

Arab World
Edition

MARKETING MANAGEMENT

PHILIP **KOTLER**

KEVIN LANE **KELLER**

SALAH **HASSAN**

IMAD **BAALBAKI**

HAMED **SHAMMA**

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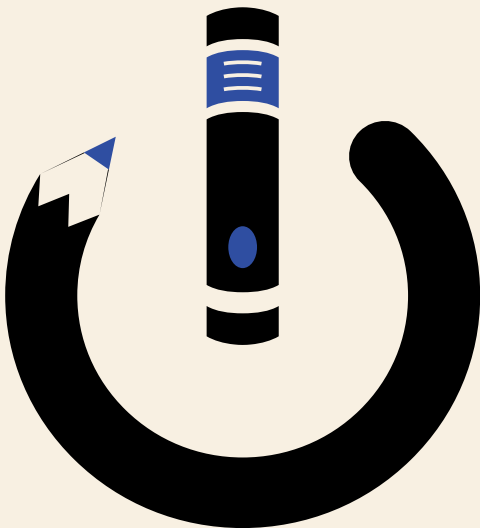
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Opportunism is a concern because firms must devote resources to control and monitoring that they could otherwise allocate to more productive purposes. Contracts may become inadequate to govern supplier transactions when supplier opportunism becomes difficult to detect, when firms make specific investments in assets that they cannot use elsewhere, and when contingencies are harder to anticipate. Customers and suppliers are more likely to form a joint venture (instead of signing a simple contract) when the supplier's degree of asset specificity is high, monitoring the supplier's behavior is difficult, and the supplier has a poor reputation.⁵⁷ When a supplier has a good reputation, it is more likely to avoid opportunism to protect this valuable intangible asset.

The presence of a significant future time horizon and/or strong solidarity norms typically causes customers and suppliers to strive for joint benefits. As a result, there is a shift in specific investments from expropriation (increased opportunism on the receiver's part) to bonding (reduced opportunism).⁵⁸

Institutional and Government Markets

Our discussion has concentrated largely on the buying behavior of profit-seeking companies. Much of what we have said also applies to the buying practices of institutional and government organizations. However, we want to highlight certain special features of these markets.

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care. Many of these organizations are characterized by low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The buying objective here is not profit, because the food is provided as part of the total service package; nor is cost minimization the sole objective, because poor food will cause patients to complain and hurt the hospital's reputation. The hospital purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate division to sell to institutional buyers because of these buyers' special needs and characteristics. Indevco and Fine (paper products manufacturers that make the popular Arab brands Sanita and Fine, respectively) produce, package, and price their tissues and paper products differently to meet the requirements of hospitals and other institutional buyers such as universities, schools, and public utility companies.

In most countries, government organizations are a major buyer of goods and services. The case is perhaps even more pronounced in the Arab world, where the government and public sector share of the GNP is very high, particularly in oil-producing countries. They typically require suppliers to submit bids and often award the contract to the lowest bidder. In some cases, the government unit will make allowance for superior quality or a reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks, and in cases where there is little competition.

A major complaint of multinational companies is that each country in which they operate shows favoritism toward its nationals despite sometimes superior offers from foreign firms. Although such practices are widely in use, several countries are attempting to remove this bias.

Governments buy goods and services valued at billions of dollars, making the government the largest and therefore most attractive potential customer in a country market. However, because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel (the government staff who check that the purchased goods are appropriate and as per the required standards). In some Arab countries, government departments are undertaking initiatives to deal with these complaints. Some of these initiatives are being taken in collaboration with the private sector, including an initiative at Dubai Customs, described in the next case study.

institutional market schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care.



Dubai Customs has worked closely with other government departments to implement an initiative to improve private to public sector trade.



Dubai Customs

Dubai Customs has been working closely with other government departments and the private sector to facilitate faster and easier processing of trade movement in Dubai. In 2010 it processed 85 percent of all declarations through electronic channels. In May 2010, Aramex joined forces with Dubai Customs and Emirates Airline to implement a new e-freight system, which would allow airlines, freight forwarders, and customs to more easily exchange electronic information and e-documents, and enhance trade movement.

Yousif Al Sahlawi, senior executive director of corporate affairs at Dubai Customs, said: "The new system to deliver e-commerce trading has been developed after an extensive examination of the country's existing mechanism for freight clearance and the tangible benefit the new system holds. In 2009, Dubai Customs cleared

more than 2.5 million declarations transported by air. Industry studies have shown the potential to reduce the transportation of 62 percent of the paper volume."

