

PART

THE ENVIRONMENT OF BUSINESS MARKETING

A Business Marketing Perspective

The business market poses special challenges and significant opportunities for the marketing manager. This chapter introduces the complex forces that are unique to the business marketing environment. After reading this chapter, you will understand:

1. the dynamic nature of the business marketing environment and the basic similarities and differences between consumer-goods and business marketing.
2. the underlying factors that influence the demand for industrial goods.
3. the nature of buyer-seller relationships in a product's supply chain.
4. the types of customers in this important market.
5. the basic characteristics of industrial products and services.

Business Marketing

Business marketers serve the largest market of all: The dollar volume of transactions in the industrial or business market significantly exceeds that of the ultimate consumer market. In the business market, a single customer can account for an enormous level of purchasing activity. For example, the corporate procurement department at IBM spends more than \$40 billion annually on industrial products and services.¹ Others, such as Procter & Gamble, Apple, Merck, Dell, and Kimberly Clark each spend more than half of their annual sales revenue on purchased goods and services.² Indeed, all formal organizations—large or small, public or private, for-profit or not-for-profit—participate in the exchange of industrial products and services, thus constituting the business market.

Business markets are “markets for products and services, local to international, bought by businesses, government bodies, and institutions (such as hospitals) for incorporation (for example, ingredient materials or components), for consumption (for example, process materials, office supplies, consulting services), for use (for example, installations or equipment), or for resale. . . . The only markets not of direct interest are those dealing with products or services which are principally directed at personal use or consumption such as packaged grocery products, home appliances, or consumer banking.”³ The factors that distinguish business marketing from consumer marketing are the nature of the customer and how that customer uses the product. In business marketing, the customers are organizations (businesses, governments, institutions).

Business firms buy industrial goods to form or facilitate the production process or use as components for other goods and services. Government agencies and private institutions buy industrial goods to maintain and deliver services to their own market: the public. Industrial or business marketing (the terms can be used interchangeably) accounts for more than half the economic activity in the United States, Canada, and most other nations. More than 50 percent of all business school graduates join firms that compete directly in the business market. The heightened interest in high-technology markets—and the sheer size of the business market—has spawned increased emphasis on business marketing management in universities and corporate executive training programs.⁴

This book explores the business market’s special opportunities and challenges and identifies the new requirements for managing the marketing function in this vital sector of the global economy. The following questions establish the theme of this first chapter: What are the similarities and differences between consumer-goods marketing

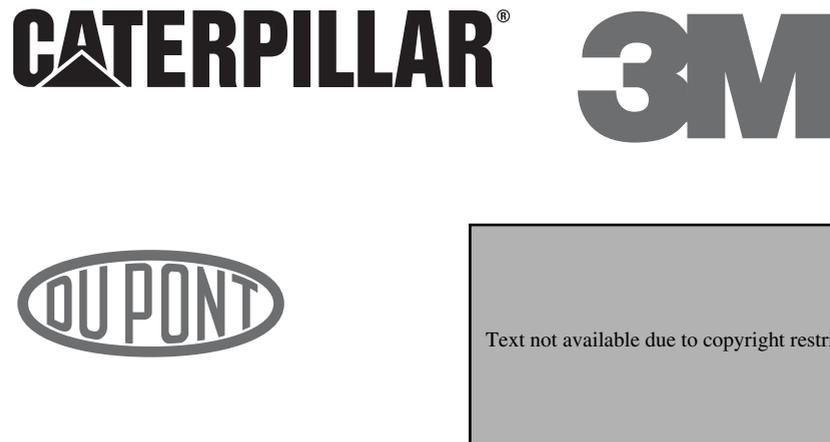
¹Tim Ferguson, “IBM Shifts Procurement HQ to China,” ZDNet News: October 13, 2006, accessed at <http://www.news.zdnet.com> on June 1, 2008.

²Chip W. Hardt, Nicolas Reinecke, and Peter Spiller, “Inventing the 21st Century Purchasing Organization,” *The McKinsey Quarterly* (4, 2007): pp. 115–117.

³Prospectus for the Institute for the Study of Business Markets, College of Business Administration, the Pennsylvania State University and J. David Lichtenthal, Venkatapparao Mummameni, and David T. Wilson, “The Essence of Business Marketing Theory, Research, and Tactics: Contributions from the Journal of Business-to-Business Marketing,” *Journal of Business-to-Business Marketing* 15 (2, 2008): pp. 91–123.

⁴J. David Lichtenthal, “Business-to-Business Marketing in the 21st Century,” *Journal of Business-to-Business Marketing* 12 (1, 2, 1998): pp. 1–5; J. Lichtenthal, “Advocating Business Marketing Education: Relevance and Rigor—Uttered as One,” *Journal of Business-to-Business Marketing* 14 (1, 2007): pp. 1–12; and Michael D. Hutt and Thomas W. Speh, “Business Marketing Education: A Distinctive Role in the Undergraduate Curriculum,” *Journal of Business-to-Business Marketing* 12 (1, 2, 1998): pp. 103–126.

FIGURE 1.1 | POWERFUL B2B BRANDS



SOURCES: Caterpillar: Reprinted courtesy of Caterpillar, Inc.

3M: Courtesy of 3M.

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and business marketing? What customers constitute the business market? How can the multitude of industrial goods be classified into manageable categories? What forces influence the behavior of business market demand?

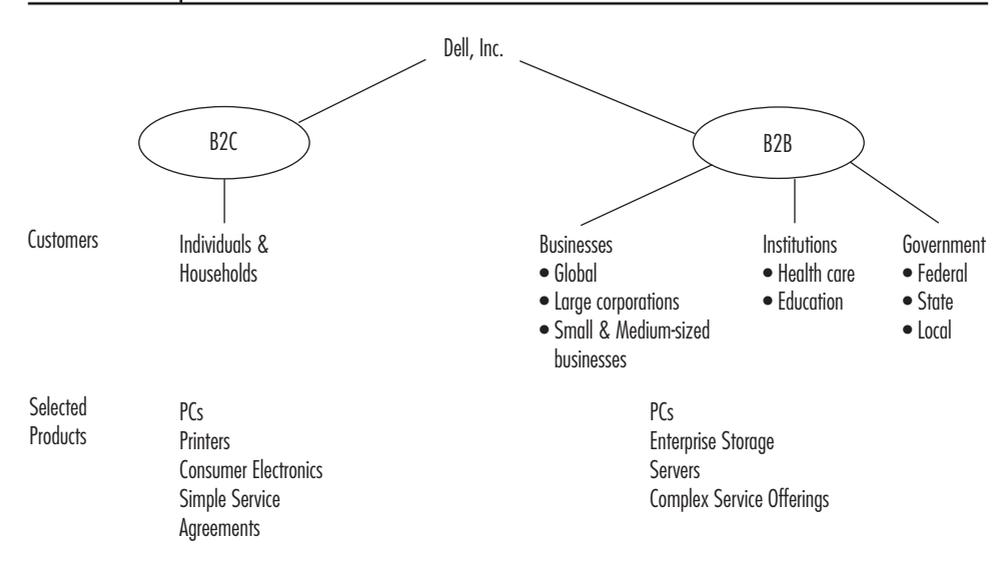
Business Marketing Management

Many large firms that produce goods such as steel, production equipment, or computer-memory chips cater exclusively to business market customers and never directly interact with their ultimate consumers. Other firms participate in both the consumer-goods and the business markets. The introduction of laser printers and personal computers brought Hewlett-Packard, historically a business-to-business marketer, into the consumer market. Conversely, lagging consumer markets prompted Sony Corporation to expand to the business market by introducing office automation products. Both companies had to reorient their marketing strategies dramatically because of significant differences in the buying behavior of consumer versus business markets.

Products like cell phones, office furniture, personal computers, and software are purchased in both the consumer and the business markets. What distinguishes business marketing from consumer-goods marketing is the *intended use of the product* and the *intended consumer*. Sometimes the products are identical, but a fundamentally different marketing approach is needed to reach the organizational buyer. Interestingly, some of the most valuable brands in the world belong to business marketers: Cisco, Google, BlackBerry, Caterpillar, IBM, FedEx, GE, DuPont, Intel, Hewlett-Packard, and 3M⁵ (Figure 1.1).

⁵Frederick E. Webster, Jr. and Kevin Lane Keller, "A Roadmap for Branding in Industrial Markets," *Journal of Brand Management* 11 (May 2004): pp. 388–402; and Matthew Schwartz, "B to B's Best: Brands," *B to B*, Special Issue (2007), accessed at <http://www.btoonline> on May 15, 2008.

FIGURE 1.2 | THE CONSUMER MARKET (B2C) AND THE BUSINESS MARKET (B2B) AT DELL



Business Market Customers

Business market customers can be broadly classified into three categories: (1) commercial enterprises—that is, businesses; (2) institutions—for example, universities; and (3) government. Consider Dell, Inc.: The firm serves both the business market (B2B) and the consumer market (B2C) (Figure 1.2). Importantly, however, more than 80 percent of its sales come from B2B customers!

Dell serves each sector of the business market.⁶ First, the firm has developed close relationships with large global enterprises, like Boeing, and large corporate customers. These customers purchase thousands of personal computers (PCs) and now turn to Dell for a full range of information technology (IT) products and services. The volume of business coming from a single business customer can be huge: One customer bought 20,000 laptop computers for its global sales organization, and some enterprises have an installed base of more than 100,000 Dell computers. Second, small and medium-sized businesses (SMB) represent a substantial market, and Dell demonstrates special skills in understanding and reaching these customers. SMB firms now represent more than 1 million of Dell’s customers in the United States, and this base is growing rapidly around the world. Third, the firm serves the government market at all levels as well as institutional customers like universities and health-care organizations. Across each of its market sectors, a worldwide shift in demand from desktop computers to mobility products, including notebooks, is fueling rapid growth for Dell in India and China as well as in Europe, the Middle East, and Africa.⁷ To compensate for the maturing PC business, Dell has also

⁶V. Kasturi Rangan and Marie Bell, “Dell—New Horizons,” Harvard Business School Case #9–502–022, October 10, 2002 (Boston, MA: Harvard Business School Publishing).

⁷Daniel Workman, “Dell Computer International Sales,” *suite101.com*, June 22, 2008, accessed at http://multinationalexpansion.suite101.com/article.cfm/dell_computer_international_sales on June 28, 2008.

B2B TOP PERFORMERS

Jim Ryan, President and Chief Executive Officer, W.W. Grainger, Inc.

