
Bernhard Alexander Krah

DOI: https://doi.org/10.31410/ERAZ.S.P.2020.95

Abstract: In today’s highly competitive marketing methods, the market segments B2B (Business-to-Business) and B2C (Business-to-Consumer) are very well established and applied. The worldwide largest market segment, the B2A/B2G (Business-to-Administration/Business-to-Government) however, has until now received little or no attention in the literature.

In the theoretical part of this paper, a focus has been placed on the measurements, how a company is able to find the right approach to operate its business successfully in this very specific business segment, where the players have completely different motivations. The aim of this paper is to gain insight into the basic concepts what rules must be followed to avoid delays, errors and losses, especially considering suppliers, who want to work internationally.

This paper is complemented by a case study of an infrastructure product (sewage pipe system), that was manufactured and successfully launched and installed in the Philippines.

This research shows the strategy for an infrastructure product market penetration for a new player in the market, with a „non-existent “product.


1. INTRODUCTION

Nowadays, the marketing literature is mainly focused on B2B or B2C. But the “forgotten” field of B2G / B2A is the most stable and largest market, even due to the fact, that the B2G/B2A market is the biggest worldwide. Basically, B2G/B2A is the market that serves “public spending”. The public spending enables governments to purchase/obtain services and goods in order to fulfil their objectives. As an example, products can be considered, which are required to operate and be used in local infrastructure, the military and other government services to the population (for example social spending, education, transfers). The source of money for spending is tax, money, credits, aid funds and special private financed projects, called PPP (Public-Private-Partnership). Public-private partnerships involve a collaboration between a government agency and a private-sector company that can be used to finance, build, and operate projects, such as public transportation networks, parks, and convention centres (Kenton, 2012).

Excursus: After the last “Great Depression”

The Great Depression was a worldwide economic depression from 1929-1930 (started in the USA)


---

1 Faculty of Management, Comenius University, Bratislava
2 The Great Depression was a worldwide economic depression from 1929-1930 (started in the USA)
the strongest method to increase the wealth and GNP (gross national product) of a country is to spend money in the public sector (even if the money is generated on credits).

The possibility that governments around the world try to stimulate their economy by public spending is currently very high (even financed on government depts), after the Corona-effect caused by COVID-19. So, it can be a great opportunity to approach the B2G/B2A market to create more business.

In the second part (number 5) of this article a case study is included. This case study shows how a start-up (production of large pipes systems mainly for infrastructure projects) has successfully implemented the B2G/B2A marketing. To obtain the relevant information, many interviews with the General Manager⁴ and the Sales Manager⁵ were conducted in January 2020.

2. MARKET SEGMENTS

A market is the “place” where supply and demand meet each other. The value, cost and price of items traded are as per forces of supply and demand in a market (What Is Markets? Definition of Markets, Markets Meaning - the Economic Times, 2020.000Z). Basically, a market can be segmented according to geographical, temporal, product, product-related and demand-related factors.

There are three different main types of markets: the monopoly, oligopoly and polypoly market – and combinations of those three.

Table 1. Market forms, own description of the author, according to information from Heinrich Freiherr zu Stackelberg⁶

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Demanders</th>
<th>One</th>
<th>Few</th>
<th>Many</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Bilateral Monopoly</td>
<td>Limited Monopoly</td>
<td>Monopoly</td>
<td></td>
</tr>
<tr>
<td>Few</td>
<td>Limited Monopson</td>
<td>Bilateral Oligopoly</td>
<td>Oligopoly</td>
<td></td>
</tr>
<tr>
<td>Many</td>
<td>Monopson</td>
<td>Oligopson</td>
<td>Polypoly</td>
<td></td>
</tr>
</tbody>
</table>

A monopoly exists in areas where one company, firm, or entity is the only - or dominant - force that sells a product or service in an industry. This gives the company enough power to keep other competitors away from the marketplace.

In an oligopoly, a group of smaller firms controls the market. However, none of them can keep the others from having significant influence in the industry. They may sell products that are slightly different (Hall, 2014).