Aramex Middle East and Africa CEO, Hussein Hachem, added: "The new e-freight system offers a picture of the way forward for air freight in the region, and Aramex is proud to be part of it. This initiative will also enable Aramex to reduce its carbon footprint, which is an important ongoing goal for us."⁵⁹

Just as companies provide government agencies with guidelines about how best to purchase and use their products, governments provide would-be suppliers with detailed guidelines describing how to sell to the government. Failure to follow the guidelines or to fill out forms and contracts correctly can create a legal nightmare.⁶⁰



Desert Diamond

Desert Diamond is the regional agent for some of the world's largest and most advanced manufacturers of fire-fighting material and equipment in several Arab countries. Governmental agencies and units (such as the army, internal security forces, civil defense, and public utility providers: airports, seaports, electricity companies, and the like) are Desert Diamond's major clients. Abdulfattah Ghali, president and CEO of Desert Diamond, asserts that the company's success and growth rests upon the ability to understand, meet, and attend to the unique characteristics and needs of the government market.⁶¹ As noted by Ghali, "Our approach starts essentially by educating the clients about innovative cutting edge technology that caters more effectively to their developing needs, and goes all the way until assisting them in implementing the use of such technology."

Fortunately for businesses of all sizes, many governments have been trying to simplify the contracting procedure and make bidding more attractive. Some reforms place more emphasis on buying commercial off-the-shelf items instead of items built to the government's specifications; online communication with vendors to eliminate the massive paperwork; and a 'debriefing' from the appropriate government agency for vendors who lose a bid, enabling them to increase their chances of winning the next time around.⁶² More purchasing is being done online via web-based forms, digital signatures, and electronic procurement cards (P-cards).⁶³

In spite of these reforms, for a number of reasons many companies that sell to the government have not used a marketing orientation. Some, though, have pursued government business by establishing separate government marketing departments. Companies large and small, such as Indevco, Fine, Desert Diamond, and Aramex (all of which we have discussed in this chapter), and others such as contracting firms (Consolidated Contractors Company, Saudi Oger, Al-Habtoor, or Arabtec) or engineering design consultants (Dar Al-Handasah or Kuwait's KEO), anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce strong communications to describe and enhance their companies' reputations.

Summary

1. Organizational buying is the decision-making process by which formal organizations establish the need for purchased products and services, then identify, evaluate, and choose among alternative brands and suppliers. 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.
2. Compared to consumer markets, business markets generally have fewer and larger buyers, a closer customer–supplier relationship, and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluctuates with the business cycle. Nonetheless, the total demand for many business goods and services is quite price inelastic. Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls, and the importance of direct purchasing, reciprocity, and leasing.
3. The buying center is the decision-making unit of a buying organization. It consists of initiators, users, influencers, deciders, approvers, buyers, and gatekeepers. To influence these parties, marketers must be aware of environmental, organizational, interpersonal, and individual factors.
4. The buying process consists of eight stages called buy-phases: (1) problem recognition, (2) general need description, (3) product specification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order-routine specification, and (8) performance review.
5. Business marketers must form strong bonds and relationships with their customers and provide them added value. Some customers, however, may prefer more of a transactional relationship.
6. The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Buyers for government organizations tend to require a great deal of paperwork from their vendors and to favor open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets.

Applications

Marketing Debate

How Different Is Business-to-Business Marketing?

Many business-to-business marketing executives complain about the numerous challenges of business-to-business marketing, maintaining that many traditional marketing concepts and principles do not apply. For a number of reasons, they assert that selling products and services to a company is fundamentally different from selling to individuals. Others disagree, claiming that marketing theory is still valid and only involves some adaptation in the marketing tactics.

Take a position: Business-to-business marketing requires a special, unique set of marketing concepts and principles *versus* business-to-business marketing is really not that different and the basic marketing concepts and principles apply.

Marketing Discussion

Consider some of the consumer behavior topics from Chapter 6. How might you apply them to business-to-business settings? For example, how might noncompensatory models of choice work? Mental accounting?

Marketing Excellence

>>General Electric



General Electric, or GE, is made up of six recently reorganized major divisions that operate in areas as diverse as home appliances, jet engines, security systems, wind turbines, and financial services. The company is so large (2010 revenues of US\$152 billion, and market value of \$210 billion) that if each of its six business units were ranked separately, all would appear in the *Fortune* 500, the annual ranking of the top 500 U.S. corporations. If GE were a country, it would be one of the 50 largest, ahead of most Arab countries.

