

Remember, the client's indecision
is final.

KEN HORNSBY

Business-to-business marketing

CHAPTER

Eight

Chapter objectives

After reading this chapter, you should be able to:

- Explain how business markets differ from consumer markets.
- Identify the main factors that influence business buyer behaviour.
- List and define the steps in the business buying decision process.
- Explain how institutional and government buyers make their buying decisions.

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Prelude case Concorde is dead.

Long live the busjets!

Right until its end, Concorde caught the eye. A supersonic jet loved by celebrities and the super-rich, Concorde outclasses both in being a super celebrity and super expensive. Following its final flight into Heathrow in October 2003, we can now only say 'once we had Concorde'. As the huddle of 100 enthusiasts and media people left Concorde's last flight, not everyone had a tear in their eye.

For the week following the business media was awash with articles about business jets and busjet timeshare. As a NesJets advertorial gloated: 'The days of Concorde may be over, but for those still seeking the luxury of fast-track air travel, there is another option'

In truth, Concorde's main customers were not celebrities but regular transatlantic travellers for whom time was money. Air France's most frequent Concorde flyer was Pascal La Borge, a medical meeting planner who logged over 400 trips. For such people executive jets were often the quicker choice because they

can use smaller airports close to city centres, fly on demand and offer less airport hassle. Now the Atlantic was theirs.

'The jet set' used to refer to the rich and famous who could afford the cost of early jet travel. Now almost everybody flies. Busjet travel retains that exclusive status that 'the jet set' once had as the transport of super-celebrities like Mika Hakkinen, Bill Gates and Madonna, but not for long. Busjet travel is becoming the norm. Sales of busjets, from the 'entry level' €4 m Cessna CJ1 to the €41 m Airbus A319 corporate jetliner, are booming, with order books full three years ahead.

Once looked upon as an executive indulgence, the busjets have become a logical capital investment:

- Busjet travel is down in cost. Typical running cost of the medium-sized, 8–19-seat Dassault Falcon 900EX jet is €1,500 per flying hour based on 1,000 hours per year utilisation. With four passengers the cost is less than €400 each, about the same as a business class fare. Eight people flying brings the cost to that of economy fares; with 16 seats occupied, it comes down to bucket-shop prices.
- Busjets make better use of a firm's most valuable and perishable resource – executive time. As Richard Gaona of Airbus says: 'It's not the speed of the individual aircraft that counts, but the speed at which you can get to where the business is ahead of the competition.'

- Security of flyers and information exist on a busjet in a way that it does not in a first-class lounge or cabin. A busjet is a mobile boardroom as well as a mobile office.
- At the top end of the range an A319 or Boeing BBJ is a mobile hotel that enables the likes of Boeing's Phil Condit to take in New York, Paris, Moscow, Beijing and Tokyo in four days out of his office.

Recognising organisations that can afford to own and operate a business jet is easy. The difficulty is in reaching key decision makers for jet purchases, understanding their motivations and decision processes, analysing what is important to them, and designing marketing approaches.

There are *rational* and *subjective* factors. A company buying a busjet will evaluate the aircraft on quality and performance, prices, operating costs and service. However, having a superior product is not enough: marketers must also consider *human factors* that affect choice. According to Gulfstream, a leading American supplier of business jets: 'The purchase process may be initiated by the chief executive officer (CEO), a board member wishing to increase efficiency or security, the company's chief pilot, or through vendor efforts like advertising or a sales visit. The CEO will be central in deciding whether to buy the jet, but he or she will be heavily influenced by the company's pilot, financial officer and perhaps by the board itself.'

Each party in the buying process has subtle roles and needs. The salesperson who tries to impress both the CEO with depreciation schedules and the chief pilot with runway statistics will almost certainly not sell a plane if he or she overlooks the psychological and emotional components of the buying decision. 'For the chief executive', observes one salesperson, 'you need all the numbers for support, but if you can't find the kid inside the CEO and excite him or her with the raw beauty of the new plane, you'll never sell the equipment. If you sell the excitement, you sell the jet.'

The chief pilot often has veto power over purchase decisions and may be able to stop the purchase of a certain brand of jet by simply expressing a negative opinion. In this sense, the pilot not only influences the decision but also serves as a 'gatekeeper'. Though the corporate legal staff will handle the purchase agreement and the purchasing department will acquire the jet, they usually have little to say about whether, or how, the plane is obtained and which type to select. The users of the jet – management of the buying company, important customers and others – may have an indirect role in choosing the equipment.

As the huddle of 100 enthusiasts and media people left Concorde's last flight, not everyone had a tear in their eye.

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MARQUIS JET
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With timeshare you can own as much of an executive jet as you want.

SOURCE: NetJets Management.

The involvement of many people in the purchase decision creates a group dynamic that the selling company must factor into its sales planning. Who makes up the buying group? How will the parties interact? Who will dominate and who submit? What priorities do the individuals have?

Where is the market going? The answer is bigger and faster. The fastest is the Bombardier Global Express (Gex) BD-700 business jet, capable of carrying eight passengers non-stop from Brussels to Buenos Aires. Cruising close to the speed of sound, it knocks an hour off shorter routes like Berlin–Los Angeles.

The next stop? Gulfstream and Dassault are considering an SSBJ (supersonic busjet). If a €40 m-plus busjet is selling, why not a €55 m SSBJ?¹

Questions

1. What do you think are the reasons for businesses buying executive jets?
2. Is it correct to say that, unlike people in consumer markets, business buyers are rational?
3. Who are the critical people to influence when selling busjets?

Introduction

In some ways, selling business jets to business buyers is like selling kitchen appliances to families. Busjet makers ask the same questions as consumer marketers: Who are the buyers and what are their needs? How do buyers make their buying decisions and what factors influence these decisions? What marketing programme will be most effective? Nevertheless, the answers to these questions are usually different in the case of the business buyer. Thus, the jet makers face many of the same challenges as consumer marketers – and some additional ones.

In one way or another, most large companies sell to other organisations. Companies such as ABB Asea Brown Boveri (engineering), Norsk Hydro, Akzo Nobel (chemicals) and Arbed (steel) 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, Allied Domecq makes many consumer products – La Ina sherry, Presidente brandy, Tetley tea and others. To sell these products to consumers, Allied Domecq must first sell them to wholesalers and retailers that serve the consumer market. Allied Domecq also sells food ingredients directly to other businesses through its Margetts Food and DCA Food Industries subsidiaries.

The **business market** consists of all the organisations that buy goods and services to use in the production of other products and services that are sold, rented or supplied to others. It also includes retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit. The **business buying process** is the decision-making process by which business buyers establish the need for purchased products and services, and identify, evaluate and choose among alternative brands and suppliers.² Companies that sell to other business organisations must do their best to understand business markets and business buyer behaviour.

Business market—All the organisations that buy goods and services to 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-making process by which business buyers establish the need for purchased products and services, and identify, evaluate and choose among alternative brands and suppliers.

Business markets

The business-to-business market is *huge*: most businesses just sell to other businesses, and sales to businesses far outstrip those to consumers. The reason for this is the number of times that parts of a consumer product are bought, processed and resold before reaching the final consumer. For example, Figure 8.1 shows the large number of business transactions needed to

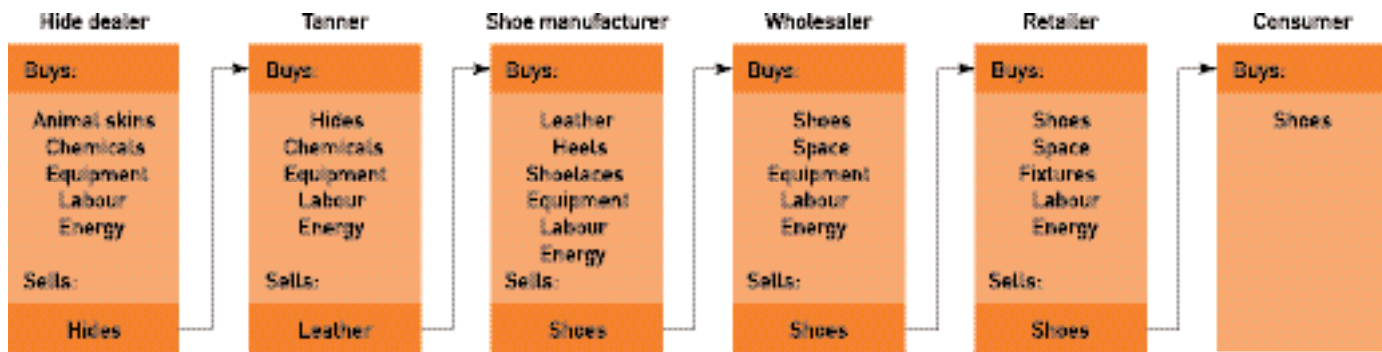


Figure 8.1 Business transactions involved in producing and distributing a pair of shoes

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produce and sell a simple pair of shoes. Hide dealers sell to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who in turn sell shoes to retailers, who finally sell the shoes to consumers. Each party in the chain also buys many other related goods and services. This example shows why there is more business buying than consumer buying – many sets of *business* purchases were made for only one set of *consumer* purchases.

