PARTICULARITIES OF THE COMPETITIVE ENVIRONMENT IN THE BUSINESS TO BUSINESS FIELD

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Abstract. *Any product traded on the consumer goods market, in its evolution from raw material to finished products undergoes a series of successive transactions on the business to business market. On the business to business market, the competitive environment and the marketing mix are essentially different than those on the business to consumer market, under the aspect of the instruments used to analyse the marketing environment and the product, price, distribution, and promotion policies. The objective of this article is by considering the importance of business to business marketing in the design, manufacturing and sale of any product, to review the particularities of the competitive environment in the B2B field under the aspect of conceptual definition, business market particularities and the implications that these particularities bring on the specific marketing mix.*

Keywords: business to business, business market, derived demand, organizational customers, organizational marketing.

1. Introduction

Any product traded on the consumer goods market, in its evolution from raw material to finished products undergoes a series of successive transactions on the business to business market (Brennan et al., 2008, p. 3). When a final consumer purchases a bottle of Coca Cola, he/she does not buy directly from Coca Cola, but from an intermediary (for example the hypermarket or neighbourhood store) and the product goes through several transactions on the business to business market on the circuit Coca-Cola – wholesaler – retailer – final consumer. The circuit can be graphically described as (figure 1):

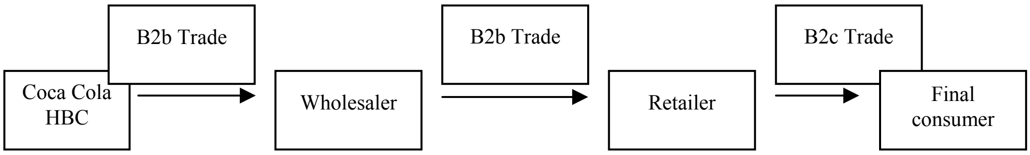


Figure 1. **The Circuit of Products**

Considering the importance of business to business marketing in the design, manufacturing and sale of any product, there is a natural need to approach the field as a result of the extensive development of marketing (Olteanu, 2006, p. 28) under the aspect of conceptual definition, business market particularities and the implications these particularities bring on the specific marketing mix.

2. The Business to Business Marketing Concept

In terms of terminology, the expression “business to business marketing” is similar to the concept of business marketing. However, two other expressions of the concept are worth mentioning: “B2B” and “organizational marketing”. The expression “B2B” is clearly an abbreviation of the terminology “business to business”. It is worth mentioning that in the on-line environment “B2B” is used to describe the concept of “business to business marketing” in general opposition to the “B2C” that defines the concept of consumer market (“business to consumer”). As for the term “operational marketing”, it has been emphasized by a series of authors (Wilson, 1999, p. 23) as being superior to the concept “business to business marketing” (business marketing), as it explicitly refers to and includes all organizations, not only those that are “businesses” (have as main purpose the achievement of profit). Another concept in the special literature that is sometimes confused with the “business to business marketing” is the one of “industrial marketing”. In the case of the latter, the transactions of the entities, such as wholesalers that intermediate trade within the distribution channel, are not the object of the industrial marketing (figure 2) (Hutt & Spech, 1984, p. 4).

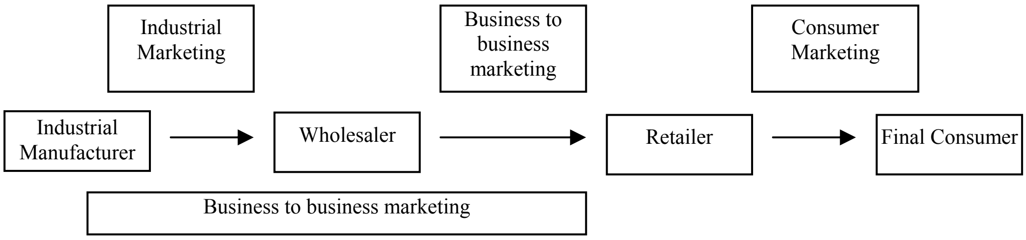


Figure 2. **Differences between industrial, business to business and consumer marketing**

According to the American Marketing Association "business to business marketing" is defined as *"marketing goods and services produced by business markets"* (http://www.marketingpower.com/_layouts/Dictionary.aspx?dLetter=I).

