

## Business Markets and Business Buyer Behavior

### Previewing the Concepts

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.

To start, let's look at UPS. You probably know UPS as your neighborhood small package delivery company. It turns out, however, that a majority of UPS's business comes not from residential consumers like you and me, but from large *business* customers. To succeed in its business-to-business markets, UPS must do more than just pick up and deliver packages. It must work closely and deeply with its business customers to become a strategic logistics partner.

**M**ention UPS, and most people envision one of those familiar brown trucks with a friendly driver, rumbling around their neighborhood dropping off parcels. That makes sense. The company's 88,000 brown-clad drivers deliver more than 3.75 billion packages annually, an average of 14.8 million each day.

For most of us, seeing a brown UPS truck evokes fond memories of past package deliveries. If you close your eyes and listen, you can probably imagine the sound of the UPS truck pulling up in front of your home. Even the company's brown color has come to mean something special to customers. "We've been referred to for years as Big Brown," says a UPS marketing executive. "People love our drivers, they love our brown trucks, they love everything we do." Thus was born UPS's current "What Can Brown Do for You?" advertising theme.

For most residential customers, the answer to the question "What can Brown do for you?" is pretty simple: "Deliver my package as quickly as possible." But most of UPS's revenues come not from the residential customers who receive the packages, but from the *business* customers who send them. And for these business customers, UPS does more than just get Grandma's holiday package there on time. Whereas residential consumers might look to "Brown" simply for fast, friendly, low-cost package delivery, business customers usually have much more complex needs.

For businesses, package delivery is just part of a much more complex logistics process that involves purchase orders, inventory, order status checks, invoices, payments, returned merchandise, and fleets of delivery vehicles. Beyond the physical package flow, companies must also handle the accompanying information and money flows. They need timely information about packages—what's in them, where they're currently located, to whom they are going, when they will get there, how much has been paid, and how much is owed. UPS knows that for many companies, all these work-a-day logistical concerns can be a nightmare. Moreover, most companies don't see these activities as strategic competencies that provide competitive advantage.

That's where Big Brown comes in. These are exactly the things that UPS does best. Over the years, UPS has grown to become much more than a neighborhood small package delivery service. It is now a \$43 billion corporate giant providing a broad range of logistics solutions. UPS handles the logistics, allowing customers to focus on what they do best. It offers everything from ground and air package distribution, freight delivery (air, ocean, rail, and road), and mail services to inventory management, third-party logistics, international trade management, logistics management software and e-commerce solutions, and even financing. If it has to do with logistics, at home or

We don't get you over oceans, mountains and deserts only to be delayed by Chapter 3, Part 319, Regulation 40-2 of CFR Title 7.

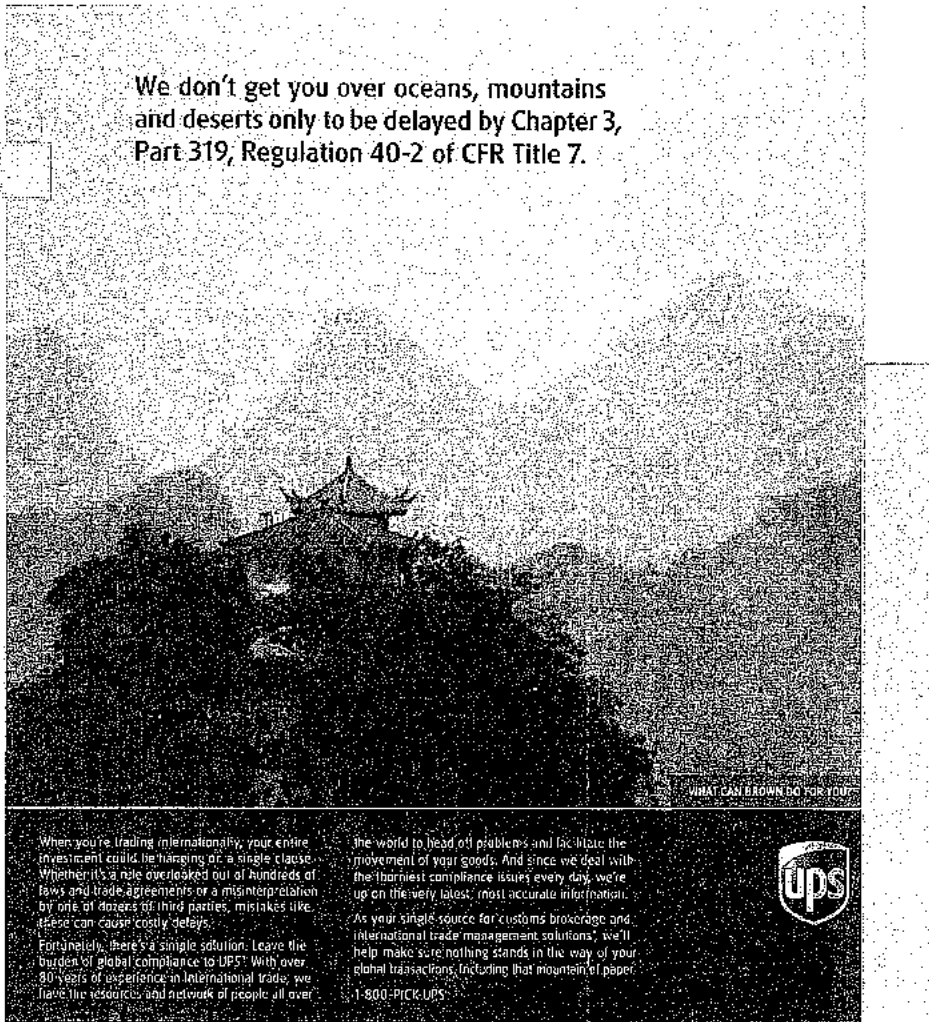
abroad, UPS can probably do it better than anyone else can.

UPS has the resources to handle the logistics needs of just about any size business. It employs 407,000 people, some 92,000 vehicles (package cars, vans, tractors, and motorcycles), 600 aircraft, and about 1,800 warehouse facilities in 200 countries. UPS now moves an astounding 6 percent of the gross domestic product in the United States, links 1.8 million sellers with 6.1 million buyers every day, and processes more than 460 million electronic transactions every week. It serves 90 percent of the world population and 99 percent of businesses in the Fortune 1000. UPS invests \$1 billion a year in information technology to support its highly synchronized, by-the-clock logistics services and to provide customers with information at every point in the process.