W.W. Grainger, Inc. (NYSE: GWW), with sales of \$6.5 billion, is the leading broad line supplier of facilities maintenance products serving businesses and institutions throughout North America. Through its network of nearly 600 branches, 18 distribution centers, and multiple Web sites, Grainger helps customers save time and money by providing them with the right products to keep their facilities running.

Jim Ryan was elected to group president of Grainger in 2004, president of Grainger in 2006, chief operating officer in 2007, adding the title of chief executive officer in 2008. Ryan's career at Grainger is testimony to his philosophy that "you prepare to be a leader by deliberately taking on unfamiliar and difficult assignments—those that many shy away from. Challenging assignments are the training ground that provides the highest level of learning, preparing you for leadership at the top levels of large companies." Jim's rise through the ranks of Grainger includes senior assignments in IT, Grainger Parts, Marketing, Sales & Service, and the company's eBusiness. While in IT, Ryan oversaw the implementation of the SAP system and achieved corporate Y2K compliance. Both of these accomplishments reflect Ryan's focus on seeking out challenging undertakings.

Grainger's success is focused on helping its customers reduce the overall acquisition costs for maintenance, repair, and operating (MRO) items. Grainger encourages customers to eliminate their inventories of MRO items and rely on Grainger's responsive distribution systems and expertise to



provide these items just when they are needed, reducing the acquisition costs of these indirect materials. Grainger's philosophy is to be "customer intimate," where a customer's and a supplier's (Grainger) processes are fully integrated so that the customer becomes more efficient. Essentially, Grainger seeks to reduce the customer's total costs of acquiring MRO products.

Ryan believes that students preparing to be future leaders of B2B companies can best prepare for that role by developing four skills during their college education: (1) discipline and a strong work ethic; (2) cultivating "people skills"; (3) building analytical skills; and (4) organizational skills. He advises young people to focus on the strong work ethic early in their careers and to accept tough jobs other managers are not interested in tackling. Echoing his own tactics, Ryan advises students that "you learn the critical management skills when you take on those assignments that are unfamiliar and complicated." His accomplishments as a leader of a successful company are testimony to the wisdom of his approach.

SOURCE: Reprinted by permission of Grainger.

expanded the scope of its product offerings to include a broader array of IT products, including servers and data storage for the business market, and a growing list of consumer electronics products, such as flat-screen TVs and Global Positioning Systems (GPS), for the consumer market.

Business Markets versus Consumer-Goods Markets

The basic task of management cuts across both consumer-goods and business marketing. Marketers serving both sectors can benefit by rooting their organizational plan in

a *market orientation*, which requires superior proficiency in understanding and satisfying customers.⁸ Such market-driven firms demonstrate

- a set of values and beliefs that places the customers' interests first⁹;
- the ability to generate, disseminate, and productively use superior information about customers and competitors¹⁰;
- the coordinated use of interfunctional resources (for example, research and development, manufacturing).¹¹

Distinctive Capabilities A close examination of a market-driven firm reveals two particularly important capabilities: market sensing and customer linking.¹² First, the **market-sensing capability** concerns how well the organization is equipped to continuously sense changes in its market and anticipate customer responses to marketing programs. Market-driven firms spot market changes and react well in advance of their competitors (for example, Coca-Cola in the consumer-goods market and 3M in the business market). Second, the **customer-linking capability** comprises the particular skills, abilities, and processes an organization has developed to create and manage close customer relationships.

Consumer-goods firms, such as Procter & Gamble (P&G), demonstrate these capabilities in working with powerful retailers like Wal-Mart. Here, multifunctional teams in both organizations work together by sharing delivery and product-movement information and by jointly planning promotional activity and product changes. Although evident in manufacturer-reseller relations in the consumer-goods market, strong customer-linking capabilities are crucial in the business market, where close buyer-seller relationships prevail. Leading business-to-business firms like IBM and Hewlett-Packard demonstrate distinctive customer-linking skills and Cisco has propelled its legendary record of growth by forging close working relationships with customers and channel partners alike.

Managing Customers as Assets Marketing expenditures that were once viewed as short-term expenses are now being considered as customer assets that deliver value for the firm and its shareholders.¹³ As global competition intensifies, marketing managers are under increasing pressure to demonstrate the return on investment from marketing spending, deliver strong financial performance, and be more accountable to shareholders.¹⁴ To meet these performance standards, firms must develop and

⁸George S. Day, "The Capabilities of Market-Driven Organizations," *Journal of Marketing* 58 (October 1994): pp. 37–52; and Gary F. Gebhardt, Gregory S. Carpenter, and John F. Sherry, Jr., "Creating a Market Orientation: A Longitudinal, Multifirm, Grounded Analysis of Cultural Transformation," *Journal of Marketing* 70 (October 2006): pp. 37–55.

⁹Rohit Deshpande, John U. Farley, and Frederick E. Webster Jr., "Corporate Culture, Customer Orientation, and Innovativeness in Japanese Firms: A Quadrad Analysis," *Journal of Marketing* 57 (January 1993): pp. 23–37.

¹⁰Ajay K. Kohli and Bernard J. Jaworski, "Market Orientation: The Construct, Research Propositions, and Managerial Implications," *Journal of Marketing* 54 (April 1990): pp. 1–18.

¹¹John C. Narver and Stanley F. Slater, "The Effect of a Market Orientation on Business Profitability," *Journal of Marketing* 54 (October 1990): pp. 20–35.

¹²Day, "Capabilities of Market-Driven Organizations," pp. 37–52; and Girish Ramani and V. Kumar, "Interaction Orientation and Firm Performance," *Journal of Marketing* 72 (January 2008): pp. 27–45.

¹³V. Kumar and Werner Reinartz, *Customer Relationship Management* (Hoboken, NJ: John Wiley & Sons, 2006).

¹⁴Frederick E. Webster, Jr., Alan J. Malter, and Shankar Ganesan, "The Decline and Dispersion of Marketing Competence," *MIT Sloan Management Review* 46 (Summer 2005): pp. 35–43.

B2B TOP PERFORMERS

Career Path for B2B CEOs: For Many, It Began in Marketing!

Executives with a strong background in sales and marketing are taking the top position at leading business marketing firms. Why? Companies now place increased importance on customer relationships. “They’ve changed their sales strategies to emphasize building long-term partnerships with customers. And they’re building profitable businesses on the notion that it’s far cheaper to sell to current customers than it is to acquire new ones.” Sales and marketing executives understand customers, know the competitive landscape, and have keen insights concerning how to add value to the firm’s offerings and to the customer’s organization. That is why many firms are tapping sales and marketing executives for the CEO position. Here are three examples:

- Cisco Systems—John Chambers began his career as an IBM salesperson where he learned the importance of listening carefully to customers and delivering on promises.¹
- Xerox Corporation—Ann Mulcahy spent the majority of her 25 years at the firm in sales positions before being appointed president and CEO.

- GE—In a 20-year career, Jeffrey Immelt held a variety of GE sales and marketing positions before being named to succeed Jack Welch as CEO.

All of these CEOs have taken steps to make their respective organization more customer centered. For example, Jeffrey Immelt’s priorities for GE reflect his background in B2B marketing. These are “making sure all the processes work correctly, for example, so deliveries are always on time; ensuring that whatever GE’s proposition to the customer is, it will make that customer more money; and increasing the effectiveness of GE’s sales force.”² Looking ahead, he seeks new leaders for growth at GE—people who are passionate about customers and innovation, people who really know markets and products.³

¹“Business Biographies: John T. Chambers,” <http://www.answers.com>, accessed on June 29, 2008.

²Eilene Zimmerman, “So You Wanna Be a CEO,” *Sales & Marketing Management* (January 2002): pp. 31–35.

³Patricia O’Connell, “Bringing Innovations to the Home of Six Sigma,” *BusinessWeek Online*, August 1, 2005, accessed at <http://www.businessweek.com>.

nurture **customer relationship management capabilities**, which include all the skills required to identify, initiate, develop, and maintain profitable customer relationships.

Marketing Tasks: What Managers Do To bring the job of business marketing professionals to life, let’s examine some of the day-to-day assignments they perform. In customer relationship management, some critical marketing tasks include “identifying and categorizing customer segments; determining a customer’s current and potential needs; visiting customers to learn about the uses and applications of individual products; developing and executing the individual components of sales, advertising, promotion, and services programs; assessing price sensitivities; and determining customer response to rivals’ current and potential offerings.”¹⁵ Research clearly demonstrates that the customer relationship management process has an important impact on a firm’s financial performance.

¹⁵Rajendra K. Srivastava, Tasadduq A. Shervaie, and Liam Fahey, “Marketing, Business Processes, and Shareholder Value: An Organizationally Embedded View of Marketing Activities and the Discipline of Marketing,” *Journal of Marketing* 63 (Special Issue, 1999): pp. 168–179.

Profit Focus Developing a firm grasp on the profit impact of marketing strategy actions is fundamental to the job of a business marketing manager. Included here is the need to isolate the forces that drive customer profitability, aligning resources spent on customers to the revenues and profit that will be secured. To this end, Robert S. Kaplan and David P. Norton assert:

A company that forgets, or never realizes, that it has unprofitable products and customers in the current period will almost surely continue to incur losses in unprofitable products and customers in future periods. Having a clear picture about where the company is making money and losing money should be a vital input to any strategy review.¹⁶

Partnering for Increased Value A business marketer becomes a preferred supplier to major customers such as Apple, Texas Instruments, or Procter & Gamble by working closely as a partner, developing an intimate knowledge of the customer's operations, and contributing unique value to that customer's business. Business marketing programs increasingly involve a customized blend of tangible products, service support, and ongoing information services both before and after the sale. Market-driven firms place a high priority on customer-linking capabilities and closely align product decisions—as well as delivery, handling, service, and other supply chain activities—with the customer's operations. For firms like Intel or Boeing to deliver maximum value to their customers, each must receive maximum value from its suppliers. For instance, Intel could not have achieved its commanding global market share without the cost, quality, technology, and other advances its suppliers contribute.¹⁷

Creating the Customer Value Proposition¹⁸

Business marketing strategy must be based on an assessment of the company, the competitor, and the customer. A successful strategy focuses on identifying those opportunities in which the firm can deliver superior value to customers based on its distinctive competencies. From this perspective, marketing can be best understood as the process of defining, developing, and delivering value.

Market-driven firms attempt to match their resources, skills, and capabilities with particular customer needs that are not being adequately served. By understanding customer needs, marketing managers can define value from the customer's perspective and convert that information into requirements for creating satisfied customers. In turn, a firm's capabilities and skills determine the degree to which the company can meet these requirements and provide greater value than its competitors.