A polypoly is a market situation where there are many small buyers and small sellers, none of which can influence prices (What Is Polypoly? Definition and Meaning, 2020.000Z). The polypoly represents the „normal case“ of markets; it is also called „complete competition“.

In the B2A/B2G sector, an oligopoly supplier meets a monopoly demand: a few companies (e.g. road construction, pipe production, defence technology) bid to the state (Timm Gudehus, 2015). So, the correct wording of this is monopsony.

⁴ Sajid Anonuevo, General Manger and shareholder of Krah-Pipes Manila Inc.
⁵ Jeneleen Lansangan, Sales manager of Krah-Pipes-Manila Inc.
⁶ Heinrich Freiherr zu Stackelberg was a German Economist (1905-1946)
An important point to be respected to be a player in B2G/B2A market is that this market segment compared to the other markets is absolutely transparent in the procedures. Nearly every firm/company can attend, but the bureaucratical work is high.

3. CHARACTERISTICS OF THE DIFFERENT MARKETS

B2B – The focus of the analysis is on transactions between industrial and service companies and organisations, including state administration (Caspar & Metzler, 2002). The focus is on economic efficiency and economic calculations are an integral part of this market segment.

B2C – In the B2C sector, the business relationship exists between companies and end consumers. The B2C sector covers „the information, communications and transactions between companies and their customers or prospects” (Wolf Engelbach et al., 2010). Feelings and the level of spending are in the foreground and there is a typical marketing approach (many suppliers, many customers). The decision-maker on the market launch is usually also the user.

B2G/B2A – This sector covers all the company’s relations with public institutions, from legal matters to lobbying. An increasingly important factor is also the public-private partnership. Political interests, geopolitics, infrastructure, and other factors are decisive for the B2G/B2A sector. Decisions on product introductions are usually made within the available budget and only listed companies and products can be used/purchased.

There is a great influence in decisions by political interests (e.g. “green”), geopolitics (military), infrastructure (country’s future). Decisions are mostly taken as budget decision (a certain budget has to be spent, otherwise it will be reduced in the future).

Table 2. Comparison of Business-to-Government and Business-to-Business Relationships (Brett W. Josephson et al., 2019), adding some further criteria, as well as considering internationalisation.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of business</td>
<td>Exchange of goods and services between businesses and government agencies</td>
<td>Exchange of goods and services between businesses</td>
</tr>
<tr>
<td>Examples of customers</td>
<td>Department of Defence, Department of Public Works, Department of Justice, Department of Education</td>
<td>Walmart, IBM, Apple BMW, Siemens</td>
</tr>
<tr>
<td>Value proposition</td>
<td>Driven by stakeholder interests and welfare, required to provide societal welfare to satisfy specific stakeholder requirements set by the government</td>
<td>Driven by value and solutions, procurement decisions are geared toward solving critical problems and optimizing performance of solution</td>
</tr>
<tr>
<td>Procurement risk preference</td>
<td>Low risk tolerance; purchase based on prior specifications with little incentive for innovation</td>
<td>Medium to high risk tolerance; purchase based on the needs of the organisation; a firm may seek innovative solutions to differentiate itself from competitors</td>
</tr>
<tr>
<td>Spending pressures</td>
<td>Close monitoring of government spending from voters and parliament</td>
<td>Varies depending on the nature of organisation</td>
</tr>
<tr>
<td>Regulatory minutia</td>
<td>Subject to the Federal Acquisition Regulation and agency-specific regulations</td>
<td>Idiosyncratic to the organisation; not subject to the Federal Acquisition Regulation</td>
</tr>
<tr>
<td>Procedural transparency</td>
<td>Most aspects of the bidding and procurement process are open to public discourse</td>
<td>Difficult to gain information about competitors’ offerings and prices</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------</td>
</tr>
<tr>
<td>Relationship-building tactics</td>
<td>Subject to Code of Federal Regulations: heavy regulations related to provide incentives to procurement officers</td>
<td>Not subject to Code of Federal Regulations; less stringent rules related to providing incentives to buyers</td>
</tr>
<tr>
<td>Size and variety of contracts</td>
<td>Multiple contract sizes (small dollar amounts to multibillion-dollar awards); multiple contract structures (fixed price, cost reimbursement, etc.)</td>
<td>Varies</td>
</tr>
<tr>
<td>Solvency and prompt payment</td>
<td>Timely payment schedule; virtually no solvency issue</td>
<td>Less prompt payment schedules; varying degrees of solvency</td>
</tr>
</tbody>
</table>

