Chapter 7

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

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?

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.[1]

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.[2]

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.[3]

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.[4] 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.[5]

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:[6]

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.[7] 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.[8]
- ***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.[9]

- ***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.[10]

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.[11] 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.

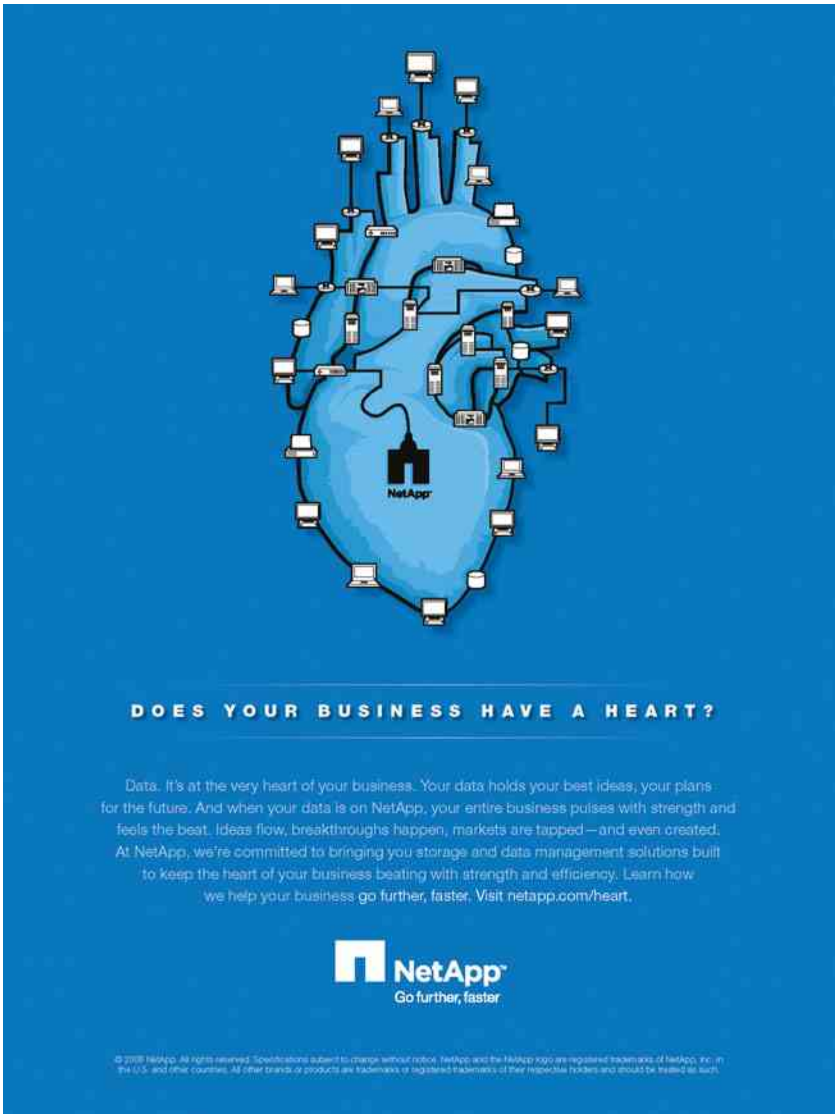
Because of the complicated selling required, many companies use a *missionary sales force* consisting of their most effective salespeople. The brand promise and the manufacturer's brand name recognition will be important in establishing trust and the customer's willingness to consider change.[12] The 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.[13]

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).[14] 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.[15]



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

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.[16]

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."[17] 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.[18] 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 actually get the business, even though others (deciders) might select two or more potential vendors that can meet the company's requirements.

The typical buying center has a minimum of five or six members and often has dozens. Some may be outside the organization, such as government officials, consultants, technical advisors, and other members of the marketing channel. One study found that 3.5 more people on average were engaged in making a business purchase decision in 2005 than in 2001.[19]

Buying Center Influences

Buying centers usually include several participants with differing interests, authority, status, and persuasiveness, 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. Buyers definitely exhibit different buying styles. There are "keep-it-simple" buyers, "own-expert" buyers, "want-the-best" buyers, and "want-everything-done" buyers. Some younger, highly educated buyers are computer experts who 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.

