



PREFACE



The need for this book has emerged out of our experiences not only from teaching and research in the last two decades but also from our own experiences. As one of us narrates:

As a fresh graduate from a business school and recruited by a company in the aerospace industry, I felt quite embarrassed. In the business school specializing in Marketing, I had learnt how to launch a product, how to position a product, how to come to a marketing mix and how to make a marketing plan. I had also learnt some things about international marketing but I had never heard of 'request for a proposal', 'call for tenders', 'competitive bidding' and 'negotiations'. In this job, I realized that marketing revolved around the above concepts and not around the concepts taught in the marketing management courses. Even the courses on 'industrial marketing' or 'business-to-business marketing' did not deal with such fuzzy things as projects. Fuzzy because they do not exist prior to the sale.

After similar experience in academic life, where all of us have been involved in the industrial marketing field, talking to several companies, interviewing managers and running training programmes in dozens of companies, we realized that even the industrial marketing (B-to-B marketing) field does not really cover project marketing. While B-to-B marketing stresses long-term relationships, in project marketing the establishment of long-term relationships is one of the main problems.

As a result, some 10 years ago we got together with some of our colleagues, who shared the same views, and started the European Network for Project Marketing. The group, consisting of some 20 members from all over Europe, have been involved in research in companies such as Alcatel, Cogema, Dassault, Schneider, Bouygues, Ericsson, Sunds Defibrator, ABB and industrial groups such as Usinor, Matra, Shell, Vivendi and Saint Gobain. We have been working to

develop concepts and theories of use in the marketing of projects. This book is a result of these studies.

We hope the book clearly illustrates the factors that influence the marketing of projects and provides guidelines for managers and students on how to handle these factors in an efficient manner.

We would like to express our thanks to the members of the European Network for Project Marketing on whose ideas this work is based. We particularly thank Florence Crespin for making her work available to us. We also thank Anna Zuyeva, Gill Geraghty and Robert-Jan Bulter from UMIST for their valuable assistance in preparation of this manuscript.

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Part I

THE PROJECT BUSINESS





Chapter 1

WHAT IS A PROJECT?



For the purpose of this marketing book, we define a project as a *complex transaction covering a package of products, services and work, specifically designed to create capital assets that produce benefits for a buyer over an extended period of time*. In this definition, we have chosen a marketing perspective that takes into consideration (Cova and Holstius, 1993):

- the idea of transaction—an event limited in time between a supplier and a customer;
- the content of the exchange—a group of products, services and work and the degree of adaptation—the specific design;
- the other party involved—the buyer.

To characterize project business and to differentiate it from consumer as well as industrial services and goods, numerous dimensions can be used. As project marketing lies closer to industrial goods and services, also called business-to-business marketing, perhaps it is more important to relate projects to industrial goods and services. In this way, a continuum can be drawn up with projects on one side and industrial services and products on the other, taking into account a variable degree of difference:

- from unit or very small series production to mass production;
- from made-to-measure demand to standard demand;
- from discontinuous supplier/customer business relations to continuous business relations;
- from rare transactions between supplier and customer (sometimes once every 5 years!) to frequent transactions;
- from very long-duration transactions (of around 2 years between the first contact and the conclusion of the contract) to short transactions;

- from a very high financial commitment for unit purchased to a low financial commitment;
- from relatively formal buying procedures (especially in the case of public markets) to more informal quotation requests;
- from fragmentation of buying centres and sales centres into two multi-organizational groups (e.g. customer + consultant + development bank on one side, supplier + industrial partners + financial partners on the other) to mono-organizational buying centres and sales centres.

By reading this list of characteristics, we see that project marketing specialists recognize their domain intuitively and do not at the moment rely on a classification of industrial activities that allows them to universally categorize projects on one side and products and services on the other.

Projects in different forms and shapes represent a major proportion of international trade and business activities. These activities range from subcontracting to turnkey projects with management or offset contracts. Companies normally known as consumer product companies, such as Alcatel, IBM, Philips, Ericsson, Siemens or Schneider, quite often sell their products on a project basis. In addition, there are companies, such as ABB, Alfa Laval, Atlas Copco, Alstom, Bouygues, Kvaerner, Thales, etc., that *always* sell their products and services on a project basis. As these and many other companies are in fact dealing in projects, there is a need to look at the marketing issues/problems related to this type of business.

