QUALITY SUPPLIER RESPONSE TO INDUSTRIAL PROCUREMENT BEHAVIOUR ON THE SOUTH EAST EUROPEAN METAL DISTRIBUTION MARKET

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ABSTRACT: *Analyzing industrial marketing we can observe increased interactivity between selling teams and buying centers (DMU). A proper understanding of DMU's behavior give the opportunity to industrial supplier companies to offer a quality response and to obtain better commercial results. This paper presents multidisciplinary characteristics by mixing different approaches, solutions from industrial marketing, organizational (customer) behavior, sales management, management and digital marketing. In this paper we shall analyze these peculiarities and processes by secondary market data analyses, professional in-depth interviews with members of DMU's and selling teams from different countries, direct behavior observations from the market (industrial exhibitions or negotiations between sales representatives and buyers). One of the key area of the paper shall be the situation of the peculiarities on the (metal) semi-finished products on Romanian and South East European markets, in the era of digital marketing. In nowadays industrial marketing, digital and traditional marketing concepts are converging. The sales forces are sustained by customized marketing mix, digital tools, long-term relations, automated processes, targeted communication and useful marketing and technical information.*

KEY WORDS: *industrial procurement behavior, organizational buying behavior, buying center DMU, industrial marketing, semi-finished product marketing.*

JEL CLASSIFICATIONS: *M31, L140, M30.*

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1. MAIN FEATURES OF INDUSTRIAL MARKETING

Industrial marketing or business-to-business marketing is many times treated like a down-graded version of the "classical" marketing, the business-to-consumer or the consumer's goods marketing. "Marketing has its roots in understanding consumers, and because we are all consumers and business-to-consumer marketing (from communication to effective selling has more visibility) it has become altogether too easy to concentrate on using consumer-based examples and theories when discussing marketing concepts. However, business markets are far larger: businesses buy and sell more goods than do consumers, and the transactions that take place between organizations have a greater impact on the economy and on the welfare of people than do the transactions between businesses and consumers." (Zimmerman A., Blythe J., 2004). However, B2C marketing has high visibility, starting from commercials in mainstream media channels to shopping malls, B2B marketing is most of the time more discreet, is taking place behind closed doors, at business meetings and nowadays online. In order to develop efficient industrial marketing strategies first we have to understand the similarities and differences between marketing to consumers and marketing to professional buyers from commercial or industrial organizations.

Continuing the parallel presentation of B2C and B2B, the first step is to understand our consumers, or in our case the industrial buyers (or as often called buying center or DMU - decision making unit). In order to be able to offer high quality services and to achieve sales or marketing targets our first duty is to deeply understand the way that our costumers acts in a procurement process. In the present paper we'll make some comparison between the two major types (final consumer and industrial) of marketing and procurement, but the main focus well be on industrial markets and especially on the semi-finished metal products market in Romania and South East Europe.

The first issue that we have to focus on is the main purpose of companies acting on B2B markets: they have as main goal the profit and wealth growth. Company's interest is most of the time openly assumed based on rational decisions, also personal interactions and relations, reciprocal dependency at least for medium term are usual on this market (Torocsik, M., 2007). The first impression when we talk about industrial marketing is that heavy equipment, production halls or even high-technology is involved. In this order marketing experts from this field need to have solid technical and economical knowledge.

David Ford focuses on three main directions: the features of the relations with suppliers, the volume and organizational infrastructure and the measure of relying on existing suppliers. (Ford, 2003). In his opinion, the most important task of an expert in business marketing is to give a quality support to the procurement process of the buyers.

One of the most accepted description of industrial buying features is given by Kotler. But first, we need to clarify the concept of organizational buying or procurement. Kotler refers to the Webster and Wind when defines the organizational buying as "the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among

alternative brands and suppliers". (Kotler, Ph., 2002). So, a quality supplier response needs to follow the path described in this definition.

In the next table we try to offer a list of the most important peculiarities of industrial markets, based on the works of Zimmerman and Blyth (2004), Torocsik (1997 and 2007), Jozsa (2005), Kotler (2006) and others, which we adapted to the market of semi - finished metal products in Romania and South East Europe.