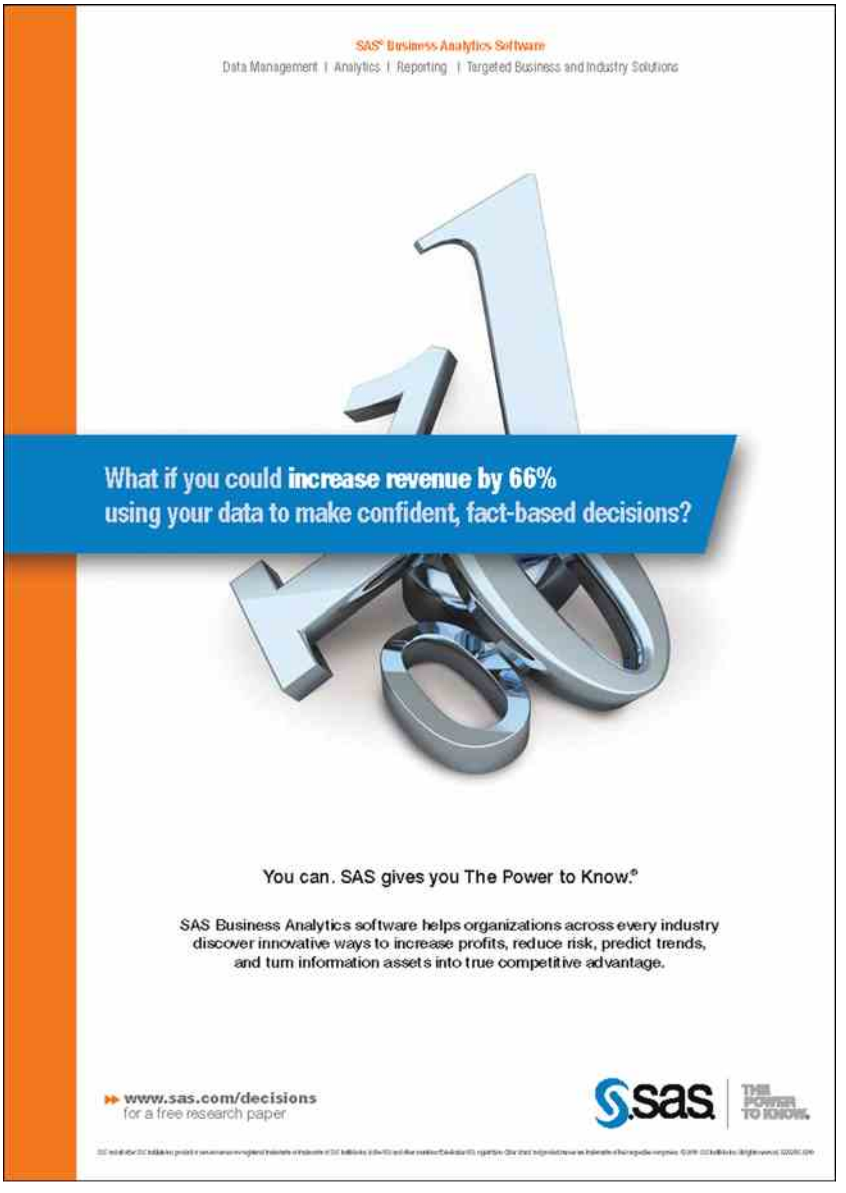
Webster cautions that ultimately individuals, not organizations, make purchasing decisions.[20] Individuals are motivated by their own needs and perceptions in attempting to maximize the rewards (pay, advancement, recognition, and feelings of achievement) offered by the organization. Personal needs motivate their behavior, but organizational needs legitimate the buying process and its outcomes. Thus, 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 individual 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.[21]

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 how its product line actually enabled the customer's employees to improve their performance, relieving management of the complications and stress of using components.[22]

Recognizing these extrinsic, interpersonal influences, more industrial firms have put greater emphasis on strengthening their corporate brand. 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 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. Record sales and stock price highs soon followed.[23] SAS is another firm that recognized the importance of its corporate brand.

SAS With sales of more than $2.3 billion and a huge "fan club" of IT customers, SAS, the business analytics software firm, seemed to be in an enviable position in 1999. Yet its image was what one industry observer called "a geek brand." In order 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—the kind of people who either didn't have a clue what SAS's software was and what to do with it, or who 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

Like many business-to-business firms, software giant SAS emphasizes its corporate brand in its marketing efforts.



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.*

Subsequent 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 14 years, *Fortune* magazine has ranked it one of the best U.S. companies to work for; in 2010 the company was number one.[24]

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 who to concentrate on within the buying centers in those organizations.

TARGETING FIRMS As we will discuss in detail in Chapter 8, business marketers may divide the marketplace in many different ways to decide on the types of firms to which they will sell. Finding those business sectors with the greatest growth prospects, most profitable customers, and most promising opportunities for the firm is crucial, as Timken found out.

