

## PART 3 Connecting with Customers

Chapter 7 | Analyzing Business Markets

Chapter 8 | Identifying Market Segments and Targets



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

1. What is the business market, and how does it differ from the consumer market?
2. What buying situations do organizational buyers face?
3. Who participates in the business-to-business buying process?
4. How do business buyers make their decisions?
5. How can companies build strong relationships with business customers?
6. How do institutional buyers and government agencies do their buying?

From its Redwood Shores headquarters, Oracle introduces innovative marketing programs to satisfy its many business-to-business customers.

# 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 are roughly 6 million businesses with paid employees in the United States alone. To create and capture value, sellers need to understand these organizations' needs, resources, policies, and buying procedures.**



*Business-software giant Oracle became an industry leader by offering a whole range of products and services to satisfy customer needs for enterprise software. Known originally for its flagship database management systems, Oracle spent \$30 billion in recent years to buy 56 companies, including \$7.4 billion to buy Sun Microsystems, doubling the company's 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 seeks to offer the widest ranges of products in the software industry. It 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, Oracle has launched "Project Fusion" to unify its different applications, so customers can reap the benefits of consolidating many of their software needs with Oracle. 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.<sup>1</sup>*

**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 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.<sup>2</sup>

## 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.<sup>3</sup>

### 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. The major industries making up the business market are agriculture, forestry, and fisheries; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services.

More dollars and items change hands in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes. 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.<sup>4</sup> 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 Navistar has adjusted its marketing to reflect the economic crisis and a different customer mind-set.



**Navistar** Navistar sells trucks and buses under the International and IC brands. Its diverse customer base includes bookkeepers, truck drivers, insurance people, large retailers, and so on. In recent years, these customers have been trying to cope with the harsh economic realities brought on by higher fuel prices, tougher federal regulation, and increased environmental consciousness. To address these customer concerns, Navistar devised a new marketing strategy and campaign. It introduced a new lineup of trucks and engines, including the first medium-duty hybrid truck and new diesel engines. To support new product development, Navistar launched an extensive multimedia marketing campaign that included an experiential truck stop and key industry event mobile tours, outbound video e-mail, brand advertising, and an outreach program to bloggers. It even shot a short documentary-style film, *Drive and Deliver*, which showcased three long-haul truckers driving around the country making deliveries using one of Navistar's new long-haul LoneStar truck models.<sup>5</sup>



Navistar's innovative LoneStar truck model was featured in a short film directed by an Academy Award nominee.

Business marketers face many of the same challenges as consumer marketers. In particular, understanding their customers and what they value is of paramount importance to both. A survey of top business-to-business firms identified the following as challenges they faced:<sup>6</sup>

1. Understanding deep customer needs in new ways;
2. Identifying new opportunities for organic business growth;
3. Improving value management techniques and tools;
4. Calculating better marketing performance and accountability metrics;
5. Competing and growing in global markets, particularly China;
6. Countering the threat of product and service commoditization by bringing innovative offerings to market faster and moving to more competitive business models; and
7. Convincing C-level executives to embrace the marketing concept and support robust marketing programs.

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

- **Fewer, larger buyers.** The business marketer normally deals with far fewer, 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 depends on getting big contracts from just a handful of major automakers.
- **Close supplier–customer relationship.** 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. Through its Supplier Added Value Effort (\$AVE) program, Pittsburgh-based PPG industries challenges its suppliers of maintenance, repair, and operating (MRO) goods and services to deliver on annual value-added/cost-savings proposals equaling at least 5 percent of their total annual sales to PPG. One preferred supplier submitted a suggestion to \$AVE that reduced costs for a lighting project by \$160,000 by negotiating discounted prices for new fixtures and fluorescent bulbs.<sup>7</sup> Business buyers often select suppliers that also buy from them. A paper manufacturer might buy from a chemical company that buys a considerable amount of its paper.

