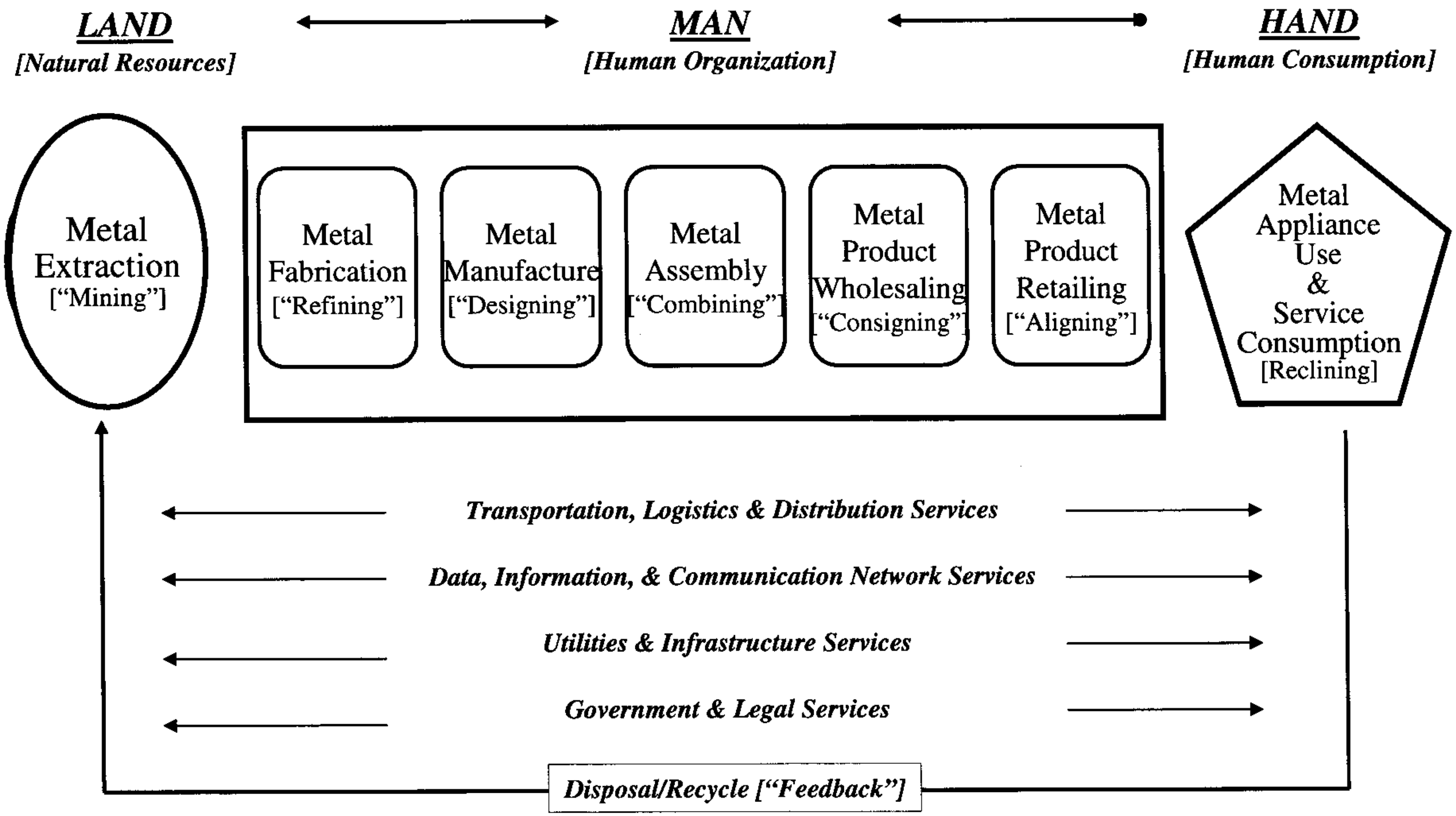
CHAPTER 7

MARKETING PLANNING B2B CUSTOMER "FOCUS"

B2B THEORY OF DERIVED DEMAND

"The Land – to – Man – to – Hand Cycle"

[Seminar in Marketing Management; MKTG. 600; Dr. Carter]



::: What Is Organizational Buying?

Webster and Wind define **organizational buying** as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.[3]

The Business Market Versus the Consumer Market

The **business market** consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. The major industries making up the business market are agriculture, forestry, and fisheries; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services.

More dollars and items are involved in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes. Hide dealers must sell hides to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also has to buy many other goods and services.

