Unit 10

Customising communication & interaction

- **Consumer products**
  - Products that are purchased by consumers for final consumption.

- **Industrial products**
  - Used to generate other products and service, such as:

    - <u>Mining products</u>
      - Taken from the earth & will be further processed (eg: coal, iron ore)

    - <u>Partly processed materials and components</u>
      - Further processing necessary to use products. (eg: flour)
      - Components often assembled without any further changes made (eg: buttons)

    - <u>Installations</u>
      - Includes capital equipment, building & heavy machinery which are all expensive & which require large sums to be invested

    - <u>Accessory equipment</u>
      - Equipment needed to produce a final product, but doesn't form part of final product

    - <u>Operating supplies</u>
      - Used either directly or indirectly in production process (eg: cleaning supplies, stationery)

Table 6.1 Final consumers and business consumers: a contrast

Final consumers	Business consumers
Goods are purchased for final consumption, and include speciality, shopping and convenience products	Goods are purchased for production purposes and include components, accessory equipment and installations
There are numerous consumers who individually are not able to exercise an influence on the organisation	The market structure differs in that there are a few large consumers who exercise a great influence over the product
Generally, use is made of intermediaries such as wholesalers and retailers	The distribution channel for B2B activities is usually direct from the supplier to the organisation
Consumers repurchase for a variety of reasons, which are as diverse as the people themselves	There are a variety of purchasing situations such as straight re-buying, modified re-buying or new task buying
Consumers make decisions regarding the suitability of the products to be purchased	Purchasing decisions are usually made by a number of people who all have input into the final decision
Customers are influenced by a wide variety of factors such as demographics and psychographic factors	Organisations have a range of factors that they evaluate including price and quality on offer
Less likely to develop close relationships, as customers are more fickle and more likely to switch brands	More likely to develop close relationships, as organisations are recognised for their importance
Little likelihood of reciprocity of purchase	Reciprocity is relatively common between organisations
Mutual value creation is based on characteristics that are personal to the customer such as size and fit	Mutual value creation is possible, as the businesses work together (as in the case of Intel and computer manufacturers)
Products such as low involvement products are one-way relationships	There is higher interest in the relationships, though routine purchases may also be one-way relationships

Difference between consumer & business markets

Fundamental differences between doing business with consumers and doing business with other organisations

Appropriate conditions for relationship between organisations:

6 conditions that influence the development of a relationship between organisations

1. Asymmetry

Situation where one organisation can exert power over another organisation. This would encourage the "dominated" organisation to develop alternative links that will reduce the power being exercised by the more powerful organisation. This would enable the organisation to alter the balance of power.

2. Stability

Relationships can be developed to decrease the instability experienced within the external environment. Organisations enter into long-term contracts in order to ensure a stable environment with respect to prices & delivery agreements.

3. Legitimacy

Being associated or having a relationship with a large, well known organisation may improve the reputation of the smaller organisation

4. Necessity

Organistaions are required to use certain services such as those of auditors and accountants. Organistions tend to use the same accountants and auditors for extended periods of time, thereby developing a relationship with them.

5. Reciprocity

This refers to the relationship that develops where one organisation buys the goods of the other and vice versa. This enables both organisations to pursue common goals, so that both organisations benefit. This in turn contributes to the development of a relationship.

6. Efficiency

This is an internal contingency and refers to the way in which business is carried out in an organisation. There are 3 aspects that effect the efficiency within an organisation:

1. Types of costs associated with transactions
2. The level of transaction costs
3. The dimensions of transactions

6. Efficiency

A: Types of costs associated with transactions

- Coordination costs
  Those costs incurred in investigation other organisations to determine whether to do business with them (eg: creditworthiness)

- Motivation costs
  The lack of completeness that an organisation may experience when carrying out an investigation. Another type of this cost is when one party shows that it is not fully committed to the relationship, which implies that its promises may not be kept

B: The level of transaction costs

- Opportunistic Behaviour
  The situation where one organisation exploits the situation to its own advantage, as there are terms & conditions within the contract that have not been met.

- Moral hazard
  Exists when the other party in the agreement monitors the agreement (so ensures it is not exploited).

- Bounded rationality
  The inability to factor in all possible outcomes within a situation, and so these situations have not been described totally within a contract

C: The dimensions of transactions

- Asset specificity
  Specific item required for contract

- Frequency of transactions
  Regular supply: traditional contract
  Once off high value: specialised contract

- Duration of transactions
  Relationship develops over a long time

- Complexity of the transaction
  Customised product have additional costs

- Monitoring of a contract
  Due to not being possible to predict every action

- The measurement of actual performance
  Must be done in cost-effective way

- The interrelatedness (connectedness) of transactions
  Decisions on purchase of one item can affect purchase of another – degree of connectedness makes it necessary to examine the decision-making variables connected with each decision

Types of relationship in B2B

- **Transactional exchange**
  - ✓ The anonymous purchasing that takes place between people
  - ✓ Centres on the timely exchange of basic goods at competitive prices
  - ✓ Exchanges are formal & competitive bidding can be used to determine the best prices

- **Collaborative exchanges**
  - ✓ Both parties work together to form very close links & relationships so that both parties are able to derive the maximum long-term benefits from the relationship.
  - ✓ Joint problem solving & information sharing
  - ✓ High degree of commitment from both parties – relationship commitment is the belief by a partner that an ongoing relationship is important, and so it requires maximum efforts to maintain the relationship.
  - ✓ Development of maintenance of trust is vital

