UNIT – I

LESSON NO. 1: INDUSTRIAL MARKETING SYSTEM: CONCEPT AND CHARACTERISTICS

STRUCTURE

OBJECTIVES

The motive of the lesson is to: understand the concept, meaning and importance of industrial marketing; know the differences between industrial marketing and consumer marketing; and learn the concept of demand for industrial goods and services in the market.

1.1 INTRODUCTION

The fundamentals of consumer marketing are equally applicable to the industrial marketing. The work of the industrial market is exclusively different, as all the forces of market that affect industrial demand. The managers of industrial market must react in a different way to change the markets, develop products to meet these changes, and market them in exclusively different ways to the target and sophisticate customers while maintaining corporate policies. Therefore, industrial marketers face many distinctive marketing situations not normally encountered in the consumer market. Further, the industrial market has been the backbone of the high standard of living enjoyed by consumers in past or since the industrial revolution at global level. It is dynamic and challenging in any nation's economic growth and development. As and when the principles, knowledge, and practice of marketing cut across all industries, to market effectively in the industrial market than it becomes compulsory for the policy makers to study the industrial marketing differently and to understand the industrial marketing problems.

1.2 THE CONCEPT OF INDUSTRIAL MARKETING

The marketing concept for the business enterprises of industrial buyer is to define the needs of a target market and modify the organization's product or service to satisfy those needs more successfully than its competitors. The marketing concept is applicable and important in both the industrial and consumer markets due to the differences in terms of the nature of markets. It is evident that consumer marketers have embraced the marketing concept more fully than their industrial counterparts because Industrial customers like organizations-businesses, institutions, and government agencies having unique needs. The industrial marketing concept involves more than facilitating exchange with these customers because it is based upon the structure of a partnership between buyer and seller for the purpose of achieving the organizational goals of both.

Generally, industrial organisations tend to be technically oriented-much more interested in a particular product and its technical development. Many managers in such firms are promoted out of engineering and research and development departments. Sometimes technical values tend to dominate their decision-making. When it happens, there is a risk of "becoming so charmed with a technical accomplishment or particular product parameters that the necessary flexibility for responding to customer needs in a competitive market place disappears. It is more serious in industrial marketing due to the complexity of the problems customers are attempting to solve. For marketing effectiveness, the product should always be regarded as a variable and should be viewed from the perspective of the customer. Customer benefits and need satisfaction, rather than the physical product, should be the center of attention. Further, customer satisfaction should be dominant in all corporate decision making; so, it cannot be the exclusive domain of the marketing department. Providing customer satisfaction must involve all decision makers and will affect product design, demand analysis, manufacturing techniques, resource utilization, and long-range profits of the business-organisations.

Moreover, the understanding of the concept of industrial marketing is compulsory for industrial marketing manger: to provide proper guidance and stimulation for research and development of new products; to exploit and develop markets for new products; to define the methods for promoting products to customers considering the major increase in the cost of media advertising and personal selling; to innovate in distribution and other areas to keep up with changing requirements of industrial customers doing business on a multinational basis; to meet stiff competition through modernised business; to refine and modify product positioning; and to approach problems in the modern ways.

1.3 DEFINITION OF INDUSTRIAL MARKETING

The word Industrial Marketing is also treated as Business-to-Business Marketing, or Business Marketing, or Organizational Marketing. Industrial marketing/business marketing is to market the products and services to business organizations: manufacturing companies, government undertakings, private sector organisations, educational institutions, hospitals, distributors, and dealers. The business organizations, buy products and services to satisfy many objectives like production of goods and services, making profits, reducing costs, and, so on.

In contrary, marketing of products and services to individuals, families, and households is made in consumer marketing. The consumers buy products and services for their own consumption.

Further, industrial marketing consists of all activities involved in the marketing of products and services to organizations that use products and services in the production of consumer or industrial goods and services, and to facilitate the operation of their enterprises.

The companies/selling organizations that sell steel, machine tools, computers, courier services, and other goods and services to business firms/buying organizations need to understand the buyers' needs, purchasing power/resources, policies, and buying procedures. They have to create value (benefit) for the buying organizations (customers) with products and services and focus on buying organizational needs and objectives. For example, a company manufacturing and marketing precision steel tubes to bicycle, a manufacturer is doing business marketing. Industrial marketer of the precision steel tube company must understand the needs of bicycle manufacturers such as Hero Cycle and Atlas Cycle, in terms of their quality requirements, applications of tubes, availability or delivery on daily or weekly basis, and so on. Similarly, a small and proprietary firm, giving technical advice (or services) to paint-manufacturers is also doing business marketing.

The needs and objectives of industrial buyers are satisfied through the following exchange processes.

1.3.1 Product Exchange

The features of a product or service involved have a significant impact on the industrial exchange process. The ease of exchange depends upon the ability of the seller to identify the buyer's needs and the product's potential to satisfy those needs. If the exchange is good in terms of price, quality, quantity, and after sale services then it will give a positive symbol for the customer loyalty in terms of product/service loyalty.

1.3.2 Information Exchange

The information consists of technical, economic, and organisational questions: pre and post sale maintenance and servicing must be exchanged to the participants of business organisations. Products and services must be planned and designed to serve customers efficiently. To achieve it, buyers and sellers tend to work together, exchanging product specific information over long periods of time.

1.3.3 Financial Exchange

The granting of credit or the need to exchange money from one currency to another at the time of dealing with foreign buyers/customers are included in this exchange.

1.3.4 Societal Exchange

Societal exchange is important to reduce uncertainty between buyer and seller, avoiding short-term difficulties, and maintaining the long-term exchange relationship to one another. A number of aspects of an agreement between buyers and sellers in the industrial market are based on arbitration and mutual trust, not fully formalized or based on legal criteria until the end of the transaction period.

1.4 CHARACTERISTICS: INDUSTRIAL AND CONSUMER MARKETING

The basics of marketing management: deciding the target markets; finding out the needs and wants of the target markets, developing products and services to meet the requirements of those markets, and evolving marketing programmes or strategies to reach and satisfy target customers in a better and faster way than competitors apply to both consumer and industrial marketing.

The industrial markets are geographically concentrated; the customers are relatively fewer; the distribution channels are short; the buyers (or customers) are well informed; the buying organisations are highly organised and use sophisticated purchasing techniques; the purchasing decisions are based on observable stages in industrial marketing. Industrial marketing is more a responsibility of general management in comparison to consumer marketing. Sometimes, it is difficult to separate industrial marketing strategy from the corporate (company) strategy. But in case of consumer marketing, many times the changes in marketing strategy are carried out within the marketing department, through changes in advertising, sales promotion, and packaging strategies. However, the changes in industrial marketing strategy generally have company-wide implications.

The differences between industrial and consumer marketing are as shown in Table 1.1.

Table 1.1: Differences between Industrial and Consumer Marketing

Sr. No.	Bases	Industrial Markets	Consumer Markets
1.	**Market characteristics**	Geographically concentrated, Relatively fewer buyers	Geographically disbursed, Mass markets
2.	**Product characteristics**	Technical complexity, Customised	Standardised
3.	**Service Characteristics**	Service, timely delivery and availability very important	Service, delivery, and availability somewhat important

4.	**Buyer behavior**	Involvement of various functional areas in both buyer and supplier firms, Purchase decisions are mainly made on rational/performance basis, Technical expertise, Stable interpersonal relationship between buyers and sellers	Involvement of family members Purchase decisions are mostly made on physiological/social/ psychological needs, Less technical expertise, Non-personal relationship
5.	**Decision-making**	Observable stages, Distinct	Unobservable, Mental stages
6.	**Channel Characteristics.**	Shorter, More direct, Fewer intermediaries/middlemen	Indirect, Multiple layers of intermediaries
7.	**Promotional Characteristics**	Emphasis on personal selling	Emphasis on advertising
8.	**Price Characteristics**	Competitive bidding and negotiated prices, List prices for standard products	List prices or maximum retail price (MRP)

1.4.1 Market Characteristics

Basically, the significant differences exist between industrial and consumer market characteristics that affect the nature of industrial marketing. These differences are: size of market; geographic concentration; and competitive nature of the markets.

Size of the Market*:* Compared to the great number of households that constitute the mass market for consumer goods and services, In the case of industrial markets, it is common to find less than 20 companies to represent the total market for an industrial product or service. In fact, only three or four customers may comprise the major portion of a total market. For example, for a consumer product like toothpaste or soap, a mass market, consisting of all the households in India, exist. Further, in industrial arena, oligopsonistic buying organisations (very large firms) tend to dominate many markets such as, large power transformers or high-tension switchgears, there are limited numbers of customers-mainly State Electricity Boards, large private and public sector organisations. While there are relatively few industrial customers, they are larger in size, purchase larger quantities, and engage in this volume purchasing on a repeat basis.

Geographical Concentration: Industrial customers also tend to be concentrated in specific areas of the India such as Andaman Nikobar, the Leh Hills. Such concentration occurs mainly because of natural resources and manufacturing processes. For example, the geographic location of natural resources explains the concentration patterns of most energy-producing firms. Only a handful of counties in California, Oklahoma,. Texas, and Louisiana produce the bulk of our gas and oil. Manufacturers whose production processes add weight to their products tend to locate near customers, while those whose processes subtract weight tend to locate near sources of input. Manufacturers of computers and other advanced electronic products present an interesting case of plant location. They tend to concentrate in areas that have advanced teaching and research facilities and desirable living locales such as the Silicon Valley in Banglore. Such locations are chosen to facilitate the attraction of intelligent, educated employees, who seek both intellectual challenges and physical pleasures.

Competitive Nature: An additional difference between the two markets is the nature of oligopsonistic buying. In the industrial arena, oligopsonistic buying organizations, organizations that are very large firms, tend to dominate many markets. For instance, the small number of large automobile producers in the United States purchase 60 percent of all synthetic rubber, 60 percent of all lead, and 72 percent of all plate glass produced in the United States. These oligopsonists’ reactions to changes in one another's buying practices affect industrial marketing strategy decisions.

Due to the fact that technological or cost-effective advantages override geo-graphical considerations, industrial organizations are more directly involved in international purchasing. Therefore, the major finished goods exports of industrialized nations tend to be industrial rather than consumer goods manufacturers. Industrial demand as well as industrial supply, therefore, is more apt to cross international boundaries than are demand and supply in the consumer market. However, because of increasing improvements in foreign technology and marketing skills, subsidized by government policies, worldwide competition makes it more difficult for Indian suppliers of industrial goods to compete not only in foreign markets, but domestically as well. Industrial marketers, then, are more subject to world political, economic, and competitive changes than are their consumer counterparts.

1.4.2 Product Characteristics

In industrial marketing, the products or services are generally technically complex and not purchased for personal use. They are purchased as components parts of the products and services to be produced or serve the operations of the organisations. Because of the importance given to the technical aspects of products, the purchases are made based on the specifications evolved by the buyers. The real risk in falling in love with the technical aspects of a product in industrial marketing is to ignore the flexibility in responding to customer's needs in a competitive market. Some companies, as a result, commit the serious mistake of trying to change the customer to fit the product. For example, the quality control manager of a “cold rolled (C.R.) steel strip” manufacturing company informed an important customer (who used C.R. steel strip for the manufacture of luggage bags) that the customer was not justified in rejecting his company product, as it was as per the relevant Indian standard specifications and that the customer’s product specifications were more rigorous than the Indian standard specifications. However, the customer refused to accept the product, as it was failing at the shop floor operations. The customer, therefore, not only returned the entire rejections but also cancelled the balance orders. Subsequently, other competitors supplied the product as per the needs and specifications of the customer, who placed orders with them. As compared to consumer marketing, industrial customers place a greater importance on service, that is, timeliness, certainly delivery or availability of product, because any delay in supply will have a significant impact on the production or operations.

1.4.3 Buyer Behaviour

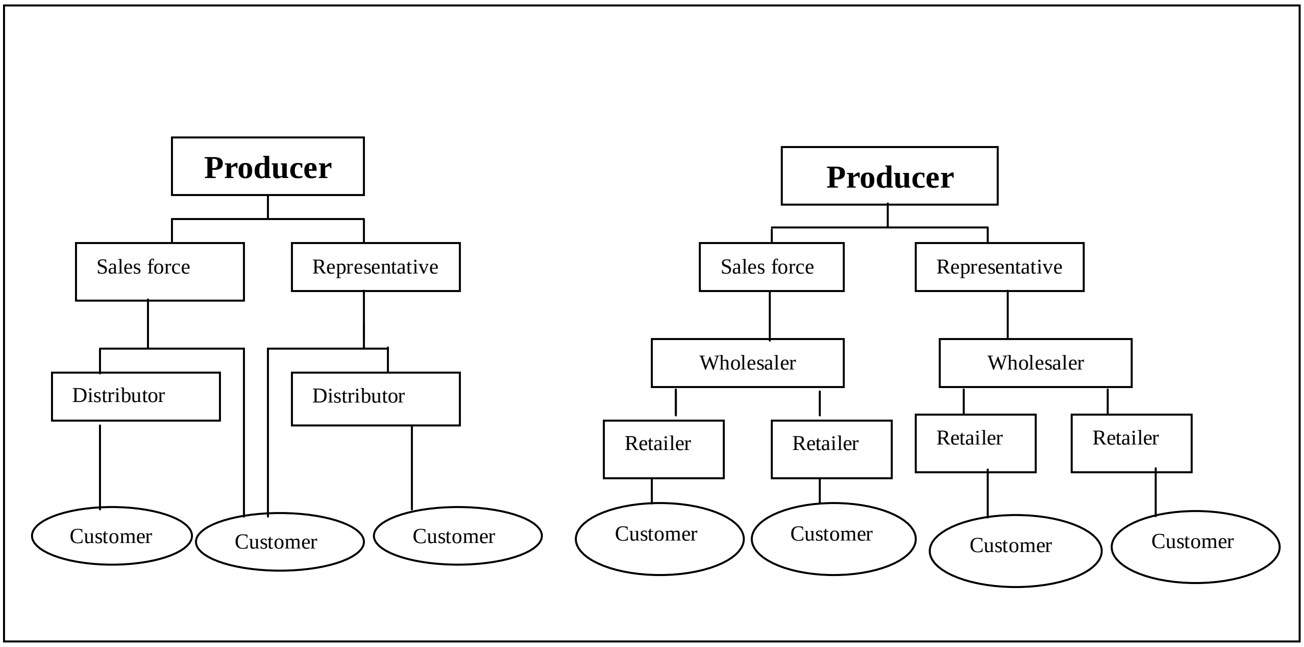
In industrial marketing, the buying process is more difficult as compared to consumer marketing. The purchase decisions in industrial marketing are based on many factors, such as compliance with product specifications product quality, availability, timely supply, acceptable payment and other commercial terms cost effectiveness, after-sales service, and so on rather than on social and psychological needs. The buying decisions generally take a longer time and involve many individuals from technical, commercial/materials, and finance departments. After the initial offer made by a seller, there are negotiations and exchange of information between the specialists and representatives from both the buyer and the seller organisations. Therefore, inter-organisational contacts take place and interpersonal relationships are developed. The relationships between the sellers and buyers are highly valued and they become stable in the long run because of a high degree of interdependence. Changes are few and occur relatively slowly. Buyers charge problems in searching out and qualifying suppliers. The cost of selecting a supplier who cannot meet delivery requirements or who delivers an unsatisfactory product can be high. Thus, the purchasing firm must be certain of a potential supplier's technical, administrative, and financial capabilities.

In contrary, in consumer marketing the relationship between a buyer and a seller is non-personal. Consumers change their purchasing habits frequently and the buying decisions are always based on physiological, social and psychological needs of the members of a family household.

1.4.4 Channel Characteristics

Inventory or stock control is very much important factor in the business organisations therefore the distribution channels are needed more direct from the manufacturer to the customer in industrial marketing. There are a few channel alternatives, which are feasible in the industrial market than the consumer market as shown in Figure 1.1.

Figure 1.1: Channel distribution in Industrial and Consumer market



Often, the manufacturers use their own sales/marketing personnels to sell the products directly to major customers. But, in case of selling to small-scale customers or geographically scattered markets, many manufacturers use either distributors/dealers, or agents/representatives, which also helps in minimising the cost of marketing.

In case of consumer marketing, the channel of distribution is longer with multiple levels of intermediaries/middlemen, since the household consumers are geographically dispersed all over the country.

1.4.5 Promotional Characteristics

In consumer marketing, the emphasis is given on advertising whereas, in industrial (or business) marketing, the importance is given to the personal selling through the company's sales force. As a result, a much larger expenditure budget is provided for advertising in consumer marketing in comparison to industrial marketing. Advertising is used to lay a foundation for the sales call rather than serve as the primary communication tool. Sales people act more as consultants and technical problem solvers, utilizing in-depth product knowledge and technical understanding of the buyers' needs, whereas industrial advertising normally stresses more factual and technical data. Some industrial advertisers use television to reach potential consumers, the primary means of reaching the market is through business magazines, traditional trade journals, and direct mail. Sales promotion activities tend to center on trade shows, trade fairs, catalogs and conducting technical seminars.

1.4.6 Price Characteristics

The products are sold through the intermediaries/middlemen to the consumers based on the "Price List" of the manufacturer or the maximum retail price (MRP) for the packaged products in consumer marketing. Sometimes, the retailer reduces the price by passing on to the consumer a part of his discount due to different degrees of intensity of the competition. In industrial marketing, price is less critical factors for purchase decisions. Competitive bidding and price negotiations are very common in industrial marketing and financing arrangements are often considered part of pricing package. When there are no price negotiations in certain Government tenders, the competitive bidding (i.e. quoting a competitive price against a tender enquiry) becomes very important, as only the lowest bidders are considered for placement of orders. Almost private sector and some Government organisations, price negotiations are held to decide the prices and the volume of orders to be placed on various supplier firms. The payment and other commercial terms are also negotiated at the time of price negotiation. Dealer discounts, and volume discounts on the price list of standard industrial products are widely used in industrial marketing.

The above discussion clarifies that there are many basic differences exist between consumer and industrial marketing. But, these differences in terms characteristics do not make a complete analysis. Therefore, it is necessary to understand the concept of industrial demand in the market to analyse completely.

1.5 DEMAND IN INDUSTRIAL MARKET

The demand for industrial products and services does not survive by itself. It is derived from the ultimate demand for consumer goods and services. Therefore, industrial demand is called derived demand. Sometimes, the demand for industrial product is called joint demand, when the demand for a product depends upon its use along with the existence of other product or products. Cross elasticity of demand exists for some substitute products in industrial market. These concepts are detailed as follows:

1.5.1 Derived Demand

The single most important force in marketing of industrial products and services is derived demand. Industrial customers buy goods and services for making the use in producing other goods and services and finally produced product/service sold to the consumers. In industrial marketing, the demand for industrial goods and services is derived from consumer goods and services. For example, the demand for precision steel tubes does not exist in market. It is demanded for the production of bicycles, motorcycles, scooters, and furniture (steel tables and chairs), which are consumed by the consumers. Thus, the demand for precision steel tubes is derived from the forecast of consumer demand for bicycles, motor-cycles, scooters, and furniture. In case of capital goods, such as machinery and equipment (e.g. machine tools, textile machinery, leather machinery, etc.) that are used to produce other goods, the purchases are made not only for the current requirements, but also in anticipation of profit; form the future usage. If businessmen of feel that there may be a recession in near future, their purchases will be drastically curtailed. On the other hand, if the attitude of businessmen is favourable (i.e. they feel the business is on the upswing) their investment in capital goods and other industrial products will increase. Thus, the attitude of businessmen is very important, as it reflects the optimism or pessimism about the future. During the periods of recession, or reduced consumer demand, industrial firms reduce their inventories/stocks, or reduce the production, or do both. On the other hand, during the period of prosperity, there is an increased production and sales of consumer goods, which results in an increased demand for industrial goods. This may be the right time for price increases and building stocks as ready availability and shorter delivery period becomes very important. An. industrial marketing firm should be in close touched customers purchase, finance, quality, R&D and marketing departments, so as to get information on changes in customers' sales, new product development, financial condition, and the quality of its products.

1.5.2 Joint Demand

Joint demand is common in the industrial market because it occurs when one industrial product is useful if other product also exists. For example, a pumpsets cannot be used for pumping water, if the electric motor or diesel engine is not availab1e. Similarly, the department of telecommunication (DoT), which requires a complete kit, consisting of different items, for joining the under ground telecom cables, cannot buy only some of the items from a supplier as it does not contented the kit. Thus, some industrial products do not have industrial demand, but are demanded only if the other products are available from the industrial supplier.

1.5.3 Cross-Elasticity of Demand

Simply, elasticity is the change in demand from a change in price. The demand for most of the industrial goods can be inelastic (i.e. insensitive to changes in prices) for a particular industry, but at the same time, highly elastic (i.e. sensitive to changes in prices) for individual suppliers. This is because, the total industry demand comes from the united needs of all the customers rather than price, and hence it is relatively inelastic. Though, between the various suppliers, a slight change in the price by one firm may create a major change in the quantity and thereby, be highly elastic for anyone firm. Cross-elasticity of demand is the reaction of the sales of one product to a price change in another product. This concern present in both consumer and industrial marketing, but it is more imperative in industrial marketing as it can have a dramatic impact on the marketing strategy of an industrial firm. For example, the demand for aluminum is related to the prices of wood and steel for the doors and window frames, as they are close substitutes. Apart from other advantages of aluminum doors and windows, the cost comparison with steel and wooden door and window frames play an important role in the purchase decisions in the construction of houses, commercial offices, factories, hotels, hospitals, and so on. Aluminum extrusion companies regularly collect the information on cost of steel and wood, and advertise the advantages of use of aluminum in terms of negligible maintenance cost, elegant looks, environment, friendly in comparison to wood, and so on. Whenever there is a change in the price of aluminum due to changes in excise duty or other input costs, there is an impact on the sales of doors and windows made out of wood or steel. The reverse is applicable for changes in the prices of steel or wood. Thus, the marketing persons working in the aluminum extrusion companies should recognize that the cross-elasticity of demand exists for their products. If the cross-elasticity of substitute products is high, it indicates that these products compete in the same market. An industrial marketer must know how the demand for his products is likely to be affected by the changes in the prices of substitute products. Because of the unique characteristics of derived demand, the industrial marketing persons would anticipate any increase or decrease in the demand for their products, based on the changes in the demand for their customers' products. They must know that existence of cross-elasticity of demand for their products so as to recognise both direct and indirect competition.

It ought to be clear after going through this lesson that industrial marketing is more multifarious than consumer marketing and the marketing success depends on understanding the intricacies involved in it. Industrial marketing strategy has company-wide implications and is, therefore, more of a general management function, affecting the various departments or functions in an organisation.

1.6 SUMMARY

In all, the concept of industrial marketing may be referred as marketing of goods and services to business organisations: manufacturing companies, service organisations, institutions and middlemen in private and public sector organisations, and Government undertakings. The differences between industrial and consumer marketing exist in certain characteristics such as market, product, buyer behavior, channel, promotional, and price. The demand for industrial products is derived from the ultimate demand for consumer goods and services. It is, therefore, called as derived demand. Joint demand occurs when one industrial product is required, if other product also exists. Cross-elasticity of demand is the reaction of the sales of one product to a price change in another product.

1.7 QUESTIONS FOR DISCUSSION

1. Define the concept of industrial marketing with the consideration of different industries of a nation.
2. Explain the main differences between consumer and industrial marketing.
3. Illustrate with example why industrial demand is called derived demand.
4. Explain the concept of joint demand and cross-elasticity of demand with examples from industrial marketing.
5. Industrial marketing is more complex than consumer marketing. Do you agree to this statement? Explain your answer.

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LESSON NO. 2: INDUSTRIAL MARKET

STRUCTURE

OBJECTIVES

The objectives of this lesson are to: describe the diversity of industrial customers and the types of products and services they purchase; know the influencing factors to marketing strategy in terms of type of customer being served and the product or service being marketed; and to learn the characteristics of organizational purchasing.

2.1 INTRODUCTION

To develop an effective marketing plan, an industrial marketer needs to understand industrial markets. The industrial market is composed of commercial enterprises, governmental organisations, and institutions whose purchasing decisions vary with the type of industrial good or service under consideration. Effective marketing programs thus depend upon a thorough understanding of how marketing strategy should differ with the type of organisation being targeted and the products being sold. The industrial market is characterised by wonderful diversity both in customers served and products sold. Component parts, spare parts, accessory equipment, and services are example of the types of products purchased by the variety of customers in the industrial market. Industrial distributors or dealers who in turn sell to other industrial customers, commercial businesses, government, and institutions buy a variety of products that, in one way or another, are important to the functioning of their business endeavours. Knowing how this immense array of industrial customers' purchase and use products and what criteria are important in their purchasing decision is an important aspect of industrial marketing strategy. For the purpose, industrial sellers understand the types of industrial buyers.

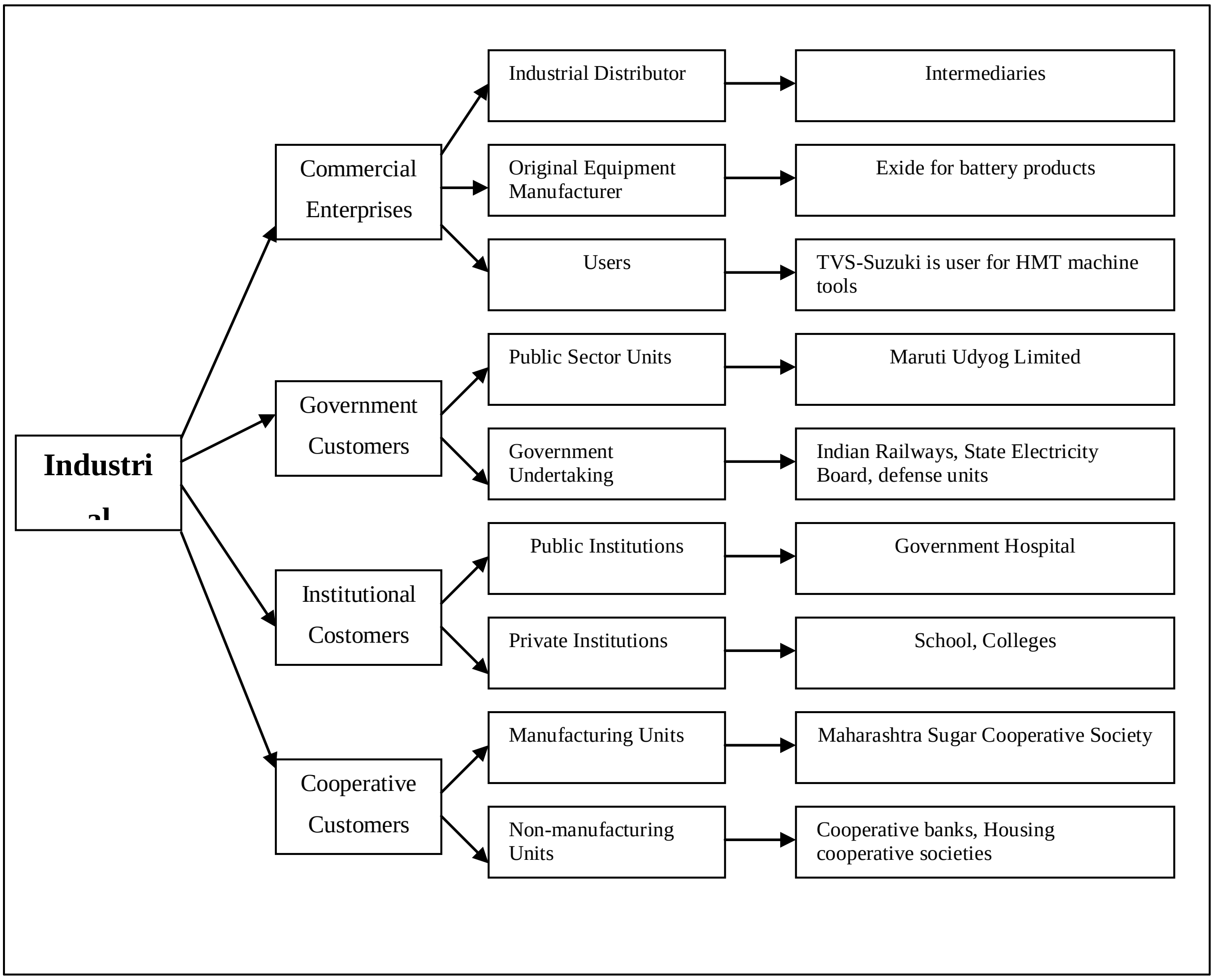
2.2 TYPES OF INDUSTRIAL CUSTOMERS

Industrial customers are normally classified into four groups: (i) Commercial Enterprises, (ii) Governmental Agencies, (iii) Institutions, and (iv) Co-operative Societies. These are as shown as follows in the Figure 2.1.

2.2.1 Commercial Enterprises

Commercial enterprises are private sector, profit-seeking organisations such as IBM, General Motors, Computer Land, and Raven Company, purchase industrial goods and/or services for purposes other than selling directly to ultimate consumers. However, since they purchase products for different uses, it is more useful from a marketing point of view to define them in such a way as to understand their purchasing needs at the time of examination of the varieties of products they purchase and how marketing strategy can be developed to meet their needs.

Figure 2.1: Industrial Customers



Thus, it is more logical to look at commercial enterprises: (i) industrial distributors or dealers, (ii) original equipment manufacturers (OEMs), and (iii) users. As and when, these categories tend to overlap; are useful to the industrial marketer because they point out the ways of uses of products and services in buying firms.

2 Industrial Distributors and Dealers

Industrial distributors and dealers take title to goods; thus, they are the industrial marketer's intermediaries; acting in a similar capacity to wholesalers or even retailers. the intermediaries not only serve the consumer market but also they serve other business enterprises, government agencies, or private and public institutions. They purchase industrial goods and resell them in the same form to other industrial customers.

2.2.3 Original Equipment Manufacturers (OEMs)

These industrial customers purchase industrial goods to incorporate OEMs into the products they produce. For instance, a tyre manufacturer (say, MRF), who sells tyres to a truck manufacturer (say, TELCO), would consider the truck manufacturer as an OEM. Thus, the product of the industrial marketer (MRF) becomes a part of the customer's (TELCO'S) product.

2.2.4 Users

An industrial customer, who purchases industrial products or services, to support its manufacturing process or to facilitate the business operations is referred as a user. For example, drilling machines, press, winding machines, and so on are the products which support manufacturing process, whereas the products which facilitate the operations of business like computers, fax machines, telephones, and others.

In addition to above, sometimes there may be overlapping of categories means a manufacturer can be a user or an OEM. For example, a car manufacturer buys a drilling machine to support the manufacturing operation and is referred to as a user. The same car manufacturer also buys batteries which is incorporated into cars and hence, it can be also referred to as an OEM.

2.2.5 Government Customers

In India, the largest purchasers of industrial products are Central and State Government departments, undertakings, and agencies, such as railways, department of telecommunication, defense, Director General of Supplies and Disposal (DGS&D), state transport undertakings, state electricity boards, and so on. These Government units purchase almost all kind of industrial products and services and they represent a huge market.

2.2.6 Institutions

Public and private institutions such as hospitals, schools, colleges, and universities are termed as institutional customers. Some of these institutions have rigid purchasing rules and others have more flexible rules. An industrial marketing person needs to understand the purchasing practice of each institute so as to be effective in marketing the products or services.

2.2.7 Cooperative Societies

An association of persons forms a cooperative society. It can be manufacturing units (e.g. Cooperative Sugar Mills) or non-manufacturing organisations (e.g. Cooperative Banks, Cooperative Housing Societies). They are also the industrial customers.

2.3 INDUSTRIAL PRODUCTS AND SERVICES

The industrial products and services are classified into three broad groups: (i) materials and parts, (ii) Capital items, (iii) Supplies and services; discussed as follows:

2.3.1 Materials and Parts

Goods that enter the product directly consist of raw materials, manufactured materials, and component parts. The purchasing company, as part of manufacturing cost treats the cost of these items.

Raw Materials: These are the basic products that enter in the production process with little or no alternations. They may be marketed as either OEMs or user customer. For instance, when a large bakery purchases natural gas to fire the ovens that are used to produce cakes, it is a user customer. When the same firm purchases sugar for processing the cakes, it is an OEM.

Manufactured Materials: Manufactured materials include those raw materials that are subjected to some amount of processing before entering the manufacturing process e.g., Acids, fuel oil, and steel that are the basic ingredients of many manufacturing activities. For example, an aluminum extrusion unit buys aluminum billets to manufacture aluminum-extruded products such as door and window frames, by using an extrusion press. Thus, aluminum billets are called manufactured materials.

Component Parts: Component parts such as electric motors, batteries and instruments can be installed directly into products with little or no additional changes. When these products be sold to customers who use them in their production processes, they are marketed as OEM goods. The component parts are also sold to the dealers or distributors, who resell them to the replacement market. For example, MICO spark plugs are sold to a truck or car manufacturer, as well as to automotive dealers/distributors throughout India.

Capital items

Capital items are used in the production processes and they wear out over certain time frame. Generally they are treated as a depreciation expense by the buying firm or user customers. These are classified as follows:

Installations/Heavy Equipment: Installations are major and long-term investment items such as factories, office buildings and fixed equipments like machines, turbines, generators, furnaces, and earth moving equipment. These items are shown in the balance sheet as plant and equipment, and are fixed assets to be depreciated over a period of years if they are absolutely purchased. However, if these are leased, the purchaser treats the cost for tax purpose as an expense. As the unit purchase price of capital items is high, borrowing money for a period of time, which is roughly equivalent to the expected life of the fixed assets, finances these items.

Accessories/Light Equipment: Light equipment and tools which have lower purchase prices and are not considered as part of fixed plant, are power operated hand tools, small electric motors, dies; jigs, typewriters and computer terminals. Purchases of accessories are either considered as current expenses with purchase prices taken as operating expenses in the year purchased, or they may be considered as fixed assets and therefore, depreciated over a period of few years.

Plant and Buildings: These are the real estate property of a business/ organisation. It includes the firm's offices, plants (factories), warehouses, housing, parking lots, and so on.

2.3.3 Supplies and Services

Supplies and services sustain the operation of the purchasing organisation. They do not become a part of the finished product. They are treated as operating expenses for the periods in which they are consumed.

Supplies: Items such as paints, soaps, oils and greases, pencils, typewriter ribbons, stationery and paper clips come under this category. Generally, these items are standardized and marketed to a broad section of industrial users.

Services: Companies need a broad range of services like building maintenance services, auditing services, legal services, courier services, marketing research services and others.

2.4 MARKETING IMPLICATIONS FOR DIFFERENT CUSTOMER AND PRODUCT TYPES

For large OEMs or users selling is done directly from a seller to a buyer organisation for materials and parts products. Though, for smaller volume OEMs and users, the standard raw materials or components are sold through industrial dealers or distributors, as it is cost effective. In case the components are custom-made, considerable interaction takes place between technical and commercial persons from both buyer and seller organisations, and obviously selling is done directly. It is therefore, important for an industrial salesman to remains in close touch with purchase or materials department persons as well as with quality, production, R&D, marketing, and accounts/finance persons of buyer organisations as they influence buying or payment releasing decisions. Apart from personal contacts, product leaflets/brochures help to industrial marketer in communicating product and other information. In case of standard products, the factors, which influence buying decisions, with differing share of business for various suppliers, are product quality and performance, delivery dependability, price, payment terms, customer service, and customer rapport. When component parts such as batteries and tyres are sold in the consumer replacement market, marketers either create a product differentiation through consumer advertising or sell on a competitive price basis. For this, advertising and distribution through multiple channels all over the country becomes an important part of marketing strategy. For example, Crompton Greaves Ltd manufactures and markets a wide range of electrical motors ranging from fractional horse power (FHP) to large high tension (HT) motors. The company adopted a marketing strategy to sell its standard motors through a network of industrial dealers to small-scale manufacturers, all over India. However, the special purpose motors to the original equipment manufacturers (OEMs) such as pump manufacturers and compressor manufacturers, are sold directly through its sales persons located at various branches. The field sales persons are trained in both technical and commercial aspects of selling and are required to establish a close rapport with various departments such as purchase/materials, quality, R&D, marketing, and finance/accounts in the customers' organizations. The company could, therefore, maintain a leadership position in the competitive market due to its strategy of customer satisfaction through superior product quality and performance, delivery dependability, competitive prices and excellent customer service.

For capital items like heavy machinery and construction of factories and office buildings, direct selling with extensive interactions, involving top executives in both buying and selling organisations are very common. Negotiations take considerable time on key factors such as price; return on investment, credit facilities, delivery period, installation time, third party certificate for previous jobs done, and so on. Personal selling is the primary promotional method used which is used in industrial marketing. For example, the marketing strategy for a large furnace manufacturer was to directly sell its furnaces to the industrial buyers. As the value of each furnace was running into millions of rupees, the buyers treated it as a capital item. Senior executives from marketing, engineering, and finance from the selling organization not only decided the technical and commercial aspects at the time of submission of quotations/offers, but also visited as a team, for negotiations, with the senior technical and commercial persons from the buyers' organizations. Apart from price, payment terms, delivery and installation time, meeting the technical parameters required by the customers and the performance of similar furnaces supplied earlier to other industrial customers played important role in securing high value orders. Direct selling, is used for marketing supplies for large-volume buying firms. And distributors or dealers are used to market to diverse markets consisting of small and medium size companies. The purchase or materials department persons generally make buying decisions based on dependable delivery, price, and locational convenience. Advertising in magazines, trade journals, local newspapers, and yellow pages are used to generate awareness of the company and its products to the latent users and distributors/dealers.

