

Exploring Marketing-Purchasing Integration in Marketing Service Procurement

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Abstract

A considerable part of marketing services of organizations are externally supplied. Although a large spend category, these services still pose challenges from a purchasing perspective. One particular indicator in this context is the low involvement of purchasing during the sourcing decision process. In this paper, reasons for this low involvement are analysed for both the marketing and purchasing sides. The underlying rationale is that there are potential conflicts between the two departments, which have to be brought to the surface before a suitable solution can be found. The degree of marketing-purchasing integration is explored, then barriers to integration are analysed. A research model is presented, and hypotheses for further empirical investigation are brought forward.

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Introduction

A firm's purchasing department can add value as it can help to ensure funds are spent properly, improving the quality of the services purchased and saving time and money (Ellram and Birou, 1995; Leenders et al., 2002; Mendez and Pearson, 1995; Murray, 2001), consolidate spend, avoid fragmentation, and by such provide one face to the supplier market (Lonsdale and Watson, 2005).

Companies are relying on an increasingly larger share of externally supplied services, which often account for more than half of the company's spend (Cox et al., 2005; Bales and Fearon, 1995; Smeltzer and Ogden, 2002). In fact, the whole research field on purchasing services, or more specifically business services (Van der Valk, Wynstra & Axelsson, 2005), is hardly developed (Axelsson & Wynstra, 2000). Although some valuable insights have been gained regarding the business to business (B2B) purchasing of goods, the academic knowledge of B2B purchasing of services is limited at the moment (Kramer et al., 2005; Farrel & Schroder, 1996; Roth, Money & Madden, 2004; Axelsson & Wynstra, 2000).

Empirical studies show that marketing is one of the most significant external services spend categories, but is currently under-managed by purchasing (CAPS Research, 2003b). There is a lack of appreciation of the benefits associated with inter-functional collaboration (Williams, Giunipero and Henthorne, 1994). The main decisions concerning contract negotiations, contracting and monitoring agencies are done by top management in collaboration with marketing and advertising, with hardly any integration of the purchasing department (West, 1997). The current involvement of purchasing during the sourcing decision process varies with the respective sub-category of marketing services. According to one source, in "Sales Promotion" the purchasing department is involved in approx. 48 % of the cases, in "Market Research" in approx. 28 %, in "Graphics" in approx. 23 % and in "Advertising" in approx. 20% of the cases (West, 1997).

One interesting point regarding this integration discussion is the different perceptions of purchasing and marketing representatives. While in one study 50 % of the purchasing employees indicated that they would be integrated in the agency selection process, only 20 % of the marketing employees had the same impression (Johnson, 2005).

Due to evading purchasing department involvement, it can be assumed, that the value gains that can be associated with purchasing department involvement (Leenders et al., 2002) are not fully leveraged in this category. One aspect is that fragmentation can become a serious problem and often arises because a purchasing department's internal client has preferences for particular products of particular suppliers (Lonsdale and Watson, 2005), a problem also recognized in the marketing context (Edwards, 1997). As such fragmentation could currently lead to ignoring the lever of a consistent approach towards suppliers.

In this context, we set out to shed light onto three particular research questions:

1. How can the degree of involvement be defined?
2. Which barriers prevent high degrees of involvement?
3. Do these considerations differ significantly for different sub categories?

The paper is organized as follows. In the next section, the characterization of the degree of involvement between marketing and purchasing is explored. The underlying assumption is that a significant part of the current misunderstandings could be evaded by providing a clear communication of tasks and responsibilities (Robertson, 2005a; Nussey, 2005; Robertson, 2005b) within a cross-functional team. Here, we follow a similar approach as Schiele (2005), investigating possible contributions of both parties along the buying process model by

