

## THE CHARACTER OF NON-PRIME BUSINESS FROM INTERNATIONAL B2B MARKETING PERSPECTIVE

### ABSTRACT

The international trade has developed radically and has opened up many opportunities for all kind of trading companies with all kinds of products and goods. Not only positive phenomena are observed, also negative topics such as counterfeit and grey imports challenge many manufacturing companies. This research paper explores and describes the role and importance of non-prime business in the contemporary international B2B trade. Non-prime business means here trading with all those products and goods that do not originate from intentional planned production and do not carry the original prime brand image. This study provides a tentative taxonomy which describes the main differences between prime and non-prime business. Theoretically both international marketing, especially branding, and product life cycle theory are challenged with this phenomenon. The purpose of the study is to analyse and present the characteristics and particularities of non-prime business alternatives, such as remanufacturing, that are often neglected due to the invisible nature of this business. Especially marketing strategies, product and distribution policy and instruments such as branding and purchasing criteria are topics which are highly impacted by non-prime business. The concepts of this paper are based and developed on primary and secondary empirical material.

### KEYWORDS

Non-prime business, stock lots, remanufacturing, product life cycle theory, post-life cycle, branding, B2B, purchasing, international marketing

## INTRODUCTION

When business is not business as usual, but follows other paths this tends to be considered as an exception or triviality. However, unorthodox ways of doing business is not new (Weld 1917). Parallel imports, plagiarism, counterfeits and other variants of grey & black markets are there, but have little attention in the brand-oriented contemporary world. Branded products like Coca-Cola and iPod, as well as branded services (SIXT, TUI) dominate the mental landscape of marketing learn books and literature. The object of marketing- the product- is desirable and new, often even customised. It has high standards and is often certified. It is a “prime” product. Same kind of branded marketing is becoming the rule for industrial products as well (cf. Weld 1917). Parkinson and Thomson (2003, p.243) call one type of non-prime business “an invisible industry and invisible giant”. This paper studies these “invisibles”- the non-prime business - that represents the unorthodox types of business.

The phenomenon of uncontrolled, unorthodox trade is highly interesting. In Leonidou et al. 2010 study<sup>1</sup> the socio-cultural environment showed a sharp increase of research interest, including aspects such as counterfeit (Leonidou et al. 2010, p. 505). No wonder, for example in Great Britain the value of parallel imported medicine in 1999 was estimated to be €825 million which represented 10-15% of total medicine sold (Keegan et al. 2002, p. 458). The following facts provided by the German Aktion Plagiarius in 2011 show the devastating effects<sup>2</sup>:

- 10% of world-wide commerce are fakes and plagiarisms
- Annual world-wide economic loss is 200-300 billion EUR
- Annual world-wide loss of jobs is estimated to be 200 000
- Dramatically rising numbers of confiscations through customs
- Increase of unauthorised/unfounded product liability claims on part of the creatives

However, not all unorthodox business is illegal; the illegal variants just seem to be better conceptualised (See definitions Table 1). The terminology of the illegal variants is better known than the terms used for the legal non-prime business. The impact of internet and the elements of e-business have been remarkable for the development of these alternatives. This possibility has provided many new opportunities for marketing and distribution, for all. Peculiarly, what is the object of exchange in international business is often only implicitly present in analysis, if analysed at all. This paper proposes a wider situational view for the role of the product traded that incorporates the respective mechanisms and characteristics of the type of trading.

The simplified way of presenting marketing activities as marketing mix provides a view only to the top of the iceberg. Even De Mooij (2005) fails to discuss non-prime business applications<sup>3</sup>. In the era of globalisation the international importance of non-prime business is growing. Non-prime business in this study refers to products or goods that are not sold under the original brand name or with respective conditions. This study attempts to present these grey areas of business and to clarify the main differences between prime business, i.e. trade of original branded products and non-prime business, which represents the secondary “post-life cycle” of these products or other inferior variations (cf. Atasu et al. 2010, p.61; Parkinson & Thomson, 2003; ICDP 2011).

Beyond branded prime business there is a whole world of non-prime business, which is different- it follows often a kind of parallel or retarded existence in time. These dimensions of non-prime

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<sup>1</sup> The aspects of non-prime business on the legal side were not at all included in any of the identified categories that this extensive review revealed.

<sup>2</sup> [http://www.plagiarius.com/e\\_index.html](http://www.plagiarius.com/e_index.html) 5.7.2011

<sup>3</sup> Her book Global Marketing and Advertising provides a fruitful discussion on global branding.

business are not discussed in marketing literature and theory, not even in product life cycle theory, PLC (cf. Rink & Swan 1979). There is an amazing research gap in terms of type of business (the unorthodox business) and the holistic perspective in time and space on the life cycle of a product (Parkinson & Thomson 2003).

In terms of planning the PLC-related product policy and the respective international marketing there is very little research on industrial products and materials (Rink & Swan 1979; Parkinson & Thomson, 2003; Atasu et al. 2010). The purpose of this paper is to explore and understand non-prime business, which is very much alive and a strategic alternative in reality. Stock lots, like warehouse surplus items, remanufactured products and other supplementary products are a significant element in today's international trade. They exist in many varieties from designer shoes to packaging materials. This type of trade has a dimension of theoretical and managerial relevance, since it directly affects the prime business too.

