6

CHAPTER

Business and Organizational Customers and Their Buying Behavior

MetoKote Corp. specializes in protective coating applications, like powder-coat and liquid paint, that other manufacturers need for the parts and equipment they make. For example, when you see John Deere agricultural, construction, or lawn and grounds-care equipment, many of the components have likely been coated (painted) in a MetoKote facility. In fact, Deere & Company and MetoKote have a close buyer–seller relationship. While Deere uses a variety of methods to identify suppliers and get competitive bids for many items it needs, it's different with MetoKote. Deere isn't going to switch to some other supplier just because other options provide cheaper coatings. MetoKote not only provides protective coatings for many John Deere products, it has built facilities right next to some Deere plants. When it's time for a component to be coated, a conveyer belt moves the part out of the John Deere plant and into the MetoKote facility. A short time later it's back—and it's green or yellow.

Deere favors this type of arrangement. It lets MetoKote's experts keep up with all of the environmental regulations and new technologies for coatings.

For a manufacturer, this type of relationship allows its facilities to be smaller and less costly to build and maintain, as the space isn't required for large spray booths. With MetoKote's facilities located nearby, newly coated parts for Deere do not have to be shipped, resulting in fewer scratches and dents—which results in higher-quality parts with less rework required.

Many people were involved in the decision to purchase coating services in this way. The responsibility for choosing vendors didn't just rest with the purchasing department but involved input from people in finance, quality control, and in some cases even the production employees.

John Deere needs high-quality protective finishes because its customers want durable, long-lasting equipment. Like John Deere, they want good value. Upholding Deere & Company's long reputation for quality service is equally as important as the company's reputation for a quality product.

For example, if a huge commercial farm in Brazil needs a repair part, workers can contact the local John Deere dealer or at any hour visit the company's website (www.deere.com) to access its online service that allows customers to learn which dealers have a needed part in inventory, check the price, and place an order for fast delivery. But helping John Deere customers and dealers earn better profits doesn't stop there.

For example, some John Deere farm equipment includes a global positioning device that tracks exactly where the equipment goes when it is plowing, seeding, or cutting. The company's GreenStar system, which can easily be moved from machine to machine, uses advanced technology to measure average farm and field yields and to facilitate documentation

of tillage practices, planting, spraying, weather, and more. For example, Deere's new cotton harvester inserts a radio frequency ID (RFID) tag as it spools a 4,750 pound bale of cotton fiber and then automatically wraps it in a plastic film. The RFID chip, combined with global positioning system (GPS) data, lets cotton processors trace the precise origin of each bale. They know, for instance, if the cotton was grown without pesticides and qualifies to be sold as organic. The plastic film eliminates the 20 percent drop in the quality of the cotton fiber that can result from water damage. Deere innovations like these can help a farmer make better management decisions, increase productivity, and provide better value to the entire operation.

To give farmers and other equipment customers better service, Deere is streamlining distribution. It is dropping dealers who don't measure up to its goals on measures such as customer satisfaction—and encouraging the dealers that remain to consolidate so that they will have economies of scale in purchasing, be able to afford more specialists in important areas like e-commerce, and be able to share inventory among multiple locations. Of course, this changes Deere's relationship with its dealers. Now Deere views them as members of a high-performance team rather than as members of the Deere family.

John Deere recognizes that different customers have different needs. For example, golf courses buy Deere equipment to maintain their fairways, roughs, greens, and sand traps. Golf course managers value the reliability and durability of Deere equipment. However, they also need a variety of operating supplies—ranging from grass seed and irrigation equipment to ball washers and chemicals. Golf course managers have many responsibilities besides purchasing, and it's time-consuming for them to have to work with many different suppliers. So, John Deere introduced its One Source service which provides golf course managers with a "one-stop shop" for the things they need—all backed by the trusted Deere name. One Source strengthens Deere's relationships with both its dealers and their golf course customers. Of course, it creates new challenges for John Deere's purchasing department. It must identify, evaluate, monitor, and recommend the suppliers for the products that golf courses need. Deere's dealers and golf course customers rely on Deere's purchasing specialists to make the right decisions, and that's part of the customer value that Deere provides. Innovative approaches to delivering customer value, such as One Source for golf courses, make Deere the supplier of choice for many business customers.[1]

LEARNING OBJECTIVES

As the John Deere case illustrates, the buying behavior of organizational customers can be very different from the buying behavior of final consumers. Marketing strategy planning requires a solid understanding of who these organizational customers are and how they buy.

When you finish this chapter, you should be able to:

1 describe who the business and organizational buyers are.

2 see why business and organizational purchase decisions often involve multiple influences.

3 understand the problem-solving behavior of organizational buyers and how they get market information.

4 understand the different types of buyer–seller relationships and their benefits and limitations.

5 know about the number and distribution of manufacturers and why they are an important customer group.

6 know how buying by service firms, retailers, wholesalers, and governments is similar to—and different from—buying by manufacturers.

7 understand important new terms (shown in red).

BUSINESS AND ORGANIZATIONAL CUSTOMERS—A BIG OPPORTUNITY

Most people think about an individual final consumer when they hear the term *customer*. But many marketing managers aim at customers who are not final consumers. In fact, more purchases are made by businesses and other organizations than by final consumers.

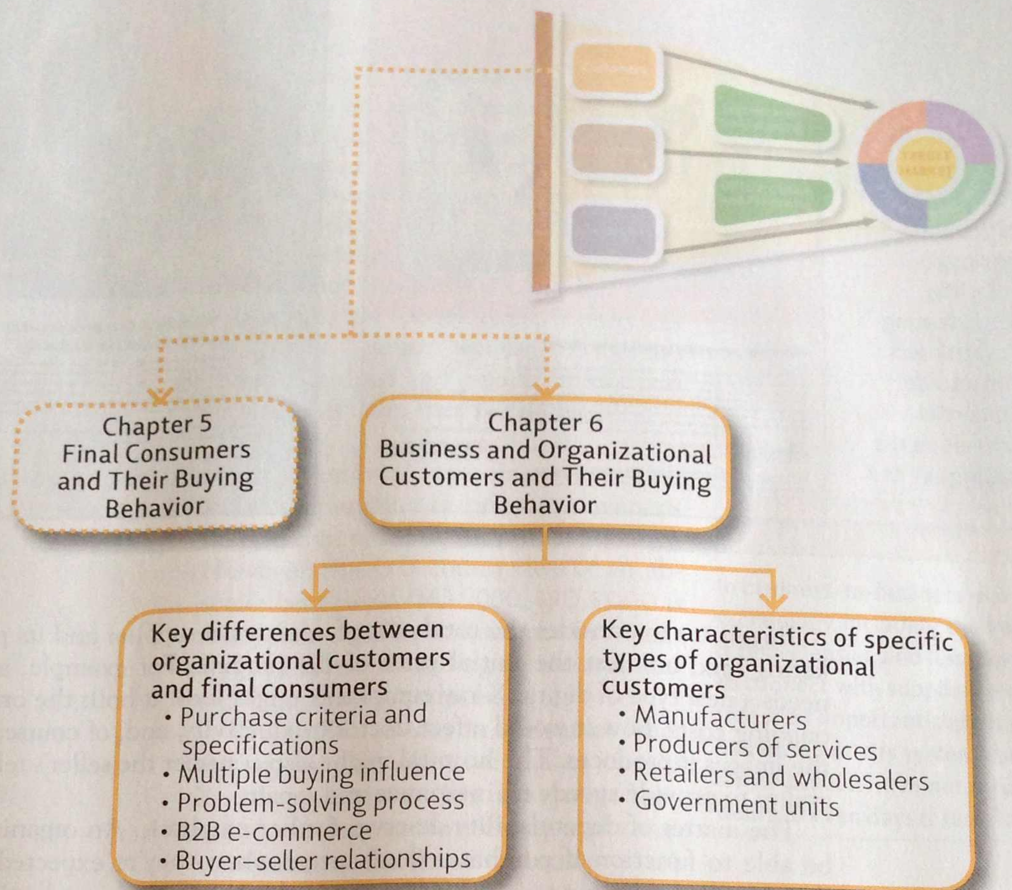
Business and organizational customers are any buyers who buy for resale or to produce other goods and services. There are many different types of organizational customers, including

- *Producers of goods and services*—including manufacturers, farmers, real estate developers, hotels, banks, even doctors and lawyers.
- *Intermediaries*—wholesalers and retailers.
- *Government units*—federal agencies in the United States and other countries as well as state and local governments.
- *Nonprofit organizations*—national organizations like the Red Cross and Girl Scouts as well as local organizations like museums and churches.

As this suggests, not all organizational customers are business firms. Even so, they are sometimes loosely referred to as *business buyers*, *intermediate buyers*, or *industrial buyers*—and marketing managers often refer to organizational customers collectively as the "business-to-business" market, or simply, the *B2B market*.

In this chapter, we'll focus on organizational customers and their buying behavior. See Exhibit 6–1. In Chapter 5 we focused on buying by final consumers, so here we'll start by covering important ways that organizational buying tends to be different from buying by final consumers. Then, later in the chapter, we'll focus on some key differences among the specific types of organizational customers.

