

CHAPTER 3

Consumer Behavior: How People Make Buying Decisions

Why do you buy the things you do? How did you decide to go to the college you're attending? Where do you like to shop and when? Do your friends shop at the same places or different places? Do you buy the same brands multiple times or eat at the same restaurants frequently?

Marketing professionals that have the answers to those questions will have a much better chance of creating, communicating about, and delivering value-added products and services that you and people like you will want to buy. That's what the study of consumer behavior is all about. **Consumer behavior** considers the many reasons—personal, situational, psychological, and social—why people shop for products, buy and use them, sometimes become loyal customers, and then dispose of them.

Companies spend billions of dollars annually studying what makes consumers “tick.” Although you might not like it, Google, AOL, and Yahoo! monitor your Web patterns—the sites you search, that is. The companies that pay for **search advertising**, or ads that appear on the Web pages you pull up after doing an online search, want to find out what kind of things interest you. Doing so allows these companies to send you popup ads and coupons you might actually be interested in instead of ads and coupons for things such as retirement communities.

Massachusetts Institute of Technology (MIT), in conjunction with a large retail center, has tracked consumers in retail establishments to see when and where they tended to dwell or stop to look at merchandise. How was it done? By tracking the position of the consumers' mobile phones as the phones automatically transmitted signals to cellular towers, MIT found that when people's “dwell times” increased, sales increased, too.^[1]

Researchers have even looked at people's brains by having them lie in scanners and asking them questions about different products. What people *say* about the products is then compared to what their brains scans show—that is, what they are really thinking. Scanning people's brains for marketing purposes might sound nutty, but maybe not when you consider the fact that eight out of ten new consumer products fail, even when they are test marketed. Could it be possible that what people say about potential new products and what they think about them are different? Marketing professionals want to find out.^[2]

Studying people's buying habits isn't just for big companies. Small businesses and entrepreneurs can study the behavior of their customers with great success. By figuring out what zip codes their customers are in, a business might determine where to locate an additional store. Small businesses such as restaurants often use coupon codes. For example, coupons sent out in newspapers are given one code. Those sent out via the Internet are given another. When the coupons are redeemed, the restaurants can tell which marketing avenues are having the biggest effect on their sales.

consumer behavior

The study of when, where, and how people buy things and then dispose of them.

search advertising

Advertising that appears on the Web pages pulled up when online searches are conducted.

FIGURE 3.1

Tony Hsieh, the chief executive of the shoe company Zappos.com, reportedly has thirty thousand followers on Twitter and his Zappos blog. Dell has begun making millions on Twitter by providing followers with exclusive deals, outlet offers, and product updates. To see the top users of Twitter, go to <http://www.twitterholic.com>.



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Some businesses, including a growing number of startups, are using blogs and social networking Web sites to gather information about their customers at a low cost. For example, Proper Cloth, a company based in New York, has a site on the social networking site Facebook. Whenever the company posts a new bulletin or photos of its clothes, all its Facebook “fans” automatically receive the information on their own Facebook pages. “We want to hear what our customers have to say,” says Joseph Skerritt, the young MBA graduate who founded Proper Cloth. “It’s useful to us and lets our customers feel connected to Proper Cloth.”^[3] Skerritt also writes a blog for the company. Twitter and podcasts that can be downloaded from iTunes are two other ways companies are amplifying the “word of mouth” about their products.^[4]

Environmental factors (such as the economy and technology) and marketing actions taken to create, communicate about, and deliver products and services (such as sale prices, coupons, Internet sites, and new product features) may affect consumers’ behavior. However, a consumer’s situation, personal factors, and culture also influence what, when, and how he or she buys things. We’ll look at those factors in Section 1. Section 2 focuses on different types of buying decisions and the stages consumers may go through when making purchase decisions.

1. FACTORS THAT INFLUENCE CONSUMERS’ BUYING BEHAVIOR

LEARNING OBJECTIVES

1. Describe the personal and psychological factors that may influence what consumers buy and when they buy it.
2. Explain what marketing professionals can do to influence consumers’ behavior.
3. Explain how looking at lifestyle information helps firms understand what consumers want to purchase.
4. Explain how Maslow’s hierarchy of needs works.
5. Explain how culture, subcultures, social classes, families, and reference groups affect consumers’ buying behavior.

You’ve been a consumer with purchasing power for much longer than you probably realize—since the first time you were asked which cereal or toy you wanted. Over the years, you’ve developed rules of thumb or mental shortcuts providing a systematic way to choose among alternatives, even if you aren’t aware of it. Other consumers follow a similar process, but different people, no matter how similar they are, make different purchasing decisions. You might be very interested in purchasing a Smart Car, but your best friend might want to buy a Ford F-150 truck. What factors influenced your decision and what factors influenced your friend’s decision?

As we mentioned earlier in the chapter, consumer behavior is influenced by many things, including environmental and marketing factors, the situation, personal and psychological factors, family, and culture. Businesses try to figure out *trends* so they can reach the people most likely to buy their products in the most cost-effective way possible. Businesses often try to influence a consumer’s behavior with things they can control such as the layout of a store, music, grouping and availability of products, pricing, and advertising. While some influences may be temporary and others are long lasting, different factors can affect how buyers behave—whether they influence you to make a purchase, buy additional products, or buy nothing at all. Let’s now look at some of the influences on consumer behavior in more detail.

1.1 Situational Factors

Have you ever been in a department store and couldn't find your way out? No, you aren't necessarily directionally challenged. Marketing professionals take physical factors such as a store's design and layout into account when they are designing their facilities. Presumably, the longer you wander around a facility, the more you will spend. Grocery stores frequently place bread and milk products on the opposite ends of the stores because people often need both types of products. To buy both, they have to walk around an entire store, which of course, is loaded with other items they might see and purchase.

Store locations also influence behavior. Starbucks has done a good job in terms of locating its stores. It has the process down to a science; you can scarcely drive a few miles down the road without passing a Starbucks. You can also buy cups of Starbucks coffee at many grocery stores and in airports—virtually any place where there is foot traffic.

Physical factors that firms can control, such as the layout of a store, music played at stores, the lighting, temperature, and even the smells you experience are called **atmospherics**. Perhaps you've visited the office of an apartment complex and noticed how great it looked and even smelled. It's no coincidence. The managers of the complex were trying to get you to stay for a while and have a look at their facilities. Research shows that "strategic fragrancing" results in customers staying in stores longer, buying more, and leaving with better impressions of the quality of stores' services and products. Mirrors near hotel elevators are another example. Hotel operators have found that when people are busy looking at themselves in the mirrors, they don't feel like they are waiting as long for their elevators.^[5]

Not all physical factors are under a company's control, however. Take weather, for example. Rainy weather can be a boon to some companies, like umbrella makers such as Totes, but a problem for others. Beach resorts, outdoor concert venues, and golf courses suffer when it is raining heavily. Businesses such as automobile dealers also have fewer customers. Who wants to shop for a car in the rain?

Firms often attempt to deal with adverse physical factors such as bad weather by offering specials during unattractive times. For example, many resorts offer consumers discounts to travel to beach locations during hurricane season. Having an online presence is another way to cope with weather-related problems. What could be more comfortable than shopping at home? If it's raining too hard to drive to the GAP, REI, or Abercrombie & Fitch, you can buy products from these companies and many others online. You can shop online for cars, too, and many restaurants take orders online and deliver.

Crowding is another situational factor. Have you ever left a store and not purchased anything because it was just too crowded? Some studies have shown that consumers feel better about retailers who attempt to prevent overcrowding in their stores. However, other studies have shown that to a certain extent, crowding can have a positive impact on a person's buying experience. The phenomenon is often referred to as "herd behavior."^[6]

If people are lined up to buy something, you want to know why. Should you get in line to buy it too? Herd behavior helped drive up the price of houses in the mid-2000s before the prices for them rapidly fell. Unfortunately, herd behavior has also led to the deaths of people. In 2008, a store employee was trampled to death by an early morning crowd rushing into a Walmart to snap up holiday bargains.

Social Situation

The social situation you're in can significantly affect your purchase behavior. Perhaps you have seen Girl Scouts selling cookies outside grocery stores and other retail establishments and purchased nothing from them, but what if your neighbor's daughter is selling the cookies? Are you going to turn her down or be a friendly neighbor and buy a box (or two)?

atmospherics

The physical aspects of the selling environment retailers try to control.



Video Clip

Thin Mints, Anyone?

Are you going to turn down cookies from this cute Girl Scout? What if she's your neighbor's daughter? Pass the milk, please!



View the video online at: <http://www.youtube.com/v/GJHN4eutKjY>

Companies like Pampered Chef that sell their products at parties understand that the social situation makes a difference. When you're at a friend's Pampered Chef party, you don't want to look cheap or disappoint your friend by not buying anything. Certain social situations can also make you less willing to buy products. You might spend quite a bit of money each month eating at fast-food restaurants like McDonald's and Subway. Where do you take someone for your first date? Some people might take a first date to Subway, but other people would perhaps choose a restaurant that's more upscale. Likewise, if you have turned down a drink or dessert on a date because you were worried about what the person you were with might have thought, your consumption was affected by your social situation.^[7]

Time

The time of day, time of year, and how much time consumers feel like they have to shop affect what they buy. Researchers have even discovered whether someone is a "morning person" or "evening person" affects shopping patterns. Have you ever gone to the grocery store when you are hungry or after pay day when you have cash in your pocket? When you are hungry or have cash, you may purchase more than you would at other times. Seven-Eleven Japan is a company that's extremely in tune to time and how it affects buyers. The company's point-of-sale systems at its checkout counters monitor what is selling well and when, and stores are restocked with those items immediately—sometimes via motorcycle deliveries that zip in and out of traffic along Japan's crowded streets. The goal is to get the products on the shelves when and where consumers want them. Seven-Eleven Japan also knows that, like Americans, its customers are "time starved." Shoppers can pay their utility bills, local taxes, and insurance or pension premiums at Seven-Eleven Japan stores, and even make photocopies.^[8]

Companies worldwide are aware of people's lack of time and are finding ways to accommodate them. Some doctors' offices offer drive-through shots for patients who are in a hurry and for elderly patients who find it difficult to get out of their cars. Tickets.com allows companies to sell tickets by sending them to customers' mobile phones when they call in. The phones' displays are then read by barcode scanners when the ticket purchasers arrive at the events they're attending. Likewise, if you need customer service from Amazon.com, there's no need to wait on the telephone. If you have an account with Amazon, you just click a button on the company's Web site and an Amazon representative calls you immediately.

Reason for the Purchase

The reason you are shopping also affects the amount of time you will spend shopping. Are you making an emergency purchase? What if you need something for an important dinner or a project and only have an hour to get everything? Are you shopping for a gift or for a special occasion? Are you buying something to complete a task/project and need it quickly? In recent years, emergency clinics have sprung up in strip malls all over the country. Convenience is one reason. The other is sheer necessity. If you cut yourself and you are bleeding badly, you're probably not going to shop around much to find the best clinic. You will go to the one that's closest to you. The same thing may happen if you need something immediately.

Purchasing a gift might not be an emergency situation, but you might not want to spend much time shopping for it either. Gift certificates have been popular for years. You can purchase gift cards for numerous merchants at your local grocery store or online. By contrast, suppose you need to buy an engagement ring. Sure, you could buy one online in a jiffy, but you probably wouldn't do that. What if the diamond was fake? What if your significant other turned you down and you had to return the ring? How hard would it be to get back online and return the ring?^[9]

Mood

Have you ever felt like going on a shopping spree? At other times wild horses couldn't drag you to a mall. People's moods temporarily affect their spending patterns. Some people enjoy shopping. It's entertaining for them. At the extreme are compulsive spenders who get a temporary "high" from spending.

A sour mood can spoil a consumer's desire to shop. The crash of the U.S. stock market in 2008 left many people feeling poorer, leading to a dramatic downturn in consumer spending. Penny pinching came into vogue, and conspicuous spending was out. Costco and Walmart experienced heightened sales of their low-cost Kirkland Signature and Great Value brands as consumers scrimped.^[10] Saks Fifth Avenue wasn't so lucky. Its annual release of spring fashions usually leads to a feeding frenzy among shoppers, but spring 2009 was different. "We've definitely seen a drop-off of this idea of shopping for entertainment," says Kimberly Grabel, Saks Fifth Avenue's senior vice president of marketing.^[11] To get buyers in the shopping mood, companies resorted to different measures. The upscale retailer Neiman Marcus began introducing more mid-priced brands. By studying customer's loyalty cards, the French hypermarket Carrefour hoped to find ways to get its customers to purchase nonfood items that have higher profit margins.

The glum mood wasn't bad for all businesses though. Discounters like Half-Price books saw their sales surge. So did seed sellers as people began planting their own gardens. Finally, what about those products (Aqua Globes, Snuggies, and Ped Eggs) you see being hawked on television? Their sales were the best ever. Apparently, consumers too broke to go on vacation or shop at Saks were instead watching television and treating themselves to the products.^[12]

1.2 Personal Factors

Personality and Self-Concept

Personality describes a person's disposition, helps show why people are different, and encompasses a person's unique traits. The "Big Five" personality traits that psychologists discuss frequently include **openness** or how open you are to new experiences, **conscientiousness** or how diligent you are, **extraversion** or how outgoing or shy you are, **agreeableness** or how easy you are to get along with, and **neuroticism** or how prone you are to negative mental states.

Do personality traits predict people's purchasing behavior? Can companies successfully target certain products to people based on their personalities? How do you find out what personalities consumers have? Are extraverts wild spenders and introverts penny pinchers?

The link between people's personalities and their buying behavior is somewhat unclear. Some research studies have shown that "sensation seekers," or people who exhibit extremely high levels of openness, are more likely to respond well to advertising that's violent and graphic. The problem for firms is figuring out "who's who" in terms of their personalities.

Marketers have had better luck linking people's self-concepts to their buying behavior. Your **self-concept** is how you see yourself—be it positive or negative. Your **ideal self** is how you would *like* to see yourself—whether it's prettier, more popular, more eco-conscious, or more "goth," and others' self-concept, or how you think others see you, also influences your purchase behavior. Marketing researchers believe people buy products to enhance how they feel about themselves—to get themselves closer to their ideal selves.

The slogan "Be All That You Can Be," which for years was used by the U.S. Army to recruit soldiers, is an attempt to appeal to the self-concept. Presumably, by joining the U.S. Army, you will become a better version of yourself, which will, in turn, improve your life. Many beauty products and cosmetic procedures are advertised in a way that's supposed to appeal to the ideal self people seek. All of us want products that improve our lives.

Gender, Age, and Stage of Life

While demographic variables such as income, education, and marital status are important, we will look at gender, age, and stage of life and how they influence purchase decisions. Men and women need and buy different products.^[13] They also shop differently and in general, have different attitudes about

personality

An individual's disposition as other people see it.

self-concept

How a person sees himself or herself.

ideal self

How a person would like to view himself or herself.

shopping. You know the old stereotypes. Men see what they want and buy it, but women “try on everything and shop ‘til they drop.” There’s some truth to the stereotypes. That’s why you see so many advertisements directed at one sex or the other—beer commercials that air on ESPN and commercials for household products that air on Lifetime. Women influence fully two-thirds of all household product purchases, whereas men buy about three-quarters of all alcoholic beverages.^[14] The shopping differences between men and women seem to be changing, though. Younger, well-educated men are less likely to believe grocery shopping is a woman’s job and would be more inclined to bargain shop and use coupons if the coupons were properly targeted at them.^[15] One survey found that approximately 45 percent of married men actually *like* shopping and consider it relaxing.

One study by Resource Interactive, a technology research firm, found that when shopping online, men prefer sites with lots of pictures of products and women prefer to see products online in lifestyle context—say, a lamp in a living room. Women are also twice as likely as men to use viewing tools such as the zoom and rotate buttons and links that allow them to change the color of products.



