

# **BUSINESS-TO-BUSINESS MARKETING**

## **WEEK 1**

### **THE NATURE AND SCOPE OF BUSINESS-TO-BUSINESS MARKETING**

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## **WEEK ONE**

### **INTRODUCTION TO THE COURSE**

#### **1.0 Introduction**

Welcome to Business-to-Business class lecture one. It is my pleasure and privilege to have you in this class as we discuss this subject. This is the first lecture of the twelve lectures that we will go through in this course. The course is aimed at equipping learners with knowledge and skills on how to market goods and services to business customers. Most of graduates in marketing field often find themselves taking jobs in marketing of goods and services to business customers. It is at the backdrop of this knowledge that this course has been developed to empower these young professionals with prerequisite skills for powerful execution of their roles in this field.

The course provides an Overview of business-to-business marketing; Organizational buyer behaviour; Industrial market segmentation; Industrial marketing research; Customer relationship management (CRM) strategies for business markets; Industrial product strategy; Pricing in industrial marketing; Industrial distribution; Industrial promotion; E-Commerce strategies for business markets; and Ethical considerations for business markets.

#### **1.2 Intended Learning Outcomes**

At the end of this course, you will be able to:

1. Explain the basic differences between consumer and business marketing
2. Apply the concepts and principles of marketing in the business markets (organizations)
3. Examine ecommerce and customer relationship strategies for business
4. Discuss ethical considerations for business markets

### **NATURE AND SCOPE OF BUSINESS-TO-BUSINESS MARKETING**

Having introduced the course, we can now turn to lecture one on a general overview of business-to-business marketing. In this topic we will define business to business marketing, discuss its characteristics as well as examine the major differences between business and consumer markets.

#### **1.3 Definition of business-to-business marketing.**

The concept of business-to-business marketing has evolved over the years. Brennan, Canning & McDowell (2020) note that the initial name for this concept was industrial marketing. However, this was found to be limited as it focused on the marketing of physical goods only in primary and secondary industries. Primary industries mainly focus on agricultural and extraction products while secondary industries dwell on sale of manufactured goods. Business -to- business marketing goes beyond these two aspects to include services. On his part Wilson (1999) sought to include services and called the concept organizational marketing. This has not gained popularity hence the use of term business -to- business marketing or simply business marketing. The term B2B is also used to refer to this concept. In these lectures we will use the terms business-to-business marketing, business marketing and B2B marketing interchangeably to refer

to this concept. What then is business- to- business marketing? Various writers have defined business to business marketing differently. For instance, Webster (1995) defined industrial marketing as the marketing of goods and services to industrial and institutional customers while Bingham and Raffield (1990) notes that industrial marketing consists of all activities involved in the marketing of goods and services to organization of all types. Similarly, Blythe and Zimmerman (2013) defined B2B market as that which includes organizations that buy goods and services for use in the production of other products and services that are sold, rented or supplied to others. In their view, Kleinaltenkamp et al (2015) defined business-to-business marketing as one that deals with markets in which goods and services are purchased because they are used as capital, material, or service inputs into the production of other products and services.

From the various definitions we can deduce the following:

1. Business marketing deals with marketing of goods and services
2. It involves marketing of goods to organizational customers.
3. Business marketing does not involve individual customers
4. It involves marketing of both consumer and industrial goods

#### **1.4 Difference between business markets and consumer markets**

The study of business-to-business markets is based on the premise that business markets are different from consumer markets. Authors such as Blythe and Zimmerman (2013) have identified a number of characteristics that make business markets different from consumer markets. These include greater sales volume, fewer buyers, larger buyers, geographically concentrated buyers, close supplier consumer relationship, professional buying, multiple buying influences, complex negotiations, reciprocity and leasing among others.

**Greater sales volume:** this implies that total monetary sales in the business-to-business market are greater than they are in the consumer market. For instance, if a person owning a stationary store was to sell notebooks to an individual for personal consumption, he might sell one or two books. However, if he got the same order to sell to an institution employing a hundred workers, the sales volume will be a hundred times more that dealing with an individual customer.

**Few Buyers:** the number of business market buyers are far much fewer compared with final consumers. For example, if one was to sell one computer to every university in Kenya, one would sell about 70 of them since there are about this number of universities. However if one were to sell the same to students in those universities, he would have to sell to about five hundred thousand students.

**Larger buyers:** this has the implication that even if the institutional customers are few, they are considered to be larger buyers who account for most purchases in many business-to-business markets. Kenya Airways is one institution that buys more jet fuel compared to hundreds of private air crafts firms in Kenya.