A business marketing firm's offering includes many technical, economic, service, or social benefits that provide value to customers—but so do the offerings of competitors. So, customers compare the value elements of a firm's offering with those offered

¹⁶Robert S. Kaplan and David P. Norton, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage* (Boston, MA: Harvard Business Press, 2008), p. 258.

¹⁷Gina Roos, "Intel Corporation: It Takes Quality to Be Preferred by World's Biggest Chipmaker," *Purchasing* 131 (November 15, 2001): pp. 21–22.

¹⁸James C. Anderson, James A. Narus, and Wouter van Rossum, "Customer Value Propositions in Business Markets," *Harvard Business Review* 84 (March 2006): pp. 91–99.

by the next best alternative.¹⁹ A **customer value proposition** captures the particular set of benefits that a supplier offers to advance the performance of the customer organization. Rather than merely attempting to list more benefits than competitors, “best practice suppliers base their value proposition on the few elements that matter most to target customers, demonstrate the value of this superior performance, and communicate it in a way that conveys a sophisticated understanding of the customer’s business priorities.”²⁰ The building blocks of a successful value proposition include:

- *Points of parity*—the value elements with essentially the same performance characteristics as the next best alternative;
- *Points of difference*—the value elements that render the supplier’s offering either superior or inferior to the next best alternative.

Value Proposition Illustrated Sonoco, a global packaging supplier headquartered in South Carolina, approached a large European customer, a producer of consumer goods, about redesigning the packaging for one of its successful product lines. Although the redesigned packaging provided several favorable points of difference relative to the next best alternative, Sonoco executives decided to place special emphasis on one point of parity and two points of difference in the customer value proposition: The redesigned packaging will deliver significantly greater manufacturing efficiency in the customer’s fill lines, through higher-speed closing, and provide a distinctive look that customers will find more appealing—all for the same price as the present packaging.

What Matters Most? A point of parity was included in the value proposition because **key buying influentials** (those who have power in the buying process) within the customer organization would not even consider a packaging redesign if the price increased. The first point of difference in the value proposition (increased efficiency) delivered cost savings, allowing the customer to dramatically streamline its production schedule. The second point of difference (more distinctive customer packaging) enhanced the firm’s market position and appeal to its customers, allowing it to realize meaningful growth in its revenues and profit. While the other favorable points of difference were certainly mentioned in discussions with the customer organization, Sonoco executives chose to emphasize those points that mattered most to the customer.

Marketing’s Cross-Functional Relationships

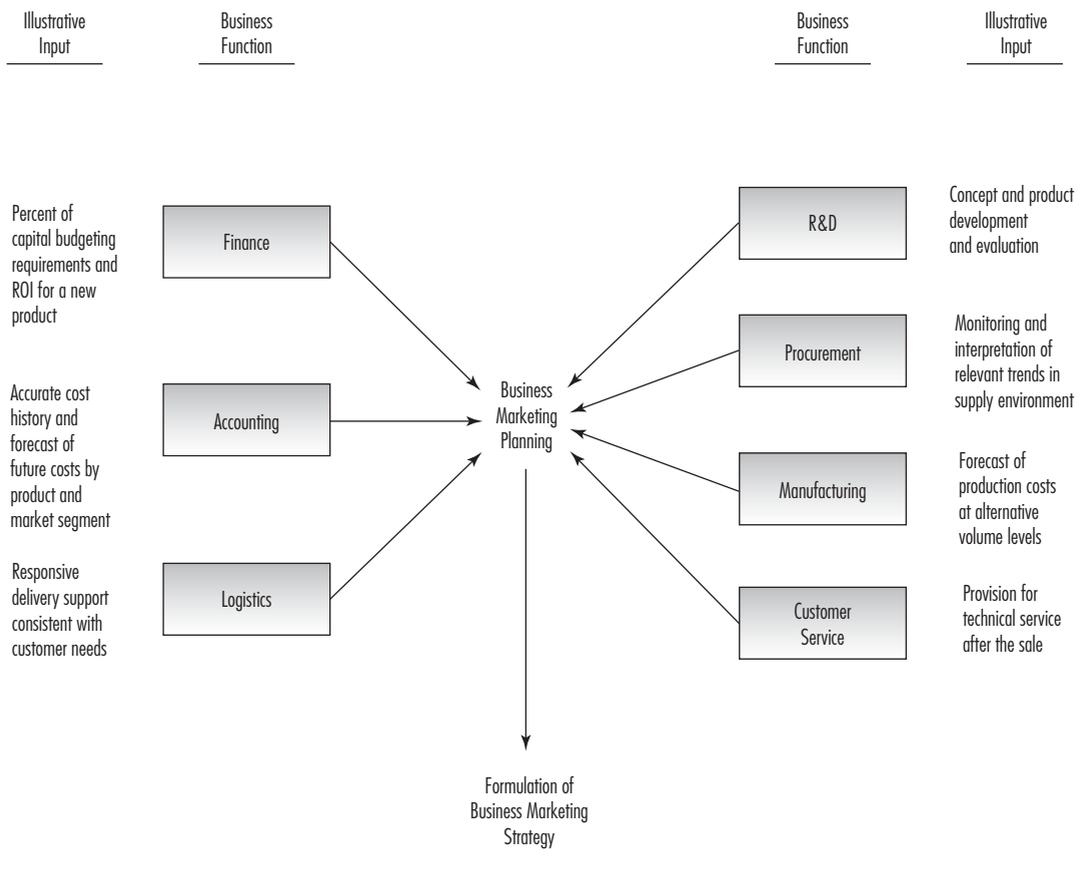
Rather than operating in isolation from other functional areas, the successful business marketing manager is an integrator—one who understands manufacturing, research and development (R&D), and customer service and who applies these strengths in developing marketing strategies that respond to customer needs.²¹ Close and tightly integrated cross-functional relationships underlie the strategy success stories of firms such as Hewlett-Packard and 3M. As firms adopt leaner and more agile structures and emphasize cross-functional teams, the business marketing manager assumes an important and challenging role in strategy formation.

¹⁹Wolfgang Ulaga and Andreas Eggert, “Value-Based Differentiation in Business Relationships: Gaining and Sustaining Key Supplier Status,” *Journal of Marketing* 70 (January 2006): pp. 119–136.

²⁰Anderson, Narus, and van Rossum, “Customer Value Propositions,” p. 93.

²¹Michael D. Hutt, “Cross-Functional Working Relationships in Marketing,” *Journal of the Academy of Marketing Science* 23 (Fall 1995): pp. 351–357.

FIGURE 1.3 | BUSINESS MARKETING PLANNING: A FUNCTIONALLY INTEGRATED PERSPECTIVE



Working Relationships A day in the life of a business marketing manager centers on building relationships with customers *and* in forging one-to-one relationships with managers in the firm’s other functional areas. By building effective cross-functional connections, the marketer is ideally equipped to respond to customers’ changing needs.

Business marketing success depends to a large degree on such functional areas in the firm as engineering, R&D, manufacturing, and technical service. Planning in the industrial setting thus requires more functional interdependence and a closer relationship to total corporate strategy than planning in the consumer-goods sector. B. Charles Ames points out that “changes in marketing strategy are more likely to involve capital commitments for new equipment, shifts in development activities, or departures from traditional engineering and manufacturing approaches, any one of which would have companywide implications.”²² All business marketing decisions—product, price, promotion, and distribution—are affected, directly or indirectly, by other functional areas. In turn, marketing considerations influence business decisions in R&D and in manufacturing and procurement, as well as adjustments in the overall corporate strategy. Business marketing planning must be coordinated and synchronized with corresponding planning efforts in R&D, procurement, finance, production, and other areas (Figure 1.3).

²²B. Charles Ames, “Trappings vs. Substance in Industrial Marketing,” *Harvard Business Review* 48 (July–August 1976): pp. 95–96.

Characteristics of Business Markets

Business marketing and consumer-goods marketing are different. A common body of knowledge, principles, and theory applies to both consumer and business marketing, but because their buyers and markets function quite differently, they merit separate attention. Consumer and business marketing differ in the nature of markets, market demand, buyer behavior, buyer-seller relationships, environmental influences (economic, political, legal), and market strategy. Yet, the potential payoffs are high for the firm that can successfully penetrate the business market. The nature of the demand for industrial products poses unique challenges—and opportunities—for the marketing manager.

Derived Demand **Derived demand** refers to the direct link between the demand for an industrial product and the demand for consumer products: *The demand for industrial products is derived from the ultimate demand for consumer products.* Consider the materials and components used in a Harley-Davidson motorcycle. Harley-Davidson manufactures some of the components, but the finished product reflects the efforts of more than 200 suppliers or business marketers who deal directly with the firm. In purchasing a Harley-Davidson motorcycle, the customer is stimulating the demand for a diverse array of products manufactured by business marketing firms—such as tires, electrical components, coil springs, aluminum castings, and other items.

Fluctuating Demand Because demand is derived, the business marketer must carefully monitor demand patterns and changing buying preferences in the household consumer market, often on a worldwide basis. For example, a decline in mortgage rates can spark an increase in new home construction and a corresponding increase in appliance sales. Retailers generally respond by increasing their stock of inventory. As appliance producers like Maytag increase the rate of production to meet the demand, business marketers that supply these manufacturers with items such as motors, timers, or paint experience a surge in sales. A downturn in the economy creates the opposite result. This explains why the demand for many industrial products tends to *fluctuate* more than the demand for consumer products.

Stimulating Demand Some business marketers must not only monitor final consumer markets but also develop a marketing program that reaches the ultimate consumer directly. Aluminum producers use television and magazine ads to point out the convenience and recycling opportunities that aluminum containers offer to the consumer—the ultimate consumer influences aluminum demand by purchasing soft drinks in aluminum, rather than plastic, containers. More than 4 billion pounds of aluminum are used annually in the production of beverage containers. Similarly, Boeing promotes the convenience of air travel in a media campaign targeted to the consumer market to create a favorable environment for longer-term demand for its planes; DuPont advertises to ultimate consumers to stimulate the sales of carpeting, which incorporates their product.

Price Sensitivity **Demand elasticity** refers to the responsiveness of the quantity demanded to a change in price. Demand is elastic when a given percentage change in price brings about an even larger percentage change in the quantity demanded. Inelasticity results when demand is insensitive to price—that is, when the percentage change in demand is less than the percentage change in price. Consider the demand for electronic components that is stimulated by companies making electronic games.