Founded by Thomas Edison as the Edison Electric Light Company in 1878, GE was an early pioneer in light bulbs and electrical appliances. It also served the electrical needs of various industries, such as transportation, utilities, manufacturing, and broadcasting. It became the acknowledged pioneer in business-to-business marketing in the 1950s and 1960s when its tagline was “Live Better Electrically.” As the company diversified its product lines, it created new campaigns, including Progress for People and We Bring Good Things to Life.

In 2003, GE faced a new challenge: how to promote its diversified brand globally with a unified message. Its major new campaign, called Imagination at Work, highlighted its renewed focus on innovation and new technology. The award-winning campaign promoted units such as GE Aircraft Engines, GE Medical Systems, and GE Plastics, focusing on the breadth of GE’s product offerings. GE spends some US\$150 million on corporate advertising: a large expenditure, but one that creates efficiencies by focusing on the core GE brand. The goal was to unify these divisions under the GE brand while giving

them a voice. “When you’re a company like ours, with 11 different businesses, brand is really important in pulling the identity of the company together,” said former CMO Beth Comstock. “Integration was important in communicating the brand across the organization and to all of our constituents.”

The new integrated campaign got results. “Research indicates GE is now being associated with attributes such as being high tech, leading edge, innovative, contemporary, and creative,” said Judy Hu, GE’s Global Executive Director, Advertising and Brand. Just as encouraging, survey respondents still associate GE with some of its traditional attributes, such as being trustworthy and reliable.

In 2005, the company extended the campaign with its next initiative, Ecomagination, which highlighted the company’s efforts to develop environmentally friendly ‘green’ technologies. It leveraged the Imagination tagline again with a 2006 campaign called Health Care Re-Imagined that featured innovative GE health care products for detecting, preventing, and curing diseases. GE followed that with ‘Now’ and ‘Before’ campaigns; these also attempted to reflect the imagination that inspires GE’s products through imaginative advertising.

While the campaign unites all GE business units, GE’s success rests on its ability to understand the business market and the business buying process, putting itself in the shoes of its business customers. Consider its approach to pricing its aircraft engines. GE is aware that purchasing an aircraft engine is a multimillion-dollar expenditure (US\$21 million for each large engine). And it doesn’t end with the purchase of the engine: customers (airlines) face substantial maintenance costs to meet national and international safety guidelines and ensure reliability of the engines. So in 1999, GE pioneered a new pricing option. The concept, called Power by the Hour, gives customers an opportunity to pay a fixed fee each time they run the engine. In return, GE performs all the maintenance and guarantees the engine’s reliability. When demand for air travel is uncertain, GE gives its customers a lower cost of ownership.

This kind of B2B marketing savvy helped GE cement its top position in the *Financial Times*’ World’s Most Respected Companies survey for six consecutive years. Its understanding of the business markets, its way of doing business, and its brand marketing have kept GE’s brand equity growing. Indeed, its brand equity was valued at around US\$43 billion in the 2010 Interbrand/*BusinessWeek* ranking of the top 100 global brands, placing it fifth among all brands. “The GE brand is what connects us all and makes us so much better than the parts,” CMO Comstock said.