Exhibit 6-1 Understanding Business and Organizational Customers for Marketing Strategy Planning



So, keep in mind that, for many firms, marketing strategy planning is about meeting the needs of organizational customers, not final consumers. A firm can target both final consumers and organizations, but different marketing mixes may be needed. As you learn about the buying behavior of organizations, think about how a firm's marketing mix may need to be different and how it may be adjusted.

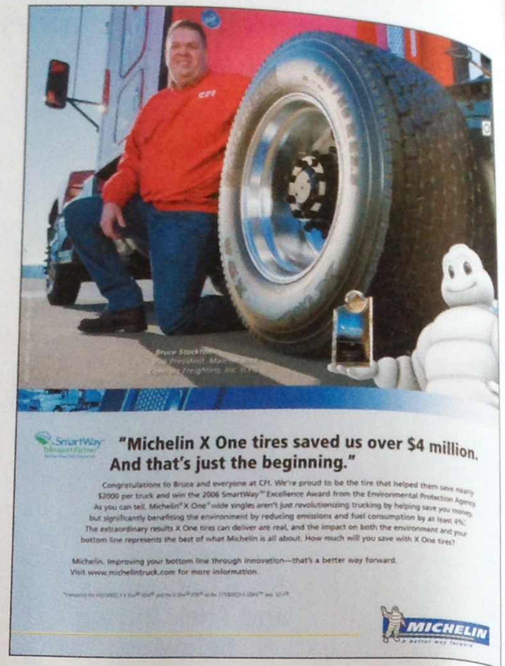
ORGANIZATIONAL CUSTOMERS ARE DIFFERENT

Organizations buy for a basic purpose

Like final consumers, organizations make purchases to satisfy needs. But it's often easier to understand an organization's needs because most organizations make purchases for the same basic reason. They buy goods and services that will help them meet the demand for the goods and services that they in turn supply to their markets. In other words, their basic need is to satisfy their own customers and clients. A producer buys because it wants to earn a profit by making and selling goods or services. A wholesaler or retailer buys products it can profitably resell to its customers. A town government wants to meet its legal and social obligations to citizens.

Basic purchasing needs are economic

Organizations typically focus on economic factors when they make purchase decisions and are usually less emotional in their buying than final consumers.



Promotion to organizational buyers often focuses on economic factors. Kyocera's ad, targeted at office and information technology managers, promotes the long life and lower operating costs of its business printers. Michelin's ad, from a trade magazine for commercial trucking firms, focuses on the fuel and weight savings of its X One wide single tire.

Buyers try to consider the total cost of selecting a supplier and its particular marketing mix, not just the initial price of the product. For example, a hospital that needs a new type of digital X-ray equipment might look at both the original cost and ongoing costs, how it would affect doctor productivity, and, of course, the quality of the images it produces. The hospital might also consider the seller's reliability and its ability to provide speedy maintenance and repair.

The matter of dependability deserves further emphasis. An organization may not be able to function if purchases don't arrive when they're expected. For example, there's nothing worse to a manufacturer than shutting down a production line because sellers haven't delivered the goods. Dependable product quality is important too. For example, a bug in e-commerce software purchased by a firm might cause the firm's online order system to shut down. The costs of finding and correcting the problem—to say nothing about the cost of the lost business—could be much greater than the original cost of the software.

Even small differences are important

Understanding how the buying behavior of a particular organization differs from others can be very important. Even seemingly trivial differences in buying behavior may be important because success often hinges on fine-tuning the marketing mix.

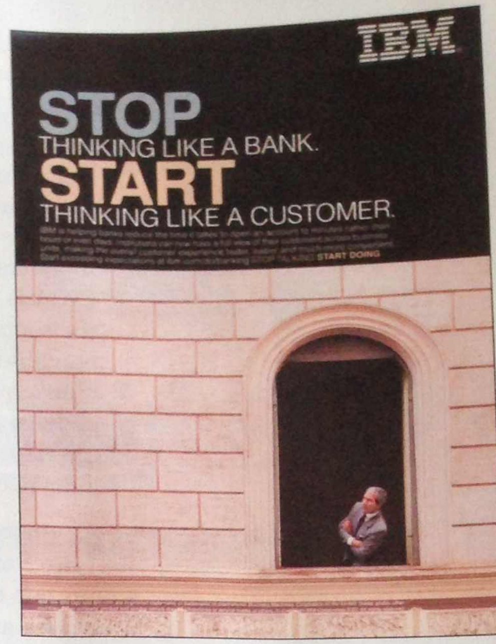
Sellers often approach each organizational customer directly, usually through a sales representative. This gives the seller more chance to adjust the marketing mix for each individual customer. A seller may even develop a unique strategy for each individual customer. This approach carries target marketing to its extreme. But sellers often need unique strategies to compete for large-volume purchases.

Serving customers in international markets

Many marketers discover that there are good opportunities to serve business customers in different countries around the world. The basic approaches marketers use to deal with business customers in different parts of the world are much less varied than those required to reach individual consumers. This is probably why the shift to a global economy has been so rapid for many firms. Their business customers in different countries tend to buy in similar ways and can usually be reached with similar marketing mixes. Moreover, business customers are often willing to work with distant suppliers who have developed superior marketing mixes.

Specifications describe the need

Organizational buyers often buy on the basis of a set of **purchasing specifications**—a written (or electronic) description of what the firm wants to buy. When quality is highly standardized, as is often the case with manufactured items, the specification may simply consist of a brand name or part number. Often, however, the purchase requirements are more complicated; then the specifications may set out detailed information about the performance standards the product must meet. Purchase specifications for services tend to be detailed because services are less standardized and usually are not performed until after they're purchased.



In business-to-business markets, information technology, including the Internet, is making it faster, easier, and less expensive for firms to connect with suppliers and customers. IBM is an important supplier in this area. For example, with its systems banks can open a new account in minutes rather than the hours or even days it took in the past.

Customers may expect quality certification

Organizational customers considering a new supplier or one from overseas may be concerned about product quality. However, this is becoming less of an obstacle because of ISO 9000. **ISO 9000** is a way for a supplier to document its quality procedures according to internationally recognized standards.

ISO 9000 assures a customer that the supplier has effective quality checks in place, without the customer having to conduct its own costly and time-consuming audit. Some customers won't buy from any supplier who doesn't have it. To get ISO 9000 certified, a company must prove to outside auditors that it documents how the company operates and who is responsible for quality every step of the way.[2]

MANY DIFFERENT PEOPLE MAY INFLUENCE A DECISION

Purchasing managers are specialists

Many organizations rely on specialists to ensure that purchases are handled sensibly. These specialists have different titles in different firms (such as procurement officer, supply manager, purchasing agent, or buyer), but basically they are all **purchasing managers**—buying specialists for their employers. In large organizations, they usually specialize by product area and are real experts.

Most firms look to their procurement departments to help cut costs and provide competitive advantage. In this environment, purchasing people have a lot of clout. And there are good job opportunities in purchasing for capable business graduates.

Salespeople often have to see a purchasing manager first—before they contact any other employee. These buyers hold important positions and take a dim view of sales reps who try to go around them. Rather than being "sold," these buyers want salespeople to provide accurate information that will help them buy wisely. They like information on new goods and services, and tips on potential price changes, supply shortages, and other changes in market conditions. Sometimes all it takes for a sales rep to keep a buyer up-to-date is to send an occasional e-mail. But a buyer can tell when a sales rep has the customer firm's interest at heart.

Although purchasing managers usually coordinate relationships with suppliers, other people may also play important roles in influencing the purchase decision.[3]

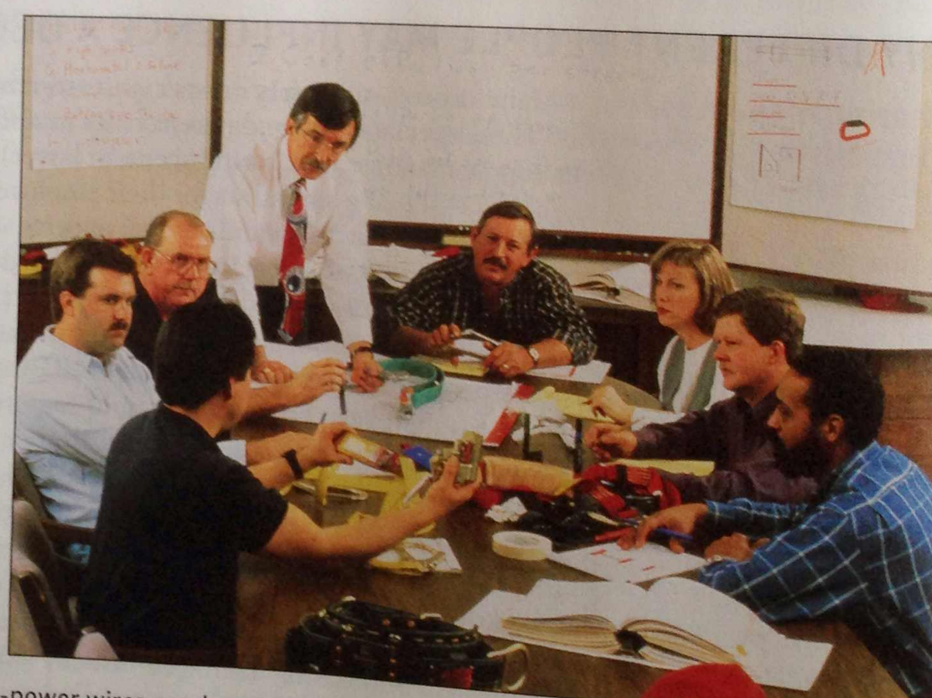
Multiple buying influence means that several people—perhaps even top management—play a part in making a purchase decision. Possible buying influences include

Multiple buying influence in a buying center

1. *Users*—perhaps production line workers or their supervisors.
2. *Influencers*—perhaps engineering or R&D people who help write specifications or supply information for evaluating alternatives.
3. *Buyers*—the purchasing managers who have the responsibility for working with suppliers and arranging the terms of the sale.
4. *Deciders*—the people in the organization who have the power to select or approve the supplier—often a purchasing manager but perhaps top management for larger purchases.
5. *Gatekeepers*—people who control the flow of information within the organization—perhaps a purchasing manager who shields users or other deciders. Gatekeepers can also include receptionists, secretaries, research assistants, and others who influence the flow of information about potential purchases.

