

PRINCIPLES OF MARKETING

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Many companies that sell to the government have not been very marketing oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasised price, making suppliers invest their effort in technology to bring costs down. When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter much in winning bids on an open-bid basis.

Several companies, however, have established separate government marketing departments, including GE, Boeing, Xerox and Goodyear. Other companies sell primarily to government buyers, such as Lockheed Martin, which makes 82 per cent of its sales from governments, either as a prime contractor or a subcontractor. These companies anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully and produce stronger communications to describe and enhance their companies' reputations.

Other companies have established customised marketing programmes for government buyers. For example, Dell has specific business units tailored to meet the needs of federal as well as state and local government buyers. Dell offers its customers tailor-made Premier web pages that include special pricing, online purchasing, and service and support for each city, state and federal government entity.

During the past decade, a great deal of the government's buying has gone online. For example, in the UK the Efficiency and Reform Group (a part of the Cabinet Office) has an online procurement portal. Across Europe, the European Union established PEPPOL, the **Pan-European Public Procurement OnLine** project to establish OpenPEPPOL in 2012. OpenPEPPOL is a non-profit making international association that consists of private and public sector members. The aim of OpenPEPPOL is to generate a range of benefits, including 'providing economic operators, in particular SMEs, with new business opportunities and increased competitiveness, while lowering costs with automated tendering solutions; saving contracting authorities significant administrative and transaction costs through standardised, speedy and streamlined procedures; and boosting the development and the capabilities of the ICT industry with increased demand for new, user-friendly IT services'.¹⁶

Learning outcomes review

Business markets and consumer markets are alike in some key ways. For example, both include people in buying roles who make purchase decisions to satisfy needs. But business markets also differ in many ways from consumer markets. For one thing, the business market is *huge*, far larger than the consumer market. Within the United States alone, the business market includes organisations that annually purchase trillions of dollars' worth of goods and services.

Objective 1 Define the business market and explain how business markets differ from consumer markets (pp. 175–177)

The *business market* comprises all organisations that buy goods and services for use in the production of other goods and services, or for the purpose of reselling or renting them to others at a profit. As compared to consumer markets, business markets usually have fewer but larger buyers. Business demand is derived demand, which tends to be more inelastic and fluctuating than consumer demand. The business buying decision

usually involves more, and more professional, buyers. Business buyers usually face more complex buying decisions, and the buying process tends to be more formalised. Finally, business buyers and sellers are often more dependent on each other.

Objective 2 Identify the major factors that influence business buyer behaviour (pp. 177–180)

Business buyers make decisions that vary with the three types of *buying situations*: straight rebuys, modified rebuys and new tasks. The decision-making unit of a buying organisation – the *buying centre* – can consist of many different persons playing many different roles. The business marketer needs to know the following: Who are the major buying centre participants? In what decisions do they exercise influence and to what degree? What evaluation criteria does each decision participant use? The business marketer also needs to understand the major environmental, organisational, interpersonal and individual influences on the buying process.

Objective 3 List and define the steps in the business buying decision process (pp. 181–183)

The *business buying decision process* itself can be quite involved, with eight basic stages: problem recognition, general need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification and performance review. Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. Companies must manage the overall customer relationship, which often includes many different buying decisions in various stages of the buying decision process.

Objective 4 Discuss how new information technologies and online, mobile and social media have changed business-to-business marketing (pp. 183–185)

Recent advances in information and digital technology have given birth to 'e-procurement', by which business buyers are purchasing all kinds of products and services online. The internet gives business buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. Business marketers also are increasingly connecting with customers online and through digital, mobile and social media to

engage customers, share marketing information, sell products and services, provide customer support services and maintain ongoing customer relationships.

Objective 5 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions (pp. 185–187)

The *institutional market* consists of schools, hospitals, prisons and other institutions that provide goods and services to people in their care. These markets are characterised by low budgets and captive patrons. The government market, which is vast, consists of government units – federal, state and local – that purchase or rent goods and services for carrying out the main functions of government.

