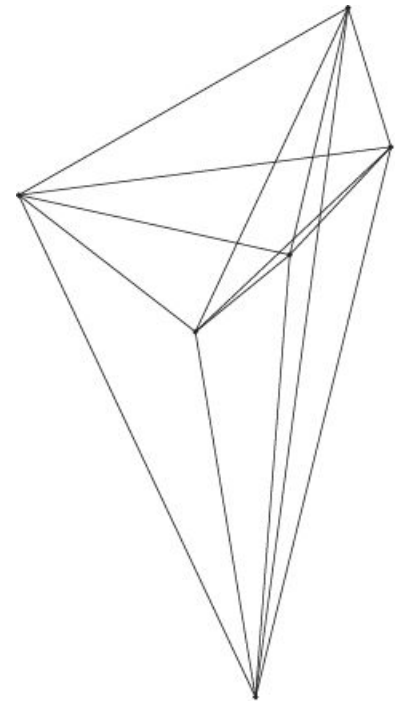


The Customer as starting point



Business Marketing Management: B2B

Michael D. Hutt & Thomas W. Speh

Chapter 1:

A Business Marketing Perspective

Chapter Topics:

- **By the end of this chapter you will understand:**

- 1. The dynamic nature of the business marketing environment and the basic similarities and differences between consumer-goods and business marketing**
- 2. The underlying factors that influence the demand for products and services bought by business and organizational customers**
- 3. The nature of buyer-seller relationships in a product's supply chain**
- 4. The types of customers in B2B markets**
- 5. The basic characteristics of industrial products and services**

Business Marketing Perspectives

- “Business Marketing” or “Industrial Marketing” are used interchangeably
- 50% of all business school graduates join firms that directly compete in the business market
- Because of interest in high-tech markets and the size of industrial markets, increased attention is being paid to business marketing management

Business Markets

- **Are markets for products and services from local to international**

Bought by:

- **Businesses**
- **Government bodies**
- **Institutions**

For:

- **Incorporation**
- **Consumption**
- **Use**
- **Resale**

What Are Business Products?

- Used to manufacture other products
- Become part of another product
- Aid in the normal operations of an organization
- Are acquired for resale without change in form
- **A product purchased for personal use is considered a consumer good**