Given that AMA defines the concept by referring to two other concepts, those of "marketing" and "business market", we think they should be presented also in order to achieve a clearer picture of the definition of the concept of "B2B marketing". The AMA definition (October 2007) for the marketing concept is the following:*"marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large"(*http://www.marketingpower.com/ AboutAMA/Pages/DefinitionofMarketing.aspx). Going forward, the concept of business market defined by AMA is the following: "*the business market (also known as the industrial market and organizational market) comprises the individuals and organizations that are purchasing goods and services which in turn are sold, leased or provided to others. The main industries that form the business market (industrial market) are: agriculture, forestry and fisheries, mining, manufacturing, constructions and transport; telecommunications and public utilities, banking and insurance services; other services (*http://www.marketingpower.com/_layouts/Dictionary.aspx ?dLetter=I#industrial+market).

According to Webster Frederick E Jr, industrial marketing may be defined as *"marketing of goods and services oriented towards the industrial and institutional consumers"*. The main element that differentiates the industrial and institutional consumers is that they use the goods and services purchased in order to produce their own goods and services (Webster, 1991, p. 4). The American specialists William Pride and O.C. Ferrel are presenting the following definition *"industrial marketing is a set of activities aimed to facilitate and encourage trade that involves industrial products and consumers on the organizational markets"* (Pride & Ferrel, 1991). However, according to Professor Anghel Laurentiu-Dan, to define the business to business marketing today implies to regard it less through the nature of its products and more through the aspect of the customers interested in these respective products. Thus, in defining B2B marketing, one must account for the specific of the customers and the characteristics of the markets where the organizations are acting – in our case the characteristics of the organizational markets (Anghel & Petrescu, 2002). Other authors start to define the business to business marketing from the elements that differentiate it from the consumer goods marketing. Other two concepts taken into consideration are "marketing between enterprises" (Florescu et al., 2003) and "inter-organizational marketing (Anton, 2005). According to Robert W. Hass, industrial marketing or business marketing may be defined as *"the marketing activities that are not directed towards households or the final consumer"* (Haas, 1986, p. 6).

Our personal opinion is that business to business marketing may be defined as *"a set of processes used for creating, communicating and delivering value to other organizations in such a way as to benefit both the organization and stakeholders"*.

3. Particularities of the Competitive Environment in the Business to Business Field

The business to business markets are essentially different from the business to consumer markets due to the defining characteristics, consumer types and traded products type.

Is the business to business market indeed different from the consumer goods market? Is there a need for a new consumer approach? What are the main differences between the two markets (table 1) (Ralph, 2003)?

The business to business market consists of all "organizations that are purchasing products and services in order to produce other goods and services that are to be sold, leased or supplied to others". It does not include relationships that are established between entities and final consumers (the consumer goods market).

Table 1

Comparative analysis business to business market versus consumer goods market

Business to business market	Consumer goods market
Transactions are carried out within and between components of the distributions channels	Transactions are carried out through dealers to final consumers
Value is determined by the economic utility of the product	Value is determined by consumer perception
A small number of consumers, many of them requiring a custom marketing approach	Focusing on brand management
Financially strong buyers – in the B2B marketing customers are seldom competitors	Large number of relatively similar buyers
The acquisition process is more complex, lengthy and contains a large number of persons involved in the purchasing function.	The process of sale and process of purchase are linear and performed within a short time-span.
Long term partnerships between the members of the logistics channels, including customers	There is a transactional approach of the logistics channel management
The sales activities are focused on the management of the important customers and on the factors that influence the decisional process	The sales activities are focused on the final consumer

Source: Ralph O. (2003), *Business-to-Business Marketing Overview*, B2B International, White Papers.