The research questions of this study are:

*What is non-prime business in terms of branding, ownership and control? What are the characteristics of these types of business in comparison to normal standard prime business? What does non-prime business such as stock lot business mean for international marketing (product policy) - theoretically and practically?*

This paper discusses the theoretical gap, establishes a tentative taxonomy and investigates the characteristics and mechanisms of non-prime business using empiria. In the end the research findings and implications are discussed and additional research issues are suggested.

## THEORETICAL FRAMEWORK

The study concentrates on the classical marketing aspects (cf. Anderson & Narus 1999) of international B2B non-prime business (refers in this study to any business with goods which are **not** standard, prime, branded quality) and its specific characteristics. The character of non-prime business is reflected through strategic marketing theory via marketing mix (cf. Leonidou et al. 2010, p.511). The theoretical framework is constructed on the perspective of product and distribution policy, especially on the element of brand<sup>4</sup>, its "primeness", and its control and ownership (Meffert et al. 2008, p. 355-358). Integrated brand management forms the approach applied in the analysis and the way the image of these offerings is considered (ibid, Nitschke 2006, p.44). This perspective is applied on the scale of international business and trading activities.

The study limits its focus on the products and materials; it considers international trade and those mechanisms as the setting, not as a research object per se. The setting can be legal and intentional, but it can also be of uncontrolled illegal nature (see more in Keegan et al. 2002, p.459-460).

The theoretical frame follows international marketing where the product policy also (in addition to brand element) has an implicit focus on quality and technical aspects. The roles of manufacturer and the owner of the brand play a significant role in this paper. Branding and distribution have a central position in defining the object of the study- non-prime product-based business. Competitive landscape, pricing and the business actors involved in the pricing policy also have a very specific impact for non-prime business. Distribution channels also form one most strategic element for characterising this type of business (e.g. Atasu et al. 2010). Spatial-temporal and location setting form to a large extent together with the time windows and process developments of non-prime

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<sup>4</sup> Brand is defined here as: „eine Marke ist ein Nutzenbündel mit spezifischen Merkmalen, die dafür sorgen, dass sich dieses Nutzenbündel gegenüber anderen Nutzenbündeln, welche dieselben Basisbedürfnisse erfüllen, aus Sicht der relevanten Zielgruppen nachhaltig differenziert“ Burmann et al. 2005, p.3.

business, since it has unique characteristics (cf. Guoqing & Zhongliang 2011). Inherently, this business is opportunity-based, not intentionally produced and planned in a standardised manner.

To start with non-prime business, like stock lots, first it is necessary to have an idea what is this phenomenon all about. For this purpose a short typology is established, see Figure 1:

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The product strategy forms the two fundamental perspectives: production and market channels (Chen et al. 2008). The typology is constructed on these strategic aspects of the non-prime business. One significant element is the origin; there are products which “happen”, they are not purposefully produced. Unplanned production stems for example from side and sub processes, see Figure 1. Another key element is the quality dimension of the product, there is a continuum for one single product in time. An original brand product may lose value in time (remanufacturing, stock lot or recycling material); it can even lose its brand name due to this. The phenomenon of counterfeiting also represents non-prime business, since these business actors imitate not only product-related aspects, but also marketing elements. Naturally there are also exceptions<sup>5</sup>.

Conceptually related phenomena in unplanned production are: planning problems and excess production, side-runs and other production left-overs, returns, but also remanufacturing and recycling share some characteristics with non-prime business. Although remanufacturing is often carried out as a prime business, since the quality and the brand remain on the original controlled level (Atasu et al. 2010). The variations of non-prime business are not clearly defined in literature and sometimes the differences seem to be a line drawn on water (see also Table 1).

Understanding these mechanisms and instruments can be difficult, the cases are very different and they are very international. When non-prime lots occur/happen, normally the producers try to forward them to other markets not to cannibalise their prime brand with these lots. From purchasing perspective, for example, non-prime business is inherently a second choice, a substitute or a second supplier to counterbalance the position of the main supplier. It is impossible for non-prime suppliers to become single sourcing partners. Still, there is a whole system of non-standard, non-prime business across the globe, starting from waste & scrap business, recycling and remanufacturing reaching the level of last year’s fashion items. The position and role of non-prime suppliers in B2B sector varies greatly and indicates a strong idiographic nature that is built on the resources and potential of each case separately.

What are the elementary characteristics which are less understood? They are: Level of control, type of business actor, target market, time frame- time to market and the kind of positioning in comparison to product life cycle thinking (Atasu et al. 2010). A tentative model illustrates key variations of non-prime business types is created to provide a reference point between the variations, see Figure 2. The comprehensive elements separating each type of a business are level of manufacturer’s control, the business actor type, i.e. “the seller” in the industrial buyer-seller relationship and the time to market meaning the time period when each business type reaches the market in comparison to the intentional classic product life cycle model. This tentative model shows a grey area of the non-prime business – “post- life cycle”- also in time, not only in geographical markets. This “post- life cycle” dimension of product life cycle does not necessarily have a different target group or customer base (cf. Meffert et al. 2008, p.369), still its existence is largely neglected and less managed strategically (cf. Keegan et al. 2002, p. 458).

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<sup>5</sup> in some rare cases a copy can be considered to be of equal quality to the original product and in cases of very significant time difference between production and sales date, the stock lot can be considered of lower quality than the original.

The left-hand corner below illustrates the conceptual location of prime business, where products are intentionally created, manufactured and withdrawn from markets (see the indicative product life cycle in Figure 2). The role of the manufacturer and/or brand owner is very central here. The further the type of business model is from this corner the less the manufacturer influences and controls the development. Although there are companies using multichannel approach which allows them to utilise the scope of this continuum more efficiently, still the majority of the manufacturing companies seems to avoid a multiple presence in this brand-architectural environment.

