

BUSINESS MARKETING MANAGEMENT: B2B

HUTT/SPEH

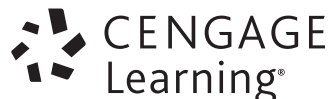
TWELFTH EDITION

Business Marketing Management: B2B

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DEDICATION

To Rita and to Sara, and in memory of Michele

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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 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 is 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 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 Lichtenthal, Baruch College; *Journal of Business & Industrial Marketing*, Wesley J. Johnston, Georgia State University; and *Industrial Marketing Management*, Peter LaPlaca, University of Connecticut.

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, organizational buying behavior, customer relationship management, supply chain management, and the ensuing adjustments required in the marketing strategy elements used to reach organizational 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.
3. 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 11th edition:

- **Customer Decision Journey:** As the traditional procurement process has been disrupted by a host of new communication and social media channels, expanded treatment is provided of the strategic imperatives for marketers.
- **Smart, Connected Products:** A timely and richly illustrated 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.
- **New Strategic Landscape:** A comprehensive treatment of the strategic choices that smart, connected products present for managing products, delivering services, and creating value for business customers.
- **Social Media:** A thorough examination of how the evolving social media landscape is impacting business-to-business communications and best practices for designing an integrated digital marketing strategy.
- **Sales Management Best Practices:** The new edition includes expanded treatment of how leading-edge firms are (1) applying sales analytics to unearth micromarkets within sales territories and (2) leveraging the power of social media to advance performance.
- **Sustainability:** A timely and richly illustrated discussion of the distinctive competitive advantages that can be secured by a focus on environmental priorities.

ORGANIZATION OF THE 12TH 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 5 parts with a total of 15 chapters. Part I 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 II, 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 III centers on the techniques that can be applied in assessing market opportunities: market segmentation and demand analysis, including sales forecasting.

Part IV 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. This edition provides an expanded and integrated treatment of the role that smart, connected products assume in the strategy of business-to-business firms. Special emphasis is also given to defining characteristics of successful business-to-business firms and to the interfacing of marketing with other key functional areas such as manufacturing, research and development, and customer service. 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 new forms of competitive advantage that rapidly developing economies present (e.g., China).

Next, each component of the marketing mix is examined from a business marketing perspective. The product chapter gives special attention to the brand-building process, sustainability, and the strategic importance of providing competitively superior value to customers. 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 supply chain strategies for business markets. Building on the treatment of customer relationship marketing provided in Part II, the personal selling chapter explores methods for organizing the sales force and serving key accounts, the skills and characteristics of high-performing salespersons, and analytical tools to support sales force deployment decisions.

Marketing performance measurement provides the central focus for Part V. 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-seven end-of-chapter cases are provided and roughly half are new to this edition. These cases uncover opportunities and challenges confronting firms such as Sealed Air, IBM, Intuit, International Flavors and Fragrances, Google, LinkedIn, and GE. These cases provide a valuable tool for sparking class discussion and bringing strategy issues to life. Based on requests from adopters, we also include a comprehensive list of cases available through the Harvard Business School and other outlets that might be selected for use in the course. The case candidates are keyed to the chapters, allowing instructors to tailor the course to their teaching style and their course objectives. The case recommendations cover a range of timely topics, from the power of social media in the business market and GE's Industrial Internet to disruptive innovation and customer relationship management.

Instructor's Manual

The Instructor's Manual for the 12th edition of *Business Marketing Management: B2B* provides a variety of creative suggestions designed to help the instructor incorporate all the materials available to create a dynamic learning environment. A few of the key features available in the Instructor's Manual for this edition include

- course design suggestions;
- chapter overviews and supporting materials;
- suggested readings listed by chapter;
- analysis suggestions for end-of-chapter cases; and
- ideas for effectively integrating the video package into the classroom discussion.

BUSINESS INSIGHTS EXERCISES

Accompanying the volume is a set of Business Insights exercises keyed to each of the chapters. Business Insights is a search platform offered by Cengage that allows students to conduct in-depth research on companies or timely topics from business practice. The exercises provided for each chapter cover a host of engaging topics from Amazon Web Services (AWS) and Apple's success in the education market to Boeing's face-off with Airbus in the global market and Caterpillar's branding strategy.

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.

Cognero Test Bank

The Test Bank is also 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.

WEBSITE

Visit the text website at <http://www.cengage.com/marketing/hutt> to find instructor's support materials as well as study resources that will help students practice and apply the concepts they have learned in class.

