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Analyzing Business Markets

Marketing Management:

An Asian Perspective
(5th edition)

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Slides adapted by
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Analyzing Business Markets

Business organizations do not only sell. They also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies, and business services. To create and capture value, sellers need to understand these organizations' needs, resources, policies, and buying procedures.



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welcome to
the human network. 

Learning Objectives:

- Know what is the business market, and how it differs from the consumer market
- Know what buying situations do organizational buyers face
- Know who participates in the business-to-business buying process

Learning Objectives

- Know how business buyers make their decisions
- Know how companies can build strong relationships with business customers
- Know how institutional buyers and government agencies do their buying

What is Organizational Buying?

- Webster and Wind define organizational buying as the 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

The Business Market

- The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others.
- More dollars and items are involved in sales to business buyers than to consumers

Characteristics of Business Markets

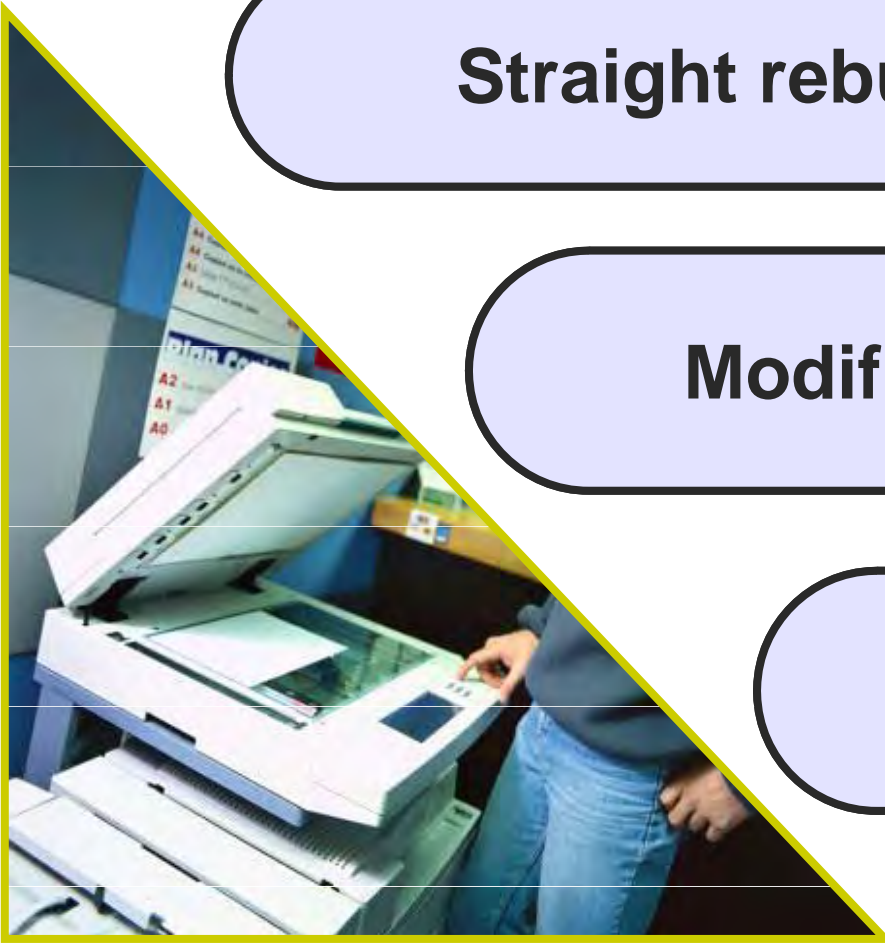
- Fewer, larger buyers
 - Close supplier-customer relationship
 - Professional purchasing
 - Several buying influences
 - Multiple sales call
- Derived demand
 - Inelastic demand
 - Fluctuation demand
 - Geographically concentrated buyers
 - Direct purchasing

Three types of buying situations

Straight rebuy

Modified rebuy

New task



Buying Situations

1. **Straight rebuy** is when the purchasing department reorders on a routine basis and chooses from suppliers on an “approved lists.”
2. **Modified rebuy** is when the buyer wants to modify product specifications, prices, delivery requirements, or other items.
3. **New task** is when the purchaser buys a product or service for the first time.