Beyond moving their packages around the United States, UPS can also help business customers to navigate the complexities of international shipping, with some 700 international flights per day to or from 377 international destinations. For example, although most residential customers don't need next-day air service to or from China, many businesses do seek help shipping to and from the burgeoning Asian manufacturing zones. UPS helps ensure the timely flow of crucial business documents, prototypes, high-value goods (such as semiconductors), and emergency repair parts that wing their way across the Pacific every day.

UPS even offers expedited U.S. Customs services, with fast inspection and clearance processes that help get goods into the country quickly. "When you're trading internationally, you're entire investment could be hanging on a single clause," says one UPS ad. "We don't get you over oceans, mountains, and deserts only to be delayed by Chapter 3, Part 319, Regulation 40-2 of CFR Title 7. . . . Leave the burden of global compliance to UPS."

In addition to shipping and receiving packages, UPS provides a wide range of financial services for its business customers. For example, its UPS Capital division will handle client's accounts receivable—UPS shippers can choose to be reimbursed immediately and have UPS collect payment from the recipient. Other financial services include credit cards for small businesses and programs to fund inventory, equipment leasing, and asset financing. UPS even bought a bank to underpin UPS Capital's operations.



WHAT CAN BROWN DO FOR YOU?

When you're trading internationally, your entire investment could be hanging on a single clause. Whether it's a rule overlooked out of hundreds of laws and trade agreements or a misinterpretation by one of dozens of third parties, mistakes like these can cause costly delays. Fortunately, there's a simple solution. Leave the burden of global compliance to UPS. With over 80 years of experience in international trade, we have the resources and network of people all over

the world to head off problems and facilitate the movement of your goods. And since we deal with the thorniest compliance issues every day, we're up on the very latest, most accurate information. As your single source for customs brokerage and international trade management solutions, we'll help make sure nothing stands in the way of your global transactions, including that mountain of paper. 1-800-PICK-UPS



## Objectives

1. define the business market and explain how business markets differ from consumer markets
2. identify the major factors that influence business buyer behavior
3. list and define the steps in the business buying decision process
4. compare the institutional and government markets and explain how institutional and government buyers make their buying decisions

At a deeper level, UPS can provide the advice and technical resources needed to help business customers large and small improve their own logistics operations. UPS Consulting advises companies on redesigning logistics systems to align them better with business strategies. UPS Supply Chain Solutions helps customers to synchronize the flow of goods, funds, and information up and down their supply chains. UPS Logistics Technologies supplies software that improves customers' distribution efficiency, including street-level route optimization, territory planning, mobile delivery execution, real-time wireless dispatch, and GPS tracking.

So, what can Brown do for you? As it turns out, the answer depends on who you are. For its residential consumers, UPS uses those familiar chugging brown trucks to provide simple and efficient package pickup and delivery services. But in its business-to-business markets, it develops deeper and more involved customer relationships. The company's "What Can Brown Do for You?" ads feature a variety of business professionals discussing how UPS's broad range of services makes their jobs easier. But such ad promises have little meaning if not reinforced by actions. Says former UPS CEO Jim Kelly, "A brand can be very hollow and lifeless . . . if the people and the organization . . . are not 100 percent dedicated to living out the brand promise every day."

For UPS, that means that employees around the world must do more than just deliver packages from point A to point B for their business customers. They must roll up their sleeves and work hand in hand with customers to help solve their complex logistics problems. More than just providing shipping services, they must become strategic logistics partners.<sup>1</sup>

### Business buyer behavior

The buying behavior of the 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.

### 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.

In one way or another, most large companies sell to other organizations. Companies such as DuPont, Boeing, 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, Total, Golden Grahams); baking products (Pillshury, Betty Crocker, Gold Medal flour), snacks (Nature Valley, Chex Mix, Pop Secret); 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

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 the 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 who install them on new vehicles, and as replacement tires to companies that maintain their own fleets of company cars, trucks, buses, or other vehicles.

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 in the United States and 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 Wal-Mart—which combined account for more than half its sales.

Business markets are also *more geographically concentrated*. More than half the nation's business buyers are concentrated in eight states: California, New York, Ohio, Illinois, Michigan, Texas, Pennsylvania, and New Jersey. Further, business demand is *derived demand*—it ultimately derives from the demand for consumer goods. Hewlett-Packard and Dell buy Intel microprocessor chips because consumers buy personal computers. If consumer demand for PCs drops, so will the demand for computer chips.

#### Derived demand

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

Therefore, B-to-B marketers sometimes promote their products directly to final consumers to increase business demand. For example, Intel advertises heavily to personal computer buyers, selling them on the virtues of Intel microprocessors. The increased demand for Intel chips boosts demand for the PCs containing them, and both Intel and its business partners win.

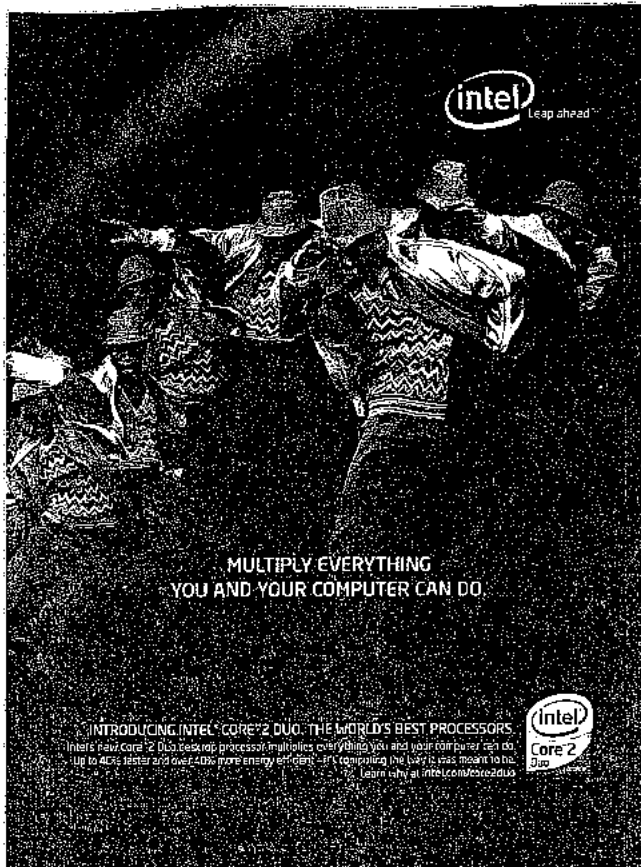
Similarly, INVISTA promotes DuPont Teflon directly to final consumers as a key branded ingredient in stain-repellent and wrinkle-free fabrics and leathers. You see Teflon Fabric Protector hangtags on clothing lines such as Nautica and Tommy Hilffiger and on home furnishing brands such as Kravet.<sup>2</sup> By making Teflon familiar and attractive to final buyers, INVISTA also makes the products containing it more attractive.