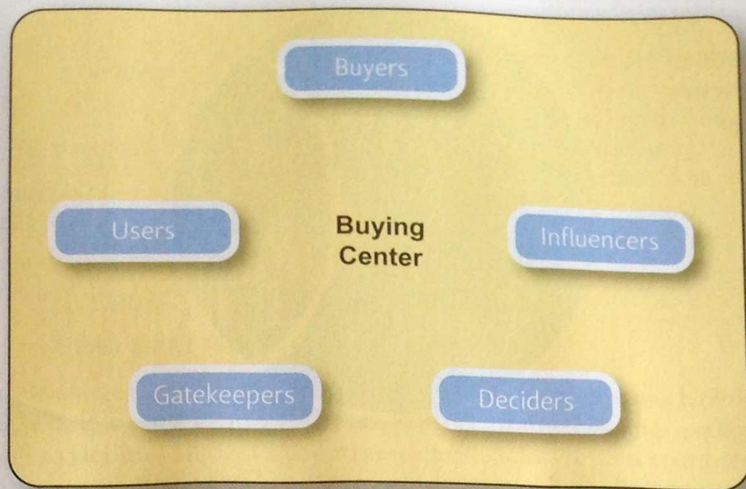
An example shows how the different buying influences work. Suppose Electrolux, the Swedish firm that produces vacuum cleaners, wants to buy a machine to stamp out the various metal parts it needs. An assistant to the purchasing manager does an Internet search to identify possible vendors. However, the list that the assistant (a gatekeeper) prepares for the manager excludes a few vendors on the basis of an initial evaluation of information from their websites. The manager e-mails a description of the problem to vendors on the list. It turns out that each of them is eager to get the business and submits a proposal. Several people (influencers) at Electrolux help to evaluate the vendors' proposals. A finance manager worries about the high cost and suggests leasing the machine. The quality control people want a machine that will do a more accurate job—although it's more expensive. The production manager is interested in speed of operation. The production line workers want the machine that is easiest to use so workers can continue to rotate jobs.

The company president (the decider) asks the purchasing department to assemble all the information but retains the power to select and approve the supplier. The purchasing manager's assistant schedules visits with salespeople. After



A person who works on a utility firm's high-power wires needs safe, durable climbing gear. A number of different people may influence the decision about which gear the firm should buy.

Exhibit 6–2
Multiple Influence and Roles in the Buying Center



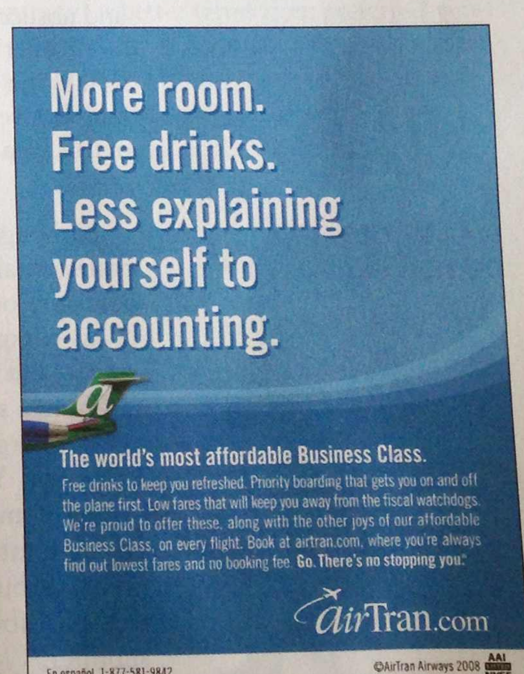
all these buying influences are considered, one of the purchasing agents for the firm (the buyer) will be responsible for making recommendations and arranging the terms of the sale.

It is helpful to think of a **buying center** as all the people who participate in or influence a purchase. Because different people may make up a buying center from one decision to the next, the salesperson must study each case carefully. Just learning who to talk with may be hard, but thinking about the various roles in the buying center can help. See Exhibit 6–2.

The salesperson may have to talk to every member of the buying center—stressing different topics for each. This not only complicates the promotion job but also lengthens it. Approval of a routine order may take anywhere from a day to several months. On very important purchases—a new building, major equipment, or a new information system—the selling period may take a year or more.[4]

Vendor analysis considers all of the influences

Considering all of the factors relevant to a purchase decision can be very complex. A supplier or product that is best in one way may not be best in others. To try to deal with these situations, many firms use **vendor analysis**—a formal rating of suppliers on all relevant areas of performance. The purpose isn't just to get a low price from the supplier on a given part or service. Rather, the goal is to lower the *total costs* associated with purchases. Analysis might show that the best vendor is the one that helps the customer reduce costs of excess inventory, retooling of equipment, or defective parts.[5]

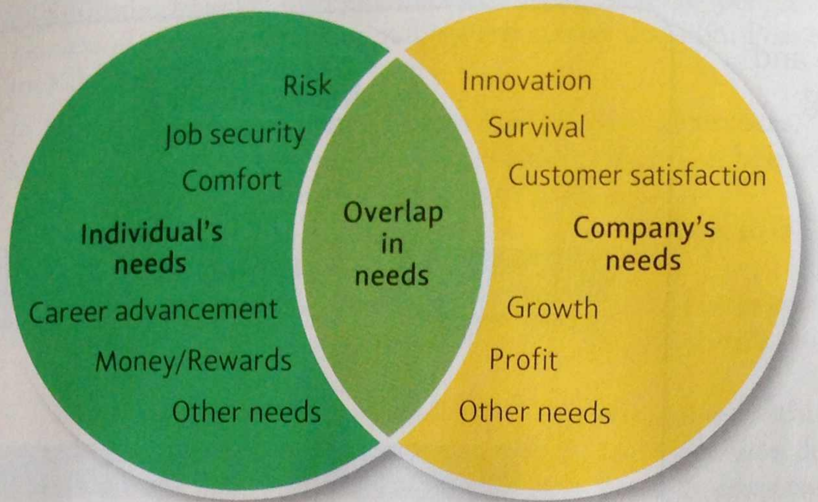


A seller's marketing mix may need to consider both the needs of the customer company as well as the needs of individuals who influence the purchase decision.

Behavioral needs are relevant too

Vendor analysis tries to focus on economic factors, but purchasing in organizations may also involve many of the

Exhibit 6–3 Overlapping Needs of Individual Influencers and the Customer Organization



same behavioral dimensions we discussed in Chapter 5. Purchasing managers and others involved in buying decisions are human, and they want friendly relationships with suppliers.

The purchasing people in some firms are eager to imitate progressive competitors or even to be the first to try new products. Such "innovators" deserve special attention when new products are being introduced.

The different people involved in purchase decisions are also human with respect to protecting their own interests and their own position in the company. That's one reason people from different departments may have different priorities in trying to influence what is purchased. Similarly, purchasing managers may want to avoid taking risks that might reflect badly on their decisions. If a new source delivers late or quality is poor, you can guess who will be blamed. Marketers who can help the buyer avoid risk have a definite appeal. In fact, this may make the difference between a successful and unsuccessful marketing mix.

A seller's marketing mix should satisfy *both* the needs of the customer company as well as the needs of individuals who influence the purchase. Therefore, sellers need to find an overlapping area where both can be satisfied. See Exhibit 6–3 for a summary of this idea.

Ethical conflicts may arise

Although organizational buyers are influenced by their own needs, most are serious professionals who are careful to avoid a conflict between their own self-interest and company outcomes. Marketers must be careful here. A salesperson who offers one of his company pens to a prospect may view the giveaway as part of the promotion effort—but the customer firm may have a policy against any employee accepting *any* gift from a supplier.

Most organizational buyers do their work ethically and expect marketers to do the same. Yet there have been highly publicized abuses. For example, the telephone company that serves New York found out that some of its buyers were giving contracts to suppliers who offered them vacation trips and other personal favors. Abuses of this sort have prompted many organizations to set up policies that prohibit a buyer or other employees from accepting anything from a potential supplier.

