

# CHAPTER 4

## Customer behaviour

### LEARNING OBJECTIVES

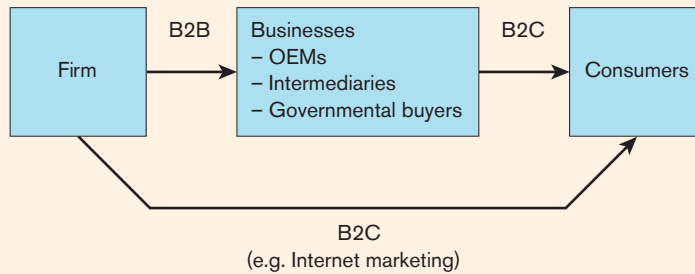
After studying this chapter you should be able to:

- understand why consumers make purchase decisions
- identify and discuss the main motives behind buying behaviour in the B2C market
- understand how customers make purchase decisions
- identify the various types of buyer in organisational markets and determine their distinct needs, wants and motivations
- identify different organisational buying situations
- describe and discuss the organisational buying process
- identify and understand the factors influencing the organisational buying process
- evaluate the roles of members of the buying centre
- understand the link between consumer demand and B2B marketing
- understand what is meant by customisation

### 4.1 INTRODUCTION

This chapter deals mainly with the behaviour of customers in the B2C and the B2B markets. This analysis is then used as an input for Chapter 6 (especially Section 6.3) where the firm's relationships with the customers are analysed.

To a producer or service provider a market is where the product or service is sold or delivered and the profits generated. The seller or marketer defines the market in types of customer. Thus, a market consists of all the potential customers sharing particular wants and needs who might be willing to engage in change to satisfy wants or needs. Once the potential customers' wants and needs are backed by their purchasing power, an actual market is formed.

**B2B markets:**

- Customised products and services, highly complex products
- Personal relationships between buyer and the selling firm/salesperson – reliance on personal selling
- Sophisticated buyers
- More rational buying; more customer emphasis on risk-reduction; less customer emphasis on self-expressive benefits of brands

**B2C markets:**

- Standardised products, relatively unsophisticated products
- Impersonal relationships between buyer and the selling firm – more reliance on mass market advertising
- Buyers growing in sophistication
- Often more emotional buying – customer perception of functional, emotional and self-expressive benefits of brands

**Figure 4.1**

Customers in B2C and B2B markets

**Not-for-profit organisation**

An organisation which attempts to achieve an objective other than profit, for example relief of famine, animal rights or public service.

The market concept applies equally to service. The term market can even represent a powerful concept in the not-for-profit sectors. Although **not-for-profit organisations** do not refer to the target population they serve as a market, every not-for-profit organisation has clients or customers. Hence, in the long run, it is the customers – with their purchasing power – who will decide what the market really is. They set the boundaries and their purchases decide what products or services will remain in the market. Thus, to understand the market, the firm must understand the customer.

There are different types of customer depending on whether the firm is approaching the business-to-consumer market (B2C) or business-to-business market (B2B).

The firm (producer) may not sell directly to the consumers (end users). Instead, many firms sell to the B2B market (see Figure 4.1). Here, the firm may serve as a sub-supplier to other businesses (larger original equipment manufacturers (OEMs)) which may use a firm's component in its final product. The differences and similarities between B2B and B2C markets have long been debated, especially given the dynamic nature of the business environment in both markets (Mudambi, forthcoming). Figure 4.1 summarises some relevant comparisons and the main characteristics of B2B and B2C.

The firm may also have governmental organisations or intermediaries as buyers. Lately, many Internet firms (e.g. Amazon and Dell) have begun to cut the distribution chain by selling directly to consumers.

The outline and structure of this chapter can be illustrated, as shown in Figure 4.2.

In both B2C and B2B markets, the customer decision-making process forms the basis for the segmentation of the two markets.

Customer decision making is essentially a problem-solving process. Most customers – whether individual consumers or organisational buyers – go through similar mental processes in deciding which products and brands to buy. Obviously, though, various customers often end up buying very different things because of differences in their *personal characteristics*

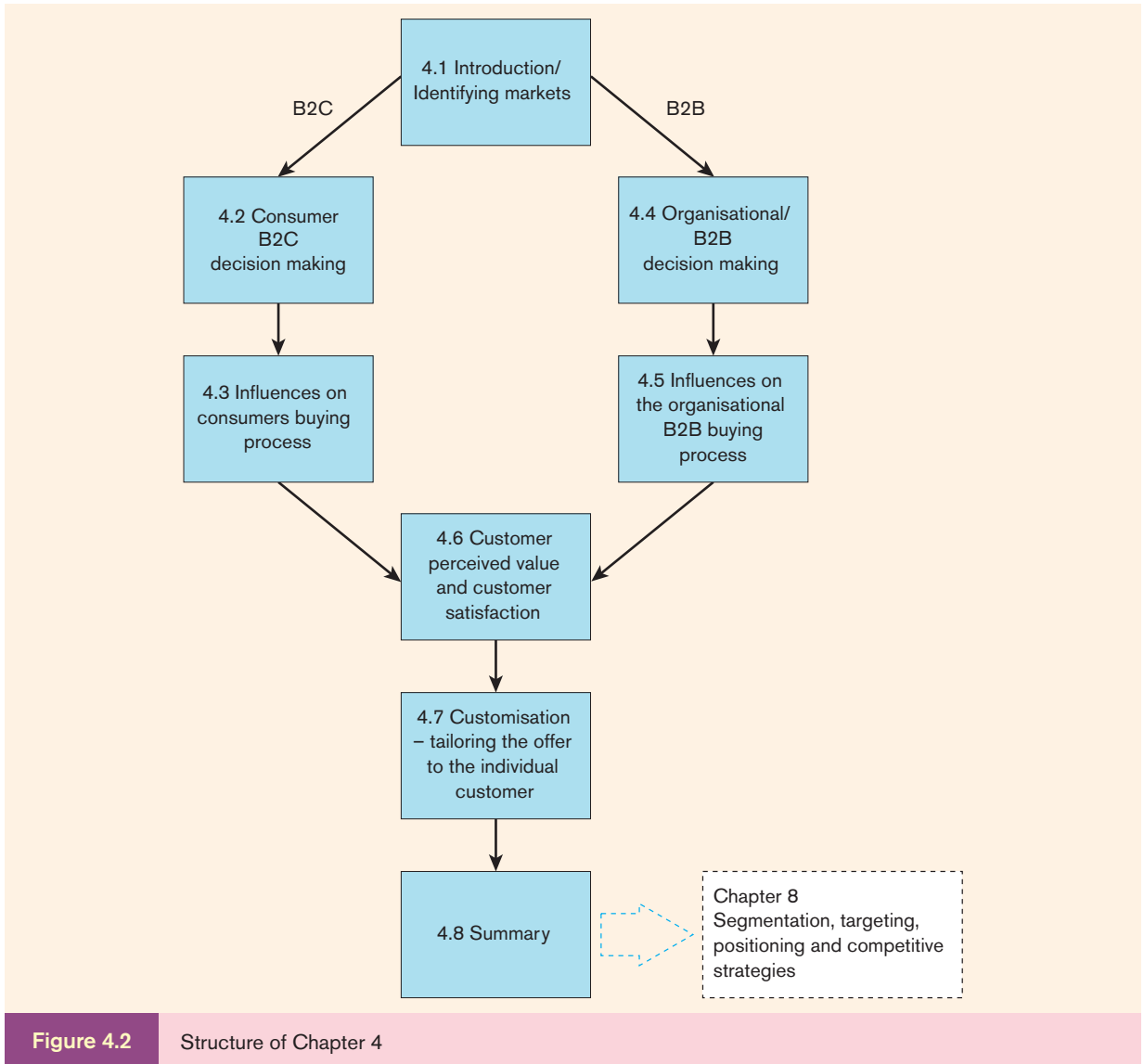


Figure 4.2

Structure of Chapter 4

**Reference group**

A group of people that influences an individual's attitude or behaviour.

(needs, benefits sought, attitudes, values, past experiences and lifestyles) and *social influences* (different social classes, **reference groups** or family situations).

Market segmentation is as important in business markets as it is in the marketing of consumer goods and services. Segmenting the market may, for example, enable the salesforce to emphasise different sales arguments in different segments and the firm can tailor its operations and marketing mix to each segment.

Thus, the more marketers know about the factors affecting their customers' buying behaviour, the greater their ability to design strategic marketing programmes to fit the specific concerns and desires of these segments. This chapter examines the mental processes that individual consumers go through when making purchase decisions – and the individual and environmental factors affecting these decisions. Our discussion provides a useful framework for choosing, organising and analysing information about current and potential customers for a particular product or service.

Irrespective of whether the firm is in the B2B or B2C market, the starting point is to define who the current customers are. The answer is not always obvious as there may be many

people involved in the purchase and use of a particular product or service. Customers are not necessarily the same as consumers. A useful way to approach customer definition is to recognise six main roles that exist in many purchasing situations. Often several, or even all, of these roles may be held by the same individuals, but recognising each role separately can be a useful step in targeting marketing activity more accurately.

The roles in this **buying centre** are as follows.

- *The initiator:* this is the individual (or individuals) who initiates the search for a solution to the customer's problem. In the case of the purchase of a chocolate bar it could be a hungry child who recognises her own need for sustenance. In the case of a supermarket the re-ordering of a particular product line which is nearly sold out may be initiated by a stock controller, or even an automatic order processing system.
- *The influencer:* influencers are all those individuals who may have some influence on the purchase decision. A child may have initiated the search for a chocolate bar, but the parents may have a strong influence on which product is actually bought. In the supermarket the ultimate customers will have a strong influence on the brands ordered – the brands they buy or request the store to stock will be most likely to be ordered.
- *The decider:* another individual may actually make the decision as to which product or service to purchase, taking into account the views of initiators and influencers. This may be the initiator or the influencer in the case of the chocolate bar. In the supermarket the decider may be a merchandiser whose task it is to specify which brands to stock, what quantity to order, and so on.
- *The purchaser:* the purchaser is the individual who actually buys the product or service. He or she is, in effect, the individual who hands over the cash in exchange for the benefits. This may be the child or parent for the chocolate bar. In industrial purchasing it is often a professional buyer who, after taking account of the various influences on the decision, ultimately places the order, attempting to get the best value for money possible.
- *The user:* finally comes the end user of the product or service, the individual who consumes the offer. For the chocolate bar it will be the child. For the goods in the supermarket it will be the supermarket's customers.
- *The gatekeeper:* people within the organisation who can control the flow of information to other members of the buying centre.

What is important in any buying situation is to have a clear idea of the various people who are likely to have an impact on the purchase and consumption decision. Where the various roles are undertaken by different individuals it may be necessary to adopt a different marketing approach to each. Each may be looking for different benefits in the purchase and consumption process. Where different roles are undertaken by the same individuals, different approaches may be suitable depending on what stage in the buy/consume process the individual is at the time.

A central theme of this book is that most markets are segmented; in other words, different identifiable groups of customers require different benefits when buying or using essentially similar products or services. Identifying who the various customers are and what role they play then leads to the question of what gives them value. For each of the above members of a **decision-making unit (DMU)**, different aspects of purchase and use may give value.

### Buying centre

A group involved in the buying decision for purchasing an item or system solution for a company. Also known as a decision-making unit (DMU). Members of such a group are normally: initiator, influencer, decider, purchaser, user and gatekeeper.

### Influencer

The buying-centre role played by organisational members (or outsiders) who affect the purchase decision by supplying advice or information.

### Decider

The buying-centre role played by the organisational member who makes the actual purchasing decision.

### Decision-making unit (DMU)

The initiator, the decider, the influencers, the purchaser, the gatekeeper and the users. Often identical with the buying centre in B2B.

## 4.2 CONSUMER B2C DECISION MAKING

Approaches to understanding consumer buying behaviour draw heavily on the other social sciences.

The company also has a strong role to play in designing and providing appropriate stimulation to the purchase decisions. The process is dynamic as there is an interaction between the

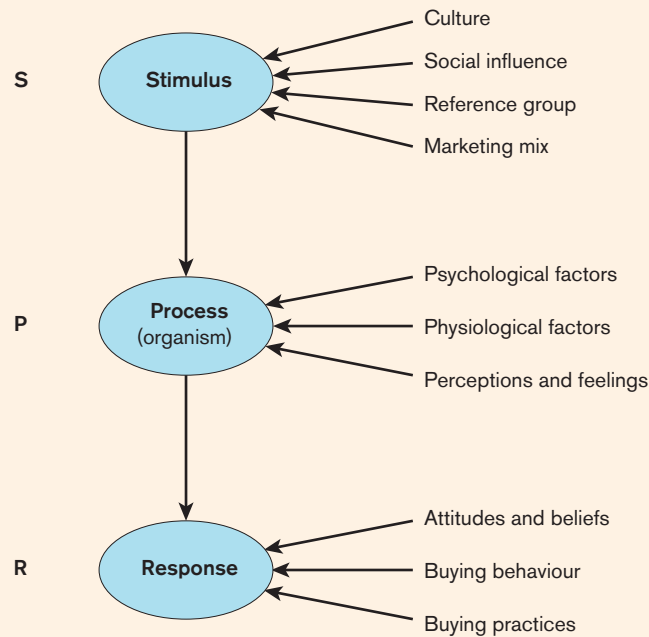


Figure 4.3

The SPR (SOR) model

buyer and the environment. The consumer actively participates in the process by searching for information on the alternatives available, by providing evaluations of products and services, and by expressions of risk. In this process the company also plays an active role by manipulating the variables that are under its control. The company modifies the marketing mix to accommodate the demands expressed by consumers. The more successful it is in matching its marketing mix with expressed and latent demands in the market, the greater the possibility is that consumers will buy the company's products now and in the future. Consumer behaviour is determined by a host of variables studied in different disciplines. Consumer behaviour may be described as a relationship between a stimulus of some kind, such as a new product, the way information about the innovation is processed by the consumer, and the response the consumer makes having evaluated the alternatives (Figure 4.3).

The stimulus is captured by the range of elements in the marketing mix which the company can manipulate to achieve its corporate objectives. These stimuli derive from the product or service itself, or from the marketing programme developed by the company to support its products and services. A number of symbolic stimuli derive from the use of media such as television. Stimuli also include many of the conditioning variables discussed above. Chief among these are the cultural and social influences on consumer behaviour and the role of reference groups.

Process refers to the sequence of stages used in the internal process of these influences by the consumer. This sequence highlights the cause-and-effect relationships involved in making decisions. The processes include the perceptual, physiological and inner feelings and dispositions of consumers towards the product or service being evaluated.

The third component refers to the consumer's response in terms of changes in behaviour, awareness and attention, brand comprehension, attitudes, intentions and actual purchase. This response may indicate a change in the consumer's psychological reaction to the product or service. As a result of some change in a stimulus, the consumer may be better disposed to the product, have formed a better attitude towards it, or believe it can solve a particular consumption-related problem. Alternatively, the response may be in the form of an actual



change in purchasing activity. The consumer may switch from one brand to another or from one product category to another. Consumer responses may also take the form of a change in consumption practices, whereby the pattern of consumer behaviour is changed. Supermarkets frequently offer incentives to get people to shop during slack periods of the week, which involves a change in shopping practice.

Generally speaking, a great deal of interest is focused on responses that involve buying or the disposition to buy. Manufacturers spend considerable sums of money in developing and promoting their products, creating brands and otherwise designing marketing effort to influence consumer behaviour in a particular way. At the same time, consumers may be more or less disposed to these efforts. Through the influence of external stimuli and internal processing mechanisms, a convergence may occur between consumer wants and needs, and the products and services provided. On other occasions, no such convergence occurs.

It is known, however, that the same degree of interest may not be displayed for all products and services. For some products and services, consumers like to be heavily involved. Some purchases are planned, while others are unplanned and may even arise as a result of impulse. These are among the various outcomes or responses that arise in the stimulus–process–response model of consumer behaviour.

The decision-making processes consumers use when making purchases vary. Different buyers may engage in different types of decision-making processes depending on how highly involved they are with the product. A high-involvement product for one buyer may be a low-involvement product for another.

The decision processes involved in purchasing high- and low-involvement products are quite different (Figure 4.4). The following sections examine the mental steps involved in each decision process in more detail.

## Determinants of consumer involvement

Consumer involvement is frequently measured by the degree of importance the product has to the buyer. Laurent and Kapferer (1985), for example, indicate a number of factors that influence the degree to which consumers become involved in a particular purchase. The most important factors are:

- perceived importance of the product;
- **perceived risk** associated with its use.

### Perceived risk

Consumers' uncertainty about the consequences of their purchase decisions; the consumer's perception that a product may not do what it is expected to do.

The level of involvement with any product depends on its perceived importance to the consumer's self-image. High-involvement products tend to be tied to self-image, whereas low-involvement products are not. A middle-aged consumer who feels (and wants to look) youthful may invest a great deal of time in her decision to buy a sport-utility vehicle instead of an estate car. When purchasing an ordinary light bulb, however, she buys almost without thinking, because the purchase has nothing to do with self-image. The more visible, risky, or costly the product, the higher the level of involvement.