Although the media have given a lot of attention to the booms and busts of business-to-consumer (B2C) dotcom companies, the e-commerce revolution is really business-to-business (B2B). IDC forecast that B2B e-commerce will be worth €500bn by 2003 (up from €12bn in 1997) compared with a forecast of €125bn for B2C. While the leading B2C company Amazon.com is just managing to make a profit, B2B e-commerce has become an established part of doing business practice.³

Characteristics of business markets

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 do differ. The main differences are in market structure and demand, the nature of the buying unit, and the types of decision 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. For example, when Michelin sells replacement tyres to final consumers, its potential market includes the owners of cars currently in use. However, Michelin's fate in the business market depends on getting orders from a few large carmakers. These sales of original equipment are doubly important, since many people replace their tyres with the brand already on the car. Even in large business markets, a few buyers normally account for most of the purchasing. As buying power concentrates, the *scale and strategic implications of contracts* escalate. The contract of this decade is for the JSF (Joint Strike Fighter) to equip the USAF, US Navy, US Marines, the Royal Air Force and Royal Navy. Won by Lockheed Martin, in collaboration with BAE Systems, Pratt & Whitney and Rolls-Royce, the initial contract is for 14 flying development aircraft at \$US18.9 billion and the final contract will be for approaching 500 planes. While Lockheed Martin celebrates their victory, Boeing is wounded by the failure of their X-32.⁴

Business markets are also more *geographically concentrated*: international financial services in London, petrochemicals and synthetic fibres around Rotterdam and Amsterdam and the movie industry in Hollywood. Further, business demand is **derived demand** – it ultimately derives from the demand for consumer goods. Fokker hopes to sell Glare (GLAss fibre REinforced aluminium) to Airbus for their super jumbo A380 whose demand is forecast because the consumers' demand for air travel is growing and so airlines want more capacity. If consumer demand for air travel drops, so will the demand for the A380, Glare, Rolls-Royce Trent 900 engine and all the other products used to make the aircraft.⁵

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

INVISTA® sells fibre to the people who sell fabrics, to the people who sell garments, to the retailers who sell them to consumers. Advertising LYCRA® to consumers pulls the fibre through the chain.

SOURCE: INVISTA, McCann Erikson.

LYCRA® is a registered trademark of DuPont® for its brand of premium stretch fibres and fabrics under exclusive license to INVISTA Inc. and its affiliates.

HAS IT.

When golf wear has LYCRA®, you get the fit and the swing.
(If the tag doesn't say "has it", it doesn't have it.)

You either have it or you don't

LYCRA.

Matt Kuchian

In late 2003 the world's steel industry is awaiting another tumble. European growth looked uncertain, Japan remained in the doldrums and US interest rates are rising. A slight change in consumer demand and industrial confidence has a huge impact on the steel industries' huge plants. That is why the profits, sales and share price of the Anglo Dutch company Corus follow the fortunes of the world's largest roller coaster on Blackpool's Pleasure Beach. Corus provided 2,000 tons of hollow-section steel for its construction. If consumers are short of cash, many will still ride the roller coaster but there will be little demand for new roller coasters and the steel use to make them.⁶ ”

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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 steel will not cause builders of roller coasters to buy much more steel unless it results in lower construction prices, which, in turn, will increase consumer demand for white-knuckle rides.

Finally, business markets have more *fluctuating demand*. Like the demand for Corus's steel, the demand for many business goods and services changes more than the demand for consumer goods and services. A small percentage increase in consumer demand can cause large increases in business demand. Sometimes a rise of only 10 per cent in consumer demand can cause as much as a 200 per cent rise in business demand during the next period.

Inelastic demand—Total demand for a product that is not much affected by price changes, especially in the short run.

Nature of the buying unit

Compared with consumer purchases, a business purchase usually involves *more buyers* and a *more professional purchasing effort*. Often, business buying is done by trained purchasing agents, who spend their working lives learning how to buy well. The more complex the purchase, the more likely that several people will participate in the decision-making process. Buying committees made up of technical experts and top management are common in the buying of primary goods. Therefore, business marketers must have well-trained salespeople to deal with well-trained buyers.

Types of decision 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 organisation. Because the purchases are more complex, business buyers may take longer to make their decisions. For example, the purchase of a large computer system might take many months or more than a year to complete and could involve millions of pounds, thousands of technical details and dozens of people ranging from top management to lower-level users.

The business buying process tends to be *more formalised* than the consumer buying process. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches and formal approval. The buying firm might even prepare policy manuals that detail the purchase process.

Finally, in the business buying process, buyer and seller are often much *more dependent* on each other. Consumer marketers are usually at a distance from their customers. In contrast, business 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-sales operations. For instance, 60 per cent of the money needed to develop Bombardier's Gex business jet came from suppliers and risk-sharing partners, including engine suppliers BMW/Rolls-Royce. They customise their offerings to meet individual customer needs. In the short run, orders go to suppliers that meet buyers' immediate product and service needs. However, business marketers must also build close *long-run* relationships with customers. In the long run, business marketers keep a customer's orders by meeting current needs *and* thinking ahead to meet the customer's future needs.

Volkswagen is breaking new ground at its Skoda factory by having suppliers' operations directly inside the car plant. Lucas, Johnson Controls and Pelzer are producing rear axles, seats and carpets in the Czech factory. This is one step ahead of Japanese manufacturers, which often have suppliers nearby.⁷

Other characteristics of business markets

Direct purchasing

Business buyers often buy directly from producers rather than through intermediaries, especially for items that are technically complex or expensive. Airlines buy aircraft directly from Boeing or Airbus, Kroger buys packaged goods directly from Procter & Gamble, and universities buy computers directly from IBM, Dell and so on. This process is increasing rapidly with the rapid growth of B2B exchanges.

Reciprocity

Business buyers often practise *reciprocity*, selecting suppliers that also buy from them. For example, a paper company might buy needed chemicals from a chemical company that in turn buys the company's paper.

Shaken by their failure to win the JSF contract, Boeing is fighting hard to win a \$13bn (€18.5bn) contract to supply the Royal Air Force in-flight refuelling fleet with their B767 based tanker. As a sweetener, they are offering a reciprocal arrangement that places £400m with Britain's BAE. The deal could be worth £2bn to BAE if, as expected, the US Air Force also chooses the B767.⁸

Leasing

Business buyers are increasingly leasing equipment instead of buying it outright – everything from printing presses to power plants, business jets to hay balers, and office copiers to offshore drilling rigs. The biggest buyers of airliners, business jets and cars are leasing companies. Some universities have started leasing student halls of residence to release money for investment elsewhere. In this case, they are leasing the facilities they once owned, a strategy often used by large corporations.

The lessee can gain a number of advantages, such as having more available capital, getting the seller's latest products, receiving better servicing and gaining some tax advantages. The lessor gains a larger net income and the chance to sell to customers that might not have been able to afford outright purchase.

A model of business buyer behaviour

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. Figure 8.2 shows a model of business buyer behaviour. In this model, marketing and other stimuli affect the buying organisation and produce certain buyer responses. As with consumer buying, the marketing stimuli for business buying consist of the four Ps: product, price, place and promotion. Other stimuli include influential forces in the environment: economic, technological, political, cultural and competitive. These stimuli enter the organisation 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 organisation to turn stimuli into purchase responses.

Within the organisation, buying activity consists of two main parts: the buying centre, made up of all the people involved in the buying decision, and the buying decision process. Figure 8.2 shows that the buying centre and the buying decision process are influenced by internal organisational, interpersonal and individual factors as well as by external environmental factors.

