CHAPTER 4

Analyzing Business Markets

A strong focus on innovation and product expansion has propelled Caterpillar from a firm selling tractors to the world's largest manufacturer of earth-moving equipment and engines.
Source: Daniel Acker/Bloomberg/Getty Images

Learning Objectives After studying this chapter you should be able to:

4.1 Explain the key aspects of the organizational buying process.
4.2 Define the role of the buying center in an organization.
4.3 Describe the stages of the decision process in business markets.
4.4 Explain how organizations develop marketing programs to attract and retain business customers.
4.5 Describe how business-to-business marketers build and maintain relationships with customers.

Caterpillar was founded in 1925 when two California-based tractor companies merged. The Caterpillar name, however, dates back to the early 1900s when Benjamin Holt, one of the company's founders, designed a tractor crawler with wide, thick tracks instead of wheels. These tracks prevented the machine from sinking into California's deep, rich soil, which was impassable when wet. The new farm tractor crept along the farmland in such a way that one observer said it "crawled like a caterpillar." Holt sold the tractor under the Caterpillar brand, and after the merger, the newly formed company became Caterpillar Tractor Company. The company grew steadily at first, hitting a few critical milestones that included the use of Caterpillar's trademark farm treads on Army tanks in World War I and World War II. Huge postwar construction and strong overseas demand kept sales strong through the mid-20th century, as did innovations like the diesel tractor and rubber-tired tractors. Since then, Caterpillar Inc., or CAT, has grown into the largest manufacturer of earth-moving equipment and engines in the world. Today, Caterpillar ranks number one or number two in every industry it serves. Its products have a reputation for high quality and reliability, and the company has maintained a strong focus on innovation while expanding its product portfolio. Its distinctive yellow machines are found all over the globe and have helped make the brand a U.S. icon.[1]

Business markets, although often less visible than consumer markets, are substantially larger than consumer markets. Business markets include all businesses, organizations, and governments who buy and sell vast quantities of raw materials, manufactured components, plants and equipment, supplies, and services in order to help them develop offerings for other businesses and consumers. At its core, business marketing—much like consumer marketing—aims to create market value by developing offerings that meet the needs of business customers. A company that has been able to consistently meet needs and often exceed customer expectations is Caterpillar.

Some of the world's most valuable brands belong to business marketers: ABB, Caterpillar, DuPont, FedEx, HP, IBM, Intel, and Siemens, to name a few. Many principles of basic marketing also apply to business marketers. They need to embrace holistic marketing principles, such as building strong loyalty relationships with their customers, just like consumer marketers. But they also face some unique challenges in selling to other businesses. In this chapter, we will highlight some of the crucial similarities and differences for marketing in business markets.[2]

THE ORGANIZATIONAL BUYING PROCESS

Organizational buying is the decision-making process by which formal organizations establish the need for purchased products and services and by which they identify, evaluate, and choose among alternative brands and suppliers.[3]

UNDERSTANDING BUSINESS MARKETS

Business markets consist of all the organizations that acquire goods and services used in the production of products or services that are sold, rented, or supplied to others. Any firm that supplies components for products is in the business-to-business (B2B) marketplace. Some of the major industries making up the business market are aerospace; agriculture, forestry, and fisheries; chemical; computer; construction; defense; energy; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services.

More dollars and items change hands in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes.[4] A broad spectrum of materials and material combinations are used today in shoe manufacturing. Leathers, synthetics, rubber, and textile materials are counted among the basic upper materials. Each material has its own specific character, which differs not only in appearance but also in physical properties, service life, and treatment needs. The choice of shoe material significantly influences the life of the footwear and in many cases dictates its use. For leather shoes, hide dealers must sell hides to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also buys many other goods and services to support its operations.

Given the highly competitive nature of business-to-business markets, the biggest enemy to marketers here is commoditization, whereby customers perceive products from different companies as offering identical benefits.[5] Commoditization eats away margins and weakens customer loyalty. It can be overcome only if target customers are convinced that meaningful differences exist among the products in the marketplace and that the unique benefits of the firm's offerings are worth the additional cost. Thus, a critical step in business-to-business marketing is to create and communicate relevant differentiation from competitors.

Business marketers face many of the same challenges as consumer marketers, especially when it comes to understanding their customers and what they value. The well-respected Institute for the Study of Business Markets (ISBM) notes that the three biggest hurdles for B2B marketing involve integrating sales and marketing departments, managing innovation, and gathering and utilizing customer and market insights. Four additional imperatives cited by ISBM are demonstrating marketing's contribution to business performance, engaging more deeply with customers and customers' customers, identifying the right mix of centralized versus decentralized marketing activities, and finding and grooming marketing talent and competencies.[6]

Business markets contrast sharply with consumer markets in some ways, however. They have

- ***Fewer but larger buyers.*** The business marketer normally deals with far fewer and buyers of much larger quantities than the consumer marketer does, particularly in such industries as aircraft engines and defense weapons. The fortunes of Goodyear tires, Cummins engines, Delphi control systems, and other automotive part suppliers depend in large part on getting big contracts from just a handful of major automakers.
- ***Close supplier–customer relationships.*** Because of the smaller customer base and the size, importance, and power of the customers, suppliers are frequently expected to customize their offerings for individual business customer needs. On an annual basis, Pittsburgh-based PPG Industries purchases more than $7 billion in materials and services from thousands of suppliers. PPG rewards its suppliers for superior performance on attributes such as product quality, delivery, documentation, innovation, responsiveness, and continuous improvement. With the Supplier Added Value Effort ($AVE) program, PPG challenges its suppliers of maintenance, repair, and operating goods and services to deliver on annual value-added and cost-savings proposals equaling at least 5 percent of their total annual sales to PPG.[7] Business buyers also often select suppliers that also buy from them. A paper manufacturer might buy chemicals for its pulp and paper making from a chemical company that in turn buys a considerable amount of paper from the manufacturer.
- ***Professional purchasing.*** Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Much of the documentation used in business buying—for example, requests for quotations, proposals, and purchase contracts—are not typically found in consumer buying. Many professional buyers belong to the Institute for Supply Management (ISM), which seeks to improve the profession's effectiveness and status. This means business marketers must provide more technical data about their product and its competitive advantages.
- ***Multiple buying influences.*** More people typically influence business-buying decisions. Buying committees that include technical experts and even senior management are common in the purchase of major goods. Business marketers need to send well-trained sales representatives and teams to deal with these equally well-trained buyers.
- ***Derived demand.*** The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of end users. Pittsburgh-based Consol Energy's coal and natural gas business largely depends on orders from utilities and steel companies, which, in turn, depend on consumer demand for electricity and for steel-based products such as automobiles, machines, and appliances. Business buyers must also pay close attention to economic factors like the level of production, investment, and consumer spending, as well as to the interest rate. Business marketers can do little to stimulate total demand. They can only fight harder to increase or maintain their share.
- ***Inelastic demand.*** The total demand for many business goods and services is inelastic—that is, it is not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls or much less if the price rises (unless they find satisfactory substitutes). Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item's total cost, such as shoelaces.

- ***Fluctuating demand.*** The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment. Demand for plant and equipment is more volatile because it reflects the normal year-to-year replacement demand as well as the need to satisfy increased or decreased consumer demand.
- ***Geographically concentrated buyers.*** For years, more than half of U.S. business buyers have been concentrated in seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. The geographic concentration of producers often helps to reduce costs. At the same time, business marketers need to monitor regional shifts of certain industries, such as the automobile industry, which is no longer concentrated around Detroit.
- ***Direct purchasing.*** Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive, such as agricultural equipment, industrial machinery, and aircraft.