Timken When Timken, which manufactures bearings and rotaries for companies in a variety of industries, saw its net income and shareholder returns dip compared to 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, the company conducted an extensive market study. It revealed 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, and 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 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 of $5.7 billion in 2008.[25]

Timken has fine-tuned its marketing activities to sell its specialized bearing and rotary products only to the most promising prospects.

It's also true, however, that as a slowing economy has put a stranglehold on large corporations' purchasing departments, the small and midsize business markets are offering new opportunities for suppliers. See "Marketing Insight: Big Sales to Small Businesses," for more on this important B2B market.

Marketing Insight

Big Sales to Small Businesses

Small businesses—defined as those with fewer than 500 employees—represent 99.7 percent of all employer firms and employ about half of all private-sector employees. They have generated 60 percent to 80 percent of net new jobs annually over the past decade. According to the Small Business Administration's Office of Advocacy, nearly 640,000 small businesses opened in the United States in 2007. Those new ventures all need capital equipment, technology, supplies, and services. Look beyond the United States to new ventures around the world and you have a huge and growing B-to-B market. Here's how two top companies are reaching it:

- IBM counts small to midsize customers as 20 percent of its business and has launched Express, a line of hardware, software services, and financing, for this market. IBM sells through regional reps as well as independent software vendors and resellers, and it supports its small–midsize push with millions of dollars in advertising annually, including in publications such as *American Banker* and *Inc.* The company has also directly targeted gay business owners with ads in *The Advocate* and *Out* and has partnered with nonprofits to reach racial and ethnic minority segments.
- American Express has been steadily adding new features to its credit card for small business, which some small companies use to cover hundreds of thousands of dollars a month in cash needs. It has also created a small business network called OPEN Forum to bring together various services, Web tools, and discount programs with other giants such as FedEx, JetBlue, Hertz, and Hyatt. With OPEN Forum, American Express not only allows customers to save money on common expenses, it also encourages them to do much of their recordkeeping on its Web site and gain business insights.

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 selling 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.*** Simplicity means having 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 (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 targeted to small and midsize businesses and 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 help Microsoft employees 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; www.sba.gov; www.openforum.com; www-304.ibm.com/businesscenter/smb/us/en.

In developing selling efforts, business marketers can also consider their customers' customers, or end users, if these are appropriate. Many business-to-business transactions are to firms using the products they purchase as components or ingredients in products they sell to the ultimate end users. A sharper focus on end users helped propel Thomson Reuters to greater financial heights.

Thomson Reuters

Thomson Reuters Just before it acquired Reuters, global information services giant Thomson Corporation embarked on an extensive research study to better understand its ultimate customers. Thomson sold to businesses and professionals in the financial, legal, tax and accounting, scientific, and health care sectors, but it felt it knew much more about how a financial services manager made purchases for an entire department, for example, than about how individual brokers or investment bankers used Thomson data, research, and other resources to make day-to-day investment decisions for clients. Segmenting the market by these end users, rather than by purchasers, and studying how they viewed Thomson versus competitors allowed the firm to identify market segments that offered growth opportunities. To better understand these segments, Thomson conducted surveys and "day in the life" ethnographic research on how end users did their jobs. Using an approach called "three minutes," researchers combined observation with detailed interviews to understand what end users were doing three minutes before and after they used one of Thomson's products. Insights from the research helped the company develop new products and make acquisitions that led to significantly higher revenue and profits in the year that followed.[26]

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. To target their efforts properly, business marketers need to figure out: Who are the major decision participants? What decisions do they influence? What is their level of influence? 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 this buying decision include the vice president of purchasing, the operating-room administrator, and the surgeons. The vice president of purchasing

A number of different people play a role in the purchase of hospital products such as surgical gowns; all these people have their own objectives and interests.

analyzes whether the hospital should buy disposable gowns or reusable gowns. If the findings favor disposable gowns, then the operating-room administrator compares various competitors' products and prices and makes a choice. This administrator considers 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 particular brand.

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

Small sellers concentrate on reaching the *key buying influencers.* Larger sellers 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.[27]

Business marketers must periodically review their assumptions about buying center participants. For years Kodak sold X-ray film to hospital lab technicians, but research indicated that professional administrators were increasingly making purchasing decisions. Kodak revised its marketing strategy and developed new advertising to reach out to these decision makers.

The Purchasing/Procurement Process

In principle, business buyers seek to obtain the highest benefit package (economic, technical, service, and social) in relation to a market offering's costs. To make comparisons, they will try to translate all costs and benefits into monetary terms. A business buyer's incentive to purchase will be a function of the difference between perceived benefits and perceived costs.[28] The marketer's task is to construct a profitable offering that delivers superior customer value to the target buyers.

