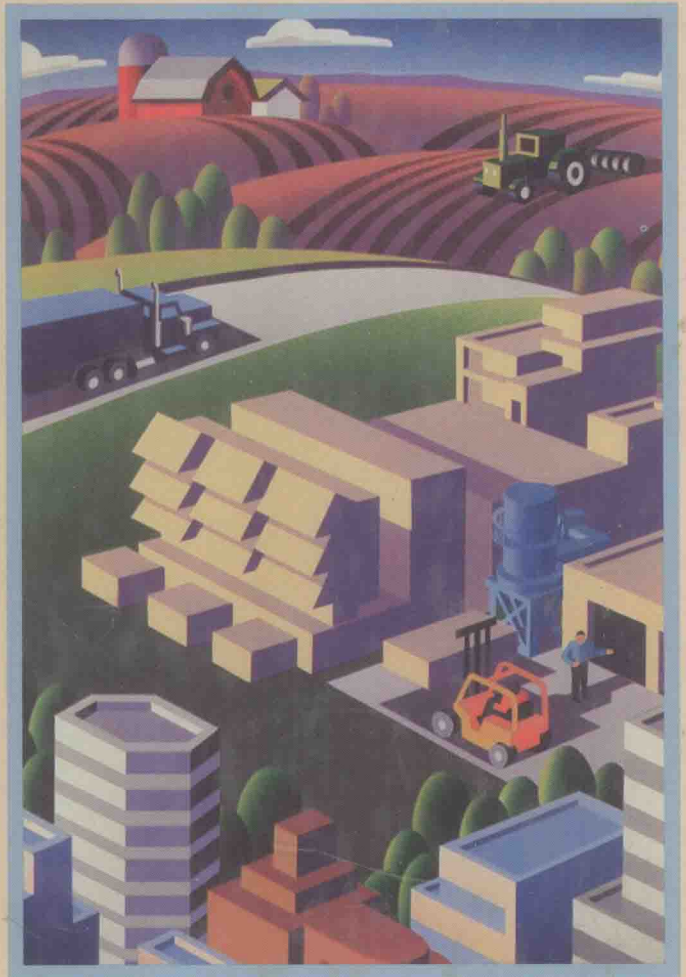




# BUSINESS MARKETING MANAGEMENT

*An Organizational Approach*



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Robert W. Haas

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FIFTH EDITION

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# BUSINESS MARKETING MANAGEMENT

An Organizational Approach

TEXT AND CASES

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**Robert W. Haas, Ph.D.**

San Diego State University



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# Preface

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Now in its fifth edition, this text was first published in 1976. The title of this edition has been changed from *Industrial Marketing Management* to *Business Marketing Management* to better reflect the more contemporary nature of marketing to organizations. In many circles today, the term *business marketing* has supplanted the term *industrial marketing*. The change in title reflects that movement.

This edition involves more than a change in title, however. Although the basic format of the previous editions is maintained, significant changes have been added. There is a greatly expanded coverage of the environment in which business marketing takes place. In addition, a separate chapter (Chapter 5) on purchasing has been added to develop a better understanding of the importance of this activity, and a new Chapter 7 covers strategic alliances, partnerships, and networks that are becoming critically important in contemporary business marketing. Expanded coverage of service marketing has been added to Chapter 12, and Chapter 17 now includes coverage of pricing in JIT (Just-in-Time) situations. There are 25 cases at the end of the text (Part Six), 10 of which are new to this edition. Finally, although this text concentrates primarily on U.S. business marketing, global implications are greatly expanded. Collectively these changes have the effect of updating the text and bringing it more in line with current happenings in business marketing.

The basic philosophy of previous editions remains unchanged. Primary emphasis is moving from marketing principles courses to business marketing courses.