TYPES OF BUYING DECISIONS

The business buyer faces many decisions in making a purchase. How many depends on the complexity of the problem being solved, the newness of the buying requirement, the number of people involved, and the time required to complete the purchase. There are three types of business-buying situations: the straight rebuy, the modified rebuy, and the new buy.[8]

- ***Straight rebuy.*** In a straight rebuy, the purchasing department reorders items like office supplies and bulk chemicals on a routine basis and chooses from suppliers on an approved list. The suppliers make an effort to maintain product and service quality and often propose automatic reordering systems to save time. Suppliers attempt to offer prospective customers something new or exploit dissatisfaction with a current supplier. Their goal is to get a small order and then enlarge their purchase share over time.
- ***Modified rebuy.*** The buyer in a modified rebuy wants to change product specifications, prices, delivery requirements, or other terms. This usually requires additional negotiation and can lead to a new purchase agreement or, in some cases, to a disruption of the business relationship and a change in suppliers.
- ***New buy.*** A new-buy purchaser faces some risk when acquiring a product or service for the first time (e.g., an office building, a new security system). The greater the risk or cost, the larger the number of buying-decision participants, the greater their information gathering—and the longer the time it takes to make a decision.[9]

The business buyer makes the fewest decisions in the straight-rebuy situation and the most in the new-buy situation. Over time, new-buy situations become straight rebuys and routine purchase behavior.

New-buy purchasing is the marketer's greatest opportunity and challenge. The buying process passes through several stages: awareness, interest, evaluation, trial, and adoption. Mass media can be most important during the initial awareness stage, salespeople often have their greatest impact at the interest stage, and technical sources can be most important during evaluation. Online selling efforts may be useful at all stages.

In the new-buy situation, the buyer must determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. Different participants influence each decision, and the order in which these decisions are made varies.

Because of the complicated selling required, many companies use sales force consisting of their most effective salespeople. The brand promise and the manufacturer's name recognition will be important in establishing trust and persuading the customer to consider change. The marketer also tries to reach as many key participants as possible with information and assistance.

Once a customer has been acquired, a company's sales force continually seeks ways to add value to its market offer to facilitate rebuys. EMC (now Dell EMC) has successfully acquired a series of computer software leaders to reposition the company to manage and protect—not just store—information, thus helping companies "accelerate their journey to cloud computing." One hardware product once made up 80 percent of its sales, but Dell now gets the majority of its revenue from software and services.

THE BUYING CENTER

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

THE COMPOSITION OF THE BUYING CENTER

The decision-making unit of a buying organization is often referred to as *the buying center*. It consists of "all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions."[11] The buying center includes all members of the organization who play one or more of seven roles in the purchase decision process.

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

Several people can occupy a given role such as user or influencer, and one person may play multiple roles.[12] A purchasing manager, for example, is often buyer, influencer, and gatekeeper simultaneously. She can decide which sales reps can call on other people in the organization, what budget and other constraints to place on the purchase, and which firm will actually get the business, even though others (deciders) might select two or more potential vendors that can meet the company's requirements.

A buying center typically has five or six members and sometimes dozens. Some may be outside the organization, such as government officials, consultants, technical advisors, and members of the marketing channel.

THE ROLE OF THE BUYING CENTER IN THE ORGANIZATION

In the past, purchasing departments occupied a humble position in the management hierarchy, in spite of often managing more than half of the company's costs. Recent competitive pressures have led many companies to upgrade their purchasing departments and elevate administrators to vice-presidential rank. These new, more strategically oriented purchasing departments have a mission to seek the best value from fewer and better suppliers.

Some multinationals have even elevated purchasing departments to "strategic supply departments" with responsibility for global sourcing and partnering. At Caterpillar, purchasing, inventory control, production scheduling, and traffic have been combined into one department. Here are two other companies that have benefited from improving their business-buying practices:

> **Rio Tinto** Rio Tinto is a world leader in finding, mining, and processing the earth's mineral resources, with a significant presence in North America and Australia. Coordinating with its suppliers was time consuming, so Rio Tinto embarked on an electronic commerce strategy with one key supplier. Both parties have reaped significant benefits. In many cases, orders are filled in the supplier's warehouse within minutes of being transmitted, and the supplier can now use a pay-on-receipt program that has shortened Rio Tinto's payment cycle to about 10 days.[13]

> **Medline Industries** Medline Industries, the largest privately owned manufacturer and distributor of health care products in the United States, used software to integrate its view of customer activity across online and direct sales channels. The results? The firm enhanced its product margin, improved customer retention, reduced revenue lost to pricing errors, and increased the productivity of its sales representatives.[14]

The upgrading of purchasing departments means business marketers must upgrade their sales staff to match the higher caliber of today's business buyers.

BUYING CENTER DYNAMICS

Buying centers usually include participants with differing interests, authority, status, and susceptibility to persuasion, and sometimes with very different decision criteria. Engineers may want to maximize the performance of the product, production people may stress ease of use and reliability of supply, financial staff will focus on the economics of the purchase, purchasing may be concerned with operating and replacement costs, and union officials may emphasize safety issues.

Business buyers also have personal motivations, perceptions, and preferences influenced by their age, income, education, job position, personality, attitude toward risk, and culture. Some are “keep-it-simple” buyers, or “own-expert,” “want-the-best,” or “want-everything-done” buyers. Some younger, highly educated buyers are technically proficient and conduct rigorous analyses of competitive proposals before choosing a supplier. Other buyers are “toughies” from the old school who pit competing sellers against one another. And in some companies, the purchasing powers-that-be are legendary.

Purchasing decisions are ultimately made by individuals, not organizations.[15] Individuals are motivated by their own needs and perceptions in attempting to maximize the organizational rewards they earn (pay, advancement, recognition, and feelings of achievement). However, organizational needs legitimize the buying process and its outcomes.

Businesspeople are not buying just “products.” They are buying solutions to two problems: the organization’s economic and strategic problem and their own personal need for achievement and reward. In this sense, industrial buying decisions are both “rational” and “emotional,” serving the needs of the organization as well as those of the individual.[16]

Research by one manufacturer of industrial components found that even though top executives at its small- and medium-size customers were comfortable buying from other companies, they appeared to harbor subconscious insecurities about buying the manufacturer’s product. Constant changes in technology had left them concerned about issues such as product performance, reliability, and compatibility. Recognizing this unease, the manufacturer retooled its selling approach to emphasize a more emotional appeal and the way its product line enabled the customer’s employees to improve their performance, relieving management of the perceived complications and stress of using its components.[17]

SELLING TO BUYING CENTERS

Successful business-to-business marketing requires that marketers determine not only the types of companies on which to focus their selling efforts but also whom to concentrate on within the buying centers in those organizations.

Once marketers identify the type of businesses on which to focus marketing efforts, they must then decide how best to sell to these businesses. Who are the major decision participants? What decisions do they influence, and how deeply? What evaluation criteria do they use? Consider the following example:

> A company sells nonwoven disposable surgical gowns to hospitals. The hospital staff who participate in the buying decision include the vice president of purchasing, the operating-room administrator, and the surgeons. The vice president of purchasing analyzes whether the hospital should buy disposable or reusable gowns. If disposable, the operating-room administrator compares various competitors' products on absorbency, antiseptic quality, design, and cost and normally buys the brand that meets functional requirements at the lowest cost. Surgeons influence the decision retroactively by reporting their satisfaction with the chosen brand.

The business marketer is not likely to know exactly what kind of group dynamics take place during the decision process, though whatever information he or she can obtain about personalities and interpersonal factors is useful.

Small sellers concentrate on reaching the key buying influencers. Larger sellers often go for in-depth selling to reach as many participants as possible. Their salespeople virtually "live with" high-volume customers. Companies must rely more heavily on their communications programs to reach hidden buying influencers and keep current customers informed.[18]

Business marketers must periodically review their assumptions about buying center participants. Traditionally, SAP sold its software products to CIOs at large companies. A shift in selling focus from CIOs to individual corporate units lower on the organizational chart significantly raised the volume of software license sales to new SAP customers.

Insights into customers and buying centers are critical. GE's ethnographic research into the plastic-fiber industry revealed that the firm wasn't in a commodity business driven by price, as it had assumed. Instead, it was in an artisanal industry whose customers wanted collaboration at the earliest stages of development. This resulted in GE completely reorienting the way it interacted with companies in the industry. Ethnographic research also can be very useful in developing markets, especially in far-flung rural areas where marketers often do not know the consumers well.