Many business markets have *inelastic demand*; that is, total demand for many business products is not affected much 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 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.

**TABLE 6.1**  
Characteristics of Business  
Markets

<p><b>Marketing Structure and Demand</b></p> <p>Business markets contain <i>fewer but larger buyers</i>.</p> <p>Business customers are <i>more geographically concentrated</i>.</p> <p>Business buyer demand is <i>derived</i> from final consumer demand.</p> <p>Demand in many business markets is <i>more inelastic</i>—not affected as much in the short run by price changes.</p> <p>Demand in business markets <i>fluctuates more</i>, and more quickly.</p> <p><b>Nature of the Buying Unit</b></p> <p>Business purchases involve <i>more buyers</i>.</p> <p>Business buying involves a <i>more professional purchasing effort</i>.</p> <p><b>Types of Decisions and the Decision Process</b></p> <p>Business buyers usually face <i>more complex buying decisions</i>.</p> <p>The business buying process is <i>more formalized</i>.</p> <p>In business buying, buyers and sellers work closely together and build long-term <i>relationships</i>.</p>
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Derived demand; Intel advertises heavily to personal computer buyers, selling them on the virtues of Intel microprocessors—both Intel and its business partners benefit.

### 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.

## 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 decisionmaking process. Buying committees made up of technical experts and top management are common in the buying of major goods.

Beyond this, many companies are now upgrading their purchasing functions to “supply management” or “supplier development” functions. B-to-B marketers now face a new breed of higher-level, better-trained supply managers. These supply managers sometimes seem to know more about the supplier company than it knows about itself. Therefore, business marketers 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. 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.

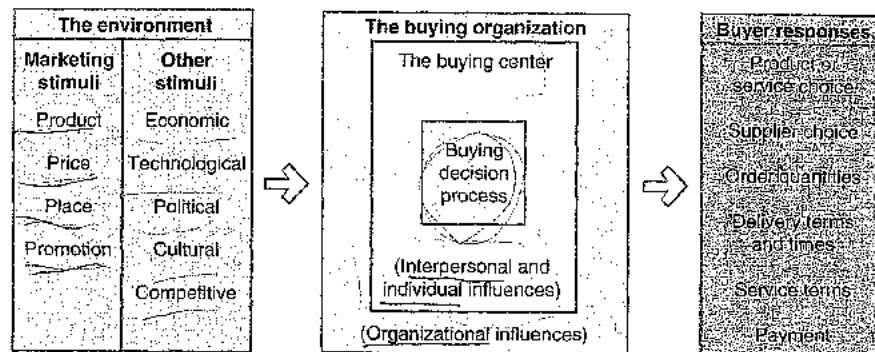
Finally, in the business buying process, the buyer and seller are often much *more dependent* on each other. Consumer marketers are often at a distance from their customers. In contrast, B-to-B marketers may roll up their sleeves and work closely with their customers during all stages of the buying process—from helping customers define problems, to finding solutions, to supporting after sale operations. 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, B-to-B marketers keep a customer's sales by meeting current needs *and* by partnering with customers to help them solve their problems.

In recent years, relationships between customers and suppliers have been changing from downright adversarial to close and chummy. In fact, many customer companies are 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, Caterpillar no longer calls its buyers “purchasing agents”—they are managers of “purchasing and supplier development.” Wal-Mart 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 process of delivering a stylish and affordable lifestyle to IKEA's customers (see Real Marketing 6.1).

## Business Buyer Behavior

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.

**FIGURE 6.1**  
A model of business buyer behavior



As with consumer buying, the marketing stimuli for business buying consist of the Four Ps: product, price, place, and promotion. Other stimuli include major forces in the environment: economic, technological, political, cultural, and competitive. These stimuli enter the organization and are turned into buyer responses: product or service choice; supplier choice; order quantities; and delivery, service, and payment terms. In order to design good marketing mix strategies, the marketer must understand what happens within the organization to turn stimuli into purchase responses.<sup>3</sup>

Within the organization, buying activity consists of two major parts: the buying center, made up of all the people involved in the buying decision, and the buying decision 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 by 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 Types of Buying Situations

There are three major types of buying situations.<sup>4</sup> At one extreme is the *straight rebuy*, which is a fairly routine decision. At the other extreme is the *new task*, which may call for thorough research. In the middle is the *modified rebuy*, which requires some research.

### Straight rebuy

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

In a *straight rebuy*, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list. "In" suppliers try to maintain product and service quality. They often propose automatic reordering systems so that the purchasing agent will save reordering time. "Out" suppliers try to find new ways to add value or exploit dissatisfaction so that the buyer will consider them.

### Modified rebuy

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

In a *modified rebuy*, the buyer wants to modify product specifications, prices, terms, or suppliers. The modified rebuy usually involves more decision participants than does the straight rebuy. 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.

### New task

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

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 their efforts to collect information will be. 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. In the new-task situation, the buyer must decide on product specifications, suppliers, price limits, payment terms, order quantities, delivery times, and service terms. The order of these decisions varies with each situation, and different decision participants influence each choice.

Many business buyers prefer to buy a packaged solution to a problem from a single seller. Instead of buying and putting all the components together, the buyer may ask sellers to supply the components and assemble the package or system. The sale often goes to the firm that provides the most complete system meeting the customer's needs. Thus,

## Real Marketing

**6.1** IKEA, the world's largest furniture retailer, is the quintessential global cult brand. Last year, more than 410 million shoppers flocked to the Scandinavian retailer's 236 huge stores in 34 countries, generating more than \$18 billion in sales. Most of the shoppers are loyal IKEA customers—many are avid apostles. From Beijing to Moscow to Middletown, Ohio, all are drawn to the IKEA lifestyle, one built around trendy but simple and practical furniture at affordable prices. According to *BusinessWeek*:

Perhaps more than any other company in the world, IKEA has become a curator of people's lifestyles. It not only sells their lives. At a time when consumers face so many choices for everything they buy, IKEA provides a one-stop sanctuary for coolness. IKEA is far more than a furniture merchant. It sells a lifestyle that customers around the world embrace as a signal that they've arrived, that they have good taste and recognize value. "If it wasn't for IKEA," writes British design magazine *Icon*, "most people would have no access to affordable contemporary design."