**Geographically concentrated buyers:** Since most of business-to-business firms purchase products for processing to finished products, most of them are concentrated in major towns or in special zones such as export processing zones and industrial parks.

**Close supplier consumer relationship:** this is arrived at due to large volume purchases, large sums of money involved in their transactions, and the fact that customers are few. In some cases, the business marketer might attach one salesperson to one customer in what is referred to as key account management. This has implication that the business marketer has to equip himself with customers relationship management skills to survive in the business.

**More direct channels of distribution:** the business-to-business marketer often sells products or services directly to the customers. There are often no intermediaries because of the large sales volume involved. However, some products sold to business buyers are commonly sold through one or two levels of intermediaries/marketing channels. Boeing sells or leases its aircrafts to Kenya Airways directly. There are no intermediaries. However, Kenya Airways may purchase juice for its customers from local supermarket instead of going directly to juice manufacturers such as Delmonte, Kenya.

**Professional buying:** purchase in business markets is often done by trained professional such as procurement officers, or supply chain managers. The buying process is more formalized and requires that marketers also be very professional. The tendering process is the norm in this industry and often takes long time between floating and actual purchase and delivery of goods or services. The marketer must be conversant with these processes.

**Multiple buying influences:** unlike consumer markets there are multiples stakeholders involved in purchase of business-to-business products. This will often depend on the nature of goods and the volume of purchases. In many instances marketer will be called upon to make presentations of their services or goods to these stakeholders before a purchase decision is made. This calls for marketers to be well trained on communication strategies for effective influence and striking of business deals. The influencers might include procurement offices, divisional managers, technical experts, financial directors, and Chief executive officers among others.

**Complex negotiations:** the mere fact that multiple players are involved in business-to-business purchase decision, implies that more complex negotiations will take place in the process. Negotiations will cover products specifications, delivery dates, payment terms and price among others. This calls for a marketer to be well skilled in negotiations skills.

**Reciprocity:** this is one of the controversial practices in the business-to-business markets and is often questioned by competition authorities. The practice implies that business buyers often buy products from clients who purchase their products or services too. For example a wheat flour miller will sell flour to a bakery and the bakery will supply bread and other wheat made products to the miller. This practice is common due to close relationship developed over time between these business partners.

**Leasing:** this is another common practice in business markets. The business buyer often prefer leasing rather than buy the product. For instance, Kenya Airways lease aircraft from Boeing. Computer's packaging equipment, heavy construction equipment, machine tools and vehicles serve are examples of these phenomena. This practice is often considered a win-win situation for both players as the buyer benefits from acquiring the product quickly at low cost while the supply make higher margins from the process.

**Emphasis on personal selling:** this is the last feature of business marketing to be considered here. The consumer markets largely depend on advertising for product promotion. This is not the case for business marketer, but rather personal selling is emphasized. This is because of the nature of products involved, the volumes of sales and the kind of negotiations required.

### **1.5 Business to business customers**

Having looked at the different characteristics between business markets and consumer markets, we now turn our attention to business market customer. Just like alluded above, there are few but large business buyers. The classification of business buyers may be based on commercial interests where we have commercial organizations as well as non-commercial organizations. It may also be based on ownership type whereby we have public sector, private sector, joint sector, and cooperative sector. Based on purpose, business buyers may be classified as manufacturers, resellers and consumers (Cherunilam, Francis. Marketing of Industrial Goods, Global Media,)

Public sector will constitute all government buying agencies. This is by far the largest industrial customer and the most profitable. Though the government uses tendering process and often delays in making payment, it is often a preferred choice for many industrial customers because of large volume purchases and the fact that the marketer experiences lowest risk. Private sector will constitute large and small corporates that buy goods for either manufacturing, reselling or final consumption. They are often a very competitive sector and is known to be market oriented. Cooperatives is another major commercial business customer. This will constitute producer cooperatives, consumer cooperatives and savings and credit cooperatives among others. They are also known to make large purchases of goods and services. Joint sectors constitute those firms that are partially owed by the public and private sectors which include some parastatals and companies that supply mainly services for public consumption.

The non-governmental organizations is another major player among business market customers. There are both local and international organizations that buy goods and services for their own consumption or for distribution to various beneficiaries. United nations agencies such as UNICEF, UNEP, UNHCR are major buyers of services. Red Cross, World Vision are also nongovernmental organization targeted by business marketers. In Kenya there are thousands of small community-based organizations that also buy services and goods from business-to-business marketers.