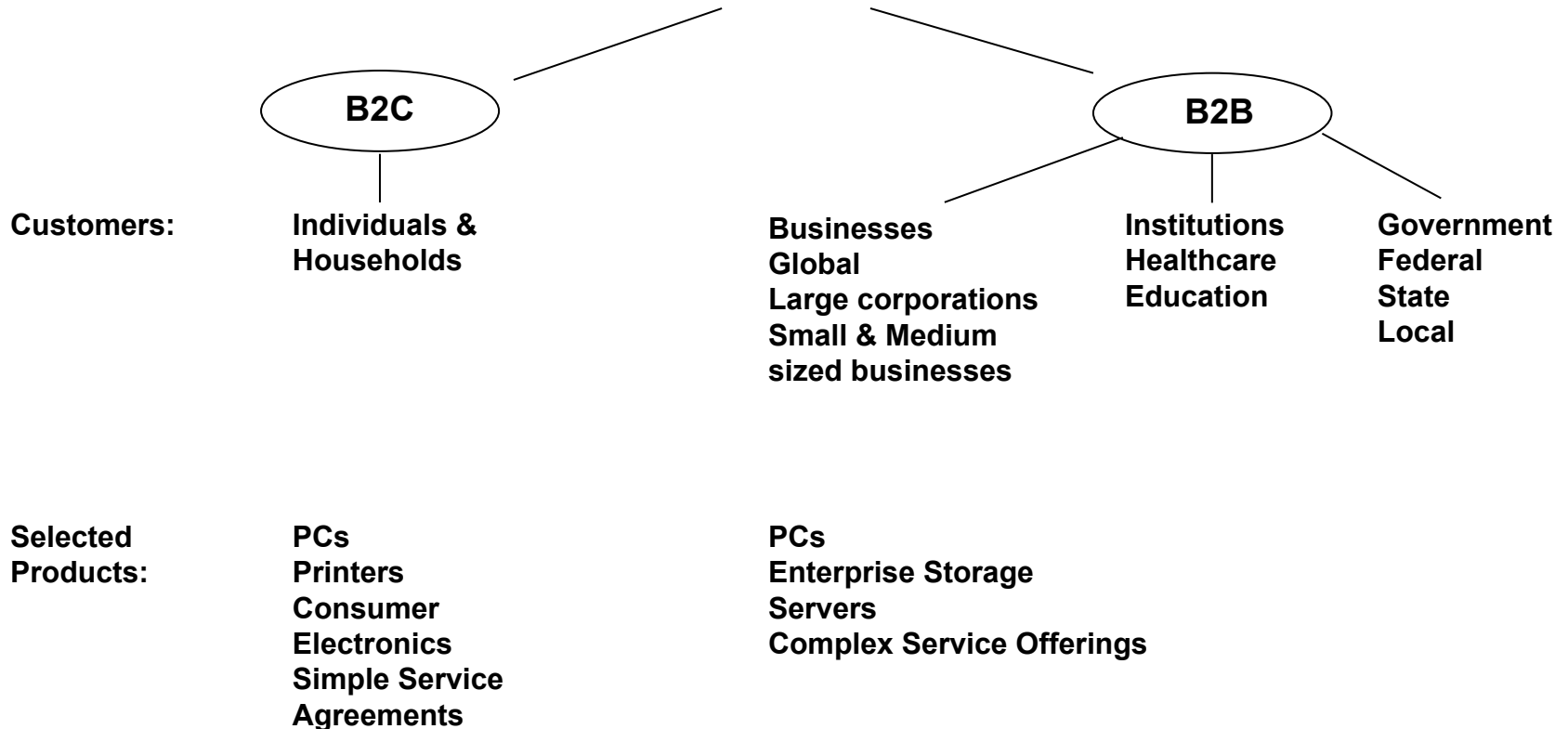


Business to Business (B2B) Marketing is Huge

1. Business marketers serve the largest markets of all.
2. Dollar volume of the business market greatly exceeds the consumer market.
3. A single customer can account for enormous levels of purchasing activity. (For example, GM's 1,350 business buyers each purchase more than \$50 million annually.)

B2C and B2B

The Consumer Market (B2C) and the Business Market (B2B) at Dell, Inc.



Categories of Business Market Customers

**Commercial
Firms**

OEMs

Wholesalers

Retailers

Governments

**Federal State
Municipal County**

Institutions

**Unions Civic clubs Churches
Foundations Nonprofits Other**

Business Marketers vs. Consumer-Goods Marketers

- Similarly:
 - Both marketers benefit by employing a *market orientation*, i.e.:
 - They need to understand and satisfy customer needs
 - They are both market driven

Market-Driven Firms Demonstrate...

1. A set of values and beliefs that places customers' interests first
2. An ability to generate, disseminate, and productively use superior information about customers and competitors
3. The coordinated use of interfunctional resources (e.g., research and development, manufacturing)

Market-Driven Firms

Have distinctive capabilities:

Market sensing capability: A company's ability to sense change and to anticipate customer responses

Customer linking: The ability to develop and manage close customer relationships

Market-Driven Companies

View their customer as an asset, thus:

1. Marketing expenditures, once considered expenses, are now considered investments.
2. Therefore, marketers need to measure performance such as ROI on their investments.

Meeting Performance Standards means to:

Develop and nurture customer relationship management (CRM) capabilities by:

- a. Identifying,
- b. Initiating,
- c. Developing,
- d. and Maintaining profitable customer relationships.

