

# Reverse Marketing: A Synergy of Purchasing and Relationship Marketing

By Wim G. Biemans and Maryse J. Brand

*Wim G. Biemans is an Associate Professor of Marketing at the University of Groningen in the Netherlands. He has published widely on interorganizational collaboration in product development. Current research projects involve the management of new product announcements, dual marketing, and the implementation of market-oriented product development.*

*Maryse J. Brand is an Assistant Professor of Marketing at the University of Groningen in the Netherlands. She holds a Ph.D degree in marketing. Her research interests include industrial marketing, organizational buying behavior, purchasing, and industrial marketing research.*

Firms increasingly realize that dramatically changing market conditions require significant changes in their purchasing function. In more and more firms, purchasing is becoming proactive and strategically important. This phenomenon has been called "reverse marketing." As the term implies, there are clear similarities with the marketing concept. This article explores the concept by describing how companies can implement reverse marketing by making use of well-known marketing concepts and tools. A detailed description of a fictitious case illustrates how basic marketing principles can be used to achieve proactive purchasing.

During the last few decades many technology- and sales-oriented companies have transformed themselves into competitive customer-driven organizations. Many others need to follow their example as we approach the twenty-first century. Rapid technological developments, growing globalization of markets, and higher customer requirements have resulted in cutthroat competition in many consumer and industrial markets:

- Integration of the European market, tumbling trade barriers in countries such as Mexico and China, and democratization of eastern European countries and the former Soviet Union result in increasing investments by Japanese and American firms.
- For years now, American giants such as IBM, Gillette, Dow Chemical, Hewlett-Packard and Xerox have generated a major share of their sales from outside the United States.
- In industries like telecommunications, new technologies and deregulation eliminate traditional monopolies and create global markets.
- Emergent global markets are populated by stateless companies that try to position themselves as local firms by emphasizing local content.



MODULE 4

© Copyright July 1995, by the National Association of Purchasing Management, Inc.

In this continuously changing world, the importance of price has been reduced and quality has become a significant means of realizing sustainable competitive advantage.<sup>1</sup> Detailed studies have shown that product quality is a major factor in successful new product development.<sup>2</sup> Others report that the measurable elements of quality determine 50 percent or more of the purchasing decision<sup>3</sup> and that a high level of product quality often goes hand in hand with high market share and ROI.<sup>4</sup> Good product quality can only be achieved through incorporating quality requirements in the design of new products and in the purchase of existing ones.<sup>5</sup> Increasing levels of specialization have led many firms to concentrate on their core activities and outsource the production of many parts and components. This development has had a major influence on the tasks, responsibilities, and role of the purchasing function.

The existing literature emphasizes the changing character of purchasing. As early as the 1960s, some purchasing professionals discussed the need for active supplier development. In the 1980s many recommended the use of *single sourcing*,<sup>6</sup> whereas others went on to point out the long-term dangers of relying on just one supplier.<sup>7</sup> In 1988, Leenders and Blenkhorn introduced the term *reverse marketing* for an aggressive kind of purchasing that they encountered in the United States and Japan.<sup>8</sup> Reverse marketing describes how purchasing actively identifies potential suppliers and offers suitable partners a proposal for long-term collaboration. Others noted a similar phenomenon, variously called *proactive procurement* and *market-driven procurement*.<sup>9</sup>

## PURCHASING AND MARKETING

The current development of the purchasing function shows remarkable similarity to the development of the marketing concept. The product/production orientation, which dominated management practice for many years, can be compared to traditional purchasing's focus on product and price. The subsequent sales orientation emphasizes the efforts of sales representatives to get customers to buy their products. This is very similar to the purchasing department, which directs its efforts toward identifying suitable suppliers that can deliver the desired products at the right time. Only when the whole organization is focused on serving the customer optimally (an integrated effort), does it really employ the marketing concept. Similarly, successful reverse marketing requires a concerted effort. Clearly, the development stage of purchasing depends on both the industry and the country.<sup>10</sup>

This conceptual parallel between purchasing and marketing can also be found within individual firms. First, purchasing and marketing are basically comparable activities directed at facilitating exchange transactions and relationships with external parties. Accordingly, the purchaser's and the marketer's tools and methods are more similar than might be expected at first glance. Second, purchasing and marketing are clearly interdependent. A market-driven strategy can be successful only if marketing's ideas are translated into an appropriate outsourcing strategy and if the opportunities identified by purchasing are integrated with the development of new products. The implementa-

tion of integrated logistics (such as MRP and JIT) further increases this internal interdependency.<sup>11</sup>

This article explores the parallel between marketing and reverse marketing, and provides marketing tools for purchasing. First, the presentation establishes the fact that the recent attention given to reverse marketing cannot be regarded in isolation from a number of other recent developments. Next, the general concept of reverse marketing is explored briefly. Subsequently, the main body of the article is devoted to a detailed analysis of the reverse marketing process, by analogy with the marketing planning process. The article concludes with a succinct evaluation.

## WORLDWIDE TRENDS

A number of worldwide trends can be identified that tend to stimulate the development of the purchasing function. These concern the reduction of the number of suppliers, upgraded demands on suppliers, increasing cooperation with suppliers, emphasis on "time to market," and the increasing strategic expectations for purchasing.

### Reduction of the Number of Suppliers

In various industries, firms try to increase product quality through drastically reducing their supplier base, with reductions of more than 50 percent becoming the norm. A smaller number of suppliers increases control, simplifies management, reduces costs of communication, and clarifies responsibilities.

