

Arab World
Edition

PRINCIPLES OF MARKETING

Philip Kotler
Gary Armstrong
Ahmed Tolba
Anwar Habib



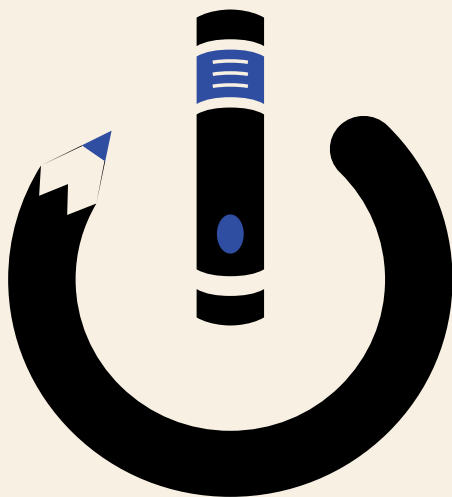
Pearson Arab World Editions – Business & Economics

The Arab world's location between three continents ensures its place at the centre of an increasingly integrated global economy, as distinctive as any business culture. We think learning should be as dynamic, relevant and engaging as the business environment. Our new Arab World Editions for Business & Economics provide this uniquely Arab perspective for students in and of the Arab world.

Each Arab World Edition integrates cases, companies, research, people and discussions representing the diverse economic, political, and cultural situations across the nations that span the Arab world, whilst retaining the quality, research, and relevant global perspectives of the world's leading business thinkers.

We hope that you find this edition a valuable contribution to your teaching or business studies. We aim to set a new benchmark for contextualised learning with our adapted and new titles, and hope that they will prove a valuable contribution in the success of students and teachers along each step of their business programme.

Supplementary support includes PowerPoint slides, instructor manuals, test bank generators and MyLab online tutorial and homework systems.



Titles span a range of subjects and disciplines, including:

- Management – Robbins & Coulter
- Strategic Management: Concepts and Cases – David
- Principles of Marketing – Kotler & Armstrong
- Statistics for Business – Benghezal
- Principles of Managerial Finance – Gitman
- Marketing Management – Kotler & Keller
- Organizational Behavior – Robbins & Judge
- Human Resource Management – Dessler
- Introductory Mathematical Analysis for Business, Economics and Life and Social Sciences – Haeussler

To find out more, go to www.pearson.com/middleeast/awe

Author Comment | More and more business buyers are adopting e-procurement due to higher efficiency.

E-Procurement: Buying on The Internet (pp 166-167)

E-procurement

Purchasing through electronic connections between buyers and sellers—usually online.

Advances in information technology have changed the face of the business-to-business marketing process. Electronic purchasing, often called **e-procurement**, has grown rapidly in recent years. Virtually unknown less than a decade ago, online purchasing is standard procedure for most companies today. E-procurement gives buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. In turn, business marketers can connect with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

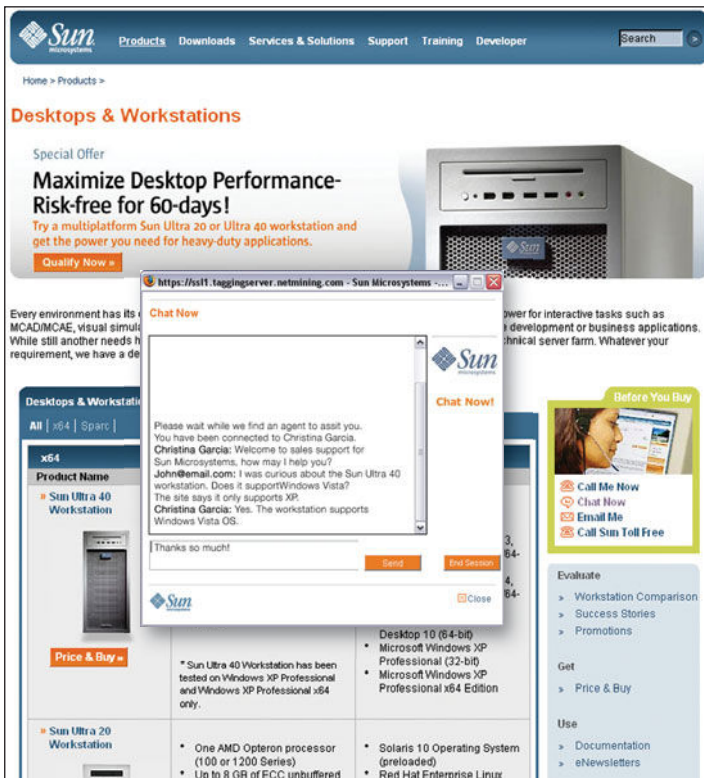
Companies can do e-procurement in any of several ways. They can conduct *reverse auctions*, in which they put their purchasing requests online and invite suppliers to bid for the business. Or they can engage in online *trading exchanges*, through which companies work collectively to facilitate the trading process. For example, Exostar is an online trading exchange that connects buyers and sellers in the aerospace and defense industry. Its goal is to improve trading efficiency and reduce costs among industry trading partners. Initially a collaboration between five leading aerospace and defense companies—BAE Systems, Rolls-Royce, Boeing, Lockheed Martin, and Raytheon—Exostar has now connected more than 300 procurement systems and 40,000 trading partners in 20 countries around the world.