Business markets have several characteristics that contrast sharply with those of consumer markets:

- ***Fewer, larger buyers.*** The business marketer normally deals with far fewer, much larger buyers than the consumer marketer does. The fate of Goodyear Tire Company and other automotive part suppliers depends on getting contracts from a few major automakers. A few large buyers do most of the purchasing in such industries as aircraft engines and defense weapons. Although it should be noted that as a slowing economy has put a stranglehold on large corporations' purchasing departments, the small and midsize business market is offering new opportunities for suppliers.[4] See "Marketing Insight: Big Sales to Small Business," for more on this promising new B2B market, and see "Marketing Memo: Guidelines for Selling to Small Business" for some "do's and don'ts."

- ***Close supplier–customer relationship.*** Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. Business buyers often select suppliers who also buy from them. An example would be a paper manufacturer that buys chemicals from a chemical company that buys a considerable amount of its paper.

- ***Professional purchasing.*** Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Many of the buying instruments—for example, requests for quotations, proposals, and purchase contracts—are not typically found in consumer buying. Professional buyers spend their careers learning how to buy better. Many belong to the National Association of Purchasing Managers (NAPM), which seeks to improve professional buyers' effectiveness and status. This means that business marketers have to provide greater technical data about their product and its advantages over competitors' products.

- ***Several buying influences.*** More people typically influence business buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods. Business marketers have to send well-trained sales representatives and sales teams to deal with the well-trained buyers.

- ***Multiple sales calls.*** Because more people are involved in the selling process, it takes multiple sales calls to win most business orders, and some sales cycles can take years. A study by McGraw-Hill found that it takes four to four and a half calls to close an average industrial sale. In the case of capital equipment sales for large projects, it may take multiple attempts to fund a project, and the sales cycle—between quoting a job and delivering the product—is often measured in years.[5]

::: What Is Organizational Buying?

- ***Derived demand.*** The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of ultimate consumers. For instance, the Big Three automakers in Detroit have been driving the boom in demand for steel-bar products. Much of that demand is derived from consumers' continued love affair with minivans and other light trucks, which consume far more steel than cars. Business buyers must also pay close attention to current and expected economic factors, such as the level of production, investment, consumer spending, and the interest rate. In a recession, business buyers reduce their investment in plant, equipment, and inventories. Business marketers can do little to stimulate total demand in this environment. They can only fight harder to increase or maintain their share of demand.

- ***Inelastic demand.*** The total demand for many business goods and services is inelastic—that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor will they buy much less leather if the price rises, unless they can find satisfactory substitutes. Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item's total cost, such as shoelaces.

- ***Fluctuating demand.*** The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment necessary to produce the additional output. Economists refer to this as the *acceleration effect.* Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand for products in the next period; a 10 percent fall in consumer demand may cause a complete collapse in business demand.

- ***Geographically concentrated buyers.*** More than half of U.S. business buyers are concentrated in seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. The geographical concentration of producers helps to reduce selling costs. At the same time, business marketers need to monitor regional shifts of certain industries.

- ***Direct purchasing.*** Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive (such as mainframes or aircraft).

Buying Situations

The business buyer faces many decisions in making a purchase. The number of decisions depends on the buying situation: complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required. Patrick Robinson and others distinguish three types of buying situations: the straight rebuy, modified rebuy, and new task.[6]

STRAIGHT REBUY The purchasing department reorders on a routine basis (e.g., office supplies, bulk chemicals) and chooses from suppliers on an "approved list." The suppliers make an effort to maintain product and service quality and often propose automatic reordering systems to save time. "Out-suppliers" attempt to offer something new or to exploit dissatisfaction with a current supplier. Out-suppliers try to get a small order and then enlarge their purchase share over time.

MODIFIED REBUY The buyer wants to modify product specifications, prices, delivery requirements, or other terms. The modified rebuy usually involves additional participants on both sides. The in-suppliers become nervous and have to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business.