### Upgraded Demands on Suppliers

Because buying firms are faced with increasing competition and become dependent upon fewer suppliers, typically they upgrade their demands. Rejection levels are being formulated in parts-per-million (PPM), while some strive for zero defects. In addition, firms demand that their suppliers become certified. Those that do not comply may be removed from the approved supplier list.

### Increasing Cooperation with Suppliers

The upgraded demands and reduced supplier roster lead to the replacement of traditional arm's length relationships with close and long-term partnerships, characterized by mutual trust, interdependence, and mutual benefits.<sup>12</sup> Suppliers are provided with functional specifications rather than detailed product specifications, and are frequently involved in new product development efforts.<sup>13</sup> The best suppliers become an extension of the buying firm in terms of having similar management policies, structure, information systems, quality levels, delivery schedules, and costing practices.

### Time to Market

Increasing competition leads to shorter product life cycles, pressure on product development activities, and the need to reduce the time to market. Time becomes a critical factor in obtaining competitive advantage.<sup>14</sup> Japanese firms have proven to be particularly adept at cutting product development times in half. Their techniques are currently being applied by an increasing number of western firms.<sup>15</sup> The

much desired reduction of development cycles necessitates close collaboration, both internally (cross-functional teams that include purchasing) and externally (with key suppliers and major customers).

### Purchasing as a Strategic Weapon

Closer relationships with a limited number of carefully selected suppliers contribute to the increasing strategic relevance of purchasing.<sup>16</sup> In many firms purchasing no longer serves to squeeze an extra dime out of suppliers, but employs professionals to negotiate critical partnerships. In addition, purchasing personnel maintain frequent contact and good working relationships with other essential departments, such as production, R&D, human resources, and finance. This network of relationships makes them a critical asset in the cross-functional teams necessary for successful product development.<sup>17</sup>

Together, these trends are producing sweeping changes in the field of purchasing, and successful firms are realizing substantial benefits through effective organization and utilization of their purchasing function. A recent study by McKinsey & Co. quantified some remarkable results shown in Table I. The investigators report that the strategic management of purchasing may trim total procurement spending between 5 and 15 percent over a three-year period.<sup>18</sup>

## REVERSE MARKETING

In recent years, the buyer-supplier relationship has changed considerably. The traditional relationship, in which a seller takes the initiative by offering a product, increasingly is being replaced by one in which the buyer actively searches for a supplier that is able to fulfill its exact needs. Some researchers consider inadequate performance by industrial

marketers to be the major cause of this change in attitude: "If marketers really were paying attention to customers' needs, procurement people would not have to develop aggressive materials acquisition strategies."<sup>19</sup> The supplier subsequently is engaged to produce and deliver a product to the buyer's specifications, or one in which the buyer participates heavily in identifying the best solution for the buying firm's need. This phenomenon is called *reverse marketing*.

Reverse marketing is not a technique, but a changed perspective on purchasing and supply management, and is found to lead to substantial material cost reductions. In addition, reverse marketing may result in improved product quality, delivery performance, and service support. The traditional buyer and the reverse marketing oriented purchasing professional can be regarded as two extremes, each with his or her own characteristics, as shown in Table II (see p. 32). The characteristics of the reverse marketing oriented purchaser have far-reaching implications for suppliers, as noted in the table. A supplier needs to assess the purchasers with whom it wants to do business and translate this assessment into a long-term strategy.

Such a strategic approach to purchasing obviously requires other capabilities in addition to those required by the traditional approach. As with every significant organizational change, the successful implementation of a reverse marketing strategy requires (1) personnel with the right education and attitude, (2) sufficient commitment and support from the organization, and (3) practical guidelines that show reverse marketing oriented purchasers how to implement such a strategy. Existing personnel and present attitudes may prove to be a significant obstacle. For example, the McKinsey study provided the rather grim estimation that implementing strategic purchasing frequently means that more than half the purchasing managers need to be replaced. Organizational commitment and support should be fostered by top management and can be demonstrated by expanding purchasing's role in the organization and involving it formally in various critical strategic decision-making processes.

Practical guidelines for implementation of reverse marketing are the subject of the balance of this article.

## MARKETING PRINCIPLES FOR PURCHASING

Leenders and Blenkhorn identified eleven phases in the reverse marketing process, starting with fundamental research and ending with an evaluation of reverse marketing options. However, these eleven phases can be grouped into four general stages that show great resemblance to the familiar stages of the marketing planning process. These four stages are summarized in Table III (p.32)—and with the use of a fictitious case, the authors demonstrate how marketing principles can be used to guide purchasing.

The case revolves around Pat Jordan, currently a purchasing manager at BroadBent Industries, but who used to hold a marketing position at another firm in the same industry. Jordan was specifically hired to make BroadBent's purchasing function more market-driven. The case

Table I

### RESULTS OF STRATEGIC PURCHASING

	Typical Company	World-Class Company
<b>Cost factors</b>		
• Suppliers per purchasing professional	34	5
• Purchasers per \$100 million of purchases	5.4	2.2
• Purchasing costs as a percentage of purchases made	3.3%	0.8%
<b>Time factors</b>		
• Supplier evaluations (weeks)	3	0.4
• Supplier lead times (weeks)	150	8
• Time spent placing an order (weeks)	6	0.001
<b>Quality of deliveries</b>		
• Late	33%	2%
• Rejected	1.5%	0.0001%
• Materials shortages (No. of instances per year)	400	4

Source: McKinsey & Co.