The most important particularities (as opposed to consumer goods market) that the organizations must account for when funding and operating the marketing policies are considered to be (Anghel & Petrescu, 2002, p. 24):

a) Small number of customers
b) Complex products
c) "Professional" buyers
d) Complex (laborious) purchasing decision
e) Derived demand
f) Different importance of the marketing mix components

a) In the case of organizational markets, the carriers of demand are not the individual consumers, but the organizations that are active on this market. They can be classified into three broad categories: commercial enterprises, government (local or national), institutional clients and non-governmental organizations (educational, medical institutions, foundations, non profit organizations etc.). *The limited number of customers*, in the case of the organizational market has as a consequence the possibility to identify potential customers, businesses having the possibility to deal with a "known" target sector and not with one that is "anonymous" as it is the case of the consumer goods market.

b) Most *products traded on this market are more technically complex,* and their features, form, composition, quality, use, and performance are also clearly defined in terms of technical specification. The products are accompanied by a range of services that increase the customer value and provide not only a simple component, but a "solution" for a specific need. The organizational consumer assesses on one hand the tangible qualities of the product and on the other the entire package of benefits associated to the purchase (Hutt & Spech, 2004, p.13).

c) "*Professional buyers*". Generally, organizational customers are highly qualified specialists, have a good knowledge of the products, and are well informed on all data related to the market and capable of distinguishing between the various types of items based on norms (product specifications) that are pre-established. The purchase on the business to business market is all the time based on rational reasons and less emotional reasons as it is often met on the consumer goods market. It has been statistically proven that in the purchasing centres there are less women working than men, as it is known that women are inclined towards emotional purchases (and this is very well speculated on the consumer goods market where over 70% of the promotional techniques used are addressing to women and are based on emotional reasons).

d) *The purchasing decision is a lengthier one and there is a need to perform efficiency computations as well as to analyse technological parameters.* When they decide to purchase, the organizational customers consider not only the product, but also the lead-times, methods of installation and integration in the technological line, price, auxiliary services, etc. (Bendapudi & Leone, 2005). Negotiations for contracts are longer than for the individual consumer goods, and have as main objective to harmonize the economic interests of the partners (embodied in detailed and precise contractual terms). The whole decision process is the result of the work of the so-called "purchasing centre" of the enterprise. In general, in the process of the purchasing function, the "purchasing centre" gets to select two or more suppliers from the company that are able to deliver the same product, in order to protect themselves in the event that one of them will not have the possibility to supply anymore.

e) The concept of *derived demand* is the most important concept that must be understood by a marketing manager on the business to business market. What is meant by the term derived demand is based on the fact that an organizational buyer does not purchase goods and services based on his/her own needs as in the case of consumer goods where the demand is determined by the final consumer's personal needs. On the business market, the organization is purchasing a product in order to be able to produce other goods and services to meet the final demand on the consumer goods market (Hass, 1986, p. 42). In conclusion, the demand for productive goods is determined by the demand for consumer goods that is why it is a "derived" demand.

f) Although the *marketing mix* structure is the same as in the case of the productive goods, the role of each policy *is modified* in the case of organizations that are present on the business to business market.

Business markets are comprised of organizations that are generally purchasing the same products that are demanded by final consumers and households. The speciality literature mentions six types of consumers on the business market (Eckles, 1999, p. 7):

a. *Business intermediaries*. This group includes any organization that purchases goods in for resale to another business. This category includes all types of intermediaries from distributors that are fully integrated to intermediaries that have limited functions such as agents and brokers. All these intermediaries are engaged in a number of vital functions within the distribution system;

b. *The manufacturing and extractive industry (OEM) (*OEM = Original Equipment Manufacturer) includes several types of producers that may vary from equipment producers to light industry machine producers. They are organizing, designing and manufacturing tangible gods that are used by a whole array of customers from producers in the manufacturing industry to final consumers.

c. *Public institutions*. These include organizations such as schools, hospitals, churches or charities. A series of these may use similar purchasing methods as the ones used by government agencies, while others may use less standardized procedures. Hospitals, health homes and illness treatment centres are purchasing products for the medical services that they supply by using purchasing methods similar to the government agencies. Due to these special need of purchasing, a lot of institutions have special divisions or teams specialized for these markets (Dwyer & Tanner, 2006, p. 13);

