Business Markets and Business Buyer Behavior

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

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

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

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

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

UPS has the resources to handle the logistics needs of just about any size business. It employs 407,000 people, some 92,000 vehicles (package cars, vans, tractors, and motorcycles), 600 aircraft, and about 1,800 warehouse facilities in 200 countries. UPS now moves an astounding 6 percent of the gross domestic product in the United States, links 1.8 million sellers with 6.1 million buyers every day, and processes more than 460 million electronic transactions every week. It serves 50 percent of the world population and 99 percent of businesses in the Fortune 1000. UPS invests $1 billion a year in information technology to support its highly synchronized, by-the-clock logistics services and to provide customers with information at every point in the process.

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

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

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

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

Objectives

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

159
At a deeper level, UPS can provide the advice and technical resources needed to help business customers large and small improve their own logistics operations. UPS Consulting advises companies on redesigning logistics systems to align them better with business strategies. UPS Supply Chain Solutions helps customers to synchronize the flow of goods, funds, and information up and down their supply chains. UPS Logistics Technologies supplies software that enhances customers’ distribution efficiency, including street-level route optimization, territory planning, mobile delivery execution, real-time wireless dispatch, and GPS tracking.

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

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

Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit. Business buyer behavior is similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets involve far more money and items than do consumer markets. For example, think about the large number of transaction involved in the production and sale of a single set of Goodyear tires. Various suppliers sell Goodyear the rubber, steel, equipment, and other goods that it needs to produce the tires. Goodyear then sells the finished tires to retailers, who in turn sell them to consumers. Thus, many sets of business purchases were made for only one set of consumer purchases. In addition, Goodyear sells tires as original equipment to manufacturers who install them on new vehicles, and as replacement tires to companies that maintain their own fleets of company cars, trucks, buses, or other vehicles.

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

Market Structure and Demand

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

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

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

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

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

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

### Table 6.1

<table>
<thead>
<tr>
<th>Characteristics of Business Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Structure and Demand</td>
</tr>
<tr>
<td>Business markets contain fewer but larger buyers.</td>
</tr>
<tr>
<td>Business customers are more geographically concentrated.</td>
</tr>
<tr>
<td>Demand in many business markets is more inelastic—not affected as much in the short run by price changes.</td>
</tr>
<tr>
<td>Demand in business markets fluctuates more, and more quickly.</td>
</tr>
<tr>
<td>Nature of the Buying Unit</td>
</tr>
<tr>
<td>Business purchases involve more buyers.</td>
</tr>
<tr>
<td>Business buying involves a more professional purchasing effort.</td>
</tr>
<tr>
<td>Types of Decisions and the Decision Process</td>
</tr>
<tr>
<td>The business buying process is more formalized.</td>
</tr>
<tr>
<td>In business buying, buyers and sellers work closely together and build long-term relationships.</td>
</tr>
</tbody>
</table>
Nature of the Buying Unit

Compared with consumer purchases, a business purchase usually involves more decision participants and a more professional purchasing effort. Often, business buying is done by trained purchasing agents who spend their working lives learning how to buy better. The more complex the purchase, the more likely it is that several people will participate in the decisionmaking process. Buying committees made up of technical experts and top management are common in the buying of major goods.

Beyond this, many companies are now upgrading their purchasing functions to "supply management" or "supplier development" functions. B-to-B marketers now face a new breed of higher-level, better-trained supply managers. These supply managers sometimes seem to know more about the supplier company than it knows about itself. Therefore, business marketers must have well trained marketers and salespeople to deal with these well trained buyers.

Types of Decisions and the Decision Process

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

Finally, in the business buying process, the buyer and seller are often much more dependent on each other. Consumer marketers are often at a distance from their customers. In contrast, B-to-B marketers may roll up their sleeves and work closely with their customers during all stages of the buying process—from helping customers define problems, to finding solutions, to supporting after sale operations. They often customize their offerings to individual customer needs. In the short run, sales go to suppliers who meet buyers' immediate product and service needs. In the long run, however, B-to-B marketers keep a customer's sales by meeting current needs and by partnering with customers to help them solve their problems.