The complex nature of this unorthodox business requires a closer analysis of its conceptual positioning. Non-prime business could be approached from various marketing perspectives. Two interesting points for a contemporary discussion are sustainability and international e-commerce. At its best, non-prime business may indirectly or directly be very sustainable. The “post-second World War era” with general lack of goods and sparse resources drove the population into saving, remanufacturing and recycling of goods and materials. This kind of careful usage of resources is the core idea of non-prime business and especially stock lot business. As an example, if a “left-over” paper lot is sold for a third market with a neutralised brand the price can be double the price of its value as if it was to be pulped- additionally, there is no wasted energy which is needed when tradable material is reproduced.

What is considered ethically incorrect is very culture-bound; therefore paradoxical situations and varying views on legality are common problems. The relationship between the prime branded quality and the post-lifecycle alternatives is controversial and contains many elements of conflict and paradox, not just in branding (cf. de Mooij 2005). The differences between different business type alternatives are blurred. Integrated brand management takes place only in the prime business type.

A tentative taxonomy of different business types is established to assist in defining the mechanisms and characteristics, see below:

#### TAXONOMY OF BUSINESS TYPES

##### **Prime business:**

###### *Prime original quality*

This refers to the branded product of prime production produced by the original manufacturer or its authorised partner. This quality has a defined level of quality control and/or certification. The brand is registered to its owner. Prime original brand may represent prime brands, private labels and other registered trade brands. Prime original quality (here referred to as prime product or prime business) means that the quality remains original- geographically and temporally, also between production lots.

###### *Remanufacturing*

Remanufacturing is considered in this study as prime original quality, since in its legal version a controlled level of quality is achieved and the brand owner controls the manufacturing process and the product life-cycle. Remanufacturing involves the process of restoring used products, components, and parts to like-new quality and other applicable standards (Atasu et al. 2010, p. 59.) It is also considered as sustainable production. Parkinson and Thomson (2003) illustrate the processes: disassembly, cleaning, inspection, reconditioning, reassembly and testing.

Many original brand manufacturers offer also remanufactured products in markets where the original brand names have a smaller market share (Atasu & Guide & Van Wassenhove 2010). Atasu et al. (2010, p. 73) claim that offering remanufactured versions of original products in markets where the company does not have a majority share will cannibalise the competitors’ market share faster than that of the company itself.

###### *Dumping, grey imports*

Dumping and grey imports dealing with prime goods represent a related phenomenon which is not explicitly examined in this study.

*Job-lot (also called faÇon-business)*

A so called job-lot manufacturing can represent both prime original brand quality and be close to licensing or subcontracting/co-production, in that case it is comparable to prime business. The control and design ownership remain in the hands of the principal. For example, Boon et al. (1998) explain the key characteristics of production planning for the typical job-lot manufacturing system.

### **Non- prime business:**

*Counterfeit and Plagiarism*

This phenomenon is inherently illegal. These business models copy and imitate others and their products misleading their own customers. Here third parties attempt to benefit from others' brands and achievements. Business dictionary defines counterfeit as intentional and calculated reproduction of a genuine article (such as product or trademark) for the purpose of misleading the recipient or buyer into believing he or she is receiving or buying the genuine article itself<sup>6</sup>. Plagiarism refers to the act of using another person's words or ideas without giving credit to that person or without organising the issues properly concerning copyright. It is also known as the act of plagiarizing something<sup>7</sup>. The problem in this category is multidimensional, counterfeit is not a legal alternative, but it does not mean it does not exist. Euromonitor International (2007) studied this phenomenon on an international scale in B2C segment and the research outcome pointed out the following aspects: The point about testing out a brand with a cheaper fake implies that the consumer will move up to the real thing when he or she can afford it. This is also related to the wider argument that fake brands enhance and spread the reputation of the original brand, and ultimately their sales. Brand manufacturers obviously dispute this and state that fake products compete for expenditure and spoil their brands' valuable heritage over the long term. If this logic is applied in B2B sector where, for example, the appearance of the product might be rather irrelevant, it means that the dimensions could be shocking.

*Stock lot*

Stock lots may consist of prime or non-prime quality goods, which originate from overproduction, production rests, and changes in production, bankruptcies, cancellations, international trade problems and other reasons that create redundant and obsolete stocks<sup>8</sup>. It is the non-standard manner of doing business, which is specifying its character, not that much the product itself, which defines such a case. In stock lot business there is no re-buy possibility, every transaction can be seen as a unique event within the respective episode. Even a modified re-buy may not be possible.

Stock lots are typical, for example, in paper industry due to the complexity of the production regulation in relation to the customer demand structure (see more in Poltroniere et al. (2007)).

*Spot lots*

More commonly known alternative is spot lot business, which is often used as a synonym for job lot business. Spot lots are unique opportunities in time, one-off deals. Job lot is defined as "small number of a specific type of material, part or product that is produced at one time and /or sold as one group or unit" (<http://www.businessdictionary.com/definition/job-lot.html> 14.4.2011). Boon et al. (1998) studied the manufacturing planning problems of job-lot manufacturing. However, there is also the market of job-lots that are not delivered just-in-time, but rather collected as a one-off sales package. In this case, the business can be characterised as non-prime, since the extended time and the

<sup>6</sup> <http://www.businessdictionary.com/definition/counterfeiting.html> 23.4.2011

<sup>7</sup> <http://www.learnersdictionary.com/search/plagiarism> 23.4.2011

<sup>8</sup> Stock lots may also be excess capacity or some kind of time windows in service, if the service is tradable.

reduced or inexistent control of the original brand owner influences the way how these lots are sold. And they are sold to third parties, not to the principal company like in subcontracting. Various distributors such as importers, wholesalers and jobbers may carry out job-lot business parallel to their standard business. Still, it is dangerous to generalise, the role of jobber varies and each industry has its own way of working, power structures and economic fluctuations (Greenberg 2003).