Involvement also influences the relationship between product evaluation and purchasing behaviours. With low-involvement products, consumers generally will try them first and then form an evaluation. With high-involvement products, they first form an evaluation (expectation), then purchase. One reason for this behaviour is that consumers do not actively search for information about low-involvement products. Instead, they acquire it while engaged in some other activity, such as watching television or chatting with a friend. This is called *passive learning*, which characterises the passive decision-making process. Only when they try the product do they learn more about it. In contrast, high-involvement products are investigated through *active learning* – part of an active decision-making process – in order to form an opinion about which product to purchase.

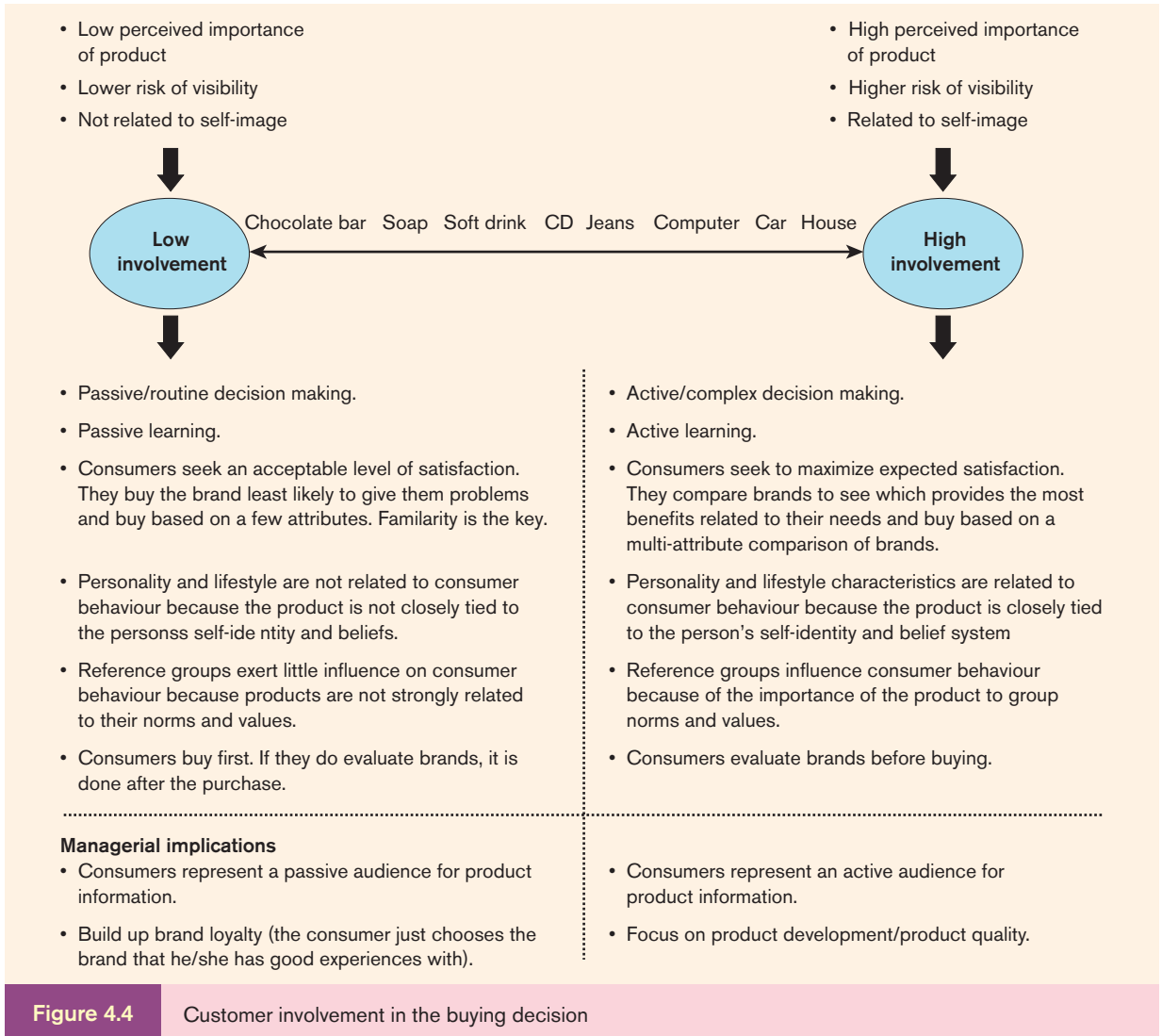


Figure 4.4

Customer involvement in the buying decision

## The consumer buying process

For a better understanding of consumer buying behaviour, marketers have broken the decision-making process into the five steps described below. These are shown in Figure 4.5, along with a description of how one consumer made a high-involvement purchase. For low-involvement purchases, the first three steps may be skipped. As involvement increases, each step takes on greater importance, and more active learning occurs.

### Step 1: Problem identification

Consumers' purchase decision processes are triggered by unsatisfied wants or needs. Individuals perceive differences between ideal and actual states on some physical or sociopsychological dimension. This motivates them to seek products or services to help bring their current state more into balance with the ideal.

We human beings are insatiable – at least with respect to our sociopsychological needs – but we are limited by time and financial resources. It is impossible for us to satisfy all our needs at once. We tend instead to try to satisfy the needs that are strongest at a given time. The

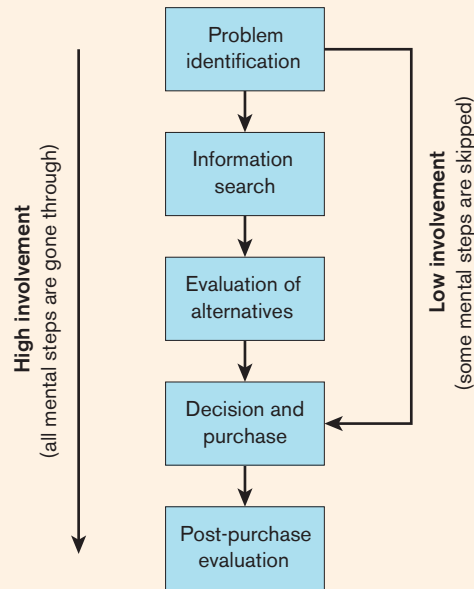


Figure 4.5

The consumer decision-making process

size of the gap between our current and our desired state largely determines the strength of a particular need.

If you are thirsty, you may simply run out and buy a soft drink. In a high-involvement purchase the recognition of a need may arise long before it is acted upon. In the case of a house, the cost may prevent you from acting on your need for several years.

### Step 2: Information search

Having recognised that a problem exists and might be satisfied by the purchase and consumption of a product or service, the consumer's next step is to refer to information gained from past experience and stored in memory for possible later use.

The information search consists of thinking through the situation, calling up experiences stored in memory (internal search), and probably seeking information from the following:

- Personal sources include family members, friends and members of the consumer's reference group.
- Commercial sources refer to information disseminated by service providers, marketers, and manufacturers and their dealers. They include media advertising, promotional brochures, package and label information, salespersons, and various in-store information, such as price markings and displays.
- Public sources include non-commercial and professional organisations and individuals who provide advice for consumers, such as doctors, lawyers, government agencies, travel agencies and consumer-interest groups. Consumers are usually exposed to more information from commercial sources than from personal or public sources. Consumers do, however, use information from different sources for different purposes and at different stages within the decision-making process. In general, commercial sources perform an informing function for consumers. Personal and public sources serve an evaluation and legitimising function.

Each source has its benefits and drawbacks. Because services are tangible, difficult to standardise, and their production and consumption inseparable, they are more difficult to



evaluate than products. Thus, most services are hard to assess until they are being consumed after purchase (e.g. cruises and restaurant meals). Indeed, some services are difficult to assess even after they have been consumed. Even when products are very expensive and ego-involving, some consumers are unlikely to conduct an exhaustive search for information before making a decision. Why? Because of the costs involved. Perhaps the biggest cost for most people is the opportunity cost of the time involved in seeking information. They give up the opportunity to use that time for other, more important or interesting activities, like work.

Another information-search cost is the possible negative consequence of delaying the decision too long. For example, a consumer has only a limited time to decide whether to take advantage of a special deal offered on a specific cruise. Finally, there are psychological costs involved in searching for information. Collecting information can be a frustrating task, often involving crowded stores and rude salespeople. Also, some consumers become frustrated and confused when they have a lot of complex information to evaluate before making a choice. Consequently they cut their information search short.

### Step 3: Evaluation of alternatives

Consumers differ in their approach to evaluation, but a number of aspects are common. Products or services are viewed by individuals as bundles of attributes. Consumers find it difficult to make overall comparisons of many alternative brands because each brand might be better in some ways but worse in others. Instead, consumers simplify their evaluation task in several ways. First, they seldom consider all possible brands; rather, they focus on their invoked set – a limited number they are familiar with that are likely to satisfy their needs.

Second, consumers evaluate each of the brands in the invoked set on a limited number of product factors or attributes (Figure 4.6). They also judge the relative importance of these attributes, or the minimum acceptable performance of each. The set of attributes used by a particular consumer and the relative importance of each represent the consumer's choice criteria.

Category	Specific attributes
Cost attributes	Purchase price, operating costs, repair costs, cost of extras or options, cost of installation, trade-in allowance, likely resale value
Performance attributes	Durability, quality of materials, construction, dependability, functional performance (e.g. acceleration, nutrition, taste), efficiency, safety, styling
Social attributes	Reputation of brand, status image, popularity with friends, popularity with family members, style, fashion
Availability attributes	Carried by local stores, credit terms, quality of service available from local dealer, delivery time

**Figure 4.6**

Selected attributes consumers use to evaluate alternative products or services

Cars are seen as transport, safety, prestige, speed and carrying capacity. Some attributes are more important than others, so consumers allocate different levels of importance weights to each attribute identified. Some buyers will view safety as more important than speed. The company can divide the market into segments according to the attributes which are important to different groups.

Consumers tend to develop a set of beliefs about where each product or brand is in regard to each attribute. This set of beliefs about a particular brand is referred to as the brand image. For a particular consumer, the brand image of a BMW may be that it is expensive, reliable and fast, while the brand image of a Lada may be that it is cheap, plain and slow.

#### Step 4: The purchase decision

The purchase decision emerges from the evaluation of alternatives. The consumer may decide not to buy and save the money or spend it on a different item altogether. Or he or she may want to play safe by deciding to purchase a small amount for trial purposes, or by leasing rather than buying. The decision to buy often occurs some time before the actual purchase. The purchase is a financial commitment to make the acquisition. It may take time to secure a mortgage or car loan.

Consumers shopping in a retail store intent on purchasing one brand sometimes end up buying something different. This happens because the consumer's ultimate purchase can be influenced by such factors as being out of stock (no outside cabins on a particular cruise), a special display, or a message from a salesperson ('I can get you a better deal on a similar cruise if you can go two weeks later').

#### Step 5: The post-purchase evaluation

The purchase evaluation stage results in satisfaction or dissatisfaction. Buyers often seek assurance from others that their choice was correct. Positive assurance reinforces the consumer's decision, making it more likely that such a purchase will be made again. Positive feedback confirms the buyer's expectation.

Consumers are more likely to develop brand loyalty to services than to products because of the difficulty of obtaining and evaluating information about alternative services as well as, in some cases, the extra costs involved. Also, in some cases repeated patronage brings additional benefits such as preferential treatment (getting an appointment with your doctor) and the service provider getting better insights into the consumer's tastes/preferences.

Even when a product performs as expected, consumers may doubt whether they made the best possible choice. Such doubts are called **cognitive dissonance**.

Doubts about whether the best possible purchase has been made can be reduced in two ways. First, they can simply withdraw from their decision – take the product back and ask for a refund (difficult to do with a service). A second way to reduce dissonance is for consumers to be convinced they really did make the best choice. Many people, thus, continue to seek information about their chosen brand *after* a purchase. Marketers play an active role in dissonance reduction by reinforcing consumers' purchase decisions via, for example, follow-up letters assuring customers they made a wise decision and that the firm stands behind the product should anything go wrong (Gurley *et al.*, 2005).

**Cognitive dissonance**  
Buyer discomfort caused by post-purchase conflict.

## 4.3 INFLUENCES ON CONSUMERS' DECISION MAKING

### Demographics

Measures such as age, gender, race, occupation and income that are often used as a basis for selecting focus group members and market segments.

Even if some consumers have a similar involvement, they buy different brands for different reasons. Some of the important psychological variables that affect a consumer's decision-making process include needs, perception, memory and attitudes. The consumer's personal characteristics, such as **demographic** and **lifestyle** variables etc. influence these psychological factors – see Figure 4.7.

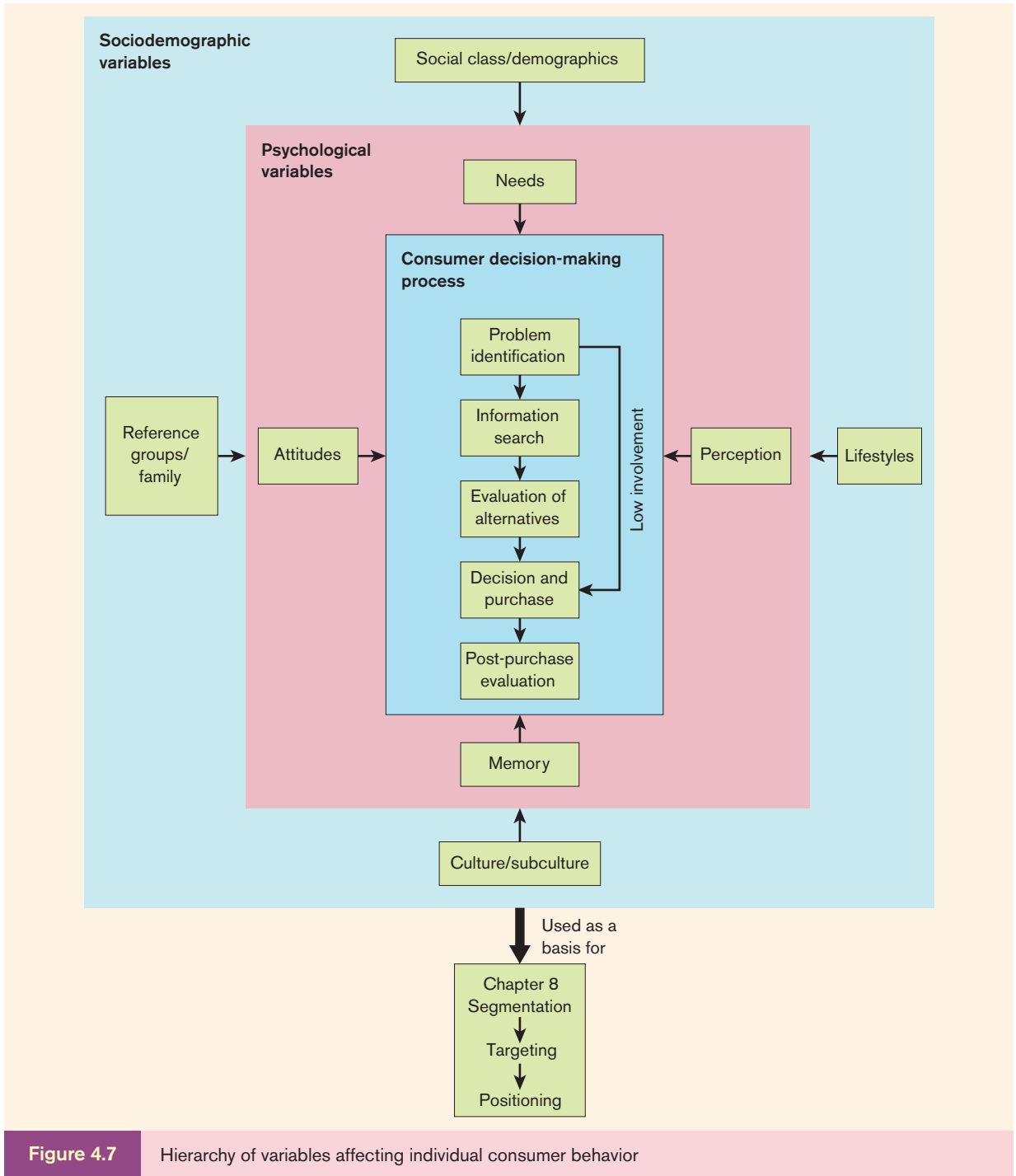


Figure 4.7

Hierarchy of variables affecting individual consumer behavior

## Needs

### Lifestyle

An individual's activities, interests, opinions and values as they affect his or her mode of living.

Abraham Maslow's famous classification (1970) is often used by marketers to help categorise consumer desires. According to Maslow, five basic needs underlie most human goals:

- 1 *Physiological*: food, water, warmth, sleep;
- 2 *Safety*: security, protection;

- 3 *Love and belonging*: family, friendship and acceptance;
- 4 *Esteem*: prestige, status, self-respect;
- 5 *Self-actualisation*: self-fulfilment and personal enrichment.