Companies also can conduct e-procurement by setting up their own *company buying sites*. For example, General Electric operates a company trading site on which it posts its buying needs and invites bids, negotiates terms, and places orders. Or companies can create *extranet links* with key suppliers. For instance, they can create direct procurement accounts with suppliers such as Worsleys, through which company buyers can purchase equipment, materials, and supplies directly.

Business-to-business marketers can help customers who wish to purchase online by creating well-designed, easy-to-use websites. For example, *BtoB* magazine rated the site of Sun Microsystems—a market leader in network computing hardware, software, and services—as one of its “10 great B-to-B websites.”¹³

A few years ago, Sun Microsystems completely redesigned its website. It was most interested in finding a better way to present deep information on its thousands of complex server, storage, and software products and services while also giving the site a more humanistic view. Sun came up with a tab-driven menu design that puts an enormous amount of information within only a few clicks of customers’ computers. Action-oriented menu labels—such as Evaluate, Get, Use, and Maintain—leave nothing to the imagination and make navigation a snap. Beyond product pictures and specifications, the site provides video walk-throughs of products, along with success stories of how other customers have benefited from doing business with Sun.

Customers can even create personalized MySun portals. “We provide you with a customized experience,” says Sun’s VP-Sun Web Experience. “Maybe you’ve downloaded software. Based on that download, you’ll see a filtered blog, training classes that are available, and a link to unreleased code you can try out. It’s integrated support tailored to the type of Sun products



Online buying: This Sun Microsystems site helps customers who want to purchase online by providing deep information on its thousands of complex products and services. Users who still need help can take advantage of the site's interactive features to request an immediate phone call, an email, or a live online chat with a Sun representative.

you use.” Users who still need help can take advantage of the site’s interactive features to request an immediate phone call, an email, or a live online chat in French, German, English, or Spanish with a Sun representative.

Business-to-business e-procurement yields many benefits. First, it shaves transaction costs and results in more efficient purchasing for both buyers and suppliers. A web-powered purchasing program eliminates the paperwork associated with traditional requisition and ordering procedures and helps an organization keep better track of all purchases.

E-procurement reduces the time between order and delivery. Time savings are particularly dramatic for companies with many overseas suppliers. Adaptec, a leading supplier of computer storage, used an extranet to tie all of its Taiwanese chip suppliers together in a kind of virtual family. Now messages from Adaptec flow in seconds from its headquarters to its Asian partners, and Adaptec has reduced the time between the order and delivery of its chips from as long as 16 weeks to just 55 days—the same turnaround time for companies that build their own chips.