**Table II**

**PURCHASER PROFILES AND IMPLICATIONS FOR INDUSTRIAL MARKETERS**

Traditional Purchaser	Reverse Marketing Oriented Purchaser	Implications for Industrial Marketers
<ul style="list-style-type: none"> <li>• Responsive</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive</li> </ul>	<ul style="list-style-type: none"> <li>• Acknowledge active role of purchaser, listen carefully and react on initiatives</li> </ul>
<ul style="list-style-type: none"> <li>• Unidimensional thought</li> </ul>	<ul style="list-style-type: none"> <li>• Multidimensional thought</li> </ul>	<ul style="list-style-type: none"> <li>• Demonstrate the effect of offered solutions on other operations, decisions and issues within the organization</li> </ul>
<ul style="list-style-type: none"> <li>• Adversarial attitude toward supplier: 'them vs. us'</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperative attitude toward supplier: partnership</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on long-term relationships; sacrifice short-term profitability; relationship marketing</li> </ul>
<ul style="list-style-type: none"> <li>• Looking for immediate and satisficing solutions; short time perspective</li> </ul>	<ul style="list-style-type: none"> <li>• Looking for continuing and optimizing solutions; long-term perspective</li> </ul>	<ul style="list-style-type: none"> <li>• Combine solutions to immediate problems with long-term planning and execution; look at future developments, needs and problems; attention to after sales service; willingness to adapt</li> </ul>
<ul style="list-style-type: none"> <li>• Passive negotiation approach</li> </ul>	<ul style="list-style-type: none"> <li>• Assertive negotiation approach</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare for negotiations meticulously; thorough presentations; be sensitive and adaptable to the buyer's requirements and objectives</li> </ul>
<ul style="list-style-type: none"> <li>• Accepts status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Highly motivated</li> </ul>	<ul style="list-style-type: none"> <li>• Reciprocate the enthusiasm encountered; demonstrate willingness to 'go the extra mile'</li> </ul>

Source: Based on Blenkhorn and Banting (1991).

describes how Jordan uses her knowledge of basic marketing principles to initiate, design, and assist in the implementation of reverse marketing in her company.

**Stage 1: Analysis and Development of Purchasing Strategy**

Jordan realizes that first she should (1) analyze the company and its supply markets, (2) analyze the suppliers, and (3) develop a reverse marketing strategy. The objective is to carry out a general analysis of the situation and to determine the appropriate reverse marketing strategy.

*Analysis of Organization and Market.* To ensure long-term profitability, firms continuously monitor their organization and environment and investigate both problems and opportunities. Frequently, one person or department (e.g., market research or strategic planning) is assigned the

**Table III**

**MARKETING PRINCIPLES FOR PURCHASING**

Marketing Principles	Translation to Purchasing
<b>Stage 1: Analysis and Purchasing Strategy Selection</b>	
SWOT analysis	<ul style="list-style-type: none"> <li>• Analysis of general developments and the organization's position on supply markets</li> </ul>
Strategic marketing plan	<ul style="list-style-type: none"> <li>• Strategic purchasing plan that describes the firm's desired supply position and the strategy to realize it</li> </ul>
Pareto analysis	<ul style="list-style-type: none"> <li>• Classification of purchased products according to their strategic importance</li> </ul>
Market research	<ul style="list-style-type: none"> <li>• Analysis of both existing and potential suppliers</li> </ul>
Growth vectors	<ul style="list-style-type: none"> <li>• Supplier development strategies that include present and potential suppliers, as well as current and desired activities</li> </ul>
Market segmentation	<ul style="list-style-type: none"> <li>• Grouping of suppliers into categories with similar characteristics</li> </ul>
Target segment	<ul style="list-style-type: none"> <li>• Determining the group of suppliers that most closely fit the profile of the ideal supplier</li> </ul>
Relationship vs. transaction marketing	<ul style="list-style-type: none"> <li>• Determining the right mix of arm's length and partner relationships with suppliers</li> </ul>
<b>Stage 2: Planning the Reverse Marketing Effort</b>	
Tactical marketing plan	<ul style="list-style-type: none"> <li>• Plan with reverse marketing objectives and the short-term actions needed to realize them</li> </ul>
Go/no go decisions	<ul style="list-style-type: none"> <li>• Defining decision points and the accompanying criteria to evaluate the reverse marketing effort and decide on future actions</li> </ul>
Integration of functional areas	<ul style="list-style-type: none"> <li>• Building internal support by emphasizing cross-functional communication</li> </ul>
<b>Stage 3: Implementing the Plan of Action</b>	
Analysis buying center/DMU	<ul style="list-style-type: none"> <li>• Identifying and analyzing the relevant decision makers and the decision-making process</li> </ul>
Focused selling effort	<ul style="list-style-type: none"> <li>• 'Selling' the supplier on the reverse marketing proposal through a personal tailor-made approach</li> </ul>
Emphasizing customer benefits	<ul style="list-style-type: none"> <li>• Stressing the various (internal and external) benefits to the supplier during negotiations and in drawing up the contract</li> </ul>
Mobilizing product champion	<ul style="list-style-type: none"> <li>• Mobilizing a project champion within the supplier who stimulates the project, creates commitment, and ensures continuation</li> </ul>
<b>Stage 4: Control and Evaluation</b>	
After sales service	<ul style="list-style-type: none"> <li>• Assisting the supplier after signing the contract; e.g., through a financial contribution or solving technical problems</li> </ul>
Relationship marketing	<ul style="list-style-type: none"> <li>• Building the relationship with the supplier through good communication, supported by careful evaluation of performance on the basis of mutually agreed upon criteria</li> </ul>
Evaluation of marketing results	<ul style="list-style-type: none"> <li>• Evaluating the tentative reverse marketing results on the basis of the objectives in the strategic purchasing plan</li> </ul>

