

Part 1: Defining Marketing and the Marketing Process (Chapters 1–2)

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# 6

## Business Markets and Business Buyer Behavior

**Chapter Preview** In the previous chapter, you studied *final consumer* buying behavior and factors that influence it. In this chapter, we'll do the same for *business customers*—those that buy goods and services for use in producing their own products and services or for resale to others. As when selling to final buyers, firms marketing to business customers must build profitable relationships with business customers by creating superior customer value.

We begin by looking at another American icon—Boeing. Business-to-business marketing is a way of life at Boeing. All of the aerospace giant's more than \$60 billion of annual revenues come from large organizational buyers—commercial airlines, air-freight carriers, and government and military buyers. Selling airplanes to large organizational buyers is a lot different from selling cars or cameras to final consumers. And the stakes are significantly higher.

### Boeing: Selling to Businesses—The Stakes Are Much, Much Higher

**M**ost times, buying a new car is an involved and time-consuming process. Before committing to spend \$15,000 or more, you spend lots of time searching the Internet for information, watching car ads, talking with friends or salespeople to get their advice, and visiting dealer lots to check out competing models and take test drives. New cars are expensive, and you expect to live with your decision for several years. So you want to get it right.

Now assume that you are a member of the aircraft purchasing team at All Nippon Airways (ANA), Japan's second-largest airline. Your team is charged with making recommendations for the purchase of 50 new airplanes for the company's fleet, at a total cost of more than \$5 billion. All of a sudden, by comparison, your new car purchase decision looks pretty simple. The difference, of course, is that new airplanes aren't lined up in dealership showrooms. You can't go down to the lot to kick the tires and test-fly a new plane. And there are a lot more dollars at stake.

In this case, before shelling out more than \$150 million per plane, ANA's high-level buying team completed an arduous evaluation of its own needs and available aircraft offerings. You can just imagine the research, evaluation, and debate that went into making such a multibillion dollar buying decision. ANA finally announced that it would buy 50 Boeing 787 Dreamliners. More recently, the company announced that it would also buy five Boeing 777s and five 767s, worth another \$2 billion.

Those are mind-blowing figures by almost any standard—\$5 billion; \$2 billion. But it's kind of business as usual for Boe-

ing. "The word *big* does not begin to describe Boeing," says one analyst. As the world's commercial aviation leader, Boeing's 12,000 planes dominate the skies. Its small but popular 737 is the workhorse for many airlines, and its giant, two-level 747 was the world's first jumbo jet. Boeing military aircraft include massive cargo planes and tankers, Chinook and other helicopters, and the F-22, the nation's newest, fastest, and most-expensive military fighter. Boeing even operates the space shuttle and the international space station, and it is working on the next generation of space vehicles to replace NASA's shuttle fleet.

At a general level, selling commercial aircraft to large business customers is like selling cars to final consumers. It requires a deep-down understanding of customer needs and a customer-driven marketing strategy that delivers superior customer value. But that's where the similarities end. Boeing sells to only a relatively small number of very large buyers worldwide. It has only three major commercial airline competitors: Airbus, Lockheed Martin, and Northrup Grumman. And buying a batch of jetliners involves dozens or even hundreds of decision makers from all levels of the buying organization, and layer upon layer of subtle and not-so-subtle buying influences. Moreover, whereas it might be disappointing when a car buyer chooses a competing brand, losing a single sale to a large business customer can cost Boeing billions of dollars in lost business.

It takes more than fast talk and a warm smile to sell expensive high-tech aircraft. Before any sale, a team of Boeing company specialists—sales and design engineers, financial analysts,

planners, and others—dedicates itself to becoming an expert on the airline customer. They find out where the airline wants to grow, when it will be replacing planes, and its financial situation. They run Boeing and competing planes through exhaustive analysis, simulating the airline's routes, cost per seat, and other factors to show that Boeing's planes are more effective and efficient. The selling process is nerve-rackingly slow—it can take two or three years from the first marketing presentation to the day the sale is announced.

Moreover, each sale is just part of a bigger buyer-seller interaction. Boeing's real challenge is to win buyers' business by building day-in, day-out, year-in, year-out customer partnerships based on superior products and close collaboration—before *and* after the sale. When a customer buys an airplane, it also places its trust in a future working relationship with Boeing. "When you buy an airplane, it's like getting married," says a Boeing executive. "It is a long-term relationship."

ANA's decision to buy from Boeing was based in part on the qualities of Boeing's futuristic, yet-to-be-produced 787 Dreamliner aircraft. Just as important, however, was the strong, long-running relationship between ANA and Boeing. When ANA placed that huge order, the Dreamliner was still in the design stage. Not a single plane had yet been built or tested. That took a whole lot of trust on ANA's part.

However, that was more than five years ago, and ANA is still waiting for delivery of the first plane. In fact, events surrounding the development of the 787 highlight the scale and complexities of business-to-business selling, for both the buyer and the seller. Boeing announced its plans for this radical new mid-sized, wide-body commercial airplane in 2004. Fifty percent of the 787's fuselage consists of one piece of lightweight carbon fiber—eliminating 40,000–50,000 individual fasteners and 1,500 aluminum sheets compared with a traditional design. That puts the 787 in a design class with the stealth bomber. Add innovative new jet engines and other weight-saving innovations, and the 787 will be the lightest, most fuel-efficient passenger jet on the market. The 787's interior will also feature many enhanced passenger comforts: a 60 percent quieter ride, more leg room, cleaner air, and higher cabin pressure and humidity to reduce passenger fatigue on long trips.

Sounds great? Commercial airlines around the world thought so too. ANA jumped onboard first with its April 2004 order for 50 planes. Fifty-five other companies quickly followed, ballooning Boeing's 787 orders to 895 planes and making it the fastest-selling



new commercial aircraft in history. Boeing promised delivery of the first 787s by mid-2008, promising that it would deliver 109 planes the first year. To meet that target, the company developed an innovative but very complex manufacturing process.

However, problems plagued the new manufacturing process from the start, causing a numbing two-year delay. The first 787 Dreamliner didn't complete its maiden, three-hour test flight until December 2009, and Boeing pushed back delivery of the first 787s to ANA to the end of 2010 or even later.

The long delays caused substantial problems for both customers and Boeing and put long-established customer relationships to a real test. Some airlines cancelled their orders, and Boeing paid out an estimated \$2.5 billion in penalties and concessions. But most customers stayed the course. In a nod to its faith in Boeing and the 787 Dreamliner, ANA remained a patient partner and even added five more planes to its order. At the same time, however, ANA demanded that Boeing provide a detailed plan for avoiding more surprises and a realistic estimate of when ANA would get its first airplane.

Boeing learned a long list of customer relationship lessons from the delays. In business-to-business partnerships, as in any relationship, trust must be earned anew every day. Says Boeing's president, "We really disappointed our customers. . . . The past three years have been tough for our partners. [But] we are developing closer bonds—it's like climbing a mountain together." In the end, meeting the revised schedules and delivering planes to customers will be a must in repairing strained relationships. Says one Boeing watcher, "good relationships and reputations are built on outstanding performance, not delayed promises."<sup>1</sup>

**To succeed in its business-to-business markets, Boeing must build day-in, day-out, year-in, year-out customer partnerships based on superior products, close collaboration, and trust. "When you buy an airplane, it's like getting married," says a Boeing executive. "It is a long-term relationship."**

**Selling airplanes to large organizational buyers is a lot different from selling cars or cameras to final consumers. And the stakes are much, much higher.**

# Objective OUTLINE

## Objective 1

Define the business market and explain how business markets differ from consumer markets.

**Business Markets** (166–170)

## Objective 2

Identify the major factors that influence business buyer behavior.

**Business Buyer Behavior** (170–176)

## Objective 3

List and define the steps in the business buying decision process.

**The Business Buying Process** (176–178)

**E-Procurement: Buying on the Internet** (178–180)

## Objective 4

Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions.

**Institutional and Government Markets** (180–182)

### Business buyer behavior

The buying behavior of organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.

### Business buying process

The decision process by which business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands.

**Author Comment** | Business markets operate “behind the scenes” to most consumers. Most of the things you buy involve many sets of business purchases before you ever see them.

## Like Boeing,

in one way or another, most large companies sell to other organizations. Companies such as Boeing, DuPont, IBM, Caterpillar, and countless other firms sell *most* of their products to other businesses. Even large consumer-products companies, which make products used by final consumers, must first sell their products to other businesses. For example, General Mills makes many familiar consumer brands—Big G cereals (Cheerios, Wheaties, Trix, Chex), baking products (Pillsbury, Betty Crocker, Gold Medal flour), snacks (Nature Valley, Pop Secret, Chex Mix), Yoplait yogurt, Häagen-Dazs ice cream, and others. But to sell these products to consumers, General Mills must first sell them to its wholesaler and retailer customers, who in turn serve the consumer market.

**Business buyer behavior** refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes the behavior of retailing and wholesaling firms that acquire goods to resell or rent them to others at a profit. In the **business buying process**, business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands. *Business-to-business (B-to-B) marketers* must do their best to understand business markets and business buyer behavior. Then, like businesses that sell to final buyers, they must build profitable relationships with business customers by creating superior customer value.

## Business Markets (pp 166–170)

The business market is *huge*. In fact, business markets involve far more dollars and items than do consumer markets. For example, think about the large number of business transactions involved in the production and sale of a single set of Goodyear tires. Various suppliers sell Goodyear the rubber, steel, equipment, and other goods that it needs to produce tires. Goodyear then sells the finished tires to retailers, who in turn sell them to consumers. Thus, many sets of *business* purchases were made for only one set of *consumer* purchases. In addition, Goodyear sells tires as original equipment to manufacturers that install them on new vehicles and as replacement tires to companies that maintain their own fleets of company cars, trucks, buses, or other vehicles.

## TABLE | 6.1 Characteristics of Business Markets

### Market Structure and Demand

Business markets contain *fewer but larger buyers*.

Business buyer demand is *derived* from final consumer demand.

Demand in many business markets is *more inelastic*—not affected as much in the short run by price changes.

Demand in business markets *fluctuates more* and more quickly.

### Nature of the Buying Unit

Business purchases involve *more buyers*.

Business buying involves a *more professional purchasing effort*.

### Types of Decisions and the Decision Process

Business buyers usually face *more complex buying decisions*.

The business buying process is *more formalized*.

In business buying, buyers and sellers work more closely together and build close long-term *relationships*.

In some ways, business markets are similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from consumer markets. The main differences, shown in **Table 6.1**, are in *market structure and demand*, the *nature of the buying unit*, and the *types of decisions and the decision process* involved.