Robinson, Faris and Wind (1967). Nevertheless, in order to be able to specifically define how a cross-functional team work can look like, five roles within the buying centre are integrated as well (Robinson, Faris and Wind, 1967). In these regards, the approach is similar to that of West (1997) and Van der Valk, Reunis and Wynstra (2005). In these regards we follow the calls of Schiele (2005) that further research could delve into the question whether there are ideal combinations of purchasing activities that effect more positive results and, also, whether there exist varying configurations coming to equally positive results. From a theoretical perspective, it is investigated how responsibilities should be distributed, from no responsibility of purchasing, to some, routine, total and team responsibility (Pearson, 1999). In the third section we turn to the identification of potential barriers to marketing-purchasing integration. For this purpose, potential barriers are organized according to a systematization of barriers to cross-functional exchange by Walter (1997), integrating a framework for the internal client relationship, demand management and value for money by Lonsdale and Watson (2005). In the fourth section, two moderating factors are illustrated. On the one hand, not all sub categories are challenging the internal relationship equally, but also based on OBB theory, sub category complexity is a major factor. On the other hand, duration of relationship is another factor, relevant to trust and commitment. In the fifth section, we present a research model aggregating the findings from literature into hypothetical relationships. In the sixth section, measures to overcome the barriers identified are discussed. The paper closes with a short summary and discussion of the findings of this stage of research process, as well as an outlook regarding the ongoing research.

Integration of marketing and purchasing along the purchasing process

As mentioned earlier, the question is how marketing and purchasing can interact to collaboratively create value in sourcing marketing services. We define the degree of involvement as the level of marketing-purchasing integration. In the following, we develop dimensions of involvement in order to make the concept measurable.

Stuart (1991) defined the term “meaningful involvement”. As further specified by Schiele (2005) in regards to consulting services, “meaningful involvement” exists when purchasing is making a significant contribution to 1. Supplier input, 2. Functional and technical specifications, 3. Marketing service utilization, and 4. Timesavings, while helping the client department meet its immediate needs and ensuring that long-term needs and strategic objectives of the organization are met as well.

Supplier input concerns linking formerly unknown suppliers with the internal client and increase information exchanges among them. Functional and technical specifications relate to the identification and description of the characteristics and quantities needed of a service. Purchasing can help to come to clearer specifications. Marketing service utilization concerns that it is ensured that the needed service not only meets the immediate needs of the client department, but also contributed to the long-term objectives of the organisation as a whole, not conflicting with any of these objectives. The latter condition is fitting well with the issue of goal alignment of the parties involved, introduced in the last section. Finally, timesavings relate to reducing both the time invested by the client department during the purchasing process and the time that is lost when the service purchased fails. As Schiele (2005) notes, the definition of “meaningful involvement” by Johnson and Leenders (2003) refers to an ideal level of involvement on the part of the purchasing department, a state of full integration with all functions and activities within the organisation.

Based on these considerations, we formulate the following hypotheses:

Hypothesis 1: The integration of marketing and purchasing has a positive influence on purchasing performance

- H1a : *Marketing-purchasing integration has a positive influence on service quality.*
- H1b : *Marketing-purchasing integration has a positive influence on cost reductions.*

The level of integration is determined by the distribution of roles between marketing and purchasing. Following the terminology of Robinson, Faris & Wind (1967) a (theoretical) synopsis of all persons influencing the purchasing process formally or informally is called the “buying centre” and five roles are differentiated within this centre:

- Users, who are actually using the purchased good or service;
- Influencers, who are able to influence the purchasing process outcome with their advice;
- Deciders, who do have the formal authority to make for example supplier selection decisions;
- Buyers, who are actually negotiating the contract and/or placing the order;
- Gatekeepers, who manage information flows between the parties involved.

As the members of the buying centre are influenced by other actors, the buying task, the organisational structure and technology (influencing factors of the higher organisational level), each company takes individual purchasing decisions (Webster & Wind, 1972).

Concerning the purchasing phases, the classical generic purchasing process with eight phases by Robinson, Faris and Wind (1967) is taken for further structuring. In the scope of this paper the model is regarded as suitable in providing a reference process for structuring the process of purchasing marketing services, similar to its use in Schiele (2005) and Mitchell (1998). Other process models used in the context of purchasing professional services comprise a similar set of phases (e.g. Day & Barksdale, 2003). The model has received strong support in literature (Anderson, Chu and Weitz, 1987; Moriarty, 1980). These phases comprise:

1. Anticipation or Recognition of a problem (Need) and a General Solution,
2. Determination of Characteristics and Quantity of Needed Item,
3. Description of Characteristics and Quantity of Needed Item,
4. Search for and Qualification of Potential Sources,
5. Acquisition and Analysis of Proposals,
6. Evaluation of Proposals and Selection of Supplier(s),
7. Selection of an Order Routine,
8. Performance Feedback and Evaluation.