responsibility for such continuous research with a long-term perspective. Similarly, BroadBent should analyze developments and positions in its supply markets. However, until now, pressing short-term problems have always precluded such a long-term purchasing perspective. Jordan recognizes it as her responsibility to make sure that continuous purchasing research is carried out, preferably by purchasing, but possibly by market research or strategic planning. These groups could modify existing methods of analysis to reflect purchasing issues. Jordan identifies three marketing tools that may be used in this context.

The first useful tool is the *SWOT analysis* (Leenders' and Blenkhorn's first stage of the reverse marketing process: fundamental research), which Jordan uses to identify BroadBent's supply position, as well as general developments in its supply markets. BroadBent's organizational strengths and weaknesses encompass costs, technology, quality, service, flexibility, customer relationships and environmental issues. Analyzing the supply markets involves issues such as market structure, market growth, capacity utilization, competitive structure, unique product advantages, entry barriers, regulation, and availability of resources. Such an analysis provides Jordan with an initial understanding of supply problems and possible solutions. She realizes that continuous scanning of the supply environment could be done more efficiently with the help of a structured information system. Such an information system is similar to the existing market information system and the two may even be integrated. Jordan notes this as the first issue for future investigation.

Finally, Jordan finds that identifying future organizational needs requires involving purchasing in long-term decision making and establishing frequent cross-functional consultation at a high level within the organization. Whereas purchasing's position within BroadBent's organizational hierarchy presents no problems, there is definitely a need for more intensive cross-functional consultation. Jordan decides to put this on the agenda of the next management meeting.

Next, Jordan formulates BroadBent's desired supply position, and the strategy to realize it, and makes them the heart of a strategic purchasing plan, which is similar in purpose and nature to a *strategic marketing plan*. This plan also defines the relationship and coordination with other departments and purchasing's contribution to BroadBent's critical organizational goals and processes (i.e., cost reduction, quality improvement, and reduced time-to-market).

After having analyzed positions and developments in supply markets, Jordan uses the basic principle of *Pareto analysis* to assign priorities to the broad range of purchased products. She bases her analysis on a classification of purchased items into *strategic, bottleneck, leverage* and *noncritical* items. In principle, all products, except the noncritical ones, may be considered for the application of reverse marketing. A market analysis, which relates the suppliers' bargaining power to BroadBent's organizational strengths from a buying perspective, presents Jordan with a number of issues, each of which represents an option for the application of reverse marketing.

Next, Jordan needs to select the specific issue to address. The decision can be based on expected long-term benefits in terms of improved quality, cost reduction, technical

improvements, and so on. Other possibilities are to address the most urgent problem first, or to explore the opportunities of reverse marketing by starting with a small project and gaining experience without running substantial risks, before tackling the major issues. Jordan decides to apply reverse marketing to the strategic products only and start with the most pressing issue: that of increasing the general performance and compatibility between a number of related products bought from six outside suppliers, primarily by reducing the number of suppliers and improving the fit of the products with BroadBent's production process.

**Analysis of Suppliers.** As the next step, Jordan analyzes the purchasing requirements for an increased compatibility between the related products, resulting in a general description of the ideal supplier. She realizes that the variables used and the degree of detail are determined by the situation, and proceeds to develop a suitable profile by combining a general partner profile consisting of five dimensions—(1)resources, (2)relationships, (3)reputation, (4)capabilities, and (5)chemistry and culture—with the specific, quality related criteria commonly used to evaluate suppliers.<sup>20</sup>

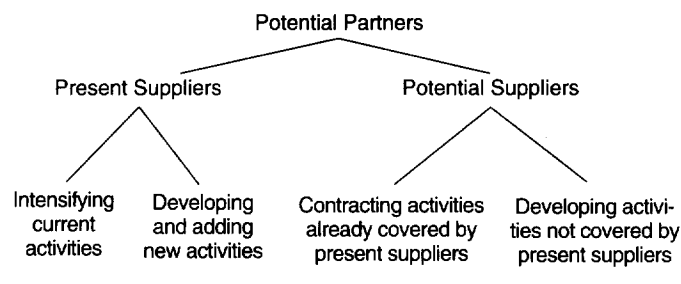
Subsequently, Jordan compares this ideal profile to information about potential supplier partners. Although some of the required information is available from previous experience and from co-workers, most is collected by traditional *market research* methods. Trade shows, trade journals, business press, newspapers, trade organizations, competitors, distributors, customers, and present suppliers prove to be useful sources of information. In gathering information from present suppliers, Jordan realizes that new partnerships may constitute a threat to existing relationships. Nevertheless, she wants a complete picture before she commits herself to any course of action. Therefore, as Figure 1 (see p. 34) illustrates, Jordan includes both present and potential suppliers in the analysis, as well as current and desired activities.