Finally, beyond the cost and time savings, e-procurement frees purchasing people to focus on more strategic issues. For many purchasing professionals, going online means reducing drudgery and paperwork and spending more time managing inventory and working creatively with suppliers. “That is the key,” says an HP purchasing executive. “You can now focus people on value-added activities. Procurement professionals can now find different sources and work with suppliers to reduce costs and to develop new products.”¹⁴

The rapidly expanding use of e-procurement, however, also presents some problems. For example, at the same time that the web makes it possible for suppliers and customers to share business data and even collaborate on product design, it can also erode decades-old customer-supplier relationships. Many buyers now use the power of the web to pit suppliers against one another and to search out better deals, products, and turnaround times on a purchase-by-purchase basis.

E-procurement can also create potential security disasters. Although email and home-banking transactions can be protected through basic encryption, the secure environment that businesses need to carry out confidential interactions is sometimes still lacking. Companies are spending millions for research on defensive strategies to keep hackers at bay. Cisco Systems, for example, specifies the types of routers, firewalls, and security procedures that its partners must use to safeguard extranet connections. In fact, the company goes even further—it sends its own security engineers to examine a partner’s defenses and holds the partner liable for any security breach that originates from its computers.

Author Comment | These two nonbusiness organizational markets provide attractive opportunities for many companies. Because of their unique nature, we give them special attention here.

Institutional and Government Markets (pp 167–170)

So far, our discussion of organizational buying has focused largely on the buying behavior of business buyers. Much of this discussion also applies to the buying practices of institutional and government organizations. However, these two nonbusiness markets have additional characteristics and needs. In this final section, we address the special features of institutional and government markets.

Institutional Markets

Institutional market

Schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care.

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and in their objectives. For example, there are general hospitals that cater to all types of people. By contrast, there are hospitals that provide free specialized health care for children, whereas government-run military veterans’ hospitals located around the world provide special services to veterans.¹⁵ Each institution has different buying needs and resources.

Institutional markets can be huge. As an example, consider the massive and expanding Saudi health insurance market:

Although the price of oil, which contributes significantly to the country's GDP, has been fluctuating between high and low, the Saudi government is continuing to invest heavily in health infrastructure development, which in 2009, was behind only education and manpower in terms of budget allocation for capital expenditure.

In 2007, the Saudi government established the National Company for Unified Purchase of Medicines and Medical Appliances, to act as the sole supplier of medicines and medical appliances to government health institutions. The company was set up to bring down the prices of medical devices and pharmaceuticals by preventing overcharging.

The Saudi Food and Drug Authority (SFDA) was given the task of developing and enforcing a regulatory system for medical devices. This included establishing licensing procedures for manufacturers and suppliers. In what is a first step in developing a regulatory framework for medical devices, the SFDA in 2007 started the Medical Devices National Registry (MDNR), which is a voluntary web-based project involving the registration of manufacturers, agents, and suppliers in the country.

The government is working on expanding the health insurance sector, which in 2009 was valued at around SR5 billion (US\$1.3 billion). This is expected to increase by a further SR2 billion (US\$533 million) in the short term with new regulations introduced in January 2009 that will further expand the insurance scheme to Saudi nationals working in small and medium enterprises in the private sector. The large private sector companies already provide health insurance for their employees.¹⁶

Many institutional markets are characterized by low budgets and 'customers' with restricted choices. For example, hospital patients have little choice but to eat whatever food the hospital supplies. A hospital purchasing agent has to decide on the quality of food to buy for patients. Because the food is provided as a part of a total service package, the buying objective is not profit. Nor is strict cost minimization the goal—patients receiving poor-quality food will complain to others and damage the hospital's reputation. Thus, the hospital purchasing agent must search for institutional food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low.

Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers. For example, Kellogg's Food Away from Home business unit produces, packages, prices, and markets its broad assortment of cereals, cookies, snacks, and other products to better serve the specific food service requirements of hospitals, colleges, the military, and other institutional markets.¹⁷

Government Markets

Government market

Governmental units—national, regional, and local—that purchase or rent goods and services for carrying out the main functions of government.

The **government market** offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process.

Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, the government unit will make allowances for the supplier's superior quality or 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.

Government organizations tend to favor domestic suppliers over foreign suppliers. Saudi Arabia published its revised government procurement procedures in August 2006, and a number of royal decrees apply to government procurement. A 1983 decree states that contractors must subcontract 30 percent of the value of any government contract, including support services, to companies that are majority-owned by Saudi nationals. The tender regulations give preference to products of Saudi origin, provided they satisfy the procurement

requirements. Saudi Arabia also gives priority to GCC products, through giving them a 10 percent price preference over products from foreign suppliers.