In project sales, buyers and sellers are normally unfamiliar with each other and come from different environments. Yet, they have to agree on a transaction, negotiate and share responsibilities for a specific project. A couple of decades ago, the existence of this type of business was brought to the fore by scholars as well as consultants and managers, as illustrated in the following quotations:

While direct investment and international trade in goods and services are rather well documented on a continuing basis and certainly have been subject for much theoretical and empirical research, the other vehicles for technology transfer ... turn-key projects, production sharing, service contracts etc., are much less known (Mattsson, 1979, p. 1).

More and more frequently, machinery equipment and technology are purchased together as a package in the form, or as a complete industrial plant. This type of business is particularly becoming common in international business transactions (Boston Consulting Group, 1970, p. 17).

Although these quotes are more than two decades old, they still hold true. There are, for example, hardly any publications on project marketing. There are several books and articles on project management, but these publications deal with organizational and management issues and not with sales and marketing issues.

Types of Project

In a project, a seller supplies a complete system that may include components, equipment and even some services. They range from subcontracts to turnkey plus contracts.

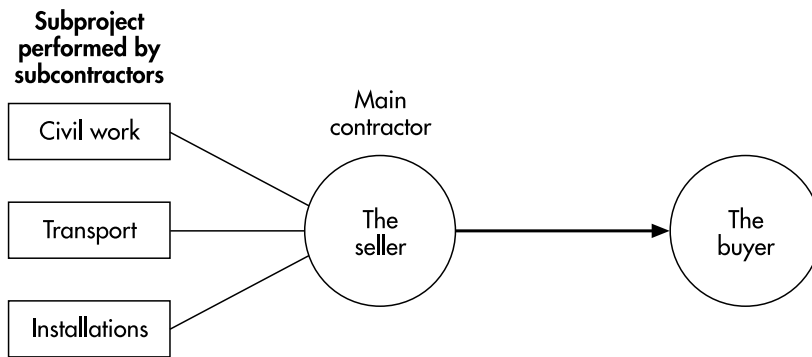


FIGURE 1.1 The main contractor versus subcontractors.

Subcontracting Projects

In the case of big projects, domestic or international, one main contractor is selling a project to a buyer. However, in most cases the main contractor is not in a position to supply/manufacture all of the project or parts of the project himself and buys them from other companies. These companies are then subcontractors to the main contractor. In international projects, this is very common. In one case, where a Swedish company supplied a complete power plant to Nigeria, it had to find a local subcontractor for the civil works. In this case, the Swedish company was working, on the one hand, as a marketer and, on the other hand, as a buyer purchasing civil works from a local construction company for the project. The local construction company, the subcontractor, despite supplying the project (the subproject) locally, had to market itself to the Swedish company which, in fact, is the buyer for the subcontractor. Sub-contractors may also have subcontracts of their own for part of the project. This type of project and its relation to the whole project is illustrated in Figure 1.1.

Partial Projects

In this type of project, different suppliers independently market and supply different parts of the main project directly to the buyer. The buyer will then put together all the partial projects. The sellers of the partial projects, however, need to have some information on other partial suppliers. Quite often, they may need to adapt their products/services so that they can fit/match with the rest of the project. In most cases, partial suppliers come from different countries and industries. The partial supplier supplies only a part of the total project and the know-how and services needed to assemble the particular part supplied by him. This can, for example, be a communication system for a container ship or a sewage system for a skyscraper or a hospital. Normally, the buyer takes on the responsibility of coordination and integration of the total project. It can be a partial project of an already existing project, such as a building or a hospital. This type of project business is illustrated in Figure 1.2.

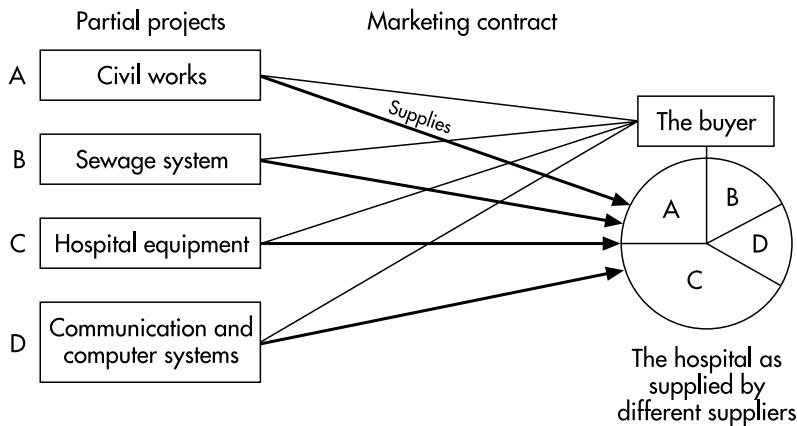


FIGURE 1.2 Partial projects.