In the strategy of marketing of service, buying firms contact the selling firms to know their reputation by way of word of mouth. The selling firm's efforts are on consultative or advisory nature, and continuation of the service depends upon the quality, price, and timeliness of service to meet the customer's needs.

2.5 PURCHASING PRACTICES OF INDUSTRIAL CUSTOMERS

The industrial marketers market industrial goods or services at different types of customers such as commercial enterprises, governmental customers, and institutional customers. For effective marketing of industrial products, it is significant to know the purchasing practices generally customized by the various types of industrial customers.

2.5.1 Purchasing in Commercial Enterprises

The purchasing practices depend upon the nature of business and the size of the commercial enterprise as well as the volume, variety, and technical complexity of the products purchased. In large and medium size organizations, the purchase decision makers involve from different departments viz. production, materials, quality, finance/cost accounting, engineering, and also senior management executives. Thus, there are many persons who influence the purchase decisions in such organizations. Industrial buyers use the techniques viz. material planning, supplier rating system, economic order quantity, value analysis and so on. Materials/purchase managers are professionals they must be well informed about price trends, commercial matters, and negotiating skills. They make use of in-house technical expertise when required. Further, an industrial marketer must understand a set of formal purchasing procedure and documentation motioned in a commercial enterprise. An industrial marketer must understand a set of formal purchasing procedure and documentation motioned in a commercial enterprise. These are shown in Table 2.1, as follows:

Step	**Activity**	**Responsible Unit**
1.	User department initiates the process by issuing purchase requisition (P.R.) or indent to the purchase (materials) department	User department
2.	Check if the material required is in stock. If yes, the material (against the P.A.) is issued to the user department and the P.A. is filed, indicating action taken	Purchase department
3.	If the material (required as per P. R.) is not in stock, then identify potential suppliers, get quotations, negotiate, select supplier(s), and issue purchase order (P.O.)	Purchase department
4.	The supplier (or vendor) acknowledges the P.O.	Supplier
5.	Follow-up with the supplier (if required) on delivery	Purchase

		department
6.	The supplier dispatches the material and informs the dispatch details (such as invoice and lorry receipt number and date, invoice value, transporter name) to purchase department	Supplier
7.	On receipt of material, stores (or receiving department) checks the material against delivery challan and P.O. and issues material receipt report (M.R.R.)	Stores
8.	Quality control (or inspection) department inspects the material and issues Inspection report (I.R.)	Quality or Inspection department
9.	Purchase department issues supplier invoice along with M.R.A. and I.A. to accounts department for payment and closes the order if it is executed fully	Purchase department
10	Accounts department checks all the above documents with P.O. and issues payments to supplier.	Accounts or Finance department

Table 2.1, shows that a typical purchasing process in a large or medium size commercial organisation involves various departments, like technical (R&D, production, quality, industrial engineering), finance or accounts, purchase, stores, and sometimes, for high value purchases and policy matters, senior level executives are also involved. The major tasks in the purchasing process are identifying potential suppliers, negotiating and selecting suppliers, ensuring right quality and quantity of material at the right time, and a long-term business relationship with the suppliers. Many commercial organisations have established a separate purchasing department to enhance the status of purchasing in manufacturing organisations; because, on an average fifty to seventy per cent of sales revenue is spent on purchase in these organisations. Therefore, purchasing can enhance operational efficiency by saving in material cost, by making available good quality material at the right time, and thus contributing to the company's competitive advantage in the market.

2.5.2 Purchasing in Government Units

The Government units are the largest purchasers of industrial goods and services. To compete successfully and to get more business, an industrial marketer must understand the complexities involved in selling to Government units. There are many centers where State and Central Government units buy a variety of products required by railways, department of telecommunications, state electricity boards, state transport undertakings, defense units, and so on. DGS&D is an agency, which finalises running contracts for various standard products on behalf of the Central Government. Though, other large Central and State Government units have their own procurement departments with a set of standard from and conditions to be fulfilled by suppliers. In general, the first step is to get the name of the company and the products registered with the Government units. Generally, the procedure of registration involves the submission of duly filled standard forms, product leaflets, and company details properly certified by a chartered accountant. Some Government units depute their inspectors to inspect the company's manufacturing facilities, and based on the favourable report from the Government inspector, the company is registered as approved supplier for those products consequently. For standard products and services, tender notices are advertised in national newspapers, based on which suppliers procure tender papers from the specified Government authority after paying a small amount of tender fees. The suppliers are then required to submit tender offers in sealed envelopes, duly signed by the signatory authority, as per the instructions given in the tender papers, by certain specified time and date. After the tender offers are received in the "tender box", the sealed covers are opened at the specified date and time in the presence of the representatives of the suppliers and then the prices, delivery, and other relevant terms are read out for the benefit of those attending the "tender opening". For closed tenders or limited tenders, the tender opening procedure of reading out the prices and other terms are not followed. In closed or limited tenders, tender enquiry is sent to only limited (a few) suppliers who are registered with the Government unit for certain category of non-standard products. The purchase orders are issued based on the evaluation of tender offers, with or without negotiations with the suppliers. The tender offers of various suppliers are kept secret and not made known to suppliers. Based on the lowest prices or the lowest landed costs i.e. adding all charges with basic price, the orders are released on the lowest bidder who has quoted the lowest price or has the lowest landed cost, if other factors such as technical specifications, delivery period, and payment terms are the same as per tender enquiry. If the value of tender enquiry is small, the orders are placed to one or two suppliers. If the tender value is large then the maximum share of the total value is decided on the lowest bidder and the balance orders are distributed to more than one bidder after other bidders agree to match the lowest price. There may be small variations in the purchase procedures described above in different Government or public sector units, but whatever are the procedures or terms and conditions, the same are indicated in the tender papers.

2.5.3 Institutional Purchasing

Institutional buyers are either the Government or the private organisations. If it is a Government hospital or college then it normally follows the Government purchase procedures. However, in cases of privately owned educational or other type of institutions, the purchase procedures are similar to those followed by commercial enterprises. An industrial marketer should study the purchasing practices of each institutional buyer so as to be effective in marketing the company's goods or services.

2.5.4 Purchasing in the Reseller's Market

Reseller market or replacement market consists of industrial dealers or distributors whose main goals are profits and sales volume. Therefore, the intermediaries select a supplier based on product, quality and also based on the policies of the supplier's product. An industrial dealer/distributor could deal either exclusively with a supplier or manufacturer's product or may deal with many competing firms of a product. Yet, the supplier related policies which affect competitiveness of traders in the market are: sharing of local advertising cost by the supplier, providing product leaflets or display materials, competitive prices and trade discounts, flexible payment terms with credit facility, and so on. Acceptance of some of these terms by a dealer would depend upon the relative strengths of the dealer and the supplier and also on the consumer's acceptance level of the supplier's products. The reseller or the dealer/distributor has to ultimately abide by the policies of the supplier/manufacturer. In a competitive market, both the reseller and the supplier have to work harmoniously as a team so as to face the competition, increase the market share, and make sound profits. If a reseller or a trader does not make a profit over a period of time from the products or services of a manufacturer/supplier, he would most probably change the supplier because he does not achieve the main goal of profitability.

2.5.5 Purchasing in Cooperative Societies

Industrial marketers should study the purchasing practices of each cooperative society in order to become effective in marketing their goods and services. For example, the cooperative sugar factories in Maharashtra and U.P. may adopt different buying practices while purchasing sugar machinery, pumpsets, compressors, etc. While making purchase decisions, their emphasis on the factors viz. quality, delivery, price, payment terms, service and long-term relationship with suppliers, also affect the purchase decision under consideration.

2.6 SUMMARY

Selling in the industrial market is complicated by a broad spectrum of customers. Commercial enterprises, governmental organizations, and institutions give buying responsibility to individuals who are quite knowledgeable in their particular markets. These individuals are often more realistic in assessing the competitive value of a vendor's product than the vendor. Thus, they normally identify, evaluate, and select suppliers, domestic or foreign, who provide the greatest value. To formulate a successful industrial marketing strategy, it is essential to know the administration of buying function in a diversity of markets and situations; and also to know the bases viz. nature of the business, the size of the firm, and the volume, variety, and technical complexity of the products purchased by the industrial buyers.

2.7 QUESTIONS FOR DISCUSSION

1. Explain the different participants in industrial buying.
2. Discuss the types of industrial customers and their purchase practices in India.
3. What the types of industrial products and services?
4. What are the marketing implications for different customer and product types in industrial marketing?
5. How does the government purchasing differ from the commercial enterprises purchasing?

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LESSON NO. 3: INDUSTRIAL BUYING BEHAVIOUR

STRUCTURE:

OBJECTIVES

To develop an effective marketing strategy, industrial marketers need to understand the nature of industrial buying as well as the industrial buying behaviour. The objective of the lesson are: to understand organizational buying objectives; different phases in the buying decision process and buying situations; to identify decision making units; to understand the models of organizational buying behaviour.

3.1 INTRODUCTION

Selling and buying are the two major pillars in industrial marketing. But, buying (purchase) is an important function in an organization. To maintain an adequate flow of goods and services into the operations; purchase department of a firm develops organizational buying objectives and performs activities. The behaviour of suppliers as well as potential users of the organization influences the department. To know these influences, firstly we have to study the purchase objectives of the industrial customers.

3.2 PURCHASING OBJECTIVES OF INDUSTRIAL BUYER

Basically, the objective of the purchase department in an organization is defined as "buying the right items in the right quantity, at the right price, for delivery at the right time and place" to define what is "right" for each dimension is the responsibility of management. The objectives of the purchasing function are as follows:

Delivery and availability of goods and services

The prime objective of the purchasing department is to ensure that purchased goods and services are available or delivered when and where they needed. The untimely delivery of the purchased good/services may affect adversely performance of the purchase function. On the other hand, the vendor/supplier's reliability in delivery is the most important criterion at the time of vendor evaluation.

Product quality

The quality of product should be consistent with the specifications and use of the product. Some products meet the Indian Standard (IS) or British Standard (BS) specifications, but they fail on shop-floor when they are used on a machine. It is significant to ensure consistency in quality of product to reduce the cost of inspection, interruptions in production process due to rejections, and arranging replacements of rejected material.

Lowest price of the product

Always, the buyers like to buy at the lowest price consistent with availability and quality of the product. The buyers consider price as an important objective, if delivery and quality objectives are met, because low price is worthless, if the product is not delivered when needed or if the quality of the product is unacceptable.

Services

The industrial buyers need many types of services to accompany the purchase of goods for achieving the goals of organisation. These services include prompt and accurate information from suppliers, application or technical assistance, spare-parts availability, repairs and maintenance capability, and training, if required.

Supplier relationship

Different industrial buyers have developed the purchase departments in their organisation. Because, manufacturing firms spend more than fifty per cent of their sales revenue on purchase. To develop a good long-term supplier/vendor relationship and to develop new sources of supply, industrial marketers need to understand that purchasing objectives. These objectives are also based on the company objectives. Resultantly, the buying members of an organisation are also influenced by both purchasing objectives of the firm and personal objectives. Personal objectives of industrial buyers include higher status, job security, salary increments, promotions and social considerations: friendship, mutually beneficial relationships, and personal favours. The industrial buyers try to achieve both objectives simultaneously. The industrial marketers ought to realise that it is important to satisfy the purchasing objectives of an industrial firm as well as the personal objectives of the buying members.

3.3 PURCHASING ACTIVITIES OF INDUSTRIAL BUYERS

In consumer marketing, consumers make buying decisions based on certain mental stages such as need recognition, information search, evaluation, purchase decision, and post-purchase behaviour. But, in industrial markets the buying decision making process includes observable sequential stages involving many people in the buying organisation. The understanding of these steps/phases of buying-decision making is helpful to an industrial marketer to develop an appropriate selling strategy.

The purchasing activities of industrial buyers consist of various steps/phases in buying-decision-making process. The importance of each step depends upon the type of buying situation. The industrial marketers should understand both (step in decision-making process and the type of buying situations) to market the product or service. In 1967, Robinson, Faris, and Wind developed a process "buyphases" having eight steps in buying-decision process in industrial market. These phases or steps are elaborated as follows:

Recognition of Need of Industrial Buyer

A smart marketer recognises the need/problem of industrial buyer originated within the firm. If the material supplied by the existing supplier is not satisfactory in terms of quality, or the material is not available as per requirement, or the machine supplied by him breaks down too often, the buying organisation recognises the problem. If an industrial marketer identifies a problem in the buying organisation and suggests how the problem could be solved, there will be a better possibility of it being selected as a supplier.

3.3.2 Determination of the Characteristics and Quantity of Needed Product

If the problem is recognized within or outside the buying organisation, then the buying firm will try to answer questions such as: What type of products or services to be considered? What quantity of the product needed? and so on. For technical products, the technical departments (R&D, industrial engineering, production, or quality control) will suggest general solutions of the needed product. For non-technical goods or services, either the user department or purchase department may suggest products or services, based on experience and also the quantity required to solve the problem. Nevertheless, if the required information is not available internally within the buying organization, the same can be obtained from the outside sources.

3.3.3 Development of Specification of Needed Product

Stage 2 and 3 are closely related. After the general solution to the problem is determined in the second phase, the buying organisation, in the third stage, develops a precise statement of the specifications or characteristics of the product or service needed. During this stage the purchase department takes the help of their technical personnel, or if required, outside sources such as suppliers or consultants. Industrial marketers have a great opportunity to get involved at this stage by helping the buyer organisation to develop product specifications and characteristics. It would give a definite advantage by ensuring that the needed product includes his or her company's product characteristics and specifications.

3.3.4 Search the Qualified Potential Suppliers

In this stage, the buying organisation searches for acceptable suppliers or vendors. Firstly, they have to obtain information about all available suppliers and secondly, they have to decide the qualifying suppliers. The search for potential suppliers is based on the various sources of information like trade journals, sales calls, work-of-mouth, catalogues, trade-shows, industrial directories. The qualifications of acceptable supplies may depend on the type of buying organization such as government undertaking, private sector commercial organisation, or institutions, and the buying situation, and the decision-making members. Furthermore, the factors like quality of product or service, reliability in delivery, and service are considered in qualifications of suppliers.

3.3.5 Obtaining and Analysing Supplier Proposals

If the qualified suppliers are decided then the buying organisation obtains the proposals by sending enquiries to the qualified suppliers. A supplier's proposal can be in the form of a formal offer, quotation, or a formal bid, submitted by the supplier to the buying organisation. It must include the product specification, price, delivery period, payment terms, taxes and duties applicable, transportation cost (or freight), cost of transit insurance, and any other relevant cost or free service provided. For purchases of routine products or services, the stages 4 and 5 may occur simultaneously, as the buyer may contact the qualified suppliers to get the latest information on prices and delivery periods. For technically complex products and services, a lot of time is spent in analyzing proposals in terms of comparisons on products, services, deliveries, and the landed costs: includes the price after discount plus excise duty, sales tax, freight, and insurance.

3.3.6 Evaluation of Proposals and Selection of Suppliers

The industrial buyers evaluate the proposals of competing suppliers and selects one or more suppliers. Further negotiations may continue with selected suppliers on prices, payment terms, deliveries, and so on. The decision makers in the buying organization may evaluate each supplier on a set of agreed-upon attributes or factors. Each supplier is evaluated on each attribute by giving a weightage to each attribute proportionately or on rating scale basis. The supplier(s) who get the highest total score receives the business or the order from the buying organisation. If a buying firm faces a make-or-buy decision, the supplier's proposals are compared with the cost of producing the needed item within the buying organization. If it is decided to make the item within the buying organization, the buying process is stopped at this stage.

3.3.7 Routine Order Selection

In this stage the procedure of exchange of goods and services between a buyer and a seller is worked out. The activities include placement of orders (i.e. purchase orders) with the selected suppliers, the quantity to be purchased from each supplier, frequency of order placement by buyers and delivery schedules to be adhered to by the supplier, schedule, and the payment terms to be adhered to by the buyer. The user department would not be satisfied until the supplier delivers the required item as per delivery schedule, and with acceptable quality.

3.3.8 Performance Feedback and post-purchase Evaluation

In this final phase a formal or informal review regarding the performance of each supplier (or vendor) takes place. The user department gives a feedback on whether the purchased item solved the problem or not. If not, the members of the decision-making unit review their earlier decision and decide to give a chance to the previously rejected supplier.

The industrial vendor should recognize that marketing effort is no over after the order is received. He or she must check the feedback and evaluation process in the customer (buyer) organisation. In particular, the industrial marketer must monitor the user satisfaction levels or complaints so that immediate corrective action can be taken before a major damage. In fact, a quick response to customers' complaints can result in good buyer-seller relationship. The type of products, the phase of the buying-decision making process of customer firms, and the purchasing situations also influence the marketing strategy of industrial seller.

3.4 BUYING SITUATION TYPES

There are three common types of buying situations namely (i) New purchase (or New task), (ii) Change in supplier, and (iii) Repeat purchase; discussed as follows:

3.4.1 New Purchase

The industrial buyers buy the item for the first time in this situation. The need for a new purchase may be due to internal or external factors. For example, when a firm decides to diversify into new purchase situations the buyers have limited knowledge and lack of previous experience. Therefore, they have to obtain a variety of information about the product, the suppliers, the prices and so on. The risks are more, decisions may take longer time, and more people are involved in decision making in the new purchase decisions.

3.4.2 Change in Supplier

This situation occurs when the organisation is not satisfied with the performance of the existing suppliers, or the need arises for cost reduction or quality improvement. The change in supplier may also be necessary if technical people in the buying organization ask for changes in the product specification, or marketing department asks for redesigning the product to gain some competitive advantage. As a result, search for information about alternative sources of supply becomes necessary. Even though, certain attributes or factors can be used to evaluate the suppliers. There may be uncertainty regarding the supplier who can best meet the needs of the buying firm. Therefore, the modified rebuy situation occurs mostly when the buying firms are not satisfied with the performance of the existing suppliers.

3.4.3 Repeat Purchase

If the buying organization requires certain products or services continuously and products/services had been purchased in the past then the situation of repeat purchase occurs. In such a situation, the buying organisation reorders/places repeat orders with the suppliers who are currently supplying such items. This means that the product, the price, the delivery period, and the payment terms remain the same in the reorder, as per the original purchase order. This is a routine decision with low risk and less information needs, taken by a junior executive in the purchase department. Generally, the buying firms do not change the existing suppliers if their performance is satisfactory.

3.5 DECISION MAKING UNIT

It is essential to understand the roles of buying-center members or decision-making units (DMUs) before identifying the individuals and groups involved in the buying-decision process. It is helpful to the industrial marketers to develop an effective promotion strategy. The roles of buying center members are as follows:

3.5.1 Initiators

The initiators might be any individuals in the buying firm. Often, the users of a product/service play the role of the initiators.

3.5.2 Buyers

The major roles of buyers are obtaining quotations (or offers) from suppliers, supplier evaluation and selection, negotiation, processing purchase orders, speed up deliveries, and implementing purchasing policies of the organization. Generally, they are the purchase (or material) officers and executives.

3.5.3 Users

The user is those individuals who use the product or service that is to be purchased. Generally, users play the role of the initiators. The influence of the users in purchasing decisions may vary from minor to major. They may define the specifications of the needed product. They may be shopfloor workers, maintenance engineers, or R&D engineers.

3.5.4 Influencers

Those individuals who influence the buying decision are known as influencers. Generally, technical people such as designers, quality control engineers have a substantial influence on purchase decisions. Sometimes, individuals outside the organisation, who are experts or consultants, play the role of influencers by drawing specifications of products or services.

3.5.5 Deciders

The deciders make the actual buying decisions. They may be one or more individuals involved in the buying decision. It is very significant to identify the deciders, although at times it may be difficult task. Generally, for routine purchases the buyer (or purchase executive) may be the decider. But, for high-value and technically complex products, senior executives are the deciders.

3.5.6 Gatekeepers

The gatekeepers are those individuals who control (or filter) the flow of the information regarding products and services to the members of the buying center. Sometimes, the gatekeepers may control sales people's meetings with the members of the buying center. Gatekeepers are often the assistants or junior persons attached to purchase (or materials) manager.

After understanding the roles of DMUs, industrial marketers, must identify the individuals and groups who are the members of buying center. The DMUs are useful tools which answers the question-Who are involved in buying decision in an industrial organization? It is defined as a body of all the individuals or groups participating in the buying decision process and who have interdependent objectives and share common risks. The emphasis in the buying center is on the organizational groups i.e. the functional areas, which participate in the buying decision process.

3.6 KEY MEMBERS IN BUYING ORGANISATION

The following discussion clarifies different key members or DMUs in industrial buying decisions:

Top Management

For purchases of high value capital equipment, the top management in most firms got involved in the supplier selection, as it may have a major impact on the firm's operations. The top management in an industrial organisation consists of managing director, director, presidents, and vice-president of general manager. They are generally involved in purchase policy decisions such as diversification into a new product/project, approval of purchase or materials department annual budgets and objectives, and deciding the guidelines for purchase decisions.

Technical Persons

The technical persons are designers, production manager, maintenance manager, quality control manager, R & D manager, and industrial engineers. Generally, they are involved in product specification or description, technical evaluation of offers received from suppliers, negotiations with suppliers, performance feedback on products supplied, and so on. They visit the factories of potential suppliers to achieve more information and assurance of manufacturing capability.

Purchasers

Buyers are the individuals in the purchase or materials department. They may be senior executives or managers, and also, at junior levels, purchase officers or assistants. Generally, they are involved in most of the phases or steps of the purchase activities. They coordinate with technical persons, top management, accounts or finance persons within an organization, as well as, with suppliers or vendors externally. Buyer's influence on selection of suppliers is considerable. They are conscious of keeping good relations with other decision-making members within the organization and also with the suppliers.

Accounts/Finance Persons

The contribution of finance/accounts persons are seen while finalising commercial terms such as modes of payment, issuance of bank guarantees, financial approval of capital purchases, issuing payments to suppliers, and so on.

Marketing People

When a purchase decision has an impact on the marketability of a firm's product, marketing people become influencers in the buying decision process. For example, a manufacturing firm market the electric motors had to change its packing due to damages caused to the product in transportation. It also affects the satisfaction level of the customers. The marketing manager insisted that suppliers should use good quality and thicker wood for packing the motors to minimize damage in transit.

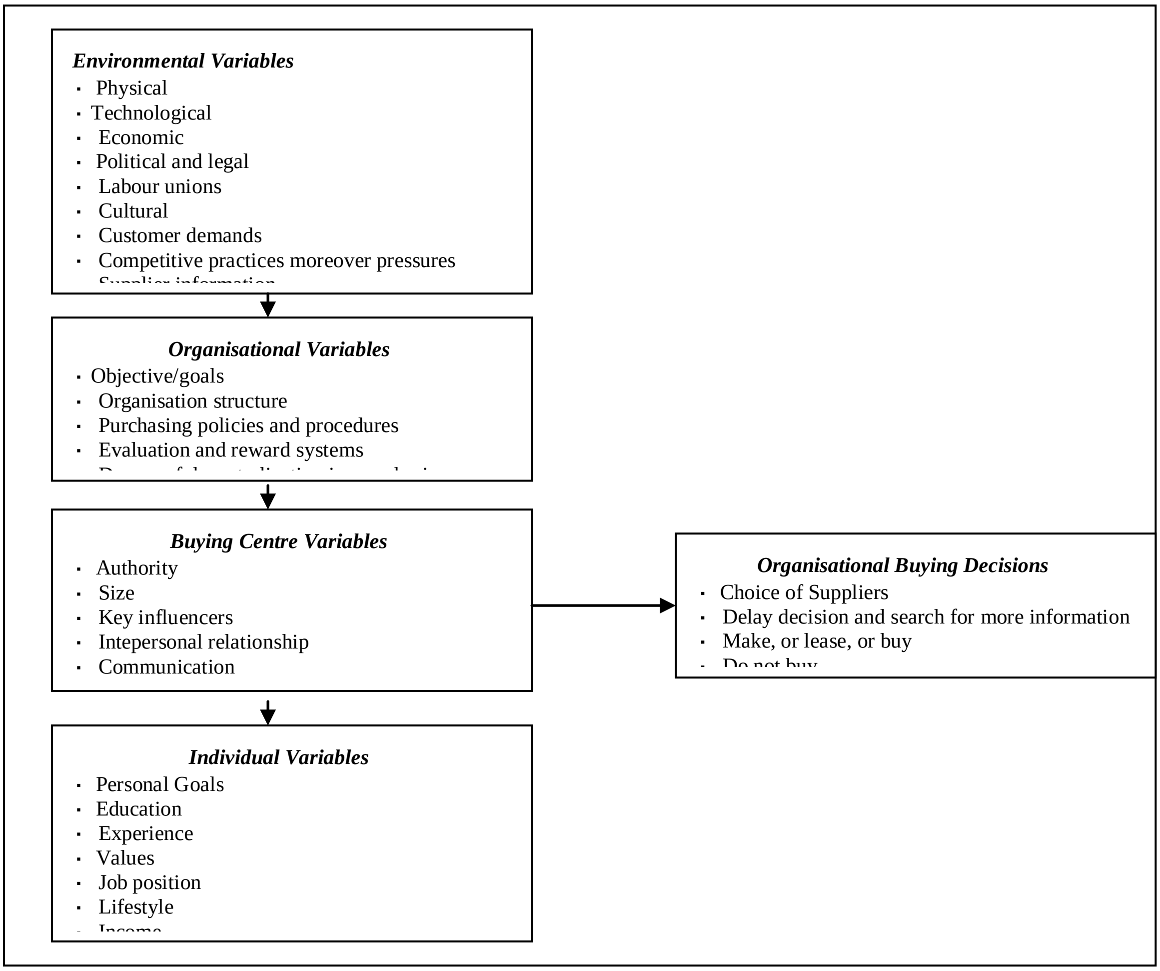
3.7 MODELS OF ORGANISATIONAL BUYING BEHAVIOUR

The buying decisions of industrial buyers are influenced by many factors. Usually, these are influenced by organisational factors or task-oriented objectives viz. best product quality, or dependable delivery, or lowest price and personal factors or non-task objectives viz. like promotion, increments, job security, personal treatment, or favour. When the suppliers' proposals are substantially similar, organizational buyers can satisfy organisational objectives with any supplier, and therefore personal factors become more important. When suppliers' offers differ significantly, industrial buyers pay more attention to organisational factors in order to satisfy the organisational objectives. There are two models available to provide a comprehensive and integrated picture of the major factors that combine to explain organisational buying behaviour. These are:

The Webster and Wind Model

The Webster and Wind Model of organisational buying behaviour is quite a comprehensive model (Figure 3.1). It considers four sets of variables: environmental, organizational, buying center, and individual, which, affect the buying-decision making process in a firm.

Figure 3.1: The Webster and Wind Model of Organisational Buying Behaviour



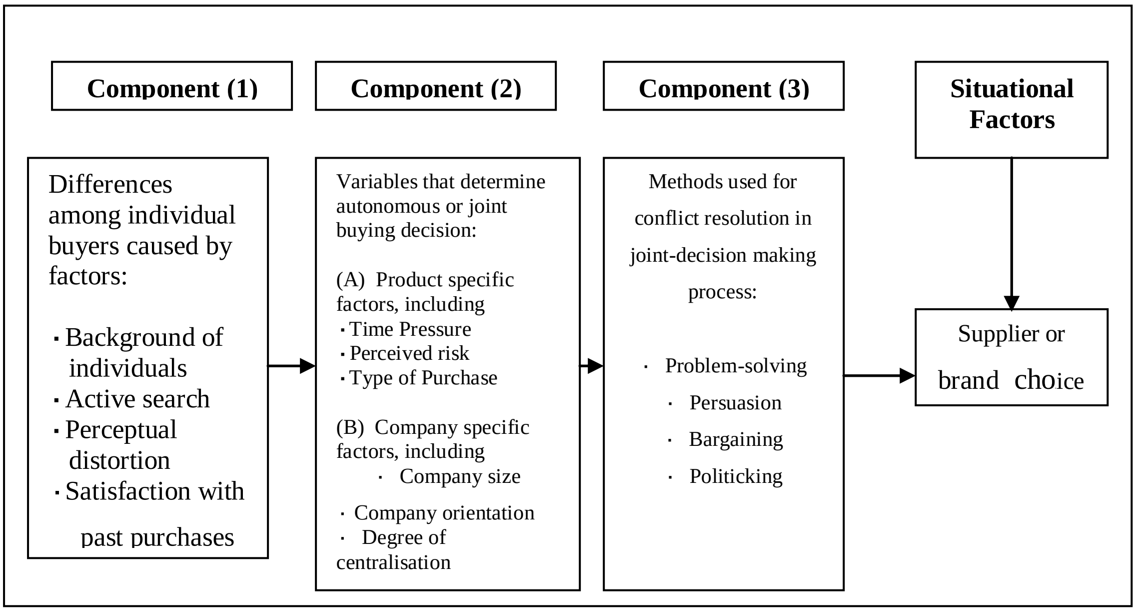
Source: R.E. Webster, Jr and Y Wind, journal of Marketing, 36, pp 12-17, April, 1972.

The environmental variables include physical, technological, economic, political, legal, labour unions, cultural, customer demands, competition and supplier information. For example, in a recessionary economic condition, industrial firms minimize the quantity of items purchased. The environmental factors influence the buying decisions of individual organisations. The organizational variables include objectives, goals, organisation structure, purchasing policies and procedures, degree of centralization in purchasing, and evaluation and reward system. These variables particularly influence the composition and functioning of the buying center, and also, the degree of centralization or decentralisation in the purchasing function in the buying organisation. The functioning of buying center is influenced by the organisational variables the environmental variables, and the individual variables. The output of the group decision-making process of the buying center includes solutions to the buying problems of the organisation and also the satisfaction of personal goals of individual members of the buying centre. The strengths of the model, developed in 1972, are that it is comprehensive, generally applicable, analytical, and that it identifies many key variables, which could be considered while developing marketing strategies by industrial marketers. However, the model is weak in explaining the specific influence of the key variables.

3.7.2 The Sheth Model

In 1973, Professor Jagdish N Sheth developed the Sheth model. This model highlights the decision-making by two or more individuals jointly, and the psychological aspects of the decision-making individuals in the industrial buying behaviour (Figure 3.2). It includes three components and situational factors, which determine the choice of a supplier or a brand in the buying decision making process in an organization. The differences among the individual buyers expectations (Component 1) are caused by the factors: background of individuals; information sources; active search; perceptual distortion; and satisfaction with past purchases. The background of individuals depends upon their education, role in the organization, and life style. The factor perceptual distortion means the extent to which each individual participant modifies information to make it consistent with his existing beliefs and previous experiences. It is difficult to measure perceptual distortion, although techniques such as factor analysis and perceptual mapping are available for this purpose. In Component (2), there are six variables, which determine whether the buying decisions are autonomous or joint. According to the Sheth Model, larger the size of the organization and higher the degree of decentralization, more will be possibilities of joint-decision making.

Figure 3.2: The Sheth Model



Source: Jagdish N. sheth, “A Model of Industrial Buyer Behaviour”, journal of Marketing, 37, pp 50-56, October, 1973.

The methods used for conflict resolution in joint-decision making process are indicated by the Component (3) in the model. Problem-solving and persuasion methods are used when there is an agreement about the organizational objectives. If there is no such agreement, bargaining takes place. Conflict about the style of decision-making is resolved by politicking. Situation factors can be varied like economic conditions, labour disputes, mergers and acquisitions. The model does not explain their influence on the buying process.

3.8 MODERN PURCHASING ACTIVITIES

There are some contemporary purchasing activities, which are used in industrial buying processes. These are discussed as follows:

3.8.1 Just-in-Time (JIT)

It refers that the material arrives at the buyer's factory exactly when needed by the buyer. It minimizes the inventory, and increases the quality and productivity. The goal of JIT delivery is zero inventory and excellent quality of the material delivered by the supplier. This ensures nil rejection at the buyer's factory. The JIT delivery means that the buying and selling organizations work together closely to reduce costs.

3.8.2 Single Sourcing

In this activity, the industrial customers place orders with only one supplier not to two or three suppliers. It means all the eggs are not in one basket. The practice makes possible for the buying and selling organizations to work closely together, involve the supplier from the design stage, and utilize the supplier's expertise.

3.8.3 Value Analysis

The industrial buyers to reduce cost with maintaining product reliability use the value analysis. It involves analyzing a product item by the function it performs, the value of the function, and the alternate methods of performing the same function. It uses creative technique like brainstorming and includes members of various departments such as production, quality control, design, industrial engineering, marketing, and purchase.

3.8.4 Purchase Committee

Some industrial buyers develop a formalized decision-making unit i.e. purchase committee. It is used in many industrial organizations including institutions (such as universities and hospitals) and Government companies. Generally, in a typical purchase committee, one or two individuals nominate in the decision-making. The salesperson must provide information to all the members of the purchase committee, and should target the real sales efforts to those dominant members who influence the buying decisions. Identifying purchase committee individuals, their technical and commercial expertise, their individual needs, buying decision process, and the organization structure are the important tasks to be performed by the effective industrial marketer.

3.9 SUMMARY

The purchasing objectives and purchasing activities of industrial buyers must be understood by the industrial marketers to formulate an effective marketing strategy. The industrial buyers are influenced by both purchasing objectives of the firm and personal objectives. Further, the individuals involved in buying-decision process have certain roles. The industrial marketers should identify the key members of buying centre in each buying organization. The industrial marketers should also be aware of models of organizational buying behaviour and the up to date purchasing activities, such as just-in-time delivery, single sourcing, value analysis, and purchasing committee.

3.10 QUESTIONS FOR DISCUSSION

1. In what stage(s) of industrial buying decision making process the industrial marketers should get involved and what are the benefits of such an involvement?
2. "It is said that the industrial marketer's job is not over after getting an order from the industrial customer". Give the comment.
3. Explain the models of organisational buyer behaviour and their implication in the organisation.
4. How industrial buying behaviour is different from consumer buying behaviour? What are the major factors that influence business buyers?
5. Discuss the contemporary techniques of purchasing in industrial buying.

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UNIT-II

Strategic Industrial Marketing (S.T.P.) - Marketing Information Systems and Marketing Research.

The basic objective of this chapter is :

- to understand the meaning of Industrial / Business Marketing
- Difference between Business and Consumer Marketing
- Marketing planning - the link with strategic planning
- What's driving growth in business-to-business (B-2-B)
- Industrial Marketing Strategy in India

- To understand the importance of market segmentation and the bases in which it is done
- to develop a target market strategy
- To understand positioning of a product Understand Marketing Information Systems
- Marketing Research

Business marketing is the practice of organizations, including commercial businesses, governments and institutions, facilitating the sale of their products or services to other companies or organizations that in turn resell them, use them as components in products or services they offer, or use them to support their operations. Also known as industrial marketing, business marketing is also called business-to-business marketing, or b-to-b marketing, for short.

Origins of business marketing

In the broadest sense, the practice of one purveyor of goods doing trade with another is as old as commerce itself. As a niche in the field of marketing as we know it today, however, its history is more recent. In his introduction to *Fundamentals of Business Marketing Research*, J. David Lichtenthal, professor of marketing at the City University of New York's Zicklin School of Business, notes that industrial marketing has been around since the mid-19th century, although the bulk of research on the discipline of business marketing has come about in the last 25 years.

Morris, Pitt and Honeycutt, 2001, point out that for many years business marketing took a back seat to consumer marketing, which entailed providers of goods or services selling directly to households through mass media and retail channels. This began to change in middle to late1970s. A variety of academic periodicals, such as the *Journal of Business-to-Business Marketing* and the *Journal of Business & Industrial Marketing*, now publish studies on the subject regularly, and professional conferences on business-to-business marketing are held every year. What's more, business marketing courses are commonplace at many universities today. In fact, Dwyer and Tanner (2006) point out that more marketing majors begin their careers in business marketing today than in consumer marketing.

Business marketing vs. consumer marketing

Although on the surface the differences between business and consumer marketing may seem obvious, there are more subtle distinctions between the two with substantial ramifications. Dwyer and Tanner (2006) note that business marketing generally entails shorter and more direct channels of distribution.

While consumer marketing is aimed at large demographic groups through mass media and retailers, the negotiation process between the buyer and seller is more personal in business marketing. According to Hutt and Speh (2001), most business marketers commit only a small part of their promotional budgets to advertising, and that is usually through direct mail efforts and trade journals. While that advertising is limited, it often helps the business marketer set up successful sales calls.

Who is the business marketing customer?

While "other businesses" might seem like the simple answer, Dwyer and Tanner (2006) say business customers fall into four broad categories: companies that consume products or services, government agencies, institutions and resellers.

The first category includes original equipment manufacturers, such as automakers, who buy gauges to put in their cars, and users, which are companies that purchase products for their own consumption. The second category, government agencies, is the biggest. In fact, the U.S. government is the biggest single purchaser of products and services in the country, spending more than $300 billion annually. But this category also includes state and local governments. The third category, institutions, includes schools, hospitals and nursing homes, churches and charities. Finally, resellers consist of wholesalers, brokers and industrial distributors.

Marketing planning - the link with strategic planning

Businesses that succeed do so by creating and keeping customers. They do this by providing better value for the customer than the competition.

Marketing management constantly have to assess which customers they are trying to reach and how they can design products and services that provide better value ("competitive advantage").