## Market Structure and Demand

The business marketer normally deals with *far fewer but far larger buyers* than the consumer marketer does. Even in large business markets, a few buyers often account for most of the purchasing. For example, when Goodyear sells replacement tires to final consumers, its potential market includes the owners of the millions of cars currently in use around the world. But Goodyear's fate in the business market depends on getting orders from one of only a handful of large automakers. Similarly, Black & Decker sells its power tools and outdoor equipment to tens of millions of consumers worldwide. However, it must sell these products through three huge retail customers—Home Depot, Lowe's, and Walmart—which combined account for more than half its sales.

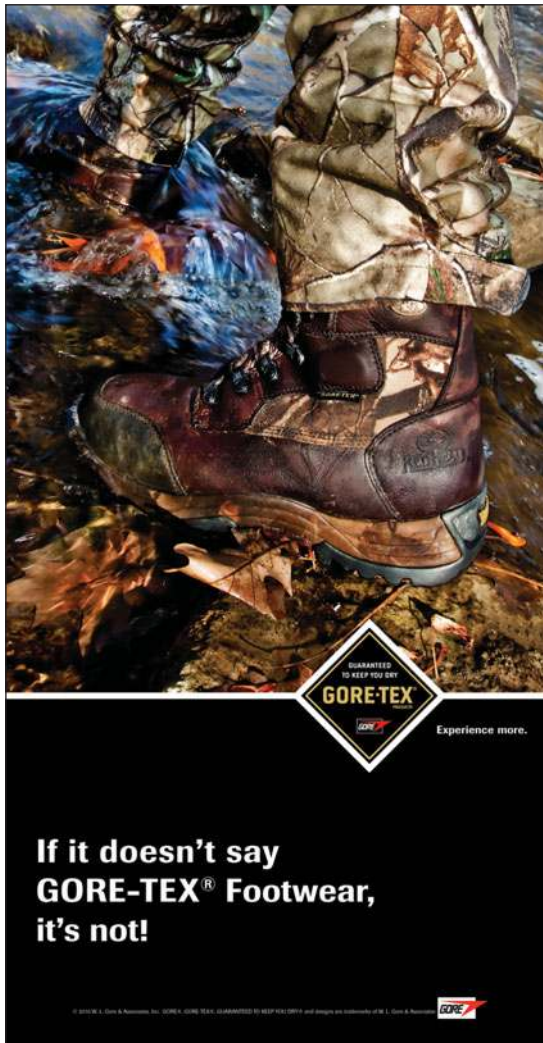
Further, business demand is **derived demand**—it ultimately comes from (derives from) the demand for consumer goods. HP and Dell buy Intel microprocessor chips to operate the computers they manufacture. If consumer demand for computers drops, so will the demand for microprocessors. Therefore, B-to-B marketers sometimes promote their products directly to final consumers to increase business demand. For example, W. L. Gore & Associates promotes its Gore-Tex fabrics directly to final consumers.

You can't buy anything directly from Gore, but increased demand for Gore-Tex fabrics boosts the demand for outdoor apparel and other brands made from them. So Gore advertises to consumers to educate them on the benefits of the Gore-Tex brand in the products they buy. It also markets brands containing Gore-Tex—from Arc'teryx, Marmot, and The North Face to Burton and L.L. Bean—directly to consumers on its own Web site ([www.gore-tex.com/remote/Satellite/home](http://www.gore-tex.com/remote/Satellite/home)). To deepen its relationship with outdoor enthusiasts further, Gore even sponsors an "Experience More" online community in which members can share experiences and videos, connect with

### Derived demand

Business demand that ultimately comes from (derives from) the demand for consumer goods.





● **Derived demand:** You can't buy anything directly from Gore, but to increase demand for Gore-Tex fabrics, the company markets directly to the buyers of outdoor apparel and other brands made from them. Both Gore and its partner brands win.

outdoor experts, and catch exclusive gear offers from partner brands. As a result of these and other marketing efforts, consumers around the world have learned to look for the familiar Gore-Tex brand label, and both Gore and its partner brands win. ● No matter what brand of apparel or footwear you buy, says the label, if it's made with Gore-Tex fabric, it's "guaranteed to keep you dry."

Many business markets have *inelastic demand*; that is, the total demand for many business products is not much affected by price changes, especially in the short run. A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices that, in turn, will increase the consumer demand for shoes.

Finally, business markets have more *fluctuating demand*. The demand for many business goods and services tends to change more—and more quickly—than the demand for consumer goods and services does. A small percentage increase in consumer demand can cause large increases in business demand. Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand during the next period.

## Nature of the Buying Unit

Compared with consumer purchases, a business purchase usually involves *more decision participants* and a *more professional purchasing effort*. Often, business buying is done by trained purchasing agents who spend their working lives learning how to buy better. The more complex the purchase, the more likely it is that several people will participate in the decision-making process. Buying committees composed of technical experts and top management are common in the buying of major goods. Beyond this, B-to-B marketers now face a new breed of higher-level, better-trained supply managers. Therefore, companies must have well-trained marketers and salespeople to deal with these well-trained buyers.

## Types of Decisions and the Decision Process

Business buyers usually face *more complex* buying decisions than do consumer buyers. Business purchases often involve large sums of money, complex technical and economic considerations, and interactions among many people at many levels of the buyer's organization. Because the purchases are more complex, business buyers may take longer to make their decisions. The business buying process also tends to be *more formalized* than the consumer buying process. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches, and formal approval.

Finally, in the business buying process, the buyer and seller are often much *more dependent* on each other. B-to-B marketers may roll up their sleeves and work closely with their customers during all stages of the buying process—from helping customers define problems, to finding solutions, to supporting after-sale operation. They often customize their offerings to individual customer needs.

In the short run, sales go to suppliers who meet buyers' immediate product and service needs. In the long run, however, business-to-business marketers keep a customer's sales and create customer value by meeting current needs *and* by partnering with customers to help them solve their problems. For example, Dow Plastics doesn't just sell commodity plastics to its industrial customers; it works *with* these customers to help them succeed in their own markets. "We believe in a simple concept," says the company. "If you win, we win." (See Real Marketing 6.1.)

In recent years, relationships between customers and suppliers have been changing from downright adversarial to close and chummy. In fact, many customer companies are

# Real Marketing 6.1

## Dow Plastics: “If You Win, We Win”

When you pick up your cell phone to text a friend or hop into your car to head for the mall, you probably don't think much about the plastics that make those state-of-the-art products possible. But at Dow Plastics, thinking about how plastics can make our lives better is at the very core of its business strategy. What makes that noteworthy is that Dow doesn't sell its products to you and me. Instead, it sells mountains of raw materials to its business customers—such as Nokia and BMW—who in turn sell their products final users. But Dow Plastics understands that its own success depends heavily on how successfully its business customers use Dow plastic polymers and resins in satisfying final consumer needs. It's not just selling commodity plastics; it's helping the businesses that buy its plastics to be heroes with their own customers.

To get a better perspective on this strategy, let's go back a few years. In the late 1980s, Dow Chemical realigned its dozen or so widely varied plastics businesses into a single subsidiary, called Dow Plastics. One of the first things Dow had to do was to decide how to position its new division competitively. Initial research showed that Dow Plastics rated a distant third in customer preference behind industry leaders DuPont and GE Plastics. The research also revealed, however, that customers were unhappy with the service—or lack thereof—that they received from all three suppliers. “Vendors peddled resins as a commodity,” said the head of Dow Plastics' advertising agency. “They competed on price and delivered on time but gave no service.”

These findings led to a positioning strategy that went far beyond simply selling good products and delivering them on time. Dow Plastics set out to build deeper relationships with business customers. The organization wasn't just selling products and services; it was partnering with customers to help them win with their own final consumers. Said the agency executive, “Whether they're using Dow's plastics to make bags for Safeway or for complex [automotive] applications, we had to help them succeed in their markets.” This new

thinking was summed up in the positioning statement, “We don't succeed unless you do.”

This new philosophy got Dow out of selling plastics and into selling customer success. The problems of Dow's organizational customers became more than just engineering challenges. Dow's business customers sell to somebody else, so the company now faced new challenges of marketing to and helping satisfy customers' customers.

Over the past two decades, the customer success philosophy has come to permeate everything Dow Plastics does. Dow Plastics doesn't just sell to its business customers; it works *with* them to grow and succeed together. Now, whenever Dow Plastics people encounter a new product or market, the first question they always ask is, “How does this fit with ‘We don't succeed unless you do?’”

For example, carmaker BMW sells to some of the world's most demanding customers. BMW owners want high performance, but they also want reasonable prices and fuel economy. Thus, to help deliver more value to its customers, BMW looks for two important attributes in every vehicle component: cost savings and weight reduction. Lower costs mean more palatable prices for car buyers, and weight reduction yields customer benefits

such as improved fuel economy, increased acceleration, and better handling and braking.

So when BMW and its electronic parts supplier Tyco needed an advanced electronics box for the engine compartment of BMW's latest 7 Series models, they looked for something that would not only meet complex performance specifications but also be cost efficient and lightweight. Enter Dow Plastics. Working together, the Dow-Tyco team developed a lightweight plastic box that yields “exceptional dimensional stability, low warpage, low weight, and improved hydrolysis resistance,” all at a surprisingly economical cost. That might sound like gibberish to you, but it's sweet music to companies like Tyco and BMW. In the final analysis, of course, the folks at Dow Plastics care most about how such parts will help BMW succeed with car buyers. The more cars BMW sells to final buyers, the more plastics Dow sells to Tyco and BMW. Through such innovations, Dow Plastics has helped BMW give customers a full-sized 5,100-pound sedan that hits 60 miles per hour from a standstill in 4.4 seconds, blasts through corners like a go-cart, and still gets decent gas mileage.

Selling customer success has turned Dow Plastics into a world-leading supplier of plastic resins and material science innovations. Plastics now account for about half of Dow Chemical's \$57 billion in annual revenues. Dow Plastics doesn't come up with winning solutions for customers by simply dipping into its current product portfolio. It works closely with customers in every stage of product development and production,



**DOW**  
**Dow Plastics**  
 Think of Dow as the team...  
 behind your team.

**Dow Plastics isn't just selling commodity plastics; it's helping the businesses that buy its plastics to be heroes with their own customers. “We believe in a simple concept . . . if you win, we win.”**

from material selection through final part testing. Dow Plastics considers itself a partner, not just a supplier. As the company summarizes on its Web site:

Think of Dow as the team behind your team. Dow Plastics' greatest asset, and the one that can make the biggest difference to your busi-

ness, is our people. Knowledgeable, flexible, and committed to your success, our team puts all our resources together to provide you with

competitive edge. We believe in a simple concept . . . if you win, we win.