For further analyses, the phases will be aggregated to four broader categories: Preparation (buyphases 1 to 3), initiation (buyphases 4 and 5), contracting (buyphases 6 and 7) and control (buyphase 8).

For further research, the process phases and the buying centre roles are combined. Therefore, for each of the four broader phases of the purchasing process, the respective roles status quos are to be analyzed (e.g. during the first phase marketing is acting as user, decider and influencer and purchasing as gatekeeper and buyer) in order to determine the degree of integration. We assume that the distribution of roles gives an indication if purchasing and marketing follow a collaborative approach, or if the process phases are excluding one of the parties.

Regarding the two aspects of integration introduced in the second section, i.e. interaction and collaboration, this has the following implications. The number and extensiveness of interaction points between the two departments gives implications concerning the degree of interaction. The role distribution gives insights regarding the level of collaboration.

In order to gain insights into contingency factors on these patterns, the following two aspects are further described within the next section: 1. The roles can vary according to the content of the sub spend category, 2. The roles depend on how long purchasing and marketing have been working on this sub category together.

Barriers to marketing-purchasing integration

Regarding the term “integration”, we apply a “composite perspective” following the terminology of Kahn and Mentzer (1998). Hereby, integration is a combination of information-sharing and involvement (Gupta, Raj and Wilemon, 1985a, 1985b, 1986; Song and Parry, 1993), in their words and model defined as a combination of interaction and collaboration. Nevertheless, information exchange between departments (e.g. by regular meetings) is not sufficient to talk of integration, if there is not sufficient collaboration, i.e. working together with a mutual understanding, a common vision, sharing resources and achieving collective goals (Kahn and Mentzer, 1998).

Regarding marketing spend, defined as the external expenditures on services related to marketing and advertising (CAPS Research, 2003a; CAPS Research, 2003b; Barwise and Styler, 2003), interaction between the two departments and the involvement of purchasing and by such bringing its potential benefits to the category is not common practice at the moment. Therefore the identification of (potential) barriers is important.

A conceptual model of Lonsdale and Watson (2005) differentiates bounded rationality, departmental culture and principal-agent issues as the three basic sources of conflicts. These considerations will be integrated into a more detailed systematization by Walter (1997). It should be noted that we share these authors’ view that organizations are seen as political entities, which usually proceed on the basis of conflict and bargaining (Pfeffer, 1981), rather than acting in an essentially rational manner. Walter (1997) differentiates between two general categories of barriers to inter-organizational exchange processes: 1. Personal barriers and 2. Situational barriers (please see figure 1).

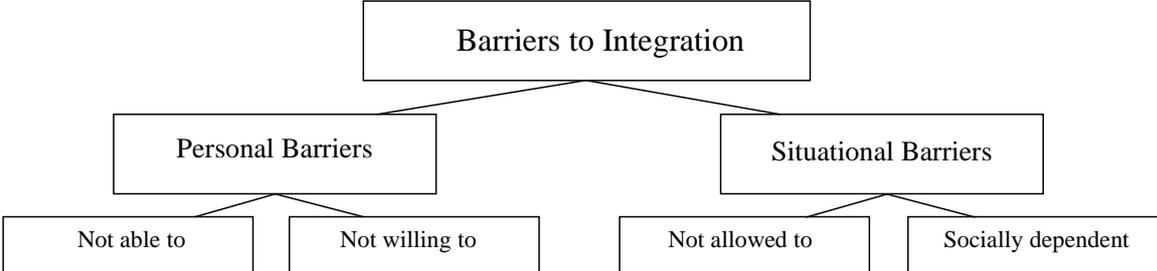


Figure 1 “Barriers to cross-functional exchange”, adapted from Walter (1997), p. 34.

We draw on this differentiation to structure the barriers to the intra-organizational integration of marketing and purchasing. Walter (1997) further structured personal barriers according to

Witte (1973), into barriers based on (lack of) skills (“not able to”) and barriers based on (lack of) motivation (“not willing to”). The lack of skills refers to missing cognitive preconditions, the lack of motivation to the fact that although the necessary cognitive abilities may be in place, individuals need to be willing to perform a certain action (Walter, 1997). Regarding the lack of skills, one issue is the lack of functional skills. In this context, there is evidence that purchasing is not familiar with service purchasing in general (West, 1997) and that they lack the necessary expertise to understand their marketing clients’ demands comprehensively in particular (John et al., 2004).