As long as final consumers continue to purchase and upgrade these games and are generally insensitive to price, manufacturers of the equipment are relatively insensitive to the price of electronic components. At the opposite end of the spectrum, if consumers are price sensitive when purchasing soup and other canned grocery products, manufacturers of soup will be price sensitive when purchasing metal cans. Thus, the derived demand indicates that the demand for metal cans is price elastic.

Final consumer demand has a pervasive impact on the demand for products in the business market. By being sensitive to trends in the consumer market, the business marketer can often identify both impending problems and opportunities for growth and diversification.

A Global Market Perspective A complete picture of the business market must include a horizon that stretches beyond the boundaries of the United States. The demand for many industrial goods and services is growing more rapidly in many foreign countries than in the United States. Countries like Germany, Japan, Korea, and Brazil offer large and growing markets for many business marketers. In turn, China and India represent economies with exploding levels of growth. Countless small firms and many large ones—such as GE, 3M, Intel, Boeing, Dow Chemical, Caterpillar, and Motorola—derive a significant portion of their sales and profits from international markets. For example, China plans to invest more than \$300 billion over the next few years in the country’s infrastructure, representing an enormous market opportunity for all of GE’s industrial businesses, including power generation, health care, and infrastructure (for example, water purification). For cell phone makers such as Motorola, China already represents a fiercely competitive market and features the world’s largest base of subscribers—well over 500 million.²³

Global Challengers From China’s Lenovo (computers) and Baosteel to Brazil’s Embraer (light jets) and Petrobras (petroleum) and from India’s Infosys Technologies (IT services) to Mexico’s Cemex (building materials), a whole host of formidable rivals are emerging. The Boston Consulting Group (BCG) identified the 100 largest, most successful, and most influential firms that have achieved prominence in their rapidly developing markets and beyond.²⁴ The resulting BCG Challenger 100 list includes firms from 14 countries, including 41 firms from China, 13 from Brazil, 7 from Mexico, and 6 from Russia. Interestingly, 34 provide industrial goods. Total revenue for the BCG 100 is growing over 30 percent a year and profit margins exceed those of large multinational firms in the United States, Japan, and Germany. Business-to-business firms must act decisively, compete aggressively, and seize market opportunities in rapidly developing global economies.

Business and Consumer Marketing: A Contrast

Many consumer-goods companies with a strong reputation in the consumer market decide to capitalize on opportunities they perceive in the business market. The move is often prompted by a maturing product line, a desire to diversify operations, or the strategic

²³Pete Engardio, “A New World Economy,” *Business Week*, August 22/29, 2005, pp. 52–58.

²⁴Harold L. Sirkin, James W. Hemerling, and Arindam K. Bhattacharya, *Globality: Competing with Everyone from Everywhere for Everything* (New York: Business Plus, 2008), pp. 23–24.

opportunity to profitably apply R&D or production strength in a rapidly growing business market. P&G, departing from its packaged consumer-goods tradition, is using its expertise in oils, fats, and pulps to diversify into fast-growing industries.

The J. M. Smucker Company operates successfully in both the consumer and the business markets. Smucker, drawing on its consumer product base (jellies and preserves), produces filling mixes used by manufacturers of yogurt and dessert items. Marketing strawberry preserves to ultimate consumers differs significantly from marketing a strawberry filling to a yogurt manufacturer. Key differences are highlighted in the following illustration.

Smucker: A Consumer and Business Marketer

Smucker reaches the consumer market with a line of products sold through retail outlets. New products are carefully developed, tested, targeted, priced, and promoted for particular market segments. To secure distribution, the firm employs food brokers who call on both wholesale- and retail-buying units. The company's own sales force reaches selected larger accounts. Achieving a desired degree of market exposure and shelf space in key retail food outlets is essential to any marketer of consumer food products. Promotional plans for the line include media advertising, coupons, special offers, and incentives for retailers. Pricing decisions must reflect the nature of demand, costs, and the behavior of competitors. In sum, the marketer must manage each component of the marketing mix: product, price, promotion, and distribution.

The marketing mix takes on a different form in the business market. Attention centers on manufacturers that potentially could use Smucker products to produce other goods; the Smucker product will lose its identity as it is blended into yogurt, cakes, or cookies. Once Smucker has listed all the potential users of its product (for example, large food processors, bakeries, yogurt producers), the business marketing manager attempts to identify meaningful market segments that Smucker can profitably serve. A specific marketing strategy is developed for each market segment.

When a potential organizational consumer is identified, the company's sales force calls directly on the account. The salesperson may begin by contacting a company president but, at first, generally spends a great deal of time with the R&D director or the product-development group leader. The salesperson is thus challenged to identify the **key buying influentials**—those who have power in the buying process. Senior-level Smucker executives may also assist in the selling process.

Armed with product specifications (for example, desired taste, color, calories), the salesperson returns to the Smucker R&D department to develop samples. Several months may pass before a mixture is finally approved. Next, attention turns to price, and the salesperson's contact point shifts to the purchasing department. Because large quantities (truckloads or drums rather than jars) are involved, a few cents per pound can be significant to both parties. Quality and service are also vitally important.

Once a transaction is culminated, the product is shipped directly from the Smucker warehouse to the manufacturer's plant. The salesperson follows up frequently with the purchasing agent, the plant manager, and other executives. Product movement and delivery information is openly shared, and close working relationships develop between managers at Smucker and key decision makers in the buying organization. How much business can Smucker expect from this account? The performance of the new consumer product in the marketplace determines this: The demand for industrial goods is, as noted, derived from ultimate consumer demand. Note also the

importance of (1) developing a close and continuing working relationship with business market customers and (2) understanding the requirements of the total range of buying influentials in the target company.

Distinguishing Characteristics

The Smucker illustration spotlights some of the features that differentiate business marketing strategy from consumer-goods marketing strategy. The business marketer emphasizes personal selling rather than advertising (TV, newspaper) to reach potential buyers. Only a small portion of the business marketer's promotional budget is likely to be invested in advertising, most commonly through trade journals or direct mail. This advertising, however, often establishes the foundation for a successful sales call. The industrial salesperson must understand the technical aspects of the organization's requirements and how those requirements can be satisfied, as well as know who influences the buying decision and why.

The business marketer's product also includes an important service component. The organizational consumer evaluates the quality of the physical product and the quality of the attached services. Attention centers on the total package of benefits the consumer receives. Price negotiation is frequently an important part of the industrial buying/selling process. Products made to particular quality or design specifications must be individually priced. Business marketers generally find that direct distribution to larger customers strengthens relationships between buyer and seller. Smaller accounts can be profitably served through intermediaries—manufacturers' representatives or industrial distributors.

As the Smucker example illustrates, business marketing strategies differ from consumer-goods marketing strategies in the relative emphasis given to certain elements of the marketing mix. It is important to note that the example also highlights fundamental differences between the buyers in each market. In an organization, a variety of individuals influence the purchase decision. Several major questions confront Smucker's business marketing manager: Who are key participants in the purchasing process? What is their relative importance? What criteria does each apply to the decision? Thus, the business marketer must understand the *process* an organization follows in purchasing a product and identify which organizational members have roles in this process. Depending on the complexity of the purchase, this process may span many weeks or months and may involve the participation of several organization members. The business marketer who becomes involved in the purchase process early may have the greatest chance for success.

A Relationship Emphasis

Relationships in the business market are often close and enduring. Rather than constituting the end result, a sale signals the beginning of a relationship. By convincing a large food processor such as General Foods to use its product, Smucker initiates a potential long-term business relationship. More than ringing up a sale, Smucker creates a customer! To maintain that relationship, the business marketer must develop an intimate knowledge of the customer's operations and contribute unique value to its business. **Relationship marketing** centers on all marketing activities directed toward establishing, developing, and maintaining successful exchanges with customers.²⁵

²⁵Robert M. Morgan and Shelby D. Hunt, "The Commitment-Trust Theory of Relationship Marketing," *Journal of Marketing* 58 (July 1994): pp. 20–38.

FIGURE 1.4 | CHARACTERISTICS OF BUSINESS MARKET CUSTOMERS

Characteristic	Example
<ul style="list-style-type: none"> • Business market customers are comprised of commercial enterprises, institutions, and governments. 	<ul style="list-style-type: none"> • Among Dell's customers are Boeing, Arizona State University, and numerous state and local government units.
<ul style="list-style-type: none"> • A single purchase by a business customer is far larger than that of an individual consumer. 	<ul style="list-style-type: none"> • An individual may buy one unit of a software package upgrade from Microsoft while Citigroup purchases 10,000.
<ul style="list-style-type: none"> • The demand for industrial products is derived from the ultimate demand for consumer products. 	<ul style="list-style-type: none"> • New home purchases stimulate the demand for carpeting, appliances, cabinets, lumber, and a wealth of other products.
<ul style="list-style-type: none"> • Relationships between business marketers tend to be close and enduring. 	<ul style="list-style-type: none"> • IBM's relationship with some key customers spans decades.
<ul style="list-style-type: none"> • Buying decisions by business customers often involve multiple buying influences, rather than a single decision maker. 	<ul style="list-style-type: none"> • A cross-functional team at Procter & Gamble (P&G) evaluates alternative laptop personal computers and selects Hewlett-Packard.
<ul style="list-style-type: none"> • While serving different types of customers, business marketers and consumer-goods marketers share the same job titles. 	<ul style="list-style-type: none"> • Job titles include marketing manager, product manager, sales manager, account manager.

Building one-to-one relationships with customers is the heart of business marketing. Figure 1.4 provides a recap of key characteristics of business market customers.