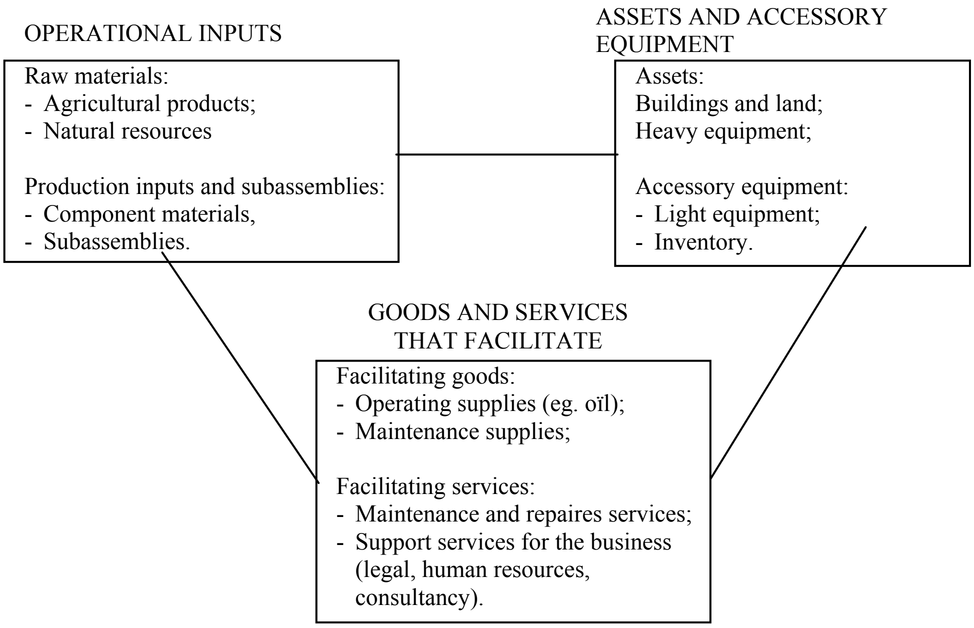
d. *Government agencies*. In 2008 in Romania, the state through its authorities and government agencies was the largest purchaser of products with an aggregate value of about 9.2 billion Euros (http://www.mmuncii.ro/pub/imagemanager/images/file/Minister/Prezentare/220108 bug1.pdf). In most countries the state may prove to be the only buyer for the final products of some organizations, for example for the arms and ammunition industry. In some countries, according to the enforced regulations the infrastructure of telecommunications is state owned and any private operator rents from the state, this is why the state entities are the only buyers on the market. The purchasing system of the state tends to be complicated and frustrating for companies, especially as they are attempting to reach a number of social objectives through the series of acquisitions it makes.

e. *The services industry*. The services are the sector with the most increased rhythm of growth in Romania after 1990, as they registered an average growth rate of 7% in 2008, before the economic crises. This category includes services as: legal, market analysis, management consultancy, accounting, financial, advertising, insurance, transport, real-estate, etc.

f. *Multinational companies*. With the development of globalization, multinational companies have become more developed and diverse. World economies are now so interconnected that when one of the powerful nations that represents a developed economy is entering a recession phase, the repercussions are felt worldwide. The best example is the mortgage crisis that began in the United States late in 2007 and expanded into a global financial crisis since 2008, reaching even emerging economies such as Romania, an economy largely depended on multinational companies (especially banks).

It has been already stated that to define today the business to business marketing means to regard it less through the nature of the products and more through the type of customers interested in those particular products. On the one hand we have an array of specific products that are purchased by organizations and cannot be purchased by the final user, such as financial consultancy services or heavy industry equipment. On the other hand there is a wide range of products that are purchased by both organizations and individuals, such as laptops and stationery products. All of these are raising the issue whether products on the business markets may be classified separately from the ones on the consumer goods market (Brennan et al., 2008, p. 15). One useful classification method may start with the following question: “How does the product or service enter from the business to business market into the production process and how is it identified in the costing structure of the company?” The answer to this question allows the marketing specialist to identify which of the products have a greater influence in the organizational purchasing process and also to structure an efficient marketing strategy.