**Sources:** For historical background, see Nancy Arnott, "Getting the Picture: The Grand Design—We Don't Succeed Unless You Do," *Sales & Marketing Management*, June 1994, pp. 74–76. Current quotes and other information from <http://plastics.dow.com/> and [www.omnexus.com/sf/dow?id=plastics](http://www.omnexus.com/sf/dow?id=plastics), accessed March 2010.

### Supplier development

Systematic development of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

now practicing **supplier development**, systematically developing networks of supplier-partners to ensure an appropriate and dependable supply of products and materials that they will use in making their own products or resell to others. For example, Walmart doesn't have a "Purchasing Department"; it has a "Supplier Development Department." ● And giant Swedish furniture retailer IKEA doesn't just buy from its suppliers; it involves them deeply in the customer value-creation process.

IKEA, the world's largest furniture retailer, is the quintessential global cult brand. Customers from Beijing to Moscow to Middletown, Ohio, flock to the \$32 billion Scandinavian retailer's more than 300 huge stores in 38 countries, drawn by IKEA's trendy but simple and practical furniture at affordable prices. But IKEA's biggest obstacle to growth isn't opening new stores and attracting customers. Rather, it's finding enough of the right kinds of *suppliers* to help design and produce the billions of dollars of affordable goods that customers will carry out of its stores. IKEA currently relies on some 1,220 suppliers in 55 countries to stock its shelves. IKEA can't just rely on spot suppliers who might be available when needed. Instead, it has systematically developed a robust network of supplier-partners that reliably provide the more than 9,500 items it stocks. IKEA's designers start with a basic customer value proposition. Then they find and work closely with key suppliers to bring that proposition to market. Thus, IKEA does more than just buy from suppliers; it also involves them deeply in the process of designing and making stylish but affordable products to keep IKEA's customers coming back.<sup>2</sup>



● Giant Scandinavian furniture retailer IKEA doesn't just buy from its suppliers. It involves them deeply in the process of designing and making stylish but affordable furniture that keeps customers coming back.

**Author Comment** Business buying decisions can range from routine to incredibly complex, involving only a few or very many decision makers and buying influences.

## Business Buyer Behavior (pp 170–176)

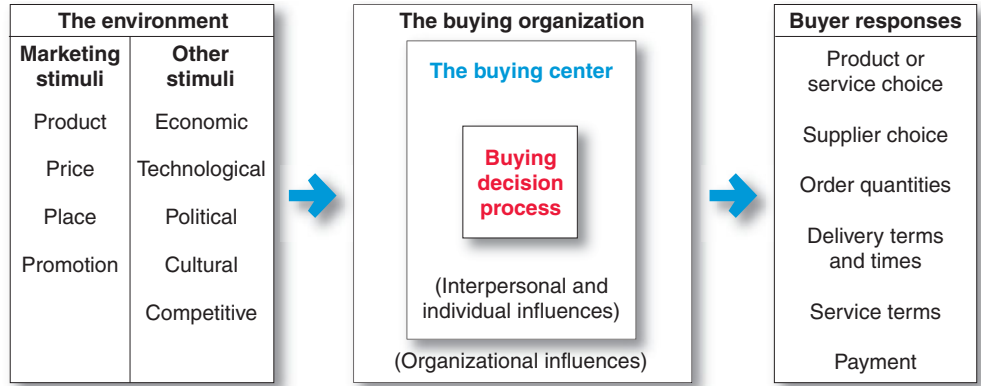
At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. ● **Figure 6.1** shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses. These stimuli enter the organization and are turned into buyer responses. To design good marketing strategies, marketers must understand what happens within the organization to turn stimuli into purchase responses.

Within the organization, buying activity consists of two major parts: the buying center, composed of all the people involved in the buying decision, and the buying decision



**FIGURE | 6.1**  
A Model of Business Buyer Behavior

In some ways, business markets are similar to consumer markets—this model looks a lot like the model of consumer buyer behavior presented in Figure 5.1. But there are some major differences, especially in the nature of the buying unit, the types of decisions made, and the decision process.



process. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as external environmental factors.

The model in Figure 6.1 suggests four questions about business buyer behavior: What buying decisions do business buyers make? Who participates in the buying process? What are the major influences on buyers? How do business buyers make their buying decisions?

### Major Type of Buying Situations

There are three major types of buying situations.<sup>3</sup> In a **straight rebuy**, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. To keep the business, “in” suppliers try to maintain product and service quality. “Out” suppliers try to find new ways to add value or exploit dissatisfaction so that the buyer will consider them.

In a **modified rebuy**, the buyer wants to modify product specifications, prices, terms, or suppliers. The in suppliers may become nervous and feel pressured to put their best foot forward to protect an account. Out suppliers may see the modified rebuy situation as an opportunity to make a better offer and gain new business.

A company buying a product or service for the first time faces a **new task** situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater the company’s efforts to collect information. The new task situation is the marketer’s greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible but also provides help and information. The buyer makes the fewest decisions in the straight rebuy and the most in the new task decision.

Many business buyers prefer to buy a complete solution to a problem from a single seller rather than separate products and services from several suppliers and putting them together. The sale often goes to the firm that provides the most complete *system* for meeting the customer’s needs and solving its problems. Such **systems selling** (or **solutions selling**) is often a key business marketing strategy for winning and holding accounts.

Thus, transportation and logistics giant UPS does more than just ship packages for its business customers; it develops entire solutions to customers’ transportation and logistics problems. For example, UPS bundles a complete system of services that support Nikon’s consumer products supply chain—including logistics, transportation, freight, and customs brokerage services—into one smooth-running system.<sup>4</sup>

When Nikon entered the digital camera market, it decided that it needed an entirely new distribution strategy as well. So it asked transportation and logistics giant UPS to design a complete system for moving its entire electronics product line from its Asian factories to retail stores throughout the United States, Latin America, and the Caribbean. Now products leave Nikon’s Asian manufacturing centers and arrive on American retailers’ shelves in as few as two days, with UPS handling everything in

#### Straight rebuy

A business buying situation in which the buyer routinely reorders something without any modifications.

#### Modified rebuy

A business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers.

#### New task

A business buying situation in which the buyer purchases a product or service for the first time.

#### Systems selling (or solutions selling)

Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.





● **Systems selling:** UPS bundles a complete system of services that support Nikon's consumer products supply chain—including logistics, transportation, freight, and customs brokerage services.

between. UPS first manages air and ocean freight and related customs brokerage to bring Nikon products from Korea, Japan, and Indonesia to its Louisville, Kentucky, operations center. There, UPS can either “kit” the Nikon merchandise with accessories such as batteries and chargers or repackage it for in-store display. Finally, UPS distributes the products to thousands of retailers across the United States or exports them to Latin American or Caribbean retail outlets and distributors. Along the way, UPS tracks the goods and provides Nikon with a “snapshot” of the entire supply chain, letting Nikon keep retailers informed of delivery times and adjust them as needed.

### Buying center

All the individuals and units that play a role in the purchase decision-making process.

### Users

Members of the buying organization who will actually use the purchased product or service.

### Influencers

People in an organization's buying center who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives.

### Buyers

People in an organization's buying center who make an actual purchase.

### Deciders

People in an organization's buying center who have formal or informal power to select or approve the final suppliers.

### Gatekeepers

People in an organization's buying center who control the flow of information to others.

## Participants in the Business Buying Process

Who does the buying of the trillions of dollars' worth of goods and services needed by business organizations? The decision-making unit of a buying organization is called its **buying center**—all the individuals and units that play a role in the business purchase decision-making process. This group includes the actual users of the product or service, those who make the buying decision, those who influence the buying decision, those who do the actual buying, and those who control buying information.

The buying center includes all members of the organization who play any of five roles in the purchase decision process.<sup>5</sup>

- **Users** are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.
- **Influencers** often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
- **Buyers** have formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but their major role is in selecting vendors and negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.
- **Deciders** have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders, or at least the approvers.
- **Gatekeepers** control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and even personal secretaries.

The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and makeup of the buying center will vary for different products and for different buying situations. For some routine purchases, one person—say, a purchasing agent—may assume all the buying center roles and serve as the only person involved in the buying decision. For more complex purchases, the buying center may include 20 or 30 people from different levels and departments in the organization.

The buying center concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence, and what evaluation criteria each decision participant uses. This can be difficult.

For instance, the medical products and services group of Cardinal Health sells disposable surgical gowns to hospitals. It identifies the hospital personnel involved in this buying decision as the vice president of purchasing, the operating room administrator, and the surgeons. ● Each participant plays a different role. The vice president of purchasing analyzes whether the hospital should buy disposable gowns or reusable gowns. If analysis favors dis-

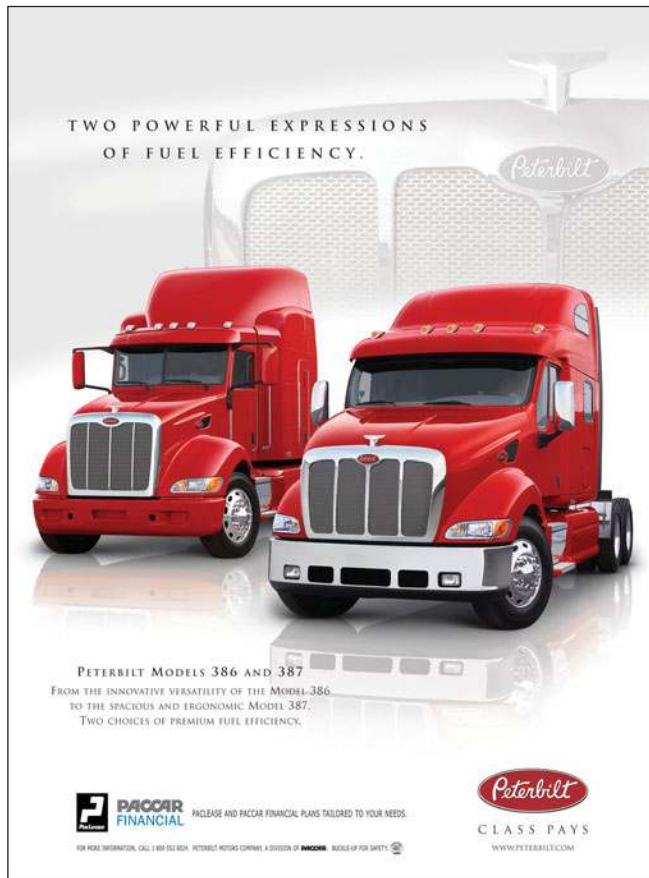


● **Buying center:** Cardinal Health deals with a wide range of buying influences, from purchasing executives and hospital administrators to the surgeons who actually use its products.

posable gowns, then the operating room administrator compares competing products and prices and makes a choice. This administrator considers the gowns' absorbency, antiseptic quality, design, and cost and normally buys the brand that meets the requirements at the lowest cost. Finally, surgeons affect the decision later by reporting their satisfaction or dissatisfaction with the purchased brand.