The Supply Chain

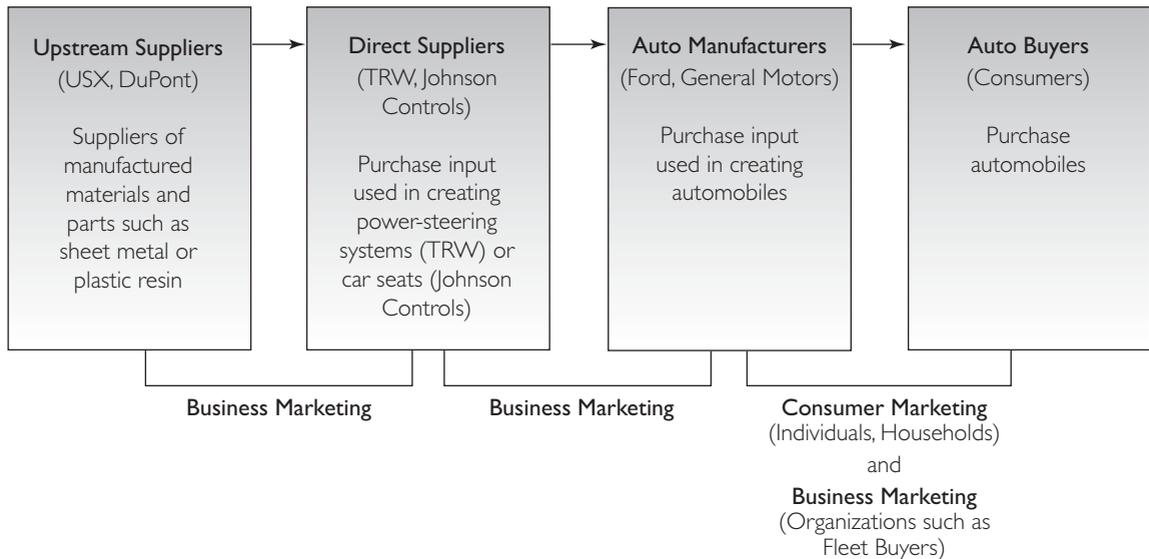
Figure 1.5 further illuminates the importance of a relationship perspective in business marketing by considering the chain of suppliers involved in the creation of an automobile. Consider Honda Motor Company. At its Marysville, Ohio, auto assembly plant, Honda introduced many new concepts to the U.S. auto industry, including just-in-time parts delivery and a high level of flexible model construction. For instance, the Ohio plant can readily shift from the Acura TL luxury sedan to the Accord, based on customer demand.²⁶ A new small-car plant in Indiana gives Honda further capacity to make Civic- and Accord-size vehicles—fuel-efficient models particularly coveted by auto buyers as gas prices increase. Across its seven plants in North America, Honda annually purchases more than \$17 billion of parts and materials from U.S. suppliers.²⁷

The relationships between the auto producers and their suppliers fall squarely into the business marketing domain. Similarly, business marketers such as TRW rely on a

²⁶Tom Krisher, "Honda Grows While U.S. Auto Industry Falts," accessed at <http://biz.yahoo.com> on July 2, 2008.

²⁷"Honda's First U.S. Auto Plant Celebrates 25 Years of Production," November 1, 2007, accessed at <http://www.world.honda.com> on July 2, 2008.

FIGURE 1.5 | THE SUPPLY CHAIN



whole host of others farther back on the supply chain for raw materials, components, and other support. Each organization in this chain is involved in the creation of a product, marketing processes (including delivery), and support and service after the sale. In performing these value-creating activities, each also affects the quality level of the Honda product. Michael Porter and Victor Millar observe that “to gain competitive advantage over its rivals, a company must either perform these activities at a lower cost or perform them in a way that leads to differentiation and a premium price (more value).”²⁸

Supply Chain Management

Supply chain management is a technique for linking a manufacturer’s operations with those of all of its strategic suppliers and its key intermediaries and customers to enhance efficiency and effectiveness. The Internet allows members of the supply chain all over the world to exchange timely information, exchange engineering drawings during new product development, and synchronize production and delivery schedules. The goal of supply chain strategy is to improve the speed, precision, and efficiency of manufacturing through strong supplier relationships. This goal is achieved through information sharing, joint planning, shared technology, and shared benefits. If the business marketer can become a valued partner in a customer’s supply chain, the rewards are substantial: The focus shifts from price to value and from products to solutions.²⁹ To achieve these results, the business marketing firm must

²⁸Michael E. Porter and Victor E. Millar, “How Information Gives You Competitive Advantage,” *Harvard Business Review* 63 (July–August 1985): pp. 149–160; see also Michael E. Porter, *Competitive Advantage* (New York: The Free Press, 1985).

²⁹Marc Bourde, Charlie Hawker, and Theo Theodorides, “Taking Center Stage: The 2005 Chief Procurement Officer Survey” (Somerset, NY: IBM Global Services, 2005), pp. 1–13, accessed at <http://www.ibm.com> on July 15, 2005.

demonstrate the ability to meet the customer's precise quality, delivery, service, and information requirements.

Managing Relationships in the Supply Chain

Customers in the business market place a premium on the business marketer's supply chain management capabilities. IBM spends 85 percent of its purchasing dollars with 50 suppliers.³⁰ Of particular importance to IBM is the quality of engineering support it receives from suppliers. IBM actively seeks supplier partners that will contribute fresh ideas, responsive service, and leading-edge technology to attract buyers of future IBM products.

Similarly, Toyota excels at creating and sustaining supplier relationships. In fact, executives across industries want to emulate Toyota's success in creating a base of suppliers who are unshakably loyal, committed to continuous improvement, and drive superior financial performance. Malte Kalkoffen and colleagues at the Boston Consulting Group undertook a broad study to uncover the factors that set Toyota apart from the rest of the industry.³¹ The results reveal valuable insights into the strategy path a business marketing manager can follow to develop and sustain a long-term relationship with a world-class customer like Toyota.

How Toyota Builds Distinctive Supplier Relationships Suppliers consistently rank Toyota as the preferred customer among the auto manufacturers. Why? "Toyota allows them acceptable returns on their investments, is reliable in honoring its contract price agreements, supports suppliers in improving their operations, and provides an equitable split of any cost reductions they achieve. The fundamental principle . . . is simple but profound: treat all suppliers fairly."³²

Three other principles guide Toyota's approach to supplier relations:

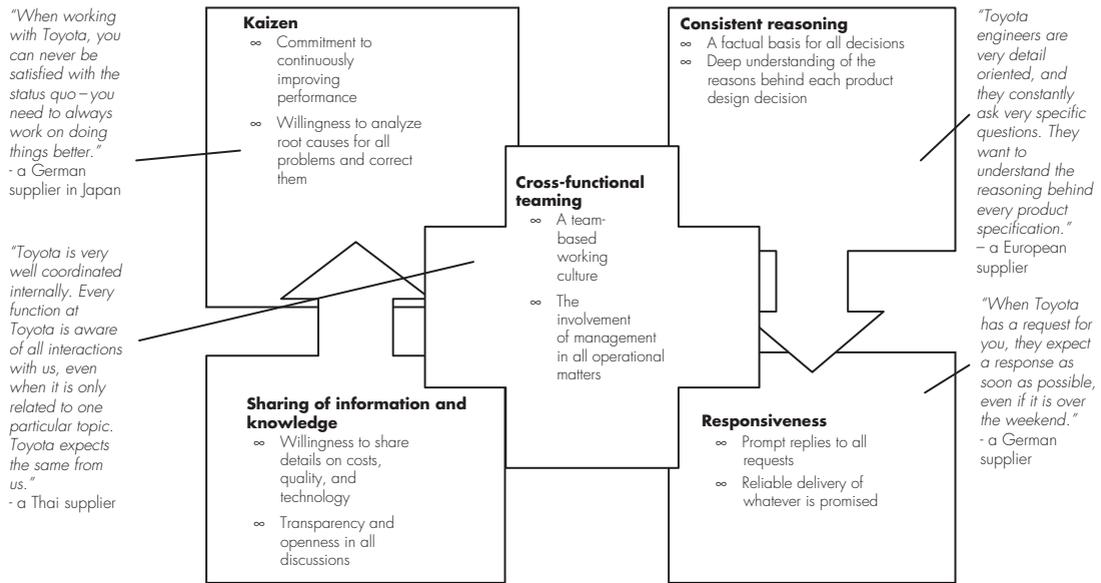
1. The company imposes stringent selection criteria to ensure that every supplier meets Toyota's requirements in terms of cost, quality, and technology. Importantly, Toyota will select only those suppliers that are willing to establish long-term partnerships with the company.
2. The company retains critical new product development (NPD) and design knowledge in-house but uses a streamlined NPD process that features frequent interactions with suppliers to leverage their expertise and increase productivity for Toyota and suppliers alike.
3. Once an ongoing relationship with a supplier has been established, Toyota takes responsibility for helping that supplier firm to develop its capabilities and grow its business. For example, Toyota monitors the performance of its suppliers to an extensive degree, insisting that senior executives of each supplier organization be responsible for quality and performance outcomes. In turn, Toyota performs semiannual quality audits and provides consulting assistance and access to knowledge-sharing networks to enhance its suppliers' capabilities.

³⁰James Carbone, "Reinventing Purchasing Wins Medal for Big Blue," *Purchasing* 129 (September 16, 1999): pp. 45–46.

³¹The following discussion is based on: Malte Kalkoffen, Zafar Momin, Xavier Mosquet, Jagjit Singh, and George Sticher, "Getting to Win-Win: How Toyota Creates and Sustains Best-Practice Supplier Relationships," The Boston Consulting Group, Inc., September 2007, pp. 1–10, accessed at <http://www.bcg.com> on May 25, 2008.

³²*Ibid.*, p. 1.

FIGURE 1.6 | SUPPLIERS' PHILOSOPHY MUST FIT WITH TOYOTA'S



SOURCE: Malte Kalkoffen, Zafar Momin, Xavier Mosquet, Jagjit Singh, and George Sticher, "Getting to Win-Win: How Toyota Creates and Sustains Best-Practice Supplier Relationships," The Boston Consulting Group, Inc., September 2007, p. 4; accessed at <http://www.bcg.com> on May 25, 2008. All rights reserved. Reproduced by permission.

Winning with Toyota Toyota seeks those suppliers that can provide industry leadership on cost, quality, and technology. Likewise, potential suppliers must demonstrate a willingness to pursue a long-term partnership, and the philosophy that guides the supplier firm must be aligned with Toyota's culture. In evaluating a supplier's philosophical fit, five specific elements are explored: Kaizen (or continuous improvement), consistent reasoning, cross-functional teaming, sharing of information and knowledge, and responsiveness (see Figure 1.6). The selection process is based on Toyota's belief that long-term relationships with familiar suppliers reduces transaction costs and creates more value than short-term ones.

Developing and nurturing close, long-term relationships with customers is an important goal for the business marketer. Built on trust and demonstrated performance, these partnerships require open lines of communication between multiple layers of the buying and selling organizations. Quotes from business marketing executives who count Toyota as a strategic partner (customer), illustrate the nature of long-term relationships:³³

"Toyota is tough as hell in negotiations, and we have to share every detail of our data with them—but they are fair, and they know that if we don't make money, we can't innovate for them."

"Toyota helped us dramatically improve our production system. We started by making one component, and as we improved, Toyota rewarded us with orders for more components. Toyota is our best customer."