Next, Jordan uses the concept of *market segmentation* to group the suppliers into a number of segments, with every segment having a different profile and therefore a different potential to resolve the selected issue. At this stage, she makes a distinction between arm's-length relations and potential purchasing partners, with only the potential partners (the ones who resemble the profile of the ideal supplier) being considered for the application of reverse marketing. This *target segment* she then analyzes further with the help of tailor-made supplier evaluation tools to identify suitable partners.

Pat uses BroadBent's experiences with supplier evaluation tools to develop a reverse marketing evaluation tool. In so doing she is also inspired by Philips Electronics' evolution of supplier evaluation tools. In the 1960s Philips Electronics was already using *approved suppliers*, a system that was later replaced with *preferred suppliers* and *key suppliers*. The key suppliers consisted of approximately 800 suppliers that were urged to obtain ISO 9000 certification. At present, Philips evaluates all suppliers with the help of 15 critical performance indicators (in the areas of innovation, delivery, communication, certification, packaging, etc.). The detailed analysis of potential partners is further enhanced by the application of other existing tools, such as the experience

Figure 1

## SUPPLIER DEVELOPMENT STRATEGIES



curve, value analysis, and life cycle costing. Inspired by the management literature on partner selection for strategic alliances, Jordan includes the potential partner's management style and culture as additional variables that determine a candidate's suitability. Based on these analyses, Jordan selects a number of suitable partners and ranks them in order of preference. The first four prospective partners are evaluated in even more detail through a self-administered survey and on-site visits by a BroadBent audit team.

These comprehensive evaluation efforts make it necessary for Jordan to involve various departments within BroadBent to develop several cross-functional supplier evaluation teams. The detailed analyses and final identification of those firms deemed to make suitable partners will be done by these teams.

**Reverse Marketing Strategy.** To conclude the first stage of the reverse marketing process, Jordan has to determine BroadBent's reverse marketing strategy. In general, this revolves around the following basic decisions:

1. *Do we present a reverse marketing proposal to the best supplier identified?* If the analysis of suppliers results in the identification of one potential partner that closely fits the ideal profile and clearly outperforms the other suppliers, Jordan may proceed with the initiation of a reverse marketing relationship (stage 2). When several suppliers are considered to be suitable partners, BroadBent may start by approaching the top-ranked supplier. However, if the ranking is not clear, Jordan and her colleagues need to identify additional criteria that can be used to determine the best alternative. Finally, all analyses may also lead to the conclusion that suitable partners simply do not exist.
2. *Do we plan for long-term investments in a supplier to upgrade its quality?* Noted deficiencies in a selected partner may cause BroadBent to decide to invest in supplier development and upgrade the selected supplier's quality (e.g., through financial support, management training, or the temporary assignment of technical personnel). Similarly, the absence of a suitable partner may lead to the decision to postpone the reverse marketing project or to invest to upgrade the supplier's quality and thus pave the way for a future reverse marketing relationship.

3. *Do we go ahead with applying reverse marketing to the issue under investigation?* If no suitable partners can be found and the expected benefits of supplier development do not make up for the costs involved, Jordan may decide to abandon the current project and investigate the application of reverse marketing to other purchasing issues instead.
4. *Do we investigate the opportunities for applying reverse marketing to other issues?* Finally, the results may be so discouraging as to lead BroadBent to drop the project and abandon reverse marketing efforts altogether. Basically, this means that BroadBent will maintain a more traditional approach to purchasing.

Obviously, these decisions depend on the suitability of the potential partners and the investments needed to make the various kinds of relationships profitable. Similar trade-offs are carried out by marketing when it evaluates the kind of relationships it wants to develop with potential customers (*transaction versus relationship marketing*).<sup>21</sup> To facilitate these decisions, Jordan meticulously estimates the benefits of a successful partnership and the chances of realizing them. For this purpose, she uses the classification developed by Ellram, who categorized the potential advantages of forming purchasing partnerships into the following three groups:<sup>22</sup>

1. **Management:** easier to manage, reduced risks through mutual dependence, increased supplier loyalty, joint planning, information sharing, greater cooperation.
2. **Technology:** improved access to technology, joint product development, improved quality, reduced development times.
3. **Finance:** shared risks, reduced inventory levels, more stable supply prices.

In the case of BroadBent, the results of the analysis are sufficient to warrant continuation of the reverse marketing process. Thus, Jordan formulates a clear-cut reverse marketing strategy and uses it to update the strategic purchasing plan.

### Stage 2: Planning the Reverse Marketing Effort

In making one individual (i.e., Pat Jordan, the purchasing manager) responsible for the reverse marketing project, BroadBent Industries clearly increased the chances of a successful implementation. It also helps that purchasing is positioned relatively high within BroadBent's organizational hierarchy. This allows effective communication and support of the strategic decision to develop purchasing partnerships. In planning the implementation of the reverse marketing effort Pat Jordan needs to (1) formulate clear objectives, (2) specify the activities that must be carried out, and (3) develop internal support.

**Formulation of Objectives.** Based on her experiences in drawing up a *tactical marketing plan*, Jordan formulates the objectives of the reverse marketing project as explicitly as possible. For example, the number of suppliers that are currently supplying the related products under investigation needs to be reduced from six to two or three. Thus, they can

be used to draw up a detailed plan of action and serve as milestones for the evaluation (stage 4).

