INTERNATIONAL INDUSTRIAL MARKETING

Lecture Notes on
Concepts, Theories and Models

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1. NATURE AND SCOPE OF INTERNATIONAL ORGANISATIONAL/INDUSTRIAL MARKETING

Key Features of Business /Industrial Markets

The concept of organisational or industrial marketing is used to describe marketing activities targeted at all individuals and organisations that acquire products and services that are used in the production of other products and services. These products include capital goods (e.g. buildings, land and machines), operational products (e.g. accessory equipment, supplies, maintenance services), and output products (e.g. raw materials, components, production services). The justification for creating industrial marketing as a specific field of study in marketing derives from the awareness that the market behaviour, which affects the demand and purchases of industrial products and services, is generally quite different from that experienced in consumer markets. One of the distinctive differences between industrial and consumer markets is that the demand for industrial products is a derived demand, meaning that the magnitude of demand for these products varies with the demand for the finished products and services based on them. The purchasing process of industrial products is also relatively more complex, and may be divided into a number of stages taking place over time. The purchase decision making process usually involves many people who are drawn from different departments of the buying organisation, depending on the strategic importance of the products or services being purchased. In contrast to consumer markets, industrial products are funded with organisational resources. That is, the buyers of industrial products do not finance the purchase with their personal money, but rather use organisational funds for the purpose. Finally, it is assumed that members of the purchase decision making units (buying centre members) act rationally in the decision making process. That is, idiosyncratic considerations scarcely enter the decision making process. This implies that the decision-
makers must be provided with substantial “objective” information by vendors on the basis of which their decisions can be made.

**Factors Influencing the Buying Process**

Three groups of factors influence industrial buying process, (1) the environment, (2) the organisation, and (3) the decision making unit. The environment in this regard covers government regulations, the economic climate within which the buyers operate, and the general technological changes within the economy. In the increasingly globalised economies of today, buying processes must take not only the domestic environmental changes into account in their purchasing decision. Changes elsewhere in the world must also be factored into the purchase decision process. The international environment is in fact assuming greater importance than the domestic environment of most firms. The organisational structure, politics and culture also shape the manner in which purchase decisions are made. Finally, the decision making unit (the buying centre) to which the purchasing task has been assigned also has a tremendous influence on the purchase process.

**Buying Organisations**

There are three groups of buyers at which industrial marketers target their products. These are (1) manufacturers, (2) intermediate customers, and (3) public institutions. **Manufacturers** usually buy raw materials, components, and finished items that they use in the manufacture of final goods. These customers tend to be geographically concentrated (e.g. in industrial area/zones of a country), buy in relatively larger quantities and their purchasing decisions are taken by a selected number of people. These characteristics make it relatively easier for a vendor to serve them than they can serve consumers.

**Intermediate customers** are channel members or resellers. They buy and sell to make profit. Some make changes to the products they sell (e.g. repackage them). Thus, an export company or a distributor is an intermediate customer whose purchase decisions are influenced by the demand of the customers that they serve.
Public institutions such as schools, hospitals, prisons, the military and public offices constitute a major category of buyers of industrial products. The annual budgets of some public bodies in the developed countries can be a multiple of the expenditure of private sector organisations.

Public Sector Buying Decisions

Many different purchasing terms are used in public sector purchasing. In most countries, however, most public sector purchasing is through tenders. Three tendering procedures can be identified, each with a different level of publicity of the tender notice:

- **Open tendering**, where the invitation to tender is given the widest publicity;
- **Selective tendering**, where the invitation is restricted to a predetermined list of suppliers,
- **Private contracting**, where the awarding authority contacts suppliers individually to make a tender.

Contracts may be awarded on the basis of the following criteria

- **Automatic tendering**, where the contract is awarded on the basis of a predetermined criterion such as the lowest bid, or some other criterion either in isolation or in conjunction with price
- **Discretionary tendering**, in which the contract is awarded to the bid that is assessed to be most advantageous to the buying authority. The criteria are not pre-determined.
- **Negotiated tendering**, in which the awarding authority negotiates freely with the supplier.
Four key factors have been identified as influencing industrial market systems (Sheth and Sharma, 1997):

1. Global competitiveness,
2. Total Quality Management Philosophy
3. Technology Enablers
4. Industry Restructuring

Global competitiveness has necessitated the use of interfirm collaborative arrangements as a means of sustaining the competitive advantages of firms. Close relations between suppliers and buyers allow them to acquire new technical skills or technological capabilities. Interfirm relations can take a wide variety of forms. They include simple vendor – customer exchanges where the collaboration is restricted to the transfer of the contracted technology and knowledge, to joint ownership and development arrangements (Borys and Jemison 1989; Mowery, Oxley and Silverman 1996).

The increasing cross-national vendor-buyer relations have also been reflected in the increasing use of contract production and outsourcing of inputs in different parts of the world. The increasing demand for technology capacity enhancement packages in the emerging market economies of the world as well as the increasing demand by governments and multilateral public bodies of goods and services are also some reflections of inputs of the globalisation process.

These developments have brought into focus problems of doing business across disparate cultural and business systems. The differences of the operational environments of existing customers that have internationalised their business as well as local businesses located in diversified environments cannot be ignored if firms would wish to sustain their competitiveness within the current dynamic global environment.

Alongside these developments, it has been noted that the philosophy of total quality management has caught up very fast within the global manufacturing sector and has
enabled firms to reduce production cycle times and maintain zero inventories. This strategy again requires close collaboration between suppliers and buyers of industrial goods. The interaction between companies has been greatly facilitated in recent years through advances in information technology, particularly the increasing usage of Internet facilities as well as the establishment of regional economic blocks.

Overview of the Lecture Notes

Some of the key concepts and models that describe the industrial market system and marketing strategies are

- The buy grid model
- The buying centre concept
- Vendor-buyer relationship models

The rest of this lecture notes will be devoted to providing students with a gist of the key issues discussed under these concepts and models.
2. ORGANISATIONAL BUYING BEHAVIOUR

Industrial buyers are reputed for making rational decisions and go through a number of clearly defined stages in their decision making. The purchase behaviour that they exhibit and the kind of information they require to make their decisions will depend on the experience of the decision-makers with the purchase of the same or similar products. The stages in the decision making process and the influence of the purchase situations on the decisions are described in the literature by a model referred to as buygrid model. Furthermore, organisational buying decisions are usually made by a group of organisational members labelled in the marketing literature as a buying centre. This section provides an overview of the buygrid model and the buying centre concept.

The Buygrid Model

The buygrid model is a conceptual model, which describes the different combinations of buying phases and buying situations. It incorporates three types of buying situations: (1) the new task, (2) the straight rebuy, and (3) the modified rebuy, combined with eight phases in the buying decision process. The model serves as an easy framework for visualising the otherwise complex business buying process and enables the vendor to identify the critical phases and situation requiring specific types of information.

Buying Situations

As mentioned above the buying situation is usually classified into three major categories; the new task, the modified rebuy, and the straight rebuy situations.

