

## B2G Market: The Essence and Statistical Analysis

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**Abstract:** The article formulates the definition and main features of B2B market. The economic entities of B2G are classified, structural scheme of interaction between the entities of this market is given. The relationship between demands at B2C, B2B and B2G markets are shown. Dynamics of B2G market has been analyzed, its place in Russian economy is identified. Classification of markets by users' type is given, their main differences are identified

**Key words:** B2G market • Innovation process • Innovation marketing

### INTRODUCTION

In accordance with well-known classification based on the type of product consumer, the following types of markets have been identified by foreign and national authors:

- Market of products where end consumer is individual (physical person). This type of market is called B2C (business to consumer).
- Market of products which are intended for industrial use in the process of production - B2B (business to business)

Such division is recognized by the scientists and represents the character of most markets where key producers and consumers are private companies and physical persons (individuals). In the same time this classification does not take into consideration the particularities of some other types of markets. In spite of the fact that for many industries the demand in the form of state purchases, the sphere of state orders and its economic relations are of utter importance this fact was not taken into account.

This "side" of the markets (state order) is emphasized in many scientific works. The most common approach is belief that the market of state order acts as a kind of a component of B2B market [1].

Indeed, state industrial enterprises purchase the products of other industrial enterprises to produce production for state needs. The markets where state enterprises purchase the products with the purpose to use it in their own production, with the purpose of further free sales are similar - by their nature - to B2B markets and really can be considered as a kind of B2B market.

In the same time there are state order markets which can not be considered as a kind of B2B market and this point of view which is supported by the following arguments [2]:

- The consumers in these markets are state departments which consume products not for satisfaction of individual needs and not for further inclusion into commercial circulation but for solution of state tasks. This type of consumers is quite different from 2 types which were identified earlier (B2C and B2B);

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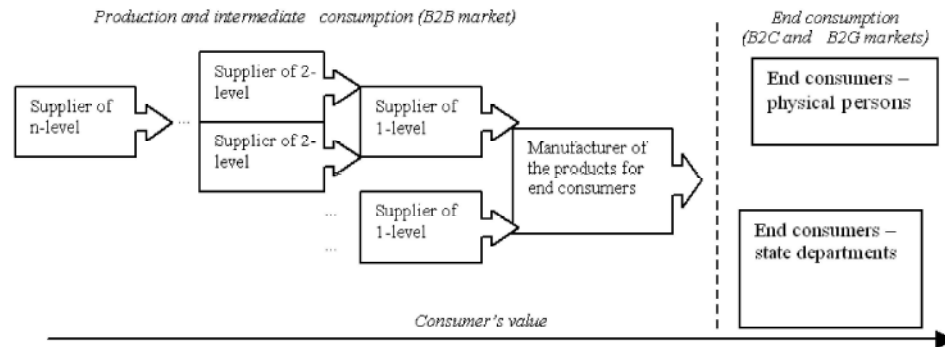


Fig. 1: The chain of creation of consumer's value

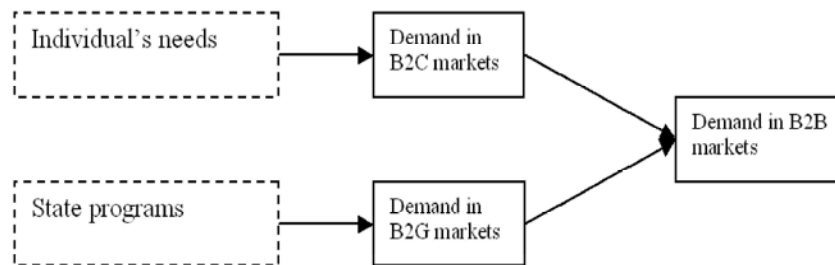


Fig. 2: Interdependency of the demands on B2C, B2B and B2G markets

- Forms of interaction between the supplier and the customer are different from those which exist in B2B and B2C markets.

In spite of relative likeness of B2B to state order market we are sure that it will be appropriate to isolate the markets of state order into one separate type of markets. This type of market by analogy with 2 mentioned above can be called B2G (business to government). This market is where consumers are state organizations purchasing products under legally set rules and procedures with the purpose to satisfy the needs of the state [2].

The new diagram showing the chains of creating consumer's value, supplemented by B2G market specifics, is shown in Figure 1 [2]

The demand in B2B markets is determined by the needs of end link in the chain - the enterprise producing products for B2C and B2G markets. Dependency of the supply chains on the end producer's needs - which in turn depend on the needs of state and individual consumers - makes the demand in B2B markets derivative of the demand in B2C and B2G markets. The demand in B2C markets depends mainly on consumption preferences of individual buyers - this demand is primary. The demand in B2G market is also derivative - it directly depends on

the priorities of the state and the programs of state costs. Interdependency of demand on mentioned market types is shown in Figure 3.