Professional Marketing Managers

- Employ Customer Relations Management (CRM) tools for:
 - **Identifying and categorizing customer segments**
 - Determining customer's present and potential needs
 - **Visiting customers to learn about applications of products**
 - Developing and executing individual components of marketing to include:
 - ✓ **Sales, advertising, promotions, service programs, etc.**

Professional Marketers:

- **Focus on Profitability**
 - Understand forces that affect profitability
 - Align resource allocation to revenues and profits that will be secured by future business
- **Partner with Customers**
 - Marketers don't just sell to customers; they develop a form of partnership for the purpose of serving and adding value for their consumer
 - This strategy can result in becoming a preferred vendor

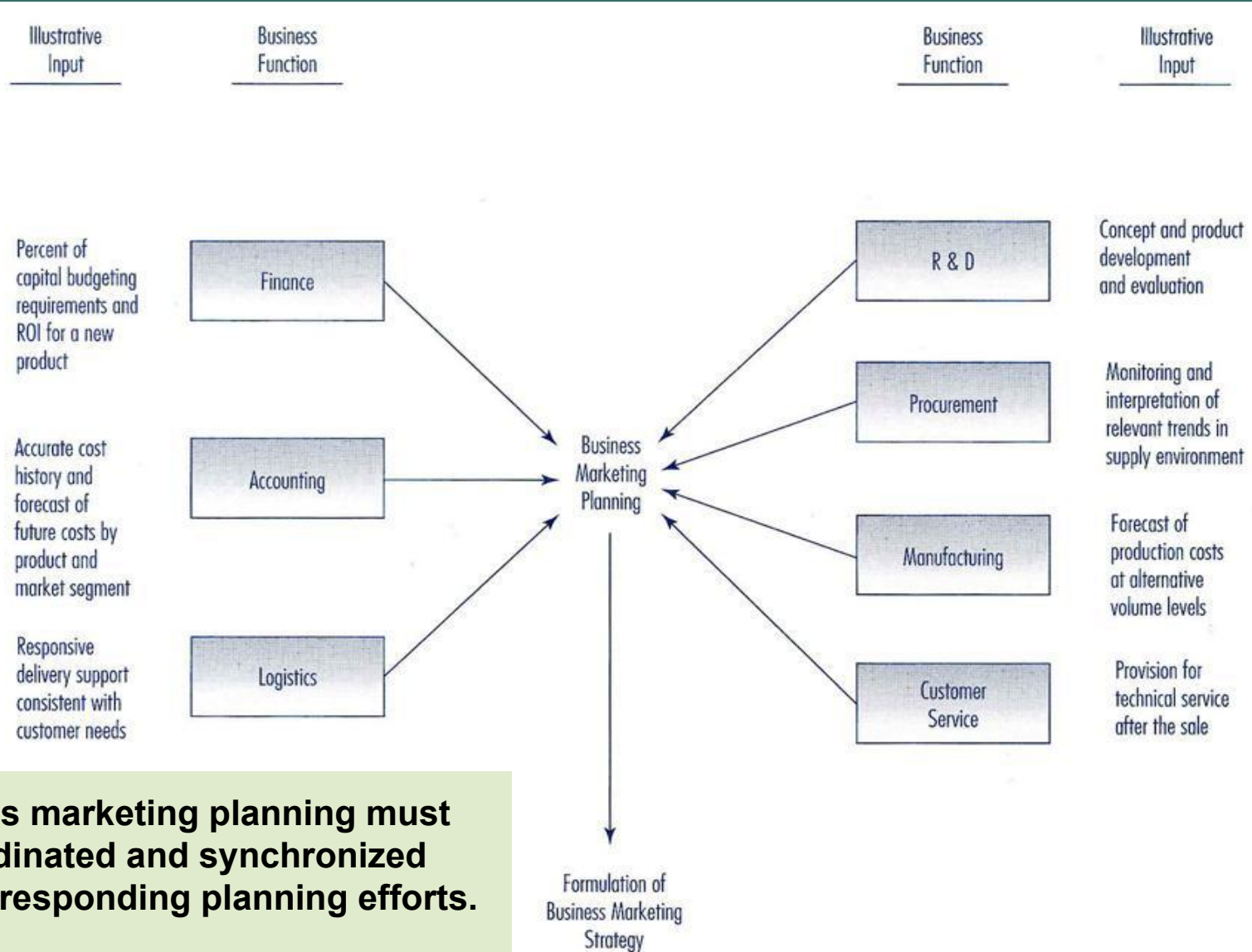
Market-Driven Companies

- **Deliver Value Propositions**
- Create programs that include products, services, ideas and solutions to problems that offer value and provide opportunities for their customers.

