

Business Marketing Management: **B2B**

Hutt | Speh | Hoffman



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Thirteenth Edition

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Michael D. Hutt
Arizona State University

Thomas W. Speh
Miami University

K. Douglas Hoffman
Colorado State University



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13th edition
Michael D. Hutt, Thomas W. Speh, and
K. Douglas Hoffman

SVP, Product: Cheryl Costantini

VP, Product: Thais Alencar

Portfolio Product Director: Joe Sabatino

Portfolio Product Manager: Heather Thompson

Product Assistant: Emily Klingberg

Learning Designer: Danae E. Kesel

Content Manager: Shreya Tiwari, MPS Limited

Digital Project Manager: Kristin Hinz

VP, Product Marketing: Jason Sakos

Director, Product Marketing: Neena Bali

Content Acquisition Analyst: Erin McCullough

Production Service: MPS Limited

Designer: Sara Greenwood

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Dedication

To the memory of Tom Speh, a talented collaborator,
a master teacher, a supply chain management
thought leader, and above all, a treasured friend.

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Preface

Special challenges and opportunities confront the marketer who intends to serve the needs of organizations rather than households. Business-to-business (B2B) customers represent a lucrative and complex market worthy of separate analysis. A growing number of collegiate schools of business in the United States, Canada, and Europe have added industrial or business marketing to their curricula. In addition, a large and growing network of scholars in the United States, Europe, and Asia are actively engaged in research to advance theory and practice in the business marketing field. Both the breadth and quality of this research has increased markedly during the past decade.

The rising importance of the field can be demonstrated by several factors. First, because more than half of all business school graduates enter firms that compete in business markets, a comprehensive treatment of business marketing management appears to be particularly appropriate. The business marketing course provides an ideal platform to deepen a student's knowledge of the competitive realities of the global marketplace, customer relationship management, cross-functional decision-making processes, supply chain management, e-commerce, and related areas. Such core content areas strike a responsive chord with corporate recruiters and squarely address key educational priorities established by the American Assembly of Collegiate Schools of Business (AACSB).

Second, the business marketing course provides a perfect vehicle for examining the special features of high-technology markets and for isolating the unique challenges and new possibilities that confront the marketing strategist in this arena. High-tech markets, defined by smart, connected products, represent a rapidly growing and dynamic sector of the world economy and a fiercely competitive global battleground but often receive only modest attention in the traditional marketing curriculum. While early waves of innovation with information technology led to huge productivity gains, information technology is now becoming an integral part of the product

itself. Meanwhile, an explosion of communication vehicles and social media channels has ratcheted up the expectations of business buyers, requiring a new mindset and a fresh set of integrated digital strategies from marketers.

Third, the Institute for the Study of Business Markets (ISBM) at Pennsylvania State University has provided important impetus to research in the area. ISBM has become a major information resource for researchers and practitioners and has assumed an active role in stimulating and supporting research on substantive business marketing issues. In turn, the number of research studies centered on the business-to-business domain has significantly expanded in recent years, and specialized journals in the area attract a steady stream of submissions. The hard work, multiyear commitments, and leadership of the editors of these journals are worthy of note: *Journal of Business-to-Business Marketing*, J. David Lichtenhal, Baruch College; *Journal of Business & Industrial Marketing*, Wesley J. Johnston, Georgia State University; and *Industrial Marketing Management*, Peter LaPlaca, University of Connecticut, Adam Lindgreen, Copenhagen Business School, and Anthony Di Benedetto, Temple University.

The three objectives that guided the development of this edition are as follows:

1. To highlight the similarities between consumer goods and business-to-business marketing and to explore in depth the points of departure. Particular attention is given to market analysis, the customer decision journey, customer relationship management, supply chain management, and the ensuing adjustments required in the marketing strategy elements used to reach B2B customers.
2. To present a managerial rather than a descriptive treatment of business marketing. Whereas some descriptive material is required to convey the dynamic nature of the business marketing environment, the relevance of the material is linked to marketing strategy decision making.

- To integrate the growing body of literature into a strategic treatment of business marketing. In this text, relevant work is drawn from organizational buying behavior, procurement, organizational behavior, supply chain management, strategic management, and behavioral sciences, as well as from specialized studies of business marketing strategy components.

This book is structured to provide a complete and timely treatment of business marketing while minimizing the degree of overlap with other courses in the marketing curriculum. A basic marketing principles course (or relevant managerial experience) provides the needed background for this text.