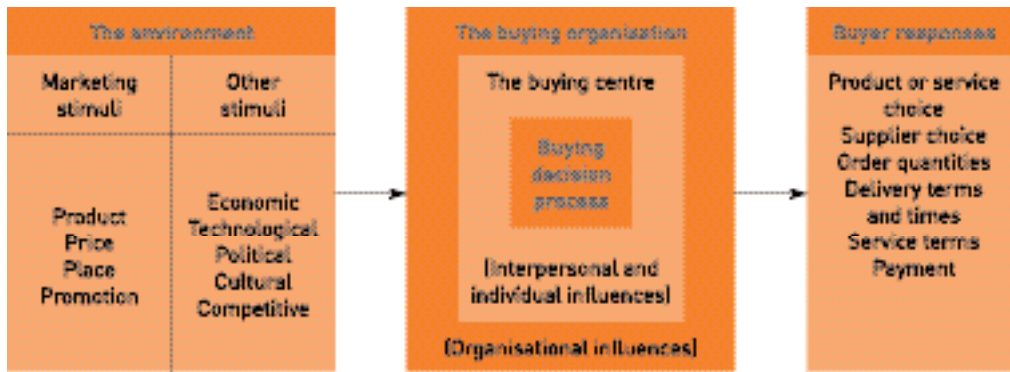


Figure 8.2 A model of business buyer behaviour

Business buyer behaviour

The model in Figure 8.2 suggests four questions about business buyer behaviour: What buying decisions do business buyers make? Who participates in the buying process? What are the strongest influences on buyers? How do business buyers make their buying decisions?

What buying decisions do business buyers make?

The business buyer faces a whole set of decisions in making a purchase. The number of decisions depends on the type of buying situation.

Main types of buying situation

There are three main types of buying situation.⁹ 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. For examples, see Figure 8.3.

Straight rebuy

In a **straight rebuy**, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. It is estimated that 90 per cent of these routine B2B transaction will be by e-commerce within a few years.¹⁰ Based on past buying

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

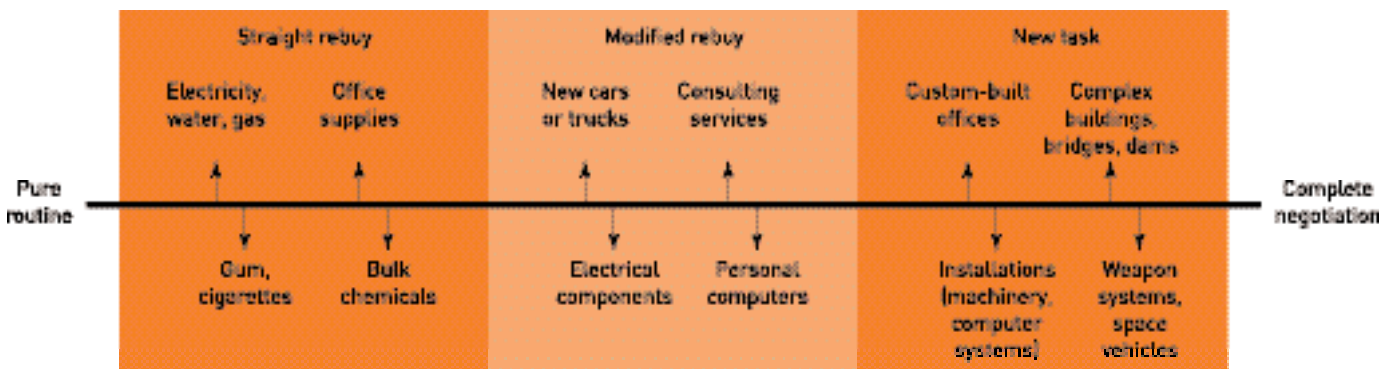


Figure 8.3 Three types of business buying situation

SOURCE: Ben M. Enis, *Marketing Principles*, 3rd edn (1980). © 1980 Scott, Foresman & Co.

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 purchase agent will save reordering time. The ‘out’ suppliers try to offer something new or exploit dissatisfaction so that the buyer will consider them. ‘Out’ suppliers try to get their foot in the door with a small order and then enlarge their purchase share over time.

Modified rebuy

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 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

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 will be the number of decision participants and the greater their efforts to collect information. The new-task situation is the marketer’s greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible, but also provides help and information.

Specific buying decisions

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.

Systems buying and selling

Systems buying—Buying a packaged solution to a problem and without all the separate decisions involved.

Many business buyers prefer to buy a packaged solution to a problem from a single seller. Called **systems buying**, this practice began with government buying of powerful weapons and communication systems. Instead of buying and putting all the components together, the government asked for bids from suppliers that would supply the components *and* assemble the package or system.

Intershop is an outstandingly successful company, based in the former East Germany. It is world market leader in software design and licensing for more than 20,000 companies who sell over the Internet. When companies face the need to set up an e-commerce operation, Intershop provides a range of services that they need.¹¹

Sellers have increasingly recognised that buyers like this method and have adopted systems selling as a marketing tool. Systems selling is a two-step process. First, the supplier 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 system meeting the customer’s needs. Consider the following:

The Indonesian government requested bids to build a cement factory near Jakarta. A Western 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 one of 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 customers' needs. This is true systems selling. ”

Who participates in the business buying process?

Who buys the goods and services needed by business organisations? The decision-making unit of a buying organisation is called its **buying centre**, defined as all the individuals and units that participate in the business decision-making process.¹²

The buying centre includes all members of the organisation who play any of the following five roles in the purchase decision process.¹³

1. **Users.** Members of the organisation who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.
2. **Influencers.** People who affect the buying decision. They often help define specifications and provide information for evaluating alternatives. Technical personnel are particularly important influencers.
3. **Buyers.** People with formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but they play their most important role in selecting vendors and in negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.
4. **Deciders.** People who 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.
5. **Gatekeepers.** People who 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 centre is not a fixed and formally identified unit within the buying organisation. It is a set of buying roles assumed by different people for different purchases. Within the organisation, the size and make-up of the buying centre 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 centre roles and serve as the only person involved in the buying decision. For more complex purchases, the buying centre may include 20 or 30 people from different levels and departments in the organisation. One survey found that the average number of people involved in a buying decision ranges from about three (for services and items used in day-to-day operations) to almost five (for such high-ticket purchases as construction work and machinery). Another survey detected a trend towards team-based buying – 87 per cent of surveyed purchasing executives expected teams of people from different functions to be making buying decisions in 2000.¹⁴

Buying centre—All the individuals and units that participate in the business buying-decision process.

Users—Members of the organisation who will use the product or service; users often initiate the buying proposal and help define product specifications.

Influencer—A person whose views or advice carries some weight in making a final buying decision; they often help define specifications and also provide information for evaluating alternatives.

Buyer—The person who makes an actual purchase.

Deciders—People in the organisation's buying centre who have formal or informal powers to select or approve the final suppliers.

Gatekeepers—People in the organisation's buying centre who control the flow of information to others.



Business-class flying is a classic case where the user (the flyer) is not the buyer, decider or gatekeeper. This could be a secretary, a personal assistant or a professional buyer.

SOURCE: British Airways/M&C Saatchi, *Photographer: Gary Simpson*.

Business marketers working in global markets may face even greater levels of buying centre influence. A study comparing the buying decision processes in the United States, Sweden, France and Southeast Asia found that US buyers might be lone eagles compared with their counterparts in some other countries. Sweden had the highest team buying effort, whereas the United States had the lowest, even though the Swedish and US firms had very similar demographics. In making purchasing decisions, Swedish firms depended on technical staff, both their own and suppliers', much more than did the firms in other countries.¹⁵

The buying centre 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 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 centre 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 knows a lot about aircraft. 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-centre participants.