The buying center usually includes some obvious participants who are involved formally in the buying decision. For example, the decision to buy a corporate jet will probably involve the company's CEO, the chief pilot, a purchasing agent, some legal staff, a member of top management, and others formally charged with the buying decision. It may also involve less obvious, informal participants, some of whom may actually make or strongly affect the buying decision. Sometimes, even the people in the buying center are not aware of all the buying participants. For example, the decision about which corporate jet to buy may actually

be made by a corporate board member who has an interest in flying and who knows a lot about airplanes. This board member may work behind the scenes to sway the decision. Many business buying decisions result from the complex interactions of ever-changing buying center participants.



● **Emotions play an important role in business buying:** This Peterbilt advertisement stresses performance factors such as fuel efficiency. But it also stresses more emotional factors, such as the raw beauty of Peterbilt trucks and the pride of owning and driving one. "Class Pays."

## Major Influences on Business Buyers

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favor the supplier who offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. Such economic factors are very important to most buyers, especially in a rough economy. However, business buyers actually respond to both economic and personal factors. Far from being cold, calculating, and impersonal, business buyers are human and social as well. They react to both reason and emotion.

Today, most B-to-B marketers recognize that emotion plays an important role in business buying decisions. For example, you might expect that an advertisement promoting large trucks to corporate fleet buyers or independent owner-operators would stress objective technical, performance, and economic factors. ● For instance, befitting today's tougher economic times, premium heavy-duty truck maker Peterbilt does stress performance—its dealers and Web site provide plenty of information about factors such as maneuverability, productivity, reliability, comfort, and fuel efficiency. But Peterbilt ads appeal to buyers' emotions as well. They show the raw beauty of the trucks, and the Peterbilt slogan—"Class Pays"—suggests that owning a Peterbilt truck is a matter of pride as well as superior performance. Says the company, "Peterbilt . . . the class of the industry. On highways, construction sites, city streets, logging roads—everywhere customers earn their living—Peterbilt's red oval is a familiar symbol of performance, reliability, and pride."<sup>6</sup>

When suppliers' offers are very similar, business buyers have little basis for strictly rational choices. Because they can meet organizational goals with any supplier, buyers can allow personal

factors to play a larger role in their decisions. However, when competing products differ greatly, business buyers are more accountable for their choices and tend to pay more attention to economic factors. ● **Figure 6.2** lists various groups of influences on business buyers—environmental, organizational, interpersonal, and individual.

### Environmental Factors

Business buyers are heavily influenced by factors in the current and expected *economic environment*, such as the level of primary demand, the economic outlook, and the cost of money. Another environmental factor is the *supply* of key materials. Many companies now are more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers also are affected by technological, political, and competitive developments in the environment. Finally, *culture and customs* can strongly influence business buyer reactions to the marketer’s behavior and strategies, especially in the international marketing environment (see Real Marketing 6.2). The business buyer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

### Organizational Factors

Each buying organization has its own objectives, strategies, structure, systems, and procedures, and the business marketer must understand these factors well. Questions such as these arise: How many people are involved in the buying decision? Who are they? What are their evaluative criteria? What are the company’s policies and limits on its buyers?

### Interpersonal Factors

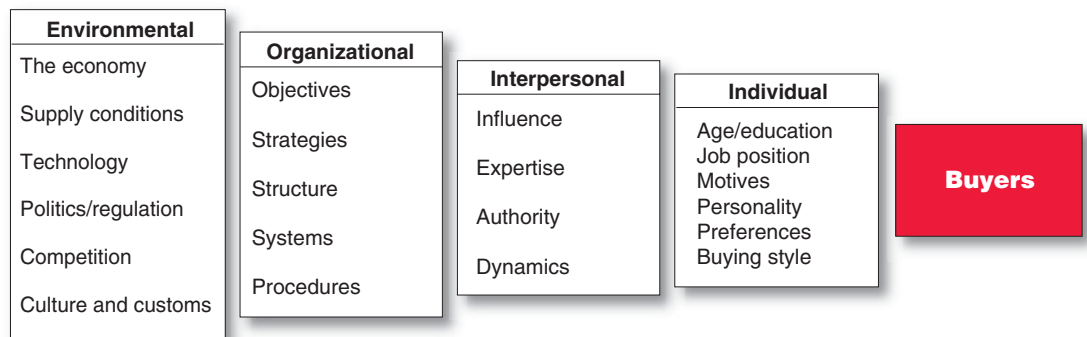
The buying center usually includes many participants who influence each other, so *interpersonal factors* also influence the business buying process. However, it is often difficult to assess such interpersonal factors and group dynamics. Buying center participants do not wear tags that label them as “key decision maker” or “not influential.” Nor do buying center participants with the highest rank always have the most influence. Participants may influence the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

### Individual Factors

Each participant in the business buying decision process brings in personal motives, perceptions, and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

● **FIGURE | 6.2**  
Major Influences on Business Buyer Behavior

Like consumer buying decisions in Figure 5.2, business buying decisions are affected by an incredibly complex combination of environmental, interpersonal, and individual influences, but with an extra layer of organizational factors thrown into the mix.





# Real Marketing 6.2

## International Marketing Manners: When in Rome, Do as the Romans Do

Picture this: Consolidated Amalgamation, Inc., thinks it's time that the rest of the world enjoyed the same fine products it has offered American consumers for two generations. It dispatches Vice President Harry E. Slicksmile to Europe, Africa, and Asia to explore the territory. Mr. Slicksmile stops first in London, where he makes short work of some bankers—he rings them up on the phone. He handles Parisians with similar ease: After securing a table at La Tour d'Argent, he greets his luncheon guest, the director of an industrial engineering firm, with the words, "Just call me Harry, Jacques."

In Germany, Mr. Slicksmile is a powerhouse. Whisking through a lavish, state-of-the-art marketing presentation, complete with flip PowerPoints and videos, he shows 'em that this Georgia boy *knows* how to make a buck. Heading on to Milan, Harry strikes up a conversation with the Japanese businessman sitting next to him on the plane. He flips his card onto the guy's tray and, when the two say good-bye, shakes hands warmly and clasps the man's right arm. Later, for his appointment with the owner of an Italian packaging design firm, our hero wears his comfy corduroy sport coat, khaki pants, and Timberland hikers. Everybody knows Italians are zany and laid back.

Mr. Slicksmile next swings through Saudi Arabia, where he coolly presents a potential client with a multimillion-dollar proposal in a classy pigskin binder. At his next stop in Beijing, China, he talks business over lunch with a group of Chinese executives. After completing the meal, he drops his chopsticks into his bowl of rice and presents each guest with an elegant Tiffany clock as a reminder of his visit. Then, at his final stop in Phuket, Thailand, Mr. Slicksmile quickly dives into his business proposal before lunch is served.

A great tour, sure to generate a pile of orders, right? Wrong. Six months later, Consolidated Amalgamation has nothing to show for the trip but a stack of bills. Abroad, they weren't wild about Harry.

This hypothetical case has been exaggerated for emphasis. Americans are seldom such

dolts. But experts say success in international business has a lot to do with knowing the territory and its people. By learning English and extending themselves in other ways, the world's business leaders have met Americans more than halfway. In contrast, Americans too often do little except assume that others will march to their music. "We want things to be 'American' when we travel. Fast. Convenient. Easy. So we become 'ugly Americans' by demanding that others change," says one American world trade expert. "I think more business would be done if we tried harder."

Poor Harry tried, all right, but in all the wrong ways. The British do not, as a rule, make deals over the phone as much as Americans do. It's not so much a "cultural" difference as a difference in approach. A proper Frenchman neither likes instant familiarity—questions about family, church, or alma mater—nor refers to strangers by their first names. "That poor fellow, Jacques, probably wouldn't show anything, but he'd recoil. He'd

not be pleased," explains an expert on French business practices.

Harry's flashy presentation would likely have been a flop with the Germans, who dislike overstatement and showiness. And when he grabbed his new Japanese acquaintance by the arm, the executive probably considered him disrespectful and presumptuous. Japan, like many Asian countries, is a "no-contact culture" in which even shaking hands is a strange experience. Harry made matters worse by tossing his business card. Japanese people revere the business card as an extension of self and as an indicator of rank. They do not *hand* it to people; they *present* it—with both hands. In addition, the Japanese are sticklers about rank. Unlike Americans, they don't heap praise on subordinates in a room; they will praise only the highest-ranking official present.

Hapless Harry also goofed when he assumed that Italians are like Hollywood's stereotypes of them. The flair for design and style that has characterized Italian culture for centuries is embodied in the businesspeople of Milan and Rome. They dress beautifully and admire flair, but they blanch at garishness or impropriety in others' attire.

To the Saudi Arabians, the pigskin binder would have been considered vile. An American salesperson who actually presented such a binder was unceremoniously tossed out, and his company was blacklisted from working



**American companies must help their managers understand international customers and customs. For example, Japanese people revere the business card as an extension of self: They do not hand it out to people; they present it.**



with Saudi businesses. In China, Harry's casually dropping his chopsticks could have been misinterpreted as an act of aggression. Stabbing chopsticks into a bowl of rice and leaving them signifies death to the Chinese. The clocks Harry offered as gifts might have confirmed such dark intentions. To "give a clock" in Chinese sounds the same as "seeing someone off to his end." And in Thailand, it's considered inappropriate to speak about business matters until after the meal is served and eaten.

Thus, to compete successfully in global markets, or even to deal effectively with in-

ternational firms in their home markets, companies must help their managers to understand the needs, customs, and cultures of international business buyers. "When doing business in a foreign country and a foreign culture—particularly a non-Western culture—assume nothing," advises an international

business specialist. "Take nothing for granted. Turn every stone. Ask every question. Dig into every detail. Because cultures really are different, and those differences can have a major impact." So the old advice is still good advice: When in Rome, do as the Romans do.

