7 Analyzing Business Markets

Business organizations do not only sell; they also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies, and business services. According to the Census Bureau, there were roughly 7.4 million businesses with paid employees in 2010 in the United States alone.[1] To create and capture value, sellers such as Cisco must understand these organizations' needs, resources, policies, and buying procedures.[2]

At the height of the dot-com boom, Cisco Systems was briefly the most valuable company in the world, with a valuation of $500 billion. Since those heady days, Cisco has faced a number of challenges and obstacles to its market leadership but has taken a series of steps to try to stay ahead. The company prides itself on staying close to its customers and sees its core competency as helping them get through big transitions by breaking down their corporate silos. Long-time CEO John Chambers cites compact and efficient blade servers as a good example of how Cisco helps companies form a common technological vision, noting that Cisco's is the only computing technology that can handle data, voice, and video. As a technology company, Cisco is constantly reinventing itself to reflect shifts in the marketplace, whether by tapping into trends to enable voice and video over the Internet or by becoming a major player in cloud computing. Acquisitions play a key role, some notable ones being the $6.9 billion purchase of set-top box maker Scientific Atlanta in 2005 and the $5 billion purchase of video software solutions provider NDS in 2012. Cisco knows that as many as a third of its acquitions will fail, as was the case when it bought Pure Digitial, maker of the Flip video camera, for $600 million in 2009. Cisco does spend $6 billion annually on research and development, and it generates 55 percent of its revenue and 70 percent of its growth from overseas.

Some of the world's most valuable brands belong to business marketers: ABB, Caterpillar, DuPont, FedEx, GE, Hewlett-Packard, 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 any marketer. But they also face some unique considerations in selling to other businesses. In this chapter, we will highlight some of the crucial similarities and differences for marketing in business markets.[3]

What is Organizational Buying?

Frederick E. Webster Jr. and Yoram Wind define **organizational buying** as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.[4]

THE BUSINESS MARKET VERSUS THE CONSUMER MARKET

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. Any firm that supplies components for products is in the business-to-business 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.

As with many products, shoes are manufactured with a wide variety of different kinds of materials and ingredients.

Source: © edu1971/Fotolia

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.[5]

> 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 and they differ not only in their appearance but also in their physical properties, their 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.[6] Commoditization eats away margins and weakens customer loyalty. It can be overcome only if target customers are convinced that meaningful differences exist in the marketplace and that the unique benefits of the firm's offerings are worth the added expense. Thus, a critical step in business-to-business marketing is to create and communicate relevant differentiation from competitors. Here is how Siemens has improved its marketing to better compete in recent years:[7]

SIEMENS Although mammoth in size, with over $100 billion in revenue and approximately 336,000 employees in 190 countries, German engineering giant Siemens was still not well known in its largest market, the United States, which draws almost $20 billion in revenue. With a goal to establish "who we are, what we are about, and what we look like," the company launched the "Answers" campaign in 2007 to unify its diverse units—which design and manufacture products ranging from trains to diagnostic imaging systems to wind turbines—into one brand identity. Developed by communication agency partner Ogilvy, the campaign was thoroughly integrated across media. Over time, ads became more emotional and human in nature, focusing on how Siemens has solutions that impact customers, society, the environment and the economy. The advertising touched on Siemens' job generation, productivity and work to ensure a sustainable society. Sustainability solutions were reflected in approximately one-third of its revenue. Due to the severe economic recession, there was a strong "buy American" push. The "Siemens Answers" advertising program also helped Siemens reinforce its American credentials. With a focus on the number one Siemens market—the United States—and new emerging markets like China, Siemens began to hit its financial stride again.

Business marketers face many of the same challenges as consumer marketers, especially 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 B-to-B marketing are: (1) building stronger interfaces between marketing and sales; (2) building stronger innovation-marketing interfaces; and (3) extracting and leveraging more granular customer and market knowledge.

Four additional imperatives cited by ISBM are: (1) demonstrating marketing's contribution to business performance; (2) engaging more deeply with customers and customers' customers; (3) finding the right mix

Source: © Siemens AG 2014

Business-to-business powerhouse Siemens has emphasized its American roots and sustainability accomplishments in its most important U.S. market.

of centralized versus decentralized marketing activities; and (4) finding and grooming marketing talent and competencies.[8]

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

- ***Fewer, larger buyers.*** The business marketer normally deals with far fewer and much larger buyers 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 importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. On an annual basis, Pittsburgh-based PPG Industries purchases more than $7 billion in materials and services from thousands of suppliers. The company presented seven Excellent Supplier Awards for superior performance in 2011, the criteria for which included product quality, delivery, documentation, innovation, responsiveness, continuous improvement, and participation in the Supplier Added Value Effort ($AVE) program.With its $AVE program, PPG challenges its suppliers of maintenance, repair, and operating (MRO) 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.[9] 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. Many business buying instruments—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 greater technical data about their product and its competitive advantages.

Source: ©Adam Ziaja/Shutterstock

Consol Energy's revenue depends indirectly on market demand for electricity and steel-based products.

- ***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.
- ***Multiple sales calls.*** A study by McGraw-Hill found that it took four to four-and-a-half calls to close an average industrial sale. For capital equipment sales for large projects, it may take many attempts to fund a project, and the sales cycle—between quoting a job and delivering the product—can even take years.[10]
- ***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 and the interest rate. Business marketers can do little to stimulate total demand. They can only fight harder to increase or maintain their share of it.
- ***Inelastic demand.*** The total demand for many business goods and services is inelastic—that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor 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. Economists refer to this as the *acceleration effect.* Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand for products in the next period; a 10 percent fall in consumer demand may cause a complete collapse in business demand as replacement needs drop considerably.
- ***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 geographical concentration of producers helps to reduce selling 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 servers or aircraft.

BUYING SITUATIONS

The business buyer faces many decisions in making a purchase. *How* many depends on the complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required. Three types of buying situations are the straight rebuy, modified rebuy, and new task.[11]

- ***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. "Out suppliers" attempt to offer 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 participants on both sides. The in-suppliers become nervous and want to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business.
- ***New task.*** A new-task purchaser buys a product or service for the first time (an office building, a new security system). The greater the cost or risk, the larger the number of participants, and the greater their information gathering—the longer the time to a decision.[12]

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

New-task buying 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-task 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 a *missionary 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, in-suppliers are continually seeking ways to add value to their market offer to facilitate rebuys. EMC has successfully acquired a series of computer software leaders to reposition the company to manage and protect—not just store—information, helping companies to "accelerate their journey to cloud computing" in the process. Where one hardware product once made up 80 percent of its sales, the company now gets about 60 percent of its revenue from software and services.[13] Oracle has also made a number of strategic acquisitions to expand its offerings.[14]

ORACLE Business-software giant Oracle became an industry leader by offering a range of products and services to satisfy customer needs for enterprise software. Originally known for its flagship database management systems, Oracle spent $30 billion in recent years to buy 56 companies, including $7.4 billion for Sun Microsystems, doubling its revenue to $24 billion and sending its stock soaring in the process. To become a one-stop shop for all kinds of business customers, Oracle now sells everything from server computers and data storage devices to operating systems, databases, and software for running accounting, sales, and supply-chain management. At the same time, the company has launched "Project Fusion" to unify its applications so customers can consolidate solutions to their software needs, as reinforced by their company slogan, "Hardware and Software, Engineered to Work Together." Oracle's market power has sometimes raised both criticism from customers and concerns from government regulators. At the same time, its many long-time customers speak to its track record of product innovation and customer satisfaction.

Participants in the Business Buying Process

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.[15]

THE BUYING CENTER

Webster and Wind call the decision-making unit of a buying organization *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."[16] The buying center includes all members of the organization who play any of seven roles in the purchase decision process.

1. ***Initiators***—Users or others in the organization who request that something be purchased.
2. ***Users***—Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements.
3. ***Influencers***—People who influence the buying decision, often by helping define specifications and providing information for evaluating alternatives. Technical people are particularly important influencers.
4. ***Deciders***—People who decide on product requirements or on suppliers.
5. ***Approvers***—People who authorize the proposed actions of deciders or buyers.
6. ***Buyers***—People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, buyers might include high-level managers.
7. ***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.[17] 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 other members of the marketing channel.[18]

BUYING CENTER INFLUENCES

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

Business buyers also have personal motivations, perceptions, and preferences influenced by their age, income, education, job position, personality, attitudes 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.