The division of roles within the buying centre can cause a conflict of interest. Frequent flyer programmes succeed because a flyer or their secretary books a flight and accumulates frequent flyer points while the company pays. Corporate hospitality uses similar mechanisms to influence demand. Typical examples could include offering an important decider hospitality including a few drinks and tickets for a Wimbledon final (cost €3,000) or a few days' fishing in Norway (€15,000). To some companies spending €15,000 on entertaining is 'peanuts' compared with the potential return. Unsurprisingly, many companies and tax authorities are investigating or banning such benefits.¹⁶

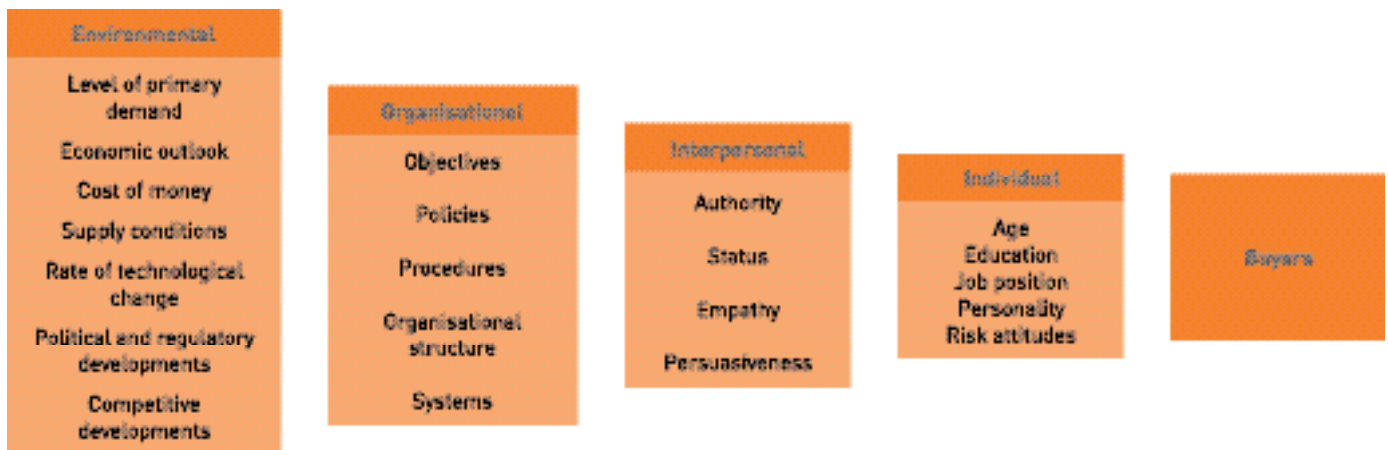


Figure 8.4 The main influences on business buying behaviour

What are the main 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 favour 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 business-to-business marketers recognise that emotion plays an important role in business buying decisions. For example, you might expect that an advertisement promoting large trucks to corporate truck fleet buyers would stress objective technical, performance and economic factors. However, a recent 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 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’.

When suppliers’ offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organisational 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 8.4 lists various groups of influences on business buyers – environmental, organisational, interpersonal, and individual.¹⁷

Environmental factors

Business buyers are influenced heavily by factors in the current and expected *economic environment*, such as the level of primary demand, the economic outlook, and the cost of money. As economic uncertainty rises, business buyers cut back on new investments and attempt to reduce their inventories.

An increasingly important 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. Culture and customs can strongly influence

business buyer reactions to the marketer's behaviour and strategies, especially in the international marketing environment (see Marketing Insights 8.1). The business marketer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

Organisational factors

Each buying organisation has its own objectives, policies, procedures, structure and systems. The business marketer must know these *organisational factors* as thoroughly as possible. 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?

Upgraded purchasing

Buying departments have often occupied a low position in the management hierarchy, even though they often manage more than half of the company's costs. In some industries, such as telecommunications, manufacturers buy in items approaching 80 per cent of total cost. With good reason, many companies are upgrading their purchasing activities. Some companies have combined several functions – such as purchasing, inventory control, production scheduling and traffic – into a high-level function called *strategic materials management*. Buying departments in many multinational companies have responsibility for buying materials and services around the world. Many companies are offering higher compensation in order to attract top talent in the buying area. This means that business marketers must also upgrade their salespeople to match the quality of today's business buyers.¹⁸

Centralised purchasing

In companies consisting of many divisions with differing needs, much of the purchasing is carried out at the division level. Recently, however, some large companies have tried to centralise purchasing. Headquarters identifies materials purchased by several divisions and buys them centrally. Centralised purchasing gives the companies more purchasing clout, which can produce substantial savings.

For the business marketer, this development means dealing with fewer, higher-level buyers. Instead of using regional sales forces to sell a large buyer's separate plants, the seller may use a *national account sales force* to service the buyer. For example, at Xerox, over 250 national account managers each handle one to five large national accounts with many scattered locations. The national account managers coordinate the efforts of an entire Xerox team – specialists, analysts, salespeople for individual products – to sell and service important national customers.¹⁹ National account selling is challenging and demands both a high-level sales force and a sophisticated marketing effort.

Long-term contracts

Business buyers are increasingly seeking long-term contracts with suppliers. For example, GM wants to buy from fewer suppliers that are willing to locate close to its plants and produce high-quality components. Business marketers are also beginning to offer *electronic order interchange* systems to their customers. When using such systems, the seller places terminals hooked to the seller's computers in customers' offices. Then the customer can order needed items instantly by entering orders directly into the computer. The orders are transmitted automatically to the supplier.

Although buyers are seeking closer relations with suppliers, businesses do not always have each other's interests at heart. In all relationships, there is a tension between the comfort of loyalty and the freedom to shop around. Economic and technological changes can make long-term business-to-business relationships inherently unstable.²⁰ The result is serial monogamy as firms switch between medium-term relationships.

International marketing manners matter

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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 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 the flip charts and audiovisuals, he shows them 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 on to the person's tray and, when the two say goodbye, 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 comfortable corduroy sport coat, khaki pants and Topsiders. Everybody knows Italians are zany and laid back, right?

Wrong. Six months later, Consolidated Amalgamation has nothing to show for the trip but a pile of bills. There was nothing wrong with Consolidated Amalgamation's products, but the orders probably went to firms whose representative had not antagonised and insulted people as much as Harry did. In Europe, they were not wild about Harry.



In order to succeed in global markets, companies must help their managers to understand the needs, customs and cultures of international business buyers.

SOURCE: (left) Corbis Stock Market/Richard Steedman; (right) Corbis Stock Market/Jon Feingersh

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This case has been exaggerated for emphasis. People are seldom such dolts as Harry E. Slicksmile, but success in international business has a lot to do with knowing the territory and its people. 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 is 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.

Harry's flashy presentation was probably also a flop with the Germans, who dislike overstatement and ostentation. According to one German expert, German businesspeople have become accustomed to dealing with Americans. Although differences in body language and customs remain, the past 20 years have softened them. However, calling secretaries by their first names would still be considered rude in Germany: 'They have a right to be called by their surname. You'd certainly ask for – and get – permission first.' In Germany, people address each other formally and correctly: for example, someone with two doctorates (which is quite 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. The Japanese, like many others in Asia, have 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.

Hapless Harry's last gaffe was assuming that Italians are like Hollywood's stereotypes of them. The flair for design and style that has characterised 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.

In order 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. Here are a few more rules of social and business etiquette that managers should understand when doing business in another country.

France	Dress conservatively, except in the south where more casual clothes are worn. Do not refer to people by their first names – the French are formal with strangers.
Germany	Be especially punctual. A businessperson invited to someone's home should present flowers, preferably unwrapped, to the hostess. During introductions, greet women first and wait until, or if, they extend their hands before extending yours.

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Indonesia	Learn how to sing at least one song. At the end of formal gatherings, people often take turns in singing unaccompanied.
Italy	Whether you dress conservatively or go native in a Giorgio Armani suit, keep in mind that Italian businesspeople are style conscious. Make appointments well in advance. Prepare for and be patient with Italian bureaucracies.
Japan	Do not imitate Japanese bowing customs unless you understand them thoroughly – who bows to whom, how many times and when. It is a complicated ritual.
Saudi Arabia	Although men will kiss each other in greeting, they will never kiss a woman. An American woman should wait for a man to extend his hand before offering hers. If a Saudi offers refreshment, accept – it is an insult to decline it.
United Kingdom	Toasts are often given at formal dinners. If the host honours you with a toast, be prepared to reciprocate. Business entertaining is done more often at lunch than at dinner.
United States	Expect to be asked to meet and work at any time, over breakfast, lunch and dinner. Do not be taken in by street attire; American managers' dress code at work is very formal and conservative.

Do not panic. Most businesspeople you are likely to meet are used to dealing with overseas guests and are used to forgiving their failings. There is, however, a big gap between being forgiven for social transgressions and getting the best deal.

SOURCES: Adapted from Susan Harte, 'When in Rome, you should learn to do what the Romans do', *The Atlanta Journal-Constitution* (22 January 1990), pp. D1, D6; see also Ann Marie Sabath, *International Business Etiquette Europe: What you need to know to conduct business abroad with charm and savvy* (Career Press, 1999); and Wayne A. Conway, Joseph J. Douress and Terri Morrison, *Dun & Bradstreet's Guide to Doing Business Around the World, Revised* (Upper Saddle River, NJ: Prentice Hall, 1999). For a lovely book by a top-selling novelist on the dangers of working in other languages, see Umberto Eco, *Mouse or Rat? Translation as Negotiation* (Weidenfeld & Nicolson, 2003).

