Chapter 6
Analyzing Business Markets

Chapter Questions
• What is the business market, and how does it differ from the consumer market?
• What buying situations do organizational buyers face?
• Who participates in the business-to-business buying process, and how are buying decisions made?
• How can marketers build strong relationships with business customers?

Characteristics of Business Markets
• Fewer, larger buyers
• Close supplier-customer relationship
• Professional purchasing
• Multiple buying influences
• Derived demand
• Inelastic demand
• Fluctuating demand
• Geographically concentrated buyers
• Direct purchasing
Institutional and Organizational Markets

- **Institutional market**—schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care.
- **Government market**—typically requires suppliers to submit bids, and they normally award the contracts to the lowest bidder.

Buying Situations

- **Straight re-buy**—purchasing department reorders supplies on a routing basis, choosing from suppliers on an approved list.
- **Modified re-buy**—buyer wants to modify product specifications, prices, delivery requirements, or other terms.
- **New task**—purchaser buys a product or service for the first time.

New Task Buying Stages

- Awareness
- Interest
- Evaluation
- Trial
- Adoption

Missionary Sales Force: best people, brand promise, key participants
Systems Buying and Selling

- Many business buyers prefer to buy a total solution to their problems from one seller.
- **Systems buying**—prime contractor provides a turnkey solution — system selling as a primary tool.
- **Systems contracting**—a single supplier provides the buyer with all required MRO supplies (maintenance, repair, and operating supplies).

The Buying Center

- Initiators
- Users
- Influencers
- Deciders
- Approvers
- Buyers
- Gatekeepers

Multiple participants and influences: (i) differing interests, authority, status, and persuasiveness; (ii) personal factors.

Stages in the Buying Process (Buyphases)

1. Problem recognition
2. General need description
3. Product specification
4. Supplier search
5. Proposal solicitations
6. Supplier selection
7. Order-routine specifications
8. Performance review
Problem Recognition
• Someone recognizes a problem or need that can be met by acquiring a good or service.

General Need Description and Product Specification
• Buyer determines the needed item’s general characteristics and required quantity.
• *Product value analysis (PVA)*—a cost-reduction approach in which components are studied to determine if they can be redesigned, standardized, or made by cheaper production methods.

Supplier Search
• Buyer now tries to identify the most appropriate suppliers.
• Purchasing Web sites:
  • *Vertical hubs*—centered on industries (raw materials)
  • *Functional hubs*—centered on functions (logistics, media buying, energy management)

Proposal Solicitation
• Buyer invites qualified suppliers to submit proposals.

Supplier Selection
• Buying center specifies desired supplier attributes and indicates their relative importance.
• Suppliers are rated in these attributes.
• Potential suppliers must:
  • Develop a compelling value proposition.
  • Overcome price pressures.
• Buying centers must decide how many suppliers to use.
Order-Routine Specification

- Buyer negotiates the final order, listing the technical specifications, the quantity needed, the delivery schedule, and so on.
- Blanket contracts establish a long-term relationship.
  - Also called stockless purchase plans because the seller holds the stock.
- Vendor-managed inventory—suppliers are privy to the customer’s inventory levels and are responsible for replenishing it automatically through continuous replenishment programs. (Intranet)

Performance Review

- Buyer periodically reviews the performance of the chosen supplier(s) using one of three methods:
  - Contact the end users and ask for their evaluations.
  - Rate the supplier on several criteria using a weighted score method.
  - Aggregate the cost of poor supplier performance to come up with adjusted costs of purchase, including price.

Building Business Relationships

- Corporate credibility and trust: Expertise, Trustworthiness, and Likeability
- Risks
  - Specific investments—helps firms grow profits and achieve their positioning, but entail risk.
  - Opportunism—some form of cheating or undersupply relative to an implicit or explicit contract.