#### *Test lots*

Test lots in industrial manufacturing context are specific production processes (test runs), which take place before reaching the original quality level of the branded product. These can be traded by the original manufacturer or by third partners. These lots are not branded and they are of lower quality. Often the buyers of these test lots are the same than for the prime quality.

#### *Secondary quality*

Secondary quality refers to various product variations which are not on the level of prime production. These can be, for example, production lots with minor quality problems, production lots with variable quality level, items from returns and cancelled custom made products which do not apply (qualitatively) for the general trade level.

Third party remanufacturing belongs to this category on non-prime business, since the business is no longer owned or controlled by the original brand manufacturer and in general reaches a lower quality level than the prime product.

According to Parkinson & Thomson (2003) re-use must be conceptually understood and separated from recycling, since re-use means continuing to use a product, not to scrap or destroy it. Also the term “Revaloration” is used to describe this re-use phenomenon (ibid, p.247).

### MODIFICATION FOR THE LANDSCAPE OF PRODUCT POLICY AND INTERNATIONAL MARKETING

The particularities of the non-prime business alternatives challenge actually many original prime good manufacturers. The competition has intensified, see Figure 3. The B2B customers understand their position and do perceive the variety of offerings from multiple businesses, but not all manufacturers perceive their own competitive landscape (cf. Elo & Juntunen, 2004). Cannibalisation may happen under controlled circumstances (cf. Atasu et al. 2010), but the way how substitutes work is less perceived and discussed. The product policy planning requires rethinking.

The time element together with the role of the brand and the distribution network form essential aspects to be considered in product policy. Many SME customers are deliberately searching for economic alternatives and the same interest is valid in many such industry sectors where product brand and originality plays a secondary role (especially in raw materials and bulk business). Price sensitivity naturally differs, but it is not only the price that functions as a purchasing criteria. In Figure 3, the parallel existence of these alternatives and their branding “wildness” is illustrated. Figure 3 is modified and reflected on the model presented by Meffert et al. 2008, p. 370. The B2B sector follows increasingly similar strategies and tactics than the consumer marketing (Kotler 1999), also in the product and distribution policy. Still, the non-prime business alternatives, such as stock lots, are mainly supplied with significantly lower level of additional product dimensions and elements like services than the prime goods. Therefore the comparability becomes a crucial issue for differentiation and value creation strategy.

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In Figure 3. the field number 1 represents the classic manufacturers’ view whereas the field number 2 is in the hands of trade, such as trade organisations and wholesale groups. Lately even individual business actors in wholesale and conversion, positioned in the field number 3, have started actively

to create their own product landscape (see more in Homburg & Krohmer 2006, p.1024-1029). That indicates a change in the marketing instruments traditionally used.

International marketing theory has neglected to study the variations of offerings in non-prime business. There is a lack of universal definitions, statistics and analysis. In a way the theoretical discussion follows an approach that does not reflect the contemporary reality in international B2B trade.

## RESEARCH METHODS

This is an explorative study based on multiple case study method and secondary data. The primary purpose of this paper is to provide an analysis on the contemporary Business-to-Business (B2B) landscape concerning stock lot business as a business model. The analysis includes company-level material in paper and paperboard business as well as reflections on other industries on an international level. The 3 European-based case companies remain anonymous due to the sensitivity of the business model.

In a way this paper is constructed as a kind of reverse conceptual paper. Here the explored empirical data generates and drives the development of the theoretical and conceptual framework. Companies, their marketing strategy, and their trading environments have been objects of analysis.

The conceptual frame of the paper is built on product-view, not on service business. The research project is limited to the B2B sector and non-standard non-prime business. Still, the end-customer may be a consumer. The data collection has taken place 2005-2011 and it also includes material from a previous study (neutralised). Both primary and secondary data have been collected and analysed.

### FINDINGS FROM THE EMPIRICAL MATERIAL: THE CHARACTERISTICS FOR PRIME AND NON-PRIME PRODUCT FROM THE MARKETING PERSPECTIVE DIFFER RADICALLY

This study has followed various companies in paper and paperboard business which trade prime and non-prime products internationally. The way of doing business and individual episodes have been analysed. The products vary from bulk products to semi-ready packaging products. Additional empirical (secondary sources) has been analysed from automotive and other industries.

The importance of the differences of these different types of businesses and the respective business models need to be clarified. There is no commonly accepted vocabulary or terminology, especially theoretically seen, and this is an issue of importance. Also in business, the cases indicated a high potential for misunderstandings. Managers need to communicate explicitly. Therefore, the effort needed to close a non-prime based deal was significantly higher and more time-consuming than that of standard prime business.

The complexity of this business does not stop on definitions, the usage and “path” of brands got out of control. In addition to re-labelled original branded products also private brands showed a fully uncontrolled market presence when they reached the international business level. When private labels become a second “post-life cycle” this might be a small problem business-wise, but it is not a minor issue theoretically. It gives us an illustration of the complexity that business managers encounter today. It is crucial that a common understanding for the special character of these types of business is established, for management and for theory. The life cycle of a product clearly needs to be seen more holistically than before, otherwise it is not possible to perceive and anticipate these kinds of activities.