Just-in-time production systems

The emergence of *just-in-time (JIT) production systems* has had a considerable impact on business purchasing policies. JIT, in particular, has produced notable changes in business marketing. JIT means that production materials arrive fit for use at the customer's factory exactly when needed for production, rather than being stored in the customer's inventory until used. The goal of JIT is zero inventories with 100 per cent quality. It calls for coordination between production schedules of supplier and customer, so that neither has to carry much inventory. Effective use of JIT reduces inventory and lead times and increases quality, productivity and adaptability to change.

Since JIT involves frequent delivery, many business marketers have set up locations closer to their large JIT customers. Closer locations enable them to deliver smaller shipments more efficiently and reliably. Many firms have set up plants close to Nissan's car plant in the north of England and VW now has suppliers producing inside its Czech Skoda plant. Thus, JIT means that a business marketer may have to make large commitments to important customers. The Biofoam case at the end of this chapter shows a packaging company becoming an on-site supplier to its customers.²¹

Purchasing performance evaluation

Some companies are setting up incentive systems to reward purchasing managers for especially good purchasing performance, in much the same way that salespeople receive bonuses for especially good selling performance. These systems should lead purchasing managers to increase their pressure on sellers for the best terms.

Interpersonal factors

The buying centre usually includes many participants who influence each other. The business marketer often finds it difficult to determine what kinds of *interpersonal factors* and group dynamics enter into the buying process. As one writer notes: 'Managers do not wear tags that say "decision maker" or "unimportant person". The powerful are often invisible, at least to vendor representatives.'²² Nor does the buying-centre participant with the highest rank always have the most influence. Participants may have influence in 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 towards risk. In addition, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

Secretaries and personal assistants are an important target for DHL, the express courier; they may be told by their boss to send a package but have the discretion to choose the courier. To contact them it advertises in *Executive PA* and other secretarial-type publications and 'always attends the Secretaries Show'. In contrast, UPS, which has a bias towards small business-to-business parcels, finds that traffic, distribution and logistics managers make most decisions. To contact them it schedules its TV advertising around sports events, prime-time films and documentaries.²³

Stages of the buying process	Buying situations		
	New task	Modified rebuy	Straight rebuy
Problem recognition	Yes	Maybe	No
General need description	Yes	Maybe	No
Product specification	Yes	Yes	Yes
Supplier search	Yes	Maybe	No
Proposal solicitation	Yes	Maybe	No
Supplier selection	Yes	Maybe	No
Order-routine specification	Yes	Maybe	No
Performance review	Yes	Yes	Yes

SOURCE: Adapted from Patrick J. Robinson, Charles W. Faris and Yoram Wind, *Industrial Buying and Creative Marketing* (Boston: Allyn & Bacon, 1967), p. 14.

Table 8.1 Key stages of the business buying process in relation to important buying situations

How do business buyers make their buying decisions?

Table 8.1 lists the eight stages of the business buying process.²⁴ Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new-task buying situation.

Problem recognition

The buying process begins when someone in the company recognises a problem or a need that can be met by acquiring a specific good or a 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. Alternatively, 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.

General need description

Having recognised 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 have 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. For Fokker to sell Glare, its new aerospace material, for use in the A380 superjumbo it will have to work with Airbus Industries’ designers to influence the aircraft’s design and the sort of material they specify. Increasingly, new products are designed in conjunction with suppliers whose input influences the product specification.

Product specification

The buying organisation 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 whether they can be redesigned,

Problem recognition—The first stage of the business buying process in which someone in the company recognises 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 organisation 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 whether they can be redesigned, standardised or made by less costly methods of production.

standardised or made by less costly methods of production. The team decides on the best 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 a computer search or phoning other companies for recommendations. Today, more and more companies are turning to the Internet to find suppliers. For marketers, this has levelled the playing field – smaller suppliers have the same advantages as larger ones and can be listed in the same online catalogues for a nominal fee:

Worldwide Internet Solutions Network, better known as WIZnet (www.wiznet.net), has built an ‘interactive virtual library of business-to-business catalogues’ that is global in coverage. At last report, its database included complete specifications for more than 10 million products and services from 45,000 manufacturers, distributors, and industrial service providers. For purchasing managers, who routinely receive stacks of mail each day, much of it catalogues, this kind of one-stop shopping will be an incredible time-saver (and price-saver, because it allows easier comparison shopping). When told by a management consultant, ‘Do a search for 3.5-inch (9 cm) platinum ball valves available from a local source’, WIZnet found six local sources for buying the exact product in about 15 seconds. More than just electric Yellow Pages, such as the Thomas Register or Industry.net, WIZnet includes all specifications for the products right in the system and offers secure e-mail to communicate directly with vendors to ask for requests for bids or to place an order. More than 10,000 product specs are added to WIZnet per week, and its database includes catalogues from across the globe.²⁵ ”

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 be listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

Proposal solicitation

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 catalogue 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

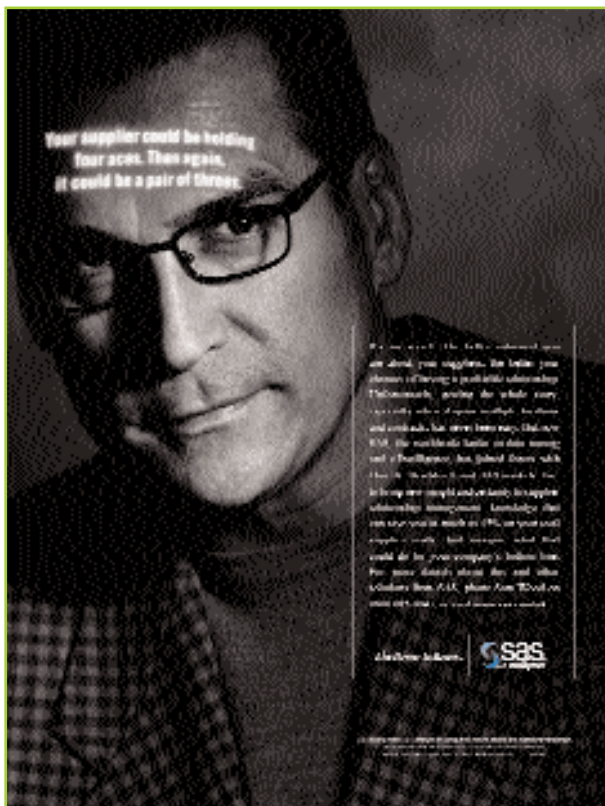
The members of the buying centre now review the proposals and select a supplier or suppliers. During **supplier selection**, the buying centre will often draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behaviour, 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 centre will rate suppliers against these attributes and identify the best suppliers.²⁶

As part of the buyer selection process, buying centres must decide how many suppliers to use. Companies once preferred a large supplier base to ensure adequate supplies and to obtain price concessions. These companies would insist on annual negotiations for contract renewal and would often shift the amount of business they gave to each supplier from year to year. Increasingly, however, companies are reducing the number of suppliers. Many have cut the number of suppliers by 20 to 80 per cent. These companies expect their preferred suppliers to work closely with them during product development and they value their suppliers' suggestions.

There is even a trend towards single sourcing, using one supplier for a class of goods over a long period. Not only can using one source translate into more consistent product performance, but also operations can configure themselves for one particular raw material or component rather than changing processes to accommodate different suppliers. Many companies, however, are still reluctant to use single sourcing. They fear that they may become too dependent on the single supplier or that the single-source supplier may become too comfortable in the relationship and lose its competitive edge. Some marketers have developed programmes that address these concerns.

Supplier selection—

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



To better select the most appropriate supplier, companies like SAS offer solutions that increase the level of information about them and improve supplier-relationship management.

SOURCE: SAS. Agency: Mason Zimbler.

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.

Performance review—The stage of the business buying process in which the buyer rates its satisfaction with suppliers, deciding whether to continue, modify or drop them.

Electronic Data Interchange (EDI)—Custom-built systems that link the computer systems of major buyers to their suppliers to enable them to coordinate their activities more closely.

Internet exchanges—Web-based bazaars, often shared by buyers, where suppliers bid against requirements posted on the Internet.

Order-routine specification

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 are increasingly using *blanket contracts* rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to re-supply the buyer as needed at agreed prices for a set period. The seller holds the stock and the buyer's computer automatically prints out an order to the seller when stock is needed. A blanket order eliminates the expensive process of renegotiating a purchase each time stock is required. It also allows buyers to write more, but smaller, purchase orders, resulting in lower inventory levels and carrying costs.