Video Clip

What Women Want versus What Men Want

Check out this Heineken commercial, which highlights the differences between “what women want” and “what men want” when it comes to products.



View the video online at: <http://www.youtube.com/v/ylutgtzwhAc>

FIGURE 3.2

Marketing to men is big business. Some advertising agencies specialize in advertisements designed specifically to appeal to male consumers.



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Many businesses today are taking greater pains to figure out “what men want.” Products such as face toners and body washes for men such as the Axe brand and hair salons such as the Men’s Zone and Weldon Barber are a relatively new phenomenon. Some advertising agencies specialize in advertising directed at men. There are also many products such as kayaks and mountain bikes targeted toward women that weren’t in the past.

You have probably noticed that the things you buy have changed as you age. Think about what you wanted and how you spent five dollars when you were a child, a teenager, and an adult. When you were a child, the last thing you probably wanted as a gift was clothing. As you became a teen, however, cool clothes probably became a bigger priority. Don’t look now, but depending on the stage of life you’re currently in, diapers and wrinkle cream might be just around the corner.

If you’re single and working after graduation, you probably spend your money differently than a newly married couple. How do you think spending patterns change when someone has a young child or a teenager or a child in college? Diapers and day care, orthodontia, tuition, electronics—regardless of the age, children affect the spending patterns of families. Once children graduate from college and parents are empty nesters, spending patterns change again.

Empty nesters and baby boomers are a huge market that companies are trying to tap. Ford and other car companies have created “aging suits” for young employees to wear when they’re designing automobiles.^[16] The suit simulates the restricted mobility and vision people experience as they get older. Car designers can then figure out how to configure the automobiles to better meet the needs of these consumers.



Video Clip

Car Makers Design Special Aging Suit

The “aging suit” has elastic bindings that hamper a car designer’s movement and goggles that simulate deteriorating eyesight. The suit gives the designer an idea what kinds of car-related challenges older consumers face.



View the video online at: http://www.youtube.com/v/_hcw17EsE7A

Lisa Rudes Sandel, the founder of Not Your Daughter’s Jeans (NYDJ), created a multimillion-dollar business by designing jeans for baby boomers with womanly bodies. Since its launch seven years ago, NYDJ has become the largest domestic manufacturer of women’s jeans under \$100. “The truth is,” Rudes Sandel says, “I’ve never forgotten that woman I’ve been aiming for since day one.” Rudes Sandel “speaks to” every one of her customers via a note tucked into each pair of jean that reads, “NYDJ (Not Your Daughter’s Jeans) cannot be held responsible for any positive consequence that may arise due to your fabulous appearance when wearing the Tummy Tuck jeans. You can thank me later.”^[17]

Your **chronological age**, or actual age in years, is one thing. Your **cognitive age**, or how old you perceive yourself to be, is another. A person’s cognitive age affects his or her activities and sparks interests consistent with his or her perceived age.^[18] Cognitive age is a significant predictor of consumer behaviors, including people’s dining out, watching television, going to bars and dance clubs, playing computer games, and shopping.^[19] Companies have found that many consumers feel younger than their chronological age and don’t take kindly to products that feature “old folks” because they can’t identify with them.

Lifestyle

If you have ever watched the television show *Wife Swap*, you can see that despite people’s similarities (e.g., being middle-class Americans who are married with children), their lifestyles can differ radically. To better understand and connect with consumers, companies interview or ask people to complete questionnaires about their lifestyles or their activities, interests, and opinions (often referred to as AIO statements). Consumers are not only asked about products they like, where they live, and what their gender is but also about what they do—that is, how they spend their time and what their priorities, values, opinions, and general outlooks on the world are. Where do they go other than work? Who do they like to talk to? What do they talk about? Researchers hired by Procter & Gamble have gone so far as to follow women around for weeks as they shop, run errands, and socialize with one another.^[20] Other companies have paid people to keep a daily journal of their activities and routines.

A number of research organizations examine lifestyle and psychographic characteristics of consumers. **Psychographics** combines the lifestyle traits of consumers and their personality styles with an analysis of their attitudes, activities, and values to determine groups of consumers with similar characteristics. One of the most widely used systems to classify people based on psychographics is the VALS (Values, Attitudes, and Lifestyles) framework. Using VALS to combine psychographics with demographic information such as marital status, education level, and income provide a better understanding of consumers.

FIGURE 3.3

You’re only as old as you feel—and the things you buy.



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chronological age

A person’s age in years.

cognitive age

The age a buyer perceives himself or herself to be.

psychographics

Measuring the attitudes, values, lifestyles, and opinions of consumers using demographics.

1.3 Psychological Factors

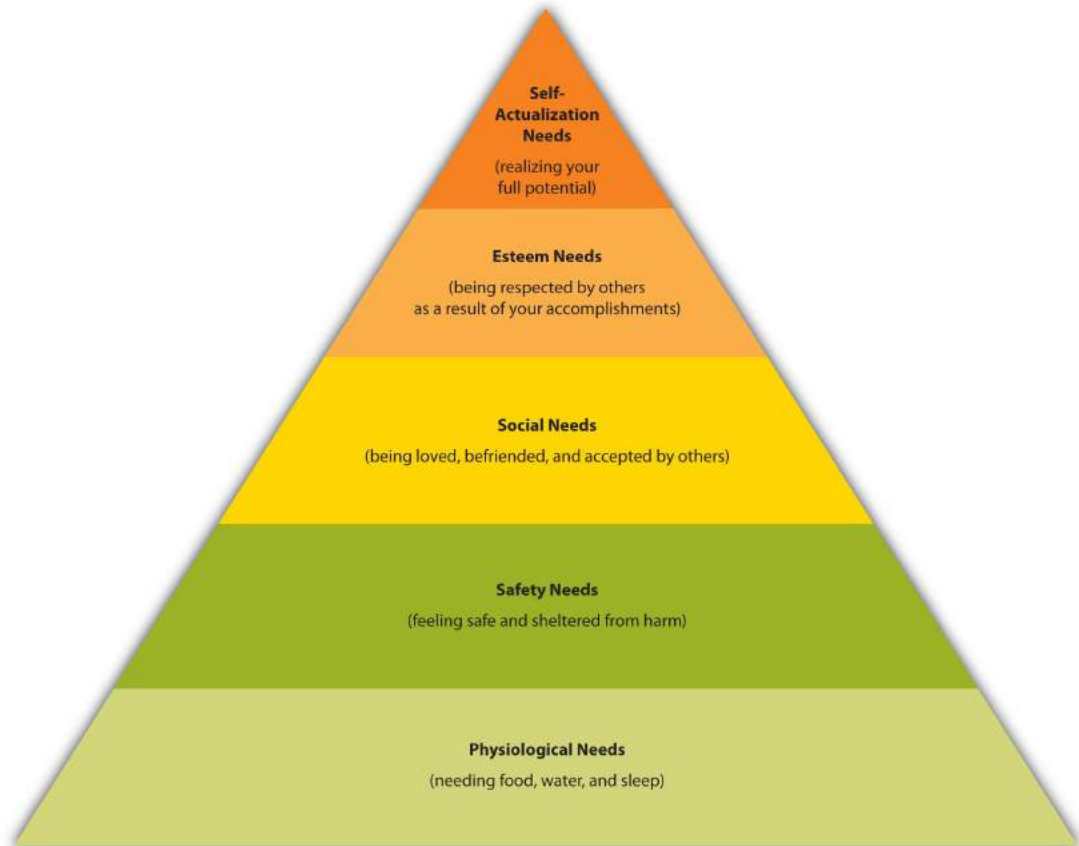
Motivation

motivation

The inward drive people have to get what they need.

Motivation is the inward drive we have to get what we need. In the mid-1900s, Abraham Maslow, an American psychologist, developed the hierarchy of needs shown in Figure 3.4.

FIGURE 3.4 Maslow's Hierarchy of Needs



Maslow theorized that people have to fulfill their basic needs—food, water, and sleep—before they can begin fulfilling higher-level needs. Have you ever gone shopping when you were tired or hungry? Even if you were shopping for something that would make you the envy of your friends (maybe a new car) you probably wanted to sleep or eat even more. (Forget the car. Just give me a nap and a candy bar.)

The need for food is recurring. Other needs, such as shelter, clothing, and safety, tend to be enduring. Still other needs arise at different points in time in a person's life. For example, during grade school and high school, your *social* needs probably rose to the forefront. You wanted to have friends and get a date. Perhaps this prompted you to buy certain types of clothing or electronic devices. After high school, you began thinking about how people would view you in your "station" in life, so you decided to pay for college and get a professional degree, thereby fulfilling your need for *esteem*. If you're lucky, at some point you will realize Maslow's state of *self-actualization*. You will believe you have become the person in life that you feel you were meant to be.

Following the economic crisis that began in 2008, the sales of new automobiles dropped sharply virtually everywhere around the world—except the sales of Hyundai vehicles. Hyundai understood that people needed to feel secure and safe and ran an ad campaign that assured car buyers they could return their vehicles if they couldn't make the payments on them without damaging their credit. Seeing Hyundai's success, other carmakers began offering similar programs. Likewise, banks began offering "worry-free" mortgages to ease the minds of would-be homebuyers. For a fee of about \$500, First Mortgage Corp., a Texas-based bank, offered to make a homeowner's mortgage payment for six months if he or she got laid off.^[21]

While achieving self-actualization may be a goal for many individuals in the United States, consumers in Eastern cultures may focus more on belongingness and group needs. Marketers look at cultural differences in addition to individual needs. The importance of groups affects advertising (using groups versus individuals) and product decisions.

Perception

Perception is how you interpret the world around you and make sense of it in your brain. You do so via stimuli that affect your different senses—sight, hearing, touch, smell, and taste. How you combine these senses also makes a difference. For example, in one study, consumers were blindfolded and asked to drink a new brand of clear beer. Most of them said the product tasted like regular beer. However, when the blindfolds came off and they drank the beer, many of them described it as “watery” tasting.^[22]

Consumers are bombarded with messages on television, radio, magazines, the Internet, and even bathroom walls. The average consumer is exposed to about three thousand advertisements per day.^[23] Consumers are surfing the Internet, watching television, and checking their cell phones for text messages simultaneously. Some, but not all, information makes it into our brains. Selecting information we see or hear (e.g., television shows or magazines) is called selective exposure.

Have you ever read or thought about something and then started noticing ads and information about it popping up everywhere? Many people are more perceptive to advertisements for products they need. **Selective attention** is the process of filtering out information based on how relevant it is to you. It’s been described as a “suit of armor” that helps you filter out information you *don’t* need. At other times, people forget information, even if it’s quite relevant to them, which is called **selective retention**. Often the information contradicts the person’s belief. A longtime chain smoker who forgets much of the information communicated during an antismoking commercial is an example. To be sure their advertising messages get through to you and you remember them, companies use repetition. How tired of iPhone commercials were you before they tapered off? How often do you see the same commercial aired during a single television show?

Another potential problem that advertisers (or your friends) may experience is **selective distortion** or misinterpretation of the intended message. Promotions for weight loss products show models that look slim and trim after using their products, and consumers may believe they will look like the model if they use the product. They misinterpret other factors such as how the model looked before or how long it will take to achieve the results. Similarly, have you ever told someone a story about a friend and that person told another person who told someone else? By the time the story gets back to you, it is completely different. The same thing can happen with many types of messages.



Video Clip

A Parody of an iPhone Commercial

Check out this parody on Apple’s iPhone commercial.



View the video online at: <http://www.youtube.com/v/4vle73VqtHw>

Using surprising stimuli or **shock advertising** is also a technique that works. One study found that shocking content increased attention, benefited memory, and positively influenced behavior among a group of university students.^[24]

Subliminal advertising is the opposite of shock advertising and involves exposing consumers to marketing stimuli such as photos, ads, and messages by stealthily embedding them in movies, ads, and other media. Although there is no evidence that subliminal advertising works, years ago the words *Drink Coca-Cola* were flashed for a millisecond on a movie screen. Consumers were thought to perceive the information subconsciously and to be influenced to buy the products shown. Many people considered the practice to be subversive, and in 1974, the Federal Communications Commission condemned it. Much of the original research on subliminal advertising, conducted by a researcher trying to drum up business for his market research firm, was fabricated.^[25] People are still fascinated by

perception

How people interpret the world around them.

selective attention

The process whereby a person filters information based on how relevant it is to them.

selective retention

The process whereby a person retains information based on how well it matches their values and beliefs.

selective distortion

The process whereby consumers misinterpret information and messages.

shock advertising

Advertising designed to startle people so as to get their attention.

subliminal advertising

Advertising that is not apparent to consumers but is thought to be perceived subconsciously by them.

subliminal advertising, however. To create “buzz” about the television show *The Mole* in 2008, ABC began hyping it by airing short commercials composed of just a few frames. If you blinked, you missed it. Some television stations actually called ABC to figure out what was going on. One-second ads were later rolled out to movie theaters.^[26]

Different consumers perceive information differently. A couple of frames about *The Mole* might make you want to see the television show. However, your friend might see the ad, find it stupid, and never tune in to watch the show. One man sees Pledge, an outstanding furniture polish, while another sees a can of spray no different from any other furniture polish. One woman sees a luxurious Gucci purse, and the other sees an overpriced bag to hold keys and makeup.^[27]

Learning

learning

The process by which consumers change their behavior after they gain information or experience with a product.

Learning refers to the process by which consumers change their behavior after they gain information or experience. It’s the reason you don’t buy a bad product twice. Learning doesn’t just affect what you buy; it affects how you shop. People with limited experience about a product or brand generally seek out more information than people who have used a product before.

Companies try to get consumers to learn about their products in different ways. Car dealerships offer test drives. Pharmaceutical reps leave samples and brochures at doctor’s offices. Other companies give consumers free samples. To promote its new line of coffees, McDonald’s offered customers free samples to try. Have you ever eaten the food samples in a grocery store? While sampling is an expensive strategy, it gets consumers to try the product and many customers buy it, especially right after trying in the store.

operant conditioning

A type of behavior that’s repeated when it’s rewarded.

Another kind of learning is **operant or instrumental conditioning**, which is what occurs when researchers are able to get a mouse to run through a maze for a piece of cheese or a dog to salivate just by ringing a bell. In other words, learning occurs through repetitive behavior that has positive or negative consequences. Companies engage in operant conditioning by rewarding consumers, which cause consumers to want to repeat their purchasing behaviors. Prizes and toys that come in Cracker Jacks and McDonald’s Happy Meals, free tans offered with gym memberships, a free sandwich after a certain number of purchases, and free car washes when you fill up your car with a tank of gas are examples.

classical conditioning

A learning process where consumers associate a response with a condition that was previously not associated with the response.

Another learning process called **classical conditioning** occurs by associating a conditioned stimulus (CS) with an unconditioned stimulus (US) to get a particular response. The more frequently the CS is linked with the US, the faster learning occurs and this is what advertisers and businesses try to do. Think about a meal at a restaurant where the food was really good and you went with someone special. You like the person and want to go out again. It could be that classical conditioning occurred. That is, the food produced a good feeling and you may associate the person with the food, thus producing a good feeling about the person.