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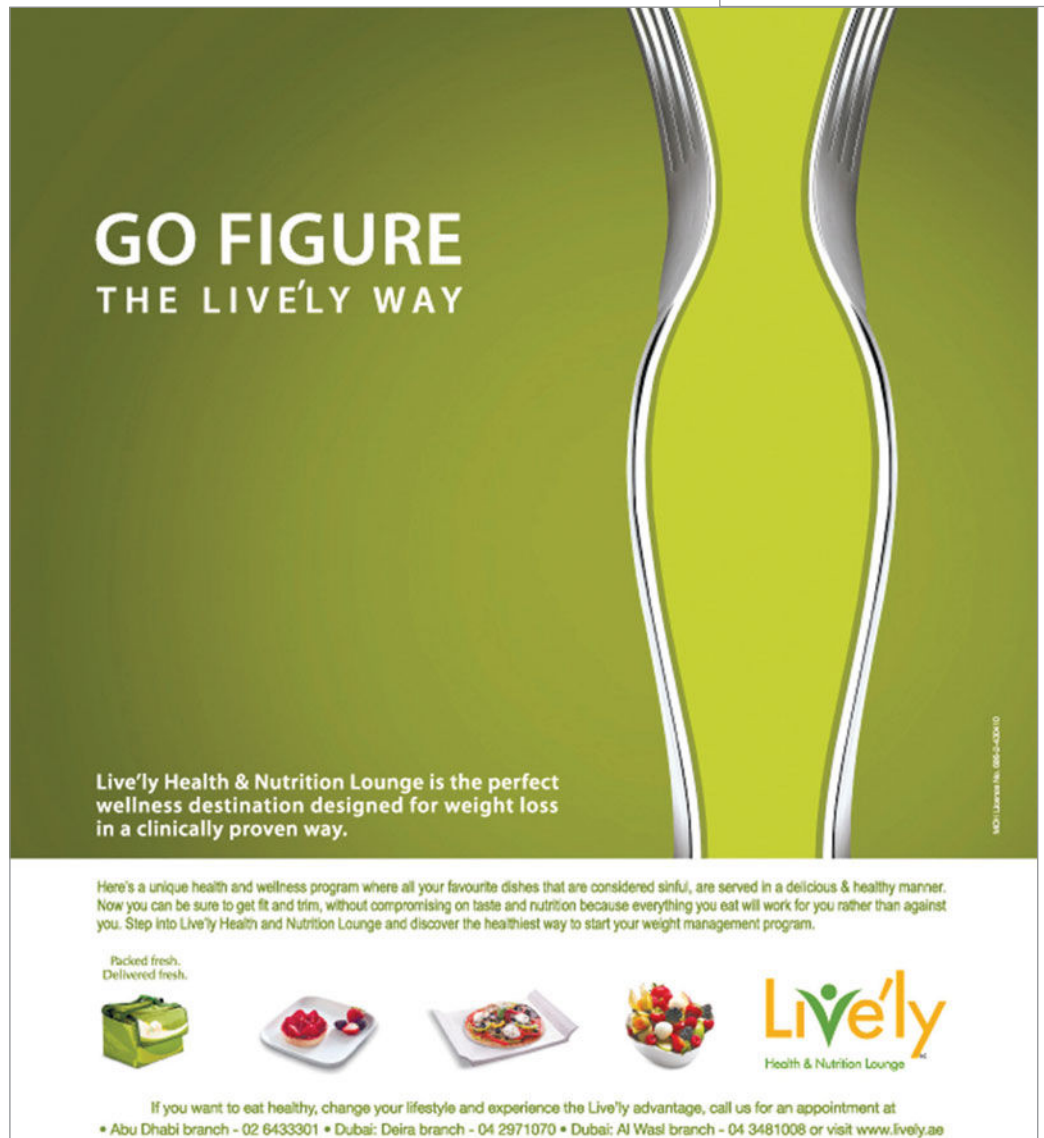
Marketing Excellence...continued

>>General Electric

Questions

1. How could GE, a company originally established in 1878, survive to the 21st century as one of the world's leading and most respected companies? What do you think lies at the core of GE's success?
2. What benefits does Power by the Hour bring to airline companies who choose to subscribe to this scheme?
3. What benefits does Power by the Hour bring to GE?
4. If you were responsible for GE's Medical Systems unit for the Middle East and North Africa region, how would you approach hospitals with your state-of-the-art medical equipment and machines? Identify who might constitute members of the buying center, and how you would approach each.
5. Would your approach differ if your potential customer was a privately owned hospital rather than a government hospital? What could differ in terms of members of the buying center, and how would your approach differ?

Sources: Geoffrey Colvin, "What Makes GE Great?," *Fortune*, March 6, 2006, pp. 90–104; Thomas A. Stewart, "Growth as a Process," *Harvard Business Review*, June 2006, pp. 60–70; Kathryn Kranhold, "The Immelt Era, Five Years Old, Transforms GE," *Wall Street Journal*, September 11, 2006; Daniel Fisher, "GE Turns Green," *Forbes*, August 15, 2005, pp. 80–85; John A. Byrne, "Jeff Immelt," *Fast Company*, July 2005, pp. 60–65; "Fortune 500: General Electric," *CNN Money*, <http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/170.html>.



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Delivered fresh.



Live'y
Health & Nutrition Lounge

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In this chapter, we will address the following **questions**:

1. What are the different levels of market segmentation? (pg. 208)
2. How can a company divide a market into segments? (pg. 212)
3. How should a company choose the most attractive target markets? (pg. 223)
4. What are the requirements for effective segmentation? (pg. 224)

Increasing awareness of the negative impact of obesity on health among the Arab public has prompted many to seek ways to fight their obesity. Business concepts, such as Live'y, were designed to attend to these growing interests and concerns, and are generating good returns.