New to this Edition

Although the basic objectives, approach, and style of earlier editions have been maintained, several important changes and additions have been made that reflect both the growing body of literature and the emerging trends in business marketing practice. Specifically, the following themes and distinctive features are incorporated into the 13th edition.

- **ESG—Environmental, Social, and Governance:** For the business marketing firm, a strong and proactive ESG proposition will resonate well with stakeholders, from supply chain partners to company employees.
- **Supply Chain Resilience:** A timely treatment of specific strategies that business marketing companies can implement to increase supply chain resilience and adjust to unexpected environmental events.
- **Omnichannel—The New Standard:** A comprehensive discussion of how top-performing B2B firms allow customers to seamlessly use online, mobile, social, and offline physical channels across the customer decision journey.
- **Marketing Excellence:** A thorough examination of how managers understand and exercise marketing excellence in practice and how investors evaluate the market excellence that a firm demonstrates.
- **Innovation Flywheel:** Digital leaders power innovation by building knowledge, generating insights, running experiments, and introducing new offerings. A digital playbook is provided for the B2B strategist.
- **Smart, Connected Products:** An expanded and timely discussion describes the way in which a new class of smart, connected products (i.e., “Internet of Things”) is transforming competition and what it means for marketing strategy.
- **Hybrid Selling:** How digital selling models are upending the traditional salesforce structure.

Organization of the 13th Edition

The needs and interests of the reader provided the focus in the development of this volume. The authors’ goal is to present a clear, timely, and engaging examination of business marketing management. To this end, each chapter provides an overview, highlights key concepts, and includes several carefully chosen examples of contemporary business marketing practice, as well as a cogent summary and a set of provocative discussion questions. Contemporary business marketing strategies and challenges are illustrated throughout.

The book is divided into five parts with a total of 15 chapters. Part 1 introduces the distinguishing features of the business marketing environment. Careful examination is given to each of the major types of customers, the nature of the customer decision journey, and key trends that are reshaping buyer–seller relationships. Relationship management establishes the theme of Part 2, in which attention is given at length to organizational buying behavior and customer relationship management. By thoroughly updating and illustrating the core content, this section provides a timely and comprehensive treatment of customer profitability analysis and relationship management strategies for business markets. After this important background is established, Part 3 addresses techniques that can be applied in assessing market opportunities: market segmentation and demand analysis, including sales forecasting.

Part 4 centers on the planning process and on designing marketing strategy for business markets. Recent work drawn from the strategic management and strategic marketing areas provides the foundation for this section. Special emphasis is also given

to defining characteristics of successful business-to-business firms and how managers understand and exercise marketing excellence in practice. This functionally integrated planning perspective serves as a focal point in the analysis of the strategy development process. Here at the core of the volume, a separate chapter provides an integrated treatment of strategy formulation for the global market arena, giving particular attention to the strategic importance for building a strong ESG proposition for internal and external stakeholders.

Next, each component of the marketing mix is examined from a business marketing perspective. The product chapter provides an expanded and integrated treatment of the role that smart, connected products assume in the strategy of business-to-business firms. Adding further depth to this core section are the chapters on managing product innovation and managing services for business markets. In turn, special attention is given to pricing and supply chain strategies for business markets. This edition explores the digital transformation of the marketing function and how business marketing strategy must be fundamentally changed to fully respond to the needs of digital-first buyers. Chapter-length attention is given to (1) how marketing communications can be designed to deliver valuable information across the customer decision journey and (2) how hybrid selling models are upending the traditional salesforce structure.

Marketing performance measurement provides the central focus for Part 5. It provides a compact treatment of marketing control systems and uses the balanced scorecard as an organizing framework for marketing profitability analysis. Special attention is given to identifying the drivers of marketing strategy performance and to the critical area of strategy implementation in the business marketing firm.

Cases

Short cases, isolating core concepts, are included with each chapter. Twenty-two end-of-chapter cases are provided. These cases uncover opportunities and challenges confronting firms such as Sealed Air, IBM, SpaceKnow, International Flavors and Fragrances, Alphabet, LinkedIn, and GE. These cases provide a valuable tool for sparking class discussion and bringing strategy issues to life.