In developing selling efforts, business marketers can also consider their customers' customers, or end users, if appropriate. Many B2B sales are to firms that use the products they purchase as components in products they sell to the ultimate consumers. Business marketers can seek out opportunities to interact with their customers' customers and improve their offerings or even their business model. When Xsens, a Dutch supplier of three-dimensional motion-sensor technology, helped solve the problems of one of its customers' customers, it also developed a new operating procedure that improved the accuracy of its products by an order of magnitude.[19]

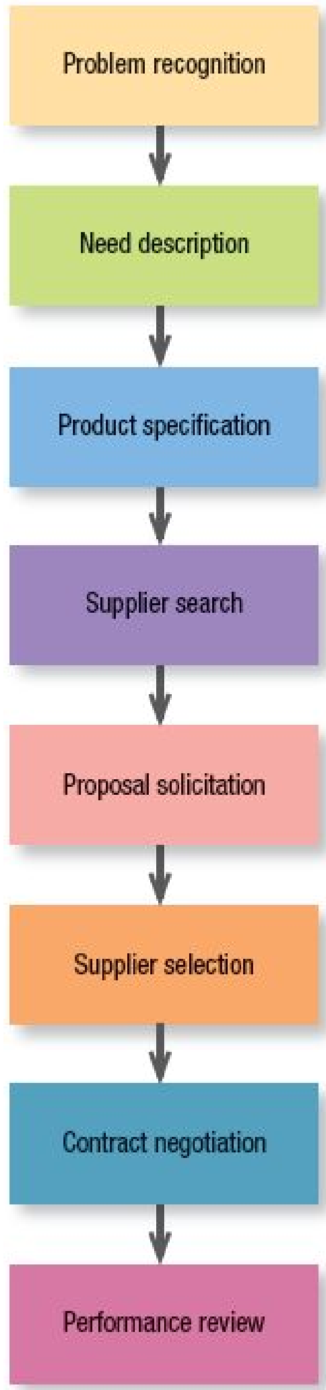


FIGURE 4.1
Stages in the Business-Buying Process

UNDERSTANDING THE BUYING PROCESS

The business-buying process encompasses a number of explicit stages. One popular model delineates eight distinct stages of the decision process in business markets.[20] These stages are shown in Figure 4.1, and the important considerations in each of the eight stages are discussed in more detail in the following sections. Note that in modified-rebuy or straight-rebuy situations, some stages are compressed or bypassed. For example, the buyer normally has a favorite supplier or a ranked list of suppliers and can skip the search and the proposal solicitation.

PROBLEM RECOGNITION

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a good or service. The recognition can be triggered by internal or external stimuli. The internal stimulus might be a decision to develop a new product that requires new equipment and materials, or it might be a machine that breaks down and requires new parts. Or purchased material may turn out to be unsatisfactory and cause the company to search for another supplier, lower prices, or better quality. Externally, the buyer may get new ideas at a trade show, see an ad, receive an e-mail, read a blog, or take a call from a sales representative who offers a better product or a lower price. Business marketers can stimulate problem recognition by direct marketing in many different ways.

NEED DESCRIPTION

Next, the buyer determines the needed item's general characteristics and the required quantity. The goal here is to identify the specific need(s) that the company aims to fulfill and the benefits it seeks to receive from the offering. For standard items, this is simple. For complex items, the buyer will work with others—engineers, users—to define characteristics such as reliability, durability, or price. Business marketers can help by describing how their products meet or even exceed the buyer's needs.

PRODUCT SPECIFICATION

The buying organization now develops the item's technical specifications. Often, the company will assign a product-value-analysis engineering team to the project. **Product value analysis** is an approach to cost reduction that studies whether components can be redesigned, standardized, or made by cheaper methods of production without adversely affecting product performance. The value analysis team will identify overdesigned components, for instance, that last longer than the product itself. Tightly written specifications allow the buyer to refuse components that are too expensive or that fail to meet specified standards.

Suppliers can use product value analysis as a tool for positioning themselves to win an account. Whatever the method, it is important to eliminate excessive costs. Mexican cement giant Cemex is famed for "The Cemex Way," which uses high-tech methods to squeeze out inefficiencies.[21]

SUPPLIER SEARCH

The buyer next tries to identify the most appropriate suppliers through trade directories, contacts with other companies, trade advertisements, trade shows, and the internet. The move to online purchasing has far-reaching implications for suppliers and will change the shape of purchasing for years to come.

To facilitate supplier search and gain power in negotiations with suppliers, companies often form buying alliances. Such alliances involve several companies that are buying the same goods joining together to form purchasing consortia in order to streamline the search for suppliers and gain deeper discounts on volume purchases. Topco is the largest American retail food GPO (group purchasing organization); this GPO represents a consortium of firms in the retail and wholesale food-related businesses.

Companies that purchase online utilize electronic marketplaces in several forms.

- *Catalog sites***.** Companies can order thousands of items through electronic catalogs, such as W.W. Grainger's, distributed by e-procurement software.
- *Vertical markets***.** Companies buying industrial products such as plastics, steel, or chemicals, or services such as logistics or media, can go to specialized websites called e-hubs. Plastics.com

allows plastics buyers to search the best prices among thousands of plastics sellers.

- *"Pure Play" auction company*. Ritchie Bros. Auctioneers is the world's largest industrial auctioneer, with 40-plus permanent auction sites in North America, Europe, the Middle East, Asia, and Australia. At 400-plus unreserved auctions with online bidding in 2017, it sold $4.5 billion of used and unused equipment, including a wide range of heavy equipment, trucks, and other assets for the construction, transportation, agricultural, material handling, oil and gas, mining, forestry, and marine industry sectors. Although some people prefer to bid in person at Ritchie Bros. auctions, they can also do so online in real time at rbauction.com—the company's multilingual website.[22]
- *Spot (or exchange) markets*. In spot electronic markets, prices change by the minute. Intercontinental Exchange (ICE) owns exchanges for financial and commodity markets with trillions of dollars in sales.
- *Private exchanges*. HP, IBM, and Walmart operate private online exchanges to link with specially invited groups of suppliers and partners.

A growing number of companies are moving to online buying. Online business buying can be organized around e-hubs, including *vertical hubs* centered on industries (plastics, steel, chemicals, paper) and *functional hubs* (logistics, media buying, advertising, energy management). Online business buying offers several advantages: It shaves transaction costs for both buyers and suppliers, reduces time between order and delivery, consolidates purchasing systems, and forges more direct relationships between partners and buyers. On the downside, online business buying may tend to erode supplier–buyer loyalty and create potential security problems.

Ritchie Bros., the world's largest industrial auctioneers, conducts numerous online as well as in-person auctions for its customers.
Source: Courtesy of Ritchie Bros. Auctioneers

PROPOSAL SOLICITATION

The buyer next invites qualified suppliers to submit written proposals. After evaluating these proposals, the buyer will invite a few suppliers to make formal presentations.

Business marketers must be skilled in researching, writing, and presenting marketing proposals that describe value and benefits in customer terms. In addition, oral presentations must inspire confidence and must position the company's capabilities and resources so they stand out from the competition.

Proposals and selling efforts are often team efforts that leverage the knowledge and expertise of coworkers. Pittsburgh-based Cutler-Hammer, part of Eaton Corp., developed "pods" of salespeople focused on a particular geographic region, industry, or market concentration.

SUPPLIER SELECTION

Business buyers seek the highest benefit package (economic, technical, service, and social) in relationship to a market offering's costs. The strength of their incentive to purchase is a function of the difference between perceived benefits and perceived costs.[23] The attributes that buyers commonly use to evaluate vendors include price, reputation, reliability, and agility. Before selecting a supplier, the buying center will specify and rank desired supplier attributes, often using a supplier-evaluation model to rate suppliers based on their performance on the attributes valued by the buyer.

Business marketers must therefore ensure that customers fully appreciate how the firm's offerings are different and better. To this end, sellers often present or "frame" their offerings in a way that enables them to underscore the benefits they provide. It can be as simple as making sure customers recognize all the benefits or cost savings afforded by the firm's offerings or becoming more influential in the customers' thinking about the economics of purchasing, owning, using, and disposing of product offerings.

To develop compelling value propositions, business marketers need to better understand how business buyers arrive at their valuations.[24] The choice of attributes and their relative importance vary with the buying situation. Delivery reliability, price, and supplier reputation might be important for some companies. For others, the most important attributes might be technical service, supplier flexibility, and product reliability. Clearly identifying a company's priorities when choosing a supplier and identifying suppliers that meet these criteria are key to market success.