Webster cautions that ultimately individuals, not organizations, make purchasing decisions.[19] 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). But organizational needs legitimate the buying process and its outcomes.

In other words, according to Webster, businesspeople are not buying "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"—they serve both the organization's and the individual's needs.[20]

Research by one industrial component manufacturer found that although 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 internal effects within the company. Recognizing this unease, the manufacturer retooled its selling approach to emphasize more emotional appeals and the way its product line actually enabled the customer's employees to improve their performance, relieving management of the complications and stress of using its components.[21]

TARGETING FIRMS AND BUYING CENTERS

Successful business-to-business marketing requires that business marketers know which types of companies to focus on in their selling efforts, as well as whom to concentrate on within the buying centers in those organizations.

TARGETING FIRMS As we will discuss in detail in Chapter 9, business marketers may divide the marketplace in many different ways to choose the types of firms to which they will sell. Finding the sectors with the greatest growth prospects, most profitable customers, and most promising opportunities for the firm is crucial, as Timken found out.[22]

TIMKEN When Timken, which manufactures bearings and rotaries for companies in a variety of industries, saw its net income and shareholder returns dip compared with competitors', the firm became concerned that it was not investing in the most profitable areas. To identify businesses that operated in financially attractive sectors and would be most likely to value its offerings, it conducted an extensive market study and discovered that some customers generated a lot of business but had little profit potential, while for others the opposite was true. As a result, Timken shifted its attention away from the auto industry and into the heavy processing, aerospace, and defense industries. It also addressed customers that were financially unattractive or minimally attractive. A tractor manufacturer complained that Timken's bearings prices were too high for its medium-sized tractors. Timken suggested the firm look elsewhere but continued to sell bearings at the higher price for the manufacturer's large tractors to the satisfaction of both sides. By adjusting its products, prices, and communications to appeal to the right types of firms, Timken experienced record revenue despite a recession.

It's also true, however, that as a slowing economy has put a stranglehold on large corporations' purchasing departments, small and midsize business markets are offering new opportunities for suppliers. See "Marketing Insight: Big Sales to Small Businesses" for more on this important B-to-B market.

TARGETING WITHIN THE BUSINESS CENTER Once it has identified the type of businesses on which to focus marketing efforts, the firm must then decide how best to sell to them. 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.

Source: PR NEWSWIRE

Timken carefully segments business markets and adjusts the marketing programs for its bearings and rotaries to maximally satisfy target segments.

marketing insight

Big Sales to Small Businesses

In its March 2012 guidelines, the Small Business Administration (SBA) defined small businesses as those with fewer than 500 employees for most mining and manufacturing industries and $7 million in average annual receipts for most nonmanufacturing industries. Some exceptions exist in specialized industries, such as grocery and department stores and motor vehicle and electronic appliance dealers, and the guidelines are constantly being updated to reflect changes in the business environment.

The SBA counted approximately 28 million small businesses in the United States in 2013. These provide almost half of all private-sector employment and have generated almost two-thirds of net new private-sector jobs since the 1970s. Those new ventures all need capital equipment, technology, supplies, and services. Look beyond the United States and you find a huge and growing B-to-B market, one that top companies have recognized.

IBM launched Express, a line of hardware, software services, and financing, specifically for the small to midsize customers (with fewer than 1,000 employees) that supply 20 percent of its business. As one VP of marketing noted, "In today's world, we see that over 80% of the time a small or medium business makes a technology decision, it starts with a search engine.... We have to make sure we show up in their search queries, not just paid or organic search, but we want to drive stimulated search."

IBM makes heavy use of social media—including blogs, Facebook, LinkedIn, and Twitter—to drive conversations around topics of interest to small and midsize businesses, such as IT security and cloud-based computing. The company is also using events to reach small businesses, such as a series on IT security that attracted more than 10,000 attendees. It has pledged $1 billion in financing to help small and midsize businesses procure certain IBM systems and services.

Small and midsize businesses present huge opportunities and huge challenges. The market is large and fragmented by industry, size, and number of years in operation. Small business owners are notably averse to long-range planning and often have an "I'll buy it when I need it" decision-making style. Here are some guidelines for marketing to small businesses:

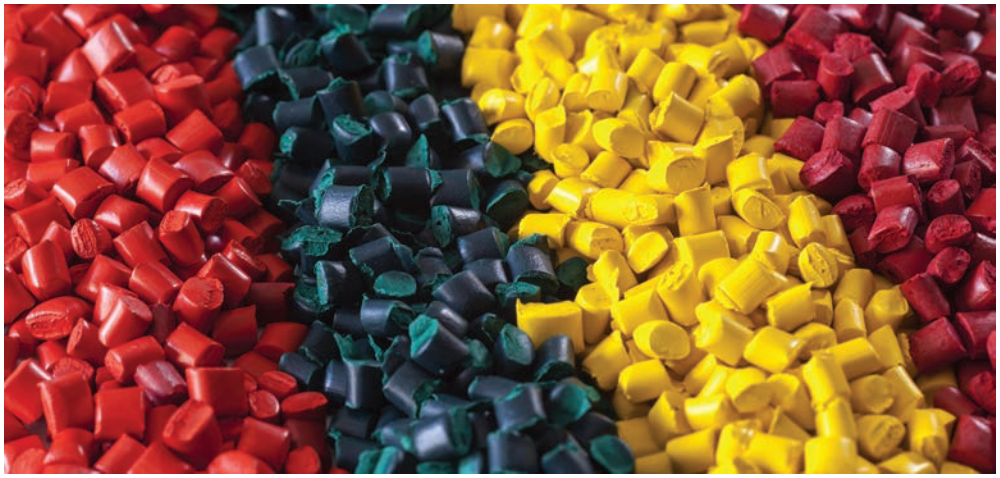
- ***Don't lump small and midsize businesses together.*** There's a big gap between $1 million in revenue and $50 million or between a start-up with 10 employees and a more mature business with 100 or more employees. IBM distinguishes its offerings to small and medium-sized businesses on its common Web site for the two.
- ***Do keep it simple.*** Offer one supplier point of contact for all service problems or one bill for all services and products. AT&T serves millions of small-business customers (with fewer than 100 employees) with services that bundle Internet, local phone, long-distance phone, data management, business networking, Web hosting, and teleconferencing.
- ***Do use the Internet.*** Hewlett-Packard found that time-strapped small-business decision makers prefer to buy, or at least research, products and services online. So it designed a site for them that pulls visitors through extensive advertising, direct mail, e-mail campaigns, catalogs, and events.
- ***Don't forget about direct contact.*** Even if a small business owner's first point of contact is via the Internet, you still need to offer phone or face time.
- ***Do provide support after the sale.*** Small businesses want partners, not pitchmen. When the DeWitt Company, a 100-employee landscaping products business, purchased a large piece of machinery from Moeller, the company's president paid DeWitt's CEO a personal visit and stayed until the machine was up and running properly.
- ***Do your homework.*** The realities of small or midsize business management are different from those of a large corporation. Microsoft created a small, fictional executive research firm, Southridge, and baseball-style trading cards of its key decision makers to train its employees to tie sales strategies to small-business realities.

Sources: Based on Barnaby J. Feder, "When Goliath Comes Knocking on David's Door," *New York Times,* May 6, 2003; Jay Greene, "Small Biz: Microsoft's Next Big Thing?," *BusinessWeek,* April 21, 2003, pp. 72–73; Jennifer Gilbert, "Small but Mighty," *Sales & Marketing Management* (January 2004), pp. 30–35; Kate Maddox, "Driving Engagement with Small Business," *Advertising Age*, November 7, 2011; Christine Birkner, "Big Business Think Small," *Marketing News*, May 15, 2012, pp. 12–16; "IBM Luring SMBs with Expanded Finance Options," *Network World*, September 12, 2011; www.sba.gov; www.openforum.com; www-304.ibm.com/businesscenter/smb/us/en, all accessed May 20, 2014.