However, most Saudi contracts are negotiated outside these regulations on a case-by-case basis. Foreign suppliers that are successful in gaining government contracts must establish a training program for Saudi nationals. The government may favor joint venture companies which include a Saudi partner, and encourage all suppliers to use Saudi goods and services. Large military projects may also be based on a further requirement to offset particular costs.

In addition, the Saudi Council of Ministers in 2003 moved to create increased transparency in government procurement. It stated that information must be made public on matters including the parties involved, dates, financial values, a brief description, the duration and place of execution, and point of contact information.¹⁸

Like consumer and business buyers, government buyers are affected by environmental, organizational, interpersonal, and individual factors. One unique thing about government buying is that it is carefully watched by outside publics interested in how the government spends taxpayers' money. Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel.

Given all the red tape, why would any firm want to do business with the government? The reasons are quite simple: Purchases by governments are huge. For example, the Saudi government's spending on e-transactions is currently around Dh 3.6 billion (US\$1 billion). That country's Knowledge Economy City (KEC) in Medina is an SR 30 billion (US\$8 billion) development by the Saudi General Investment Authority. It covers 4.8 million square meters and is expected to create 20,000 new jobs in knowledge-based industries. The government sector is by far the largest purchaser of IT products and services in the country. With an annual market of US\$5.5 billion the sector is one of the largest and fastest growing in the region.¹⁹

Gradually governments are providing would-be suppliers with detailed guides describing how to sell to the government in Arab countries. For example, the Jordanian Ministry of Finance has the following website through which suppliers can submit tenders and bids for government contracts: www.gsd.gov.jo.

Still, suppliers have to master the system and find ways to cut through the red tape, especially for large government purchases. Consider Envisage Technologies in the United States, a small software development company that specializes in Internet-based training applications and human resource management platforms. All of its contracts fall in the government sector; 65 percent are with the government. Envisage uses a website to gain access to smaller procurements, often receiving responses within 14 days. However, it puts the most work into seeking large, highly coveted contracts. A comprehensive bid proposal for one of these contracts can easily run from 600 to 700 pages because of paperwork requirements. And the company's president estimates that to prepare a single bid proposal the firm has spent as many as 5,000 man-hours over the course of a few years.²⁰

Noneconomic criteria also play a growing role in government buying. Government buyers are asked to favor depressed business firms and areas; small business firms; minority-owned firms; and business firms that avoid race, gender, or age discrimination. Sellers need to keep these factors in mind when deciding to seek government business.

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 emphasized 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.

Some companies, however, have established separate government marketing departments. 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 set up customized marketing programs for government buyers. For example, Dell has specific business units tailored to meet the needs of national,

regional, and local government buyers. Dell offers its customers tailor-made Premier Dell.com web pages that include special pricing, online purchasing, and service and support for each government entity.

During the past decade, governments are gradually moving their purchases online. For example, Dubai Municipality in 2009 was awarded the Best Middle East e-Government Portal award during the 10th Middle East Information and Communication Technology Excellence Awards. The award recognized its combined e-services, provided by various government organizations, which allow businesses and citizens to gain access to all government services in one place (www.dm.gov.ae). It recognized Dubai Municipality's e-Government portal as offering an example of best practice for regional e-Government organizations. The e-Government initiative was started in 1999, and has been a pioneer in providing e-services in both Dubai and the surrounding region. A customer satisfaction survey, in 2004, reported that 78 percent of the customers considered the Municipality's e-services to be 'excellent.'²¹

Such sites allow authorized agencies to buy everything from office supplies, food, and information technology equipment to construction services through online purchasing. Online, governments not only sell stocked merchandise through their websites but also create direct links between buyers and contract suppliers. Internet systems promise to eliminate much of the hassle sometimes found in dealing with government purchasing.²²

REVIEWING Objectives AND KEY Terms

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 very large, far larger than the consumer market. Within Saudi Arabia alone, the business market includes organizations that annually purchase billions of dollars' worth of goods and services.

