Marketing

Companies selling to companies

The focus in marketing is often on firms selling to individual consumers. However a much larger market is undoubtedly that of companies selling to other organisations. Effective marketing to these organisational markets rests on an understanding of the process that buying firms go through and the variables that affect this process, says ***Albert Caruana.***

One can distinguish a number of organisational markets. First, there is the producer market where organisations are buying products that enable them to produce other products. Secondly, there is the reseller market that includes firms like importers, wholesalers and retailers. Essentially those sell what they buy with little or no product transformation. For these intermediaries the role of marketing is not simply to sell products to individual consumers but also to manage relationships with principals. Thirdly, given the size of government expenditure in an economy, this is also an important market. Finally we can talk of an institutional market, such as the university, the church and other agencies, where the aim of such organisations is not usually profit.

As like in the case of individuals, the buying process in a firm starts when someone becomes conscious of a problem or need. When a company decides to launch a new product that in turn requires the purchase of new machinery the stimuli is internal. When a need is provoked as a result of a visit to a trade fair the stimuli is external. However, unlike individuals, companies are characterised by a formal buying process. This often means that purchasing requires specifications and a tendering system. In these circumstances the role of the seller's marketing is to help the buyer define the company's needs and to ensure that the name of his firm is on the buyer's list of potential suppliers. It is often only by being on the list of potential suppliers that a seller can ever hope to be asked to tender.

In submitting an offer the seller should, whenever possible and feasible, seek to prepare a marketing presentation that seeks to satisfy not just the technical specifications but addresses customer needs. A critical part of the buying process is the selection process. If a seller is to be effective it is necessary to understand the criteria on which the buyer decides. Is it on the basis of price, credit, prompt delivery, supplier reputation or some other variables or combination? A clear understanding here will determine where the emphasis of a quotation or presentation needs to be.

Purchase classification

It is important to understand the type of purchase being contemplated as this will have an important effect on whether all the steps that have been considered in the decision process described above will be followed or not. A useful first stage is therefore to classify the type of purchase being contemplated by the buyer. This can prove to be a useful basis for segmentation. There are various classifications that are possible.

One possibility is to classify the purchase by the type of product, such as: raw materials, components, capital goods, and services. This is essentially a product classification.

At least two types of customer oriented classifications can be used. The 'problem created' type of classification considers the type of problem the purchase will create for the buyer, while the 'purchase novelty' classification considers the degree of novelty involved for the buyer in the particular purchase. Such classifications help determine the degree to which the buying process outlined above will be followed or not. Thus when a firm buys a significant new piece of equipment that involves a high novelty level, it is likely that the entire buying process will be followed. On the other hand, when buying paper, something that has been done many times before, the multi-stage buying process may be short-circuited.

Reducing risk

Much of the decision making in organisations that are of any size tends to be team based. One of the key reasons for this is that it helps reduce the risk involved in purchasing. This is particularly so when the purchase of large items is being contemplated. Effective selling to organisations requires an understanding of the decision making team, in terms of sizes, composition, reles and structure. Generally the higher the novelty of the purchases, the higher the risk, and the higher will be the number of people in the group.

Similarly, the more departments that the purchase item involves the wider will the composition of the team be in terms of representations from different departments. In the same way, the roles the different people play within the buying group also needs to be understood. The salesperson needs to sell different things to these different people. A key element to successful sales to companies lies in the salesperson's ability to minimise risks for the decision making team. This can be done through the firm's reputation, by offering guarantees, training, as well as in other ways.

The various changes in the external environment that a firm operates in also play a part in influencing the purchase process. These external variables can be various and include social, technological, political and economic factors.

Thus an expected increase in the cost of money may defer the buying decision process while a gloomy economic outlook may lead to curtailment or postponement of the buying decision.

When selling to organisations it is not sufficient to look at buyers. We must also consider sellers. Buyers and sellers adapt to each other. These adaptations result from short term episodes such as product exchange and financial exchange.

Selling a product may require the need to establish a credit policy which is one form of financial adaptation.

This adaptation is enhanced through social exchange. It is this social exchange that cements the relationship between buyer and seller and acts as a barrier to entry by competitors. Here, it is no longer the elements of the marketing mix as we know them in consumer marketing that are important. Rather it is the management of this relationship that is the key to industrial marketing.

The key strategic decisions revolves around: first, which firms to target; and secondly, with whom and at what level should top management nurture relationships with.

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