New Tasks. It is a buying situation in which the business buyer purchases a product or service for the first time. In a new task buying situation the buyer seeks a wide variety of information to explore alternative solutions to his purchasing problem. The greater the cost or perceived risks related to the purchase the greater the need for information and the larger the number of participants in the decision making unit. This provides the vendor with considerable opportunity and challenge. The vendor is in a greater position to influence the
decision making process by the information that it provides. At the same time its personnel must respond to the information needs and scepticism of a large number of people within the decision-making unit.

**Modified Rebuy.** It is a buying situation in which the business buyer wants to replace a product or service that the firm has been using. The decision making may involve plans to modify the product specifications, prices, terms or suppliers. This is the case when managers of the company believe that significant benefits such as quality improvement or cost reduction can be achieved by making the change. The fact that the company had previous experience with the purchase and use of the product means that the decision criteria may be well defined in such situations. Nevertheless, some uncertainties still linger in the minds of some decision-makers. There is the risk that the new supplier may perform poorer than the present one. Again the situation carries enormous opportunities and challenges for vendors competing for the order. The decision making unit is however usually smaller than in new task situation and therefore makes it relatively easier for the vendor’s marketing personnel to attend effectively to the information needs of the buyers.

**Straight Rebuy.** It is a buying situation in which the buyer routinely reorders a product or service without any modification due to satisfaction with the supplier. The supplier is retained as long as the level of satisfaction with the delivery, quality and price is maintained. New suppliers can only be considered if these conditions change. The challenge for the new supplier then is to offer better conditions or draw the buyer’s attention to some benefits that it is missing for doing business with it present supplier. The buyer may in turn use the new offerings from competitors to renegotiate its purchase conditions with the present supplier. It is therefore difficult to capture orders from companies engaged in routine purchases.

In a recent article, Buun (1993) argues that the business buying situations are more complex than is generally considered in the existing literature. He has therefore suggested an additional classification of each of the three buying situations as shown in exhibit… The thrust of his argument is that the behaviour that buyers exhibit in each of the situations will depend on how strategic the purchase is for the company.
# Exhibit 1

Buun's Taxonomy of Buying Situational Characteristics and Purchase Behaviour

<table>
<thead>
<tr>
<th>Decision Situational Characteristics</th>
<th>Purchase Situations and Behaviour</th>
<th>Modified Rebuy</th>
<th>Straight Rebuy</th>
<th>Routine (Low Priority)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>New Task</td>
<td></td>
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<tr>
<td></td>
<td>Strategic</td>
<td>Judgmental</td>
<td>Simple</td>
<td>Complex</td>
</tr>
<tr>
<td></td>
<td>Moderate</td>
<td>high</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td></td>
<td>Purchase importance</td>
<td>very high</td>
<td>very high</td>
<td>quite high</td>
</tr>
<tr>
<td></td>
<td>Extensiveness of choice set</td>
<td>narrow</td>
<td>very narrow</td>
<td>narrow</td>
</tr>
<tr>
<td></td>
<td>Perceived buyer power</td>
<td>strong</td>
<td>moderate</td>
<td>moderate</td>
</tr>
<tr>
<td></td>
<td>Behavioural Profile</td>
<td>High level of info. search</td>
<td>Moderate amount of info. search, analysis and proactive focusing</td>
<td>Seemingly rational behaviour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* great deal of analysis</td>
<td>* No previous guidelines</td>
<td>* High level of proactive behaviour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* No previous guidelines</td>
<td>* Follow standard procedures</td>
<td>* Focus on long term needs and supply reliability</td>
</tr>
</tbody>
</table>
Phases in the Purchase Decision Process

Conventionally, business purchase decisions are expected to go through a set of phases. Purchases in new task situations go through eight phases, the number of phases and their relative importance decreases in the case of the other purchase situations.

Phase 1: Anticipation or Recognition of a Problem (Need)

In rational purchase situations, the purchase decision will be triggered by the buying organisation’s recognition of a need, problem or potential opportunity to gain new benefits within the changing environment. The trigger may be either external (e.g. new information from a potential supplier), or internal (e.g. an awareness of declining efficiency due to outmoded technology). This is a phase in the purchase decision process during which the information a vendor provides is critical since the buyer is in wide search for solutions to the problem identified.

Phase 2: Determination of the Characteristics and Quality of the Needed Items

Having acknowledged the problem, the next stage is to explore alternative solutions. It may be decided to solve the problem in a novel manner, i.e. exploring technical solutions unfamiliar with the buyer- a new task situation. Alternatively management may decide to find a modified/improved version of solutions with which they have been familiar – modified rebuy situation. Questions such as “what application requirements must be emphasised” and “what performance specifications should be used in evaluating in coming proposal” receive attention at this phase. The department whose staff is the users of the product is prominent at this stage. Their suggestions receive serious attention. Prospective suppliers are therefore advised to examine the information needs of the users and provide it to them to enable them make the choices that favour their products.

Phase 3: Description of the Characteristics and Quality of the Needed Items & Phase 4: Search for and Qualification of Potential Sources

Having specified the characteristics that buyers should look for, the market is then scanned for the products that fit these characteristics and the quantities to buy. If a supplier has contributed information to the first phase, that supplier will be certainly consulted to advise the buyer on where to get the best products. If the supplier has the product in question
within its product line, it is placed in a lucky position of influencing the choice decision. It may suggest modifications to its own product to fit the specific needs of the buyer. It has been shown that such partnering relationship with a buyer is highly advantageous in new task situations.

**Phase 5: Acquisition and Analysis of Proposals**
In this phase, qualified vendors are contacted with a request to make product offerings that can address the buyer’s problem. In straight rebuy situations, the existing vendor will be the only supplier that the buyer will contact. For modified rebuy situations, there will be the need to analyse incoming proposals carefully before a final decision is made. The analysis of proposals become even more elaborate in new task situations.

**Phase 6: Evaluation of Proposals and Selection of Suppliers**
The decision-making unit carefully compares the various offers in terms of the criteria decided upon earlier. A few of the proposals are selected and the purchaser is authorised to initiate negotiations with the vendors concerned. Where the differences between the proposals are not pronounced, personal taste and considerations indirectly enter the decision making process.

**Phase 7: Selection of an Order Routine**
Order is placed with the selected vendor and the delivery as well as payment conditions are specified. For some types of machines and equipment, the delivery may also include installation and training of users. Here again the users’ voice becomes very important since their evaluation is important in determining how successful the purchase has been.

**Phase 8: Performance and Feedback Evaluation**
This is the phase in which the performance of the product in matched against the expectations of the buyer in order to determine the gap, if any between them. As noted above, the evaluation of the users carries a heavy weight in the overall assessment of the performance of the vendor.
The Buying Centre Concept

Companies do not buy, people do. It is therefore important to have a substantial knowledge about those involved in the buying decision making process of the goods and/or services that a vendor intends to sell. It has been shown that many individuals are involved in the buying processes of industrial goods.