Small sellers concentrate on reaching the *key buying influencers.* Larger sellers go for *multilevel 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 influences and keep current customers informed.[23]

Business marketers must periodically review their assumptions about buying center participants. Traditionally, SAP sold its software products to CIOs at large companies. A shift to focus on selling to individual corporate units lower down the organizational chart raised the percentage of software license sales going to new customers to 40 percent.[24]

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, with customers who wanted collaboration at the earliest stages of development. GE completely



Source: © aykuterd/Fotolia

GE learned that its plastic-fiber customers saw themselves more as artisans, completely changing how the company treated those customers.

reoriented the way it interacted with companies in the industry as a result. In developing markets, ethnographic research also can be very useful, especially in far-flung rural areas, given that marketers often do not know these consumers as well.[25]

In developing selling efforts, business marketers can also consider their customers' customers, or end users, if appropriate. Many B-to-B sales are to firms using 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 accuracy of its products by an order of magnitude.[26]

The Purchasing/Procurement Process

In principle, 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 will be a function of the difference between perceived benefits and perceived costs.[27]

Business marketers must therefore ensure that customers fully appreciate how the firm's offerings are different and better. *Framing* occurs when customers are given a perspective or point of view that allows the seller to "put its best foot forward." 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.

In the past, purchasing departments occupied a low position in the management hierarchy, in spite of often managing more than half 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 purchashing 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 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 being filled in the suppliers' 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.[28]

- 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 by 3 percent, improved customer retention by 10 percent, reduced revenue lost to pricing errors by 10 percent, and enhanced the productivity of its sales representatives by 20 percent.[29]

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

Supplier diversity may not have a price tag, but it is a benefit purchasing departments and business buyers overlook at their own risk. Minority suppliers are the fastest-growing segment of today's business landscape, and CEOs of many of the largest companies see a diverse supplier base as a business imperative. In 2011, McDonald's U.S. restaurant system purchased nearly $6.7 billion in goods and services from minority- and women-owned suppliers, about two-thirds of what the system spends for food, packaging, uniforms, operating supplies, and premiums.[30]

Stages in the Buying Process

We're ready to describe the general stages in the business buying-decision process. Patrick J. Robinson and his associates identified eight stages and called them *buyphases*.[31] The model in Table 7.1 is the *buygrid* framework.

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 proposal solicitation stages. Here are some important considerations in each of the eight stages.

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 a machine that breaks down and requires new parts. Or purchased material turns out to be unsatisfactory and the company searches for another supplier or 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 receive 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.

TABLE 7.1 Buygrid Framework: Major Stages (Buyphases) of the Industrial Buying Process in Relation to Major Buying Situations (Buyclasses)

		Buyclasses		
		New Task	**Modified Rebuy**	**Straight Rebuy**
Buyphases	1. Problem recognition	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order-routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

Source: © Justin Kase zsixz / Alamy

Mexican cement giant Cemex is known for its sophisticated ways to reduce costs for its customers.

GENERAL NEED DESCRIPTION AND PRODUCT SPECIFICATION

Next, the buyer determines the needed item's general characteristics and required quantity. 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.

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 (PVA)* is an approach to cost reduction that studies whether components can be redesigned or standardized or made by cheaper methods of production *without adversely affecting product performance*. The PVA 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.[32]

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. Companies that purchase online are utilizing 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 Web sites 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 44 auction sites worldwide. It sold $3.8 billion of used and unused equipment at more than 356 unreserved auctions in 2013, 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. While 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 Web site. In 2013, 50 percent of the bidders at Ritchie Bros. auctions bid over the Internet; online bidders purchased $1.4 billion of equipment.[33]
- ***Spot (or exchange) markets.*** On spot electronic markets, prices change by the minute. IntercontinentalExchange (ICE) is the leading electronic energy marketplace and soft commodity exchange with billions in sales.
- ***Private exchanges.*** Hewlett-Packard, IBM, and Walmart operate private exchanges to link with specially invited groups of suppliers and partners over the Web.
- ***Barter markets.*** In barter markets, participants offer to trade goods or services.
- ***Buying alliances.*** Several companies buying the same goods can join together to form purchasing consortia to gain deeper discounts on volume purchases. TopSource is an alliance of firms in the retail and wholesale food-related businesses.

Richie 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.

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, it may help to erode supplier–buyer loyalty and create potential security problems.

E-PROCUREMENT Web sites are organized around two types of e-hubs: *vertical hubs* centered on industries (plastics, steel, chemicals, paper) and *functional hubs* (logistics, media buying, advertising, energy management). In addition to using these Web sites, companies can use e-procurement in other ways:

- ***Set up direct extranet links to major suppliers.*** A company can set up a direct e-procurement account at Dell or Office Depot, for instance, and its employees can make their purchases this way.
- ***Form buying alliances.*** A number of major retailers and manufacturers such as Acosta, Ahold, Best Buy, Carrefour, Family Dollar Stores, Lowe's, Safeway, Sears, SUPERVALU, Target, Walgreens, Walmart, and Wegmans Food Markets are part of a data-sharing alliance called 1SYNC. Several auto companies (GM, Ford, Chrysler) formed Covisint for the same reason. Covisint is the leading provider of services that can integrate crucial business information and processes between partners, customers, and suppliers. The company has now also targeted health care to provide similar services.
- ***Set up company buying sites.*** General Electric formed the Trading Process Network (TPN), where it posts *requests for proposals (RFPs),* negotiates terms, and places orders.

Moving into e-procurement means more than acquiring software; it requires changing purchasing strategy and structure. However, the benefits are many. Aggregating purchasing across multiple departments yields larger, centrally negotiated volume discounts, a smaller purchasing staff, and less buying of substandard goods from outside the approved list of suppliers.

LEAD GENERATION The supplier's task is to ensure it is considered when customers are—or could be—in the market and searching for a supplier. Marketing must work with sales to define what makes a "sales ready" prospect and cooperate to send the right messages via sales calls, trade shows, online activities, PR, events, direct mail, and referrals.

Marketers must find the right balance between the quantity and quality of leads. Too many leads, even of high quality, and the sales force may be overwhelmed and allow promising opportunities to fall through the cracks; too few or low-quality leads and the sales force may become frustrated or demoralized.[34]

To generate high-quality leads, suppliers need to know about their customers. They can obtain background information from vendors such as Dun & Bradstreet and InfoUSA or information-sharing Web sites such as Jigsaw and LinkedIn.[35]

Suppliers that qualify may be visited by the buyer's agents, who will examine the suppliers' manufacturing facilities and meet their staff. After evaluating each company, the buyer will end up with a short list of qualified suppliers. Many professional buyers have forced suppliers to make adjustments to their marketing proposals to increase their likelihood of making the cut.

PROPOSAL SOLICITATION

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

Business marketers must be skilled in researching, writing, and presenting proposals as marketing documents that describe value and benefits in customer terms. Oral presentations must inspire confidence and 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

Before selecting a supplier, the buying center will specify and rank desired supplier attributes, often using a supplier-evaluation model such as the one in Table 7.2.

To develop compelling value propositions, business marketers need to better understand how business buyers arrive at their valuations.[36] Researchers have identified eight different *customer value assessment (CVA)* methods. Companies tended to use the simpler methods, though the more sophisticated ones promise a more accurate picture of CPV (see "Marketing Memo: Developing Compelling Customer Value Propositions").

The choice of attributes and their relative importance vary with the buying situation. Delivery reliability, price, and supplier reputation are important for routine-order products. For procedural-problem products, such as a copying machine, the three most important attributes are technical service, supplier flexibility, and product reliability. For political-problem products that stir rivalries in the organization (such as the choice of a computer system or software platform), the most important attributes are price, supplier reputation, product reliability, service reliability, and supplier flexibility.