Central and elementary aspects (cf. Stern & El-Ansary 1992; Webster 1991) that each scholar and manager needs to understand when planning the marketing strategy include the following: Product quality and its role in the business episode, the qualifying and order winning criteria (cf. Olsmats



2002,p.54), branding and its power for the choice, ownership of the brand (and its legal status), manufacturer and its role for augmented product and additional services, pricing and different strategic alternatives, purchasing strategy and the respective criteria of the B2B and the end-customer, B2B customer relationships and their intensity and strategic role, strategic fit for advertising and other marketing communication activities.

The main differences generated from the empirical material are shortly presented in the Figure 4. These may not be universally applicable differences, since the material is not cross-industrial. Each variant of non-prime business has in addition to this its own special character, which is also highly context-dependent in time and space. Also economic fluctuations, crisis and recessions have a heavy impact on the attractiveness of these variants.

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The research findings can be naturally discussed on several levels. First, the impact on the macro level, on the international trade level, has grown. The art of global trading has become more versatile and complicated. Today there is more information among buyers and suppliers how to find profitable deals using multiple sources. This is no longer information shared in managerial and entrepreneurial networks as tacit information and experience, but easily available on-line information. Sourcing, which is part of inward internationalisation, has become more international. Sourcing policies have new choices, new dimensions and the decision making systems have evolved. Some industries have undergone a significant shifting of production and sourcing into cost countries. This part of the phenomenon is very relevant for international trade, marketing and sourcing policy, since competition has more dimensions today. Any company from any country can theoretically use Alibaba<sup>9</sup> or other platforms for its international activities.

On the international business level the development of counterfeiting and plagiarism, partially due to electronically available opportunities, has increased and is still growing. Regulatory bodies present figures that illustrate the penetration and increasing importance of counterfeit goods in world trade. According to Euromonitor International (2007) it has been estimated by the OECD that international trade in counterfeit goods could have reached \$200 billion in 2005. And this market is growing. European and North American customs authorities have reported phenomenal growth in the number of counterfeits seized in recent years (though this may also reflect greater efforts to stamp out the counterfeit trade). Between 2001 and 2005, for example, seizures of counterfeit products by US Customs more than doubled (ibid). Amazingly, in B2C segment the consumers purchasing fake products are not buying these items because of low purchasing power. This behaviour has multiple roots, which refers to the need to examine the B2B behaviour more in depth. Unfortunately, there is no research available to clarify the characteristics in industrial sector.

Secondly, the business concept level is of interest for the channelling and distribution. B2B non-prime business is very often traded in an electronic environment, through trading houses or platforms. Especially spot lots and stock lot business, as a way of doing business, have lost a part of its “closeness” to the customer. The personal relationships with suppliers and other customers and the trust as a prerequisite have changed their role and impact mechanisms. Nowadays the role of the trading intermediary as a controller of “rightness” has become more importance. In a sense the buyer-seller relationship has become a new dimension through the distribution and sales channel- it has develop towards more triadic nature. The internet era has connected different type of business actors to the global trading arena and has introduced a new type of an actor- a business platform (see more in Dai & Kauffman, 2002). This new level of connectedness through internet has many

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<sup>9</sup> Alibaba is a well-known internet-based trading platform for all businesses, also non-prime business. See more in [www.alibaba.com](http://www.alibaba.com)

implications. The evolution of various internet based search engines and auction possibilities has drastically assisted the SMEs to manage better their activities internationally. In 2011 there are several business platforms functioning in virtual reality trading and connecting traders globally. The development has been particularly important for countries in Asia, particularly in China, India and Pakistan. The platforms are like market places without place, thus enabling Taiwanese manufacturers to sell left-over stocks directly without traditional middlemen and time lag to Italian importers. Traders from all continents take part in this development, even from very poor countries. This has created serious problems to the high-cost standard prime product manufacturers and their business models. The advantages of the prime-brand manufacturer are not always as high as it might be expected due to various aspects such as price, availability and lead time (cf. Chen et al. 2008, p. 671). The level of firm-level competitiveness has higher requirements than before the development of global trading opportunities.

The internet based platforms have become a significant instrument, since it is first time possible to expand the potential buyer-seller network beyond the traditional boundaries of customers, contacts and prospects. The e-platforms have introduced a great chance to deal with non-standard business and the expansion of the usage goes on<sup>10</sup>. In January 2007 there were 79.100.000 matches in Google for the word *stock lot*. In January 2011 there were 116.000.000 matches in Google for the word *stock lot*. The amount of stock lot platforms is not statistically observed, but the amount of business actors, either individual companies or trading platforms has grown notably in recent years. The growth pattern differs (Jing et al. 2008), also the usage differs. The usage start with information collection and end-up in complex coordination systems in supply chain. Many companies use multiple sourcing, also internationally, and the purchasing activity per se has developed radically due to technological alternatives and changes (cf. Beil & Wein 2009). The role of these alternatives has become more strategic for international marketing and purchasing and can be seen either as threat or an opportunity depending on the perspective.