NEW TASK A purchaser buys a product or service for the first time (e.g., office building, new security system). The greater the cost or risk, the larger the number of participants and the greater their information gathering—and therefore the longer the time to a decision.[7]

::: Participants in the Business Buying Process

Who buys the trillions of dollars' worth of goods and services needed by business organizations? Purchasing agents are influential in straight-rebuy and modified-rebuy situations, whereas other department personnel are more influential in new-buy situations. Engineering personnel usually have a major influence in selecting product components, and purchasing agents dominate in selecting suppliers.[10]

The Buying Center

Webster and Wind call the decision-making unit of a buying organization *the buying center*. It is composed of "all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions."[11] The buying center includes all members of the organization who play any of seven roles in the purchase decision process.[12]

1. ***Initiators.*** Those who request that something be purchased. They may be users or others in the organization.
2. ***Users.*** Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements.
3. ***Influencers.*** People who influence the buying decision. They often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
4. ***Deciders.*** People who decide on product requirements or on suppliers.
5. ***Approvers.*** People who authorize the proposed actions of deciders or buyers.
6. ***Buyers.*** People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, the buyers might include high-level managers.
7. ***Gatekeepers.*** People who have the power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, and telephone operators may prevent salespersons from contacting users or deciders.

Several individuals can occupy a given role (e.g., there may be many users or influencers), and the individual may occupy multiple roles.[13] A purchasing manager, for example, often occupies the roles of buyer, influencer, and gatekeeper simultaneously: he or she can determine which sales reps can call on other people in the organization; what budget and other constraints to place on the purchase; and which firm will actually get the business, even though others (deciders) might select two or more potential vendors who can meet the company's requirements.

The typical buying center has a minimum of five or six members and often has dozens. The buying center may include people outside the target customer organization, such as government officials, consultants, technical advisors, and other members of the marketing channel.

Purchasing Orientations

In the past, purchasing departments occupied a low position in the management hierarchy, in spite of often managing more than half the company's costs. Recent competitive pressures have led many companies to upgrade their purchasing departments and elevate administrators to vice presidential rank. Today's purchasing departments are staffed with MBAs who aspire to be CEOs—like Thomas Stallkamp, Chrysler's former executive vice president of procurement and supply, who cut costs and streamlined the automaker's manufacturing processes.[20]

These new, more strategically oriented purchasing departments have a mission to seek the best value from fewer and better suppliers. Some multinationals have even elevated them to "strategic supply departments" with responsibility for global sourcing and partnering. At Caterpillar, for example, purchasing, inventory control, production scheduling, and traffic have been combined into one department. Lockheed Martin is another firm that has improved its business buying practices.

The upgrading of purchasing means that business marketers must upgrade their sales personnel to match the higher caliber of the business buyers. Formally, we can distinguish three company purchasing orientations:[22]

- ***Buying Orientation.*** The purchaser's focus is short term and tactical. Buyers are rewarded on their ability to obtain the lowest price from suppliers for the given level of quality and availability. Buyers use two tactics: *commoditization,* where they imply that the product is a commodity and care only about price; and *multisourcing,* where they use several sources and make them compete for shares of the company's purchases.
- ***Procurement Orientation.*** Here buyers simultaneously seek quality improvements and cost reductions. Buyers develop collaborative relationships with major suppliers and seek savings through better management of acquisition, conversion, and disposal costs. They encourage early supplier involvement in materials handling, inventory levels, just-in-time management, and even product design. They negotiate long-term contracts with major suppliers to ensure the timely flow of materials. They work closely with their manufacturing group on materials requirement planning (MRP) to make sure supplies arrive on time.
- ***Supply Chain Management Orientation.*** Here purchasing's role is further broadened to become a more strategic, value-adding operation. Purchasing executives at the firm work with marketing and other company executives to build a seamless supply chain management system from the purchase of raw materials to the on-time arrival of finished goods to the end users.

In defining target segments, four types of business customers can often be identified, with corresponding marketing implications.

1. ***Price-oriented customers*** (transactional selling). Price is everything.
2. ***Solution-oriented customers*** (consultative selling). They want low prices but will respond to arguments about lower total cost or more dependable supply or service.
3. ***Gold-standard customers*** (quality selling). They want the best performance in terms of product quality, assistance, reliable delivery, and so on.
4. ***Strategic-value customers*** (enterprise selling). They want a fairly permanent sole-supplier relationship with your company.

Some companies are willing to handle price-oriented buyers by setting a lower price, but establishing restrictive conditions: (1) limiting the quantity that can be purchased; (2) no refunds; (3) no adjustments; and (4) no services.[18]

Types of Purchasing Processes

Marketers need to understand how business purchasing departments work. These departments purchase many types of products, and the purchasing process will vary depending on the types of products involved. Peter Kraljic distinguished four product-related purchasing processes:[23]