Companies are increasingly reducing the number of their suppliers. There is even a trend toward single sourcing, though companies that use multiple sources often cite the threat of a labor strike, natural disaster, or any other unforeseen event as the biggest deterrent to single sourcing. Companies may also fear that single-source suppliers will become too comfortable in the relationship and lose their competitive edge.

CONTRACT NEGOTIATION

After selecting suppliers, the buyer negotiates the final order, which includes listing the technical specifications, the quantity needed, the expected time of delivery, return policies, and warranties. Many industrial buyers lease rather than buy heavy equipment such as machinery and trucks. The lessee gains a number of advantages: the latest products, better service, conservation of capital, and some tax advantages. The lessor often ends up with a larger net income and the chance to serve customers that could not afford outright purchase.

For maintenance, repair, and operating items, buyers are moving toward blanket contracts rather than periodic purchase orders. A blanket contract establishes a long-term relationship in which the supplier promises to resupply the buyer as needed, at agreed-upon prices, over a specified period of time. Because the seller holds the stock, blanket contracts are sometimes called *stockless purchase plans.* They lock suppliers in tighter with the buyer and make it difficult for out-suppliers to break in unless the buyer becomes dissatisfied.

Companies that fear a shortage of key materials are willing to buy and hold large inventories. They will sign long-term contracts with suppliers to ensure a steady flow of materials. DuPont, Ford, and several other major companies regard long-term supply planning as a major responsibility of their purchasing managers. For example, General Motors wants to buy from fewer suppliers, which must be willing to locate close to its plants and produce high-quality components. Business marketers are also setting up extranets with important customers to facilitate and lower the cost of transactions. Customers enter orders that are automatically transmitted to the supplier.

Some companies go further and shift the ordering responsibility to their suppliers, using systems called vendor-managed inventory. These suppliers are privy to the customer's inventory levels and take responsibility for continuous replenishment programs. Performance Pipe, a division of Chevron Phillips Chemical Company, supplies audio, lighting, and vision systems to the world's leading automakers. Its vendor-managed inventory program, with its 40 suppliers, resulted in significant time and cost savings and allowed the company to use former warehouse space for productive manufacturing activities.[25]

PERFORMANCE REVIEW

The buyer periodically reviews the performance of the chosen supplier(s) using one of three methods. The buyer may contact end users and ask for their evaluations, rate the supplier on several criteria using a weighted-score method, or aggregate the cost of poor performance to come up with adjusted costs of purchase, including price. The performance review may lead the buyer to continue, modify, or end a supplier relationship.

Many companies have set up incentive systems to reward purchasing managers for good buying performance, leading them to increase pressure on sellers for the best terms.

DEVELOPING EFFECTIVE BUSINESS MARKETING PROGRAMS

Business-to-business marketers are using every marketing tool at their disposal to attract and retain customers. They are embracing systems selling, adding valuable services to their product offerings, employing customer reference programs, and utilizing a wide variety of online and offline communication and branding activities.

TRANSITIONING FROM PRODUCTS TO SOLUTIONS

Many business buyers prefer to buy a total problem solution from one seller. This practice of **systems buying** originated with government purchases of major weapons and communications systems. The government solicited bids from prime contractors that, if awarded the contract, became responsible for bidding out and assembling the system's subcomponents from second-tier contractors. The prime contractor thus provided a turnkey solution, so called because the buyer simply had to turn one key to get the job done.[26]

Sellers increasingly recognize that buyers like to purchase in this way, and many have adopted **systems selling** as a marketing tool. Technology giants such as HP, IBM, Oracle, and Dell are all transitioning from specialists to competing one-stop shops that can provide the core technology necessary as businesses shift to the cloud.

One variant of systems selling is systems contracting, in which a single supplier provides the buyer with *all* its maintenance, repair, and operating MRO requirements. During the contract period, the supplier also manages the customer's inventory. Shell Oil manages the oil inventories of many of its business customers and knows when they require replenishment. The customer benefits from reduced procurement and management costs, as well as from price protection over the term of the contract. The seller achieves lower operating costs thanks to steady demand and reduced paperwork.

Systems selling is a key industrial marketing strategy in bidding for large-scale industrial projects such as the construction of dams, steel factories, irrigation systems, sanitation systems, pipelines, utilities, and even new towns. Project engineering firms must compete on price, quality, reliability, and other attributes to win contracts. Suppliers, however, are not just at the mercy of customer demands. Ideally, they're active early in the process to influence the actual development of the specifications. Or they can go beyond the specifications to offer additional value in various ways, as the following example shows.

> **Selling to the Indonesian Government** The Indonesian government requested bids to build a cement factory near Jakarta. A U.S. firm made a proposal that included choosing the site, designing the factory, hiring the construction crews, assembling the materials and equipment, and turning over the finished factory to the Indonesian government. A Japanese firm, in its proposal, included all these services, plus hiring and training the workers to run the factory, exporting the cement through its trading companies, and using the cement to build roads and new office buildings in Jakarta. Although the Japanese plan involved more money, it won the contract. Clearly, the Japanese viewed the problem not just as building a cement factory (the narrow view of systems selling) but as contributing to Indonesia's economic development. They took the broadest possible view of the customer's needs, which is true systems selling.

ENHANCING SERVICES

Services play an increasing strategic and financial role for many business-to-business firms that sell primarily products. Adding high-quality services to their product offerings allows companies to provide greater value and establish closer ties with customers.

A classic example is Rolls-Royce, which has invested heavily in developing giant jet engine models for the new jumbo planes being introduced by Boeing and Airbus. An important source of profits for Rolls-Royce, beyond selling engines and replacement parts, is the add-on “power by the hour” long-term repair and maintenance contracts it sells. Margins are higher because customers are willing to pay a premium for the peace of mind and predictability the contracts offer.[27]

Technology firms are also bundling services to improve customer satisfaction and increase profits. Like many software firms, Adobe Systems is making the transition to a digital-marketing business with cloud-based monthly subscriptions. For example, Adobe products such as Photoshop, Illustrator, and InDesign have moved online to become subscription-based services. A particular benefit for companies offering such services is that the subscription model eliminates the need to constantly try to convince users who have purchased the product in the past to upgrade to the new version; in the subscription model it happens automatically. Revenue is also increasing because the company is able to sell support services to its cloud customers.

BUILDING BUSINESS-TO-BUSINESS BRANDS

Business marketers are increasingly recognizing the importance of their brands. Brands give managers peace of mind by ensuring product quality and thus make it easier to justify the purchase of established brands to the company stakeholders. As the old saying goes: “Nobody gets fired for buying IBM.”

Swiss-based ABB is a global leader in power and automation technologies, with 110,000 employees in more than 100 countries. The company spends $1 billion in R&D annually to fuel a long tradition of groundbreaking and nation-building projects. ABB undertook an extensive rebranding project that evaluated five alternative positioning platforms, concluding that ABB should stand for “Power and Productivity for a Better World.” In a “one company, one brand” approach, magazines, posters, brochures, digital communication, and even exhibits were all revamped to give the brand a unified look and strengthen its global market position. Most of ABB business advertising contains images of actual projects, with business-specific messages that explain technologies.[28]

In business-to-business marketing, the corporate brand is often critical because it is associated with so many of the company's products. At one time Emerson Electric—a global provider of power tools, compressors, electrical equipment, and engineering solutions—was a conglomerate of 60 autonomous, and sometimes anonymous, companies. To achieve a broader presence so it could sell locally while leveraging its global brand name, Emerson aligned the brands under a new global brand architecture and identity. Global consolidation cut the number of company websites in half, online content and marketing campaigns were translated into local languages around the globe, and social media platforms were built out.[29] SAS is another firm that recognized the importance of its corporate brand.

