Why integrating purchasing with marketing is both

Integration Global trends Customer centric marketing Business markets abstract The shift away from manufacturing In Western developed economies has resulted In economies in which service industries are dominant. Marketing itself has undergone a paradigmatic shift from a focus on the exchange of goods to the provision of capabilities. This paper examines the relationship between marketing and purchasing as a result of the shift from product- to capability-focused commerce.

We suggest that the marketing and purchasing departments will become closer due to two major reasons. First, as marketers increasingly become solution-oriented rather arty vendors and will require deeper involvement of the purchasing department. Second, with the emergence of customer-centric marketing coupled with build-to- order manufacturing, marketing and purchasing will have to be better aligned to deliver solutions to customers.

These new dimensions in the marketing-purchasing interaction will also lead to changes in the selection, training, and recruitment of marketers and purchasers as well as their roles in the supply chain. We elaborate on these changes likely to occur in business-to-business organizations and along with implications for managers. 1. Introduction Formal research in organizational buying and industrial purchasing began with the seminal works of Robinson, Fairs and Wind (1967), Webster (1965), Webster and Wind (1972) and Sheet (1973).

Since then, research has revealed tremendous insights into the decision-making processes in organizational buying, the roles and impact of buying centers, the impact of purchasing situations, and the individual and organizational effects on organizational buying [see Bun (1993), Johnston & Lenin (1996), Lenin and Dutton (2005), and Sheet (1996), for reviews of the field]. At the same time, the field of business-to-business marketing has emerged as a legitimate area of academic inquiry and research within marketing (Elizabethan, Lyre, Busch, & Telltales, 2006).

The field of business-to-business research has been able to successfully integrate areas such as organization buying, buying situations, relationship marketing and branding. However, research on purchasing and supply chain management is currently conducted in disparate domains despite the emerging realities and practical exigencies of an integrated perspective on business-to-business marketing.

Strategic benefits, such as competitive supply chains, improved product development and faster times to market, can be realized only when purchasing and supply chain activities are closely integrated not only with each other, but also to the customer (Hard, Reined, & Spiller, 2007; Williams, Junipers, & Honoree, 1994). Corresponding author. Department of Marketing, University of Miami, POP Box 248147, coral Gables, FL 33146. Tell. : + 1 305 284 1770; fax: + 1 305 284 5326. E-mail address: Saba. Miami. Du (A. Sahara). 019-8501/$ – see front matter 2009 Elsevier Inc. All rights reserved. Ii: 10. 1016/ j. Tamarind. 2008. 12. 021 Therefore, the integration of purchasing and supply chain management in research and practice is critical to the advancement of the discipline, as this special issue of Industrial Marketing Management would attest. In practice as well, purchasing and marketing operate in distinct silos within the organization. Even in customer-focused companies, purchasing is aligned more with manufacturing and operations, and remains distinct from the aims and objectives of marketing.

Interactions between marketing and purchasing occur more for operational dictates, such as the implementation of Just-in-time systems, development of forecasting models, and inventory management, rather than for identifying and delivering customer solutions. Buyer in most organizations (Reinforce, Spiller, & Anger, 2007). Organizational realities, however, have now changed considerably from the era when purchasing could be considered a distinct department with its own objectives, budget and strategies.

First, the importance of manufacturing in today's business firms is now considerably eroded and industrial firms rely more on outsourcing non-core activities, including manufacturing and there operations, rather than performing them in-house. Across practically all industries, firms are now emphasizing capabilities rather than tangible goods, leading some observers to herald the coming of a servicewoman logic in marketing (Fargo & Lush, 2004). Second, while the purchasing department's influence on routine products has decreased over time, the strategic importance of purchasing has only attained increased prominence (Hard et al. 2007; Pearson & Grimacer, 1990; Cox, 2001; Lamming, 1996. For example, sourcing strategies in industries such as retailing are today a very important and strategic J. N. Sheet et al. / Industrial Marketing Management 38 (2009) 865-871 component of the retailer's merchandising and assortment strategy. Similarly, in the industrial firm, it cannot be denied that product design, new product development and product customization require a strategic role for purchasing. Third, globalization has not only exposed the firm to global sources for raw materials and components, but also to global competition.