As the world's Ambassador of Kul (Swedish for fun), IKEA is growing at a healthy clip. Sales have leapt 31 percent in just the past two years. IKEA plans to open 19 new megastores this year, including outlets in Western China and Japan. In the United States, it plans to expand from its current 28 stores to more than 50 stores by 2013. In fact, the 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 goods that those customers will carry out of its stores. IKEA currently relies on about 1,800 suppliers in more than 50 countries to stock its shelves. If the giant retailer continues at its current rate of growth, it will need to double its supply network by 2010. "We can't increase by



Giant Swedish furniture retailer IKEA doesn't just buy from its suppliers, it involves them deeply in the process of delivering a stylish and affordable lifestyle to IKEA's customers worldwide—here in Saudi Arabia.

more than 20 stores a year because supply is the bottleneck," says IKEA's country manager for Russia.

It turns out that creating beautiful, durable furniture at low prices is no easy proposition. It calls for a resolute focus on design and an obsession for low costs. IKEA knows that it can't go it alone. Instead, it must develop close partnerships with suppliers around the globe who can help it develop simple new designs and keep costs down. Here's how the company describes its approach, and the importance of suppliers:

To manufacture beautiful, durable furniture at low prices is not so easy. . . . We can't do it alone. . . . First we do our part. Our designers work with manufacturers to find smart ways to make furniture using existing production processes. Then our buyers look all over the world for good suppliers with the most suitable raw materials. Next, we buy in bulk—on a global scale—

### Systems 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** is often a key business marketing strategy for winning and holding accounts. For example, ChemStation provides a complete solution for its customers' industrial cleaning problems:

ChemStation sells industrial cleaning chemicals to a wide range of business customers, ranging from car washes to the U.S. Air Force. Whether a customer is washing down a fleet or a factory, a store or a restaurant, a distillery or an Army base, ChemStation comes up with the right cleaning solution every time. It supplies thousands of products in hundreds of industries. But ChemStation does more than just sell chemicals. First, ChemStation works closely with each individual customer to concoct a soap formula specially designed for that customer. It has brewed special formulas for cleaning hands, feathers, eggs, mufflers, flutes, perfume vats, cosmetic eye makeup containers, yacht-making molds, concrete

so that we can get the best deals, and you can get the lowest price. Then you do your part. Using the IKEA catalog and visiting the store, you choose the furniture yourself and pick it up at the self-serve warehouse. Because most items are packed flat, you can get them home easily, and assemble them yourself. This means we don't charge you for things you can easily do on your own. So together we save money . . . for a better everyday life.

At IKEA, design is important. But no matter how good the design, a product won't find its way to the showroom unless it's also affordable. IKEA goes to the ends of the earth to find supply partners who can help it to create just the right product at just the right price. According to the *BusinessWeek* writer, IKEA "once contracted with ski makers—experts in bent wood—to manufacture its Poang armchairs, and it has tapped makers of supermarket carts to turn out durable sofas."

The design process for a new IKEA product can take up to three years. IKEA's designers start with a basic customer value proposition. Then, they work closely with key suppliers to bring that proposition to market. Consider IKEA's Olle chair, developed in the late 1990s. Based on customer feedback, designer Evamaria Ronnegard set out to create a sturdy, durable kitchen chair that would fit into any décor, priced at \$52. Once her initial design was completed and approved, IKEA's 45 trading offices searched the world and matched the Olle with a Chinese supplier, based on both design and cost efficiencies.

Together, Ronnegard and the Chinese supplier refined the design to improve the chair's function and reduce its costs. For example, the supplier modified the back leg angle to prevent the chair from tipping easily. This also reduced the thickness of the seat without compromising the chair's strength, reducing both costs and shipping weight. However, when she learned that the supplier planned to use traditional wood joinery methods to attach the chair back to the seat, Ronnegard intervened. That would require that the chair be shipped in a costly L-shape, which by itself would inflate the chair's retail price to \$58. Ronnegard convinced the supplier to go with metal bolts instead. The back-and-forth design process worked well. IKEA introduced its still-popular Olle chair at the \$52 target price. (Through continued design and manufacturing refinements, IKEA and its supplier have now reduced the price to just \$29.)

Throughout the design and manufacturing process, Ronnegard was impressed by the depth of the supplier partnership. "My job really hit home when I got a call from the supplier in China, who had a question about some aspect of the chair," she recalls. "There he was, halfway around the world, and he was calling me about my chair." Now, Ronnegard is often on-site in China or India or Vietnam, working face to face with suppliers as they help to refine her designs.

Another benefit of close collaboration with suppliers is that they can often help IKEA to customize its designs to make them sell better in local markets. In China, for example, at the suggestion of a local supplier, IKEA stocked 250,000 plastic place mats commemorating the year of the rooster. The place mats sold out in only three weeks.

Thus, before IKEA can sell the billions of dollars worth of products its customer covet, it must first find suppliers who can help it design and make all those products. IKEA doesn'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 10,000 items it stocks. And more than just buying from suppliers, IKEA involves them deeply in the process of designing and making stylish but affordable products to keep IKEA's customers coming back. Working together, IKEA and its suppliers have kept fans like Jen Segrest clamoring for more:

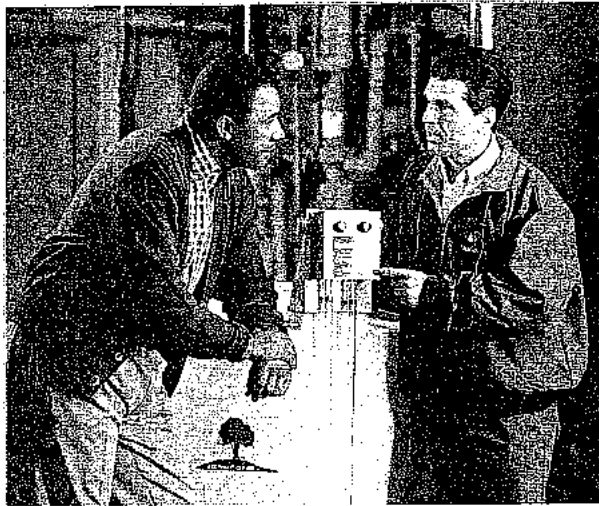
At least once a year, Jen Segrest, a 36-year-old freelance Web designer, and her husband travel 10 hours round-trip from their home in Middletown, Ohio, to the IKEA in Schaumburg, Illinois, near Chicago. "Every piece of furniture in my living room is IKEA—except for an end table, which I hate. And next time I go to IKEA I'll replace it," says Segrest. To lure the retailer to Ohio, Segrest has even started a blog called OH! IKEA. The banner on the home page reads "IKEA in Ohio—Because man cannot live on Target alone."