VIDEOS

A new video package, that includes 16 engaging marketing contexts, has been prepared to provide a relevant and interesting visual teaching tool for the classroom. Each video segment applies text materials to the real world, demonstrating how

everyday companies effectively deal with business marketing management issues. Included among the new videos is a seven-part professionally designed series on Scripps Network Interactive: The Food Network. This engaging set of videos demonstrates how the firm's success in the business market (B2B) (e.g., selling advertising to food marketers) is derived from deep behavioral insights it gathers through sophisticated market analytics and an integrated digital marketing strategy. The new edition also now includes 21 contemporary YouTube videos linked to the chapters, highlighting key themes from practice discussed in the volume.

STUDENT RESOURCES

Online quizzes for each chapter are available on the website for those students who would like additional study materials. After each quiz is submitted, automatic feedback tells the students how they scored and what the correct answers are to the questions they missed. Students are then able to e-mail their results directly to their instructor, if desired.

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, the University of Alabama, 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.

Second, we express our gratitude to several distinguished colleagues who carefully reviewed a recent volume and provided incisive comments and valuable suggestions that improved the 11th edition. They include Blaine Branchik, Quinnipiac University; Brian Brown, University of Massachusetts, Amherst; Abbie Griffin, University of Utah; Peter A. Reday, Youngstown State University; Larry P. Schramm, Oakland University; Judy Wagner, East Carolina University; and Jianfeng Wang, Mansfield University of Pennsylvania.

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The talented staff of South-Western/Cengage Learning displayed a high level of enthusiasm and deserves special praise for their contributions in shaping this edition. In particular, Executive Editor Mike Roche provided valuable advice and keen insights for this edition. In turn, we were indeed fortunate to have Zachary Fleischer, our development editor, on our team. His steady hand, efficient style, and superb coordinating skills advanced the project. SPi Global contributed excellent copyediting skills and Colleen Farmer, our Project Manager, provided a confident style and a seasoned approach during the production process. We express our gratitude to Diane A. Davis, Arizona State University, for once again lending her superb administrative skills and creative talent to the project and for delivering under pressure.

Finally, but most importantly, our overriding debt is to our wives, Rita and Sara, whose encouragement, understanding, and direct support are vital to the completion of this edition. Their involvement and dedication are deeply appreciated.

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Assuming a variety of leadership roles for American Marketing Association programs, he co-chaired the Faculty Consortium on Strategic Marketing Management. He is a member of the editorial review boards of the *Journal of Business-to-Business Marketing*, *Journal of Business & Industrial Marketing*, *Industrial Marketing Management*, *Journal of the Academy of Marketing Science*, and *Journal of Strategic Marketing*. For his contribution to *The Journal of Marketing*, he received the Harold H. Maynard Award and for his contribution to *MIT Sloan Management Review*, he received the Richard Beckhard Prize. Dr. Hutt has consulted on marketing strategy issues for firms such as IBM, Motorola, Honeywell, AT&T, Arvin Industries, ADT, and Black-Clawson and for the food industry's Public Policy Subcommittee on the Universal Product Code.

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Dr. Speh has been active in both the Warehousing Education and Research Council (WERC) and the Council of Logistics Management (CLM). He has served as president of WERC and as president of the CLM. Dr. Speh has been a consultant on strategy issues to organizations such as Xerox, Procter & Gamble, Burlington Northern Railroad, Sara Lee, J. M. Smucker Co., and Millennium Petrochemicals, Inc.

Part 1

The Environment of Business Marketing

Chapter

1

A Business Marketing Perspective

CHAPTER INTRODUCTION

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 and highlights key trends shaping marketing strategy. 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 types of customers in this important market
3. The underlying factors that influence the demand for industrial goods
4. The nature of buyer–seller relationships in a product’s supply chain
5. A method for classifying products and services for the business market

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. The total for the business market is higher because before a consumer buys a product (for example, car and 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 IBM spends more than \$40 billion annually on industrial products and services.² Others, such as Procter & Gamble, Apple, Merck, Dell, and Kimberly Clark, each spend more than half of their annual sales revenue on purchased goods

Business markets The 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.