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 characteristics of the customer's organization.[37]

Marketers can counter requests for a lower price in a number of ways, including framing as noted above. 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

TABLE 7.2 An Example of Vendor Analysis

Attributes	Rating Scale				
	Importance Weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	.30				x
Supplier reputation	.20			x	
Product reliability	.30				x
Service reliability	.10		x		
Supplier flexibility	.10			x	
Total Score: $.30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5$					

marketing memo Developing Compelling Customer Value Propositions

To command price premiums in competitive B-to-B markets, firms must create compelling customer value propositions. The first step is to research the customer. Here are a number of productive research methods:

1. *Internal engineering assessment*—Have company engineers use laboratory tests to estimate the product's performance characteristics. Weakness: Ignores the fact that the product will have different economic values in different applications.
2. *Field value-in-use assessment*—Interview customers about how costs of using a new product compare with those of using an incumbent. The task is to assess how much each cost element is worth to the buyer.
3. *Focus-group value assessment*—Ask customers in a focus group what value they would put on potential market offerings.
4. *Direct survey questions*—Ask customers to place a direct dollar value on one or more changes in the market offering.
5. *Conjoint analysis*—Ask customers to rank their preferences for alternative market offerings or concepts. Use statistical analysis to estimate the implicit value placed on each attribute.
6. *Benchmarks*—Show customers a benchmark offering and then a new-market offering. Ask how much more they would pay for the new offering or how much less they would pay if certain features were removed from the benchmark offering.
7. *Compositional approach*—Ask customers to attach a monetary value to each of three alternative levels of a given attribute. Repeat for other attributes, then add the values together for any offer configuration.
8. *Importance ratings*—Ask customers to rate the importance of different attributes and their suppliers' performance on each.

Having done this research, firms can specify the customer value proposition, following a number of important principles. First, *clearly substantiate value claims by concretely specifying the differences between your offerings and those of competitors on the dimensions that matter most to the customer.* Rockwell Automation identified the cost savings customers would realize from purchasing its pump instead of a competitor's by using industry-standard metrics of functionality and performance: kilowatt-hours spent, number of operating hours per year, and dollars per kilowatt-hour. Also, make the financial implications obvious.

Second, *document the value delivered by creating written accounts of costs savings or added value that existing customers have actually captured by using your offerings.* Chemical producer Akzo Nobel conducted a two-week pilot on a production reactor at a prospective customer's facility to document the advantages of its high-purity metal organics product.

Finally, *make sure the method of creating a customer value proposition is well implemented within the company, and train and reward employees for developing a compelling one.* Quaker Chemical conducts training programs for its managers that include a competition to develop the best proposals.

Sources: James C. Anderson and Finn Wynstra, "Purchasing Higher-Value, Higher-Price Offerings in Business Markets," *Journal of Business-to-Business Marketing* 17 (2010), pp. 29–61; James C. Anderson, Marc Wouters, and Wouter van Rossum, "Why the Highest Price Isn't the Best Price," *MIT Sloan Management Review*, Winter 2010, pp. 69–76; James C. Anderson, Nirmalya Kumar, and James A. Narus, *Value Merchants: Demonstrating and Documenting Superior Value in Business Markets* (Boston: Harvard Business School Press, 2007); James C. Anderson, James A. Narus, and Wouter van Rossum, "Customer Value Propositions in Business Markets," *Harvard Business Review,* March 2006, pp. 2–10; James C. Anderson and James A. Narus, "Business Marketing: Understanding What Customers Value," *Harvard Business Review,* November 1998, pp. 53–65.

than 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.[38] 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.[39]

Improving productivity helps alleviate price pressures. Burlington Northern Santa Fe Railway has tied 30 percent of employee bonuses to improvements in the number of railcars shipped per mile.[40] Some firms are using technology to devise novel customer solutions. With Web technology and tools, Vistaprint printers can offer professional printing to small businesses that previously could not afford it.[41]

Some companies handle price-oriented buyers by setting a lower price but establishing restrictive conditions: (1) limited quantities, (2) no refunds, (3) no adjustments, and (4) no services.[42]

- ***Cardinal Health*** set up a bonus-dollars plan and gave points according to how much the customer purchased. The points could be turned in for extra goods or free consulting.
- ***GE*** is installing diagnostic sensors in its airline engines and railroad engines. It is now compensated for hours of flight or railroad travel.
- ***IBM*** is now more of a "service company aided by products" than a "product company aided by services." It can sell computer power on demand (like video on demand) as an alternative to selling computers.

Source: © B. Leighty / Photri Images / Alamy

Burlington Northern Santa Fe (BNSF) Railway rewards employees for improvements in the number of railcars shipped per mile.

Solution selling can also alleviate price pressure and comes in different forms. Here are three examples.[43]

- ***Solutions to enhance customer revenues.*** Hendrix UTD has used its sales consultants to help farmers deliver an incremental animal weight gain of 5 percent to 10 percent over competitors.
- ***Solutions to decrease customer risks.*** ICI Explosives formulated a safer way to ship explosives for quarries.
- ***Solutions to reduce customer costs.*** W. W. Grainger employees work at large customer facilities to reduce materials-management costs.

More firms are seeking solutions that increase benefits and reduce costs enough to overcome any low-price concerns. Consider the following example.[44]

LINCOLN ELECTRIC Lincoln Electric has a decades-long tradition of working with its customers to reduce costs through its Guaranteed Cost Reduction (GCR) Program. When a customer insists that a Lincoln distributor lower prices to match competitors, the company and the distributor may guarantee that, during the coming year, they will find cost reductions in the customer's plant that meet or exceed the price difference between Lincoln's products and the competition's. The Holland Binkley Company, a major manufacturer of components for tractor trailers, had been purchasing Lincoln Electric welding wire for years. When Binkley began to shop around for a better price on wire, Lincoln Electric developed a package for reducing costs and working together that called for a $10,000 savings but eventually led to a six-figure savings, a growth in business, and a strong long-term partnership between customer and supplier.

Risk and gain sharing can offset price reductions customers request. Suppose Medline, a hospital supplier, signs an agreement with Highland Park Hospital promising $350,000 in savings over the first 18 months in exchange for getting a tenfold increase in the hospital's share of supplies. If Medline achieves less than this promised savings, it will make up the difference. If it achieves substantially more, it participates 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 dispute resolution mechanism.

NUMBER OF SUPPLIERS Companies are increasingly reducing the number of their suppliers. Ford, Motorola, and Honeywell have cut their number of suppliers 20 percent to 80 percent. These companies want their chosen suppliers to be responsible for a larger component system, achieve continuous quality and performance improvement, and at the same time lower prices each year by a given percentage. They expect their suppliers to work closely with them during product development, and they value their suggestions.

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 unforseen event as the biggest deterrent to single sourcing. Companies may also fear single suppliers will become too comfortable in the relationship and lose their competitive edge.

ORDER-ROUTINE SPECIFICATION

After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties, and so on. Many industrial buyers lease heavy equipment such as machinery and trucks. The lessee gains a number of advantages: the latest products, better service, the conservation of capital, and some tax advantages. The lessor often ends up with a larger net income and the chance to sell to 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 (VMI).* These suppliers are privy to the customer's inventory levels and take responsibility for *continuous replenishment programs.* Plexco International AG supplies audio, lighting, and vision systems to the world's leading automakers. Its VMI 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.[45]

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-to-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 and adding valuable services to their product offerings and employing customer reference programs and a wide variety of online and offline communication and branding activities.

COMMUNICATION AND BRANDING ACTIVITIES

Business marketers are increasingly recognizing the importance of their brand. Swiss-based ABB is a global leader in power and automation technologies with 145,000 employees in about 100 countries. The company spends $1 billion in R&D annually to fuel a long tradition of groundbreaking and nation-building projects. An extensive and carefully planned rebranding project in 2011 evaluated five alternative positioning platforms, concluding that ABB should stand for "Power and Productivity for a Better World." Magazines, posters, brochures, and digital communication were all revamped to give the brand a new look.[46] NetApp is another good example of the increased importance placed on branding in business-to-business marketing.[47]

NETAPP NetApp is a *Fortune* 1000 company providing data management and storage solutions to medium- and large-sized clients. Despite some marketplace success, the company found its branding efforts in disarray by 2007. Several variations of its name were in use, leading to a formal name change to NetApp in 2008. Branding consultants Landor also created a new identity, architecture, nomenclature, tone of voice, and tagline ("Go further, faster."). Messages emphasized NetApp's superior technology, innovation, and customer-centric "get things done" culture. Some marketing efforts still left a few things to be desired, however. Called "Frankensites" because they had been modified by so many developers over a 12-year period, the company's Web sites were streamlined to organize the company's presentation and make updates easier. The new Web sites were estimated to increase sales leads from inquiries fourfold. Investing heavily in marketing communications despite the recession, NetApp also ran print and online ads and tapped into a number of social media outlets—communities and forums, bloggers, Facebook, Twitter, and YouTube. Social media initiatives helped it in Asia where it did not have an advertising presence.