Marketing Implications of different buying situations

1. The business buyer makes the fewest decisions in the straight rebuy situation and the most in the new-task situation.
2. In the new-task situation, the buyer has to determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. This situation is the marketer's greatest opportunity and challenge.
3. Because of the complicated selling involved, many companies use a missionary sales force consisting of their most effective salespeople for new-task situations.

Systems Buying and Selling

- **Systems buying**

Buy total solution from 1 seller

- **Systems selling**

Key industrial marketing strategy -
large-scale industrial projects

eg dams, utilities



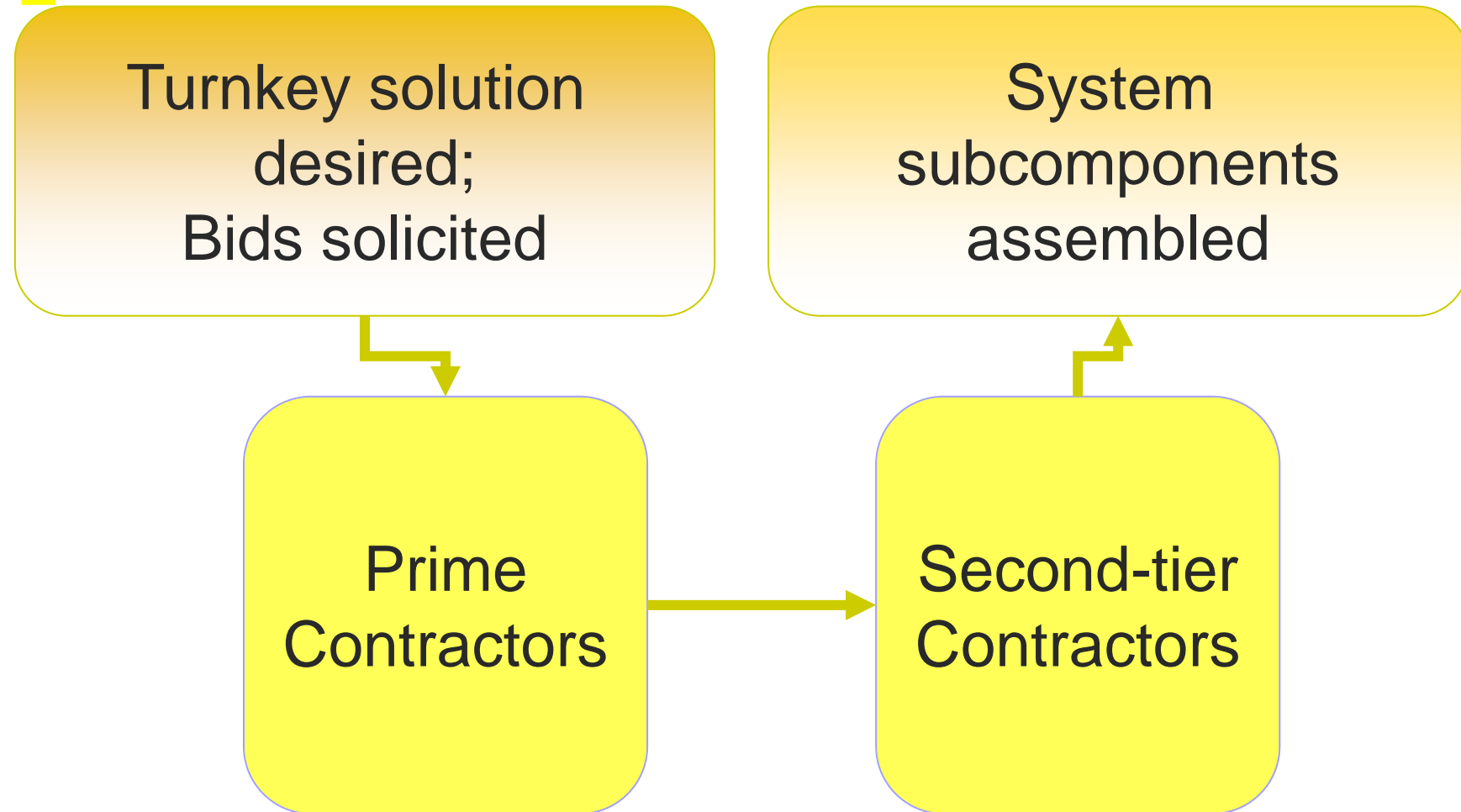
Systems Contracting

ONE supplier for entire MRO

(maintenance, repair, operating) supplies

- Supplier manages inventory
- **Benefits arising:**
 - Customer - reduce cost & protect price
 - Seller - low operating costs - steady demand