In recent years, relationships between customers and suppliers have been changing from downright adversarial to close and chummy. In fact, many customer companies are now practicing supplier development, systematically developing networks of supplier-partners to ensure an appropriate and dependable supply of products and materials. For example, Caterpillar no longer calls its buyer "purchasing agent"—they are managers of "purchasing and supplier development." Wal-Mart doesn't have a "Purchasing Department." It has a "Supplier Development Department." And giant Swedish furniture retailer IKEA doesn't just buy from its suppliers, it involves them deeply in the process of delivering a stylish and affordable lifestyle to IKEA's customers (see Real Marketing 6.1).

Business Buyer Behavior

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. Figure 6.1 shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses,
FIGURE 6.1
A model of business buyer behavior

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

Within the organization, buying activity consists of two major parts: the buying center, made up of all the people involved in the buying decision, and the buying decision process. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as by external environmental factors.

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

Major Types of Buying Situations

There are three major types of buying situations. 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.

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

In a modified rebuy, the buyer wants to modify product specifications, prices, terms, or suppliers. The modified rebuy usually involves more decision participants than does the straight rebuy. "In" suppliers may become nervous and feel pressured to put their best foot forward to protect an account. "Out" suppliers may see the modified rebuy situation as an opportunity to make a better offer and gain new business.

A company buying a product or service for the first time faces a new-task situation. In such cases, the gcder the cost or risk, the larger the number of decision participants and the greater their efforts to collect information will be. The new-task situation is the marketer's greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible but also provides help and information.

The buyer makes the lowest decisions in the straight rebuy and the most in the new-task decision. In the new-task situation, the buyer must decide on product specifications, suppliers, price limits, payment terms, order quantities, delivery times, and service terms. The order of these decisions varies with each situation, and different decision participants influence each choice.

Many business buyers prefer to buy a packaged solution to a problem from a single seller. Instead of buying and putting all the components together, the buyer may ask sellers to supply the components and assemble the package or system. The sale often goes to the firm that provides the most complete system meeting the customer's needs. Thus,
IKEA, the world's largest furniture retailer, is the quintessential global cult brand. Last year, more than 410 million shoppers flocked to the Scandinavian retailer's 236 huge stores in 34 countries, generating more than $18 billion in sales. Most of the shoppers are loyal IKEA customers—many are avid apostles. From Beijing to Moscow to Middletown, Ohio, all are drawn to the IKEA lifestyle, one built around trendy but simple and practical furniture at affordable prices. According to BusinessWeek:

Perhaps more than any other company in the world, IKEA has become a curator of people's lifestyles, if not their lives. At a time when consumers face so many choices for everything they buy, IKEA provides a one-stop sanctuary for coolness. IKEA is far more than a furniture merchant. It sells a lifestyle that customers around the world embrace as a signal that they've arrived, that they have good taste and recognize value.

"If it wasn't for IKEA," writes British design magazine Icon, "most people would have no access to affordable contemporary design.

As the world's Ambassador of Kul (Swedish for fun), IKEA is growing at a healthy clip. Sales have leapt 31 percent in just the past two years. IKEA plans to open 19 new megastores this year, including outlets in Western China and Japan. In the United States, IKEA plans to expand from its current 28 stores to more than 50 stores by 2013. In fact, the biggest obstacle to growth isn't opening new stores and attracting customers. Rather, it's finding enough of the right kinds of suppliers to help design and produce the billions of dollars of goods that those customers will carry out of its stores. IKEA currently relies on about 1,800 suppliers in more than 50 countries to stock its shelves. If the giant retailer continues at its current rate of growth, it will need to double its supply network by 2010. "We can't increase by more than 20 stores a year because supply is the bottleneck," says IKEA's country manager for Russia.