Government buyers purchase products and services for defence, education, public welfare and other public needs. Government buying practices are highly specialised and specified, with open bidding or negotiated contracts characterising most of the buying. Government buyers operate under the watchful eye of local, national and regional governments and many private watchdog groups. Hence, they tend to require more forms and signatures, and respond more slowly and deliberately when placing orders.

Navigating the key terms

Objective 1

Business buyer behaviour (p. 175)
Business buying process (p. 175)
Derived demand (p. 175)
Supplier development (p. 176)

Users (p. 178)
Influencers (p. 178)
Buyers (p. 178)
Deciders (p. 179)
Gatekeepers (p. 179)

Supplier selection (p. 182)
Order-routine specification (p. 182)
Performance review (p. 183)

Objective 2

Straight rebuy (p. 177)
Modified rebuy (p. 177)
New task (p. 177)
Systems selling (solutions selling) (p. 178)
Buying centre (p. 178)

Objective 3

Problem recognition (p. 181)
General need description (p. 181)
Product specification (p. 182)
Supplier search (p. 182)
Proposal solicitation (p. 182)

Objective 4

E-procurement (p. 183)
B-to-B digital and social media marketing (p. 184)

Objective 5

Institutional market (p. 185)
Government market (p. 186)

Discussion and critical thinking

Discussing the concepts

- 6.1** Explain how the market structure and demand differ for business markets compared with consumer markets. (AACSB: Communication; Reflective thinking)

- 6.2** Describe the tools B-to-B marketers use to engage customers. What are the challenges with B-to-B social media marketing? (AACSB: Communication; Reflective thinking)

- 6.3** Briefly discuss the straight rebuy and modified rebuy strategies. What are the similarities and differences? When might it be beneficial to use one approach over the other? (AACSB: Communication, Reflective thinking)
- 6.4** List the participants in the business buying process. What factors influence the buying decision? (AACSB: Communication; Reflective thinking)
- 6.5** Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions. (AACSB: Communication)
- 6.7** Interview a businessperson to learn how purchases are made in his or her organisation. Ask this person to describe a straight rebuy, a modified rebuy and a new-task buying situation that took place recently or of which he or she is aware (define them if necessary). Did the buying process differ based on the type of product or purchase situation? Ask the businessperson to explain the role he or she played in a recent purchase and to discuss the factors that influenced the decision. Write a brief report of your interview by applying the concepts you learned in this chapter regarding business buyer behaviour. (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

- 6.6** Business buying can be a very involved process. Many companies employ procurement or purchasing experts dedicated to managing the firm's buying process. Visit www.glassdoor.com/salaries and www.indeed.com/salary to conduct a search of the salary ranges for 'procurement specialists' and similar positions in purchasing. Present your findings. Can e-procurement help to streamline the buying process? Might it eventually replace employees in these careers? Discuss if it is possible for all buying functions to be performed through e-procurement. (AACSB: Communication; Reflective Thinking; Use of IT)
- 6.8** The US government is the world's largest purchaser of goods and services, spending more than €460 billion per year. By law, 23 per cent of all government buying must be targeted to small firms. In a small group, visit the Small Business Administration's Government Contracting Classroom at www.sba.gov/content/government-contracting-classroom to learn how small businesses can take advantage of government contracting opportunities. Complete one of the self-paced online courses and develop a brochure explaining the process to small business owners. (AACSB: Communication; Reflective Thinking; Use of IT)