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

BUSINESS MARKET 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 the network solution.⁶ Likewise, the new, 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 3000 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 firms, 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

Commercial Customers	Institutional Customers	Governmental Customers	TABLE 1.1 Types of Business Market 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	

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 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 customers: The 100 largest ones purchase more than \$1 trillion of goods and services annually.⁸

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

A CONCENTRATION OF CUSTOMERS

A startling fact about the study of manufacturers is that so few of them remain. Available evidence suggests that there are approximately 300,000 manufacturing firms in the United States.⁹ And 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*, 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 \$50 billion in sales. Represented here are Lockheed Martin, Northrup Grumman, Raytheon, Boeing, and General Dynamics.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 \$500 billion and national health expenditures exceed \$2.5 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 MARKETING MANAGEMENT

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. The introduction of laser printers and personal computers brought Hewlett-Packard, historically a business-to-business marketer, into the consumer market.

Conversely, the strength of Apple's brand extends to the business market where, for example, the iPad enjoyed immediate success and sparked demand for other Apple products, including Mac computers. Over 75 percent of *Fortune* 500 companies were using or testing the iPad just months after it was introduced. J. P. Morgan Chase, Cardinal Health, and Tellabs, Inc., are among the corporate customers using the iPad for product demonstrations, approving shipping orders, and calling up finance options.¹⁷ To deepen the penetration with corporate customers, Apple is partnering with IBM to bring IBM's big data and analytics capabilities to the iPad and iPhone. As part of the exclusive agreement, IBM will sell iPads and iPhones with industry-specific solutions to business clients worldwide.¹⁸ To serve such corporate customers, some fundamental adjustments in marketing strategy are required.

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: Cisco, Google, Siemens, Caterpillar, IBM, FedEx, GE, DuPont, Intel, Hewlett-Packard, and 3M.¹⁹

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.²⁰ Such market-driven firms demonstrate:

- A set of values and beliefs that places the customers' interests first²¹;
- The ability to generate, disseminate, and productively use superior information about customers and competitors²²; and
- The coordinated use of interfunctional resources (for example, research and development and manufacturing).²³

Distinctive Capabilities A close examination of a market-driven firm reveals two particularly important capabilities: market sensing and customer linking.²⁴ 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

market-sensing capability The capability that concerns how well the organization is equipped to continuously sense changes in its market and anticipate customer responses to marketing programs.

B2B TOP PERFORMERS

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

W. W. Grainger, Inc. (NYSE: GWW), with sales of \$7.3 billion, is the leading broad line supplier of facilities maintenance products serving businesses and institutions throughout North America with an expanding presence in Europe, Asia, and Latin America. Through its network of more than 600 branches, 24 distribution centers, an iconic catalog, and multiple Websites, Grainger helps customers save time and money by providing them with the right products to keep their facilities running.

Jim Ryan was named Chairman in April 2009 and President and Chief Executive Officer in June 2008. He has been President of Grainger since 2006; in February 2007, he was named Chief Operating Officer and appointed to the Board of Directors. 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 reduce their inventories of MRO items and rely on Grainger's responsive distribution systems and expertise to provide these items just when they are needed, decreasing 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.

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customer-linking capability The capability that comprises the particular skills, abilities, and processes an organization has developed to create and manage close customer relationships.

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 such as 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 such as IBM and GE 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.

Strategy Imperatives for B2B Marketers

Given the rapid pace of change in and around business markets, best-practice firms are setting a fresh set of priorities to meet the needs of customers and to advance business performance (see Table 1.2).

- Demonstrate the Value and Impact of Marketing Expenditures on Firm Value
- Understand the Customer Decision Journey and How New Information Is Reshaping the Organizational buying Process
- Engage More Deeply with Customers and Customers' Customers
- Align Strategy and Sales
- Take an Active Role in Shaping the Company's Innovation Agenda

TABLE 1.2

Key Imperatives for Business Marketing Managers

Impact on Business Performance 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.²⁵ 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.²⁶ To meet these performance standards, firms must develop and nurture **customer relationship management capabilities**, which include all the skills required to identify, initiate, develop, and maintain profitable customer relationships.

Understand the Customer Decision Journey Traditionally, persuasive communications were developed and delivered to targeted customer prospects through a range of communication channels, including the sales force, in a linear fashion. Marketing communication was viewed as a precursor to a sales call or to reinforce sales activities. However, with the advent of the Internet, the Web, and a host of social media technologies, information control shifts from the marketer to the customer prospect.²⁷ Now customers can determine how, when, and where they want to acquire information.

