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# A FRAMEWORK FOR MARKETING MANAGEMENT

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# A Framework for Marketing Management

postpurchase actions, and postpurchase product uses and disposal. A satisfied consumer is more likely to purchase the product again and will also tend to say good things about the brand to others. Dissatisfied consumers may abandon or return the product, take public action (by complaining to the company or complaining to others online), or take private actions (not buying the product or warning friends).[40]

Postpurchase communications to buyers have been shown to result in fewer product returns and order cancellations. Marketers should also monitor how buyers use and dispose of the product. A key driver of sales frequency is product consumption rate—the more quickly buyers consume a product, the sooner they may repurchase it. One strategy to speed replacement is to tie the act of replacing the product to a certain holiday, event, or time of year. Another strategy is to provide consumers with better information about (1) the time they first used the product or need to replace it or (2) its current level of performance. If consumers throw the product away, the marketer needs to know how they dispose of it, especially if—like electronic equipment—it can damage the environment.

## Behavioral Decision Theory and Behavioral Economics

Consumers don't always process information or make decisions in a deliberate, rational manner. One of the most active academic research areas in marketing over the past three decades has been *behavioral decision theory* (BDT). Behavioral decision theorists have identified many situations in which consumers make seemingly irrational choices. What such studies reinforce is that consumer behavior is very constructive and the context of decisions really matters. The work of researchers has also challenged predictions from economic theory and assumptions about rationality, leading to the emergence of the field of *behavioral economics*.[41] Here, we review some issues in two key areas: decision heuristics and framing.

***Decision Heuristics*** Consumers often take "mental shortcuts" called **heuristics** or rules of thumb in the decision process. In everyday decision making, when they forecast the likelihood of future outcomes or events, consumers may use one of these heuristics.

1. The *availability heuristic*—Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind. If an example comes to mind too easily, consumers might overestimate the likelihood of its happening. For example, a recent product failure may lead consumers to inflate the likelihood of a future product failure and make them more inclined to purchase a product warranty.
2. The *representativeness heuristic*—Consumers base their predictions on how representative or similar the outcome is to other examples. One reason package appearances may be so similar for different brands in the same product category is that marketers want their products to be seen as representative of the category as a whole.
3. The *anchoring and adjustment heuristic*—Consumers arrive at an initial judgment and then adjust it—sometimes only reluctantly—based on additional information. For services marketers, a strong first impression is critical to establishing a favorable anchor so subsequent experiences will be interpreted in a more favorable light.

***Framing*** *Decision framing* is the manner in which choices are presented to and seen by a decision maker. A $200 cell phone may not seem that expensive in the context of a set of $400 phones but may seem very expensive if other phones cost $50. Researchers have found that consumers use a form of framing called *mental accounting* when they handle their money, as a way of coding, categorizing, and evaluating financial outcomes of choices.[42] The principles of mental accounting are derived in part from *prospect theory*, which maintains that consumers frame their decision alternatives in terms of gains and losses according to a value function. Consumers are generally loss-averse. They tend to overweight very low probabilities and underweight very high probabilities.

## What is Organizational Buying?

Many marketers sell not to consumers but to organizational buyers. Frederick E. Webster Jr. and Yoram Wind define **organizational buying** as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.[43] The business market differs from the consumer market in a number of ways.

### The Business Market versus the Consumer Market

The **business market** consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. Some of the major industries making up the business market are aerospace; agriculture, forestry, and fisheries; chemical; computer; construction; defense; energy; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services. Table 5.1 shows 10 unique characteristics of business markets.

**TABLE 5.1** Characteristics of Business Markets

| Characteristic | Description |
|---|---|
| Fewer, larger buyers | Business marketers normally deal with far fewer, much larger buyers than consumer marketers. |
| Close supplier-customer relationships | Because of the smaller customer base and the importance and power of larger customers, suppliers are frequently expected to customize offerings to individual customer needs. |
| Professional purchasing | Trained purchasing agents follow formal purchasing policies, constraints, and requirements. Many of the buying instruments, such as proposals and purchase contracts, are not typically part of consumer buying. |
| Multiple buying influences | More people influence business buying decisions. Business marketers must send well-trained sales representatives and teams to deal with well-trained buyers and with buying committees. |
| Multiple sales calls | Because more people are involved, it takes multiple sales calls to win most business orders during a sales cycle often measured in years. |
| Derived demand | Demand for business goods is ultimately derived from the demand for consumer goods, so business marketers must monitor the buying patterns of end users. |
| Inelastic demand | Total demand for many business offerings is inelastic—that is, not much affected by price changes, especially in the short run, because producers cannot make quick production changes. |
| Fluctuating demand | Demand for business offerings tends to be more volatile than demand for consumer offerings. An increase in consumer demand can lead to a much larger increase in demand for plant and equipment necessary to produce the additional output. |
| Geographically concentrated buyers | More than half of U.S. business buyers are concentrated in seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. The geographical concentration of producers helps to reduce selling costs. |
| Direct purchasing | Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive. |

As an example of the business market, consider the process of producing and selling a simple pair of shoes.[44] Hide dealers must sell hides to tanners, who sell leather to shoe manufacturers, who in turn sell shoes to wholesalers. Wholesalers sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also buys other goods and services to support its operations.