### 4. SPECIAL APPROACHES IN THE B2A / B2G

Compared to B2C or B2B, contracts and decisions in governments (B2A/B2G) should be transparent. This means, the procurement-process is clear and structured, but not quick or easy. But it seems, that the B2G/B2A market is very impenetrable, with bureaucratic obstacles, tight budgets and comprehensive contracts.

In addition to the supply monopoly, there is also the market form of the demand monopoly, also called monopsony. In a monopsony, a large buyer controls the market. Because of their unique position, monopsonies have a wealth of power (Young, 2003). In the field of B2G/B2A this is the standard for one country or a group of countries like the European Union.

The intention of public spending is (should be) minimizing risks, as taxpayers’ money is being used. Another key word is transparency in this context: no decision-making process is as clear and public as that in B2G - because all structures are publicly available. The authorities are not very interested in new products, but in increasing efficiency and if it only means using the budget more efficiently. All product presentation should focus to “pain-points” of the agencies and not to the product.

The first and most important step is to register a company as a supplier in the different agencies of the government. Depending on the amount of contract, different supplier-classifications can be applied (for example in large infrastructure projects).

Because the government is very politically driven, several criteria can help to receive some “special credits” for a company during a procurement process. For example, the protection of minorities, etc. possibly using special company conditions, like a certain ratio of handicapped people being employed, veteran owned, woman owned, small businesses, etc. can be used to have a better ranking in public orders.

The customer - a government / country - has several „front-ends” (agencies) depending on the products offered. Sometimes the communication culture between the agencies is high and also the information flow – this should be taken into account while spreading information. An investigation of government regulation is absolutely needed to understand the procedure of public procurement.

It is very common and useful to invest in extensive lobby-work.
Diagram 1. Uncle Sam Rising: Performance Implications of Business-to-Government Relationships, Figure 1 (Brett W. Josephson et al., 2019)

If a company/firm is focused on several agencies, the “Government Customer Breath” increases. In case many contracts/projects/tenders are processed within one agency, the “Government Customer Depth” also increases.

Public spending enables governments to produce and purchase goods and services, in order to fulfil their objective such as the provision of public goods or the redistribution of resources. There are huge differences between countries in terms of public spending. Central governments in high-income countries – particularly those in Europe – tend to control a much larger share of national production than governments in low-income countries. For example, in France, central government is spending accounts for almost 50% of all national output. In Nigeria, the corresponding figure is close to 6%. If we focus on the social spending component of government expenses, it is the same: high-income countries also have higher levels of social spending, particularly in the form of transfers. This correlation reflects the fact that high-income countries tend to have more capacity to extract revenues, which in turn is due to their capacity to implement efficient tax collection systems. The situation is different for the compensation of government employees. Throughout Europe, the share of government spending that is devoted to the compensation of government employees ranges between 5% and 15%. In contrast, throughout most of Africa the available figures range between 30% and 50% (Esteban Ortiz-Ospina & Max Roser, 2016). Some national projects are also funded from the world-bank, IWF, etc. when they are human oriented for education, environment, and development – in this kind of projects other “additional” regulations are applicable.

In general, there are two ways of tenders/contract distributions: Single source (there are several suppliers, public tender) and sole source: there is only one supplier for a „unique” product – but basically it is “the winner takes it all” – single source.

The product must be listed or at least following the national standard. For example, in the USA, it may only be tendered according to codes, approvals and standards listed in the North Ameri-
can Industrial Classification System (NAICS) Product and Service Code (PSC). If the products are not listed, it can’t be in a public tender or in an RFI (Request for Information), RFP (Request for proposal) or RFQ (request for Quotation) – or only as an alternative. Tenders, FfP, RfQ, RfI cannot be changed after being published and it includes mandatory, and non-mandatory requirements and evaluation criteria – only with a re-tendering process.