The main problem with this process is that the "environment" in which businesses operate is constantly changing. So a business must adapt to reflect changes in the environment and make decisions about how to change the marketing mix in order to succeed. This process of adapting and decision-making is known as marketing planning.

Where does marketing planning fit in with the overall strategic planning of a business?

Strategic planning (which you will cover in your studies of "strategy" is concerned about the overall direction of the business. It is concerned with marketing, of course. But it also involves decision-making about production and operations, finance, human resource management and other business issues.

The objective of a strategic plan is to set the direction of a business and create its shape so that the products and services it provides meet the overall business objectives.

Marketing has a key role to play in strategic planning, because it is the job of marketing management to understand and manage the links between the business and the "environment".

Sometimes this is quite a straightforward task. For example, in many small businesses there is only one geographical market and a limited number of products (perhaps only one product!).

However, consider the challenge faced by marketing management in a multinational business, with hundreds of business units located around the globe, producing a wide range of products. How can such management keep control of marketing decision-making in such a complex situation? This calls for well-organised marketing planning.

What are the key issues that should be addressed in marketing planning?
The following questions lie at the heart of any marketing (or indeed strategic) planning process:

- Where are we now?
- How did we get there?
- Where are we heading?
- Where would we like to be?
- How do we get there?
- Are we on course?

Why is marketing planning essential?

Businesses operate in hostile and increasingly complex environment. The ability of a business to achieve profitable sales is impacted by dozens of environmental factors, many of which are inter-connected. It makes sense to try to bring some order to this chaos by understanding the commercial environment and bringing some strategic sense to the process of marketing products and services.
A marketing plan is useful to many people in a business. It can help to:

• Identify sources of competitive advantage

• Gain commitment to a strategy

• Get resources needed to invest in and build the business

• Inform stakeholders in the business

• Set objectives and strategies

• Measure performance

How big is business marketing?

Hutt and Speh (2001) note that "business marketers serve the largest market of all; the dollar volume of transactions in the industrial or business market significantly exceeds that of the ultimate consumer market." For example, they note that companies such as GE, DuPont and IBM spend more than $60 million a day on purchases to support their operations.

Dwyer and Tanner (2006) say the purchases made by companies, government agencies and institutions "account for more than half of the economic activity in industrialized countries such as the United States, Canada and France."

A 2003 study sponsored by the Business Marketing Association estimated that business-to-business marketers in the United States spend about $85 billion a year to promote their goods and services. The BMA study breaks that spending out as follows (figures are in billions of dollars):

- Trade Shows/Events -- $17.3
- Internet/Electronic Media -- $12.5
- Promotion/Market Support -- $10.9
- Magazine Advertising -- $10.8

- Publicity/Public Relations -- $10.5
- Direct Mail -- $9.4
- Dealer/Distributor Materials -- $5.2
- Market Research -- $3.8
- Telemarketing -- $2.4
- Directories -- $1.4
- Other -- $5.1

The fact that there is such a thing as the Business Marketing Association speaks to the size and credibility of the industry. BMA traces its origins to 1922 with the formation of the National Industrial Advertising Association. Today, BMA, headquartered in Chicago, boasts more than 2,000 members in 19 chapters across the country. Among its members are a new breed of marketing communications agencies that are largely or exclusively business-to-business-oriented. They include Bader Rutter & Associates, Milwaukee; Eric Mower and Associates, Syracuse, N.Y.; Cincinnati-based HSR Business-to-Business; Sullivan Higdon & Sink, Wichita, Kan.; and Chicago-based Slack Barshinger.

What's driving growth in b-to-b

The tremendous growth and change that business marketing is experiencing is due in large part to three "revolutions" occurring around the world today, according to Morris, Pitt and Honeycutt (2001).

First is the technological revolution. Technology is changing at an unprecedented pace, and these changes are speeding up the pace of new product and service development. A large part of that has to do with the Internet, which is discussed in more detail below.

Second is the entrepreneurial revolution. To stay competitive, many companies have downsized and reinvented themselves. Adaptability, flexibility, speed, aggressiveness and innovativeness are the keys to remaining competitive today. Marketing is taking the entrepreneurial lead by finding market segments, untapped needs and new uses for existing products, and by creating new processes for sales, distribution and customer service.

The third revolution is one occurring within marketing itself. Companies are looking beyond traditional assumptions and adopting new frameworks, theories, models and concepts. They're also moving away from the mass market and the preoccupation with the transaction. Relationships, partnerships and alliances are what define marketing today. The cookie-cutter approach is out. Companies are customizing marketing programs to individual accounts.

Industrial Marketing

Strategy in India

Marketing planning involves the selection of a marketing strategy and the tactics of implementing it to reach a defined set of goals. Marketing planning differs from Strategic market planning in three ways: time horizon, responsibility, and details. The components of marketing planning are executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action plans and control measures. The strategic planning process consists of developing the company's mission; objectives and goals, business portfolio, and functional plans. Controlling requires that various relevant aspects of performance be measured and compared with corresponding aspects of the plan. The purpose of the situation assessment is to identify threats and opportunities posed by changes in the environment (environmental assessment).

The issue of strategy formulation and planning for any new product or market is dependent on the product life cycle. There are three basic approaches for strategy formulation for new products. The essential task is to identify a proper product market combination where the barriers to entry are at a minimum. A marketing strategy has to take several factors into account, the prime one being the company's position in the particular market, specifically whether it is a market leader, challenger, follower or nicher. There are four major marketing strategies depending on the timing of the technologically intensive firm's entry into an industry. Follow the Full Product Life cycle, Develop New Products; Follow the Leader, Application Engineering, and Me-too products.

Corporate strategic planning involves four planning activities. The first is developing a clear sense of the company's mission. A well-developed mission statement provides employees with a shared sense of purpose, direction, and opportunity. The second activity calls for identifying the company's strategic business units (SBU). Its customer groups, customer needs, and technologies define a business. SBUs are business units that can benefit from separate planning, face specific competitors, and be managed as independent profit centers. The third activity calls for allocating resources to the various SBUs based on their market attractiveness and company business strengths. Several portfolio models, including those by Boston Consulting Group and General Electric, are available to help corporate management determine the SBUs that should be built, maintained, harvested, or divested. The fourth activity calls for expanding present businesses and developing new ones to fill the strategic-planning gap. The tools described provide powerful support for the Formulation of marketing strategies. In particular, they are useful to evaluate the firm's current Product-Market portfolio, evaluate competitors' current Product-Market portfolio, project the firm's future competitive situation and guide the development of a Strategic Intelligence System.

The- need for a lengthy time frame in industrial marketing can arise from a variety of reasons, like long lead times, long life cycles of many existing industrial products and alternative sources of resources on a long4erm basis. The selection of a suitable forecasting technique depends on (a) identification of new opportunities or threats (b) identification of potential markets and (c) market estimation and product specification.

Strategic Planning In The Industrial Market

While the basic principles of planning apply in both markets, many organizations have found that what works well in the consumer market fails to do so in the industrial market. Two significant differences between these markets appear to account for this phenomenon.

First, unlike the consumer market where products are normally' marketed through one or two channels, most industrial marketers face diverse markets that must be reached through a multiplicity of channels-each requiring a different marketing approach. A producer of communication equipment, for instance, may market to such diverse segments as the commercial, institutional, and governmental market, each of which will require a unique marketing plan

Second, in contrast to consumer marketing, successful industrial marketing strategy depends more on other functional areas. Where the elements of planning in consumer marketing can often be contained within specific areas of marketing, such as advertising, selling, and product management, planning in the industrial market is largely dependent on, or constrained by, the activities of other functional areas-for example, engineering, manufacturing, and technical services. When marketing emphasizes tailor-made products and fast deliveries, for instance, manufacturing must be prepared to follow through with product output. Planning, then, in the industrial marketing arena requires a higher degree of integrated effort across functional areas and a closer relationship with overall corporate strategy than in the consumer market.

Functional Isolation

While planning in the industrial market is as sophisticated as it is in the consumer arena, too often industrial firms concentrate planning efforts in the marketing department, failing to recognize the interdependency between marketing and other functional areas. Perhaps this is due to what may be referred to as "functional isolation."4 That is, not only does marketing tend to ignore its interface with other areas such as finance, manufacturing, and R&D, but "marketing concepts, methods and inputs are frequently ignored in the decision perspectives of other business function & While marketing should take the lead in defining market segments, needs, and opportunities and in determining what it will take to satisfy the various markets and, segments, planning in the industrial arena must be a collaborative effort between all key functional areas. Unfortunately, as Wind and Robertson point out, the isolation between marketing and other functional areas may continue until we: Find solutions to the inherent conflict between marketing and other functional areas.

Develop organizational structures that explicitly incorporate marketing and non-marketing considerations.

Begin using marketing decision models that are based on relevant input from other functional areas 'besides marketing.

Functional Conflict

While successful planning depends on cooperation between the different functional areas, whenever tasks and objectives are different or unclear between two or more departments a strong tendency for disharmony exists. Potentials conflict also exists between marketing and manufacturing in such areas as sales casting and production planning, and between marketing and R&D in the new product development

We're limited in what we can design because we have to keep it simple for marketing either the customer nor our marketing department understand the product and how it is supposed to work

The information that marketing includes is so exaggerated. We could get sued for false advertising.

Trying to package so many products and hold costs down is extremely poor that it makes our products hard to sell. Why can't we have reasonable

Quality at reasonable costs.

Technical - We need a technical expert to soothe customers even though they really

do not have a problem.

Warranty- Engineering always goes by the book, they don't understand that you have to bend a little.

Alleviating Conflict. Alleviating conflict begins with developing an understanding of the basic causes of interdepartmental conflict. As discussed in Chapter five conflicts arises due to the fact that each area is evaluated and rewarded on the different criteria, the inherent complexities of the different functional areas and the different perceptions of the individuals involved. Conflict can also arise differences in how departmental individuals perceive their prestige, power and knowledge. Budget constraints, rapid company growth, and the rapid peace of technological change can also yield potential areas of conflict.

Some degree of conflict is necessary and can be very constructive in that it promotes more efficient and effective use of the company's resources. However, when conflict begins to diminish the ability of the organization to coordinate the efforts of its various' functional areas, it becomes counterproductive and impedes the organization's effectiveness in achieving its primary goals. Alleviating conflict, however, is top management's responsibility. Conflict can only be alleviated when an atmosphere of cooperation is created through (1) promotion of clear and straightforward corporate policies, (2) evaluation and reward systems that stress inter functional cooperation and responsiveness, and (3) formal and informal inter functional contacts (e.g., including manufacturing people in sales meetings and marketing people in product design decision meetings or establishing squash courts for noon-hour use by all company members).

Marketing executives, however, can assist in alleviating conflict by building their marketing plans around each functional area's ability to service the firm's markets and customers and by analyzing the strengths, weaknesses, and competitiveness of each respective area, similar to analyzing customers and competitors.

We must design so many products withnumerous options that it is hard tomaintain quality and keep costs down.

We don't have enough manpower hold the hand of some pet customers of marketing. Marketing wants us to pay the full amount of every claim, even an invalid one.

What is a Market?

A market is:

An aggregate of people who, as individuals or organizations, have needs for products in a product class and who have the ability, willingness and authority to purchase such products (conditions needed for an exchange).

Types of markets:

1. ***Consumer*** Intend to consume or benefit, but not to make a profit.
2. ***Organizational/Business*** For:
   - Resale
   - Direct use in production
   - *or* general daily operations.

Developing a Target

Market Strategy

A Product will not sell by itself; It needs the best of strategies. After drawing a strong strategy plan, we need to develop a target market .Developing a target market strategy has three phases:

1. Analyzing consumer demand
2. Targeting the market(s)
   - Undifferentiated
   - Concentrated
   - Multi-segmented
3. Developing the marketing strategy

1. Selecting Target Markets by Analyzing Demand

Demand is the quantity of a good that consumers are not only willing to purchase but also have the capacity to buy at the given price. For example, a consumer may be willing to purchase 2 Kgs of potatoes if the price is Rs.3 per kg. However, the same consumer may be willing to purchase only 1 Kg if the price is Rs.5.00 per Kg. A demand schedule can be constructed that shows the quantity demanded at each given price. It can be represented on a graph as a line or curve by plotting the quantity demanded at each price. It can also be described mathematically by a demand equation. The main determinants of the quantity one is willing to purchase will typically be the price of the good, one's level of income, personal tastes, the price of substitute goods, and the price of complementary goods.

> The **capacity to buy** is sometimes used to characterise demand as being merely an alternate form of supply.

As marketers we need to aggregate consumers with similar needs. We need to identify demand patterns. Identification of demand could be done by asking the following questions and analyzing the same.

Do all potential customers have similar needs/desires or are there clusters?
What are the demand patterns ?
A marketer can normally identify 3 demand patterns, they are:

- ***Homogeneous Demand***-uniform, everyone demands the product for the same reason(s).
- ***Clustered Demand***-consumer demand classified in 2 or more identifiable clusters. Eg. Automobiles:
    - luxury

    - cheap
    - Sporty
    - Spacious
- ***Diffused Demand***-Product differentiation more costly and more difficult to communicate Eg. Cosmetic market; need to offer hundreds of shades of lipstick. Firms try to modify consumer demand to develop clusters of at least a moderate size.

2. Targeting The Market

After analyzing the demand pattern we as marketers, can identify how the consumers can be targeted. This would include 3 approaches in which a marketer can target its consumers.

a) **Undifferentiated Approach (Total Market Approach)** – This approach does not differentiate the market according to any variable. In this case a Single Marketing Mix for the entire market identified is laid out. All consumers have similar needs for a specific kind of product. Homogeneous market, or demand is so diffused it is not worthwhile to differentiate, try to make demand more homogeneous. Eg. Nirma Detergent soap – for any kind of stain, for any kind of person or cloth one soap.

Single Marketing Mix consists of:

- 1 Pricing strategy
- 1 Promotional program aimed at everybody
- 1 Type of product with little/no variation
- 1 Distribution system aimed at entire market

The elements of the marketing mix do not change for different consumers; all elements are developed for all consumers.

Examples include Staple foods-sugar and salt and farm produce. This approach is popular when large-scale production began. In today's competitive market this approach is out-dated and could cause a product to fail, as the competition is very high and the availability of alternatives are very extensive.

If this approach is incorporated into an organization it must be able to develop and maintain a single marketing mix. In this case the major objective is to maximize sales.

b) Market Segmentation Approach.

Indians are very price conscious people. The would like the best of products at a very economical price. Well there is another set of people who believe the higher the price better he quality of product. It can be understood that Individuals with diverse product needs have heterogeneous needs.

Market segmentation is the process of dividing a total heterogeneous market into market groups consisting of people who have relatively similar product needs, there are clusters of needs. The purpose is to design a Marketing Mix (s) that more precisely matches the needs of individuals in a selected market segment(s).

A market segment consists of individuals, groups or organizations with one or more characteristics that cause them to have relatively similar product needs.

There are two Market Segmentation Strategies (remember these are strategies and not the basis of segmentation, which will be discussed later).

i. **Concentration Strategy**.

A firm that does targeting of only one segment with a unique marketing mix is referred as concentrated marketing strategy. It the company is small or new to the field, it may decide to go for concentrated strategy.

PROS include:

- It allows a firm to specialize in one product/ one market group
- can focus all energies on satisfying one group's needs
- A firm with limited resources can compete with larger organizations.

CONS include:

- Puts all eggs in one basket.
- Small shift in the population or consumer tastes can greatly affect the firm.
- May have trouble expanding into new markets (especially up-market).

In this strategy the objective is not to maximize sales, it is efficiency, attracting a large portion of one section while controlling costs.

Examples include: ROLEX, Anyone wear one.

ii. Multi-segment strategy (or also called as **differentiated marketing strategy)**

Here targeting is inclusive of many segments using individual marketing mixes is called differentiated marketing strategy. Here 2 or more segments are sought with a Marketing Mix for each segment, different marketing plan for each segment. This approach combines the best attributes of undifferentiated marketing and concentrated marketing. In this strategy, the firm will try to offer a product suitable for every purse, purpose and personality by adoption this strategy, it hopes to strengthen the overall identification of the company with the product category.

Example: Titan- watches ranging from Rs. 250 to more than a lakh, executive watches to sports watches, plastic to the hardest of metal, water proof…. etc.

Marriott International:

1.Marriott Suites...Permanent vacationers

2.Fairfield Inn...Economy Lodging

3.Residence Inn...Extended Stay

4.Courtyard By Marriott...Business Travelers

PROS include:

- Shift excess production capacity.
- Can achieve same market coverage as with mass marketing.
- Price differentials among different brands can be maintained Contact Lens!!
- Consumers in each segment may be willing to pay a premium for the tailor-made product.
- Less risk, not relying on one market.

CONS include:

- Demands a greater number of production processes.
- Costs and resources and increased marketing costs through selling through different channels and promoting more brands, using different packaging etc.
- Must be careful to maintain the product distinctiveness in each consumer group and guard its overall image (Contact lenses)

POSITIONING

In marketing, **positioning** is the technique by which marketers try to create an image or identity in the minds of their target market for its product, brand, or organization. It is the 'relative competitive comparison' their product occupies in a given market as perceived by the target market.

Positioning is something (perception) that is done ***in the minds of*** the target market.

A product's position is how potential buyers see the product. Positioning is expressed relative to the position of competitors. The term was coined in 1969 by Al Ries and Jack Trout in the paper *"Positioning" is a game people play in today's me-too market place"* in the publication *Industrial Marketing*.

Simply, positioning is how your target market defines you in relation to your competitors.

A good position is:
1. What makes you unique
2. This is considered a benefit by your target market

Both of these conditions are necessary for a good positioning. So what if you are the only red-haired singer who only knows how to play a G minor chord? Does your target market consider this a good thing?

Positioning is important because you are competing with all the noise out there competing for your potential fans attention. If you can stand out with a unique benefit, you have a chance at getting their attention.

It is important to understand your product from the customer's point of view relative to the competition.

Marketing Information

1. Manufacturing involves 4 distinct phases. These phases are selection, assembly, production, and distribution. These phases correspond to the 4 primary questions of economic geography: 1) what will be produced, 2)how it will be produced, 3)where it will be produced, and 4) form whom it will be produced.

2. Changing the form of a raw material increases its use or value. For example, flour milled from wheat is more valuable than the raw grain. The increase in labor power is termed **value added by manufacturing**.

3. Raw materials are classified into two categories: 1) ubiquitous and 2) local. **Ubiquitous materials** are universally distributed. **Local materials** are found only at specific locations. Only localized raw materials attract production. Products comprised of ubiquitous materials will usually be produced near market locations to reduce transporation costs.

4. Classical industrial location theory is founded on the work of Alfred Weber. Weber's system is often called the **least cost approach** because he assumed that such locations are optimal. Weber considered 1) the cost of assembling raw materials, 2) the cost of distributing the finished product, and 3) the total transportation costs. In normal cases, he assumed the existence of a single marked point. The best location for a manufacturing plant is the point at which the total transportation costs are minimized.

5. The weight and weight-losing properties of raw materials are critical factors influencing industrial location. The **Varignon frame** is a mechanical device of weights, strings, and pulleys formerly used to identify the best location for a plant. Today, high speed computers assess numerous variables to find the best location.

6. Locational decisions are influenced by prior developoment patterns. This is called **industrial inertia**. Plants may be located at nonoptimal sites in order to utilize existing infrastructure.

7. Three primary factors influence the method and cost of production after the materials have been assembled at a point. These are **land**, **labor**, and **capital**. Spatial variability in the cost of land and the availability of skilled or unskilled labor impact the location of production processes.

8. There are two forms of capital: 1) fixed capital and 2) liquid or variable capital**. Fixed capital** includes equipment and plant buildings. **Liquid capital** is used to pay wages and other operating costs. Liquid capital is more mobile than fixed capital. Fixed capital is a primary reason for industrial inertia.

9. Technological change has greatly impacted production processes. The time required to transport materials and transmit information has decreased substantially in the past 50 years. Flexible manufacturing processes, such as Just-in-time manufacturing are adaptations to technological change. Companies that can adjust to the speed and flexibility of economic relations are in a superior competitive position.

10. The **scale of production** indicates the volume of a firm’s total output. The optimal scale may determine whether a business expands existing facilities or builds branch plants. Finding the optimal scale of production is an attempt to

eliminate or reduce diseconomies of scale (diminishing returns). The **division of labor** is a critical component of mass production. Division of labor not only speeds up production, but also facilitates the use of relatively unskilled labor. The emergence of **agglomeration economies**, such production linkages, service linkages, and marketing linkages, may also be related to the development of scale economies.

11. **Verticle integration** occurs when a firm controls more of the elements in the production process. This includes the purchase of raw materials or distribution facilities. **Horizontal integration** occurs whan a firm gains an increasing market share of a given niche of a particular industry. Mergers between similar firms is an example of this process.

12. The role a **multinational corporation** (MNC) symbolizes is that of an effective agent for transferring capital, managerial skills, technology, product design, and commodities among countries. Advantages which MNC's possess include superior knowledge, and larger size and scope of operations.

13. Growth takes place through integration and diversification. **Backward integration** occurs when a firm takes over operations previously the responsibility of its suppliers. **Forward integration** occurs when a firm begins to control the outlets for it products.

14. Companies organize themselves hierarchically in a variety of ways to administer and coordinate their activities. The bacis formats are 1) functional orientation, 2) product orientation, 3) geographic orientation, and 4) customer orientation. The combination of at least two of these formats is called a matrix structure.

15. **Business process reengineering** refers to a major innovation in the manner in which organizations conduct their business. These innovations include downsizing, real time information systems, and strategic information systems. **Downsizing** reduces the number of employees. **Real time information systems** reduce bureaucracy by using self-managed teams. **Strategic information systems** use technology to improve a firm's competitive ability.

16. The **product life cycle**, which begins with a product's development and ends when it is replaced with something better, is important geographically because products at different stages of production tend to be manufactured at different places within corporate systems.

17. Corporate production systems undergo continuous locational adjustment. Shifts may be inspired by technical and organizational developments internal to the industry or changes in the external environment, such as the oil-price hikes of 1973. Particularly significant are adjustments made in response to major shocks or stresses placed on an enterprise.

18. Industries tend to pass through several stages. These stages include an initial period of experimentation, a period of rapid growth, a period of diminished growth, and a period of stability or decline.

19. Kondratiev hypothesized that industrial countries experience successive waves of growth and decline. These are called **Kondratiev cycles**. Each cycle lasts for approximately 50-60 years.

The impact of the Internet

The Internet has become an integral component of the customer relationship management strategy for business marketers. Dwyer and Tanner (2006) note that business marketers not only use the Internet to improve customer service but also to improve opportunities with distributors.

According to Anderson and Narus (2004), two new types of resellers have emerged as by-products of the Internet: infomediaries and metamediaries. Infomediaries, such as Google and Yahoo, are search engine companies that also function as brokers, or middlemen, in the business marketing world. They charge companies fees to find information on the Web as well as for banner and pop-up ads and search engine optimization services. Metamediaries, such as W.W. Grainger, are companies with robust Internet sites that furnish customers with multiproduct, multivendor and multiservice marketspace in return for commissions on sales.

With the advent of b-to-b exchanges, the Internet ushered in an enthusiasm for collaboration that never existed before--and in fact might have even seemed ludicrous 10 years ago. For example, a decade ago who would have imagined Ford, General Motors and DaimlerChrysler entering into a joint venture? That's exactly what happened after all three of the Big Three began moving their purchases online in the late 1990s. All three companies were pursuing their own initiatives when they realized the economies of scale they could achieve by pooling their efforts. Thus was born what then was the world's largest Internet business when Ford's Auto-Xchange and GM's TradeXchange merged, with DaimlerChrysler representing the third partner.

While this exchange did not stand the test of time, others have, including Agentrics, LLC, which was formed last year with the merger of WorldWide

Retail Exchange and GlobalNetXchange, or GNX. Agentrics serves more 50 retailers around the world and more than 300 customers, and its members have combined sales of about $1 trillion. Hutt and Speh (2001) note that such virtual marketplaces enable companies and their suppliers to conduct business in real time as well as simplify purchase processes and cut costs.

3 key elements link the organization to its customers:

- Information Technology
- Micro Marketing
- Relationship Marketing

Information technology (IT)

IT designed computer and communication systems to satisfy organizations information needs.
Marketing Research (Chapter 8) is the information gathering arm of IT.
IT is the framework for the day-to-day management and structuring of information gathered regularly from sources outside and inside the organization:

```
Data Inputs------>Processing-------->Information Outputs
^                           |
|                           |
--------------Feedback--------------
```

```
DATA----------->PROCESSING-------------->INFORMATION
```

Difference between DATA and INFORMATION...Effective IT

Provides a continuous flow of information, re: prices, advertising expenses, sales, competition and distribution expenses.

Inputs:

- Accounting records
- Information from 1-800 #s
- Transaction Information
- Frequent User Programs
- Public Information
- Survey Information

Processing-classifying information and developing categories for meaningful storage and retrieval. Marketers can then determine which information-the *output*-is useful for decision making. *Feedback* enables adjustments to the input.

Recent Developments in IT:

- Enabled marketers to effectively utilize the information they have been storing for years, but have not been able to use, it was therefore *data*, not *information*.
- Processing element of IT has allowed marketers to merge (essentially) their transactional databases with their customer profile databases.
- Customer relations, locate/identify problems more quickly. Identify problem in 10 calls, not 10,000
- Customer service reps on 1-800 lines have computer info
- Customer service major IT expense

- Lower inventory costs...renegotiate with suppliers etc.
- $1bn spent in 1994 on IT

- **Micro Marketing (Database marketing)**

  An Organizations efforts to collect:

  - demographic
  - media
  - consumption profiles of customers.

  In order to target customers more efficiently marketers can use multi variable segmentation incorporating *Buyer Behavior* information and *Demographic* information.
  What people have done in the passed (Purchase) is a better predictor to future behavior than any other characteristic/variable

  Use frequent user programs to collect data on heavy user customers.

  Media...direct mail...catalogs

- **Relationship Marketing...one-to-one...long-term**

  Old model, sell one product to as many customers as possible (target market).
  New model, sell as many products to one person, one-to-one
  Focus on the life-time value of the customer (LVC) instead of the individual transaction.
  Customers always had a 1 2 1 relationship with companies, now companies have the technology to have a 1 2 1 (few) relationship with their customers.

Evaluating the Markets

and Sales Forecasting

Need to measure the sales potential of the chosen markets.

Market Potential--Industry wide, need to specify time frame and level of industry marketing activities.

Sales Potential--Maximum % of Mkt. potential that a single firm within an industry expects to obtain - absolute limit.

Breakdown approach: economic-mkt. potential-sales potential

Buildup approach: # of potential buyers purchases * # buyers in area, same for each area, then add areas to calculate total market potential. Then estimate the proportion for the company.

Sales penetration= Actual sales/Sales potential

Developing Sales

Forecasts

Sales forecast is the amount of a product that a company actually expects to sell during a specific period at a specified level of marketing. Actual instead of potential. Can be short term, medium term or long term.

Methods: Choice depends on costs, type of product, characteristics of market, time span of the forecast, purpose of the forecast, stability of historical data, availability of required information and forecasters expertise and experience.

- Executive judgment--swayed by recent experience, based only on passed experience
- Surveys--Customer, good when only a few customers (business markets), expensive, rely on customer estimates. Sales forecast surveys, expert forecast surveys
- Time Series Analysis--trend, cycle, seasonal and random factor
- Correlation method, regression analysis, indicates association not causal relationships.

- Market tests, actual vs. intended. Can see changes in MM. Other companies can manipulate, other companies can see offering.

Marketers will generally use more than one method.

Future

Marketers will look at the sales potential of a customer (LCV) for all its products as opposed to the market of one product with the use of [relationship marketing.]

Marketing Research

Introduction

In order to implement the marketing concept, marketers require information about the characteristic, needs, wants and desires of their target markets.

Definition:

Marketing research is the process of defining a marketing problem & opportunity, systematically collecting and analyzing information, & recommending actions to increase an organizations marketing activities.
It is the function that links the consumer (customer) and public to the marketer through information.

Need to approach the research in a logical manner. Difference between good and bad research can depend on the quality of the inputs.

- must be conducted in a systematic manner
- involves a series of steps/processes
- data may be available from different sources
- research applies to any aspect of marketing that needs information
- findings must be communicated to the appropriate decision maker

There are 5 steps in the marketing research process, it is an overall approach, not a rigid set of rules.

1. Defining and Locating the problem

Usually a departure from some normal function, IE conflicts between or failures in attaining objectives. (goals may be unrealistic) Need to probe beneath the superficial symptoms.
Research objective specifies what information is needed to solve the problem.
Marketing Plan...to determine the unfulfilled needs/wants within specified target market(s). (University students/local residents)
May need to use exploratory research here, before conclusive research.
Therefore query news group with your ideas to better define your research needs perhaps, refine your ideas before developing your hypothesis!!

2. Assess the decision factors

Different sets of variables, alternatives and uncertainties that combine to give the outcome of a decision.
Alternatives---decision maker has control
Uncertainties--uncontrollable factors

Decision maker must:

1. Determine the principal alternatives that can be considered reasonable approaches to solving the problem...i.e. reasonable outcomes of research.

3. The major uncertainties that can affect particular alternative and result in it being a GOOD OR POOR SOLUTION TO A PROBLEM.
4. **Collect Relevant Information**

Concepts

Developing Hypothesis

Drawn from previous research and expected research findings. An informed guess or assumption about a certain problem or a set of circumstances.
Residents of Newark, DE, as well as students of the University of Delaware would frequent a Bagel Store.
As information is gathered researchers can test the hypothesis. Can have more than one hypothesis in a study.

Methods

Collecting the data

Two types of data, Primary, Secondary inside or outside the organization.

Secondary data collection
Internal database data (MIS). Accounting data, government data, magazines, survey of buying power, syndicated data services, Marketing Research Corporation of America.

PRO Inexpensive, quick to obtain, multiple sources available, obtain info. that cannot be obtained through primary research, independent therefore credible.

CON maybe incomplete, dated, obsolete, methodology maybe unknown, all findings may not be public, reliability may be unproven.

SOURCES: internal = budgets, sales figures, profit and loss statement, all research reports.
External = government, must consider dates, census of population/manufacturing/retail trade, regular publications, IE Wall Street Journal, Business Week, Commercial research houses: for a fee as a subscriber IE AC Nielsen.

Primary data collection
Information *"collected specifically for the purpose of the investigation at hand"*, Dictionary of Marketing Terms. When a thorough analysis of secondary research provides insufficient information for a marketing decision to be made.

PRO Fits the precise purpose of the organization, information is current, methodology is controlled and known, available to firm and secret from competitors, no conflicting data from different sources, reliability can be determined, only way to fill a gap.

CON Time consuming, costly, some information cannot be collected.

Research Design

The frame work or plan for a study that guides the collection and analysis of data, it includes:

- Who collects the data?
- What should be collected?
- Who or what should be studied?
- What technique of data collection should be used?
- How much will the study cost?
- How will data be collected (personnel)?

- How long will data collection be?

Gathering Data

Sampling

To select representative units from a total population.
A *population* "universe", all elements, units or individuals that are of interest to researchers for a specific study. IE all registered voters for an election.
Sampling procedures are used in studying the likelihood of events based on assumptions about the future.

- Random sampling, equal chance for each member of the population
- Stratified sampling, population divided into groups re: a common characteristic, random sample each group
- Area sampling, as above using areas
- Quota sampling, judgmental, sampling error cannot be measured statistically, mainly used in exploratory studies to develop a hypotheses, non-probablistic.

  Survey to news group is an example of quota sampling...will be non-probablistic.

Survey Methods

- Mail-wide area, limited funds, need incentive to return the questionnaire Mail panels, consumer purchase diaries. Must include a cover letter to explain survey!!

    news group...electronic survey

- Telephone-speed, immediate reaction is negative, WATS, computer assisted telephone interviewing.
- Personal interviews-flexibilty, increased information, non-response can be explored. Most favored method among those surveyed. Can be conducted in shopping malls.
- In home (door-to-door) interview, get more information but it is costly and getting harder to accomplish.
- Mall intercepts-interview a % of people passing a certain point. Almost half of major consumer goods and services orgs. use this technique as a major expenditure. Can use demonstration, gauge visual reactions. Regarding social behavior, mall surveys get a more honest response than telephone surveys. There is a bias toward those that spend alot of time in malls. Need to weight for this. On site computer interviewing, respondents complete self administered questionnaires conducted in shopping malls. Questions can be adaptive depending on the responses.
- Focus groups-observe group interaction when members are exposed to an idea or concept, informal, less structured. Consumer attitudes, behaviors, lifestyles, needs and desires can be explored in a flexible and creative manner. Questions are open ended. Cadillac used this method to determine that they should be promoting safety features.

Questionnaire Construction

Designed to elicit information that meets the studies requirements. Questions should be:

- clear
- easy to understand

- directed towards meeting an objective.

Need to define objectives before designing the questionnaire. Must maintain impartiality and be very careful with personal data. Four basic types of questions are:

- Open ended
- Dichotomous
- Multiple choice.
- Scaled (lickert)

Time frame must be stipulated so that it does not drag on. Only ask needed questions...keep it short!!
Demographic questions at the end!!...Always!!
Always attach an explanatory cover letter!!

Example of poor questions from a survey sent to parents of children that went on summer camp:

What is your income to the nearest hundred dollars?
Should not be at the beginning! Should use multiple choice...categories of income!

Are you a strong or weak supporter of overnight summer camping for your children?
What does strong/weak mean!? No middle ground answer!

Do your children behave themselves well at summer camp?
Yes [ ] No [ ]
Of course they do ;-) Would parents really know?!

How many camps mailed literature to you last April, this April?
No-one will remember!

What are the most salient and determinant attributes in your evaluation of summer camps?
What do you mean ;-)

Do you think it is right to deprive your child of the opportunity to grow into a mature person through the experience of summer camping?
Of course not!!

Observation Methods

Record overt behavior, note physical conditions and events. "How long does a

McDonald's customer have to wait in line". Can be combined with interviews, IE get demographic variables. To avoid bias must avoid being seen.

Mechanical observation devices, IE cameras, eye movement recorders, scanner technology, Nielsen techniques for media.

Observation avoids the central problem of survey methods, motivating respondents to state their true feelings or opinions. If this is the only method, then there is no data indicating the causal relationships.

5. **Find a Solution**

The best alternative that has been identified to solve the problem.

6. **Evaluate the results**

Coke, do the results make sense, don't always accept them at face value.

Assignments

1. For many organizations, relationship marketing is more important than any individual transaction, because these long-term relationships can yield greater overall profitability. Would it be easier to convince a company to enter into a long term supplier-customer relationship if you offered them *savings through vertical integration of product offerings*, or *ease of use derived from a broad range of product offerings*?
2. Cause marketing has become a very powerful marketing tool (this is discussed in my notes). Consumers, especially those under 30, will purchase brands that they believe are more likely to help improve the world. One benefit is that it may help improve a company's image. Choose at least three products and show how they are using cause marketing. Discuss their strategy, target market, objectives, etc. Has the company been successful? The paper must include at least three current references and should be about 5-8 pages long (double spaced). Use the Web and library to collect information. All references used must be included with the paper.
3. More manufacturers are using new technologies to move toward “mass customization” in their product offerings. Have you seen a similar move among marketers? If so explain such a trend

Self- Learning Methods

1. Define market research.

   Solution

   Marketing research is the process of defining a marketing problem & opportunity, systematically collecting and analyzing information, & recommending actions to increase an organizations marketing activities.

   It is the function that links the consumer (customer) and public to the marketer through information.

2. Explain how businesses use market research.

Solution

a. Decision making
b. Understanding the market
c. Understanding the demand and supply need

3. Identify the steps used in the research process.

Solution

Collecting the data

Research Design

Gathering Data

Survey Methods

Questionnaire Construction

Find a Solution

Evaluate the results

4. Explain how businesses make the place decision as part of the marketing mix.

Group Projects

1. The Business and Marketing Perspective: Analysis of Product Advertisements. It is the job of marketing departments within business organizations to conduct research on potential consumers, and then design advertising campaigns that will reach and persuade these customers to purchase the product. With this in mind, you are to collect print ads for five different brands of the same product. Identify the emphasized product attributes involved in each ad. Describe the consumer segments that are the apparent targets. This is not an individual activity. You are expected to work with your team in locating the ads, analyzing their content, and discussing the segmentation issues.

Come to class ready to give a brief oral report of your work (all term members participating). Have a brief report of your activities and conclusions ready to hand in at the end of your oral report (2-3 pages). All members of the group must sign this report.

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- Reid, David A., and Plank, Richard E. (2004) *Fundamentals of Business Marketing Research*, Best Business Books, an Imprint of The Haworth Press, Inc.

Additional Resources

- Business Marketing Association

- Institute for the Study of Business Markets

Retrieved from "http://en.wikipedia.org/wiki/Business_marketing"

UNIT—III

INDUSTRIAL MARKETING

Learning Objectives:

- To understand the types of industrial goods and services
- To know the product life cycle theory and its application to marketing strategies.
- To understand changes in the product strategy
- To learn how to develop product strategies.
- To examine the special meaning of price in industrial marketing
- To know the factors that influence industrial pricing decision
- To learn about pricing strategies for different product and market situations.
- To know the commercial terms and conditions prevailing in the industrial markets.