According to their destination, goods and services on the organizational market may be classified into three main categories: operational inputs, assets and accessory equipment and goods and services that facilitate (figure 3) (Hutt & Spech, 2004, p. 20).



Source: Hutt, M.D., Spech, T.W. (2004), *Business Marketing Management,* Thomson Ph., New York.

Figure 3. **Categories of Industrial Goods**

1. *Operational Inputs.* Are groups of products that can be further categorized based on the degree of processing into raw materials on the one hand and production inputs and subassemblies on the other.

a. *Raw materials* include both agricultural and natural resources industry products. The raw materials include all the products made from agricultural and extractive industries that are processed at primary level. In fact, these products are introduced in the production process in their natural state. For example, McDonald's uses every year in their production process over 600 million kilograms of potatoes, and a series of producers in this field depend on their final sales and their purchases. In fact, when McDonald's wanted to introduce a raspberry juice on the market they surprisingly discovered that their demand exceeded the global production for this fruit.

b. *Production inputs and subassemblies* in contrast with the raw material they are passing through a secondary or even tertiary manufacturing phase. The main types of production inputs are: steel sheets, chemicals, glass, cold finished steel bars, leather, cement, etc. In contrast, subassemblies contain all these products purchased by the company and incorporated directly in the final product, such as: switches, transistors, motors, gearboxes, etc.

2. *Assets and accessory equipment.* The main two categories that specific to a company within this class are installations and accessory equipment.

a. *The assets* are major purchases such as heavy equipment that are treated as investment objectives by the consumer, and the amounts that are invested are depreciated in accounting during their period of functioning. In this case, it is expected that the potential consumers will plan carefully these investments and to use pre-feasibility or even financial models to compute the investment value.

b. *The accessory equipments* are the small size products such as tool kits used in the production process. Of course, even in their case, for the more valuable one, it may be proper to use depreciation schemes, but it also must be considered that their lifetime is much more reduced.

3. *Goods and services that facilitate*. These comprise the goods and services that are supplied and have an important role in ensuring organizational support. Because the goods and services that facilitate do not enter the production process or become a part of the finished good, their costs are regarded as expenses. Almost all organizations need facilitating goods such as printer cartridges, paper or forms. The facilitating services are considerably different from those on the consumer goods market due to their costs or complexity. Specific services for the business to business market are: industrial cleaning, window cleaning, industrial climbing, security services, consultancy or financial services.

In contrast with the classification presented above for the business market there are also opinions in the special literature that say that a single classification system should be used for both markets: business and consumer goods. Murphy & Enis propose such as classification in four categories identified based on the assessment of the financial effort of the purchaser involved in the process and of the potential risk of making a wrong choice (Murphy & Enis, 1986, p. 36). According to this classification one can identify:

- *"convenient products"* that involve a low effort and negligible risk for the buyer. Wear and repairs, maintenance and operation described above may be considered part of this category;
- *"preference products"* that involve a higher effort than for convenient products and also a substantially higher risk. Generally this means they are more expensive than the products in the first class, but the customer may also be subjected to greater risk in decision-making. Products of less importance in the accessory equipment category as previously described may be part of this category. Murhpy and Ellis have mentioned in this category also the business travels:
- *"shopping products"* involve a much greater financial effort from the purchaser and also a substantially higher risk than the first two categories. In this category there are also included the most important products in the accessory equipments, production inputs and accessories. The purchasers spend considerably more time and energy to purchase these due to their relatively big prices and of the associated risk in the decision making process;
- *"speciality products"* involve also a substantial financial effort from the buyer and also have a great risk level associated. Operational assets and services that are greatly specialized are part of this category. The main difference between the last two categories is mainly the effort and not the risk involved. The buyers are willing to

invest a great deal of time and energy in order to take the best decisions connected to these high-value-added purchases.

As a conclusion, the two classification systems previously described should be regarded as complimentary rather than alternative. The first focuses on the nature of the products, their production and use methods and their degree of incorporation in the final product. The second classification is more purchaser-oriented and classifies the products based on their importance to the buyer, importance evaluated through the effort involved and also through the risk of the decision making process.