Attitude

attitudes

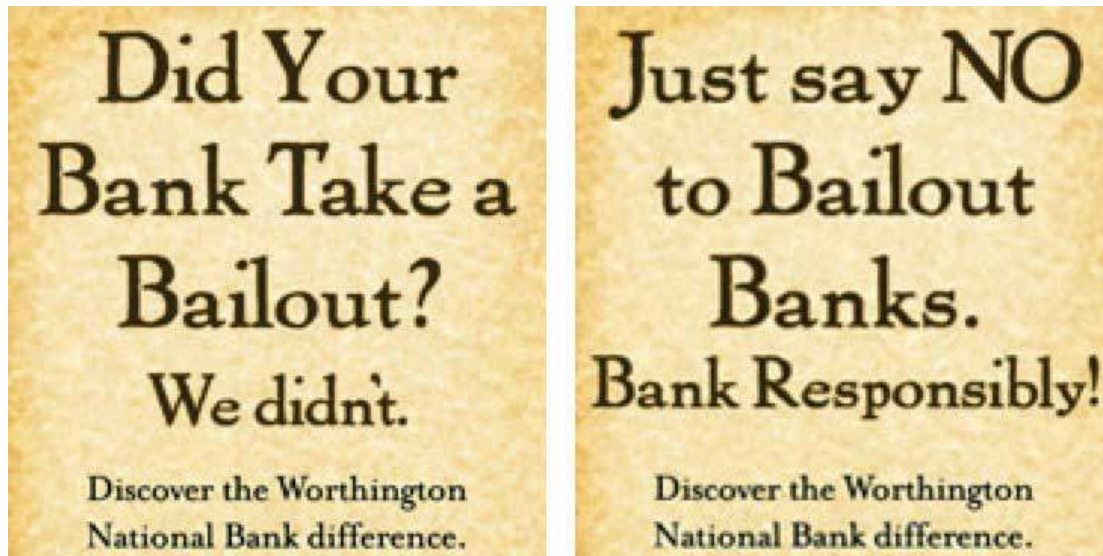
“Mental positions” or emotional feelings, favorable or unfavorable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions.

Attitudes are “mental positions” or emotional feelings, favorable or unfavorable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions.^[28] Attitudes tend to be enduring, and because they are based on people’s values and beliefs, they are hard to change. Companies want people to have positive feelings about their offerings. A few years ago, KFC began running ads to the effect that fried chicken was healthy—until the U.S. Federal Trade Commission told the company to stop. Wendy’s slogan that its products are “way better than fast food” is another example. Fast food has a negative connotation, so Wendy’s is trying to get consumers to think about its offerings as being better.

An example of a shift in consumers’ attitudes occurred when the taxpayer-paid government bailouts of big banks that began in 2008 provoked the wrath of Americans, creating an opportunity for small banks not involved in the credit bailout and subprime mortgage mess. The Worthington National Bank, a small bank in Fort Worth, Texas, ran billboards reading: “Did Your Bank Take a Bailout? We didn’t.” Another read: “Just Say NO to Bailout Banks. Bank Responsibly!” The Worthington Bank received tens of millions in new deposits soon after running these campaigns.^[29]

FIGURE 3.5

Worthington National, a small Texas bank, capitalized on people's bad attitudes toward big banks that accepted bailouts from the government in 2008–2009. After running billboards with this message, the bank received millions of dollars in new deposits.



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1.4 Societal Factors

Situational factors, personal factors, and psychological factors influence what you buy, but only on a temporary basis. Societal factors are a bit different. They are more outward and have broad influences on your beliefs and the way you do things. They depend on the world around you and how it works.

Culture

Culture refers to the shared beliefs, customs, behaviors, and attitudes that characterize a society. Culture is a handed down way of life and is often considered the broadest influence on a consumer's behavior. Your culture prescribes the way in which you should live and has a huge effect on the things you purchase. For example, in Beirut, Lebanon, women can often be seen wearing miniskirts. If you're a woman in Afghanistan wearing a miniskirt, however, you could face bodily harm or death. In Afghanistan women generally wear *burqas*, which cover them completely from head to toe. Similarly, in Saudi Arabia, women must wear what's called an *abaya*, or long black garment. Interestingly, abayas have become big business in recent years. They come in many styles, cuts, and fabrics and some are encrusted with jewels and cost thousands of dollars. To read about the fashions women in Muslim countries wear, check out the following article: <http://www.time.com/time/world/article/0,8599,1210781,00.html>.

Even cultures that share many of the same values as the United States can be quite different. Following the meltdown of the financial markets in 2008, countries around the world were pressed by the United States to engage in deficit spending to stimulate the worldwide economy. The plan was a hard sell both to German politicians and to the German people in general. Most Germans don't own credit cards and running up a lot of debt is something people in that culture generally don't do. Credit card companies such as Visa, American Express, and MasterCard must understand cultural perceptions about credit.

culture

The shared beliefs, customs, behaviors, and attitudes that characterize a society used to cope with their world and with one another.

Subcultures

subculture

A group of people within a culture who are different from the dominant culture but have something in common with one another, such as common interests, vocations or jobs, religions, ethnic backgrounds, or sexual orientations.

A **subculture** is a group of people within a culture who are different from the dominant culture but have something in common with one another such as common interests, vocations or jobs, religions, ethnic backgrounds, and geographic locations. The fastest-growing subculture in the United States consists of people of Hispanic origin, followed by Asian Americans, and African Americans. The purchasing power of U.S. Hispanics continues to grow, exceeding \$1 trillion in 2010.^[30] Home Depot has launched a Spanish version of its Web site. Walmart is in the process of converting some of its Neighborhood Markets into stores designed to appeal to Hispanics. The Supermercado de Walmart stores are located in Hispanic neighborhoods and feature elements such as cafés serving Latino pastries and coffee and full meat and fish counters.^[31] Marketing products based on the ethnicity of consumers is useful but may become harder to do in the future because the boundaries between ethnic groups are blurring.

FIGURE 3.6

Care to join the subculture of the “Otherkin”? Otherkins are primarily Internet users who believe they are reincarnations of mythological or legendary creatures—angels, demons, vampires—you name it. To read more about the Otherkins and seven other bizarre subcultures, visit http://www.oddee.com/item_96676.aspx.



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Subcultures, such as college students, can develop in response to people’s interests, similarities, and behaviors that allow marketing professionals to design specific products for them. You have probably heard of the hip-hop subculture, people who engage in extreme types of sports such as helicopter skiing or people who play the fantasy game Dungeons and Dragons.

Social Class

social class

A group of people who have the same social, economic, or educational status in society.

A **social class** is a group of people who have the same social, economic, or educational status in society.^[32] While income helps define social class, the primary variable determining social class is occupation. To *some* degree, consumers in the same social class exhibit similar purchasing behavior. In many countries, people are expected to marry within their own social class. When asked, people tend to say they are middle class, which is not always correct. Have you ever been surprised to find out that someone you knew who was wealthy drove a beat-up old car or wore old clothes and shoes or that someone who isn’t wealthy owns a Mercedes or other upscale vehicle? While some products may appeal to people in a social class, you can’t assume a person is in a certain social class because they either have or don’t have certain products or brands.

Table 3.1 shows seven classes of American consumers along with the types of car brands they might buy. Keep in mind that the U.S. market is just a fraction of the world market. The rise of the middle class in India and China is creating opportunities for many companies to successfully sustain their products. For example, China has begun to overtake the United States as the world’s largest auto market.^[33]

TABLE 3.1 An Example of Social Classes and Buying Patterns

Class	Type of Car	Definition of Class
Upper-Upper Class	Rolls-Royce	People with inherited wealth and aristocratic names (the Kennedys, Rothschilds, Windsors, etc.)
Lower-Upper Class	Mercedes	Professionals such as CEOs, doctors, and lawyers
Upper-Middle Class	Lexus	College graduates and managers
Middle Class	Toyota	Both white-collar and blue-collar workers
Working Class	Pontiac	Blue-collar workers
Lower but Not the Lowest	Used Vehicle	People who are working but not on welfare
Lowest Class	No vehicle	People on welfare

In a recession when luxury buyers are harder to come by, the makers of upscale brands may want their customer bases to be as large as possible. However, companies don't want to risk "cheapening" their brands. That's why, for example, Smart Cars, which are made by BMW, don't have the BMW label on them. For a time, Tiffany's sold a cheaper line of silver jewelry to a lot of customers. However, the company later worried that its reputation was being tarnished by the line. Keep in mind that a product's price is to some extent determined by supply and demand. Luxury brands therefore try to keep the supply of their products in check so their prices remain high.

FIGURE 3.7

The whiskey brand Johnnie Walker has managed to expand its market share without cheapening the brand by producing a few lower-priced versions of the whiskey and putting them in bottles with different labels.



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Some companies, such as Johnnie Walker, have managed to capture market share by introducing "lower echelon" brands without damaging their luxury brands. The company's whiskeys come in bottles with red, green, blue, black, and gold labels. The blue label is the company's best product. Every blue-label bottle has a serial number and is sold in a silk-lined box, accompanied by a certificate of authenticity.^[34]

Reference Groups and Opinion Leaders

reference groups

Groups a consumer identifies with and wants to join.

dissociative groups

Groups a consumer does not want to associate with or join.

opinion leaders

People with expertise certain areas. Consumers respect these people and often ask their opinions before they buy goods and services.

Reference groups are groups (social groups, work groups, family, or close friends) a consumer identifies with and may want to join. They influence consumers' attitudes and behavior. If you have ever dreamed of being a professional player of basketball or another sport, you have an aspirational reference group. That's why, for example, Nike hires celebrities such as Michael Jordan to pitch the company's products. There may also be **dissociative groups** or groups where a consumer does not want to be associated.

Opinion leaders are people with expertise in certain areas. Consumers respect these people and often ask their opinions before they buy goods and services. An information technology (IT) specialist with a great deal of knowledge about computer brands is an example. These people's purchases often lie at the forefront of leading trends. The IT specialist is probably a person who has the latest and greatest tech products, and his opinion of them is likely to carry more weight with you than any sort of advertisement.

Today's companies are using different techniques to reach opinion leaders. Network analysis using special software is one way of doing so. Orgnet.com has developed software for this purpose. Orgnet's software doesn't mine sites like Facebook and LinkedIn, though. Instead, it's based on sophisticated techniques that unearthed the links between Al Qaeda terrorists. Explains Valdis Krebs, the company's founder: "Pharmaceutical firms want to identify who the key opinion leaders are. They don't want to sell a new drug to everyone. They want to sell to the 60 key oncologists."^[35]

Family

Most market researchers consider a person's family to be one of the most important influences on their buying behavior. Like it or not, you are more like your parents than you think, at least in terms of your consumption patterns. Many of the things you buy and don't buy are a result of what your parents bought when you were growing up. Products such as the brand of soap and toothpaste your parents bought and used, and even the "brand" of politics they leaned toward (Democratic or Republican) are examples of the products you may favor as an adult.

Companies are interested in which family members have the most influence over certain purchases. Children have a great deal of influence over many household purchases. For example, in 2003 nearly half (47 percent) of nine- to seventeen-year-olds were asked by parents to go online to find out about products or services, compared to 37 percent in 2001. IKEA used this knowledge to design their showrooms. The children's bedrooms feature fun beds with appealing comforters so children will be prompted to identify and ask for what they want.^[36]

Marketing to children has come under increasing scrutiny. Some critics accuse companies of deliberately manipulating children to nag their parents for certain products. For example, even though tickets for Hannah Montana concerts ranged from hundreds to thousands of dollars, the concerts often still sold out. However, as one writer put it, exploiting "pester power" is not always ultimately in the long-term interests of advertisers if it alienates kids' parents.^[37]

KEY TAKEAWAY

- Situational influences are temporary conditions that affect how buyers behave. They include physical factors such as a store's buying locations, layout, music, lighting, and even scent. Companies try to make the physical factors in which consumers shop as favorable as possible. If they can't, they utilize other tactics such as discounts. The consumer's social situation, time factors, the reason for their purchases, and their moods also affect their buying behavior.
- Your personality describes your disposition as other people see it. Market researchers believe people buy products to enhance how they feel about themselves. Your gender also affects what you buy and how you shop. Women shop differently than men. However, there's some evidence that this is changing. Younger men and women are beginning to shop more alike. People buy different things based on their ages and life stages. A person's cognitive age is how old one "feels" oneself to be. To further understand consumers and connect with them, companies have begun looking more closely at their lifestyles (what they do, how they spend their time, what their priorities and values are, and how they see the world).
- Psychologist Abraham Maslow theorized that people have to fulfill their basic needs—like the need for food, water, and sleep—before they can begin fulfilling higher-level needs. Perception is how you interpret the world around you and make sense of it in your brain. To be sure their advertising messages get through to you, companies often resort to repetition. Shocking advertising and product placement are two other methods. Learning is the process by which consumers change their behavior after they gain information about or experience with a product. Consumers' attitudes are the "mental positions" people take based on their values and beliefs. Attitudes tend to be enduring and are often difficult for companies to change.
- Culture prescribes the way in which you should live and affects the things you purchase. A subculture is a group of people within a culture who are different from the dominant culture but have something in common with one another—common interests, vocations or jobs, religions, ethnic backgrounds, sexual orientations, and so forth. To some degree, consumers in the same social class exhibit similar purchasing behavior. Most market researchers consider a person's family to be one of the biggest determinants of buying behavior. Reference groups are groups that a consumer identifies with and wants to join. Companies often hire celebrities to endorse their products to appeal to people's reference groups. Opinion leaders are people with expertise in certain areas. Consumers respect these people and often ask their opinions before they buy goods and services.

REVIEW QUESTIONS

1. Explain what physical factors, social situations, time factors, and/or moods have affected your buying behavior for different products.
2. Explain how someone's personality differs from his or her self-concept. How does the person's ideal self-concept come into play in a consumer behavior context?
3. Describe how buying patterns and purchase decisions may vary by age, gender, and stage of life.
4. Why are companies interested in consumers' cognitive ages and lifestyle factors?
5. How does the process of perception work and how can companies use it to their advantage in their marketing?
6. How do Maslow's hierarchy of needs and learning affect how companies market to consumers?
7. Why do people's cultures and subcultures affect what they buy?
8. How do subcultures differ from cultures? Can you belong to more than one culture or subculture?
9. How are companies trying to reach opinion leaders?

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2. LOW-INVOLVEMENT VERSUS HIGH-INVOLVEMENT BUYING DECISIONS AND THE CONSUMER'S DECISION-MAKING PROCESS

LEARNING OBJECTIVES

1. Distinguish between low-involvement and high-involvement buying decisions.
2. Understand what the stages of the buying process are and what happens in each stage.

As you have seen, many factors influence a consumer's behavior. Depending on a consumer's experience and knowledge, some consumers may be able to make quick purchase decisions and other consumers may need to get information and be more involved in the decision process before making a purchase. The *level of involvement* reflects how personally important or interested you are in consuming a product and how much information you need to make a decision. The level of involvement in buying decisions may be considered a continuum from decisions that are fairly routine (consumers are not very involved) to decisions that require extensive thought and a high level of involvement. Whether a decision is low, high, or limited, involvement varies by consumer, not by product, although some products such as purchasing a house typically require a high-involvement for all consumers. Consumers with no experience purchasing a product may have more involvement than someone who is replacing a product.

You have probably thought about many products you want or need but never did much more than that. At other times, you've probably looked at dozens of products, compared them, and then decided not to purchase any one of them. When you run out of products such as milk or bread that you buy on a regular basis, you may buy the product as soon as you recognize the need because you do not need to search for information or evaluate alternatives. As Nike would put it, you "just do it." Low-involvement decisions are, however, typically products that are relatively inexpensive and pose a low risk to the buyer if she makes a mistake by purchasing them.

Consumers often engage in **routine response behavior** when they make low-involvement decisions—that is, they make automatic purchase decisions based on limited information or information they have gathered in the past. For example, if you always order a Diet Coke at lunch, you're engaging in routine response behavior. You may not even think about other drink options at lunch because your routine is to order a Diet Coke, and you simply do it. Similarly, if you run out of Diet Coke at home, you may buy more without any information search.

Some low-involvement purchases are made with no planning or previous thought. These buying decisions are called **impulse buying**. While you're waiting to check out at the grocery store, perhaps you see a magazine with Angelina Jolie and Brad Pitt on the cover and buy it on the spot simply because you want it. You might see a roll of tape at a check-out stand and remember you need one or you might see a bag of chips and realize you're hungry or just want them. These are items that are typically low-involvement decisions. **Low-involvement decisions** aren't necessarily products purchased on impulse, although they can be.