The resulting impact has been on erosion of traditional sources of resource-based competitive advantage, such as privileged access to materials and components, and lower labor costs, which were once aided largely by purchasing. In other words, in the era of global competition for raw materials and other resources, the role of purchasing has become more important and strategic for firms worldwide. For example, there is a global hunt for resources such as oil, coal and iron ore, and global competitors from emerging economies of China, India and Russia are being very aggressive.

At the same time, increase in worldwide capacity for finished products has further put pressure on procurement to focus on the end-customer in the supply chain. These new realities call for an increased understanding and collaboration between archiving and marketing beyond their traditional roles within the organization. This paper identifies various issues and solutions for a better integration of purchasing and marketing in the next-generation organization. The following section reviews the traditional roles of purchasing and marketing prior to identifying the causes and impact of emergent organizational realities.

A framework for the integration of purchasing and marketing is then offered along with some managerial implications and suggestions for future research. 2. Purchasing and marketing -? traditional roles Traditionally, marketing’s primary concern has been with demand generation and fulfillment of customer needs, while purchasing has focused attention on suppliers to ensure manufacturing and capacity utilization. Thus, dyadic relations for marketing independent and contradictory to one another. In the industrial organization, manufacturing and operations were the main conduits of integration between marketing and purchasing (see Fig.). Communications and contacts between marketing and purchasing in the traditional industrial organization were restricted to dictates of manufacturing and operations. For example, the classic organizational problem of " make-versus-buy' to meet customer demand was determined by the evaluation of production and contracting costs (Walker & Weber, 1984). Purchasing importance increased when the organization favored a " buy' decision, and its main priorities were reductions in the costs of procurement. Similarly, the closer relationships sought with suppliers was also motivated by reductions in the costs of manufacturing and operations.

Close supplier relations are critical to the successful implementation of Just-in-time manufacturing and zero inventory models (Frazier, Spokesman, & O'Neal, 1988). For example, the competitive advantages that Dell Inc. Enjoyed over other computer manufacturers were largely due to its Just-in-time manufacturing that was enabled through aggressive negotiations with its suppliers (Breed, 2004). While purchasing was focused on reducing the costs of transactions as well as the costs of manufacturing and operations, marketing's concerns had been the enhancement of customer service and satisfaction.

Purchasing inward Fig. 1. Distinct foci of marketing and purchasing. Focus and marketing's outward focus remained disparate outlook on realities for the same organization. Recent literature within purchasing has addressed the strategic importance of purchasing to the organization, including the importance of the purchase situation, and the priorities of developing closer relationships with suppliers (Anderson, Hosanna & Johansson, 1994; Biomass & Brand, 1995; Cannon & Homburg, 2001; Hunter, Bun, & Puerperal, 2006; Lyre, 1996; Lenders & Blackthorn, 1988).

The strategic importance of purchasing has been accentuated by the decreased prominence of manufacturing and the outsourcing of what could otherwise be considered a key source of competitive advantage (Browning, Gabriele, & Hellmann, 1983; Lyre, 996). What matters is the evaluation of the purchase situation in light of the strategic importance of assets that are to be procured over the market interface (Hunter et al. , 2006; year, 1996).

Research in recent times has also called attention to the supplier-buyer relationship in purchasing (Anderson & Nards, 1990; Blackthorn & Banging, 1991; Cannon & Homburg, 2001; Cannon & Perpetual, 1999; Lenders & Blackthorn, 1988; Leonardo, 2004; Sheet & Sahara, 1997; Tanner, 1999; Wilson, 1995; Wilson & Unmanlier, 1986). Approaches such as reverse marketing have stressed closer collaboration with appliers (Blackthorn & Banging, 1991; Lenders & Blackthorn, 1988), while insights from relationship marketing stress effective partnerships and relationships with suppliers (Biomass & Brand, 1995; Sheet & Sahara, 1997).

However, the end- customer rarely enters the picture in all of the above new approaches to relationships. Purchasing relationships are merely considered the mirror image of the relationships that the organization seeks with its customers through the marketing interface. Thus, issues and perspectives in customer relationship marketing and management are transposed on the relationships with suppliers, thou considering the fact that marketing's relationships with customers is qualitatively different and dictated by different priorities as compared to purchasing relationships with suppliers.