Systems Buying and Selling



An example:

YTL Corporation—When the Malaysian government first privatized infrastructural development projects, businesses could own and grow what they built. YTL, a construction company, was incentivized to introduce the turnkey concept in Malaysia. It designed, raised funding for, and built hospitals, universities, residential properties, high-rise office buildings, industrial facilities, and other infrastructural projects throughout the country. YTL later developed two power plants and a high-speed rail service in Malaysia also on a turnkey basis.

<http://www.ytl.com.my/>

Participants in the Business Buying Process



There are seven roles in the purchase decision process:

1. **Initiators**—requests the product
2. **Users**—will use the product
3. **Influencers**—influence the buying decision
4. **Deciders**—makes the decision of what to purchase
5. **Approvers**—authorize the proposal
6. **Buyers**—have the formal authority to purchase
7. **Gatekeepers**—have the power to prevent seller information from reaching members of the buying center

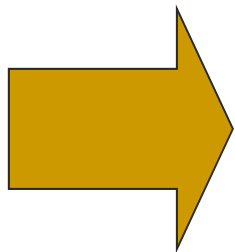
Buying Centre Influences

- Each member of the buying center is likely to give priority to very different decision criteria.
- Business buyers also respond to many influences when they make their decisions.
- Each buyer has personal motivations, perceptions, and preferences that are influenced by the buyers:
 - Age
 - Income
 - Education
 - Job position
 - Personality
 - Attitudes toward risk
 - Culture



Buying Centre Influences

- Individuals are motivated by their own needs and perceptions in an attempt to maximize the rewards.
- Personal needs “motivate” the behavior of individuals.
- Organizational needs “legitimate” the buying decision process and its outcomes.
- People are not buying “products”; they are buying solutions to two problems:

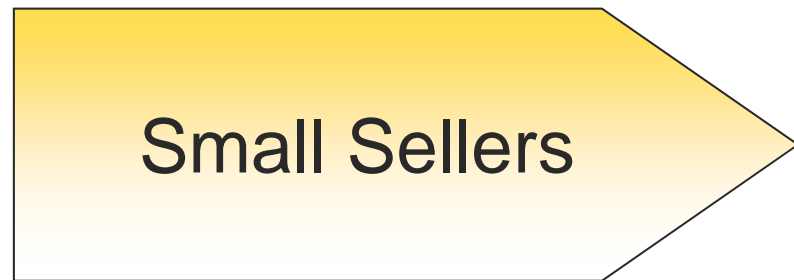


- The organization’s economic and strategic problem
- Their own personal “problem” of obtaining individual achievement and reward

Buying Centre Targeting

- To target their efforts properly, business marketers have to figure out: Who are the major decision participants? What decisions do they influence? What is their level of influence? What evaluation criteria do they use?
 - Small sellers concentrate on reaching the key buying influencers.
 - Large sellers go for multilevel in-depth selling to reach as many participants as possible.

Sales Strategies



Four types of Business Customers:

1. ***Price-oriented customers (transactional selling)***
 - Price is everything.
2. ***Solution-oriented customers (consultative selling)***
 - They want low prices but will respond to arguments about lower total cost or more dependable supply or service.

Four types of Business Customers:

3. ***Gold-standard customers (quality selling)***

- They want the best performance in terms of product quality, assistance, reliable delivery, etc.

4. ***Strategic value customers (enterprise selling) —***

- They want a fairly permanent sole-supplier relationship with your company.

The Purchasing / Procurement Process

- Business buyers seek to obtain the highest benefit package (economic, technical, services, and social) in relation to a market offering's costs.
- A business buyer's incentive to purchase will be greater in proportion to the ratio of perceived benefits to costs.
- The **marketer's task** is to construct a profitable offering that delivers superior customer value to the target buyers.