> **SAS** With a huge "fan club" of IT customers in 147 countries, business analytics software and services firm SAS seemed to be in an enviable position at the turn of the century. Yet its image was what one industry observer called "a geek brand." To extend the company's reach beyond IT managers with PhDs in math or statistical analysis, the company needed to connect with C-level executives in the largest companies—people who either didn't have a clue what SAS software was or didn't think business analytics was a strategic issue. Working with its first outside ad agency ever, SAS emerged with a new logo; a new slogan, "The Power to Know"; and a series of TV spots and print ads in business publications such as *BusinessWeek, Forbes,* and the *Wall Street Journal*. Highly profitable and now one of the world's largest privately owned software companies, SAS has more than doubled its revenue stream since the brand change and has met with just as much success inside the company. For more than 15 years, *Fortune* magazine has ranked it as one of the best U.S. companies to work for.[30]

To shed its image as a brand solely for IT managers and achieve solid growth, business analytics software firm SAS geared a TV and print ad campaign to executives who were unaware of the benefits of SAS software or the merits of business analytics in general.
Source: Kristoffer Tripplaar/Alamy Stock Photo

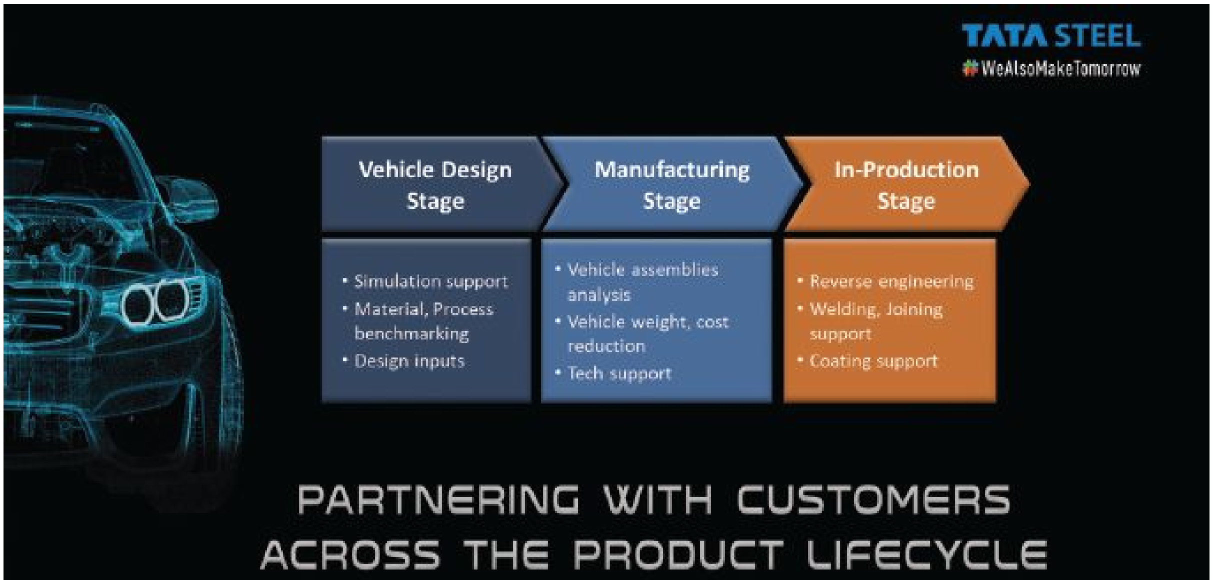
OVERCOMING PRICE PRESSURES

Despite moves toward strategic sourcing, partnering, and participation in cross-functional teams, buyers still spend a large chunk of their time haggling with suppliers on price. The number of price-oriented buyers can vary by country, depending on customer preferences for different service configurations and the characteristics of the customer's organization.[31]

Marketers can counter requests for a lower price in a number of ways, including the use of framing, as noted previously. They may also be able to show that the total cost of ownership—that is, the life-cycle cost of using their product—is lower than that for competitors' products. They can cite the value of the services the buyer now receives, especially if it is superior to that offered by competitors.[32] Research shows that service support and personal interactions, as well as a supplier's know-how and ability to improve customers' time to market, can be useful differentiators in achieving key-supplier status.[33]

Improving productivity helps alleviate price pressures. Some companies handle price-oriented buyers by setting a lower price but establishing restrictive conditions such as limited quantities, no refunds, no adjustments, and no services.[34] Others seek solutions that increase benefits and reduce costs enough to overcome any price concerns. Consider the following example.

> **TATA Steel** Tata Steel, India's oldest and largest steel manufacturer, was founded in 1907. The company operated in a controlled and protected industry with limited competition and price controls imposed by the government until the economic liberalization of the early 1990s. Entry of new players and consequent increase in competition led to the transition from a seller's to a buyer's market and pricing switched from cost-based to market-based. Realizing the potential of a customer-centric approach to understand customer needs, Tata Steel re-engineered its entire marketing and sales strategies to remain competitive. A product mix changeover during 1992 to 2000, ensured that high-volume, low-margin products like semi-finished steel in its product mix reduced from 54 percent to 3 percent while high value flat products used in automobiles and consumer durables increased from 40 to 65 percent. In parallel, the company initiated a branding program for the retail market to develop application specific products for roofing, reinforcing and general engineering requirements. These newly launched brands—Shaktee, Tiscon and Steelium— emerged as leaders with the highest brand equity in their respective categories.[35] Retail branding improved product identification and boosted brand recall while ensuring a price premium of 5% over competitive offerings.



Rather than lowering prices to meet those of its competitors, Tata Steel worked closely with its strategic customers to identify opportunities for cost reductions that meet or exceed price differences. Source: ©Tata Steel Limited, used with permission

In its business segment, characterized by growing competition and price wars, the leadership adopted an innovative partnership approach to retain and grow the share of business from existing, profitable customers to escape the downward spiral of price pressures.[36] Tata Steel initiated a multi-year, multi-phase customer value management (CVM) program with the top 25 out of its over 1500 business customers to find a long-term solution to combat product commoditization. Migrating select customers from transaction selling to strategic partnerships helped Tata Steel jointly improve their competitiveness and performance by streamlining multiple interfaces across the entire value chain, eliminating value drains and harness value creation and sharing opportunities collaboratively. CVM aided Tata Steel’s growth into one of the most reliable, responsive and trustworthy partners for these industry-leading customers in automobile, durables, office furniture, and construction.

Collaboration can further help alleviate price pressure. Suppose that 3M Healthcare, a hospital supplier, signs an agreement with *India's largest private healthcare chain, Apollo Hospitals* promising `2 crores in savings over the first 18 months in exchange for getting a twofold increase in the hospital's share of supplies. If 3M achieves less than this promised savings, it will make up the difference. If it achieves substantially more, it will participate in the extra savings. To make such arrangements work, the supplier must be willing to help the customer build a historical database, reach an agreement for measuring benefits and costs, and devise a mechanism for resolving disputes.

Lowering the price and increasing benefits are not the only ways to overcome price pressures. In some cases, the issue is not improving the offering but better communicating the benefits that the offering already delivers to customers. A popular approach to making the value of the offering more transparent to customers is the *economic value analysis*. Economic value analysis (EVA) is a tool that helps monetize the functional benefits of a company's offering, such as performance, reliability, and warranty.

Suppose the buyer for a large construction company wants to buy a tractor for residential construction from either Caterpillar or Komatsu. He wants the tractor to deliver certain levels of reliability, durability, performance, and resale value. The competing salespeople carefully describe their respective offers. The buyer decides Caterpillar has greater product benefits based on his perceptions of those attributes. He also perceives differences in the accompanying services—delivery, training, and maintenance—and decides Caterpillar provides better service as well as a more knowledgeable and responsive staff. Finally, he places higher value on Caterpillar's corporate image and reputation. He adds up all the economic, functional, and psychological benefits from these four sources—product, services, people, and image—and decides he believes that Caterpillar delivers greater customer benefits.

Does he buy the Caterpillar tractor? Not necessarily. He also examines the total cost of transacting with Caterpillar versus Komatsu, a cost that involves more than money. As Adam Smith observed more than two centuries ago in *The Wealth of Nations*, "The real price of anything is the toil and trouble of acquiring it." Thus total customer cost also includes the buyer's time, energy, and psychological costs expended in product acquisition, usage, maintenance, ownership, and disposal. The buyer evaluates these elements, together with the monetary cost, to form a total customer cost. Then he considers whether Caterpillar's total customer cost is too high compared to total customer benefits. If it is, he might choose Komatsu. The buyer will choose whichever source delivers the highest perceived value.