Marketers need to take concerns about conflict of interest very seriously. Part of the promotion job is to persuade different individuals who may influence an organization's purchase. Yet the whole marketing effort may be tainted if it even *appears* that a marketer has encouraged a person who influences a decision to put personal gain ahead of company interest.[6]

Ethics QUESTION

Assume that you are a salesperson in a small company. For months you've been trying to get a big order from a large firm. A purchasing manager at the firm casually mentions that she is trying to help two friends find tickets for a big hockey game. Your boss has season tickets for entertaining customers, but you know that the purchasing manager's company strictly prohibits any gift to employees. When you ask your boss what to do, the reply is, "Well, the tickets would be used by the friends and not the customer firm's employee, so you can offer them if you think you should." What should you do? What are the pros and cons of your decision?

Purchasing may be centralized

If a large organization has facilities at many locations, much of the purchasing work may be done at a central location. With centralized buying, a sales rep may be able to sell to facilities all over a country—or even across several countries—without leaving a base city. Wal-Mart handles most of the purchase decisions for stores in its retail chain from its headquarters in Arkansas. Many purchasing decisions for agencies of the U.S. government are handled in Washington, D.C.

Many firms also have centralized controls on who can make purchases. A person who needs to purchase something usually completes a **requisition**—a request to buy something. This is frequently handled online to cut time and paper shuffling. Even so, there may be delays before a supervisor authorizes the requisition and a purchasing manager can select the "best" seller and turn the authorization into a purchase order. The process may take a few hours for a simple purchase—but it may turn into months for a complex purchase.

Spend management systems control purchasing

Some firms use "spend management" systems to track every single purchase. In large firms this helps the purchasing department analyze the details of who is buying what and how. Sometimes this leads to cost-cutting opportunities or better purchasing policies. Computer purchases by a college illustrate the idea. Colleges buy hundreds of computers each year, but often they're purchased one at a time by different departments. If the college documents the total spending, it can contract for better terms from preferred vendors. The college might also change its policies so that any department can quickly order a standard computer from these vendors without approval from a purchasing manager.

Eastman Chemical Co. developed Eastman Tritan, an innovative copolyester (plastic-like) material. Tritan is durable, heat resistant, and offers design flexibility and ease of processing. For example, it is ideal for the molded parts needed by kitchen appliance manufacturers. Yet, Eastman still faces a challenge. A customer firm that is making straight rebuys from a supplier it has worked with in the past may not be seeking new materials or suppliers.

Exhibit 6-4
Organizational Buying Processes

Characteristics	Type of Process		
	New-Task Buying	Modified Rebuy	Straight Rebuy
Time Required	Much	Medium	Little
Multiple Influence	Much	Some	Little
Review of Suppliers	Much	Some	None
Information Needed	Much	Some	Little

ORGANIZATIONAL BUYERS ARE PROBLEM SOLVERS

Three kinds of buying processes are useful

In Chapter 5, we discussed problem solving by consumers and how it might vary from extensive problem solving to routine buying. In organizational markets, we can adapt these concepts slightly and work with three similar buying processes: a new-task buying process, a modified rebuy process, or a straight rebuy.[7] See Exhibit 6–4.

New-task buying occurs when a customer organization has a new need and wants a great deal of information. New-task buying can involve setting product specifications, evaluating sources of supply, and establishing an order routine that can be followed in the future if results are satisfactory. Multiple buying influence is common in new-task buying.

A **straight rebuy** is a routine repurchase that may have been made many times before. Buyers probably don't bother looking for new information or new sources of supply. Most of a company's small or recurring purchases are of this type—but they take only a small part of an organized buyer's time. Important purchases may be made this way too—but only after the firm has decided what procedure will be "routine."

The **modified rebuy** is the in-between process where some review of the buying situation is done—though not as much as in new-task buying. Sometimes a competitor will get lazy enjoying a straight rebuy situation. An alert marketer can turn these situations into opportunities by providing more information or a better marketing mix.

Straight rebuys often use e-commerce order systems

E-commerce computer systems *automatically* handle a large portion of straight rebuys. Buyers program decision rules that tell the computer how to order and leave the details of following through to the computer. For example, when an order comes in

Exhibit 6–5
Major Sources of Information Used by Organizational Buyers

	Marketing sources	Nonmarketing sources
Personal sources	• Salespeople • Others from supplier firms • Trade shows	• Buying center members • Outside business associates • Consultants and outside experts
Impersonal sources	• Advertising in trade publications • Sales literature • Sales catalogs • Web page	• Rating services • Trade associations • News publications • Product directories • Internet

Warming Up to Sustainable Purchasing

With increased attention on global warming and the environment, managers in many organizations are wondering what their responsibility should be. It's true that the first focus of most organizational buying decisions is on green—dollars, that is. However, when purchasing managers consider sustainability as part of their vendor analysis, green choices often prove to be winners.

Attention to sustainability often identifies savings that previously were not obvious. Sometimes all that is involved is a simple change from what's routine. For example, when Falconbridge Limited's aluminum smelter changed to more efficient (but more expensive) lightbulbs, it saved almost $100,000 per year in energy bills. When the Fairmont Hotel in Vancouver searched for alternative chemicals to use in its pool, it found new ones that were healthier for guests and cut costs by $2,000. Hotels everywhere cleaned up when they stopped rewashing all of their linens every day. All it took was a card in the bath that says, "If you'd like us to replace a towel with a clean one, put it on the floor." The cards cost pennies, whereas the hot water, detergent, labor, and wear on linens cost millions.

Retailers and wholesalers must be guided by what customers want; putting green products on their shelves will just rack up losses unless there's customer demand. But firms like Wal-Mart and Home Depot are advertising their sustainable choices because many consumers want them. Wal-Mart took note when in one year its customers bought 100 million eco-friendly fluorescent lightbulbs. Home Depot has more that 3,000 Eco Option products that promote energy conservation, sustainability, and clean water. Both retailers are building more energy-efficient stores and prodding their suppliers to think green by using less packaging. Cynics question their motives—because there's a benefit for retailers when packages take up less shelf space.

In California, some city governments are cooperating with energy firms to develop generators powered by ocean waves. Across the Atlantic, the mayor of London requires city agencies to buy recycled goods whenever possible. And federal agencies in the United States must buy energy-efficient PCs and monitors made without toxins that could later pollute landfills.

Some progressive firms make sustainability an essential buying criterion even if they don't see financial benefits. New Belgium Brewing Company puts sustainable values in its mission statement; that means its purchasing people select more energy efficient (but higher-priced) brew kettles, use wind-powered electricity, and build facilities that are more costly but use the latest green ideas. Many nonprofit organizations take this altruistic approach as well. It's hard to imagine the Sierra Club not having sustainability as a value when it's time to make purchases.[8]

that requires certain materials or parts, the computer information system automatically orders them from the appropriate suppliers, sets the delivery date, and schedules production.

When economic conditions change, buyers modify the computer instructions. If nothing unusual happens, however, the computer system continues to routinely rebuy as needs develop—electronically sending purchase orders to the regular supplier.

Obviously, it's a big deal to be selected as the major supplier that routinely receives all of a customer's electronic orders for the products you sell. Often this type of customer will be more impressed by an attractive marketing mix for a whole line of products than just a lower price for a particular order.

New-task buying requires information

Customers in a new-task buying situation are likely to seek information from a variety of sources. See Exhibit 6–5. Many of the impersonal sources are readily available online. How much information a customer collects depends on the importance of the

> **Internet EXERCISE**
>
> Go to the BuyerZone website (**www.buyerzone.com**). What types of products could be purchased by requesting a free quote on this site? From the home page click "Buying Advice> Furniture> Chairs> Chair Buyer's Guide," then look through this Buyer's Guide. Look at the Buyer's Guides for other products as well. What can be learned about buying different products from BuyerZone.com? For a marketing manager targeting smaller businesses, how could this site be helpful?

purchase and the level of uncertainty about what choice might be best. The time and expense of searching for information may not be justified for a minor purchase. But a major purchase often involves real detective work by the buyer.

New-task buying situations provide a good opportunity for a new supplier to make inroads with a customer. With a buyer actively searching for information, the seller's promotion has a much greater chance of being noticed and having an impact. Advertising, trade show exhibits, sales brochures, and salespeople can all help build the buyer's attention, but an informative website may be essential for getting attention in the first place.[9]

Search engines—a first step to gathering information

Most purchasing managers start with an Internet search when they need to identify new suppliers, better ways to meet needs, or information to improve decisions. Buyers often rely on highly specialized search engines—like one that finds all types of steel that meet certain technical specifications and then compares delivered prices. But buyers also use general-purpose search engines like Google. A search across the whole Web can often locate off-the-shelf products that eliminate the need to buy expensive, custom-made items. For example, a firm in Saudi Arabia ordered $1,000 worth of tiny rubber grommets from Allstates Rubber & Tool, a small firm in the suburbs of Chicago. If the buyer's search hadn't located the Allstates website, the only alternative would have been to pay much more for custom-made grommets—and Allstates wouldn't have picked up a new customer.[10]

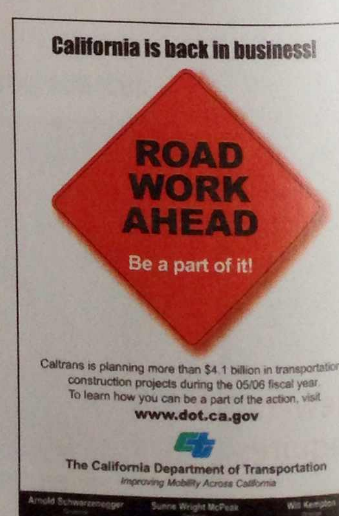
Marketing managers know that it is critical to have a website that buyers can find. That's why suppliers often pay for a sponsored link (an ad) that appears when certain keywords are included in a search. A supplier might also change its website so that it is more likely to appear high on a list of searches.

