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Value Chains

Value is created and delivered in (many) steps: the value-chain. To reach the final customer (consumer or business) there are many value creation steps from manufacturers and service providers direct or via channels (wholesalers, traders, and retail). The total value system can be quite extensive and complex.



Figure X: Complex value chains to reach final customer (Picture Pexels).

All the participants have a position in the value chain as well as in the wider market and interact as suppliers, customers, competitors, and other stakeholders. All participants are also active in different and very indirectly connected value chains. The dependencies in modern value chains were clearly experienced during the Covid-19 epidemic.

Navigating Business Markets B2B and B2C.

Part of business value is created in business-to-business transactions. The Free University of Berlin website (n.d.) summarizes the importance of Business Markets:

*“In the developed economies about 70% of all market transactions are in the business-to-business area”.*¹

It makes sense to distinguish business to business (B2B) and business to consumer (B2C) marketing because these have different characteristics.

There are five key reasons that business-to-business markets are different from consumer markets².

The **first** reason is related to the number of players. The small number of players, often known by name³, in business markets contrasts with the large number of, largely anonymous, consumers. It is quite different to discuss the buying preferences of e.g., “sportive, female drivers that play golf”, or the buying processes in large multinational oil and gas companies of which there are only a few, easily identifiable (and extremely cautious about sharing preferences and processes).

The **second** reason is related to the fact that deep business markets knowledge resides with experienced executives who, maybe except for some involvement with associations and conferences, use their knowledge for their company’s competitive advantage, as well as for their own competitive advantage, rather than sharing this experience with students of the subject, who may also be executives of competing companies.

A **third** reason is that sharing experience has become increasingly more difficult with confidentiality, non-compete and non-disclosure agreements in place as well as limitations resulting from anti-trust considerations. The small number of players makes it more difficult to talk “in general” about concepts.

There is a **fourth** phenomenon that may have worked against establishing the business markets area at the same level as the consumer markets. Universities increasingly, and probably unwittingly and with the best intentions, while increasing the academic level, seem to have become more closed to the business world. See e.g., Heskett (2005) and Arvidsson (2020). Analyzing staff backgrounds of universities shows limited “hands-on” business experience compared to the early days of management and business schools.⁴

Fifth and last, formal recruitment requirements, at least in the Netherlands, create additional barriers for experienced executives to make the step to universities to transfer their experience⁵.

¹ Cursive and translation from German by author. This may be a better definition of relevance than amounts because one can argue that total value created needs to be measured from beginning to end of the value chain and not adding up all the individual transactions.

² (2020-21-22-23 Maarten van Hasselt, Navigating Business Markets – A Proposal - version 2023-2022-01).

³ This is one of the attractions working in business markets: very often one can list 20-odd accounts that make up 80% of potential value. Key account management in business markets is important.

⁴ A management school without the experience of managers seems a contradiction in terms. The discussion about academic professors and executive professors is well summarized in Clinebell and Clinebell (2008)

⁵ Lecturers are expected to have a PhD. Business executives with some exceptions especially in consulting will not have the time or inclination to obtain those qualifications unless they are deep specialists in certain, often technical, areas.

Lilien and Grewal (2013) in the introduction to the Handbook of Business-to-Business Marketing published by ISBM (Institute for the Study of Business Markets), phrase this slightly differently and mention four hurdles to more academic attention for business markets:

- a. **Complexity and Heterogeneity:** The DMU in B2B has more participants than the rarely more than 2-3 in a household, and these participants are usually from different disciplines. The DMP involves more differentiated technical aspects than in B2C, making it inherently more complicated to understand especially because households tend to be a more homogenous unit and constitute more homogenous market-segments.
- b. **Lack of Domain Knowledge:** The high level of technical complexity and therefore the technical and specialist knowledge required of the researcher and practitioner of business markets⁶. Because of the variety of disciplines and multitude of problem-areas in business markets, they conclude that it is difficult to get to a unifying body of knowledge.
- c. **Lack of Data Availability:** As mentioned earlier, confidentiality pressure on the business side, reluctance from executives to take up the challenge of experience transfer, barriers resulting from recruitment requirements, and decreasing business experience amongst academics. This creates rather solid barriers to a high-level and open exchange of the accumulated knowledge and experience of business markets.
- d. **Diffuse Focus:** From the individual consumer to the buying organization and to the even more complex network(s) of buying organizations (Wind, 2020) a different set of drivers and success factors becomes important, diverging from the classical (consumer-) marketing models and leaving open space, largely unoccupied as we have seen, for Business Markets as an academic subject.

The depth of interactions and the complexity of the value creation process are increasing in business markets. For businesses, the challenge is to identify all the value drivers⁷ for all stakeholders, though this is not necessarily straightforward for consumers either.

As stressed by Bennett (2020) “the complex value chains with multiple influencers and decision-makers in business markets do ultimately have a consumer or end-user at the end of that chain”. His topic at the conference of the ISBM brings up the important viewpoint that as business models and competitors develop further, the understanding of this “final customer” becomes more important, not in the least because modern media enable consumers to communicate and influence much more than when Kotler wrote his seminal book about marketing⁸.

Possibly the biggest challenge in Business Markets is getting to a complete understanding of *all* stakeholders without blind spots. In a DMU there will be technical experts, legal and fiscal experts, contract and negotiating experts, heads of business units, procurement specialists, and many more. In a recent large transaction, where the author was deal-leader, with different business units involved on the selling side, every BU brought their own corporate lawyer(s) to “help” on the intra-company transactions.

⁶ They mention an example where a specialist chemicals company prefers to hire chemical engineers and train them in business markets aspects because they consider the reverse almost impossible.

⁷ A large car manufacturer changed lubricants supplier (a national oil company) because one of the overlooked (by customer and supplier) value elements was discovered by the account team: used lubricants removal was not organized. The car manufacturer did not even know this was an important component of their costs. In a different area (mining) the customer only viewed the cost per liter of the lubricants but never analyzed the cost of downtime resulting from using a cheaper product

⁸ An example is the effects on consumers the labor issues in Qatar have on the brand image of sport sponsors at the Olympics in 2022.

The categorizing of participants of the DMU is often far too simplistic and focuses on only one aspect of the person fulfilling the role. "If you think you know all the stakeholders, think more".

A study by Lobo and Abid (2020) shows that business markets and consumers are also intricately connected. Especially with social media's increasing wide range of influence, the consumer/public influence on business and industrial projects is becoming a part of the decision-making group(s) and process(es) for large companies and organizations⁹. This significantly increases the complexities mentioned by Webster and Wind in 1972 and extends the embedded nature of business markets as studied by Wuyts (2003).

In general, organizations, including businesses, are influenced increasingly in their strategies by the wider public, to the extent that from time-to-time public arguments weigh heavier than the arguments of the DMU-members of the entities involved¹⁰. One or more members of the DMU should of course represent those influencers in the DMU.

Business markets can therefore be characterized by three, interacting, changing and, complex value systems:

1. The many elements of the complete value chain.
2. The groups of decision makers that are embedded in each of the elements of the value chain.
3. The groups of influencers outside the immediate value chain.

⁹ Refer to work done by Gil and Rudy on fake news impact and signalization for companies start-up.

¹⁰ Examples are the energy transition debate where in Germany nuclear powerplants were closed in "favor" of brown coal fired plants in fact increasing Germany's CO2 emissions significantly and the Shell North Sea platform disposal.