Maslow ranked the five needs in a hierarchy to indicate that higher level needs tend to emerge only after lower level needs are satisfied.

## Perception

Perception is the process by which a person selects, organises and interprets information. When consumers collect information about a high-involvement product they follow a series of steps, or a hierarchy of effects. Exposure to a piece of information, such as a new product, an advert or a friend's recommendation, leads to attention, then to comprehension, and finally to retention in memory. Once consumers have fully perceived the information, they use it to evaluate alternative brands and to decide which to purchase.

The perception process is different for low-involvement products. Here, consumers store information in their memories without going through the above-mentioned steps. Exposure may cause consumers to retain enough information so that they are familiar with a brand when they see it in a store (Goldstein *et al.*, 2008).

Consumers also tend to avoid information that contradicts their current beliefs and attitudes. This perceptual defence helps them avoid the psychological discomfort of reassessing or changing attitudes, beliefs or behaviours central to their self-images. For example, many smokers avoid anti-smoking messages, or play down their importance, rather than admit that smoking may be damaging their health.

## Memory

Consumers are also selective in what they remember. Thus, they tend to retain information that supports what they believe.

There are different theories of how the human memory operates, but most agree that it works in two stages. Information from the environment is first processed by the short-term memory, which forgets most of it within 30 seconds or less because of inattention or displacement by new incoming information. Some information, however, is transferred to long-term memory, from where it can be retrieved later.

In long-term memory, a vast amount of information may be held for years or even indefinitely. It remains there until replacement by contradictory information through a process called interference.

Consumers are bombarded with promotional messages. Marketers hope that the more often their brand name is seen, the more likely consumers will be to process information about it.

## Attitudes

An attitude is a positive or negative feeling about an object (say, a brand) that predisposes a person to behave in a particular way toward that object.

Attitudes are often described as consumer preferences – a like or dislike for products or their characteristics. Marketers usually think of attitudes as having three components: cognitive, affective and behavioural. The cognitive aspect refers to knowledge about product attributes that are not influenced by emotion. The affective component relates to the emotional feelings of like or dislike. The behavioural element reflects the tendency to act positively or negatively. In other words, attitudes toward purchasing a product are a composite of what consumers know about its attributes.

Generally, marketers use their knowledge of consumer attitudes to make sure that strategies are consistent with consumer tastes and preferences. From time to time, marketers attempt to change consumer attitudes, usually by influencing one of the three components.

## Sociodemographic variables

### Age/social class/demographics

The consumer's age category has a major impact on spending behaviour. For example, older consumers choose more products related to medical care and travel, and choose fewer products in home furnishings and clothing than do younger age groups; the presence of young children obviously affects the purchasing of a variety of goods and services. Teenagers spend a great deal of money on films, soft drinks and fast foods, for example.

The world population will continue to grow. The trend has occurred for two reasons. One is the lowering of the death rate, and the other is ageing 'baby boomers'. The **baby boom** is the name for the tremendous increase in births that occurred in most Western countries between 1946 and 1965, the 20 years following the Second World War. The generation born between 1965 and 1976 is often called Generation X. Generation X is smaller than the baby boom generation, but they are expected to overtake baby boomers as a primary market for many product categories at the beginning of this millennium. Another group of consumers came into being between 1977 and 1995, when adult baby boomers began having children, creating an 'echo' of the baby boom. The oldest members of this group are in their early thirties. We will use the term Generation Y for this group. They are growing up very accustomed to computers and the Internet.

Marketers increasingly look at social class from a global perspective. In some societies – such as India and Brazil – class distinctions are clear, and status differences are great. In others – such as Denmark and Canada – differences are less extreme. In countries with strong class differences, where people live, the cars they drive, the types of clothing they wear, how much they travel and where they go to college are largely determined by social class.

In a country with a more homogeneous class structure, such as Sweden or Denmark, it is not uncommon for executives from all levels to work as a team so, for example, Americans of various ranks are accepted as well.

### Lifestyles

Two people of similar age, income, education, and even occupations do not necessarily live their lives in the same way. They may have different opinions, interests and activities. As a result, they are likely to exhibit different patterns of behaviour – including buying different products and brands and using them in different ways for different purposes. These broad patterns of activities, interests and opinions – and the behaviours that result – are referred to as lifestyles. To obtain lifestyle data, consumers are asked to indicate the extent to which they agree or disagree with a series of statements having to do with such things as price consciousness, family activities, spectator sports, traditional values, adventurousness and fashion. Lifestyle topologies have been developed by researchers in other countries.

### Culture/subculture

Culture has perhaps the most important influence on how individual consumers make buying decisions. Culture is the set of beliefs, attitudes and behaviour patterns shared by members of a society and passed on from one generation to the next. Cultural values and beliefs tend to be relatively stable over time, but they can change from one generation to the next in response to changing conditions in society.

#### Baby boom

The major increase in the annual birth rate following the Second World War and lasting until the early 1960s. The 'baby boomers', now moving into middle age, are a prime target for marketers.

Cultural differences create both problems and opportunities for international marketers, particularly for such products as food and clothes. By taking cultural values into account, companies adjust to the particular customs of people in different countries. Values are the shared norms about what it is right to think and do. They reflect what society considers to be worthy and desirable. Marketers need to understand values so their actions are not counter to what consumers in a given market consider to be acceptable.

### Subculture

A group within a dominant culture that is distinct from the culture. Members of a subculture typically display some values or norms that differ from those of the overall culture.

A **subculture** is a group of people with shared values within a culture. There are many groups of people in the USA (e.g. Hispanics and Jews) who share common geographic, ethnic, racial or religious backgrounds. They continue to hold some values, attitudes and behaviour patterns that are uniquely their own.

### Reference groups/family

All consumers live with, depend on and are nurtured by other people. We influence and are influenced by those with whom we have frequent contact – friends, colleagues and family members. We are also influenced by people we know only indirectly through the mass media.

Reference groups are people whose norms and values influence a consumer's behaviour (Kotler, 2000).

### The family

The family is especially important to marketers because it forms a household, which is the standard purchase and consumption unit.

How does the family make buying decisions? Here the marketers generally look at three important aspects.

- 1 How do families make decisions as a group?
- 2 What roles can various members play in a purchase decision?
- 3 How does family purchase behaviour change over time?

In research on families of European descent Lee and Collins (2000) found that several coalitions emerged in family decisions.

In particular, fathers and daughters appeared to work together, especially older daughters (aged between 12 and 19). However, this coalition was weakened when there were two daughters in the family, as the daughters seemed to side with their mother against the only male in the family. Also mothers and sons seemed to work best together, particularly when there were two sons in the family. There is also evidence that this coalition was strong where it was a son who was the oldest child. It seemed to be the older daughters who were the key players in this family interaction.

The marketing implications of Lee and Collins (2000) are as follows. In order to increase the effectiveness of promotional campaigns towards families, marketers must examine the relative influence of family members at each stage of the decision-making process for each product category under consideration. It is suggested that segmentation of some family markets on the basis of the type of household structure and demographics may also be useful. Further, during the development of promotional campaigns, marketers may wish to direct messages regarding decision making to family members who dominate particular stages of the decision process.

The influence of various family members varies substantially across countries. Generally speaking, the more traditional the society, the more men hold the power. In the more egalitarian countries – such as the Scandinavian countries – decisions are more likely to be made jointly. As women become better educated and have more buying power in Europe and Japan, more **joint decisions** will happen.

Not all families consist of a mother, a father and children. Some households consist of only one person, or several non-relatives, or a single parent with children (see Exhibit 4.1).

### Joint decisions

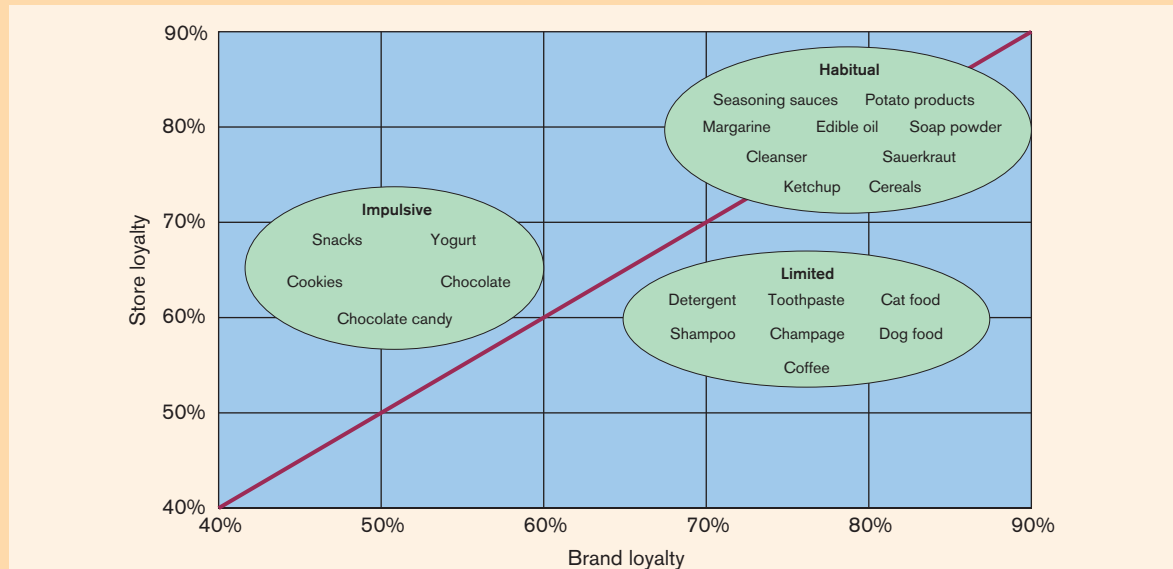
Decisions made that are shared by all or some members of a group. Often, one decision maker dominates the process.



**EXHIBIT 4.1****Example of loyalty: store loyalty versus brand loyalty**

The following data is based on a household panel survey by GfK Nürnberg.

Many consumers describe themselves as more store loyal than brand loyal. Figure 4.8 shows both. Brand loyalty is drawn on the x-axis and is measured as the share of all purchases within a product group taken by the most preferred brand. Store loyalty is measured similarly, as the number of visits to the most preferred outlet expressed as a proportion of all shopping trips undertaken for any one product category.

**Figure 4.8**

**Intensity of brand and store loyalty for fast moving consumer goods**

Source: Hennig-Thurau, T. and Hansen, U. (2000) *Relationship Marketing: Gaining Competitive Advantage Through Customer Satisfaction and Consumer Retention*, Springer Verlag, Berlin-Heidelberg, p. 37. Reproduced with permission.

Above the bisecting line, store loyalty is higher than brand loyalty, and this case applies above all to product categories where impulse buying is very common: sweets, snack products, yoghurts, chocolates etc. Nevertheless, brand loyalty in these product categories is still relatively high, at around 50 per cent. Very high rates for brand loyalty can be seen for products like cereals, soups, potato products, sauces, dog food, coffee and other products typically purchased repeatedly; loyalty rates reach 80 per cent and higher. Brand loyalty for these products is generally a little bit higher than store loyalty, but all in all we have to conclude that loyalty is a widespread phenomenon.

Source: Adapted from Hennig-Thurau and Hansen (2000), p. 37.

## Family life cycle (FLC)

### Family life cycle

A series of time stages through which most families pass.

The **family life cycle** describes the progress a household makes as it proceeds from its beginning to its end. Each stage reflects changes in a unit's purchasing needs and, hence, the difference in expenditure patterns – for instance, young married couples without children (DINKs = double income no kids) are often very affluent because both spouses work. They are a major market for luxury goods, furniture, cars and vacations (Weiss, 2000).

Dent (1999) describes how every generation of consumers makes predictable purchases over the course of their lifetime. At age 47, consumers finally reach their spending peak, after

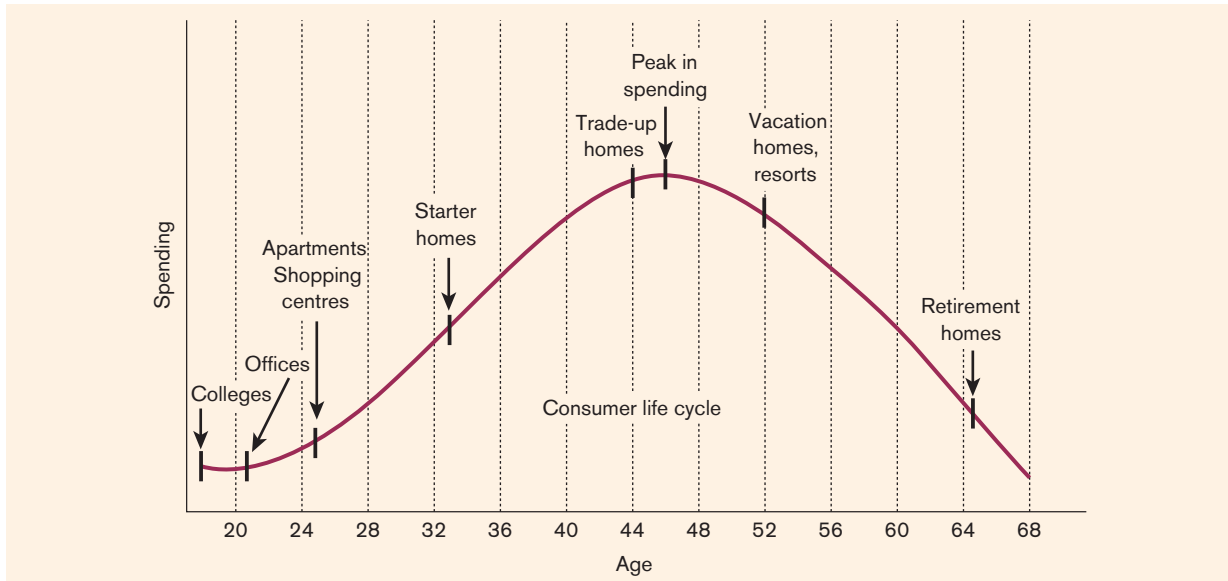


Figure 4.9

Key consumer expenditure/investment

which children leave home and family spending declines. Fortunately, investors can capitalise on this spending curve by matching large generational cohorts to their anticipated behaviour in the marketplace (see also Figure 4.9).

## Social networks

A social network is a collection of interconnected people.

Social networks comprise points (people and potential customers) and connections between those points. These connections may be manifested in many different forms. Examples include

- e-mail exchange
- SMS exchange
- purchases
- telephone calls.

Today online social network services are very popular. They focus on building online communities of people who share interests and/or activities, or who are interested in exploring the interests and activities of others. Most social network services are Web based and provide a variety of ways for users to interact, such as e-mail and instant messaging services.

Social networking has encouraged new ways to communicate and share information. Social networking websites are being used regularly by millions of people.

The main types of social networking services are those which contain category divisions (such as former school-year or classmates), means to connect with friends (usually with self-description pages) and a recommendation system linked to trust. Popular methods now combine many of these, with Facebook, MySpace, Twitter and LinkedIn widely used worldwide.

So now that we have identified the possible social network models, what is the next step?

The second step is isolating those network members worth investing our marketing efforts in. In other words, out of the potential customer base, we need to determine who the opinion leaders are.

### Identifying opinion leaders

Opinion leaders are network members regarded as having relevant knowledge, and who are probably the first ones to be consulted in regards to purchasing decisions.

Usually, most opinion leaders possess one or more of the following characteristics:

- part of a social network
- good communicators
- usually **early adopters** of products or services
- information hungry.

#### Early adopter

A member of the group of consumers who purchase a product soon after it has been introduced, but after the innovators have purchased it.

There are different technological tools that can help identify the opinion leaders among our customers.

Now that we have identified the opinion leaders and their connections within the social network, we can divert all of our marketing efforts to focus on those specific customers, assuming that they, in turn, will spread the word to other network members. This way, we can reduce marketing costs and refocus our resources more effectively.

Once we fully understand the social networks surrounding us and learn to identify the opinion leaders within those networks, we will be able to establish suitable marketing strategies that will spontaneously produce word-of-mouth marketing.

Additionally, we will also be able to allocate our financial resources towards strengthening connections with opinion leaders and recruit them as advocates for our business (Doyle, 2007).

### EXHIBIT 4.2

#### Brand-switching strategy in times of recession – the case of Skoda Superb



In a tough economic climate, consumers are less willing to spend on expensive items such as cars and homes. But Volkswagen-built brand Skoda is hoping that the 'switch' strategy for its new model, the Superb, will encourage consumers who would normally buy more pricey car brands to try a Skoda instead. The first generation of Skoda Superbs dates back to another global period of economic depression – the 1930s. They initially sold well, although the poor reputation of the Skoda brand in many countries, where it was seen as unreliable, persisted – until an ad campaign in the late 1990s persuaded consumers to laugh at their own pre-conceptions about the brand. Today, Skoda is the type of car brand that will fit well with consumer desires for cheaper products in a depressed economic environment. It has a well-established value proposition because it is competently built with good technology, thanks to its association with Volkswagen. A Skoda is a car that is great value for money, a recession may not affect its sales as badly as more upper to middle mass-market brands. It is aiming to get consumers switching from brands such as Ford or Honda.