Online marketplaces connect buyers and sellers in particular industries

Online marketplace websites are another source of information that are usually specific to particular industries. At VertMarkets (www.vertmarkets.com), there are links to 68 distinct online marketplaces that cover businesses ranging from semiconductor manufacturing to food service. Online marketplaces provide some organizational buyers with "one-stop shopping"; they can keep up with industry news, identify suppliers, gather information relevant to purchases, and place orders. For sellers, marketplaces are a good way to generate new sales leads.

Buyers ask for competitive bids to compare offerings

When buyers in B2B markets have identified potential suppliers, they sometimes ask them to submit a **competitive bid**—the terms of sale offered by the supplier in response to the purchase specifications posted by a buyer. If different suppliers' quality, dependability, and delivery schedules all meet the specs, the buyer will select the low-price bid. But a creative marketer needs to look carefully at the buyer's specs—and the need—to see if other elements of the marketing mix could provide a competitive advantage.



Rather than search for suppliers, buyers sometimes post their requirements and invite qualified suppliers to submit a bid. Some firms set up or participate in a procurement website that directs suppliers to companies (or divisions of a company) that need to make purchases. These sites make it easy for suppliers to find out about the purchase needs of the organizations that sponsor the sites. This helps increase the number of suppliers competing for the business and that can drive down prices or provide more beneficial terms of sale.

For example, when the California Department of Transportation was planning $4 billion in new construction projects, it established a procurement site so that potential suppliers knew each project's requirements for submitting a competitive bid.

Reverse auctions foster price competition among suppliers

Competitive bidding has been around for a long time. However, before the Internet it was slow and inconvenient. Now, a buyer can go though multiple rounds of bidding very quickly with an online reverse auction. First, suppliers are invited to place a bid for specific goods or services. Usually the bidding focuses on price, but sometimes other terms of sale (like warranty or delivery time) are considered as well. Typically, each bid, and the supplier who made it, will be visible to all potential bidders on the auction website. An auction takes place over a period of several hours—making it fast, cost effective, and convenient for buyers looking for the lowest price. Reverse auctions work best for undifferentiated products, including products such as plastic resin, personal computers, or transportation services. Reverse auctions are less effective when the value provided to the customer comes from a complete marketing mix, not just a low price.

While reverse auctions can help buyers get lower prices, suppliers have to carefully decide how to respond. A seller who gets caught up in trying to "win" a reverse auction may bid at a price that loses money. This is what happened with stationery supplier Gartner Studios. Its competitive strength was product design, but when many of its regular customers switched to reverse auctions, suppliers with lower bid prices were getting the business. Gartner was faced with losing customers or losing money to keep them. To win with low bids and still make profits, Gartner worked to cut its own supply costs and switched production to Asia. Now, when planning a bid, Gartner has lower costs but also knows how low a bid is still profitable for the company. Gartner also pays attention to whom else is bidding. That impacts how low Gartner's bid needs to be. Many of its customers won't choose the lowest bidder if it is a supplier that has a reputation for poor quality or late delivery.[11]

What buying procedure becomes routine is critical

From the discussion above, you can see that buyers make important decisions about how to deal with one or more suppliers. At one extreme, a buyer might want to rely on competition among all available vendors to get the best price on each and every order it places. At the other extreme, it might just routinely buy from one vendor with whom it already has a good relationship. In practice, there are many important and common variations between these extremes. To better understand the variations, let's take a closer look at the benefits and limitations of different types of buyer–seller relationships.

In today's business markets, suppliers of both goods and services are working to build closer relationships with their business customers—to meet needs better and create a competitive advantage. AFLAC provides cost-effective insurance products that help companies attract and retain employees.

BUYER–SELLER RELATIONSHIPS IN BUSINESS MARKETS

Close relationships may produce mutual benefits

There are often significant benefits of a close working relationship between a supplier and a customer firm. And such relationships are becoming common. Many firms are reducing the number of suppliers with whom they work—expecting more in return from the suppliers that remain. The best relationships involve real partnerships where there's mutual trust and a long-term outlook. Closely tied firms often share tasks at lower total cost than would be possible working at arm's length.

The partnership between AlliedSignal and Betz Laboratories, for example, shows the benefits of a good relationship. A while back, Betz was just one of several suppliers that sold Allied chemicals to keep the water in its plants from gunking up pipes and rusting machinery. But Betz didn't stop at selling commodity powders. Teams of Betz experts and Allied engineers studied each plant to find places where water was being wasted. In less than a year, a team in one plant found \$2.5 million in potential cost reductions. For example, by adding a few valves to recycle the water in a cooling tower, Betz was able to save 300 gallons of water a minute, which resulted in savings of over \$100,000 a year and reduced environmental impact. Because of ideas like this, Allied's overall use of water treatment chemicals decreased. However, Betz sales to Allied doubled because it became Allied's sole supplier.[12]

Relationships may not make sense

Although close relationships can produce benefits, they are not always best. A long-term commitment to a partner may reduce flexibility. When competition drives down prices and spurs innovation, the customer may be better off letting suppliers compete for the business. It may not be worth the customer's investment to build a relationship for purchases that are not particularly important or made that frequently.

It may at first appear that a seller would *always* prefer to have a closer relationship with a customer, but that is not so. Some customers may place orders that are too small or require so much special attention that the relationship would never be profitable for the seller. Also, in situations where a customer doesn't want a relationship, trying to build one may cost more than it's worth.[13]

Relationships have many dimensions

Relationships are not "all or nothing" arrangements. Many firms may have a close relationship in some ways and not in others. Thus, it's useful to think about five key dimensions that help characterize most buyer–seller relationships: cooperation, information sharing, operational linkages, legal bonds, and relationship-specific adaptations. Purchasing managers for the buying firm and salespeople for the supplier usually coordinate the different dimensions of a relationship. However, as shown in Exhibit 6–6, close relationships often involve direct contacts between a number of people from other areas in both firms.[14]

Cooperation treats problems as joint responsibilities

In cooperative relationships, the buyer and seller work together to achieve both mutual and individual objectives. The two firms treat problems that arise as a joint responsibility. National Semiconductor (NS) and Siltec, a supplier of silicon wafers,

Exhibit 6–6
Key Dimensions of Relationships in Business Markets

CDW is a wholesaler that offers its business customers a full array of computing and technology products. CDW has an ongoing, cooperative relationship with many of its customers, but its relationship with most customers is not structured with a long-term legal bond. Rather, CDW earns the customer's trust and business by sharing information and helping the customer solve problems.

found clever ways to cooperate and cut costs. Workers at the NS plant used to throw away the expensive plastic cassettes that Siltec uses to ship the silicon wafers. Now Siltec and NS cooperate to recycle the cassettes. This helps the environment and also saves more than $300,000 a year. Siltec passes along most of that to NS as lower prices.[15]

Shared information is useful but may be risky

Some relationships involve open sharing of information. This might include the exchange of proprietary cost data, discussion of demand forecasts, and joint work on new product designs. Information might be shared through information systems or over the Internet. This is often a key facet of relationships that involve e-commerce.

Many firms provide relationship partners with access to password-protected websites. One big advantage of this approach is that it is fast and easy to update the information. It also saves time. A customer can check detailed product specs or the status of a job on the production line without having to wait for someone to respond.

Information sharing can lead to better decisions, reduced uncertainty about the future, and better planning. However, firms don't want to share information if there's a risk that a partner might misuse it. For example, some suppliers claim that a former General Motors' purchasing chief showed blueprints of their secret technology to competing suppliers. Violations of trust in a relationship are an ethical matter and should be taken seriously.

Suppliers are sometimes reluctant to give customers bad news, but when a supplier tells a buying firm about a problem, it is possible to plan ahead—or even address the problem immediately. Edscha, a German firm that supplies sunroofs for BMW, ran into financial trouble when the economy slowed. BMW couldn't wait six months to get another supplier so it offered to help Edscha. Now BMW closely monitors the financial health of all important suppliers. That way it won't be surprised even if a supplier chooses not to share information.[16]

Marketers who ask for feedback from customers can learn how to improve and increase the value of the relationship. Good buying organizations provide regular feedback to their suppliers without being asked—and smart suppliers listen closely and respond to them. Honda, for example, provides a monthly report card that details the supplier's performance in five areas: quality, delivery, quantity delivered, performance history, and any special incidents. The report fosters an ongoing dialogue between Honda and its suppliers and makes sure both parties know how things are going.[17]

Operational linkages share functions between firms

Operational linkages are direct ties between the internal operations of the buyer and seller firms. These linkages usually involve ongoing coordination of activities between the firms. Shared activities are especially important when neither firm, working on its own, can perform a function as well as the two firms can working together.