Now let's use this decision-making theory to help Caterpillar succeed in selling to this buyer. Caterpillar can improve its offer in three ways. First, it can increase total customer benefit by improving the economic, functional, and psychological benefits of its product, services, people, and/or image. Second, it can reduce the buyer's nonmonetary costs by reducing the time, energy, and psychological investment needed to acquire the product. Third, it can reduce its product's monetary cost to the buyer.

Suppose Caterpillar concludes that the buyer sees its offer as worth $20,000. Further, suppose Caterpillar's cost of producing the tractor is $14,000. This means Caterpillar's offer generates $6,000 over its cost, so the firm needs to charge between $14,000 and $20,000. If it charges less than $14,000, it won't cover its costs; if it charges more, it will price itself out of the market.

Caterpillar's price will determine how much value it delivers to the buyer and how much flows to Caterpillar. If the company charges $19,000, it is creating $1,000 of customer-perceived value and keeping $5,000 for itself. The lower Caterpillar sets its price, the higher the customer's perceived value and, therefore, the higher the customer's incentive to purchase. To win the sale, the firm must offer more customer-perceived value than Komatsu does.[37]

MANAGING COMMUNICATION

Although marketing communication is usually associated with consumer markets, it also plays an important role in business markets. Companies need to inform business customers about the benefits of their offerings as well as coordinating their activities with collaborators.[38] As is the case in consumer markets, business communications are increasingly moving into the online space, using search engine optimization (SEO) and search engine marketing (SEM) to connect with buyers.

Here are some examples of the way top firms are redesigning their online presence, employing search engine optimization, engaging in social media, and launching Webinars and podcasts to improve their business performance through B2B marketing.

> **Chapman Kelly** A subsidiary of HMS Business Services, Chapman Kelly provides medical, dental, and pharmacy claims and dependent auditing services to help firms reduce their health care and insurance costs. The company originally tried to acquire new customers through traditional cold calling and outbound selling techniques. After it redesigned its website and optimized the site so that the company's name moved close to the top of relevant online searches, revenue nearly doubled.[39]

> **Makino** Machinery manufacturer Makino builds relationships with end-user customers by hosting an ongoing series of industry-specific Webinars, averaging three a month. The company uses highly specialized content, such as how to get the most out of machine tools and how metal-cutting processes work, to appeal to different industries and different styles of manufacturing. Its database of Webinar participants has allowed the firm to cut marketing costs and improve its effectiveness and efficiency.[40]

> **Kinaxis** Canadian supply chain management company Kinaxis uses a fully integrated approach to communications—including blogs, white papers, and a video channel that hinges on specific keywords to drive traffic to its website and generate qualified leads. With research suggesting that 93 percent of all B2B purchases start with search, Kinaxis puts much emphasis on search engine optimization (SEO), reusing and repurposing content as much as possible to make it relevant and user-friendly.[41]

Some business-to-business marketers are adopting marketing practices from business-to-consumer markets to build their brand.[42] Xerox ran a fully integrated communication campaign to cleverly reinforce the fact that 50 percent of its revenue comes from business services, not copiers. Here is how its Marriott ad unfolded:[43]

Two Marriott bellmen are sitting in an office. “Did you finish last month’s invoices?” one asks the other. “No, but I did pick up your dry cleaning and have your shoes shined,” the second replies. “Well, I made you a reservation at the sushi place around the corner!” the first bellman says. This voiceover follows: “Marriott knows it’s better for Xerox to automate their global invoice processes so they can focus on serving their customers.”

Sometimes a more personal touch can make all the difference. Customers that are considering dropping six or seven figures on one transaction for big-ticket goods and services want all the information they can get, especially from a trusted, independent source.

MANAGING BUSINESS-TO-BUSINESS RELATIONSHIPS

Business suppliers and customers are exploring different ways to manage their relationships.[44] Loyalty is driven in part by supply chain management, supplier involvement, and purchasing alliances.[45] Business-to-business marketers are using more focused approaches to attract and retain customers, homing in on their targets, and developing one-to-one marketing approaches.[46]

UNDERSTANDING THE BUYER–SUPPLIER RELATIONSHIP

Much research has advocated greater vertical coordination between buying partners and sellers so that they can transcend merely transacting and instead create more value for both parties.[47]

A number of forces influence the development of a relationship between business partners. Four relevant forces are availability of alternatives, importance of supply, complexity of supply, and supply market dynamism. Based on these forces, buyer–supplier relationships can range from basic buying and selling that involves simple, routine exchanges with moderate levels of cooperation and information exchange, to a collaborative relationship in which trust and commitment lead to true partnership.[48]

Over time, however, relationship roles may shift.[49] Some needs can be satisfied with fairly basic supplier performance if buyers neither want nor require a close relationship with a supplier. Similarly, some suppliers may not find it worth their while to invest in customers with limited growth potential.

One study found that the closest relationships between customers and suppliers arose when supply was important to the customer and there were procurement obstacles such as complex purchase requirements and few alternative suppliers.[50] Another study suggested that greater vertical coordination between buyer and seller through information exchange and planning is usually necessary only when high environmental uncertainty exists and specific investments are modest.[51]

MANAGING CORPORATE TRUST, CREDIBILITY, AND REPUTATION

Building trust is one prerequisite to enjoying healthy long-term relationships.[52] *Trust* is a firm's willingness to rely on a business partner. It depends on a number of interpersonal and interorganizational factors, such as the firm's perceived competence, integrity, honesty, and benevolence. Personal interactions with employees of the firm, opinions about the company as a whole, and perceptions of trust will evolve with experience.

A firm is more likely to be seen as trustworthy when it provides full, honest information, when employee incentives are aligned with customer needs, when it partners with customers to create market value, and when it offers valid comparisons with competitive products.[53]

Building trust can be especially tricky in online settings, and firms often impose more stringent requirements on their online business partners than on others. Business buyers worry that they won't get products of the right quality delivered to the right place at the right time. Sellers worry about getting paid on time—or at all—and debate how much credit they should extend. To this end, many firms use automated credit-checking applications and online trust services to assess the creditworthiness of trading partners.

Corporate credibility is the extent to which customers believe a firm can design and deliver products and services that satisfy their needs and wants. It reflects the supplier's reputation in the marketplace and is the foundation of a strong relationship. Corporate credibility depends on three factors. *Corporate expertise* reflects the extent to which a company is seen as able to make and sell products or conduct services. *Corporate trustworthiness* reflects the extent to which a company is seen as motivated to be honest, dependable, and sensitive to customer needs. *Corporate likability* reflects the extent to which a company is seen as likable, attractive, prestigious, and dynamic.

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

RISKS AND OPPORTUNISM IN BUSINESS RELATIONSHIPS

Researchers have noted that establishing a customer–supplier relationship creates tension between safeguarding (ensuring predictable solutions) and adapting (allowing for flexibility for unanticipated events). Vertical coordination can facilitate stronger customer–seller ties but may also increase the risk to the customer's and supplier's specific investments.[54]

Specific investments are those expenditures tailored to a particular company and value-chain partner (investments in company-specific training, equipment, and operating procedures or systems).[55] For example, a manufacturer might invest in developing an order-placing and inventory-tracking system tailored to the needs of a particular retailer. Such specific investments help improve the effectiveness and cost efficiency of the collaboration between business entities.[56]

Specific investments, however, also entail considerable risk to both customer and supplier. Transaction theory from economics maintains that because initial investments in specific investments can be high, firms can be locked into a particular relationship. Furthermore, sensitive information on cost and processes may need to be exchanged. A buyer may be vulnerable to holdup because of switching costs; a supplier may be more vulnerable because it has dedicated assets and/or technology/knowledge at stake. In terms of the latter risk, consider the following example.

An automobile component manufacturer wins a contract to supply an under-hood component to an original equipment manufacturer (OEM). A one-year, sole-source contract safeguards the supplier's OEM-specific investments in a dedicated production line. However, the supplier may also be obliged to work (noncontractually) as a partner with the OEM's internal engineering staff, using linked computing facilities to exchange detailed engineering information and coordinate frequent design and manufacturing changes over the term of the contract. These interactions could reduce costs and/or increase quality by improving the firm's responsiveness to marketplace changes. But they could also magnify the threat to the supplier's intellectual property.