Source: Adapted from Hosea (2008).

## 4.4 ORGANISATIONAL B2B DECISION MAKING

The marketing of goods and services to other businesses, governments and institutions is known as business-to-business marketing. It includes everything but direct sales to consumers. The products are marketed from one organisation to another, until the one at the end of the chain sells to the final consumer.

Organisational markets consist of all individuals and organisations that acquire products and services which are used in the production of products and services demanded by others. The demand for most products and services arises because of a **derived demand** for

#### Derived demand

Demand for a product that depends on demand for another product.

the finished products and services that the company produces. About half of all manufactured goods in most countries are sold to organisational buyers.

The market behaviour, which affects the demand for industrial products and services, is generally quite different from that experienced in consumer markets. The differences arise mainly in regard to the behaviour of industrial buyers, the types of product and service purchased, and the purposes for which they are purchased.

Buying is performed by all organisations: manufacturing firms, service firms and not-for-profit organisations in the public and private sectors. Organisational buying is a complex process, which may be divided into a number of stages taking place over time. People with different functional responsibilities are usually involved in the industrial buying process. Their influence varies at the different stages, depending on the product or service being purchased. In broad terms, organisational buying is influenced by factors in the environment, by the nature and structure of the organisation itself and by the way the buying centre in the company operates.

There is a strong correlation between the level of a country's economic development and its demand for industrial goods and services. Thus, countries with a basically agrarian economy demand mainly farm equipment and supplies plus public sector purchases including military equipment and supplies. This is in contrast with highly developed countries, which are strong markets for high-technology products.

## Identifying buyers in organisational markets

Buyers in organisational markets are typically manufacturers, intermediaries or customers in the public sector. To identify them it may be necessary to segment the market.

### Manufacturers as customers

Manufacturers buy raw materials, components and semi-finished and finished items to be used in the manufacture of final goods. Manufacturers tend to be concentrated in particular areas of a country, and hence may more easily be served than consumer markets where the population is dispersed. Furthermore, buying power for certain products tends to be concentrated in a few hands, since a few manufacturers frequently account for most of the production of specific industrial products.

### Intermediate customers (resellers)

Intermediate customers are organisations which buy and sell to make a profit. They are sometimes referred to as resellers. Normally they make very few changes to the products handled. **Wholesalers** and retailers are the largest intermediaries in this market, but other specialised distributors also exist, which may also provide additional services.

Intermediate customers are also concerned with the derived demand further down the distribution channel for the products they carry. They are particularly concerned about product obsolescence, **packaging** and inventory requirements, since all three variables are important considerations in their financial well-being.

### Public sector markets

The public sector market is in reality myriad markets. It consists of institutional markets such as schools, hospitals, prisons and other similar public bodies. It also consists of direct sales to government departments such as the health service and education departments. In most countries with an active public sector, the annual budgets of many of these institutions can be larger than the expenditure of organisations in the private sector.

### Public sector tendering procedures

Many different purchasing terms are used in public sector purchasing, but it is possible to establish two broad categories of these. The first category contains terms refer to the extent of

#### Wholesaler

An organisation or individual that serves as a marketing intermediary by facilitating transfer of products and title to them. Wholesalers do not produce the product, consume it or sell it to ultimate consumers.

#### Packaging

An auxiliary product component that includes labels, inserts, instructions, graphic design, shipping cartons, and sizes and types of containers.

the publicity given to a particular public sector tender or contract, while the second category contains terms based on the discretion available to the awarding authority within the public service itself.

Where it is judged that many suitable qualified suppliers exist, the publicity given to a particular tender notice is widespread. The opposite is the case where the number of potentially suitable suppliers is limited. Three tendering procedures, each implying a different level of publicity, may be identified:

- open tendering
- selective tendering
- private contracting.

*Open tendering procedures* arise when an invitation to tender is given the widest publicity. In this situation, an unlimited number of suppliers have the opportunity of submitting bids. *Selective tendering procedures* occur when the invitation to tender is restricted to a predetermined list of suppliers. In this case, the invitation to tender normally takes the form of invitations sent to these suppliers. *Private contracting procedures* refer to the situation where the awarding authority contacts suppliers individually, usually a single supplier.

## Buying situations

B2B buying behaviour is influenced by two overall organisational considerations. Organisations that have significant experience in purchasing a particular product will approach the decision quite differently from first-time buyers. Therefore, attention must centre on buying situations rather than on products. One firm may see the purchase of a new computer as a new task because of the firm's lack of experience in this area, whereas another firm may see the same situation as a **modified rebuy**. Therefore, a marketing strategy must begin with identifying the type of buying situation the buying firm is facing.

Three types of buying situations have been delineated: new task, modified rebuy and **straight rebuy**.

### New-task buying

This occurs when an organisation faces a new and unique need or problem – one in which buying centre members have little or no experience in buying and, thus, must expend a great deal of effort to define purchasing specifications and to collect information about alternative products and vendors. Each stage of the decision-making process is likely to be extensive, involving many technical experts and administrators. The supplier's reputation for meeting delivery deadlines, providing adequate service and meeting specifications is often a critical factor in selling a product or service to an organisation for the first time. Because the buying centre members have limited knowledge of the product or service involved, they may choose a well-known and respected supplier to reduce the risk of making a poor decision.

When confronting new task buying, organisational buyers operate in a stage of decision making referred to as extensive problem solving. The buyers and decision makers lack well-defined criteria for comparing alternative products and suppliers, but they also lack strong predispositions towards a particular solution.

### A modified rebuy

This occurs when the organisation's needs remain unchanged, but buying centre members are not satisfied with the product or the supplier they have been using. They may desire a higher-quality product, a better price or a better service. Here buyers need information about alternative products and suppliers to compare with their current product and vendor. Modified rebuys present good opportunities for new suppliers to win an organisation's business if they can offer something better than the firm's current vendor.

#### Modified rebuy

A purchase where the buyers have experience in satisfying the need, but feel the situation warrants re-evaluation of a limited set of alternatives before making a decision.

#### Straight rebuy

A type of organisational buying characterised by automatic and regular purchases of familiar products from regular suppliers.

**Limited problem solving**

An intermediate level of decision making between routine response behaviour and extensive problem solving, in which the consumer has some purchasing experience, but is unfamiliar with stores, brands or price options.

**Limited problem solving** best describes the decision-making process for the modified rebuy. Decision makers have well-defined criteria, but are uncertain about which suppliers can best fit their needs. In the consumer market, college students buying their second computer might follow a limited problem-solving approach.

**A straight rebuy**

This involves purchasing a common product or service the organisation has bought many times before. Such purchases are often handled routinely by the purchasing department with little participation by other departments. Such purchases are almost automatic, with the firm continuing to purchase proven products from reliable, established vendors. In straight rebuy situations, all phases of the buying process tend to be short and routine. Even so, when large quantities are involved, the need for quality assurance, parity pricing and on-time delivery to minimise inventory requires a competent salesforce to help the supplier maintain a continually satisfying relationship with the buyer over time. Indeed, the rapid spread of computerised reordering systems, logistical alliances and the like have made the development and maintenance of long-term relationships between suppliers and their customers increasingly important in the purchase of familiar goods and services.

For routine purchases or straight rebuys, the Internet is being used to streamline the purchasing process. To this end, firms are adopting electronic (e) procurement systems, joining trading communities or turning to electronic marketplaces that have been designed specifically for their industry (for example, buying steel in the car industry).

Routine problem solving is the decision process organisational buyers employ in a straight rebuy. Organisational buyers have well-developed choice criteria to apply to the purchase decision. The criteria have been refined over time as the buyers have developed predispositions toward the offerings of one or a few carefully screened suppliers.

**The buy grid model**

The buying process always begins when someone in the organisation recognises a problem that can be solved by a purchased product or service (Figure 4.10: the extended **buy grid model**). Sometimes the problem is nothing more than the company running out of regularly purchased items, in which case the purchasing professional determines the quantity needed and reorders the product or service. This would be a straight rebuy situation. Recognising the problem (stage 1), determining the product and quantity (stage 3), and evaluating the performance of the product or service (stage 8) are found in all three types of buying situation. Therefore, a minimum of three stages is found in all organisational purchases.

The new task situation is the most complex buying situation and therefore involves all eight buying stages. As we go to the right of Figure 4.10 some of the buying stages are left out because of the reduced complexity of the buying situation. We find the least number of buying stages in straight rebuy.

Figure 4.10 also suggests that some activities at each stage and their execution differ. More people are involved in organisational purchase decisions; the capability of potential suppliers is more critical; and the post-purchase evaluation process is more formalised. We will examine other unique features of each stage of the organisational purchase decision process next.

**1 Recognition of a problem or need**

The organisational purchasing process starts when someone in the firm recognises a need that can be satisfied by buying some product or service. Thus, while consumers may buy things impulsively to satisfy psychological or social needs, most organisational purchases are motivated by the needs of the firm's production processes and its day-to-day operations.

An organisation's demand for goods and services is a derived demand, which, as we noted earlier, comes from its customers' demands for the goods and services it produces. Fluctuations in economic conditions can produce change in the sales of an organisation's

**Buy grid model**

The organisational buying process – consisting of eight buying stages – can be mapped like a grid, where the other dimension is the complexity of the buying (new task, modified rebuy and straight rebuy).



Characteristics	Buying situation		
	New task	Modified rebuy	Straight rebuy
<b>Buying stages</b>			
1 Recognition of a problem/need	Always	Always	Always
2 Determination of characteristics and quantity of needed products/services	Always	Sometimes	Never
3 Determination of the product/service desired and quantities needed	Always	Always	Always
4 Search for potential suppliers and preliminary evaluation of their suitability	Always	Sometimes	Never
5 Acquisition and initial analysis of proposals (samples) from suppliers	Always	Sometimes	Never
6 Evaluation of proposals and selection of supplier(s)	Always	Sometimes	Never
7 Selection of an order routine	Always	Sometimes	Never
8 Performance, review, feedback and evaluation	Always	Always	Always
<b>Importance of buying decision</b>	High	←————→	Low
<b>Degree of interaction between buyer and seller</b>	High	←————→	Low
<b>Number of criteria used in supplier selection</b>	Many	←————→	Few

Figure 4.10

The extended buy grid model

Sources: Adapted from De Boer, *et al.* (2001) and Robinson, *et al.* (1967).

goods or services, which in turn can result in rapid changes in production schedules and in accumulations or depletions in the firm's materials and parts inventories. As a result, the organisation's purchase requirements for materials and parts can change dramatically in a short time.

In some cases, need recognition may be almost automatic, as when a computerised inventory control system reports that an item has fallen below the reorder level or when a piece of equipment wears out. In other cases, a need arises when someone identifies a better way of carrying out day-to-day operations. For example, a production engineer might recommend the purchase of a new machine that would increase production and thus reduce costs.

Changes in the company's strategy, resulting in a need for producing a new product line, may also result in a 'new-task' buying situation. Needs then may be recognised by many people within the organisation, including users, technical personnel, top management and purchasing agents.

Instead of simply monitoring inventories and reordering when they run low, some firms attempt to forecast future requirements so as to plan their purchases in advance.

Requirements planning governs the purchase of raw materials and fabricating components as well as supplies and major installations. One result of such planning is the signing of long-term purchase contracts, particularly for products projected to be in short supply or to a projected increase in price. Requirements planning can also lead to lower costs and better relations between a buyer and their suppliers.

## 2 Determination of characteristics and quantity of needed product or service

The need for particular goods and services is usually derived from a firm's production or operation requirements and, therefore, must meet specific technical requirements. Technical experts from the firm's R&D, engineering and production departments are thus often involved early in the purchase decision. When the firm needs a unique component or piece of equipment, it might even seek help from potential suppliers in setting the appropriate specifications. For example, car manufacturers consult their parts suppliers before finalising other specifications for a new model. Indeed, as we have seen, B2B marketers increasingly involve major customers in the process of developing new products and product improvements to help ensure that those items will meet the needs and specifications of potential buyers.

## 3 Determination of the product or service desired and quantities needed

When specifications for the desired product or service are to be determined, purchasing (and possibly other departments) may perform a value analysis. This systematic appraisal of an item's design, quality and performance requirements helps to minimise procurement costs. It includes an analysis of the extent to which the product might be redesigned, standardised or processed using cheaper production methods. A cost analysis that attempts to determine what the product costs a supplier to produce is also a part of a value analysis. Such information helps the purchasing agent better evaluate alternative bids or negotiate favourable prices with suppliers.

Sometimes a firm has the option of making some components or performing some services internally ('make'), or buying them from outside suppliers (outsourcing). See also section 3.8 for a further discussion of outsourcing.

Economic considerations typically dominate such decisions, although in the long term other factors may be important (for instance, overdependence on a single supplier).

## 4 Search for potential suppliers and preliminary evaluation of their suitability and qualifications

Once the specifications and workable solutions have been determined and precisely described, the buying organisation searches for alternative sources of supply. Here the purchasing department can exercise much influence as it provides most of the data for possible vendor sources. Figure 4.11 illustrates a process for screening potential suppliers.

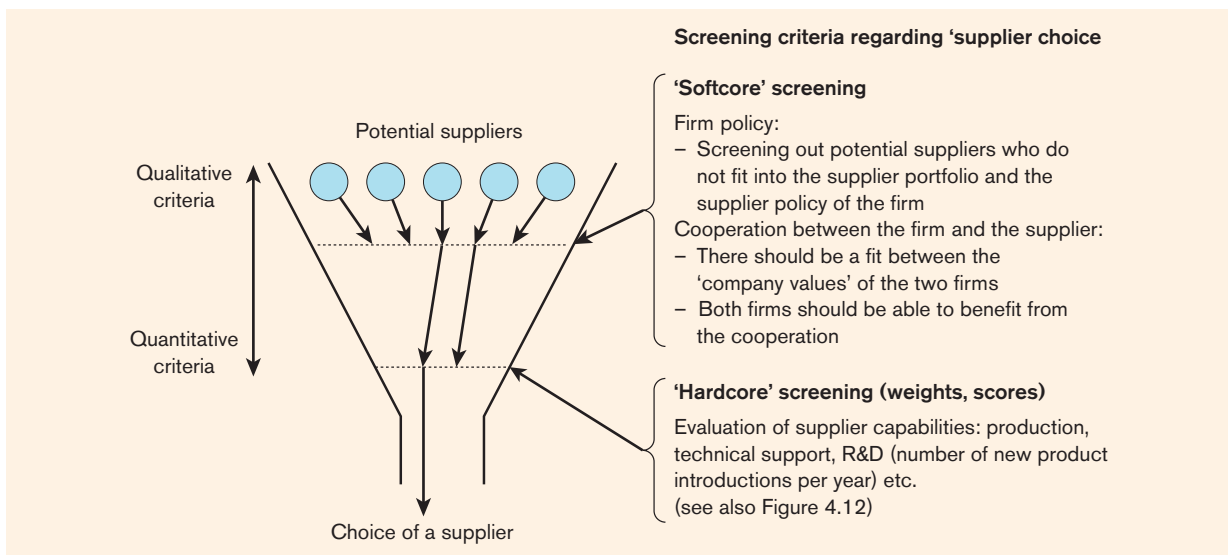


Figure 4.11

Screening of potential suppliers

**Trade show**

A meeting or convention of members of a particular industry where business-to-business contacts are routinely made.

If new potential suppliers are involved, the purchasing department typically engages in an in-depth investigation before qualifying that firm as a potential supplier. Such an investigation would include information such as the firm's finances, reputation for reliability and the ability to meet quality standards, information that can be obtained from personal sources (such as salespeople, **trade shows**, other firms and consultants) and non-personal sources including catalogues, advertising and trade literature.

For existing suppliers the firm may evaluate the performance quite frequently, and there is often considerable information about that supplier's quality of performance on file.

### 5 Acquisition and initial analysis of proposals (samples) from suppliers

Requests for specific proposals are made to qualified vendors in this phase. In a straight rebuy situation, the buyer may simply contact the chosen vendor to obtain up-to-date information about prices, delivery times and mode of shipment, so phases 4 and 5 may be skipped. For modified rebuys, more time might be spent on the analysis of the proposals submitted. New-task buys probably would take the most time and months may go by before a final decision is made.

### 6 Evaluation of proposals and selection of supplier(s)

Like individual consumers, organisational buyers evaluate alternative suppliers and their offerings by using a set of choice criteria reflecting the desired benefits. The criteria used and the relative importance of each attribute vary according to the goods and services being purchased and the buyer's needs. Always important is the supplier's ability to meet quality standards and delivery schedules. Price is critical for standard items such as steel desks and chairs, but for more technically complex items, such as computers, a broader range of criteria enters the evaluation process and price is relatively less important.