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

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

**Real Marketing**

Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation, is often a key business marketing strategy for winning and holding accounts. For example, ChemStation provides a complete solution for its customers' industrial cleaning problems:

ChemStation sells industrial cleaning chemicals to a wide range of business customers, ranging from car washes to the U.S. Air Force. Whether a customer is washing down a fleet or a factory, a store or a restaurant, a distillery or an Army base, ChemStation comes up with the right cleaning solution every time. It supplies thousands of products to hundreds of industries. But ChemStation does more than just sell chemicals. First, ChemStation works closely with each individual customer to concoct a soap formula specially designed for that customer. It has brewed special formulas for cleaning hands, feathers, mufflers, flutes, perfume vats, cosmetic eye makeup containers, yacht-making molds, concrete...
to $58. Ronnegard convinced the supplier to go with metal bolts to improve the chair's function and reduce its costs. For example, the traditional wood joinery methods to attach the chair back to the seat, continued design and manufacturing refinements, IKEA and its suppliers have now reduced the price to just $29.

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

Together, Ronnegard and the Chinese supplier refined the design to improve the chair's function and reduce its costs. For example, the supplier modified the back leg angle to prevent the chair from tipping easily. This also reduced the thickness of the seat without compromising the chair's strength, reducing both costs and shipping weight. However, when she learned that the supplier planned to use traditional wood joinery methods to attach the chair back to the seat, Ronnegard intervened. That would require the chair to be shipped in a cumbersome L-shape, which by itself would inflate the chair's retail price to $58. Ronnegard convinced the supplier to go with metal bolts instead. The back-and-forth design process worked well. IKEA introduced its still-popular Olle chair at the $52 target price. (Through systems selling as a marketing tool. Systems selling is a two-step process. First, the supplier...
seller uses a group of interlocking products. For example, the supplier sells not only glue, but also applicators and dryers. Second, the supplier sells a system of production, inventory control, distribution, and other services to meet the buyer's need for a smooth-running operation.

Systems selling is a key business marketing strategy for winning and holding accounts. The contract often goes to the firm that provides the most complete solution to the customer's needs. For example, the Indonesian government requested bids to build a cement factory near Jakarta. An American firm's proposal included choosing the site, designing the cement factory, hiring the construction crews, assembling the materials and equipment, and turning the finished factory over to the Indonesian government. A Japanese firm's proposal included all of these services, plus hiring and training workers to run the factory, exporting the cement through their trading companies, and using the cement to build some needed roads and new office buildings in Jakarta. Although the Japanese firm's proposal cost more, it won the contract. Clearly, the Japanese viewed the problem not as just building a cement factory (the narrow view of systems selling) but of running it in a way that would contribute to the country's economy. They took the broadest view of the customer's needs. This is true systems selling.8

Participants in the Business Buying Process

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

The buying center includes all members of the organization who play any of five roles in the purchase decision process.9

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

The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and makeup of the buying center will vary for different products and for different buying situations. For some routine purchases, one person—say a purchasing agent—may assume all the buying center roles and serve as the only persons involved in the buying decision. For more complex purchases, the buying center may include 20 or 30 people from different levels and departments in the organization.
Chapter 6 Business Markets and Business Buyer Behavior

The buying center concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence, and what evaluation criteria each decision participant uses. For example, the medical products and services group of Cardinal Health sells disposable surgical gowns to hospitals. It identifies the hospital personnel involved in this buying decision as the vice president of purchasing, the operating room administrator, and the surgeons. Each participant plays a different role. The vice president of purchasing analyzes whether the hospital should buy disposable gowns or reusable gowns. If analysis favors disposable gowns, then the operating room administrator compares competing products and prices and makes a choice. This administrator considers the gown's absorptency, antiseptic quality, design, and cost and normally buys the brand that meets requirements at the lowest cost. Finally, surgeons affect the decision later by reporting their satisfaction or dissatisfaction with the brand.