Thirdly, there were strategic implications on the marketing and purchasing level, this development of stock lot business has provided new strategic alternatives. For example, second suppliers to keep the price level of prime suppliers lower are often non-prime businesses and stock lot traders. But the potential of non-prime business has its limitations. Stock lot business is not a solution on channel coordination, which coordinates the production schedule of suppliers with the production schedule of one's own factory (Dai & Kauffman, 2002). It can only supplement or substitute other alternatives for certain episodes. Many of these episodes are difficult and do not result in high customer satisfaction or retention. In many cases of high requirements non-prime product is not an applicable solution. In non-prime business the selling process and its organisation, the purchasing criteria and the buyer-seller relationship have changed or they have been modified to fit the new business environment. Dynamic pricing, repackaging, customised branding and other value creating activities give impetus on effective non-prime marketing. Some of the traders are established wholesalers that enlarge their product range using these alternatives.

Image of non-prime business is not something positive, since its reference point is the prime branded quality. This image problem is supported with the "non-existence" of this business. It is hidden beyond complex systems and structures when possible, not to become a threat on the prime business. The visibility of stock lot status does not necessarily "flow" in the supply or value chain. It does not really have a positioning as a product in a classical sense. Even some companies which trade or use these lots are not fully aware of this potential marketing-wise. Several aspects of relationship marketing and customer relationships are different in non-prime and stock lot business (cf. Gummesson 1999, Kotler 1999), for example, the activities are kept internal in small circles due to

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<sup>10</sup> The landscape of the business actors is not clearly visible in non-prime business, this is a research problem hindering any quantitative data collection.

avoidance of negative aspects and fear of image loss. Closed platforms and managerial networks are typical “places” of exchange.

Finally, a positive development can be seen in relation to branding and sustainability, which offers a new trend in international B2B management and purchasing policy. In this respect the image of non-prime business can obtain a new connotation or become even an additional positive event in marketing. This trend was previously inexistent. For example, in UK some 36 per cent of the researched manufacturing companies have replaced their core materials with alternative, more sustainable materials. The use of recycled materials is the most dominant approach, with almost 80 per cent of materials replacement actors adopting this tactic. Almost half of the companies looked for more sustainable or renewable materials and around a third reuse their own or other companies’ by-products. Some 48 per cent of those opting for materials replacement have used more environmentally friendly or benign materials (Masford, 2008, p.21)

## CONCLUSIONS AND DISCUSSION

This study contributes to the managerial discussion on the topic of B2B non prime business, which has been neglected both in theory and in literature as a phenomenon. Managerially this paper gives this topic the level of importance that it deserves- as an opportunity and threat. Non-prime business is an influence factor, even as a substitute, which managers need to take into consideration strategically, tactically and operationally. We need to see beyond the branded business, as these alternatives do exist and affect the standard prime business. For example, in car parts business a part’s re-use is an alternative to a second line part<sup>11</sup>. Every manager who has to decide what to do with the stock lots needs to be aware of the mechanisms and dynamics of this type of business in order to be able to avoid strategic boomerangs. Concerning international business these alternatives may be perfect tools to enter and maintain price sensitive market which have demand, but not yet the purchasing power for the prime product. The channels are already available (cf. Dai & Kauffman 2002; Zhao et al. 2008). The way how B2B customers replenish and plan differs culturally and contextually, and leaves indeed many questions open (cf. Bala 2010). Markets and segments evolve and mature, therefore these lots can be a choice to think of, a kind of stepping stone in time towards standard business, even if this is not the case in B2C. (However, the logic is different as the consumer does not normally use the goods professionally in a value adding manner.)

Still, the strategy needs to be carefully planned- the old way of exporting excess capacity with a lower price can be very dangerous in today’s transparent world. It may initiate a wildfire among the customers. It can be equally dangerous to let third parties to enter the markets first with non-prime products, depending on the market size and structure. A steady development towards regular demand for a certain non-prime product (A- level/secondary products) can distort a market significantly considering the prime brand sales opportunities. The evolution of such shadow market shares a similar logic than a negative price spiral. Stock lots are particularly dangerous due to their small quality variation. On the other hand, careful planning may assist to overcome grey market competition, for example, poor quality remanufacturers that potentially damage the original brand image can be blocked by offering remanufactured products earlier by the company itself (Atasu et al. 2010, p.60). Still, the impact of unsatisfied customers, their expectations and the targeting and segmenting policies of non-prime business require more research. More in-depth international B2B research would be necessary to become an up-dated picture of the non-prime business phenomenon. The study pinpoints some methodological implications that should be considered. The character of the product and the type of business it is embedded (what and how questions) need to be taken into consideration, but how this can be done remains a tricky question. There is a lack of terminology, which is a notable problem. Time and process are inherently important aspects here, but the impact

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<sup>11</sup> Source: ICDP 2011, ICDP Aftersales Workshop, 7.7.2011

of time is often hidden or difficult to examine (when-question). Due to the sensitivity of the issue, there are remarkable issues that hinder research activities. Access for data is a great problem for all non-participant researchers.

The theoretical implications of this paper indicate that we need to reconsider the validity of many theoretical concepts in international marketing and product life cycle theory from the point of view of non-prime business. For example, concepts such as value pricing, just-in-time models or customer loyalty do not apply as such on stock lot business. Going a step further, it can be said that the idiographic nature of these non-prime transactions is very interesting but this nature cannot be fully explored using the prime-business based theories. Therefore more in-depth research exploring how and why non-prime business functions- with its visible limitations- would be necessary. Non-prime business challenges the applicability of PLC theory in this B2B context and validates its modification and criticisms by Atasu et al. (2010, p.61) and Guoqing & Zhongliang (2011)

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APPENDICES:

Figure 1.