Strategies for selling to business customers

- *Price-oriented buyers* - lower price, conditions
 - *Example: No refunds*
- *Risk & gain sharing* - offset requested price reductions from customers
- *Solution selling* - alleviate price pressure - enhance revenues, decrease risks & costs

Purchasing Orientations

- ***Buying Orientation*** – short-term, tactical
- ***Procurement Orientation*** – seek to improve quality & reduce cost
- ***Supply Chain Management Orientation*** – a more strategic, value-adding operation

Types of Purchasing Processes

■ Four types:

1. ***Routine products***
 - low value & cost & little risk
2. ***Leverage products***
 - high value, cost; little supply risk
3. ***Strategic products***
 - high value, cost & risk
4. ***Bottleneck products***
 - low value, cost some risk



Purchasing Organization and Administration

- Today's purchasing departments are more strategically orientated and have a mission to seek the best value from fewer and better suppliers.
- Most purchasing professionals describe their jobs as more strategic, technical, team-orientated, and involving more responsibility than ever before.
- In multi-divisional companies, most purchasing is carried out by separate divisions

Stages in the Buying Process

- Problem recognition
- General need description
- Product specification
- Supplier search
- Proposal solicitation
- Supplier selection
- Order-routine specification
- Performance review

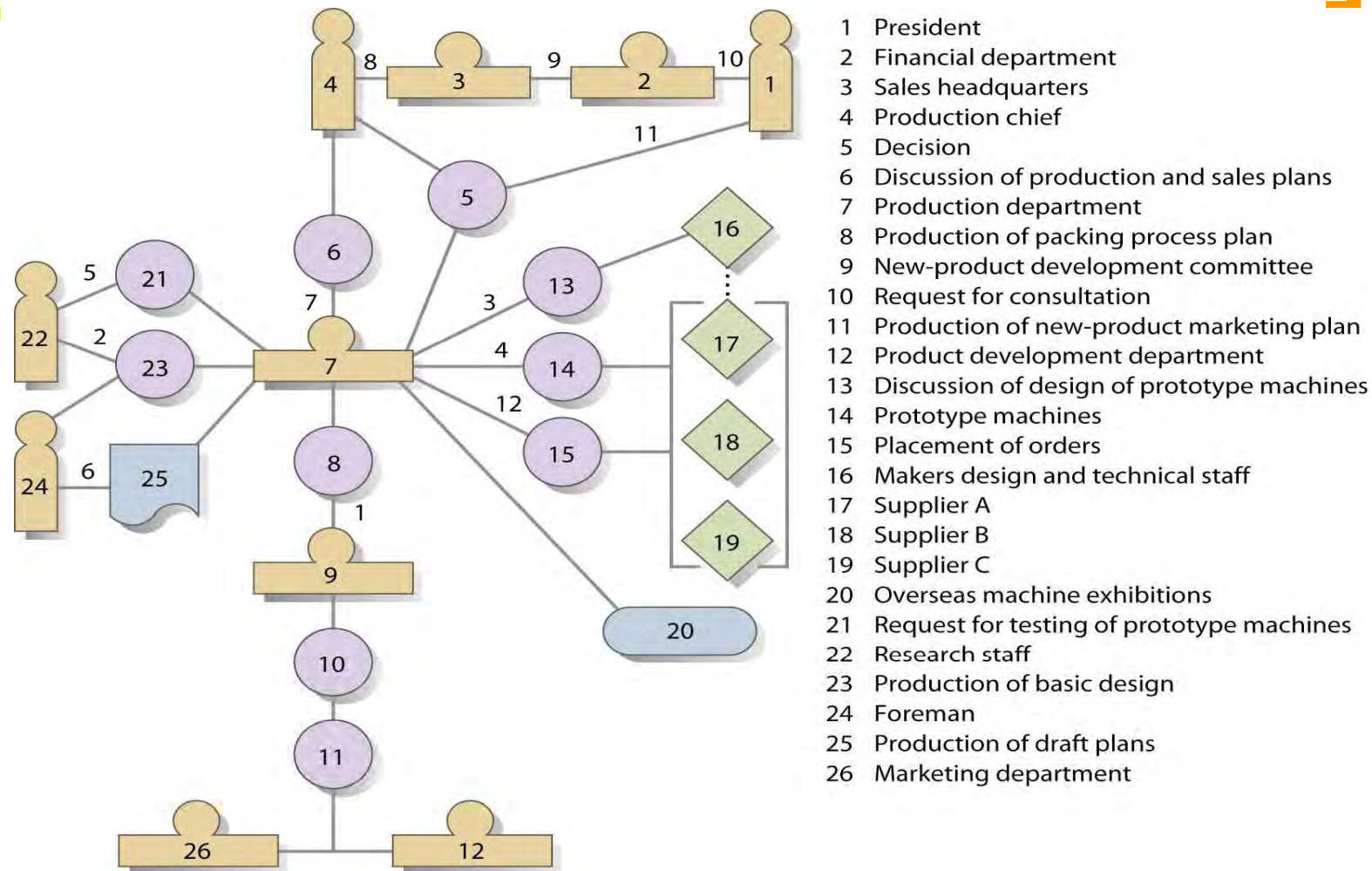


How the Buying Process varies by Type of Buying Situation (Buy Classes)