The buying center usually includes some obvious participants who are involved formally in the buying decision. For example, the decision to buy a corporate jet will probably involve the company's CEO, chief pilot, a purchasing agent, some legal staff, a member of top management, and others formally charged with the buying decision. It may also involve less obvious, informal participants, some of whom may actually make or strongly affect the buying decision. Sometimes, even the people in the buying center are not aware of all the buying participants. For example, the decision about which corporate jet to buy may actually be made by a corporate board member who has an interest in flying and who knows a lot about airplanes. This board member may work behind the scenes to sway the decision. Many business buying decisions result from the complex interactions of ever-changing buying center participants.

Major Influences on Business Buyers

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

Today, most B-to-B marketers recognize that emotion plays an important role in business buying decisions. For example, you might expect that an advertisement promoting large trucks to corporate fleet buyers would stress objective technical, performance, and economic factors. However, an ad for Volvo heavy-duty trucks shows two drivers arm-wrestling and claims, "It solves all your fleet problems. Except who gets to drive." It turns out that, in the face of an industry-wide driver shortage, the type of truck a fleet provides can help it to attract qualified drivers. The Volvo ad stresses the raw beauty of the truck and its comfort and roominess, features that make it more appealing to drivers. The ad concludes that Volvo trucks are "built to make fleets more profitable and drivers a lot more possessive."

When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organizational goals with any supplier, buyers can allow personal factors to play a larger role in their decisions. However, when competing products differ greatly, business buyers are more accountable for their choice and tend to pay more attention to economic factors. Figure 6.2 lists various groups of influences on business buyers—environmental, organizational, interpersonal, and individual.
Part 2 Understanding the Market, the Product, and Competitive Environment

Environmental Factors

Business buyers are heavily influenced by factors in the current and projected economic and environmental conditions. These factors are not isolated, as they are interrelated and impact each other. For example, an increase in the cost of materials can affect a buyer's decision to purchase a product. Similarly, changes in governmental policies can influence the availability of certain products.

The buying center usually includes many participants who influence each other to assess such interpersonal factors and group dynamics. Buying center participants do not

Organizational Factors

Buyers

Figure 6.2 Major influences on business buyer behavior

Table: Major influences on business buyer behavior

- **Environmental**: Economic conditions, new products, and technological change.
- **Organizational**: Structure, policies, and buying procedures.
- **Personal**: Personality, attitudes, and experience.
- **Cultural and customs**: Cultural norms and values.

New products are often influenced by factors such as economic conditions, technological change, and new products. For example, the introduction of new products in the market can affect the demand for existing products. Technological change can also influence the development of new products. For example, the introduction of new technologies can lead to the development of new products that are more efficient or effective.

The new products also influence the buying center's buying behavior. For example, the introduction of new products can lead to the development of new buying procedures. In addition, new products can also influence the organization's structure and policies. For example, the introduction of new products can lead to the development of new organizational structures. In addition, new products can also influence the organization's policies. For example, the introduction of new products can lead to the development of new policies.
Problem recognition
The first stage of the business buying process in which someone in the company recognizes a problem or need that can be met by acquiring a good or service.

General need description
The stage in the business buying process in which the company describes the general characteristics and quantity of a needed item.

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

Value analysis
An approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production.

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

The Business Buying Process

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

Problem Recognition
The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. Problem recognition can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price. In fact, in their advertising, business marketers often alert customers to potential problems and then show how their products provide solutions. For example, Kodak Health Imaging ads point out the complexities of hospital imaging and suggest that with Kodak, "complexity becomes clarity."