Marketing's Cross-Functional Relationships

- Professional business marketers act as an integrator between various functional areas within the company
- Functional areas include:
 - Manufacturing
 - Research & Development (R&D)
 - Customer Service
 - Accounting
 - Logistics
 - Procurement

Marketing's Cross Functional Relationship



Business marketing planning must be coordinated and synchronized with corresponding planning efforts.

Business Market Characteristics

- Business marketing and consumer-goods marketing are different
- **Even though both markets share:**
 - Common body of knowledge, principles and theory
- **They vary in that:**
 - Business buyers and markets function very differently from consumer markets

Business and Consumer Marketing Differs In:

1. Nature of their markets
 2. Market demand
 3. Buyer behavior
 4. Buyer-seller relationship
 5. Environmental influences (competition, political, legal) and
 6. Market strategy
- Due to these differences, business marketers need to understand how demand for industrial products and services differs from consumer demand.

Business Market Demand Characteristics

- Derived demand
- Fluctuating demand
- Stimulating demand
- Price sensitivity / demand elasticity

Derived Demand

- The demand for business products is called **derived demand** because the demand for industrial products is derived from the ultimate demand for consumer products.
- As a result, business marketers must carefully monitor fluctuating trends and patterns in consumer markets.

Fluctuating Demand

Because demand is derived, an increase or decrease in consumer demand can create a fluctuating demand for many industrial products.

Example:

- An increase in mortgage rates can quickly stifle new home sales. This slows down the need for new household products. Businesses react by decreasing their inventory of materials or putting off buying new machinery.
- This action explains why the demand for many industrial products tends to fluctuate more than the demand for consumer products.
- A decrease in interest rates has the opposite influence.

Stimulating Demand

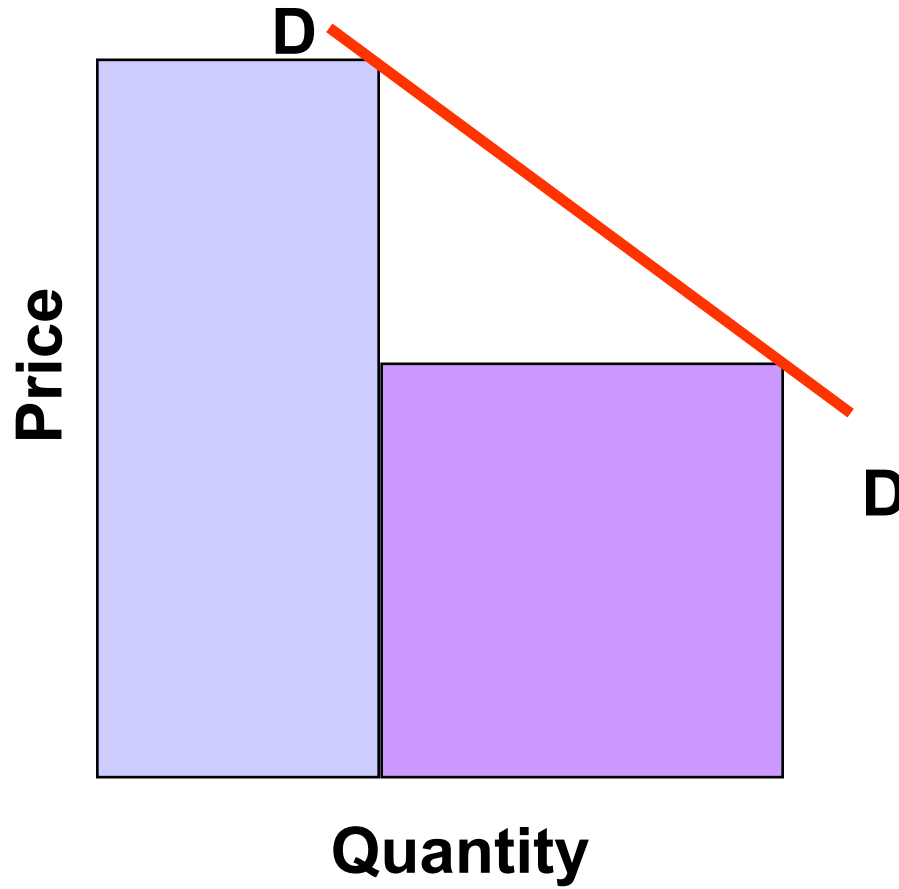
- Sometimes, business marketers need to stimulate demand for consumer goods which either incorporate their products or are used to make consumer products.
- Pharmaceutical manufacturers advertise on television by presenting various ailments followed by offering their products as solution to the ultimate consumer.
(“Ask your doctor if XYZ is right for you!”)
- Sometimes manufacturers offer deep price discounts that influence members of the supply chain to lower their prices, in the hope of influencing the ultimate consumer to buy their product.