The various potential suppliers and their proposals are then analysed to determine which vendor or vendors can best match the product or service specifications and the desired price and delivery requirements. Subsequent negotiations may be needed to produce the desired results relative to prices, delivery and long-term commitment or other aspect of the vendor's proposal. Personal tastes and personalities cannot be ruled out, but the company that is well liked and can give the customer the best overall product and service will generally win the order, plus the strong possibility of a long-term partnering relationship.

Another factor that can influence the selection of suppliers is reciprocity, which occurs when an organisation favours a supplier that is a customer or potential customer for the organisation's own products or services. Although this situation sometimes causes inappropriate bonds between buyer and supplier, it can also develop into a rewarding long-term partner relationship. An example of Chrysler's supplier evaluation is given in Figure 4.12.

### 7 Selection of an order routine

After the selection of supplier, orders are forwarded to the vendor, and status reports are sent to the user department. The inventory levels will be established, and the just-in-time routines will be determined, if such a possibility exists. The user department views this phase as just the beginning. Delivery, set-up and training, if necessary, will then happen.

A good proportion of all industrial buying involves a purchasing contract. This streamlines the buying decision, making it a straight rebuy situation.

Contracts such as these enable a firm to standardise its purchasing activities across many locations. They can also introduce cost savings through scale economies (quantity discounts) and a reduction in paperwork. One problem with long-term legal contracts, though, is that they must specify precisely all the details of a purchase agreement, including product specifications, prices, credit terms, etc. But, in today's rapidly changing economic and technical environments, it can be difficult for the parties to foresee accurately what their needs and market conditions will be like months or years into the future. And it can be difficult to adjust

Supplier name _____ Shipping location _____		Type of product _____ Annual sales dollars _____				
	5 Excellent	4 Good	3 Satisfactory	2 Fair	1 Poor	0 N/A
<b>Quality (45%)</b>						
Defect rates	_____	_____	_____	_____	_____	_____
Quality of sample	_____	_____	_____	_____	_____	_____
Conformance with quality programme	_____	_____	_____	_____	_____	_____
Responsiveness to quality problems	_____	_____	_____	_____	_____	_____
Overall quality	_____	_____	_____	_____	_____	_____
<b>Delivery (25%)</b>						
Avoidance of late shipments	_____	_____	_____	_____	_____	_____
Ability to expand production capacity	_____	_____	_____	_____	_____	_____
Performance in sample delivery	_____	_____	_____	_____	_____	_____
Response to changes in order size	_____	_____	_____	_____	_____	_____
Overall delivery	_____	_____	_____	_____	_____	_____
<b>Price (20%)</b>						
Price competitiveness	_____	_____	_____	_____	_____	_____
Payment terms	_____	_____	_____	_____	_____	_____
Absorption of costs	_____	_____	_____	_____	_____	_____
Submission of cost savings plans	_____	_____	_____	_____	_____	_____
Overall price	_____	_____	_____	_____	_____	_____
<b>Technology (10%)</b>						
State-of-the-art-components	_____	_____	_____	_____	_____	_____
Sharing R&D capability	_____	_____	_____	_____	_____	_____
Ability and willingness to help with design	_____	_____	_____	_____	_____	_____
Responsiveness to engineering problems	_____	_____	_____	_____	_____	_____
Overall technology	_____	_____	_____	_____	_____	_____
Buyer _____ Date _____						
Comments _____						

**Figure 4.12** An example of supplier evaluation (Chrysler Corporation)

Source: Boyd, H. W., Walker, Jr, O. C., Mullins, J. W. and Larreche, J.-C. (1998) *Marketing Management*, 3rd ed., McGraw-Hill, New York, p. 133. Reproduced with permission from The McGraw-Hill Companies.

the terms of a contract in response to unforeseen product improvements, market conditions or cost improvements. Such inflexibility is one reason for the recent popularity of more informal relationships and alliances between suppliers and their major customers – relationships based more on flexibility and trust between the parties than on detailed legal contracts.

### 8 Performance review, feedback and evaluation

When a purchase is made and the goods delivered, the buyer’s evaluation of both product and supplier begins. The buyer inspects the goods on receipt to determine whether they meet the required specifications. Later, the department using the product judges whether it performs to expectations. Similarly, the buyer evaluates the supplier’s performance on promptness of delivery and post-sales service.

In this phase the user department determines whether the purchased item has solved the original problem. Because this time can be a difficult phase for the vendor (since some of the

variables are not completely controlled by the vendor), it behoves the buying organisation to analyse the performance and provide feedback to all the interested parties for further evaluation. Feedback that is critical of the chosen vendor can cause the various members of the decision-making unit to re-examine their views. When this re-examination occurs, views regarding previously rejected alternatives become more favourable.

In some organisations this process is done formally, with written reports being submitted by the user department and other persons involved in the purchase. This information is used to evaluate proposals and select suppliers the next time a similar purchase is made. This formal evaluation and feedback process enables organisations to benefit from their purchasing mistakes and successes.

In other organisations (especially in SMEs with limited personnel resources) step 8 is done more informally.

The steps in the buying process described above apply primarily to 'new task' purchases, where an organisational customer is buying a relatively complex and expensive product or service for the first time. At the other extreme is the 'straight rebuy', where a customer is re-ordering an item it has purchased many times before (office supplies, bulk chemicals). Such repeat purchases tend to be much more routine. Straight rebuys are often carried out by members of the purchasing department with little participation by other employees, and many of the activities involved with searching for and evaluating alternative suppliers are dropped. Instead, the buyer typically chooses from among suppliers on an 'approved' list, giving weight to the company's past satisfaction with those suppliers and their products and services.

From the seller's viewpoint, being an approved supplier can provide a significant competitive advantage, and policies and procedures should be developed to help maintain and develop such favoured positions with current customers. Many firms have developed key account management programmes (see p. 373) and cross-functional customer service teams to help preserve the long-term satisfaction of their largest customers. Also, suppliers are offering new technologies – such as Internet-based reordering systems – and forming alliances with their customers to help them make their reordering process more efficient while simultaneously increasing the likelihood they will continue to reorder from the same supplier.

For potential suppliers not on a buyer's approved list, the strategic marketing problem is more difficult. A non-approved supplier's objective must be to move the customer away from the automatic reordering procedures of a straight rebuy towards a situation where the buyer is willing to consider new suppliers.

### Kraljic's purchasing model

The purchasing function has a substantial impact on the total cost to a firm and thereby on the potential profit. Choosing the right suppliers has become increasingly important as they account for a large part of the value creation related to the buying firm's products and services. Thus, managing the firm's supplier base is becoming an essential strategic issue. Kraljic's (1983) model aims at matching external resources provided by suppliers with the internal needs of the buying firm.

In this portfolio, the perceived importance and complexity of a purchasing situation is identified in terms of two factors: profit impact and supply risk (Figure 4.13). Profit impact includes such elements as the (expected) monetary volume involved with the goods and/or services to be purchased and the impact on (future) product quality. Indicators of supply risk may include the availability of the goods or services under consideration and the number of potential suppliers. Depending on the values of these factors, purchases (and therefore the related supplier selection decisions) can be grouped according to Kraljic's classification into strategic, bottleneck, leverage and routine purchases.

Let us try to relate the buying situation in the buy grid model (Figure 4.10) to the four categories in Kraljic's model (Figure 4.13).

	Low supply risk/low complexity	High supply risk/high complexity
Low profit impact/low value added	<b>Routine items</b> Many suppliers Rationalise purchasing procedures Systems contracting Automate/delegate	<b>Bottleneck items</b> Monopolistic supply market Long-term contracts Develop alternatives (internally) Contingency planning
High profit impact/high value added	<b>Leverage items</b> Many suppliers available Competitive bidding Short-term contracts Active sourcing	<b>Strategic items</b> Few (difficult to switch) suppliers Medium/long-term contracts Supplier development/partnership (develop alternatives externally) Continuous review

Figure 4.13

## Supplier selection model

Sources: Adapted from De Boer, *et al.* (2001) and Kraljic (1983).

Leverage items typically involve modified rebuy situations. There are many suppliers to choose from while the high value (and saving potential) of the items justifies a proactive search and frequent selection of suppliers. However, the execution of the first steps in the process (problem definition, formulation of criteria and prequalification) is often decoupled from the final choice. The first three steps result in the so-called approved vendor lists. Final (frequent) choices are made from these approved vendor lists.

In case of a routine item, there are many suppliers that could supply the item. However, because of the low value of the item, it will not pay off for the firm to search frequently for and select suppliers. Moreover, usually a whole set of related routine items (e.g. stationery) is assigned to one (or two) suppliers in order to achieve a highly efficient ordering and administration procedure. The choice of the supplier is fixed for a reasonable period of time. Intermediate changes in the desired or required items are dealt with by the current supplier. Irrespective of such specific changes in the items requested and/or actually purchased, the appropriateness of the supplier is typically reconsidered periodically and if necessary a new (adaptive) selection will take place.

In case of bottleneck and strategic items, the choice of the supplier is also more or less fixed. Small changes in the specification of the items are automatically dealt with by the existing supplier. However, the reason for this is very different from that in the routine case. In these cases with a high supply risk, there are virtually no suppliers to choose from immediately, either because of a unique specification (i.e. a very strong resource tie between the buying company and the supplier) or because of the scarcity of the material. As a result, the choice set is often much smaller. Decision models are primarily used as means for periodic evaluation (monitoring) of the existing supplier.

The framework implicitly also addresses the impact of (inter-firm) relationships between the buyer and the seller on the selection process and the use of decision models. Depending on the substance and the strength of the relationship, the nature of the decision alternatives may differ. For example, in new task situations, where it is unlikely that the buying company has ever been in contact with the suppliers, the decision alternatives are primarily shaped by the offerings of these suppliers, i.e. the products or services they produce. In modified rebuys and especially in straight rebuys for strategic and bottleneck items, however, the interaction between buyer and supplier is likely to be more intense and relationships may have been going on for a long time.



## 4.5 INFLUENCES ON THE BUYING PROCESS

In this chapter we have already seen how the buying situation influences the B2B buying process.

The eight-stage model of the organisational buying process (Figure 4.14) provides the foundation for explaining other forces that influence a particular buying decision of an organisation. Figure 4.14 shows how **organisational buying behaviour** is influenced by four major categories of forces. The four major forces are:

### Organisational buying behaviour

The decision-making activities of organisational buyers that lead to purchases of products.

- 1 environmental forces (e.g. growth rate of the economy)
- 2 organisational forces (e.g. the size of the buying)
- 3 group forces (e.g. the influence of the buying centre)
- 4 individual forces (e.g. personal preferences).

### Environmental forces

A projected change in business conditions, a technological development or a new piece of legislation can drastically alter organisational buying plans. Such environmental influences define the boundaries within which buyer–seller relationships develop in the business market.

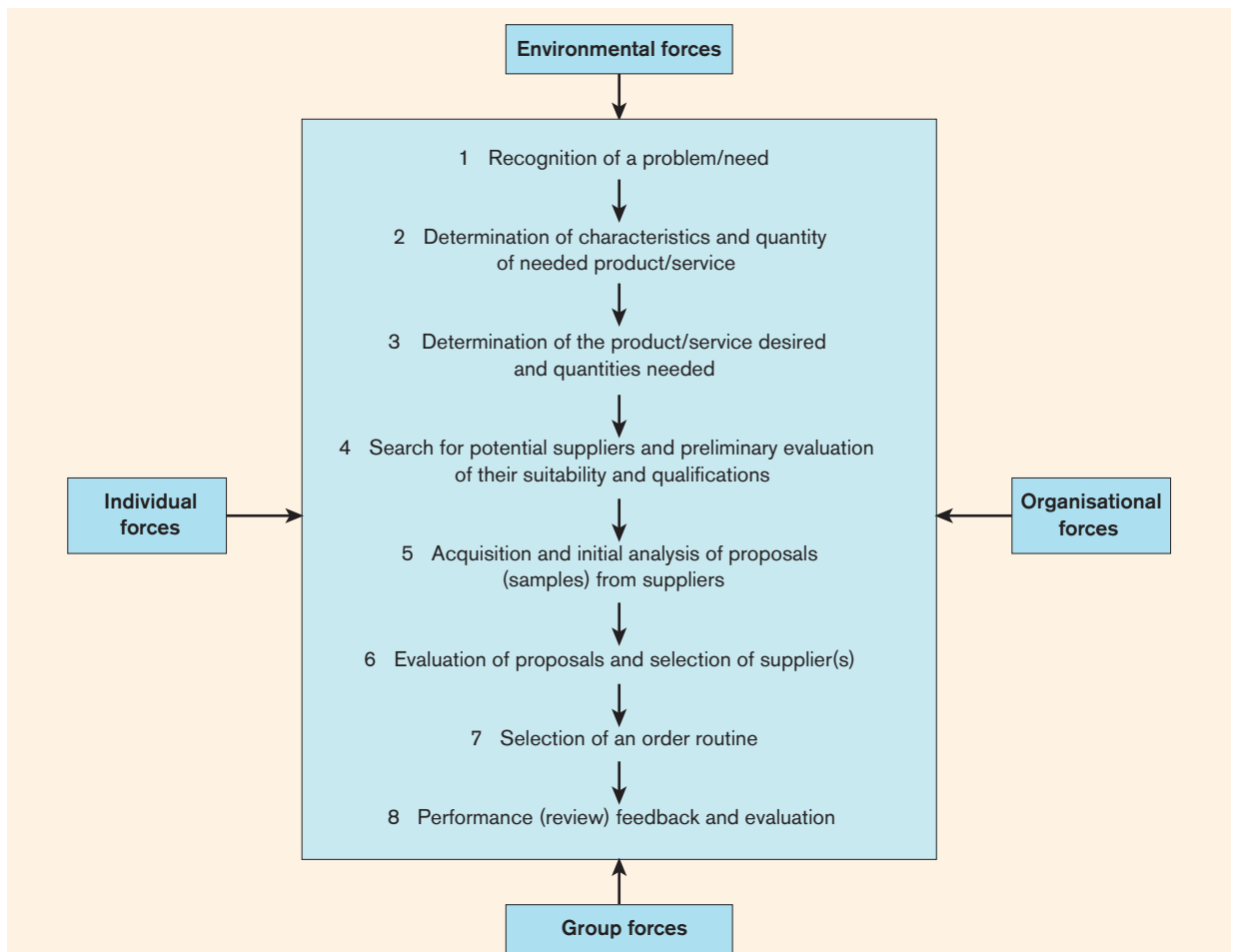


Figure 4.14

Forces influencing the organisational buying process

## Economic influences

Because of the derived nature of industrial demand, the marketer must also be sensitive to the strength of demand in the ultimate consumer market. The demand for many industrial products fluctuates more widely than the general economy. Firms that operate on a global scale must be sensitive to the economic conditions that prevail across regions. A wealth of political and economic forces dictate the vitality and growth of an economy.

The economic environment influences an organisation's ability and, to a degree, its willingness to buy. However, shifts in general economic conditions do not affect all sectors of the market evenly. For example, a rise in interest rates may damage the housing industry but may have minimal effects on industries such as paper, hospital supplies and soft drinks. Marketers that serve broad sectors of the organisational market must be particularly sensitive to the differential impact of selective economic shifts on buying behaviour.

## Technological influences

Rapidly changing technology can restructure an industry and dramatically alter organisational buying plans. Notably, the **Internet** and **e-commerce** have changed the way firms and customers (whether they be consumers or organisations) buy and sell to each other, learn about each other and communicate.

The marketer must also actively monitor signs of technological change and be prepared to adapt the marketing strategy to deal with new technological environments.

Because the most recent wave of technological change is as dramatic as any in history, the implications for marketing strategists are profound and involve changing definitions of industries, new sources of competition, changing **product life cycles** and the increased globalisation of markets.

## Organisational forces

An understanding of the buying organisation is based on the strategic priorities of the firm, the role that purchasing occupies in the organisation, and the competitive challenges that the firm confronts.

## Strategic solutions

Organisational buying decisions are made to facilitate organisational activities and to support the firm's mission and strategies. A business marketer who understands the strategic priorities and concerns that occupy key decision makers is better equipped to deliver the desired solution.

To provide such customer solutions, the business marketer requires an intimate understanding of the opportunities and threats that the customer is confronted with.

## Strategic role of purchasing

In many firms, purchasing strategy is becoming more closely tied to corporate strategy (Nellore and Söderquist, 2000). Compared to traditional buyers, recent research suggests that more strategically oriented purchasing managers are:

- more receptive to information and draw it from a wide variety of sources;
- more sensitive to the importance of longer-term supplier relationships, questions of price in relation to performance, and broader environmental issues;
- more focused on the competences of suppliers in evaluating alternative firms.

Moreover, these purchasing managers are evaluated on performance criteria that are more tightly linked to strategic performance.

### Internet

A worldwide network of interconnected computer networks that carry data and make information exchange possible.

### e-commerce

Electronic commerce or business dealings using electronic media, such as the Internet.

### Product lifecycle (PLC)

The course of a product's sales and profits over its lifetime. It involves five distinct stages: product development, introduction, growth, maturity and decline.