- **Professional purchasing.** Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Many of the buying instruments—for example, requests for quotations, proposals, and purchase contracts—are not typically found in consumer buying. Professional buyers spend their careers learning how to buy better. Many belong to the Institute for Supply Management, which seeks to improve professional buyers' effectiveness and status. This means business marketers must provide greater technical data about their product and its advantages over competitors' products.
- **Multiple buying influences.** More people typically influence business buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods. Business marketers need to send well-trained sales representatives and sales teams to deal with the 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. In the case of 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—is often measured in years.<sup>8</sup>
- **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 ultimate consumers. Pittsburgh-based Consol Energy's coal business largely depends on orders from utilities and steel companies, which, in turn, depend on broader economic demand from consumers for electricity and steel-based products such as automobiles, machines, and appliances. Business buyers must also pay close attention to current and expected economic factors, such as the level of production, investment, and consumer spending and the interest rate. In a recession, they reduce their investment in plant, equipment, and inventories. Business marketers can do little to stimulate total demand in this environment. They can only fight harder to increase or maintain their share of the demand.
- **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 will they buy much less leather if the price rises unless they can 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 necessary to produce the additional output. 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.
- **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.
- **Direct purchasing.** Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive such as mainframes 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.<sup>9</sup>

- **Straight rebuy.** In a straight rebuy, the purchasing department reorders supplies such as 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.<sup>10</sup>

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 process passes through several stages: awareness, interest, evaluation, trial, and adoption.<sup>11</sup> 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 the evaluation stage. 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 brand name recognition will be important in establishing trust and the customer's willingness to consider change.<sup>12</sup> The marketer also tries to reach as many key participants as possible and provide helpful 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. Data storage leader EMC successfully acquired a series of computer software leaders to reposition the company to manage—and not just store—information, often by giving customers customized information.<sup>13</sup>

Customers considering dropping six or seven figures on one transaction for big-ticket goods and services want all the information they can get. One way to entice 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.

Business marketers are also recognizing the importance of their brand and how they must execute well in a number of areas to gain marketplace success. Boeing, which makes everything from commercial airplanes to satellites, implemented the "One Company" brand strategy to unify all its different operations with a one-brand culture. The strategy was based in part on a triple helix representation: (1) enterprising spirit (why Boeing does what it does), (2) precision performance (how Boeing gets things done), and (3) defining the future (what Boeing achieves as a company).<sup>14</sup> NetApp is another good example of the increased importance placed on branding in business-to-business marketing.



**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.") for the brand and its new name. Messages emphasized NetApp's superior technology, innovation, and customer-centric "get things done" culture. Some of the marketing efforts supporting the brand, however, still left some things to be desired. The Web sites were called "Frankensites" because they had been worked on and modified by so many developers over a 12-year period. Web site makeovers streamlined and organized the company's presentation and made it easier to make changes and updates. The new Web site was estimated to increase sales leads from inquiries by fourfold. Investing heavily in marketing communications despite the recession, NetApp ran print and online ads and tapped into a number of social media outlets—communities and forums, bloggers, Facebook, Twitter, and YouTube.<sup>15</sup>

Business-to-business technology leader NetApp has made a concerted effort to build its brand through a variety of marketing communications and activities.



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## 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, would be 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. 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 benefits from 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. Customers present potential suppliers with a list of project specifications and requirements. Project engineering firms must compete on price, quality, reliability, and other

attributes to win contracts. Suppliers, however, are not just at the mercy of customer demands. Ideally, they're active with customers 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

**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 outlining 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 proposal involved more money, it won the contract. Clearly, the Japanese viewed the problem as not just 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. ■

## 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 department personnel are more influential in new-buy situations. Engineering personnel usually have a major influence in selecting product components, and purchasing agents dominate in selecting suppliers.<sup>16</sup>

### 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."<sup>17</sup> The buying center includes all members of the organization who play any of the following 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 personnel 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.<sup>18</sup> A purchasing manager, for example, often occupies the roles of buyer, influencer, and gatekeeper simultaneously: She can determine 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