Mini-cases and applications

Online, mobile and social media marketing: e-procurement and mobile procurement

Gone are the days of tedious, paper-laden and labour-intensive procurement duties. E-procurement is changing the way buyers and sellers do business, specifically via mobile procurement, which offers cloud-based platforms that reduce the search, order and approval cycle. Most large companies have adopted some form of e-procurement. A recent study found that almost 70 per cent of companies utilise some form of e-procurement, mobile procurement or supply-chain management applications. A leading industry platform, Coupa, provides a suite of cloud-based applications for finance, including accounts payable, sourcing, procurement and expense management that allows customers full functionality from their mobile devices. Employees now enjoy the flexibility and time savings of viewing, approving or denying requisitions, purchase orders and invoices. One of Coupa's large retail clients claimed a reduction from 10 days to 5 hours in their requisition-approval-process cycle by implementing Coupa's

mobile procurement platform. Talk about savings! Visit www.coupa.com/software/procurement/to to learn more about how this company is revolutionising the e-procurement and mobile procurement environments

- 6.9** Discuss the advantages of e-procurement to both buyers and sellers. What are the disadvantages? (AACSB: Communication; Reflective thinking)
- 6.10** Research mobile procurement and discuss the roles in the buying centre that are affected most by this technology. (AACSB: Communication; Reflective thinking)

Marketing ethics: commercial bribery

You are the senior buyer for a growing medical products company and an avid football fan. You have just opened an invitation to attend the Champions League Final. The invitation is from a supplier company that has been trying to sell you its new line of products for the past year. The supplier will pay for everything – travel, room, meals –and you'll even get an opportunity to meet some of the players. You have read the newly released employee manual and there is no reference or rule that

specifically states that an employee cannot accept a fully paid trip from a vendor, although there are some vague restrictions on lunches and dinners paid for by suppliers.

- 6.11 Do you accept or decline the invitation?
- 6.12 Just because it is not specifically mentioned in the employee manual, would you be acting ethically if you accepted?
- 6.13 Do you think the supplier will expect 'special' treatment in the next buying situation?
- 6.14 How would other company employees interpret your acceptance of this invitation?

Marketing by the numbers: salespeople

B-to-B marketing relies heavily on sales reps. Salespeople do more than just sell products and services; they manage relationships with customers to deliver value to both the customer

and their companies. Thus, for many companies, sales reps visit customers several times per year – often for hours at a time. Sales managers must ensure that their companies have enough salespeople to adequately deliver value to customers.

- 6.15 Refer to Appendix 2 to determine the number of salespeople a company needs if it has 3,000 customers who need to be called on 10 times per year. Each sales call lasts approximately 2.5 hours, and each sales rep has approximately 1,250 hours per year to devote to customers per year. (AACSB: Communication; Analytical reasoning)
- 6.16 If each sales rep earns a salary of €60,000 per year, what sales are necessary to break even on the sales force costs if the company has a contribution margin of 40 per cent? What effect will adding each additional sales representative have on the break-even sales? (AACSB: Communication; Analytical reasoning)

Video case

Eaton

see www.pearsoned.co.uk/kotler

With approximately 70,000 employees in more than 150 countries and annual revenues of nearly €9 billion, Eaton is one of the world's largest suppliers of diversified industrial goods. Eaton has been known for products that make cars peppier and 18-wheelers safer to drive. But a recent restructuring has made Eaton a powerhouse in the growing field of power management. In short, Eaton is making electrical, hydraulic and mechanical power systems more accessible to and more efficient for its global customers. But Eaton isn't successful only because of the products and services that it sells. It is successful because it works closely with its business customers to help them solve their problems and create better products and services of their

own. Eaton is known for high-quality, dependable customer service and product support. In this manner, Eaton builds strong relationships with its clients.

After viewing the video featuring Eaton, answer the following questions:

- 6.17 What is Eaton's value proposition?
- 6.18 Who are Eaton's customers? Describe Eaton's customer relationships.
- 6.19 Discuss the different ways that Eaton provides value beyond that which customers can provide for themselves.