CONTENTS:

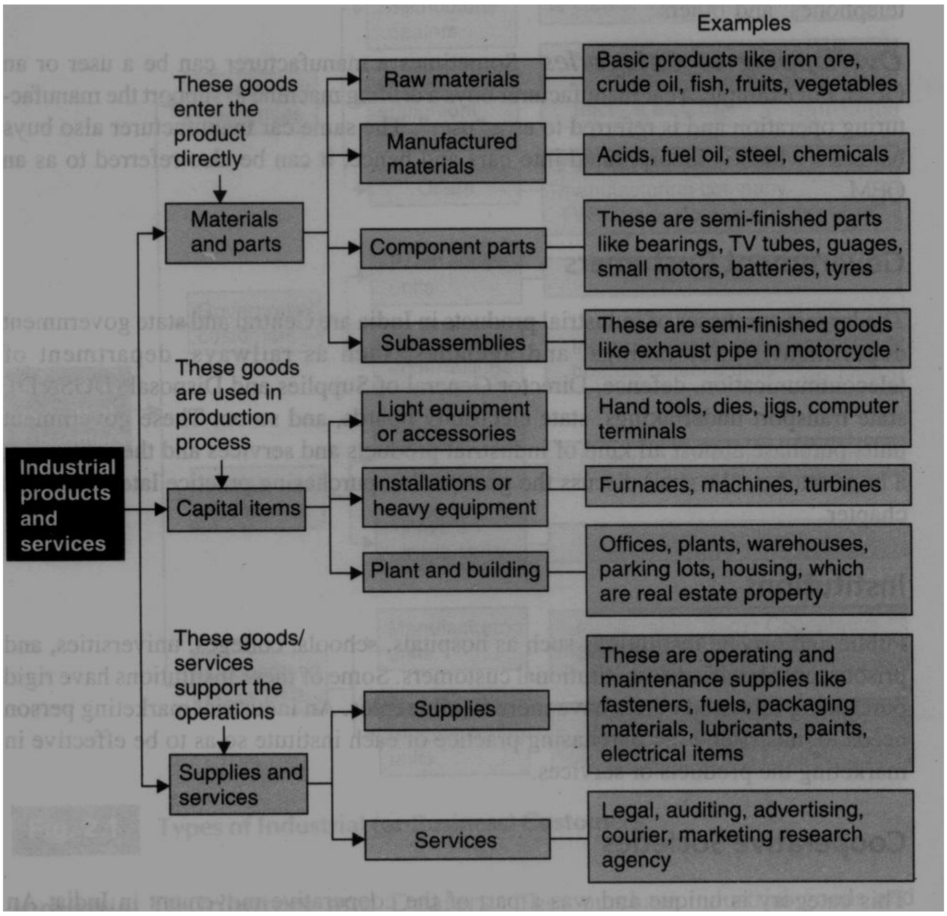
- Classification of industrial goods & services
- Types of industrial product lines
- New product development
- Industrial product life cycle & Strategies
- Pricing of industrial products

. Based on these two criterions the industrial goods and services can be conveniently classified into three broad groups, they are;

1. Materials and parts,
2. Capital Items, and
3. Supplies & services.

1. Materials & Parts: Goods that enter the product that directly consist of raw materials, manufactured materials and component parts. The cost of these items is treated by the purchasing company as pat of manufacturing cost.

a) Raw Materials: These are the basic products that enter the production process with a very little alteration or without any alteration. They include both farm products and natural products. They are processed only to the level required for economical handling and transporting. They basically enter the production processes of the buying organization in their natural state. Examples of such raw materials used in the production process includes the basic products like iron ore, copper, gold, silver, crude oil, fish, fruits, vegetables etc.



Classification of Industrial Products and Services

AT & T purchases substantial quantities of copper, gold and silver to be used in making communication instruments.

b) Manufactured Materials & Component Parts: Manufactured Materials & Parts undergo more initial processing before entering the manufacturing process. Acids, fuel oil & Steel are the examples of manufactured or processed materials that are the basic ingredients of many manufacturing activities. Component parts on the other hand include small motors, Motor Cycle tyres and automobile batteries which can be installed directly into products with little or no additional changes. The examples for manufactured materials are Acids, fuel oil, steel chemicals etc. The examples of components parts include bearings, TV tubes, Tyres, batteries, small motors and gauges etc.

2. Capital Items: Capital items are those which are used in the production processes and when they worn-out a portion of their original cost is assigned to the production process as deprecation. Capital items include;

a) Heavy Equipment/Installations,

b) Light equipment/Accessories

c) Plant & Building

a) Heavy Equipment/Installations: These categories include large machineries whose unit purchase prices are so great that expenditures to them are apt to be charged to a capital account. The cost of such items therefore, becomes part of the buying firm's Capital structures than a current expense. Some items of equipments, such as automatic measuring and control devices should also be included in this category even though they are not expensive and their cost is often charged to current expense. Since such items are vitally important to proper operations of expensive machines that they are attached to, they are often bought in much the some manner as the machines themselves.

Heavy equipment is of two general types—Multipurpose or Standard machines, and Special or Single purpose machines. Multipurpose equipment can be used by a number of different industries or by many firms in the same industry. Standard machines can be adopted with minor adjustments to several types of work with in the general type of operation they are designed to perform. The substitution of dies or parts in a standard stamping machine, for example enables it to stamp a variety of shapes and sizes.

Single purpose machines on the other hand are designed to perform one particular operation and no other. Such a machine could become useless if the end product is changed so that the intricate operation is no longer needed.

Since the unit price of heavy equipment is very high, its purchase may involve financial problems for the buyer. Therefore, firms that market such equipment must usually be prepared to arrange loans for their customers.

b) Light equipment/Accessories: Minor or light equipment is a machinery used in an ancillary capacity. Its unit price is lower than major equipment and is not considered as a part of heavy equipment. The cost of such minor equipment is charged to current expenses. Fractional Horse Power Motors, small tractors and small lathes are examples of Minor equipments. The minor equipments and accessories are sold through many retail outlets and there is hardly any direct relationship between producer and buyer of such equipments.

c) Plant & Building: These are the real estate property of a firm. It includes factories, godowns, warehouses, offices, etc.

3. Supplies & services: Every organization requires operating supplies such as paints, soaps, oils, greases, pencils, typewriter ribbons, printer cartridges, paper. These items are standardized and used by a wide cross section of industrial users.

Business services include maintenance and repair support and advisory support. Like supplies services are considered as expense items. The explosive growth of the internet has increased the demand for a range of electronic commerce services such as delivering technical support, custo0mer training and management development programmes.

While developing product strategies the industrial marketer should consider two important objectives such as (i) To ensure that the product-mix is in line with the overall objectives and marketing objectives of the organization, and (ii) To evolve guidelines for reviewing the performance of the existing products by using the parameters such as sales, profits, competition, and customer acceptance. To achieve the twin objectives, the product strategies are formulated. The product strategies include important aspects such as continuing, modifying & dropping an existing product and developing the new product.

Definition of an Industrial Product: Industrial product is defined as a complex set of economic, technical, legal, and personal relationship between the buyer and the seller. A product is a combination of basic, enhanced, and augmented properties. Basic properties are included in the generic product, with fundamental benefits sought by customers. Generic products are made differentiable by adding tangible enhanced properties such as product features, styling and quality. The augmented properties include intangible benefits such as technical assistance, available of spare parts, maintenance and repair services, warranties, training, timely delivery, and attractive commercial terms. The product package as expected by the prospective customers should be well understood by the industrial marketer.

Services: The rapid growth of business services is governed by four important factors which are explained below.

1. Innovations: The innovations in the field of science and technology have contributed for increasing demand in the area of business services. Advancement in computer security systems, computer enabled services, environmental control systems for office and factory buildings are examples for the effect of innovations on business services.

2. Out Sourcing: It is a common phenomenon that the present day organizations are getting the services done from outside services provide. In an area where the company is not expertised such as information management functions, HR, Payrolls, Warehousing etc, the trend is towards going for outsourcing these activities. As a result more and more small and large service providers have entered the business services sector, therefore resulting in the wide opening up of business service sector.

3. E—Business: The Internet is creating new business opportunities and directing the organizations to do the business in different forms and ways. Services like supply chain management; customer service and support are done through internet apart from other usual ITES.

4. Growth of Manufacturing Sector: Despite the decline in the number of manufacturing employees, manufacturing out put is continued to growing. With this growth the demand for services like information processing, advertising etc, are in an increasing trend.

Services in the industrial market can be grouped into two categories such as Products supported by services and Pure services.

I) Products supported by services: The services which accompanied the physical product are equally important like the product itself. For example, the consultation services associated with the sale of computers is as important as computer itself. A significant portion of the revenue for an industrial distributor comes from the product support services. An industrial marketer can create a differential advantage for the firm through such product support services.

II) Pure Services: A pure service is one which is marketed on their own right not associated with intangible product. A wide range of such pure business services included insurance, consulting, banking, transportation and such allied services. Pure services are very significant from business point of view as they constitute the major portion of the total corporate purchases. With the rise of competition in the professional services industry, the service providers such as accountants, consultants and financial advisers have found it imperative to develop highly focused marketing programmes. Such marketing programmes enable the service providers to pre establish a relationship with a client, advance its reputation as a leader in the field and strengthen its relationships with existing clients. Services are deeds, process and performances. There are several basic differences between goods and services. Services are intangible, Products are tangible. Services are consumed at the time of production, but there is a time gap between the production and consumption of products. Services cannot be stored but products can be stored. Services are highly variable but products are highly standardized. The universally recognized difference between goods and services is intangibility. Services are more intangible than manufactured goods and manufactured goods are more tangible than services because services are actions or performance they cannot be seen or touched.

Business services are those market offerings that are intangible dominant. However, few services are totally intangible. Services are generally consumed as they are produced; a critical element in the buyer-seller relationship is the effectiveness of the individual who actually provides the services. The quality of the service output may vary each time it is delivered. Services differ in the amount of equipment and labour that are utilized to provide the service. Services cannot be stored.

Types of Industrial Product Lines: Product lines of industrial firms differ from those of consumer firms. Industrial Product lines can be categorized in to four types.

1. Proprietary or Catalog Products: These items are offered only in certain configurations and produced in anticipation of orders. Product line decisions include the addition, deletion or repositioning of products within the line.

2**. Custom built Products:** These items offered as a set of basic units with numerous accessories and options. The product line decisions in case of such products centre on offering the proper mix of options and accessories.

3. Custom Design Products: These Products are created to meet the requirements of one or a few of customers.

4. Industrial Services: Here, the firm provides not an actual product but its capability on area such as maintenance, technical services etc.

New Product Development: New Product Development process is the process by which the product ideas are generated, assessed, directed and converted into products. There are seven stages in the process of new product development, they are;

1. Idea generation
2. Idea Screening
3. Concept Development & Testing
4. Business Analysis
5. Product Development
6. Market Testing, and
7. Commercialization

1. Idea Generation: The Industrial marketer should be consciously search for new product idea and to their sources both inside and outside the company. Internally the new product ideas may come from sales staff that is close to customers, R&D experts, from top management. An external source of ideas includes channel members such as distributors or customers. An industrial marketer can get good ideas by using techniques like brainstorming and attribute listing. In attribute listing technique, important attributes of existing products are listed. Ideas are invited from a group of employees to search for an improved product by modifying each attribute. An industrial firm should encourage the employees to present innovative and creative ideas by offering recognition or rewards to the employees submitting the best ideas.

2. Idea screening: In order to select the product ideas which are likely to succeed, screening of new product ideas will be undertaken. Specified criterion and procedure should be set for screening new product ideas. Major considerations in the screening of a new product idea includes expected profit potential, the competitive situation, the general adoptability of the company to the new product and the volume of investment that would be necessary for the implementation of the new product idea. Marketing consideration includes the size of the market, marketing methods etc. It is also necessary to judge the technical viability of the product idea. Production considerations such as facilities required, cost of production, and availability of materials are also to be considered apart from several legal considerations.

3. Concept Development & Testing: After the screening of the new product idea it should be developed into a product concept. A Product concept is a detailed version of the product idea that is expressed in a meaningful terms. It is the usual practice to develop different versions of product concept and each product concept is assessed by getting response from the customers. The product concept that has the strongest reacti9n from the customers is selected.

Concept Testing: The new product concepts are tested in a prospective customer organization. The concept can be presented by developing physical product or three dimensional models. The Physical presentation of the product will increase the reliability of the concept testing. The three dimensional model techniques create computer generated three dimensional plastic proto-types which takes very short time to get ready. The decision makers in the prospective customer organization are contacted and interviewed with various questions on their experience of using such products. The answers so obtained will enable the company to decide on the strengths of the new product.

4. Business Analysis: In the Business Analysis. An estimated projection of the sales, costs and profitability of the proposed new product will be developed. It is an elaborate analysis which is expressed in terms of investment required for the installation of the plant, equipment, investment in working capital; Market potential, sales forecast, customer and competitive analysis; cost of product development, manufacturing and marketing the product; likely price levels, profitability and Return on investment etc. People who have proposed the new product idea should not be assigned with the task of business analysis because of excessive optimism or vested interest by such persons. People with reasonably fair experience and skills in strategic planning, marketing, finance, and engineering could be given the task of business analysis. The new product concept will more on to the next stage, i.e. product development, only if the projected sales and profits fulfill the company's long term objectives or goals.

5. Product Development: Product development is a process of creating desired product by the technicians. The R&D department develops one or more prototypes of the product concepts. The ability to produce the product with in the estimated cost will be confirmed or negated by the development of the prototype.

6. Market Testing: Market testing is done by using different methods such as, (a) Alpha & Beta Testing, (b) Introduction of the new Product at trade shows, (c) Testing in distributor/dealer show rooms, (d) Test Marketing.

The method to be adopted for testing depends on the cost and size of the product, the degree of confidentiality to be maintained during market testing and the preparedness to introduce the product with in a short period.

(a) Alpha and Beta Testing: When a product is tested internally with in the organization which as characteristic of high price with new technologies such testing is called Alpha testing. The product testing is conducted to assess the operating cost and performance standards. If the results of Alpha testing is satisfactory the company will go for the next stage of Beta testing at the potential users' organization. It is the duty of the marketing team to identify the user firms who would allow confidential testing of the new product at their factories. The performance of the product in the users' firm, any problems confronted when the product is under use should be checked and addressed properly with the marketing and technical team, also they should interact with the user firm's technical team.

(b) Trade Shows: One commonly used method of market testing is introduction of the new product at trade shows where usually large number of prospective customers is exposed to the new product. The reactions of the customers, their purchase intentions can be assessed in such trade shows; also the orders placed by the potential customers will be taken care. The limitation of testing the new product in trade shows is that it also gets exposed to the competitors. The company will have very short span of time to introduce the product.

© Dealer show rooms: The distributors or dealers show rooms or display rooms can be considered as best spots for product testing, if the new industrial product is sold through such channel. The customer's attitudes, preference and actual sales can be recorded under this method as this method uses the normal selling situation. The company should ready to execute the orders with I the reasonable time.

(d) Test Marketing: In normal marketing situations the test marketing method is used to test the product in a limited geographical area. This method is used by many industrial marketers through their sales force. Along with sales training required material such as price list, product catalogue etc., are given to the sales personnel. When the product is launched on full scale basis, the market information received from test marketing will help the company in taking effective decisions.

After market testing, the company management takes a decision to go ahead with the next stage i.e. commercialization.

7. Commercialization: An industrial product is launched when it is introduced to a target market. The commercialization process involves execution of the various activities developed in an action plan as a part of the marketing plan. The activities such as customer service, maintaining adequate stocks at the company warehouses and or with dealers/distributors, introductory advertisement, price lists, product catalogues, training of sales force etc. would be taken up at this stage. Sophisticated network techniques such as PERT and CPM can be used by industrial marketers to ensure proper coordination and timely completion of all the activities concerning the launching of new industrial product.

Industrial Product Life Cycle & Strategies

Like living beings products have life cycle. The Product Life Cycle is depicted by the sales curve of the product since its introduction. According to the Product Life Cycle theory, products tend to go through different cycles of stages that begin when they are launched in the market and ends when they are eliminated from the market. At the dividing line between the growth and the maturity stages the profit curve is at its peak. In the maturity stage, sales volume continues to increase at a decreasing rate but the profits fall. Factors such as changing technology, changing competition, changing needs of the customers will have a strong bearing on the behaviour pattern of Product Life Cycle.

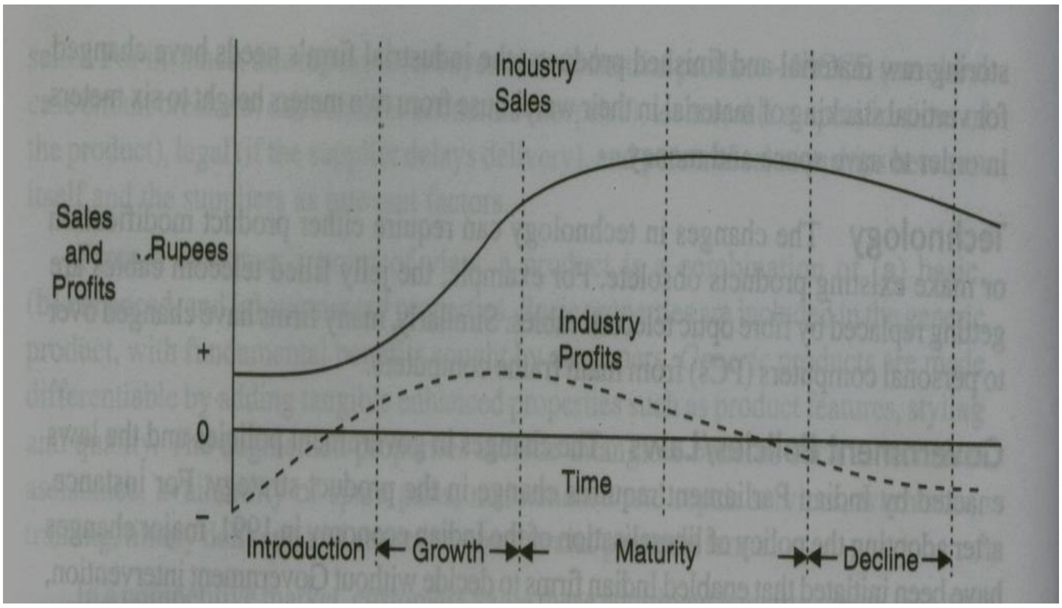


Figure: I: A General Model of the Product Life Cycle

The PLC concept advocates that different strategies are needed at different stages. This concept also highlights the significance of long-range planning for new product. This point should be kept in mind while estimating return on investment during the business analysis stage of new product development process.

Usually most of the industrial products follow a set pattern in its PLC as shown in figure (I) above, but in certain cases the products may not follow the set pattern. One such case is the pattern of high tech products like computer & telecommunication goods. In case of these products the new product development cost and time are high. The introduction, growth stages are long but the maturity and decline period are short (Fig.II). This is because of rapid change in technology.

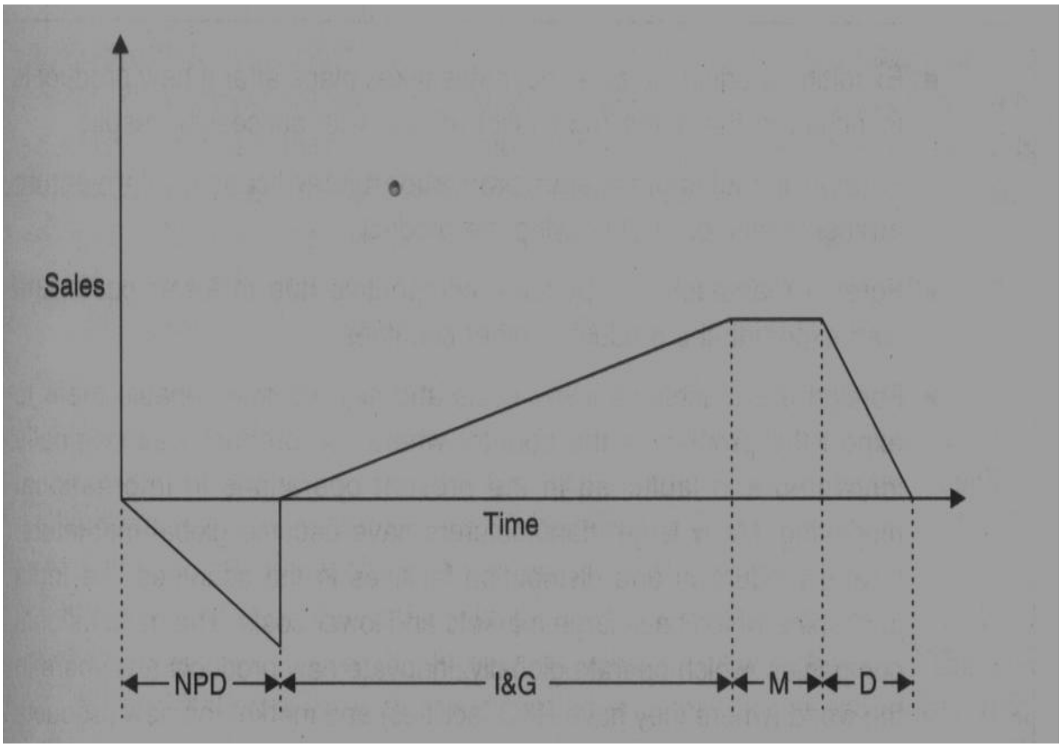


Figure: II: Product Life-Cycle for High-tech Product

The Products such as steel, cement etc, the demand remains relatively inelastic in a monopolistic market. Due to the absence of competition the sales doesn't experience a decline. Once the competition becomes intense the situation would change and sales would show a decline (Fig.III).

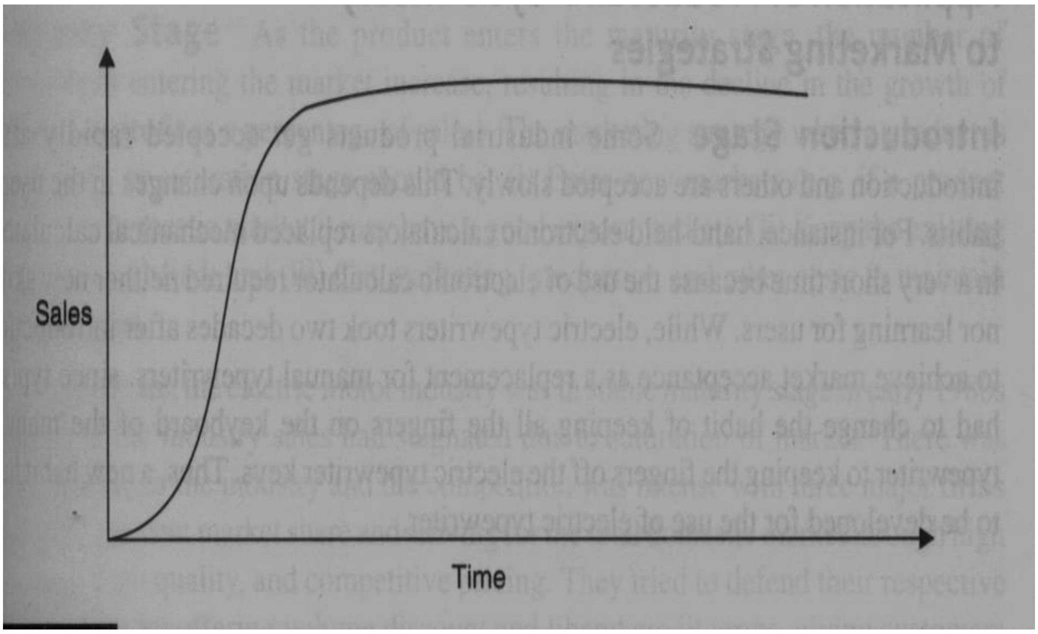


Figure: III: Product Life-Cycle for Commodity Product

Another point worth consideration in the PLC concept is that the profit from a product reaches its highest level before sales reach its peak. Usually growth stage brings profit. In the beginning part of maturity stage, profit reaches its highest level and afterwards sales reach peak level in the later part of maturity stage. This is due to the competition in terms of low prices, better services and aggressive promotions by competitive firms. The marketing costs go up and profit starts declining. As a result of the efforts of the company to launch a new industrial product for the first time in the market, fights back the competition in maturity stage by reducing the price, to match the competition spends more money on promotion, builds more intensive distribution, or new models by bringing major changes to the existing products.

<u>Marketing strategies for Industrial Products at different stages of PLC</u>

<u>Introduction Stage:</u> Depending upon the changes in the users habits some of the industrial products are accepted rapidly after introduction and others are accepted a bit slowly. For slowly accepted industrial products marketing strategies should concentrate on market development efforts. For products that are accepted fast, the marketing strategies which meet intense competition should be evolved.

Growth Stage: During the growth state the marketing strategies of an industrial marketer should focus on three important areas;

1. Improve Product design to offer more benefits
2. Improve distribution network to enable the customers' easy availability of the product.
3. As a result of increased volume of production the cost will be lowered. Hence price should be reduced.

If these strategies are not implemented by industrial marketers in the growth stage, it becomes easy for the competitors to enter the market because of non-availability of the product and high profits due to high prices.

Maturity Stage: In maturity stage the number of competitors entering the market will increase. As a result of increased competition the profits will be reduced. The marketing strategies to be adopted for an industrial product in the maturity stage are;

1. To enter the new market
2. To find out the ways and means of satisfying the existing customers
3. To cut production, marketing and other costs to maintain profit margins.

Decline Stage: This stage is characterized by sever price competition and concurrent decline in sales and profit. Under this stage an industrial marketer should adopt the strategy of withdrawing the existing product from the market or introduce a new product as a replacement or reduce marketing or other costs to make some profits.

<u>Factors responsible for the success and failure of new industrial products:</u>

Many studies have been conducted to assess the success or failure rate of new products. The success rate for consumer products is above 25% while the success rate for new Industrial Products is around 45%.

The factors responsible for the **failure** of new industrial products are listed below.

1. Most of the new products are blind imitations of the existing products and they are not predominantly different from the existing product.

2. Due to poor product design and other reasons the new industrial products are failed to understand the market expectations, hence failed to deliver expected performance.

3. Most of the industrial products failed to satisfy the potential customers. The major reason for such failure is inadequate coordination between marketing functions and R&D.

As the company wants to recover the cost of product design, product development etc., too quickly, it fixes a very high price for industrial products than the value perceived by the customers.

<u>The Success factors for the new Industrial Products:</u>

1. The uniqueness from the product superiority over the existing products is the most important success factor.

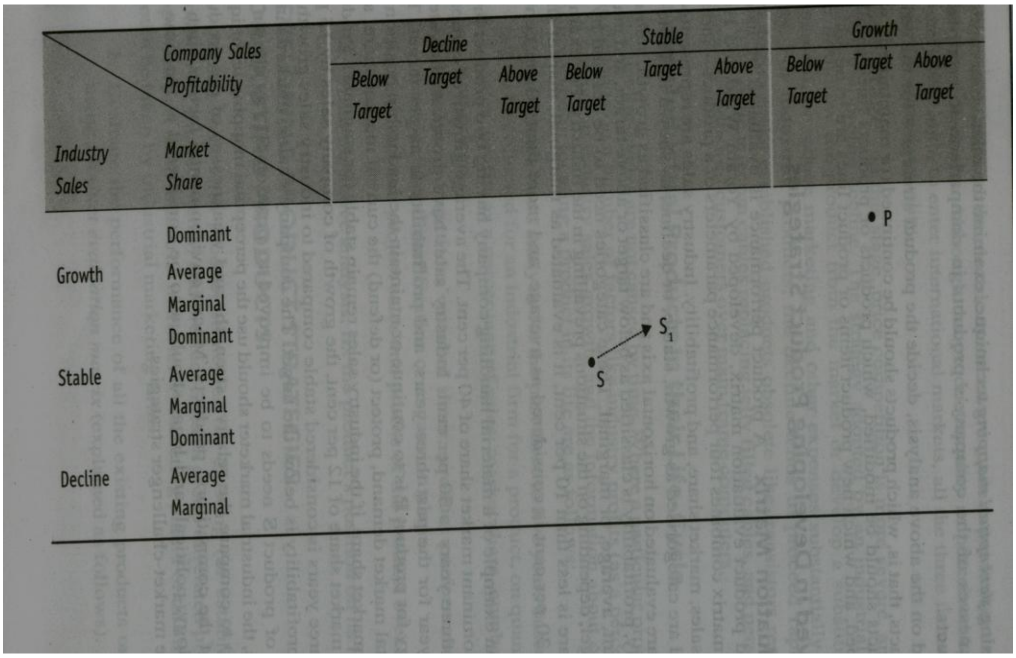
2. The level of understanding of the company about the needs and wants of the target markets and converting the same in to action plans.

3. To convert the product concept in to product development and commercialize the same, technical and production capabilities are required. The team of specialists is needed to achieve the synergy between commercial and technical functions.

<u>Product Strategies for existing products:</u> Industrial marketing firms have to adopt the following three important steps for developing long term product strategies for existing individual products and products lines.

1. Assessing the performance of all the existing products or product lines by using **product evaluation matrix.**
2. Examining the relative strengths and weakness of the firm's products in comparison to competitors' products by using **perceptual mapping technique**.
3. Deciding the product strategies for the existing products based on the above analysis.

<u>Product Evaluation Matrix:</u> Yoran Wind & Henry ClayCamp have developed a technique called product evaluation matrix to be used to assess the product performance. Performance parameters of a product such as industrial sales, company sales, market share and profitability are combined in the matrix. Industry sales are represented on vertical axis and are grouped as growth, stable or decline. Company sales are assessed on horizontal axis and are grouped as growth, stable or decline. In the same manner profitability is classified as below target and above target and market share as dominant, average or marginal. These classification need to be defined by the marketing manager depending on the situation prevailing in the industry. For example, if the market share is less than 10 percent, it is evaluated as marginal, market share between 10 and 30 percent is considered as average, and more than 30 percent as dominant. Let us apply the same classification of market share to a company having two products. Product P has a dominant market share of 50 percent. The average growth of company sales in the past three years is 40 percent. Industry sales have grown at the rate of 35 percent per year for the past three years and profitability is as per expectations. The marketing strategy for product **P** is to continue or maintain the leadership position by expanding the total market demand, protect the present market share, and try to increase its market share, if the Industry sales remain constant. Product **S** has an average market share of 13 percent, the growth of company sales by 16 percent in the past three years is considered stable compared to industry sales growth of 17 percent, and profitability is below the expectations. The company's sales, market share, and profitability of product **S** needs to be improved to position **S1**, as shown in table. For this, the industrial marketer should use the perceptual mappi9ng technique to compare the relative strengths and weaknesses of product **S** with that of the competitors products. At the time of deciding the

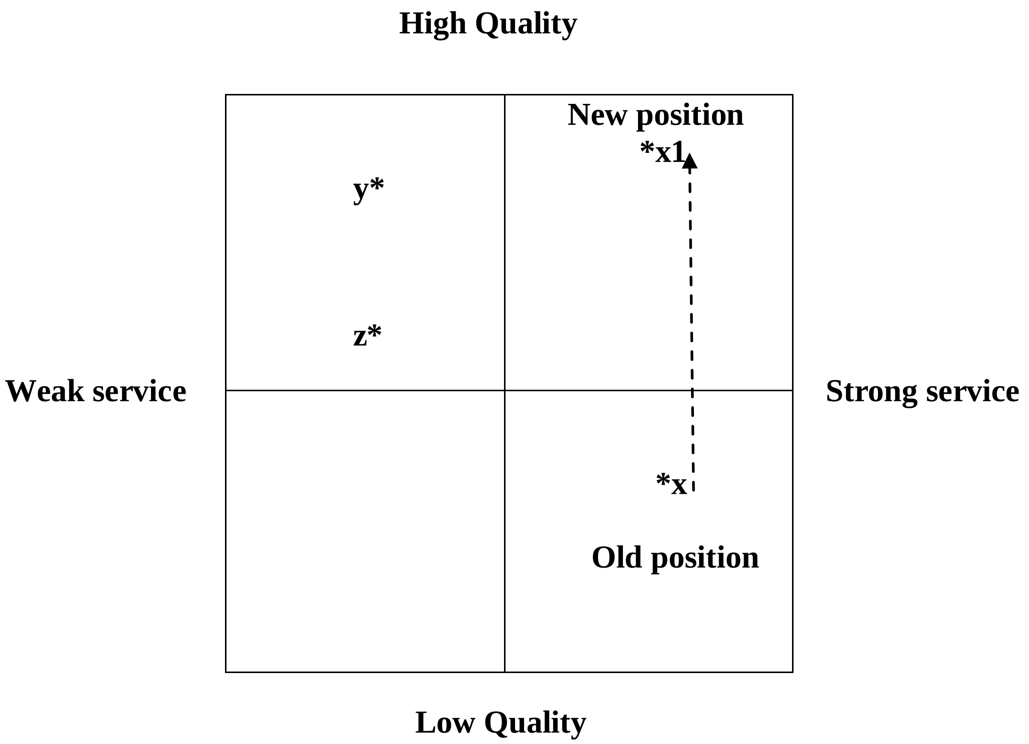


Product Evaluation Matrix

suitable market—challenger strategies, environmental factors such as political, legal, economical and technology should be considered.

<u>Perceptual Mapping Technique:</u> To study the strengths and weaknesses of a firm's product in comparison to that of the competitors' products, the perceptual mapping technique is used by industrial marketers. The concept of perceptual mapping technique has been explained here under with an example. The position of three manufacturers of product 'A' based on market research study conducted by the firm 'X', customer service and product quality are the two purchase attributes considered most important by the industrial customers. The ratings on these two attributes based on the customers' perception of the three leading supplier firms are shown below.

Firm x's quality is perceived inferior to the competitors y & z. However, firm x's after sales services is perceived for superior to its two major competitors. Firm x can reposition itself from position 'x' (old) to x_1 (new position) by improving its product quality substantially and maintaining its superior service. After improving its product quality, firm x can fix its price little higher than its competitors. This would improve the performance of the product in terms of profitability.



Perceptual Mapping Technique

Choice of Product Strategies: The industrial marketer can decide one of the strategic options based on product evaluation matrix and perceptual mapping as given below:

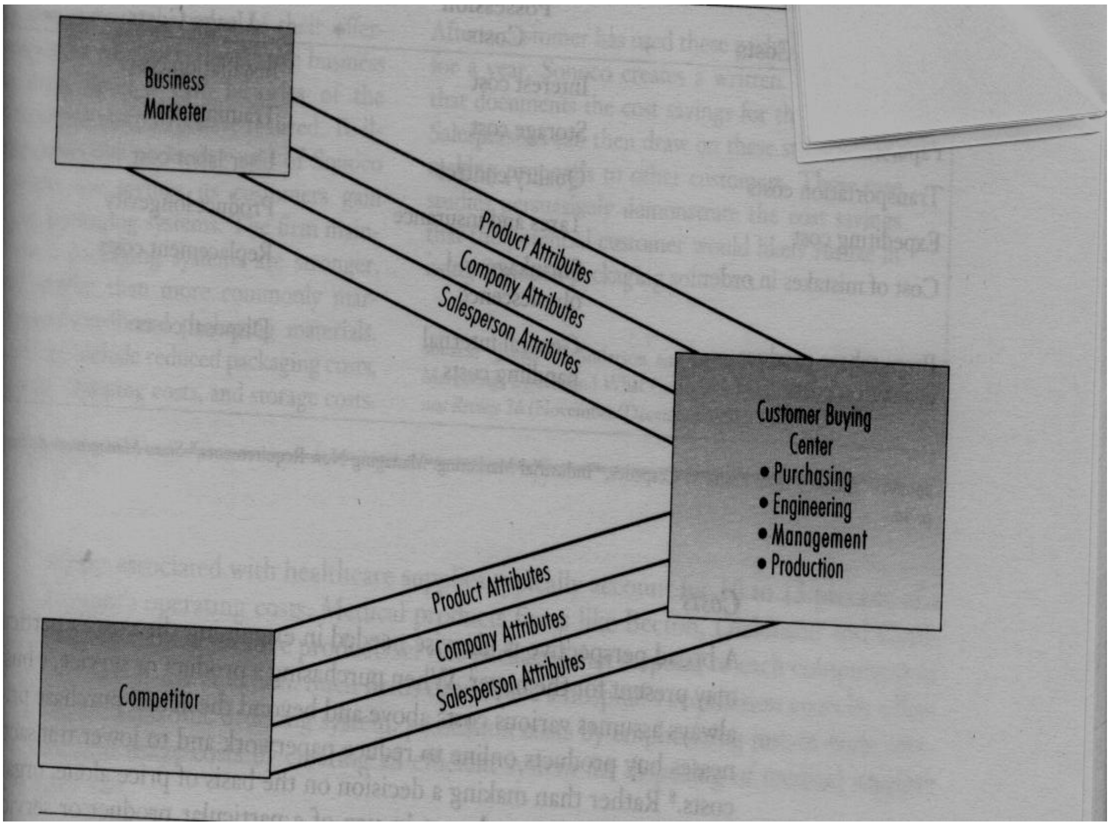
1. To continue the product with its existing marketing strategy
2. To modify the product and change the marketing strategy
3. With draw the product
4. Add new Product

It is very vital to identify the causes of unsatisfactory product performance. Sales, market share and profitability are important quantitative performance parameters but they cannot indicate the reasons for poor product performance. It will be useful to understand the perceptions of customers, specifically opinions on R&D, design, sales, production, finance and marketing team. By such an understanding the industrial marketer will develop number of factors for the unsatisfactory performance of the product. Cost reductions, improving the product quality, enhancing the product features are some of the corrective measures with which the product performance can be improved.