Table 7.1

		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

Figure 7.1 Organizational Buying Behavior in Japan Packaging-Machine Purchase Process



Problem Recognition

- The buying process begins when someone in the company recognizes a problem or need.
- The recognition can be triggered by internal or external stimuli.
- Events lead to problem recognition
- How B2B marketers can stimulate problem recognition - direct mail, telemarketing & calling on prospects



General Need Description and Product Specification

- At this stage the buyer determines the needed item's general characteristics and requirements.
- Complex items - buyer work with others on reliability, durability or price
- Business marketers - how their products meet or exceed buyer's needs

General Need Description and Product Specification

- Buyer - develops technical specifications
- Examine high-cost components
- Identify those - last longer than product
- Tightly written specifications - buyer can refuse if too expensive, below standards
- Suppliers - **PVA** as tool to win account

General Need Description and Product Specification

Product value analysis (PVA)

Approach to cost reduction
where components are studied
and redesigned or standardized
and/or produced
with lower costs



“+ hp = everything is possible”
Focus - consulting & advisory capabilities

Joint venture with the Hong Kong Special Administrative Region government
 - created Web portal -
Hong Kong's citizens 24-hour access to

How

Five a.m. and Hong Kong is at work. Through a joint venture for the Hong Kong Special Administrative Region, HP created a Web portal providing 24-hour access to government services. Citizens can enlist for volunteer work, book marriage dates and more at www.esd.gov.hk, making Hong Kong one of the world's first governments that operates on its citizens' schedules, not the other way around. www.hp.com/plus_hongkong

Supplier Search



- Buyer identify appropriate suppliers:
 - Trade directories
 - Contacts with companies
 - Trade advertisements & shows
- Marketers put products, prices online
- Internet purchasing - future purchasing
- B2B marketing in Asia - learn from the U.S.

Electronic marketplaces - several forms:

- 1) Catalog sites**
- 2) Vertical markets**
- 3) “Pure Play” auction sites**
- 4) Spot (or exchange) markets**
- 5) Private exchanges**
- 6) Barter markets**
- 7) Buying alliances**

An example of a B2B E commerce site: Alibaba.com



Online business buying

Advantages:

1. Low costs for both parties
2. Reduces time: order-delivery
3. Consolidate purchasing systems
4. Close relationships
5. In Asia, increased transparency

Downside:

1. Erode supplier–buyer loyalty
2. Potential security problems



- Building B2B marketplaces in Asia - address & adapt to Asian business environment:
 - ◆ ***Manufacturing dominates***
 - ◆ ***Less efficient supply chains***
 - ◆ ***Less well developed infrastructure***
 - ◆ ***Smaller markets***

Stages in the Buying Process

– *E-Procurement*

- Web sites are organized around two types of e-hubs: vertical hubs centered on industries and functional hubs.
- In addition to using these Web sites, companies can do e-procurement in other ways:
 - Direct extranet links to major suppliers
 - Buying alliances
 - Company buying sites

Benefits of E-Procurement

1. Aggregate purchase -volume discounts
2. Less buying of substandard goods
3. Smaller number of purchasing staff

Proposal Solicitation

- Qualified suppliers - submit proposals
- A few make formal presentations
- **Written proposals** - marketing documents - describe value & benefits to customer
- Oral presentations - confidence & position capabilities - stand out from competition

An example of proposal solicitation: hurdles set by Xerox to qualify a potential supplier

- To qualify - ISO 9000
- To win - Xerox Multinational Supplier Quality Survey
- Then, Xerox's Continuous Supplier Involvement process
- Final- rigorous quality training & evaluation
- Only 176 suppliers worldwide get 95 % rating required