I wish to thank all those who contributed to the writing of this edition. Particular thanks go to Professor Wesley Johnston of Georgia State University whose insight and advice helped to define the new directions taken in this edition. Professor Johnston made significant contributions to the new chapters covering the environment, purchasing, and strategic alliances. I also wish to spe-

cially thank Professors W. E. Patton III and Ronald King of Appalachian State University and Professor Hubert D. Hennessey of Babson College for their excellent cases that have added greatly to this edition. Special thanks are also extended to all of the authors who contributed cases included in this edition. Finally, thanks are given to those who reviewed this text. I feel fortunate to have had such qualified and constructive reviewers as Vaughan Judd of Auburn University, Jakki Mohr of the University of Colorado, and Marti Rhea of the University of North Texas.

My sincerest hope is that this new edition will continue to help further the study of business marketing and contribute to a better understanding of this vital area of the overall marketing discipline.

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The Business Marketing System

Influences on the Business Marketing System

The Global Nature of Business Marketing

Demand Estimation and Sales Forecasting in Business Markets

Purchasing and Materials Management

Organizational Buying Behavior

Strategic Alliances and Partnering Relationships in Business Marketing

The Standard Industrial Classification (SIC) System

Segmentation in Business Markets

Planning Business Marketing Strategy

Business Marketing Intelligence

Product and Service Strategy in Business Marketing

Channel Strategy in Business Marketing

Physical Distribution Strategy in Business Marketing

Promotional Strategy in Business Marketing—Personal Selling

Promotional Strategy in Business Marketing—Advertising and Sales Promotion

Pricing Strategy in Business Marketing

Business Marketing Control and Evaluation

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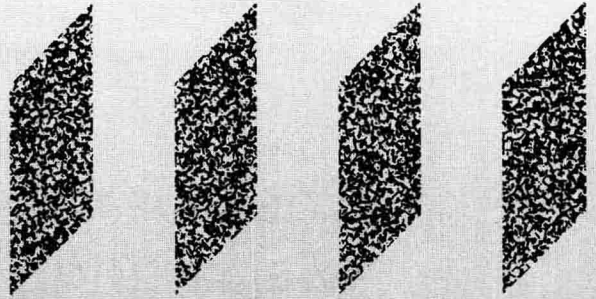
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**P A R T O N E**



**Understanding  
the Business  
Marketing  
Environment**



# The Business Marketing System



**B**usiness marketing is that area of marketing that addresses organizational customers and prospects who buy goods and services necessary to the operation of their own businesses or organizations. As such, business marketing does not include marketing to final consumers who buy goods and services for personal consumption. For many years, this area of overall marketing was seen as mechanical and unimaginative and was slighted in the marketing literature. Today, however, indications are that business marketing is a dynamic, growing, and vibrant component of the overall marketing discipline.

The term **business marketing** has evolved from what historically has been known as **industrial marketing**. For years, the latter term was used to describe all marketing activities designed to attract customers other than personal consumers. In fact, the previous editions of this text were titled *Industrial Marketing Management*. In recent years, however, there has been a trend toward use of the terms **business marketing** or **business-to-business marketing** rather than industrial marketing. To illustrate, the trade publication *Industrial Marketing* changed its name to *Business Marketing*. To many, industrial marketing suggests marketing only to rust-belt heavy-manufacturing type industries and thus seems antiquated. Regardless of which terms are used, this area of marketing concentrates on organizational customers whether they are in heavy industry or otherwise. Thus, as will be developed, business marketing includes marketing to private business and commercial organizations, reseller organizations, governmental organizations, and institutional organizations. Viewed in this manner, business marketing involves marketing activities aimed at organizations of any type, but it does not include marketing primarily designed to attract final personal consumers.

As regards the term *business-to-business marketing*, it does not seem appropriate and thus will not be used in this text. To illustrate, a defense contractor

## Business Marketing Is Big Business

One of the main points of differentiation between business and consumer marketing is the size and magnitude of business marketing orders and transactions. A few examples will help show just how big business marketing actually is and illustrate the challenges that face business marketers.