The result is a Janis-faced organization, one face looking forward to the customer and the other facing the supplier. The importance of marketing's relationship with purchasing is thus, rarely addressed by extant research. New realities now challenge the dichotomy that exists within most organization on the distinct roles and responsibilities of marketing and purchasing. These new realities are addressed in the next section. 3. The emergent organization Services have been the fastest growing sector in industrial economies and the loss of manufacturing in these economies is considered inevitable.

Also, considering that more value addition takes place through services, the emerging view is that services, rather than products, are central to marketing. Fargo and Lush (2004)) suggest that the models on which most economic and marketing knowledge is based are goods-oriented and output-based. These models increase our understanding only of a production-based system where goods are first manufactured and then marketed. Instead, Fargo and Lush (2004)) suggest that the Ochs of businesses is shifting away from tangible products and processes to intangibles such as skills, information, and knowledge.

There is also a shift towards greater interactivity, connectivity, and maintaining ongoing relationships. Described as the product-to-service-shift, this movement is becoming increasingly important to academics and practitioners. The central implication of a service-centered logic is that the appropriate role of marketing should be a focus on the service provided rather than the product sold (Fargo & Lush, 2004). A service-centered view of exchange implies customized offerings to better fit customers' needs and identifying firm resources -? both internal and external -? to better satisfy the needs of customers.

Service-centered firms develop networks that allow firms to offer solutions to customers that may involve sourcing from both within and outside the firm. Goods are appliances for service and ownership will no longer be critical for buying firms (Fargo & Lush, 2004). Similarly, Coral and Kettle (1999) have also suggested that the marketing function may become a gesticulation's function. Customer consulting framework would enable marketers to evaluate the services that the customer needs ND also provide those services.

In this emerging environment, purchasing role in external sourcing will be critical since purchasing will be best positioned to identify the required competencies outside the firm the same way the human resources department is able to identify the competencies needed within the firm. The plural form, " services," is intentional. They suggest that " service" implies a process that firms use resources to benefit customers, whereas " services" are the output.

Ultimately, with this focus on services, the most successful organizations are hose whose core competence lies in marketing and all its related marketsensing processes (Day, 1999; Hackle, 1999). This is where the critical role of purchasing emerges. Purchasing or sourcing becomes the internal supplier to the marketing department. Purchasing no longer is driven by the manufacturing process but by the marketing process. 3. 1 . Drivers for this change There are major economic drivers for this change toward a servicewoman logic or a solution-focused marketing strategy.

First, competition in most sectors is intense and growing. In the last three decades, the major competitors in global markets are no anger restricted to firms from Europe and United States, but have now emerged from various emerging markets, most notably from China and India. The playing field is also now the entire world, with more growth in emerging economies. But, at the same time, emerging economies such as China and India present a new challenging mix of traditional business practices with modern competitive skills.

The rising economic strength and modernization in these economies call for new modalities of competition. In this new competitive environment, solution-based marketing strategies will be more successful as compared to competition based merely on reduce design or cost economies. Such salutatorian’s approaches call for a focus on the process rather than on the product (Tulip et al. , 2007). Second, increased multilateral negotiations between countries, aided largely by the World Trade Organization (WTFO), have resulted in the decrease of most inter-country barriers to trade.

The relative absence of barriers has made it possible to engage in production in areas that provide the best location advantages rather than producing near demand centers (Dunning, 1998). This shift of production away from demand centers has made manufacturing less relevant for firms and therefore firms eave been willing to source products and services from other firms, thus enabling service dominance or solution-based marketing strategies. This trend is particularly true currently for high value and engineering products, but it is growing for almost all products (Brady, Davis, & Gain, 2005).

Third, businesses have also become more diverse. For example, according to U. S. Census Bureau, there were about 6 million businesses in the U. S. Alone in the year 2000. Of these 6 million businesses, 99% had less than 6 employees. 95, 000 businesses had more than 100 employees and only 16, 000 had more than 500 employees. These large businesses with more than 500 employees operate out of an average of 54 locations each. The Census Bureau also shows a simultaneous growth in large businesses (e. G. , Bank of America) and small businesses.