Tenders that do not comply with mandatory requirements are rejected, and most of the evaluation will be concentrated on non-mandatory requirements and prices following the evaluation criteria. As a result, one or several suppliers are chosen for decision taking (Helena Lindskog et al., 2010).

It is very helpful, to know the available budget before you quote your products, because the decision time is shorter, when you are with the financial borders, otherwise a complete procedure to increase the budget is necessary.

The very transparent procurement has a small disadvantage, it takes a long time, due to a lot of bureaucracy.

5. CASE STUDY: START-UP FOR INFRASTRUCTURE PRODUCTS IN THE PHILIPPINES

The complete company story of Krah Pipes Manila was monitored from start-up until now (the production capacity is doubled in the year 2020). The monitoring took place in all kind of business fields (financing, human resourcing, etc.) but in this case study only the marketing part is published. During many customer visits, registration and approval periods, I had the possibility to join and to talk extensively with the involved people. Everyone was very open and transparent during the interviews.

a. The company/firm

In 2017, a group of local investors decided to establish a new company, called Krah Pipes Manila. Inc. in Cavite, Philippines. It was a start-up company with a non-existent product in the national market of the Philippines. The plant should produce large size pipes including fittings and manholes for drainage and sewage application for the national market. Export of the product was not planned.

b. The product

The product is a large pipe system, including joints, fittings and manholes, produced out of polyethylene with some unique properties. The product is completely new for the existing market. The existing market was served for many years via a few local companies with other pipe materials and system properties. The product itself was superior compared to the available alternatives. So, the marketing concept was an aggressive market-penetration strategy for a displacement market.

c. Market

In general, all national markets (government customer and private/commercial customer) require large diameter pipe systems for drainage and sewage, but the emphasis is on government customers and government contracts.

The Philippines consist of about 7,641 islands with a total area of 300,000 km². As of 2015, it had a population of at least 100 million people and is the 12th-most populated country in the world (Highlights of the Philippine Population 2015 Census of Population | Philippine Statistics Authority, 2020.000Z). The Philippine economy has an estimated 2018 gross domestic product (nominal) of $371.8 billion. Primary exports include semiconductors and electronic products, transport equipment, garments, copper products, petroleum products, coconut oil, and fruits (East Asia/Southeast Asia :: Philippines — The World Factbook - Central Intelligence Agency, 2020.000Z). A fast growing and important future market for the Philippines is the touristic market (Wikipedia, 2020) – to serve this market an extensive environmental program combined with infrastructure projects started.

The infrastructural challenges in the Philippines include limited access to sanitation services, high pollution of water resources, often poor drinking water quality and poor service quality (Asian Water Development Outlook 2007, 2007).

Rodrigo Duterte started his presidency with a promise that his time will be the golden age of infrastructure. The Build! Build! Build! (BBB) Program is the centrepiece program of the Duterte administration. The BBB Program seeks to accelerate public infrastructure expenditure from an average of 2.9 percent of gross domestic product (GDP) during the Aquino regime to about 7.3 percent at the end of the Duterte administration (“FF2019-07_BUILD_BUILD_BUILD,” 2019).

The geographical market for the product is the local Philippine market (a monopsony, definition on page 2). Due to the large product size compared to its weight, an export in other countries is not feasible – but possible. The focus of the company is on supplying the local market. The end user of the product is mostly the public sector (infrastructure).

The ministry of construction is the DPWH (Department of Public Works and Highways). This department is one of the three departments of the government undertaking major infrastructure projects. The DPWH is mandated to undertake:

a) the planning of infrastructure, such as national roads and bridges, flood control, water resources projects and other public works, and

b) the design, construction, and maintenance of national roads and bridges, and major flood control systems (Department of Public Works and Highways, 2020.000Z).

The DPWH divided all public construction works in three areas. The areas with their own undersecretaries are Luzon, Visayas and Mindanao. Each area is composed of several regions (and each region again in districts).