The theoretical foundation of the buying centre construct can be found in role theory. Role theory suggests that people behave with a set of norms or expectations that others have in the roles in which they have been placed. Roles can be both formal and informal. Formal roles are defined by organisational structure and managers’ position within the structure. Apart from the formal roles that managers play, they (like all other people) have the natural tendency to develop informal social groupings within their organisations. These informal groupings can be harnessed to support the performance of the main tasks that have been assigned to them. Occasionally, however, some informal social relations can obstruct the performance of these tasks.

The Roles of Buying Centre Members

Buying managers are known to assume some common of roles in a buying process. These roles are classified into six groups.

1. The **initiator** is the one or group of individuals who become aware of a company problem and recognise that the problem can be solved via acquisition of a product or service.

2. The **gatekeepers** usually act as problem or product experts. They have information about a range of vendor offerings. Other buying centre members therefore rely on their information for their assessment of prospective vendors’ offerings. Thus, by controlling information, and, by having access to decision-makers in the firm, the gatekeepers largely determine which vendors get the chance to sell.

3. **Influencers** have been described as those who have say in whether a product or service is bought or not. The more critical a purchase is to a company’s business, the higher the number of influencers. Critically strategic purchases frequently entail high resource outlays...
and affect the task performance of several employees the heads of whom naturally "have a say" in the purchase decision making process.

4. The **deciders** make the actual purchase decision. That is, they say yes or no to what vendors offer. In less complex purchase situations, the decision-making responsibility may fall on one person. But where the purchase is complex, group decision may be required.

5. The **purchaser** is the one who makes arrangements for the delivery of the goods. He is also often directly involved in negotiating the conditions under which the transactions will be made.

6. The **users** are those who actually make use of the products in normal working process.

   A buying centre can be formalised, but not always so. Even in formalised buying centres members are not designated with the titles of gatekeepers, influencers etc. A buying centre member may play more than one role at different stages in the buying process. There may be as few as one person playing all the six roles or as many as 50 or more in complex buying situations. The degrees of influence of these buying centre members will depend on their power base within the organisation.

   One major characteristic of buying centres is that members come and go. The centre is therefore fragmented in terms of time, a phenomenon described in the literature as *time fragmentation*. The more buying centre members are involved for only short periods of time in the purchase decision making process, the more fragmented the buying centre is over time. This means that the influence of key buying centre members can be limited to a particular stage in the purchasing process. It is therefore of utmost importance to vendors to exert the best impact on them at the critical point in time to convince them of the superior value of their offerings.

### Buyers’ Perception of Vendors
The concept of perception addresses the basis of human behaviour in encounters with other social actors. It is generally acknowledged that human perceptions are informed by prior experiences, knowledge, expectations and understanding. In fact people “perceive” more than they actually see in any given situation (Crossley 1996) since we tend to use our previous knowledge and experiences to ascribe meaning to what our senses register. Most often we hold firmly to our perceptions, believing them to be right.

Buyers therefore carry different perceptions about vendors, based on some previous encounters with them or information received about them from external sources. It is therefore prudent for vendors to be aware of how potential buyers perceive them prior to making any sales effort. Figure 1 provides a simple scheme for analysing customers’ perception. Two perceptual dimensions require attention; (i) customers’ perception of the offerings made, and (ii) customers’ perception of the vendor’s organisation and its salespeople. As mentioned earlier, buying centre members are expected to be rational and their perceptions are also based on specific set of “objective” criteria.

Product and service attributes that have been found to influence customers’ perception of the offerings include quality, reliability, post-delivery arrangements, price, and conditions of payment. Similarly customers’ perception of the vendor’s salespeople will be based on the criteria such as reliability, credibility, responsiveness, product knowledge, persuasiveness, knowledge about competitors, oral communication, personal charm/friendship as well as mutual trust and respect.
A customer’s location within the matrix should influence the pre-sale marketing mix strategy that a company will adopt.

Although overall buying centre perception of the vendor is useful it is equally important to assess each buying centre member’s perception of the vendor. This will help the vendor’s sales people to plan their marketing efforts. The reasons why a specific buying centre member has a negative perception of the vendor must be thoroughly analysed and steps taken to correct any possible misunderstanding that might have produced the negative perception.
Exhibit 3 provides a framework for assessing the profile of the individual buying centre members

Exhibit 3  
Matrix of Buying Centre Members’ Profile

<table>
<thead>
<tr>
<th>Buying centre member and his/her position</th>
<th>Power base of each member</th>
<th>Priorities of each member</th>
<th>Specific benefits desired</th>
<th>His/her perception of our company</th>
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Uncertainties and Information Requirement of Buying Centre Members

Buying centre members need information in order to reduce one or more of the following three types of uncertainty.

1. **Need uncertainty.** That is, the buying centre member’s doubts concerning the nature of needs that the vendor’s offerings are to satisfy. The general view is that buyers have clear knowledge of the problems that new products to be purchased are to address. In practice, however, not all the buying centre members are likely to be convinced about the nature of the problem and the type of solutions suggested. The reason may be due to lack of technical knowledge or the lack of clarity about the problem for the overall performance of the firm. Vendors may supply information that clarify the nature of the problem
2. **Market Uncertainty.** Some buying centre members may initially reject the vendor’s offerings simply because they do not know whether there exists superior offerings on the market. They may therefore delay the decision making, particularly if they have substantial authority in the overall decision making process. Here again the vendor can help speed up the decision-making process if its salespeople can assist in providing information about the types of offerings found on the market and indicate how the vendor’s offerings compare with other possible offerings.

3. **Transaction Uncertainty.** This concerns problems that may arise in getting the product/service from the vendor to the buyer. Some buying centre members may be concerned about delivery and post-delivery problems. This may be particularly true for deliveries to customers in foreign countries where logistical problems can be anticipated. It is important for the vendor to provide detailed information about how the delivery will be made and arrangements to be made to forestall any difficulties that can arise.

As much of the deliberations with the buying centres are aimed at addressing these uncertainties, by supplying relevant information at appropriate times and stages in the decision making process, the vendor can facilitate and speed up the decision to be taken, preferably in its favour.

There are two other important dimensions of the buying centre that require attention, the vertical dimension and the horizontal dimension. The **vertical dimension** refers to how many layers of management are involved in the purchase decision process. The **horizontal dimension** concerns the number of departments involved. The more complex a purchase decision, the wider both the horizontal and vertical coverage of the buying centre. It implies that individuals with a wide variety of interests and departments with different norms and rules of behaviour are involved in the process. This may create problems of co-ordination and may produce conflicting decision signals to the vendor.
Buying and Selling Relationships

Business performance is frequently measured in terms of profit, not necessarily on single transactions but on the overall operations of a company. Companies therefore undertake their marketing activities in order to make profit. Similarly, industrial customers engage in transactions with their vendors for the purpose of obtaining values/benefits that can enhance their profitability.