Instructor Resources

Instructor resources for this product are available online. Instructor assets include an Instructor's Manual, Educator's Guide, PowerPoint® slides, a test bank powered by Cognero®, a Guide to Teaching Online, Transition Guide, and answers to end-of-chapter and internet exercises. Sign up or sign in at www.cengage.com to search for and access this product and its online resources.

Cognero Test Bank

The revised and updated Test Bank includes over 1,500 multiple choice and true/false questions, emphasizing the important concepts presented in each chapter, along with an average of five essay questions per chapter. The Test Bank questions vary in levels of difficulty so that each instructor can tailor the testing to meet specific needs. Each question is tagged to AACSB standards, discipline guidelines, and Rubin/Dierdorff standards.

The Test Bank is available on Cognero, allowing instructors to select problems at random by level of difficulty or type, customize or add test questions, and scramble questions to create up to 99 versions of the same test. This software is available in Mac or Windows formats.

PowerPoint Presentation Slides

The PowerPoint presentation slides bring classroom lectures and discussions to life with the Microsoft PowerPoint presentation tool. These presentations are organized by chapter, helping to create an easy-to-follow lecture, and are extremely professor friendly and easy to read.

MindTap

Today's leading online learning platform, MindTap for Hutt, Business Marketing Management B2B 13e gives you complete control of your course to craft a personalized, engaging learning experience that challenges students, builds confidence, and elevates performance.

MindTap introduces students to core concepts from the beginning of your course using a simplified learning path that progresses from understanding to

application and delivers access to eTextbooks, study tools, interactive media, auto-graded assessments, and performance analytics.

Acknowledgments

The development of a textbook draws upon the contributions of many individuals. First, we would like to thank our students and former students at Arizona State University, Miami University, Colorado State University, and the University of Vermont. They provided important input and feedback when selected concepts or chapters were originally class tested. We would also like to thank our colleagues at each of these institutions for their assistance and support. In particular, we are indebted to Debbie M. Coleman, Miami University, for developing the engagement exercises and class-testing new content in her Business Marketing class.

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The talented staff of Cengage displayed a high level of enthusiasm and deserves special praise for their contributions in shaping this edition. In particular, Portfolio Product Manager Heather R. Thompson provided valuable advice and keen insights for this edition. We also thank Shreya Tiwari, Senior Executive Project Manager, MPS, Ltd.; Sheila Moran, Project Manager; Mary Malin, Copyeditor; and the rest of the team involved with permissions and cover design.

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Michael D. Hutt

K. Douglas Hoffman

About the Authors

Michael D. Hutt (PhD, Michigan State University) is the Ford Motor Company Distinguished Professor Emeritus of Marketing at the W. P. Carey School of Business, Arizona State University. He has also held faculty positions at Miami University (Ohio) and the University of Vermont. Dr. Hutt's teaching and research interests are concentrated in the areas of business-to-business marketing and strategic marketing. His most recent research centers on the marketing-finance interface, particularly the application of financial portfolio theory to customer management. Dr. Hutt's research has been published in the *Journal of Marketing*, *Journal of Marketing Research*, *MIT Sloan Management Review*, *Journal of the Academy of Marketing Science*, and other scholarly journals. From this research program, Dr. Hutt was the recipient of the Hunt/Maynard Award at the *Journal of Marketing*, the Richard Beckhard Prize at *MIT Sloan Management Review*, and the Best Article Award at the *Journal of Business-to-Business Marketing*. He has consulted on marketing strategy issues for firms such as IBM, Honeywell, SC Johnson, AT&T, and Motorola.

Thomas W. Speh, PhD, was Professor of Marketing Emeritus and former Associate Dean at the Farmer School of Business, Miami University (Ohio). Dr. Speh earned his PhD from Michigan State University. Prior to his tenure at Miami, Dr. Speh taught at the University of Alabama. Dr. Speh published articles in a number of academic and professional journals, including the *Journal of Marketing*, *MIT Sloan Management Review*, *Harvard Business Review*, *Journal of the Academy of Marketing Sciences*, *Journal of Business Logistics*, and *Industrial Marketing Management*. He was the recipient of the Beta Gamma Sigma Distinguished Faculty award for excellence in teaching at Miami University's School of Business and of the Miami University Alumni Association's Effective Educator award. He served as president of the Warehousing Education and Research Council (WERC) and as president of the Council of Logistics Management (CLM). Dr. Speh was a consultant on strategy issues to such organizations as Xerox, Procter & Gamble, Burlington Northern Railroad, Sara Lee, J. M. Smucker Co., and Milkenium Petrochemicals, Inc. Tom passed away in 2016.