Another factor is that underlying challenges of a certain task have to be perceived in the first place. This relates well to the aspect of “bounded rationality”. The idea of bounded rationality as brought forward by Simon (1957), defined managers as following a search process guided by aspiration levels rather than outcome maximisers. Also aspects of cognitive capacity were brought forward (Miller, 1956) and problems of limited attention were recognized (March, 1994). In terms of the internal client relationship, Lonsdale and Watson (2005) see evidence of these issues in factors such as satisficing in supplier selection, purchasing with only limited commercial, especially contractual, experience and expertise, and, not being aware of the value of spend consolidation achieved through inter-departmental collaboration. For our topic, the “unjustified” preferences for certain suppliers are subject of several articles on agency-client relationships seen from the purchasing perspective (Edwards, 1997). The aspect that contractual know how can be brought by purchasing (Simms, 2005). The statement that there is a lack of awareness of potential benefits of purchasing involvement in sourcing marketing services can be identified as well (John et al., 2004; Arminas, 2003).

Among the barriers based on motivation, one category comprises socio-psychologically-based motivational barriers, which refer to systems of norms and values among individuals, groups and organisations. In our case such groups are represented by departments, whose differing cultures work against intra-organisational collaboration. This fits well with Lonsdale and Watson’s (2005) source of conflict based on “departmental culture”. Departmental culture refers to organisations being divided into functional sub-units, and functional departments develop their own cultures (Brunsson and Olsen, 1996; March, 1994, 1996). These cultures comprise a certain set of assumptions and a shared way of perceiving things. In this context, the internal clients of purchasing tend to stress product functionality through the prism of their function (Hutt and Speh, 2001), whereas purchasing does have a different value for money perception (Lonsdale and Watson, 2005). In the marketing context, there is evidence that marketing, particular regarding agencies, is a very independent function (Edwards, 1997) and stresses the functionality, whereas purchasing does seem to have maybe too strong a cost focus (Supply Management, 2005; Arminas, 2003). Therefore, this setting provides a perfect stage for observing this potential barrier.

Situational barriers are further subdivided into hierarchical barriers (“not allowed to”) and barriers based on social dependency (“socially dependent”). Concerning the hierarchical barriers organisational structures, incentive systems and corporate strategy play important roles (Walter, 1997). Regarding organizational structures, evidence can be found that the purchasing department does not receive (sufficient) support from higher management in order for it to influence business policies (Bales and Fearon, 1995).

Incentive systems and their importance for influencing human behaviour relate well to the topic of principal-agent problems (Eggertsson, 1990; Jensen and Meckling, 1976; Ross, 1973; Williamson, 1990). Arising from the division of the organisation into vertical hierarchies, managers have twin loyalties – they have a loyalty to their organisation and to themselves

(Milgrom and Roberts, 1992). In the internal client context, Lonsdale and Watson (2005) name the example that this can occur during a consolidation initiative. Even if the initiative is promising to bring a net benefit to the organisation as a whole, resistances arise if benefits or any potential costs of adjustments (e.g. to use a different supplier) are not distributed equally. This makes the net losers often become opponents of such a project. In the marketing context, the topic of cost saving distribution is a prime suspect for such a mechanism. If savings are left to marketing in order to allow them to buy more services with the same amount of money (making marketing the winner), or will the marketing budget be cut, generating savings at the corporate level, but meaning a loss of power (and prestige) to the internal client (making it the loser). This fear of cutting budgets exists (Edwards, 1997) and therefore it is seen as a necessary step that purchasing tries to contribute to achieving more with the same budget, instead of trying to cut budget (Wylie and Salmon, 2002).

Concluding on the barriers, we formulate the following hypotheses:

Hypothesis 2: Personal and situational barriers have a negative effect on marketing-purchasing integration.

- H2a: *Personal barriers do have a negative effect on marketing-purchasing integration.*
- H2b: *Situational barriers do have a negative effect on marketing-purchasing integration.*

The influence of different sub categories and duration of relationship

The parties mainly responsible for “Rogue Procurement” in purchasing of marketing services seem to be the marketing department, performing 2,04 % of total rogue purchases, and the communications department, with 1,23 % (Bales and Fearon, 1995).