**Specification of Activities and Decision Points.** Based on the objectives formulated, Jordan specifies the activities to be carried out. The plan of action contains enough detail so all parties involved know what is expected of them.

Analogous to a product development plan, Jordan's reverse marketing plan of action also incorporates a number of *go/no go decisions*, which define the milestones where management needs to decide whether or not to continue the reverse marketing effort. Usually, the potential benefits of successful reverse marketing more than compensate for minor initial failures. The examples provided by Leenders and Blenkhorn demonstrate that cost reductions of several hundred thousand dollars per year are not unusual. However, this requires patience and a long-term perspective.<sup>23</sup>

**Development of Internal Support.** From experience, Pat Jordan knows that a successful marketing strategy depends on the effective *integration of various functional areas* within the organization. Similarly, when implementing a basic new way of doing business (which is what reverse marketing represents), success depends on building internal support, coupled with the existence of the right infrastructure. Jordan realizes that the successful implementation of the reverse marketing strategy requires some new skills for the buyers involved, and that a suitable training program needs to be developed. For example, achievement of the objectives requires that buyers possess not only the usual knowledge about the range of products offered and about negotiations with suppliers, but also knowledge about issues such as quality control, statistical process control, just-in-time production methods, and basic design engineering concepts. However, the information needed for the training program is, for the most part, available within the organization.

Finally, Jordan recognizes that she will attain the required active participation of the purchasing staff only when their performance evaluations stress broad organizational goals, such as high quality, reliable deliveries, and technological innovation, as opposed to a primary focus on purchasing cost performance. Therefore, she plans to adjust the procedures for evaluating her staff accordingly. In addition, she realizes that recruitment processes may also need radical revision.

Naturally, Jordan expects people to display some opposition to the changes involved. However, developing internal support at an early stage ensures that the necessary psychological infrastructure is present. Jordan's strategy in building internal support revolves around three actions:

1. Identifying barriers to implementation
2. Locating opposing individuals
3. Eliminating or reducing resistance

Jordan finds that opposition to the implementation of reverse marketing is rooted mostly in the fear of new work procedures and changed job descriptions. Nevertheless, negative perceptions of the proposed change need to be addressed. For instance, what will happen to the people

involved if the partnership should fail? In allaying these fears, Jordan freely shares information and stresses that mistakes are part of the learning experience in trying to achieve the results envisioned.

### Stage 3: Implementing the Plan of Action

After the plan of action has been detailed and sufficient internal support secured, Jordan continues with the actual implementation of the reverse marketing strategy. This third stage of the reverse marketing process entails:

- Analyzing the supplier(s) in great detail and identifying a suitable project champion
- Orchestrating a focused sales effort
- Conducting negotiations and signing the partnership contract

**More Supplier Analysis.** The detailed plan of action, strengthened by internal support, enables Pat Jordan to contact EverReady, the first supplier on the list of potential partners with a concrete proposal. However, before doing this, she carefully considers the right individual(s) to mobilize within the firm. Identifying the right person(s) will significantly influence the speed and effectiveness of the initial negotiations. But this requires detailed information about the specific problems of the supplier as well as its internal organization and decision processes. For instance, when the selected supplier is a large multinational organization, direct contact with headquarters may be the most effective way to proceed. Identifying the right person(s) for initial negotiations is just as important in purchasing as it is in marketing.<sup>24</sup>

**Focused Sales Effort and Mobilization of the Project Champion.** After having made the initial contact, Jordan must sell the supplier on the reverse marketing proposal. To this end, she uses various well-known sales and marketing techniques.

From her marketing background, she knows that a *focused selling effort*, consisting of good timing, a personal approach (relationship management), tailor-made information, and when necessary, the assistance of experts, is the key to success. Other concepts she borrows from marketing are (1) *customer benefits*, which lead her to translate the proposal into concrete advantages for the supplier, and (2) the identification and support of a *project champion* within the partner organization. This individual must be able to stimulate the project, create organizational commitment, and ensure continuation in the face of initial problems. In industrial marketing, these activities have proven to be essential in getting potential customers to adopt a newly developed product. For example, Jordan read that Texas Instruments had developed a *key executive* concept, in which key suppliers are asked to dedicate a key manager to be the "point person" for directing the partnership. To support the project champion, Jordan provides him with detailed information to use in selling the project within his own organization. After all, the proposed partnership should offer clear benefits to the supplier.

In the discussions, Jordan emphasizes that the purchasing partnership will bring the supplier various internal benefits, such as improved product quality and reliability,

improved manufacturing, improved ability to comply with regulatory standards, reduced field service costs, reduced liability exposure and reduced inventories. In addition, Jordan considers the possibility of offering the potential partner a number of external benefits, such as guaranteed high volumes, a long-term contract, an exclusive contract, technical assistance, financial assistance, and certification. Naturally, all these issues were prepared and discussed extensively during the regular management meetings.