By contrast, **high-involvement decisions** carry a higher risk to buyers if they fail, are complex, and/or have high price tags. A car, a house, and an insurance policy are examples. These items are not purchased often but are relevant and important to the buyer. Buyers don't engage in routine response behavior when purchasing high-involvement products. Instead, consumers engage in what's called **extended problem solving**, where they spend a lot of time comparing different aspects such as the features of the products, prices, and warranties.

High-involvement decisions can cause buyers a great deal of postpurchase dissonance (anxiety) if they are unsure about their purchases or if they had a difficult time deciding between two alternatives. Companies that sell high-involvement products are aware that postpurchase dissonance can be a problem. Frequently, they try to offer consumers a lot of information about their products, including why they are superior to competing brands and how they won't let the consumer down. Salespeople may be utilized to answer questions and do a lot of customer "hand-holding."

routine response behavior

When consumers make automatic purchase decisions based on limited information or information they have gathered in the past.

impulse buying

Purchases that occur with no planning or forethought.

low-involvement decisions

Products that carry a low risk of failure or have a low price tag for a specific individual or group making the decision.

high-involvement decisions

Products that carry a high price tag or high level of risk to the individual or group making the decision.

extended problem solving

Purchasing decisions in which a consumer gathers a significant amount of information before making a decision.

Limited problem solving falls somewhere between low-involvement (routine) and high-involvement (extended problem solving) decisions. Consumers engage in **limited problem solving** when they already have some information about a good or service but continue to search for a little more information. Assume you need a new backpack for a hiking trip. While you are familiar with backpacks, you know that new features and materials are available since you purchased your last backpack. You're going to spend some time looking for one that's decent because you don't want it to fall apart while you're traveling and dump everything you've packed on a hiking trail. You might do a little research online and come to a decision relatively quickly. You might consider the choices available at your favorite retail outlet but not look at every backpack at every outlet before making a decision. Or you might rely on the advice of a person you know who's knowledgeable about backpacks. In some way you shorten or limit your involvement and the decision-making process.

Products, such as chewing gum, which may be low-involvement for many consumers often use advertising such as commercials and sales promotions such as coupons to reach many consumers at once. Companies also try to sell products such as gum in as many locations as possible. Many products that are typically high-involvement such as automobiles may use more personal selling to answer consumers' questions. Brand names can also be very important regardless of the consumer's level of purchasing involvement. Consider a low- versus high-involvement decision—say, purchasing a tube of toothpaste versus a new car. You might routinely buy your favorite brand of toothpaste, not thinking much about the purchase (engage in routine response behavior), but not be willing to switch to another brand either. Having a brand you like saves you “search time” and eliminates the evaluation period because you know what you're getting.

When it comes to the car, you might engage in extensive problem solving but, again, only be willing to consider a certain brand or brands. For example, in the 1970s, American-made cars had such a poor reputation for quality that buyers joked that a car that's “not Jap [Japanese made] is crap.” The quality of American cars is very good today, but you get the picture. If it's a high-involvement product you're purchasing, a good brand name is probably going to be very important to you. That's why the manufacturers of products that are typically high-involvement decisions can't become complacent about the value of their brands.

FIGURE 3.8

Allstate's “You're in Good Hands” advertisements are designed to convince consumers that the insurance company won't let them down.



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limited problem solving

Purchasing decisions made based on consideration of some outside information.



Video Clip

1970s American Cars

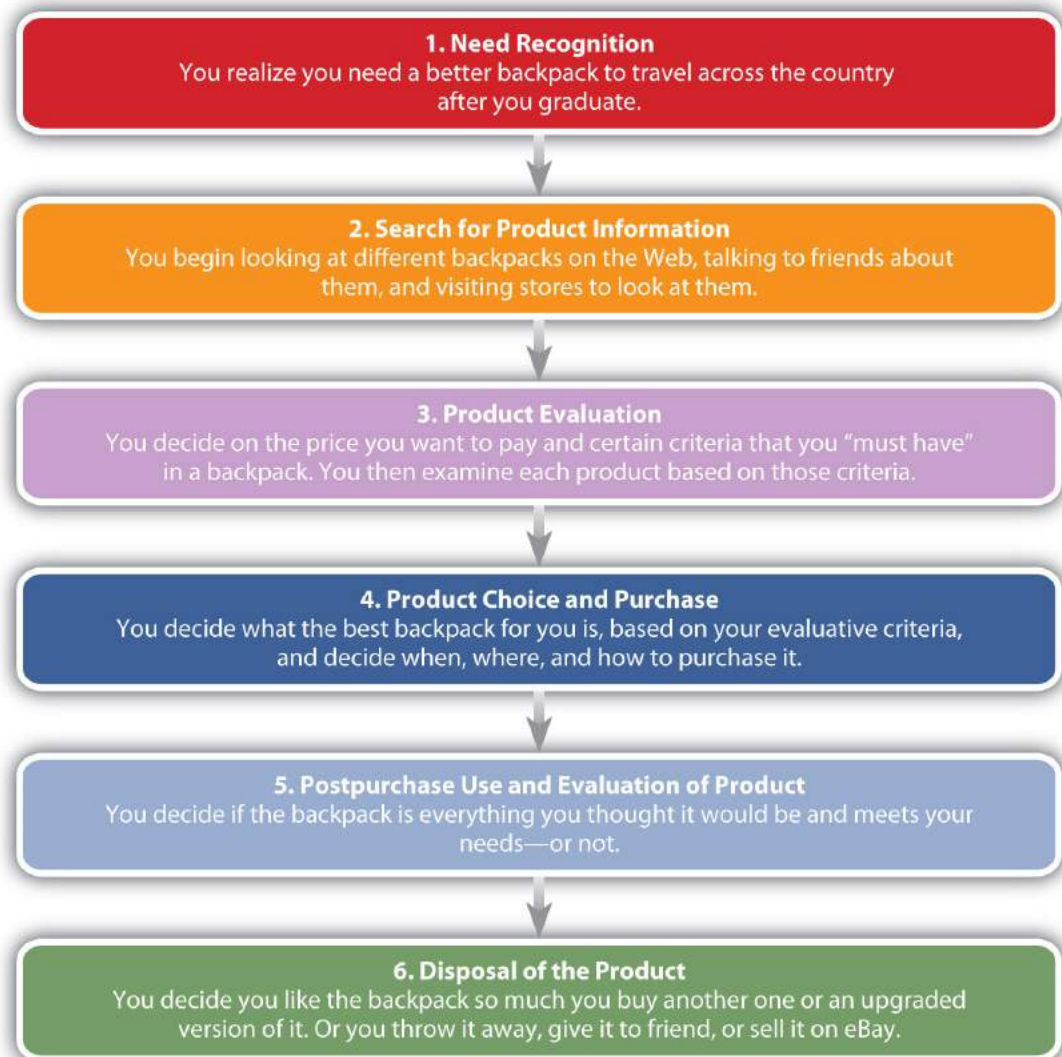
Today, Lexus is the automotive brand that experiences the most customer loyalty. For a humorous, tongue-in-cheek look at why the brand reputation of American carmakers suffered in the 1970s, check out this clip.



View the video online at: http://www.youtube.com/v/pjzpx_jUUA0

2.1 Stages in the Buying Process

Figure 3.9 outlines the buying stages consumers go through. At any given time, you're probably in a buying stage for a product or service. You're thinking about the different types of things you want or need to eventually buy, how you are going to find the best ones at the best price, and where and how will you buy them. Meanwhile, there are other products you have already purchased that you're evaluating. Some might be better than others. Will you discard them, and if so, how? Then what will you buy? Where does that process start?

FIGURE 3.9 Stages in the Consumer's Purchasing Process

Stage 1. Need Recognition

You plan to backpack around the country after you graduate and don't have a particularly good backpack. You realize that you must get a new backpack. You may also be thinking about the job you've accepted after graduation and know that you must get a vehicle to commute. Recognizing a need may involve something as simple as running out of bread or milk or realizing that you must get a new backpack or a car after you graduate. Marketers try to show consumers how their products and services add value and help satisfy needs and wants. Do you think it's a coincidence that Gatorade, Powerade, and other beverage makers locate their machines in gymnasiums so you see them after a long, tiring workout? Previews at movie theaters are another example. How many times have you heard about a movie and had no interest in it—until you saw the preview? Afterward, you felt like you *had* to see it.

Stage 2. Search for Information

For products such as milk and bread, you may simply recognize the need, go to the store, and buy more. However, if you are purchasing a car for the first time or need a particular type of backpack, you may need to get information on different alternatives. Maybe you have owned several backpacks and know what you like and don't like about them. Or there might be a particular brand that you've purchased in the past that you liked and want to purchase in the future. This is a great position for the company that owns the brand to be in—something firms strive for. Why? Because it often means you will limit your search and simply buy their brand again.

If what you already know about backpacks doesn't provide you with enough information, you'll probably continue to gather information from various sources. Frequently people ask friends, family, and neighbors about their experiences with products. Magazines such as *Consumer Reports* (considered

an objective source of information on many consumer products) or *Backpacker Magazine* might also help you. Similar information sources are available for learning about different makes and models of cars.

Internet shopping sites such as Amazon.com have become a common source of information about products. Epinions.com is an example of consumer-generated review site. The site offers product ratings, buying tips, and price information. Amazon.com also offers product reviews written by consumers. People prefer “independent” sources such as this when they are looking for product information. However, they also often consult non-neutral sources of information, such as advertisements, brochures, company Web sites, and salespeople.

Stage 3. Product Evaluation

Obviously, there are hundreds of different backpacks and cars available. It’s not possible for you to examine all of them. In fact, good salespeople and marketing professionals know that providing you with too many choices can be so overwhelming that you might not buy anything at all. Consequently, you may use choice heuristics or rules of thumb that provide mental shortcuts in the decision-making process. You may also develop evaluative criteria to help you narrow down your choices. Backpacks or cars that meet your initial criteria before the consideration will determine the set of brands you’ll consider for purchase.

Evaluative criteria are certain characteristics that are important to you such as the price of the backpack, the size, the number of compartments, and color. Some of these characteristics are more important than others. For example, the size of the backpack and the price might be more important to you than the color—unless, say, the color is hot pink and you hate pink. You must decide what criteria are most important and how well different alternatives meet the criteria.

Companies want to convince you that the evaluative criteria you are considering reflect the strengths of their products. For example, you might not have thought about the weight or durability of the backpack you want to buy. However, a backpack manufacturer such as Osprey might remind you through magazine ads, packaging information, and its Web site that you should pay attention to these features—features that happen to be key selling points of its backpacks. Automobile manufacturers may have similar models, so don’t be afraid to add criteria to help you evaluate cars in your consideration set.

Stage 4. Product Choice and Purchase

With low-involvement purchases, consumers may go from recognizing a need to purchasing the product. However, for backpacks and cars, you decide which one to purchase after you have evaluated different alternatives. In addition to which backpack or which car, you are probably also making other decisions at this stage, including where and how to purchase the backpack (or car) and on what terms. Maybe the backpack was cheaper at one store than another, but the salesperson there was rude. Or maybe you decide to order online because you’re too busy to go to the mall. Other decisions related to the purchase, particularly those related to big-ticket items, are made at this point. For example, if you’re buying a high-definition television, you might look for a store that will offer you credit or a warranty.

Stage 5. Postpurchase Use and Evaluation

At this point in the process you decide whether the backpack you purchased is everything it was cracked up to be. Hopefully it is. If it’s not, you’re likely to suffer what’s called **postpurchase dissonance**. You might call it *buyer’s remorse*. Typically, dissonance occurs when a product or service does not meet your expectations. Consumers are more likely to experience dissonance with products that are relatively expensive and that are purchased infrequently.

You want to feel good about your purchase, but you don’t. You begin to wonder whether you should have waited to get a better price, purchased something else, or gathered more information first. Consumers commonly feel this way, which is a problem for sellers. If you don’t feel good about what you’ve purchased from them, you might return the item and never purchase anything from them again. Or, worse yet, you might tell everyone you know how bad the product was.

Companies do various things to try to prevent buyer’s remorse. For smaller items, they might offer a money back guarantee or they might encourage their salespeople to tell you what a great purchase you made. How many times have you heard a salesperson say, “That outfit looks so great on you!” For larger items, companies might offer a warranty, along with instruction booklets, and a toll-free troubleshooting line to call or they might have a salesperson call you to see if you need help with product. Automobile companies may offer loaner cars when you bring your car in for service.

Companies may also try to set expectations in order to satisfy customers. Service companies such as restaurants do this frequently. Think about when the hostess tells you that your table will be ready in

evaluative criteria

Certain characteristics of products consumers consider when they are making buying decisions.

FIGURE 3.10

Osprey backpacks are known for their durability. The company has a special design and quality control center, and Osprey’s salespeople annually take a “canyon testing” trip to see how well the company’s products perform.



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postpurchase dissonance

Situations that occur when experiences do not match expectations and consumers rethink their decisions after purchasing products and wonder if they made the best decision.

30 minutes. If they seat you in 15 minutes, you are much happier than if they told you that your table would be ready in 15 minutes, but it took 30 minutes to seat you. Similarly, if a store tells you that your pants will be altered in a week and they are ready in three days, you'll be much more satisfied than if they said your pants would be ready in three days, yet it took a week before they were ready.

Stage 6. Disposal of the Product

There was a time when neither manufacturers nor consumers thought much about how products got disposed of, so long as people bought them. But that's changed. How products are being disposed of is becoming extremely important to consumers and society in general. Computers and batteries, which leech chemicals into landfills, are a huge problem. Consumers don't want to degrade the environment if they don't have to, and companies are becoming more aware of this fact.

Take for example Crystal Light, a water-based beverage that's sold in grocery stores. You can buy it in a bottle. However, many people buy a concentrated form of it, put it in reusable pitchers or bottles, and add water. That way, they don't have to buy and dispose of plastic bottle after plastic bottle, damaging the environment in the process. Windex has done something similar with its window cleaner. Instead of buying new bottles of it all the time, you can purchase a concentrate and add water. You have probably noticed that most grocery stores now sell cloth bags consumers can reuse instead of continually using and discarding of new plastic or paper bags.

Other companies are less concerned about conservation than they are about **planned obsolescence**. Planned obsolescence is a deliberate effort by companies to make their products obsolete, or unusable, after a period of time. The goal is to improve a company's sales by reducing the amount of time between the repeat purchases consumers make of products. When a software developer introduces a new version of product, it is usually designed to be incompatible with older versions of it. For example, not all the formatting features are the same in Microsoft Word 2007 and 2010. Sometimes documents do not translate properly when opened in the newer version. Consequently, you will be more inclined to upgrade to the new version so you can open all Word documents you receive.

Products that are disposable are another way in which firms have managed to reduce the amount of time between purchases. Disposable lighters are an example. Do you know anyone today that owns a nondisposable lighter? Believe it or not, prior to the 1960s, scarcely anyone could have imagined using a cheap disposable lighter. There are many more disposable products today than there were in years past—including everything from bottled water and individually wrapped snacks to single-use eye drops and cell phones.

FIGURE 3.12

Disposable lighters came into vogue in the United States in the 1960s. You probably don't own a cool, nondisposable lighter like one of these, but you don't have to bother refilling it with lighter fluid either.



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FIGURE 3.11

The hike up to Mount Everest used to be pristine. Now it looks more like this. Who's responsible? Are consumers or companies responsible, or both?



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planned obsolescence

A deliberate effort by companies to make their products obsolete, or unusable, after a period of time.