Hitherto, vendor – customer interactions have products/services of interest at the centre stage. Recent academic observations and studies however indicate that both vendors and buyers will most effectively attain their respective goals if their emphasis is on the relationships rather than the products/services they sell/buy. The more intimate and enduring the relationship the more committed vendors and buyers will be fulfilling each other’s needs and the more efforts they make to solve problems identified. Such relationships assume the form of self-organising systems, creating new opportunities for the partners. The single sales are then seen as “punctuation marks” or natural “fall outs” of the broader relationship. (See discussions on relationship marketing below).

International Marketing Implications of the Buying Centre Concept

1. Geographical separation of buying centre members.

Where decision on a vendor’s offerings is to be made by buying centre members located in different countries (e.g. selling machines to an international joint venture company) it is important to note that the buying centre members may have different preferences due to the diversity of their backgrounds. The information needs of each of the buying centre members must therefore be carefully studied and catered for.

2. Differences in priorities of the buying centre members located in different countries.

Again, depending on their specific situations and preferences, the buying centre members may have different priorities. This may be a problem in situations of joint financing. The
purchase decision making may be delayed. A prolonged decision making process can impact on the vendor’s marketing efforts negatively, since it will mean that lesser resources can be devoted to other clients.
Collection, analysis and dissemination of market information are considered as key elements in a firm’s performance. Managers require reliable data on which to base their decisions regarding the defence of their existing market positions or the exploration of new market opportunities. The data collection methods adopted will depend on firm preferences, idiosyncrasies of individual managers or the data collection traditions within the industry or country.

Sources of information can be classified according to internal and external sources. **Internal** sources are the information from company’s own employees. Everyday, employees are exposed to new knowledge. Some come in contact with new customers and competitors, others are in contact with suppliers. They learn more about the company’s stakeholders as they jointly solve operational problems that confront them and discover better ways of doing things together. The stockpile of individual experiences generated through the interactions can constitute a rich reservoir of business knowledge within the company. But the application of such individual experiences to organisational problems requires the cultivation of organisational learning culture in which front-line employees (i.e. those interacting on regular basis with external stakeholders) feel free to challenge long-standing practices within the company.

**External** come from two sources, primary and secondary. Secondary sources refer to any of published information from public and private institutions. Primary data can be collected using survey approach or through personal interviews. The choice of approach depends on business culture and industry traditions in a particular country. Westerners are known to favour the survey approach to some extent while managers in Asian countries tend to favour interviewing key customers. For example, Japanese managers are reputed for collecting market information through personal interactions with current and potential
customers and distributor rather than using survey methods popular in Western industrialised countries. The advantage of the Japanese approach is that since the investigator is usually a key decision-maker and implementers, he can monitor the implementation process and react quickly to feedback on past actions or to new opportunities or threats in the market. The Western approach allows for collection and of large volumes of data that provides decision-makers with broader overview of the marketing situation at a relatively lower cost.

It has, however, been observed that even Western business marketers seldom use the elaborate survey approaches found in consumer marketing. For example, Keegan (1984) found in an empirical study of American international business managers that their most frequent sources of information are from personal contacts with customers. Hardly did they use market research or publications of any kind as sources of information. Permutt (1977) also concluded from a study of European business executives' use of market research that the development of more sophisticated techniques seemed far less important to them than having action-oriented sources of information on which they could rely. These findings are consistent with the results of Cavusgil's (1984) study involving international marketing executives from 70 American companies. Cavusgil noted in that study that the executives typically adopted less rigorous, less formal and less quantitative approaches to international market information collection than was the case when investigating domestic markets. A rigorous quantitative analysis of the international marketing data, if collected, and a rank ordering of foreign markets in terms of the opportunities they offer was an exception rather than a rule. He further noted that "management appeared to be expending relatively little effort in terms of a systematic and objective assessment of foreign market opportunities, identification of distributors, assessing profit potentials or monitoring foreign performance" (P. 267). Consistent with the evidence in Keegan's study, many of the executives in Cavusgil's study identified travel or personal contacts as their most valuable and reliable sources of overseas information.
The aim of this section is therefore to present a number of considerations that influence market information collection by vendors of industrial products and some of the typical methods used.

**Strategic Market Intelligence System**

Distinction is drawn in the literature between three kinds of market intelligence (Montgomery and Weinberg 1991):

1. Defensive market intelligence
2. Passive market intelligence
3. Offensive market intelligence

*Defensive market intelligence* is oriented towards avoiding surprises. Managers behave on the basis of certain implicit and explicit assumptions about the environment within which they operate. These assumptions are normally based on the past performance of the company. Long periods of successful performance in a given market create over-confidence in managers that past routines and assumptions are adequate. There is therefore little perceived need to alter operational routines and the motivation to seek new information is low. Only those types of information that reinforce existing routines will be sought. Learning becomes additive and incremental. Defensive intelligence seeks to counteract such a tendency. Information is collected to make certain that the assumptions continue to be valid and to draw managers’ attention to major changes (usually threats) within the environment.

Defensive market intelligence entails collecting data not only on current competitors, but on potential competitors as well. The identification of potential competitors will enable the company to take proactive steps to avoid or blunt the effects of their market entry. In this regard it is important to realise that customers can also become potential competitors if their strategy considerations include vertical integration into the vendor’s business domain.

*Passive intelligence* is designed to provide benchmark data on the bases of which management can evaluate its performance in previous years. This is usually done by collecting data on performance of key competitors as well as the industry as a whole.
Offensive intelligence is designed to identify market opportunities. Companies take proactive strategic actions on the basis of the information and expand the prospects of improving their performance or maintaining satisfactory performance over a long period of time.

**Monitoring Existing Customer Mix**

Defensive market intelligence allows companies to access the extent to which their current customer mix fulfils their marketing objectives and the extent to which the customers are satisfied with the vendor’s offers and sales activities. The retention of existing customers depends on these assessments. It is therefore important for us to take a look at some of the methods used to evaluate existing customers.

To a business marketer, a good customer is seen as one with many of the following attributes:

1. A high technical or operational capability.
2. A willingness to share in joint technical and/or operational development.
3. A willingness to make the vendor an important part of the customer’s business activities
4. Substantial sales potential
5. Long-term profit potential.
6. Good cultural fit.

**Customer Value Analysis**

*Customer Value Analysis* (CVA) is a technique adopted in the evaluation of a business marketer’s current customer base. It uses internal sources of data, drawing on existing information that the vendor already possesses about each customer—sales volume, profits generated, growth trends, technical strengths etc. Following Canning (1982) the CVA proceeds along the following steps:

1. Create a profit profile comparing the profit contribution of each customer.
2. Determine the source of the profit
3. Assess the value elements beyond profits
4. Determine the overall value ranking within the customer group
5. Determine the marketing requirements for serving the customers
6. Develop a sales/marketing programme commensurate with the customer’s value

(See exhibit… for a more detailed model)

The first three steps allow the vendor to assess the total value of each of the customers. An assessment of the profit contributions of existing customers involves determining sales and profits by each principal product line supplied to the customer. The profit analysis requires detailed break down of marketing costs assignable to the products sold to the customer, including order processing costs and field service costs. Customers are then ranked in terms of profitability. Overall profit obtained from a customer may come from many different sources. It may be due to the frequency of orders, sizes of orders, share of customers’ total purchases and location of the customer. All these profit determinants require close attention. These analyses may be done in three steps:

1. Assessment of the growth (or decline) that is expected to occur in each customer’s demand for the vendor’s products
2. Assessment of the degree of market risk associated with each customer
3. Assessment of the marketing efforts required satisfying the needs of the current buyer mix.