**Sources:** Portions adapted from Susan Harte, "When in Rome, You Should Learn to Do What the Romans Do," *The Atlanta Journal-Constitution*, January 22, 1990, pp. D1, D6. Additional information and examples can be found in Gary Stroller, "Doing Business Abroad? Simple Faux Pas Can Sink You," *USA Today*, August 24, 2007, p. 1B; Roger E. Axtell, *Essential Do's and Taboos* (New York: Wiley, 2007); Janette S. Martin and Lillian H. Cheney, *Global Business Etiquette* (Santa Barbara, CA: Praeger Publishers, 2008); and [www.executiveplanet.com](http://www.executiveplanet.com), accessed August 2010.

## The Business Buying Process

● **Figure 6.3** lists the eight stages of the business buying process.<sup>7</sup> Buyers who face a new task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new task buying situation.

### Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. **Problem recognition** can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price.

In fact, in their advertising, business marketers often alert customers to potential problems and then show how their products and services provide solutions. ● For example, an award-winning ad from Makino Engineering Services, a leading maker of advanced machining tools, highlights a daunting customer problem: hard-to-machine parts. In the ad, the powerful visual shows a machined part that looks like a scary monster, complete with fangs. The ad's headline then offers the solution: "Our application engineers love the scary parts." The ad goes on to reassure customers that Makino can help them with their most difficult-to-machine parts and urges, "Don't be afraid of the part."

### General Need Description

Having recognized a need, the buyer next prepares a **general need description** that describes the characteristics and quantity of the needed item. For standard items, this process

#### Problem recognition

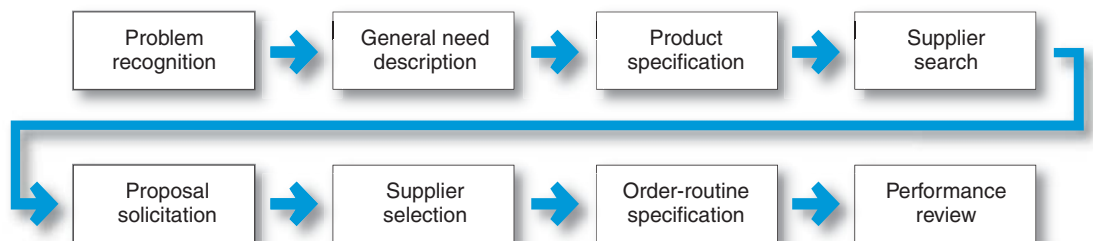
The first stage of the business buying process in which someone in the company recognizes a problem or need that can be met by acquiring a good or a service.

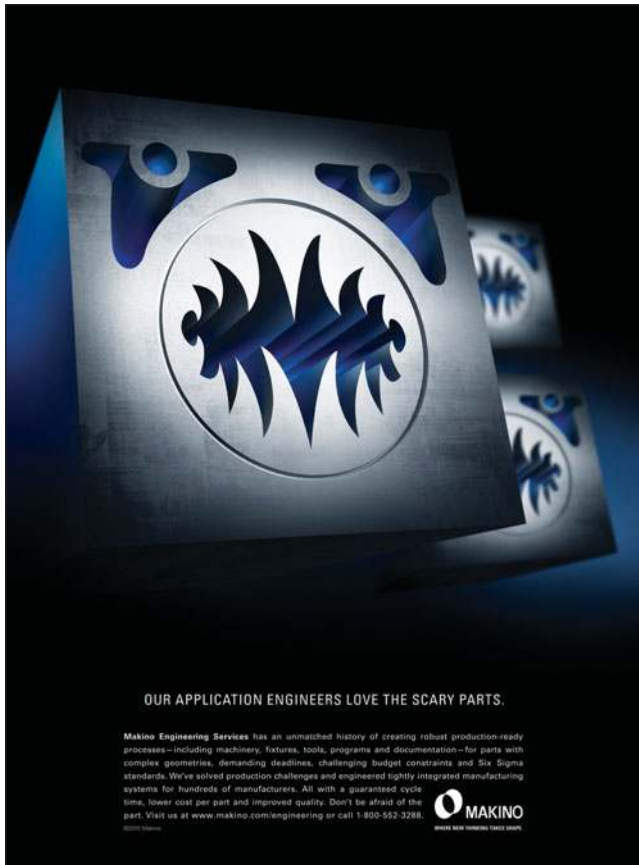
#### General need description

The stage in the business buying process in which a buyer describes the general characteristics and quantity of a needed item.

● **FIGURE | 6.3**  
Stages of the Business Buying Process

Buyers facing new, complex buying decisions usually go through all of these stages. Those making rebuys often skip some of the stages. Either way, the business buying process is usually much more complicated than this simple flow diagram suggests.





● **Problem recognition:** Machine tools maker Makino uses ads like this one to alert customers to problems and reassure them that Makino can help find solutions. “Our applications engineers love the scary parts.”

### Product specification

The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item.

### Supplier search

The stage of the business buying process in which the buyer tries to find the best vendors.

### Proposal solicitation

The stage of the business buying process in which the buyer invites qualified suppliers to submit proposals.

### Supplier selection

The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

presents few problems. For complex items, however, the buyer may need to work with others—engineers, users, consultants—to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

## Product Specification

The buying organization next develops the item’s technical **product specifications**, often with the help of a value analysis engineering team. *Product value analysis* is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new task situations that give them a chance to obtain new business.

## Supplier Search

The buyer now conducts a **supplier search** to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing computer searches, or phoning other companies for recommendations. Today, more and more companies are turning to the Internet to find suppliers. For marketers, this has leveled the playing field—the Internet gives smaller suppliers many of the same advantages as larger competitors.

The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier’s task is to get listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

## Proposal Solicitation

In the **proposal solicitation** stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and make the marketer’s company stand out from the competition.

## Supplier Selection

The members of the buying center now review the proposals and select a supplier or suppliers. During **supplier selection**, the buying center often will draw up a list of the desired supplier attributes and their relative importance. Such attributes include product and service quality, reputation, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. In the end, they may select a single supplier or a few suppliers. Many buyers prefer multiple sources of supplies to avoid being totally dependent on one supplier and allow comparisons of prices and performance of several suppliers over

time. Today's supplier development managers want to develop a full network of supplier-partners that can help the company bring more value to its customers.

### Order-Routine Specification

#### Order-routine specification

The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies, and warranties.

The buyer now prepares an **order-routine specification**. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected delivery time, return policies, and warranties. In the case of maintenance, repair, and operating items, buyers may use blanket contracts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period.

Many large buyers now practice *vendor-managed inventory*, in which they turn over ordering and inventory responsibilities to their suppliers. Under such systems, buyers share sales and inventory information directly with key suppliers. The suppliers then monitor inventories and replenish stock automatically as needed. For example, most major suppliers to large retailers such as Walmart, Target, Home Depot, and Lowe's assume vendor-managed inventory responsibilities.

### Performance Review

#### Performance review

The stage of the business buying process in which the buyer assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The **performance review** may lead the buyer to continue, modify, or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

In all, the eight-stage buying-process model shown in Figure 6.3 provides a simple view of the business buying as it might occur in a new task buying situation. However, the actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way, and each buying situation has unique requirements.

Different buying center participants may be involved at different stages of the process. Although certain buying-process steps usually do occur, buyers do not always follow them in the same order, and they may add other steps. Often, buyers will repeat certain stages of the process. Finally, a customer relationship might involve many different types of purchases ongoing at a given time, all in different stages of the buying process. The seller must manage the total *customer relationship*, not just individual purchases.

## E-Procurement: Buying on the Internet

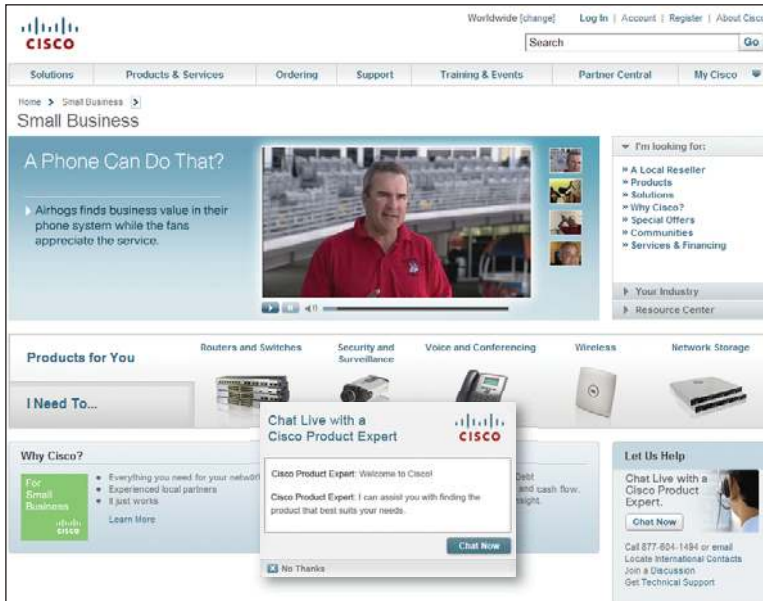
#### E-procurement

Purchasing through electronic connections between buyers and sellers—usually online.

Advances in information technology have changed the face of the B-to-B marketing process. Electronic purchasing, often called **e-procurement**, has grown rapidly in recent years. Virtually unknown a decade and a half ago, online purchasing is standard procedure for most companies today. E-procurement gives buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. In turn, business marketers can connect with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

Companies can do e-procurement in any of several ways. They can conduct *reverse auctions*, in which they put their purchasing requests online and invite suppliers to bid for the business. Or they can engage in online *trading exchanges*, through which companies work collectively to facilitate the trading process. Companies also can conduct e-procurement by setting up their own *company buying sites*. For example, GE operates a company trading site on which it posts its buying needs and invites bids, negotiates terms, and places orders. Or companies can create *extranet links* with key suppliers. For instance, they can create direct procurement accounts with suppliers such as Dell or Office Depot, through which company buyers can purchase equipment, materials, and supplies directly.

B-to-B marketers can help customers who wish to purchase online by creating well-designed, easy-to-use Web sites. ● For example, *BtoB* magazine rated the site of Cisco



● **Online buying:** The Cisco Systems site helps customers who want to purchase online by providing deep access to information about thousands of products and services. The site can also personalize the online experience for users and connect them with appropriate Cisco partner resellers.

Systems—a market leader in Web networking hardware, software, and services—as one of its “10 great B-to-B Web sites”:<sup>8</sup>

To spur growth, Cisco Systems recently stepped up its focus on the small and midsize business (SMB) segment. Its award-winning new SMB-specific Web site is simple, action-oriented, and engaging but gives SMB buyers deep access. At the most basic level, customers can find and download information about thousands of Cisco products and services. Digging deeper, the site is loaded with useful video content—everything from testimonials to “how to” videos to informational and educational on-demand Webcasts.