Given rising competitive pressures, purchasing managers are increasingly using rigorous cost modelling approaches to identify the factors that drive the cost of purchased goods and services.

To secure competitive advantage, purchasing managers are also tying purchasing strategies more directly to corporate goals to increase product quality, accelerate product development, capitalise on new technologies, or respond more quickly to changing customer expectations. Indeed, leading purchasing organisations have learned that these results can only be achieved by building close relationships with suppliers and by using B2B Internet-based marketplaces.

As purchasing assumes a more strategic role in the firm, the business marketer must understand the competitive realities of the customer's business and develop/produce better value for customers – in the form of products, services and ideas that improve the performance goals of the customer organisation.

An organisation that centralises buying decisions will approach purchasing differently from a company where purchasing decisions are made at individual user locations. When purchasing is centralised, a separate organisational unit is given authority for purchases at a regional, divisional or headquarters level. There seems to be a trend towards centralised purchasing. Why? First, through centralisation, purchasing strategy can be better integrated with corporate strategy. Second, an organisation with multiple plant locations can often achieve cost savings by pooling common requirements. Third, the nature of the supply environment can also determine whether purchasing is centralised. If the supply environment is dominated by a few large sellers, centralised buying may be particularly useful in securing favourable terms and proper service. If the supply industry consists of many small firms, each covering limited geographical areas, decentralised purchasing may achieve better support.

Finally, the location of purchasing in the organisation often hinges on the location of key buying influencers. If engineering plays an active role in the purchasing process, the purchasing function must be close organisationally and physically.

The organisation of the marketer's selling strategy should parallel the organisation of the purchasing function of key accounts. To avoid disjointed selling activities and internal conflict in the sales organisations, and to serve the special needs of important customers, many business marketers have appointed key account managers to take care of coordinating a key account's centralised and dispersed requirements, often on a global level (Pardo, 1999; Holt, 2000).

## Group forces

Multiple buying influencers and group forces are critical in organisational buying decisions. The organisational buying process typically involves a complex set of smaller decisions made or influenced by several individuals. The degree of involvement of group members in the procurement process varies from routine rebuys, in which the purchasing agent simply takes into account the preferences of others, to complex **new task buying** situations, in which a group plays an active role throughout the decision process.

The business marketer address three questions:

- Which organisational members take part in the buying process?
- What is each member's relative influence in the decision?
- What criteria are important to each member in evaluating a prospective supplier?

The salesperson who can correctly answer these questions is ideally prepared to meet the needs of a buying organisation and has a high probability of becoming the chosen supplier.

## The buying centre

A group of people in the organisation who make a purchase decision are said to form the buying centre, sometimes referred to as the decision-making unit (DMU).

### New task buying

An organisational buying situation in which a buyer is seeking to fill a need never before addressed. Uncertainty and lack of information about products and suppliers characterise this situation.

The concept of the buying centre provides rich insights into the role of group forces in organisational buying behaviour. The buying centre consists of those individuals who participate in the purchasing decision and who share the goals and risks arising from the decision (Bonoma, 2006).

Roles for members of the buying centre have been classified as: users, influencers, buyers, deciders and **gatekeepers** (Webster and Wind, 1972). The importance of different organisational roles varies according to the phase of the buying process. The make-up of a buying centre in terms of members and the roles fulfilled changes depending on organisational factors, the organisation size and the buying situation (Ghingold and Wilson, 1998; Farrell and Schroder, 1999).

Roles can be conceived fairly easily for purchasing products such as production materials. It is more difficult to specify roles for services.

Determining who within the company is the user of transportation for inbound materials or outbound products, who is the gatekeeper or who has the decider role is a difficult task. It is quite likely that several individuals occupy the same role within the buying centre.

### Gatekeeper

Those who control the flow of information, e.g. secretaries who may allow or prevent access to a DMU member, or a buyer whose agreement must be sought before a supplier can contact other members of the DMU.

### Users

Users are those within the buying centre who will actually use the product being purchased. In manufacturing firms, for example, they are the employees who operate or service production equipment. When components are purchased, the users assemble the parts. In hospitals and other healthcare facilities, users may be nurses, physicians or the technicians who operate medical equipment. Users with a high degree of expertise may help develop product specifications. They are especially important in the last phase of the buying process, follow-through. They can provide valuable feedback to sales representatives about how well the product performs. Users can influence the buying decision in a positive way by suggesting the need for purchased materials and by defining standards of product quality, or in a negative way by refusing to work with the materials of certain suppliers for any of several reasons.

### Influencers

Influencers are members of the firm who directly or indirectly influence buying or usage decisions. They exert their influence by defining criteria which constrain the choices that can be considered in the purchase decision, or by providing information with which to evaluate alternative buying actions. Technical personnel are significant influencers, especially in the purchase of equipment or the development of new products or processes.

### Buyers

Buyers have formal authority for selecting the supplier and managing the terms of the purchase. Depending upon the nature of the organisation and its size, buyers may have such titles as purchasing manager, purchasing agent or buyer, or this responsibility and authority may reside with people other than those designated specifically as buyers – the production manager, for instance.

### Deciders

Deciders are those members of the buying organisation who have either formal or informal power to determine the final selection of suppliers. The buyer may be the decider, but it is also possible that the buying decision is made by somebody else and that the buyer is expected to ensure proper implementation of the decision.

In practice, it is not always easy to determine when the decision is actually made and who makes it. An engineer may develop a specification that can only be met by one supplier. Thus, although purchasing agents may be the only people with formal authority to sign a buying contract, they may not be the actual deciders.

Often the selling organisation solidifies its relationship with the buying centre over time, which is called creeping commitment. The seller gradually wins enough support to obtain the order. In competitive bidding situations, the decision to purchase occurs when the envelopes are opened. In these cases, however, much depends on how the specifications are drawn up in the first place. Some salespeople work closely with the buying organisation at that stage to change the specifications and influence the decision in their favour.

### Gatekeepers

Gatekeepers control the flow of commercial (outside) information into the buying organisation. Purchasing agents have been referred to as gatekeepers because they are often the first people that sales representatives contact. They are responsible for screening all potential sellers and allowing only the most qualified to gain access to key decision makers.

The control of information may be accomplished by disseminating printed information, such as advertisements, or by controlling which salesperson will speak to which individuals in the buying centre. For example, the purchasing agent might perform this screening role by opening the gate to the buying centre for some sales personnel and closing it to others.

As mentioned earlier, the buying process is seldom the same from one firm to the next, or even from one purchase to the next within a given firm. In each case, the decision-making process of the buying organisation is affected by a number of factors.

The background of the buying centre members affects the buying process. Purchasing agents, engineers, users and others in the organisation have expectations that are formed largely by their experience.

Organisational buying is influenced by sources of information such as sales people, **exhibitions** and trade shows, direct mail, press releases, journal advertising, professional and technical conferences, trade news and word-of-mouth.

So far, much of our discussion has focused on the buying centre. A more formalised buying centre, the buying committee, is used extensively in the resellers' market and by many business organisations, particularly when purchasing is centralised. In the resellers' market, organisations such as food chain retailers form buying committees that meet on a regular basis to decide on new product purchases.

#### Exhibition

An event which brings buyers and sellers together in a commercial setting.

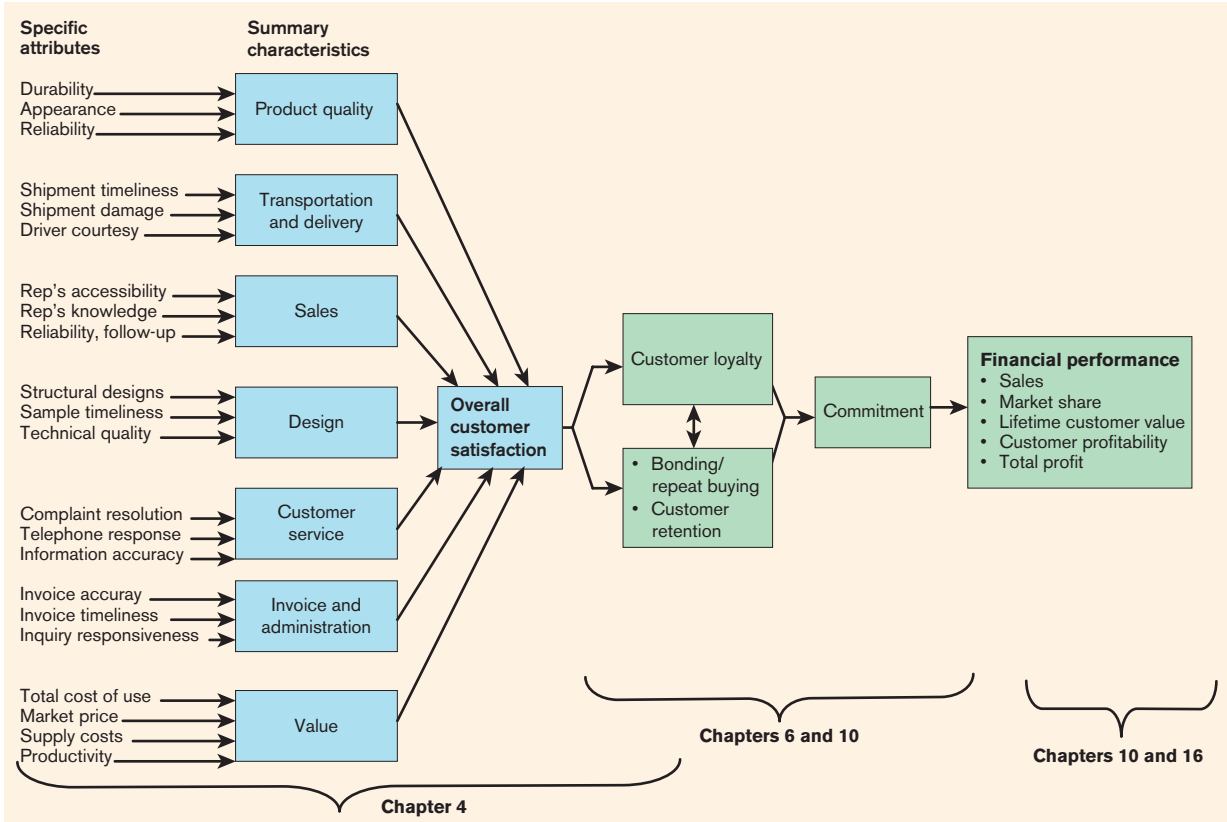
### Individual forces

Individuals, not organisations, make buying decisions. Each member of the buying centre has a unique personality, a particular set of experiences, a specified organisational function, and a perception of how best to achieve both personal and organisational goals. Importantly, research confirms that organisational members who perceive that they have an important personal stake and commitment in the buying decision will participate more forcefully in the decision process than their colleagues. To understand the organisational buyer, the marketer should be aware of individual perceptions of the buying situation.

## 4.6 CUSTOMER PERCEIVED VALUE AND CUSTOMER SATISFACTION

In this book, customer satisfaction and customer value are closely linked together though assessing customer perceived value sometimes goes beyond tracking customer satisfaction.

Delivering superior value to customers is an ongoing concern of management in many business markets. Knowing where value resides from the standpoint of the customer has become critical for suppliers because greater levels of customer satisfaction lead to greater levels of customer loyalty and repeat buying. This again leads to a higher degree of commitment and, ultimately, higher market share and higher profit (see Figure 4.15). In fact, delivering superior value to customers is key to creating and sustaining long-term industrial relationships.



**Figure 4.15** Firm X's customer satisfaction model: an example

As seen in Figure 4.15, we will concentrate on the measurement of customer satisfaction in this section. Later on we will discuss the implications of customer satisfaction on other key measures.

### Measuring customer satisfaction/customer value

Value is perceived subjectively by customers. Customers are not homogeneous; therefore, different customer segments perceive different values for the same product. Different people in the customer organisation are involved in the purchasing process. Whereas in some cases, firms may have established a formal buying centre, in other cases the people may be part of an informal group. Also, the number of people involved in the purchasing process and their positions may vary across customer organisations.

These members of a buyer's organisation have different perceptions of a supplier's value delivery. Therefore, in a customer value audit, it is necessary to identify and assess the value perceptions of all key people involved in the purchasing process. Such a multiple-person approach is considered to be more reliable by far than single-person studies.

In addition, within the supplier's organisation, opinions of how customers view the company's products differ among functional areas, i.e. general management, marketing and sales management, salespeople or customer service personnel. With value perceptions differing between customers and suppliers, and even within these organisations, identifying and bridging perceptual gaps become critical steps in value delivery.



**Table 4.1** Customer satisfaction loyalty and bonding

	Low satisfaction	High satisfaction
High customer penetration	Weak loyalty	Well-founded loyalty
Low customer penetration	No loyalty	Potential loyalty

Source: Hennig-Thurau, T. and Hansen, U. (2000) *Relationship Marketing: Gaining Competitive Advantage Through Customer Satisfaction and Consumer Retention*, Springer Verlag, Berlin-Heidelberg, p. 33. Reproduced with permission From T. Hennig-Thurau and U. Hansen.

## Customer satisfaction, loyalty and bonding

The first qualitative criterion is customer satisfaction. Satisfaction arises if the customer's experience fulfils or exceeds expectations. When satisfaction and customer penetration are cross-referenced as in Table 4.1, the upper left corner is the most interesting, where **penetration** is high, but satisfaction low. This situation may arise when satisfaction and loyalty are changing at different rates.

### Penetration

Entering a new market of customer.

With weak loyalty, customer recommendations or friendly customer feedback cannot be expected. Well-founded loyalty (upper right corner of Table 4.1), where there is high quantitative loyalty and satisfaction, should be the aim, if all the benefits of loyalty are to be enjoyed.

On the other hand, loyalty may be missing even though there is customer satisfaction, for example where there is some kind of barrier to a more intensive relationship. If this is the case, then these barriers have to be broken down if RM is to be successful.

Customer bonding may be seen as a process which influences customers, and customer loyalty as the result of this process. We can take three different perspectives in defining customer bonding and loyalty. These perspectives are described in more detail below (see also the summary in Table 4.2).

Suppliers will define customer bonding as a bundle of activities which builds up intensive relationships with customers, including contact opportunities, barriers to a change of supplier or creation of customer preferences for the supplier (which may be based on technology, materials, staff, etc.).

**Table 4.2** Customer bonding: three different perspectives

Supplier	Supplier–customer relationship	Customer
Customer bonding activities	Purchase behaviour	Attitudes and intentions
Building up contact centres, barriers to change, customer preferences etc.	Interaction between supplier and customer, atmosphere in supplier–customer relationship	Satisfaction, preferences, willingness to repurchase from, or contact, supplier
Customer bonding = bundle of activities which achieve a closer customer relationship	Customer loyalty = consecutive transactions (exchange of information, goods or money) between supplier and customer within a certain time period, good atmosphere in the relationship	Customer loyalty = positive attitude towards supplier combined with a willingness to perform further transaction

Source: Hennig-Thurau, T. and Hansen, U. (2000) *Relationship Marketing: Gaining Competitive Advantage Through Customer Satisfaction and Consumer Retention*, Springer Verlag, Berlin-Heidelberg, p. 31. Reproduced with permission From T. Hennig-Thurau and U. Hansen.

Looking at the relationships between supplier and customer, customer loyalty can be defined and measured in terms of the amount and the quality of transactions between both parties. Transactions cover, for example, the number of contacts or shopping visits, or the degree of customer penetration (the proportion of a customer's total buying volume accounted for by one supplier). The qualitative side of transactions refers to the atmosphere in which they take place, i.e. the climate of the relationship during the contact between both sides.

Customers will declare themselves loyal to a supplier through feelings and perceptions of (high) satisfaction, through positive attitudes and through certain preferences for the supplier, meaning that customers will be willing to repurchase from this supplier (Mouzas *et al.*, 2007; Illert and Emmerich, 2008).

### Increasing customer skills through investments in customers

One effective way in which manufacturers might increase customer retention could be to increase customers' post-purchase skills through targeted investments in the customers themselves. Such a strategy is based on an interpretation of the *customer as a co-producer* in the value-creation process. If such a strategy is to succeed, a significant amount of product value must be initially inaccessible to the customer (e.g. the customer should be unable to use certain product features). At the same time, it must be possible to give the consumer access to this additional value by increasing his or her skills. Such an increase in customer skills should produce a higher level of customer satisfaction and also have positive effects on other dimensions of the quality of the customer–company relationship. Hence, an investment in customers aims to improve their post-purchase skills, for example by increasing their ability to use the full range of product features or to maintain the product adequately (Thurau and Hansen, 2000).

## 4.7 CUSTOMISATION – TAILORING THE OFFER TO THE INDIVIDUAL CUSTOMER

### Customisation

Making something (product/service) according to a customer's individual requirements.

Traditional marketing often views the customer as a passive participant in the exchange process until the time of the sale. **Customisation** sees the customer as an active participant at every stage of the product development, purchase and consumption process, and as the co-producer of the product and service offering (Miceli, 2007).