Sales gap analysis provides the vendor with an indication of changes in customers’ demand for the vendor’s products. Distinction is usually drawn between present and future sales gap. The present sales gap is the difference between actual sales to the customer of a given product/service and customers’ total purchase volume of product/service. Thus, if the vendor supplies only 30% of the total purchases made by the customer of the product in question, the sales gap is 70%. The future sales gap is based on the customer’s projected demand of the product/service in question. A customer that has a superior competitive position within a growing market is likely to increase its demand for inputs at least in proportion to the market growth rate.

Apart from an assessment of the customer’s contribution to the business marketer’s total sales, it is also important to evaluate it in terms of (a) capacity to develop the vendor’s image (b) contribution to vendor’s know-how development, and (c) new market
development potential, the so called network effect. For example, a small electronic company in Northern Jutland may pride itself in supplying unique components to a major international company such as Nokia, Ericsson or IBM. This will enhance the company’s standing within the industry as a serious and reliable supplier. A vendor may also keep within its buyer mix, customers that do not contribute substantially to its sales but provide challenging and innovative ideas that are of strategic importance to its overall competitive profile. The network effect refers to the access that a customer can provide to new markets or market segments.

A vendor must prune its customer mix regularly to ensure that its customer profile can fulfil its marketing objectives.

**Sales Forecasting**

Business marketers need information as basis for their sales forecast. Good sales forecasts will enable the company to gauge the lead-time necessary to get out an order and to ensure that it is shipped in time for it to fulfil the customer's delivery expectations. Sales forecasts will also enable the firm to plan its input orders and manage production schedules. On some occasions, retooling may be required to modify some products in response to changes in customer requirements. The manager needs time to do so efficiently.

In order to minimise the problems of collecting adequate data on timely basis from customers and channel members, business marketer can make a better use of internal sources of data for their sales forecasts.

**Analysis of New Market Opportunities**

Apart from retaining profitable customers, management must continuously look for new markets whose need might be met by its current products or slight modifications thereof. This is what offensive market intelligence systems try to accomplish. A key consideration in new market opportunity assessment is the estimation of the size of demand. Market
demand measurement calls for a clear understanding of the market involved. Various classificatory models have been presented in marketing textbooks to help analysts in gaining insights into the nature of the markets of interest to them. Analysts are usually advised to start their demand measurement with an assessment of the potential market for their products in a given country or industry. The potential market for a product or service is the set of customers who have shown some level of interest in the product. Only part of the potential market may have the required finance to back up their need recognition. This is different from the available market, which is the set of customers who not only have the need for the product or service but also the income to acquire it.

A distinction is also drawn between the served or target market and the penetrated market. The label “served market” is used to describe that part of the available market that the company is interested in serving and the penetrated market is the set of buyers/users who have already bought the product. Vendors can therefore only target the “unpenetrated” part of the target market or encourage the “penetrated” segment to switch over to their products when they are making a repurchase decision.

Toyne and Walter (1989) also suggest that a market can be grouped into the following three categories:

- incipient demand
- latent demand
- current demand.

**Incipient market demand** is demand that is expected to exist in the future. For example if the companies in a specific country are aware of a particular need or want, but lack the resources to acquire the relevant inputs; their needs then constitute incipient market demand. Thus, incipient demand forms part of the potential market for a vendor’s product at any given point in time. This holds true for certain categories of equipment and inputs that can enhance the operational capacities of firms in developing and transitional economies. The vendor can tap such incipient demand either through the development of cheaper variants of the products that the companies in these countries need or by
modifying its conditions of payment to accommodate the financial problems faced by these potential customers. This can give them a competitive leverage when the financial conditions of the firms improve and they are capable of paying for the products outright. A relationship marketing strategy permits the entry into markets with substantial incipient demand.

*Latent market demand* represents an untapped demand. This is the case where a demand exists for a particular product or service, but no company has discovered it and therefore has not offered the customers the desired products or services. As Whitely (1994) informs, each economy develops a unique successful recipe. It also creates demand for products and services that may not be immediately found in other countries. By understanding the patterns of change in various economies around the world a vendor can identify new (unsatisfied needs) that its current knowledge and resources can serve without major additional investment. Alternatively, such need can be served through collaborative arrangements with local firms in the specific markets.

*Existing market demand* is what customers in a given country are prepared to pay for. It is the immediately available market for the product. It can be higher than the level of current purchases, since it includes that proportion of demand not as yet satisfied by currently available products due to imperfections in the marketing system. For example, some companies located within the existing industry served by the vendor may change their product lines and therefore become new potential customers of the vendor. There may also be new entrants into the industry who are likely to use inputs that can be supplied by the vendor. Their demand increases the size of existing demand for the vendors’ products and services.

Vendors must assess all three categories of demand in their analysis of market potential. Depending on the vendor’s marketing objectives, strategies can be formulated for one or more of the demand categories.

**Methods of Demand Estimation**
Various methods have been suggested for estimating demand for a product. They vary in the levels of sophistication, from relying on the opinions of a few individuals (sales people and experts) to the use of sophisticated econometric models. One of the middle range models that have found popular usage in the West is barometric analysis. The barometric analysis assumes that if there is a direct relationship between the consumption of a product or service in one country, the same relationship will hold in other countries granting similar levels of economic development. For example it is estimated that there is a correlation between the demand for cement, paper or glass in a particular country and the GNP of that country. That is the higher the GNP, the higher the demand for these products. Similar correlation can be found between agricultural implements and the level of industrialisation. If one knows the relationship between GNP in any of these products in country A (the base country) one can estimate its demand in country B and subsequent countries.

**Segment extrapolation** is a version of the barometric analysis. Here the focus is on the relationship between the some indicators and the pattern of demand within specific segments of a market. The underlying premise is that different segments may have different levels of market penetration. It would therefore be a gross error for a marketer to base his marketing strategies on aggregate demand estimates. The market penetration rate for each segment and country must be carefully examined before a useful demand estimate can be made. For example, although the demand for personal computers can be estimated on the basis of macro economic indicators, the level of penetration in key segments such as financial institutions, commercial data processing companies and public institutions may vary. It is therefore necessary to have information about the number of potential buyers in each of the key segments and assess the degree of market penetration in them before making demand estimation.

Breaking down companies within each of the segments can further refine the technique. The break down can be done in terms of size, sales volume or other factors indicative of sales potential. The penetration rates in each of these within-industry segments are then estimated. The country for which data is available becomes the base country. The number of companies in each of these segments in the second country is then determined and multiplied by the relevant segment penetration rates.
To illustrate: Let us take the example of a vendor of microwave ovens in the industrial sector. From the sales people’s experience, three main groups of potential users are identified – hotels, fast food chains, and restaurant chains. Data on market performance in the base country show that for hotels, the number of units of microwaves purchased was related to the number of rooms in a given hotel. Sales potential of the microwave in that segment is therefore determined by size of hotels. For fast food chains, demand varied with sales volume and for restaurants the number purchased varied with number of tables.