K. Douglas Hoffman (D.B.A., University of Kentucky) is a Professor of Marketing and University Distinguished Teaching Scholar at Colorado State University. Professor Hoffman's teaching experience at the undergraduate and graduate levels spans 35+ years while holding tenure track positions at Colorado State University, University of North Carolina at Wilmington, and Mississippi State University. In addition, Doug has taught as a visiting professor at Helsinki School of Business and Economics (Helsinki, Finland), Institute of Industrial Policy Studies (Seoul, South Korea), Thammasat University (Bangkok, Thailand), Cornell-Nanyang Technological University (Singapore), and Foreign Trade University (Hanoi, Vietnam). Professor Hoffman's is an accomplished teaching and research scholar in the areas of services marketing and marketing management. Professor Hoffman is a former editor of *Marketing Education Review*. His current research and consulting activities are primarily in the areas of sales/service interface, customer service/satisfaction, service failure and recovery, and marketing education. Professor Hoffman has consulted on marketing strategy issues for firms, such as HP Inc., State Farm, and Frontier Airlines.

Chapter 1

A Business Marketing Perspective

Chapter Introduction

The importance of business marketing and its impact on global economies and quality of life cannot be overstated. As evidenced in recent times, the impact of environmental forces on business marketing has both hindered business marketers as well as generated new opportunities. More specifically, environmental forces including technological advances, political and legal conflicts among nations, the changing nature of competitive strategy, the dynamics of socio-cultural influences, fluctuations within the global economy, and the devastating impact of natural forces such as pandemics, tsunamis, earthquakes, drought, floods, wildfires, and global warming have all greatly emphasized the need for business marketers to be adaptable. Bluntly stated, businesses that fail to adapt fail to exist. This chapter introduces the complex forces that are unique to the business marketing environment and highlights key trends shaping business marketing management strategy. After reading this chapter, you will be able to:

1. Define the scope of business-to-business (B2B) marketing
2. Identify the types of customers that comprise B2B markets
3. Compare the similarities and differences between business-to-consumer (B2C) and B2B marketing
4. Explain a method for classifying B2B products and services
5. Contrast how business marketing strategy is adapted among B2B classification categories
6. Recognize the key imperatives for business marketing management
7. Describe the nature of buyer–seller relationships in a product’s supply chain

Defining the Scope of Business (B2B) Marketing

Business marketers serve the largest market of all. The dollar volume of transactions in the industrial or business (B2B) market significantly exceeds that of the ultimate consumer (B2C) market. The total for the business market is higher because before a consumer buys a product (for example, an electric vehicle (EV) and/or smart phone), many business-to-business transactions have to occur first.¹ In the business market, a single customer can account for an enormous level of purchasing activity. For example, the corporate procurement department at

business markets

The markets for products and services, local to international, bought by commercial enterprises, government bodies, and institutions (such as hospitals) for incorporation (for example, ingredient materials or components), for consumption (for example, process materials, office supplies, and consulting services), for use (for example, installations or equipment), or for resale.

Apple spends more than \$60 billion annually on materials, components, supplies, and services.² Others, such as Procter & Gamble, Merck, Dell, and Kimberly Clark, each spend more than half of their annual sales revenue on purchased goods and services.³ Indeed, all formal organizations—large or small, public or private, and 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, and 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 that are principally directed at personal use or consumption such as packaged grocery products, home appliances, or consumer banking.”⁴ 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 (commercial enterprises, governments, and institutions). Some firms, like Home Depot, serve both the consumer and business market by addressing two primary customer groups: (1) do-it-yourself customers (B2C) who purchase products to complete their own projects and (2) professional customers (B2B), such as general contractors, remodelers, and specialty tradespersons, who purchase products to complete contract service engagements.

Commercial enterprises 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



Bloomberg/Getty Images

Caption: WeWork, a B2B real estate firm, designs and builds physical and virtual shared workspaces primarily targeted to technology startups as well as other small commercial businesses. Source: <https://www.foxbusiness.com/real-estate/amid-coronavirus-pandemic-wework-unveiling-plans-to-adapt-to-changing-economy>



Source: Infinijith Apps and Technologies Pvt Ltd

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 (See Figure 1-1)—and the sheer size of the business market—has led to an increased emphasis on business marketing management in universities and corporate executive training programs.⁵

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 customers constitute the business market? What are the similarities and differences between business-to-consumer (B2C) marketing and business-to-business (B2B) marketing? How can the multitude of industrial goods be classified into manageable categories? What are the strategy imperatives for business-to-business firms?