This increasing diversity of businesses-business firms of different sizes has enabled demand diversity, which calls for non-standard or customized solutions. Fourth, emerging and existing technologies such as Web 2. 0 and Poi have led to decreases in transactional costs of dealing with other firms. Newer technologies have 867 constraining. In addition, modern logistics technologies enabling low costs of remonstration have made it possible to locate sourcing far away from the centers of demand. With the actual physical location no longer being a major constraint, firms have moved towards more value-added solutions.

Fifth, as markets have globalizes, so have BIB customers. With the evolution of purchasing into a strategic function, the role of the purchasing manager in some of the more proactive firms has also become more strategic. This has led to more centralized purchasing leading to identification of interactions that are relational (central purchasing) and others that are transactional (local order taking and applying). Also, purchasing has moved away from product purchasing to solution purchasing, an outcome that is seen in outsourcing.

Finally, marketing is changing from a logic of manufacturing first and then selling to meet demand from end-users. For example, after the Second World War, most firms manufactured the product first and then used marketing to sell the product and conduct " demand management" (Kettle, 1973). However, firms such as Paella windows first get the order from the customer and then manufacture the product, I. E. , they engage in reverse marketing (Sahara & Alpaca, 2005). Manufacturing, in this context, is merely the fulfillment of a customer solution.

In this era of reverse marketing, standardized products and services become less important and customized or personalized solutions become more important. The trends towards personalized solutions and services call for a much closer integration of purchasing and marketing. In the next section, we trace the conceptual underpinnings of the purchasing- marketing integration. 4. Conceptual underpinnings of purchasing-marketing Integration We propose a conceptual model to aid our understanding of the issues that we present in Fig. 2.

The need for closer supplier relationships and the imperatives of a solution-focus call for an integration of purchasing and marketing beyond what is currently observed in most organizations. The exigencies of a competitive and lean supply chain from raw materials to market demand call for an in-depth analysis of sourcing and outsourcing issues as much as internal marketing efforts. Increases in manufacturing costs as well as the greater margins obtained from providing services has led many organizations to outsource manufacturing.

For example, firms such as IBM have, in the past decade or more, positioned themselves as providers of services Fig. 2. The conceptual model. Rather than products. Such firms have outsourced the tangible aspects of their result, purchasing importance has grown in sourcing for manufactured products and components (Trend and Monika, 2003). But, since purchasing priorities are now set by the customer demand, the role of the traditional purchase department, which focused more on routine buying of materials and components as opposed to strategic sourcing, has also declined.

Such a decline is also predicted by transaction cost economics. Central to transaction cost economics approaches is the concept of supplier opportunism. While effective and lean supply chains call for closer relationships and single source supply, the possibility of suppliers acting contrary to the firm's objectives remains a reality (Buick and John, 2000). According to transaction cost economics, such supplier opportunism would be present whenever it is feasible and economically advantages for the supplier (Williamson, 1975).

As more number of firms outsource their manufacturing and reduce their emphasis on the traditional activities of the purchasing function, such as vendor qualification and selection, they expose themselves more to supplier opportunism (Williamson, 1985). For example, Matter recently engaged in a voluntary recall of millions of toys that may have contained hazardous levels of lead paint and blamed its manufacturing partner in China for not engaging in adequate quality control in procuring paint from its suppliers (Casey, 2007; Casey & Zamias, 2007).

Thus, even when outsourcing, purchasing requires a more strategic focus on organizational objectives. Reliance on outsourcing may also contribute to leakages of " architectural knowledge" and proprietary information sources on which rest the firm's competitive advantages (Lyre, 1996). To mitigate these risks and the risks of applier opportunism, firms may have to develop complex incentive and contract structures that may serve only to increase the costs of procurement (Williamson, 1975).

On the other hand, there are distinct advantages if the purchasing function were to be retained in-house and performed its traditional activities, including new ones such as monitoring and control of outsourced manufacturing and products. Customer demand for quality is better met and the core priority for purchasing is a focus on value rather than costs alone. At the same time, it has been noted that primary disadvantages of internal procurement include the rise in bureaucratic costs of staffing a separate procurement division and dulled incentives that may contribute to managerial shirking (Williamson, 1975).