When buyers cannot easily monitor supplier performance, the supplier might shirk or cheat and not deliver the expected value. *Opportunism* is a "form of cheating or undersupply relative to an implicit or explicit contract."[57]

A more passive form of opportunism might be a refusal or unwillingness to adapt to changing circumstances or negligence in satisfying contractual obligations. When Peanut Corporation of America, a peanut-processing company with only $25 million in sales, was found to have a contaminated product, a $1 billion recall resulted because the ingredient was found in 2,000 other products. The company subsequently ceased all manufacturing and business operations, and its CEO was imprisoned for knowingly shipping tainted food.[58]

Opportunism is a concern because firms must devote resources to control and monitoring that they could otherwise allocate to more productive purposes. Contracts may be inadequate to govern supplier transactions when supplier opportunism becomes difficult to detect, when firms make specific investments in assets they cannot use elsewhere, and when contingencies are harder to anticipate. Customers and suppliers are more likely to form a joint venture (which implies a greater level of commitment to the collaborative relationship than signing a simple contract) when the supplier's degree of asset specificity is high and monitoring the supplier's behavior is difficult.[59]

The presence of a significant future time horizon and/or strong solidarity norms typically causes customers and suppliers to strive for joint benefits. Their specific investments shift from expropriation (increased opportunism on the receiver's part) to bonding (reduced opportunism).[60]

MANAGING INSTITUTIONAL MARKETS

Our discussion has concentrated largely on the buying behavior of profit-seeking companies. Much of what we have said also applies to the buying practices of institutional and government organizations. However, we want to highlight certain special features of these markets.

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care. Many of these organizations are characterized by low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The buying objective here is not profit because the food is provided as part of the total service package; nor is cost minimization the sole objective because poor food will cause patients to complain and hurt the hospital's reputation. The hospital purchasing agent must search for institutional food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate sales division to cater to institutional buyers' special needs and characteristics. Heinz produces, packages, and prices its ketchup differently to meet the requirements of hospitals, colleges, and prisons. Aramark—which provides food services for stadiums, arenas, campuses, businesses, and schools—also has a competitive advantage in providing food for the nation's prisons, a direct result of refining its purchasing practices and supply chain management.

> **Aramark** Where Aramark once merely selected products from lists provided by potential suppliers, it now collaborates with suppliers to develop products customized to meet the needs of individual segments. In the corrections segment, quality has historically been sacrificed to meet limits on food costs that operators outside the market would find impossible to work with. "When you go after business in the corrections field, you are making bids that are measured in hundredths of a cent," says John Zillmer, the president of Aramark Food & Support Services, "so any edge we can gain on the purchasing side is extremely valuable." Aramark sourced a series of protein products with unique partners at price points it never could have imagined before. These partners were unique because they understood

> the chemistry of proteins and knew how to lower the price while still creating a product acceptable to Aramark's customers, allowing the company to drive down costs. Aramark replicated this process with 163 different items formulated exclusively for corrections. Rather than reducing food costs by the usual 1 cent or so per meal, Aramark took 5 to 9 cents off—while maintaining or even improving quality.[61]

In most countries, government organizations are a major buyer of goods and services. They typically require suppliers to submit bids and often award the contract to the lowest bidder, sometimes making allowance for suppliers known for superior quality or for completing contracts on time. Governments may also buy on a negotiated-contract basis, primarily for complex projects with major R&D costs and risks and projects for which there is little competition.

Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about bureaucracy, regulations, decision-making delays, and frequent shifts in procurement staff. Different types of agencies—defense, civilian, intelligence—have different needs, priorities, purchasing styles, and time frames. In addition, vendors often do not pay enough attention to cost justification, a major activity for government procurement professionals. Companies hoping to become government contractors need to help government agencies see the bottom-line impact of products. Demonstrating useful experience and successful past performance through case studies, especially with other government organizations, can be influential.

Just as companies provide government agencies with guidelines about how best to purchase and use their products, governments provide would-be suppliers with detailed guidelines describing how to sell to the government. Failure to follow the guidelines or to fill out forms and contracts correctly can create a legal nightmare.

Fortunately for businesses of all sizes, the federal government has been trying to simplify the contracting procedure and make bidding more attractive. Reforms place more emphasis on buying off-the-shelf rather than customized items, communicating with vendors online to eliminate paperwork, and debriefing losing vendors to improve their chances of winning the next time around.

Several federal agencies that act as purchasing agents for the rest of the government have launched web-based catalogs that allow authorized defense and civilian agencies to buy everything from medical and office supplies to clothing online. The General Services Administration (GSA), for example, not only sells stocked merchandise through its website but also creates direct links between buyers and contract suppliers. A good starting point for any work with the U.S. government is to make sure the company is in the System for Award Management (SAM) database, which collects, validates, stores, and disseminates data in support of agency acquisitions.

SUMMARY

1. Organizational buying is the process by which formal organizations establish the need for purchased products and services, and then identify, evaluate, and choose among alternative brands and suppliers. The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others.
2. Compared with consumer markets, business markets generally have fewer and larger buyers, a closer customer–supplier relationship, and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluctuates with the business cycle. Nonetheless, the total demand for many business goods and services is quite price inelastic.
3. The buying center is the decision-making unit of a buying organization. It consists of initiators, users, influencers, deciders, approvers, buyers, and gatekeepers. To influence these parties, marketers must consider environmental, organizational, interpersonal, and individual factors.
4. Successful business-to-business marketing requires that marketers determine not only the types of companies on which to focus their selling efforts but also whom to concentrate on within the buying centers in those organizations. In developing selling efforts, business marketers can also consider their customers' customers, or end users.
5. The buying process consists of eight stages: problem recognition, need description, product specification, supplier search, proposal solicitation, supplier selection, contract negotiation, and performance review.

Business marketers must ensure that the value of their offerings comes through at each stage of the buying process.

6. Business-to-business marketers are using a variety of marketing tools to attract and retain customers. They are strengthening their brands and using technology and other communication tools to develop effective marketing programs. They are also using systems selling and are adding services to provide customers added value.
7. Business marketers must form strong bonds and relationships with their customers. Building trust is one prerequisite to enjoying healthy long-term relationships. *Trust* depends on factors such as the firm's perceived competence, integrity, honesty, and benevolence. Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls, and the importance of direct purchasing, reciprocity, and leasing.
8. The institutional market consists of schools, hospitals, retirement communities, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Buyers for government organizations tend to require a great deal of paperwork from their vendors and to favor open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets.

marketing SPOTINSIGHT

UDAAN

udaan, India's fastest growing B2B e-commerce start up, was founded in 2016 by former Flipkart executives—Amod Malaviya, Vaibhav Gupta and Sujeet Kumar. The logistics and supply chain related challenges faced by Flipkart to deliver products to customers in small towns and rural markets prompted the founders to set up udaan.[62] Launched as an online platform, it helps businesses by solving India's core trading problems involving access to good quality mass products and trade credit availability. udaan enables the small and medium enterprises (SMEs) to grow by connecting retailers, traders, and wholesalers from India's small towns with manufacturers and brand owners.[63] The company is accelerating domestic trade through its full-stack online marketplace with digital tools for brands, retailers and manufacturers to discover, trade and grow their business. udaan has a network of over 3 million retailers and 25,0000–30,000 sellers across 1000 + cities in the country covering over 12,000 pin codes undertaking over 5 million transactions per month, making udaan a leader in the B2B eCommerce business.

Entrepreneurs and producers use the platform to market and sell products while leveraging udaan's credit and financing plans to boost capacity. Retailers can easily access credit up to ₹5 lakhs to meet working capital needs and improve cash flows.[64]

The founders invested almost half a year in 2016 studying the market challenges faced by retailers in managing the supply chain, cash flows and accessing information on product availability and price. Launched after extensive research, the beta site was fine-tuned for a year by inviting manufacturers and retailers to trade on the platform. Incorporating the users' experiences, learnings and insights into their platform, logistics and delivery system led to rapid adoption when the online platform finally rolled out its services in 2017.[65]

Source: ©udaan, used with permission

Offering logistics at low rates helped udaan build strong relationships with the buying and selling communities and assess demand for mass produced products like staples, garments, and electronics in different markets. Quality products at low prices fueled growth and soon the company was able to establish its presence across the country. Daily doorstep deliveries, safe and secure payment interface, easy returns, and credit facilities made udaan a perfect partner for retailers from small towns. The firm's ability to source directly from mass producers eliminates multiple intermediaries, the savings from this can be passed on to retailers as low procurement costs boosts margins.