References

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⁸ See Kate Maddox, ‘Seven B-to-B marketing trends that will shape 2015’, *Advertising Age*, 13 January 2015, <https://adage.com/article/btob/b-b-marketing-trends-shape-2015/296518>; and ‘USG “It’s your world. build it”’, www.pinterest.com/gyroideasshop/usg-its-your-world-build-it/, accessed May 2019.

⁹ Patrick J. Robinson, Charles W. Faris and Yoram Wind, *Industrial Buying Behavior*, p. 14. Also see Philip Kotler and Kevin Lane Keller, *Marketing Management*, pp. 198–204.

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¹⁵ See ‘U.K. continues to be the biggest public sector IT spender, according to IDC Government Insights Report’, 15 September 2014; more recent reports also available at <https://www.idc.com/getdoc.jsp?containerId=TEA002934>, accessed May 2019.

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Company case

Procter & Gamble: treating business customers as strategic partners

For decades, Procter & Gamble has been at the top of almost every expert’s A-list of outstanding marketing companies. The experts point to P&G’s stable of top-selling consumer brands or to the fact that year in and year out P&G is the world’s largest advertiser. Consumers seem to agree. You’ll find at least one of P&G’s blockbuster brands in 99 per cent of all European households; in many homes, you’ll find a dozen or more familiar P&G products. But P&G is also highly respected for something else – maintaining strategic partnerships with business buyers.

P&G recognises that building enduring relationships between consumers and its category leading brands starts with building enduring relationships with its large retail clients. On the front line of this effort is P&G’s iconic sales force. When it comes to selecting, training and managing salespeople, P&G sets the gold standard. The company employs a massive sales force of more than 5,000 salespeople worldwide. But at P&G, it isn’t just ‘sales’ – it’s ‘Customer Business Development’ (CBD). This might seem trivial, but at P&G the distinction goes to the very core of the company’s customer relationship strategy.

Developing the customer’s business

P&G understands that if its business customers don’t do well, neither will the company. To grow its own business, therefore, P&G must first grow the business of the retailers that sell its brands to final consumers. In P&G’s own words, ‘CBD is more

than mere ‘selling’ – it’s a P&G-specific approach which enables us to grow our business by working as a ‘strategic partner’ (as opposed to just a supplier) with those who ultimately sell our products to consumers.’ Says one CBD manager, ‘We depend on them as much as they depend on us.’ By partnering with each other, P&G and its customers create ‘win-win’ relationships that help both to prosper.

Most P&G customers are huge and complex businesses – such as Carrefour, Tesco or Walmart/Asda – with thousands of stores and billions of dollars in revenues. Working with and selling to such customers can be a very complex undertaking, more than any single salesperson or regular sales team could accomplish. Instead, P&G assigns a full CBD team to every large customer account. Each CBD team contains not only salespeople but also a full complement of specialists in every aspect of selling P&G’s consumer brands at the retail level.

Teams vary in size depending on the customer. For example, in the US alone, it takes a team of 350 P&G specialists to properly serve Walmart, far and away its biggest customer. Regardless of size, every team constitutes a complete, multifunctional customer service unit. Each team includes a manager and several account executives (each responsible for a specific P&G product category), supported by specialists in marketing strategy, product development, operations, information systems, logistics, finance and human resources.

To deal effectively with large accounts, P&G salespeople must be smart, well trained and strategically grounded. They deal daily with high-level retail category buyers who may purchase hundreds of millions of dollars' worth of P&G and competing brands annually. It takes a lot more than a friendly smile and a firm handshake to interact with such buyers. Yet individual P&G salespeople can't know everything. And because of the nature of P&G's B-to-B interactions, they don't have to. Instead, P&G salespeople have at hand all the resources they need to resolve even the most challenging customer problems. 'I have everything I need right here', says a household care account executive. 'If my customer needs help from us with in-store promotions, I can go right down the hall and talk with someone on my team in marketing about doing some kind of promotional deal. It's that simple.'