Table 1. Industrial markets' peculiarities adaptation on the semi-finished metal products' market

Industrial marketing features	How it appears of semi-finished metal market
Limited number of actors	Less than 20 important producers and less than 100 resellers
Narrower customer base	From a few dozens to a few hundred usual buyer
Derived and inflexible demand	Costumer market's demand influences, for ex. if people don't buy cars, on medium terms aluminum and steel sales decrease
Products are technically difficult to substitute	High quality products are important, but there are no big differences between products, complementary services do the difference
Importance of personal relations and sales force	Over 80% of sales are due to sales force and realized with long or medium term partners
Many sales visit for one (first) transaction	For the first sale sales man pays many visit and changes lots of information through internet and phone
Internationally opened markets	International and multinational corporation appear on the market regularly as suppliers and customers, too
More formalized transactions	Transactions are based on price offers (request), contracts, orders, shipment documents, bank payment…
Additional services	Cutting to size, delivery routes, packaging, consultancy
Importance of buying centers or DMUs	(Design) engineers, plant managers, buyers, financial experts influence the decisions, at least at major negotiations
Many influencing factors on procurement	Product standards, price, delivery place and time, commercial credit, brand image, services, relationship are also important
More rational decision	The above mentioned factors are quantified and weighted
Networking -clustering	In some subfields are important
Demassification	Every company has its needs and expectation-sometimes customization
Different segmentation	Segmentations by size, field of activity, volume of materials used, but also business style: willingness to risk, need for partnership and safety
Less end user info	Those who sales electrical, aluminum, steel semi-finished products don't know in which way final costumers use the product

For our paper the most interesting topic for the above list are those related to the behavior of the DMU's (decision making unit) or buying centers: the importance of personal relations, more formalized transactions, more rational decision and many influencing factors on procurement.

2. INDUSTRIAL PROCUREMENT BEHAVIOR (I.P.B. OR O.B.B. ORGANIZATIONAL BUYING BEHAVIOR)

Nowadays marketing experts and salesmen complain that consumers "behave in a strange way", "no one can understand what they want, how they make buying decisions". Understanding consumer's behavior, researching it, analyzing it became an important task of marketing departments. The same way that "classical" (consumer) marketing made the transition from production orientation trough product, then sales, and consumer focused marketing orientation till the actual societal marketing (Kotler, 2017), industrial marketing moved the focus from the product orientation to focus on the consumer behavior, in our case, the industrial buying (or procurement) behavior and relationship marketing. In the lack of dedicated space, we only mention a few concepts in this progress: the 4P (marketing mix: product, price, place and promotion) evolution to 7P (4P + physical evidence, process, people) or into 4C (consumers' needs, cost to satisfy, convenience, communication) etc. Or we can go further to the 4V concept, which focuses on the validity of the offer, the value, the venue and the vogue. One of the most interesting and complicated issue related to consumer behavior analyses in industrial marketing is that industrial procurement is a ***collective decision***, even if we can separate it into three levels:

- individual level - or interest;
- decision making units or buying center level;
- organizational level. (Torocsik, 2007).

Another aspect to clarify when discussing about industrial procurement behavior is that these companies use the procured goods for their business goals (Jozsa, 2005):

- users need the product (a machine, a tool) in the process of production of new products they sell to the market,
- buyers - producers, who build the goods into their own product (for ex. semi-finished metal bars for a car component). The US literature call them OEMs (Original Equipment Manufacturers),
- resellers - who don't use or change the products, they resell it in an unchanged form. Their customers are the previous two categories.

2.1. The process and participants to the industrial procurement

The process of decision making in industrial procurement is (similarly to individual or familial consumer behavior on consumer goods' market) is a multiple stage process. The number and the complexity of these stages vary influenced by many factors: the size of the company and the decision making units; the value of the acquisition; and the influence of the product (or service) on the activity and financial situation of the buyer company (from small spare parts to strategic industrial equipment or an ERP system). (Jozsa, 2005). Fill (2005) completes the ideas of Spekman, R.E. and Gronhaug, K. (1986) and identifies four groups of main influencing factors.