Types of Business Market (B2B) Customers

Cisco Systems, Inc., provides the networking solutions that are the foundation of the Internet and of most corporate, education, and government networks on a global scale. Rather than serving individuals or household consumers, Cisco is a leading-edge business-to-business firm that markets its products and services to organizations: commercial enterprises (for example, corporations and telecommunications firms), governmental units, and institutions (for example, universities and health-care organizations). Marketing managers at Cisco give special attention to transforming complex technology products and services into concrete solutions to meet customer requirements. For example, when Pep Boys, the leading automotive aftermarket and service chain in the United States wanted to connect its 593 retail store locations across 36 states, Cisco provided

Table 1-1 Types of Business Market Customers

Commercial Customers	Institutional Customers	Governmental Customers
Manufacturers	Schools, colleges, and universities	Federal government
Construction companies	Health-care organizations	• Non-defense
Service firms	Libraries	• Defense
Transportation companies	Foundations	State government
Selected professional groups	Art galleries	Local government
Wholesalers	Clinics	• Counties
Retailers		• Townships

the network solution.⁶ Likewise, the impressive, multipurpose Cowboys Stadium in Dallas incorporates advanced video technologies from Cisco to improve the fan experience and maximize the value of the venue. Using Cisco Stadium Vision, fans remain engaged anywhere in the stadium with 3,000 TV displays featuring customized HD video game footage and real-time, relevant information (for example, breaking news).⁷

Each of the three business market sectors—commercial enterprises, institutions, and governments—has identifiable and unique characteristics that business marketers must understand if marketers wish to grow their client bases (see Table 1-1). A significant first step in creating successful marketing strategy is to isolate the unique dimensions of each major business market sector. How much market potential does each sector represent? Who makes the purchasing decisions? The answers provide a foundation on which managers can formulate marketing programs that respond to the specific needs and characteristics of each business market sector.

Commercial Enterprises as Customers

commercial enterprises

Entities that include manufacturers, construction companies, service firms, transportation companies, selected professional groups, and resellers.

Commercial enterprises include manufacturers, construction companies, service firms (for example, hotels), transportation companies, selected professional groups (for example, dentists), and resellers (wholesalers and retailers purchasing equipment and supplies to use in their operations). Manufacturers are the most important commercial enterprise: The 100 largest manufacturers purchase more than \$1 trillion of goods and services annually⁸ (see Table 1-2).

Table 1-2 Surprising Facts about U.S. Manufacturers

There are approximately 346,000 manufacturers in the U.S.
Only 25,000 of manufacturers employ more than 100 people; however, this group of manufacturers ships more than 75% of all manufactured products in the U.S.
More than half of all U.S. manufacturers are located in only eight states.
More than two-thirds of manufacturers employ fewer than 20 people; consequently, small businesses represent a dominant category of B2B transactions.
B2B marketing strategy often needs to be adjusted when serving smaller manufacturers as opposed to larger manufacturers.

Manufacturer Buying A startling fact about the study of manufacturers is that so few of them remain. Available evidence suggests that there are approximately 346,000 manufacturing firms in the United States.⁹ Although only 25,000 manufacturing firms (fewer than 10 percent) employ more than 100 workers each, this handful of firms ships more than 75 percent of all U.S. manufactured products. Because manufacturing operations are so concentrated in the United States, the business marketer normally serves far fewer but far larger customers than does a consumer-products marketer. For example, Skyworks Solutions sells semiconductors for wireless handsets that are used to enable Web connectivity. Skyworks' customers are mostly large smartphone and tablet manufacturers such as Apple, which, in turn, target millions of potential smartphone buyers.¹⁰ Clearly, large buyers are generally vitally important to business marketers.

In addition to concentration by size, business markets are also concentrated geographically. More than half of all U.S. manufacturers are located in only eight states: California, New York, Ohio, Illinois, Michigan, Texas, Pennsylvania, and New Jersey. Most large metropolitan areas are lucrative business markets. Geographical concentration of industry, however, means only that a large potential volume exists in a given area; each buyer's requirements may still vary significantly.