## 1.6 Areas of Business-to-Business Marketing

Kleinaltenkamp et al (2015) have identified four major areas of business marketing. These include production goods comprising of materials and components, capital goods, system technologies and services. Each of these areas is described below:

**Marketing of Production Goods:** these are goods and related services that are purchased and processed by firms and other organizations. These are categorized as in table 1.1.

**Table: 1. 1 Categories of production goods**

Category	Explanation	Examples
Raw materials	Acts as the output of the primary sector	Agricultural products, minerals, oil gas etc.
Semi-processed and processed materials	They are the basis for further production processes	petrol, refined sugar, cement, rubber, steel
Operating materials	Do not become part of the final product but are important in maintaining the production process.	Oils, lubricants, cooling materials, and repair materials etc.
Components	They are installed as part of other products during the customer's production process, with little if any further processing	Screws, nails, clutches, integrated circuits, pumps etc.
Energy sources	These are used in all production processes	Solar, electric power, batteries etc

Source: adopted from Kleinaltenkamp et al (2015)

**Marketing of Capital Goods:** These constitute all machines and plants which are used in an organization to create products and services and are divided into major plants and single units. Major plants are complex systems of software and hardware that are usually designed for particular customers. Examples of major plants include nuclear plants, cement plants, steel or rolling mills, desalination plants, and refineries usually developed for global clients.

On the other hand, single units are integrated physical units such as machines, vehicles, or systems, usually sold individually and used in particular ways by the buyer. These include such things as tractors, cranes, mowing machines, and trucks.

**Marketing of System Technologies:** this is a combination of inputs of products, processes, and machinery into an overall system that is coordinated automatically via computers and such systems include information systems, communication systems, and integrated production systems, and transportation systems.

**Marketing of Services:** this consist of services such as consultants, advertising and research agencies, transport and logistics firms, specialist agencies for renting or leasing land, buildings, machinery and equipment and industrial plants, and specialist insurance agencies.

### **1.7 The future of B2B marketing**

Blythe and Zimmerman (2013) argue that B2B marketing is strongly affected by 3 major trends i.e., globalization, rapidly changing technology and increased visibility. Friedman, (2000) define globalization as the inexorable (inevitable) integration of markets, nations-states and technologies to a degree never witnessed before in a way that is enabling individuals, corporations, and nation-states to reach around the world further, faster, deeper and cheaper than ever before. Drivers of globalization include market factors, cost factor, environmental factors and competitive factors all of which are demonstrating profound effect on business-to-business marketing.

The second force identified by Blythe and Zimmerman (2013) is the rapidly changing technology especially electronic and communications widespread , internet usage, advance in cell phone are some of modern technologies shaping the growth of business to business marketing. Webcasting is sending information to be viewed by users at the own convenience. It is used by B2B market to announce new product or service or other important information to select segment of their customers. Online auction and exchanges have received some attention lately as providing a model for future B2B dealings.

The third force identified by Blythe and Zimmerman (2013) is increased visibility: Business and institutions have become more visible especially due to increase in media outlets. this is making business to be more concerned about ethics and their reputation in the marketplace. Business marketer must consider these forces as look into future and what it holds for them.

### **1.8 Reasons for the study of B2B marketing**

Traditionally, B2B marketing has been ignored. However, the following developments have contributed to the growing importance of B2B marketing (Blythe and Zimmerman, 2013) First the Increased employment opportunities in business organizations makes it absolutely necessary for us to gain knowledge in this field. You will find that you are likely to get a job faster in business compared to consumer markets and therefore be ready to work in that field. The second reason is the growing importance of high technology products. These products are mainly tailored for mass production and therefore business to business marketing comes in handy in the distribution systems. We also find that there is great success of foreign competition which have expanded the market base for business markets. This then makes it necessary for us to equip ourselves with that knowledge so as to make our organizations more competitive. Many firms are

now interdependent globally for making their products available in the market. Business marketing provides a good platform for realizing this interdependency as it emphasizes relationship marketing

The importance of the service sector of the economy, which in most economies is more than twice that of the manufacturing sector. This sector forms a major component of business marketing, making it absolutely necessary to focus on. The academic research is now focusing more on B2B marketing which had been relegated to side lines in favour of consumer marketing.

### **1.9 Review questions**

1. Define business to business marketing
2. Various names have been given to business-to-business marketing such as organizational marketing, industrial marketing and even business marketing. Which is the most appropriate and why?
3. Citing relevant examples, discuss the main difference between business markets and consumer markets
4. Discuss the impact of globalization on business-to-business marketing

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