Purchasing as Reverse Marketing

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ABSTRACT

This paper describes a new concept called reverse marketing, which is changing the conventional buyer-seller relationship and has important implications for the traditional role of the industrial marketer.

Introduction

Industrial marketers since the 1950's have subscribed to the marketing concept - the principal feature of which is a customer orientation within the marketer's firm. This orientation is an integral part of most definitions of marketing. The marketing concept holds that the central aim of the organization is to define the needs of a target market and to adapt products and services to satisfy those needs more effectively than competitors (Hutt & Speh, 1985). Peter Drucker (1974) suggests that the whole business should be seen from the point of view of its final result and ... "this is from the customer's point of view."

However, many industrial marketers seem to be more concerned with product specifications than how these specifications respond to customer needs (Thayer, 1982). Similarly, Theodore Levitt (1960) points out that too many firms are product oriented rather than customer oriented.

It is our contention that industrial marketers are more concerned about their performance relative to competitors than their capability to satisfy their customers' needs as completely as possible. To the extent that this is true, they are using the wrong benchmarks to measure their effectiveness and performance. Their relative performance vis-à-vis their competitors should be secondary to their performance in satisfying their customers' requirements. They are abdicating their responsibility to the
customer even while they are espousing the marketing concept. It is our contention that if those business-to-business marketers really were paying attention to customers' needs, procurement people would not have to develop aggressive materials acquisition strategies. Rather, they could be passive and rely on their suppliers' sensitivity to their needs, suppliers' research and suppliers' directions for technological development to anticipate their requirements and offer solutions before problems developed.

This trusting situation has been the case among traditional procurement people. However, during the past decade a new corporate acquisition environment has been developing and is beginning to gain momentum. The vanguard of this movement has been identified in our research in both North America and Japan, embodied in dedicated and aggressive individuals in the procurement function in organizations of all sizes, both profit and non-profit. A new breed of buyer is evolving who could pose a serious threat to non-responsive in-suppliers but offer unexpected opportunities to both co-operative in-suppliers and willing out-suppliers.

A Case in Point: John Thomas, Vice-President of Purchasing of the Malston Bakery, a major bread producer, was concerned over the cost-price squeeze generated mainly by relentless increases in flour costs, which represented 55% of the total cost of producing bread. Repeated attempts to negotiate against price increases of the company's six flour mill suppliers were futile. However, research conducted by John Thomas prior to, during, and after multiple mill visits convinced him that the millers might have offered discounts given Malston's volume of purchases.

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1 At the request of this multinational bakery firm, all names have been disguised, but all other information is factual.
When Peter Hellibell, the new owner of a small soft wheat flour mill expressed interest in expansion, John Thomas saw an opportunity for developing a new flour source to alleviate his material-cost problem. For Hellibell to expand from soft wheat (cake and cookie) flour to hard wheat (bread) flour needed financing, which would depend upon the assurance of guaranteed large volume sales, and technical and quality assurance advice. Thomas could offer all these and convinced Hellibell both to expand and to accept a 7% below market price for all hard wheat flour supplied to Malston Bakery.

The application of reverse marketing by John Thomas resulted in the development of a new and loyal supplier, brought the other six previously unwilling hard wheat suppliers into line with price reductions and generated combined savings on all Malston's flour purchases of $924,000 per year.²

Reverse Marketing to Acquire Technology:³ Another example of reverse marketing involves Mega Technologies Inc.,⁴ a small family-owned firm which produced special parts for packaging machines which were used by manufacturers of beer, liquor, shampoo, etc. The parts produced by Mega - cams and feedscrews - were crucial to the packaging process as they precisely aligned containers to be filled or for label application.

² A more detailed description of the Malston Bakery experience can be found in Leenders and Blenkhorn (1988) pp. 36-52.
³ The names in this example are disguised, but all other facts are real.
⁴ A more detailed description of the Mega Technologies Inc. case can be found in Leenders and Blenkhorn (1988) pp. 88-94.
Paul Hill, the firm's president pondered the idea of applying computer technology to the traditional machinery used in his industry which had seen little change for the past decade. He envisioned this project giving his firm a competitive edge in its industry.