Smaller manufacturing firms also constitute an important business market segment. In fact, more than two-thirds of all U.S. manufacturers employ fewer than 20 people.¹¹ In addition to small manufacturers, more than 5 million small businesses in the United States employ fewer than six people each. Based on sheer numbers, small businesses represent a dominant category of business market customers—but a market that is often difficult to serve.¹² Because the organizational buyer in smaller firms has different needs—and often a very different orientation—astute marketers adjust their marketing programs to this market segment's particular needs. To illustrate, FedEx wanted to increase its share of the small shipper market but recognized that picking up packages at many small businesses is more expensive than picking them up at one larger location.¹³ To cost-effectively reach these customers, FedEx encourages small shippers to bring their packages to conveniently located FedEx drop-off points. The strategy has been successful.

Government Units as Customers

Federal (1), state (50), and local (89,000) government units generate the greatest volume of purchases of any customer category in the United States. Collectively, these units spend more than \$2.1 trillion on goods and services each year—the federal government accounts for \$875 billion and states and local government account for the rest.¹⁴ Government units purchase from virtually every category of goods and services—office supplies, notebook computers, food, health care, and military equipment. As customers become more adept at shopping online, Internet-savvy customers expect the same level of service from the government when renewing drivers' licenses, purchasing permits, or accessing information from public agencies. For business marketing firms, large and small, that sell information technology products and services, these e-government initiatives are sparking a large market opportunity.

Government Buying The government uses two general purchasing strategies: formal advertising (also known as open bid) or negotiated contract. With

formal advertising

An appropriate governmental purchasing strategy when the product is standardized and the specifications are straightforward. Contracts are generally awarded to the lowest bidder.

negotiated contract

A governmental purchasing strategy used when the product cannot be differentiated on the basis of price alone or when there are few potential suppliers.

formal advertising, the government solicits bids from appropriate suppliers. This strategy is followed when the product is standardized, and the specifications are straightforward (for example, 20-pound bond paper or a personal computer with certain defined characteristics). Contracts are generally awarded to the lowest bidder; however, the government agency may select the next-to-lowest bidder if it can document that the lowest bidder would not fulfill the contract responsibly.

In contrast, the government uses a **negotiated contract** to purchase goods and services that cannot be differentiated on the basis of price alone (such as complex scientific equipment for R&D projects) or when there are few potential suppliers (such as items for defense contracts). There may be some competition because the contracting office can conduct negotiations with competing suppliers simultaneously. The purchasing decision for the government is much like that for a large corporation. Which is the best possible product at the lowest price and will the product meet performance expectations? For some firms, the government represents its most important customer. To illustrate, the top five U.S. government contractors collectively generate nearly \$167 billion in sales. Represented here are Lockheed Martin (75.8B), Raytheon (28.1B), General Dynamics (25.6B), Boeing (23B), and Northrup Grumman (14.7B).¹⁵

Institutions as Customers

Institutional customers comprise the third sector of the business market (see Table 1-1). They make up a sizable market—total expenditures on public elementary and secondary schools alone exceed \$750 billion and national health expenditures exceed \$4.1 trillion.¹⁶ Schools and health-care organizations make up a sizable component of the institutional market, which also includes colleges and universities, libraries, foundations, art galleries, and clinics. On the one hand, institutional purchasers are similar to governments in that the purchasing process is often constrained by political considerations and dictated by law. In fact, many institutions are administered by government units—schools, for example. On the other hand, other institutions are privately operated and managed like corporations; they may even have a broader range of purchase requirements than their large corporate counterparts. Like the commercial enterprise, institutions are adopting sophisticated approaches to purchasing.

Institutional Buying Many institutions are staffed with professionals, including doctors, professors, and researchers. Depending on its size, the institution may employ a purchasing agent and, in large institutions, a sizable purchasing department. Business marketing and sales personnel, in formulating their marketing and personal selling approaches, must understand the needs of the full range of participants in the buying process. Often, the salesperson must carefully cultivate the professional staff in terms of product benefits, while developing a delivery timetable, maintenance contract, and price schedule to satisfy the purchasing department. Leading business marketers also use the Internet to provide added value to their customers. For example, Cardinal Health, Inc., has embraced the Internet as the centerpiece of its marketing strategy and provides an online catalog, daily Internet specials, and a host of services for its customers—purchasing managers at hospitals and health-care facilities worldwide.