Blanket contracting leads to more single-source buying and to buying more items from that source. This practice locks the supplier in tighter with the buyer and makes it difficult for other suppliers to break in unless the buyer becomes dissatisfied with prices or service.

Performance review

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.

We have described the stages that would typically occur in a new-task buying situation. The eight-stage model provides a simple view of the business buying-decision process. 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 organisation buys in its own way and each buying situation has unique requirements. Different buying-centre 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.

Business buying on the Internet

During the past few years, incredible advances in information technology have changed the face of the business-to-business marketing process. **Electronic data interchange (EDI)** links are particularly common in the food and auto industries. These systems give buyers access to lower purchasing costs, and hasten order processing and delivery. In turn, business marketers are connecting with customers to share marketing information, sell products and services, provide customer support services and maintain ongoing customer relationships. The bespoke EDI systems are now giving way to more flexible and less expensive Internet exchanges whose growth is explosive. While Mitsushita uses its EDI only for ordering its parts, its new Internet-based system will include price negotiations, delivery and payments. The company estimates that the system will allow it to save up to ¥40bn (€300m) on the supplies it has to hold in stock.²⁷

In the **Internet exchanges**, buyers post their requirements on the Internet to reach numerous potential suppliers quickly and efficiently. This can be used for both routine and complex products. Japanese Airlines uses the Internet to post orders for in-flight materials, such as plastic cups. Its website carries technical specifications and drawings to show what the company wants, including the airline's logo.²⁸

Chapter 8 Business-to-business marketing

So far, most of the products bought by businesses through Internet or EDI connections are routine MRO materials – maintenance, repair and operations. 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. The total value of MRO materials pales in comparison to the amount spent for items like aeroplane parts, computer systems and steel tubing. Yet, MRO materials make up 80 per cent 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.

General Electric, the pioneer of Internet buying, planned to be buying *all* of its general operating and industrial supplies online by 2003. Set up in the mid-1990s, its Trading Process Network is a vast Internet bazaar open to its subscribing companies. Other, industry-specific Internet bazaars are taking off and precipitating cross-industry collaboration on a scale once unimaginable:²⁹

- Covisint for car components is a joint venture between Ford, General Motors, DaimlerChrysler and Renault/Nissan.
- Orbitz is a travel service owned by five major airlines. It promises to 'Remove the barriers between you and your journey'.
- Chemdex for the exchange of chemicals.
- Paperex for pulp and paper products.

Not all companies or government agencies are happy with Internet exchanges. The European Commission and the American Federal Trade Commission are worried that EDI reduces competition by tying together buyers and suppliers through expensive IT systems. In contrast, Toyota and Honda are reluctant to participate in the open auction-based Covisint because 'Our parts are not purchased through a bidding process. We buy them by building a relationship with our suppliers over time.' They are also concerned about security: 'The other companies are our rivals, and we are competing on parts.' The concerns are not only Japanese. VW do not want to be a junior partner in the site: 'GM is all about driving cost down, whereas Volkswagen sees an advantage in improving response times and increasing its responsiveness to customers.' Some suppliers are also scared about being locked out as Covisint searches for big, low-cost partners.³⁰

Institutional and government markets

So far, our discussion of organisational buying has focused largely on the buying behaviour of business buyers. Much of this discussion also applies to the buying practices of institutional and government organisations. However, these two non-business markets have additional characteristics and needs. Thus, in this final section, we will address the special features of institutional and government markets.

Institutional markets

The **institutional market** consists of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and in their objectives. For example, in the United Kingdom, BUPA hospitals are operated for profit and are predominantly used by people with private medical insurance. National Health Service trust hospitals provide healthcare as part of the welfare state, while charities, such as the Terrence Higgins Trust and many small hospices, run centres for the terminally ill.

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

Low budgets and captive patrons characterise many institutional markets. For example, many campus-based students have little choice but to eat whatever food the university supplies. A catering organisation decides on the quality of food to buy for students. The buying objective is not profit because the food is provided as a part of a total service package. Nor is strict cost minimisation the goal – students receiving poor-quality food will complain to others and damage the college's reputation. Thus, the university 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 products differently to serve better the requirements of hospitals, colleges and other institutional markets.

Government markets

Government market— Governmental units – national and local – that purchase or rent goods and services for carrying out the main functions of government.

The **government market** offers large opportunities for many companies. Government buying and business buying are similar in many ways. However, there are also differences that must be understood by companies wishing 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 behaviour and understand the buying decision process.

Government buying organisations are found at national and local levels. The national level is the largest and its buying units operate in both the civilian and military sectors. Various government departments, administrations, agencies, boards, commissions, executive offices and other units carry out buying. Sometimes, the *central buying operation* helps to centralise the buying of commonly used items in the civilian section (for example, office furniture and equipment, vehicles, fuels) and in standardising buying procedures for the other agencies. Defence ministries usually carry out the buying of military equipment for the armed forces.

Strong influences on government buyers

Like consumer and business buyers, government buyers are affected by environmental, organisational, interpersonal and individual factors. One unique thing about government buying is that it is carefully watched by outside publics, ranging from elected representatives to a variety of private groups interested in how the government spends taxpayers' money. Because their spending decisions are subject to public review, government organisations are buried in paperwork. Elaborate forms must be filled in and signed before purchases are approved. The level of bureaucracy and political sensitivities are high and marketers must cut through this red tape. Ways of dealing with governments vary greatly from country to country, and knowledge of local practices is critical to achieving sales successes (see Marketing Insights 8.2).

Non-economic criteria also play a growing role in government buying. Government buyers are asked to favour depressed business firms and areas, small business firms, and business firms that avoid race, sex or age discrimination. Politicians will fight to have large contracts awarded to firms in their area or for their constituency to be the site of big construction projects. EuroDisney is an extreme case, as was Japan's ¥800bn (€6bn) G8 summit meeting in remote Kyushu-Okinawa. Sellers need to keep these factors in mind when seeking government business.

Government organisations typically require suppliers to submit bids and normally award contracts to the lowest bidders. In some cases, however, government buyers make allowances for superior quality or for a firm's reputation for completing contracts on time. Governments will also buy on a negotiated contract basis for complex projects that involve substantial R&D costs and risks or when there is little effective competition. Governments tend to favour

Political graft: wheeze or sleaze?

8.2

A Swedish cabinet minister resigned after it was disclosed that she had bought a small toy using an official credit card. Meanwhile in Paris new Members of the European Parliament were invited to an 'official' briefing on the many perks attached to their new status. The subject excited Jean-François Hory. From his place in the front row he turned in his seat, fixed a knowing eye on his new colleagues and addressed them in the manner of an old hand talking down to university freshmen: 'One thing you need to know about travel allowances – they'll want to know your address. If you have one or more second homes, make sure you list the one furthest from Brussels.' Obviously, a return flight from Marseilles to Brussels is worth more than the tram fare from Loos-lès-Lille to Brussels.



Political corruption used to be a thing other countries did, but no more. In the United States, United Kingdom, France, Spain, Italy, Japan and elsewhere, accusations of political corruption involving businesses have shaken the countries' leaders. The problem runs deep. In 1999, Paul van Buitenen's 'whistle blowing' precipitated the resignation of all of the EU's commissioners. Eurofraud costs EU taxpayers over €10 billion per year. Sometimes the fiddles are minor, like exaggerating expense claims on Eurojaunts, but often they are not. Antonio Quatraro leapt to his death from a Brussels window. He was a European Commission official responsible for authorising subsidies. A fraud was discovered where he allegedly received backhanders for rigging the auction of Greek-grown tobacco to benefit Italian traders. The oil industry appears particularly dirty and close to governments. The same day in 2003 saw the extending of an investigation into corruption at Yukos, Russia's largest company, and staff at the centre of France's Elf Company gaoled and fined for the diversion of €300 million for personal enrichment.

All governments have codes of practice but they are not consistent. There are also different traditions about obeying rules. In Britain, a Treasury minister had to fight for his political life and was eventually jailed following accusations that a controversial Arab businessperson had paid for a weekend that the minister had had at the Paris Ritz Hotel. The bill was less than €600 and in most other European countries he would not have had to declare such a gift. Meanwhile, Edith Cresson, the former French Prime Minister, had difficulty seeing why she should go when she was at the centre of the storm that ended in the resignation of all the European Commissioners.