As illustrated in Figure 1.2, different suppliers to one main project, a hospital in this case, supply different parts of the project. However, the marketing activities are directed towards one buyer, as represented by the broken lines.

Package Deals

A package deal is considered to include a solution to a buyer's problem, a complete system, components, equipment plus the know-how to handle the same (Ghauri, 1983). In some cases, it may also include a service contract for a number of years. Service firms, such as insurance, accounting or medical firms, quite often supply package deals. A number of advertising companies offer package deals to their customers that include idea generation, production, media selection, budgeting and implementation of an advertising campaign, for example, to launch a new product or service. The supplying companies have some services in-house, such as idea generation and production, while other services, such as media, bill boards, etc., have long-term contractual or non-contractual relationships with suppliers who work with them on a regular basis. The suppliers may come from the domestic market of either the main contractor or the buyer. In advertising, it is quite common for an idea generated in France or Italy to be produced in England and the package sold to a customer in Germany. In this case, the seller has quoted the total price and has a contract responsibility for all parts of the package towards the buyer in Germany. This is illustrated in Figure 1.3.

Turnkey projects

Turnkey projects involve delivery of a complete plant, factory or institution. In this case, the main contractor is responsible for marketing, negotiations and setting up of the project—such as a dairy, a hospital, an underground train system—while he may have subcontractors for some parts of the project. The seller has to get the

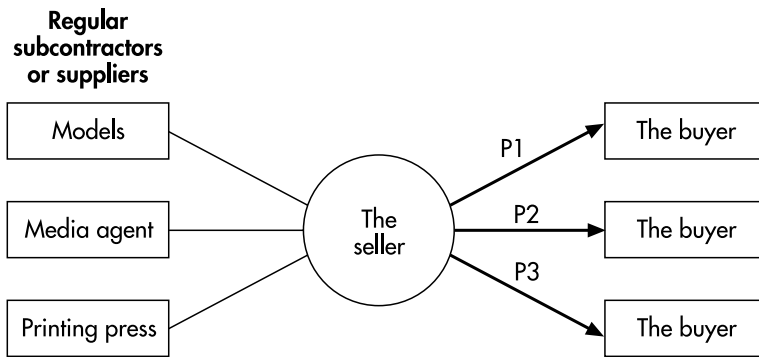


FIGURE 1.3 The relationships in package deals (P1 is package deal 1, P2 package deal 2 and P3 package deal 3).

project operational and hand it over to the buyer. In fact, quite literally the seller has to get it ready and hand the key over to the buyer who can simply open the door and start operating the project. The responsibilities of the seller normally include (Luostarinen and Welch, 1990 and United Nations, 1983, p. 6):

- basic design and engineering;
- supply of technology and know-how;
- supply of complete machinery and equipment;
- design and construction of civil works;
- supply and setting up of infrastructure needs;
- commissioning all plant facilities up to the start-up stage.

In these projects, the seller is often the supplier of a major part of the plant/project; for example, Enron for power generation equipment in the power generation project in India and Alfa Laval for milk plant equipment for a dairy project in Saudi Arabia. In some cases however, a major international engineering and construction company can act as the main supplier or the seller; for example, the American company Fluor and Bechtel or Swedish construction company Skanska for supply of a turnkey hospital or a hotel. The main contractor puts the complete project together although he may be supplying only 20–30 % of the project value himself. The rest of the project he buys from other suppliers/subcontractors. The main contractor is also responsible, and gives guarantees, for the whole project. In many cases, companies in the same ownership group supply different parts of the project (Ghauri, 1988).

The project, when handed over to the buyer, is complete in every respect—equipment, services and infrastructure (e.g. the road leading to the plant or the hospital). Completeness is thus the main characteristic that distinguishes turnkey projects from all other types of project. This is in contrast to partial projects, where the buyer takes on the responsibility of coordination and integration. This type of project is illustrated in Figure 1.4.