Business customers often require operational linkages to reduce total inventory costs, maintain adequate inventory levels, and keep production lines moving. On the other hand, keeping too much inventory is expensive. Providing a customer with inventory when it's needed may require that a supplier be able to provide **just-in-time delivery**—reliably getting products there *just* before the customer needs them. We'll discuss just-in-time systems in more detail in Chapter 11. For now, it's enough to know that closer relationships between buyers and sellers involve operational linkages that lower costs and increase efficiency. Vertex Fasteners, for example, makes corrosion-resistant fasteners that are used by manufacturers in many different industries. Vertex creates value for its cost-conscious customers by working closely with a network of expert distributors. Distributors know each customer's specific needs so they can carefully label and pack orders for Vertex products in a way that saves the customer time and money when a truck is unloaded and shelves are stocked at the customer's factory.[18]

Operational linkages may also involve the routine activities of individuals who almost become part of the customer's operations. Design engineers, salespeople, and service representatives may participate in developing solutions to ongoing problems, conduct regular maintenance checks on equipment, or monitor inventory and coordinate orders.

Contracts spell out obligations

Many purchases in business markets are simple transactions. The seller's responsibility is to transfer title to goods or perform services, and the buyer's responsibility is to pay the agreed price. However, more complex relationships may be spelled out in detailed legal contracts. An agreement may apply only for a short period, but long-term contracts are also common.

For example, a customer might ask a supplier to guarantee a 6 percent price reduction for a particular part for each of the next three years and pledge to virtually eliminate defects. In return, the customer might offer to double its orders and help the supplier boost productivity.

Sometimes the buyer and seller know roughly what is needed but can't fix all the details in advance. For example, specifications or total requirements may change over time. Then the relationship may involve **negotiated contract buying**, which means agreeing to contracts that allow for changes in the purchase arrangements. In such cases, the general project and basic price is described but with provision for changes and price adjustments up or down.

Some managers figure that even a detailed contract isn't a good substitute for regular, good-faith reviews to make sure that neither party gets hurt by changing business conditions. Harley-Davidson used this approach when it moved toward closer relationships with a smaller number of suppliers. Purchasing executives tossed out detailed contracts and replaced them with a short statement of principles to guide relationships between Harley and its suppliers.

Specific adaptations invest in the relationship

Relationship-specific adaptations involve changes in a firm's product or procedures that are unique to the needs or capabilities of a relationship partner. Industrial suppliers often custom design a new product for just one customer; this may require investments in R&D or new manufacturing technologies. MetoKote, in its relationship with John Deere described at the beginning of this chapter, made a specific adaptation by building its coating plant right next door to Deere's factory.

Buying firms may also adapt to a particular supplier; Lenovo designed its ultramobile IdeaPad notebook to work with Intel's new Atom N270 processor. However, buyers are often hesitant about making big investments that increase dependence on a specific supplier. Typically, they do it only when there isn't a good alternative—perhaps because only one or a few suppliers are available to meet a need—or if the benefits of the investment are clear before it's made.

Specific adaptations are usually made when the buying organization chooses to **outsource**—contract with an outside firm to produce goods or services rather than to produce them internally. Many firms have turned to outsourcing to cut costs—and that's why much outsourcing is handled by suppliers in countries where labor costs are lower. For example, many American companies are outsourcing part of their customer service operations to firms in India.[19]

Powerful customer may control the relationship

Although a marketing manager may want to work in a cooperative partnership, that may be impossible with large customers who have the power to dictate how the relationship will work. For example, Duall/Wind was a supplier of small plastic parts for Polaroid. But when Duall/Wind wanted to raise its prices to cover increasing costs, Polaroid balked. Polaroid's purchasing manager demanded that Duall/Wind show a breakdown of all its costs, from materials to labor to profit. As Duall/Wind's president said, "I had a tough time getting through my head that Polaroid wanted to come right in here and have us divulge all that." But Polaroid is a big account—and it got the information it wanted. Polaroid buyers agreed to a price increase only after they were confident that Duall/Wind was doing everything possible to control costs.[20]

Buyers may still use several sources to spread their risk

Even if a marketing manager develops the best marketing mix possible and cultivates a close relationship with the customer, the customer may not give *all* of its business to one supplier. Buyers often look for several dependable sources of supply to protect themselves from unpredictable events such as strikes, fires, or floods in one of their suppliers' plants. A good marketing mix is still likely to win a larger share of the total business—which can prove to be very important. From a buyer's point of view, it may not seem like a big deal to give a particular supplier a 30 percent share of the orders rather than a 20 percent share. But for the seller that's a 50 percent increase in sales![21]

Variations in buying by customer type

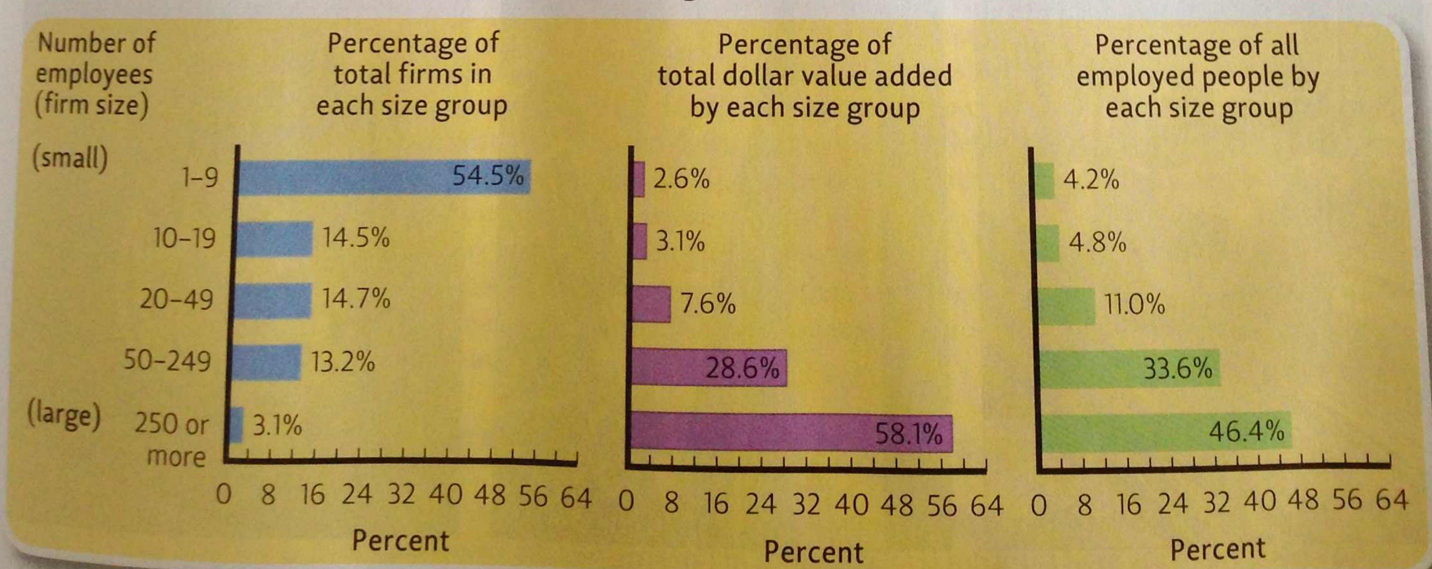
We've been discussing aspects of relationships and buying approaches that generally apply with different types of customer organizations—in both the United States and internationally. However, it's also useful to have more detail about specific types of customers.

MANUFACTURERS ARE IMPORTANT CUSTOMERS

There are not many big ones

One of the most striking facts about manufacturers is how few there are compared to final consumers. This is true in every country. In the United States, for example, there are about 339,100 factories. Exhibit 6–7 shows that the majority of these are

Exhibit 6–7 Size Distribution of Manufacturing Establishments



quite small—over half have less than 10 workers. But output from these small firms accounts for less than 3 percent of manufacturing value. In small plants, the owners often do the buying. And they buy less formally than buyers in the relatively few large manufacturing plants—which employ most of the workers and produce a large share of the value added by manufacturing. For example, only about 3 percent of all plants have 250 or more employees, yet they employ nearly half of the production workers and produce about 60 percent of the value added by manufacturers.

In other countries, the size distribution of manufacturers varies. But across different countries, the same general conclusion holds: Marketers often segment industrial markets on the basis of customer size because large firms do so much of the buying.