In Japan, the attitude towards political corruption is changing slowly. Kiichi Miyazawa resigned as finance minister after being caught up in the Recruit scandal. Recruit, an employment agency, had secretly given large tranches of its own shares to

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politicians, including cabinet ministers, in exchange for political favours. Nevertheless, two years later Mr Miyazawa was sufficiently 'rehabilitated' to become prime minister. This follows the 'traditional' pattern for Japanese politicians caught taking bribes or *o-shoku*, 'defiling one's job'. *O-shoku* carries no moral overtones about wrongdoing; it just means that through carelessness the publicity has dishonoured the politician's honoured position. The usual line of defence in the Diet is that the politicians knew nothing, since their aides took the money. In that way the politician does not lose face, junior aides are not worth prosecuting and everyone is happy.

Transparency International regularly publishes a Corruption Perception Index that focuses on the misuse of public office for private gain. Exhibit 8.1 shows a ranking of Europe's best 20 with their scores on the index. Scandinavian countries have good

Exhibit 8.1 Transparency International's Corruption Perception Index – Europe's best 20

Country	World ranking (1st is least corrupt)	Index
Finland	1	10
Denmark	2	9.8
Sweden	4	9.4
Iceland	6=	9.1
Norway	6=	9.1
Netherlands	9	8.9
UK	10	8.7
Luxembourg	11=	8.6
Switzerland	11=	8.6
USA	14	7.8
Germany	17	7.6
Ireland	19	7.2
Spain	20	7.0
France	21	6.7
Japan	23=	6.4
Portugal	23=	6.4
Belgium	25	6.1
Estonia	27	5.7
Slovenia	28	5.5
Hungary	32	5.2
Greece	35	4.9
Italy	39	4.6
Russia	82	2.1
Yugoslavia	89	1.3
Nigeria	90	1.2

reason to be proud of the standards their public servants uphold, but the variation elsewhere in Europe is marked.

The scale of corruption that has destroyed the careers of many European politicians is small beer compared with the 'dash' that lubricates trade in most of the developing world. When selling to governments, marketers face a great dilemma. Should they follow St Ambrose's advice to St Augustine: 'When you are at Rome live in the Roman style; when you are elsewhere live as they live elsewhere'? Or should they behave like a saint?

SOURCES: The leading quotation is from 'An open letter to those unnerved by the little judges', by MEP Thierry Jean-Pierre; other sources are *The Economist* (29 January 2000), pp. 49–55; 'The honeycomb of corruption', *The Economist: China Survey* (8 April 2000), pp. 10–12; Alix Christie and Julie Read, 'Fraud crusader gears up for a fight', *The European* (11–17 November 1994), p. 11; John McBeth, 'Ground zero', *Far Eastern Economic Review* (22 January 1998), pp. 14–17; Paul van Buitenen, 'Corruption at the heart of Europe', *The Times* (14 March 2000), pp. 10–11; *The Economist*, 'Corporate ethics: big oils dirty secrets' (10 May 2003), pp. 61–2; Ankady Ostrovsky, 'Fresh Yukos probe targets oil production site in Siberia' and Robert Graham, 'French court jails Elf officials for corruption', both in *Financial Times* (13 November 2003), p. 12. For the corruption perception index and an analysis of the impact of corruption on economic performance, visit www.transparency.org.

domestic suppliers over foreign suppliers, which is a repeated complaint of multinational businesses. Each country tends to favour its own nationals, even when non-domestic firms make superior offers. The European Commission is trying to reduce such biases.

How do government buyers make their buying decisions?

Government buying practices often seem complex and frustrating to suppliers, who have voiced many complaints about government purchasing procedures. These include too much paperwork and bureaucracy, needless regulations, emphasis on low bid prices, decision-making delays, frequent shifts in buying personnel and too many policy changes. Yet, despite such obstacles, selling to the government can often be mastered. The government is generally helpful in providing information about its buying needs and procedures, and is often as eager to attract new suppliers as the suppliers are to find customers.

Public sector buyers in Europe are required to follow the Official Journal of the European Communities (usually referred to as OJEC). This specifies that when seeking suppliers for a contract over threshold value it is illegal to advertise in national journals and values must be set in euros. The aim is to open the competition for public sector purchases across members of the European Union. OJEC also provides a Common Procurement Vocabulary and provides standards for 'social awareness' and 'green' procurement. The European Commission prosecutes buyers who do not comply with OJEC. Contracts awarded illegally can be nullified and damages awarded.³¹

When the mighty US Fleet edged its way up the Gulf during the Iraq war, five little plastic boats led it. The little Hunt Class MCMVs (Mine Counter-Measure Vessels) were in a league of their own at the dangerous job of clearing a path for the main fleet. They were made by VT, a small British shipbuilding and support services group that is a master at selling to governments around the world. While the world's leading defence contractors seek alliances and mergers to meet the 'peace dividend's' reduced demand, VT has an order book worth £600 million (€900 million) and 14 vessels under construction, 95 per cent of them for export. Part of its strength is VT's dominance in the niche for glass-reinforced plastic (GRP) mine hunters, corvettes and patrol craft. Just the sort of ships that small navies want.

VT's strength extends beyond the vessels. With its vessels it offers a maritime training and support service where it has pioneered computer-based learning. Many clients come from the Middle East and travel with their families, so VT has built an Arabic school for 70 pupils next to the maritime training centre. It now does training for other firms selling to the Middle East, so strengthening its position in the region.

VT also provides services for air forces and navies. Revenues from its US business, VT Griffin, which runs 30 naval, army and air force bases, rose by a third in the first six months of the year. It now plans to quadruple the size of its US operations to capitalise on the huge growth in American defence spending.³² ”

For a number of reasons, many companies that sell to the government are not as marketing oriented as VT. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasised 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.

More companies now have separate marketing departments for government marketing efforts. BAE, Eastman Kodak and Goodyear are examples. These companies want to coordinate bids and prepare them more scientifically, to propose projects to meet government needs rather than just respond to government requests, to gather competitive intelligence, and to prepare stronger communications to describe the company's competence.

Summary

The business market is vast. In many ways, business markets are like consumer markets, but 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.

The *business market* includes firms that buy goods and services in order to produce products and services to sell to others. It also includes retailing and wholesaling firms that buy goods in order to resell them at a profit. Business buyers make decisions that vary with the three types of buying situation: *straight rebuys*, *modified rebuys* and *new tasks*. The decision-making unit of a buying organisation – the *buying centre* – may consist of many people playing many roles. The business marketer needs to know the following: Who are the main participants? In what decisions do they exercise influence? What is their relative degree of influence? Moreover, what evaluation criteria does each decision participant use? The business marketer also needs to understand the primary environmental, interpersonal and individual influences on the buying process. The business buying-decision process itself consists of eight stages: *problem recognition*, *general needs description*, *product specification*, *supplier search*, *proposal solicitation*, *supplier selection*, *order-routine specification* and *performance review*. As business buyers become more sophisticated, business marketers must keep in step by upgrading their marketing accordingly.

The *institutional market* consists of schools, hospitals, prisons and other institutions that provide goods and services to people in their care. Low budgets and captive patrons characterise these markets. The *government market* is also vast. Government buyers purchase products and services for defence, education, public welfare and other public needs. Government buying practices are highly specialised and specified, with open bidding or negotiated contracts characterising most of the buying. Government buyers operate under the watchful eye of politicians and many private watchdog groups. Hence, they tend to require more forms and signatures and to respond more slowly in placing orders.

Discussing the issues

1. Identify the ways in which the fashion clothing market differs from the military uniform market.
2. Which of the main types of buying situation are represented by the following individual circumstances?
 - BMW's purchase of computers that go in cars and adjust engine performance to changing driving conditions.
 - VW's purchase of spark plugs for its line of Golfs.
 - Honda's purchase of light bulbs for a new Civic model.
3. How would a marketer of office equipment identify the buying centre for a law firm's purchase of dictation equipment for each of its partners?

4. Discuss the principal environmental factors that would affect the purchase of radar speed detectors by national and local police forces.
5. Industrial products companies have advertised products to the general public that consumers are not able to buy. How does this strategy help a company sell products to resellers?
6. Assume you are selling a fleet of forklift trucks to be used by a large distribution and warehousing firm. The drivers of the forklift trucks need the latest technology that provides comfort, makes driving easy and improves manoeuvrability. This means more expensive trucks that are more profitable for you. The fleet buyer, however, wants to buy established (not necessarily latest) technology that gives the highest productivity. Who might be in the buying centre? How might you meet the varying needs of these participants?