1. ***Routine products.*** These products have low value and cost to the customer and involve little risk (e.g., office supplies). Customers will seek the lowest price and emphasize routine ordering. Suppliers will offer to standardize and consolidate orders.
2. ***Leverage products.*** These products have high value and cost to the customer but involve little risk of supply (e.g., engine pistons) because many companies make them. The supplier knows that the customer will compare market offerings and costs, and it needs to show that its offering minimizes the customer's total cost.
3. ***Strategic products.*** These products have high value and cost to the customer and also involve high risk (e.g., mainframe computers). The customer will want a well-known and trusted supplier and be willing to pay more than the average price. The supplier should seek strategic alliances that take the form of early supplier involvement, co-development programs, and co-investment.
4. ***Bottleneck products.*** These products have low value and cost to the customer but they involve some risk (e.g., spare parts). The customer will want a supplier who can guarantee a steady supply of reliable products. The supplier should propose standard parts and offer a tracking system, delivery on demand, and a help desk.

TABLE 7.1

Buygrid Framework: Major Stages (Buyphases) of the Industrial Buying Process in Relation to Major Buying Situations (Buyclasses)

		Buyclasses		
		New Task	**Modified Rebuy**	**Straight Rebuy**
BUYPHASES	1. Problem recognition	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order-routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

Supplier Selection

Before selecting a supplier, the buying center will specify desired supplier attributes and indicate their relative importance. To rate and identify the most attractive suppliers, buying centers often use a supplier-evaluation model such as the one shown in Table 7.2.

Business marketers need to do a better job of understanding how business buyers arrive at their valuations.[33] Anderson, Jain, and Chintagunta conducted a study of the main methods business marketers use to assess customer value and found eight different *customer value assessment (CVA)* methods. Companies tended to use the simpler methods, although the more sophisticated ones promise to produce a more accurate picture of customer perceived value. (See "Marketing Memo: Methods of Assessing Customer Value.")

The choice and importance of different attributes varies with the type of buying situation.[34] Delivery reliability, price, and supplier reputation are important for routine-order products. For procedural-problem products, such as a copying machine, the three most important attributes are technical service, supplier flexibility, and product reliability. For political-problem products that stir rivalries in the organization (such as the choice of a computer system), the most important attributes are price, supplier reputation, product reliability, service reliability, and supplier flexibility.

TABLE 7.2

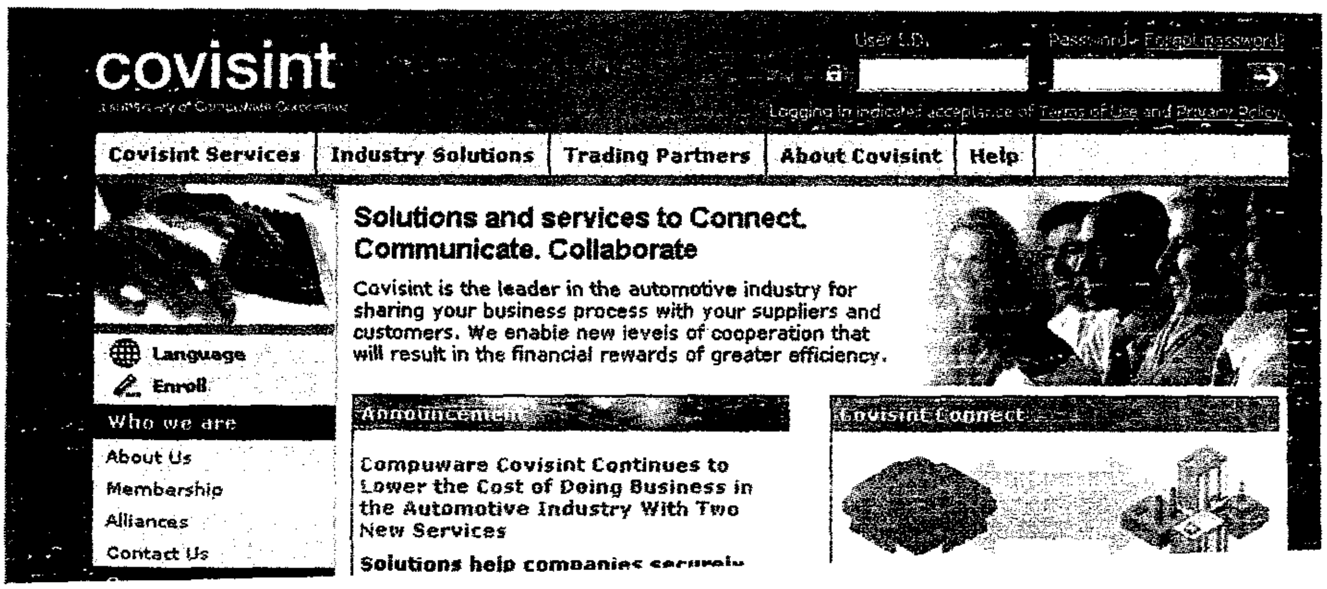
An Example of Vendor Analysis

Attributes		Rating Scale			
	Importance Weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	.30				x
Supplier reputation	.20			x	
Product reliability	.30				x
Service reliability	.10		x		
Supplier flexibility	.10			x	
Total score: .30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5					