If the analyst wants to estimate demand for the microwaves in a second country he starts by determining the number of hotels in each class size. (The data can be obtained from the tourist board’s database). This is then multiplied by the relevant size class sales potential figure to obtain market potential estimates for hotels. Similar analysis is done for the other segments in order to obtain an aggregate demand estimate.

**Segmentation of Industrial Markets**

Market segmentation is a process of dividing a market into distinct groups of buyers with similar requirements or homogenous responses to marketing stimuli. It is a difficult task to conduct a meaningful segmentation of industrial markets. Often the same industrial products have multiple applications and several products can be used in the same application. Moreover, industrial and organisational customers differ greatly and it is hard to agree on which characteristics can serve as a useful basis for segmenting them. Nevertheless it is useful for industrial marketers to segment their potential customers in order to make choices Segmentation helps vendors in the following three specific areas of decision making:

1. **Analysis of the market**, i.e. allows for better understanding of the buying behaviour of customers

2. **Selection of key markets**, i.e. choosing market segments that can help vendors to attain their marketing objectives.

3. **Development of appropriate marketing strategy**, if marketing plans and programmes are to be cost-effective, they must be carefully tailored to the
There are two major approaches to market segmentation. The first is *a priori* approach in which the segmentation variables and their categories are decided before data are collected. The second approach is a clustering-based segmentation design in which the segments are determined *a posteriori*, for example through the use of cluster analysis of relevant variables.

Taking the a priori approach first, Shapiro and Bonoma (1995) suggest that industrial markets can be meaningfully segmented using the following criteria:

1. Demographics
2. Operating variables
3. Purchasing approaches
4. Situational factors
5. Personal characteristics

**Demographics**

Demographic characteristics include the nature of the industry, the sizes of the companies and their location.

**Industry.** Knowledge of the industry offers the vendor a broad understanding of the needs of potential customers and the purchasing behaviour that they exhibit. A computer company may sell its products to a wide variety of industries, each industry having specific need pattern and growth rate that will affect its purchasing behaviour. Each of the industries can also be subdivided for the vendor to get a better understanding of their needs. For example a computer company wishing to sell its products to the financial sector, can subdivide the sector into commercial banks, insurance companies, stockbrokerage houses and savings and loans associations. Each of these sub-industry groups differs remarkably in their purchase behaviours.
**Company size.** The size of the companies in the industry will also determine the nature and magnitude of marketing efforts required satisfying them. Larger companies will demand greater resources and buy larger quantities. A small vendor may consider the marketing requirements of such companies to be beyond its capacity and may therefore target the smaller companies within the industry.

**Location.** The location of the potential customers will determine the logistics costs that will be incurred to serve them. Where customers are concentrated within one geographical area, e.g. an industrial district of a country, it becomes easier to reach many of them. If the products sold by the vendor are bulky it will be advantageous targeting geographically concentrated customers, since the average marketing resources per customer becomes lower as compared to customers spread over a wider geographical area.

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**Operating Variables**

Operating variables enable the vendor to make more precise identification of existing and potential customers within the demographic categories. The variables include company technology, nature of products, customer capabilities (i.e. technical, financial and operational).

**Company Technology.** A company’s needs depend to a considerable extent on the type of technology it uses in its production process. Most products can be produced with different types of technology and production methods. Top management preferences, financial constraints and industry traditions in a particular country may determine the type of technology chosen by a particular company. Thus it has been observed that the production of Japanese colour TV is highly automated while similar TVs are produced in the US and Europe using manual production methods.
Nature of Products. A company’s product line will also influence its purchase need regarding raw materials, components, equipment and accessories. When product lines are changed or expanded, it will generate new needs and create new market opportunities.

Customer Capabilities. Companies have different configurations of technical, financial and operating capabilities. Some operate with basic technology and are hesitant to modernise, maintain tight material inventories and show high preferences for vendor credit facilities as well as reliable delivery of high quality inputs. Others may have internal facilities to control the quality of inputs delivered and make demands on the vendor’s delivery schedules. These differences must be carefully noted in the classification of the customers, since it will determine the nature and amount of marketing resources to be spent on each of them.

Purchasing Approaches

Companies differ also in terms of the manner in which they organise their purchasing process, the power structures that characterise the purchase decision making units and their policies and attitudes to vendor-customer relationship. These characteristics can therefore be used as segmentation variables.

Organisation of the Purchasing Function. Some companies have a centralised approach to buying, while others adopt a decentralised approach. The composition of the buying centre (i.e. the size as well as the levels of managers involved in the purchase decision) is determined by whether a centralised or a decentralised approach is used by the company.

Power Structure. Customers also vary widely in terms of power structures. In some companies financial controllers are most powerful and no significant purchase decision is
made without their consent, in others, the production manager may have the dominant power. A vendor might find it useful to adapt its marketing strategies to customers’ strengths and power structures.

**Vendor-Buyer Relationships.** Some companies prefer an arms-length relationship with some of its vendors while requiring close relationships with other. It is important to verify what factors determine the preferred relationship. This will help the vendor to decide whether the customer’s policies are in concordance with its own and whether to initiate a trading relationship with the customer.

**Situational Factors**

Compared to operational variables, situational factors are temporary features of customers. They include the urgency of order fulfilment, product application, and the size of order

**Urgency of Order Fulfilment.** Some companies have a policy of zero inventories. This necessitates fast order replacement on just in time basis. Such companies look for vendors that can supply small, urgent orders quickly. Other companies may lack the capacity to plan their production schedules effectively and therefore make urgent orders for raw materials and components. Orders from these companies can be erratic and with varying order sizes. Vendors willing to serve these customers may need to keep stock of materials ordered by the customers in order to serve them effectively, possibly at higher prices.

**Product Application.** Product application can have a major impact on the purchase process, purchase criteria and thus on the choice of a vendor. Water pumping machine required for intermittent service by a construction company will differ in terms of robustness from that needed by a farmer who relies on the machine to irrigate his farm on regular basis.

**Size of Order.** A vendor who wished to target customers with large unit volumes has to pay attention to the order sizes of the various companies within the market. By this differentiation, it will not include small order buyers in its customer mix. If existing customers change their order size it is important to examine the reason for the change and
to determine whether the change is temporary or permanent. This will affect the decision as to whether to retain the customer within the customer-mix.

**Buyer Personality Characteristics**

It has been frequently stressed that people, not organisations, make purchase decisions. It is therefore important to examine the personality characteristics of the major purchase decision-makers in potential customer firms/organisations. Some people are generally risk averse while others are risk receptive. The level of risk a buyer is willing to assume is found to relate to such personality variables as the degree of tolerance for ambiguity and self-confidence. Buyers who are risk averse have difficulties changing to new vendors. They are willing to do so only when the present vendor has betrayed the trust reposed in it, for example, by not living up to its delivery promises. Risk averse buyers are also very reluctant to try new products.