Applying the concepts

1. Take your college/university as an example of a business customer for books and other educational materials. Imagine that you are a representative from a publisher who intends to establish sales to the college/university. How might you use the model of business buyer behaviour to help you develop a strategy for marketing effectively to this customer? How useful is the model? What (if any) are the limitations? Are there different levels of customers in this situation (e.g. the library as a buying centre; course team members who agree on the textbooks to recommend for student adoption and library stocks; the individual tutor who chooses recommended textbooks and requests the library to stock; or the college/university bookshop)? How might you deal with these different levels of customer?
2. Make a list of the key factors that a local government institution or agency might consider when deciding to purchase new coffee-making machines for users in its offices. Remembering how government buyers make their buying decisions, suggest a scenario that you, as a potential supplier, would use to sell to this institutional buyer.

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Concluding concepts 8

Biofoam: just peanuts?



Like diamonds, polystyrene peanuts are forever – their volume is growing at a rate of at least 20 million kg annually. Since their introduction in 1970, they have become one of the most popular forms of packaging material. They are lightweight, inexpensive and resilient. They conform to any shape, protect superbly, resist shifting in transit, leave no dusty residue on the goods they protect and are indestructible. That is the problem. Nearly every one of those peanuts used since 1970 is still with us – blowing in the wind or taking up space in a landfill. Worse yet, they will be with us for another 500 years. They are wonderful but not environmentally sound.

The small firm Biofoam thinks it has solved this problem and helps businesses and governments meet their environmental targets. It sells a peanut made from grain sorghum, a grain now used for animal feed. To make these sorghum peanuts, the company strips the grain of its nutritional value, presses it into pellets, and conveys it through a giant popper. The process creates a product that looks like tan cheese doodles, not so surprising given that the inventors started out to make a snack food. Nevertheless, no one wanted to eat these objects, so the inventors had to find other uses for them. According to Ed Alfke, Biofoam's CEO, the sorghum peanuts do just as good a job as the best foam peanuts and they do not cost any more. Moreover, they hold no electrostatic charge, so they will not cling to nylons or other synthetic fibres (such as your carpet or clothes). Better yet, they are 'absolutely, frighteningly natural', says Tom Schmiegel, a veteran of the plastics industry.

To dispose of a Biofoam peanut, you can: (a) put it in your waste bin, (b) throw it on your front lawn as bird food, (c) compost it, (d) put it in your dog's or cat's bowl, (e) set it out with salsa at your next party, or (f) wash it down your drain. The peanut dissolves in water and has some – although limited – nutritional value. Alfke bought into the company because of its environmentally positive stance. He is convinced that green companies will profit from a global regulatory climate that is increasingly hostile to polluters. 'The writing is on the wall for companies that are not environmentally friendly', he says.

Biofoam initially targeted retailers who wanted to send an environmentally friendly message, helped along by the inclusion of a Biofoam pamphlet explaining the advantages of the Biofoam peanut. It targeted the heaviest users of Styrofoam peanuts who consume up to 20 truckloads of

loose fill a *day*. To date, Biofoam has signed two major accounts – the Fuller Brush Company and computer reseller MicroAge.

Eventually, Biofoam will have to expand beyond environmentally sensitive firms into a broader market. To convince potential users to use Biofoam peanuts, Alfke has come up with a seemingly no-brainer option: to be environmentally responsible without having to pay more or sacrifice convenience. He is willing to install machines on the customer's premises to produce peanuts in-house – an arrangement that would give Biofoam rent-free production sites. He will even provide an employee to operate the machinery. Although this strategy might sound unusual, it has been used by other companies such as Xerox to sell copiers and Tetra Pak to sell juice boxes and milk cartons.

The in-house arrangement has benefits for the customer as well as for Biofoam. Users receive immediate, reliable, just-in-time delivery combined with on-site service and a five-year price guarantee with no intermediaries involved. With Biofoam on-site, users never run out of packaging, and they avoid the expense of stockpiling materials. Lower production costs make Biofoam's product price competitive with that of polystyrene. For Biofoam, the arrangement provides a rent-free network of regional manufacturing facilities and an intimacy with each customer. Because the host company will only consume about one-third of the output, Biofoam plans to sell the excess to smaller firms in the host's area.

However, this in-house production arrangement has disadvantages. From the host's perspective, the machinery takes up 140 m² of floor space that could be used to produce something else. Furthermore, some of the output of that 140 m² goes to other firms, benefiting Biofoam but doing nothing for the host. Furthermore, the host has a non-employee working in its plant. The peanut-making machinery is also intrusive. It consists of three machines – an extruder, a conditioning chamber and a deduster – joined by ducts and conveyor belts. The machines make lots of noise (like a giant air conditioner), making conversation in the vicinity impossible. The process

'The writing is on the wall for companies that are not environmentally friendly'.

creates a smell, rather like the inside of an old barn, and produces heat, a potential problem. Thus, on closer inspection, the in-house arrangement is not entirely desirable. Without this arrangement, however, costs rise considerably. If it had to ship the peanuts to users, Biofoam would have to raise the price 10 to 20 per cent.

Biofoam's competition, the polystyrene loose-fill industry, is a fragmented patchwork of diverse companies. It includes oil companies, chemical producers, fill manufacturers and regional distributors – all of which would suffer from Biofoam's success. One aggressive newcomer is EarthShell that make their packaging out of environmentally friendly natural limestone and potato starch. The industry is much more rough-and-tumble than CEO Alfke anticipated. So far, Biofoam has a microscopic market share. The company's 2000 sales totalled only €3 million – not much in an industry with potential sales of €200 to €600 million a year. Nevertheless, the €3 million represented a five-fold increase over the previous year. Alfke now projects sales of €90 million in 2004, with 30 per cent pre-tax profits. These projections include sales of products other than sorghum peanuts. Alfke plans to add injectible Biofoam and stiff Biofoam packaging materials. Other promising applications have been suggested, such as using Biofoam to absorb oil spills or in medicinal applications, but Alfke does not want to talk about those. For now, 'It's important that we try to stay focused', he claims.

Can Alfke reach his ambitious goals? Many industry observers say no. Environmental claims, say these observers, do not have the impact that they used to have. 'That was something we worried about three years ago', said a purchasing agent. Biofoam's sales representatives are finding the market less environmentally concerned. Others, however, are more optimistic. For example, although she agrees that the novelty of environmentally responsible packaging has worn off, Nancy Pfund, general partner of Hambrecht and Quist's Environmental Technology Fund, thinks that many firms are still interested in environmentally friendly packaging. She notes that companies have 'internalised a lot of environmental procedures without making a lot of noise about it. You also have younger people who grew up learning about the environment in school now entering the consumer market. That's a very strong trend.' Such consumers will demand more responsible packaging.

Are companies that use Biofoam happy with it? Well, some yes, some no. On the positive side is MicroAge Computer. According to Mark laquinto, facilities manager,

MicroAge had been searching for an acceptable alternative to polystyrene. Now that it has found Biofoam, he is convinced it can stop searching. On the negative side, Norbert Schneider, president of Fuller Brush Company, has concerns about the way the product crumbles in boxes filled with sharp-pointed brushes. Alfke says that Biofoam is working on a solution, but if it does not find one soon, Fuller Brush may change packaging suppliers.

Other firms have entered the market with biodegradable, water-soluble foams. Made from corn-starch-based thermoplastics, the products can be rinsed down the drain after use. They can be used in loose-fill packaging applications or moulded in place into shaped packaging. They compare favourably with traditional packaging materials for cost and performance.

So, facing a stiffly competitive industry, new competitors and a softening of environmental concerns, Biofoam will find the going hard. However, none of this dents Alfke's enthusiasm. Alfke was a multimillionaire before age 40. 'I've seen a lot of deals', he claims, 'and I've never, ever seen a deal as good as this one.' As an experienced businessman, no doubt he *has* seen a lot of deals. He really believes in this one, but is he right?

Questions

1. Outline Biofoam's current marketing strategy.
2. Which elements of the marketing mix are most important for Biofoam to focus on?
3. What is the nature of demand in the loose-fill packaging industry? What factors shape that demand?
4. If you were a buyer of packaging materials, would you agree to Biofoam's offer of machines inside your plant? If not, how could Biofoam overcome your objections?
5. What environmental and organisational factors are likely to affect the loose-fill packaging industry? How will these factors affect Biofoam?
6. Is Alfke right? Is this a good deal? Would you have bought into the firm? Why or why not?

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