Figure 1. Typology	Planned production	Unplanned production
Lower quality than the original branded product	Counterfeit, Plagiarism Remanufacturing Reuse	Secondary quality products Test lots
Same quality than the original branded products	Prime brand product Licensing Remanufacturing (own)	Time-based lots such as spot, stock and job lots

Figure 2.

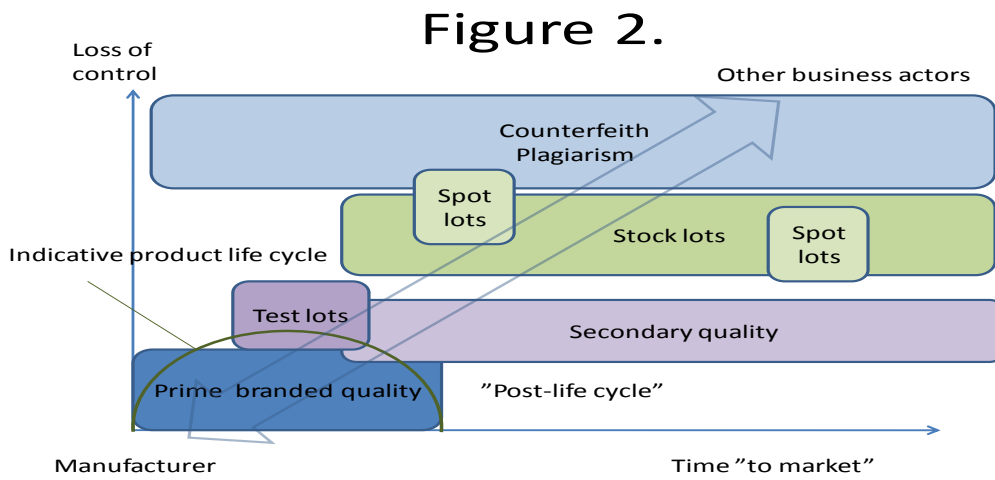


Figure 3.

# Figure 3

The dimension of non-prime business in the branding landscape

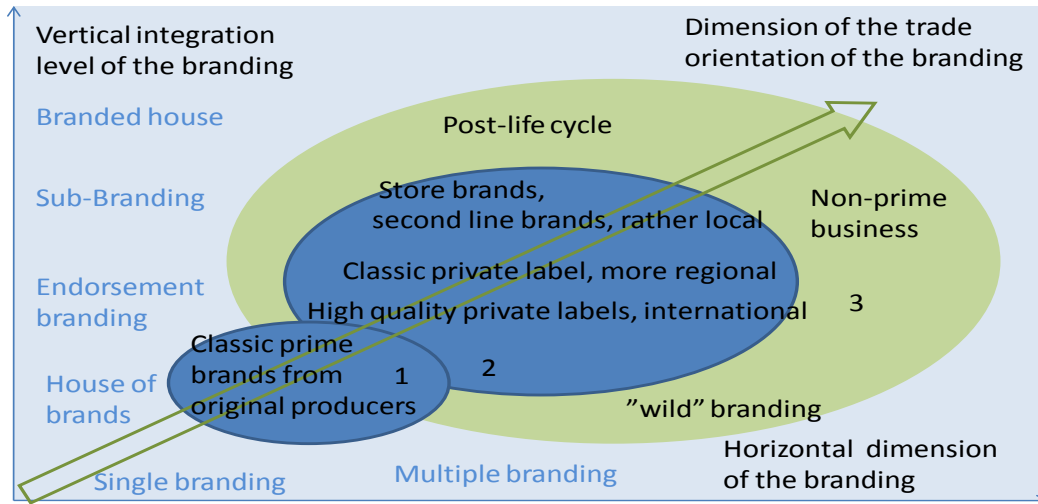


Figure 4.

Figure 4. Type of business	prime business	non-prime business
Product quality	The quality has a standard level, which is controlled and measured. The quality has only accepted minor variations. Often the product quality and the production process are certified by neutral third parties or institutions. The level of quality is documented and communicated transparently to the customer. The quality is backed up with guarantees.	The quality may vary greatly from that of original standard prime quality. Depending on the case the quality may be actually the same than that of prime quality (for example, in case of product cancellation), but it may be also a test lot of very low quality. The quality is often not certified and if documents are available, they do not originate from the manufacturer, but from the trader. The customer has mainly no transparency regarding quality. It is very seldom that guarantee or other such promises are offered (in paper certificates such as runnability and printability). In worst case the product is an imitation of very low quality.
Branding	Prime business trades	Branding can be created in



	<p>original branded products. The brand is not altered or modified without the active participation of the brand owner, in any of the trade levels of the distribution partners. The brand owner controls and builds its branding strategy. The brand has significant brand equity or tries to establish one.</p>	<p>cooperation with the original manufacturer, but mainly the non-prime business has its own independent branding strategy. This strategy competes with the prime brands and leads often to the watering of the original prime brand value. The owner of non-prime brand is normally not the one of prime brand, but a trade level business actor. Therefore there is no holistic control for the brand architecture. No-name brands, bulk business, private labels and different second line solutions may also be offered through non-prime business in short-term or seasonal manner. Re-labelling also takes place commonly.</p>
Ownership of brand	<p>Prime manufacturer or its principal is and remains the owner of the brand during its life-cycle, unless it is sold to another company.</p>	<p>There are several types of brand owners: they can be distributors, importers, trading houses, other manufacturers or converters, or even normal re-seller, who create their own brands and hold the rights for them. The original prime manufacturer has no ownership on these non-prime brands.</p>
Manufacturing	<p>The manufacturer is often the prime producer itself or its selected and controlled business partner or subcontractor. Very often the partners are certified and contractually connected to the prime producer/brand owner. The manufacturing process is an issue per se. It is often also international and certified through third partners. Certain manufacturing standards are expected and demanded.</p>	<p>Here the manufacturers vary from the prime producer itself to the illegal counterfeit manufacturer. The customer has no transparency to the manufacturing standards. For example, child labour or non-sustainable processes can be hidden from the customer. Due to the character of the trade, the customer shows less interest to such issues than in prime business.</p>
Distribution	<p>The distribution strategy and</p>	<p>The non-prime business is</p>