For water supply and sewerage projects, DPWH is using a special government agency called MWSS (Metropolitan Waterworks and Sewerage System) (Metropolitan Waterworks and Sewerage System | Corporate Office, 2020.000Z). This MWSS sub-contracted two private companies to execute the work: a) Mayniland (Maynilad Water Services Inc, 2020.000Z) and b) Manila Water (Manila Water Company, 2020.000Z). They have their own accreditation and approval work, but a DPWH approval is suitable in their projects, too.

So, the DPWH is the only final customer for all national projects and the counterpart (divided in several branches, offices, structures) to handle, to promote and sell infrastructure products.
successfully in the Philippines. The market value or the amount of public spending in infrastructure is Php581.7 billion (25 percent growth) for 2020 (President Duterte Signs P4.1 Trillion 2020 National Budget, 2020.000Z).

Risk: Since DPWH is the main (maybe the only) customer, the supplier should be aware that there is a political structure besides the public and people can be changed easily when the government changes. The budgets can be adjusted easily (mostly in a negative way) and in case that the customer will delay or not pay, it is difficult to receive the money.


The company decided to work with a Government Customer Breath, of Drainage/Flooding with DPWH and sewerage with the government agency Mayniland and Manila Water and the Government Customer Depth is only for large pipes system pipe size bigger than 600 mm for none- and low-pressure application.

The “commercial customers” like private land developer have a share of only 10% of the total sales (year 2019 and the 1st quarter 2020).

d. Competition

The competitors are the local, long-existent companies that have produced drainage and sewage pipe out of other material – with much lower life span and less resistant. But the lobby work of the competitors was built solidly in all important organisations, during many years. Basically, it is not the aim of the government customer to eliminate suppliers, because a good employment rate is needed. Further the government customers prefer NOT to have just a sole supplier, but on the other hand they would like to have a single supplier for a contract. Due to import duty and high transportation costs (relation between volume and weight), external suppliers have a negative cost effect and can be kept out of the national large pipe market.
e. Registration and accreditation of the company

Difficulties in setting up the company occurred from the fact that start-ups have problems registering its new company, as balance sheets and history are missing. Therefore, reference was made to the balance sheets and histories of the shareholders. Necessary in this regard were the respective DUNS numbers of the shareholders as well as of the new company. The time period of a company registration is between one and three months.

f. Registration and accreditation of the product

To specify a product in the Philippines, it is necessary that your product is approved and part of the “blue book” (Standards and Specification Book). The blue book is a register of all products to be used in public tenders. This technical surveillance and approval should be done at the Bureau of Research and Standards (BRS) – this is a subdivision of DPWH. It was not so easy, because the accepted standards were mainly American ASTM standards, but all in metric sizes. The usual time span for this procedure is 6 months to 2 years – the company needed only 6 months. The reason, that the company needed only 6 months was, that the produced pipe system is already internationally accepted and was complying to many international standards since decades, otherwise it would have taken even more than 2 years. Beside using international standards and the approval of BRS, shop-drawings were needed for all products and the quality control procedure was accredited by the agencies.

g. A submittal

Public projects should be awarded through public tenders to document transparency towards the government (the people). Among many other chapters, a part of the scope of supply will be a specified product request. The bid (the formal reply to a tender) consists of a table of required products and prices. The easiest way is that the tender document fits already the company’s product. The other legal way could be to offer an alternative solution – but usually this is a long and difficult way.

To make tenders in the wanted way, the company spent much time and efforts to train and teach national consultants and the official departments of the client (DPWH) – like the Bureau of Design and the Bureau of Construction. In this step it is important to provide a technical guideline to implement the products in tenders and teach the right usage beside providing and explaining the advantages of the product. In particular, it is important to convince the engineers of the introduction of a new product and reduce the risk of planning errors. A helpful tool in this case can be a design software and of course a technical template of the new product, based on which the tender is prepared.

The submittal should be updated continuously, it is a dynamic document with the results of experiences and know-how from different tender phases.

The tender phases are:

i. Under design (projects/contracts/tenders are still in the planning phase, technical know-how and smart inputs are needed).

ii. Under construction (projects/contracts/tenders are already in the bidding phase, if the tender is not made for our product, we have to bid an alternative – remembering it
should be completely according to the regulation, otherwise the bid is mandatorily out of decision)

iii. After construction (projects/contracts/tenders are realized, historical data – like DUPA – should be collected, sorted and prepared as an “case study”-attachment in the submittal).

h. Good relation to the construction companies

Many projects are EPCC-projects, another used name is “turnkey-projects”, where the EPCC-Contractor is receiving a complete order and the design and procurement is outsourced from the owner (DPWH) to one of the large construction companies.