**Negotiating and Signing the Contract.** Within a reasonable period of time, both BroadBent and EverReady have to decide whether the proposed partnership is feasible. Specific conditions are agreed upon and incorporated in a formal written contract. This includes arrangements for distributing costs and benefits, handling unusual situations, and conditions and procedures for terminating the partnership. As is usual in this kind of situation, the strategic partnership is built largely on trust, and the contract is not very elaborate.<sup>25</sup> Nevertheless, Jordan makes sure that both parties are familiar with each other's goals and requirements, as well as the various conditions, risks, and responsibilities of the purchasing partnership. For example, for the supplier the proposed partnership implies:

- Tighter and more stringent requirements
- Continuous auditing by the customer
- Order levels tied to performance
- Required flexibility
- The imposition of operational controls

Naturally, the selected supplier may still decide not to enter into a purchasing partnership with BroadBent Industries. This means that Jordan needs to return to an earlier stage of the reverse marketing process and perhaps approach the next supplier on her list of candidates. Fortunately, however, in this case EverReady accepts the partnering proposal.

#### Stage 4: Evaluating and Controlling the Fruits of the Relationship

For the fourth and final stage of the reverse marketing process, Jordan needs to establish procedures for (1) control of the reverse marketing process and (2) evaluation of the activities carried out.

**Control.** Although effective purchasing partnerships are characterized by mutual commitment, communication, trust, and a synergistic combination of capabilities, Jordan realizes that this does not preclude continuous assessment and monitoring of the supplier's performance. After all, every relationship has its ups and downs. Jordan particularly monitors the start-up of production and the first units produced. Even though EverReady is a certified supplier, it will still be monitored during the full duration of the contract, which is in keeping with the practices of world-class firms. For example, Motorola teams tour suppliers' plants every two years, while commodity managers rate suppliers monthly on an index that combines cost and quality, in both cases comparing the suppliers with their competitors.<sup>26</sup>

For evaluating suppliers, Jordan considers the entire range of surveys, on-site visits, mechanical product tests, reliability tests, incoming material inspection, failure mode and effects analysis, statistical process control studies, team audits, and a stepwise certification process. Unusual conditions or emergency situations will automatically generate an assessment. Examples of such circumstances are major product failure, customer complaints, chronic quality problems, frequent shortages of material, late delivery of material, defective material, and high quality costs. Quick corrective action enhances mutual trust and improves the partnership.

To assist in resolving potential problems, and to help with implementing a statistical process control system, Jordan makes arrangements for incidental financial assistance by creating an internal budget and reserving funds for such purposes. In addition, Jordan makes sure that BroadBent Industries is able to keep its part of the bargain (e.g., keeping promises regarding purchased volumes, technical support, etc.) in order to expand the trust built up during the previous stages. All of these activities are aimed at building the relationship—they are part of *relationship management*, a familiar concept from the industrial marketing side of the house.

**Evaluation.** Finally, after some time the reverse marketing efforts need to be evaluated. Such an *evaluation* can be carried out after the contract has expired, but after consultation with EverReady Jordan decides in favor of an annual evaluation. After one year, the results and experiences will be compared with the objectives specified during the planning stage. Have the expected benefits been realized? What unforeseen circumstances or problems came up? What new developments have materialized? Again, BroadBent Industries will need to make a strategic decision—does reverse marketing offer the greatest opportunities for the coming years, or should a different kind of purchasing arrangement be pursued?

In the meantime, one must realize that the reverse marketing efforts will have introduced new elements into the equation. For instance, both BroadBent and the supplier will have made investments with a long-term payoff and the purchasing partnership may not be fully developed yet. Premature termination of a partnership that did not really get the chance to blossom yields an inefficient outcome for both partners. Naturally, the outcome of the evaluation may serve to formulate a new plan of action, or modify the reverse marketing objectives or strategy.

One evening, as Jordan sits in her office thinking back about the whole reverse marketing process, she realizes that although it took a lot of effort, the preliminary results are very promising. Nevertheless, she knows that a lot of work remains to be done to make BroadBent's purchasing truly market driven.

#### REVERSE MARKETING: AN EVALUATION

Both marketing and purchasing are all about developing and maintaining relationships with external parties. This article has demonstrated that marketing principles and tools can be used to develop a strategic purchasing function. The concept of reverse marketing was used as a framework for the discussion, which also demonstrated that this approach embodies a



number of relevant worldwide trends and can serve as a conceptual umbrella. This implies that reverse marketing should not be embraced as a completely new purchasing philosophy. In this context, three remarks need to be made.

*First*, the concept of reverse marketing is not suitable and certainly not profitable for all purchases. The number of products it can be applied to are limited, and there will always be room for the traditional purchasing approach, with an emphasis on individual transactions rather than long-term relationships.

*Second*, although marketing principles can be used effectively in purchasing, the word "marketing" may not be entirely appropriate. Reverse marketing efforts directed at suppliers require an informed and streamlined internal organization. Internal marketing may prove to be the key to having one's own organization function as a single unit. However, this clearly illustrates that implementing a reverse marketing strategy has significant implications for the whole organization. Analogous to the field of industrial marketing, where a team of specialists (the "problem solving unit") addresses the needs of a group of individuals within the buying organization (the "decision making unit"), the distinction between marketing and management is not always clear. Therefore, it would probably be better to use the term *reverse management*.

*Third*, in the 1990s firms can no longer limit themselves to applying marketing principles only forward to customers and backward to suppliers. The successful firms of this decade must develop and maintain close relationships with all relevant external parties, such as competitors, manufacturers of complementary products, government, interest groups, and relevant media.