Inelastic Demand

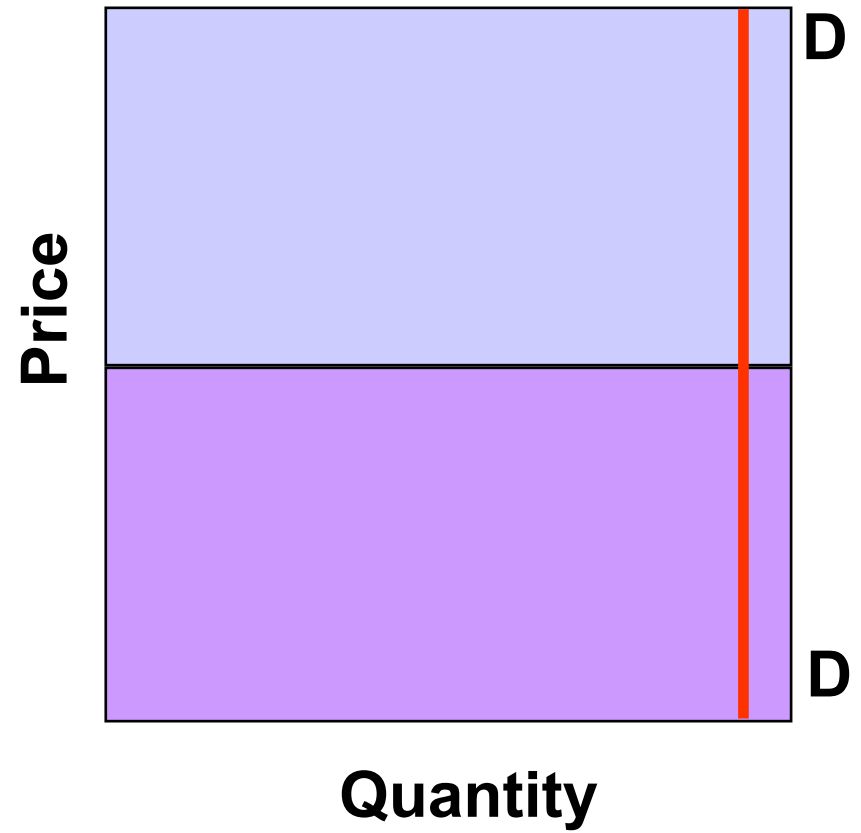
- Inelastic demand is demand without regard to price. An increase or decrease in the product price will not significantly affect the demand for the product.
- Example: Price for gasoline

Elasticity of Demand

Elastic Demand Curve



Inelastic Demand Curve



Global Market Perspective

Marketers must have a global perspective:

- They need to look beyond U.S. borders
- The demand for industrial products in countries such as Germany, Japan, and Korea is growing more rapidly than in the U.S.
- Enormous growth in developing countries such as Brazil, China, Russia, and India offer huge opportunities for both large and small businesses

Consumer Product or Business Product?

- Mentioned earlier, the intended use determines whether or not a product is a consumer product or a business product
 - If Mr. Clean is used by the ultimate consumer to clean his/her house, it is a consumer product.
 - If Mr. Clean is being used to clean a hospital or a university, it is a business product.