Sources: Extracts, quotes, and other information from Kerry Capell, "How the Swedish Retailer Became a Global Cult Brand," *BusinessWeek*, November 14, 2005, p. 103; Shari Kishi, "Behind the Scenes at IKEA," *The Guardian*, September 29, 2005, p. 8; Greta Guest, "Inside IKEA's Formula for Global Success," *Detroit Free Press*, June 3, 2006; and "Our Vision: A Better Everyday Life," accessed at [www.ikea.com](http://www.ikea.com), December 2006.

trucks, oceangoing trawlers, and about anything else you can imagine. Next, ChemStation delivers the custom-made mixture to a tank installed at the customer's site. Finally, it maintains the tank by monitoring usage and automatically refilling the tank when supplies run low. Thus, ChemStation sells an entire system for dealing with the customer's special cleaning problems. The company's motto: "Our system is your solution!" Partnering with an individual customer to find a full solution creates a lasting relationship that helps ChemStation to lock out the competition. As noted in an issue of *Insights*, ChemStation's customer newsletter, "Our customers . . . oftentimes think of us as more of a partner than a supplier."<sup>5</sup>

Sellers increasingly have recognized that buyers like this method and have adopted systems selling as a marketing tool. Systems selling is a two-step process. First, the sup-





**CHEMSTATION**

System selling: ChemStation does more than simply supply its customers with cleaning chemicals. "Our customers . . . think of us as more of a partner than a supplier."

plier sells a group of interlocking products. For example, the supplier sells not only glue, but also applicators and dryers. Second, the supplier sells a system of production, inventory control, distribution, and other services to meet the buyer's need for a smooth-running operation.

Systems selling is a key business marketing strategy for winning and holding accounts. The contract often goes to the firm that provides the most complete solution to the customer's needs. For example, the Indonesian government requested bids to build a cement factory near Jakarta. An American firm's proposal included choosing the site, designing the cement factory, hiring the construction crews, assembling the materials and equipment, and turning the finished factory over to the Indonesian government. A Japanese firm's proposal included all of these services, plus hiring and training workers to run the factory, exporting the cement through their trading companies, and using the cement to build some needed roads and new office buildings in Jakarta. Although the Japanese firm's proposal cost more, it won the contract. Clearly, the Japanese viewed the problem not as just building a cement factory (the narrow view of systems selling) but of running it in a way that would contribute to the country's economy. They took the broadest view of the customer's needs. This is true systems selling.<sup>6</sup>

### 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

The people in the organization's buying center who make an actual purchase.

## 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 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 the buying information.

The buying center includes all members of the organization who play any of five roles in the purchase decision process.<sup>7</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.



**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.

#### **Deciders**

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

#### **Gatekeepers**

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

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, 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.

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

## 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. 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 would stress objective technical, performance, and economic factors. However, one ad for Volvo heavy-duty trucks shows two drivers arm-wrestling and claims, "It solves all your fleet problems. Except who gets to drive." It turns out that, in the face of an industry-wide driver shortage, the type of truck a fleet provides can help it to attract qualified drivers. The Volvo ad stresses the raw beauty of the truck and its comfort and roominess, features that make it more appealing to drivers. The ad concludes that Volvo trucks are "built to make fleets more profitable and drivers a lot more possessive."<sup>8</sup>

When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. 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 choice 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.<sup>9</sup>

Emotions play an important role in business buying: This Volvo truck ad mentions objective factors, such as efficiency and ease of maintenance. But it stresses more emotional factors such as the raw beauty of the truck and its comfort and roominess. Features that make "drivers a lot more possessive."



**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 shortages in 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, policies, procedures, structure, and systems, 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

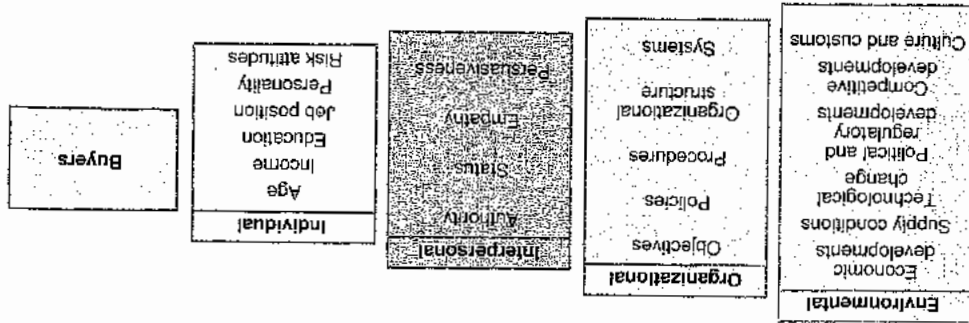


FIGURE 6.2 Major influences on business buyer behavior

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 indepth 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.

**The Business Buying Process**

Figure 6.3 lists the eight stages of the business buying process.<sup>10</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 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 the company describes the general characteristics and quantity of a needed item.

**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.

**Value analysis**

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.

**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 provide solutions. For example, Kodak Health Imaging ads point out the complexities of hospital imaging and suggest that with Kodak, “complexity becomes clarity.”

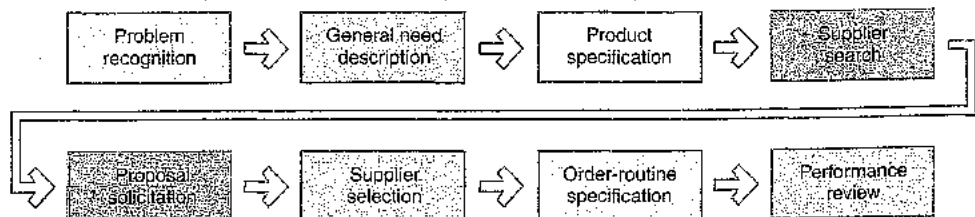
**General Need Description**

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 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. **Value analysis** is an approach to cost reduction in which components are studied carefully to determine if they can be

**FIGURE 6.3** Stages of the business buying process



## Real Marketing

**Case** 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 charts and audiovisuals, 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 Topsiders. 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. His final stop is Beijing, China, where 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.

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



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.

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

#### Supplier search

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

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.

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. "It's considered poor taste," he continues. "Even after months of business dealings, I'd wait for him or her to make the invitation [to use first names]. . . . You are always right, in Europe, to say 'Mister.'"

Harry's flashy presentation would likely have been a flop with the Germans, who dislike overstatement and showiness. According to one German expert, however, German businessmen have become accustomed to dealing with Americans. Although differences in body language and customs remain, the past 20 years have softened them. "I hugged an American woman at a business meeting last night," he said. "That would be normal in France, but [older] Germans still have difficulty [with the custom]." He says that calling secretaries by their first names would still be considered rude: "They have a right to be called by the surname. You'd certainly ask—and get—permission first." In Germany, people address each other formally and correctly—someone with two doctorates (which is fairly common) must be referred to as "Herr Doktor Doktor."