To sum up, the developments sketched in this article lead us to modify Regis McKenna's provoking statement "Marketing is everything" into "Marketing is everywhere!"<sup>27</sup>

## REFERENCES

1. David N. Burt, "Managing Product Quality through Strategic Purchasing," *Sloan Management Review*, Spring 1989, pp. 39-48.
2. Robert G. Cooper, *Winning at New Products*, (Reading, MA: Addison Wesley, 1986).
3. Greg Hutchins, *Purchasing Strategies for Total Quality: A Guide to Achieving Continuous Improvement* (Homewood, IL: Business One Irwin, 1992).
4. Jos Lemmink, "Kwaliteitsconcurrentie tussen ondernemingen" (Quality Competition Between Firms). Ph.D. Thesis, University of Limburg, The Netherlands, 1991.
5. Stephen R. Rosenthal, *Effective Product Design and Development - How to Cut Lead Time and Increase Customer Satisfaction*, (Homewood, IL: Business One Irwin, 1992).
6. Ivor P. Morgan, "The Purchasing Revolution," *The McKinsey Quarterly*, Spring 1987, pp. 49-55; Madhav N. Segal, "Implications of Single vs. Multiple Buying Sources," *Industrial Marketing Management*, vol. 18 (1989), pp. 163-78.
7. Richard G. Newman, "Single Sourcing: Short-Term Savings Versus Long-Term Problems," *Journal of Purchasing and Materials Management*, Summer 1989, pp. 20-25; John Ramsay, "The Myth of the Cooperative Single Source," *Journal of Purchasing and Materials Management*, Winter 1990, pp. 2-5.
8. Michiel R. Leenders and David L. Blenkhorn, *Reverse Marketing: The New Buyer-Supplier Relationship*, (New York: The Free Press, 1988).
9. David N. Burt, "Managing Suppliers Up to Speed," *Harvard Business Review*, July-August 1989, pp. 127-35; A. Ben Oumlil and Alvin J. Williams, "Market-Driven Procurement," *Industrial Marketing Management*, vol. 18 (1989), pp. 289-92.
10. Robin Cammish and Mark Keough, "A Strategic Role for Purchasing," *The McKinsey Quarterly*, 1991, no. 3, pp. 22-39.
11. A. Ansari and B. Modarress, *Just-In-Time Purchasing* (New York: Free Press, 1990).
12. Myron Magnet, "The New Golden Rule of Business," *Fortune*, February 21, 1994, pp. 28-32.
13. David Asmus and John Griffin, "Harnessing the Power of Your Suppliers," *The McKinsey Quarterly*, 1993, no. 3, pp. 63-78; Ikujiro Nonaka, "Redundant, Overlapping Organization: A Japanese Approach to Managing the Innovation Process," *California Management Review*, Spring 1990, pp. 27-38.
14. Philip Kotler and Paul J. Stonich, "Turbo Marketing Through Time Compression," *The Journal of Business Strategy*, vol. 12, no. 5 (September/October 1991), pp. 24-29; Christopher Meyer, *Fast Cycle Time - How to Align Purpose, Strategy, and Structure for Speed*, (New York: Free Press, 1993); George Stalk, Jr., and Thomas M. Hout, *Competing Against Time: How Time-Based Competition Is Reshaping Global Markets* (New York: Free Press, 1990).
15. Preston G. Smith and Donald G. Reinertsen, *Developing Products In Half The Time* (New York: Van Nostrand Reinhold, 1991).
16. Mark Keough, "Buying Your Way to the Top," *The McKinsey Quarterly*, 1993, No. 3, p. 41-62; Peter Kraljic, "Purchasing Must Become Supply Management," *Harvard Business Review*, September-October 1983, pp. 109-17; Robert F. Reck and Brian G. Long, "Purchasing: A Competitive Weapon," *Journal of Purchasing and Materials Management*, Fall 1988, pp. 2-8.
17. David N. Burt and William R. Soukup, "Purchasing's Role in New Product Development," *Harvard Business Review*, September-October 1985, pp. 90-97; Alvin J. Williams and William C. Smith, "Involving Purchasing in Product Development," *Industrial Marketing Management*, 1990, pp. 315-19.
18. Robin Cammish and Mark Keough, op cit.
19. David L. Blenkhorn and Peter M. Banting, "How Reverse Marketing Changes Buyer-Seller Roles," *Industrial Marketing Management*, vol. 20 (1991), pp. 185-91.
20. Rowland T. Moriarty and Thomas J. Kosnik, "High-Tech Marketing: Concepts, Continuity, and Change," *Sloan Management Review*, Summer 1989, pp. 7-17.
21. James C. Anderson and James A. Narus, "Partnering as a Focused Market Strategy," *California Management Review*, Spring 1991, pp. 95-113; Barbara B. Jackson, "Building Customer Relationships That Last," *Harvard Business Review*, November-December 1985, pp. 120-28.
22. Lisa M. Ellram, "A Managerial Guideline for the Development and Implementation of Purchasing Partnerships," *International Journal of Purchasing and Materials Management*, August 1991, pp. 2-8.
23. Michiel R. Leenders and David L. Blenkhorn, op cit.
24. Thomas V. Bonoma, "Major Sales: Who Really Does the Buying?" *Harvard Business Review*, May-June 1982, pp. 111-19.
25. Sang-Lin Han, David T. Wilson, and Shirish P. Dant, "Buyer-Supplier Relationships Today," *Industrial Marketing Management*, vol. 22 (1993), pp. 331-38.
26. Myron Magnet, op cit.
27. Regis McKenna, "Marketing Is Everything," *Harvard Business Review*, January-February 1991, pp. 65-79.