When Paul Hill approached five North American equipment manufacturers with his proposal, several initially shared his enthusiasm, but they soon lost interest when they realized its complexity and the degree of commitment that would be required of them. Subsequently, Hill joined forces with a German manufacturer which had used the technology envisioned by Hill but for vastly different types of machines. Next, a match was made with a computer manufacturer with an excellent record in working with machines of this type.

The ensuing project took seven years to come to fruition with Hill of Mega Technologies acting as the catalyst for the two large offshore suppliers. The ultimate success of this initiative illustrates that after being rebuked by 5 suppliers, Mega Technologies, a small firm short of resources, was able to link with two large, offshore suppliers to produce a leading-edge product. Indeed, the ultimate benefits to the suppliers even may have outweighed those accruing to the purchaser.

The frustration experienced by procurement officers such as John Beck, John Thomas and Paul Hill has forced them and many others in similar situations to become aggressive; taking the initiative to make sure that they obtain what their firms need, but have not been getting from their suppliers.

New Behavior Patterns

This proactive behavior of industrial procurement people is a departure from the stereotypically passive purchasing agent. Procurement people
are beginning to adopt a new approach in the performance of their jobs and, indeed, their role within the organization. This new concept of purchasing has been given the name "Reverse Marketing" (Leenders & Blenkhorn, 1988).

**What is Reverse Marketing?**

Reverse marketing involves a reversal of traditional buyer-supplier roles. Traditionally the supplier has taken the initiative (see Exhibit 1). In reverse marketing the buyer tries to persuade the supplier to provide exactly what the buyer's organization needs (see Exhibit 2). Without this buyer initiative from the purchasing side of the diad, the supplier is unlikely to offer specifically what the buyer requires.

**EXHIBIT 1**

The Traditional Supplier-Purchaser Relationship

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initiative
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The supplier tries to persuade the purchaser to buy.
The following captures the essence of reverse marketing:

Reverse marketing is an aggressive and imaginative approach to achieving supply objectives. The purchaser takes the initiative in making the proposal. The goal is to satisfy both short- and long-term supply objectives.

Reverse marketing requires close work with an existing or a new vendor to meet ambitious supply objectives. This may involve persuading a reluctant vendor to become a supplier; persuading managers inside the purchaser's organization to make what was formerly purchased, or vice versa; persuading users to try a new product, service, or system while persuading a vendor to do likewise; and a host of other tasks. The key is in the two words "initiative" and "persuasion."

The rewards are many. Savings in the 5 to 30 percent range are not uncommon. Reverse marketing permits procurement to contribute effectively to the organization's objectives and strategy. Successful reverse marketing requires cooperation from all levels and most functions in the organization; hence, it enhances the role of the supply function. Reverse marketing is future oriented and requires careful planning and research. It may permit the achievement of seemingly impossible objectives in terms of quality, quantity, price, delivery, and service.

Reverse marketing is more than just a technique or tool. It represents a different perspective on the role of supply and how it should be managed so as to contribute effectively to organizational goals and strategies (Leenders & Blenkhorn, 1988, p. 2).

The activities in reverse marketing comprise an 11-step process (Exhibit 3) ranging from fundamental research at the commencement of the reverse marketing idea to reverse marketing options undertaken at the project's completion.
Reverse marketing involves a great deal of negotiation and frequently aggressive behaviour to enable the supply function to achieve its goals which usually include adding directly to bottom line profitability.

The reverse marketing concept described here comes as a result of research conducted by the authors in North America and Japan to identify and describe an emerging phenomenon in the purchasing function.