## Institutional and Government Markets

The overall business market includes institutional and government organizations in addition to profit-seeking companies. The *institutional market* consists of schools, hospitals, and other institutions that provide goods and services to people in their care. Many of these organizations have low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The objective is not profit because the food is part of the total service package; nor is cost minimization the sole objective because poor food will draw complaints and hurt the hospital's reputation. The hospital must search for vendors whose quality meets or exceeds a certain minimum standard and whose prices are low.

In most countries, government organizations are major buyers of goods and services. The U.S. government now spends more than $500 billion a year—or roughly 14 percent of the federal budget—on private-sector contractors, making it the largest customer in the world.[45] Government buyers typically require suppliers to submit bids and often award the contract to the low bidder, sometimes making allowance for superior quality or a reputation for on-time performance. Governments will also buy on a negotiated-contract basis, primarily in complex projects with major R&D costs and risks and those where there is little competition.

## Business Buying Situations

The business buyer faces many decisions in making a purchase. How many depends on the complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required. Three types of buying situations are the straight rebuy, modified rebuy, and new task.[46]

- **Straight rebuy.** In a *straight rebuy*, the purchasing department reorders items like office supplies and bulk chemicals on a routine basis and chooses from suppliers on an approved list. The suppliers make an effort to maintain quality and often propose automatic reordering systems to save time. "Out-suppliers" attempt to offer something new or exploit dissatisfaction with a current supplier. Their goal is to get a small order and then enlarge their purchase share over time.
- **Modified rebuy.** The buyer in a *modified rebuy* wants to change product specifications, prices, delivery requirements, or other terms. This usually requires additional participants on both sides. The in-suppliers become nervous and want to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business.
- **New task.** A *new-task* purchaser buys a product or service for the first time (an office building, a new security system). The greater the cost or risk, the larger the number of participants, and the greater their information gathering—the longer the time to a decision.[47]

The business buyer makes the fewest decisions in the straight rebuy situation and the most in the new-task situation. Over time, new-buy situations become straight rebuys and routine purchase behavior. The buying process passes through several stages: awareness, interest, evaluation, trial, and adoption. Mass media can be most important during the awareness stage;

salespeople often have the greatest impact at the interest stage; and technical sources can be most important during evaluation. Online selling efforts may be useful at all stages.

Many business buyers prefer to buy a total problem solution from one seller. Called *systems buying,* this practice originated with government purchases. In response, many sellers have adopted systems selling or a variant, *systems contracting,* in which one supplier provides the buyer with all MRO (maintenance, repair, and operating) supplies. This lowers procurement costs and allows the seller steady demand and reduced paperwork.

## Participants in the Business Buying Process

Who buys the trillions of dollars' worth of goods and services needed by business organizations? Purchasing agents are influential in straight-rebuy and modified-rebuy situations, whereas other employees are more influential in new-buy situations. Engineers are usually influential in selecting product components, and purchasing agents dominate in selecting suppliers.[48]

### The Buying Center

Webster and Wind call the decision-making unit of a buying organization *the buying center.* It consists of "all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions."[49] The buying center includes all organizational members who play any of these roles in the purchase decision process.

1. *Initiators*—Users or others in the organization who request that something be purchased.
2. *Users*—Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements.
3. *Influencers*—People who influence the buying decision, often by helping define specifications and providing information for evaluating alternatives.
4. *Deciders*—People who decide on product requirements or on suppliers.
5. *Approvers*—People who authorize the proposed actions of deciders or buyers.
6. *Buyers*—People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, buyers might include high-level managers.
7. *Gatekeepers*—People such as purchasing agents and receptionists who have the power to prevent sellers or information from reaching members of the buying center.

Several people can occupy a given role such as user or influencer, and one person may play multiple roles.[50] A purchasing manager, for example, is often buyer, influencer, and gatekeeper simultaneously, deciding which sales reps can call on others in the organization, what budget and other constraints to place on the purchase, and which firm will actually get the business.

### Buying Center Influences

Buying centers usually include participants with differing interests, authority, status, susceptibility to persuasion, and sometimes very different decision criteria. Engineers may want to maximize product performance; production people may want ease of use and reliability of supply; financial staff focus on the economics of the purchase; purchasing may be concerned with operating and replacement costs.

Business buyers also have personal motivations, perceptions, and preferences influenced by their age, income, education, job position, personality, attitudes toward risk, and culture. Webster cautions that ultimately individuals, not organizations, make purchasing decisions.[51] Individuals are motivated by their own needs and perceptions in attempting to maximize the organizational rewards they earn. But organizational needs legitimate the buying process and its outcomes.