<i>Integration Spend</i>	Completely	Partially	Not at all
Marketing	11 %	32 %	58 %
Advertising	12 %	39 %	49 %
Printing/Copying	45 %	34 %	21 %

Figure 2: “Integration of the Purchasing Department for Different Marketing Spend Categories”, adapted from CAPS Research 2003a

In one study, in which companies were asked to what extent the purchasing department was managing, controlling and influencing the expenses in a certain category, great differences between the categories “Marketing”, “Advertising” and “Printing/Copying”, shown in Figure 2, become visible. These different studies imply that the integration of the purchasing department varies with the respective sub-category of marketing spend.

Complexity can refer to the buying situation, e.g. relating to the continuity of demand as within a continuum between repetitive (less complex) and non-repetitive (complex) (Cyert, Simon & Trow, 1956; McQuiston, 1989) or to the complexity of purchasing, defined as the amount of information necessary for evaluating the purchasing object (McQuiston, 1989).

The latter definition is used, implying that the harder to evaluate the services' performance, the more complex the service should be considered.

Concerning the duration of relationship, this is included as to explore whether processes of trust building are directly related to how long the relationship has been established. Trust is defined as a positive belief, attitude or expectation of a party concerning the likelihood that the action or outcomes of another party will be for the trusting party's own benefit (Andaleeb, 1992). As factors leading to trust, literature names the three dimension integrity (subsuming reliance and openness), benevolence (subsuming loyalty and open communication) and competence (Mayer, Davis & Schoormann 1995). These three factors were also empirically found to be those with the highest relevance (Butler 1991). Another important factor named by managers in one study was fulfilment of expectations. Moreover, structural factors within the organisation and personal factors (such as the shared experience of working some time for a certain department) of the people involved where found to be important influencing factors on the trust between certain departments (Beccerra & Gupta 1999). Apart from that there exists a certain kind of feedback loop, as by result of interaction the perception of the three factors is influenced.

The factor that interaction is necessary as to alter this perception leads to the assumption that the duration of relationship has an effect on trust.

Based on these considerations, we formulate the following hypothesis:

Hypothesis 3: Sub category complexity and duration of relationship between marketing and purchasing have a moderating effect on the barriers and marketing-purchasing integration.

The research model

The aggregated research model is shown in figure 3.

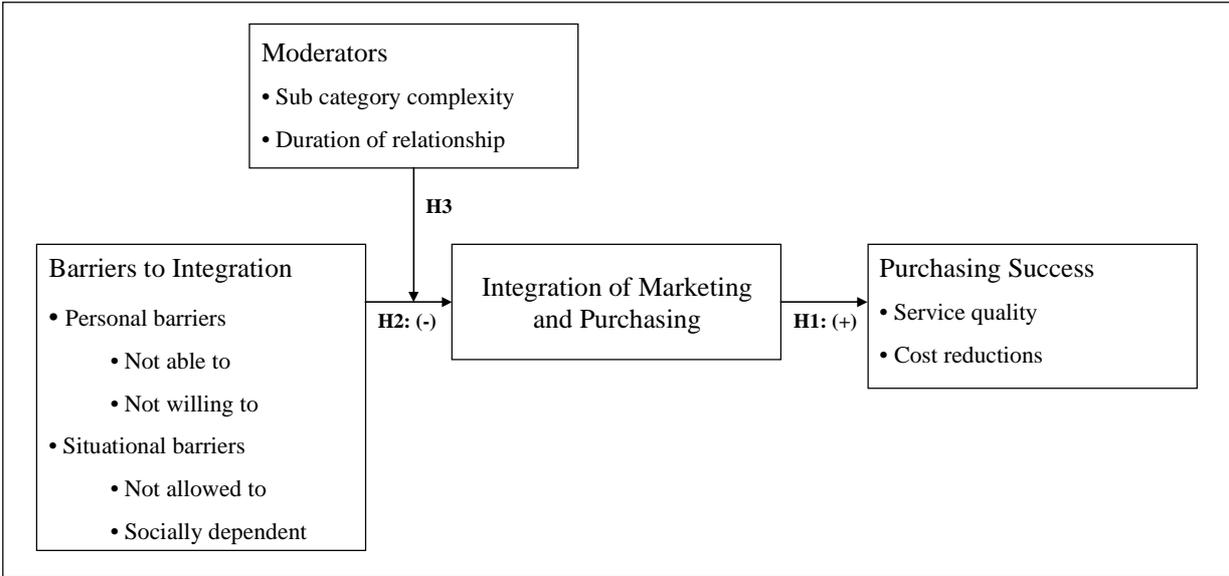


Figure 3: "The research model"