Customers cluster in geographic areas

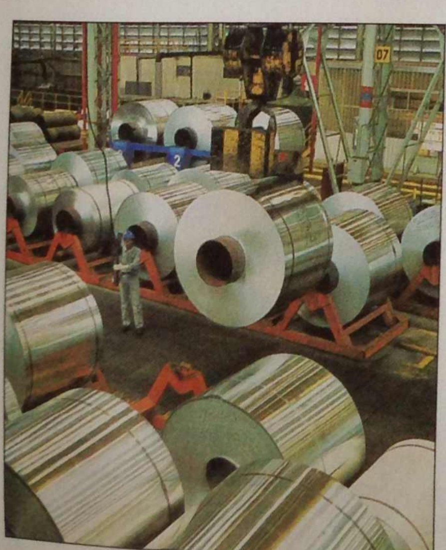
In addition to concentration by company size, industrial markets are concentrated in certain geographic areas. Internationally, industrial customers are concentrated in countries that are at the more advanced stages of economic development. From all the talk in the news about the United States shifting from an industrial economy to a service and information economy, you might conclude that the United States is an exception—that the industrial market in this country is shrinking. It is true that the number of people employed in manufacturing has been shrinking, but U.S. manufacturing output is higher than at any other time in the nation's history. The rate of growth, however, is fastest in countries where labor is cheap.[22]

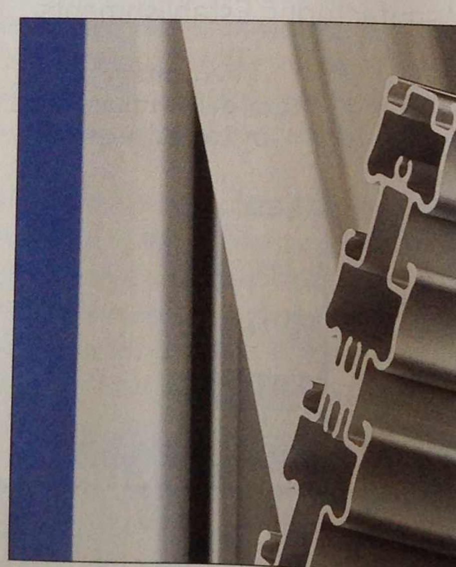
Within a country, there is often further concentration of manufacturing in specific areas. In the United States, many factories are concentrated in big metropolitan areas—especially in New York, Pennsylvania, Ohio, Illinois, Texas, and California. There is also concentration by industry. In Germany, for example, the steel industry is concentrated in the Ruhr Valley. Similarly, U.S. manufacturers of high-tech electronics are concentrated in California's famous Silicon Valley near San Francisco and also along Boston's Route 128.

Business data often classifies industries

The products an industrial customer needs to buy depend on the business it is in. Because of this, sales of a product are often concentrated among customers in similar businesses. For example, apparel manufacturers are the main customers for zippers. Marketing managers must focus their marketing mixes on prospective customers who exhibit characteristics similar to their current customers.

Detailed information is often available to help a marketing manager learn more about customers in different lines of business. The U.S. government collects and publishes data by the **North American Industry Classification System (NAICS) codes**—groups of firms in similar lines of business. (NAICS is pronounced like "nakes.") The number of establishments, sales volumes, and number of employees—broken down





A firm like Alcoa Aluminum is likely to find that the majority of its customers are concentrated within a few industries that it can identify by North American Industry Classification System code number.

Exhibit 6–8 Illustrative NAICS Code Breakdown for Apparel Manufacturers

by geographic areas—are given for each NAICS code. A number of other countries collect similar data, and some of them try to coordinate their efforts with an international variation of the NAICS system. However, in many countries data on business customers is incomplete or inaccurate.

So let's take a closer look at how the NAICS codes work. The NAICS code breakdowns start with broad industry categories such as construction (23), manufacturing (31), retail trade (44), finance and insurance (52), and so on. See Exhibit 6–8. Within each two-digit industry breakdown, much more detailed data may be available for three-digit industries (that is, subindustries of the two-digit industries). For example, within the two-digit manufacturing industry (code 31) there are manufacturers of food (311), leather (316), and others, including apparel manufacturers (315). Then each three-digit group of firms is further subdivided into more detailed four-, five-, and six-digit classifications. For instance, within the three-digit (315) apparel manufacturers there are four-digit subgroups for knitting mills (3151), cut and sew firms (3152), and producers of apparel accessories (3159). Exhibit 6–8 illustrates that breakdowns are more detailed as you move to codes with more digits. However, detailed data (say, broken down at the four-digit level) isn't available for all industries in every geographic area. The government does not provide detail when only one or two plants are located in an area.

Internet EXERCISE

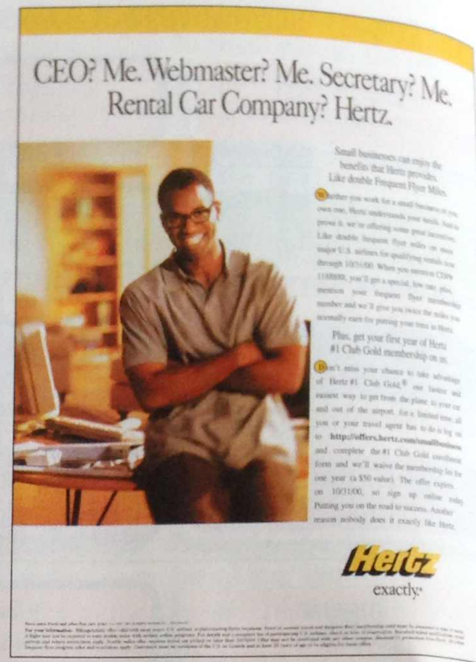
Comprehensive information about NAICS codes is available online (www.naics.com). At the website select "NAICS Code Search" and when the search page appears submit a query for the keyword "welding." If your firm was interested in selling its lasers to manufacturers of laser welding equipment, what is the NAICS code of the industry for which you would want to get a list of manufacturers?

Many firms find their *current* customers' NAICS codes and then look at NAICS-coded lists for similar companies that may need the same goods and services. Other companies look at which NAICS categories are growing or declining to discover new opportunities.[23]

PRODUCERS OF SERVICES—SMALLER AND MORE SPREAD OUT

The service side of the U.S. economy is large and has been growing fast. Service operations are also growing in some other countries. There are many good opportunities to provide these service companies with the products they need to support their operations. But there are also challenges.

The United States has about 4.6 million service firms—over 13 times as many as it has manufacturers. Some of these are big companies with international operations. Examples include AT&T, Hilton Hotels, Prudential Insurance, and Accenture. These firms have purchasing departments that are like those in large manufacturing organizations. But as you might guess given the large number of service firms, most of them are small. They're also more spread out around the country than manufacturing concerns. Factories often locate where transportation facilities are good, raw materials are available, and it is less costly to produce goods in quantity. Service operations, in contrast, often have to be close to their customers.



In a smaller service organization, purchases may be made by the person who is in charge rather than a person with full-time responsibility for purchasing.

Buying may not be as formal

Purchases by small service firms are often handled by whoever is in charge (or an administrative assistant). This may be a doctor, lawyer, owner of a local insurance agency, or manager of a hotel. Suppliers who usually deal with purchasing specialists in large organizations may have trouble adjusting to this market. Personal selling is still an important part of promotion, but reaching these customers in the first place often requires more advertising. And small service firms may need much more help in buying than a large corporation.

Small service customers like Internet buying

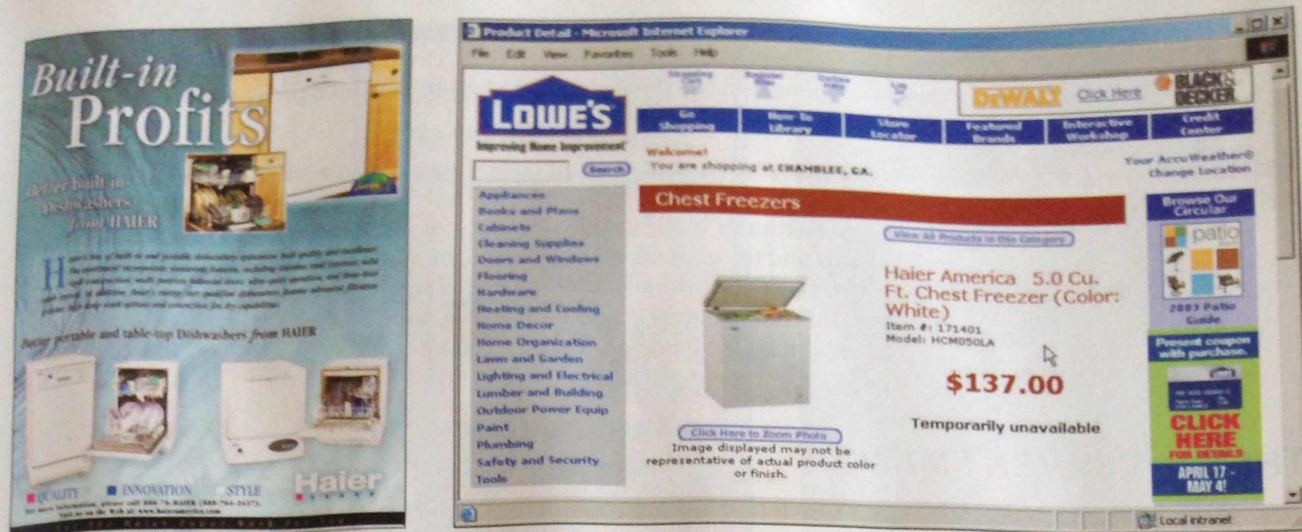
Small service companies that don't attract much personal attention from salespeople often rely on e-commerce for many of their purchases. Purchases by small customers can add up—so for many suppliers these customers are an important target market. Increasingly suppliers cater to the needs of these customers with specially designed websites. A well-designed website can be efficient for both customers and suppliers. Customers can get information, place orders, or follow up with a call or e-mail for personal attention from a salesperson or customer service rep when it's needed.