Although personality attributes are useful factors to consider in market opportunity analysis, it is difficult to collect reliable data on such variables. The market analyst may therefore use this variable only when the necessary information is at his disposal.

**A Posteriori Segmentation**

With regard to *a posteriori* segmentation, Day (1990) identifies four response profiles: application or usage situation benefit sought or (derived), sensitivity to marketing variables, and purchase behaviour and loyalty variables. Among these variables, benefit is considered to provide the best segment for a marketer, since the main purpose for which products or services is bought by a customer is the benefits that they offer.

**Impact of Interpretation of Market Environment on Market Analysis**

Finally, it must be noted that gaining knowledge of these market opportunities requires an interpretation of signals within the market environment. Interpretation is the process that gives meaning to data, establishes the significance of events and identifies the range of
options. Based on selective attention to events, interpretations lead to the acceptance, rejection, or modification of an organisation’s strategies and practices. Interpretations are based on the individual manager’s past experience, values, skills and self-interest. Hence the same set of data will generate differential interpretations and responses from decision-makers in a company. The reason is that individuals attune selectively to different subsets of the data available to them and attribute different meaning and significance to what they choose to focus attention on.

As hinted above, the choice of approach to market knowledge acquisition will also depend on the degree of stability evident in the operational environment. In stable environments where past cause-effect relationships have been established and provide relevant guidance, multiple interpretations are less common and perceptions play a lesser role (Daft and Weick, 1984). In such situations, organisations tend to employ routinized data collection procedures and delegate the task of reporting to lower personnel levels.
RELATIONSHIP MARKETING

The concept of relationship marketing (RM) has been described as a new marketing paradigm, a new marketing strategy and a new emerging school of marketing (Aijo 1996). Companies have become increasingly conscious of the fact that unique (i.e. non-imitable) and superior customer value is best created through relationships. This allows vendors to retain their customers over a longer period of time than they used to. Vendors now see customer retention as a goal in itself.

Kotler (1991) expresses the development in the following words: "What I think we are witnessing today is a movement away from a focus on exchange - in the narrow sense of transaction - and towards a focus on building value-laden relationships and marketing networks. We start thinking mostly about how to hold on to our existing customers.... Our thinking is therefore moving from a marketing mix focus to a relationship focus".

Crucial elements in the RM framework include interactivity, networking, trust, long term orientation and exchange of promises. As Shapiro et al (1995 p. 186) explain, “relationship selling is not just a better set of techniques for making sales. It is a different philosophy based upon continuity and trust”. Concepts such as symbiotic marketing, co-marketing alliances, internal marketing are now widely used in the literature to explain the characteristics of relationship marketing.

Several factors have contributed to the importance of RM in current business practices. They include the general affluence in the Western industrialised economies, globalisation, technological innovations, information revolutions (computer and telecommunication developments) all of which have combined to produce a buyer’s market characterised by limitless buyer choices. These circumstances have compelled companies to simultaneously raise efficiency through cost minimisation and improve the level of quality of their products. Quality expectations of customers everywhere have increased. To serve them vendors must have up-to-date awareness of these expectations and work with them to succeed.
As marketers of consumer products come under increasing pressure to be strategically flexible and to mass-customise, they put pressure on their suppliers as well to reduce cost and improve quality. To achieve these twin goals of low cost and high quality of products and delivery services, it has become imperative for firms to collaborate closely in their business-to-business transactions. From international industrial marketing perspective, this requirement implies that suppliers must either be located in close proximity to customers and/or strengthen their connectivity through the use of Internet technology. It has also been noted that successful relationships between suppliers and customers require the broader involvement of organisational actors in the collaborating companies, i.e. pulling together knowledge, commitment and trust from many people.

**Typology of Relationships**

Four broad types of vendor-buyer relationships can be identified

1. **Systematic sought out relationship**, where vendors conduct elaborate market search to identify customers and design proactive marketing strategies aimed at building relationship with them.

2. **Emergent relationship**, where initial transactions with customers leads to incremental development of relationship. This happens when customers are satisfied with the outcome of the initial transactions and therefore request the vendor to supply other products to the company.

3. **Arranged relationships**. They are the types of relationships that are initiated by third parties, e.g. on the initiative of a public institution as part of government policy. The Danida sponsored private sector development programme is a good example.

4. **Strategically unavoidable relationships**. These are relationships that companies consider imperative for the sustenance of their competitive advantages. For example a furniture company that uses tropical wood may have to enter into alliances with suppliers in tropical countries in order to ensure sufficient supply of logs.

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Business-to-Business marketing relationships are likened to marriage. Both partners believe that each has unique skills and functional abilities the other lacks. They bring into the relationship a faith that they will be stronger together than either would be separately and are willing to work diligently over time to make the union work.

The process starts with selection and courtship. The vendor first assesses its product offerings and matches it against the expectations of the customer in order to determine its ability to fulfil these expectations. Contacts are then initiated and agreements are worked out and signed. After this details of the relationships are negotiated and implemented. The interactions between the staff of the buyer and vendor lead to the identification of problems, the discovery of differences and the agreement of acceptable approaches to solving emerging problems. At some point in the future exit becomes inevitable, either through “death or divorce”. To manage the relationships effectively it is important for both vendor and customer organisations to empower their front line personnel to take decisions that can smooth the process of interaction.

Companies engaged in relationship marketing must therefore be mindful of the fact that relationships involve a substantial loss of autonomy. As Shapiro et al (1995 p. 184) explain it “decisions will no longer be made only on the basis of the needs and desires of one organisation, but on the joint needs and desires of both partners.”

**Key Accounts Management**

Relationship marketing is resource demanding, in terms of management time and broad management involvement in all aspects of the relationship. In order to manage a vendor’s resources effectively, customers may be classified in terms of the sizes of businesses transacted or expected to be transacted with them as well as the amount of resources that they expect to devote to them. Major customers receive high quality of co-ordinated support from a variety of functional units (e.g. manufacturing, sales, technical support services, marketing) within the company. The management of such relationships has been dubbed strategic accounts management and is based on the following three attributes.

1. Importance
2. Intimacy
3. Longevity

Importance relates to the sales and/or profit that can be generated from a particular account. Customers must be expected to represent high financial payouts for vendors to devote substantial resources on them. Intimacy allows vendors and customers to gain insight into each other’s businesses, and to share operating information. Intimacy is based on trust and trust in turn promotes intimacy. (See the discussion of trust below). Longevity of relationships is also necessary to encourage companies to invest the required resources in the relationship with the hope that the partners will reap the anticipated rewards from their investments.

In the very intense relationships, vendors may have to post their employees in the customer’s organisation to work together with the customer’s employees. In such situations, strong personal relationships may develop between the employees of the two companies and influence the longevity of the relationship. The close collaboration will enable the vendor to gain good knowledge about how its product is used and help develop unique applications for the focal customers. The buyer is also willing to share such knowledge with the vendor as long as this will help the buyer to gain new knowledge and unique support for its activities from its vendor company. The knowledge leads to improvements in the competitive positions for both companies.

