

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS MANAGEMENT
BUSINESS TO BUSINESS – CBU 4103**

**FINAL EXAMINATION - DECEMBER 2006
TIME ALLOWED 3 HOURS 30 MINUTES**

INSTRUCTIONS TO CANDIDATES

- *Answer Section A and any three questions from Section B*
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QUESTION 1

Case - [40 marks]

In January 2003, the UK Government announced that the £2.8bn contract to build two new air-craft carriers for the Royal Navy would be split between British company BAE Systems and Thales, its French arch-rival. When maintenance work and upgrades are considered, the deal is worth approximately £9.2bn over the lifetime of the vessels.

Celebrations were, however, somewhat muted at BAE. The company will be getting two-thirds of the business, but will (under the terms of the deal) have to build the ships to Thales' designs. In other words, BAE are taking the lion's share of the risk, since they will be responsible for any cost overruns and design corrections, but will not have the power to vary the designs. Even though the UK taxpayer will pick up 10 percent of cost overruns, this still leaves BAE vulnerable in some respects. The situation is worsened by the fact that the companies who were involved in the bidding process were told that the

outcome would be a "winner takes all" contract. On the other hand, BAE may be lucky to have been offered anything at all. In December 2002 the company's shares dropped dramatically after it announced cost overruns on other Ministry of Defence deals, then on January 15th Geoff Hoon, the Defence Secretary, announced that he thought BAE was no longer British'. Then as late as January 21st the national organizer of the Transport and General Worker's Union, Jack Dromey, revealed that senior civil servants were recommending that the contract should be awarded to Thales in its entirety.

Final details need to be worked out, and it is fairly certain that BAE will be pressing for a better deal on the overruns, since the company is already in dispute with the Ministry of Defence about cost overruns of up to £1bn on the Nimrod aircraft and Astute submarine deals. Industry reaction to the deal was one of astonishment – one senior defence executive said "Thales won this

on design and price but BAE got the prime contractor role because of politics’.

The political issues are by no means simple. Under European Union rules, contractors throughout the EU must be given the opportunity to bid on government contracts within any of the Member States – in other words, national governments are not allowed to play favorites by awarding contracts to their own suppliers. The problem is that this law is more honored in the breach than in the observance – although Thales have apparently come in with a lower price and a better design, it would be impossible for a UK government to award the contract entirely to the French, knowing that there is no possibility of the French allowing British companies to compete on an equal footing in France.

Defence secretary Geoff Hoon dismissed such allegations as being, ‘the kind of anti-European, anti-French rhetoric that’s come to characterize the modern Conservative party...It’s a disgrace’. Meanwhile Lord Bach, the procurement minister, and Sir Robert Walmsley, chief of defence procurement, were examining the extent to which the taxpayer would carry the risk in terms of cost overruns. Government policy has been to move these risks away from the taxpayer and towards the contractor, but of course the higher the risk the contractor is expected to take, the higher the overall cost of the contract, so the government will almost certainly need to compromise.

City analysts believe that the contract represents a Pyrrhic victory for BAE.

Although the contract will contribute £30m to annual profits, this is a relatively small amount of money – the total contract only represents 2 per cent of sales for BAE. In exchange for this, the company has given Thales a stronger foothold in the UK, building on its acquisitions of defense companies such as Racal, Pilkington Optronics and Shorts Missile Systems. Some City analysts believe that BAE would have been better off if the company had lost the prime contract to Thales and had instead concentrated on low-risk subcontracting work at its shipyards.

Meanwhile, the Royal Navy eagerly awaits delivery of the ships. Captain Simon Williams, assistant director of strategy at the naval staff, says that the current carrier fleet is designed primarily for protecting the Navy from attacks while at sea. The new carriers will have the capability to attack shore installations. ‘If you put one of these carriers in international waters off another country it becomes a very flexible tool and it focuses the mind of the people we are trying to influence’, he said. The ships will be equipped with the new F-35 fighters, the replacement for the Harrier Jump-jet, now nearing the end of its useful service life.

Whatever the outcome, the Unions are pleased. Bill Morris, general secretary of the Transport and General Workers’ Union, said ‘I believe our quality British workforce will deliver a quality British product. The challenge is now for BAE Systems to deliver on time and on Budget’.

Case Questions

- (a) How has the political environment affected the purchasing process?
[5 marks]
- (b) Who were the influencers, deciders, buyers, gatekeepers and users in the Decision Making Unit (DMU)?
[10 marks]
- (c) What is the nature of the contract entered into between the UK Government and BAE systems? (Explain your reasoning and the benefits of such a contract to BAE systems)
[10 marks]
- (d) If the potential profits in the deal are so low, why would BAE be interested in bidding for the contract?
[10 marks]
- (e) What effects might the deal have on the long-term relationship between BAE and Thales?
[5 marks]

QUESTION 2

“Business to Business Marketing is basically the same as Consumer Marketing. After all aren’t there customers and multiple buying influences and environmental forces in each market or are we saying that people stop being human when they become industrial buyers” (Blythe 2005 p. 11). Discuss.

[20 marks]

QUESTION 3

A Zimbabwean firm has developed a new technique for inexpensively testing blood samples for a number of potentially contagious diseases. The tests can be used by hospitals, private surgeries, blood banks, and many other such institutions. The founder of the firm is a doctor with extensive experience in his field but no marketing knowledge. He has asked for your help in segmenting the market for his invention. Identify a segmentation approach and use this approach to segment the market for the invention. Which segment(s) should the firm target and why?

[20 marks]

QUESTION 4

Organisational buyers are subject to many pressures other than the basic commercial ones: Discuss these pressures showing their impact on the buyer's decision making process.

[20 marks]

QUESTION 5

Discuss the pricing methods that can be used by business to business firms operating in a hyper-inflationary environment like the one currently prevailing in Zimbabwe.

[20 marks]

QUESTION 6

Because of the cost and commitment attached to exhibiting, many Zimbabwean companies are shying away from exhibitions such as the Zimbabwe International Trade Fair (ZITF), Mine-Entra, Travel Expo, Harare Agricultural Show and many others. How can companies ensure a successful exhibition despite the high costs associated with these exhibitions?

[20 marks]

END OF PAPER