *turnkey solution*, so-called because the buyer simply had to turn one key to get the job done.
  - Sellers have increasingly recognized that buyers like to purchase in this way, and many have adopted systems selling as a marketing tool.
- One variant of systems selling is **systems contracting**, in which a single supplier provides the buyer with its entire requirement of supplies. During the contract period, the supplier also manages the customer's inventory.
- **Systems selling** is a key industrial marketing strategy in bidding to build large-scale industrial projects such as dams, steel factories, irrigation systems, sanitation systems, pipelines, utilities, and even new towns.



## The Buying Center

*Members* of the buying center are:

- **Initiators** are users or others in the organization who request that something be purchased
- **Users**: members of the buying organization who will actually use the purchased product or service.
- **Influencers**: people in an organization's buying center who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives, i.e. technical personnel.
- **Deciders**: people in the organization's buying center who have formal or informal power to select or approve the final suppliers.
- **Approvers** are people who authorize the proposed actions of deciders or buyers
- **Buyers** are people who have formal authority to select the supplier and negotiate the purchase terms.
- **Gatekeepers**: people in the organization's buying center who control the flow of information to others, i.e. purchasing agents.



## Of Concern to Business Marketers

- Who are the major decision participants?
- What decisions do they influence?
- What is their level of influence?
- What evaluation criteria do they use?

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## Sales Strategies

Small Sellers

Key Buying Influencers

Large Sellers

Multilevel In-depth Selling

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## Stages in the Buying Process: Buyphases

- Stage 1: Problem Recognition
  - Someone in the company recognizes a problem or need that can be met by acquiring a good or a service.
- Stage 2: General Need Description
  - The company describes the general characteristics and quantity of a needed item.
- Stage 3: Product Specification
  - The buying organization decides on and specifies the best technical product characteristics for a needed item.
  - *Value analysis* is an approach to reduce costs in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production.
- Stage 4: Supplier Search
  - The buyer tries to find the best vendors.

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## Stages in the Buying Process: Buyphases (cont'd)

- Stage 5: Proposal Solicitation
  - The buyer invites qualified suppliers to submit proposals.
- Stage 6: Supplier Selection
  - The buyer reviews proposals and selects a supplier or suppliers.
- Stage 7: Order-Routine Specification
  - The buyer writes the final order with the chosen supplier(s).
  - In the case of maintenance, repair, and operating items, buyers may use *blanket contracts* rather than periodic purchase orders. A ***blanket contract*** creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period.
- Stage 8: Performance Review
  - The buyer assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

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## Table 1: Buygrid Framework

	Buyclasses			
	New Task	Modified Rebuy	Straight Rebuy	
BUYPHASES	1. Problem recognition	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order-routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

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## Forms of Electronic Marketplaces



- Catalog sites
- Vertical markets
- Pure play auction sites
  - Spot markets
- Private exchanges
  - Barter markets
- Buying alliances

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## Table 2: An Example of Vendor Analysis

Attributes	Rating Scale				
	Importance Weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	.30				X
Supplier reputation	.20			X	
Product reliability	.30				X
Service reliability	.10		X		
Supplier flexibility	.10			X	
Total Score: $.30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5$					

*Before selecting a supplier, the buying center will specify and rank desired supplier attributes, often using a supplier-evaluation model such as the one in the Table*

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## Methods for Researching Customer Value

- Internal engineering assessment
- Field value-in-use assessment
- Focus-group value assessment
- Direct survey questions
- Conjoint analysis
- Benchmarks
- Compositional approach
- Importance ratings

*Researchers studying how business marketers assess customer value found eight different customer value assessment (CVA) methods. Companies tended to use the simpler methods, although the more sophisticated ones promise to produce a more accurate picture*

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## Order Routine Specification

Stockless  
purchase plans

Vendor-managed  
inventory

Continuous  
replenishment

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## Categories of Buyer-Seller Relationships

- A number of forces influence the development of a relationship between business partners. Four relevant factors are *availability of alternatives*, *importance of supply*, *complexity of supply*, and *supply market dynamism*. Based on these we can classify buyer-supplier relationships into eight categories.
- 1. **Basic buying and selling**—These are simple, routine exchanges with moderate levels of cooperation and information exchange.
- 2. **Bare bones**—These relationships require more adaptation by the seller and less cooperation and information exchange.
- 3. **Contractual transaction**—These exchanges are defined by formal contract and generally have low levels of trust, cooperation, and interaction.
- 4. **Customer supply**—In this traditional custom supply situation, competition rather than cooperation is the dominant form of governance.
- 5. **Cooperative systems**—The partners in cooperative systems are united in operational ways, but neither demonstrates structural commitment through legal means or adaptation.
- 6. **Collaborative**—In collaborative exchanges, much trust and commitment lead to true partnership.
- 7. **Mutually adaptive**—Buyers and sellers make many relationship-specific adaptations, but without necessarily achieving strong trust or cooperation.
- 8. **Customer is king**—In this close, cooperative relationship, the seller adapts to meet the customer's needs without expecting much adaptation or change in exchange.

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## Institutional Markets

- Much of what we have said also applies to the buying practices of institutional and government organizations. However, we want to highlight certain special features of these markets.
- The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care.
  - In most countries, government organizations are a major buyer of goods and services. They typically require suppliers to submit bids and often award the contract to the lowest bidder. In some cases, they will make allowance for superior quality or a reputation for completing contracts on time.
  - Governments will also buy on a negotiated contract basis, primarily in complex projects with major R&D costs and risks and those where there is little competition.
- **Review Question**
  - Illustrate the differences between a straight rebuy, modified rebuy, and a new-task purchase.