It is important that vendors avoid the following four types of errors in the management of their strategic accounts:

1. Attempting to develop too many strategic account relationships.
2. Picking poor strategic account partners.
3. Allocating too few resources to the relationship.
4. Losing sight of the importance of cultural compatibility in the relationships.

In order to satisfy key accounts fully and explore opportunities that emerge from the relationship, it is essential that the number of accounts must match company resources. Since vendors have to concentrate their resources on few accounts, the selected accounts
must be truly strategic in terms of business volume. A poor choice will naturally lead to waste resources and high opportunity cost.

Finally it must be noted that strategic accounts justify and require the broader involvement of the best managers/employees of the vendor and customer organisations. An inability to assign adequate staff to the relationship or empowering them to make quick decisions can act as a serious constraint to the performance of the relationship. Furthermore, focusing on quick financial performance of such relationship can jeopardise its prospects. This implies that companies entering into the relationship must have some degree of slack resources to start with and may be able to leverage external resources when necessary.

Finally, if personal relationships are to develop, people must spend time together. Improvements in information technology (intra and Internet facilities) have added new possibilities for interaction even in the absence of geographical proximity.

**Trust and Relationship Marketing**

Trust is widely recognised as a critical component in successful relationship marketing. In the social science literature, trust is believed to be that social attribute that generates a willingness among people in dyadic relations to sacrifice their short-run individual self-interests for the attainment of joint goals or longer term objectives (Sabel, 1993). People who trust each other believe that their relationships are worth sustaining and therefore actively contribute to its continuity. That is, trust leads to higher levels of loyalty and long term collaboration between people (Fukuyama 1995).

Similar perspectives are reflected in the industrial marketing literature. Anderson and Narus (1990 p.45) define trust as “the firm’s belief that another firm will perform actions that result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm”. Trust allows firms to reduce or avoid reliance on costly formal monitoring mechanisms to maintain their partnership. It also produces mutual concern for longer term benefits by partners, raises market performance through the improvement of efficiency, and allows for information exchange, joint problem solving attitude and mutual learning (Aulakh, Kotabe and Sahay 1996). Furthermore, trust
complements written contracts between firms. A contract cannot be expected to address every eventuality and contingency faced over the course of a long-term relationship. Where trust exists between the partners they will adapt to unanticipated contingencies without resorting to opportunism. As Sabel (1993) observes, trust requires a mutual suspension of self interest of the interacting partners. That is, it lays the foundation for a mutual confidence among business partners that no party to an exchange will exploit the other’s vulnerability. Universal suspicion is therefore replaced by shared confidence.

The need for cultural sensitivity is closely related to trust between cross-national partners. The argument here is that cultural sensitivity promotes regular and effective communication between the collaborating firms and thereby reduces the incidence of misunderstanding and suspicion. Trust is therefore seen as a culture-dependent concept. That is, the underlying logics of trust differ across societies. Thus, Johnson, Cullen, Sakano and Takenouchi, (1996) found a wide discrepancy between Japanese and Western ideas of trust. They further noted that the rules of trust building observed by partners based in the same culture differ from those observed by partners belonging to different cultures.

**Power and Relationship Marketing**

This brings the issue of power in supplier-distributor relationship into focus. Some researchers acknowledge the possible asymmetry in benefits accruing to the participants in the relationship. That is to say, parties in a relationship may not draw equal benefits from a relationship. The differences in benefits may be indicative of the power differences between the parties. Power derives from having resources that the other needs and from controlling the alternative sources of the resources. Brown and Lusch (1983) have presented the following typology of power situations:

*Reward Power*, based on a channel member's perception that the other party has the capacity to provide him with rewards that he will find hard to secure from other firms. A typical reward in this regard will be the ability of an exporting firm to grant credits over longer time periods than usual. Such a reward will doubtlessly be inductive to developing country-based firms relying on a European firm to enhance its technological capacity through supply of equipment and relevant skills.
Coercive Power, based on a partner's perception that the other party has the ability to mediate punishments, e.g. reducing supplies or slowing down shipment of products on which his firm is highly dependent.

Legitimate Power, i.e. what the industry accepts as the right way of doing business and this relates to the hierarchies of power within the business. It may also be contained in legally enforceable contracts.

Referent Power, based on a partner's desire to be closely associated with the other party due to perceived benefits from such association. The more attractive the resources a supplier controls, the more likely it will be for the other party to view the relationship as essential.

Expert Power, based on a channel member's belief that a given channel member has specialised information or knowledge that will benefit its operations. This kind of power can form the basis of the referent power mentioned above.

Asymmetrical power relations will invariably engender ill will. A non-dominant party will feel cheated and may, in turn, cheat on the dominant partner as a way of relieving pent-up frustrations and bring balance into any perceived inequities.

Morgan and Hunt (1994) have therefore suggested that commitment and trust should be considered the foundations of a supplier-customer relationship. The committed party believes the relationship is worth working on and therefore actively contributes to its continuity. Commitment is built on trust, i.e. confidence in each other’s reliability and integrity. Trust therefore leads to higher levels of loyalty. "When both commitment and trust - not just one or the other - are present", they argue, "they produce outcomes that promote efficiency, productivity and effectiveness" (Morgan and Hunt 1994, P.22).
Challenges in Relationship Marketing

Relationship marketing has its challenges. It can result in relationship-specific investments. As the transaction costs theory informs, these are specialised investments that partners make that are of little value outside the specific vendor-buyer relationship due to their idiosyncratic nature. For example, a vendor who devotes its engineering expertise to solve a unique design problem for a manufacturer has made a relationship-specific investment. At least in the short run, the vendor’s investment is neither easily transferred nor recovered if the relationship terminates. Thus the more relationship-specific investment partners make, the more dependent they become on each other.

Exit barriers also constitute a negative dimension of relationship marketing. Exit barriers are said to be present in a relationship when partners believe that terminating established relationships would be costly. The more difficult it is to gain access to the resources supplied by the other party to a relationship, the more dependent a company is to the relationship. When avenues exist to gain the same resources (in terms of quality, delivery reliability and post sales support) the more likely it is for partners to pull away from the relationship.
AN INTERGRATED FRAMEWORK FOR ANALYSING INDUSTRIAL BUYING BEHAVIOUR

Company Specific Factors
- Orientation to business
- Size
- Culture
- Resources

Product Specific Factors
- Urgency
- Anticipated risk
- Complexity

Background of key buying centre members
- Specialized education
- Perception
- Personality
- Role

Factors Influencing the Nature of the Purchase Problem

Buying Centre Decision Process

- Problem recognition
- Need description
- Product specification
- Active search

Type of Purchase
- New task
- Modified re-buy
- Routine

- Recognition and analysis of proposals
- Evaluation of proposals
- Selection of Suppliers
- Negotiation and placing order

Perceptual Distort

* Persuasion
* Bargaining
(by vendors and buying centre members)
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