Supplier Selection

- Before selecting a supplier, the buying center will specify desired supplier attributes and indicate their relative importance.
- To rate and identify the most attractive suppliers, buying centers often use a supplier-evaluation model

Stages in the Buying Process

– *Supplier Selection*

- Desired attributes & importance
 - **Supplier- evaluation model**
- Marketers sales strategy - how buyers arrive at their valuations and then build sales and promotions pitches around these evaluations

Table 7.2 An Example of Vendor Analysis

Attributes		Rating Scale			
	Importance weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	0.30				X
Supplier reputation	0.20			X	
Product reliability	0.30				X
Service reliability	0.10		X		
Supplier flexibility	0.10			X	
Total score: $0.30(4) + 0.20(3) + 0.30(4) + 0.10(2) + 0.10(3) = 3.5$					

Eight *customer value assessment (CVA)* methods to assess customer value

- 1. *Internal engineering assessment***
- 2. *Field value-in-use assessment***
- 3. *Focus-group value assessment***
- 4. *Direct survey question***
- 5. *Conjoint analysis***
- 6. *Benchmarks***
- 7. *Compositional approach***
- 8. *Importance ratings***

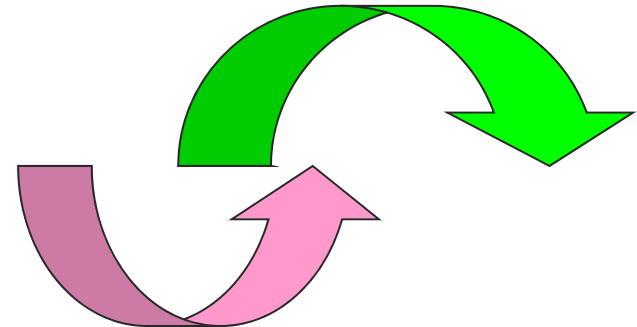


Overcoming Price Pressures

- Business marketers need to do a better job of understanding how business buyers arrive at their valuations.
- Despite moves toward strategic sourcing, partnering, and participation in cross-functional teams, buyers still spend a large chunk of their time haggling suppliers on price.
- Marketers can counter request for a lower price in a number of ways.
 - **“total cost of ownership”**
 - **“life-cycle cost”**

Overcoming Price Pressures

- Marketers can counter request for a lower price in a number of ways.
 - **“total cost of ownership”**
 - **“life-cycle cost”**
- Improving productivity helps alleviate price pressures



Number of Suppliers

- Buying centers must decide on how many suppliers to use.
- Companies are increasing decreasing the number of suppliers in order to cut costs.



Order Routine Specification

- After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties, and so on.

Order Routine: Blanket Contracts

- Blanket contracts rather than periodic purchase are preferred mode
- Specifies a longer-term relationship
 - Supplier promises to resupply buyer as needed
 - At agreed prices, over specified time

Order Routine: Inventory Management

- ***Vendor-managed inventory***
 - Some shift ordering responsibility to suppliers
- Suppliers replenish it automatically through ***continuous replenishment programs***

Performance Review

Review supplier performance

3 methods:

1. Contact end users for evaluations
2. Rate on criteria - weighted score
3. Aggregate poor performance cost - get adjusted costs of purchase & price

Performance Review

- Lead buyer to decide on supplier relationship
- Reward managers for good buying performance
- Increase pressure on sellers for best terms

Managing B2B Customer Relationships

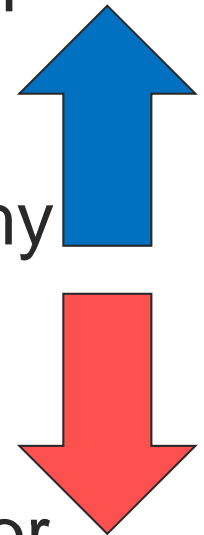
- To improve effectiveness and efficiency, business suppliers and customers are exploring different ways to manage their relationships.
- Closer relationships are driven in part by supply chain management, early supplier involvement, and purchasing alliances.

Asian Perspective

- Asian values deeply rooted in Confucian values and ideology
- School affiliation and age important
- Organizations are more hierarchical
- “Face” factor is important

Vertical Coordination

- Vertical coordination - buying partners & sellers to engage in activities - create more value for both
- Trust between parties - prerequisite to healthy long-term relationships
- Knowledge that is specific and relevant to a relationship partner is also an important factor in the strength of inter-firm ties between partners.