Boeing Company's 747-400 airliner, the firm's long-range version of the jumbo jet, sells for approximately \$150 million. This plane has the advantage of being able to fly nonstop to Asia from either the United States or Europe, making it very popular with Asian air carriers. In mid-1991, Boeing had 412 such aircraft on order or in service, 54 percent of them for Asian and Pacific airlines. A plane ordered from Boeing at that time could not be delivered before 1997. Those 412 aircraft, with an average price of \$150 million each, had a total value of about \$62 billion, which is big-time marketing in any league.

Cubic Corporation's Automatic Revenue Collection Group was awarded a \$43 million contract to install an automatic toll-collection system on the 320-mile Florida turnpike, which connects Orlando to Miami. Described as the largest toll-collection contract ever awarded in the United States, the system will service 300 freeway lanes that are expected to handle more than 125 million vehicles per year. The system will speed up the flow of traffic and improve the accuracy of fare collection.

Rohr Industries, Inc., entered into a

contract with Europe's Airbus Industrie to provide engine components for 800 A320 and A321 aircraft. Rohr would provide nacelle systems to Airbus, including fan cowls, thrust reversers, exhaust nozzles and cones, inlets, and pylons. Under the terms of the contract, Rohr would realize sales of approximately \$1 billion starting in 1992 and extending into the late 1990s. For Rohr, this was the second largest contract it had entered into in 1990, having also signed a \$1 billion contract to supply nacelles for McDonnell-Douglas's MD-90 airliner.

A rather unique example of business marketing took place during the 1991 Desert Storm war in the Middle East. When they were notified that troops at Fort Stewart, Georgia, were being sent to Saudi Arabia, officials at the military base sent an order to K-Mart in nearby Hinesville, Georgia, for more than 24,000 items, including 2,400 cans of bug spray, 5,550 bottles of skin lotion, 5,550 tubes of lip balm, 5,500 containers of foot powder, and 5,550 bottles of sun-tan lotion. These goods were shipped to Fort Stewart from K-Mart's regional warehouse in Atlanta. In addition, the store was asked to help the military find sources for 174,000 gallons of bottled water. While not a conventional business marketing transaction, this example clearly shows the magnitude of orders in business markets.

These examples may be exceptional in size, but they are typical of what takes place in business marketing. Marketing



effectively in such situations requires close attention to detail and a real commitment to quality service. These examples illustrate clearly that business

marketing is different from traditional consumer marketing.

*Source:* Adapted from various editions of the *San Diego Union*.

selling products or services to a government agency, such as the Department of Defense (DOD), is not really representative of a true business-to-business situation. Similarly, selling to not-for-profit institutions also does not constitute true business-to-business marketing. Thus, this text will use the term *business marketing* to denote marketing to all types of organizations, whether they are true businesses or not.

This book is written primarily for use in courses in business or industrial marketing and assumes that the reader has a sound understanding of basic marketing principles. The basic format is traditional in that the text identifies the corporate or top-level marketing responsibilities that make up a strategic marketing plan, such as market segmentation and buyer behavior, and the functional-level marketing activities, such as pricing, product planning, promotion, and physical distribution. The intent of this book is to use the base of marketing principles and from it build a sound understanding of how those same principles apply to the specific area of business marketing.

## A DEFINITION OF MARKETING

In 1985, the American Marketing Association updated its 1960 definition of marketing. *Marketing* is now defined as “the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.”<sup>1</sup> This revised definition assumes that marketing involves individuals within an organization who develop products and/or services that satisfy the needs and wants of customers in whatever markets may be involved to the mutual benefit of both buyers and sellers. It implies that marketing is a process that takes place before products and services are produced and continues even after the sale. Since this new definition is used in many marketing principles textbooks, its use is continued in this text.

## A DEFINITION OF BUSINESS MARKETING

As has been stated, business marketing involves the performance of those marketing activities directed toward organizational customers rather than toward consumers who buy goods and services for personal consumption. Business cus-