Pricing of Industrial Products:

Meaning: The industrial marketers should understand the various aspects of the pricing, since pricing is the most critical part of industrial marketing strategy. Different strategies such as market segmentation strategy, product strategy, and promotion strategy are related to pricing strategy. In order to achieve the dual objective such as to meet the company objective and satisfy the market needs, the industrial marketer has to integrate the various strategies.

When the members of buying committee of a buying firm, purchase a particular industrial product, they are buying a given level of technical service, product quality, and delivery reliability. The other elements such as the reputation of the supplier, friendship, a feeling of security and other personal benefits flowing from the buyer-seller relationship are also important. In figure given below it can be observed that the bundle of attributes expecting by the buying committee are fall under three categories. **(1)** Product specific attributes **(2)** Company related attributes and **(3)** Sales personal related attributes. Therefore, the total product includes much more than its physical attributes. In the same way the cost of industrial products includes much more than the seller's price. Hence, decisions on pricing and products are inseparable and must be balanced with in the firm's market segmentation plan.



Pricing environment:The relationship between buyer, seller and competitor

Characteristics of Industrial Prices: Morris has identified seven distinguishing characteristics of Industrial prices.

1. Price is not an independent variable. It is intertwined with product promotion and distribution strategies.

2. The real price an industrial customer pays is quite different from the list price; this is because of the factors like delivery and installation cost, training cost, discounts, financing cost, trade in allowances etc.

3. By changing the quantity of goods & services provided by the seller, changing the premiums and discounts that are offered, changing the time and place of payment and also in numerous other ways prices can be changed. Compare to product and distribution decisions, the decision regarding pricing is more flexible.

4. The complimentary and substitute product sold by the same company should be considered at the time of deciding price for industrial goods.

5. Prices can be resolved through negotiation in many a cases. In most of the cases the industrial prices are established by competitive bidding on a project by project basis.

6. Industrial buyers who are experienced and able to estimate the vendors' approximate production costs expect the increasing price to be justifiable on the basis of either increasing cost or improvement in product. Hence, industrial pricing is often characterized by an emphasis on fairness.

7. Industrial prices are affected by several economic factors such as inflation, change in interest rates, fluctuation in exchange rates etc. This problem is particularly critical for the marketer locked into long term contract with no escalation clause.

Factors Influencing pricing decision: The factors influencing pricing decision of an industrial marketing firm is explained below.

I. Pricing Objectives: The Objectives of pricing should be derived from the firm's marketing and corporate objectives. Some of the pricing objectives which industrial firms can pursue are discussed below.

a) Survival: Survival is one of the short term objectives for many industrial companies. Due to intense competition and other reasons the firm may be unable to sell its products. For the survival of the firm it reduces the prices to convert the inventory into sales. The survival is more important than prices. The prices are fixed in such a way that they cover variable cost and a part of fixed cost so that the company continues in business. Survival is only a short term pricing objective and in the long run the firm must increase its prices to cover total cost and end up with some profits.

b) Maximum short term sales: To maximize the sales revenue in the short run is the pricing objective for some firms. The belief behind such an objective is that by maximizing sales revenue in the short run the firms will have growth in terms of market share and also have profit maximization.

c) Maximum short term profits: Setting prices with the objective of maximization of profit in the short run may be pricing objective of some of the marketing firms. These firms estimate the market demand and costs at alternative prices and select the price that maximizes the present profits. Estimating demand and cost is very difficult. This objective emphasizes on short term profit maximization rather than long term performance and customer relationships. The competitors' reactions and legal implications are not considered by the companies adopting this objective.

d) Market penetration: Based on the assumption that the market is price sensitive and that the low prices will increase sales; the prices of products are fixed as low as possible by some firms with the objective of maximizing sales volume and market share of its products. The other assumptions underlying are low prices will discourage entry of potential competitors and highest volume will reduce the production and distribution cost and leads to higher profits in the long run.

e) Maximum market skimming: In the initial stages of the product life cycle high prices are fixed by some firms when they introduce new and innovative products. The new product is initially aimed at those market segments where demand is least sensitive to price. The firm skims maximum revenue and profits by adopting the skimming objective of pricing. The prices are lowered as the time passes and sales slow down to attract new customers from price sensitive market segments. To maximize sales revenue and profits is the objective in market skimming. The assumption made in this strategy is that different prices can be charged to different segments of customers at different times. There is also a possibility that the competitors will be attracted because of high profits resulting from high prices in this strategy.

f) Product-quality Leadership: By producing superior quality products and charging little higher prices than the competitors price the industrial marketing firm may have an objective to be product quality leader in the market. This pricing objective results in higher profits.

g) Other pricing objectives: The other pricing objectives such as to meet or prevent the competition, to stabilize the market, to avoid government intervention etc. may be considered as objectives of pricing by many industrial marketers.

II. Demand Analysis: The concepts of demand curve and price elasticity are very useful in understanding the relationship between demand or sales volume and price. In measuring the price and demand relationship, the other factors like promotion and customer service should be controlled since these factors also affect the demand. The basic purpose of estimating demand curve is to determine the extent of change in demand for a product with the change in prices. The price sensitivities of many buyers will be summed up in demand curve. The demand curve indicates the degree of price sensitivity.

The demand is inelastic if it changes very less with a small change in price and the demand is elastic if it changes substantially with a small change in price.

The following formula is helpful in determining the price elasticity of demand:

$$\textbf{Price elasticity of demand:} \; \frac{\textbf{Percentage change in quantity demanded}}{\textbf{Percentage change in Price}}$$

<u>Conditions determining Price elasticity of demand:</u> The Demand is likely to be inelastic under the following conditions:

1) There are few competitors

2) Non availability of substitute products from other industries; and/or

3) The buyers think the higher prices are justified by normal inflations or changes in government policies on excise duty or sales tax and other.

Since the industrial products are technically sophisticated, the demand for these products is relatively inelastic.

<u>III.Cost-benefit Analysis:</u>

To formulate an appropriate pricing strategy it is very essential to have an analysis of the costs and benefits of the industrial product from the customer's point of view.

The benefits can be grouped into soft and hard benefits. Soft benefits includes those benefits which are very difficult to assess, such as customer training, warranty period, customer services, company reputation etc.

Hard benefits are the physical attributes of the products such as production rate of machine, rejection rate of component and price/performance ratio.

The costs for an industrial customer mean price plus other expenses that are incurred in purchasing and using the product. For example, the cost of a new oil refinery machine purchased by oil mill includes price, freight, installation, energy usage, repair and maintenance. The cost of production stoppage due to failure of machine may also be included while calculating the machine cost though it is difficult to estimate such cost accurately. The life cycle costing concept can be used by the industrial buyer at the time of purchasing the capital items and estimate the total cost of the product over its life span. Life cycle costing takes into consideration the price, freight, transit insurance, maintenances, energy, material and labour costs over the useful life of the product.

The industrial marketer should evaluate the possible cost/benefit trade-off decisions made by the industrial buyer. If the quantum of discount offered by industrial marketer as an incentive for purchase of large stock can be considered by the industrial buyer if the quantum of discount is more then the cost of carrying the inventory. The understanding of cost benefit analysis will enable the industrial marketer to set an appropriate price.

Cost Analysis: Pricing strategy or decision of a company must consider the costs involved. Generally the total cost consists of the variable cost and fixed costs for a given level of out put. Some of the cost elements vary over a period of time; other cost elements fluctuate with volume. The cost data are relevant to the pricing decisions. The industrial marketer must identify and classify the cost for making profitable pricing decisions. The classification of costs and their description is given in the following table for the better understanding of the cost concept.

Classification of Costs/Types of Costs:

Cost Elements	Descriptions
1. Fixed costs:	Costs that do not vary with production or sales. Examples are rent, interest charges, and managerial salaries. Fixed costs or overheads are incurred irrespective of production levels or sales volume.
2. Variable costs:	Costs that vary in direct proportion to the levels of production. Examples are raw materials and direct labour costs. They are called variable because the total variable cost varies with the number of units produced.
3. Total costs:	Sum of the fixed and variable costs for any given level of production are called fixed costs.
4. Semi variable costs:	Costs that vary with changes in output but not in direct proportion to quantities produced. Examples are equipment repair and maintenance costs. Semi variable costs have components of both fixed and variable costs.
5. Direct costs:	Fixed or variable costs that are incurred directly for a specific product or sales territory. Examples are selling expenses, freight, and raw material.
6. Indirect costs:	Fixed or variable costs that can be traced indirectly to sales territory or a product. Examples are production overhead and quality control that are indirectly assigned to a product.

7. Allocated costs: Costs that support a number of activities but cannot be objectively assigned to a specific product or a market. Theses costs are usually allocated across business groups or divisions by some arbitrary criterion. Examples are administrative overhead and corporate advertising.

Cost behaviour at different levels of output:

For fixation of appropriate price, the industrial marketer should know how the cost varies at different levels of output. By building a large plant size the firm may use economies of scale. To illustrate, a company is planning to manufacture special type of fittings used for lamps. The following table shows the average total cost per unit of fittings at three alternative production volumes per year. If the company plans to sell 30,000 fittings it should build a production capacity of 30,000 units which will bring down the unit cost to Rs.209. The average total cost per unit decreases as the production volume increases. However, the average total cost per unit increases as the production is increased to 40,000 units. The company should therefore plan to produce 30,000 units per year which is the optimum size. Since the fixed costs are spread over on more units with each unit bearing a smaller element of fixed cost. This is the reason for reduction in the average total cost per unit. The economies of scale should be taken as an advantage by the industrial marketer to make enough profits.

While fixing the price the industrial marketer should consider the competitor's price and price elasticity of demand. By economies of scale and learning curve concept the industrial marketer should consider reducing the variable cost and fixed cost.

Cost Elements	Yearly Production Volume		
	15, 000 Units	20,000 Units	30,000 Units
	Rs. /Unit	Rs./Unit	Rs./Unit
Fixed Costs:			
Executive Salary	30	25	15
Marketing personnel Salary	30	25	20
Tax and Insurance	4	3	2
Depreciation	60	47	30
Interest on Capital	60	47	30
Total Fixed Cost per Unit	**184**	**147**	**97**
Variable costs:			
Direct Labour	50	50	50
Direct materials	45	45	45
Factory supplies	7	7	7
Inventory carrying	10	10	10
Total variable cost per unit	**112**	**112**	**112**
Average total unit cost	**296**	**259**	**209**

IV. Competitive analysis: Competitive level pricing is considered as an important pricing strategy by many industrial marketers. The information on product quality, technical expertise, and delivery performance of the competitor should be analyzed along with the price and cost information. The information on the product quality, prices and delivery performance of the competitor's product can be obtained by the industrial marketer through his sales force. By appointing a marketing research firm the industrial marketer can get the competitors information. Based on the available information about the competitors the industrial marketer can use price as a mechanism to position the product. The industrial marketer is considering a change in price he has to forecast the reactions of competitors and customers. An industrial marketer must study the actual sales, costs corporate objectives, financial situations, utilization of production capacity and strengths and weaknesses. The reactions of the competitors should be anticipated soon after collecting the information on competitors. A competitor's response depends on his mindset. The competitors are likely to respond when the number of industrial buyers is less, the buyers are aware of price change and the products are similar.

V. Government Regulations: Though we are living in free market economy the industrial marketers should know the effect of government regulations on pricing decisions. The price discrimination by offering cash, volume or trade discount to distributors or dealers is prohibited. A company must offer the same discount structure to its intermediaries otherwise it will be treated as price discrimination.

The Predatory pricing is not permitted. When a firm with dominant position reduces its pricing structure leads to predatory pricing. Under such a situation the smaller firms cannot operate in a profitable manner.

Pricing Strategy: After the analysis of pricing objectives, demand, costs, competition and government regulations, the appropriate pricing strategy should be formulated by the industrial marketer. Pricing strategies vary as the industrial product moves through its life cycle. The pricing strategy is a key factor in each of the four cells of Product Life Cycle.

Introductory Stage Pricing Strategy: There are two pricing strategies available for a new product which is in the introductory stage of its life cycle. These are: (a) Penetration Strategy, and (b) Skimming Strategy. An industrial marketer must analyze the price from the angle of the buyers. How soon the firm should try ton recover the investment on the new product is another important factor to be considered by the industrial marketer.

(a) Penetration Strategy: When the price elasticity of demand is high or the buyers are highly price sensitive, strong threat exists from potential competitors and opportunity exists to reduce the unit cost of production and distribution with increase in volumes the penetration strategy is effective. The firm can draw on experience curve effect and can also achieve the economies of scale. This would give the company a strategic advantage of cost leadership over the competitors.

The firm can adopt the pricing objective of long term profit through large market share instead of short term profit objectives.

(b) Skimming Strategy: For distinctly new product meant for a market segment that is not sensitive to the initial high price the skimming strategy can be adopted. The greatest advantage of this strategy is that it focuses on recovering the investment at an early stage by generating moiré profits. The price will be reduced at the latter stages to reach other market segments that are more sensitivity to price. The limitation of the skimming strategy is that more competitors are attracting due to high profits. The products that are distinctive with sophisticated technology and capital intensity are suitable to adopt this strategy.

Growth Stage Pricing Strategy: As the new competitors enter the market and more customers start using the product at growth stage the industrial marketer face the pressure of reducing the prices below the introduction stage. At this stage the industrial marketer focuses his attention on product differentiation, product line extension and building new market segments at this stage. As more suppliers enter the market the industrial buyers follow the purchasing policy of buying from more than one supplier. Therefore, the innovator firms are under the pressure to reduce the price.

Maturity Stage pricing strategy: The competitors are very aggressive in the maturity stage. The industrial marketer has to cut into competitors' market share to increase sales volume. By adopting the low price strategy to match the competitor's prices the industrial marketer can achieve the high volume of sales.

Decline Stage Pricing Strategy: At the decline stage the industrial marketer has a wide choice of pricing strategies subject ton certain conditions. The firm need not cut the price but reduce the cost to earn sum profits provided it has built a reputation of high product quality and dependable services. Another major strategy is to reduce the prices to increases sales volume above breakeven volume of sales and use the product to help sell other products in the product mix.

Leasing:

Leasing which is an alternative to selling capital goods is a common thing in industrial marketing. Basically, leasing is an arrangement between the leasing firm or the lessor and the user or the lessee, the former arranging to purchase the capital equipment for the use of the latter. The lessee has to pay the lessor in the form of rentals and the lessor remains owner of the equipment during the specified period.

There are four types of leases, which are explained below.

1. Operating lease: Operating Lease refers to a short-term lease of an asset for an hour, a day etc.

2. Financial Lease: The financial lease is for a basic term during which the lease is non-cancellable. The length of this basic period is determined primarily by the economic life of the asset, and is usually shorter than the expected life. This arrangement provides some means by which the company may continue to use the asset after the expiry of the basic lease period, or alternatively a market purchase price is negotiated on the lease termination.

3. The sale and lease back transaction: The sale and lease back transaction provides for an arrangement by which an entity that owns a given asset may sell it to the leasing company, and lease it back. This enables the lessee to immediately defreeze the money that it had locked into the original asset, which becomes available to it for working capital or further expansion.

4. Leveraged lease: Leveraged lease is an arrangement where two or more lessors may jointly acquire the asset and lease it to the lessee. This is so in case of very large assets, where a single lessor may not be capable of acquiring it or may not be willing to shoulder the whole risk associated with it.

Key terms associated with Pricing of industrial products:

1. List price: List price is a base price or the basic price of a product consisting of various sizes or specifications. It is the published statement of basic prices which is sometimes distributed to the customers. The list price statement indicates the effective date of its applicability and mentions the extra charges for optional product features, the excise duty, freight, sales tax, octroi, and transit insurance. The net price is worked out based on list price less discounts or any other concessions. The net price is most important to the organizational buyers because that is the price which is applicable to the industrial buyer after subtracting discounts and concessions.

2. Trade Discounts: The trade discounts are offered to the intermediaries such as dealers and distributors. The amount of trade discount depends on the particular industry norms or the functions performed by the intermediaries.

3. Quantity Discounts: A quantity discount is granted to industrial customers who buy large volumes. It is a price reduction given by subtracting the volume discount from the list price. The quantity discounts are justified as they reduce the cost of selling, inventory carrying, and transportation. The quantity discounts are given either on individual orders or on a series of orders over a longer period of time, usually one year. The basic idea behind offering quantity discount is to encourage customers to buy larger quantities and to maintain their loyalty. The decision on the amount of quantity discount depends on demand, costs, and competition analysis.

4. Cash discount: To ensure prompt payments cash discounts are offered to customers in industrial marketing. It is discount applicable on the gross amount of the bill, provided customer pays the bill within the stipulated period from the date of invoice.

5. Geographical Pricing: Geographical pricing refers to the location at which the price is applicable. Geographical pricing strategy is influenced by a number of factors such as the location of the company's plant, the location of the competitors' plants and their pricing strategies, dispersion of customers, extent of transport costs, demand and supply conditions and competitive environment. In geographical pricing, there are generally two methods of price basis which are stated in the offers or quotations submitted by a seller to a buyer. These are (i) Ex-factory and (ii) FOR destination.

(i) Ex-Factory: "Ex-factory" means the prices prevailing at the factory gate. When a seller quotes to a buyer "ex-factory price', it means that the freight and transit insurance costs are to the buyer's account. In other words, the seller will charge the costs of freight and insurance to the buyer. The more distant customers' landed costs are higher because of freight cost.

(ii) FOR Destination or FOB Destination: When a seller quotes to a buyer "FOR destination or FOB destination" (free on road/free on board destination), it means the freight costs are absorbed by the seller or included in the quoted prices. However, transit insurance costs, which are small amounts, are generally absorbed by the seller, but sometimes the goods are dispatched under the open insurance policy of the buyer. In this method of price basis, all the customers get the product at the same price irrespective of their locations from the seller's factory premise. If the quotation or the price list is on FOR destination basis, generally the industrial marketer estimates the average freight and insurance costs and adds the same to the basic product prices. Absorbing these costs is rarely done by a seller; it is done only in an intense competitive situation to get business from a particular customer.

Summary:

An Industrial product is not only a physical entity but also a complex set of economic, technical, legal, and personal relationships between the buyer and the seller. Due to changes in customer needs, technology, government regulations and product life cycle the product strategies are required to be changed in industrial marketing.

The Product Life Cycle concept is used to determine different marketing strategies at different stages of the PLC. The shapes of the PLC may vary for certain industrial products, and the location of a particular product on its life-cycle will depend on competition, industry profits and industry sales-growth. After evaluating the performance of existing products, the product strategies for existing products are developed. The alternative product strategies available for existing products are: continue the existing products and its strategy modify the product and its strategy, eliminate the product, or add new products. A new product development is a difficult but necessary task for the profitable growth of a firm, which should analyze the factors responsible for the success and failure of new industrial products. The various stages of new industrial product development process are: (a) Idea generation, (b) Idea screening, (c) concept development and testing, (d) business analysis, (e) product development, (f) market testing, and (g) commercialization.

Industrial services are classified into two categories such as products supported by services and pure services. The unique characteristics of services are: (a) intangibility, (b) inseparability, (c) variability, (d) perishability, and (e) non-ownership. These unique characteristics of services have their own marketing implications.

Before making the pricing decisions, the factors which influence the pricing decisions must be considered. These factors are: pricing objectives, demand analysis, cost analysis, competitive analysis, and government regulations.

The important pricing objectives are survival, maximum short-term profits, maximum short-term sales, market penetration, market skimming, and product quality leadership. Demand analysis includes estimation of demand schedule and cost-benefit analysis. Industrial marketers must measure the relationship between price and demand for their products. For an effective price-setting, understanding how industrial customers evaluate cost/benefit is important.

The concepts of economies of scale, experience curve and break even analysis is a useful tool for cost reduction and cost control. Depending on product and market situations, such as competitive market, new products, and product life-cycle the pricing strategies vary. Different pricing strategies are used when the product moves across Introduction, growth, maturity and decline stages. Industrial customers are given different types of discounts on the basic prices. The industrial marketer should respond with appropriate pricing strategies when the buyer is under the consideration of alternatives of buying versus leasing.

Discussion questions:

1. "Industrial Product is defined not only as a physical entity but also as a complex set of economic, technical, legal and personal relationship between the buyer and the seller"—Elucidate.
2. Why industrial marketers have to make changes in the product strategy?
3. What steps would you follow for developing product strategies for existing products? What alternative strategies are available to the industrial marketers for existing products?

4. If you are in a new product development team, what6 factors would you convey to your team members as critical to ensure the success of the new product?

5. Explain with examples, the unique service characteristics and their marketing implications.

6. Explain with suitable examples how the pricing objectives influence the pricing decisions.

7. If a major competitor reduces the prices of cement by 5 percent, how would you respond if you are marketing similar products to the same market segments and why?

8. Why industrial marketers should not overlook the difference between the price and the total cost?

9. Write short notes on the following:

   (a) Pricing over the product life cycle

   (b) Geographical pricing

   © Leasing

   (d) Characteristics of Industrial Prices

10. What type of easing would you select for a company which wants to give a choice to its industrial customers of buying or leasing its Computerized Nmerical Control Machines?

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UNIT IV

FORMULATING CHANNEL STRATEGIES AND PHYSICAL DISTRIBUTION DECISIONS

<u>CHANNEL DESIGN AND MANAGEMENT</u>

1. INTRODUCTION
2. OBJECTIVES
3. CHANNEL DESIGN PROCESS
    - Analyzing needs of the customer
    - Establishing channel objectives
    - Considering channel constraints

CHANNEL DESIGN AND MANAGEMENT

1. INTRODUCTION

It is very important that a distribution channel is properly aligned to satisfy the needs of channel members and also for the success of any industrial marketing strategy. A good industrial channel creates the communication and physical supply linkages with existing and potential customers. Channel designing is a dynamic process that consists of either developing the new channels or modifying the existing ones.

2. OBJECTIVES:

By studying this chapter, we will try to –

- Understand the steps involved in the Channel Design process
- Recognize to identify and evaluate the channel alternatives

- Appreciate the Channel Management decisions that involve motivating channel members and managing channel conflicts
- Understand the logistics and the logistics management
- Understand the process of Marketing Logistics/Physical Distribution

3. <u>CHANNEL DESIGN PROCESS:</u>

Designing an appropriate industrial channel and managing it is a tough and continuing task. A well designed channel structure helps to achieve the desired marketing objectives. A channel structure consists of types and number of middlemen, terms and conditions of channel members, number of channels. The various steps that are involved in channel design are given in the following figure.

<u>Channel Design Process</u>

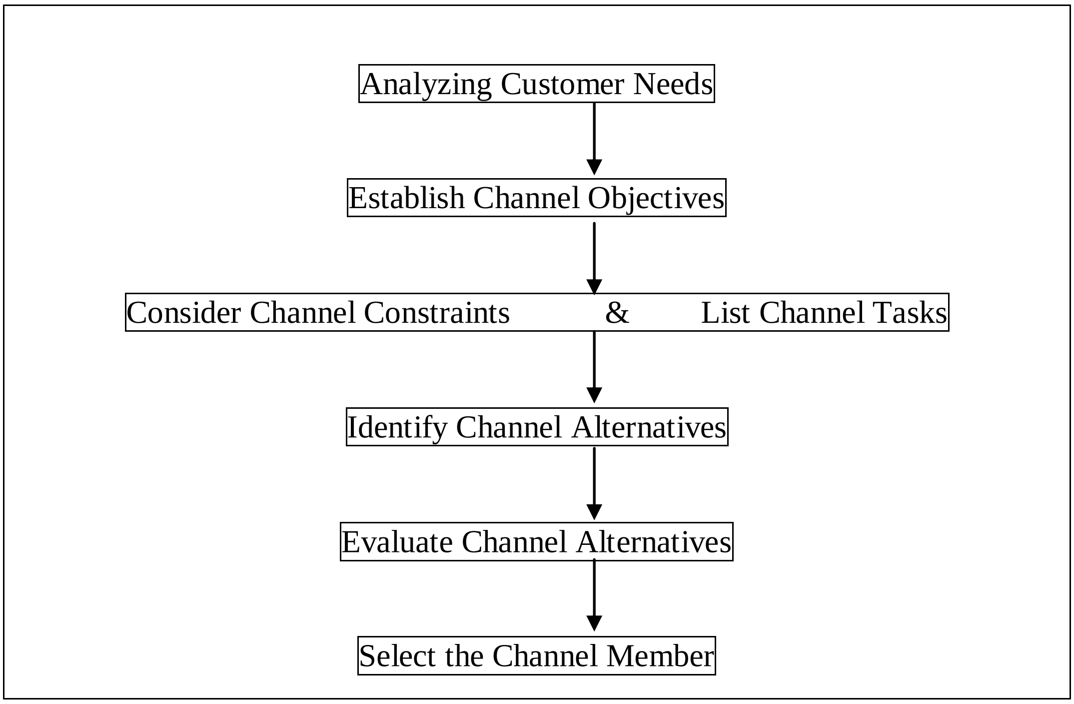

Fig: Steps involved in channel design process

Let us understand each of the stages of design process in detail:

a. <u>Analyzing the needs of the customer:</u>

When a marketer designs a marketing channel, he must understand the service output levels desired by the target customers. Different customers have different levels of service requirements. A high potential customer needs to be offered effective and professional service backup, ensured availability of varied products compared to the low potential customer. The marketing channel designer has to know at this stage itself that providing superior service output means increased channel costs and higher prices for customers.

b. Establishing channel objectives:

Channel objectives are a part of and result from the company's marketing objectives that need to be stated in terms of targeted service output levels. Profit considerations and asset utilization must be reflected in channel objectives and the resultant design. It should be the endeavour of the channel members to minimize the total channel costs and still provide with the desired level of service outputs. Channel objectives keep varying depending on the characteristics of the products. For example, while a customized non-standard product requires company sales force to sell directly, products like HVAC (Heating, Ventilation and Air-conditioning) are either sold by the company or its franchised dealers.

c. Considering channel constraints:

The industrial marketer develops his channel objectives keeping into consideration various constraints like the company, competition, the environment, product characteristics and the level of service output desired by the target customers.

Company: If a company has financial limitation as constraint, then it may restrict its direct distribution approach through company sales force to few high potential customers.

Competition: If a competitor has been very successful through direct service then it may force all other firms also to adopt the same strategy of direct selling.

Environment: Economic conditions, legal regulations are the environmental factors that affect channel design. During recession, producers use economical ways to sell the products to avoid additional costs. Similarly, the law looks down upon those channel arrangements that tries to build a monopoly market or minimize competition.

Product characteristics: As already mentioned, complex and non-standard products require direct distribution without any intermediaries. Eg. If an industrial marketer is providing customized machinery to his customer, then he deals directly with him rather than involving any intermediary to understand the customer needs better.

Customer: The industrial marketers depends on intermediaries to offer services to customers who are either giving less business or are located at far-off places and prefers to serve the nearby or high potential customers by themselves.

d. Listing channel tasks:

The industrial marketers have to creatively structure the necessary tasks or functions to meet customer requirements and company goals. They have to first make a list of various tasks to be performed, identify the critical tasks, take objective and realistic decisions on which tasks can be effectively performed by the company and which cannot be performed due to certain constraints. For instance, a company manufacturing pumpsets depend on distributors to sell them to customers who are located at distant locations but they would use their own sales force to serve those customers who are of high potential.

The careful analysis of customer needs, establishing objectives, considering constraints and listing the channel tasks form the backbone of channel design process. Once these aspects are delineated individually, the next step of identifying and evaluating channel alternatives starts.

e. Identifying channel alternatives:

There are four issues that are involved in identifying the channel alternatives. They are: *the types of business intermediaries, the number of intermediaries, the number of channels and the terms and responsibilities of each channel members.*

The types of business intermediaries: There are different types of intermediaries that the industrial marketers should identify. They have to consider various factors like the tasks to be performed, product and market conditions before selecting either manufacturer's representatives or agents, industrial distributors, brokers, commission merchants or value-added resellers. The marketers should search for innovative or combination of marketing channels.

Number of intermediaries: The manufacturers have to settle on the number of intermediaries they wish to use in their channel structure. They may either go for intensive, selective or exclusive distribution.

Intensive distribution: In this strategy, standard products that are purchased more frequently and have less unit value like raw materials and other convenience goods are distributed intensively i.e. products are stocked in numerous outlets so as to make them available to varied customers on demand.

Selective distribution: The industrial marketer selects few intermediaries to distribute the products to the target customer. This gives the marketer to develop a good working relation with the selected intermediaries, have better control, incur less costs and finally expect a better than average selling effort.

Exclusive distribution: This strategy helps to enhance the product image and is more prevalent in consumer markets where some intermediaries exclusively deal and distribute the products of one manufacturer. They are not allowed to handle the competitor's products. The manufacturer expects aggressive selling by the intermediaries and tries to have control over their pricing policies, promotion strategy, credit terms and other services.

Number of channels: Industrial marketers need to serve various market segments. This necessitates them to use more than one channel for distributing and marketing their products. This multi-channel approach helps them not only to increase their market share but also reduce their costs. However, the industrial marketers need to take care of possible channel conflicts like proper demarcation of territory to channel members to sell and serve the customers in their respective areas.

Terms and responsibilities of Channel Members: There are various terms and conditions which the industrial marketer must make clear to the participating channel members like the responsibilities and tasks, conditions of sale and territorial rights that would enable both of them to enhance their performance.

Responsibilities and tasks: In order to avoid any future disagreements, there should be clarity in the roles of both the industrial marketers and the channel partners. Each should comply with the commitments about their individual responsibilities and tasks to be performed.

Conditions of sale: It should be clearly mentioned well in advance about the discounts offered by the manufacturers to the distributors, the commission to be paid to the agents or brokers. Other terms relating to warranty period, replacement of defective parts also should be appropriately stated.

Territorial rights: The territory between the distributors should be well demarcated so as to avoid any future confusion that may lead to legal issues.

f. Evaluating alternate channels:

There are several channel alternatives available to the industrial markets. They have to determine the best among the alternatives by evaluating them based on the following criteria:

- The economic performance of the channel.
- The degree of control exercised on them.
- The degree of adaptability of channels to the market situations.

Economic Performance:-

Different channel alternatives generate different levels of sales and incur different levels of costs. An industrial marketer has to pose a question whether sales generation would be more by direct selling through company sales force or through the channel members. Many of the industrial marketers believe that sales will be more from company sales force as they exclusively concentrate on company's product, they are given proper training to sell the product, they show more aggressiveness as their career depends on company's success and finally customers prefer to deal with the company directly. But it may also happen that the intermediary can sell more than the company sales force. The possible reasons for this could be the agency having many sales people with it or its sales force are much motivated with the commission offered by the company or the customers prefer to deal with agents who have extensive contacts.

The marketing manager has to similarly estimate the total costs of selling through different channel members. As shown in the given figure the Selling Cost of having channel members is lower than setting up a company's sales force. But as channel member keeps getting more commission with increased sales, its cost to company keeps rising. There is one level of sales (L_B) where the total selling costs for both are same. This level is called as the break even level. The channel member is the most preferred and appropriate choice if the sales volume is below L_B as it involves lower selling costs. Otherwise, the company should have its own sales force if sales level crosses L_B to reduce the selling costs.

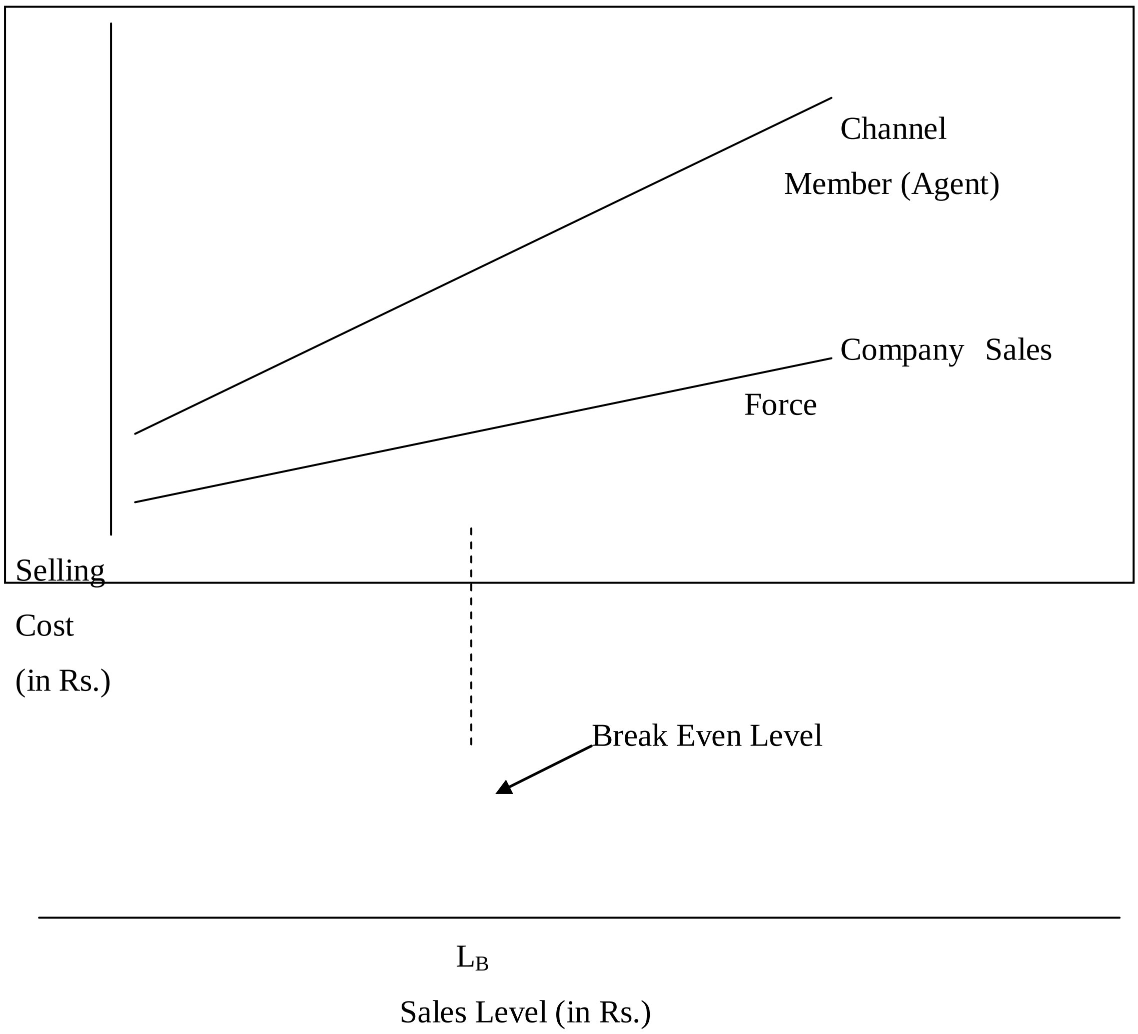

Fig: Comparing alternative channels based on economic factors

Degree of control:

This is another important factor while evaluating the channel alternatives. An industrial marketer exercises different levels of control over different channel members. The degree of control is more on company sales force and least on distributors. The distributor may concentrate more on those products that earn him high products rather than following the instructions of the manufacturer to push less preferred products. Similarly an agent entertains his potential customers most rather than concentrating on manufacturer's product.

Degree of adaptability of channel members:

With the market changing dynamically, the channel members should have the capacity to adapt themselves to the changing environment. The industrial marketer must be able to control as well as modify the channel structure. Each channel member should be committed to the agreement they have with other members.

4. CHANNEL MANAGEMENT DECISIONS:

After a company completes the task of choosing a channel alternative, it has to start the process of selecting the intermediaries, motivate them, control any channel conflicts and evaluate the performance of channel members.

Selecting the intermediaries:

Selecting the intermediaries is not part of channel design as some intermediaries leave the channel while others are terminated by the manufacturer. Selecting the best intermediary is a continuous process that is sometimes a more difficult task as producers have to work hard to get qualified middlemen. It involves finding out the distinct characteristics possessed by the intermediaries. Such evaluation is generally based on the experience possessed by the intermediaries, their number of years in the line of business, exposure in other fields, their past history, growth and profit records, their reputation, future growth potential, type of clientele possessed, etc., Thus, a channel that effectively satisfies the needs of a customer better than the competitors should find a place in the manufacturer's priority list.

Motivating the channel members:

After selecting the middlemen, the industrial marketer needs to continuously motivate them to do their job better to achieve long-term success. Though the terms and conditions that made them join the channel is a motivating factor, it must be further supplemented by training and encouragement. Understanding the needs and wants of the middlemen is the first step of motivation process. Depending on the motivational technique used by the manufacturer, there would be varying levels of support from the middlemen. Manufacturers generally try to maintain relationship with their distributors by motivating through cooperation, partnership, discounts/commission, and distributor councils.

Cooperation: Most of the manufacturers use the carrot and stick approach to gain cooperation from middlemen. Positive motivators like higher margins, special prices, allowances etc, along with threats like reduction in margins, slow delivery, terminating the contracts etc, are used to increase business. The manufacturer has to do a SWOT analysis of the distributors before implementing this approach.

Partnership: Manufacturers enter into an agreement or partnership with their intermediaries that list the objectives, policies and terms of jobs to be performed by both the parties in order to avoid any future conflicts. A good example of partnership is Vendor Managed Inventory System (VMI) where effective communication happens between the vendor and channel members through the assistance of electronic data interchange (EDI). The EDI helps the company to fill up the stock automatically at the channel member once it reaches the minimum reorder level. All relevant invoices, acknowledgements are electronically processed and sent to the distributors. The system also helps to check the slow moving products at the distributor’s end, generates a purchase return order based on which the products are returned back to the company. This digital revolution helped in reducing costs and improving customer service both by the manufacturer and distributor thus nurturing their partnership.