When Harry Slicksmile 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 salesman who really did present such a binder was unceremoniously tossed out and his company was blacklisted from working 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."

Thus, to compete successfully in global markets, or even to deal effectively with international 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 examples can be found in David A. Ricks, *Blunders in International Business Around the World* (Malden, MA: Blackwell Publishing, 2000); Terri Morrison, Wayne A. Conway, and Joseph J. Douress, *Dun & Bradstreet's Guide to Doing Business* (Upper Saddle River, NJ: Prentice Hall, 2000); Jame K. Sebenius, "The Hidden Challenge of Cross-Border Negotiations," *Harvard Business Review*, March 2002, pp. 76-85; Russ Thompson, "Lost in Translation," *Medical Marketing and Media*, March 2005, p. 82; and information accessed at [www.executiveplanet.com](http://www.executiveplanet.com), December 2006.

### Proposal Solicitation

#### Proposal solicitation

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

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 should make the marketer's company stand out from the competition.

### Supplier Selection

#### Supplier selection

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

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. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. Other important factors include repair and servicing

capabilities, technical aid and advice, geographic location, performance history, and reputation. 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 to 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 time of delivery, 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 longterm 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.

### 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.

The eight stage buying-process model provides a simple view of the business buying as it might occur in a new-task buying situation. 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.

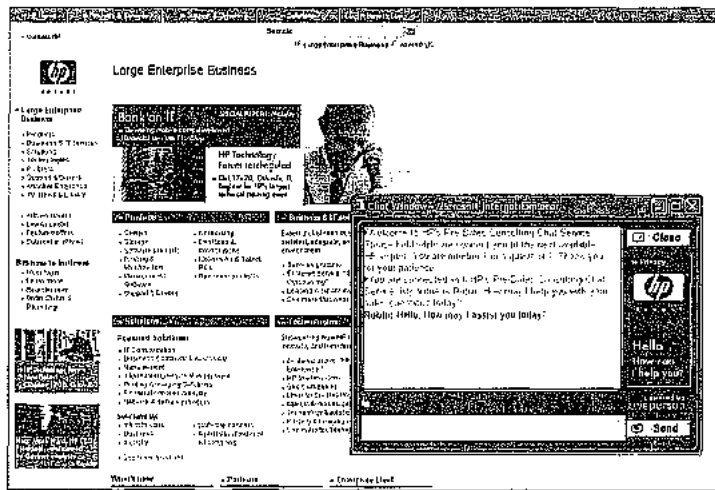
## E-Procurement: Buying on the Internet

During the past few years, advances in information technology have changed the face of the B-to-B marketing process. Online purchasing, often called *eprourement*, has grown rapidly.

Companies can do e-procurement in any of several ways. They can set 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 the company 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.

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 regularly rates Hewlett-Packard's B-to-B Web site among very best.

The HP site consists of some 1,900 site areas and 2.5 million pages. It integrates an enormous amount of product and company information, putting it within only a few mouse clicks of customers' computers. IT buying decision makers can enter the site, click directly into their customer segment—large enterprise business; small or medium business; or government, health, or educational institution—and quickly find product overviews, detailed technical information, and purchasing solutions.



To help customers who wish to purchase online, HP's Web site consists of some 1,500 site areas and 1 million pages. It provides product overviews, detailed technical information, purchasing solutions, e-newsletters, live chats with sales reps, online classes, and real-time customer support.

The site lets customers create customized catalogs for frequently purchased products, set up automatic approval routing for orders, and conduct end-to-end transaction processing. To build deeper, more personalized online relationships with customers, HP.com features flash demos that show how to use the site, e-newsletters, live chats with sales reps, online classes, and real-time customer support. The site has really paid off. Roughly 55 percent the company's total sales now come from the Web site.<sup>11</sup>

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.

So far, most of the products bought online are MRO materials—maintenance, repair, and operations. For instance, Hewlett-Packard spends 95 percent of its \$13 billion MRO budget via e-procurement. And last year Delta Air Lines purchased \$6.2 billion worth of fuel online. National Semiconductor has automated almost all of the company's 3,500 monthly requisitions to buy materials ranging from the sterile booties worn in its fabrication plants to state-of-the-art software. Even the Baltimore Aquarium uses e-procurement to buy everything from exotic fish to feeding supplies. It recently spent \$6 billion online for architectural services and supplies to help construct a new exhibit "Animal Planet Australia: Wild Extremes."<sup>12</sup>

The actual dollar amount spent on these types of MRO materials pales in comparison to the amount spent for items such as airplane parts, computer systems, and steel tubing. Yet, MRO materials make up 80 percent of all business orders and the transaction costs for order processing are high. Thus, companies have much to gain by streamlining the MRO buying process on the Web.

Business-to-business e-procurement yields many benefits. First, it shaves transaction costs and results in more efficient purchasing for both buyers and suppliers. A Web-powered purchasing program eliminates the paperwork associated with traditional requisition and ordering procedures. One recent study found that e-procurement cuts down requisition-to-order costs by an average of 58 percent.<sup>13</sup>

E-procurement reduces the time between order and delivery. Time savings are particularly dramatic for companies with many overseas suppliers. Adaptec, a leading supplier of computer storage, used an extranet to tie all of its Taiwanese chip suppliers together in a kind of virtual family. Now messages from Adaptec flow in seconds from its headquarters to its Asian partners, and Adaptec has reduced the time between the order and delivery of its chips from as long as 16 weeks to just 55 days—the same turnaround time for companies that build their own chips.

Finally, beyond the cost and time savings, e-procurement frees purchasing people to focus on more-strategic issues. For many purchasing professionals, going online means reducing drudgery and paperwork and spending more time managing inventory and working creatively with suppliers. "That is the key," says the HP executive. "You can now focus people on value-added activities. Procurement professionals can now find different sources and work with suppliers to reduce costs and to develop new products."<sup>14</sup>

The rapidly expanding use of e-purchasing, 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 firms are using the Web to search for better suppliers.

E-purchasing 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 often 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 computer.

## ■ Institutional and Government Markets

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

#### **Institutional market**

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

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 in their objectives. For example, Tenet Healthcare runs 70 for-profit hospitals in 12 states. By contrast, the Shriners Hospitals for Children is a nonprofit organization that provides free specialized health care for children, and the government-run Veteran Affairs Medical Centers located across the country provide special services to veterans.<sup>15</sup> Each institution has different buying needs and resources.