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 firm to "put its best foot forward." Framing can be as simple as making sure customers realize all the benefits or cost savings afforded by the firm's offerings, or becoming more involved and influential in the thought process behind how customers view the economics of purchasing, owning, using, and disposing product offerings. Framing requires understanding how business customers currently think of and choose among products and services, and then determining how they *should* ideally think and choose.

Supplier diversity is a benefit that may not have a price tag but that business buyers overlook at their risk. As the CEOs of many of the country's largest companies see it, a diverse supplier base is a business imperative. Minority suppliers are the fastest-growing segment of today's business landscape.

Pfizer

Pfizer One of the biggest names in pharmaceuticals, Pfizer, views its supplier-diversity program as an essential tool in connecting with customers. Chief Diversity Officer Karen Boykin-Towns directs diversity efforts that include recruitment and talent development inside the company, as well as engaging with customers and suppliers outside the company. For leadership, Pfizer also relies on a diversity and inclusion worldwide council and an infrastructure of "ambassadors" throughout the company. Pfizer concentrates its diversity efforts on women, LGBT, people with disabilities, Latino/Hispanics, Asian Pacific Islanders, U.S. Caribbeans, and African Americans. The company has spent about $700 million with 2,400 minority and women suppliers. Pfizer has even developed a mentoring program that identifies women and minority suppliers that need help growing, whether it's designing a better Web site or building a better business plan. Pfizer managers meet with the owners, often on-site, to figure out what they need.[29]

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 them 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 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 from this new arrangement. In many cases, orders are being filled in the suppliers' warehouse within minutes of being transmitted, and the supplier is now able to take part in a pay-on-receipt program that has shortened Rio Tinto's payment cycle to around 10 days.[30]
- Mitsui & Co. Ltd is a leading Japanese trading firm that owns more than 850 companies and subsidiaries. When the firm took its purchase orders and payments transactions for one group online, it reduced the cost of purchase transactions by 50 percent and increased customer satisfaction due to greater process efficiencies.[31]
- 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.[32]

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

Leading mining and exploration company Rio Tinto has worked with its suppliers to streamline the way they get paid.

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*.[33] 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.

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

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, 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 mail, telemarketing, and calling on prospects.

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 impacting 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. When HP won ISRI's first Design for Recycling Award through an application of PVA methods, it received this accolade:

> HP has worked for many years to design products that are easier to recycle. The firm operates several recycling facilities, which allows it to determine the most effective design features to facilitate product recycling. HP has developed standards that integrate clear design guidelines and checklists into every product's design process to assess and improve recyclability. Hewlett-Packard's design process includes: Using modular design to allow components to be removed, upgraded, or replaced; eliminating glues and adhesives by using, for example, snap-in features; marking plastic parts weighing more than 25g according to ISO 11469 international standards, to speed up materials identification during recycling; reducing the number and types of materials used; using single plastic polymers; using recycled plastic; using moulded-in colours and finishes instead of paint, coatings, or plating.[34]

Suppliers can use product value analysis as a tool for positioning themselves to win an account. Regardless, 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.[35]

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.[36] The move to Internet purchasing has far-reaching implications for suppliers and will change the shape of purchasing for years to come.[37] Companies that purchase over the Internet are utilizing electronic marketplaces in several forms:

- ***Catalog sites.*** Companies can order thousands of items through electronic catalogs distributed by e-procurement software, such as Grainger's.
- ***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 sites.*** Ritchie Bros. Auctioneers is the world's largest industrial auctioneer, with more than 40 auction sites worldwide. It sold $3.5 billion of used and unused equipment at more than 300 unreserved auctions in 2009, including a wide range of heavy equipment, trucks, and other assets for the construction, transportation, agricultural, material handling, mining, forestry, petroleum, and marine industries. While most people prefer to bid in person at Ritchie Bros. auctions, they are also able to bid online in real time at rbauction.com—the

The world's largest industrial auctioneer, Ritchie Bros., sells a wide range of heavy equipment.

Company's multilingual Web site. In 2009, 33 percent of the bidders at Ritchie Bros. auctions bid over the Internet; online bidders purchased $830 million of equipment.[38]

- ***Spot (or exchange) markets.*** On spot electronic markets, prices change by the minute. ChemConnect.com is an online exchange for buyers and sellers of bulk chemicals such as benzene, and it's a B2B success in an arena littered with failed sites. First to market, it is now the biggest online exchange for chemical trading, with 1 million barrels traded daily. Customers such as Vanguard Petroleum Corp. in Houston conduct about 15 percent of their spot purchases and sales of natural gas liquids on ChemConnect's commodities trading site.
- ***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.