KEY TAKEAWAYS

Consumer behavior looks at the many reasons why people buy things and later dispose of them. Consumers go through distinct buying phases when they purchase products: (1) realizing the need or wanting something, (2) searching for information about the item, (3) evaluating different products, (4) choosing a product and purchasing it, (5) using and evaluating the product after the purchase, and (6) disposing of the product. A consumer's level of involvement is how interested he or she is in buying and consuming a product. Low-involvement products are usually inexpensive and pose a low risk to the buyer if he or she makes a mistake by purchasing them. High-involvement products carry a high risk to the buyer if they fail, are complex, or have high price tags. Limited-involvement products fall somewhere in between.

REVIEW QUESTIONS

1. How do low-involvement decisions differ from high-involvement decisions in terms of relevance, price, frequency, and the risks their buyers face? Name some products in each category that you've recently purchased.
2. What stages do people go through in the buying process for high-involvement decisions? How do the stages vary for low-involvement decisions?
3. What is postpurchase dissonance and what can companies do to reduce it?

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3. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Why do people in different cultures buy different products? Discuss with your class the types of vehicles you have seen other countries. Why are they different, and how do they better meet buyers' needs in those countries? What types of cars do you think should be sold in the United States today?
2. What is your opinion of companies like Google that gather information about your browsing patterns? What advantages and drawbacks does this pose for consumers? If you were a business owner, what kinds of information would you gather on your customers and how would you use it?
3. Are there any areas in which you consider yourself an opinion leader? What are they? How are companies getting information about opinion leaders?
4. What purchasing decisions have you been able to influence in your family and why? Is marketing to children a good idea? If not, what if one of your competitors were successful in doing so? Would it change your opinion?
5. Name some products that have led to postpurchase dissonance on your part. Then categorize them as high- or low-involvement products.
6. Describe the decision process for impulse purchases at the retail level. Would they be classified as high- or low-involvement purchases?
7. How do you think the manufacturers of products sold through infomercials reduce postpurchase dissonance?
8. Explain the relationship between extensive, limited, and routine decision making relative to high- and low-involvement decisions. Identify examples of extensive, limited, and routine decision making based on your personal consumption behavior.
9. Why is understanding consumer behavior so important for companies? Think of examples where you do not think companies understood their consumers.

ACTIVITIES

1. Go to <http://www.ospreypacks.com> and enter the blog site. Does the blog make you more or less inclined to purchase an Osprey backpack?
2. Select three advertisements and describe the needs identified by Abraham Maslow that each ad addresses. Find an international version of an advertisement for one of the products. What differences do you detect in the international version of the ad?
3. Break up into groups and visit an ethnic part of your town that differs from your own ethnicity(ies). Walk around the neighborhood and its stores. What types of marketing and buying differences do you see? Write a report of your findings.
4. Using Maslow's hierarchy of needs, identify a list of popular advertising slogans that appeal to each of the five levels.
5. Identify how McDonald's targets both users (primarily children) and buyers (parents, grandparents, etc.). Provide specific examples of strategies used by the fast-food marketer to target both groups. Make it a point to incorporate Happy Meals and Mighty Kids Meals into your discussion.

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CHAPTER 4

Business Buying Behavior

In the last chapter, we talked about the buying behavior of consumers—people like you and me who buy products for our own personal use. However, many businesses don't offer their goods and services to individual consumers at all. Instead, their customers are other businesses, institutions, or government organizations. These are the business-to-business (B2B) markets we talked about in Chapter 1.

1. THE CHARACTERISTICS OF BUSINESS-TO-BUSINESS (B2B) MARKETS

LEARNING OBJECTIVES

1. Identify the ways in which business-to-business (B2B) markets differ from business-to-consumer (B2C) markets.
2. Explain why business buying is acutely affected by the behavior of consumers.

Business-to-business (B2B) markets differ from business-to-consumer (B2C) markets in many ways. For one, the number of products sold in business markets dwarfs the number sold in consumer markets. Suppose you buy a five-hundred-dollar computer from Dell. The sale amounts to a single transaction for you. But think of all the transactions Dell had to go through to sell you that one computer. Dell had to purchase many parts from many computer component makers. It also had to purchase equipment and facilities to assemble the computers, hire and pay employees, pay money to create and maintain its Web site and advertise, and buy insurance and accounting and financial services to keep its operations running smoothly. Many transactions had to happen before you could purchase your computer.

Each of those transactions needed a salesperson. Each of those companies have a marketing department. Thus, there are a lot more college marketing graduates going into B2B companies than in B2C, which is reason enough to spend some time studying the subject. There are other differences, too.

Business products can be very complex. Some need to be custom built or retrofitted for buyers. The products include everything from high-dollar construction equipment to commercial real estate and buildings, military equipment, and billion-dollar cruise liners used in the tourism industry. A single customer can account for a huge amount of business. Some businesses, like those that supply the U.S. auto industry around Detroit, have just a handful of customers—General Motors, Chrysler, and/or Ford. Consequently, you can imagine why these suppliers become very worried when the automakers fall on hard times.

Not only can business products be complex, but so can figuring out the buying dynamics of organizations. Many people within an organization can be part of the buying process and have a say in ultimately what gets purchased, how much of it, and from whom. Having different people involved makes business marketing much more complicated. And because of the quantities each business customer is capable of buying, the stakes are high. For some organizations, losing a big account can be financially devastating and winning one can be a financial bonanza.

How high are the stakes? Table 4.1 shows a recent ranking of the top five corporations in the world in terms of the sales they generate annually. Believe it or not, these companies earn more in a year than all the businesses of some countries do. Imagine the windfall you could gain as a seller by landing an exclusive account with any one of them.

TABLE 4.1 Top Five Corporations Worldwide in Terms of Their Revenues

Company	Sales (Billions of Dollars)
Walmart Stores	422
Royal Dutch Shell	369
ExxonMobil	341
PetroChina	222
Chevron	189
Note: Numbers have been rounded to the nearest billion.	

Source: "The Global 2000," *Forbes*, April 8, 2011, http://www.forbes.com/lists/2011/18/global-09_The-Global-2000_Sales.html (accessed October 10, 2011).

Generally, the more high-dollar and complex the item being sold is, the longer it takes for the sale to be made. The sale of a new commercial jet to an airline company such as Southwest Airlines, Delta, or American Airlines can literally take years to be completed. Purchases such as these are risky for companies. The buyers are concerned about many factors, such as the safety, reliability, and efficiency of the planes. They also generally want the jets customized in some way. Consequently, a lot of time and effort is needed to close these deals.

Unlike many consumers, most business buyers demand that the products they buy meet strict standards. Take for example the Five Guys burger chain, based in Virginia. The company taste-tested eighteen different types of mayonnaise before settling on the one it uses. Would you be willing to taste eighteen different brands of mayonnaise before buying one? Probably not.^[1]

Another characteristic of B2B markets is the level of personal selling that goes on. Salespeople personally call on business customers to a far greater extent than they do consumers. Most of us have had door-to-door salespeople call on us occasionally. However, businesses often have multiple salespeople call on them in person daily, and some customers even provide office space for key vendors' salespeople. Table 4.2 outlines the main differences between B2C and B2B markets.

TABLE 4.2 Business-to-Consumer Markets versus Business-to-Business Markets: How They Compare

Consumer Market	Business Market
Many customers, geographically dispersed	Fewer customers, often geographically concentrated, with a small number accounting for most of the company's sales
Smaller total dollar amounts due to fewer transactions	Larger dollar amounts due to more transactions
Shorter decision cycles	Longer decision cycles
More reliance on mass marketing via advertising, Web sites, and retailing	More reliance on personal selling
Less-rigid product standards	More-rigid product standards

1.1 The Demand for B2B Products

Even though they don't sell their products to consumers like you and me, B2B sellers carefully watch general economic conditions to anticipate consumer buying patterns. The firms do so because the demand for business products is based on derived demand. **Derived demand** is demand that springs from, or is derived from, a source other than the primary buyer of a product. When it comes to B2B sales, that source is consumers. If consumers aren't demanding the products produced by businesses, the firms that supply products to these businesses are in big trouble.

Fluctuating demand is another characteristic of B2B markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it. Often, a bullwhip type of effect occurs. If you have ever held a whip, you know that a slight shake of the handle will result in a big snap of the whip at its tip. Essentially, consumers are the handle and businesses along the chain compose the whip—hence the need to keep tabs on end consumers. They are a powerful purchasing force.

For example, Cisco makes routers, which are specialized computers that enable computer networks to work. If Google uses five hundred routers and replaces 10 percent of them each year, that means Google usually buys fifty routers in a given year. What happens if consumer demand for the Internet falls by 10 percent? Then Google needs only 450 routers. Google's demand for Cisco's routers therefore becomes zero. Suppose the following year the demand for the Internet returns to normal. Google now needs to replace the fifty routers it didn't buy in the first year plus the fifty it needs to

derived demand

Demand that springs from, or is derived from, a secondary source other than the primary buyer of the product.

fluctuating demand

Demand that fluctuates sharply in response to a change in consumer demand.

replace in the second year. So in year two, Cisco's sales go from zero to a hundred, or twice normal. Thus Cisco experiences a bullwhip effect, whereas Google's sales vary only by 10 percent.

Because consumers are such a powerful force, some companies go so far as to try to influence their B2B sales by directly influencing consumers even though they don't sell their products to them. Intel is a classic case. Do you really care what sort of microprocessing chip gets built into your computer? Intel would like you to, which is why it has run a long series of commercials on TV to think about what chip is inside your computer. The following video clip shows how they've continued to promote "Intel Inside" even though their actual product has changed. The commercial isn't likely to persuade a computer manufacturer to buy Intel's chips. But the manufacturer might be persuaded to buy them if it's important to you. Derived demand is also the reason Intel demands that the buyers of its chips put a little "Intel Inside" sticker on each computer they make—so you get to know Intel and demand its products.



Video Clip

Intel Animations Over the Years

Does this commercial make you want to buy a computer with "Intel Inside"? Intel hopes so.



View the video online at: <http://www.youtube.com/v/VRcAdXd-TRU>

B2B buyers also keep tabs on consumers to look for patterns that could create joint demand. **Joint demand** occurs when the demand for one product increases the demand for another. For example, when a new video console like the Xbox comes out, it creates demand for a whole new crop of video games.

joint demand

When the demand for one product increases the demand for another.



Video Clip

The History of Pong

Watch this video to see the first video game ever invented, Pong, and learn about its maker. Of course, Pong got old pretty fast, so more games were quickly developed and continue to be, especially when new gaming systems hit the market.



View the video online at: <http://www.youtube.com/v/ShyRGWRcagY>

KEY TAKEAWAY

B2B markets differ from B2C markets in many ways. There are more transactions in B2B markets and more high-dollar transactions because business products are often costly and complex. There are also fewer buyers in B2B markets, but they spend much more than the typical consumer does and have more-rigid product standards. The demand for business products is based on derived demand. Derived demand is demand that springs from, or is derived from, a secondary source other than the primary buyer of a product. For businesses, this source is consumers. Fluctuating demand is another characteristic of B2B markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it.

REVIEW QUESTIONS

1. Why are there more transactions in B2B markets than B2C markets? Why are there fewer buyers?
2. Explain what derived demand is.
3. Why do firms experience a bullwhip effect in the demand for their products when consumers demand changes?

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2. TYPES OF B2B BUYERS

LEARNING OBJECTIVES

1. Describe the major categories of business buyers.
2. Explain why finding decision makers in business markets is challenging for sellers.

Business buyers can be either nonprofit or for-profit businesses. To help you get a better idea of the different types of business customers in B2B markets, we've put them into four basic categories: producers, resellers, governments, and institutions.

2.1 Producers

Producers are companies that purchase goods and services that they transform into other products. They include both manufacturers and service providers. Procter & Gamble, General Motors, McDonald's, Dell, and Delta Airlines are examples. So are the restaurants around your campus, your dentist, your doctor, and the local tattoo parlor. All these businesses have to buy certain products to produce the goods and services they create. General Motors needs steel and hundreds of thousands of other products to produce cars. McDonald's needs beef and potatoes. Delta Airlines needs fuel and planes. Your dentist needs drugs such as Novocain, oral tools, and X-ray machines. Your local tattoo parlor needs special inks and needles and a bright neon sign that flashes "open" in the middle of the night.

2.2 Resellers

Resellers are companies that sell goods and services produced by other firms without materially changing them. They include wholesalers, brokers, and retailers. Walmart and Target are two big retailers you are familiar with. Large wholesalers, brokers, and retailers have a great deal of market power. If you can get them to buy your products, your sales can exponentially increase.

Every day, retailers flock to Walmart's corporate headquarters in Bentonville, Arkansas, to try to hawk their products. But would it surprise you that not everybody wants to do business with a powerhouse like Walmart? Jim Wier, one-time CEO of the company that produces Snapper-brand mowers and snowblowers, actually took a trip to Walmart's headquarters to *stop* doing business with the company. Why? Snapper products are high-end, heavy-duty products. Wier knew that Walmart had been selling his company's products for lower and lower prices and wanted deeper and deeper discounts from Snapper. He believed Snapper products were too expensive for Walmart's customers and always would be, unless the company started making cheaper-quality products or outsourced their manufacturing overseas, which is something he didn't want to do.

"The whole visit to Wal-Mart's headquarters is a great experience," said Wier about his trip. "It's so crowded, you have to drive around, waiting for a parking space. You have to follow someone who is leaving, walking back to their car, and get their spot. Then you go inside this building, you register for your appointment, they give you a badge, and then you wait in the pews with the rest of the peddlers, the guy with the bras draped over his shoulder." Eventually, would-be suppliers were taken into small cubicles where they had thirty minutes to make their case. "It's a little like going to see the principal, really," he said.^[2]

2.3 Governments

Can you guess the biggest purchaser of goods and services in the world? It is the U.S. government. It purchases everything you can imagine, from paper and fax machines to tanks and weapons, buildings, toilets for NASA (the National Aeronautics and Space Administration), highway construction services, and medical and security services. State and local governments buy enormous amounts of products, too. They contract with companies that provide citizens with all kinds of services from transportation to garbage collection. (So do foreign governments, provinces, and localities, of course.) **Business-to-government (B2G) markets**, or when companies sell to local, state, and federal governments, represent a major selling opportunity, even for smaller sellers. In fact, many government entities specify that their agencies must award a certain amount of business to small businesses, minority- and women-owned businesses, and businesses owned by disabled veterans.

There is no one central department or place in which all these products are bought and sold. Companies that want to sell to the U.S. government should first register with the Central Contractor Registry at <http://www.CCR.gov>. They should then consult the General Services Administration (GSA) Web site (<http://www.gsa.gov>). The GSA helps more than two hundred federal agencies buy a wide variety of products purchased routinely. The products can include office supplies, information technology services, repair services, vehicles, and many other products purchased by agencies on a regular basis. Consequently, it is a good starting point. However, the GSA won't negotiate a contract for the NASA toilet or a fighter jet. It sticks to routine types of purchases.

FIGURE 4.1

Your local tattoo parlor is a producer.



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producers

Companies that purchase goods and services that they transform into other products.

resellers

Companies that sell goods and services produced by other firms without materially changing them.

business-to-government (B2G) markets

Markets in which local, state, and federal governments buy products.

FIGURE 4.2

The General Services Administration (GSA) is a good starting point for companies that want to do business with the federal government. The U.S. Small Business Administration (SBA) also offers sellers a great deal of information on marketing to the government, including online courses that explain how to do it.

The screenshot shows the GSA website's navigation and content. At the top, there are links for Home, Newsroom, Regions, Staff Directory, Careers, Forms, e-Tools, and QuickLinks. The main header includes the GSA logo and a search bar. Below the header, there are four main navigation tabs: WHAT GSA OFFERS, DOING BUSINESS WITH GSA, LEARN MORE, and BLOG. A breadcrumb trail reads: Home > Purchasing Programs > Getting Started > How to Sell to the Government > How to Sell to the Government.