Some consumer products become industrial products

- J.M. Smucker Company sells their jellies and jams to ultimate consumers as household food products but also markets them as fillings and yogurt additives for other company's products.
- Many companies successfully sell to both consumer and business markets.

Relationship Marketing

- All marketing activities directed toward establishing, developing, and maintaining successful exchanges with customers

Relationship Marketing – con't

- Building one-to-one relationships with customers is the heart of business marketing
- Figure 1.4 provides a recap of key characteristics of business market customers

Figure 1.4 Characteristics of Business Market Customers

Characteristic Example

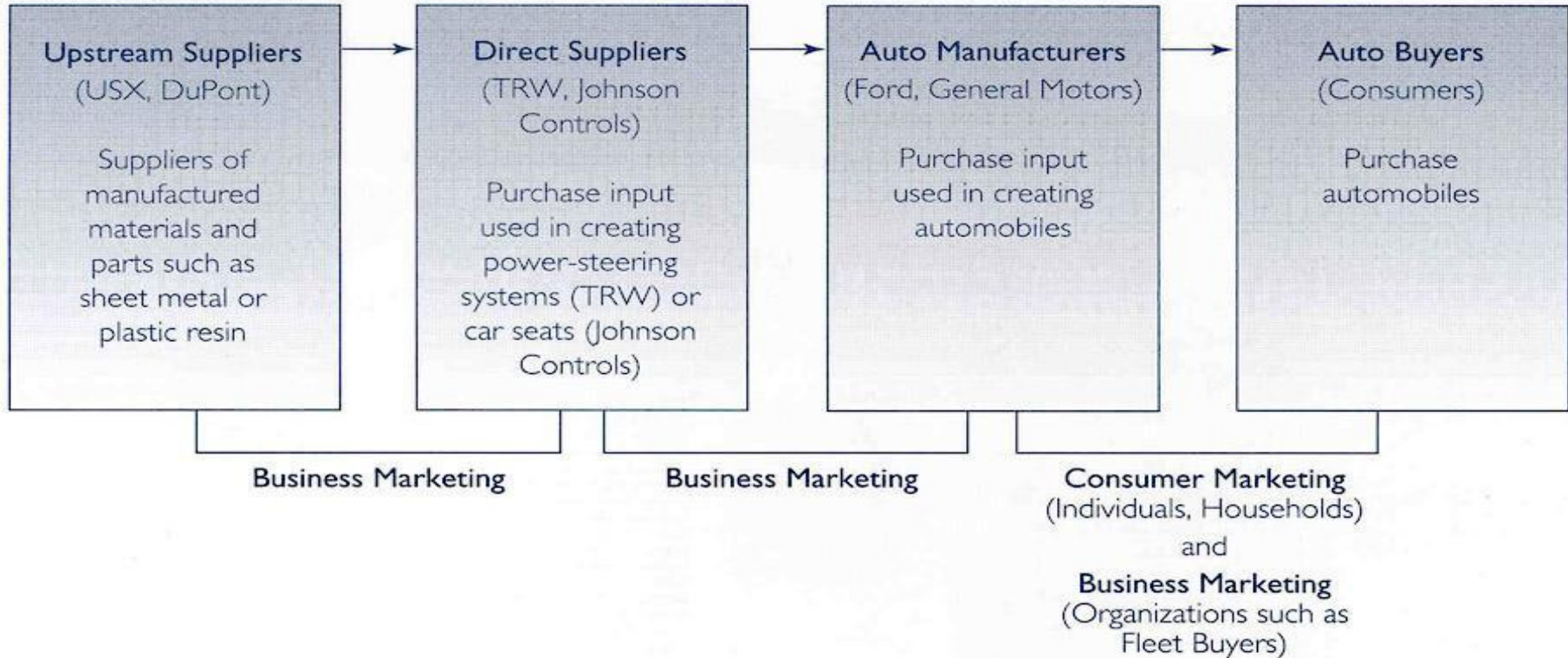
- Business market customers are comprised of commercial enterprises, institutions, and governments.
 - A single purchase by a business customer is far larger than that of an individual consumer.
 - The demand for industrial products is derived from the ultimate demand for consumer products.
 - Relationships between business marketers tend to be close and enduring.
 - Buying decisions by business customers often involve multiple buying influences rather than a single decision maker.
 - While serving different types of customers, business marketers and consumer-goods marketers share the same job titles.
- Among Dell's customers are Boeing, Arizona State University, and numerous state and local government units.
 - An individual may buy one unit of a software package upgrade from Microsoft while Citigroup purchases 10,000.
 - New home purchases stimulate the demand for carpeting, appliances, cabinets, lumber, and a wealth of other products.
 - IBM's relationship with some key customers spans decades.
 - A cross-functional team at Procter & Gamble (P&G) evaluates alternative laptop PCs and selects Hewlett-Packard.
 - Job titles include marketing manager, product manager, sales manager, account manager.