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 must 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, Heinz produces, packages, and prices its ketchup and other condiments, canned soups, frozen desserts, pickles, and other products differently to better serve the requirements of hospitals, colleges, and other institutional markets. Nearly 20 percent of the company's sales come from its U.S. Foodservice division, which includes institutional customers.<sup>16</sup>



■ Institutional markets: Heinz produces, packages, and prices its products differently to better serve the requirements of hospitals, colleges, and other 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.

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, the government unit will make allowance for the supplier's superior quality or reputation for completing contracts on time.

### 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. Government buying and business buying are similar in many ways. But there are also

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—and its checks don't bounce. For example, last year, the federal government spent a whopping \$65 billion on information technology alone. The Transportation Security Agency spent more than \$380 million just for electronic baggage screening technology.<sup>17</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 publishes a guide entitled *U.S. Government Purchasing, Specifications, and Sales Directory*, which lists products and services frequently bought by the federal government and the specific agencies most frequently buying them. The Government Printing Office issues the *Commerce Business Daily*, which lists major current and planned purchases and recent contract awards, both of which can provide leads to subcontracting markets. The U.S. Commerce Department publishes *Business America*, which provides interpretations of government policies and programs and gives concise information on potential worldwide 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 must 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 (GSA) 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>18</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, CDW, 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 set up 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.FedBizOpps.gov](http://www.FedBizOpps.gov)) acts as a single government point of entry for federal government procurement opportunities over the amount of \$25,000. 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 GSA, 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 a Procurement Gateway (<http://progate.daps.dla.mil>) for purchases by America's military services. And the Department of Veteran 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 GSA, VA, and DLA 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 DLA that sells 160,000 types of medical supplies to military forces transmits orders directly to vendors such as Bristol-Myers. Such Internet systems promise to eliminate much of the hassle sometimes found in dealing with government purchasing.<sup>19</sup>

## Reviewing the Concepts

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 *enormous*, 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.

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

*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 for the purpose of reselling or renting them to others at a profit.

As compared to consumer markets, business markets usually have fewer, larger buyers who are more geographically concentrated. Business demand is *derived*, largely *inelastic*, and more *fluctuating*. More buyers are usually involved in the business buying decision, and business buyers are better trained and more professional than are consumer buyers. In general, business purchasing decisions are more complex, and the buying process is more formal than consumer buying.

### 2. Identify the major factors that influence business buyer behavior.

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.

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

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.

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

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 Congress and many private watchdog groups. Hence, they tend to require more forms and signatures and to respond more slowly and deliberately when placing orders.

## Reviewing the Key Terms

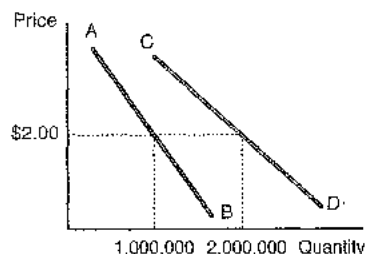
Business buyer behavior 160	General need description 169	Order-routine specification 172	Supplier development 162
Business buying process 160	Government market 174	Performance review 172	Supplier search 170
Buyers 166	Influencers 166	Problem recognition 169	Supplier selection 171
Buying center 166	Institutional market 174	Product specification 169	Systems selling 164
Deciders 167	Modified rebuy 163	Proposal solicitation 171	Users 166
Derived demand 161	New task 163	Straight rebuy 163	Value analysis 169
Gatekeepers 167			

## Discussing the Concepts

- How do the market structure and demand of the business markets for Intel's microprocessor chips differ from those of final consumer markets?
- Discuss several ways in which a straight rebuy differs from a new-task situation.
- In a buying center purchasing process, which buying center participant—a buyer, decider, gatekeeper, influencer, or user—is most likely to make each of the following statements?
  - ☐ "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 Mr. Johnson."
- Outline the major influences on business buyers. Why is it important for the business-to-business buyer to understand these major influences?
- How does the business buying process differ from the consumer buying process?
- Suppose that you own a small printing firm and have the opportunity to bid on a federal government contract that could bring a considerable amount of new business to your company. List three advantages and three disadvantages of working in a contract situation with the federal government.
  - ☐ "Okay, it's a deal—we'll buy it."
  - ☐ "I'll place the order first thing tomorrow."

## Applying the Concepts

- Burst-of-Energy is a food product positioned in the extreme sports market as a performance enhancer. A distributor of the product has seen an upward shift in the demand for the product (depicted in the figure at the right). The manufacturer has done nothing to generate this demand, but there have been a couple of reports that two popular celebrities were photographed with the product. Could something like this happen? Based on the figure, how would you characterize the demand for the product? Is it elastic or inelastic? Would you call this an example of fluctuating demand? Support your answers.
- Assume that you own a market research consulting firm that specializes in conducting focus groups for food manufacturers. Your customers are marketing managers and market research managers at these large firms. Outline your business consumers' buying process and explain how you can improve your chances of being hired at each step of the process.
- Form a small group and compare the similarities and differences between a buyer at a Veteran's Administration Hospital and a buyer at a for-profit hospital like Humana. Compare the buyers on the following four factors: environmental, organizational, interpersonal, and individual.



## Focus on Technology

Social networking is a hot topic in internet marketing. Web sites including [friendster.com](http://friendster.com) and [myspace.com](http://myspace.com) are crowded meeting grounds for Web visitors who are hoping to get connected online. Social networking is also a growing technology for B-to-B interactions. From finding services, locating opportunities, even recruiting board members, these sites offer what business consumers need. InnerSell.com is a company that is using

social networking to drive real business for clients by locating prospects. A sample scenario on InnerSell.com works like this:

- a. An InnerSell.com member, who sells real estate, talks to a prospect or customer and learns that it has a need for \$50,000 worth of photocopiers.

- b. The member enters the need (lead) into InnerSell.com and sees a list of trusted photocopier vendors along with their ratings and their finder's fee.
  - c. The member views each vendor's ratings and selects two photocopier vendors who pay a 10 percent finder's fee.
  - d. The selected vendors receive an e-mail advising them that they've been chosen and instructing them to log into InnerSell.com to see the details of the opportunity.
  - e. When a selected vendor sees the lead, contacts the customer, and wins the business, it pays InnerSell.com its 10 percent finder's fee (in this case, \$5,000).
  - f. InnerSell.com then passes \$3,500 of the winning vendor's finder's fee to the member who entered the winning lead.
1. At what stage(s) of the business buying process does InnerSell.com operate?
  2. What types of businesses is this best suited to serve?
  3. What are some weaknesses with this technology?