The main content area is titled "How to Sell to the Government" and is divided into several sections:

- Getting Started:** A sidebar menu with options: Overview, How to Buy Through GSA, How to Sell to the Government (selected), Business Breakthrough, For Businesses Without GSA Contracts, How GSA Buys: Schedules and Contracts, Indefinite Delivery, Indefinite Quantity (IDIQ), and Opportunities for Small Businesses.
- Introduction:** A paragraph explaining GSA's role in connecting the private sector with federal agencies.
- Additional Services:** A paragraph about GSA's Public Buildings Service (PBS).
- Links:** Two links: "Find out more about products and services offered through FAS." and "Find out more about building-related opportunities."
- Finding Business Opportunities with FedBizOpps:** A section explaining that federal contractors and businesses interested in providing goods and services to the government must:
 1. Find available opportunities with the government relevant to their business.
 2. Make necessary preparations for bidding on a GSA contract.
 3. Submit an offer.
- Businesses should first visit Federal Business Opportunities, or FedBizOpps, and register there to be notified of newly posted opportunities in their industries.**
- Understanding How GSA Buys:** A section explaining that different kinds of contracts are used for different purposes. It includes a link: "Learn more about the Schedules and contracts used by GSA."
- Where current contracts do not meet evolving needs, GSA will seek new procurement vehicles.**
- Assistance for Small Businesses:** A section explaining that small businesses are the backbone of American commerce and that the federal government is mandated to provide an array of programs and services especially for small businesses. It includes a link: "Learn how to get started as a government contractor."
- OSBU's small business outreach activities include:**
 - Training
 - Counseling

Source: <http://www.gsa.gov/portal/content/105344>.

The existence of the GSA doesn't mean the agencies it works with don't have any say over what is purchased for them. The agencies themselves have a big say, so B2B sellers need to contact them and aggressively market their products to them. After all, agencies don't buy products, people do. Fortunately, every agency posts on the Internet a forecast of its budget, that is, what it is planning on spending money on in the coming months. The agencies even list the names, addresses, and e-mails of contact persons responsible for purchasing decisions. Many federal agencies are able to purchase as much as \$25,000 of products at a time by simply using a government credit card. This fact makes them a good target for small businesses.

It's not unusual for each agency or department to have its own procurement policies that must be followed. Would-be sellers are often asked to submit sealed bids that contain the details of what they are willing to provide the government and at what price. But contrary to popular belief, it's not always the lowest bid that's accepted. Would the United States want to send its soldiers to war in the cheapest planes and tanks, bearing the lowest-cost armor? Probably not. Like other buyers, government buyers look for the best value.

Yet selling to the government is not always easy. The GSA has its own red tape, as does each government division, and many purchases come with additional regulations or specifications written into the legislation that funded them. Because many purchases can be rather large, decision cycles can be very long and involve large buying centers. Some businesses avoid selling to the government because

the perceived hassle is too great to warrant the effort. Other businesses, though, realize that learning the ins and outs of government purchases can become a sustainable competitive advantage.

FIGURE 4.3

Politics can come into play when it comes to large government purchases: Although the F-22 is the most sophisticated fighter jet in the world, it has never been used in battle. But when the Pentagon wanted to stop production on seven of the jets so it could spend the money on other conventional weapons being used in the wars the United States is currently fighting, it had a fight on its hands from the members of Congress. They didn't want the companies in their states that helped produce the plane to lose business.



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2.4 Institutions

Institutional markets include nonprofit organizations such as the American Red Cross, churches, hospitals, charitable organizations, private colleges, civic clubs, and so on. Like government and for-profit organizations, they buy a huge quantity of products and services. Holding costs down is especially important to them. The lower their costs are, the more people they can provide their services to.

The businesses and products we have mentioned so far are broad generalizations to help you think about the various markets in which products can be sold. In addition, not all products a company buys are high dollar or complex. Businesses buy huge quantities of inexpensive products, too. McDonald's, for example, buys a lot of toilet paper, napkins, bags, employee uniforms, and so forth. Pretty much any product you and I use is probably used for one or more business purposes (cell phones and cell-phone services, various types of food products, office supplies, and so on). Some of us own real estate, and so do many businesses. But very few of us own many of the other products businesses sell to one another: cranes, raw materials such as steel, fiber-optic cables, and so forth.

That said, a smart B2B marketer will look at all the markets we have mentioned to see if they represent potential opportunities. The Red Cross will have no use for a fighter jet, of course. However, a company that manufactures toilet paper might be able to market it to both the Red Cross and the U.S. government. B2B opportunities abroad and online B2B markets can also be successfully pursued. We will discuss these topics later in the chapter.

institutional markets

Nonprofit organizations such as the American Red Cross, churches, hospitals, charitable organizations, private colleges, and civic clubs.

2.5 Who Makes the Purchasing Decisions in Business Markets?

Figuring out who exactly in B2B markets is responsible for what gets purchased and when often requires some detective work for marketing professionals and the salespeople they work with. Think about the college textbooks you buy. Who decides which ones ultimately are purchased by the students at your school? Do publishers send you e-mails about certain books they want you to buy? Do you see ads for different types of chemistry or marketing books in your school newspaper or on TV? Generally, you do not. The reason is that even though you buy the books, the publishers know that professors ultimately decide which textbooks are going to be used in the classroom. Consequently, B2B sellers largely concentrate their efforts on those people.

FIGURE 4.4

Who ya gonna call? Click on <http://blogs.bnet.com/salesmachine/?p=2308&page=1&tag=col1;post-2308> to play an online game that will help you understand why finding the right decision makers in a company is so tricky. Are you up to the challenge?



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That's not to say that to some extent the publishers don't target you. They may offer you a good deal by packaging a study guide with your textbook or some sort of learning supplement online you can purchase. They might also offer your bookstore manager a discount for buying a certain number of textbooks. However, a publishing company that focused on selling its textbooks directly to you or to a bookstore manager would go out of business. They know the true revenue generators are professors.

The question is, which professors? Some professors choose their own books. Adjunct professors often don't have a choice—their books are chosen by a course coordinator or the dean or chair of the department. Still other decisions are made by groups of professors, some of whom have more say over the final decision than others. Are you getting the picture? Figuring out where to start in B2B sales can be a little bit like a scavenger hunt.

KEY TAKEAWAY

Business buyers can be either nonprofit or for-profit businesses. There are four basic categories of business buyers: producers, resellers, governments, and institutions. Producers are companies that purchase goods and services that they transform into other products. They include both manufacturers and service providers. Resellers are companies that sell goods and services produced by other firms without materially changing them. They include wholesalers, brokers, and retailers. Local, state, and national governments purchase large quantities of goods and services. Institutional markets include nonprofit organizations such as the American Red Cross, churches, hospitals, charitable organizations, private colleges, civic clubs, and so on. Holding costs down is especially important to them because it enables them to provide their services to more people. Figuring out who exactly in B2B markets is responsible for what gets purchased and when often requires some detective work by marketing professionals and the salespeople they work with.

REVIEW QUESTIONS

1. What sorts of products do producers buy?
2. What role do resellers play in B2B markets, and why are they important to sellers?
3. How do sellers find government buyers? Institutional buyers?
4. Why is it difficult to figure out whom to call on in business markets?

We want to hear your feedback

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3. BUYING CENTERS

LEARNING OBJECTIVES

1. Explain what a buying center is.
2. Explain who the members of buying centers are and describe their roles.
3. Describe the duties of professional buyers.
4. Describe the personal and interpersonal dynamics that affect the decisions buying centers make.

The professors who form a committee at your school to choose textbooks are acting like a buying center. **Buying centers** are groups of people within organizations who make purchasing decisions. Large organizations often have permanent departments that consist of the people who, in a sense, shop for a living. They are professional buyers, in other words. Their titles vary. In some companies, they are simply referred to as *buyers*. In other companies, they are referred to as *purchasing agents*, *purchasing managers*, or *procurement officers*. Retailers often refer to their buyers as *merchandisers*. Most of the people who do these jobs have bachelor's of science degrees. Some undergo additional industry training to obtain an advanced purchasing certification designation.^[3]

Buyers can have a large impact on the expenses, sales, and profits of a company. Pier 1's purchasing agents literally comb the entire world looking for products the company's customers want most. What happens if the products the purchasing agents pick don't sell? Pier 1's sales fall, and people get fired. This doesn't happen in B2C markets. If you pick out the wrong comforter for your bed, you don't get fired. Your bedroom just looks crummy.

Consequently, professional buyers are shrewd. They have to be because their jobs depend on it. Their jobs depend on their choosing the best products at the best prices from the best vendors. Professional buyers are also well informed and less likely to buy a product on a whim than consumers. The following sidebar outlines the tasks professional buyers generally perform.

buying centers

Groups of people within organizations who make purchasing decisions.

The Duties of Professional Buyers

- Considering the availability of products, the reliability of the products' vendors, and the technical support they can provide
- Studying a company's sales records and inventory levels
- Identifying suppliers and obtaining bids from them
- Negotiating prices, delivery dates, and payment terms for goods and services
- Keeping abreast of changes in the supply and demand for goods and services their firms need
- Staying informed of the latest trends so as to anticipate consumer buying patterns
- Determining the media (TV, the Internet, newspapers, and so forth) in which advertisements will be placed
- Tracking advertisements in newspapers and other media to check competitors' sales activities

Increasingly, purchasing managers have become responsible for buying not only products but also functions their firms want to outsource. The functions aren't limited to manufacturing. They also include product innovation and design services, customer service and order fulfillment services, and information technology and networking services to name a few. Purchasing agents responsible for finding offshore providers of goods and services often take trips abroad to inspect the facilities of the providers and get a better sense of their capabilities.

3.1 Other Players

Purchasing agents don't make all the buying decisions in their companies, though. As we explained, other people in the organization often have a say, as well they should. Purchasing agents frequently need their feedback and help to buy the best products and choose the best vendors. The people who provide their firms' buyers with input generally fall into one or more of the following groups:

Initiators

Initiators are the people within the organization who first see the need for the product. But they don't stop there; whether they have the ability to make the final decision of what to buy or not, they get the ball rolling. Sometimes they initiate the purchase by simply notifying purchasing agents of what is needed; other times they have to lobby executives to consider making a change.

Users

Users are the people and groups within the organization that actually use the product. Frequently, one or more users serve as an initiator in an effort to improve what they produce or how they produce it, and they certainly have the responsibility for implementing what is purchased. Users often have certain specifications in mind for products and how they want them to perform. An example of a user might be a professor at your school who wants to adopt an electronic book and integrate it into his or her on-line course.

Influencers

Influencers are people who may or may not use the product but have experience or expertise that can help improve the buying decision. For example, an engineer may prefer a certain vendor's product platform and try to persuade others that it is the best choice.

Gatekeepers

If you want to sell a product to a large company like Walmart, you can't just walk in the door of its corporate headquarters and demand to see a purchasing agent. You will first have to get past of a number of **gatekeepers**, or people who will decide if and when you get access to members of the buying center. These are people such as buying assistants, personal assistants, and other individuals who have some say about which sellers are able to get a foot in the door.

initiators

People within the organization that first see the need for a product and, depending on their ability to make the final decision, either notify the purchasing agents of what is needed or lobby executives to consider making a change.

users

The people and groups within the organization that actually use the product.

influencers

People who may or may not use the product but actively participate in the purchasing process in order to secure a decision they consider favorable.

gatekeepers

People who decide if and when a salesperson gets access to members of the buying center.

Gatekeepers often need to be courted as hard as prospective buyers do. They generally have a lot of information about what's going on behind the scenes and a certain amount of informal power. If they like you, you're in a good position as a seller. If they don't, your job is going to be *much* harder. In the case of textbook sales, the gatekeepers are often faculty secretaries. They know in advance which instructors will be teaching which courses and the types of books they will need. It is not uncommon for faculty secretaries to screen the calls of textbook sales representatives.

Deciders

The **decider** is the person who makes the final purchasing decision. The decider might or might not be the purchasing manager. Purchasing managers are generally solely responsible for deciding upon routine purchases and small purchases. However, the decision to purchase a large, expensive product that will have a major impact on a company is likely to be made by or with the help of other people in the organization, perhaps even the CEO. The decision may be made by a single decider, or there may be a few who reach consensus. Further, deciders take into account the input of all of the other participants: the users, influencers, and so forth. Sellers, of course, pay special attention to what deciders want. "Who makes the buying decision?" is a key question B2B sales and marketing personnel are trained to quickly ask potential customers.

3.2 The Interpersonal and Personal Dynamics of B2B Marketing

We made it a point earlier in our discussion to explain how rational and calculating business buyers are. So would it surprise you to learn that sometimes the dynamics that surround B2B marketing don't lead to the best purchasing decisions? Interpersonal factors among the people making the buying decision often have an impact on the products chosen, good or bad. (You can think of this phenomenon as "office politics.") For example, one person in a buying unit might wield a lot of power and greatly influence the purchasing decision. However, other people in the unit might resent the power he or she wields and insist on a different offering, even if doesn't best meet the organization's needs. Savvy B2B marketers are aware of these dynamics and try their best to influence the outcome.

Personal factors play a part. B2B buyers are overwhelmed with choices, features, benefits, information, data, and metrics. They often have to interview dozens of potential vendors and ask them hundreds of questions. No matter how disciplined they are in their buying procedures, they will often find a way to simplify their decision making either consciously or subconsciously.^[4] For example, a buyer deciding upon multiple vendors running neck and neck might decide to simply choose the vendor whose sales representative he likes the most.

Factors such as these can be difficult for a company to control. However, branding—how successful a company is at marketing its brands—is a factor under a company's control, says Kevin Randall of Movéo Integrated Branding, an Illinois-based marketing-consulting firm. Sellers can use their brands to their advantage to help business buyers come to the conclusion that their products are the best choice. IBM, for example, has long had a strong brand name when it comes to business products. The company's reputation was so solid that for years the catchphrase "Nobody ever got fired for buying IBM" was often repeated among purchasing agents—and by IBM salespeople of course!^[5]

In short, B2B marketing is very strategic. Selling firms try to gather as much information about their customers as they can and use that information to their advantage. As an analogy, imagine if you were interested in asking out someone you had seen on campus. Sure, you could simply try to show up at a party or somewhere on campus in the hopes of meeting the person. But if you were thinking strategically, you might try to find out everything you could about the person, what he or she likes to do and so forth, and then try to arrange a meeting. That way when you did meet the person, you would be better able to strike up a conversation and develop a relationship with him or her. B2B selling is similarly strategic. Little is left to chance.

FIGURE 4.5

Warning: Do not be rude to or otherwise anger the faculty secretary. This is good advice for salespeople and students as well as faculty members.



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decider

The person who makes the final purchasing decision.

KEY TAKEAWAY

Buying centers are groups of people within organizations who make purchasing decisions. The buying centers of large organizations employ professional buyers who, in a sense, shop for a living. They don't make all the buying decisions in their companies, though. The other people who provide input are users, or the people and groups within the organization that actually use the product; influencers, or people who may or may not use the product but have experience or expertise that can help improve the buying decision; gatekeepers, or people who will decide if and when a seller gets access to members of the buying center; and deciders, or the people who make the final purchasing decision. Interpersonal dynamics between the people in a buying center will affect the choices the center makes. Personal factors, such as how likeable a seller is, play a part because buyers are often overwhelmed with information and will find ways to simplify their decision making.

REVIEW QUESTIONS

1. Which people do you think have the most influence on the decisions a buying center makes? Why?
2. Describe the duties of professional buyers. What aspects of their jobs seem attractive? Which aspects seem unattractive to you?
3. How do personal and interpersonal dynamics affect the decisions buying centers make?