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. Identifying good leads and converting them to sales requires the marketing and sales organizations to take a coordinated, multichannel approach to the role of trusted advisor to prospective customers. Marketing must work together 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.[39]

Marketing 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.[40] To proactively generate 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.[41]

Suppliers that lack the required production capacity or suffer from a poor reputation will be rejected. Those 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 change their marketing to increase their likelihood of making the cut.

Proposal Solicitation

The buyer next invites qualified suppliers to submit proposals. If the item is complex or expensive, the proposal will be written and detailed. After evaluating the proposals, the buyer will invite a few suppliers to make formal presentations.

Business marketers must be skilled in researching, writing, and presenting proposals. Written proposals should be 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 are often team efforts. Pittsburgh-based Cutler-Hammer developed "pods" of salespeople focused on a particular geographic region, industry, or market concentration. Salespeople can leverage the knowledge and expertise of coworkers instead of working in isolation.[42]

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.

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					

To develop compelling value propositions, business marketers need to better understand how business buyers arrive at their valuations.[43] Researchers studying how business marketers assess customer value found eight different *customer value assessment (CVA)* methods. Companies tended to use the simpler methods, although the more sophisticated ones promise to produce a more accurate picture of CPV (see "Marketing Memo: Developing Compelling Customer Value Propositions").

The choice of attributes and their relative importance varies 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), the most important attributes are price, supplier reputation, product reliability, service reliability, and supplier flexibility.

OVERCOMING PRICE PRESSURES The buying center may attempt to negotiate with preferred suppliers for better prices and terms before making the final selection. 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.[44]

marketing **Memo**

Developing Compelling Customer Value Propositions

To command price premiums in competitive B2B 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 value in different applications.
2. *Field value-in-use assessment*—Interview customers about how costs of using a new product compare to 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, you 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 determined 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 points-of-parity and points-of-difference 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, 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.

Marketers can counter requests for a lower price in a number of ways. They may be able to show evidence that the total cost of ownership, that is, the life-cycle cost of using their product, is lower than for competitors' products. They can cite the value of the services the buyer now receives, especially if they are superior to those offered by competitors. 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.[45]

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.[46] 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.[47]

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.[48]

- 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.

Solution selling can also alleviate price pressure and comes in different forms. Here are three examples.[49]

- ***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.

Lincoln Electric

Lincoln Electric Lincoln Electric has a decades-long tradition of working with its customers to reduce costs through its Guaranteed Cost Reduction 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 of 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.[50]

Risk and gain sharing can offset price reductions that 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 Medline achieves substantially more than promised, 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, they want them to achieve continuous quality and performance improvement, and at the same time they want them to 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 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.

In the case of 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.* The buyer's computer automatically sends an order to the seller when stock is needed. This system locks suppliers in tighter with the buyer and makes it difficult for out-suppliers to break in unless the buyer becomes dissatisfied with prices, quality, or service.

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, who 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 in systems called *vendor-managed inventory* (VMI). These suppliers are privy to the customer's inventory levels and take responsibility for replenishing automatically through *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.[51]

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.

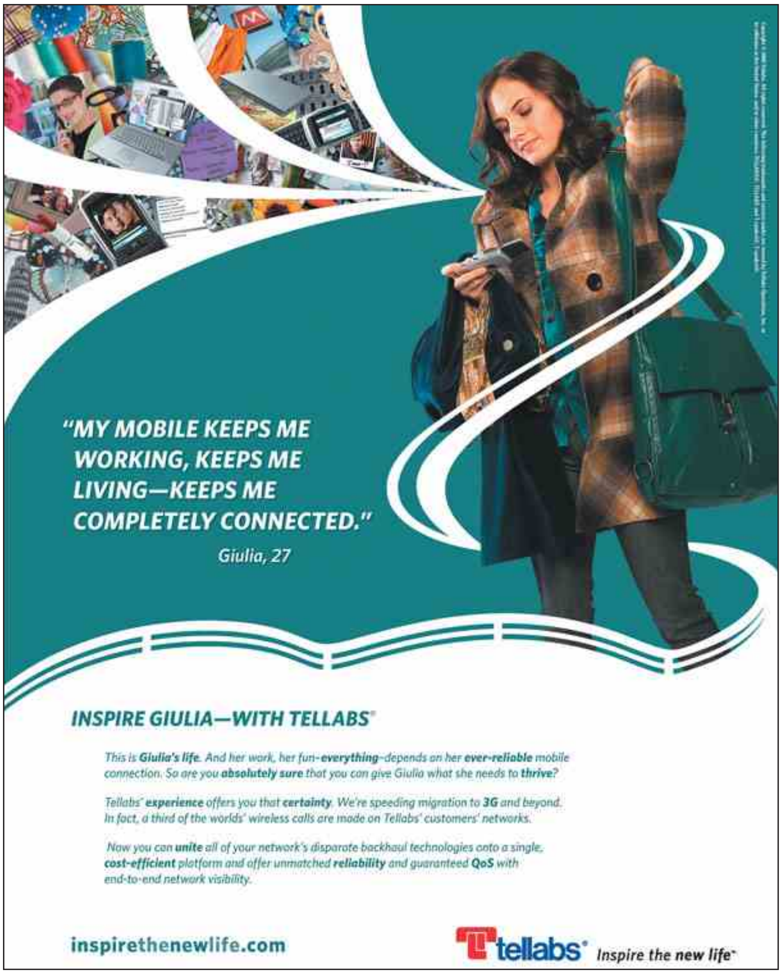
Many companies have set up incentive systems to reward purchasing managers for good buying performance, in much the same way sales personnel receive bonuses for good selling performance. These systems lead purchasing managers to increase pressure on sellers for the best terms.