The multifunctional nature of the CBD team also means that collaboration extends far beyond internal interactions. Each time a team member contacts the customer, he or she represents the entire team. For example, if during a customer call an account executive receives a question about a promotional, logistical or financial matter, the account executive acts as the liaison with the appropriate specialist. So, although not each CBD member has specialised knowledge in every area, the CBD team as a unit does.

Competitors have attempted to implement some aspects of P&G's multifunctional approach. However, P&G pioneered the CBD structure. And it has built in some unique characteristics that have allowed it to leverage more power from its team structure than its rivals can, giving it real competitive advantage.

A competitive edge

One of the things that gives P&G an edge when it comes to maintaining deep relationships with its business customers is a CBD structure that is broader and more comprehensive, making it more multifunctional than similar team structures employed by other companies. But perhaps more important, P&G's structure is designed to accomplish four key objectives. These objectives are so important that they are referred to internally as the 'core work' of customer development. These four objectives are:

1. *Align strategy*: create opportunities for both P&G and the customer to benefit by collaborating in *strategy development*.
2. *Create demand*: build profitable sales volume for P&G and the customer through consumer value and shopper satisfaction.
3. *Optimise supply*: maximise the efficiency of the supply chain from P&G to the point of purchase to optimise cost and responsiveness.
4. *Enable the organisation*: develop capabilities to maximise business results by creating the capacity for frequent breakthrough.

More than just corporate catchphrases jotted down in a P&G employee handbook, for sales personnel, these are words to live

by. P&G trains sales staff in methods of achieving each objective and evaluates their effectiveness relative to each. In fact, P&G's customer relationship strategy came about through the recognition that to develop true win-win relationships with each customer, P&G would need to accomplish the first objective. As one account executive puts it, 'The true competitive advantage is achieved by taking a multifunctional approach from basic selling to strategic customer collaboration!' If the CBD team can effectively accomplish the first objective of aligning strategy and collaborating on strategic development, accomplishing the other three objectives will follow more easily.

Building such strategic partnerships creates shopper value and satisfaction and drives profitable sales at the store level. When it comes to profitably moving Tide, Pampers, Gillette or other P&G brands off store shelves and into consumers' shopping carts, P&G reps and their teams often know more than the retail buyers they advise. In fact, P&G's retail partners often rely on CBD teams to help them manage not only the P&G brands on their shelves but also entire product categories, including competing brands.

Giving advice on the stocking and placement of competitors' brands as well as its own might seem unwise. But believe it or not, it happens all the time at P&G. In fact, it isn't uncommon for a P&G rep to tell a retail buyer to stock fewer P&G products and more of a competing brand. Although that may seem like retail suicide, keep in mind that a CBD team's primary goal is to help the customer win in each product category. Sometimes, analysis shows that the best solution for the customer is 'more of the other guy's product'. For P&G, that's OK. The company knows that creating the best situation for the retailer ultimately pulls in more customer traffic, which in turn will likely lead to increased sales for other P&G products in the same category. Because most of P&G's brands are market-share leaders, it stands to benefit more from the increased traffic than competitors do. Again, what's good for the customer is good for P&G – it's a win-win situation.

Honest and open dealings also help to build long-term customer relationships. P&G salespeople become trusted advisors to their retailer-partners, a status they work hard to maintain. 'It took me four years to build the trust I now have with my buyer', says a veteran P&G account executive. 'If I talk her into buying P&G products that she can't sell or out-of-stocking competing brands that she should be selling, I could lose that trust in a heartbeat.'

At P&G, collaboration is usually a two-way street – P&G gives and customers give back in return. 'We'll help customers run a set of commercials or do some merchandising events, but there's usually a return on investment', explains another CBD manager. 'Maybe it's helping us with distribution of a new product or increasing space for fabric care. We're very willing if the effort creates value for us as well as for the customer and the final consumer.'

It's better to give . . . then to receive

As a result of collaborating with customers, P&G receives as much or more than it gives.