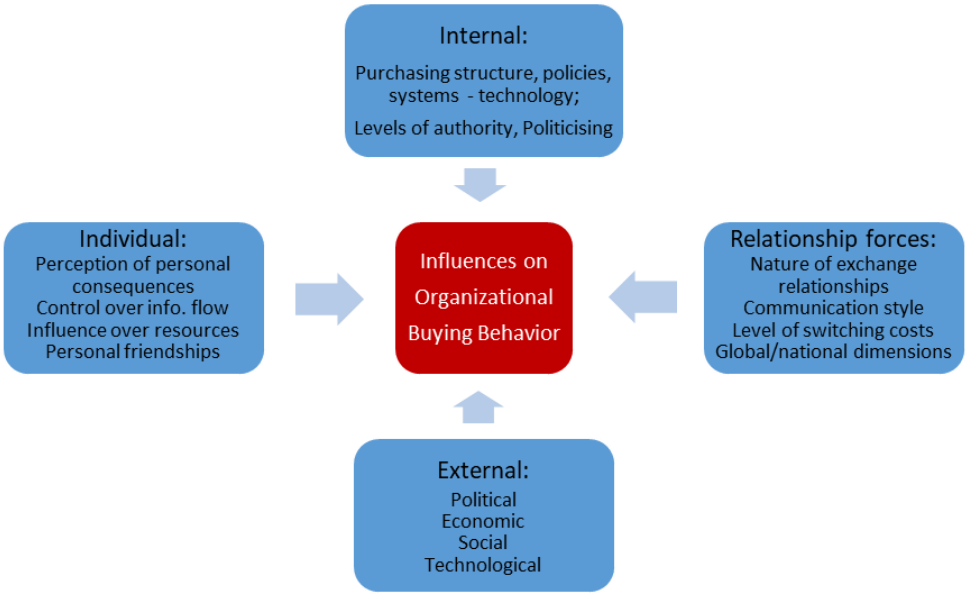

Figure 1. Influences on O.B.B. (Organizational Buying Behavior) (adapted after Fill, 2005)

The classical stages of industrial procurement process are (Backhaus, 1997):

- identifying the problem, the need for a certain product, defining the value or volume needed to be procured
- searching for a solution, collecting product alternatives,
- assessing and comparing offer phase,
- negotiation - detailed discussion between seller and buyer (teams), comparison of offers (technical, financial, logistical and service aspects),
- decision making, order or contract signing,
- delivery stage, product using stage,
- additional stages: quality inspection, training, follow-up etc.

In case of complex products, the offer, negotiation, decision making stages can have many other intermediate stages. Also the delivery and product using stage can suffer changes: testing, renegotiating, product - system development etc.

In present days, on the South East European metal distribution markets ***sales force are still the dominating force***, but they became more and more ***over-busy***, mostly because losing too much time and energy with small valued, transaction based selling, while not being able to properly serve the key account partners or focus on relationship marketing.

Cardozo (1980) a found that industrial organizations tend towards one of two main strategies or directions in procurement. They are called the optimizers or satisfiers. The optimizers negotiate with a large number of potential suppliers and evaluates a list of proposals before selecting a supplier. The satisfiers prefer to have partnerships with familiar suppliers and signs contracts with the first company to fulfill the requested tasks.

In case of increased risks individual actions leaves place to DMU-s, as Johnston and Lewin (1996) affirms.

The next question is, who is responsible for the above described process. As we already, shortly mentioned: the DMU (decision making unit) or Buying Center holds the responsibility for the whole project. This DMU is a complex team, with interesting models of functioning as you'll see in the next sub-chapter: DMU - Buying Center.

Most of the researches, articles or educational resources focus on the group level, the decision making unit or the so called buying center. Probably the main reasons for it is that trough analyzing DMU we can observe as well individual aspects and the same time with organizational features. The last 40 years, as industrial marketing reached a larger academic and industrial attention, many buyer behavior model were developed. We can distinguish partial and complex models. The partial models focus on analyzing one factor at one time, while the complex model aims to bring together all the main elements of organizational procurement behavior.

As Spekman and Gronhaug (1986) point out, the DMU is a 'vague construct that can reach across a number of different functional roles with any number of individuals participating or exerting influence at any one time'.

The dimensions and forms of Buying Centers are not stable. It can vary due to the complexity of the product to procure, the level of perceived risk in case of every decision taken by the organization. There is a need for special roles, because the procurement task is modified at every new procurement situation, (Bonoma, 1982).