Recognizing the need for quick and easy access to low-cost funds, udaan obtained a license to operate as a non-banking finance company (NBFC)—udaan Capital—for offering loans to its users. Retailers, who earlier depended on money lenders, could now be offered credit to meet their working capital needs at significantly lower rates. In addition, the platform usage and transaction history allows udaan to assess the financial health and risk of sellers as well as retailers, based on which the app offers them working capital finance and loans for capacity enhancement and expansion. udaan Capital has lent around $1 billion through its lending platform to over 200,000 merchants.[66] These fast-rotating loans, with tenures of 1-8 weeks, carry very limited credit risk as retailers use them for buying goods from udaan itself. Merchants can also use the online tools in the app for accounting, order management and payment management too.

udaan follows a commission-based model that charges the sellers a percentage of their revenue generated on its platform. Sellers promote their catalogue on the udaan platform to attract retailers and grow their business. The firm continues to charge subsidized costs for logistics.

Acceptance of a digital platform by small and medium enterprises was one of the key challenges faced by the company initially. Its field force created awareness and educated business owners about the benefits of digital tools before convincing them to register and conduct transactions on udaan's app. Gaining customer's trust for digital payments was another key challenge. udaan made the know your customer (KYC) norms mandatory to enable safe and secure payment on its network. Public campaigns, under the government's Digital India initiatives, as well as onset of the pandemic resulted in faster adoption adoption of digital payments.

Establishing a viable supply chain and logistics network to reach small towns and rural areas was a major challenge. So the company set up udaan Express to expand its reach to small towns. Now its extensive supply chain and logistics system enables daily deliveries in over 1000 towns. The network includes 200 warehouses providing over 10 million square feet of storage space, equivalent to 175 football fields in size.

udaan's user-friendly mobile app is designed to work with low speed and unreliable Internet connectivity in rural areas. Its lite applications can be operated by users with low-speed data connections. Growing use of mobile apps along with affordable data packages complemented the rapid adoption of online and app services offered by udaan.

While retailers can choose to buy from traditional wholesalers and distributors, or from e-commerce giants like Amazon, Flipkart and retail specialists like ZoomTail, BigTrade, TradeKosh with similar offerings; udaan's scale, extensive network, lending capabilities and relationship management helps increase retailers' loyalty udaan creates value by growing the business of its users who are treated as business partners.[67] Its business model, based on volume of business handled, committed to growing SMEs and retailers at its core with excellent customer service, economies of scale and support offerings gives udaan an edge over competition. Almost 90% of udaan's retailers place 10–12 repeat orders per month. from a catalogue of over 2500 brands and half a million products.[68]

Product categories have eventually expanded and spans across segments such as lifestyle, electronics, home & kitchen, staples, packaged goods, medicines, and general merchandise. The company has transformed into a full stack trading platform offering marketplace, logistics, and lending services to its users, and has raised over $1 billion from global investors–DST Global, GGV Capital, Lightspeed Venture Partners, Altimeter Capital and Tencent.

The company currently handles gross merchandise value (GMV) worth $4.5 billion.[69] Expertise, backed by a strong and shared vision, has created a professionally run institution that encourages speed, rapid experimentation, and potential learning. As the organization rapidly scales up to tap a $100 billion GMV opportunity, it continues to invest in boosting agility, efficiency, innovation and customer centricity. The strong foundation—of sheer talent, superb technological know-how and visionary leadership —is expected to enable udaan achieve its aim of transforming India's over $1 trillion trade market into a digitized super hub.

Questions

1. What factors have contributed to udaan's market success?
2. How does udaan create value in business markets?
3. Which of the three offerings—marketplace, logistics and financing—should udaan prioritize in the future? Why?

SALESFORCE.COM

Salesforce.com, Inc. is a customer relationship management company that provides cloud-based applications as a service. CRM applications help companies manage customer data, track customer interactions, forecast sales, and facilitate many other business functions. Former Oracle executive Marc Benioff founded Salesforce.com in 1999 with the motto "The End of Software," which positioned the web-based CRM platform as a simpler and more efficient alternative to traditional packaged software licenses. Four years after the company launch, Salesforce.com had become the world's largest CRM software provider.

Prior to the launch of Salesforce.com, CRM software offered by companies such as Oracle, SAP, and Siebel Systems were sold as licenses. This software included functions such as sales management, call centers, and customer support. CRM software was installed and configured on the purchaser's premises by IT companies such as PwC, IBM, and Arthur Andersen. This system posed many difficulties for customers.

Source: Courtesy of Salesforce.com.

The first issue was that CRM software was expensive. For example, a CRM software license for a company of 200 users cost approximately $350,000. In addition to the licensing fees, companies had to spend money on hardware, installation, support and maintenance, upgrades, and hiring professionals to train employees. In total, the cost for a 200-user application could exceed over $1.8 million in just one year.

The second issue was that integrating CRM software into a customer's business was time consuming. Factors such as training employees how to use the software and setting up the hardware and IT infrastructure meant it took an average of 18–24 months for customers to achieve full functionality of their software. Furthermore, the CRM software that customers purchased often did not deliver promised results. Customers oftentimes could not try out the full functionality of CRM software before purchasing it. As much as 60 percent of CRM software implementations failed for customers.

Salesforce.com innovated the CRM software market by offering applications completely online, a system called “on-demand CRM.” Based on cloud computing, Salesforce.com stored and delivered its software on central servers. Customers gained access to the company’s software by purchasing monthly or yearly plans. Simply by logging onto the Salesforce.com website, customers were able to use CRM applications. Because no software had to be installed, the cloud-based platform allowed customers to access their applications on any device connected to the internet.

Saleforce.com’s cloud computing platform addressed many of the issues of the traditional practice of purchasing software licenses. Customers no longer had to invest in expensive IT employees and the upfront cost of hardware infrastructure to use CRM applications. Salesforce.com offered application services for $65 per month per user, which reduced the cost per year for a company with 200 users to $156,000. In addition, customers were able to focus on learning to use the software immediately, without having to first deploy an IT staff. Salesforce.com allowed customers to try out their desired applications, so customers could purchase services when they were fully confident of their usage and benefits. If at any time customers found the application no longer useful, they could just cancel their monthly plan.

Salesforce.com also streamlined the benefits offered to companies. Compared to other CRM software providers, Salesforce.com stripped away excess features and focused on the buyer’s most important needs. In particular, Salesforce.com’s applications targeted sales automation, digital marketing automation, and customer service and support. Reducing the number of features on its applications allowed Salesforce.com to develop an easy-to-operate and intuitive user interface. Salesforce.com also collects information on usage patterns and updates its applications accordingly—for example, by placing frequently used buttons in more convenient locations.

Following the success of software as a service, industry leaders that dominated software licensing began adding on-demand CRM applications to their own portfolios. Salesforce.com maintained its position as the market leader by developing innovative software that gave it the competitive edge. Its Salesforce Customer 360 is an integrated CRM platform, powered by AI, that unites marketing, sales, commerce, IT and analytics departments, that gives these teams a single, shared view of their customers so they can work together to build lasting, trusted relationships and deliver the personalized experiences their customers expect. In addition, Salesforce.com launched applications such as force.com, which allowed external developers to create applications and host them on Salesforce.com servers. This application allowed businesses to create a CRM environment tailored specifically to their needs. Salesforce also introduced a private social networking application called Chatter, which allowed employees to communicate in real time while doing their jobs, such as posting updates on project and customer status.

Salesforce.com's offering of low-cost and easy-to-deploy CRM applications appealed to small and medium-sized companies that oftentimes lacked the resources to purchase and implement software licenses. In addition, Salesforce.com attracted companies of all sizes because of its intuitive and functional user interfaces. Because of this, Salesforce.com secured a strong foothold in the CRM software market and maintained its dominance by developing new and innovative CRM applications.[70]

Questions

1. Why has Salesforce.com been so successful? What did the company do particularly well when it created and expanded Salesforce.com's offerings?
2. What are some of the challenges Salesforce.com faces moving forward?
3. What other products and services might Salesforce.com expand into next? Why?