E-Procurement

Web sites are organized around two types of e-hubs: *vertical hubs* centered on industries (plastics, steel, chemicals, paper) and *functional hubs* (logistics, media buying, advertising, energy management). In addition to using these Web sites, companies can do e-procurement in other ways:

- ***Direct extranet links to major suppliers.*** A company can set up extranet links to its major suppliers. For example, it can set up a direct e-procurement account at Dell or Office Depot, and its employees can make their purchases this way.
- ***Buying alliances.*** Coca-Cola, Sara Lee, Kraft, PepsiCo, Gillette, P&G, and several other companies joined forces to form a buying alliance called Transora to use their combined leverage to obtain lower prices for raw materials. Transora members also share data on less expensive ways to ship products and track inventory. Several auto companies (GM, Ford, DaimlerChrysler) formed Covisint for the same reason. They believe they can save as much as $1,200 per car.



- ***Company buying sites.*** General Electric formed the Trading Process Network (TPN) where it posts *requests for proposals (RFPs)*, negotiates terms, and places orders.

Moving into e-procurement involves more than acquiring software; it requires changing purchasing strategy and structure. However, the benefits are many: Aggregating purchasing across multiple departments gains larger, centrally negotiated volume discounts. There is less buying of substandard goods from outside the approved list of suppliers, and a smaller purchasing staff is required.

MARKETING INSIGHT — THE BUSINESS-TO-BUSINESS (B2B) CYBERBUYING BAZAAR

With the growth of consumer online shopping, it is easy to lose sight of one of the most significant trends in e-commerce: the growth of business-to-business e-procurement. In addition to posting their own Web pages on the Internet, companies have established intranets for employees to communicate with one another, and extranets to link a company's communications and data with regular suppliers and distributors.

So far, most of the products that businesses are buying electronically are MRO materials (maintenance, repair, and operations) and travel and entertainment services. MRO materials make up 30 percent of business purchases, and the transaction costs for order processing are high, which means there is a huge incentive to streamline the process. Here are some examples: Los Angeles County purchases everything from chickens to condoms over the Internet. National Semiconductor has automated almost all of the company's 3,500 monthly requisitions to buy materials ranging from the sterile booties worn in its fabrication plants to state-of-the-art software. GE buys not only general operating supplies, but also industrial supplies online. Now that GE Information Services (GEIS) has opened its buying site to other companies, the company is well on its way to creating a vast electronic clearinghouse. Hundreds of thousands of firms will exchange trillions of dollars of industrial inputs—with GEIS running the show.

Many brick-and-mortar companies have expanded their online presence by building their business-to-business operations and targeting small businesses, which account for 98 percent of all U.S. employers. The 54 percent of companies that now purchase over the Internet are utilizing electronic marketplaces that are popping up in several forms:

- ***Catalog sites.*** Companies can order thousands of items through electronic catalogs distributed by e-procurement software, such as Grainger's.
- ***Vertical markets.*** Companies buying industrial products such as plastics, steel, or chemicals, or services such as logistics or media can go to specialized Web sites (called e-hubs). For example, Plastics.com allows plastics buyers to search for the best prices from the thousands of plastics sellers.
- ***"Pure Play" auction sites.*** These are online marketplaces such as eBay and Freemarkets.com that could not have been realized without the Internet and for which no business model existed before their formation. Freemarkets.com provides online auctions for buyers and sellers of industrial parts, raw materials, commodities, and services in over 50 product categories, and has facilitated over $40 billion worth of commerce since 1995.
- ***Spot (or exchange) markets.*** On spot electronic markets, prices change by the minute. ChemConnect.com is an exchange for buyers and sellers of bulk chemicals such as benzine and is a B2B success in an arena littered with failed online exchanges. First to market, it is now the biggest online exchange for chemical trading, with volume of $8.8 billion in 2002. Customers like Vanguard Petroleum Corp. in Houston conduct about 15 percent of their spot purchases and sales of natural gas liquids on ChemConnect's commodities trading site.
- ***Private exchanges.*** Hewlett-Packard, IBM, and Wal-Mart operate private exchanges to link with specially invited groups of suppliers and partners over the Web.
- ***Barter markets.*** In these markets, participants offer to trade goods or services.
- ***Buying alliances.*** Several companies buying the same goods join together to form purchasing consortia and gain deeper discounts on volume purchases (Transora, Covisint).