### Targeting Firms and Buying Centers

Successful business-to-business marketing requires that business marketers know which types of companies to focus on in their selling efforts, as well as whom to concentrate on within the buying centers in those organizations. Finding the market segments with the greatest growth prospects, most profitable customers, and most promising opportunities for the firm is crucial. A slow-growing economy has put a stranglehold on large corporations' purchasing, making small and midsize business markets more attractive for suppliers, as discussed in "Marketing Insight: Big Sales to Small Businesses."

marketing insight

## Big Sales to Small Businesses

The Small Business Administration (SBA) defines small businesses as those with fewer than 500 employees for most mining and manufacturing industries and $7 million in annual receipts for most nonmanufacturing industries. Small and midsize businesses present huge marketing opportunities and huge challenges. The market is large but fragmented by industry, size, and number of years in operation. Here are some guidelines for marketing to small businesses:

- **Don't lump small and midsize businesses together.** There's a big gap between $1 million in revenue and $50 million or between a start-up with 10 employees and a mature business with 100 employees. IBM distinguishes its offerings to small and medium-sized businesses on its common Web site for the two.
- **Do keep it simple.** Offer one supplier point of contact for all service problems or one bill for all services and products. AT&T serves millions of businesses with fewer than 100 employees with bundles that include Internet, local phone, long-distance phone, data management, business networking, Web hosting, and teleconferencing.
- **Do use the Internet.** Hewlett-Packard found that time-strapped small-business decision makers prefer to buy, or at least research, purchases online. Its site therefore features extensive advertising, direct mail, e-mail campaigns, catalogs, and events.
- **Don't forget about direct contact.** Even if a small business owner's first point of contact is via the Internet, you still need to be available by phone or in person.
- **Do provide support after the sale.** Small businesses want partners, not pitchmen, and expect service and commitment.
- **Do your homework.** The realities of small or midsize business management are different from those of a large corporation, so understand what target customers need and how they prefer to buy.

**Sources:** Based on Barnaby J. Feder, "When Goliath Comes Knocking on David's Door," *New York Times,* May 6, 2003; Jennifer Gilbert, "Small but Mighty," *Sales & Marketing Management* (January 2004), pp. 30–35; Kate Maddox, "Driving Engagement with Small Business," *Advertising Age*, November 7, 2011; Christine Birkner, "Big Business Think Small," *Marketing News*, May 15, 2012, pp. 12–16; "IBM Luring SMBs with Expanded Finance Options," *Network World*, September 12, 2011; www.sba.gov; www.openforum.com; www-304.ibm.com /businesscenter/smb/us/en, all accessed May 20, 2014.

Business marketers must figure out: Who are the major decision participants? What decisions do they influence? What evaluation criteria do they use? Small sellers concentrate on reaching the key buying influencers. Larger sellers go for multilevel in-depth selling to reach as many participants as possible. Business marketers should periodically review their assumptions about buying center participants. Traditionally, SAP sold its software to CIOs at large companies. Then a shift to focus on selling to individual corporate units lower down the organizational chart raised the percentage of software sales going to new customers to 40 percent.[52]

## Stages in the Business Buying Process

The business buying-decision process includes eight stages called *buyphases*, as identified by Patrick J. Robinson and his associates, in the *buygrid* framework (see Table 5.2).[53] In modified-rebuy or straight-rebuy situations, some stages are compressed or bypassed. For example, the buyer normally has a favorite supplier or a ranked list of suppliers and can skip the search and proposal solicitation stages. Here are some important considerations in each of the eight stages.

### Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a good or service. The recognition can be triggered by internal or external stimuli. The internal stimulus might be a decision to develop a new product that requires new equipment and materials or a machine that requires new parts. Externally, the buyer may get new ideas at a trade show, see an ad, receive an e-mail, read a blog, or receive a call from a sales representative who offers a better product or a lower price. Business marketers can stimulate problem recognition by direct marketing in many different ways.

**TABLE 5.2** Buygrid Framework: Major Stages (Buyphases) of the Industrial Buying Process in Relation to Major Buying Situations (Buyclasses)

| | | Buyclasses | | |
|---|---|---|---|---|
| | | New Task | Modified Rebuy | Straight Rebuy |
| | 1. Problem recognition | Yes | Maybe | No |
| | 2. General need description | Yes | Maybe | No |
| | 3. Product specification | Yes | Yes | Yes |
| Buyphases | 4. Supplier search | Yes | Maybe | No |
| | 5. Proposal solicitation | Yes | Maybe | No |
| | 6. Supplier selection | Yes | Maybe | No |
| | 7. Order-routine specification | Yes | Maybe | No |
| | 8. Performance review | Yes | Yes | Yes |

**Source:** Adapted from Patrick J. Johnson, Charles W. Farris, and Yoram Wind, *Industrial Buying and Creative Marketing* (Boston: Allyn & Bacon, 1967), p. 14.