## Focus on Ethics

You are the senior buyer for a growing medical products company and an avid baseball fan. You have just opened an invitation to attend the World Series this coming fall. The invitation is from a supplier company that has been trying to sell you its new line of products for the past year. The supplier will pay for everything—travel, room, meals—and you'll even get an opportunity to meet some of the players. You have read the newly released employee manual and there is no reference or rule that specifically states that an employee cannot accept a fully paid trip from a vendor, although there are some vague restrictions on lunches and dinners paid for by suppliers.

1. Do you accept or decline the invitation?
2. Just because it is not specifically mentioned in the employee manual, would you be acting ethically if you accepted?
3. Do you think the supplier will expect "special" treatment in the next buying situation?
4. How would other company employees interpret your acceptance of this invitation?

## 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. To which decision makers does Eaton market its products and services?
3. How does Eaton add value to its products and services?

## Company Case

### Kodak: Changing the Picture

#### MEMORIES

"You press the button—we do the rest." With that simple slogan, George Eastman unveiled the first Kodak camera in 1888—yes, 1888, more than 118 years ago. In 1900, Kodak launched its famous Brownie cameras, which it priced at \$1.00, opening the photography market to millions. Throughout the twentieth century, Kodak dominated the photography business. By 2000, Kodak was one of the most recognized and trusted brands in the world. Many people referred to the company as "Big Yellow." The company saw

itself as being in the memory business, not in the photography business.

#### GOING NEGATIVE

Despite its storied past, however, entering the new millennium, Kodak faced many new challenges that would require it to rethink and perhaps redesign its business strategy. The company's stock price, which had reached an historic peak of \$90 in 1997, had been plummeting, and the company had begun to lay off workers.

Several factors were causing Kodak's problems. First, although Kodak had been the first company to produce a digital camera in 1976, it had been reluctant to develop the technology. The core of Kodak's business strategy had always been the three-fold foundation of commercial and consumer photography: film, photo-developing chemicals, and light-sensitive paper. Like many other companies, Kodak believed that consumers would be slow to adopt digital technology. But what held the company back even more was that a shift away from George Eastman's legacy. Thus, Kodak saw every digital camera consumers purchased as another nail in the coffin of the company's heart and soul.

Second, despite Kodak's dominance in traditional photography, many competitors, especially Fuji, were exposing flaws in Kodak's marketing and stealing market share. Third, competition from an unexpected source—cellular phone manufacturers—surprised Kodak. Nokia introduced the first cellular phone with a built-in camera in November 2001. Although many people thought such phones would only be toys, consumers began snapping them up. By 2003, sales of camera phones doubled the sales of conventional digital cameras. Further, analysts predicted correctly that the number of cell phones with cameras would increase dramatically during the early 2000s.

Finally, consumers who owned digital cameras or cell-phone cameras were increasingly using their PCs and printers to download and print their own pictures, if they printed them at all. Analysts discovered that consumers printed only 2 percent of camera-phone pictures in the United States, versus 10 percent in Japan.

#### THE PROOF IS IN THE PICTURE—WALGREENS

Up through the 1980s, when consumers wanted to develop pictures, they took their film rolls to local drugstores, discount department stores, or photo shops. These stores sent the film to regional labs run by Kodak and others, which produced the prints and returned them to the store for pickup. This process took many days. Then, with the development of the self-contained photo lab, retailers could place a machine directly in their store that would do all the photo processing. These photo labs allowed the retailers to offer faster service—even one-hour service.

As consumers demanded more one-hour photo developing, Kodak agreed to help Walgreens, the nation's largest drugstore chain, set up a national one-hour photo business. Kodak had been the exclusive supplier of photo-developing services to Walgreens for years. In response to the request, Kodak provided minilabs, which it bought from a Swiss manufacturer, that handled the photo developing on-site, collecting fees for leasing the equipment. Kodak even loaned Walgreens \$31.6 million, interest free, to help it implement the system.

Problems developed, however, when the minilabs proved to be unreliable. They broke down up to 11 times a month due to paper jams and software glitches. It often took two to three days to get the machines serviced, and when they were, customers' film in the machines was exposed to light when service people opened the machines.

As a result, in 2001, Walgreens quietly began to install Fuji minilabs in some of its California stores. Fuji's machines, in addition to handling traditional film, also allowed consumers to make prints from their digital cameras' memory devices, something Kodak's did not do. Kodak began selling kits to allow its minilabs to handle digital prints, but Walgreens officials believed Kodak's prints were lower quality. By early 2004, Fuji had 1,500 minilabs in Walgreens' almost 4,300 outlets.

Walgreens also approached Kodak about developing a Walgreens Internet site that would allow consumers to upload digital photos over the Web. Kodak would then store images and allow customers to order prints, which would then be mailed to them. Walgreens did not like Kodak's proposal as it minimized the Walgreens role and allowed Kodak to keep the pictures on its site, gaining an advantage in future customer orders. Despite these concerns, Walgreens was about to sign a deal with Kodak when two top officials, who favored Kodak, retired. The company then nixed the deal and started developing its own Web site with Fuji, which was comfortable with a less prominent role. Walgreens launched its Web service in 2003, with Fuji carrying out the photo developing.

#### A NEW DEVELOPMENT

Given all this, in early 2003, Kodak reevaluated its strategy. It recognized that the time had come to fully embrace the digital age. In September 2003, Kodak announced a historic shift in its strategy. It would now focus on digital imaging for consumers, businesses, and health care providers. The company would reduce its dependence on traditional film, boost investment in nonphotographic markets, and pursue digital markets, such as inkjet printers and high-end digital printing. These moves would put it in direct competition with entrenched competitors, such as HP, Canon, Seiko, Epson, and Xerox. It was a necessary but risky shift—at the time, traditional film and photography accounted for 70 percent of Kodak's revenue and all of its operating profits.

By 2004, Kodak had laid out a complete four-year restructuring plan. The plan was that Kodak's traditional business would progressively contribute less as a percentage of revenues and earnings while the digital business would contribute more. As a part of the shift in strategy, Kodak stopped selling reloadable film cameras in the United States, Canada, and Europe. In 2005, Kodak focused intensely on further executing the strategic plan. CEO Antonio Perez even asserted, "Soon, I'm not going to be answering questions about film because I won't know. It will be too small for me to get involved." Given the criticism that Kodak had taken for its sluggish move to a digital strategy, this was a welcome statement to many.

CEO Perez made some dramatic moves. He divided the company into four distinct units: imaging, commercial print, medical, and traditional film. To assist in phasing out the film business and to stop the "bleeding year after year,"

*(case continues)*