Online business buying offers several advantages: It shaves transaction costs for both buyers and suppliers, reduces time between order and delivery, consolidates purchasing systems, and forges more intimate relationships between partners and buyers. On the downside, it may help to erode supplier–buyer loyalty and create potential security problems. Businesses also face a technological dilemma because no single system yet dominates.

ources: Robert Yoegel, "The Evolution of B-to-B Selling on the 'Net,'" *Target Marketing* (August 1998): 34; Andy Reinhardt, "Extranets: Log On, Link Up, ave Big," *BusinessWeek*, June 22, 1998, p. 134; "To Byte the Hand that Feeds," *The Economist*, June 17, 1998, pp. 61–62; John Evan Frook, "Buying ehemoth—By Shifting $5B in Spending to Extranets, GE Could Ignite a Development Frenzy," *Internetweek*, August 17, 1998, p. 1; Nicole Harris, 'Private Exchanges' May Allow B-to-B Commerce to Thrive After All," *Wall Street Journal*, March 16, 2001, pp. B1, B4; Olga Kharif, "B2B, Take 2," *usinessWeek*, November 25, 2003; George S. Day, Adam J. Fein, and Gregg Ruppersberger, "Shakeouts in Digital Markets: Lessons from B2B xchanges," *California Management Review* 45, no. 2 (Winter 2003): 131–151; Julia Angwin, "Top Online Chemical Exchange Is Unlikely Success Story," *Vall Street Journal*, January 8, 2004, p. A15.

MARKETING INSIGHT | ESTABLISHING CORPORATE TRUST AND CREDIBILITY

Strong bonds and relationships between firms depend on their perceived credibility. *Corporate credibility* refers to the extent to which customers believe that a firm can design and deliver products and services that satisfy their needs and wants. Corporate credibility relates to the reputation that a firm has achieved in the marketplace and is the foundation for a strong relationship. It is difficult for a firm to develop strong ties with another firm unless it is seen as highly credible.

Corporate credibility, in turn, depends on three factors:

- ***Corporate expertise***—the extent to which a company is seen as able to make and sell products or conduct services.
- ***Corporate trustworthiness***—the extent to which a company is seen as motivated to be honest, dependable, and sensitive to customer needs.
- ***Corporate likability***—the extent to which a company is seen as likable, attractive, prestigious, dynamic, and so on.

In other words, a credible firm is seen as being good at what it does; it keeps its customers' best interests in mind and is enjoyable to work with.

Trust is a particularly important determinant of credibility and a firm's relationships with other firms. Trust is reflected in the willingness and confidence of a firm to rely on a business partner. A number of interpersonal and interorganizational factors affect trust in a business-to-business relationship, such as the perceived competence, integrity, honesty, and benevolence of the firm. Trust will be affected by personal interactions between employees of a firm as well as opinions about the company as a whole, and perceptions of trust will evolve with more experience with a company.

Trust can be especially tricky in online settings, and firms often impose more stringent requirements on their online business partners. Business buyers worry that they won't get products of the right quality delivered to the right place at the right time. Sellers worry about getting paid on time—or at all—and how much credit they should extend. Some firms, such as transportation and supply chain management company Ryder System, are using tools such as automated credit-checking applications and online trust services to help determine the credibility of trading partners.

Sources: Robert M. Morgan and Shelby D. Hunt, "The Commitment–Trust Theory of Relationship Marketing," *Journal of Marketing* 58, no. 3 (1994): 20–38; Christine Moorman, Rohit Deshpande, and Gerald Zaltman, "Factors Affecting Trust in Market Research Relationships," *Journal of Marketing* 57 (January 1993): 81–101; Kevin Lane Keller and David A. Aaker, "Corporate-Level Marketing: The Impact of Credibility on a Company's Brand Extensions," *Corporate Reputation Review* 1 (August 1998): 356–378; Bob Violino, "Building B2B Trust," *Computerworld*, June 17, 2002, p. 32; Richard E. Plank, David A. Reid, and Ellen Bolman Pullins, "Perceived Trust in Business-to-Business Sales: A New Measure," *Journal of Personal Selling and Sales Management* 19, no. 3 (Summer 1999): 61–72.