³³Ibid., p. 8.

Commercial Enterprises as Consumers

Business market customers, as noted at the outset of the chapter, can be broadly classified into three categories: (1) commercial enterprises, (2) governmental organizations, and (3) institutions. Each is explored in Chapter 2. However, the supply chain concept provides a solid foundation for describing the commercial customers that constitute the business market. Commercial enterprises can be divided into three categories: (1) users, (2) original equipment manufacturers (OEMs), and (3) dealers and distributors.

Users Users purchase industrial products or services to produce other goods or services that are, in turn, sold in the business or consumer markets. User customers purchase goods—such as computers, photocopiers, or automated manufacturing systems—to set up or support the manufacturing process. When purchasing machine tools from GE, an auto manufacturer is a user. These machine tools do not become part of the automobile but instead help to produce it.

Original Equipment Manufacturers (OEMs) The OEM purchases industrial goods to incorporate into other products it sells in the business or ultimate consumer market. For example, Intel Corporation produces the microprocessors that constitute the heart of Dell's personal computer. In purchasing these microprocessors, Dell is an OEM. Likewise, Apple is an OEM in purchasing a touch-screen controller from Broadcom Corp.—about \$4 to \$5 of content in every iPhone.³⁴

Dealers and Distributors Dealers and distributors include commercial enterprises that purchase industrial goods for resale (in basically the same form) to users and OEMs. The distributor accumulates, stores, and sells a large assortment of goods to industrial users, assuming title to the goods it purchases. Handling billions of dollars worth of transactions each year, industrial distributors are growing in size and sophistication. The strategic role assumed by distributors in the business market is examined in detail in Chapter 11 (Channels).

Overlap of Categories The three categories of commercial enterprises are not mutually exclusive. Their classification is based on the intended purpose the product serves for the customer. Ford is a user when purchasing a machine tool for the manufacturing process, but the same company is an OEM when purchasing radios to be installed in the ultimate consumer product.

A marketer must have a good understanding of the diverse organizational consumers that make up the business market. Properly classifying commercial customers as users, OEMs, or dealers or distributors is an important first step to a sharpened understanding of the buying criteria that a particular commercial customer uses in evaluating an industrial product.

Understanding Buying Motivations Consider the different types of commercial customers that purchase a particular industrial product such as electrical timing mechanisms. Each class of customer views the product differently because each purchases the product for a different reason.

³⁴Eric J. Savitz, "Battle for Smartphone Market Share Pressures Margins," *Barron's*, June 30, 2008, p. 37.

INSIDE BUSINESS MARKETING

The iPhone: A Triumph of Supply Chain Management Too¹

Creating an immediate buzz among consumers around the world, Apple's iPhone was judged a triumph of design and flexibility, not to mention a cool, must-have product, before the first unit was sold. However, "a killer product is only successful if it gets to the right customer at the right price at the right time."² Many firms fail to reap the rewards of product innovation because they stumble on quality or fail to meet demand, disappointing loyal customers. In addition to demonstrating superior capabilities in new product development and marketing strategy execution, Apple excels at supply chain management.

In its annual Supply Chain Top 25, AMR Research awarded Apple the number-one ranking among a formidable set of top-performing firms, such as Nokia, IBM, Procter & Gamble, Cisco, and Nike. The AMR Research report notes that the leading-edge performance of Apple "signifies an

epic shift away from the 20th Century production-efficiency mentality to a new era based on ideas, design, and content. The iPhone maker took the top spot due to a sophisticated mix of brilliant industrial design, transcendent software interfaces, and consumable goods that are entirely digital." This approach provides financial benefits in the form of extremely high inventory turns, minimal material or capacity limitations, and excellent profit margins. By forecasting demand accurately and synchronizing communication across the supply chain, Apple met the demands of its rabid fan base.

¹ Unless otherwise noted, this discussion is based on Thomas Wailgum, "Study: Apple, Nokia, Dell Top Among Global Supply Chains," *CIO*, May 29, 2008, accessed at <http://www.cio.com> on July 4, 2008.

² Bob Trebilcock, "Supply Chain Lessons from iPhone," *Modern Materials Handling*, July 27, 2007, accessed at <http://www.mmh.com> on July 4, 2008.

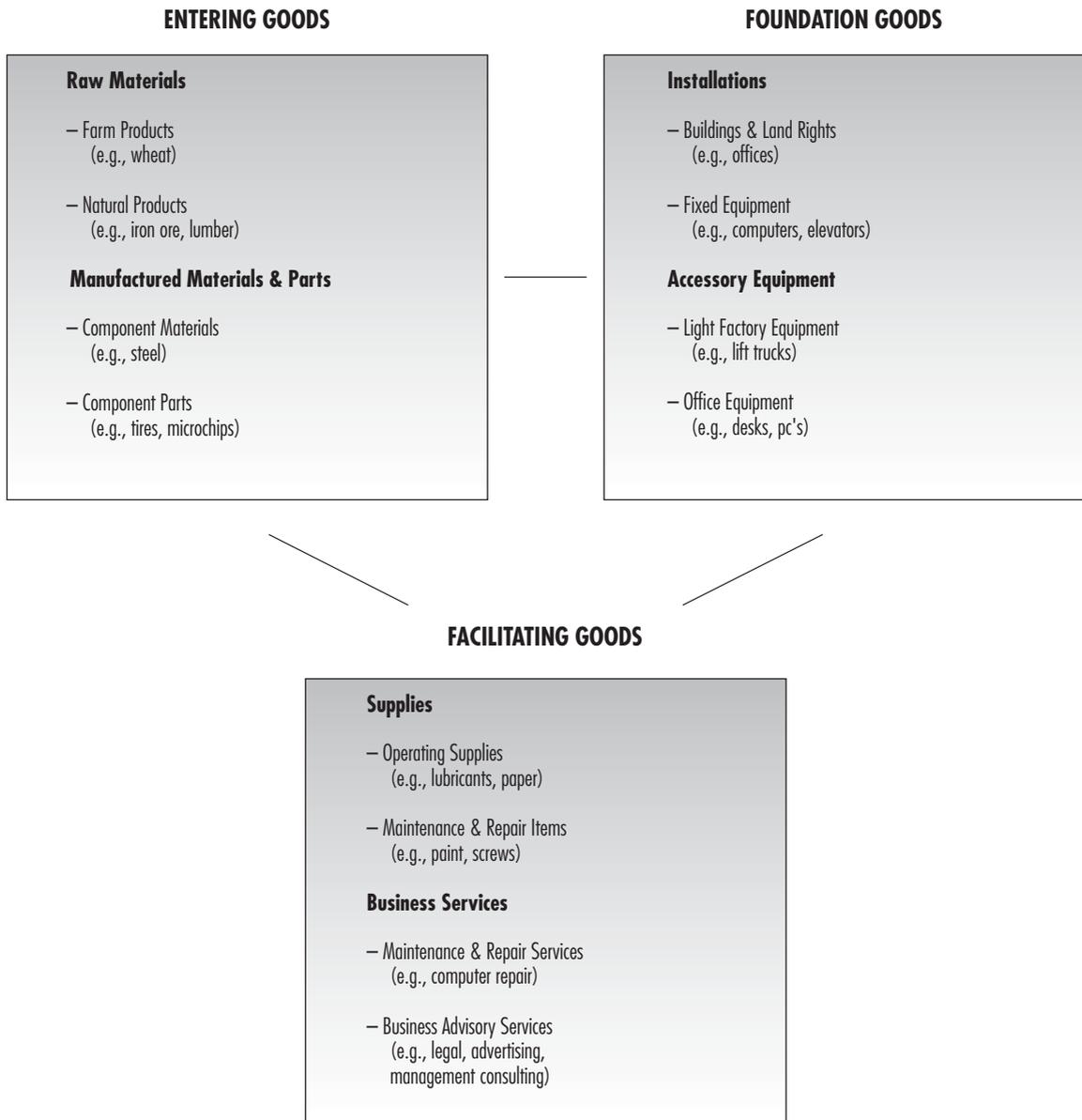
A food-processing firm such as Pillsbury buys electrical timers for use in a high-speed canning system. For this customer, quality, reliability, and prompt and predictable delivery are critical. Whirlpool, an OEM that incorporates the industrial product directly into consumer appliances, is concerned with the effect of the timers on the quality and dependability of the final consumer product. Because the timers are needed in large quantities, the appliance manufacturer is also concerned about the producer's production capacity and delivery reliability. Finally, an industrial distributor is most interested in matching the capability of the timing mechanisms to the needs of customers (users and OEMs) in a specific geographical market.

Classifying Goods for the Business Market³⁵

Having classified business market customers, we must now ask what type of goods they require, and how each type is marketed. One useful method of classifying industrial goods is to ask the following questions: How does the industrial good or service enter the production process, and how does it enter the cost structure of the firm? The answer enables the marketer to identify those who are influential in the organizational buying process and to understand how to design an effective business marketing strategy. In general, industrial goods can be divided into three broad categories: entering goods, foundation goods, and facilitating goods (Figure 1.7).

³⁵ Data on the dollar purchases of particular products by selected customers are drawn from Anne Millen Porter and Elena Epatko Murphy, "Hey Big Spender . . . The 100 Largest Industrial Buyers," *Purchasing* (November 9, 1995): pp. 31–42.

FIGURE 1.7 | CLASSIFYING GOODS FOR THE BUSINESS MARKET



SOURCE: Adapted from Philip Kotler, *Marketing Management: Analysis, Planning, and Control*, 4th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1980), p. 172, with permission of Prentice-Hall, Inc.

Entering Goods

Entering goods become part of the finished product. This category of goods consists of raw materials and manufactured materials and parts. Their cost is an expense item assigned to the manufacturing process.

Raw Materials Observe in Figure 1.7 that **raw materials** include both farm products and natural products. Raw materials are processed only to the level required for economical handling and transport; they basically enter the buying organization's production process in their natural state. Fueled by the massive growth in the Chinese economy, Freeport-McMoRan Copper & Gold Inc., the copper producer, has seen demand surge. McDonald's uses more than 700 million pounds of potatoes each year and dictates the fortunes of many farmers in that agricultural segment. In fact, when attempting to introduce a raspberry sorbet, McDonald's found, to its surprise, that not enough raspberries were being grown!³⁶

Manufactured Materials and Parts In contrast to raw materials, **manufactured materials and parts** undergo more initial processing. Component materials such as textiles or sheet steel have been processed before reaching a clothing manufacturer or automaker but must be processed further before becoming part of the finished consumer product. Both Ford and GE spend more than \$900 million annually on steel. Component parts, on the other hand, include small motors, motorcycle tires, and automobile batteries; they can be installed directly into another product with little or no additional processing. For example, Black & Decker spends \$100 million each year on plastic parts, and Sun Microsystems spends more than \$200 million on displays and monitors.