The analysis of B2G place in the economy can be done if we take the state statistics data. As it is seen from given below table the economic base of classification is reflected in statistics data. The consumption data in this analysis have been formulated by appropriate methodology of Rosstat (Russian statistics agency) [3].

The indicator of final consumption is formed on the base of the costs of individual consumers (families), the costs of state bodies for individual and collective services, the costs of NCOs for final consumption.

The costs of individual consumers include the costs for buying consumers' goods and services - the B2C market.

Purchasing of consumers' goods and services by state sector is shown by the indicator of state bodies' costs for individual goods and services. Also these costs include the costs of organizations which provide charge-free services for population in education, public healthcare, culture spheres.

The costs of the government for collective services take into account the services provided at the expense of

Table 1: Goods and services consumption indicators at different types of markets

| Consumption indicators, billion roubles                          | Type of the market | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    |
|--|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Intermediate consumption   | B2B                | 18502,9 | 23246,5 | 29267,7 | 36419,0 | 34285,1 | 42014,5 | 49859,9 | 54671,6 |
| Households consumption   | B2C                | 10652,9 | 12974,7 | 16031,7 | 19967,0 | 20985,9 | 23617,6 | 27164,5 | 30543,5 |
| Consumption by government structures (individual and collective) | B2G                | 3645,9  | 4680,4  | 5751,0  | 7359,8  | 8066,7  | 8671,3  | 10040,8 | 11664,8 |
| Consumption by NCOs, providing services for households           | -                  | 139,4   | 154,6   | 185,9   | 216,7   | 217,0   | 225,7   | 234,1   | 263,3   |
| Total consumption of goods and services (in all markets)         |                    | 32941,1 | 41056,3 | 51236,2 | 63962,5 | 63554,7 | 74529,2 | 87299,3 | 97143,1 |

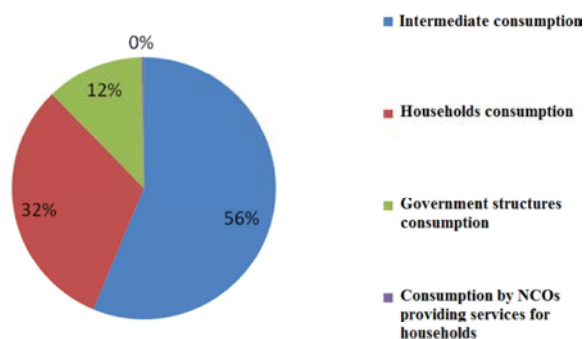


Fig. 3: Share structure of different market types

state budget by budget organizations which satisfy the needs not of separate families but of the society as a whole. This indicator includes costs for state management and provision of military defense and the costs for non-market science, services of organizations providing services for agriculture etc.

Aggregate costs of state bodies for individual and collective services represent the volumes of demand and supply in B2G market.

Costs for final consumption of NCOs providing services for families are costs for political parties, religious organizations and trade unions, social associations which are nominally regarded as “providers” of individual goods and services. The costs of non-market services are also included into them. These services are provided by independent socio-cultural divisions of corporations to their employees.

Intermediate (or intrabranh) consumption is costs for goods and services being transformed or fully consumed in production process. The consumption of main capital is not included into the list of intermediate consumption. So the indicator of intermediate consumption adequately reflects the volume of deals in the B2B market - how many goods and services (in money form) were sold by some enterprises to the others for further use in the process of creation of new value.

The obtained data were used for building a diagram which illustrates the structure of Russian economy in terms of ratio of different types of markets

We see that the biggest volume of consumption - more than 1/2 of all consumption in Russia is in the B2B market. However it is necessary to remember that this indicator represents the intermediate consumption - the cost of goods and services used for production of new goods and services. As for B2G market it forms more than 10% of general demand in all markets in Russia.

Taking into account all said above we propose classification by consumer's types (Table 2).

B2G market entities are classified by functions performed in the market. Key entities are as follows:

- State customers. Production and scientific and research offices or ministries which need to renew production means by money provided in the framework of state programs.
- General contractors. Big companies specializing on general contract operations in the sphere of industrial technologies. They are attracted by state customer for solution of large-scale technical tasks. Subcontractors and suppliers are also in this category.
- Intermediaries. Russian companies or the branches of foreign companies which specialize on supplies of technical products from abroad, in more rare cases - products of Russian enterprises.
- Russian enterprises - producers, scientific and production enterprises. They act as subcontractors and suppliers for state and private customers.
- Foreign enterprises - producers, scientific and production enterprises. They can act as subcontractors and suppliers for state and private customers, but more often go to the B2G market through intermediary distributors.

The relationship between demand and supply in the B2G market is shown in Figure 4 [2].