The Supply Chain

- Business Marketing is an important influence in the supply chain.
- When reviewing Figure 1-5, notice the importance of the business marketer's influence in each step of the supply chain.

The Supply Chain

Figure 1.5



Michael Porter and Victor Millar observed that “to gain competitive advantage over its rivals, a company must either perform these activities at a lower cost or perform them in a way that leads to differentiation and a premium (more value).”

Supply Chain Management

- This is a technique of linking a manufacturer's operation with suppliers, key intermediaries and customers to enhance efficiencies and effectiveness.
- The Internet is playing an extensive role by allowing joint planning and execution in real time.

Managing Relationships in the Supply Chain

- As important as it is to gain customers, it is just as important for manufacturers to develop strong relationships with suppliers.
- Companies such as IBM and Toyota develop strategies to create suppliers who provide new ideas and who are loyal.

Categories of Business Market Customers

Commercial Firms

OEMs

Wholesalers

Retailers

Governments

**Federal State
Municipal County**

Institutions

**Unions Civic clubs Churches
Foundations Nonprofits Other**

Business Market Customer Commercial Enterprises

Three categories of Commercial Customers:

- Users
- OEMs
- Dealers and distributors

Users

- Users purchase industrial products or services to produce other goods or services that are, in turn, sold in the business or consumer markets.
- Example: Toyota buys machines to produce cars that are sold to consumers and businesses. Toyota is a user.

Producers

- Profit oriented companies
- Produce products - OEM's and Subcontractors
- 3M in USA

OEMs

Original Equipment Manufacturers

Individuals and organizations that buy business goods and incorporate them into the products that they produce for eventual sale to other producers or to consumers.

Governments

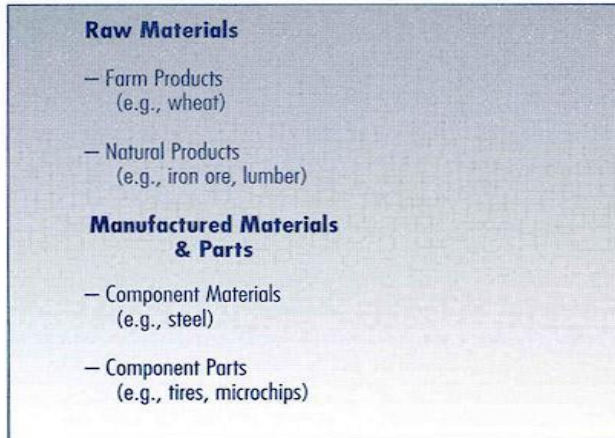
- Municipal, State and Federal Government
- Generally use the bidding approach to purchase goods and services
- Purchase up to 1/3 Gross Domestic Product (GDP)

Institutions

- This is the nonprofit segment of the market that does not seek to achieve normal business goals such as ROI, % share of market or profit
- Market includes universities, hospitals, schools, churches, civic clubs, foundations, etc.