Therefore, purchasing objectives need to be better aligned within the organization. The majority of research in terms of functional relationships has been conducted in the area of channels, where firms want closer relationships with their distribution partners. However, stronger relationship with the purchasing department calls for an examination of relational assets and the investment in supply chain made by each national area. Relational assets developed by purchasing can affect the marketing department’s relational orientation. There are two types of relational assets. The first type of assets is non-transaction-specific.

Examples of non-transaction-specific assets in our context are technical expertise, access to raw materials, and cost structures. The second type of assets is transaction-specific and may include specific machinery or human assets dependence; in other words, the buyer-seller relationship is maintained to achieve the desired goals (Frazier, 1983). In retailing, dependence of a channel member on a applier has been shown to be positively related to the retailer’s long-term- orientation (Gamesman, 1994). Relational assets signal commitment and therefore, purchasing investment in such assets enables the creation of closer supply relationships.

At the same time, transaction-specific investments made by the marketing function can help cement long-term relationships with customers. Such transaction-specific investments increase the commitment between partners (Blab, 1964; Cook & Emerson, 1978) and signal credible commitments that support continuing exchange (Williamson, 1983). For example, increases in the level of the sales agency’s manufacturer-specific assets contribute to mutual dependence between the agency and the manufacturer, leading to higher levels of relationship orientation (Weiss & Garland, 1997).

Assets created by marketing can be characterized by the degree to which they are transaction-specific, I. E. , idiosyncratic to the exchange and non-redeployed in other exchanges. Higher levels of transmogrification's investments lead to increased costs of replacing an exchange partner (Barney & Couch, 1986; Hide and Weiss, 1995). Thus, relationship-specific assets can be present both in the supply relationships as well as in the relationship with the firm's customers. A closer integration between marketing and purchasing is needed to safeguard these relationship-specific assets.

A balanced relationship and a somewhat seamless value chain is obtained when investments in relational assets are made for the same value chain relationship and there is adequate coordination between marketing and purchasing within the organization to make ensure commitment and continuity in both ends of the value chain. 4. 1 . Automation and integration With increased global competition, firms have started examining processes for both effectiveness and efficiency. Efficiency involves costiveness analysis, and firms seek the minimization of the output-to-input ratio of dollars spent.

As such, firms have started adopting process improvement plans (through strategies such as Six Sigma) and even engaging in business process outsourcing (BOP). A measure of effectiveness is the intangible outcome of processes. For example, the enhancement of customer loyalty and " share of wallet" are effective outcomes of customer relationship management. Several firms have taken very specific steps to increase efficiency and effectiveness. One of the methods of doing this is to enhance the cooperation between purchasing and marketing. As an example, Dell Computers maintains no inventory.

The production schedule is provided to all vendors a couple of days before production and allows the suppliers to provide Just-in-time and Just- in-sequence inventory. In this system, marketing and purchasing have to partner to ensure quick deliveries as well as develop better long term forecasts. 4. 2. Increase in process automation Process automation came of age with advanced telecommunication devices and for this phenomenon. First, as mentioned earlier, firms are now more sensitive to the costs of processes and are attempting to reduce these through automation.

Second, automation allows firms to operate 2417 in concert with their customers. As services become the dominant paradigm, customers' access to the firm's capabilities anytime and from anywhere becomes top priority. Third, automation allows firms to simultaneously provide information to their employees and customers, thereby reducing interaction costs. This also allows employees or customers with specific or special needs to have easy access to the information they need.

Fourth, automation allows employees and customers to deliberate more on the strategic aspects of their decisions, since there is less employee time involved in routine processes. Fifth, process automation reduces error as employees and customers input their requirements directly into an ordering system. Finally, technologies such as EDI (electronic data interchange) allow computers to communicate with other computers, reducing the need for people and enhancing the efficiency of processes. Automation has enabled greater access to information and integration of functions. The evolution of automation and integration is noted in Fig. . In summary, automation and integration is making the boundary between the functional areas disappear. In our context, the boundary 869 era of commodity shortages and customer solutions. The shift will be from the purchasing department predominantly being a traditionally process-oriented department to a strategic department. 5. 4. Marketing will lead Fig. 3. Integration and automation in e-procurement. Between internal and external production is becoming less meaningful and could be eliminated. Instead, the purchasing function should have the flexibility of announcing or outsourcing any product or capability.