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. A new CMO, Kathy Button Bell, aligned the brands under a new global brand architecture and identity, allowing Emerson to achieve a broader presence so it could sell locally while leveraging its global brand name. She also took on the challenge of strengthening the corporate brand online. A global consolidation cut the number of company Web sites in half; Web sites and marketing campaigns were translated into local languages around the globe; and social media platforms were built out. Record sales and stock price highs have followed.[48] SAS is another firm that recognized the importance of its corporate brand.[49]

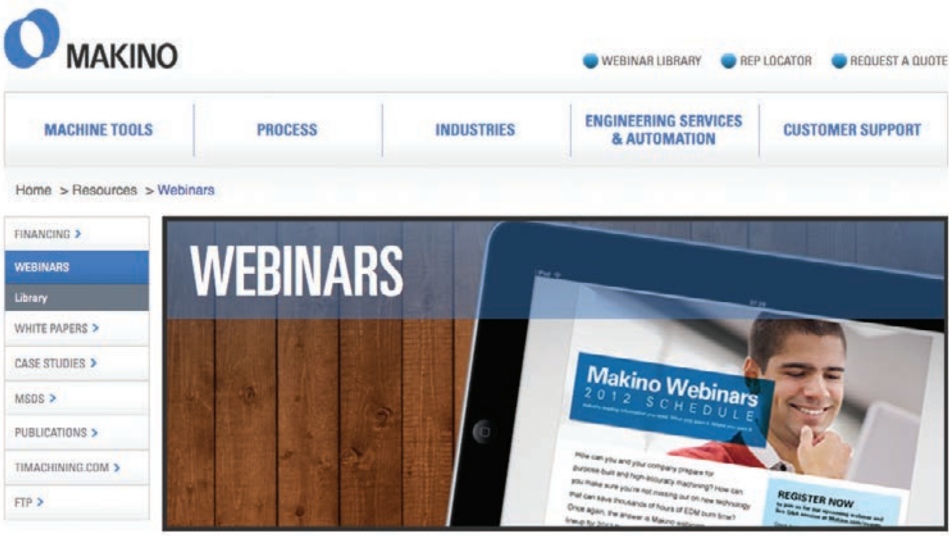
SAS With sales of more than $2.3 billion and a huge "fan club" of IT customers, SAS, the business analytics software and services firm, seemed to be in an enviable position in 1999. Yet its image was what one industry observer called "a geek brand." To extend the company's reach beyond IT managers with 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's 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*. One TV spot that exemplifies SAS's rebranding effort ran like this:

> The problem is not harvesting the new crop of e-business information. It's making sense of it. With e-intelligence from SAS, you can harness the information. And put the knowledge you need within reach. SAS. The Power to Know.

Later research showed that SAS had made the transition to a mainstream business decision-making support brand and was seen as both user-friendly and necessary. Highly profitable and now one of the world's largest privately owned software companies, more than doubling its revenue stream since the brand change, SAS has met with just as much success inside the company. For more than 15 years, *Fortune* magazine has ranked it one of the best U.S. companies to work for.

Here are some examples of the way top firms are redesigning Web sites, improving search results, engaging in social media, and launching Webinars and podcasts to improve their business performance through their B-to-B marketing.

- Chapman Kelly provides audit and other cost-containment products 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 Web site and optimized the site's search engine so the company's name moved close to the top of relevant online searches, revenue nearly doubled.[50]
- Emerson Process Management makes automation systems for chemical plants, oil refineries, and other types of factories. Readers like to hear and swap factory war stories on the company's blog about factory automation, which attracts 35,000 to 40,000 regular visitors each month and generates five to seven leads a week. Given that its systems sell for millions of dollars, ROI on the blog investment is immense.[51]
- 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.[52]
- 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 Web



Source: Makino

Machinery maker Makimo employs an extensive series of webinars to build stronger ties with its customers.

site and generate qualified leads. With research suggesting that 93 percent of all B-to-B 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 "Google-friendly."[53]

Some business-to-business marketers are adopting marketing practices from business-to-consumer markets to build their brand. Xerox ran a fully integrated communication campaign to cleverly reinforce the fact that 50 percent of its revenue comes from business services and not copiers. Here is how its Marriott ad unfolded:[54]

> 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 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. "Marketing Memo: Spreading the Word with Customer Reference Programs" describes the role of that increasingly important marketing tool.

SYSTEMS BUYING AND SELLING

Many business buyers prefer to buy a total problem solution from one seller. Called *systems buying,* this practice 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.

Sellers have increasingly recognized that buyers like to purchase in this way, and many have adopted systems selling as a marketing tool. Cisco Systems began to take share from telcommunications rival Avaya by offering customers a one-stop solution for communications technology.[55] Technology giants such as Hewlett-Packard, IBM, Oracle, Dell, and EMC are all transitioning from specialists to competing one-stop shops that can provide the core technology necessary as businesses shift to the cloud.[56]

One variant of systems selling is *systems contracting,* in which a single supplier provides the buyer with its entire requirement of MRO supplies. 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 and 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 to build large-scale industrial projects such as dams, steel factories, irrigation systems, sanitation systems, pipelines, utilities, and even new towns. Project

marketing memo — Spreading the Word With Customer Reference Programs

In a networked economy, buyers increasingly rely on the input of others to help them make purchase decisions. One way to entice or reassure potential new buyers is to create a customer reference program in which satisfied existing customers act in concert with the company's sales and marketing department by agreeing to serve as references. Technology companies such as HP, Lucent, and Unisys have all employed such programs.

Buyers can interact with a company and its customers in a variety of ways—via social media; conferences, events, and trade shows; and their own personal and professional networks. Companies need to recognize the importance of peer-to-peer interaction and know how they can assist a potential buyer. One expert offers the following advice:

1. Establish a formal, organized customer reference program to build an army of advocates.
2. Put references at the center of your growth strategy.
3. Give your customer reference program a seat at the table by using an experienced executive as its leader.
4. Don't strive for "100 percent referenceability"—put focus on a smaller group of truly committed, impactful company advocates.
5. Revolutionize your customer value proposition; find customers who want to be advocates because of their passion for the company and not as the result of any financial inducement.

Research has shown that another potential benefit of a customer reference program is that it can increase the loyalty even of the customer advocates themselves.

Sources: V. Kumar, J. Andrew Petersen, and Robert P. Leone, "Defining, Measuring, and Managing Business Reference Value," *Journal of Marketing* 77 (January 2013), pp. 68–86; David Godes, "The Strategic Impact of References in Business Markets," *Marketing Science* 31 (March–April 2012), pp. 257–76; Bill Lee, "Customer Reference Programs at the Tipping Point," *HBR Blog Network*, June 7, 2012.

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 would cost 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 view of the customer's needs, which is true systems selling.

ROLE OF SERVICES

Services play an increasing strategic and financial role for many business-to-business firms selling primarily products. Adding high-quality services to their product offerings allows them 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.[57]

Mondo combines state-of-the-art running tracks with value-added services to successfully sell to stadiums all over the world.

Source: Mondo S.p.A.

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. Revenue is increasing because the company is able to sell support services, Web site hosting, and server management to its cloud customers.[58]

All kinds of firms are finding ways to bundle value-added services to their products. Italian firm Mondo makes state-of-the-art running tracks for stadiums all over the world. Despite competition, it has continued to win new clients, such as the London Olympics, in part because of the installation and maintenance services it offers.[59]

Managing Business-to-Business Customer Relationships

Business suppliers and customers are exploring different ways to manage their relationships.[60] Loyalty is driven in part by supply chain management, early supplier involvement, and purchasing alliances.[61]

Business-to-business marketers are avoiding "spray and pray" approaches to attracting and retaining customers in favor of honing in on their targets and developing one-to-one marketing approaches.[62] Nearly 80 percent of the *Fortune* 500 use SAP software, but the software giant begin to lose market share and revenue when, as one cofounder observed, "We had lost the trust in relationships with our customers, and employees did not believe in management." Embracing innovation with new cloud-based services was a big part of the company's turnaround strategy; the other was focusing on improving customer relationships. A controversial price hike introduced during the financial crisis was reversed, and new co-CEOs vowed to listen more closely to customer concerns.[63]

THE BENEFITS OF VERTICAL COORDINATION

Much research has advocated greater vertical coordination between buying partners and sellers so they can transcend merely transacting and instead create more value for both parties.[64] Building trust is one prerequisite to enjoying healthy long-term relationships. "Marketing Insight: Establishing Corporate Trust, Credibility, and Reputation" identifies some key dimensions of such trust. Knowledge that is specific and relevant to a relationship partner is also an important factor in the strength of interfirm ties.[65]

A number of forces influence the development of a relationship between business partners. Four relevant ones are availability of alternatives, importance of supply, complexity of supply, and supply market dynamism. Based on these we can classify buyer–supplier relationships into eight categories:[66]

1. ***Basic buying and selling***—These are simple, routine exchanges with moderate levels of cooperation and information exchange.
2. ***Bare bones***—These relationships require more adaptation by the seller and less cooperation and information exchange.
3. ***Contractual transaction***—These exchanges are defined by formal contract and generally have low levels of trust, cooperation, and interaction.

marketing insight

Establishing Corporate Trust, Credibility, and Reputation

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,* the extent to which a company is seen as able to make and sell products or conduct services.
- *Corporate trustworthiness,* the extent to which a company is seen as motivated to be honest, dependable, and sensitive to customer needs.
- *Corporate likability*, 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.