Classifying Goods for the Business Market

ENTERING GOODS



FOUNDATION GOODS



FACILITATING GOODS



Classify industrial goods by asking the following:

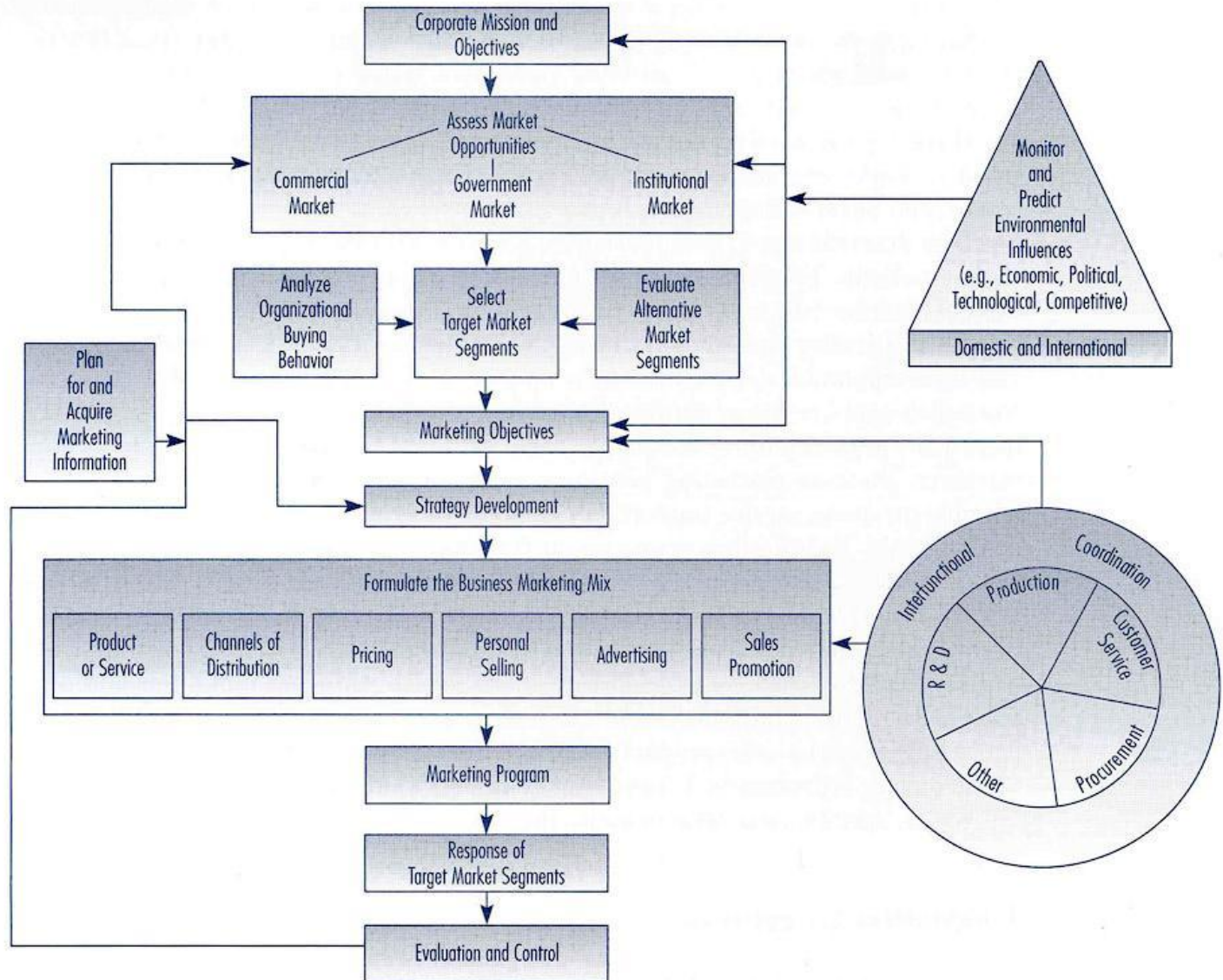
How does the good or service enter the production process?

How does it enter the cost structure of the firm?

A Framework for Business Marketing

Manag

Business marketing strategy is formulated within the boundaries established by the corporate mission and objectives.



Overview of Text

1. Part 1 considers differences between consumer and commercial markets and discusses the various types of commercial enterprises.
2. Part 2 examines the organization buying process and the forces that affect decision makers.
3. Part 3 investigates selecting target segments and measuring their responses.
4. Part 4 focuses on designing market driven strategies.