Managing Business-to-Business Customer Relationships

To improve effectiveness and efficiency, business suppliers and customers are exploring different ways to manage their relationships.[52] Closer relationships are driven in part by supply chain management, early supplier involvement, and purchasing alliances.[53] Cultivating the right relationships with business is paramount for any holistic marketing program.

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. They are increasingly using online social media in the form of company blogs, online press releases, and forums or discussion groups to communicate with existing as well as prospective customers.

Tellabs Competing with industry giants Alcatel-Lucent and Cisco Systems, Tellabs is a telecommunications equipment design and research company that provides equipment to transmit voice, video, and data across communication networks. To differentiate itself, Tellabs decided to develop a marketing campaign that would focus on tech-savvy end users of products its *customers* sold. The campaign, "Inspire the New Life," targeted telecommunication service providers to show how Tellabs understood the new generation of technology users and provided solutions to meet their needs. After research showed users were five times more likely to listen to an audio podcast than to read a white paper, and twice as likely to watch a video than listen to a podcast, Tellabs decided to use six-minute video "technology primers" instead of traditional case studies and white papers. Its videos posted on YouTube, Google Video, and the company's Web site were downloaded 100,000 times. Adding a new podcast once or twice a month, the company estimated that the campaign generated three times the exposure, for the cost, than a traditional ad-based Web campaign.[54]



Tellabs differentiates itself by its focus on the customers of its customers.

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 engage in activities that create more value for both parties.[55] Building trust is one prerequisite to 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 inter-firm ties.[56]

A number of forces influence the development of a relationship between business partners.[57] Four relevant factors 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:[58]

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.
4. ***Customer supply***—In this traditional custom 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.

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 for 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, dynamic, and so on.

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 the willingness of a firm 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 employees incentives that are aligned to meet with 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 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 determine the creditworthiness of trading partners.

Sources: Bob Violino, "Building B2B Trust," *Computerworld,* June 17, 2002, p. 32; Richard E. Plank, David A. Reid, and Ellen Bolman Pullins, "Perceived Trust in Business-to-Business Sales: A New Measure," *Journal of Personal Selling and Sales Management* 19, no. 3 (Summer 1999), pp. 61–72; 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).

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.[59] 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 the supply was important to the customer and there were procurement obstacles, such as complex purchase requirements and few alternate suppliers.[60] 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.[61]

Business Relationships: Risks and Opportunism

Researchers have noted that establishing a customer–supplier relationship creates tension between safeguarding (ensuring predictable solutions) and adaptation (allowing for flexibility for unanticipated events). Vertical coordination can facilitate stronger customer–seller ties but at the same time may increase the risk to the customer's and supplier's specific investments. *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).[62] They help firms grow profits and achieve their positioning.[63] 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.[64]

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.[65]

> 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."[66] It may entail blatant self-serving and deliberate misrepresentation that violates contractual agreements. In creating the 1996 version of the Ford Taurus, Ford Corporation chose to outsource the whole process to one supplier, Lear Corporation. Lear committed to a contract that, for various reasons, it knew it was unable to fulfill. According to Ford, Lear missed deadlines, failed to meet weight and price objectives, and furnished parts that did not work.[67] A more passive form of opportunism might be a refusal or unwillingness to adapt to changing circumstances.

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.[68] 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).[69]

New Technology and Business Customers

Top firms are comfortable using technology to improve the way they do business with their business-to-business customers. Here are some examples of how they are redesigning Web sites, improving search results, leveraging e-mails, engaging in social media, and launching Webinars and podcasts to improve their business performance.