For example, the largest construction companies in the Philippines for infrastructure (sewage and drainage) projects (Top 10 Contractors Under DU30 Run Record of Fraud, Delays, Black-listing, 2020.000Z):
- St. Gerrard Construction Gen. Contractor and Development Corp.
- Ulticon Builders, Inc.
- Development Corp. and Equi-Parco Construction Company (under the BBB project of Duterte’s administration)

The supplier of the product is swapping now from B2A/B2G to an extended B2B business, the profitability of the product is now the main property. Of course, also the EPCC contractor has to follow the B2A-tender and the regulations.

i. The reference project

The first project is always the most difficult one, because nobody likes to be the guinea pig. Krah Pipes Manila Inc. was very lucky to receive the big and famous project for the rehabilitation of the paradise island of Boracay, due to a lot of preparatory work and good relations with DPWH and the construction companies (Bläcker, 2020.000Z).

To convince the government of the project, it was demonstrated how the product has already been successfully used in other projects. Moreover, many photos were shown, customers from other countries were visited and many details explained.

Reference projects are the key to provide the government customer a certain level of confidence – social proof. So, many photos were taken and we invited different government agencies to visit the site and also to visit the plant (to see the quality assurance system).

One of the results of a realized project is a document called DUPA (Detailed Unit Price Analysis); this analysis will be considered for the project budget.

j. Marketing Instruments

According to an interview with Mr. Sajid Anonuevo (General Manager) and Jeneleen Lansangan (sales manager) in January 2020, the success of the marketing activities is built on the following instruments. The instruments listed below are the summary of the interview. The sales
team is very lean with a good technical backup, to provide a close relation with the agencies, consultants, and construction companies.

i. Personal contact, developing of key account with the agencies, to build strong and personal relation;

ii. Visiting all regions and districts, to present the product physically and showing references we did in the Philippines and the usage of the product world-wide;

iii. Supporting lobby work, by using ex-government (retired) experts;

iv. Attending national trade show, to increase the public appearance of the company and the products;

v. Producing and spreading of white papers, these are documents to help understanding the product and hints for a proper end economical use of the products;

vi. Public relation / public opinion together with the own national basketball team (Basketball is the “main and most popular” sport in the Philippines) (Sport in Philippines, 2020.000Z);

vii. Supporting international magazines / e-Newsletters for large plastic pipes (The Pipe Magazine, 2020.000Z) and providing them local;

viii. Social media and Blogs: The young engineers in the Philippines are very computer-affine – like mainly the other Asian countries, so a steady activity in social media is very well accepted to increase the branding. Platforms used are Facebook, Instagram and LinkedIn (depending on the platform, the content is adjusted accordingly);

ix. Case studies: After every project, a short case study is produced with photos and naming the way why our product could solve the problem of the customer in the best economical and technical way;

x. Videos: Videos say more than words – so we use videos to back-up words, especially in social media and life-presentation;

xi. Academic report: We support academic works in our region and we help to produce technical books;

xii. Seminar/webinar: one of our strongest points is to educate young engineers with new „internationally used“ products and their application. Very often we give design software for free, so the possibility that they will consider our product in the next tenders is very high.

6. CONCLUSION

The B2A/B2G market is very large, attractive and is open to everyone - but it has its own rules and structures that must be respected. It is not enough just to deliver a good product at good prices, but structures and protocols must be followed. The B2A/B2G market requires long market penetration time and high start-up costs, but then (with good reference projects) large volume business and loyalty will follow. The example of the Philippines has shown that it is possible to implement a new product on this market, but that it needs a certain starting period (especially for infrastructure projects). The marketing instruments are different than the marketing instruments for B2B or B2C market.

Lately a trend of online-tendering online procurement is seen, but for large infrastructure project still the conventional way of tendering is the state of art.
REFERENCES