Offering discounts/commissions: Another motivating factor for intermediaries is the offering of discounts/commissions by the manufacturers. The compensation is offered taking into account the expenses incurred and the services provided by the intermediaries.

Establishing distributor councils: Manufacturers establish distributor councils to get closer to their distributors through the company executives. These councils help both the manufacturer and the middlemen to mutually plan various activities like sharing market information, conducting training programs, planning promotional schemes and then implementing them.

The middlemen should be considered by the manufacturers as their working partners rather than as customers. Apart from above motivators, several other practices should also be considered like arranging seminars, sponsorships for annual retreats, immediate response to queries through call centers etc., With the advancement in information technology, newer techniques should be used that helps to increase the business and strengthen the relationship among both.

Managing Channel Conflicts:

A well designed distribution channel though has several benefits as observed, it is not the ultimate for the manufacturers. There are several differences and problems that still exist between the manufacturers and the distributors due to various simple and intricate reasons like –

Dissimilar objectives: If the objective of manufacturer is to offer good customer service to develop long-term relationship while that of distributor is to somehow make short-term profits, then it gives rise to conflict among the two.

Less interest on products by the distributors: If distributors concentrate on those manufacturer's products where they earn more profits or which are fast moving in the market, then it creates a conflict between him and the other manufacturers on whose products the distributors do not focus.

Customer dealings: This is another common source of conflict that generally happens where the manufacturer tries to cater to large customers directly and makes the distributors serve the small customers thus making them earn less profit and hampering their business growth.

Dissimilar views: If the manufacturer is of the view that a promotional scheme would increase the business while the distributor feels that it would decrease their margins as it involves cost, then conflict arises.

Commission to distributor: If the distributor demands more commission while the manufacturer feels the existing commission is too high and denies the same, then it causes conflict.

Territorial problems: When the areas among the distributors are not properly demarcated then it leads to conflict as one tries to enter the other's territory to get business.

A dispute in the channel network can seriously affect the performance of channel members. It instigates a need for the industrial marketers to assess the areas of conflict and take corrective measures. There are different ways in which channel conflict can be controlled. They include –

Creating an effective communication set-up: There should be effective communication between the manufacturer and the other members of the channel network. This can happen through frequent interactions with the channel members where they can discuss the common issues and sort them out.

Setting joint goals: All the channel members jointly set the goals they wish to achieve by coming to a common agreement. The goals set by them can be anything in common that range from customer satisfaction, increasing market share, increasing profits, reducing costs, improving quality of service etc.,

Involving mediators: A third party in the form of arbitrator or mediator enters in-between the two parties among whom conflict arises and tries to solve their problems by eliminating disagreement.

Evaluating Channel Performance:

The performance of the channel is said to be effective if the channel members are able to reach the overall objectives smoothly. This calls for periodic evaluation of their performance where various parameters like meeting the sales target, maintaining the required inventory levels, ontime delivery to customers, their cooperation and service levels, generation of new customers, etc., are taken into consideration. The aspects where the middlemen score less during the evaluation process are analyzed and discussed with them where they are motivated to improve upon those areas. Sometimes, manufacturers terminate their services with middlemen if they are unable to meet their expectations or shape up as required.

5. LOGISTICS

An inefficient and untimely delivery can make the customers to terminate their relationship with the manufacturer and go in search of a new supplier. This means that products must be delivered to the customers as and when required by them, at their place of choice, while maintaining the quality. Hence, there should be proper supply chain management (SCM) systems in any channel network that calls for substantial investment of resources in the entire process. An efficient SCM helps the channel network to reduce average cost per customer, minimize wastage and prevent duplication, cut down on delivery time, and provide better customer service

Supply chain management deals with all the activities in the channel network that begins with procuring the raw material by the manufacturer till delivering the goods in the hands of the end user. The entire network is well connected with the organizations in the chain dependent on each other who mutually cooperate and work together. This helps in the systematic flow of products, services and information from the manufacturer to the intermediaries and then to the customers.

Logistical management

Logistics is a military term that refers to the management of various activities like transportation, inventory, warehousing right from the stage of processing the raw materials by the manufacturer to convert it into finished goods till they are made available to the customer for use. While logistics management helps to optimize the flow of material within the organization, supply chain management crosses the boundaries of organization extending material flow integration upwards to suppliers and also descending down to customers.

Logistics basically represents two primary product movements – (i). Physical supply, concerned with supply of raw materials, component parts, and other related supplies necessary for the manufacturing process. This comes under the purchase function (Materials Management); (ii). Physical distribution, concerned with delivering the finished product to customers and the middlemen. This comes under the marketing management that is also called as Marketing Logistics. Our focus in this chapter is on the Physical Distribution (Marketing Logistics) which is a very important part of industrial marketing strategy. The given figure illustrates the nature of business logistics system.

Materials Management

Marketing Logistics

Physical supply Industrial Physical distribution

(Source of supply) Manufacturer (Source of demand)

Raw materials supply point (Production & Storage Points) Markets

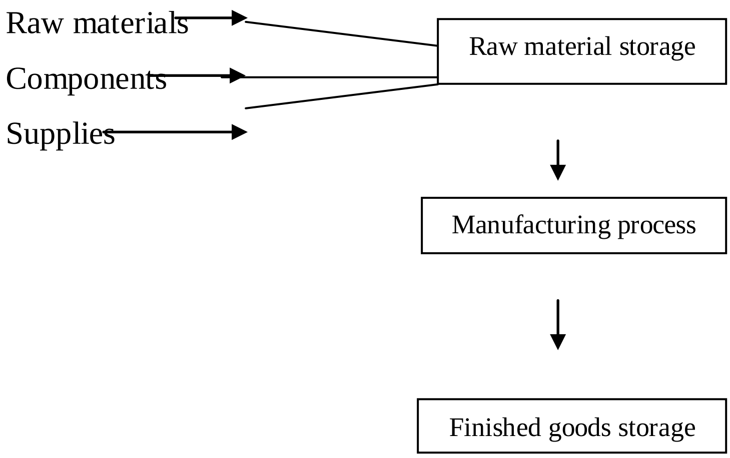

Fig: The Industrial Logistics System

Physical Distribution (Marketing Logistics)

Marketing logistics is the process of delivering the finished goods to the intermediaries as well as customers. An efficient delivery system helps to reduce the costs, improve customer service, and minimize time that finally helps to gain customer loyalty. A physical distribution system involves various tasks (as given in the table below) that interact with each other and play an important role in the overall performance of the logistics system. A particular logistics activity cannot be performed without evaluating its impact on other areas. For instance, the objective of maximized customer service may develop into a conflict with the objective of minimized distribution cost. Hence, total cost approach has to be considered to manage such inconsistency.

S.No	Tasks	Key aspects
1	Transportation	An important activity that involves movement of goods from the manufacturer to the customer.
2	Warehousing	A place where goods are stored till they are made available in the market place when needed.
3	Inventory	Ensures that right mix of products are available at

	Management	right place/time in sufficient quantity
4	Packaging	Protects the products, maximizes use of warehouse space, maintains product identity
5	Materials handling	Maximizes speed, minimizes cost of order-picking, moving to and from storage, loading and unloading operations
6	Order processing	Communicates requirements to appropriate locations through inventory management. Starts the physical distribution process
7	Production planning	Goods are made available for inventory. Planning of warehouse facility utilization, transportation requirement
8	Customer service	Establishes customer service levels with marketing objectives as well as cost limitations
9	Plant location	Facilities planning (factory and warehouse location) to ensure capacity & reduce transportation costs

Table: Physical Distribution Tasks

Total Cost Approach (Trade-off approach)

The total cost approach focuses to balance two essential variables: (i) total distribution costs, and (ii) the level of logistical service provided to the customers. The total cost approach is designed in such a way that it tries to achieve a combination of cost and service levels that maximizes the profits to the company and the channel members. In this approach, the total cost of distribution is considered instead of the individual cost of the elements of physical distribution as the decision made for one logistical variable affects all or some of the other logistics variables. For example, if inventory is reduced below the required quantity in order to reduce inventory costs, it may result in stockouts and increase in order backlogs. This may necessitate extra productions to provide the stockout items and air-freight them at high cost to customers whose production stopped due to non-delivery of products. All this would finally lead to reduction in future orders from the unsatisfied customers due to poor delivery performance. Thus, to save a small individual cost, the total cost substantially increased. The interactions among logistics activities (i.e. transportation, inventory, warehousing) involves a cost trade off as these cost elements are sometimes in economic conflict with one another. Thus, manager must be willing to trade-off a cost increase in one activity for a larger cost decrease in another activity that should finally result in reduced total logistics costs.

Service cost tradeoff: Service aspect is the other half of the total cost approach. It is to be understood that all customers or products do not require same level of service. Each element of service (as given in the figure below) has different levels of importance that the industrial marketer should recognize. The cost involved in providing the level of service must be evaluated in light of the revenue generated. Once the important elements of customer service are determined by the industrial marketer, he should set goals of customer service levels for each service element, compare the actual with goals and finally take corrective actions to minimize the difference.

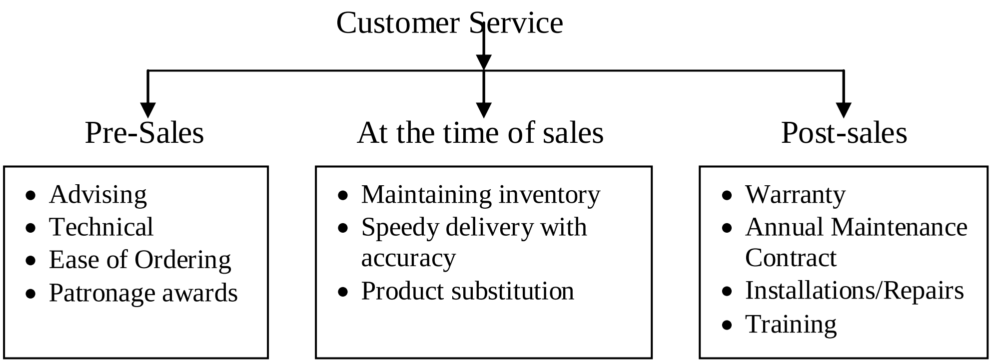

Figure: Elements of customer service

Physical distribution impact on middlemen:

An ineffective performance of physical distribution system will impact the operations of the intermediaries. This needs to be well understood by the industrial marketers who have to plan accordingly to avoid such inefficiencies. For instance, delaying the delivery of products will result in intermediary trying to avoid the manufacturer's products and searching for another company. This leads to slow down of business and customer dissatisfaction. Therefore, the marketer needs to take several steps as given below that would help him to improve the physical distribution system.

Develop proper MIS system: The marketer should create online network with his distributor through the use of information technology tools that helps him to know the inventory levels and provide more stock on time.

Standardize the procedure: He should try to standardize the various activities and operational procedures involved like product packing, handling of materials etc., at all the organizations of the channel members. This helps to improve the overall operational efficiency and also brings in consistency within the system.

Integration: The industrial marketer should properly integrate the physical distribution with the channel members that helps to improve the overall marketing effectiveness. For example, the shipment consolidation programs where the distributors in particular area are encouraged to place all their orders on the same day or transport their orders through a common truck.

Marketing logistics is considered to have a viable benefit of providing finer customer service at low delivery cost that is to be regarded as a long-term strategic issue. The physical distribution cannot be easily replicated by the competitors as it entails high costs in terms of investments in people, system, money and time. With many concepts emerging like outsourcing, Just in Time (JIT), and Total Quality Management (TQM) there is a big role and scope for logistics in the future.

SUMMARY

Channel designing is resorted to by the industrial marketer when he has to develop either a new channel system or modify an existing one. As channel design and management is a difficult and an incessant task, an industrial marketer has to go through certain stages that are involved in designing a superlative channel system. The various steps that are involved in channel design process are analyzing needs of the customer, establishing channel objectives, considering channel constraints, listing channel tasks, identifying channel alternatives, evaluating alternate channels and selecting the intermediaries.

The industrial marketer also has to take appropriate decisions on channel management by selecting the right intermediaries based on the various steps. The intermediaries need to be continuously motivated by means of offering them various benefits and facilities. Any conflicts arising between the intermediaries due to various reasons need to be solved by the industrial marketer. Finally, the entire channel performance has to be evaluated and necessary control measures need to be taken in order to enhance the performance of the entire channel network.

Logistics deals with optimizing the activities like transportation, inventory, warehousing of the raw materials at the manufacturer's end from the stage of processing till conversion to finished goods that are ready for customers' use. Physical supply and Physical distribution are the two product movements of logistics. Physical distribution (a part of Marketing Logistics) involves the delivery of finished products to the intermediaries and the end users. During physical distribution, the industrial marketers follow the total cost approach that involves a trade-off and balances the total distribution cost and the service level to the customers.

A physical distribution system needs to be well planned in order to avoid inefficiency that impacts the intermediaries. Certain measures like developing a good MIS system, standardizing the operational procedures and integration of physical distribution with channel members can be taken by the industrial marketer to improve the performance of physical distribution and improve marketing effectiveness.

SELF-ASSESSMENT QUESTIONS

1. What is the need for channel designing and what are the various stages involved in the process?
2. How do you establish a channel objective in the channel design process?
3. What are the various channel constraints and tasks an industrial marketer faces in the channel design process?
4. What are the issues involved in identifying channel alternatives? Explain.
5. What are the parameters on which channel alternatives are evaluated?
6. What are the different techniques used to motivate the channel members?
7. How does the industrial marketer select the intermediaries?
8. What are the reasons for channel conflicts and how they can be managed?
9. How do you evaluate channel performance?
10. What is Physical Distribution and explain the total cost approach?
11. How does physical distribution impact the intermediaries and how can we improve the physical distribution system?
12. What are the elements of customer service?

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FORMULATING CHANNEL STRATEGIES AND PHYSICAL DISTRIBUTION DECISIONS

CHANNELS OF DISTRIBUTION

1. INTRODUCTION
2. OBJECTIVES
3. THE NATURE OF INDUSTRIAL DISTRIBUTION CHANNELS
4. THE STRUCTURE OF INDUSTRIAL CHANNEL
    a. Direct Channel structure
    b. Indirect Channel structure
    c. Types of Industrial Middlemen
        - Manufacturer's Representatives
        - Industrial Distributors & their categories
        - Brokers
        - Commission Merchants
        - Value-added Resellers (VARs)
        - Jobbers
        - Drop Shippers
    d. The Functions and Responsibilities of Distributors
    e. Reasons Industrial Customers prefer Distributors
    f. Manufacturer and Distributor – Partners in progress

SUMMARY

SELF-ASSESSMENT QUESTIONS

CHANNELS OF DISTRIBUTION

1. INTRODUCTION:

When a company or a manufacturer produces goods or services, it has the immediate responsibility to distribute and sell them to the industrial and institutional customers. The industrial customers generally constitute of wholesalers, retailers, manufacturers, educational institutions, governments, hospitals, public utilities, and other formal organizations. There are various intermediaries who are involved in a distribution and selling process helping the manufacturers to make their goods reach the end users. Thus, a network or channel that helps to flow the goods from the producer to the consumer through a set of interdependent organizations (intermediaries) is called *distribution channel* or *trade channel* or *marketing channel*. Channels are the tools used by management to move the goods from the place of production to the place of consumption. In the progression, the title of goods gets transferred from sellers to buyers.

2. OBJECTIVES:

By studying this chapter, we will try to -

- Understand the nature and structure of the industrial distribution system
- Understand the types of industrial middlemen, their role and importance in the distribution channel
- Appreciate the functions performed and the responsibilities undertaken by distributors.
- Understand the reasons why distributors are preferred by industrial buyers.
- Appreciate the "partners in progress" relationship between the manufacturer and distributor.

Industrial distribution is unique as there are several different methods of channeling the products and services to industrial consumers. The type of product, the selling price of the product and technical knowledge required to sell the product all play a considerable role in selecting the proper sales or distribution channel. Unlike consumer organizations, the decisions taken by the industrial organizations on distribution channels is of great significance as the decisions involved are of long-term nature that cannot be changed frequently. The industrial organizations carry on certain important functions till the products reach the consumers – like utilizing the services of transportation companies for distribution, the services of warehouses for safe storage of goods, inventory control, order processing and selection of marketing channels. This necessitate taking important decisions like devising effective communication tools, planning promotional activities, managing finances etc that help in serving the consumers better.

3. THE NATURE OF INDUSTRIAL DISTRIBUTION CHANNEL:

The nature of industrial distribution channel is quite different from the consumer goods distribution channel. The intermediaries stock the products they are distributing thereby assuming part of the burden of marketing the product and maintaining close contact with customers. There are various factors that affect the distribution of industrial goods.

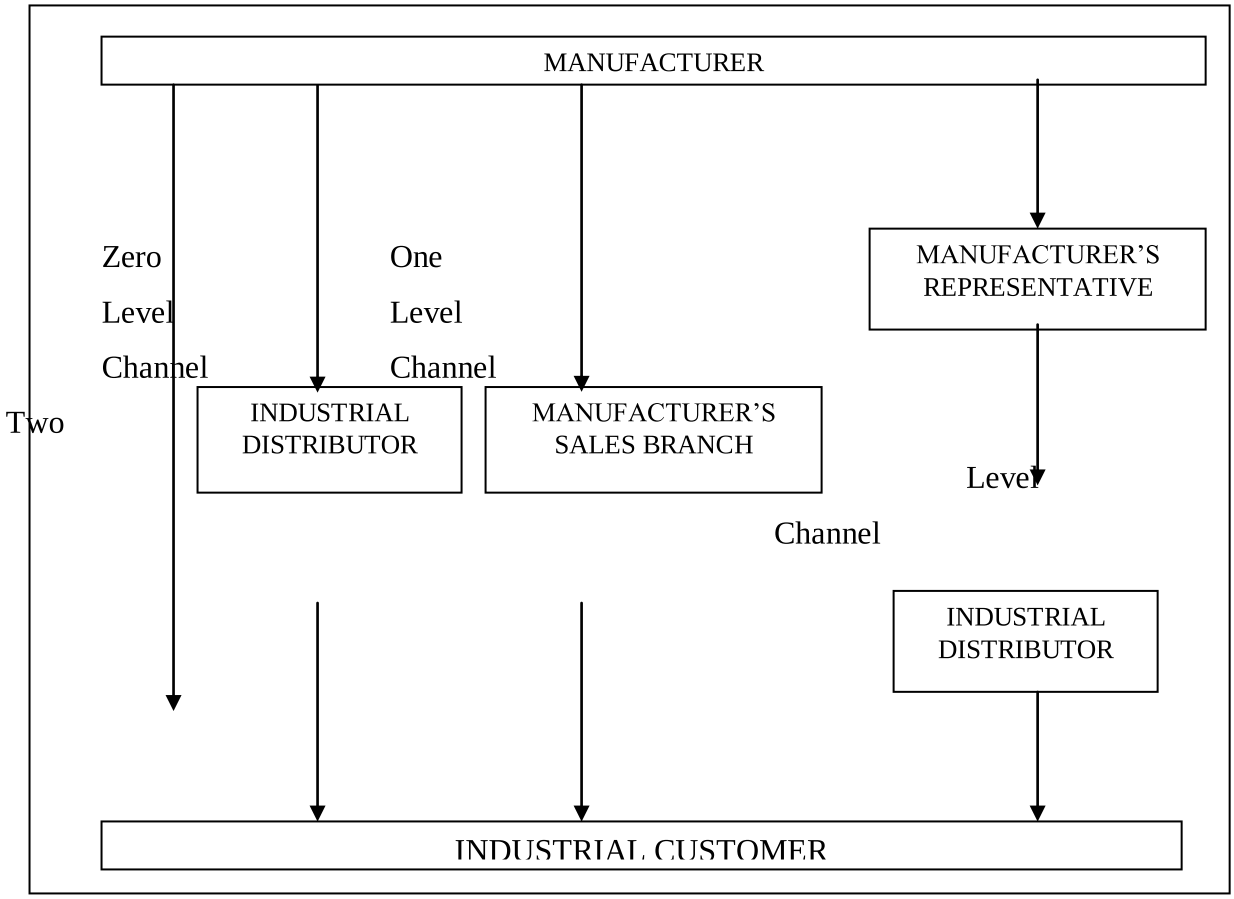
Geographical Distribution: The industrial distributors are concentrated highly in the industrial markets they serve and certain other places that have large number of industries like large towns and cities.

Size: Unlike consumer markets, the industrial markets tend to have fewer channels of distribution. Even the industrial channel is shorter in size as organizational buyers expect immediate product availability, technical expertise and prompt after-sales service. This indirectly demands investment in training and physical facilities for the industrial organizations.

Intermediary characters: The intermediaries involved in industrial marketing are technically qualified who maintain very close relationship with industrial organizations. Industrial manufacturers tend to depend more heavily on each member of the channel and may do more to support that channel member. Industrial distributors, brokers and agents are some types of intermediaries used by industrial marketers to reach customers.

Mixed channels: A combination of direct and indirect channels is used by some industrial marketers to cater to different market segments or when they have some resource constraints. To cater to large-volume customers, industrial firms generally use their own sales force, and to cover small scale organizations, they use independent distributors. In case of large geographical territories, due to resource constraints they use their agents called as 'manufacturers' representatives'.

Fig: Industrial Marketing Channel (with various levels)



Zero level – Manufacturer to Customer

One level – Single intermediary involved

Two level – Two intermediaries are involved in the channel network

4. THE STRUCTURE OF INDUSTRIAL CHANNEL:

There are different ways in which an industrial channel can be structured. Some of the industrial channel structures are direct while some are indirect.

g. Direct Channel Structures:

In direct channel structures, the entire task necessary to create sales and to deliver the products to industrial customers is performed by the manufacturers themselves. The various tasks involved in this process are contacting the potential customers, communicating and negotiating with them, financing and selling, storing the products, transportation and providing related services. This approach is viable to the company only if –

- the buying process is lengthy,
- the selling includes extensive technical and commercial negotiations at various levels, including top management,
- the industrial buyer insists on buying directly from the manufacturer, and
- the value of each transaction is large.

Some of the examples of direct channel are direct sales (through the company sales force) and direct marketing (through direct mail, telemarketing, Internet marketing)

b. <u>Indirect Channel Structures</u>:

In indirect channel structures, the various tasks discussed above is shared both by the manufacturer and the intermediaries. An indirect distribution approach is appropriate when –

- the industrial buyers are widely dispersed,
- the value of transaction or sales are low,
- the industrial buyers purchase many product items in one transaction, and
- the manufacturer has limited resources.

Some of the examples of indirect channel are manufacturer's representatives (or agents), brokers, commission merchants, commission merchants, industrial dealers or distributors, value-added resellers, jobbers, drop shippers. Indirect distribution is used in industrial chemicals, construction materials, electrical wiring materials and supplies, general industrial machinery, iron and steel products, etc.,

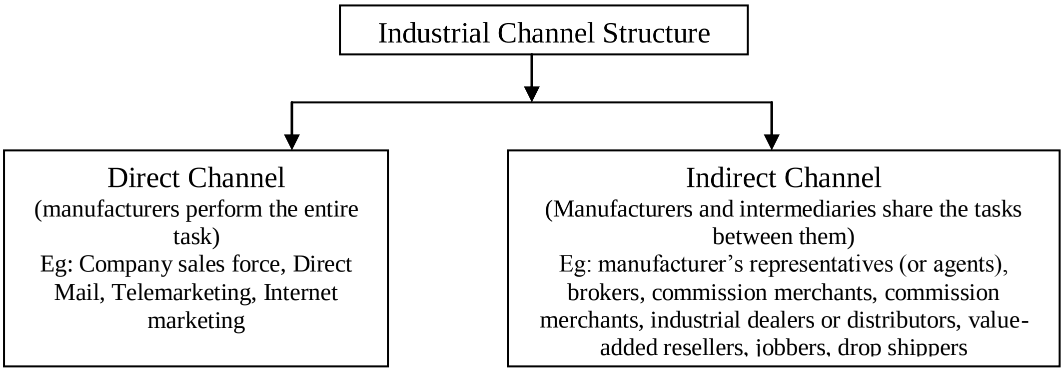


Fig: The Industrial Channel Structure

c. <u>Types of Industrial Middlemen:</u>

The industrial middlemen are the intermediaries used by the manufacturers to deliver their products to the end users. They are categorized based on the number and the extent to which they specialize in the performance of certain functions. Different types of industrial middlemen are manufacturers' representatives (also called agents), brokers, commission merchants, industrial dealers or distributors, value-added resellers (VARs), jobbers, drop shippers.

<u>Manufacturers' Representatives</u>: The manufacturer's representatives (sales agents or manufacturers' agents) are very commonly seen middlemen who secure orders from existing and potential customers. They provide relevant information on market conditions to the manufacturers as well as customers. They are paid a certain amount of pre-specified commission on sales and other tasks performed to make the sales. Generally small and medium-sized industrial firms use the services of agents in territories with low market potential. Agents are cost-effective for them because commission is paid as per the orders generated. The agents particularly have good knowledge about the product, their target market apart from excellent contacts with the buyers.

<u>Brokers:</u> Brokers are the middlemen who represent either the buyer or the seller. They help the manufacturer to find potential buyers and vice versa and take the commission when sales process is complete.

<u>Commission Merchants:</u> They deal with large quantities of items like raw materials. They are paid commission by the manufacturers when they perform certain functions. Their general functions include getting the raw materials inspected, negotiating during sales and finally close the sales. They receive the commission based on the net sales value as is compensated to agents and brokers.

<u>Industrial Distributors</u>: Industrial Distributors are the important and most preferred middlemen that are typically small and independent serving narrow geographic markets. They perform functions like buying, transportation and warehousing, promotion and selling, and offering credit. Because of such varied functions, they are sometimes referred to as *full function intermediaries*. They are offered trade discounts on the price list of the products as their compensation.

<u>Categories of Industrial Distributors:</u> Industrial distributors are categorized as *general line distributors* or *mill supplies houses* that stock wide variety of products and sell to a diversified group of customers. They are referred to as the *supermarkets of industry*. The products stocked by them include maintenance, repair and operating (MRO) supplies, original equipment manufacturer (OEM) supplies, and equipment used in the operation of a business, such as hand tools, power tools and conveyors etc. The second type of distributors known as *specialized distributors* specializes in products they handle or customers they serve. Because of increase in specialized markets, their numbers are increasing. Specialized distributors limit their inventories to specific product range like bearings, office equipment and supplies, electrical equipment and supplies, or abrasives etc. The third category called the *combination house s*ell directly to industrial customers as well as some other retailers or dealers.

<u>Value-added Resellers (VARs)</u>: They add some value or feature to an existing product and sell to end-users as a new package. This is found often in the computer industry, where a company purchases computer components and builds a fully operational personal computer. By doing this, the company has added value above the cost of the individual computer components. Customers would purchase a computer from the reseller to either save time or if they do not have the skills to build a unit themselves.

Jobbers: They get orders from the customers and pass them to the manufacturers. Though they do not handle the goods physically in any form, they take the title to the products they sell. Jobbers specialize in marketing bulky products like coal, iron ore etc, that are transported in huge quantities and do not require assorting or grouping of products.

Drop Shippers: When an online marketer has certain concerns like where to get the goods from, where to store them until they are sold, and what amount to charge for shipping the goods to the customers, then drop shippers come to the rescue of such marketers who work with merchants to move the products. Drop Shipping is generally used by web site owners (like amazon.com), shop owners and mail order firms who do not stock inventory of the products sold for future delivery through mail order, catalog and internet advertising. Middlemen send single unit orders for products to manufacturers, or major stocking distributors, who in turn drop ship the merchandise direct to the customers of the middlemen. Manufacturers providing drop shipping services can gain additional sales, shift advertising costs to middlemen, offer advertising material and reduce inventory requirements. Middlemen who initiate drop ship orders shift the risks of stocking inventory to the supply source, including storage, insurance, overhead, and personnel by spending nothing on inventory.

e. The Functions and Responsibilities of Distributors:

Nothing prevents a producer from meeting his customers directly and effecting sales. If he does not use this privilege, he has to borrow the services of different middlemen who act as a vital link in the distribution network to pass on the production to the actual users. A *full function intermediary or the distributor* performs all or most of the distribution functions like –

- Purchasing products from the producer to resell back to the industrial buyers
- Promoting the product through ads, negotiating by offering discounts and securing orders from customers
- Extending credit to customers while reselling the products
- Storing the products safely at warehouses and ensuring its availability to the customers
- Inspecting and testing the product, and assigning distinct quality grades. (Various grades of products are sold to different end users at different prices)
- Transporting the product from warehouses to customers' place
- Providing information on product features, price etc., to the customers and competition, market demand etc., to the manufacturers.
- Providing pre-sales and after-sales services to the customers through their technical service personnel.

As the intermediaries perform all or most of the above functions, the industrial marketers find it more suitable to use their services rather than doing all the things by themselves. But, they should analyze certain functions that are very important for them but cannot be performed effectively due to reasons like cost effectiveness or service inefficiency. Such tasks should be outsourced to those intermediaries who have the expertise to perform them effectively and efficiently.

f. Reasons Industrial Customers prefer Distributors

There are many reasons why industrial customers buy from distributors. Some of the common reasons include –

Delivery: Industrial customers particularly the small scale manufacturers find the distributors to be more reliable who delivers them goods in less time and at a lesser price. This helps them reduce their inventory level as well as the inventory carrying cost.

Information: Distributors provide relevant information on various products like technical information, price, availability, quality that helps the customer select and buy the best.

Variety: The distributor stocks variety of products at one place that caters to all the requirements of the industrial buyers.

Credit: The distributor offers credit facility to his reputed and credible buyers whenever they purchase from him.

Besides above, it is the relationship and best customer service that matters the most to the customers to prefers a particular distributor.

g. Manufacturer and Distributor – Partners in progress

Though there would be lot of conflicts and disputes existing between the manufacturer and the distributor, both need to maintain good relationship that help them to be partners in progress. The manufacturer should provide the distributor with all the assistance that is economically feasible to enhance the distributor's performance. The assistance from the manufacturer could be in the form of –

- providing increased margins or financial help that stimulates the distributor to increase inventory levels
- improving distributor's performance through deploying its sales force where supplemental technical support can be provided or joint sales calls can be done
- imparting technical and general training to the distributor personnel to improve their effectiveness and strengthen the bond

Simultaneously, the distributors should also execute all their basic functions and meet their responsibilities (that have been discussed earlier) in a systematic way that would help the manufacturer perform better. In addition, they should recognize the significant trends unfolding in the industry by understanding the market dynamics and forecasting its future directions. Eventually, the efforts of both the *'partners in progress'* should be to grow together that can happen only through mutual coordination and understanding each other in a better way.

SUMMARY

There are various channels that are involved in a distribution system that help the manufacturer to deliver the goods to the end-users. Industrial distribution is quite distinct compared to the channels used for consumer goods or services. It carries out the distribution through the direct channel structure that involves the company's sales force and the direct marketing through various means. The other way is the indirect channel structure where different kinds of intermediaries are involved like the agents, distributors, brokers, Commission Merchants, Value added Resellers, jobbers, drop shippers.

There are various functions these intermediaries perform that vary from buying the product, promoting and selling, financing or giving credit to buyers, warehousing, grading, transporting, providing information to customers and suppliers, providing technical support. Most of the above services are performed by the distributors because of which they are called as full function intermediaries. The distributors are preferred by the industrial customers as they find them more dependable, offer varied products, give liberal credit apart from providing the requisite information about the product, price and other related items.

Finally, the manufacturer and the distributors should be partners in progress who has to understand each other and solve any conflicts arising between them.

SELF-ASSESSMENT QUESTIONS

1. How does industrial distribution channel differ from the consumer goods distribution channel?
2. Explain the need for channel distribution in industrial marketing?
3. Who are the intermediaries in channel distribution? Explain their specific role.
4. What are the factors that affect the distribution of industrial goods? (Hint: Refer nature of industrial distribution channel)
5. What are direct and indirect channel structures?

6. How can the manufacturer and distributor be "Partners in progress"?
7. What are the functions of industrial distributors?
8. Why do industrial customers prefer distributors?
9. How do jobbers and drop shippers differ from each other.
10. Write a brief on the following
    a. Commission Merchants
    b. Brokers
    c. Value-added Resellers

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PROMOTIONAL STRATEGIES FOR INDUSTRIAL GOODS AND SERVICES

SALES PROMOTION, PUBLICITY AND PUBLIC RELATIONS, DIRECT MARKETING

1. INTRODUCTION
2. OBJECTIVES
3. SALES PROMOTION
    a. Meaning and Definition
    b. Need for sales promotion
    c. Methods of sales promotion
4. PUBLICITY
5. PUBLIC RELATIONS
    a. Planning
    b. Implementing
    c. Tools and Media for implementation

6. DIRECT MARKETING
    a. Direct Mail
    b. Telemarketing
    c. Online marketing channels

SALES PROMOTION, PUBLICITY AND PUBLIC RELATIONS, DIRECT MARKETING

INTRODUCTION

Promotion strategy is used by the industrial marketers to inform, persuade and influence the decision making power of prospective and existing customers. The objectives of promotional strategy vary from company to company where some companies use the strategy for capturing selected markets while others use it to increase or stabilize the sales and to give additional information and added value of their products.

OBJECTIVES

After studying this lesson, you would be able to –

- Understand the meaning and definition of sales promotion
- Recognize the need for a company to use sales promotion
- Understand the various techniques of sales promotions
- Appreciate the need for publicity and public relations in industrial organizations
- Understand the concept of direct marketing in industrial product promotion

Meaning and Definition

Sales promotion is an activity used by the industrial marketer to boost the immediate sales of a product or service. It is used to increase the sales by impressing the customers, rewarding them and also motivating the sales force to get more business. There are different techniques used in a sales promotion activity like a free-sample campaign, offering free gifts, arranging demonstrations or exhibitions, organizing competitions with attractive prizes, temporary price reductions, door-to-door calling, telemarketing, using personal letters, etc.

More than any other element of the promotional mix, sales promotion is about "action". It is about stimulating customers to buy a product. It is not designed to be informative – a role which advertising is much better suited to.

NEED FOR SALES PROMOTION

a) to introduce a new product in the market
b) to influence the public with the help of new uses of the product
c) to increase the frequency of purchase by each buyer
d) to encourage dealers to stock more goods
e) to withstand in the competitive field
f) to increase the sales by imparting special training to salesmen and by window display

METHODS OF SALES PROMOTION

There are many sales promotional methods available for industrial marketers. Some of the techniques they can use are as follows:

Trade Shows (or Exhibitions)

Trade shows present the manufacturers an occasion to exhibit and demonstrate their products to a large number of customers in a short period of time. They are the second most important promotional activity for industrial marketers after personal selling. Trade shows are generally organized by trade associations annually at a particular location or at some exhibitions where in companies lease some space to display and demonstrate their products to the potential customers.

Trade shows offers several advantages for industrial marketers like –

- one-to-one contact with the potential buyers and existing customers that increases the awareness on company and its products
- occasion to sell the products to the customer directly where no intermediaries are involved
- building database of prospective customers
- building goodwill and relationship with the potential buyers

- demonstrating non-portable (bulky) equipment that is otherwise difficult to take to each prospect
- discovering new and innovative products of competitors
- opportunity to get new product ideas due to customer interactions
- a good break for the newly joined salespersons who get on the job training by interacting with varied customers
- generating leads for new business

There are certain disadvantages also with trade shows like –

- it is one of the expensive form of promotion
- it is very difficult to identify the potential customer among the huge audience visiting the exhibition
- pulling/attracting the customers to visit one place is very difficult

***Catalogs*:**

Catalogs are the printed form of direct marketing promotional tools used by industrial marketers to provide information about their products especially if they have long product lines with different shapes, sizes or other features. The company sales force meets the potential buyers and explains the product features by offering catalogs. Based on the different catalogs collected from different suppliers, a potential buyer compares the features of different products and seeks quotations from the supplier who provides best quality product at economical price. Hence, a catalog should try to provide all the relevant information that a buyer is seeking from the company about a particular product (specific catalog) or all the products in general (general catalog). A catalog commonly contains information like product specifications, performance data, service requirements, application of products, illustrations and drawings, etc.

Samples:

Samples are the free or charged offerings given to the prospective buyers as a part of product development program. Samples are used mostly to make an entry in the prospective customer's place. Eg. A medical representative offering a sample of tablets to the doctor that can be distributed to the needy patients

There are various ways in which a sample can be distributed. A promotional literature can be sent through post, anti-virus software is offered free through

Internet, free shampoo sachets are offered through dealers when some product is purchased, cars are offered for a test drive when personal visits are made to a dealer. Sometimes samples are charged by the suppliers to ensure that customers really test them and also to control the huge costs involved in offering them free. Samples have a chance of being misused or taken away by the salesperson and "sample hounds" who are not genuine prospects for the products. Sometimes samples cannot be distributed because of the cost involved, weight, bulkiness, toxicity and intricate design.

Promotional letters:

This is one of the effective form of promotion where in personalized letters are sent to individual customers along with catalogs and coupons giving technical specifications about an existing or new products which are to be launched. Letters to customers at regular periods is a good way of keeping in touch with them particularly in case of products that are purchased infrequently. The cost of promotional letter is very less compared to the personal visits made by the sales force and it also receives good attention. Since good correspondence and writing skills are the requisite for this, there should be special correspondence section who can take advise from salesperson regarding the kind of letters to be sent and to whom it should be addressed.