- 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.[70]
- Hewlett-Packard launched a "Technology at Work" e-mail newsletter to focus on retention of its current customers. The newsletter's content and format were based on in-depth research to find out what customers wanted. Hewlett-Packard measures the effects of the newsletter carefully and found that e-mailing product updates helped avoid inbound service calls, saving millions of dollars.[71]

Health care cost-containment service provider Chapman Kelly finds its online marketing efforts have provided bottom-line rewards.

- Emerson Process Management makes automation systems for chemical plants, oil refineries, and other types of factories. The company blog about factory automation is visited by thousand of readers who like to hear and swap factory war stories. It attracts 35,000 to 40,000 regular visitors each month, generating five to seven leads a week. Given that the systems sell for up to millions, ROI on the blog investment is immense.[72]
- Machinery manufacturer Makino builds relationships with end-user customers by hosting an ongoing series of industry-specific Webinars, producing an average of 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. Makino's database created from Webinar participants has allowed the firm to cut marketing costs and improve its effectiveness and efficiency.[73]
- Acquired by IBM in January 2008, Cognos provides business intelligence and performance management software and services to help companies manage their financial and operational performance. To increase their visibility and improve customer relations, Cognos launched BI radio, an RSS-enabled series of 30-minute podcasts released every six weeks addressing a range of topics such as marketing, leadership, business management, and "killer apps." Attracting 60,000 subscribers, the podcasts are thought to have directly or indirectly led to $7 million in deals.[74]

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.

ARAMARK

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 ARAMARK 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.[75]

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. In some cases, they will make 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.

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 bought goods and services valued at $220 billion in fiscal year 2009, making it the largest and therefore most potentially attractive customer in the world.

It is not just the dollar figure that is large, but the number of individual acquisitions. According to the General Services Administration Procurement Data Center, over 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 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.[76]

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.[77]

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 items built to the government's specs, communicating with vendors online to eliminate the massive paperwork, and giving vendors who lose a bid a "debriefing" from the appropriate government agency to increase their chances of winning the next time around.[78] More purchasing is being done online via Web-based forms, digital signatures, and electronic procurement cards (P-cards).[79] 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.[80]

In spite of these reforms, for a number of reasons many companies that sell to the government have not used a marketing orientation. Some, though, have pursued government business by establishing separate government marketing departments. Companies such as 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 to 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 be aware of 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 must form strong bonds and relationships with their customers and provide them added value. Some customers, however, may prefer a transactional relationship. Technology is aiding the development of strong business relationships.
6. 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?

Many business-to-business marketing executives lament the challenges of business-to-business marketing, maintaining that many traditional marketing concepts and principles do not apply. For a number of reasons, they assert 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

B-to-C & B-to-B Concepts

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 began in 1942 as Administrative Accounting Group, the consulting arm of accounting firm Arthur Andersen. In 1989, it launched as 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 accounting corporate parent. To build its 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 its full independence from Arthur Andersen—but it had to relinquish the Andersen name. Andersen Consulting was given three months to find a name that was able to be trademarked in 47 countries, effective and inoffensive in over 200 languages, and acceptable to employees and clients—*and* that corresponded with an available URL. The effort that followed was one of the largest—and most successful—rebranding campaigns in corporate history.

As luck would have it, the company's new name came from a consultant at the company's Oslo office, who submitted "Accenture" as part of an internal name-generation initiative dubbed "Brandstorming." The consultant coined the Accenture name because it rhymed with "adventure" and connoted 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. On midnight, December 31, 2000, Andersen Consulting officially adopted the Accenture name and launched a global marketing campaign targeting senior executives at

Accenture's clients and prospects, all Accenture partners and employees, the media, leading industry analysts, potential recruits, and academia.

The results of the advertising, marketing, and communications campaigns were quick and impressive. Overall, Accenture's brand equity increased 11 percent, and the number of firms inquiring about its services increased 350 percent. Awareness of Accenture's breadth and depth of services achieved 96 percent of its previous level. Globally, awareness of Accenture as a provider of management and technology consulting services was 76 percent of levels for the former Andersen Consulting name. These results enabled Accenture to successfully complete a $1.7 billion IPO in July 2001.

In 2002, Accenture unveiled a new positioning to reflect its new role as a partner to aid execution of strategy, summarized succinctly by the tagline "Innovation Delivered." This tagline was supported by the statement, "From innovation to execution, Accenture helps accelerate your vision." Accenture surveyed senior executives from different industries and countries and confirmed that they saw inability to execute and deliver on ideas as the number one barrier to success.

Accenture saw its differentiator as 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, the business climate changed. After the dot-com crash and the economic downturn, innovation was no longer enough. Executives wanted bottom-line results. As part of its new commitment to helping clients achieve their business objectives, Accenture 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 out, the athlete was at the top of his game—the world's best golfer with an impeccable image. What better symbol for 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 quickly searched for a new concept that not only resonated across the world, translated appropriately into different cultures, but also cut its ties with Woods.