General Need Description
Having recognized a need, the buyer next prepares a general need description that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may need to work with others-engineers, users, consultants—to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

Product Specification
The buying organization next develops the item's technical product specifications, often with the help of a value analysis engineering team. Value analysis is an approach to cost reduction in which components are studied carefully to determine if they can be
Consolidated Amalgamation, Inc., thinks it's time that the rest of the world enjoyed the same fine products offered American consumers for two generations. It dispatches Vice President Harry E. Slicksmile to Europe, Africa, and Asia to explore the territory. Mr. Slicksmile stops first in London, where he makes short work of some bankers—he rings them up on the phone. He handles Parisians with similar ease. After securing a table at La Tour d'Argent, he greets his luncheon guest, the director of an industrial engineering firm, with the words, "Just call me Harry, Jacques."

In Germany, Mr. Slicksmile is a powerhouse. Whisking through a lavish, state-of-the-art marketing presentation, complete with flip charts and audiovisuals, he shows ten that this Georgia boy knows how to make a buck. Heading on to Milan, Harry strikes up a conversation with the Japanese businessman sitting next to him on the plane. He flips his card onto the guy's tray and, when the two say 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 comfy corduroy sport coat, khaki pants, and Taditional. Everybody knows Italians are zany and laid back.

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

A great tour, sure to generate a pile of orders, right? Wrong. Six months later, Consolidated Amalgamation has nothing to show for the trip but a stack of bills. Abroad, they weren't wild about Harry. This hypothetical case has been exaggerated for emphasis. Americans are seldom such dolts. But experts say success in international business has a lot to do with knowing the territory and its people. By learning English and extending themselves in other ways, the world's business leaders have met Americans more than halfway. In contrast, Americans too often do little except assume that others will march to their music. "We want things to be 'American' when we travel. Fast. Convenient. Easy. So we become 'ugly Americans' by redesigning, standardizing, or making less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new-task situations that give them a chance to obtain new business.

Supplier Search

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

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

Proposal solicitation

The stage of the business buying process in which the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier. Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition.

Supplier Selection

The members of the buying center now review the proposals and select a supplier or suppliers. During supplier selection, the buying center often will draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. Other important factors included repair and servicing.
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 assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

capabilities, technical aid and advice, geographic location, performance history, and reputation. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. In the end, they may select a single supplier or a few suppliers. Many buyers prefer multiple sources of supplies to avoid being totally dependent on one supplier and to allow comparisons of prices and performance of several suppliers over time. Today’s supplier development managers want to develop a full network of suppliers that can help the company bring more value to its customers.

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 may use blanket contracts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period.

Many large buyers now practice vendor-managed inventory, in which they turn over ordering and inventory responsibilities to their suppliers. Under such systems, buyers share sales and inventory information directly with key suppliers. The suppliers then monitor inventories and replenish stock automatically as needed.

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.

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

Different buying center participants may be involved at different stages of the process.

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

E-Procurement: Buying on the Internet
During the past few years, advances in information technology have changed the face of the B-to-B marketing process. Online purchasing, often called e-procurement, has grown rapidly. Companies can do e-procurement in any of several ways. They can set up their own company buying sites. For example, GE operates a company trading site on which it posts its buying needs and invites bids, negotiates terms, and places orders. Or the company can create extranet links with key suppliers. For instance, they can create direct procurement accounts with suppliers such as Dell or Office Depot through which company buyers can purchase equipment, materials, and supplies.

B-to-B marketers can help customers who wish to purchase online by creating well-designed, easy-to-use Web sites. For example, J.D. Power magazine regularly rates Hewlett-Packard’s B-to-B Web site among very best.

The HP site consists of some 1,900 site areas and 2.5 million pages. It integrates an enormous amount of product and company information, putting it within only a few mouse clicks of customers’ computers. IT buying decision makers can enter the site, click directly into their customer segment—large enterprise business; small or medium business; government, health, or educational institution—and quickly find product overviews, detailed technical information, and purchasing solutions.
The site lets customers create customized catalogs for frequently purchased products, set up automatic approval routing for orders, and conduct end-to-end transactions processing. To build deeper, more personalized online relationships with customers. HPcom features flash demos that show how to use the site, e-newsletters, live chats with sales reps, online classes, and real-time customer support. The site has really paid off. Roughly 55 percent of the company's total sales now come from the Web site.