Since the middle of 2000s several large-scale state programs have been approved and realized in the framework of which huge sums of money are being allocated for renewal of technological means in many spheres of economy. This money form additional demand

Table 2: Classification of markets by the consumer's type.

| Criterion for comparison                | B2C market   | B2B market   | B2G market  |
|---|--|--|---|
| End consumer                            | Retail consumers - private persons   | Enterprises and organizations of private forms of ownership  | State enterprises, organizations and ministries   |
| Motivation of consumers                 | Emotional-rational   | Rational-personality [6]   | Rational-personality  |
| Intensity of innovation process         | Very high  | High or medium   | Medium or low   |
| Key factors of consumers' motivation    | Emotional wish to buy<br>Subjective evaluation of variants                               | Solution of company's task<br>Personal motivation of responsible person to get corporate award<br>Personal professionalism of the salesman [7]                   | Solution of company's task<br>Personal motivation of responsible person to get corporate award<br>Possibility of corruption risk in personal motivation of responsible person |
| The process of purchase decision-making | Subjective, spontaneous  | Multi-stage, hierarchical [8]  | Formalized with legislative restrictions  |
| The character of key purchase factors   | Subjective following emotional-rational evaluation of the consumer at the time of buying | Objective correspondence of product's characteristics to the demands of consumer with reasoned price.<br>Subjective evaluation of salesman's professionalism [9] | Objective correspondence of product's characteristics to the demands of consumer and legislative restrictions of minimal price  |
| Target of innovation marketing          | To form wish to buy innovation   | To plan proposal which is maximally corresponds to decisive factors of purchase  | To plan proposal which is maximally corresponds to decisive factors of purchase and minimal by price  |
| Models of consumer's behaviour          | Innovations diffusion model [10]   | Two markets model [11]   |   |

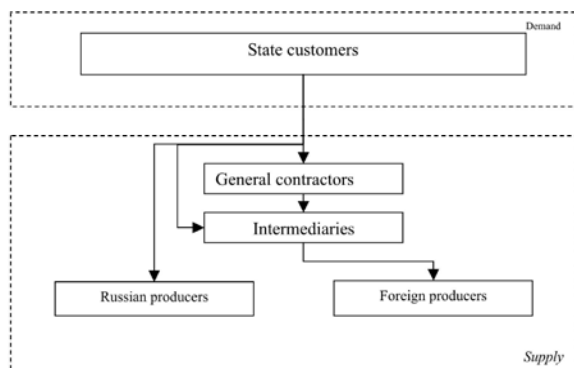


Fig. 4:L Structures of B2G market entities

for technologies and high-tech products measured by tens of billions of roubles per year [3, 12]. Enterprises which have received such huge stimulating urge activate their efforts on promotion and sales of products through the system of state order.

Fierce competition in state order market stimulated by state policy in the sphere of state purchases makes the economic relations between B2G market participators very similar to relations in highly competitive industrial B2B markets. Innovations management in the B2B market on the level of enterprises supplying the products for state consumers must be oriented to creation of new consumers' attributes. Innovation products of Russian organizations must be demanded by the market in conditions of competition between the suppliers. That is why modernization of economy as one of the measures intended for increase in competitiveness demands use of marketing technologies in innovation management in B2G market.

### Inference:

- In spite of relative likeness of B2B markets to the number of possible cases in the state order markets we believe that it will be to isolate the markets of state order into one separate type of markets.
- B2G market - is market where the consumers are state organizations buying products by legally imposed rules and procedures with the purpose of satisfaction of state needs.
- Demand in B2G markets is determined by the needs of final link in the chain - enterprise producing products for B2C and B2G markets. Dependency of supplies chains on the needs of end producer which in turn depend on demands of individual and state consumers makes the demand in B2B markets derivative to B2B and B2G demands. B2B demand depends on consumers' preferences of individual buyers - this demand is primary. B2G markets' demand is derivative, it directly depends on priorities of the state and the programs of state expenditures.
- The biggest consumption volumes - more than 1/2 of all consumption in Russia is in B2B markets. However it is necessary to remember that this indicator represents the intermediate consumption - the cost of goods and services used for production of new goods and services. As for B2G market it forms more than 10% of general demand in all markets in Russia...
- Classification of markets by consumers' types has been extended. New classification takes into account the differences in consumers' types which determine different approaches to work in these markets.

- B2G entities are classified by function performed in the market. Main entities are: state consumers; general contractors; intermediaries; Russian manufacturers; foreign manufacturers.
- Innovations management in B2G market on the level of enterprises - suppliers of products for state customers must be oriented to creation of new consumers' attributes. Modernization of economy as one of the measures intended for the increase in competitiveness demands use of marketing technologies in innovation management in B2G market.

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