The result came after the firm dusted off some previous concepts, tested them with focus groups of business professionals, and launched a $50 million campaign featuring animals and the same slogan, "High Performance. Delivered." In one ad, an elephant is pictured surfing alongside copy that reads, "Who says you can't be big and nimble?" In a later ad, a lizard tries to catch a butterfly by transforming its tongue into the design of a flower. The copy stated, "If you innovate, they will come."

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 2009 with revenues of $21.5 billion.

Questions

1. What has Accenture done well to target its B-to-B audience?
2. Has Accenture done the right thing by dropping Tiger Woods as its spokesperson? Discuss the pros and cons of its decision.

Sources: "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.

Marketing Excellence

>>GE

General Electric (GE) is made up of five major divisions that operate in a wide range of industries: Energy (Energy, Oil & Gas, Water and Process Technologies), Technology Infrastructure (Aviation, Enterprise Solutions, Healthcare, Transportation), GE Capital (Commercial Lending & Leasing, Consumer Financing, Energy Financial Services, GE Capital Aviation Services, Real Estate Financing), NBC Commercial (Cable, Film, Networks, Parks & Resorts), and Consumer & Industrial (Appliances, Consumer Electronics, Electrical Distribution, Lighting). As a result, GE sells a diverse array of products and services from home appliances to jet engines, security systems, wind turbines, and financial services. GE's revenues topped $161 billion in 2009, making it so large that if each of its five business units were ranked separately, they all would appear in the *Fortune* 200. If GE were its own country, it would be the 50th largest in the world, ahead of Kuwait, New Zealand, and Iraq.

Thomas Edison originally founded the company as the Edison Electric Light Company in 1878. The company, which soon changed its name to General Electric, 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. Over 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.

In 2003, GE and the company's new CEO, Jeffrey Immelt, faced a fresh challenge; how to promote its diversified brand with a unified global message. After extensive consumer research, the company launched a major new campaign called "Imagination at Work," which highlighted its renewed focus on innovation and new technology. The award-winning campaign promoted units such as GE Aircraft Engines, GE Medical Systems, and GE Plastics, focusing on the breadth of GE's product offerings. GE initially spent over $150 million on corporate advertising, a significant expenditure but one that created efficiencies by focusing on the core GE brand. The goal was to unify these divisions under the GE brand while giving them a voice. "When you're a company like ours, with 11 different businesses, brand is really important in pulling the identity of the company together," said former Chief Marketing Officer Beth Comstock. "Integration was important in communicating the brand across the organization and to all of our constituents."

The new integrated campaign 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, the company extended the campaign with its next initiative, "Ecomagination," which highlighted the company's efforts to develop environmentally friendly "green" technologies such as solar energy, lower-emission engines, and water purification technologies. The company leveraged the "Imagination" tagline again with a 2006 campaign called "Health Care Re-Imagined" that featured innovative GE health care products for detecting, preventing, and curing diseases.

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 B2B direction. GE moved from 11 divisions to 5 and sold off some of its consumer-focused businesses, including 51 percent of NBC Universal (sold to Comcast). This shift allowed GE to spend more resources on innovation, green initiatives, and its growing businesses such as power generation, aviation, medical-imaging, and cell technologies. GE continued to use the Ecomagination campaign and introduced "Healthymagination," which communicated its advances in medical technologies around the world.

GE's recent corporate campaigns have united its business units, but its success rests on its ability to understand the business market and the business buying process, putting itself in the shoes of its business customers. Consider its approach to pricing its aircraft engines. GE knows that purchasing an aircraft engine is a multimillion-dollar expenditure, and one that doesn't end with the purchase. Customers (the airlines) face substantial maintenance costs to meet FAA guidelines and ensure reliability of the engines. So in 1999, GE pioneered a new pricing option called "Power by the Hour." This concept gives 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.

This kind of B-to-B marketing savvy has helped GE cement its top position in the *Financial Times*'s "World's Most Respected Companies" survey for years. Its understanding of the business markets, its way of doing business, and its brand marketing have kept GE's brand equity growing. Indeed, its brand equity was ranked fourth and valued at $48 billion in the 2009 Interbrand/*BusinessWeek* ranking of the "Top 100 Global Brands." "The GE brand is what connects us all and makes us so much better than the parts," Chief Marketing Officer Comstock said.

Questions

1. Discuss the importance of B-to-B marketing and a strong B-to-B brand to GE.
2. Have "Imagination at Work," "Ecomagination," and "Healthymagination" successfully communicated GE's focus on its newer endeavors? Why or why not?

Sources: 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.