4. Implications of the Particularities of the Competitive Environment on the Marketing Mix on Business to Business Market

The marketing mix is a set of marketing tools that are used by the company in order to achieve its marketing objectives on the target market (McCarthy, 1960). The marketing mix shows how the resources and capabilities are used by the company in order to meet the pre-determined marketing objectives. On the business to business market the marketing mix differs essentially from the business to consumer market in terms of the use of marketing instruments at product, price, distribution and promotion policy levels. We will further present only the main features in each of the four components of the marketing mix as the tools used in each of the policies will make the subject of a separate chapter.

Particularities of the product policy on the business to business market. Although the product policy on the consumer goods market is similar to that on the business market, there are a series of major differences. The product policy on the consumer goods market is strongly focused on *brand identity*. On the other hand, most of the products on the business market are sold with support services such as installation, training, post-sale offers, service and warranty. Due to this, a product on the business to business market must be regarded as a *global product*. *Organizational buyers* are minimizing the importance of emotional elements when making the purchasing decision. In most of the cases, they focus on tangible benefits that may be measured when the purchasing decision is made. Thus, when building the offer on the business market one must consider the value-added activities that position the product as a major contributor in value creation within the purchasing organization (Pop, 2006).

Particularities of the price policy on the business to business market. Paradoxically the price is one of the most important elements within the marketing mix but also one of the least important elements on the business to business markets. On the business markets the price is seen as a component on the product offer. That is why the pricing policy should be regarded as a supporting element to the product policy (Webster, 1991, p. 190). Firstly, price is an important variable in the eyes of the purchaser and combines other variables such as: product availability, quality and other product attributes. Secondly, from the point of view of the seller, the price determines not only the product profitability but also the interval where all the associated costs are included in, post-sale offers, delivery services, credit facilities, a.s.o. These aspects suggest the importance of price in the product policy. Thirdly, price is an important strategic variable that helps explore the lifecycle of the product. It is characteristic to the lifecycle of the products that profit margins are higher in the growth periods and reflect into higher prices when the competition is not strong and this condition disappears as the product passes into its maturity phase in the lifecycle.

Particularities of the distribution policy on the business to business market. The products on the business to business market are sold less in presentation stores than the products on the consumer goods market. The number of stores for these products such as: clothes, sport equipment, books and furniture is much greater than those available for the typical organizational product. There are a few reasons for this situation. Firstly, organizational consumers are much less in numbers and with a few exceptions for products such as office supplies, there is not actual need for extensive distribution. Secondly, the direct distribution channels such as producer-consumer ones are much more often present than on the consumer goods market. Thirdly, the quantities that are purchased are often very large and this makes direct distribution much more efficient. Fourthly, distribution on the organizational market seldom necessitates a high level of technical expertise that in its turn needs training and physical facilities investments that may only happen selectively (Webster, 1991, p. 221).

Particularities of the promotion policy on the business to business market. Communication on the business to business market is a mix of techniques and promotional instruments that are both personal and impersonal and oriented towards the organizational buyer.

These include personal sales, catalogues, brochures, publicity, direct marketing, fairs and exhibitions, public relations, promotional sales and others. The effect either of these brings is represented by the interaction with others, although each of them plays a distinct role in leading the potential consumer from total unawareness to the purchasing decision, by passing through a series of acquisition process stages. The marketing manager on the business to business market must plan the promotional mix considering the individual effect each of the promotional techniques brings, but also the interactions and synergies between these. Organizations interact with other organizations within the marketing field, they send messages, communicate and get involved into market dialogues. The marketer is focused on formulating a communicational strategy that will send a consistent message towards the target audience that is also interested in communicating.

In Romania a research done in 2009 (Şerbănică et al., 2009) showed that the particularities of the marketing mix for Romanian B2B as a result of the impact of the economic crises are: companies reorganized the range of products and focus on the products that have got a higher value added and high level of technology, a good ratio between quality and price, adopted flexibility in negotiation, focused more on own direct sales force, reducing the distribution channels, giving up the traditional (costly) promotional techniques and focusing on the B2B field specific techniques (fairs and exhibitions, own sales-force, demonstrations and product testing).

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