An important factor in institutional buying is group purchasing. Hospitals, schools, and universities may join cooperative purchasing associations to secure

purchasing efficiencies. Group buying allows institutions to enjoy lower prices, improved quality (through improved testing and supplier selection), reduced administrative costs, and greater competition. In addition to responding to the needs of individual institutions, the business marketer must be prepared to meet the special requirements of cooperative purchasing groups and large hospital chains.

Business (B2B) Markets vs. Consumer (B2C) Markets

Many large firms that produce goods such as steel, production equipment, or semiconductor 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. Products such as smart 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 (see Figure 1-2).¹⁷

Figure 1-2 Top 10 Most Valuable B2B Brands

	Brand	Category
1	 Microsoft	Technology
2		Technology
3	 WELLS FARGO	Regional Banks
4		Logistics
5		Conglomerate
6		Technology
7	 accenture	Technology
8		Technology
9	 ORACLE	Technology
10	 HSBC 	Global Banks

Source: Proteus B2B Marketing

Business marketing and consumer-goods marketing are different (see Table 1-3). 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.¹⁸ Consumer and business marketing differ in the nature of markets, market demand, buyer behavior, buyer–seller relationships, environmental influences (natural, competitive, technological, socio-cultural, economic, political, and 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.

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

Table 1-3 Major Differences between B2B and B2C Marketing

B2B customers are organizations (businesses, governments, and institutions).
B2B market transactions (dollar value) significantly exceeds the B2C market.
B2B individual transactions are typically larger than individual B2C transactions.
B2B customers are fewer than B2C customers.
B2B markets are more geographically concentrated than B2C markets.
B2B demand is derived from B2C demand.
B2B demand fluctuates more than B2C demand.
B2B marketers develop campaigns aimed at both B2B customers as well as B2C customers to stimulate demand.
B2B demand is typically more inelastic to price changes compared to B2C demand.
B2B markets typically must be more attuned to global market changes than B2C markets.
B2B purchasing is typically a group decision made by key buying influentials.
B2B marketing tends to rely more on personal selling as opposed to advertising which is more commonly used in B2C markets.
B2B marketing tends to rely more on one-to-one relationships compared to B2C.
B2B negotiations may be lengthy.
B2B firms employ more than 50% of graduating business majors.

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 such as Whirlpool 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.

Microchips: Lifeblood of Modern Economy Semiconductors provide the foundation for the digital world and constitute the heart of products from cars and smartphones to medical diagnostic equipment and industrial robots. A **microchip** (also called a semiconductor chip, a computer chip, or an integrated circuit) is “A set of electronic circuits on a small flat piece of silicon . . . where transistors act as miniature electrical switches that can turn a current on or off.”¹⁹ A microchip, the size of your fingernail, can contain billions of transistors. A new automobile, for instance, can incorporate over one hundred microchips to support electronic features such as computerized engine controls and transmissions, touch screens, collision avoidance systems, back-up cameras, and airbag deployment systems.²⁰ The lack of even one of these components can trigger production delays or shutdowns.

Bullwhip Effect in Supply Chains Bullwhip effects, are the wild swings in demand that business marketers can experience such as were vividly on display during the pandemic. The disruptions to supply of a wide variety of goods during this period had their roots in the shifting patterns of customer demand that unfolded. As many factories around the world shut down or reduced capacity and shipping companies cut their schedules in anticipation of a drop in orders, consumers shifted their spending toward physical goods (e.g., home office equipment, video game consoles, kitchen appliances) and away from services (e.g., restaurant meals, vacation trips, spa services).²¹ Meanwhile, government support in the United States and Europe kept incomes stable, providing support for consumer spending.²² Given the unexpected bump in consumer demand, semiconductor chips that power smart phones, gaming consoles, modems, automobiles, and household appliances were difficult to find at any price and product shortages were common. Demand for information passing up the supply chain was distorted further by hoarding and double-ordering. The same forces that disrupted the supply chain for computer chips also caused long stretches of empty supermarket shelves and shortages of essential supplies from toilet paper to surgical masks. While more pronounced and widespread during the pandemic, “we call this the bullwhip effect in supply chains and this happens all the time,” says Harvard Business School professor Willy Shih.²³