E-procurement gives buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. In turn, business marketers can connect with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

So far, most of the products bought online are MRO materials—maintenance, repair, and operating. For instance, Hewlett-Packard spends 95 percent of its $12 billion MRO budget via e-procurement. And last year Delta Air Lines purchased $6.2 billion worth of fuel online.

National Semiconductor has automated almost all of the company's 3,500 monthly requisitions to buy materials ranging from the sterile booties worn in its fabrication plants to state-of-the-art software. Even the Baltimore Aquarium uses e-procurement to buy everything from exotic fish to feeding supplies. It recently spent $6 billion online for architectural services and supplies to help construct a new exhibit "Animal Planet Australia: Wild Extremes."

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

Business-to-business e-procurement yields many benefits. First, it shaves transaction costs and results in more efficient purchasing for both buyers and suppliers. A Web-powered purchasing program eliminates the paperwork associated with traditional requisition and ordering procedures. One recent study found that e-procurement cuts down requisition-to-order costs by an average of 38 percent.

E-procurement reduces the time between order and delivery. Time savings are particularly dramatic for companies with many overseas suppliers. Adaptec, a leading supplier of computer storage, used an extranet to tie all of its Taiwanese chip suppliers together in a kind of virtual family. New messages from Adaptec flow in seconds from its headquarters to its Asian partners and Adaptec has reduced the time between the order and delivery of its chips from as long as 16 weeks to just 85 days—the same turnaround time for companies that build their own chips.

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

The rapidly expanding use of e-purchasing, however, also presents some problems. For example, at the same time that the Web makes it possible for suppliers and customers to share business data and even collaborate on product design, it can also erode decades-old customer-supplier relationships. Many firms are using the Web to search for better suppliers.

E-purchasing can also create potential security disasters. Although e-mail and home banking transactions can be protected through basic encryption, the secure environment that businesses need to carry out confidential interactions is often still lacking. Companies are spending millions for research on defensive strategies to keep hackers at bay. Cisco Systems,
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, Tenet Healthcare runs 70 for-profit hospitals in 13 states. By contrast, the Shriners Hospitals for Children is a nonprofit organization that provides free specialized health care for children, and the government-run Veteran Affairs Medical Centers located across the country provide special services to veterans. Each institution has different buying needs and resources.

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

Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers. For example, Heinz produces, packages, and prices its ketchup and other condiments, canned soups, frozen desserts, pickles, and other products differently to better serve the requirements of hospitals, colleges, and other institutional markets. Product line managers often work closely with purchasing agents to understand the special characteristics and needs of institutional buying units.

Government Markets

The government market offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. In the United States alone, federal, state, and local governments spend more than $2 trillion annually. Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process.

Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, the government unit will make allowances for the supplier’s superior quality or reputation for completing contracts on time.
Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks, and in cases where there is little competition. Government organizations tend to favor domestic suppliers over foreign suppliers. A major complaint of multinationals operating in Europe is that each country shows favoritism toward its nationals in spite of superior offers that are made by foreign firms. The European Economic Commission is gradually removing this bias.

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

Given all the red tape, why would any firm want to do business with the U.S. government? The reasons are quite simple: The U.S. government is the world’s largest buyer of products and services—and its checks don’t bounce. For example, last year, the federal government spent a whopping $83 billion on information technology alone. The Transportation Security Agency spent more than $350 million just for electronic baggage-screening technology.17

Most governments provide Web sites with detailed guidelines describing how to sell to the government. For example, the U.S. Small Business Administration publishes a guide entitled U.S. Government Purchasing, Specifications, and Sales Directory, which lists products and services frequently bought by the federal government and the specific agencies most frequently buying them. The Government Printing Office issues the Commerce Business Daily, which lists major current and planned purchases and recent contract awards, both of which can provide leads to subcontracting markets. The U.S. Commerce Department publishes Business America, which provides interpretations of government policies and programs and gives concise information on potential worldwide trade opportunities.