Instead of accepting off-the-shelf products, customers are creating their own products, from configuring computers to building their own CDs. New products no longer come fully formed out of the laboratories, but arise through an interactive process of working directly with the market. Each customised product is a result of a co-design and production process of the customers and the firm. When this process is repeated across a number of customers, new insights emerge about customer preferences. Attributes and offerings that are not attractive can be dropped and those that are frequently requested can be enhanced.

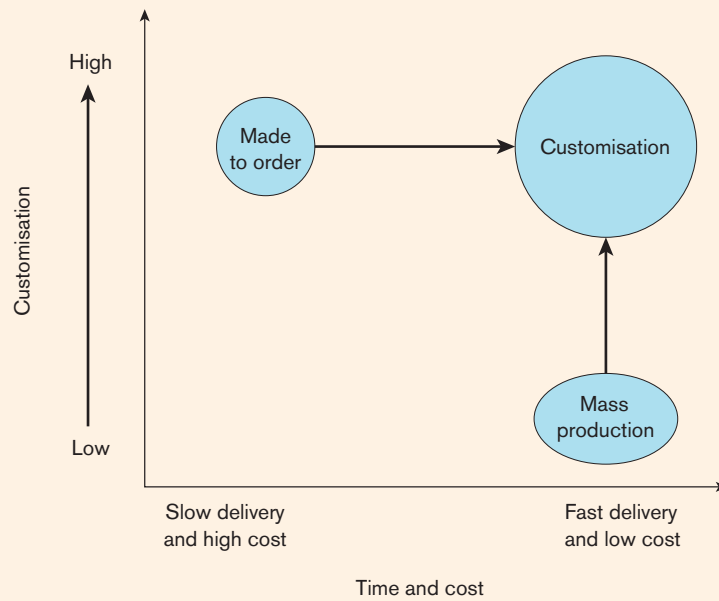
By combining customer configuration with a mass production strategy, companies can also use the insights from the customised products to shape their mass-produced line. Customer design choices may catch emerging trends.

Early customisation efforts were in the form of 'made to order' products and services (e.g. furniture or tailored suits), which, however, had long lead times and were not tied to flexible manufacturing systems. The recent advances in flexible manufacturing coupled with the collection of detailed information about customers, and advances in **database marketing** and its associated analyses, enable firms to offer products tailored to customers' needs (customisation), but at costs that are almost the same as that of standardised production and mass marketing. This shift is illustrated in Figure 4.16.

As shown in Figure 4.16, mass customisation changed the centuries-old trade-off between tailoring a product to the needs of specific customers and the costs or time associated with

### Database marketing

An interactive approach to marketing which uses individually addressable marketing media and channels to provide information to a target audience, stimulate demand and stay close to customers.

**Figure 4.16****The process towards customisation**

Source: Adapted from Wind, J. and Rangaswamy, A. (2001) Customerisation: the next revolution in customisation, *Journal of interactive Marketing*, 15(1) (Winter): 18. Copyright © 2001 Elsevier. Reproduced with permission.

delivering the desired product. Continuing innovations in flexible manufacturing, inventory management, and integration of global supply chains have provided further impetus in favour of delivering customised products quickly and at reasonable costs.

Individually and collectively, customers now have the means to directly influence a company's policies and strategies. For example, the growth of online product communities is profoundly altering the power structure in the exchange process.

Database marketing offers alternative approaches by which firms can tailor individual offerings and products to increase customer loyalty, volume of purchases and repeat purchases. First, companies that have made a commitment to one-to-one marketing are good at managing this information and communications process. In this way, companies can actually offer customers fewer options than mass marketers, because only the relevant options are visible. Second, firms can use innovative software to offer creative recommendations to a purchaser of music, movies, books, etc. based on related products purchased by other customers who purchase the same product(s). Third, companies can ask customers to provide them information about their preferences, and then design products and services to conform to the stated preferences.

While traditional marketing environments (mass-produced products sold through mass markets to target segments) will continue to play an important role in the economy, and while an increasing number of companies experiment with mass customisation and personalisation, the new type of marketing characterised by customisation represents a growing and increasingly important segment of the business. In the online environment, marketers are able to better identify customer preferences and either focus their messages and products and services on meeting the needs of each individual, or allow the customer to customise the message and products and services they desire.

### The challenges of customisation

Customisation also raises a number of challenges including issues related to obtaining information from customers, the identification of the intangible factors that can make or break an

offering, enhanced customer expectations, the need for limiting the complexity of options, and the required changes to the entire marketing and business strategy of the firm.

In the following, some of these challenging factors are discussed (Wind and Rangaswamy, 2001).

### Knowledge exchange with customers

A key challenge is that for customisation to work effectively there needs to be exchange of information and knowledge between companies and customers. This requires the company to 'open up' some of its internal processes and structures to its customers. It also requires customers to be willing to share their attitudes, preferences and purchase patterns with the company on an ongoing basis. Currently, the knowledge transfer occurs because of the novelty of the new medium, and because both the customers and the company become better off to some extent with such a knowledge transfer. However, with increasing online competition and concerns about privacy, companies need to design privacy guidelines and incentive structures carefully to facilitate the knowledge exchange between themselves and their customers.

First, consider the privacy aspects. It is important to recognise that companies can obtain and provide information useful for customisation without having to know the identity of the customer.

Second, consider the incentive aspects. Customers must feel that they benefit in some measurable way by providing information to the company. This is more likely to happen if the company puts in place a structure in which it brings in its own knowledge in the service of its customers.

Real-time conjoint analysis studies that allow the company to assess consumers' preferences while offering the consumers the results, as an aid in their decision process, have great potential to offer value to both the company and the consumers.

In general, as consumers become more empowered, one can also see the further development of search engines and **decision support systems** to help consumers make better decisions including the customisation of the product and services they design and the associated information they seek.

#### Decision support system

A computer system that stores custom data and transforms them into accessible information. It includes databases and software.

### Higher customer expectations

The customisation process creates higher expectations on the part of customers. They expect the product they receive to match their wants and needs perfectly. If it fails to meet these higher expectations, they are likely to be far more disappointed and dissatisfied than if they had bought a standard product.

Companies need to have the marketing and manufacturing capabilities to maintain a one-to-one relationship and to deliver what the customer wants efficiently. At the core of Dell's customised computer sales is an assembly process that can rapidly deliver exactly what the customers request. Yet these technological solutions have to be augmented with a marketing communication programme aimed at managing customer expectations.

### Limiting the options offered to customers

The temptation in the customisation process is to give customers too many options, but this may lead to psychological shutdown. The key is to offer just the right amount of variety so customers are presented with the right choices without being overwhelmed.

The decision of how much customisation to offer depends not only on consumers' preferences and ability to handle the choices, but also on the nature of the product and its requirements to assure quality performance, capabilities of the available technology, the competitive offerings, and the implications of the target positioning and value proposition.

One way to limit the options to the feasible set is to present standardised option packages, as is common in the car industry. This gives customers a starting point in developing more customised products. The car industry uses these options very effectively, but does not do as good a job at inviting customers to use these options packages. The manufacturers generally offer many options, but customers typically buy the cars that are on display.

## 4.8 SUMMARY

Consumers' decision-making processes are classified largely on the basis of high and low involvement with the product and the extensiveness of the search for information. High-involvement products or services are psychologically important to the consumer. To reduce the psychological and financial risks associated with buying a high-involvement item, consumers engage in a complex decision-making process. The five major steps in the process are problem identification, information search, evaluation of alternatives, purchase and post-purchase evaluation. The way in which these steps are carried out differs between products and services.

Most purchase decisions have low consumer involvement. Therefore, consumers do not engage in an extensive search for information or make a detailed evaluation of alternative brands. Such search-and-evaluation behaviour is more likely to occur with products than with services. Buying behaviour is strongly influenced by psychological and personal characteristics that vary across individual consumers and countries. Information and social pressures received from other people influence consumers' wants, needs, evaluations and preferences for various products and brand names.

By definition, organisational customers can be grouped into three main categories:

- good and services producers (raw materials, components, software, office supplies);
- intermediates (resellers);
- public organisations/government.

Organisational buyers purchase goods and services for further production for use in operations, or for resale to other customers. In contrast, individuals and households buy for their own use and consumption. These two types of market also differ in numerous other ways, including their demand characteristics, their market demographics and their buyer–supplier relationships.

The buying task is determined by three interrelated factors:

- the newness of the problem to the decision makers;
- the information needs of the people in the buying centre;
- the number of new alternative products and/or suppliers to be considered.

Based on these factors, there are three buying situations: straight rebuy, modified rebuy and new-task buying. Organisational purchasing often involves people from various departments.

The individuals involved in the buying process form what is called a buying centre and share information relevant to the purchase of a particular product or service. One of the marketer's most important tasks is to identify which individuals in the buying centre are responsible for a particular product, determine the relative influence of each, identify the decision criteria of each, and understand how each group member perceives the firm and its products.

These participants in the buying process can be grouped as users, influencers, gatekeepers, deciders and buyers, and they buy in larger quantities – and purchase more complex and expensive goods and services – than consumers do. Differences between the business and consumer markets are summarised in Table 4.3.

The Internet is playing an increasing role in both B2B and B2C markets. Websites enable organisations to promote brand values, reduce printing costs, attract and qualify prospects and leads, and foster customer loyalty. Sites can also expand the customer database, provide customer service, and showcase and sell products.

The interactive age is providing businesses with the potential to strengthen RM and generate new customers. Consumers benefit from the Internet through better possibilities of providing relevant information (quality, prices, etc.) when comparing and evaluating product or brand alternatives in the buying process.

**Table 4.3** Differences between the business and consumer markets

	B2B market	B2C market
<b>Market structure</b>	Geographically concentrated Relatively few buyers Oligopolistic competition	Geographically dispersed Mass markets (often millions) Pure competition
<b>Size of purchase</b>	Often extremely large	Usually small
<b>Buyer behaviour</b>	Functional involvement Rational/task motives prevail Stable relationships Professionalism, expertise	Family involvement Social/emotional motives prevail Less buyer–seller loyalty Less trained, often inexperienced
<b>Buying influences</b>	Committees, technical experts, and management are all involved in decision making (buying centre)	The individual, household members, friends and relatives
<b>Decision making</b>	Distinct, observable stages Often group decisions	Vague, mental stages Usually individual decisions
<b>Supplier relationship</b>	Long-term contracts and supplier involvement	Many single purchases

## CASE STUDY 4.1

### Baxi

Trying to capture boiler market shares globally and in China

In Autumn 2008 CEO of Baxi, Martyn Coffey, is on his yearly trip to China. Since 1995, the annual growth of the Chinese domestic boiler market has been around 15%. In volume the Chinese market is still limited, compared to the main European markets such as the UK and Germany, but Martyn wonders if it is time for Baxi to do more in China, even in a recession period . . .



Source: Courtesy of Baxi AS

#### Introduction

Baxi traces its roots to Richard Baxendale, an English iron moulder, who began the Baxendale company in 1866. Today Baxi is best known for its heating systems. It started out selling solid-fuel fires, then launched gas boilers in the early 1960s. Today it has 1,400 staff in the UK and the group's turnover is approximately €1.2 billion (£850 million), with an EBITDA of £94 million in 2007. Its headquarters are in Preston, but it has manufacturing sites in Germany, Italy, France, Denmark, Spain and Turkey to cover the commercial, industrial and residential markets.

Globally it employs more than 4,200 people throughout Europe with a turnover exceeding €1.2 billion. The Group has significant market shares across all major Continental territories and in the UK. It is also expanding into new markets such as Romania and Argentina and already has a direct presence in Russia, China and the Czech Republic, and **joint venture** partnerships in developing locations such as Turkey.

Today, Baxi Group owns and sells some of the leading brands in the European market for heating products.



These include a portfolio of some of the best known and most respected brands in the heating industry: Baxi, Potterton, Main, Heatrae Sadia, Valor, Andrews Water Heaters, Santon and Potterton Commercial.

The Baxi brand is recognised in the UK, Italy, Turkey, Russia and a number of East European markets, Potterton is established in the UK, Chappée and Ideal Standard in France, Roca in Spain and Broetje in Germany.

Baxi International, a division of Baxi Group, was formed in 2002 to manage the Group's international sales, marketing and after-sales activities in more than 70 countries all over the world. Baxi International has direct subsidiaries in Russia, China and the Czech Republic, and is represented in Romania and Argentina.

Here are some of the main characteristics of Baxi:

- leading market position in the UK gas boiler market (Europe's largest);
- solid brand recognition profile with UK installers;
- experienced management team, many of whom presided over the group's first LBO (leveraged buyout, where a significant percentage of the purchase price is financed through leverage – borrowing) in 2000;
- solid ability to generate free cash flow, which should allow the group to rapidly deleverage;
- highly leveraged financial profile;
- significant reliance on UK boiler market, which is undergoing major changes and which could thus weaken the group's market position; however, overall the UK market is quite healthy. There are about 26 million households in the UK and it is estimated

that 1.5 million have to replace their heating system every year;

- committed to new heating technologies that will play a role in tackling climate change. They have launched a solar package, where they provide the solar panel, control system and other products, which mean installers don't have to get each part from different manufacturers and make sure they match. Baxi has also launched systems that use biomass and heat pumps. Lately, Baxi has also launched a microCHP (combined heat and power), powered by a fuel cell and which generates both heat and electricity;
- relatively weak positions in some European and Asian markets.

The current main shareholders of the Baxi Group are BC Partners and Electra.

### Different types of domestic boiler

#### Floor-standing boilers

These floor-standing boilers are usually fairly 'slim' for fitting between kitchen units, although they may be installed in any suitable location. They are available as room sealed, fanned flue or conventional flue versions.

#### Wall-mounted boilers

The vast majority of boilers these days are wall mounted. These boilers have lighter, more compact heat exchangers, constructed from materials such as copper, aluminium, stainless steel or lightweight cast iron.

#### Combination boilers

A combination boiler (usually referred to as a 'combi') heats water for the taps from within the unit and combines this with central heating. A combi (storage) boiler is a variant, designed to give better hot water performance. Dependent upon the make and model, the improvement in hot water delivery will depend upon the size of hot water store, and this can vary considerably. Combination boilers dominate the European market (in the UK they account for 70 per cent of total sales). They have displaced the traditional floor-standing boiler.

#### Condensing boilers

A condensing boiler makes better use of the heat that it generates from burning fuels such as gas or oil. In a conventional boiler some of this heat is wasted because



A Baxi wall-mounted boiler (to the left)

Source: Courtesy of Baxi AS

the boiler releases very hot waste gases from its flue. A condensing boiler uses some of the heat from these waste gases to heat water returning from your central heating system, so it requires less heat from the burner. This makes your condensing boiler more efficient. The efficiency of a boiler is normally expressed as a percentage – some new condensing boilers can be up to 92 per cent efficient compared to new non-condensing ones that are around 78 per cent efficient and older boilers that are only 55 to 65 per cent efficient.

### General trend in the use of different domestic boilers

Condensing boilers have been around for many years. Condensing types are more expensive, but users report reductions in fuel costs. This is possible because this type of boiler has a much more effective 'heat exchanger' allowing more heat to be removed from what goes up the flue. Condensing domestic boilers are now largely replacing 'conventional' central heating systems, especially in Europe. Condensing boilers can be wall mounted or floor standing, but the trend is towards the wall-mounted type.

Wall-hung boilers are getting more and more popular. Combi are not appropriate to every insulation application, however. They are best suited for small properties

because of the limited amount of water available. The problem is, people use them in applications where separate boilers are more suitable.

### The world market for domestic boilers

In 2007, the total world heating market was valued at US\$31.1 billion with many European heating markets in decline. The total world heating market consists of many different products, such as domestic boilers, commercial boilers, water heaters, radiators and underfloor heating.

The total world domestic boiler market was estimated at 10.6 million units (2007) – see Table 4.4. The market is expected to grow at a moderate rate over the next few years. The UK is still the biggest market in both value and volume terms (1.7 million units in 2007), followed by South Korea and Italy.

Germany showed a large decline in the domestic boiler market in 2007, where it experienced a drop of 37 per cent, in which all boiler groups were affected, but in particular the floor-standing types, which saw a reduction of between 30 and 40 per cent. A similar situation was also reflected in France, Italy and other European countries.

Wall-hung boilers dominate the European market with nearly 6.2 million units in 2007. The UK is the biggest



A total heating system with a Baxi wall-mounted boiler in the basement

Source: Courtesy of Baxi AS

**Table 4.4** The world market for domestic boilers

Region	Sold units 2007 (million)	Region market shares (%)	Main competitors in the region and their market shares (%)
Europe (main markets are UK, Germany, Italy and France)	8.1	76	Bosch / Buderus 18 Vaillant 18 Baxi 10
Asia-Pacific (main market is South Korea)	2.2	21	Rinnai 10 Kiturani 10 Kyung Dong 10
Other markets (Americas, Middle East, Africa)	0.3	3	
Total World	10.6	100	

Sources: BSRIA reports, *Baxi Financial Report 2007* and author's estimates.

condensing boiler market in the world, accounting for nearly half the total world volume.