Sales Contests:

There are various sales contests that are held by different industrial organizations in order to boost the morale of their employees and other intermediaries. Depending on the amount of sales generated, employees and dealers are offered incentives in the form of cash prizes, gifts or foreign trips.

Seminars:

Seminars are conducted by the industrial marketers by making audio-video presentation through the technical experts of the company. The seminar is followed by a question and answer session for the benefit of buying organizations where technical information is provided to them relating to their nature of activity. This helps in creating a favourable image about the company and also to establish new contacts with various technical people from the buying organization.

Promotional Novelties:

These are the small gift items given by the company to existing and potential customers with their company name and logo printed on it. The common promotional novelties include diaries, key chains, calendars, pens, bags etc. Promotional novelties should be generally inexpensive, unusual and eye-catching, useful to the customers and have multiple impacts. Promotional novelties are offered according to the type of customers - costly for senior management, medium for middle management and low cost for junior management positions.

Entertainment:

Manufacturers of highly standardized industrial products use entertainment for promotional purposes. Entertaining a customer depends on the type of products, the circumstances for the seller and the government regulations governing them. Entertainment can have either positive or negative effects depending upon the buying situation, the nature of products, policies of buyer’s organization and the buyer’s culture.

PUBLICITY

When any significant news about a product is made known to the people through a published medium like radio, television, newspaper or otherwise, such kind of act is known is publicity. Publicity has very high credibility in the eyes of organizational buyers as the sponsor does not pay anything for publicity and it is not a part of any promotional program. It is the least costly promotional alternative available for the company that is very effective. Publicity helps to generate sales leads and improves relationship with customers. Technical articles published in trade journals about a company or products with the identity of authors (such articles are called as signed articles) improve the image of the company and the products. They form as a good source of information for customers.

Though publicity is free, there are some associated costs attached to it. The costs incurred are for reasons like obtaining space in the journal or magazine for writing an article, preparing the matter (through professional writers, proof reading, taking approvals by sending to Head Office, etc) for news release and arranging for it to be placed in the right magazine by contacting the respective editors. But compared to other promotional tools, the costs incurred are very less. Hence, publicity should be well integrated with other promotional tools in order to have effective marketing communication.

PUBLIC RELATIONS:

Public Relations Department is located at the top level of the company and it deals with every body i.e. customers, suppliers, shareholder, employees, legislators, government and press. And the important job of this department is to maintain relations with people and build a good image about the company in their eyes (e.g. if any new product is launched by any company, the MD or Chairman calls for a press conference and explains about the product and its features and release in the market)

Public Relations is much broader in scope than publicity. It comprises of a range of programs that are planned to promote a good image about a company or its individual products.

DIRECT MARKETING

This is a recent activity that has come up and is used extensively by the industrial marketers. The various tools used in direct marketing are direct mails, telemarketing and online marketing channels. A direct marketing channel does not involve any intermediary and the sale is done by the company by directly contacting the target customer. As the cost involved in direct marketing activity is much less compared to the cost of company sales force directly meeting the customers, many industrial organizations prefer this tool. This tool aids the sales force to gain entry into prospective customer's office where prospective customers are identified beforehand and are informed about the company products.

Direct Mail:

The existing and prospective customers are mailed promotional letters, catalogues, CDs, etc., by the industrial marketers where they are provided with necessary information about the company's products and services and any schemes or offers it has. This helps the potential customers to respond the company that in turn would send its sales force to meet them personally and close the sales. Though this is one of the cheapest tool used by the industrial marketers, they should be careful about the selection of target audience as wrong identification would waste the entire efforts. Even the prospects' correct contact details should be available to avoid wastage of mails. Generally, mailing lists are obtained by companies from websites, telephone companies, trade publications, mailing list brokers, industrial directories, company's database etc.,

Telemarketing:

In this process, prospective customers are contacted through telephone and provided with all the required information and then converted to sales lead depending on their interest towards the company product. Sometimes, people who are self-interested in a company and seek information about a product or service also call the company after getting telephone numbers from various sources like telephone directory, advertisement etc., Telemarketing helps the companies to reduce their sales force and increase the sales volume provided the companies have trained personnel who can talk effectively over phone.

Online marketing channels:

These are the recent tools that have come up after the advent of internet and information technology. They are used by many industrial marketers for direct marketing of their products where they use this tool to find, reach, communicate and sell to organizational buyers. There are certain advantages of online marketing like being very cost-effective as even small organizations can use it, and accessing and retrieving the information is fast. But, unless an user has a computer system with modem attached and is computer literate, it does not make sense using this channel.

SUMMARY

Sales promotion is used by the industrial marketers to increase their sales by offering benefits and facilities to the customers, intermediaries and employees. There are various reasons why a company does sales promotion.

Sales promotion is carried by using various sources like trade shows and exhibitions, catalogs, offering samples, writing promotional letters, conducting sales contests, arranging seminars, offering promotional novelties and entertaining the customers.

Creating awareness to the masses by using any media without involving any promotional cost is called as publicity. A cheaper promotional tool compared to others, publicity brings lot of credibility to a company or its product.

The art of maintaining good relationship with the internal and external environment of an organization is known as public relations. The environment of an organization consists of employees, shareholders, suppliers, customers, government and press.

Direct marketing is the process where a company directly interacts with the customers without involving any intermediary. The tools used are direct mail, telemarketing and online marketing.

SELF ASSESSMENT QUESTIONS

1. What is sales promotion? Why do industrial marketers go for it?
2. What are the different methods of sales promotion?
3. What the advantages and disadvantages of Trade shows?
4. How does a catalog differ from promotional letter? How do they both help the industrial marketer in sales promotion
5. Differentiate a sample from a promotional novelty? How they can be effectively used by an industrial marketer?
6. How does a seminar, a sales contest and entertainment act as sales promotion tool?
7. How does publicity help the industrial marketer?
8. Public Relations act as a tool for effective marketing. Explain?
9. What is direct marketing? How does it help industrial marketer?
10. Explain about online marketing channels that are used as part of direct marketing?

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PROMOTIONAL STRATEGIES FOR INDUSTRIAL GOODS AND SERVICES

PERSONAL SELLING

1. INTRODUCTION
2. OBJECTIVES
3. ADVANTAGES AND DISADVANTAGES OF PERSONAL SELLING
4. SELLING PROCESS AND THE ROLE OF SALESPERSON
5. QUALITIES OF A SUCCESSFUL SALESPERSON
6. SALES FORCE MANAGEMENT
   a. Selection of sales personnel
   b. Training
   c. Supervision
   d. Motivation
   e. Compensation
   f. Expense Control
7. DEPLOYMENT OF INDUSTRIAL SALES FORCE
   a. Industrial Selling Environment
   b. Deciding on the size of the sales force
   c. Designing the sales territory
   d. Organizing and allocating of sales force
   e. Sales Resource Opportunity Grid
   f. Dyadic Interaction

INTRODUCTION

Personal selling is one of the oldest forms of promotion. It involves the use of a sales force who orally communicates about the company’s products or services to the potential buyers with an intention to make a sale. Personal selling is the primary demand stimulating force in the industrial marketer’s promotional mix. Its role is very dominant in industrial markets because of less number of potential customers present compared to the consumer markets and the large amount of money purchases involved. As the cost per sale through personal selling is too high, industrial marketers have to carefully manage and integrate personal selling into organization’s marketing mix. This will also lead to maximize its effectiveness and efficiency. The job of personal selling starts after determining the target segment in the organization’s market. The sales force in most of the industrial organizations follow the “systems selling” approach where they recognize the entire problems faced by their buyers and offer them total solutions rather than just selling the product. This is advantageous to the industrial buyers as all their problems are solved in a single go by one party who would take the responsibility if anything goes wrong. The industrial marketers too have competitive advantage by adopting this strategy.

OBJECTIVES

After reading this lesson, you would be able to –

- know the advantages and disadvantages of personal selling
- appreciate the selling process and the role of sales person in the entire process
- understand the qualities of a successful sales person
- know how to effectively manage a sales force
- management of industrial sales force

ADVANTAGES AND DISADVANTAGES OF PERSONAL SELLING

There are various advantages of personal selling that help an organization to promote the products effectively and increase the sales. Some of the advantages are –

- Personal selling is a one-to-one activity where customers get personal attention. This gives an opportunity to understand the customer needs better and make an effective sale
- The marketing manager can customize the sales message accordingly depending upon the needs and types of customers
- As there is two-way communication process in personal selling, the sales team has a good opportunity to respond directly and promptly to any of the customer’s queries and concerns
- Personal selling helps in passing on large amounts of technical data or other complex product information to the customers. This indirectly educates the customers and updates them on latest happenings on the industry, company and new products.
- Personal selling gives the sales force a chance to demonstrate the product effectively and clarify any doubts on the spot
- Frequent meetings between sales force and customers provide an opportunity to build long-term relationships.

There are certain disadvantages of personal selling like the cost of employing a sales force (recruiting and maintaining) is expensive. In addition to the basic pay package, they need to be offered incentives in order to achieve sales. Other supplementary support to make sales calls like car, travel, mobile phone etc. also adds on to the cost. In addition, a sales person can meet only one customer at a time that makes it a costly affair of reaching a large audience.

SELLING PROCESS AND THE ROLE OF SALESPERSON

There are different steps that are involved in a selling process and the salesperson has a significant role to play in each of the steps. It is the role of the salesperson that helps the organization to increase its sale and reach its objectives. It therefore becomes important to understand their role during each of the steps in order to further enhance their performance and clinch any deal successfully.

1. Prospecting:

Prospecting is the first step in the sales process that refers to identifying a list of potential organizational buyers. There are various sources from which salespeople get the list of prospective buyers. Some of the sources include referrals, directories, commercially-available databases or mail lists, company sales records and in-house databases, public records, trade shows, and a wide variety of other sources. The salespeople have to systematically structure the prospecting activities in order to identify only those potential customers who fit the profile and have genuine interest to buy the product or service.

2. Communicating:

This step involves the sales professionals communicating with the organizational buyers and trying to understand their current needs, their current use of products, identifying key decision makers among the buyers, planning and creating a sales presentation to address the identified and likely concerns of the prospect, and setting call objectives. During this phase, the sales people also develop a preliminary overall strategy for the sales process keeping in mind that the strategy may have to be refined as they learn more about their prospects.

3. Handling Objections:

The course of objection handling includes the prospective buyers holding, inspecting or testing the product directly. The product is demonstrated by the sales people by means of audio visual presentations such as slide presentations or product videos. It should be the endeavor of the sales person to let the prospect do most of the talking during the presentation. Their responsibility should be restricted to address the needs of the organizational buyers as far as possible. They should have the ability to convince them by showing that they truly understand them and care about their needs.

(4) Selling:

Selling is the process of delivering the products or services to the customer's satisfaction and receiving the payment after adequately addressing any of their final objections or obstacles. Many sales people are weak and hesitate or lack the confidence to ask for the order. They should know that closing does not involve literally asking for order. They can ask some related questions like what color the buyers like, which model or size they would prefer, when they would like the delivery to happen or what they would lose if they do not place the order now. Depending upon the situation, the salesperson also offers discounts, credit facility to induce the buyer.

5. Servicing:

The industrial marketers should provide their customers with efficient service from the point of sale till the goods are delivered and also after the post-sale. Many of the salespeople often overlook the servicing/follow-up aspect which is a very important part of the selling process. It helps to maintain a good and long term relationship with customers and gives supplementary revenue to the organization. After an order is received, it is in the best interest of everyone involved that the salesperson should follow up with the prospect. This ensures that the product was received by the customer in good condition, at right time, with proper installation and at the place as required by the customer. It also ensures whether adequate training on product usage was given to the customer before they handle the delivered product/equipment. The salesperson should confirm through the follow-up whether the entire process was acceptable to the customer. This is a critical step in creating customer satisfaction and building long-term relationships with customers.

If the customer experiences any problems during the process, the sales professionals should take the responsibility to intervene and become the advocate of customers to ensure their satisfaction. This has the probability of leading to new needs, additional purchases, and also referrals and testimonials which can be used as sales tools.

QUALITIES OF SUCCESSFUL SALESPERSON:

Any salesperson in order to be successful should posses the following qualities that would help them to reach high in their career path. They should have the qualities like –

1. very good knowledge about the products
2. zeal to give an effective presentation to customers
3. ability to clinch the orders/deals fast
4. ensuring prompt and quality service to the customers
5. good listening skills to understand the customer's requirements better
6. inviting more questions from the customers and handling objections by giving convincing answers
7. organizing the place of work in a better way
8. having wide contacts within the industry
9. creating good impression and getting more business

Though there are many other qualities that a successful salesperson should possess, these are the most preferred ones by the industrial organizations.

SALES FORCE MANAGEMENT

Sales force management is one of the important task for industrial marketing managers where they take great care in selecting the right personnel who can help them to increase their sales. They also give their sales team proper product training, supervise their performance, frequently motivate them by offering compensations, and at the same time control the expenses incurred.

There are various steps that are involved during the sales force management.

1. Selecting of sales personnel:

Personal selling starts with selecting the salesperson who acts as the representative of an organization. They help to create an image and reputation of the company apart from increasing the sales by offering various products and services to the industrial buyers. In addition to giving the details on product features to their prospective buyers, they offer other services like technical assistance, recommendations, ideas, and sharing their experience. They also posses the skills that are required to negotiate with professional buyers, handle huge sales volumes, understand the customer's needs and solve their technical problems.

At times, the salespeople represent the buyers wherein after understanding their needs, they pass on their requirements to Research & Development department or the production personnel who are suggested to manufacture the products as per customer's needs.

All these call for careful and proper selection of sales person. The selection process is based on the personal profiles of the candidates, the sources available to get the right candidates and the use of various selection aids.

Personal Profile: There are certain characteristic features that an ideal candidate for the selection of industrial sales force should possess. Most of the industrial organizations look for these common characteristics because of the nature of their business and the kind of selling that is involved. The prospective salesperson should be a self-starter, well-disciplined, god presenter, innovative, sound with product technicalities, persistent, adaptable to situations, friendly and considerate, honest, well qualified, etc. All these qualities give them a priority and preference to get short listed for the next process of selection.

Sources of candidates: To get good candidates with required qualities, the industrial marketers depend on various sources. Some of the sources include –

- Publications – business newspapers, trade magazines
- Institutes – engineering/management colleges for campus placements
- References – existing sales force, customers, suppliers, other departments/employees of the organization
- Placement agencies – head hunters, dot.com portals, recruitment consultants

Sometimes, candidates imply walk-in if the company is a reputed one just to try their luck or to just keep their database with the HR department of the company.

Selection aids: When a candidate has to be short listed, there are various aids used by the industrial organizations that help them to select the best personnel. Some of the aids they rely on are –

- Candidate's formal application i.e. resume/bio-data that gives their qualification/experience and other details
- Tests – that tests the candidate's technical/sales knowledge
- References – that provide confidential report/performance/aptitude report about the candidate. This also helps to check the credentials of the candidate
- Interview – where candidate's personality is judged and an appraisal created based on the impression created by him

2. Training:

The main objective on any organization is to improve the sales, increase the service levels and build the image of the company and its products. Training plays a crucial role in this aspect for many of the industrial organizations. It helps them to do effective sales by spending considerable time and money training their salespersons frequently. It is very essential in this competitive world that sales people must be effective in discharging their duties by learning new ongoing techniques.

Any good sales training program content will have –

- Product information – where sales people are given complete details of the product line and their features so that they can easily explain and address to customer's queries
- Market information – where sales people are provided with complete information of customers and competitors, their needs, behaviors, strengths, weaknesses, strategies etc.
- Company's information – where sales people are informed about the company's history, objectives, organizational structure, key persons, complete details of company's performance during the last few years and future plans
- Company's promotional activities – where sales people are updated on the various promotional activities a company is carrying out like the promotional schemes, discounts and any other offer

- Selling skills – that is very important for the sales people. They learn to develop the selling skills, sales presentation, negotiating skills and Customer Relationship Management.

Fig: Training class for sales people

Usually a sales trainee is trained generally by a Branch Manager or his supervisor. There are different methods of training that can be use like lectures, case discussions, group/individual presentations, role plays, business games, product demonstrations, personal counseling, on-the-job training, etc. The training process has to continue until the trainee becomes perfect in his job. It is said to be successful only when the actual sales achieved by the trainee after the training is more than what he has achieved before the training.

3. <u>Supervision:</u>

Sales force is directed to perform the selling job in accordance with marketing objectives and sales policies of the company. Supervision is prime responsibility of the Branch Manager or the immediate supervisor to whom the salesperson reports. They have the sole responsibility of guiding the day-to-day activities of the sales people (task assignment), boosting their morale, maintaining cordial and healthy working atmosphere, allocating territory to each salesperson, evaluating the sales and revenue in a particular location, etc. The other supervisory activities of the sales supervisor includes –

- Communicating and implementing company policies and strategies
- Counseling on problems and deficiencies of sales force.
- Establishing standards of performance, both through formal setting of goals or targets and setting an example for others to follow.
- Creating a favorable work environment and working relationship with sales persons
- Continuous training and development of sales representatives and
- Clarifying the responsibilities or expectations clearly to the sales people.

4. **Motivation:** Motivation is the process of arousing and sustaining goal-directed behavior induced by the expectation of satisfying individual needs. Since most of the sales persons are in the field away from the supervisor and colleagues, they experience fluctuations in their morale and motivation because of negative responses from customers and frustrations. It is very important for the sales force to have high morale as it helps them to achieve sustained high levels of performance. This sometimes requires the intervention of the sales supervisors who should express their confidence in the sales person's ability and continuously keep guiding and advising them. Motivation also calls for maintaining simultaneous discipline when poor performance of the salespersons is due to their negligence.
5. **Compensation:** Sales compensation is given to attract and motivate the sales people to excel in their job. For a sales compensation to be effective, it should give certain degree of financial security or stability to the salesperson that should be related to what they do. It should be on par with market and the salesperson should be able to understand it easily and clearly. As

industrial sales are uneven with huge orders at erratic intervals, the logical and ideal method of compensation for sales force is generally by paying straight salary. Since the job of sales people involves lot of missionary work before closing any sales, they are paid commission and bonus apart from their regular fixed salary. Other compensations offered to them consists of various incentives that indirectly motivates them to increase their sales figure.

Whenever a salesperson is compensated, it has four components attached to it. The important one is the *'fixed amount'* which is the basic stable income he receives, followed by the '*variable amount'* like the commissions, incentives etc. The third component offered as perks or '*fringe benefits'* includes leave travel assistance, medical reimbursement, personal or group insurance scheme, pension or superannuation scheme, savings in income tax at higher salary levels etc. Their travel and other expenses like boarding lodging, entertainment expenses that are given as per the company policy come under the 'reimbursements' or expense allowance. As these expenses are reimbursed based on their actual expenditure incurred, this should not be strictly considered under sales compensation.

A company offers different types of compensation plan to its employees like –

- *Direct salary*: It is a fixed amount paid to an employee every month for his work. This is generally offered to such kind of employees who are not in sales related jobs.
- *Direct commission*: Commission is based on the value of sales volume where certain percentage of sales value is given. This is generally offered to the agents or brokers along with the sale people.
- *Bonus*: They are based on sales volume or the profits of the company. They are generally given either half-yearly or yearly.
- *Incentive*: A monetary benefit paid by the company to the employees who invest extra efforts to achieve additional sales
- Combination of salary and Incentive
- Combination of salary and perks
- Combination of salary + Incentive + perks

Different companies adopt different combinations of remunerating their employees. But the compensation for sales force commonly comprises of salary along with perks and incentives.

6. <u>Expense Control:</u>

There are certain expenses which the salespersons incur and the company needs to compensate them in order to keep up their morale. Though expense account is not part of the compensation system, it affects a salesperson's enthusiasm if they are not reimbursed with the amount. A tight expense account makes the salesperson to bear some expenses from their regular compensation while a liberal one will give them an additional source of income. The various expenses covered by an expense account include traveling, lodging boarding and customer entertainment, etc, that are incidental to living away from home. There are different methods of controlling an expense account of salesperson like the automatic allowance, per diem allowance and reimbursement.

<u>Automatic allowance:</u>

In this method, whatever expenses salespersons incur, they have to spend out of their regular compensation that contains an increment to cover such expenses. This method is beneficial to the company as paperwork and maintenance of records is eliminated. But it also has a disadvantage as the company will not know how much increment should be added to the salary to cover the expenses. Even the salesperson will not spend liberally as he has to spend money from his pocket that indirectly affects the sales.

<u>Per Diem allowance:</u>

When a salesperson is given some fixed amount per day or per mile of traveling, such allowance is called as per diem allowance. This is to take care of the missionary work done by the sales persons for the company. This method has a disadvantage of difficulty in determining the amount of money to be paid and the salesperson may also not spend the actual amount.

Reimbursement:

Whatever expenses a salesperson incurs during his sales process like making telephone calls, traveling, hotel expenses, etc., are claimed by him in the form of reimbursement. For claiming this, he has to maintain a detailed expense account and submit it to his supervisor. This has an advantage of salesperson spending more to close a sale. The management also can audit the same and review the expenditure incurred and control them.

The best way to expense control is to avoid the ‘expense cooking’ done by the sales people where they claim more than what they actually incur. Though it is less in industrial sales due to high income-levels, managers need to have effective control over it. Some control measures include imparting proper training, making them aware of the company policies, counseling them on ethics and moral values etc.

DEPLOYMENT OF INDUSTRIAL SALES FORCE

Deployment of sales force involves taking certain decisions like what should be the size of the sales force, how the territory has to be designed, how the selling effort has to be organized and allocated. Sales force play a vital role in industrial marketing as they help in proliferation of marketing concept. Their ability to negotiate in this field and their search for new ways of marketing the products makes them the best people to judge the various alternatives methods as they deal with potential customers. They have immense talent of negotiating and coordinating with various departments and also the ability of effectively using the exiting product in alternative ways. Their ideas and suggestions play an important role in developing, improving and customizing the existing products.

Industrial Selling Environment:

As industrial selling is specifically to organizational buyers who exhibit varied behaviors during the buying process, the industrial environment becomes more complex. This necessitates the industrial marketers to respond to such environment with proper planning, organizing, influencing and controlling their sales efforts. They need to identify their potential buyers and the main decision makers among them, give them a sales presentation, and then develop a continuous rapport.

A typical buying process entails more than one organizational member who provides input into decision making. Though a specialist or an agent is given the buying responsibility, they get influenced in the process. Their internal environment of the organization like the production, marketing, finance etc, and external environment like the government, technological changes etc, play a vital role in influencing their behavior.

Deciding on the size of the sales force:

It is very important to have an ideal sales force team as it directly affects the company sales and costs. Most of the companies follow the workload approach method to determine the sales force size. It consists of several steps like –

- First the customers are classified into three categories of A, B and C based on their sales potential with highest potential customer in A category and the least potential in C category.
- The industrial marketer has to decide how many times his sales person has to visit each class of customer in a year
- Then he has to calculate the total visits per year by multiplying the number of customers in each class with the number of visits to each of them
- The marketer then estimates the average number of visits each sales person can make in a year
- Based on the above calculations, the marketer can decide on the number of sales persons required. The total visits per year are divided by the average number of visits a sales person can make in a year.

For instance, say a company has 100 customers in C category, 75 customers in B category and 25 customers in A category spread across the country. Then the industrial marketer decides that his salesperson should visit the A category of customers 50 times in a year, B category of customers 25 times in a year and C category of customers 15 times in a year. The total visits per year come to 2750.

As per step 3, $100x50 + 75x25 + 25x15 = 2750$

The marketing manager based on the past history and feedback from his present sales force estimates that a sales person makes 550 visits per year on an average. Then, for him to make 2750 visits in the entire year, he needs 5 sales persons.

As per step 5, $2750/550 = 5$

Designing the sales territory:

The industrial marketer has to decide on the sales territory to avoid any conflict between the sales force by avoiding their entry into each other's territory and grabbing the business. The designing of sales territory comprises of following steps –

- First a basic geographic location that controls the entire operations is selected. This is generally a major city or town where more of industries are located.
- Secondly, a market survey is conducted by the marketing manager to determine the sales potential of each control unit.
- Thirdly, the geographic control units are combined into approximate sales territories
- Finally, after determining any difficulties faced by the sales force in covering certain areas, necessary adjustments are done. Then the final sales territories are decided.

Organizing and allocating of Sales Force:

Sales force is organized based on different parameters such as location, product, customer groups, sales resource opportunity grid.

Locations: Locations are defined as a part of geographical area. It is easy for sales person to look after sales in a particular location and spend considerable time in making calls by improving the rapport with the potential customers.

Product: When a salesperson has some expertise in some specific category of product, or a few products and even a single product, then he would be used to market just that particular product. This type of specialization is adopted with products that are technically complex where the sales persons can influence the buyer easily. Though this way of organizing the sales force is quite expensive for the organization, it has to take care to avoid certain things like duplication of sales calls (where two or more salespersons try to meet the same buyer in different times) that is very common in this.

Customer groups: The sales force in this method is structured based on the customer segments they serve. This helps the sales persons to understand their customer's needs better, understand their buying behavior, the key decision makers thus catering to the needs of such customers.

Sales Resource Opportunity Grid

One more method used by the marketing managers to allocate sales force to various customers or territories is called as Sales Resource Opportunity Grid. A portfolio or planning and control units (PCU) consists of the products, customers, potential buyers, or territories that are the opportunities in terms of sales potentials for the industrial marketers. The sales resource strength includes the number and length of sales calls/visits, number of salespersons, and percentage of salesperson's selling time that is the competitive advantage or strength of the company within PCU.

The grid in the given figure helps the marketing manager to allocate the salespersons based on the opportunity available from the PCU after assessing the optimality of sales force deployment decisions across PCUs. It helps him to modify the size of his sales force, make changes in the sales territories, deciding in the allocation of the sales calls.

PCU Opportunity	High	Low
High	As PCU offers high opportunity, assign high level of sales resource to take the advantage	Sales resources to be directed to improve its position and take advantage of high opportunity PCUs or else shift the resources to other PCUs
Low	As PCUs offer stable opportunity, assign moderate level sales resources to keep current position strength	As PCU offers little/low opportunity, keep minimal or nil sales resources or otherwise ignore the PCUs

Sales Resource Strength

Fig: Sales Resources Opportunity Grid

Dyadic Interaction

There is a process of exchange between the industrial buyer and the seller in an industrial selling environment. The sales persons exchange their ideas, share information with the potential buyers thereby assisting them to meet their requirements of purchase decisions. The individual perception of both the parties about each other establishes some kind of boundaries in the interaction process. The negotiation process starts during the interactions where plans, goals, needs and intentions of the buyer and salesperson are discussed. It should be the endeavour of the marketers that they meet the requirements of the buying organizations through their sales force and develop relationship, trust and cooperation over a period of time thus creating a dyadic interaction.

SUMMARY:

Personal selling is the use of company's sales force to sell the products to the potential organizational buyers by using various strategies. It is one of the important promotional activity.

Personal selling has an advantage of meeting customers directly, customizing the message as per the buyer's requirement, providing them huge data relating to company or product, demonstrating the product effectively and building long-term relationship. Its disadvantages include being very costly affair due to various expenses involved in it.

A sales person has several roles to play in each of the sales process in order to convert a prospect into a customer. To achieve the sale, he needs to have various qualities that help him to understand his customer's needs better, provide them with the required products and continue the relationship even after the sales.

The important task for sales managers is to manage the sales force. They need to select the right personnel, train them effectively, supervise their activities, and continuously motivate them by providing compensation and other benefits with simultaneous control over them as well as the costs.

The industrial sales force needs to be deployed perfectly as the industrial environment is very complex. The marketer needs to decide on the size of the sales force, design the sales territory, allocate the sales force and maintain dyadic interaction with the customers.

SELF_ASSESSMENT QUESTIONS

1. What is personal selling? What are its advantages and disadvantages?
2. What is the role of a sales person in each of the selling process?
3. What are the qualities of a successful sales person?
4. How do you as an industrial marketer select the sales personnel?
5. What are the contents of good training program?

6. What are the various compensations offered to the sales person?
7. How do you control the expenses of sales force?
8. How is an industrial sales force deployed?
9. Explain work load method of determining sales force size with an example?
10. Explain the Sales Resources Opportunity Grid?

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PROMOTIONAL STRATEGIES FOR INDUSTRIAL GOODS AND SERVICES

ADVERTISEMENT

1. INTRODUCTION
2. OBJECTIVES
3. INDUSTRIAL COMMUNICATION PROGRAM
4. ROLE OF ADVERTISING
5. OBJECTIVES OF ADVERTISING
6. EFFECTIVENESS OF ADVERTISING
7. LIMITATIONS OF INDUSTRIAL ADVERTISING
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ADVERTISEMENT

INTRODUCTION

The industrial products are technical in nature that have very few buyers compared to the consumer products. This makes the industrial marketers to change their promotional strategy for industrial goods and services. The promotional mix used by the industrial marketer consists of advertising, sales promotion, publicity, public relations, personal selling and direct marketing. These tools help them to build awareness, develop company image, inform about the product features thus assisting the company sales force and other intermediaries to increase their sales. Of all the promotional mix, personal selling is the most important because industrial products are technical in nature and they involve lot of direct interactions by the company people with the industrial customers. However, all the elements of promotional mix needs to be well integrated with personal selling with proper coordination in order to develop an effective communication strategy.

OBJECTIVES:

By going through this lesson, we will try to –

- Understand how to develop an effective communication strategy
- Understand the role of advertising in industrial marketing
- Recognize the advertising objectives for industrial products and services
- Measure the effectiveness of advertising
- Realize the limitations advertising has for the industrial products and services

INDUSTRIAL COMMUNICATION PROGRAM:

Any industrial communication or promotion program in order to be effective has to follow certain steps. The various steps that are involved for effective industrial communication program are as given below.

Establishing the objectives of communication: The objectives of communication or industrial promotion are derived from the marketing objectives and entire company's objectives. This calls for the marketer to collect varied data from the market regarding the present awareness levels about the company and its products, the attitudes of the target customers and their buying action. The availability of such data is prerequisite for the industrial marketers to set their communication goals. Accordingly, the marketers have to increase the awareness levels, develop favourable attitude and bring in a strong desire among the customers to buy their products. All this requires the use of combination of communication media. For instance, if the objective of the organization is to enter a new market and create product awareness, it would be apt to advertise in any magazine or journal, while to inform about distinct product features that has an advantage over the competitor's, it would be ideal to go for personal selling by meeting the customers directly.

Identifying the target audience: The target market can be identified by segmenting the target market and then identifying the buying organization. Then their awareness, attitudes and buying factors need to be identified where their opinion about the company, its products, its competitors are known. This helps the company to change itself accordingly and keep upto the expectations of its target audience. Such information is generally obtained by carrying out a research study.

Determining the promotional budget: This is the most difficult task for any industrial organization as how much budget it should allocate for promotional activities. There are different methods that are followed by different companies as per their individual policies and convenience. Some of the common methods that are generally used by the industrial marketers are –

a. *Affordable method*: The budgets are set as per the affordability of the company. This has the disadvantage that promotional budget is not considered as an investment that would impact the sales volume.

b. *Percentage of sales method*: Most of industrial marketers use this method where based on the sales figure of previous year or the budgeted current year sales, a certain percentage of it is fixed as promotion budget.

c. *Competitive parity method*: In this method, the industrial marketer is influenced by the competitor and spends the same percentage of sales as promotion as spent by the competitor i.e., maintaining parity with the competitor.

d. *Objective and task method*: In this method, the industrial marketer defines the promotional objectives and determines the tasks to be performed to achieve those objectives and estimates the cost of performing such tasks. The total of these costs form the promotional budget.

Developing message strategy: Message strategy is developed by creating rational appeal rather than moral or emotional appeal that are used in consumer goods. This is developed by conducting a market survey to find out the satisfaction needs sought by target audience. As the industrial buyers are knowledgeable, the message should focus on the benefits to the customer rather than on the product features.

Media selection: This depends on the kind of target audience to be reached, the budget available and the objective of the communication. With different promotional tools available like advertising, sales promotion, public relations and publicity, direct marketing and personal selling, the industrial marketer should make an ideal choice to select the media that would enhance his product sales.

Table: Different media available for the industrial marketers

Advertising	Sales promotion	Public Relations and Publicity	Direct Marketing	Personal selling
Newspapers, magazines, journals, television Directories, hoardings, billboards, trade publications	Exhibitions, Fairs, Trade shows, Seminars, Promotional letters, Entertainment, gifts, contests, sponsorships	Corporate Social responsibility activities like community development programs, donations Press releases	e-mails, postal mails, telemarketing, message on mobiles (SMS), internet	Product presentations by company sales force, sales calls, relationship marketing

Evaluating the promotion: The various promotional activities carried out by the industrial marketer are evaluated by measuring the difference in awareness levels, the attitude, and the actual purchases of the target audience. The difference before and after the implementation of the promotional plan is identified. This involves carrying out research study to find out the changes in the levels of awareness, attitude and buying action of the target audience.

Integrating promotional program: The industrial marketer has to integrate the various communication tools so that the communication plans of the company are clear, consistent and cost effective. This calls for conducting training programs for the people handling the various communication tools.

ROLE OF ADVERTISING IN INDUSTRIAL MARKETING

Advertising is the most preferred promotional tool in the consumer market rather than in the industrial market. It is preferred less by the industrial marketers compared to personal selling as they get to meet the customers personally and understand their needs better in personal selling. But still advertising is used to a good extent by the industrial marketers to assist their sales force and intermediaries to generate more leads. Advertising plays an important role in industrial marketing strategy by supporting and supplementing personal selling efforts. The advertising budget for industrial goods is far less compared to that of consumer goods. But, to have an increased efficiency and effectiveness of the overall marketing strategy, industrial marketer should have an integrated and well planned advertisement strategy that blends properly with personal selling efforts.

Before understanding the role of advertising in industrial marketing, we must be aware that there are certain forces that shape and influence organizational buying decisions. Industrial purchasing decisions are typically joint decisions that insist an industrial marketer to focus on all the individuals involved for a particular purchase. Studies have also shown that an industrial salesperson does not reach even six to seven out of ten purchase decision influencers. In such cases, advertisement that becomes the only means of communicating fills the gap by reaching important buying influencers who are sometimes inaccessible to the industrial sales force. It facilitates the company by enhancing its brand image, increase the salesperson's opportunity to create a sale.

OBJECTIVES OF ADVERTISING:

Any industrial marketer uses advertising as a promotional tool as it performs so many functions that help him to achieve the following objectives:

Create awareness: The industrial advertising creates awareness about a supplier or his products to the potential industrial buyers who are unaware about the availability of their products in the industrial markets.

Reaching inaccessible places: There are places that are not reachable by the company sales force and there are important decision makers for purchase of industrial products who cannot be met by the sales force. These places could be reached easily through advertising. Thus, advertising in trade journals, business magazines that are read by R&D Managers, engineers help the companies to reach their target audience.

Improve sales: Advertising helps salespersons to improve their sales by increasing their sales efficiency and effectiveness as people are already aware of their company, products, etc.

Reduce cost: A single advertising reaches a vast number of people that comes out cheaper than a single salesperson meeting so many people personally and explaining them in details about the company's products. Thus, advertising not only reduces cost but also saves time of the company.

Besides above, some other objectives of advertising are to provide relevant information to the potential buyers, influence their attitudes, remind them about a product or a company, support and motivate the distribution channel members and sales agents.

EFFECTIVENESS OF ADVERTISING:

The evaluation of industrial advertising is a very complex task. Its effectiveness is measured by evaluating its performance against the advertising objectives. Advertising is said to be effective if its objectives are reached with the given amount of budget specified for it. For instance, when a product is sold solely depending on the advertising, then the effectiveness of advertising is determined by comparing the cost of advertising with the volume of sales generated. Similarly, when the objective is to generate new leads, then the number of queries received forms the basis for evaluating advertisement effectiveness. For example, the advertising cost effectiveness for a business publication is measured by using the formula:

Cost per thousand = Cost per page / Circulation in thousand

There are certain areas which need to be measured in order to evaluate advertising effectively. They include measuring the target markets where the advertising is aimed and the extent to which the advertising succeeded in reaching the target markets, measuring the motives of target audience before and after advertising, measuring the extent to which the advertising message is registered, and measuring the extent to which different media succeeded in reaching the target market with the given message. Knowledge, recall, awareness, preference, recognition etc., are some other specific types of evaluations required to measure the advertising effectiveness.

LIMITATIONS OF INDUSTRIAL ADVERTISING

Though advertising is assisting the industrial marketers to reach their goals in effective way, there are certain limitations of industrial advertising. The industrial marketers have to be aware of such limitations as it would help them to utilize the benefits of advertising to its maximum even within the given limits. The limitations of industrial advertising are –

- Industrial advertising cannot substitute personal selling but it can definitely support, supplement and complement that effort
- Advertising can and should be used only for creating awareness and providing information. Its purpose would be lost and the cost increases if it tries to give all the details. Providing exhaustive information, objection handling, convincing and converting a prospect into a customer that consumes lot of time should be allowed to be handled by the direct sales force team
- Advertising cannot create any product preference as this requires live demonstration with explanation
- Advertising cannot achieve the task of creating conviction and purchase. Such tasks are achieved by personal selling.