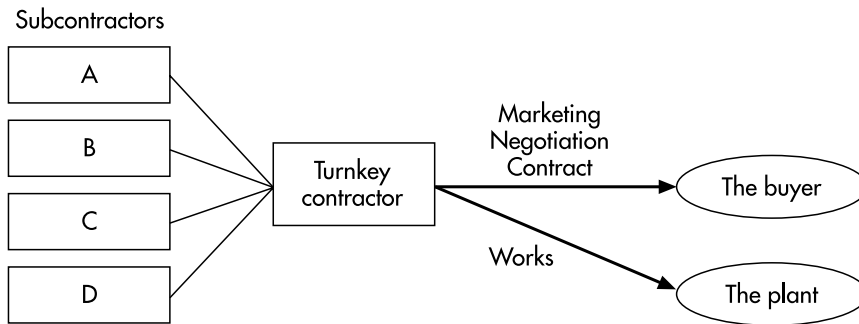


FIGURE 1.4 A typical turnkey project.

Turnkey 'Plus' Projects

More and more turnkey projects are being combined with other activities and conditions. These activities range from the project's inception (e.g. developing the idea behind the project together with the buyer, doing a feasibility study and looking for financiers) to its completion (e.g. assembling parts of the project in the buyer's country or using the seller's staff under management contract for the initial years). Sellers are increasingly asked to assist buyers in their search for financiers and in convincing financial organizations—such as the World Bank, IMF or EBRD—that the project is sound. Internationally, this is very important. Sometimes, the seller is asked to assist in financing the project by means of long-term loans or equity participation.

Different types of buy-back and offset agreement are quite common in these projects. The bigger the project, the greater the demands from the buyer in this respect. This is no longer a developing country phenomenon, most Western countries also demand some 'plus' in bigger projects. There are several benefits from these extra activities for both parties.

Benefits for Buyers

From the buyer's point of view, getting more than just the project they paid for is definitely more attractive. The most common demand is for the seller to help them in arranging feasibility and finances. Another motive for buyers centres around their concern that the plant will work efficiently and without problems after it is handed over to the them. They are thus concerned about the training of their staff who will handle the project. To achieve this, they often involve the seller in a management contract for the initial (3–5) years, so that their staff can learn in that period. In other cases, a training package is often included in a turnkey project.

Generation of foreign exchange has also been a major concern for many buyers. They may therefore want to bind the seller beyond the project, either by asking them to take equity or give some type of guarantee for export of goods produced in the project; for example, that 30% of the products manufactured in the plant would be bought back by the seller. The seller then has to find a market for these products either in his home market or internationally. When a government is

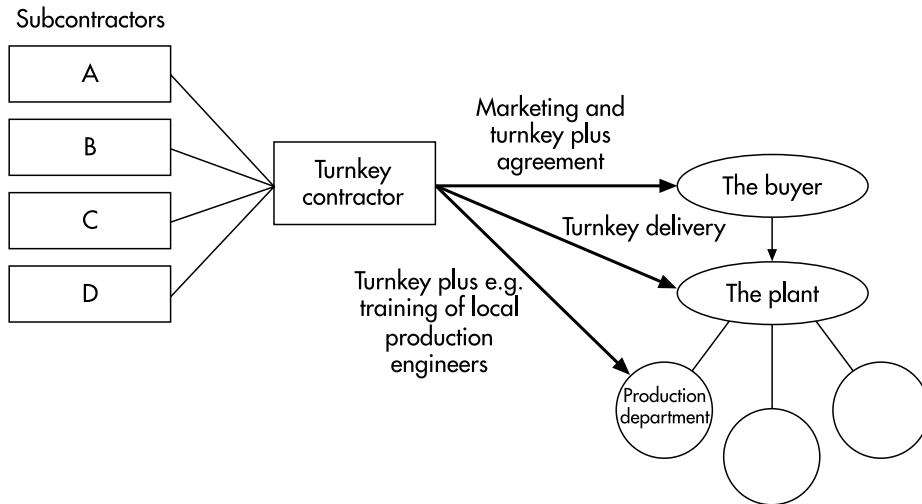


FIGURE 1.5 A typical turnkey 'plus' project.

involved as a buyer, it is often concerned about job opportunities and demands that part of the work—assembly, production, etc.—should be done in its own country. Depending on the size of the project, buyers may demand different facilities that go beyond the particular project. This type of project is explained in Figure 1.5.