	<p>policy belongs to the prime producer/brand owner. Although there can be leakages and grey imports, the main stream of business is controlled and organised by the prime producer. Often there are several trade levels and/or multi-channelling. A selective strategy is possible.</p>	<p>mainly done by uncontrolled business partners. This means there is no control between trade levels and no management of harmonisation. Distribution is often done through e-platforms and other intermediaries. The goods may move between levels and countries according to the opportunities in the market. Many prime producers use trusted 3. Partners to carry out their non-prime business and therefore these producers are in the position to set some rules into the game.</p>
Pricing	<p>Pricing strategy and pricing policy is controlled and implemented by the prime producer. Discounts are often controlled centrally. Skimming and value pricing are possible. Pricing can be considered using a long-term perspective and adaptation concerning the customer in question.</p>	<p>Pricing strategy is wild und uncontrolled. Prices follow the rules of supply and demand. Lower prices dominate this business. Penetration pricing and aggressive discount policies are habitual. Skimming and value pricing are not feasible. Pricing has a very short-term orientation. Customer relationships can be difficult to take into account due to the nature of this business.</p>
Purchasing	<p>Purchasing of prime goods can be described to be standard and/or regular business. The needs of the customer can be taken into consideration product- and process-wise. Therefore it can be said that customer-orientation is possible and feasible. Customised products can be possible. The customer considers these goods as the best/optimal choice. Single sourcing is possible.</p>	<p>Non-prime business has no possibility for classic regular business, since there is no direct re-buy or modified re-buy possibility. The seller sells what is available- goods cannot be ordered based on customer needs and preferences. In spot lots/job lots the customer needs to buy all at once, which has similarities to an auction. For the customer this is mainly a second choice, less strategic. Single sourcing is not feasible.</p>
Advertising and marketing	<p>Here a full range of</p>	<p>For non-prime business the</p>

communication	<p>marketing communication activities is possible. In B2B sector tools such as participation in international trade fairs are common. Advertising has normally a strong emphasis on brand. The extended product dimensions can be fully utilised and different value added package solutions are possible. The manufacturer (brand owner) usually supports and guides the marketing communication and advertising activities and expenses in the trade levels towards the customer.</p>	<p>role of marketing communication is much more sales orientated and has a strong focus on “deal-orientation” instead of brand-orientation. Only a limited range of classic marketing communication activities are used, whereas contemporary tools such as social media can be utilised. The cost-effectiveness is a very crucial issue in non-prime advertising and marketing communication activities. The budget is not supported by the manufacturer and the sales margins can be surprisingly low.</p>
Customer relationship	<p>The B2B customer relationships of prime business build on aspects such as trust, good cooperation, long-term planning, high customer satisfaction and retention, customer loyalty, mutual benefits and value creation, customer profitability and even co-innovation. The interconnectedness and interdependencies can be very significant between sellers and buyers. Normally there is a business relationship that reaches an individual level, sometimes even a social personal level.</p>	<p>There are two main types of relationships in non-prime business: the first is the old type of a strong trust and experience-based entrepreneurial relationship that has evolved between the seller and the buyer during a longer cooperation that includes several successful episodes and transactions. Here the key managers are part of a managerial network that shares opportunities and development possibilities. The second is the contemporary very transaction-oriented, often electronically executed, customer relationship that can hardly be called a customer relationship due to lack of length, intensity and complexity. These relationships consist of common opportunity utilisation (fragmented in time), which does not really build on mutual benefit or value creation.</p>

Table 1. Definitions (from Action Plagiarius)				
Plagiarism	Forgery	Design pirates	Brand Piracy (trademark exhaustion)	Replica
<p>is an imitation of a product for the purpose of economic exploitation. It is made either with slavish accuracy or with minute changes. Especially perfidious are more significant changes made so skilfully that the casual observer interprets them into a visual perception of the appearance of the original.</p>	<p>is the making of an imitation in order to deceive people. The purchaser is convinced that he has bought the original from a reputable company. Forgery is a criminal offence and is prosecuted as such (e.g. spare parts, medicines, records, etc.)</p>	<p>are companies who have made imitation their marketing concept. They sub-contract the production and very quickly sell large quantities of imitation products.</p>	<p>There are countries where it is perfectly legal for third parties to register brands that are already registered in their country of origin. This results in the situation where the actual owner of the brand cannot sell his own products in that country. In order not to be excluded from his legitimate market, the owner of the original trade mark must reach some kind of agreement with the brand pirate. Something that usually is a very expensive undertaking (e.g. Puma in Spain, Mercedes E-Type in France).</p>	<p>was originally the replication of a work by the master craftsman (the second, third etc. version). Today a replica is understood to be a new edition of an old product design by the copyright owner or with his consent. A replica must be clearly labelled as such.</p>