Foundation Goods

The distinguishing characteristic of foundation goods is that they are capital items. As capital goods are used up or worn out, a portion of their original cost is assigned to the production process as a depreciation expense. Foundation goods include installations and accessory equipment.

Installations **Installations** include the major long-term investment items that underlie the manufacturing process, such as buildings, land rights, and fixed equipment. Large computers and machine tools are examples of fixed equipment. The demand for installations is shaped by the economic climate (for example, favorable interest rates) but is driven by the market outlook for a firm's products. In the face of strong worldwide demand for its microprocessors, Intel is building new plants, expanding existing ones, and making significant investments in capital equipment. A typical semiconductor chip plant costs at least \$3 billion to build, equipment accounting for \$600 million of the cost and the land and building account for the rest.³⁷

Accessory Equipment **Accessory equipment** is generally less expensive and is short-lived compared with installations, and it is not considered part of the fixed plant. This equipment can be found in the plant as well as in the office. Portable drills, personal computers, and fax machines illustrate this category.

Facilitating Goods

Facilitating goods are the supplies and services (see Figure 1.7) that support organizational operations. Because these goods do not enter the production process or become part of the finished product, their costs are handled as expense items.

³⁶James Brian Quinn, *Intelligent Enterprise: A Knowledge and Service Based Paradigm for Industry* (New York: The Free Press, 1992), p. 20.

³⁷Dean Takahashi, "Makers of Chip Equipment Beginning to Share the Pain," *The Wall Street Journal*, August 14, 1996, p. B6.

Supplies Virtually every organization requires operating supplies, such as printer cartridges, paper, or business forms, and maintenance and repair items, such as paint and cleaning materials. These items generally reach a broad cross-section of industrial users. In fact, they are very similar to the kinds of supplies that consumers might purchase at a hardware or discount store.

For example, along with products specifically designed for commercial use, Procter & Gamble (P&G) sells adaptations of its well-known consumer products in its professional division.³⁸ Targeting the business market, customers here include hotels, fast-food restaurants, retailers, and health-care organizations. P&G senses a huge market opportunity—the U.S. market for janitorial and housekeeping cleaning products exceeds \$3.2 billion annually.

Services Says analyst James Brian Quinn, “As the service sector has grown to embrace 80 percent of all U.S. employment, specialized service firms have become very large and sophisticated relative to the scale and expertise that individual staff and service groups have within integrated companies.”³⁹ To capture the skills of these specialists and to direct attention to what they do best, many firms are shifting or “outsourcing” selected service functions to outside suppliers. This opens up opportunities for firms that provide such services as computer support, payroll processing, logistics, food operations, and equipment maintenance. These specialists possess a level of expertise or efficiency that organizations can profitably tap. For example, Cisco Systems turned to FedEx to coordinate the movement of parts through its supply chain and on to the customer. By merging the parts shipments in transit for a single customer, the desired product can be assembled at the customer’s location, never spending a moment in a Cisco warehouse.⁴⁰ Business services include **maintenance and repair support** (for example, machine repair) and **advisory support** (for example, management consulting or information management). Like supplies, services are considered expense items.

Moreover, the explosive growth of the Internet has increased the demand for a range of electronic commerce services, from Web site design to the complete hosting of an e-commerce site. The Internet also provides a powerful new channel for delivering technical support, customer training, and advertising. For example, Intel is shifting over half of its advertising budget to online media and is asking its partners in the “Intel Inside” cooperative ad campaign, like Sony, to increase spending on online media.⁴¹ In turn, the Internet provides the opportunity to manage a particular activity or function from a remote, or even offshore, location. To illustrate, IBM manages the procurement functions for United Technologies Corporation via the Web.⁴²

³⁸Ellen Byron, “Aiming to Clean Up, P&G Courts Business Customers,” *The Wall Street Journal*, January 26, 2007, pp. B1–B2.

³⁹James Brian Quinn, “Strategic Outsourcing: Leveraging Knowledge Capabilities,” *Sloan Management Review* 40 (Summer 1999): p. 9; see also, Mark Gottfredson, Rudy Puryear, and Stephen Phillips, “Strategic Sourcing: From Periphery to Core,” *Harvard Business Review* 83 (February 2005): pp. 132–139.

⁴⁰Douglas A. Blackman, “Overnight, Everything Changed for FedEx: Can It Reinvent Itself?” *The Wall Street Journal*, November 4, 1999, pp. A1, A16.

⁴¹Stuart Elliot, “As Customers Flock to the Web, Intel Gives Chase with Its Ad Budget,” *The New York Times*, October 10, 2007, p. C9.

⁴²Ira Sager, “Inside IBM: Internet Business Machines,” *Business Week E.Biz*, December 13, 1999, pp. ED21–23.

Business Marketing Strategy

Marketing pattern differences reveal the significance of a goods classification system. A marketing strategy appropriate for one category of goods may be entirely unsuitable for another. Often, entirely different promotional, pricing, and distribution strategies are required. The physical nature of the industrial good and its intended use by the organizational customer dictate to an important degree the marketing program's requirements. Some strategy highlights follow.

Illustration: Manufactured Materials and Parts

Recall that manufactured materials and parts enter the buying organization's own product. Whether a part is standardized or customized often dictates the nature of marketing strategy. For custom-made parts, personal selling and customer relationship management activities assume an important role in marketing strategy. The value proposition centers on providing a product that advances the customer's competitive position. The business marketer must also demonstrate strong supply chain capabilities. Standardized parts are typically purchased in larger quantities on a contractual basis, and the marketing strategy centers on providing a competitive price, reliable delivery, and supporting services. Frequently, industrial distributors are used to provide responsive delivery service to smaller accounts.

For manufactured materials and parts, the marketer's challenge is to locate and accurately define the unique needs of diverse customers, uncover key buying influencers, and create solutions to serve these customers profitably.

Illustration: Installations

Installations such as fixed equipment were classified earlier as foundation goods because they are capital assets that affect the buyer's scale of operations. Here the product or technology itself, along with the service capabilities of the firm, are the central factors in marketing strategy, and direct manufacturer-to-user channels of distribution are the norm. Less costly, more standardized installations such as a drill press may be sold through marketing intermediaries.

Once again, personal selling or account management is the dominant promotional tool. The salesperson or account team works closely with prospective organizational buyers. Negotiations can span several months and involve the top executives in the buying organization, especially for buildings or custom-made equipment. Customer buying motives center on economic factors (such as the projected performance of the capital asset) and emotional factors (such as industry leadership). A buyer may be quite willing to select a higher-priced installation if the projected return on investment supports the decision. The focal points for the marketing of installations include a strong customer relationship management effort, effective engineering and product design support, and the ability to offer a product or technology solution that provides a higher return on investment than its competition. Initial price, distribution, and advertising play lesser roles.

Illustration: Supplies

The final illustration centers on a facilitating good: supplies. Again we find different marketing patterns. Most supply items reach a broad market of organizational

customers from many different industries. Although some large users are serviced directly, a wide variety of marketing intermediaries are required to cover this broad and diverse market adequately.

The goal of the business marketer is to secure a place on the purchasing function's list of preferred or preapproved suppliers. Importantly, many firms are adopting e-procurement systems to dramatically streamline the process employees follow in buying supplies and other operating resources. From the desktop, an employee simply logs on to the system, selects the needed items from an electronic catalog of suppliers the purchasing function has preapproved, and sends the order directly to the supplier.

For supplies, the marketer's promotional mix includes catalog listings, advertising, and, to a lesser extent, personal selling. Advertising is directed to resellers (industrial distributors) and final users. Personal selling is less important for supplies than it is for other categories of goods with a high unit value, such as installations. Thus, personal selling efforts may be confined to resellers and large users of supplies. Price may be critical in the marketing strategy because many supply items are undifferentiated. However, customized service strategies might be designed to differentiate a firm's offerings from those of competitors. By providing the right product assortment, timely and reliable delivery, and customized services, the business marketer may be able to provide distinctive value to the customer and develop a long-term, profitable relationship.