Summarizing, purchasing involvement into the procurement of marketing services was identified to hold potential to improve purchasing success. On the one hand, this can be

manifested in improved service quality. On the other hand, this can represent the generation of cost savings.

In order to assess the integration of marketing and purchasing, the degree of involvement along a continuum was introduced. The degree of involvement becomes visible in the way roles are distributed between the parties, during different phases of the purchasing process.

As barriers leading to the current lack of involvement several (potential) barriers were identified, comprising personal barriers and situational barriers.

The two aspects of sub category complexity and duration of relationship were introduced, as they are regarded to have a moderating effect on the development of barriers.

Measures for improvement

In finding a solution, Lonsdale and Watson (2005) see the two options of turning to a different spend category or building an organisational alliance with the power to challenge the internal client.

Our approach, which was developed and described in the section on marketing-purchasing integration, steps into the latter direction as to provide the outline of a configuration of cross-functional collaboration able to maximise benefits of the purchasing side, integrating the experts on the internal client side, but at the same time taking into account that benefits have to be distributed equally and side influences need minimization. Jointly defining a role distribution aimed at improving overall purchasing success can have benefits for both enhancing collaboration and defining respective stages and gates for.

Apart from this more “high-level” approach as to identify suitable roles and responsibilities, we see particular potential in further insights concerning the different barriers identified. In these regards, suitable measures could be identified to overcome the most relevant barriers.

In these regards there are basically two interrelated factors predominate in the political model of organisations, i.e. organisational influence and power (Lonsdale and Watson, 2005).

The main findings relevant for our issue are that formal authority plays an important part in who is making the decisions (Pfeffer, 1981; Ronchetto et al., 1989) and that expert power is particularly important for organisational manipulation/persuasion, very relevant to the purchasing/internal client interface as many purchases are complex and beyond more than a broad comprehension of the organisation’s staff. Concerning the first, there is evidence that purchasing has a different perceived status than marketing (Johnson, 2005; Williams, Henthorne and Giunipero, 1994). Regarding expert power, the “creativity” issue in purchasing marketing services can be named as the headline for the notion that purchasing should focus on the “value” part of “value for money”, especially in buying agency services (Supply Management, 2005; Robertson, 2005b; Crush, 2005). Results concerning the integration of purchasing into strategic planning show that competent individuals with suitable skills, positive visibility of the purchasing department’s value added and a suitable organizational purchasing department structure are important factors for integration (Smeltzer 1997). Similarly, Bales & Fearon (1995) state that two of the main conditions for the involvement of the purchasing department are: support by the CEO/Top Management, more of an organizational factor and the credibility of the purchasing department to complete the task, again relating to skills and visible value added. Tackling these issues could help lower some of the barriers identified.

Summary and outlook on ongoing research

The paper shows the current status of the research into the exploration of marketing-purchasing integration. Three research questions were introduced:

1. How can the degree of involvement be defined?

For the analysis of optimal degree of involvement of purchasing within a cross-functional sourcing team with marketing, different roles within the buying centre and four aggregate phases of the purchasing process were introduced. This can serve as the basis for identifying role distributions along the process, indicating the degree of purchasing involvement.

2. Which barriers prevent high degrees of involvement?

As was shown, basic barriers have been identified from a theoretical point of view – personal and situational barriers, including such aspects such as bounded rationality, departmental culture and principal-agent problems. These can serve as a starting point for empirical efforts.

3. Do these considerations differ significantly for different sub categories?

This factor is particularly interesting from a managerial point of view, in order to identify “easier to handle” categories for initial projects in order to promote cross-functional teamwork.

Further research is currently undertaken to gain empirical insights concerning the model presented with the means of case studies.

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