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
- Provides employee incentives aligned to meet customer needs
- Partners with customers to help them learn and help themselves
- Offers valid comparisons with competitive products

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. Some firms, such as transportation and supply chain management company Ryder System, use automated credit-checking applications and online trust services to assess the creditworthiness of trading partners.

Sources: Kevin Lane Keller and David A. Aaker, "Corporate-Level Marketing: The Impact of Credibility on a Company's Brand Extensions," *Corporate Reputation Review* 1 (August 1998), pp. 356–78; Robert M. Morgan and Shelby D. Hunt, "The Commitment–Trust Theory of Relationship Marketing," *Journal of Marketing* 58, no. 3 (July 1994), pp. 20–38; Christine Moorman, Rohit Deshpande, and Gerald Zaltman, "Factors Affecting Trust in Market Research Relationships," *Journal of Marketing* 57 (January 1993), pp. 81–101; Glen Urban, "Where Are You Positioned on the Trust Dimensions?," *Don't Just Relate-Advocate: A Blueprint for Profit in the Era of Customer Power* (Upper Saddle River, NJ: Pearson Education/Wharton School Publishers, 2005).

4. ***Customer supply***—In this traditional supply situation, competition rather than cooperation is the dominant form of governance.
5. ***Cooperative systems***—The partners in cooperative systems are united in operational ways, but neither demonstrates structural commitment through legal means or adaptation.
6. ***Collaborative***—In collaborative exchanges, much trust and commitment lead to true partnership.
7. ***Mutually adaptive***—Buyers and sellers make many relationship-specific adaptations, but without necessarily achieving strong trust or cooperation.
8. ***Customer is king***—In this close, cooperative relationship, the seller adapts to meet the customer's needs without expecting much adaptation or change in exchange.

Over time, however, relationship roles may shift or be activated under different circumstances.[67] Some needs can be satisfied with fairly basic supplier performance. Buyers then neither want nor require a close relationship with a supplier. Likewise, some suppliers may not find it worth their while to invest in customers with limited growth potential.

One study found 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 alternate suppliers.[68] 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 (described next) are modest.[69]

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.[70]

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).[71] They help firms grow profits and achieve their positioning.[72] Xerox worked closely with its suppliers to develop customized processes and components that reduced its copier manufacturing costs by 30 percent to 40 percent. In return, suppliers received sales and volume guarantees, an enhanced understanding of their customer's needs, and a strong position with Xerox for future sales.[73]

Specific investments, however, also entail considerable risk to both customer and supplier. Transaction theory from economics maintains that because these investments are partially sunk, they lock firms into a particular relationship. Sensitive cost and process information 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.[74]

> 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 "some form of cheating or undersupply relative to an implicit or explicit contract."[75] When it was discovered in 2007 that a supplier to a supplier to a supplier to a supplier of Mattel chose to use lead-based ingredients outside Mattel's specification, the toy-makers reputation took a significant PR hit.

A more passive form of opportunism might be a refusal or unwillingness to adapt to changing circumstances or just negligance in satisfying contractual obligations. When a peanut-processing company, Peanut Corporation of America, 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.[76]

Opportunism is a concern because firms must devote resources to control and monitoring that they could otherwise allocate to more productive purposes. Contracts may become 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 (instead of signing a simple contract) when the supplier's degree of asset specificity is high, monitoring the supplier's behavior is difficult, and the supplier has a poor reputation.[77] When a supplier has a good reputation, it is more likely to avoid opportunism to protect this valuable intangible asset.

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).[78]

A firm like Mattel must carefully monitor its suppliers' behaviors to ensure they conform to company standards and values.

Source: ASSOCIATED PRESS

Institutional and Government 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.[79]

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 food cost limits 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, president of ARAMARK's 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. Then ARAMARK replicated this process with 163 different items formulated exclusively for corrections. Rather than reducing food costs by 1 cent or so a meal as usual, ARAMARK took 5 to 9 cents off—while maintaining or even improving quality.

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 superior quality or a reputation for completing contracts on time. Governments will also buy on a negotiated-contract basis, primarily in complex projects with major R&D costs and risks and those where there is little competition.

A major complaint of multinationals operating in Europe is that each country shows favoritism toward its nationals despite superior offers from foreign firms. Although such practices are fairly entrenched, the European Union is attempting to remove this bias. Another challenge is the volatility of spending due to economic swings and cycles. When state governments suddenly cut back their spending, a firm like Cisco, which makes 22 percent of its sales to the public sector, is likely to feel the effects.[80] When the U.S. government announced a long-term cutback of hundreds of billions of dollars in defense spending in 2011—with more cuts anticipated—many defense contractors prepared to take signficant hits.[81]

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. But the fact remains that the U.S. government now spends more than $500 billion a year—or roughly 14 percent of the federal budget—on private-sector contractors, making it the largest and potentially the most attractive customer in the world.[82] Motorola Solutions, created when Motorola was split into two companies, sells wireless communications equipment to public-safety agencies around the world that need state-of-the-art communications networks for police cars in a multibillion-dollar government market.[83]

Not only the dollar figure is large; so is the number of individual buys. According to the General Services Administration Procurement Data Center, more than 20 million individual contract actions are processed every year. Although most items purchased cost between $2,500 and $25,000, the government also makes purchases in the billions, many in technology.

Government decision makers often think vendors have not done their homework. 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 be 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.[84]

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.[85]

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 items instead of customizing, communicating with vendors online to eliminate paperwork, and debriefing losing vendors to improve their chances of winning the next time around.[86] More purchasing is being done online via Web-based forms, digital signatures, and electronic procurement cards (P-cards).

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, for example, not only sells stocked merchandise through its Web site 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 Central Contractor Registration (CCR) database (www.ccr.gov), which collects, validates, stores, and disseminates data in support of agency acquisitions.[87]

Still, many companies that sell to the government have not used a marketing orientation, though some have established separate government marketing departments. Gateway, Rockwell, Kodak, and Goodyear anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce strong communications to describe and enhance their companies' reputations.

Summary

1. Organizational buying is the decision-making process by which formal organizations establish the need for purchased products and services, 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. 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.
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. The buying process consists of eight stages called buyphases: (1) problem recognition, (2) general need description, (3) product specification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order-routine specification, and (8) performance review.
5. Business marketers are strengthening their brands and using technology and other communication tools to develop effective marketing programs. They are also using systems selling and adding services to provide customers added value.
6. Business marketers must form strong bonds and relationships with their customers. Some customers, however, may prefer a transactional relationship.
7. The institutional market consists of schools, hospitals, 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.

Applications

Marketing **Debate**

How Different Is Business-to-Business Marketing?

Some business-to-business marketing executives lament the challenges of business-to-business marketing, maintaining that many traditional marketing concepts and principles do not apply and that selling products and services to a company is fundamentally different from selling to individuals. Others disagree, claiming marketing theory is still valid and only requires some adaptation in marketing tactics.

Take a position: **Business-to-business marketing requires a special, unique set of marketing concepts and principles** *versus* **Business-to-business marketing is really not that different, and the basic marketing concepts and principles apply.**

Marketing **Discussion**

Applying B-to-C Concepts to B-to-B

Consider some of the consumer behavior topics for business-to-consumer (B-to-C) marketing from Chapter 6. How might you apply them to business-to-business (B-to-B) settings? For example, how might noncompensatory models of choice work? Mental accounting?