Benefits for the Supplier

The biggest advantage for the supplier is, by means of these additional arrangements, to stay in touch with the buyer beyond the specific project. Discontinuity, as discussed in the next chapter, is a major problem for companies working with project marketing. By this continued involvement—be it a training programme, management contract, buy-back or offset agreement—the seller can stay in touch with the supplier and, thereby, can have better insight into future projects. Moreover, there is an opportunity for the seller to make extra profits by such arrangements. If the seller is asked to do the feasibility study or assist the buyer in finding financiers, it is in fact in his interest, because he will get an 'insider' position as compared with his competitors. From the marketing point of view, he will gain a competitive advantage, even if he has to participate in a closed or open tender later on.

Through the feasibility study, the seller can also influence the design, capacity and specifications in favour of his own machinery and equipment and offer. One of the most important benefits of being involved in project 'plus' activities, especially prior to project stage, are the contracts and relationships a seller can establish with the key actors/people in the buying organization. The seller can also use this 'plus' arrangement as his competitive edge; for example, by understanding the priorities of the buyer and offering what they most badly need, such as a training programme for their staff or, in case of foreign exchange priorities, to buy back a certain percentage of the production of the plant in question. In one of

the cases we studied, the seller offered to use local subcontractors and offered to accept payment in local currency for those parts. This was very attractive for the buyer, a local government that was short of foreign exchange and wanted to create some job opportunities for local firms.

The different types of project mentioned above are the most common ones. There are more and more new types of project, where buyers come with the most unusual demands and where the local government or local opinion places demands on the suppliers about social responsibility or environmental issues. A project, thus, may not exactly fit in one of the above descriptions and may even be a combination of types. The above classification, however, helps us understand the nature of project business, especially problems related to marketing. The fact that suppliers dealing with project business face an ever-increasing range of project types has strong consequences for the nature and content of their offer, ranging from ready-made packages made up of standardized products and services to solutions which are specifically co-designed with the customer in order to meet the diversity of its stakes/challenges.

Chapter 2 deals particularly with issues that distinguish projects from other types of business in a marketing context.

Project Components

Project business, although gaining more popularity recently, is not a totally new type of business. Many industries (e.g. the construction industry) have always been working on a project basis. Traditionally, projects are considered to have the chronological stages as shown in Figure 1.6. According to this approach, the buyer or someone else (e.g. politicians or other members of society) first identifies the need for such a project (e.g. an underground transport system or a hospital for a city). Once discussed and accepted, a pre-feasibility study is done. In this study, the logic, rationale and financial resources are reviewed and discussed. If there is a positive reaction from the people involved, a proper feasibility study is ordered or asked for. This study can be done by the buyer himself, by a consultant or in some cases by a potential supplier.

The feasibility study is a crucial stage as it helps the decision makers take a go/no-go decision. This study takes into consideration all aspects of the project, its benefits and drawbacks, its financial resources available or possibilities of getting loans, etc. This study decides whether the project is feasible or not. If it is considered feasible, the buyer identifies potential suppliers who can supply the particular type of project. At this point, buyers quite often rank the suppliers according to their suitability, resources, reputation and earlier contacts.

Different types of buyer, quite often depending on the type of buyer (e.g. government vs. a private company), follow either a closed or open tender policy. Sometimes the tender is announced and sometimes potential suppliers are invited to give tenders or offers for the project. Once tender offers are received, the buyer, after studying them, invites the most appropriate suppliers for negotiations. Different types of tender and offer are discussed later in the book. Buyers normally negotiate with more than one seller and then award the project and sign