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

Still, suppliers must master the system and find ways to cut through the red tape, especially for large government purchases. Consider Envisage Technologies, a small software development company that specializes in Internet-based training applications and human resource management platforms. All of its contracts fall in the government sector; 85 percent are with the federal government. Envisage uses the General Services Administration (GSA) Web site to gain access to smaller procurements, often receiving responses within 14 days. However, it puts the most sweat into seeking large, highly coveted contracts. A comprehensive bid proposal for one of these contracts can easily run from 600 to 700 pages because of federal paperwork requirements. And the company’s president estimates that to prepare a single bid proposal the firm has spent as many as 5,000 man-hours over the course of a few years.18

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

Many companies that sell to the government have not been very marketing oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasized price, and local government buyers. Dell offers its customers tailor-made Pioneer Dell.com Web
2. Identify the major factors that influence business buyer behavior.

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

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

Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services. It also includes the behavior of retailers and wholesalers that acquire goods for the purpose of reselling or renting them to others at a profit.

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

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

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

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

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

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

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

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

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

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

Discussing the Concepts

1. How do the market structure and demand of the business markets for Intel's microprocessor chips differ from those of final consumer markets?

2. Discuss several ways in which a straight rebuy differs from a new-task situation.

3. In a buying center purchasing process, which buying center participant—a buyer, decider, gatekeeper, influencer, or user—is most likely to make each of the following statements?
   - "This bonding agent better be good, because I have to put this product together.
   - "I specified this bonding agent on another job, and it worked for them.
   - "Without an appointment, no sales rep gets in to see Mr. Johnson.
   - "Okay, it's a deal—we'll buy it.
   - "I'll place the order first thing tomorrow.

4. Outline the major influences on business buyers. Why is it important for the business-to-business buyer to understand these major influences?

5. How does the business buying process differ from the consumer buying process?

6. Suppose that you own a small printing firm and have the opportunity to bid on a federal government contract that could bring a considerable amount of new business to your company. List three advantages and three disadvantages of working in a contract situation with the federal government.

Applying the Concepts

1. Burst-of-Energy is a food product positioned in the extreme sports market as a performance enhancer. A distributor of the product has seen an upward shift in the demand for the product (depicted in the figure at the right). The manufacturer has done nothing to generate this demand, but there have been a couple of reports that two popular celebrities were photographed with the product. Could something like this happen? Based on the figure, how would you characterize the demand for the product? Is it elastic or inelastic? Would you call this an example of fluctuating demand? Support your answers.

2. Assume that you own a market research consulting firm that specializes in conducting focus groups for food manufacturers. Your customers are marketing managers and market research managers at these large firms. Outline your business consumers' buying process and explain how you can improve your chances of being hired at each step of the process.

3. Form a small group and compare the similarities and differences between a buyer at a Veteran's Administration hospital and a buyer at a for-profit hospital like Humana. Compare the buyers on the following four factors: environmental, organizational, interpersonal, and individual.

Focus on Technology

Social networking is a hot topic in Internet marketing. Web sites including LinkedIn.com and myspace.com are crowded meeting grounds for Web visitors who are hoping to get connected online. Social networking is also a growing technology for B-to-B interactions. From finding services, locating opportunities, even recruiting board members, these sites offer what business consumers need. InnerSell.com is a company that is using social networking to drive real business for clients by locating prospects.

A sample scenario on InnerSell.com works like this:

- An InnerSell.com member, who sells real estate, talks to a prospect or customer and learns that it has a need for $50,000 worth of photocopiers.
The member enters the need (lead) into InnerSell.com and sees a list of trusted photocopier vendors along with their ratings and their finder's fee.

The member views each vendor's ratings and selects two photocopier vendors who pay a 10 percent finder's fee.