Cisco’s SMB site gets customers interacting with both the company and its partner resellers. For example, its live click-to-chat feature puts users in immediate touch with Cisco product experts. WebEx Web-conferencing software connects potential SMB customers with appropriate Cisco partner resellers, letting them share Web pages, PowerPoints, and other documents in a collabora-

tive online space. Finally, the Cisco SMB site can actually personalize the online experience for users. For example, if it detects that someone from the legal industry is paying attention to wireless content, it might put together relevant pieces of content to create a page for that visitor. Such personalization really pays off. Customers visiting personalized pages stay two times longer than other visitors and go much deeper into the site.

Business-to-business e-procurement yields many benefits. First, it shaves transaction costs and results in more efficient purchasing for both buyers and suppliers. E-procurement reduces the time between order and delivery. And a Web-powered purchasing program eliminates the paperwork associated with traditional requisition and ordering procedures and helps an organization keep better track of all purchases. Finally, beyond the cost and time savings, e-procurement frees purchasing people from a lot of drudgery and paperwork. In turn, it frees them to focus on more-strategic issues, such as finding better supply sources and working with suppliers to reduce costs and develop new products.

To demonstrate these advantages, consider Kodak. When it remodeled its headquarters facilities in Rochester, New York, it used e-procurement only. From demolition to restoration, the massive project involved managing more than 1,600 contract bids from 150 contractors. Throughout the project, e-procurement reduced paperwork and speeded up review and award times. In the end, the project was completed on time, and Kodak estimates that using e-procurement saved 15 percent on purchasing-process costs (including \$186,000 on photocopying expenses alone).<sup>9</sup>

The rapidly expanding use of e-procurement, however, also presents some problems. For example, at the same time that the Web makes it possible for suppliers and customers to share business data and even collaborate on product design, it can also erode decades-old customer-supplier relationships. Many buyers now use the power of the Web to pit suppliers against one another and search out better deals, products, and turnaround times on a purchase-by-purchase basis.

E-procurement can also create potential security disasters. Although e-mail and home banking transactions can be protected through basic encryption, the secure environment that businesses need to carry out confidential interactions is sometimes still lacking. Companies are spending millions for research on defensive strategies to keep hackers at bay. Cisco Systems, for example, specifies the types of routers, firewalls, and security procedures



that its partners must use to safeguard extranet connections. In fact, the company goes even further; it sends its own security engineers to examine a partner's defenses and holds the partner liable for any security breach that originates from its computers.

**Author Comment** | These two nonbusiness organizational markets provide attractive opportunities for many companies. Because of their unique nature, we give them special attention here.

## Institutional and Government Markets (pp 180–182)

So far, our discussion of organizational buying has focused largely on the buying behavior of business buyers. Much of this discussion also applies to the buying practices of institutional and government organizations. However, these two nonbusiness markets have additional characteristics and needs. In this final section, we address the special features of institutional and government markets.

### Institutional Markets

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and their objectives. For example, Tenet Healthcare runs 49 for-profit hospitals in 12 states, generating \$8.7 billion in annual revenues. By contrast, the Shriners Hospitals for Children is a nonprofit organization with 22 hospitals that provide free specialized healthcare for children, whereas the government-run Veterans Affairs Medical Centers located across the country provide special services to veterans.<sup>10</sup> Each institution has different buying needs and resources.

Institutional markets can be huge. Consider the massive and expanding U.S. prisons economy:

One in every 31 adults, or 7.3 million Americans, is in prison, on parole, or on probation, at a cost to the states of \$47 billion a year. Criminal correction spending is outpacing budget growth in education, transportation, and public assistance. U.S. prisons, which hold 1.5 million adults, spend on average \$29,000 per year per prisoner. The ultimate captive market, it translates into plenty of work for companies looking to break into the prison market. “Our core business touches so many things—security, medicine, education, food service, maintenance, technology—that it presents a unique opportunity for any number of vendors to do business with us,” says an executive at Corrections Corporation of America, the largest private prison operator in the country.<sup>11</sup>

Many institutional markets are characterized by low budgets and captive patrons. For example, hospital patients have little choice but to eat whatever food the hospital supplies. A hospital purchasing agent has to decide on the quality of food to buy for patients. Because the food is provided as a part of a total service package, the buying objective is not profit. Nor is strict cost minimization the goal—patients receiving poor-quality food will complain to others and damage the hospital's reputation. Thus, the hospital purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low.

Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers. ● For example, the General Mills Foodservice unit produces, packages, prices, and markets its broad assortment of cereals, cookies, snacks, and other products to better serve the specific food service requirements of hospitals, schools, hotels, and other institutional markets.<sup>12</sup>

#### Institutional market

Schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care.



● General Mills Foodservice produces, packages, prices, and markets its broad assortment of foods to better serve the specific food service requirements of various institutional markets.

### Government market

Governmental units—federal, state, and local—that purchase or rent goods and services for carrying out the main functions of government.

## Government Markets

The **government market** offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. In the United States alone, federal, state, and local governments contain more than 82,000 buying units that purchase more than \$1 trillion in goods and services each year.<sup>13</sup> Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process.

Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, a governmental unit will make allowances for the supplier's superior quality or reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks, and in cases where there is little competition.

Government organizations tend to favor domestic suppliers over foreign suppliers. A major complaint of multinationals operating in Europe is that each country shows favoritism toward its nationals in spite of superior offers that are made by foreign firms. The European Economic Commission is gradually removing this bias.

Like consumer and business buyers, government buyers are affected by environmental, organizational, interpersonal, and individual factors. One unique thing about government buying is that it is carefully watched by outside publics, ranging from Congress to a variety of private groups interested in how the government spends taxpayers' money. Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel.

Given all the red tape, why would any firm want to do business with the U.S. government? The reasons are quite simple: The U.S. government is the world's largest buyer of products and services—more than \$425 billion worth each year—and its checks don't bounce. For example, last year, the federal government spent a whopping \$73 billion on information technology alone. The Transportation Security Administration spent approximately \$700 million just for electronic baggage screening technology.<sup>14</sup>

Most governments provide would-be suppliers with detailed guides describing how to sell to the government. For example, the U.S. Small Business Administration provides on its Web site detailed advice for small businesses seeking government contracting opportunities ([www.sba.gov/contractingopportunities/index.html](http://www.sba.gov/contractingopportunities/index.html)). And the U.S. Commerce Department's Web site is loaded with information and advice on international trade opportunities ([www.commerce.gov/about-commerce/grants-contracting-trade-opportunities](http://www.commerce.gov/about-commerce/grants-contracting-trade-opportunities)).

In several major cities, the General Services Administration operates *Business Service Centers* with staffs to provide a complete education on the way government agencies buy, the steps that suppliers should follow, and the procurement opportunities available. Various trade magazines and associations provide information on how to reach schools, hospitals, highway departments, and other government agencies. And almost all of these government organizations and associations maintain Internet sites offering up-to-date information and advice.

Still, suppliers have to master the system and find ways to cut through the red tape, especially for large government purchases. Consider Envisage Technologies, a small software development company that specializes in Internet-based training applications and human resource management platforms. All of its contracts fall in the government sector; 65 percent are with the federal government. Envisage uses the General Services Administration's Web site to gain access to smaller procurements, often receiving responses within 14 days. However, it puts the most sweat into seeking large, highly coveted contracts. A comprehensive bid

proposal for one of these contracts can easily run from 600 to 700 pages because of federal paperwork requirements. And the company's president estimates that to prepare a single bid proposal, the firm has spent as many as 5,000 man-hours over the course of a few years.<sup>15</sup>

Noneconomic criteria also play a growing role in government buying. Government buyers are asked to favor depressed business firms and areas; small business firms; minority-owned firms; and business firms that avoid race, gender, or age discrimination. Sellers need to keep these factors in mind when deciding to seek government business.

Many companies that sell to the government have not been very marketing oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasized price, making suppliers invest their effort in technology to bring costs down. When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter much in winning bids on an open-bid basis.

Several companies, however, have established separate government marketing departments, including GE, Kodak, and Goodyear. These companies anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce stronger communications to describe and enhance their companies' reputations.

Other companies have established customized marketing programs for government buyers. For example, Dell has specific business units tailored to meet the needs of federal as well as state and local government buyers. Dell offers its customers tailor-made Premier Dell.com Web pages that include special pricing, online purchasing, and service and support for each city, state, and federal government entity.

During the past decade, a great deal of the government's buying has gone online. ● The Federal Business Opportunities Web site ([www.fbo.gov](http://www.fbo.gov)) provides a single point of entry through which commercial vendors and government buyers can post, search, monitor, and retrieve opportunities solicited by the entire federal contracting community. The

three federal agencies that act as purchasing agents for the rest of government have also launched Web sites supporting online government purchasing activity. The General Services Administration, which influences more than one-quarter of the federal government's total procurement dollars, has set up a GSA Advantage! Web site ([www.gsaadvantage.gov](http://www.gsaadvantage.gov)). The Defense Logistics Agency offers an Internet Bid Board System ([www.dibbs.bsm.dla.mil/](http://www.dibbs.bsm.dla.mil/)) for purchases by America's military services. And the Department of Veterans Affairs facilitates e-procurement through its VA Advantage! Web site (<https://VAadvantage.gsa.gov>).

Such sites allow authorized defense and civilian agencies to buy everything from office supplies, food, and information technology equipment to construction services through online purchasing. The General Services Administration, the Defense Logistics Agency, and Department of Veterans Affairs not only sell stocked merchandise through their Web sites but also create direct links between buyers and contract suppliers. For example, the branch of the Defense Logistics Agency that sells 160,000 types of medical supplies to military forces transmits orders directly to vendors such as Bristol-Myers Squibb. Such Internet systems promise to eliminate much of the hassle sometimes found in dealing with government purchasing.<sup>16</sup>



● **Government markets:** The U.S. government is the world's largest buyer of products and services; and its checks don't bounce. The Federal Business Opportunities Web site ([www.fbo.gov](http://www.fbo.gov)) provides a single point of entry to the entire federal contracting community.

# REVIEWING Objectives AND KEY Terms

Business markets and consumer markets are alike in some key ways. For example, both include people in buying roles who make purchase decisions to satisfy needs. But business markets also differ in many ways from consumer markets. For one thing, the business market is *huge*, far larger than the consumer market. Within the United States alone, the business market includes organizations that annually purchase trillions of dollars' worth of goods and services.