- **Value-added exchanges**
  - ✓ Lies between transactional & collaborative exchanges.
  - ✓ The aim of the organisation changes from finding clients to retaining & building a relationship with them
  - ✓ Requires business investigations into clients needs & adapts products accordingly

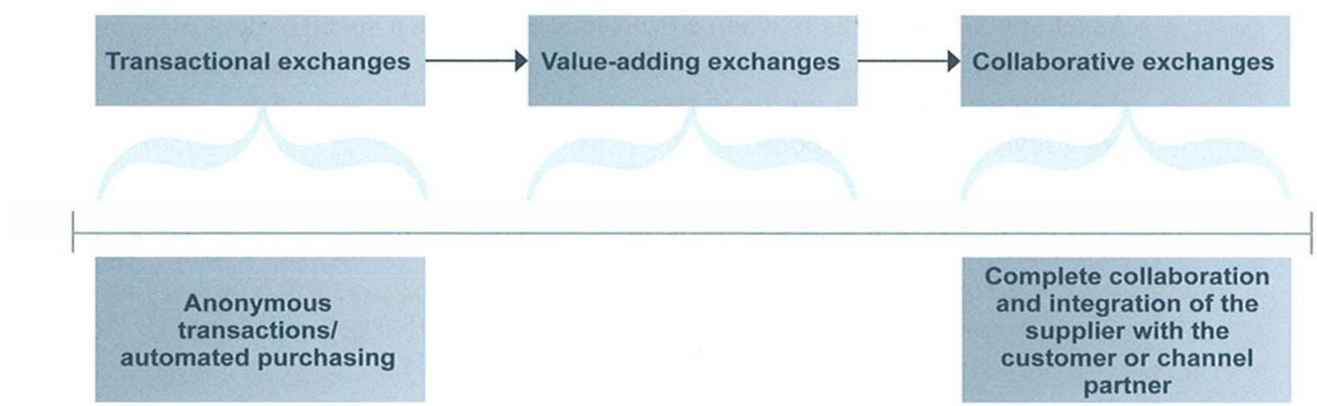

Figure 6.1 The relationship spectrum[5]

Relationships with specific B2B Markets

Suppliers

- Organisations should build up relationships with suppliers if they wish to increase their competitiveness in the marketplace

- Co-makership is the decision to limit the number of supplier with whom the organisation will do business
  - ➢ Organisation provides more info about customers, which enables suppliers to provide more customer suitable products
  - ➢ Cooperation will result in greater benefits to both parties such as financial & customer satisfaction, as well as possible joint product development

- The importance of suppliers can be seen in:
  - ✓ Quality of product supplied – affects final product quality
  - ✓ Qty of product supplied – affects availability of product
  - ✓ Price – affects final selling price
  - ✓ Timing – affects manufacturing product schedule

- The supplier of the database management system is important in CRM.

Intermediaries

- These are channel members who help the product get to the consumer; therefore intermediaries play a very important role in the supply chain of the organisation.
- The keys to managing relationships with intermediaries:
  - ✓ Planning undertaken by both parties can help to improve relationship
  - ✓ Channel-member profitability can develop ways of improving profitability
  - ✓ Respect & trust, which includes clear & open communication
  - ✓ There is a high degree of interdependence between intermediary & business, even though they are independent
  - ✓ Keep the focus on the final customer & the satisfaction of their needs.

Co-venture partners & strategic alliances

- Strategic alliances
  - ❖ Organised & agreed/negotiated relationships between parties
  - ❖ Co-operation takes place between parties in the alliance
- Co-venture partners
  - ❖ Provides an organisation with the opportunity of exploiting a situation without having to carry all the risk & expenses
  - ❖ Enables organisation to exploit synergies that exist between the 2 parties.
  - ❖ Not necessarily traditional relationships (products & services)

- A successful strategic alliance depends on the following success factors:

❑ A close working relationship
- Long term success is impossible without it
- Frequent communication & dealing with important issues are required

❑ Integrating points of contact
- Must be flexible to incorporate changes in environment & identified circumstances
- Integration needs to be strategic, tactical, operational, interpersonal & form culture

Competitors

- Other organisations who sell similar goods and services
- Either direct competitors or have a substitute product
- When an organisation takes on competitors, a situation often arises that is of no long-term benefit (eg cut-throat price competition may take place, resulting in bankruptcy). Including price wars, loss of reputation & wasting of organisational resources.
- Organisations must be fully informed about competitor target market & products to anticipate their actions & plan its own response in advance.
- Individual competitor profiles how organisations who will:
  - ➢ Fight to the death
  - ➢ Engage in a counter-attack (and the form this will take)
  - ➢ Ignore the actions of any competitor

➢ From the info gathered about competitors, It will be clear what the various competitors strengths & weaknesses are and how they can be exploited

Managing relationships effectively:

4 requirements that indicate extent of this

Introductions

- A relationship should be managed, otherwise there is no point in establishing it in the first place.
- It is necessary to put in effort on a continual basis to ensure that the relationship stays positive.
- This indicates that relationship management is a continual process with which managers are engaged.

Awareness

- Within the relationship, it is important that the manager has an awareness of the problems and opportunities that form part of the relationship, as well as of the expectations of the other party in the relationship.

Actions

- All actions must be evaluated in terms of their potential impact on the organisational relationship.
- This means that the consequences of any action need to be determined so as to ensure they do not harm the relationship in any way.

Accountability

- To ensure that relationship are maintained, it is necessary to establish reporting procedures regarding the state of the relationship, as well as the performance of the relationship.

Assessment

- The continual evaluation of the resources that the organisation has to offer in terms of resources that are needed to get to the destination that both parties are aiming for.