RETAILERS AND WHOLESALERS BUY FOR THEIR CUSTOMERS

Most retail and wholesale buyers see themselves as purchasing agents for their target customers—remembering the old saying that "Goods well bought are half sold." Typically, retailers do *not* see themselves as sales agents for particular manufacturers. They buy what they think they can profitably sell. For example, the buying specialist at Walgreens Drugstores who handles products targeted at ethnic consumers is a real expert. He knows what ethnic customers want and won't be persuaded by a sales rep for a manufacturer who can't provide it. Of course, there is a place for collaboration, as when the Walgreens buyer works with people at Soft Sheen Products to develop a new product for the African American target market. That's profitable for both firms.

Committee buying is impersonal

Space in retail stores is limited, and buyers for retail chains simply are not interested in carrying every product that some salesperson wants them to sell. In an average week, 150 to 250 new items are offered to the buying offices of a large chain like Safeway. If the chain accepted all of them, it would add 10,000 new items during a single year! Obviously, these firms need a way to deal with this overload.



Firms that partner with retailers to reach final consumers often must work with retail buying specialists. Retail buying specialists for Lowe's buy Haier products because they think the retailer can profitably resell them to its customers.

The entrepreneurs who started PenAgain, for example, had to have more than a unique product to get shelf space at Wal-Mart. Their presentation to Wal-Mart had to include hard data that showed their marketing mix was already working well in other retail stores and evidence of their ability to supply the large quantities a retailer the size of Wal-Mart would need.[24]

Decisions to add or drop lines or change buying policies may be handled by a *buying committee*. The seller still calls on and gives a pitch to a buyer—but the buyer does not have final responsibility. Instead, the buyer prepares forms summarizing proposals for new products and passes them on to the committee for evaluation. The seller may not get to present her story to the buying committee in person. This rational, almost cold-blooded approach certainly reduces the impact of a persuasive salesperson. On the other hand, it may favor a firm that has hard data on how its whole marketing mix will help the retailer to attract and keep customers.

Buyers watch computer output closely

Most firms use computerized inventory replenishment systems. Scanners at retail checkout counters keep track of what goes out the door—and computers use this data to update the records. Even small retailers and wholesalers use automated control systems that create daily reports showing sales of every product. Buyers with this kind of information know, in detail, the profitability of the different competing products. If a product isn't moving, the retailer isn't likely to be impressed by a salesperson's request for more in-store attention or added shelf space.

Reorders are straight rebuys

Retailers and wholesalers usually carry a large number of products. A drug wholesaler, for example, may carry up to 125,000 products. Because they deal with so many products, most intermediaries buy their products on a routine, automatic reorder basis—straight rebuys—once they make the initial decision to stock specific items. Automatic computer ordering is a natural outgrowth of computerized checkout systems. Sellers to these markets must understand the size of the buyer's job and have something useful to say and do when they call.

Some are not "open to buy"

Retail buyers are sometimes controlled by a miniature profit and loss statement for each department or merchandise line. In an effort to make a profit, the buyer tries to forecast sales, merchandise costs, and expenses. The figure for "cost of merchandise" is the amount buyers have budgeted to spend over the budget period. If the money has not yet been spent, buyers are **open to buy**—that is, the buyers have budgeted funds that can be spent during the current period. However, if the budget has been spent, they are no longer in the market and no amount of special promotion or price-cutting is likely to induce them to buy.

Resident buyers may help a firm's buyers

Resident buyers are independent buying agents who work in central markets (New York City, Paris, Rome, Hong Kong, Chicago, Los Angeles) for several retailer or wholesaler customers based in outlying areas or other countries. They buy new styles and fashions and fill-in items as their customers run out of stock during the year.

Resident buying organizations fill a need. They help small channel members (producers and intermediaries) reach each other inexpensively. Resident buyers usually are paid an annual fee based on their purchases.

THE GOVERNMENT MARKET

Size and diversity

Some marketers ignore the government market because they think that government red tape is more trouble than it's worth. They probably don't realize how big the government market really is. Government is the largest customer group in many countries—including the United States. About 30 percent of the U.S. gross domestic product is spent by various government units; the figure is much higher in some economies. Different government units in the United States buy almost every kind of product. They run not only schools, police departments, and military organizations, but also supermarkets, public utilities, research laboratories, offices, hospitals, and even liquor stores. These huge government expenditures cannot be ignored by an aggressive marketing manager.

Competitive bids may be required

Government buyers in the United States are expected to spend money wisely—in the public interest—so their purchases are usually subject to much public review. To avoid charges of favoritism, most government customers buy by specification using a mandatory bidding procedure. Often the government buyer must accept the lowest bid that meets the specifications. You can see how important it is for the buyer to write precise and complete specifications. Otherwise, sellers may submit a bid that fits the specs but doesn't really match what is needed. By law, a government unit might have to accept the lowest bid—even for an unwanted product.

Writing specifications is not easy—and buyers usually appreciate the help of well-informed salespeople. Salespeople *want* to have input on the specifications so their product can be considered or even have an advantage. A contract can be landed without the lowest bid when lower bids don't meet minimum or requested specifications.

Rigged specs are an ethical concern

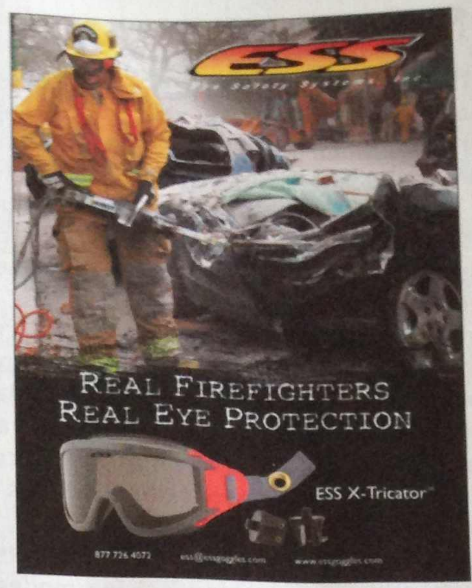
At the extreme, a government customer who wants a specific brand or supplier may try to write the description so that no other supplier can meet all the specs. The buyer may have good reasons for such preferences—a more reliable product, prompt delivery, or better service after the sale. This kind of loyalty sounds great, but marketers must be sensitive to the ethical issues involved. Laws that require government customers to get bids are intended to increase competition among suppliers, not reduce it. Specs that are written primarily to defeat the purpose of these laws may be viewed as illegal bid rigging.

The approved supplier list

Specification and bidding difficulties aren't problems in all government orders. Items that are bought frequently—or for which there are widely accepted standards—are purchased routinely. The government unit simply places an order at a previously approved price. To share in this business, a supplier must be on the list of approved suppliers and agree on a price that will stay the same for a specific period—perhaps a year.

Negotiated contracts are common too

Negotiation is often necessary when there are many intangible factors. Unfortunately, this is exactly where favoritism and influence can slip in. And such influence is not unknown—especially in city and state government. Nevertheless, negotiation is an important buying method in government sales—so a marketing mix should emphasize more than just low price.[25]



Government agencies are important customers for a wide variety of products.

Learning what government wants

In the United States, there are more than 87,575 local government units (school districts, cities, counties, and states) as well as many federal agencies that make purchases. Keeping on top of all of them is nearly impossible. Potential suppliers should focus on the government units they want to cater to and learn the bidding methods of those units. Then it's easier to stay informed since most government contracts are advertised. Target marketing can make a big contribution here—making sure the marketing mixes are well matched with the different bid procedures.

A marketer can learn a lot about potential government target markets from various government publications and by using the Internet. For example, the General Services Administration handles vendor contracts for off-the-shelf goods and services; information for vendors is available at www.gsa.gov. There is an online resource center for government contracting at www.govcon.com. The Small Business Administration (www.sba.gov) offers many resources, including the *U.S. Purchasing, Specifications, and Sales Directory*. It explains government procedures to encourage competition for such business. Various state and local governments also offer guidance, as do government units in many other countries.

Dealing with foreign governments

Selling to government units in foreign countries can be a real challenge. In many cases, a firm must get permission from the government in its own country to sell to a foreign government. Moreover, most government contracts favor domestic suppliers if they are available. Even if such favoritism is not explicit, public sentiment may make it very difficult for a foreign competitor to get a contract. Or the government bureaucracy may simply bury a foreign supplier in so much red tape that there's no way to win.

Is it unethical to "buy help"?

In some countries, government officials expect small payments (grease money) just to speed up processing of routine paperwork, inspections, or decisions from the local bureaucracy. Outright influence peddling—where government officials or their friends request bribe money to sway a purchase decision—is common in some markets. In the past, marketers from some countries have looked at such bribes as a cost of doing business. However, the **Foreign Corrupt Practices Act**, passed by the U.S. Congress in 1977, prohibits U.S. firms from paying bribes to foreign officials. A person who pays bribes, or authorizes an agent to pay them, can face stiff penalties. However, the law was amended in 1988 to allow small grease money payments if they are customary in a local culture. Further, a manager isn't held responsible if an agent in the foreign country secretly pays bribes. More recently, the Sarbanes-Oxley Act of 2002 makes individual executives responsible for their company's financial disclosures; and a bribe mischaracterized as a legitimate expense may violate the law. Managers need to be careful and up-front about such payments or risk being on the wrong side of these laws.[26]