Table 2. Procurement (buying) behavior models categories (adapted after Torocsik, 2007)

Partial models	**Complex models**
Buying center concept	Robinson Faris Wind - Buygrid model
Sub-division related to organizational power	Bonoma Zaltman Johnston
Sub-division related to reaction	Webster Wind
Focus on interactive communication	Sheth
	Choffray Lillien

3. QUALITY SUPPLIER RESPONSE TO THE INDUSTRIAL PROCUREMENT BEHAVIOR

In these analyses we have to maintain focus on the basic principles on which companies activate: obtaining profit, sustainable development and increasing company's worth. So, **helping customer companies to obtain profit** by reducing acquisition (logistics, operational) costs and increasing sales are vital for suppliers.

The classical response to customers' needs in marketing was the **marketing mix**, or the 4P's: product policy, price policy, distribution or placement policy and promotion policy. And as the name suggest it is very important the proper mixing of these ingredients to a selected target (based on an STP strategy: segmentation, targeting and position). In industrial marketing some authors consider that the first two

P's (product and price) have to be managed together as "offer policy": product and service range, prices, discounts on volume or value, payment conditions etc. Many times on metal markets the question „when to pay?" is more important than „how much to pay?".

The first aspect of analyzing seller-buyer interaction on industrial market are the relations between focusing on long-term relations versus individual transactions, and between focusing on individual customer versus on market segment, as you can see in the next figure. The study of organizational buying behavior needs to focus on developing and managing **inter-organizational relationships** on medium and long term. (Fill, 2004) The stronger the relations are the mutual benefits increase, including quality services are provided and both parties can be successful on long-term.

In industrial marketing many researchers affirm that relationship marketing is more important than the marketing mix. Knox (2000) suggests that there are three reasons why competitive advantage might be improved through **stronger relationships.** Systems cost reduction - cost savings from improved working practices: for ex. ***improved order cycle times***, ***reduced stock*** and working capital, buyer centers already knows the products features, ***delivery methods and time*** etc. Increased effectiveness through innovation - as a relationship develops, more information is exchanged and suppliers become more willing to invest in the relationship (supplier holds on stock special semi-finished products for key accounts). Enabling technologies - electronic systems and communications help suppliers to ***anticipate and understand the needs of their customers*** (partner companies can set up common online systems for orders, payment etc. Suppliers become abler to evaluate the cost-effectiveness of their customer portfolios and to determine where to invest.

Organizations work, wherever possible, to reduce uncertainty and risk. By working with others who are known and trusted, of whom the organization has direct experience, risk and uncertainty can be substantially reduced. So building relationship marketing approach is also a quality supplier response to industrial procurement behavior. Fill (2004)

It is vital for seller organizations to **identify members** of the buying center and to **target and refine their messages** to meet the needs of each member of the center, for ex. a design engineer needs information about the features of materials or semi-finished products, the logistical manager about the deliveries, the financial officer about price and payment methods etc. Fill (2004). Ronchetto et al. (1989) provide some insight into how influential members of a DMU might be recognized. Their research suggests that there are several criteria that indicate those members who have above average influence. In addition to those members who occupy particularly significant influential positions, they cite people who: work close to the organizational boundary; are near the center in terms of internal relations; has an active position in communication between the departments of customer firms; are connected directly to top management.

Quality auxiliary services are very important in many subfields, such as (cut to size) ***service centers*** for metal semi-finished products, ***consultancy*** related to use of products (including personal consultancy, or even online tutorial videos), ***products presentatio***n workshops.

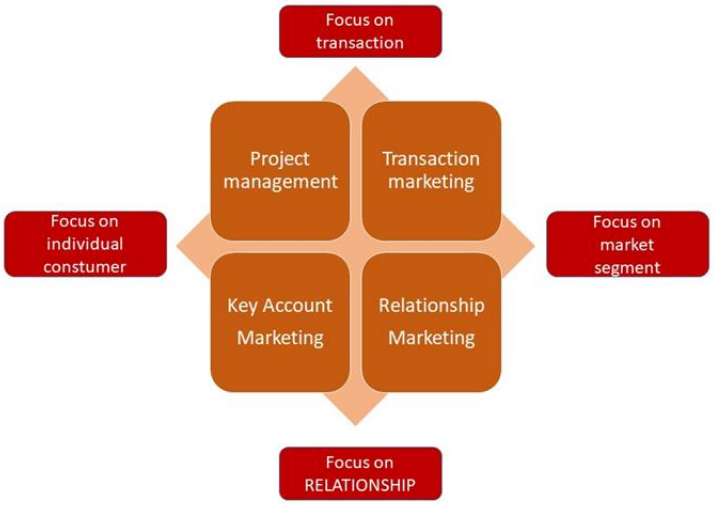

Figure 2. Industrial market analyzed based on seller-buyer interaction (adapted after Jozsa at co., 2005)