## Objective 1 Define the business market and explain how business markets differ from consumer markets. (pp 166–170)

The *business market* comprises all organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit. As compared to consumer markets, business markets usually have fewer but larger buyers. Business demand is derived demand, which tends to be more inelastic and fluctuating than consumer demand. The business buying decision usually involves more, and more professional, buyers. Business buyers usually face more complex buying decisions, and the buying process tends to be more formalized. Finally, business buyers and sellers are often more dependent on each other.

## Objective 2 Identify the major factors that influence business buyer behavior. (pp 170–176)

Business buyers make decisions that vary with the three types of *buying situations*: straight rebuys, modified rebuys, and new tasks. The decision-making unit of a buying organization—the *buying center*—can consist of many different persons playing many different roles. The business marketer needs to know the following: Who are the major buying center participants? In what decisions do they exercise influence and to what degree? What evaluation criteria does each decision participant use? The business marketer also needs to understand the major environmental, organizational, interpersonal, and individual influences on the buying process.

## Objective 3 List and define the steps in the business buying decision process. (pp 176–180)

The *business buying decision process* itself can be quite involved, with eight basic stages: problem recognition, general need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification, and performance review. Buyers who face a new task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. Companies must manage the overall customer relationship, which often includes many different buying decisions in various stages of the buying decision process.

Recent advances in information technology have given birth to “e-procurement,” by which business buyers are purchasing all kinds of products and services online. The Internet gives business buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. However, e-procurement can also erode customer-supplier relationships and create potential security problems. Still, business marketers are increasingly connecting with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

## Objective 4 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions. (pp 180–182)

The *institutional market* consists of schools, hospitals, prisons, and other institutions that provide goods and services to people in their care. These markets are characterized by low budgets and captive patrons. The *government market*, which is vast, consists of government units—federal, state, and local—that purchase or rent goods and services for carrying out the main functions of government.

Government buyers purchase products and services for defense, education, public welfare, and other public needs. Government buying practices are highly specialized and specified, with open bidding or negotiated contracts characterizing most of the buying. Government buyers operate under the watchful eye of the U.S. Congress and many private watchdog groups. Hence, they tend to require more forms and signatures and respond more slowly and deliberately when placing orders.

## KEY Terms

### OBJECTIVE 1

Business buyer behavior (p 166)  
Business buying process (p 166)  
Derived demand (p 167)  
Supplier development (p 170)

### OBJECTIVE 2

Straight rebuy (p 171)  
Modified rebuy (p 171)  
New task (p 171)  
Systems selling (or solutions selling) (p 171)

Buying center (p 172)  
Users (p 172)  
Influencers (p 172)  
Buyers (p 172)  
Deciders (p 172)  
Gatekeepers (p 172)

### OBJECTIVE 3

Problem recognition (p 176)  
General need description (p 176)  
Product specification (p 177)

Supplier search (p 177)  
Proposal solicitation (p 177)  
Supplier selection (p 177)  
Order-routine specification (p 178)  
Performance review (p 178)  
E-procurement (p 178)

### OBJECTIVE 4

Institutional market (p 180)  
Government market (p 181)





- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **B-to-B**.

## DISCUSSING & APPLYING THE Concepts

### Discussing the Concepts

1. Explain how the business market differs from the consumer market for a product such as automobiles. (AACSB: Communication; Reflective Thinking)
2. Name and describe the three types of business buying situations. (AACSB: Communication)
3. In a buying center purchasing process, which buying center participant is most likely to make each of the following statements? (AACSB: Communication; Reflective Thinking)
  - “This bonding agent better be good because I have to put this product together.”
  - “I specified this bonding agent on another job, and it worked for them.”
  - “Without an appointment, no sales rep gets in to see Ms. Johnson.”
  - “Okay, it’s a deal; we’ll buy it.”
  - “I’ll place the order first thing tomorrow.”
4. List the major influences on business buyer behavior. Why is it important for the B-to-B marketer to understand these major influences? (AACSB: Communication; Reflective Thinking)
5. Name and briefly describe the stages of the business buying process. (AACSB: Communication)
6. Describe how electronic purchasing has changed the B-to-B marketing process and discuss the advantages and disadvantages of electronic purchasing. (AACSB: Communication)

### Applying the Concepts

1. Business buying occurs worldwide, so marketers need to be aware of cultural factors influencing business customers. In a small group, select a country and develop a multimedia presentation on proper business etiquette and manners, including appropriate appearance, behavior, and communication. Include a map showing the location of the country as well as a description of the country in terms of its demographics, culture, and economic history. (AACSB: Communication; Multicultural and Diversity; Use of IT)
2. Interview a businessperson to learn how purchases are made in his or her organization. Ask this person to describe a recent straight rebuy, a modified rebuy, and a new task buying situation of which he or she is aware. (If necessary, define these terms for the businessperson.) Did the buying process differ for different types of products or purchase situations? Ask the businessperson to explain his or her role in a recent purchase and discuss the factors that influenced the decision. Write a brief report of your interview, applying the concepts you learned in this chapter regarding business buyer behavior. (AACSB: Communication; Reflective Thinking)
3. The North American Industry Classification System (NAICS) codes classify businesses by production processes, providing a common classification system for North America and better compatibility with the International Standard Industrial Classification system. This six-digit number (in some cases, seven or ten digits) is useful for understanding business markets. Visit [www.naics.com](http://www.naics.com) and learn what the six digits of the NAICS code represent. What industry is represented by the NAICS code 448210? How many businesses comprise this code? How can marketers use NAICS codes to better deliver customer satisfaction and value? (AACSB: Communication; Reflective Thinking; Use of IT)

## FOCUS ON Technology

How would you like to sell to a customer that spends billions of dollars per year on contractors? If so, you need to learn how to crack the federal government market. The federal government purchases goods ranging from toilet paper to aircraft carriers and services from janitorial supplies to high-tech IT. This is a lucrative market—especially during economic downturns. Companies such as Dataguisse, a database security solutions company, and Kearney & Company, an accounting firm, focus their marketing solely on this market. How do businesses—big and small—find out about opportunities in this market? One way is to search the government’s Web site for opportunities. A great deal of the government’s buying is now done online.

1. Go to the Federal Business Opportunities Web site (<https://www.fbo.gov>) and watch the general overview

demonstration video for vendors. After watching the video, conduct a search for opportunities using tips you learned in the video. Are there many opportunities in your geographic area? Write a brief report describing the usefulness of this Web site for businesses desiring to sell to the government market. (AACSB: Communication; Use of IT; Reflective Thinking)

2. Visit the Web sites of other government buying resources listed in the chapter to learn more about them. Write a brief report explaining how small businesses can use these resources. (AACSB: Communication; Use of IT; Reflective Thinking)

## FOCUS ON Ethics

Pharmaceutical companies give physicians money and other promotional benefits when marketing their products; some receive hundreds of thousands of dollars. J&J, Pfizer, GSK, and other drug manufacturers are now disclosing payments to physicians, medical centers, and academic institutions. In the second half of 2009, Pfizer paid \$35 million to 4,500 doctors and academic medical centers, and GSK reported paying \$14.6 million in the second quarter of 2009. In total, the drug industry spends about \$20 billion per year marketing to health professionals. These payments are in the form of gifts, food, trips, speaking fees, drug samples, and educational programs. The companies are providing this information voluntarily now. However, because of the “sunshine provisions” of the Health Care Reform Act, pharmaceutical companies will be re-

quired by law beginning in 2013 to publicly disclose cumulative payments to health-care providers totaling \$100 or more per year.

1. What type of demand exists for pharmaceutical and medical device products? Discuss the roles doctors play in the business buying process for medical equipment used in a hospital and why companies market so heavily to them. (AACSB: Communication; Reflective Thinking)
2. Should the promotional relationships between doctors and drug and medical device companies be allowed? Discuss the pros and cons of this practice. Will a disclosure of this relationship influence your decision regarding which doctor to visit? (AACSB: Communication; Reflective Thinking; Ethical Reasoning)

## MARKETING & THE Economy

### Caterpillar

Caterpillar had been on a growth tear for 15 years. As the largest and most geographically diverse heavy equipment maker, it was best positioned to weather a slow economy. And although Caterpillar did okay throughout 2008 while the recent economic crisis remained largely centered in the United States, it took a blow once the recession spread worldwide and institutions everywhere just stopped building things. For Caterpillar, annual revenue topped 37 percent in 2009 (from \$51 billion to \$32 billion), while profits spiraled downward 75 percent. Caterpillar responded by dramatically cutting costs. It has also rolled out promotional incentives

similar to those offered by automotive manufacturers in order to spark sales. By mid-2010, as some important economic sectors began to recover, Caterpillar's sales and profits also rebounded. But like most other companies, Caterpillar is still waiting for a slower-than-expected economic turnaround to materialize.

1. Given the nature of the demand for its products, is there anything that Caterpillar could do to maintain or increase revenues in a down economy?
2. As a corporation that fuels the economy to some extent, is there anything that Caterpillar could do to facilitate a global economic recovery?

## MARKETING BY THE Numbers

B-to-B marketing relies heavily on sales reps. Salespeople do more than just sell products and services; they manage relationships with customers to deliver value to both the customer and their companies. Thus, for many companies, sales reps visit customers several times per year—often for hours at a time. Sales managers must ensure that their companies have enough salespeople to adequately deliver value to customers.

1. Refer to appendix 2 to determine the number of salespeople a company needs if it has 3,000 customers who need to be called on 10 times per year. Each sales call lasts approximately

2.5 hours, and each sales rep has approximately 1,250 hours per year to devote to customers per year. (AACSB: Communication; Analytical Reasoning)

2. If each sales rep earns a salary of \$60,000 per year, what sales are necessary to break even on the sales force costs if the company has a contribution margin of 40 percent? What effect will adding each additional sales representative have on the break-even sales? (AACSB: Communication; Analytical Reasoning)

## VIDEO Case

### EATON

With nearly 60,000 employees doing business in 125 countries and sales last year of more than \$11 billion, Eaton is one of the world's largest suppliers of diversified industrial goods. Eaton's products make cars more peppy, 18-wheelers safer to drive, and airliners more fuel efficient. So why haven't you heard of the company? Because Eaton sells its products not to end consumers but to other businesses.

At Eaton, B-to-B marketing means working closely with customers to develop a better product. So the company partners with its sophisticated, knowledgeable clients to create total solutions that meet their needs. Along the way, Eaton maps the decision-making process to better understand the concerns and interests of decision makers. In the end, Eaton's success depends on its ability to provide high-quality, dependable customer service and product support.

Through service and support, Eaton develops a clear understanding of consumer needs and builds stronger relationships with clients.