Marketing **Excellence**

>> Accenture

Accenture was launched as the Administrative Accounting Group in 1942 and was the consulting arm of accounting firm Arthur Andersen. In 1989, it became a separate business unit focused on IT consulting and bearing the name Andersen Consulting. At that time, though it was earning $1 billion annually, Andersen Consulting had low brand awareness among information technology consultancies and was commonly mistaken for its corporate parent. To build a strong brand and separate itself from the accounting firm, Andersen Consulting launched the first large-scale advertising campaign in the professional services area. By the end of the decade, it was the world's largest management and technology consulting organization.

In 2000, following arbitration against its former parent, Andersen Consulting was granted full independence from Arthur Andersen but had to relinquish the Andersen name. Andersen Consulting was given three months to find a name that could be trademarked in 47 countries, was effective and inoffensive in more than 200 languages, was acceptable to employees and clients, *and* corresponded with an available URL. The effort that followed was one of the largest and most successful rebranding campaigns in corporate history.

The company's new name came from one of the company's own consultants at its Oslo office. As part of an internal name-generation initiative dubbed "Brandstorming," he submitted the Accenture name because it rhymed with "adventure" and suggested an "accent on the future." The name also retained the "Ac" of the original Andersen Consulting name (echoing the Ac.com Web site), which would help the firm retain some of its former brand equity. At midnight on December 31, 2000, Andersen Consulting officially adopted the Accenture name and launched a global advertising, marketing, and communications campaign targeting senior executives at its clients and prospects, all partners and employees, the media, leading industry analysts, potential recruits, and academia.

The results were quick and impressive. Accenture's brand equity increased 11 percent the first year, and the number of firms that inquired about its services increased 350 percent. Awareness of the company's breadth and depth of services reached 96 percent of its previous level, and awareness of Accenture as a provider of management and technology consulting services already topped 76 percent of its previous level. These results enabled Accenture to successfully complete a $1.7 billion IPO in July 2001.

Accenture believed its differentiator was the ability both to provide innovative ideas—ideas grounded in business processes as well as IT—and to execute them. Competitors such as McKinsey were seen as highly specialized at developing strategy, whereas other competitors such as IBM were seen as highly skilled in technological implementation. Accenture wanted to be seen as excelling at both. As Ian Watmore, its UK chief, explained: "Unless you can provide both transformational consulting and outsourcing capability, you're not going to win. Clients expect both."

In 2002, Accenture unveiled a new positioning statement, which reflected its role as a partner that helped create strategies and execute them. The tagline "Innovation Delivered" was supported by the statement "From innovation to execution, Accenture helps accelerate your vision."

As part of its new commitment to helping clients achieve their business objectives, Accenture also introduced a policy whereby many of its contracts contained incentives that it realized only if specific business targets were met. For instance, a contract with British travel agent Thomas Cook was structured such that Accenture's bonus depended on five metrics, including a cost-cutting one.

In late 2003, Accenture built upon the "Innovation Delivered" theme and announced its new tagline, "High Performance. Delivered," along with a campaign that featured golf superstar Tiger Woods as spokesperson. When Accenture sought Woods as its spokesperson, the athlete was at the top of his game—the world's best golfer with an impeccable image and an ideal symbol of high performance. Accenture's message communicated that it could help client companies become "high-performing business leaders," and the Woods endorsement drove home the importance of high performance.

Over the next six years, Accenture spent nearly $300 million in ads that mostly featured Tiger Woods, alongside slogans such as "We know what it takes to be a Tiger" and "Go on. Be a Tiger." The campaign capitalized on Woods's international appeal, ran all over the world, and became the central focus of Accenture-sponsored events such as the World Golf Championships and the Chicago Marathon.

That all changed when the scandal surrounding Tiger Woods, his extramarital affairs, and his indefinite absence from golf hit the press in late 2009. Accenture dropped Woods as a spokesperson, saying he was no longer a good fit for its brand. Indeed, focus groups showed that consumers were too distracted by the scandal to focus on Accenture's strategic message. Accenture found itself in familiar territory and worked on developing and executing a groundbreaking campaign that not only resonated across the world and translated appropriately into different cultures but also elevated Accenture's brand to the next level.

In 2011, Accenture launched the "Greater Than" campaign to an international audience across 35 countries. The campaign highlighted successful case studies from clients like Unilever, Starwood Hotels, and Caterpillar and focused on Accenture's capabilities in areas such as emerging technologies and globalization. The company conducted extensive research to ensure that its brand positioning—"High performance. Delivered."—was not only effective but also still relevant to business leaders. Lastly, Accenture created a new marketing twist to the campaign. The "greater than" symbol, >, which had always appeared in the Accenture logo, was pulled out and used as a major element of the campaign. It appeared on cabs and billboards in major cities and became a critical unifying element across all Accenture's print, digital, and social media as well as among employees.

Today, Accenture continues to excel as a global management consulting, technology services, and outsourcing company. Its clients include 99 of the *Fortune* Global 100 and more than three-quarters of the *Fortune* Global 500. The company ended fiscal 2013 with revenues of $28.6 billion and has a brand value close to $9 billion.

Questions

1. How does Accenture target its B-to-B audience so effectively?
2. Evaluate Accenture's history of branding campaigns. What remains consistent throughout?

Sources: Accenture.com, "Annual Reports," Accenture.com; "Lessons Learned from Top Firms' Marketing Blunders," *Management Consultant International*, December 2003, p. 1; Sean Callahan, "Tiger Tees Off in New Accenture Campaign," *BtoB Magazine*, October 13, 2003, p. 3; "Inside Accenture's Biggest UK Client," *Management Consultant International*, October 2003, pp. 1–3; "Accenture's Results Highlight Weakness of Consulting Market," *Management Consultant International*, October 2003, pp. 8–10; "Accenture Re-Branding Wins UK Plaudits," *Management Consultant International*, October 2002, p. 5; Mary Ellen Podmolik, "Accenture Turns to Tiger for Global Marketing Effort," *BtoB Magazine*, October 25, 2004; Sean Callahan, "Tiger Tees Off in New Accenture Campaign," *BtoB Magazine*, October 13, 2003; Emily Steel, "After Ditching Tiger, Accenture Tries New Game," *Wall Street Journal*, January 14, 2010; "Best Global Brands 2012," *Interbrand.*

Marketing Excellence

>> GE

Thomas Edison founded the Edison Electric Light Company in 1878. The company, which soon changed its name to General Electric (GE), became an early pioneer in lightbulbs and electrical appliances and served the electrical needs of various industries, such as transportation, utilities, manufacturing, and broadcasting. GE became the acknowledged pioneer in business-to-business marketing in the 1950s and 1960s under the tagline "Progress Is Our Most Important Product."

As the company diversified its business-to-business product lines in the 1970s and 1980s, it created new corporate campaigns, including "Progress for People" and "We Bring Good Things to Life." In 1981, Jack Welch succeeded Reginald Jones as GE's eighth CEO. During Welch's two decades of leadership, he helped grow GE from an "American manufacturer into a global services giant" and increased the company's market value from $12 billion in 1981 to $280 billion in 2001, making it the world's most valuable corporation at the time.

Over the years, GE has exhibited a keen understanding of the business market and the business buying process by putting itself in the shoes of its business customers. For example, the company understands that buying an aircraft engine is a multimillion-dollar expenditure that doesn't end with the purchase. Customers (the airlines) face substantial maintenance costs to meet FAA guidelines and ensure reliability of the engines. In 1999, GE pioneered a new pricing option called "Power by the Hour," giving customers an opportunity to pay a fixed fee each time they run the engine. In return, GE performs all the maintenance and guarantees the engine's reliability. When demand for air travel is uncertain, "Power by the Hour" provides GE's customers with a lower cost of ownership.

In 2003, GE and its new CEO, Jeffrey Immelt, faced a fresh challenge: how to promote its diversified brand with a unified global message. A source at GE explained, "(Immelt) wants advertising that's more high-tech, more innovative and contemporary. Something that will make GE look more advanced, out in front." So, after 24 years and $1 billion in financial support, GE dropped its signature slogan "We Bring Good Things to Life" for the new tagline "Imagination at Work," highlighting its renewed focus on innovation and new technology.