At any point in the buying process, customer prospects can access information from websites, YouTube, or engage with peers in their business network through LinkedIn, Facebook, among others, to receive recommendations and suggestions. The marketing strategist needs to direct attention to those points in the decision journey where they can be most effective in reaching key decision makers.²⁸

Customer Engagement A business marketer becomes a preferred supplier to major customers such as Apple, Ford, 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.

Want to win the loyalty of buying influentials? *Enhance their customers' experience.*²⁹ Consider Johnson Controls, Inc., a diverse, multi-industry company that is a leading supplier of auto interiors (including seats, electronics, headliners, and instrument panels) to manufacturers.³⁰ The striking success of the firm rests on the close relationships that its sales reps and marketing managers have formed with design engineers and purchasing executives in the auto industry. To provide added value to the new-product-design process, the firm emphasizes environment-friendly materials and also invests annually in market research on the needs and preferences of auto buyers—the customer's customer! Moreover, to enhance the customer experience, technicians at Johnson Controls' research lab test seating and interior components for comfort, safety, ease-of-reach, usability, and function. Using a simulator that generates the bumps, dips, and turns of an open-road drive, scientists can record the passengers' experiences and capture valuable information for developing components that improve comfort and safety as well as customer satisfaction. By staying close to the needs of auto buyers, Johnson Controls became the preferred supplier to design engineers who are continually seeking innovative ways to make auto interiors more distinctive and inviting.

customer relationship management capabilities The skills required to identify, initiate, develop, and maintain profitable customer relationships.

Align Strategy and Sales³¹ In many business-to-business firms, there is a disconnect between strategy and sales. In fact, some studies suggest that firms rarely deliver the financial performance their strategies promise in the strategic plan. Why? Management embarks on a strategy without first considering the realities that surround the salespeople who must execute it.

Frank V. Cespedes asserts:

*“The sales organization should be part of every conversation about strategy. U.S. companies cumulatively spend about \$900 billion annually on sales efforts—three times their spending on consumer advertising, more than 20 times their spending on online media, and more than 100 times their spending on social media.”*³²

To improve the alignment between strategy and sales, firms must clearly communicate the strategy, select the right customer prospects and match them with the optimal products and services, and make the strategy relevant by operationalizing the distinctive features of the value proposition.

Marketing Leaders Shape Innovation Agenda³³ Jeff Immelt, CEO at General Electric, recently issued a mandate that marketing must become a vital operating function across the firm and an engine for organic growth. In response, the firm doubled the size of the marketing function, from 2500 several years ago to more than 5000 managers today, and created chief marketing officer (CMO) positions at all GE businesses and at the corporate level. Likewise, the firm convened its best marketers to define the specific capabilities that a world-class business marketing function needed to master (for example, market knowledge, segmentation, and branding). Once the capabilities were defined, senior GE executives observed that some managers are better equipped at translating capabilities into actionable results, so they studied the characteristics of the firm’s top-performing marketing managers. They have found that leaders transform marketing into a strategic function by performing four fundamental roles. They call them a marketer’s DNA. These are:

- *The Instigator.* Marketing leaders need to capitalize on their close connection to customers, think strategically, and challenge the status quo in order to define opportunities that may not be apparent to others in the business. This role involves scanning the entire business landscape for marketing ideas as opposed to thinking exclusively about current products and markets.
- *The Innovator.* Marketing leaders need to take an active role in shaping the company’s innovation agenda. In performing this role, the leader needs to expand beyond product features to consider new business models or fresh approaches to pricing, delivery, and customer engagement. To pursue a new strategic path, a leader must demonstrate courage and persistence, plus the political skills to overcome objections.
- *The Integrator.* The integrator builds bridges across multiple functions to unite organizational members on a clear strategy path. Marketing leaders are adept at making unique customer insights relevant and meaningful to those inside the organization.
- *The Implementer.* To translate plans into actionable strategies, marketing executives must mobilize diverse organizational members across the firm, many of whom report to others. So marketing leaders are skilled at building coalitions and persuading others by using functional expertise, customer insights, and teamwork rather than by exercising authority.

CREATING THE CUSTOMER VALUE PROPOSITION³⁴

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 by the next best alternative.³⁵ 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.”³⁶ 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.

customer value proposition The proposition that captures the particular set of benefits that a supplier offers to advance the performance of the customer organization.

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.

key buying influentials The influentials who have power in the buying process.

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.³⁷ Consumer and business marketing differ in the nature of markets, market demand, buyer behavior, buyer–seller relationships, environmental influences (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.