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4. STAGES IN THE B2B BUYING PROCESS AND B2B BUYING SITUATIONS

LEARNING OBJECTIVES

1. Outline the stages in the B2B buying process.
2. Explain the scorecard process of evaluating proposals.
3. Describe the different types of B2B buying situations and how they affect sellers.

4.1 Stages in the B2B Buying Process

Next, let's look at the stages in the B2B buying process. They are similar to the stages in the consumer's buying process.

1. A need is recognized. Someone recognizes that the organization has a need that can be solved by purchasing a good or service. Users often drive this stage, although others can serve the role of initiator. In the case of the electronic textbook, it could be, for example, the professor assigned to teach the online course. However, it could be the dean or chairman of the department in which the course is taught.

2. The need is described and quantified. Next, the buying center, or group of people brought together to help make the buying decision, work to put some parameters around what needs to be purchased. In other words, they describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or must it be customized?

Users and influencers come into play here. In the case of our electronic book, the professor who teaches the online course, his teaching assistants, and the college's information technology staff would try to describe the type of book best suited for the course. Should the book be posted on the Web as this book is? Should it be downloadable? Maybe it should be compatible with Amazon's Kindle. Figure 4.6 shows the specifications developed for a janitorial-services purchase by the state of Kentucky.

FIGURE 4.6 An Example of Product Specifications Developed for a B2B Purchase

Who: Division of Building Services

What: Janitorial Services for State Office Building at High and Mero Streets, Frankfort, Kentucky

Background:

Past experience with various contractors indicates that not all vendors are prepared to handle buildings the size of the State Office Building. Building Services indicated that staff and materials supported by a quality review program have been the common elements of the more successful vendors.

- Gross area: 384,586 sq. ft
- Total area to be cleaned: 322,585 sq. ft
- Rest room areas: 7,801 sq. ft
- Carpeted areas: 126,304 sq. ft
- Basement areas: 22,734 sq. ft
- Computer areas: 1,104 sq. ft
- Stairways: 4 sets
- Passenger elevators: 6
- Freight elevators: 1

Specifications:

- Daily cleaning for waste baskets, ashtrays, trash can liners, glass partitions, floors (sweep, mop, and buff), carpets (vacuum), and restrooms
- All cleaning conducted after hours
- Sign-in sheets and identification on badges for contractor's employees
- Current insurance

DIVISION OF PURCHASES

Source: <http://www.state.ky.us/agencies/adm/leadership/best/sld047.htm>.

3. Potential suppliers are searched for. At this stage, the people involved in the buying process seek out information about the products they are looking for and the vendors that can supply them. Most buyers look online first to find vendors and products, then attend industry trade shows and conventions and telephone or e-mail the suppliers with whom they have relationships. The buyers might also consult trade magazines, the blogs of industry experts, and perhaps attend Webinars conducted by vendors or visit their facilities. Purchasing agents often play a key role when it comes to deciding which vendors are the most qualified. Are they reliable and financially stable? Will they be around in the future? Do they need to be located near the organization or can they be in another region of the country or in a foreign country? The vendors that don't make the cut are quickly eliminated from the running.

4. Qualified suppliers are asked to complete responses to requests for proposal (RFPs). Each vendor that makes the cut is sent a **request for proposal (RFP)**, which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product—its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.

Oftentimes the vendors formally present their products to the people involved in the buying decision. If the good is a physical product, the vendors generally provide the purchaser with samples, which are then inspected and sometimes tested. They might also ask satisfied customers to make testimonials or initiate a discussion with the buyer to help the buyer get comfortable with the product and offer advice on how best to go about using it.

5. The proposals are evaluated and supplier(s) selected. During this stage, the RFPs are reviewed and the vendor or vendors selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. The price might be very important to some sellers, such as discount and dollar stores. Other organizations might be more focused on top-of-the-line goods and the service a seller provides. Recall that the maker of Snapper mowers and snowblowers was more focused on purchasing quality materials to produce top-of-the-line equipment that could be sold at a premium. Still other factors include the availability of products and the reliability with which vendors can supply them. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services and cost the firm its customers and reputation.

request for proposal (RFP)

An invitation to submit a bid to supply the good or service.

For high-priced, complex products, after-sales service is likely to be important. A fast-food restaurant might not care too much about the after-sales service for the paper napkins it buys—just that they are inexpensive and readily available. However, if the restaurant purchases a new drive-thru ordering system, it wants to be assured that the seller will be on hand to repair the system if it breaks down and perhaps train its personnel to use the system.

A scorecard approach can help a company rate the RFPs. Figure 4.7 is a simple example of a scorecard completed by one member of a buying team. The scorecards completed by all the members of the buying team can then be tabulated to help determine the vendor with the highest rating.

FIGURE 4.7 A Scorecard Used to Evaluate RFPs

Reviewer: Jose Martinez		Vendor A		Vendor B		Vendor C	
Criteria	Weight	Score (scale of 1–3)	Points (score × weight)	Score (scale of 1–3)	Points (score × weight)	Score (scale of 1–3)	Points (score × weight)
Product Performance	3	1	3	3	9	2	6
Product Durability	3	3	9	2	6	3	9
Price	3	3	9	2	6	2	6
On-Time Delivery	3	3	9	2	6	2	6
Customer Service	3	2	6	2	6	2	6
Returns Policy	2	2	6	2	6	2	6
TOTAL SCORE			42		39		39

Selecting Single versus Multiple Suppliers. Sometimes organizations select a single supplier to provide the good or service. This can help streamline a company’s paperwork and other buying processes. With a single supplier, instead of negotiating two contracts and submitting two purchase orders to buy a particular offering, the company only has to do one of each. Plus, the more the company buys from one vendor, the bigger the volume discount it gets. Single sourcing can be risky, though, because it leaves a firm at the mercy of a sole supplier. What if the supplier doesn’t deliver the goods, goes out of business, or jacks up its prices? Many firms prefer to do business with more than one supplier to avoid problems such as these. Doing business with multiple suppliers keeps them on their toes. If they know their customers can easily switch their business over to another supplier, they are likely to compete harder to keep the business.

6. An order routine is established. This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, expected time of delivery, return policies, warranties, and any other terms of negotiation.^[6] The order can be made on paper, online, or sent electronically from the buyer’s computer system to the seller’s. It can also be a one-time order or consist of multiple orders that are made periodically as a company needs a good or service. Some buyers order products continuously by having their vendors electronically monitor their inventory for them and ship replacement items as the buyer needs them. (We’ll talk more about inventory management in Chapter 9.)

7. A postpurchase evaluation is conducted and the feedback provided to the vendor. Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it. Cessna Aircraft Company, a small U.S. airplane maker, routinely surveys the users of the products it buys so they can voice their opinions on a supplier’s performance.^[7]

Some buyers establish on-time performance, quality, customer satisfaction, and other measures for their vendors to meet, and provide those vendors with the information regularly, such as trend reports that show if their performance is improving, remaining the same, or worsening. (The process is similar to a performance evaluation you might receive as an employee.) For example, Food Lion shares a wide variety of daily retail data and performance calculations with its suppliers in exchange for their commitment to closely collaborate with the grocery-store chain.

Keep in mind that a supplier with a poor performance record might not be entirely to blame. The purchasing company might play a role, too. For example, if the U.S. Postal Service contracts with FedEx to help deliver its holiday packages on time, but a large number of the packages are delivered late, FedEx may or may not be to blame. Perhaps a large number of loads the U.S. Postal Service delivered to FedEx were late, weather played a role, or shipping volumes were unusually high. Companies need to collaborate with their suppliers to look for ways to improve their joint performance. Some

companies hold annual symposiums with their suppliers to facilitate cooperation among them and to honor their best suppliers.^[8]

4.2 Types of B2B Buying Situations

To some extent the stages an organization goes through and the number of people involved depend on the buying situation. Is this the first time the firm has purchased the product or the fiftieth? If it's the fiftieth time, the buyer is likely to skip the search and other phases and simply make a purchase. A **straight rebuy** is a situation in which a purchaser buys the same product in the same quantities from the same vendor. Nothing changes, in other words. Postpurchase evaluations are often skipped, unless the buyer notices an unexpected change in the offering such as a deterioration of its quality or delivery time.

Sellers like straight rebuys because the buyer doesn't consider any alternative products or search for new suppliers. The result is a steady, reliable stream of revenue for the seller. Consequently, the seller doesn't have to spend a lot of time on the account and can concentrate on capturing other business opportunities. Nonetheless, the seller cannot ignore the account. The seller still has to provide the buyer with top-notch, reliable service or the straight-rebuy situation could be jeopardized.

If an account is especially large and important, the seller might go so far as to station personnel at the customer's place of business to be sure the customer is happy and the straight-rebuy situation continues. IBM and the management consulting firm Accenture station employees all around the world at their customers' offices and facilities.

By contrast, a **new-buy** selling situation occurs when a firm purchases a product for the first time. Generally speaking, all the buying stages we described in the last section occur. New buys are the most time consuming for both the purchasing firm and the firms selling to them. If the product is complex, many vendors and products will be considered, and many RFPs will be solicited.

New-to-an-organization buying situations rarely occur. What is more likely is that a purchase is new to the people involved. For example, a school district owns buildings. But when a new high school needs to be built, there may not be anyone in management who has experience building a new school. That purchase situation is a new buy for those involved.

A **modified rebuy** occurs when a company wants to buy the same type of product it has in the past but make some modifications to it. Maybe the buyer wants different quantities, packaging, or delivery, or the product customized slightly differently. For example, your instructor might have initially adopted this textbook "as is" from its publisher, Flat World Knowledge, but then decided to customize it later with additional questions, problems, or content that he or she created or that was available from Flat World Knowledge.

A modified rebuy doesn't necessarily have to be made with the same seller, however. Your instructor may have taught this course before, using a different publisher's book. High textbook costs, lack of customization, and other factors may have led to dissatisfaction. In this case, she might visit with some other textbook suppliers and see what they have to offer. Some buyers routinely solicit bids from other sellers when they want to modify their purchases in order to get sellers to compete for their business. Likewise, savvy sellers look for ways to turn straight rebuys into modified buys so they can get a shot at the business. They do so by regularly visiting with customers and seeing if they have unmet needs or problems a modified product might solve.

straight rebuy

When a purchaser buys the same product in the same quantities from the same vendor.

new buy

When a firm purchases a product for the first time.

modified rebuy

When a company wants to buy the same type of product it has in the past but make some modifications to it.

KEY TAKEAWAY

The stages in the B2B buying process are as follows: Someone recognizes that the organization has a need that can be solved by purchasing a good or service. The need is described and quantified. Qualified suppliers are searched for, and each qualified supplier is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. The proposals suppliers submit are evaluated, one or more supplier(s) selected, and an order routine with each is established. A postpurchase evaluation is later conducted and the feedback provided to the suppliers. The buying stages an organization goes through often depend on the buying situation—whether it's a straight rebuy, new buy, or modified rebuy.

REVIEW QUESTIONS

1. What buying stages do buying centers typically go through?
2. Why should business buyers collaborate with the companies they buy products from?
3. Explain how a straight rebuy, new buy, and modified rebuy differ from one another.

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5. INTERNATIONAL B2B MARKETS AND E-COMMERCE

LEARNING OBJECTIVES

1. Describe the reasons why firms in the same industries are often located in the same geographic areas.
2. Explain the effect e-commerce is having on the firms, the companies they do business with, where they are located, and the prices they charge.
3. Outline the different types of e-commerce sites and what each type of site is used for.

5.1 International B2B Markets

Another characteristic of B2B markets that you may or may not have noticed or thought about is that firms in the same industry tend to cluster in the same geographic areas. In the United States, many banks and financial companies are located on or near Wall Street in New York City. Many film and television companies operate out of Hollywood. Is it just by chance that this has occurred? No.

The clustering occurs because the resources these firms need—both human and natural—are located in some areas and not others. For example, the Gulf of Mexico is rich with oil deposits. As a result, many oil companies and facilities are located along or near the Gulf in cities such as Houston. Likewise, many high-tech companies are located in Silicon Valley (California). One reason is that nearby Stanford University is one of the top computer-science schools in the country and the firms want to hire graduates from the school.

But that's not the only reason businesses in the same industry cluster together. Another reason is the sellers want to be close to their buyers. Bentonville, Arkansas, the world headquarters of Walmart, used to be a sleepy little rural town. As Walmart grew, so have the number of companies moving into the area to do business with Walmart. In the last twenty years, the size of the town has nearly tripled.

Why do companies want to be near their buyers? Let's go back to our date analogy. Suppose you hit it off with the person you're interested in and you become "an item." You probably wouldn't want to be half the world away from the person for a long period of time because you would miss the person and because you wouldn't want a rival moving in on your turf! The same is true for sellers. Buyers also want to be close to their suppliers because it can help them get inventory more quickly. Dell's suppliers are located right next to the company's assembly plants. And, as you have learned, some companies actually locate their personnel on their customers' sites.

5.2 B2B E-Commerce

Not all B2B buyers and sellers are cozying up to one another location-wise today, though: **e-commerce**, or commerce conducted electronically, such as over the Internet, has made locating near buyers less important. Consider the Hubert Company, a Cincinnati-based firm that sells supplies to the food industry. "Just ten years ago the Internet didn't exist for the Hubert Company, and today almost 30 percent of our business comes through the Internet as an ordering mechanism," says Bart Kohler, president of the company.^[9] However, the Hubert Company can no longer protect the market in and around Cincinnati just because it's headquartered there. "Whereas in the past, I was somewhat insulated to just people in my area, now there really are no geographic boundaries anymore, and anyone can compete with me anywhere," Kohler explains. The advantage is that whereas the United States is a mature market in which growth is limited, other countries, like Brazil, India, and China, are growing like crazy and represent huge e-commerce opportunities for the Hubert Company, he says.

FIGURE 4.8

Bollywood, which refers to the film industry in India, has become one of the largest film centers in the world. It's growing faster than Hollywood and is beginning to rival its size.



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e-commerce

Commerce conducted electronically, such as over the Internet.

FIGURE 4.9

The Hubert Company sells to companies all over the globe, including the U.S. government. Notice the GSA link in the upper right-hand corner of its Web page.

The screenshot shows the Hubert USA website interface. At the top, there is a navigation bar with links for HOME, MY ACCOUNT, QUICK ORDER FORM, SPECIALS, NEW PRODUCTS, HUBERT BRAND, REQUEST CATALOG, ORDER STATUS, and GSA. A search bar is located on the left, and a shopping cart icon indicates 0 items for \$ 0.00. A login/register section is on the right. The main content area features a banner for 'HUBERT Brand Products - Commercial Quality At A Value Price' with images of various kitchen items like a toaster, bowls, and trays. Below the banner is a 'Five Elements of Merchandising' section with images of colored bowls, a curved metal sign holder, and decorative florals. The bottom section is titled 'HUBERT Departments' and lists various product categories such as Apparel, Case Merchandising, Décor, Cases & Fixtures, Facility Management, Food & Beverage, Kitchen & Baking, Packaging, Product Signage, and Kitchen Equipment.

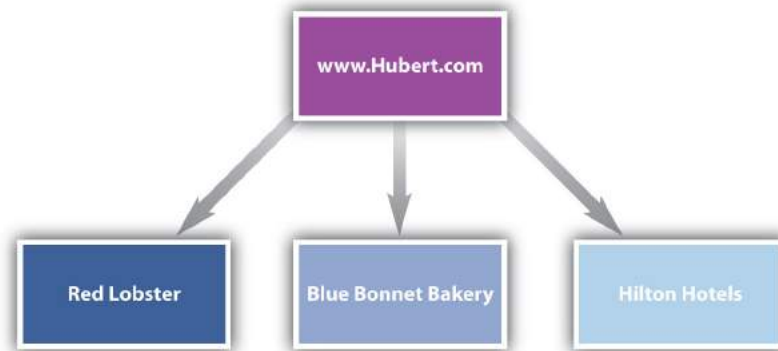
Source: <http://www.hubert.com>.