The award-winning new campaign promoted units such as GE Aircraft Engines, Medical Systems, and Plastics, focusing on the breadth of the company's product offerings, and it got results. "Research indicates GE is now being associated with attributes such as being high tech, leading edge, innovative, contemporary, and creative," stated Judy Hu, GE's general manager for global advertising and branding. In addition, survey respondents continued to associate GE with some of its traditional attributes, including trust and reliability.

In 2005, GE evolved the campaign into a company-wide initiative that continues today, "Ecomagination." Ecomagination highlighted the company's efforts to develop environmentally friendly "green" technologies such as solar energy, lower-emission engines, and water purification technologies. GE initially set several aggressive goals for the new initiative, including doubling the revenue from "Ecomagination" products to $20 billion in five years and promising to reduce greenhouse gas emissions by 1 percent within seven years. The company believed then and still believes that embracing innovation around Ecomagination is critical to its growth.

Immelt made some strategic restructuring decisions that helped the company survive the worldwide recession of 2008 and 2009 and also helped shift it even more in the B-to-B direction. GE moved from 11 divisions to five and sold off some of its consumer-focused businesses, including 51 percent of NBC Universal (sold to Comcast). This shift allowed the company to spend more resources on innovation, green initiatives, and its growing businesses such as power generation, aviation, medical imaging, and fuel cell technologies.

GE understood that it needed another huge initiative to help pull the conglomerate out of its current poor financial situation. Management believed there was huge growth potential in affordable health care around the world. As a result, the company embraced a $6 billion company-wide initiative called Healthymagination. The business strategy aimed at growing GE's health care business by providing innovative solutions to more people around the world, and the company launched an integrated marketing plan for it.

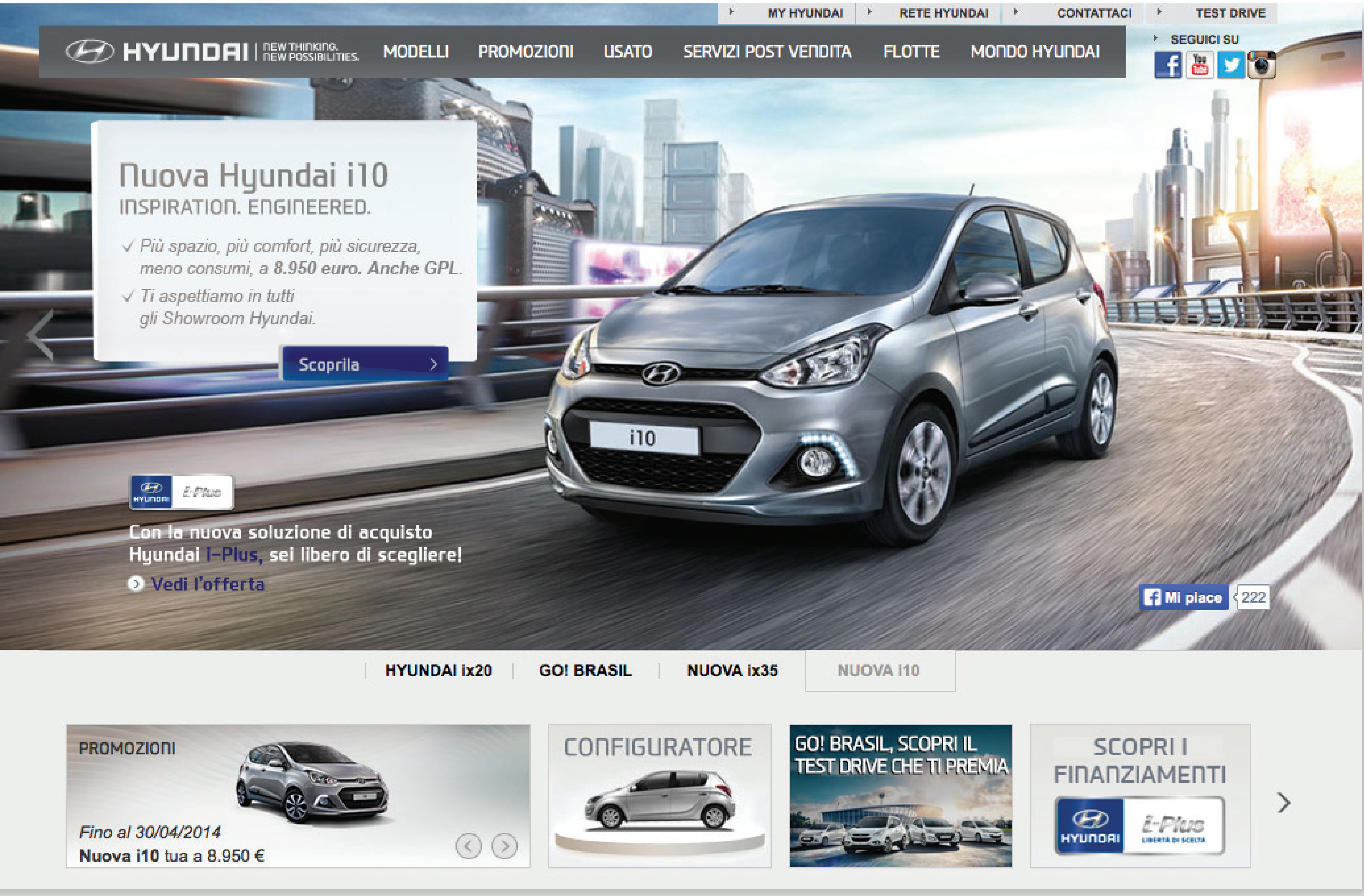
GE's B-to-B marketing savvy has helped it lock in the top position in the *Financial Times*'s "World's Most Respected Companies" ranking for years. The company's in-depth understanding of each of its business markets has kept its B-to-B marketing strategies progressive, relevant, and effective. In addition, its global marketing campaign helps keep brand equity strong. GE was ranked sixth in Interbrand/*BusinessWeek*'s "Top 100 Global Brands" report, with a brand value of $45 billion. "The GE brand is what connects us all and makes us so much better than the parts," Chief Marketing Officer Beth Comstock said.

Today, General Electric operates in a wide range of industries, including power and water, oil and gas, energy management, aviation, health care, transportation, home and business solutions, and capital. As a result, the firm sells a diverse array of products and services from home appliances to jet engines, security systems, wind turbines, and financial services. Its revenues topped $146 billion in 2013, making it so large that its largest business units could rank separately in the *Fortune* 200. If GE were a country, it would be the 50th largest in the world, ahead of Kuwait, New Zealand, and Iraq.

Questions

1. Discuss GE's B-to-B marketing strategy. Why has the company been so successful over the years at targeting such a large business audience?
2. Have "Ecomagination" and "Healthymagination" successfully communicated GE's focus on its newer endeavors? Why or why not?

Sources: "A New Life. General Elective to Change Corporate Image," *Delaney Report*, June 10, 2002; Geoffrey Colvin, "What Makes GE Great?," *Fortune*, March 6, 2006, pp. 90–104; Thomas A. Stewart, "Growth as a Process," *Harvard Business Review*, June 2006, pp. 60–70; Kathryn Kranhold, "The Immelt Era, Five Years Old, Transforms GE," *Wall Street Journal*, September 11, 2006; Daniel Fisher, "GE Turns Green," *Forbes*, August 15, 2005, pp. 80– 85; John A. Byrne, "Jeff Immelt," *Fast Company*, July 2005, pp. 60–65; Rachel Layne, "GE's NBC Sale Brings Immelt Cash, Scrutiny," *BusinessWeek*, December 3, 2009; GE Annual Report, 2013.



In This Chapter, We Will Address the Following **Questions**

1. What factors should a company review before deciding to go abroad? (p. 239)
2. How can companies evaluate and select specific international markets to enter? (p. 241)
3. What are the differences between marketing in a developing and a developed market? (p. 242)
4. What are the major ways of entering a foreign market? (p. 248)
5. To what extent must the company adapt its products and marketing program to each foreign country? (p. 251)
6. How do marketers influence country-of-origin effects? (p. 260)

By skillfully combining quality, reliability, and style, Korean automaker Hyundai is finding success in markets all over the world.

Source: HYUNDAI MOTOR COMPANY. Andy Glass Wyatt-Clarke & Jones.

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