OBJECTIVE 1 Define the business market and explain how business markets differ from consumer markets. (pp 154–158)

The *business market* comprises all organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit. Compared with consumer markets, business markets usually have fewer, larger buyers who are more geographically concentrated. Business demand is derived demand, and the business buying decision usually involves more, and more, professional buyers.

OBJECTIVE 2 Identify the major factors that influence business buyer behavior. (pp 158–162)

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 organization—the *buying center*—can consist of many different persons playing many different roles. The business marketer needs to know the following: Who are the major buying center 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, organizational, interpersonal, and individual influences on the buying process.

OBJECTIVE 3 List and define the steps in the business buying decision process. (pp 162–167)

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.

Recent advances in information 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. However, e-procurement can also erode customer-supplier relationships and create potential security problems. Still, business marketers are increasingly connecting with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

OBJECTIVE 4 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions. (pp 167–170)

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

Government buyers purchase products and services for defense, education, public welfare, and other public needs. Government buying practices are highly specialized and specified, with open bidding or negotiated contracts characterizing most of the buying.

Government buyers operate under the watchful eye of government auditors, parliament, Shura councils, and private watchdog groups. Hence, they tend to require more forms and signatures, and to respond more slowly and deliberately when placing orders.

KEY Terms

OBJECTIVE 1

Business buyer behavior (p 153)
Business buying process (p 153)
Derived demand (p 154)
Supplier development (p 156)

OBJECTIVE 2

Straight rebuy (p 158)
Modified rebuy (p 159)
New task (p 159)
Systems selling (solutions selling) (p 159)

Buying center (p 159)
Users (p 160)
Influencers (p 160)
Buyers (p 160)
Deciders (p 160)
Gatekeepers (p 160)

OBJECTIVE 3

Problem recognition (p 162)
General need description (p 163)
Product specification (p 163)

Supplier search (p 163)
Proposal solicitation (p 163)
Supplier selection (p 163)
Order-routine specification (p 164)
Performance review (p 165)
E-procurement (p 166)

OBJECTIVE 4

Institutional market (p 167)
Government market (p 168)

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Compare and contrast business and consumer markets.
2. Discuss several ways in which a straight rebuy differs from a new-task situation.
3. In a buying center purchasing process, which buying center participant is most likely to make each of the following statements?
 - "This bonding agent better be good, because I have to put this product together."
 - "I specified this bonding agent on another job, and it worked for them."
 - "Without an appointment, no sales rep gets in to see Ms Johnson."
 - "Okay, it's a deal—we'll buy it."
 - "I'll place the order first thing tomorrow."
4. List the major influences on business buyer behavior. Why is it important for the business-to-business marketer to understand these major influences?
5. Name and briefly describe the stages of the business buying process.
6. How do the institutional and government markets differ from business markets?

Applying the Concepts

1. Business buying occurs worldwide, so marketers need to be aware of cultural factors influencing business customers. In a small group, select a country and develop a multimedia presentation on proper business etiquette and manners, including appropriate appearance, behavior, and communication. Include a map showing the location of the country as well as a description of the country in terms of demographics, culture, and its economic history.
2. Interview a business person to learn how purchases are made in his or her organization. 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 business person 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 behavior.
3. Government procurement (buying goods and services for the government) is big business. It is a massive part of international trade, given the considerable size of the procurement market (often 10–15 percent of the GDP of countries), and the process benefits domestic and foreign stakeholders in terms of increased competition. The process is also prone to corruption, however. The effort of the World Trade Organization (WTO) to create transparent and non-discriminatory procurement procedures is generally considered to be the best tool to achieve 'value for money' because it optimizes competition among suppliers. Go to the WTO's website (www.wto.org) and read about government procurement. Then write a brief report on three major areas of the WTO's work on this issue.

FOCUS ON Technology

In today's competitive marketplace, many businesses strive to cut costs. One solution is for business buyers to drive down supplier prices. Online reverse auctions allow businesses to do this

more efficiently and effectively. Reverse auctions, often called e-auctions, are conducted online with the buyer and seller roles reversed. Buyers announce auctions months in advance