The selected vendors receive an email advising them that they've been chosen and instructing them to log into InnerSell.com to see the details of the opportunity.

When a selected vendor sees the lead, contacts the customer, and wins the business, it pays InnerSell.com its 10 percent finder's fee (in this case, $5,000).

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

1. At what stage(s) of the business buying process does InnerSell.com operate?
2. What types of businesses is this best suited to serve?
3. What are some weaknesses with this technology?

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

Eaton

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

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

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

1. What is Eaton's value proposition?
2. To which decision makers does Eaton market its products and services?
3. How does Eaton add value to its products and services?

Kodak: Changing the Picture

"You press the button—we do the rest." With that simple slogan, George Eastman unveiled the first Kodak camera in 1888—yes, 1888, more than 128 years ago. In 1900, Kodak launched its famous Brownie cameras, which it priced at $1.00, opening the photography market to millions.

Throughout the twentieth century, Kodak dominated the photography business. By 2000, Kodak was one of the most recognized and trusted brands in the world. Many people referred to the company as "Big Yellow." The company saw itself as being in the memory business, not in the photography business.

GOING NEGATIVE

Despite its storied past, however, entering the new millennium, Kodak faced many new challenges that would require it to rethink and perhaps redesign its business strategy. The company's stock price, which had reached an historic peak of $92 in 1997, had been plummeting, and the company had begun to lay off workers.
Several factors were causing Kodak's problems. First, although Kodak had been the first company to produce a digital camera in 1976, it had been reluctant to develop the technology. The core of Kodak's business strategy had always been the three-fold foundation of commercial and consumer photography: film, photo-developing chemicals, and light-sensitive paper. Like many other companies, Kodak believed that consumers would be slow to adopt digital technology. But what held the company back even more was that a shift toward digital would come at a cost. Walgreens, the nation's largest drugstore chain, began selling kits to handle the photo developing on-site, collecting fees for leasing the equipment. Kodak even loaned Walgreens the film to regional labs run by Kodak and others, which printed them at all. Analysts discovered that consumers were increasingly using their Pcs and printers to download and print their own pictures, if they printed them at all. Analysts discovered that consumers printed only 2 percent of camera-phone pictures in the United States versus 10 percent in Japan.

THE PROOF IS IN THE PICTURE—WALGREENS

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

As consumers demanded more one-hour photo developing, Kodak agreed to help Walgreens, the nation's largest drugstore chain, set up a national on-hour photo business. Kodak had been the exclusive supplier of photo-developing services to Walgreens for years. In response to the request, Kodak provided minilabs, which it bought from a Swiss manufacturer, that handled the photo developing on-site, collecting fees for leasing the equipment. Kodak even loaned Walgreens $31.6 million, interest free, to help it implement the system. As a result, in 2001, Walgreens quietly began to install Fuji minilabs in some of its California stores. Fuji's machines, in addition to handling traditional film, also allowed consumers to make prints from their digital cameras' memory devices, something Kodak's did not do. Kodak began selling kits to allow its minilabs to handle digital prints, but Walgreens officials believed Kodak's prints were lower quality. By early 2004, Fuji had 1,500 minilabs in Walgreens' almost 4,300 outlets.

Walgreens also approached Kodak about developing a Walgreens Internet site that would allow consumers to upload digital photos over the Web. Kodak would then store images and allow customers to order prints, which would then be mailed to them. Walgreens did not like Kodak's proposal as it minimized the Walgreens role and allowed Kodak to keep the pictures on its site, gaining an advantage in future customer orders. Despite these concerns, Walgreens was about to sign a deal with Kodak when two top officials, who favored Kodak, retired. The company then mixed the deal and started developing its own Web site with Fuji, which was comfortable with a less prominent role. Walgreens launched its Web service in 2005, with Fuji carrying out the photo developing.

A NEW DEVELOPMENT

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

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

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

Chapter 6 Business Markets and Business Buyer Behavior 179