The total value of the world market for domestic boilers is approximately £11 billion (measured in manufacturers' selling prices). The average value (price ex factory) per unit sold in Europe is higher than in Asia.

In 2007 the total Baxi sale of boilers was 938,000 units, resulting in a worldwide market share of 8.8 per cent. Baxi is the market leader in the UK with around 50 per cent market share.

Competition within the boiler industry is based on the quality and functionality of products and services together with price and product range. As a consequence, the industry is characterised by new boiler product launches, together with promotional activity and aggressive pricing policies. Recently the growth in alternative technologies, such as heat pumps and solar panels, has been rapid.

An ongoing consolidation process is taking place in the industry. The main players in the industry continuously try to drive down costs, by making strategic acquisitions of complementary businesses.

The relationship of the individual market segments is going to change over the next years. Wall-hung non-condensing boilers, which represent about 50 per cent of the total market in volume, are expected to show decline over the next years. Condensing boilers, on the other hand, are going to grow rapidly. They are growing at a rate of over 15 per cent per year. The share of condensing boilers on the total European boiler market will rise from about 20 per cent to 27 per cent until 2010.

The wall-hung condensing boiler market is highly concentrated. The UK represents close to 50 per cent

of the total market, followed by the Netherlands and Germany, which account for 16 and 15 per cent respectively. Thus, around 80 per cent of the total condensing market is accounted for by just three countries. The next biggest markets are Japan, South Korea and Italy.

Seven major players dominate the European domestic boiler market, which include Bosch, Vaillant, Baxi, Viessmann, MTS Group, Riello and Ferroli. Often these firms have several brands under their umbrella and use them in individual countries.

Although the large domestic boiler manufacturers in the Asia-Pacific region have a significant share of the world market, they are only strong in their home country, with the exception of Rinnai and Kiturami for non-condensing wall-hung boilers. In Asia-Pacific, mainly local manufacturers and distributors supply boilers. North American boiler manufacturers are also confined to their own region, finding it difficult for existing products to conform to European regulations.

## THE BAXI STRATEGY IN CHINA

A steady increase of production and profit in the Chinese construction industry is expected in coming years as both domestic and commercial demands are growing. With a population of 1.3 billion, plus an annual population increase of 20 million, the Chinese construction market will continuously increase in the future.

### Heating requirements due to climate conditions

Heating is essential in the colder northern regions of China and some heating is desirable at certain times in



**Figure 4.17** Average temperature by region (°C), November to December

Source: Based on data from 2006 China Statistical Yearbook.

Note: Average temperatures relate to largest city or cities in Province. Although inland provinces in the south have relatively high daytime temperatures, in winter there is still some need for heating at night. Many use individual heaters or air conditioning.

the south. These practices are also regulated by the government. For the northern regions (see Figure 4.17), heating is required for any new-build residential buildings, whereas in the south, heating is not required by regulation. Hence, currently the domestic boiler business is mainly focused on northern China.

In northern China, government policy is to increase the number of buildings, particularly housing, heated by collective and/or district heating. This particularly applies in the cold north-east region.

**The use of different heating systems – the growth of individual heating**

Chinese households use different types of heating, e.g. air conditioning, district heating and room heaters. Collective heating is still the most favourable heating system due to the tradition, living habit and the outlet of houses.

Individual central heating systems (domestic boilers) in homes have been a recent innovation in China since 1995 and currently account for a very small share of existing housing (1.5 per cent) and a little more in new housing (5 per cent) – see Table 4.5. Most individual domestic boilers are in small new developments of high-quality residences.

Many people may become dissatisfied with district heating systems and the price of heat may increase to approach real market levels as the result of the withdrawing of heating subsidised welfare from local government. This will result in further growth in usage of small domestic boilers.

**Decision-making system**

**Residential market**

In the residential market, end users play a less important role in decision making in both product and brand decision than house contractors. It is usually referred to collectively as the project market. The decision is normally based on price, brand image, design, function, after-sales services and, last but not least, guanxi.

Due to the lack of product awareness and knowledge, brand image and design are not the particularly important criteria to ordinary Chinese households at the moment.

Typically, in China, families own their own apartment.

For installation of domestic boilers in new buildings, the building developer/contractor plays the most important role.

Table 4.5

Type of heating in existing and new housing in China (2008)

	Existing housing sector	New housing sector
% with individual central heating (domestic boilers)	1.5%	5%
Total number of dwellings (millions)	150	12
Number of domestic boilers (millions)	2.25	0.6 (new domestic boilers per year)

Sources: China Statistical Yearbook and BSRIA (World Heating 2007).

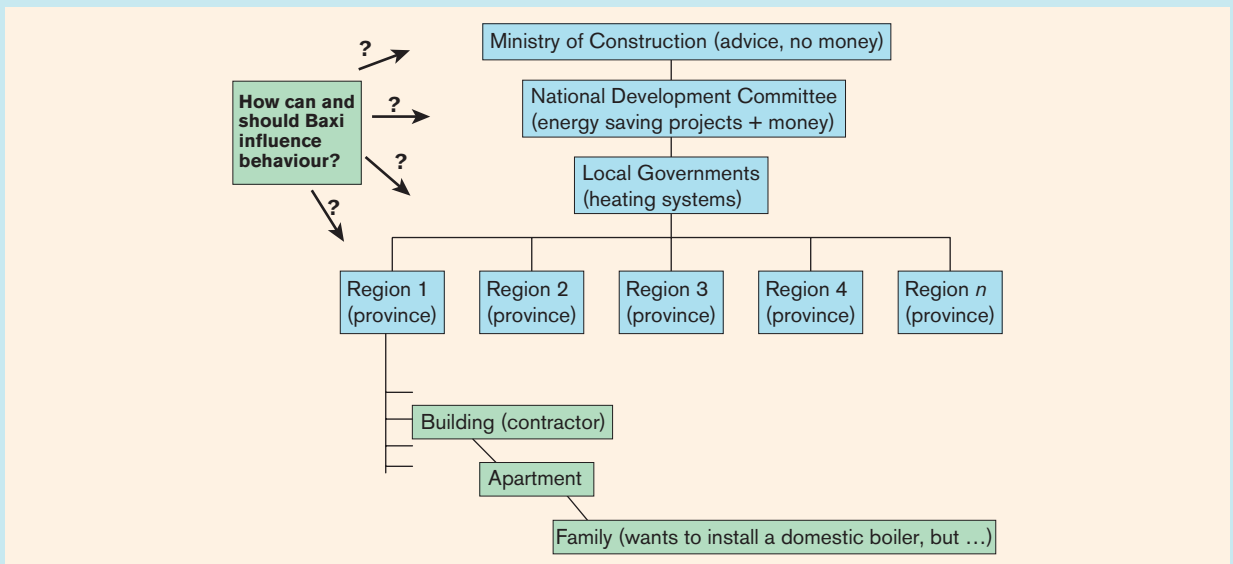


Figure 4.18

Decision-making system for domestic boilers (residential) in China

For installation of domestic boilers in existing buildings, service companies also play an important role, e.g. property services.

### Non-residential market

For non-residential buildings, the decision is still mainly in the hands of end users or property owners, but architects and contractors will have some influence.

There are hardly any private consulting firms in China and the design institutes in various government departments employ all architects and consultants. The Ministry of Construction manages the design institutes. Each region has its own design institutes and they are divided into different grades and work on projects appropriate to their grade. For example, a design institute of a municipal grade is not allowed to work on provincial-level projects.

Architects (from the design institute) and contractors will play a role by suggesting certain product types and brands. The end users/property owners select a brand based on their own analysis and preference,

consideration about price or, in some cases, personal relationship. For some extra large projects, it is possible for the contractors to be the decision makers; however, this is comparatively rare.

One of the major problems in motivating installation of the domestic boilers in China is that the consumption of energy for heating is not measured at the level of final consumption (in the apartments) and consumers are consequently not paying for their actual consumption. The implications of this are that there are no direct financial incentives for the individual consumer to invest in a new domestic boiler and to be environmentally conscious and save energy. Installation of heating meters is a necessary condition for families to be motivated to invest in new domestic boilers.

### Environmental concern

With the rapid expansion of the economy and the development of urbanisation, China is challenged with the serious task of controlling urban atmospheric pollution.



The rapid development of urban transportation makes vehicle exhaust emissions the most serious problem concerning urban air pollution control. Moreover, acid rain and the production of greenhouse gases and ozone layer-depleting substances are of great concern to the Chinese government.

### Market development

The Chinese market for individual central heating boilers was virtually non-existent up to the mid-1990s due to the strong domestic district/collective heating industry with China's heating park made up of district heating in urban areas and mostly solid fuel stoves, or no heating, in rural areas.

The market for low output (<50kW) domestic heating boilers began in 1995, with the first large-scale imports from Korea. After that, the markets for floor-standing and wall-hung gas boilers, based on European and Korean designs, expanded in the northern region.

In the past few years, several factors have contributed to the continuous growth of the low output domestic boiler market:

- increasing household income and improvement in living conditions with larger dwellings;
- the construction boom of recent years, which has created a huge demand from both new apartment blocks built outside the district heating network, and elite individual houses (villas);
- reform in the residential housing sector: private house ownership from state-owned housing;
- enhanced quality, designs and the reduction of prices of boilers;
- the Chinese government's environmental policy of reducing pollution from coal combustion;
- completion of the national west-east gas pipeline project by the end of 2003, which has mostly benefited eastern China.

The market has seen some changes in the product type and industry structure. Due to the environmental policy, alternatives have been provided to district heating which is run on coal. There is growing acceptance that European and Korean-style individual central heating systems are both more environmentally friendly and more efficient.

Until 2007 the Chinese domestic boiler market had been growing at nearly 15 per cent per year. This was also caused by the ever-increasing growth in new buildings and the improvements in the gas network.

The increase in sales is mostly being driven by wall-hung boilers. The main reason for this trend is that

house developers prefer individual heating solutions to collective ones to reduce their property maintenance services. In Beijing, where wall-hung boilers account for around 55 per cent of national sales, there has been a trend where newly built apartments have been fitted with wall-hung boilers since 1996.

The Chinese domestic boiler market is forecast an average annual growth of 12 per cent in volume terms for the next five years. There are a few reasons for purchasing domestic boilers, as follows:

- the sustained increase of family income; more families can afford a domestic boiler;
- the need for some newly built high-grade villas, which are not connected to a collective district heating system, to have their own individual heating systems;
- the inefficiency of many collective heating systems due to distribution losses, etc. In some areas the price of heat has been increased to a higher level than the cost of individual heating;
- the improved quality and design of products;
- the growing recognition and reputation of the products.

However, the selling price will be under pressure, dropping 2–3 per cent p.a. depending on brands. Cheap labour and raw materials will allow lower product prices. Also, the replacement of the first-generation domestic boilers (installed from the mid-1990s with an average lifespan of 15 years) in turn will stimulate the market.

### The domestic boiler market

The total domestic boiler market in China was estimated at 600,000 boilers in 2008 (\$500 million), up from 345,000 boilers in 2003. This strong growth of around 15 per cent per year has been driven by new construction, a strong economy and new gas connections in the gasification programme. But domestic boilers remain a small part of the overall heating park, accounting for just 1.5 per cent of all heating and 5 per cent of heating installed in new buildings in 2007. District and collective heating remains the norm in cities while rural areas have either stoves or no heating in the south of China.

However, individual central heating is becoming more popular and is forecast to experience double-digit growth in the next 5 years.

The Chinese market mainly consists of gas boilers (including wall hung and floor standing), accounting for 54 per cent by volume in 2003. This is primarily due to the average Chinese home being satisfied by a boiler no larger than 30kW, and the desire to have a unit small enough to



easily fit in the kitchen. Floor-standing boilers are only necessary if power outputs above 24kW are required.

The wall-hung boiler market has been created by European imports since the early 1990s. Apart from imports of many established European suppliers, there are also several joint ventures with local production, such as Saunier Duval with Yandi and Beretta with Devotion. Immergas (Italian producer) was the market leader in 2003 with over 20 per cent share, assisted by good connections of their Beijing importer in the project market. Kyung Dong was the leading Korean supplier, accounting for around 10 per cent share.

The market is still dominated by wall-hung (non-condensing) gas boilers. It will take several years for Chinese customers to gain knowledge and awareness of condensing boilers. Sales of condensing boilers will remain negligible in the next 5 years.

### Competition

Sales of domestic boilers in 2003 may be divided by European imports and joint ventures (about 50 per cent of the total), Korean brands (20 per cent of the total) and domestic Chinese brands (30 per cent of the total).

Immergas is the leading European brand, as well as the leading supplier of the wall-hung boiler sector with over 20 per cent market share. Kyung Dong is the leading Korean supplier, accounting for around 10 per cent share in the wall-hung gas boiler sector.

Of the domestic brands Devotion (Squirrel) is the most popular brand, accounting for around 6 per cent market share. There are also around 30 Chinese local domestic boiler producers – these are all very price competitive. Products of inferior quality or fake brands produced by some of the small and medium-sized Chinese enterprises occupy a considerably large market share in small cities because of cheaper prices.

China is an 'economy' market with European imports creating the 'upper' price segment, with the German manufacturers supplying the most expensive brands (Viessmann and Bosch). Korean import and local assembled brands represent the middle-price segment, and domestic Chinese offerings represent the low-price segment.

### Competitors

Immergas (Italy) is the leading supplier of wall-hung gas boilers in China. The Italian company dominates the market by taking nearly 20 per cent market share by volume in 2007. The company only sell their products in Beijing, the biggest wall-hung boiler market in China, by using their sole distributor, Beijing H.T. Technology. The distributor plays a significant role in sales.

Riello Burners (Italy) entered China in 1996; Beretta boilers started to sell in 1998. The two companies moved into one sales operation office in 2001 and produce products under the brand 'Riello' for burners and 'Beretta' for domestic boilers. They focus their

**Table 4.6** The domestic boiler market in China (2008)

<b>Total domestic boiler market (2007)</b>		<b>Units</b> <b>600,000</b>
<b>Supplier (nationality)</b>	<b>%</b>	
Immergas (Italy)	20	
Kyung Dong (South Korea)	10	
Kiturami (South Korea)	6	
Devotion (China)	6	
Riello/Beretta (Italy)	6	
Ocean/Baxi (UK)	4	
Others (Viessmann, Bosch, Vaillant, Ferroli, Chinese and Italian brands)	48	
Total	100%	
<b>Application</b>		
Wall-hung domestic boilers (mainly gas)	80	
Floor-standing domestic boilers (oil/gas)	20	
Total	100%	

Source: The figures are estimates made by the author and they are not necessarily according to real market data.

operations on the Beijing, Shangdong province and the north-west market. In 2002, Riello Group set up a joint venture with the leading Chinese domestic boiler manufacturer Devotion for local assembly of wall-hung combi boilers.

Baxi supplies a full range of space and water heating products for both residential and commercial applications. Baxi International manages the Baxi Group's international sales, marketing and after-sales activities in over 70 countries, including China. Baxi set up a sales subsidiary in Beijing in 2002, with the main responsibility of selling Italian manufactured boilers (from Baxi SpA) in China. The company used to sell wall-hung boilers through its Beijing importer, Beijing Zhong Ke Electric Corporation.

### Distribution

It is important for European and Korean companies to have closed Chinese partners to achieve a permanent position in the market. In particular the Chinese partners' 'guanxi', or relationship with the authorities, is seen as essential for success in bidding for contracts in the project market. Guanxi is also a prerequisite for satisfying the government boiler inspection bodies of the Ministry of Labour and the Quality and Technology Investigation Bureau.

In the domestic boiler market, imported products and appliances manufactured by joint ventures and wholly foreign-owned enterprises are mainly sold via agents;

nearly 70 per cent of the products are sold through this channel. Manufacturers sell the other 30 per cent direct to end customers (building contractors).

### Main challenge for Baxi in China

One of the big challenges that Baxi faces in China is to get the governmental organisations (at different levels) involved and motivated in the economic and environmental requirements for more efficient boilers.

## QUESTIONS

- 1 Who are the most important B2B decision makers for Baxi in the Chinese domestic boiler market? Please explain their buying behaviour.
- 2 Which global marketing strategy would you propose Baxi adopts in order to increase its global market share of domestic boilers?
- 3 How should Baxi proceed in China in order to increase its market share there?

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## QUESTIONS FOR DISCUSSION

- 1 What specific factors at the time of purchase may affect the buying decision in the B2C market?
- 2 What is the difference between Generations X and Y?
- 3 How does the demand for industrial products differ from the demand for consumer products?
- 4 What are the major differences between consumer and industrial buying behaviour?
- 5 How does the buying situation by class of purchase affect the organisational buying process?
- 6 What are the differences between the traditional 'buy grid' model and the 'extended buy grid' model?
- 7 Describe government buying procedures. Why is market orientation less important when selling to governments?
- 8 What is the buying centre in a company? Describe its functions and the implications for the selling organisation.

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