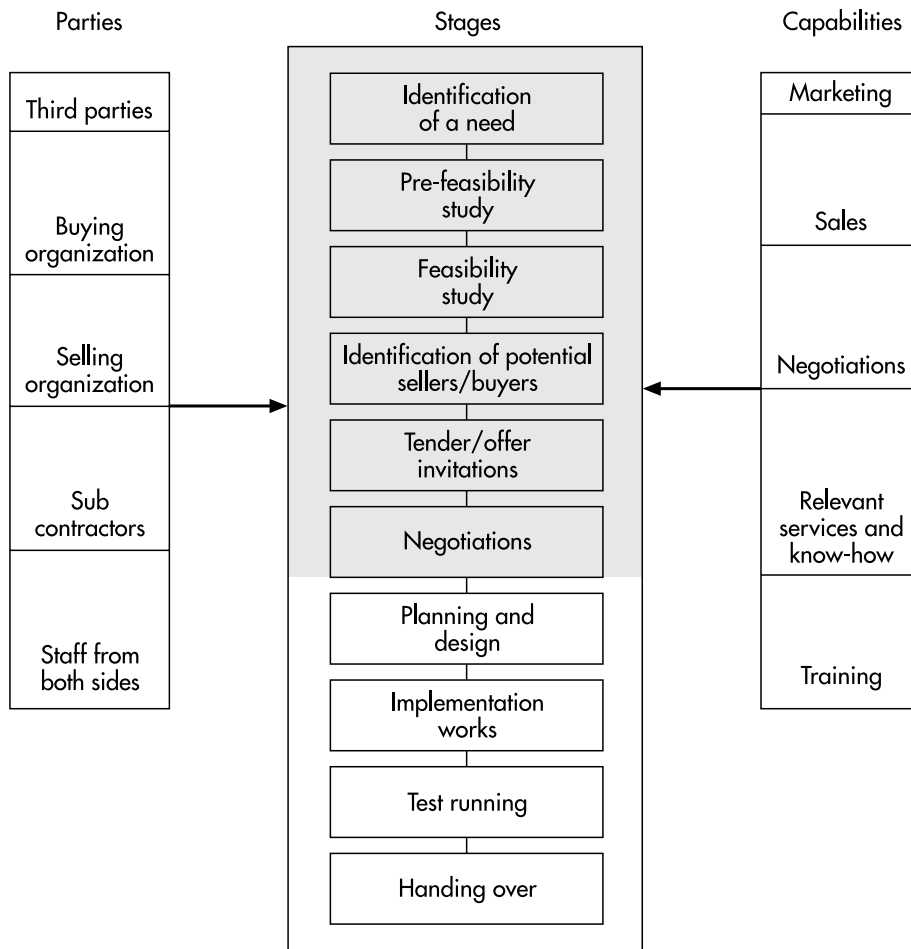


FIGURE 1.6 Project components in a traditional project. Note: tinted area is of concern to this book.

the contract according to the type of project they want—subcontract, partial project, turnkey project or turnkey 'plus' project. From the marketing point of view, this is the final stage in the marketing process of a particular project (see Figure 1.6).

The contract is then handed over to designers and engineers so that they can plan, design and start work on the project. In the case of a plant or a factory, a test run is done and the project is handed over to the buyer. In the case of a turnkey 'plus' project, the seller might still be involved after this stage (e.g. training the buyer's staff or buying back some products). Throughout this process and at different stages, several parties are involved and constitute components of a project. These parties/actors/people come from buyer and seller organizations as well as from third parties such as financiers, banks, politicians, subcontractors, etc. Moreover, a lot of resources are put into different stages of the project such as

marketing and sales activities, negotiations, services and know-how about the project and, in some cases, a training programme for the buyer's staff.

The above picture reflects a typical traditional project and its components. In specific projects, however, a particular phase (component) might have its own process with several stages (e.g. the negotiation process). These peculiarities are discussed in subsequent chapters. For the purpose of marketing, we will specify these components and the process more clearly in Chapter 2.

About the Book

The book is divided in three parts. Part I deals with project business and explains how projects differ from other types of businesses. This part also highlights marketing issues related to projects. Special features of project marketing are explained and different project marketing practices are presented.

Part II deals with marketing strategy. It relates corporate strategy to project marketing strategy and discusses the main marketing approach used in the book. Methods are presented to analyse the marketing environment and milieu and to manage the supplier–customer relationship.

Finally, Part III presents ways of implementing project marketing strategy. Practical examples and guidelines are provided for scanning and screening projects, for formulating tenders and offers and for negotiations. The ever-increasing problem of offsets is also handled in Part III. Some concrete guidelines are provided in the final chapter.

We suggest the reader first reads through the whole book and then, while working on a project or a particular stage of the project, goes back to the relevant chapter and reads it thoroughly. We believe the reader will gain a lot of information and will learn from the examples given in the book. Companies and students dealing with project marketing will definitely find it useful.