Corporate credibility - 3 factors:

- I. Corporate expertise*
- II. Corporate trustworthiness*
- III. Corporate likability*

Factors affecting trust in B2B relationship:

- I.** Perceived competence
- II.** Integrity
- III.** Honesty
- IV.** Benevolence of firm

- Trust in online settings, stringent requirements
- Buyers worry - get products - right quality to right place at right time
- Sellers worry - paid on time/at all - how much credit to extend
- **Tools:** automated credit-checking applications & online trust services -
determine credibility of trade partner

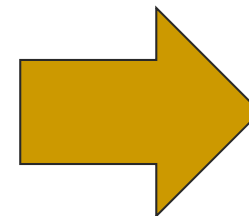
Eight Categories of Buyer-Seller Relationships

- 1) Basic buying & selling
- 2) Bare bones
- 3) Contractual transaction
- 4) Customer supply
- 5) Cooperative systems
- 6) Collaborative
- 7) Mutually adaptive
- 8) Customer is king

Business Relationships: Risks & Opportunism

Vertical coordination can facilitate stronger customer-seller ties but at the same time may increase the risk to the customer and supplier's specific investments.

1. Specific investments are those expenditures tailored to a particular company and value chain partner.
2. Specific investments also entail considerable risk to both customer and supplier.
3. Opportunism is “some form of cheating or undersupply relative to an implicit or explicit contract”.



Business Relationships: Risks & Opportunity

4. A more passive form of opportunism might be a refusal or unwillingness to adapt to changing circumstances.
5. Opportunism is a concern because firms must devote resources to control and monitoring
6. There is a shift in specific investments from expropriation (increased opportunism on the receiver's part) to bonding (reduced opportunism).

Relationship Marketing in the *Keiretsu & Chaebol*

- Japanese *keiretsu* & Korean *chaebol*
- Buy & sell among each other
- Production *keiretsu* -vertical integration of manufacturers & suppliers
- Procurement *keiretsu*
 - “Buy group products” mentality
 - Reciprocal purchasing prominent

Relationship Marketing in the *Keiretsu & Chaebol*

- Long-term cooperative relationships developed
- Interdependence, social ties & trust
- Competition & downturn 1990s
 - *Keiretsu* firms expand outside group
- Convergence - supplier polices of Japanese & Western automakers

Institutional & Government Markets

- **Institutional market** - provide for people in their care (*schools, hospitals*)
- Low budgets & captive clienteles
- **Government** -Major buyer goods & services
 - Suppliers – take lowest bid
 - Negotiated contract basis – complex projects

Institutional & Government Markets

- Government spending - public review
 - Considerable paperwork
 - Justify cost - major consideration
 - Show bottom-line of offerings
- Suppliers - ways to cut through red tape

Institutional & Government Markets

- In Asia - some governments favor local companies - award contracts
- Government purchase – kickback, bribery
- Tie up with influential local business - effective way to penetrate government market

***Procurement irregularities* uncovered in procedures:**

1. Preferential treatment to firms when establishing specifications & contract methods
2. Preferential access to tender information when making order
3. Apply procedures to select successful bidders & conduct private contract negotiations arbitrarily
4. Wrongdoings of contract officers

Improvements made:

1. Change specific procurement to general ones
2. Reduce private contract & restricted competition tenders
3. Actively publicize tender information
4. Establish contract procedures criteria to prevent arbitrary implementation
5. Online digitalizing of procurement process
6. Increase officials' awareness on corruption

Institutional & Government Markets

China - innovative market economy

Principles:

- 1) Interact with all government levels
 - 2) Develop relations through organizations
 - 3) *Guanxi* not enough for good relations
 - 4) No one-size-fits-all solution
- Form government marketing department

Final discussion

Marketing Debate

How Different is Business-to-Business Marketing?

Many business-to-business marketing executives lament the challenges of business-to-business marketing, maintaining that many traditional marketing concepts & principles do not apply. For a number of reasons, they assert that selling products & services to a company is fundamentally different from selling to individuals. Others disagree, claiming that marketing theory is still valid & only involves some adaptation in the marketing tactics.

Take a position: Business-to-business marketing requires a special, unique set of marketing concepts & principles versus Business-to-business marketing is really not that different & the basic marketing concepts & principles apply.