Useful marketing and technical communication at all time. This can be realized using the omni-channel approach, wherever the customer is looking for information (or product) the supplier needs to be there: Google Search by search engine optimization, web pages with text, infographic or video tutorial based frequently asked questions, e-mail, segmented - targeted newsletters, call centers, personal visits, even chat bots with artificial intelligence backup.

Use of web based technology - online technical and commercial communication, proper customer data base, CRM systems, EDI or ERP systems, B2B adapted e-commerce platforms, segmented and targeted newsletter communication etc. also increase the quality of supplier response to I.P.B. One of the first tools needs to be the use of search engine optimized web pages (for giving permission to customers to obtain information and contact suppliers), which are also filled up with valuable technical and commercial information and user friendly. Acquiring valuable data about customers and properly managing them (including CRM, ERP and on medium term big-data use) can increase the value of services provided to customers. A supplier needs to be everywhere where a (potential) customers is looking for information, products, services, advices (Fox, 2010). Organizations need to be sure that strategic relationships between suppliers and customers are protected and technology is used to complete long term partnership, not to jeopardize them, Fill (2005).

And finally, as Kotler (2017) suggested "technology convergence will ultimately lead to the **convergence between digital marketing and traditional marketing**. In a high-tech world, people long for high touch". So, the same on the metal semi-finished products market, supplier needs to develop strong relationships with buyers using the personal high quality touch of sales force and also back-up from online (digital) technology. But regarding also the efficiency of serving markets sales

force needs to focus personally on long term relations and key accounts while transaction type sales need to be automated. So, I propose a model with proportioned use of personal selling, the more important the customer and the relations are, the more personal involvement and customized services are necessary for a quality response to customers' needs

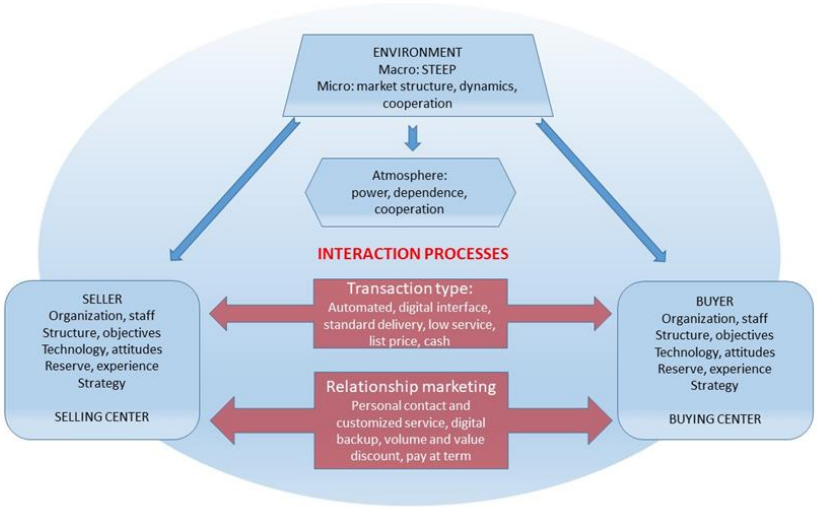

Figure 3. Quality supplier response to industrial buying behavior in case of transaction versus relationship type interaction processes on industrial markets (Adapted after Turnbull - Valla, 1987 and personal researches)

In the case of transaction type selling the interactions need to be automated as much possible, standard, but quality delivery, list prices, without discounts and no payment at term. On the other hand, in case of long-term relations, with higher value of sales, selling center need to provide a more personal contact, customized services (which can be supported by business intelligence systems). Also volume and value discounts, and pay at term can increase the satisfaction of buying centers. The mutual benefits are the key to long term success.

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