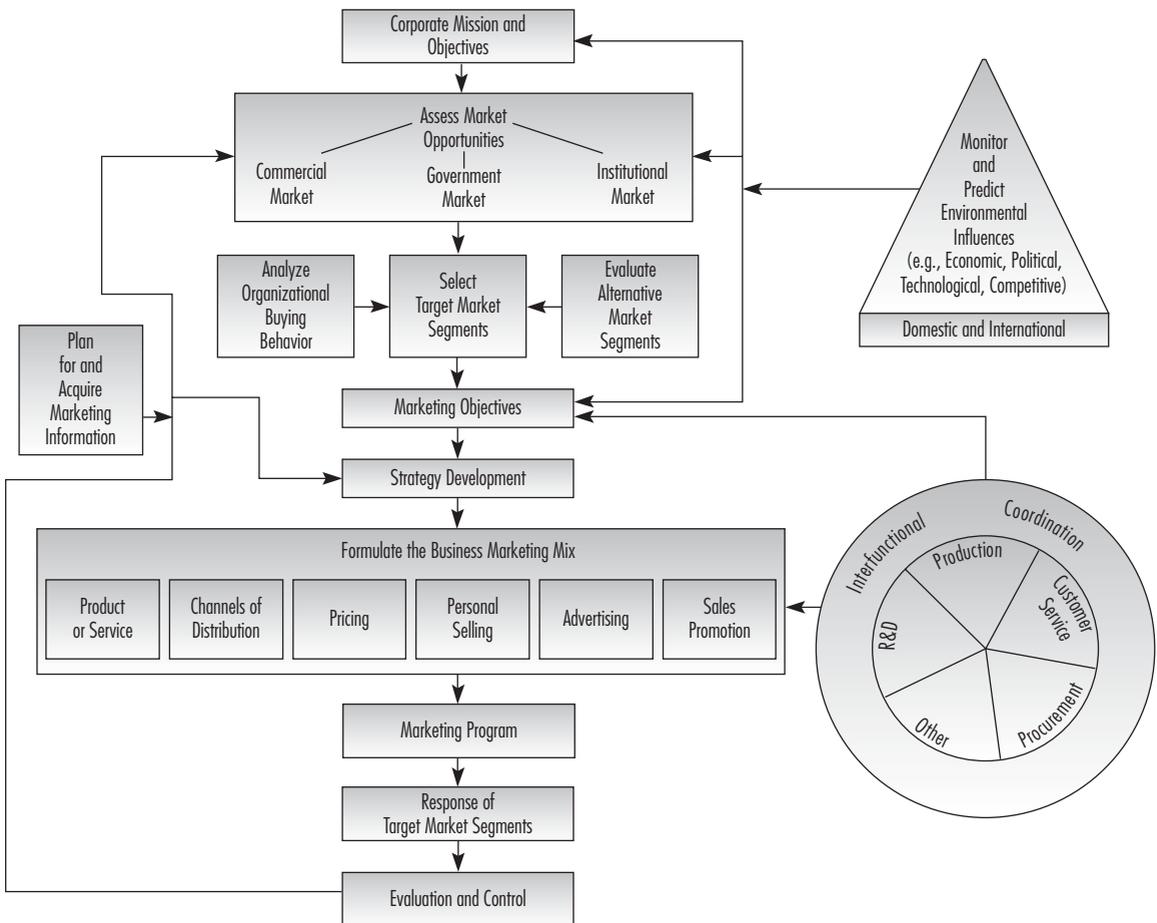
A Look Ahead

Figure 1.8 shows the chief components of the business marketing management process. Business marketing strategy is formulated within the boundaries established by the corporate mission and objectives. A corporation determining its mission must define its business and purpose, assess environmental trends, and evaluate its strengths and weaknesses. Building e-commerce capabilities and transforming these capabilities into offerings that provide superior customer value constitute vital corporate objectives at leading organizations like GE. Corporate objectives provide guidelines for forming specific marketing objectives. Business marketing planning must be coordinated and synchronized with corresponding planning efforts in R&D, procurement, finance, production, customer service, and other areas. Clearly, strategic plans emerge out of a bargaining process among functional areas. Managing conflict, promoting cooperation, and developing coordinated strategies are all fundamental to the business marketer's interdisciplinary role.

The business marketing management framework (see Figure 1.8) provides an overview of the five major parts of the text. This chapter introduced some of the features that distinguish industrial from consumer-goods marketing; the next chapter explores the major types of customers that make up the business market: commercial enterprises, governmental units, and institutions. Each sector represents a sizable market opportunity, presents special characteristics and needs, and requires a unique marketing strategy response.

Part II examines the organizational buying process and the myriad forces that affect the organizational decision maker. Occupying a central position in Part II is customer relationship management—a managerial process that leading firms in business-to-business marketing have mastered. Here special attention is given to

FIGURE 1.8 | A FRAMEWORK FOR BUSINESS MARKETING MANAGEMENT



the specific strategies that business marketers can follow in developing profitable relationships with customers. Part III turns to the selection of target segments and specific techniques for measuring the response of these segments. Part IV centers on designing market-driven strategies. Each component of the marketing mix is treated from the business marketing perspective. Special attention is given to creating and managing offerings and managing connections, including treatment of e-commerce and supply chain strategies. Particular emphasis is also given to defining value from the customer’s perspective and developing responsive pricing, advertising, and personal selling strategies to deliver that value proposition to target segments.

The processes of implementing, monitoring, and controlling the marketing program are analyzed in Part V. A central theme is how business marketing managers can enhance profitability by maximizing the return on marketing strategy expenditures.

Summary

The business market offers significant opportunities and special challenges for the marketing manager. Market-driven firms in the business market demonstrate superior skill for understanding and satisfying customers. They also possess strong market-sensing and customer-linking capabilities. To deliver strong financial performance, business-to-business firms must also demonstrate customer relationship management skills, which include all the skills required to identify, initiate, develop, and monitor profitable customer relationships. Best-practice marketing strategists base their value propositions on the points of difference that matter the most to target customers, responding clearly and directly to the customer's business priorities. Although a common body of knowledge and theory spans all of marketing, important differences exist between consumer and business marketing, among them the nature of markets, demand patterns, buyer behavior, and buyer-seller relationships.

The dramatic worldwide rise in competition requires a global perspective on markets. To secure a competitive advantage in this challenging environment, business market customers are developing closer, more collaborative ties with fewer suppliers than they have used in the past. They are using the Internet to promote efficiency and real-time communication across the supply chain and demanding quality and speed from their suppliers to an unprecedented degree. These important trends in procurement place a premium on the supply chain management capabilities of the business marketer. Business marketing programs increasingly involve a customized blend of tangible products, service support, and ongoing information services both before and after the sale. Customer relationship management constitutes the heart of business marketing.

The diverse organizations that make up the business market can be broadly divided into (1) commercial enterprises, (2) governmental organizations, and (3) institutions. Because purchases these organizational consumers make are linked to goods and services they generate in turn, derived demand is an important and often volatile force in the business market. Industrial goods can be classified into three categories, based on how the product enters the buying organization's cost structure and the production process: (1) entering goods, (2) foundation goods, and (3) facilitating goods. Specific categories of goods may require unique marketing programs.

Discussion Questions

1. Home Depot is quite busy each morning because local contractors, home remodelers, and other small-business customers are buying the products they require for the day's projects. Such small-business customers represent a huge market opportunity for Home Depot or Lowe's. Describe particular strategies these retailers could follow to target and serve these customers.
2. DuPont, one of the largest industrial producers of chemicals and synthetic fibers, spends millions of dollars annually on advertising its products to final consumers. For example, DuPont invested more than \$1 million in a TV advertising blitz that emphasized the comfort of jeans made of DuPont's stretch polyester-cotton blend. DuPont does not produce jeans or market them to final consumers, so why were large expenditures made on consumer advertising?

3. What are the chief differences between consumer-goods marketing and business marketing? Use the following matrix as a guide in organizing your response:

	Consumer-Goods Marketing	Business Marketing
Customers	_____	_____
Buying Behavior	_____	_____
Buyer–Seller Relationship	_____	_____
Product	_____	_____
Price	_____	_____
Promotion	_____	_____
Channels	_____	_____

4. Explain how a company such as GE might be classified by some business marketers as a user customer but by others as an OEM customer.
5. Spending a day in the life of a marketing manager would demonstrate the critical importance of relationship management skills as that manager interacts with employees of other functional areas and, indeed, with representatives from both customer and supplier organizations. Explore the strategic significance of such relationships.
6. Describe the key elements of a customer value proposition. Next, explain how a compelling value proposition might include *points of parity* as well as *points of difference*.
7. Consumer products are frequently classified as convenience, shopping, or specialty goods. This classification system is based on how consumers shop for particular products. Would this classification scheme apply equally well in the business marketing environment?
8. Evaluate this statement: “The ways that leading companies manage time in the supply chain—in new product development, in production, in sales and distribution—are the most powerful new sources of competitive advantage.”
9. Evaluate this statement: “The demand for major equipment (a foundation good) is likely to be less responsive to shifts in price than that for materials, supplies, and components.” Do you agree or disagree? Support your position.
10. Many firms are shifting selected service functions to outside suppliers. For example, Harley-Davidson recently outsourced its transportation department function to UPS Supply Chain Solutions. What factors would prompt such a decision, and what criteria would a customer like Harley-Davidson emphasize in choosing a supplier?

Internet Exercises

- Many firms, large and small, have outsourced key functions, like payroll processing to ADP. Go to adp.com and (1) identify the range of services that ADP offers; (2) describe the types of customers the firm serves.
- BASF “doesn’t make the products you buy, but makes them better.” Go to <http://www.basf.com> and (1) outline the markets that BASF serves and (2) the products it sells.

R.I.M.'s BlackBerry and Apple's iPhone: The Face-Off in the Business Market⁴³

Research in Motion Ltd. (R.I.M.), the maker of the BlackBerry, is the North American leader in building smartphones, the versatile handsets that operate more like computers than phones. Once the exclusive domain of e-mail-obsessed professionals and managers across the business market, smartphones are now prized by consumers who want easy access to the Web and digital music and video even more than a mobile connection to their e-mail inbox. The iPhone introduction shifted the contours of the smartphone market toward consumers. An industry once dominated by technical discussions about enterprise security is now dominated by buzz around video games, sleek handset design, and mobile social networks. "That means that R.I.M., which has historically viewed big corporations and wireless carriers as its bedrock customers, needs to alter its DNA in a hurry" in order to retain its leadership position. In the first quarter of 2008, R.I.M. held 45 percent of the U.S. market for smartphones, compared with a nearly 20 percent share for Apple.⁴⁴ The breakdown in sales indicates that BlackBerry dominates the corporate market and Apple's iPhone is strong in the consumer market.

New Strategy Directions

To capitalize on its strong brand and leadership position in the smartphone industry, R.I.M. introduced two phones aimed exclusively at the consumer market: the BlackBerry Pearl and the Curve. Well received by consumers, the products met R.I.M.'s performance expectations and now account for a majority of R.I.M.'s device sales. In response, Apple now includes a software upgrade to allow iPhones to connect directly to corporate e-mail systems—a dagger aimed at the heart of R.I.M.'s strength in the business market. The upgrade also allows iPhone users to run customized applications to track inventory, record expenses, and perform other corporate tasks. So, R.I.M. is trying to capture some of the consumer market with the BlackBerry and Apple is attacking R.I.M. on its home turf by driving demand for the iPhone among corporate customers.

Some experts suggest that R.I.M. offers several capabilities that Apple can't yet match, including enhanced security and reliability for corporate users. For example, the company runs its own wireless network so it can make sure e-mails are delivered in a timely fashion.⁴⁵ Yet, Apple demonstrates deep skills in product design, innovation, and branding. Simply stated, R.I.M.'s greatest challenge in the consumer-driven smartphone industry may come down to creating devices that people admire and embrace as much as the iPhone.

⁴³Unless otherwise noted, this discussion is based on Brad Stone, "BlackBerry's Quest: Fend Off the iPhone," *The New York Times*, April 27, 2008, pp. B1 and B4.

⁴⁴Jim Jubak, "New iPhone Shows Apple Still Gets It," accessed at <http://www.moneycentral.msn.com> on June 6, 2008.

⁴⁵Arik Hesseldahl, "The iPhone Eyes BlackBerry's Turf," *Business Week*, June 23, 2008, p. 38.

Discussion Questions

1. Suggest possible strategies that Apple might follow to strengthen the position of the iPhone in the business market. In turn, what strategies could R.I.M. follow to strengthen the performance of the BlackBerry brand in the consumer market?
2. In your view, which brand will win the battle in the business market? In the consumer market?