B2B e-commerce was actually a little slower to take hold than B2C e-commerce, though. Initially, the Web sites of many B2B firms were static. There was no interactivity. “We put our first Web site up in 1998, and it really didn’t do anything,” Kohler explains. “All it did was it had the picture of the company. I think it had a picture of me holding a catalog with a toll-free number at the bottom, and said, ‘Hey, call this number and we’ll send you a catalog.’”

Things have changed. Companies have since developed sophisticated e-commerce systems that allow their customers to do many things for themselves. As a result, they have been able to cut down on the amount of customer service they need to provide. Does your business want to ship your products cheaply across the country via rail? You can sign up online for an account with a railroad like Union Pacific (UP), reserve some rail cars on UP’s site, and choose the route you want them to travel. Later, after you ship the goods, you can check your account balance on the Web site and track the rail cars online like when packages are shipped with FedEx and UPS. The office supply chain Staples has special Web sites set up for each of its business customers, which are customized with online catalogs containing the types of products they buy at the prices they seem to be willing to pay, based on their past purchases on StaplesLink.com.^[10] Today’s B2B sites are far from static.

Types of B2B Web Sites

FIGURE 4.10 An Example of a Sell-Side B2B Web site



sell-side site

A Web site in which a single seller sells products to many different buyers.

buy-side site

A Web site in which a business buys products from multiple sellers that go there to do business with the firm.

B2B exchanges

E-commerce Web sites where multiple buyers and sellers go to find and do business with one another.

Most of the examples we've described so far are examples of *sell-side* e-commerce sites. A **sell-side site** is a site in which a single seller sells products to many different buyers. Figure 4.10 shows the direction of the sale of goods and services sold on a sell-side site, such as the Hubert Company has.

But there are buy-side e-commerce sites as well. A **buy-side site** is one in which a business *buys* products from multiple sellers that go there to do business with the firm. Some government agencies have buy-side sites. **B2B exchanges** are e-commerce sites where multiple buyers and sellers go to find and do business with one another. (You can think of the exchanges as being somewhat like Craigslist but composed solely of business buyers and sellers.) Sites such as these make their money by charging buyers and sellers a fee when they conduct transactions with one another. In the late 1990s and early 2000s, B2B exchanges sprouted up on the Internet like weeds. Cyber entrepreneurs took a “build it and they will come” attitude, hoping to earn a fee off the transactions conducted on site. Many of these sites have failed, but not all of them. One of the most successful and largest exchanges is Alibaba.com, founded in 1999 as a trading platform for small and medium manufacturers to sell their wares.^[11] ChemNet.com is a global exchange where companies go to buy and sell chemicals of all kinds. The homepage for ChemNet is shown in Figure 4.11. (Ammonium, sodium, or potassium, anyone?)

FIGURE 4.11

Need chemicals? You can find them on the B2B exchange Web site ChemNet.

Source: <http://www.chemnet.com>.

B2B auctions are Web-based auctions that occur between businesses. The auctions can be either sell side or buy side. An example of a sell-side auction is a B2B auction that occurs on eBay or a site like AssetAuctions.com where surplus industrial equipment is sold. Motorola regularly sells small quantities of products at the end of their life cycles on eBay. Motorola has found that eBay is a good way to make some money from products that businesses are reluctant to buy otherwise because they are being discontinued.^[12] Sell-side auctions are sometimes referred to as forward auctions.

Buy-side auctions, by contrast, reverse the traditional auction formula, which is to help the seller get the highest price for the product. Instead, the buyer initiates the auction in order to find the cheapest supplier of a product. Sellers then bid against one another, offering the lowest prices they can for their products, in order to get the buyer's business. Because the roles of the buyers and sellers are reversed in buy-side auctions, they are often referred to as **reverse auctions**.

Not all companies use an intermediary like eBay or AssetAuctions to conduct their auctions, though. Some companies conduct their own auctions on their Web sites so they don't have to pay a fee to an intermediary. For example, General Motors auctions off reconditioned vehicles to auto dealers on its own Web site, <http://www.gmonlineauctions.com>.

Pricing in E-commerce Markets

One of the consequences of e-commerce is that B2B customers can easily shop around from the convenience of their cubicles or offices, bid on products, and read blogs about products from industry experts. That's what buyers generally do before they get on the phone or personally meet with sellers. E-commerce has made it especially easy for buyers to compare prices. And the cheapest price often attracts the most attention.

The result is that B2B sellers (and B2C sellers) have found their ability to raise prices is limited. The problem is more acute when products are very similar to one another (commodities) and B2B auctions and exchanges are utilized. If you are a buyer of chemicals looking for a supplier on ChemNet, do you want to pay more for one brand of a chemical that has the same molecular formula as every other brand? Maybe not. However, if you believe you can get better service from one company than from another, you might pay more. "Everything has become much more of a commodity, commodity meaning that it's basically more and more about price," says Kohler about e-commerce competition. "So my challenge as a distributor is that I have got to constantly find new ways to try to create value for

B2B auctions

Web-based auctions that occur between businesses.

reverse auction

When the buyer lists what he or she wants to buy and also states how much he or she is willing to pay. The reverse auction is finished when at least one firm is willing to accept the buyer's price.

Hubert’s customers.” When he is able to find a new way to create value, the decision becomes less about price and he can compete more effectively.

To avoid e-commerce price wars, some companies refuse to sell their products directly online or put prices on them. Snapper products are an example. Go to Snapper.com, and you will find a lot of information about Snapper mowers and snowblowers online and dealers where you can buy them. But you won’t see any prices listed. Nor can you buy a product directly from the Web site.

KEY TAKEAWAY

Firms in the same industry tend to cluster in the same geographic areas because the resources these firms need—both human and natural—are located in some areas and not others. Sellers also want to be close to their buyers. E-commerce, or commerce conducted electronically such as over the Internet, has made locating near buyers less important for business-to-business sellers and opened up opportunities for them to sell their products around the world. However, e-commerce has also led to more competition and made it difficult for sellers to raise their prices. B2B e-commerce was slower to take hold than B2C e-commerce. Companies have since developed sophisticated e-commerce systems, including sell-side and buy-side Web sites, exchanges, and B2B auctions.

REVIEW QUESTIONS

1. Name some other industries you’re aware of in which companies tend to cluster geographically. Why are the companies in these industries located near one another?
2. How do B2B exchange sites differ from B2B auction sites?
3. How can firms that sell their products on the Internet prevent their prices from being driven down by competitors?

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6. ETHICS IN B2B MARKETS

LEARNING OBJECTIVES

1. Explain how the ethical dilemmas B2B marketers face differ from the ethical dilemmas B2C marketers face.
2. Outline the measures companies take to encourage their employees and executives to act in ethical ways.

It’s likely that every topic we have talked about so far in this chapter has an ethical dimension to it. Take procurement, for example: unlike B2C markets, offering customers free dinners, golf games, and so forth is very common in B2B settings. In many foreign countries, business and government buyers not only expect perks such as these but also actually demand bribes be paid if you want to do business with them. And firms pay them, even though some countries prohibit them. (The United States is one such country.) Which countries have a penchant for bribery? In a report called the “Bribe Payers Index,” Transparency International, a watchdog organization, annually ranks the likelihood of firms from the world’s industrialized countries to bribe abroad. The top five countries are shown in Table 4.3.

TABLE 4.3 Transparency International's Bribe Payers Index

1. Russia
2. China
3. Mexico
4. India
5. Italy

Source: "Emerging economic giants show high levels of corporate bribery overseas," *Transparency.org*, London and Berlin, 2008.
http://www.transparency.org/whatwedo/pub/bribe_payers_index_2008 (accessed December 7, 2009).

Or take, for example, the straight-rebuy situation we discussed earlier. Recall that in a straight rebuy, buyers repurchase products automatically. Recently, Dean Foods, which manufactures the Silk brand of soy milk, experienced a lot of negative press after the company changed the word "organic" to "natural" on the labels of its milk, and quietly switched to conventional soybeans, which are often grown with pesticides. But Dean didn't change the barcode for the product, the packaging of the product, or the price much. So stores kept ordering what they thought was the same product—making a straight rebuy—but it wasn't. Many stores and consumers felt as though they had been duped. Some grocers dropped the entire Silk lineup of products.^[13]

And remember Intel's strategy to increase the demand for its chips by insisting that PC makers use "Intel Inside" stickers? Recently Intel paid a competitor more than a billion dollars to settle a court case contending that it strong-armed PC makers into doing business exclusively with Intel. (Does that make you feel less warm and fuzzy about the "Intel Inside" campaign?)

What Dean Foods and Intel did might strike you as being wrong. However, what is ethical and what is not is often not clear-cut. Walmart has a reputation for using its market power to squeeze its suppliers for the best deals possible, in some cases putting them out of business. Is that ethical? What about companies that hire suppliers abroad, putting U.S. companies and workers out of business? Is that wrong? It depends on whom you ask. Some economists believe Walmart's ability to keep costs low has benefited consumers far more than it has hurt the suppliers of products. Is it fair to prohibit U.S. companies from offering bribes when their foreign competitors can?

Clearly, people have very different ideas about what's ethical and what's not. So how does a business get all of its employees on the same page in terms of how they behave? Laws and regulations—state, federal, and international—are an obvious starting point for companies, their executives, and employees wanting to do the right thing. The U.S. Federal Trade Commission (FTC) often plays a role when it comes to B2B laws and regulations. The FTC regulates companies in an effort to prevent them from engaging in unfair trade practices that can harm consumers and hamper competition.

Further, companies that sell to the government must, by law, follow very strict ethical guidelines. These companies tend to make such guidelines their policy because it is easier to make sure that the federal regulations are followed all of the time than only when selling to the government.

Companies are also adopting ethics codes that provide general guidelines about how their employees should behave. Many firms require employees to go through ethics training so they know what to do when they face tricky ethical dilemmas. Large corporations have begun hiring "chief ethics officers" to ensure ethics are properly implemented within their organizations. The Business Marketing Association has also developed a code of ethics that discourages bribery and other practices, such as disparaging a competitor's products unfairly, and encourages treating one's suppliers equitably.

FIGURE 4.12

Click on the following link to read the Business Marketing Association's entire code of ethics:

<http://www.marketing.org/14a/pages/Index.cfm?pageID=3286>.



As for Walmart, you can't fault the company's procurement practices. Walmart's purchasing agents aren't allowed to accept a lunch, dinner, golf game, or so much as a cup of coffee from potential vendors. Walmart is not the only company to have implemented such a policy. More and more firms have followed suit because (1) they realize that perks such as these drive up product costs and (2) they don't want their buyers making decisions based on what they personally can get out of them rather than what's best for the company.

All things equal, companies want to do business with firms that are responsible. They don't want to be associated with firms that are not. Why is this important? Because that's what consumers are increasingly demanding. A few years ago, Nike and a number of other apparel makers were lambasted when it came to light that the factories they contracted with were using child labor and keeping workers toiling for long hours under terrible conditions. Nike didn't own the factories, but it still got a bad rap. Today, Nike, Inc., uses a "balanced scorecard." When evaluating suppliers, it looks at their labor-code compliance along with measures such as price, quality, and delivery time. During crunch times, it allows some Chinese factories latitude by, for example, permitting them to adjust when employees can take days off.^[14]

Similarly, Walmart has developed a scorecard to rate its suppliers on how their packaging of products affects the environment.^[15] Walmart does so because its customers are becoming more conscious of environmental damage and see value in products that are produced in as environmentally friendly a way as possible.

KEY TAKEAWAY

Ethics come into play in almost all business settings. Business-to-business markets are no different. For example, unlike B2C markets, offering customers perks is very common in B2B settings. In many foreign countries, government buyers demand bribes be paid if a company wants to do business with them. Understanding the laws and regulations that apply to their firms is an obvious starting point for companies, their executives, and employees in terms of knowing how to act ethically. Companies are also adopting ethics codes that provide general guidelines about how their employees should behave, requiring their employees to go through ethics training, and hiring chief ethics officers. Companies want to do business with firms that are responsible. They don't want to be associated with firms that are not. Why? Because they know ethics are important to consumers and that they are increasingly demanding firms behave responsibly.

REVIEW QUESTIONS

1. Name some of the types of ethical dilemmas facing firms in B2B markets.
2. Why is it difficult for employees and firms to know what's considered to be ethical behavior and what is not?

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7. DISCUSSION QUESTIONS AND ACTIVITIES

DISCUSSION QUESTIONS

1. Assume your company makes shop towels, hand-washing stations, and similar products. Make a list of all the companies that could be potential customers of your firm. Then identify all the markets from which their demand is derived. (Who are their customers and their customers' customers?) What factors might influence the success or failure of your business in these markets?
2. How might a buying center be different for a company that is considering building a new plant versus choosing a new copier?
3. Imagine you are a salesperson for a company that sells maintenance items used in keeping a manufacturing plant running. There is a large plant in your territory that buys 60 percent of its products from one competitor and the other 40 percent from another competitor. What could you do to try to make a sale in that plant if they have never purchased from you before? How would your answer change if you were the 40 percent vendor and wanted to increase your share of the buyer's business? Would your answer change if you were the other vendor? Why or why not?
4. When your family makes a major purchase, such as choosing a vacation destination or buying furniture, does it resemble a buying center? If so, who plays what roles?
5. Katie is a forklift operator who is tired of her forklift breaking down. She points out to her boss, the plant supervisor, that her forklift is broken down at least 20 percent of the time, and it is beginning to impact production. The plant supervisor tells the purchasing agent that a new forklift is needed and asks the purchasing agent to get three bids on new ones with similar features. The purchasing agent calls three companies and gets bids, which the plant supervisor uses to narrow it down to two. He then has Katie test drive the two and since she liked the Yamamatsu best, he decides to purchase that one. What roles do the supervisor and Katie play in this firm's buying center? Does the process followed resemble the process outlined in the chapter? If not, why not?
6. Someone who works in a company is also a consumer at home. You have already learned about how consumers buy. How does what you already know about how consumers buy relate to what you would expect those same people to do at work when making a purchase?
7. A major office equipment manufacturer and an airline once teamed up to offer a special deal: Buy a copier/printer and get a free round-trip ticket anywhere in the United States where the airline flies. The promotion didn't last long—buyers complained it was unethical. What about it was unethical? Who was really doing the complaining?
8. Congratulations, you just made a sale! For the first time in five years, the Humongo Corporation purchased from your company. How do you turn this into a straight rebuy? What product characteristics might make this goal easier to accomplish? What buyer characteristics might make it more difficult to accomplish?
9. Consider a company where marketing and sales are two different departments. Their customers are other businesses. Using both the buying center and buying process, describe what the marketing department actually does. What do salespeople actually do?

ACTIVITIES

1. Interview someone you know who makes purchasing decisions as part of the job. The person may or may not be a professional purchasing agent as long as business purchasing decisions are a fairly regular part of his or her position. What are the key principles to making good purchasing decisions at work? How do those principles influence people's purchases for their own personal consumption?
2. Locate three different types of Web sites that cater to markets discussed in this chapter. How do these differ from sites like eBay or Overstock.com? How are they similar? B2C models like Groupon and LivingSocial are being adopted by B2B companies. Examples include Bizy Deal; take a look at their site and identify the types of offerings that seem prevalent. What characteristics of the product or service would make such a model right for a B2B company?
3. Go to <http://www.ism.ws/>. What is the purpose of this site and the organization that created it? How does the ISM help its members with ethical dilemmas? Be specific, with specific examples from the site.
4. Many B2B marketers use NAICS to segment their market. Go to <http://www.census.gov/epcd/www/naics.html>. Click on the FAQs link to answer these questions. What is NAICS and how is it used? How does NAICS handle market-based rather than production-based statistical classifications, and why is that distinction important?

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