EXHIBIT 3

The Reverse Marketing Process

1. Fundamental Research
2. Specific Research
3. Key Decision Point
4. Design
5. Organizational Support
6. Design Review (Rehearsal)
7. Negotiation
8. Agreement in Principle
9. Written Agreement
10. Contract Administration
11. Reverse Marketing Options

△ Direction of possible looping
▼ Direction of typical phase sequencing

The above diagram illustrates that up to and including the Negotiation phase it is possible to go back (to loop) and revise any or all of the preceding phases. However, once Agreement in Principle has been reached, it is possible only to proceed forward through phases 9, 10, and 11, and not loop backward.
The Old and the New

The research suggests that individuals in the buying function might be positioned along a spectrum anchored by the traditional purchaser at one end and the reverse marketing oriented purchaser at the other. Certain personal characteristics such as perceptions, attitudes and purchasing style appear to be correlated with the propensity to engage in reverse marketing. For example, Dion and Banting (1987) found that effective purchasing agents are more highly motivated, more satisfied with their jobs and more certain of what constitutes good performance. They favor open, honest, and co-operative relationships and avoid opportunistic and short-term gains. Perdue, Day and Michaels (1986) suggest that a collaborative problem solving negotiating style among purchasing agents achieves the objective of maximizing the joint transaction payoff for both parties. Leenders and Blenkhorn (1988) isolated a number of similar characteristics which were common among buyers practicing reverse marketing.

These studies suggest that the characteristics of the purchaser likely to engage in reverse marketing can be contrasted with those of a traditional purchaser as shown in Exhibit 4.

EXHIBIT 4

Purchaser Profiles

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Traditional Purchaser</th>
<th>Reverse Marketing Oriented</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) action orientation</td>
<td>responsive</td>
<td>proactive</td>
</tr>
<tr>
<td>2) outlook - way of thinking</td>
<td>unidimensional thought</td>
<td>multidimensional thought</td>
</tr>
<tr>
<td>3) functional analysis</td>
<td>routine approach</td>
<td>creative approach</td>
</tr>
<tr>
<td>4) perception of role within organization</td>
<td>functionally limited view</td>
<td>organizationally integrated view</td>
</tr>
<tr>
<td>5) attitude toward supplier</td>
<td>adversarial &quot;them vs. us&quot;</td>
<td>co-operative partnership</td>
</tr>
<tr>
<td>6) temporal horizon</td>
<td>short-term perspective</td>
<td>long-term perspective</td>
</tr>
<tr>
<td>7) payoff horizon</td>
<td>immediate and satisfying</td>
<td>continuing and optimizing</td>
</tr>
<tr>
<td>8) negotiation approach</td>
<td>passive</td>
<td>assertive</td>
</tr>
<tr>
<td>9) motivation</td>
<td>accepts status quo</td>
<td>highly motivated</td>
</tr>
</tbody>
</table>
Implications for the Industrial Marketer

Understanding the buyer is a basic precept of industrial marketing. Thus, it is important that the message found in the Purchaser Profiles chart be recognized if industrial marketers are to adjust to a newly developing procurement environment. By being able to distinguish reverse marketing-oriented procurement people from traditional purchasers, the industrial marketer will be better able to form a mutually beneficial co-operative partnership resulting in increased long-run sales and an enhanced bottom line. Each of the criteria in Exhibit 5 will now be examined for its relevance to the business-to-business marketer.

Proactive: A purchaser with a proactive action orientation will know what his/her organization needs, and will have a good idea of how to go about achieving organizational requirements.

The marketer must recognize that this aggressive proactive procurement stance cannot be ignored or deflected, must listen attentively, and be prepared to respond to the buyer's initiative.

Multidimensional thought: The reverse marketing oriented purchaser typically thinks of the implications of a purchase on several different planes. For example: How will this item affect my company's future flexibility? Can other departments also use this process? The buyer can envision many interrelationships and how they interact with the current problem.

The strategy for the marketer is not only to offer solutions to the most pressing problem but also to demonstrate how these solutions may
affect other operations, other decisions and other issues of concern to the 
buying organization, both in the present and in the future.

Creative approach: Creativity is commonplace with the purchaser who prac­
tices reverse marketing. He/she thinks beyond present needs and what is 
currently offered by suppliers.

It is incumbent upon the industrial marketer to recognize this type of 
purchaser, complement this creativity, and suggest innovative alternatives.