After viewing the video featuring Eaton, answer the following questions about business markets and business buyer behavior:

1. What is Eaton's value proposition?

2. Who are Eaton's customers? Describe Eaton's customer relationships.
3. Discuss the different ways that Eaton provides value beyond that which companies can provide for themselves.

## COMPANY Case

### Cisco Systems: Solving Business Problems Through Collaboration

Perhaps you've heard of Cisco Systems. It's the company that runs those catchy "Human Network" ads. It also produces those familiar Linksys wireless Internet routers and owns Pure Digital Technologies, the company that makes the trendy Flip video cameras. But most of what Cisco sells is not for regular consumers like you and me. Cisco is a tried and true B-to-B company. In fact, it earned honors as *BtoB* magazine's 2009 "marketer of the year."

Three-quarters of Cisco's sales are in routers, switches, and advanced network technologies—the things that keep data moving around cyberspace 24/7. But over the past decade, in addition to all that hardware, Cisco has pioneered the next generation of Internet networking tools, from cybersecurity to set-top boxes to videoconferencing.

But this story is about much more than just a tech giant that makes equipment and software that companies need to run their Internet and intranet activities. It's about a forward-thinking firm that has transitioned from a manufacturer to a leadership consultancy. To make that happen, Cisco has perfected one major concept that seems to drive both its own business and its interactions with customer organizations—collaboration. Cisco is all about collaborating with its clients in order to help those clients better collaborate employees, suppliers, partners, and customers.

#### COLLABORATION WITHIN AND WITHOUT

John Chambers became the CEO of Cisco in 1995, when annual revenues were a mere \$1.2 billion. He successfully directed the growth of Cisco as a hardware provider. But following the dot-com bust in 2000, he knew the world was a different place. In response, he engineered a massive, radical, and often bumpy reorganization of the company. Chambers turned Cisco inside out, creating a culture of 63,000 employees that truly thrives on collaboration. As such, Cisco is the perfect laboratory for developing and using the collaboration tools that it subsequently sells to external clients. Cisco not only manufactures the hardware and software that makes collaboration possible but also is the foremost expert on how to use it. All this collaboration has helped Cisco's business explode, hitting \$36 billion last year.

Cisco's advertising campaign, "Human Network Effect," illustrates the company's philosophy. The campaign highlights the benefits that come to organizations that use their people networks more effectively. According to Susan Bostrom, Cisco's chief marketing officer, the pragmatic campaign helps customers understand how Cisco's technologies can save them money, bring products to market faster, and even have an impact on the environment. At the same time it has communicated why customers need Cisco's products and services, the campaign has helped Cisco become the 14th most valuable brand in the world.

Chambers tells the story of how Cisco began its transition from hardware into services. "Our customers literally pulled us kicking and screaming into providing consultancy," says Chambers. Some years ago, the CEO of financial services company USAA asked Chambers to help the company figure out what to do with the Internet. Chambers replied that Cisco wasn't in the Web consulting business. But when USAA committed to giving all its networking business to Cisco if it would take the job, Chambers proclaimed, "We are in that business!" Now Cisco has both the products and the knowledge to help other companies succeed on the Internet. Cisco itself is the best model of how to use its products to network and collaborate on the Web, so who better to help other companies do it?

A turning point for Chambers in further understanding the impact that Cisco can have on clients was the major earthquake in China in 2008.

Tae Yoo, a 19-year Cisco veteran, supervises the company's social-responsibility efforts and sits on the China strategy board and the emerging-countries council. "I had always been a believer in collaboration," she says, but after the earthquake, "I saw it really happen. Our local team immediately mobilized, checking in with employees, customers, and [nongovernmental organization] NGO partners. The council got people on the phone, on [video conference], to give us a complete assessment of what was happening locally. We connected West China Hospital to a specialized trauma center in Maryland via the network." High-level medical centers from the other side of the world were able to weigh in on diagnostics remotely. Cisco employees were on the ground helping rural areas recover and rebuild homes and schools. Within 14 days, Yoo continues, "I walked over to the China board with a complete plan and \$45 million to fund it." That number ultimately grew to more than \$100 million. "Our business is growing 30 percent year over year there," Chambers says, adding that Cisco has committed to investing \$16 billion in public-private partnerships in China. "No one has the reach and trust that we do. No one could offer the help that we could."

#### COLLABORATION BENEFITS

Cisco management knows that number one on most CEO's lists is to break down the communication barriers between a company and its customers, suppliers, and partners. According to Jim Grubb, Chambers' long-time product-demo sidekick, "If we can accelerate the productivity of scientists who are working on the next solar technology because we're hooking them together, we're doing a great thing for the world." Doing a great thing for the world—while at the same time selling a ton of routers and switches.

But while routers and switches still account for most of Cisco's business, the really interesting stuff is far more cutting edge. Consider Cisco's involvement in what it calls the Smart+Connected Communities initiative. Perhaps the best example of a smart and connected community is New Songdo City in South Korea, a city

the size of downtown Boston being built from scratch on a man-made island in the Yellow Sea. Cisco was hired as the technology partner for this venture and is teaming up with the construction company, architects, 3M, and United Technologies as partners in the instant-city business.

Cisco's involvement goes way beyond installing routers, switches, and citywide Wi-Fi. The networking giant is wiring every square inch of the city with electronic synapses. Through trunk lines under the streets, filaments will branch out through every wall and fixture like a nervous system. Cisco is intent on having this city run on information, with its control room playing the part of New Songdo's brain stem.

Not content to simply sell the hardware, Cisco will sell and operate services layered on top of its hardware. Imagine a city where every home and office is wired to Cisco's TelePresence videoconferencing screens. Engineers will listen, learn, and release new Cisco-branded services for modest monthly fees. Cisco intends to bundle urban necessities—water, power, traffic, communications, and entertainment—into a single, Internet-enabled utility. This isn't just big brother stuff. This Cisco system will allow New Songdo to reach new heights in environmental sustainability and efficiency. Because of these efficiencies, the cost for such services to residents will be cheaper as well.

The smart cities business is an emerging industry with a \$30 billion potential. Gale International, the construction company behind New Songdo, believes that China alone could use 500 such cities, each with a capacity for one million residents. It already has established the goal to build 20 of them.

Smart cities make one of Cisco's other businesses all the more relevant. Studies show that telecommuting produces enormous benefits for companies, communities, and employees. For example, telecommuters have higher job satisfaction. For that reason, they are more productive, giving back as much as 60 percent of their commuting time to the company. There is even evidence that people like working from home so much that they would be willing to work for less pay. An overwhelming majority of telecommuters produce work in a more timely manner with better quality. Their ability to communicate with coworkers is at least as good and in many cases better than when they work in the office. With products like Cisco Virtual Office and Cisco's expertise in running it, for example, Sun Microsystems saved \$68 million. It also reduced carbon emissions by 29,000 metric tons.

Cisco has also recently unveiled a set of Web-based communication products that enhance organizations' collaborative activities. Cisco says this is all about making business more people-centric than document-centric. Along with a cloud-based mail system, WebEx Mail, Cisco Show and Share "helps organizations create and manage highly secure video communities to share ideas and expertise, optimize global video collaboration, and personalize the connection between customers, employees, and students with user-generated content." Also on its way is what Cisco calls the Enterprise Collaboration Platform, a cross between a corporate directory and Facebook. These products allow the free-flow of information to increase exponentially over existing products because they exist behind an organization's firewall with no filters, lawyers, or security issues to get in the way.

Cisco's client list and product portfolio are expansive, and these examples represent just the tip of an iceberg that is growing bigger and bigger all the time. As Bostrom points out, Cisco's own products and services are helping the company itself to become even more efficient at managing the purchase process. "I don't think I had realized how powerful the Web could be in taking a

customer through the purchase journey. We can get data on an hourly basis, find out right away what's working and not working, and evolve our Web capabilities to meet those customers' expectations." Through its customer consultancy efforts, Cisco can share these insights and experiences to help customers do the same. That's a powerful selling proposition.

## A BRIGHT FUTURE

This year, Cisco's financial performance is down. But Chambers thinks that's only a blip in the grand scheme of things. He points out that Cisco has emerged from every economic downturn of the past two decades stronger and more flexible. During this downturn, Cisco moved quickly, seizing every opportunity to snatch up businesses and develop new products. During the 2000s, Cisco acquired 48 venture-backed companies. But last year alone, the company announced an astounding 61 new technologies, all focused on helping customers through and with collaboration. With these resources—and \$35 billion in cash that it has stowed away—Cisco is now expanding into 30 different markets, each with the potential to produce \$1 billion a year in revenue. Moving forward, the company has committed to adding 20 percent more new businesses annually. And because Cisco enters a new market only when it's confident that it can gain a 40 percent share, the chance of failure is far below normal.

The collaboration market is estimated at \$35 billion, a figure that will grow substantially in years to come. Because Cisco is the leader in this emerging industry, analysts have no problem accepting John Chambers' long-term goal of 12–17 percent revenue growth per year. Cisco has demonstrated that it has the product portfolio and the leadership structure necessary to pull it off. One thing is for sure. Cisco is no longer just a plumber, providing the gizmos and gadgets necessary to make the Web go around. It is a networking leader, a core competency that will certainly make it a force to be reckoned with for years to come.

## Questions for Discussion

1. Discuss the nature of the market structure and the demand for Cisco's products.
2. Given the industries in which Cisco competes, what are the implications for the major types of buying situations?
3. What specific customer benefits will likely result from the Cisco products mentioned in the case?
4. Discuss the customer buying process for one of Cisco's products. Discuss the selling process. In what ways do these processes differ from those found in buying and selling a broadband router for home use?
5. Is the relationship between Cisco's own collaborative culture and the products and services it sells something that could work for all companies? Consider this issue for a consumer products company like P&G.

**Sources:** Ellen McGirt, "How Cisco's CEO John Chambers Is Turning the Tech Giant Socialist," *Fast Company*, November 25, 2008, accessed at [www.fastcompany.com](http://www.fastcompany.com); Anya Kamenetz, "Cisco Systems," *Fast Company*, March, 2010, p. 72; Greg Lindsay, "Cisco's Big Bet on New Songdo: Creating Cities from Scratch," *Fast Company*, February 1, 2010, accessed at [www.fastcompany.com](http://www.fastcompany.com); Ariel Schwartz, "Cisco Says Telecommuting Save Money, and the World," *Fast Company*, June 26, 2009, accessed at [www.fastcompany.com](http://www.fastcompany.com); "Susan Bostrom, Exec VP-CMO, Cisco Systems," *BtoB*, October 26, 2009, accessed online at [www.btoonline.com](http://www.btoonline.com).