Organizationally integrated view: The purchaser who practices reverse 
marketing thinks in terms of the whole organizational system, rather than 
of just one functional area at a time. This broader view translates into 
being able to perceive how purchasing decisions fit into the framework of 
the entire organization, both in its form today and that of the future.

Facing this kind of buyer, the marketer's strategy should be to posi­
tion his product or service accurately within the buying organization's 
system and its possible future scenarios and, where feasible, educate the 
purchaser regarding possible applications or new dimensions of use of which 
he/she is not aware. The industrial supplier must recognize that his/her 
offering will be viewed by the buyer from a systems perspective. This 
implies that the industrial supplier should recognize that in sourcing 
his/her own purchases, the supplier's supplier may also play a critical 
role in the reverse marketer's system.

Co-operative partnership: Buyers who engage in reverse marketing seek a 
long-term relationship with their suppliers. They attempt to develop 
suppliers who are willing to share the ups and downs of the business. The
old adversarial/machiavellian style of relationship is passé in reverse marketing. The purchaser is looking for a long-term marriage rather than a short-term affair.

This may force the industrial marketer to sacrifice short-term profit for long-term profitability. The business-to-business marketer's strategy should be to use "relationship marketing."

Long-Term Perspective: Being able to envision the impact of today's purchasing decision on the long-term welfare of the organization is a characteristic of the purchaser who is a proponent of the reverse marketing concept. Solutions to immediate problems are important, but the reverse marketer avoids many short-term crises through successful long-term planning and execution.

The industrial marketer must also think in a long-term mode when assessing the needs of his industrial customer and how his products can solve problems, not only current problems, but also challenges facing his customer in the future.

Continuing & Optimizing: Allied with a long-term perspective, the reverse marketing practitioner seeks continuing satisfaction in a relationship with the supplier. Immediate gains through purchasing may be sacrificed in order to develop longer term optimal gains as part of a mutually beneficial, stable collaborative purchaser-supplier relationship.

Industrial marketers, who are too quick to close a sale, with little or no after sale follow-up, or who are not willing to adjust sufficiently to the buyer's needs, should heed the warning that the numbers of reverse
marketers who won't tolerate insensitive or "here-today, gone-tomorrow" suppliers are growing.

Assertive: The reverse marketer knows what he wants and will not take "no" for an answer. He articulates his special needs well and will not waste time on inflexible suppliers who are not sincerely interested in reaping greater potential rewards by being part of a reverse marketing project. It is this assertive, no-nonsense and almost doggedly persistent approach which characterizes the reverse marketing practitioner.

It is imperative that the business-to-business marketer do his homework in preparation for meetings with the reverse marketing oriented buyer. The procurement person is no longer passive, uncritical or dependent upon the seller's perceived expertise. The business-to-business marketer must be well-prepared, thorough in his presentations, sensitive and adaptable to the buyer's requirements and objectives, and cogent.

Motivation: A highly motivated reverse marketer is willing to pursue his/her goals vigorously, despite supplier resistance. The purchaser is more willing to explore alternative sources and solutions for his purchasing requirements, even though he may prefer to single-source.

The business-to-business marketer can no longer rely on buyer inertia to maintain a foothold with the customer. He/she must reciprocate the enthusiasm encountered in the reverse marketing oriented buyer's office and demonstrate willingness to "go the extra mile".
Conclusion

The exciting aspect for marketers in this new buyer-seller relationship called reverse marketing is the prospect of developing a new, more open relationship with purchasers. As the purchaser initiates more problems to be solved and new situations to be explored, the creative industrial marketer has the opportunity to build stronger and longer-lasting relationships with his/her customers, resulting in greater mutual benefit. Some of the unexpected benefits to the marketer include the identification of new product opportunities, the ability to translate innovative reverse marketing solutions to a broader customer base, the possibility of building co-operative ventures with other suppliers and the prospect of greatly expanding sales. Industrial suppliers might begin thinking not in terms of supplier-buyer relations, but in terms of marketing/reverse marketing relations.
References