SUMMARY:

Due to technical nature of industrial products, the promotional strategy for industrial goods is different than consumer goods. The preference for personal selling is more in industrial product promotion than the use of advertising, sales promotion, publicity, public relations.

There are various steps involved to achieve effective industrial communication program like establishing the communication objectives, identifying target audience, determining promotional budgets, developing message strategy, media selection, evaluating the promotion program, integrating promotional program.

Industrial marketers use advertising to create awareness about the product and the company that enhances the sales effectiveness of company sales force and other intermediaries. Advertising helps the industrial marketer in various ways like creating awareness, reaching inaccessible places, improving sales, reducing costs, saving time, disseminating information, changing attitudes, reminding, enhancing the performance of distribution channel members and sales agents.

To evaluate the effectiveness of advertising, its performance has to be measured against its objectives. An advertisement that reached its objectives is said to be effective and vice versa. The primary areas that are used for evaluating advertising are markets, motives, messages, media and the overall results.

Advertising has certain limitations that an industrial marketer has to understand in order to use it effectively. Some of its limitations are it cannot substitute personal selling and can be used only for creating awareness by giving message. It cannot create any specific preference for any product that leads to its sale.

SELF-ASSESSMENT QUESTIONS

1. What is the role of advertising in industrial marketing?
2. How can industrial marketer use advertising to his best use?
3. What are the different methods of allocating promotional budgets?
4. How is the advertising effectiveness measured?
5. What are the limitations of industrial advertising?
6. What is competitive parity method?

7. Explain the role of advertising in industrial marketing
8. Compare and contrast between personal selling and advertising?
9. How can advertising help you to reach inaccessible place?
10. What are the different media used for advertising by industrial marketers?

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Unit V

THE CONCEPT OF STRATEGY

Marketing is carefully meshed with production, finance, research, purchasing, and other functions of the business so as to make the maximum contribution to company objectives. The Marketing Activities of industrial products are an integral part of the company's total operating system. Therefore, it is useful to identify the major types of plans by which operations of an enterprise are directed. These may be designated as strategic, operational, logistical, and organizational. The unique features of marketing strategy and its major supporting elements are discussed below.

A plan is a goal-directed system of action. A strategic plan is one which describes the allocation of a firm's resources which the management believes will achieve the corporate mission with the greatest efficiency over the long run. Supporting the strategy and contributing to its implementation are plans for the operations, logistics and organization called for by the strategy. Together, these constitute a hierarchy of objectives, and plans to achieve them, which make up the guidance system of an enterprise.

Strategy

The word strategy carries the connotation of a skillful plan. Some have more precisely defined a strategy as a *complete* plan. It is a set of directions which specifies which choices a firm will make in every situation.

The term strategy is derived from *strategic,* a word which the Greeks used to describe what the commanding officer did in a military campaign. The military commander is charged with a mission and must allocate and position of forces under him in a way which offers the greatest probability of achieving it. Since the enemy is not likely to accommodate him by revealing what they plan to do, the commander must base his strategic decisions or assembled intelligence about the enemy, the terrain over which military operations will be conducted, and any other factors which have a bearing on the ability of his forces to function as well as those of the enemy.

But business is not warfare. The mission of a military commander is decided by his government. The mission of a military operation is generally to defeat the enemy. The mission of a business enterprise might be to move materials, or to supply mobile power, or to transmit, process, store, and retrieve information. However, these aims have to be refined and qualified in order to match between the capabilities of an enterprise and opportunities it seeks to exploit.

In a business sense, strategy defines products. It identifies the markets and market segments for which products are or will be designed, the means by which operations will be financed, and the emphasis which will be placed on the safety of capital against income. These are decisions which would change over time as environmental conditions of an enterprise change.

Marketing Strategy: It is that part of the company's strategic plan which deals with the development of its products and services, the stimulations of demand for them, the determination of their prices, and the makeup of channels through which they reach customers. Its major elements are product and service definition, promotion, pricing, and distribution.

1. *Product definition.* Since a product is simply a bundle of properties. It should possess those properties which fit the needs of target markets. Due to the diversity of needs to penetrate and hold their markets, many industrial firms find it necessary to produce a number of product lines, i.e., a *product mix.* It must also be decided whether the company should be a leader or a follower. Another strategic consideration is whether the principal source of new products should be internal or external.

Without a substantial commitment to research and development effort, few new products can be generated internally. For this reason many companies elect such alternatives as copying the unpatented products of other firms, negotiating royalty arrangements with them, purchasing outright the manufacturing and sales rights to products, or acquiring the companies which make them.

2. Service definition: Service can be defined as any activity undertaken for the purpose of helping customers. Customer service is a core element in the strategic plan. What does fit into this concept are such activities as pre-scale engineering studies, technical consultation, and performance testing, as well as such conventional post-sale activities as financing, operator training, installation and maintenance.

3. Promotion : Promotion is the function of inducing customers and prospective customers to buy the company's products in quantities and at prices which yield satisfactory profits. Promotion involves decisions on at least three key issues: how to use advertising, to what extent personal selling should be employed, and the most effective way to supplement both with such supporting efforts as displays, trade shows, exhibitions and demonstrations.

4. Pricing: Since price may seldom be the dominant factor in making a sale, long-range decisions regarding it need to be carefully integrated with decisions concerning the other four elements of strategic planning for marketing.

5. Channels: The marketing channel is an extension of the manufacturing enterprise itself; channel strategy should embrace both the internal marketing units of a firm and the external intermediaries. It is particularly important that channel strategy recognize the emergence of new customer groups, impending changes in existing groups, and the impact of these on customer needs; although these factors are an issue in all elements of the strategic plan.

FORMULATING STRATEGY

The planning process is divided into several steps or stages. The divisions are not necessarily universal. Other writers and practitioners may prefer other breakdowns perhaps as good as or better than this one. It should also be recognized that the chronological implications of this sequence of steps found there is largely false. While carrying out the current plan, management must be preparing others for the future.

Preliminary Analysis

The technical nature of most industrial goods complicates market planning For example, the demand for a material, component, supply item, or price of equipment may be changed profoundly and abruptly by changes in technology. The uncertainty of total demand for the individual firm is aggravated by the small number of large users which characteristics many industries. A shift in patronage by any one buyer can subtract heavily from the sales volume of one supplier and add substantially to that of another. The analysis which precedes the formulation of marketing strategy includes both the situation analysis and the analysis of potential markets.

Choice of strategy components

The central problem in choosing the components of a marketing strategy is to find the combination of components which will produce the maximum net revenue. It involves the application of marginal analysis. But it is very difficult to forecast the results of any marketing action unless they can be measured. This is possible with direct mail advertising or promotional material designed to bring in orders. In spite of the lack of adequate means to forecast the results of marketing action, the marketing manager cannot avoid trying to do so. Recently, much has been devoted to improve both measurement and forecasting in this area.

Once management has accumulated some experience with estimates, it is often possible to predict outcomes with sufficient confidence to formulate strategies effectively.

FORMULATING CHANNEL STRATEGY

Formulating the channel strategy involves an analysis of conditions which have a bearing on the best choice among structural alternatives and on the relationship between them and the manufacturer which will be most productive.

In general, the industrial marketer has a choice of three types of structural arrangements.

1. Direct to users - through the manufacturers own sales force, with or without a network of branch warehouses.
2. Indirect to users - through agents or wholesale distributors. The choice of an indirect channel system involves the choice of a selective (only one or a few outlets in each market area) or intensive (a number of outlets in each market area) relationship.
3. Mixed structure - the nature of the structural network differs with the segmentation of the market. One segment may buy the manufacturer's product in standard grades, while another may want special quality variations. While indirect distribution may be suitable for the former, direct distribution may be required for the latter.

CONDITIONS INFLUENCING CHANNEL STRUCTURE

Some conditions which influence the choice of channel structure arise from the nature of the market; others are related to the peculiarities of the product; still others are linked to the character and situation of the firm itself.

Is the market horizontal or vertical? If a product can be sold only to the members of one or a few industries, and the number of firms in each industry is small, direct distribution is the most profitable method. A few salesmen will be needed to make direct contact with all probable users. Closer contact can be maintained with customers and prospective customers, and the sales are usually improved by this method.

If, on the other hand, the market is horizontal and the product must be sold to buyers in many industries, the number of buyers is large, and the chances of economically reaching all or a large portion of them usually are enhanced by selling through distributors.

Is the market potential large or small? If the nature of the product is such that a substantial volume of sales is available in the average area served by a single salesman or branch warehouse, direct marketing may prove profitable. If, on the contrary, the probable volume of sales in a market area is small, the direct method may be too expensive.

To what extent are the possible purchasers concentrated geographically? The tendency toward localization of industry makes it possible to market direct to the user many industrial products whose small sales volume would preclude the possibility of selling direct, even to retailers, if they were consumer goods. If 70 or 80 percent of the total possible sales volume of a product is concentrated in one or two limited market areas direct marketing is viable.

In the past, it was common for purchasing officers in large firms to insist on buying direct in order to avoid paying the distributor's margin, and in the hope of getting quantity discounts. Many firms have streamlined purchasing by setting up continuing relations with selected suppliers with whom orders are placed by telephone, unpriced simplified purchase order, or even a tub-file inventory punched card.

For this system to work, the purchasing officer must select one or two distributors and place all his orders with them. This increases the importance of the distributor as an outlet for the makers of many supplies, materials, and component parts. It also may be expected to decrease the effectiveness of the limited franchise arrangement, whereby the manufacturer markets through only one or two distributors in a market area. How far it will go and how long this method of buying will last are unanswered questions. To streamline the expensive order procedures the following points are to be considered.

What is the gross profit margin?

How volatile is the price?

Must the product he installed?

How much technical service does the product require in use?

How important is quality?

How bulky is the item?

What kind of repair and maintenance service does the user need and how much?

What is the firm's size and financial position?

What arc the seller's marketing objectives?

RELATIONSHIPS IN THE INDIRECT CHANNEL

The manufacturer’s choice of indirect channel relationships may be separated into those of a strategic nature and those which are matters of policy. In the former instance there are two basic alternatives: *selective* distribution is one in which the firm sells through one or a limited number of outlets in each market area or segment, or *intensive, is one* in which all outlets in a given market segment will be utilized. The decision to pursue a selective rather than an intensive strategy, or vice versa, based on a number of circumstances.

Intensive distribution. If the manufacturer elects to market through all outlets of the chosen type or types that will buy his products, he may be able to gain complete coverage of his total market rather quickly. Merely by the laws of chance at least one outlet in each market area should be willing to handle his product. Moreover, there is apt to be fairly uniform quality of distributor performance throughout a manufacturer's market, since one could expect to find both good and poor distributors in every market area, many of whom would be handling his product. However, the degree of cooperation the manufacturer receives from his several outlets covering the same territory is likely to be small because none receives preferential treatment and each is competing with the others in the sale of the manufacturer's product.

Selective distribution*:* If the manufacturer pursues a selective strategy, he must fit the chosen outlets into mosaics of areas in which they operate to be sure that all parts of the market are covered. He also has the problem of adjusting claims to territories where the trading areas of two or more selected outlets overlap. Perhaps the most serious drawback is that the manufacturer puts all his marketing eggs in one basket. The manufacturer who follows a selective strategy constantly faces the risk of losing an outlet in at least one of his marketing areas, and in the meantime being without good representation there.

The manufacturer can designate one distributor as his sole outlet in a given area and make a valid contract to this effect; he cannot legally make a contract that requires the distributor to refrain from handling the products of a competitor. The selective strategy when carried to the extent of the exclusive franchise can be exclusive on only one side, that of the manufacturer.

On the other hand, a selective strategy tends to generate a much close working relationship with the manufacturer. The spirit of cooperation between manufacturer and middleman tends to produce a higher quality of marketing effort by selected distributors and agents than under an intensive strategy. This manifests itself in more aggressive and active cooperation in promotional programs, and greater willingness to equip him to render the kind of service called for by the manufacturers.

The Manufacturer whose pursues a selective strategy can expect some savings in marketing cost. The savings will probably not be commensurate with the reduction in number of accounts. Salesmen can usually spend more of their calling time in constructive effort to move the product into the hands of users and less of it in the struggle to get an order. Since the outlets would be fewer, the average order is likely to be larger, with resulting reductions in order-handling costs.

The selective strategy also is likely to provide the manufacturer with a better distributor sales force to sell his product than would be possible with any other indirect alternative. If a distributor knows that the business he develops for a product in his territory belongs to him and can be served by no one else, it is clearly to his benefit to have his salesmen properly trained by sending them to the producer's factory and by cooperating in other training programs the manufacturer may develop. This is especially important to the maker of highly technical products or those that require technical service.

HOW ARE PRICES SET?

Price still remains one of the most important elements determining company market share and profitability. Generally, prices were set by buyers and sellers negotiating with each other. Setting one price for all buyers is a relatively modern idea. Price is the only element in the marketing mix that produces revenue. Price is also one of the most flexible elements of the marketing mix.

At the same time, pricing and price competition are the number-one problems faced by many marketing executives. Yet many companies do not handle pricing well. The most common mistakes are these: Pricing is too cost oriented; price is not revised often enough to capitalize on market changes; price is set independent of the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy; and price is not varied enough for different product items, market segments, and purchase occasions.

Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by marketing or salespeople. In large companies, pricing is typically handled by division and production managers. Top management sets the general pricing objective and policies and often approves the prices proposed by lower levels of management. In industries where pricing is a key factor (aerospace, railroads, oil companies), companies will often establish a pricing department to set prices or assist others in determining appropriate prices. This department reports either to the marketing department, finance department, or top management. Others who exert an influence on pricing include sales managers, production managers, finance managers, and accountants.

Now let us examine three questions: 1.How should a price be set on a product or service for the first time? 2. How should the price be adapted over time and space to meet varying circumstances and opportunities? 3. When should the company initiate a price change, and how should it respond to a competitor's price change?

SETTING THE PRICE

Pricing is a problem when a firm has to set a price for the first time. This happens when the firm develops or acquires a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enters bids on new contract work.

The firm must decide where to position its product on quality and price. A company can position its product in the middle of the market or at three levels above or three levels below the middle. The seven levels are as follows:

Segment	Example (Automobiles)
Ultimate	Mercedes-Benz

Luxury	Audi
Special Needs	Volvo
Middle	Buick
Ease/Convenience	Escort
Me Too, But Cheaper	Hyundai
Price Alone	Yugo

This scheme suggests that the seven positioning levels of products don't compete with each other, but only compete within each group.

The firm has to consider many factors in setting its pricing policy**.** In the following paragraphs, we will describe a six-step procedure for price setting: (1) selecting the pricing objective, (2) determining demand**,** (3) estimating costs, (4) analyzing competitors' prices and offers, (5) selecting a pricing method, and (6) selecting the final price.

SELECTING THE PRICING OBJECTIVE

The company first has to decide what it wants to accomplish with the particular product. If the company has selected its target market and market positioning carefully, then its marketing-mix strategy, including price, will be fairly straightforward. For example, if a recreational-vehicle company wants to produce a luxurious truck camper for affluent customers, this implies charging a high price. Thus pricing strategy is largely determined by the prior decision on market positioning.

At the same time, the company might pursue additional objectives. The clearer a firm's objectives, the easier it is to set price. Each possible price will have a different impact on such objectives as profits, sales revenue, and market share. A company can pursue any of six major objectives through its pricing.

1. Survival
2. Maximum Current Profit
3. Maximum Current Revenue

4. Maximum Sales Growth
5. Maximum Market Skimming
6. Product-Quality Leadership

FACTORS AFFECTING PRICE SENSITIVITY

The demand curve shows the market's purchase rate at alternative prices. It sums the reactions of many individuals who have different price sensitivities. The first step is to understand the factors that affect buyers' sensitivity. Nagle has identified nine factors:

Unique-Value Effect. Buyers are less price sensitive when the product is more unique.

Substitute-Awareness Effect. Buyers are less price sensitive they are less aware of substitutes.

Difficult-Comparison Effect Buyers are less price sensitive with they cannot easily compare the quality of substitutes.

Total-Expenditure Effect. Buyers are less price sensitive the lower the expenditure is to their income.

End-Benefit Effect. Buyers are less price sensitive the lower the expenditure is to the total cost of the end product.

Shared-Cost Effect. Buyers are less price sensitive when part of the cost is borne by another parry.

Sunk-Investment Effect. Buyers are less price sensitive when the product is used in conjunction with assets previously bought.

Price-Quality Effect. Buyers are Jess price sensitive when the product is assumed to have more quality, prestige, or exclusiveness.

Inventory Effect. Buyers are less price sensitive when they cannot store the product.

SELECTING A PRICING METHOD

Given the three Cs—the customers' demand schedule, the cost function, and competitors' prices—the company is now ready to select a price. The price will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Customers' assessment of unique product features in the company's offer establishes the ceiling price.

Companies resolve the pricing issue by selecting a pricing method that "includes one or more of these three considerations. The pricing methods will 'hen lead to a specific price. We will examine the following price-setting Methods: markup pricing, target-return pricing, perceived-value pricing, value pricing, going-rate pricing, and sealed-bid pricing.

Markup Pricing. The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals typically price by adding [a] standard markup to their costs. Some sellers tell their customers they will charge their cost plus a specified markup; for example, aerospace companies price this way to the government. Markups are generally higher on seasonal items (to cover the risk of not selling), specialty items, slower moving items, items with high storage and handling costs, and demand-inelastic items. Does the use of standard markups to set prices make logical sense? Generally, no. Any pricing method that ignores current demand, perceived value, and competition is not likely to lead to the optimal price.

Target-Return Pricing. The firm determines the price that would yield its target rate of return on investment (ROI). Target pricing is used by General Motors, which raises its automobiles to achieve a 15 to 20% ROI. This pricing method is used by public utilities that are constrained to make a fair return on their investment.

Perceived-Value Pricing. Companies are basing their price on the product's *perceived value.* They see the buyers' perceptions of value, not the seller's cost, as the key to pricing. They use the non price variables in the marketing mix to build up perceived value in the buyers' minds. Price is set to capture the perceived value.

The key to perceived-value pricing is to accurately determine the market's perception of the offer's value. Sellers with an inflated view of their offer's value will overprice their product. Sellers with an underestimated view will charge less than they could. Market research is needed to establish the market's perception of value as a guide to effective pricing.

Value Pricing. In recent years, several companies have adopted *value pricing by* which they charge a low price for a high-quality offering. Value pricing is not the same as perceived-value pricing. The latter is really a "more for more" pricing philosophy. It says that the company should Price at a level that captures what the buyer thinks the product is worth. Value pricing, on the other hand, says that the price should represent an extraordinary bargain for consumers. Value pricing is not a matter of simply setting lower prices on one's products compared to competitors. It is a matter of reengineering the company's operations to truly become the low-cost producer without sacrificing quality, and to lower one's prices significantly in order to attract a large number of value-conscious customers.

GOING-RATE PRICING

In *going-rate pricing,* the firm bases its price largely on competitors' prices with less attention paid to its own cost or demand. The firm might charge the same, more, or less than its major competitor(s). In oligopolistic industries that sell a commodity such as steel, paper, or fertilizer, firms normally charge the same price. The smaller firms "follow the leader." They change their prices when the market leader's prices change rather than when their own demand or cost changes. Some firms may charge a slight premium or slight discount, but they preserve the amount of difference. Thus minor gasoline retailers usually charge a few cents less than the major oil companies, without letting the difference increase or decrease.

Going-rate pricing is quite popular. Where costs are difficult to measure or competitive response is uncertain, firms feel that the going price represents a good solution. The going price is thought to reflect the industry's collective wisdom as to the price that would yield a fair return and not jeopardize industrial harmony.

SEALED-BID PRICING

Competitive-oriented pricing is common where firms bid for jobs. The firm bases its price on expectations of how competitors will price rather than on a rigid relation to the firm's costs or demand. The firm wants to win the contract, and winning normally requires submitting a lower price than competitors.

Yet the firm cannot set its price below a certain level. It cannot price below cost without worsening its position. On the other hand, the higher it sets its price above its costs, the lower its chance of getting the contract.

SELECTING THE FINAL PRICE

The preceding pricing methods narrow the price range from which to select the final price. In selecting the final price, the company must consider additional factors.

Psychological Pricing. Sellers should consider the psychology of prices in addition to their economics. Many consumers use price as an indicator of quality. A study of the relationship between price and quality perceptions of cars found the relationship to be operating in a reciprocal manner. Higher-priced cars were perceived to possess (unwarranted) high quality. Higher-quality cars were likewise perceived to be higher priced than they actually were. When alternative information about true quality is available, price becomes a less significant indicator of quality. When this information is not available, price acts as a quality signal.

Sellers often manipulate *reference prices* in pricing their product. Buyers carry in their minds a reference price when looking at a particular product. The reference price might have been formed by noticing current prices, past prices, or the buying context. For example, a seller can place its product among expensive products to imply that it belongs in the same class. Department stores will display women's apparel in separate departments differentiated by price; dresses found in the more expensive department are assumed to be of better quality. Reference-price thinking is also created by stating a high manufacturer's suggested price, or by indicating that the product was priced much higher originally, or by pointing to a competitor's high price. If a company wants a high-price image instead of a low-price image, it should avoid the odd-ending tactic.

THE INFLUENCE OF OTHER MARKETING-MIX ELEMENTS

The final price must take into account the brand's quality and advertising relative to competition. Farris and Reibstein examined the relationship between relative price, relative quality, and relative advertising for 227 consumer businesses and found the following results:

1. Brands with average relative quality but high relative advertising budgets were able to charge premium prices. Consumers apparently were willing to pay higher prices for known products than for unknown products,
2. Brands with high relative quality and high relative advertising obtained the highest prices. Conversely, brands with low quality and low advertising charged the lowest prices.
3. The positive relationship between high prices and high advertising

held most strongly in the later stages of the product lifs cycle, fi* market leaders, and for low-cost products.

Company Pricing Policies. The contemplated price must be/consistent with company pricing policies. Many companies set up a pricing department to develop pricing policies and establish or approve pricing decisions. Their aim is to insure that the salespeople quote prices that are reasonable to customers and profitable to the company. /

Impact of Price on Other Parties. Management must also consider the reactions of other parties to the contemplated price. How will the *distributors, and dealers* feel about it ? Will the *company sales force* be willing to sell at that price or complain that the price is too high? How will *competitors* react to this price? Will *suppliers* raise their prices when they see the company's price? Will the *government* intervene and prevent this price from being charged? In the last case, marketers need to know the laws affecting price and make sure that their pricing policies are defensible.

PROMOTIONAL PRICING

Under certain circumstances, companies will temporarily pric their products below the list price and sometimes even below cost. Promotional pricing takes several forms.

Loss-Leader Pricing. Here supermarkets and department stores drop the price on well-known brands to stimulate additional store traffic. But manufacturers typically disapprove of their brands being used as loss leaders because this can dilute the brand image as well as cause complaints from other retailers who charge the list price. Manufacturers have tried to restrain middlemen from loss-leader pricing through retail-price-maintenance laws, but these laws have been revoked.

Special-Event Pricing. Sellers will establish special prices in certain seasons to draw in more customers. Thus linens are promotionally price*" every January to attract shopping-weary customers into the stores.

Cash Rebates. Consumers are offered cash rebates to encourage thei[r] purchasing the manufacturer's product within a specified time period. The rebates can help the manufacturer clear inventories without cutting the list price. Auto manufacturers have offered rebates several times in recent years to stimulate sales. The initial rebates were effective, but, when repeated, they seemed to lose their effectiveness. They may have given a price break to those who intended to buy a car without stimulating others to think about buying a car. Rebates also appear in consumer-packaged-goods marketing. They stimulate sales without costing the company as much as would cutting the price. The reason is that many buyers buy the product but fail to mail in the coupon for a refund.

Law-Interest Financing. Instead of lowering the price, the company can offer customers low-interest financing. Auto makers announced 3% financing and in one case 0% financing to attract customers. Since many auto buyers finance their auto purchases, low-interest financing is appealing. However, although low-interest financing attracts customers to auto showrooms, many don't buy when they learn that a large down payment is required; the loan must be paid back in 30 months instead of 60 months; the car price is not discounted much with this kind of loan; and the loan may apply only to expensive cars.

Warranties and **Service Contracts**. The company can promote sales by adding a free warranty offer or service contract. Instead of charging for the warranty or service contract, it offers it free or at a reduced price if the customer will buy. This is a way of reducing the "price."

Psychological Discounting. This involves putting an artificially high price on a product and offering it at substantial savings; for example,

Companies must research these promotional pricing tools and make sure that they are lawful in the particular country. If they work, the problem is that competitors will copy them rapidly, and they lose their effectiveness for the individual company. If they do not work, they waste company money that could have been put into longer-impact marketing tools, such as building up product quality and service and improving the product image through advertising.

DISCRIMINATORY PRICING

Companies will often modify their basic price to accommodate differences' in customers, products, locations, and so on. *Discriminatory Pricing* occurs when a company sells a product or service at two or more Prices that do not reflect a proportional difference in costs. Discriminatory pricing takes several forms:

Customer-Segment Pricing. Here different customer groups are charged different prices for the same product or service. Museums will charge [a] lower admission fee to students and senior citizens.

Product-Form pricing. Here different versions of the product are priced differently but not proportionately to their respective costs.

Time Pricing. Here prices are varied by season. Public utilities vary their energy rates to commercial use.

For price 'discrimination lo work certain conditions must exist. First, market must be segmentable, and the segments must show different intensities of demand. Second, members of the lower price segments must not be able to resell the product to the higher price segment. Third, competitors must not be able to understand the firm in the higher price segment. Fourth, cost of segmenting and pricing the market must not exceed the extra revenue derived from price discrimination. Fifth, the practice must not breed customer resentment and ill will. Sixth, the particular form of price discrimination must not be illegal. As a result of deregulation in several industries, competitors have increased their use of discriminatory pricing.

PRODUCT-MIX PRICING

Price- setting logic has to be modified when the product is part of a product mix. In this case, the firm searches for a set of prices that maximizes e profits on the total product mix. Pricing is difficult because the products have demand and cost interrelationships and are subject to Product-Line Pricing. Companies normally develop product lines rather than single products.

Two-Part Pricing. Service firms often charge a fixed fee plus a variable usage fee. Thus telephone users pay a minimum monthly fee plus charges for calls beyond the minimum number. Amusement parks charge an admission fee plus fees for rides over a certain minimum. The service firm faces a problem similar to captive-product pricing, namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase of the service, and the profit can be made on the usage fees.

Byproduct Pricing. In producing processed meats, petroleum products, and other chemicals, there are often byproducts. If the byproducts have little value and are in fact costly to dispose of, that will affect the pricing of the main product. The manufacturer should accept any price that covers more than the cost of disposing of them. If the byproducts have value to a customer group, then they should be priced on their value. Any income earned on the byproducts will make it easier for the company to charge a lower price on its main product if forced to by competition.

Product-Bundling Pricing. Sellers will often bundle their products at a set price. Thus an auto manufacturer might offer an option package at less than the cost of buying all ihe options separately. A theater company will price a season subscription at less than the cost of buying all the performances separately. Since customers may not have planned to buy all of the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle.

Some customers will want less than the whole bundle. Suppose a medical equipment supplier's offer includes free delivery and training. A particular customer might ask to forego the free delivery and training in order to get a lower price. The customer is asking the seller to "unbundle" its offer. The seller could actually increase its profit through unbundling if it saves more in cost than the price reduction that it offers to the customer for the particular items which are eliminated. Thus, if the supplier saves $100 by not supplying delivery and it reduces the customer's price by $80, for example, the supplier has increased its profit by $20.

INITIATING AND RESPONDING. TO PRICE CHANGES

After developing their pricing strategies, companies will face situations where they may need to cut or raise prices.

Initiating Price Cuts. Several circumstances might lead a firm to cut its price. One circumstance is *excess capacity.* Here the firm needs additional business and cannot generate it through increased sales effort, product improvement, or other measures. It may abandon "follow-the-leader" pricing and resort to "aggressive" pricing to boost its sales. But in initiating a price cut, the company might trigger a price war, as competitors try to hold on to their market shares. ,

Another circumstance is a *declining market share.* Several American industries—automobiles, consumer electronics, cameras, watches, and steel—have been losing market share to Japanese competitors. To stem the losses, some American companies have resorted to more aggressive pricing action. General Motors, for example, cut its subcompact car prices by 10% on the West Coast, where Japanese competition is strongest.

Companies will also initiate price cuts in a *drive to dominate the market through lower costs.* Either the company starts with lower costs than its competitors or it initiates price cuts in the hope of gaining market share, which would lead to falling costs through larger volume and more experience. People Express waged an aggressive low-price strategy and gained a large market share. But this strategy also involves high risks.

1.**Low-Quality Trap.** Consumers will assume that the quality is below that of the higher-priced competitors.

2. Fragile-Market-Share **Trap.** A low price buys market share but not market loyalty. Customers will shift to another lower-price firm that comes along.

3. Shallow-Pockets **Trap.** The higher-priced competitors may cut their prices and may have longer staying power because of deeper cash reserves. I People Express some years later fell into these traps.. Companies may have to cut their prices in a period of *economic recession.* Fewer consumers are willing to buy higher-price versions of **a** product. Marketing Strategies 19-2 shows several ways in which a seller of **a** high-price product can adjust its price and/or marketing mix in facing a declining demand situation.

Initiating Price Increases. Many companies need to raise their prices. A successful price increase can increase profits considerably.

A major circumstance provoking price increases is *cost inflation.* Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases. Companies often raise their prices by more than the cost increase in anticipation of further inflation or government price controls; this is called *anticipatory pricing.* Companies hesitate to make long-run price commitments to customers, fearing that cost inflation will erode their profit margins.

Another factor leading to price increases is *over demand.* When a company cannot supply all of its customers, it can raise its prices, put customers on allocation, or both. The "real" price can be increased in several ways, each with a different impact on buyers. The following price adjustments are common:

The price increase should be accompanied by company communications explaining why price are being increased. The company's sales force should help customers find ways to economize.

There are other ways that the company can respond to high costs < demand without raising prices. The possibilities include the following:

- Shrinking the amount of product instead of raising the prio (Hershey Foods maintained its candy bar price but trimmed i size. Nestle maintained its size but raised the price.)
- Substituting less-expensive materials or ingredients. (Many cand bar companies substituted synthetic chocolate for real chocola to fight the price increases in cocoa.)
- Reducing or removing product features to reduce cost. (Sears engineered down a number of its appliances so they could oe priced competitively with those sold in discount stores.)

» Removing or reducing product services, such as installation, free delivery, or long warranties.

- Using less-expensive packaging material cr pfomcirag larger package sizes to keep down packaging cost.
- Reducing the number of sizes and models offered.
- Creating new economy brands (The Jewel Food Stores introduced 170 generic items selling at 10 to 30% less than national brands to offer to price-conscious consumers.)

The best action to take is not always obvious. Quaker Oats produces the successful cereal/called Quaker Oats Natural, which contains several ingredients, such as almonds and raisins, whose prices jumped during a recent, inflation. Quaker Oats saw two choices, namely, raising the price, *or* cost-reducing the ingredients by including fewer almonds and raisins, or finding cheaper substitutes. It decided against changing the ingredients and raised the price. But the price elasticity was high, and sales fell. This forced the company to reconsider ways to cost-reduce the ingredients, knowing that such a move also involves a risk.

Customers' Reactions to Price Changes

Any price change can affect customers, competitors, distributors, and suppliers and may provoke government reaction as well. Here we will consider customers' reactions.

Customers do not always put a straightforward interpretation on price changes. A price cut can be interpreted in the following ways: The item is about to be replaced by a new model; the item is faulty and is not selling well; the/firm is in financial trouble and may not stay in business to supply future pacts; the price will come down even further, and it pays to wait; or the quality has been reduced.

/ A price increase, which would normally deter sales, may carry some positive meanings to customers : The item is "hot" and might be unobtainable u/nless it is bought soon; the item represents an unusually good value; or the spller is greedy and is taking advantage of customers.

Customers are most price sensitive to products that cost a lot and/or are fought frequently, whereas they hardly notice higher prices on low-cost items that they buy infrequently. In addition, some buyers are less concerned with the product's *price* than the *total costs* of obtaining, operating, and servicing the product over lifetime. A seller can charge more than competitors and still get the business if the customer can be convinced that the total lifetime costs are lower.

Competitors' Reactions to Price Changes

A firm contemplating a price change has to worry about competitors' as well as customers' reactions. Competitors are most likely to react where the number of firms is small, the product is homogeneous, and the buyers are highly informed. How can the firm anticipate the likely reactions of its competitors ? Assume that the firm faces one large competitor. The competitor's reaction can be estimated from two vantage points. One is to assume that the competitor reacts in a set way to price changes. In this case, its reaction can be anticipate The other is to assume that the competitor treats each price change as a fresh challenge and reacts according to self-interest at the time. In this case, the\ company will have to figure out what lies in the competitor's self-interest. The competitor's current financial situation should be researched, along with recent sales and capacity, customer loyalty, and corporate objectives. If the competitor has a market-share objective, it is likely to match the price change. If it has a profit-maximization objective, it may react on some other strategy front, such as increasing; the advertising budget or improving the product quality. The challenge is -*o* read the competitor's mind by using inside and outside sources of information.

The problem i complicated because the competitor can put different interpretations on, say, a company price cut : The competitor can surmise that the company is trying to steal the market, that the company is doing poorly and trying to boost its sales, or that the company wants the whole industry to reduce prices to stimulate total demand.

When there are several competitors, the company must estimate each close competitor's likely reaction. If all competitors behave alike, this estimate amounts to an analysis of atypical competitor. If the competitors do not react uniformly because of critical differences in size, market shares, or policies, then separate analyses are necessary. If some competitors will match the price change, there is good reason to expect that the rest will also match it.

PROMOTIONAL STRATEGY

Obviously, advertising, sales promotion, and publicity play an important role in the promotional mix of Hunter and Ready, as well as other industrial marketers. While personal selling is often the most important aspect of the industrial marketer's communication strategy (due to the technical complexity of many products and the extensive negotiation process involved in the selling of industrial goods), advertising, sales promotions, and publicity also play a critical role in the development of communication strategy. Advertising, for instance, is used to lay a foundation for the sale by providing information on the company and its products and by reaching unknown or inaccessible buying influencers. Sales promotion, in the form of trade shows and specialty advertising, also supplements the selling effort in a variety of ways. Trade shows, for instance, are not only used to create awareness and generate sales leads, they can also reduce the number of sales calls required to close a sale. And publicity, because of its high credibility, is "one of the most important sources of information used by industrial customers" in their buying decisions.

Advertising, sales promotion, and publicity, however, must be coordinated with personal selling efforts so that they contribute to the effectiveness of communication strategy. Rarely can they substitute for an effective sales call. Advertising, sales promotion, and publicity are primarily used to create awareness, enhance the company's reputation, disseminate information on products, or generate leads for sales people. Thus, it is important for industrial marketers to understand how these variables support the selling function and what is important in formulating and developing an effective communication program.

THE USE OF ADVERTISING IN THE INDUSTRIAL MARKET

Rarely is advertising employed by itself in the industrial arena. The complexity of most industrial products, coupled with buyers' expectations and unique information needs, requires personal contact. It is not possible, however, for sales people to make contact with all the various individuals who may be involved in a purchasing decision. In fact, studies have indicated that on the average for every ten buying influencers, salesperson reaches only three to four. Not only is industrial advertising an effective means of reaching inaccessible or unknown buying influencers, it creates awareness, enhances the effectiveness of the sales call, increases the overall efficiency of the selling effort, and is an important ingredient in creating and maintaining demand at the distributor level.

Reaching Buying Influences. It is not uncommon for industrial sales people to be unaware of individuals within a firm who may be in a position to exert influence on a purchasing decision. This is particularly true when deploying a new salesperson or when calling on a new customer for the first time. Also, for various reasons including the inability to get past purchasing agents, buying influencers are often inaccessible to sales people. Executive turnover is a never-ending problem. Buying influencers are constantly moving out of their areas of responsibility, moving up in the organization, or changing jobs. These influencers, however, do read trade magazines and general business publications and can be reached through advertising. Additionally, through requests for further information called for in ads, unknown influencers often identify themselves, making it possible for sales people to contact them.

Creating Awareness. Industrial advertising is an effective means of creating awareness of the industrial supplier, as well as the supplier's market offering. As discussed in Chapter Four, buyers normally select a supplier after moving through several phases of the purchasing decision process. These phases include (1) recognizing a need, (2) determining characteristics and quantities of a needed item, (3) describing those characteristics and quantities. (4) searching for and qualifying sources, (5) acquiring and analyzing proposals, and (6) evaluating proposals and selecting suppliers. Effective industrial advertising creates awareness or alerts potential purchasers to problems within their operations (phase 1) and identifies the supplier's company and its products as offering possible solutions to those problems (phases 2 and 4), which helps to assure that the advertiser is given favourable consideration when specifications are written and suppliers selected (phases 3 and 6).

Enhancing the Sales Call. Effectively planned advertising enhances the sales call by arousing interest in the supplier's offering and by helping to create supplier preference. When buyers are aware of a company, its reputation, its products, and its record in the industry, sales people are more effectively. In fact, according to one study, when buyers are exposed to a firm's industrial ads, their opinion of the firm improves, dollar sales per call are higher, and the firm's sales personnel are rated considerably higher on product knowledge, service, and enthusiasm.

Increasing Overall Sales Efficiency. For some industrial producers, particularly producers of industrial supplies, advertising maybe the only way of efficiency reaching broad groups of buyers. Additionally, because little or no product differentiation exists between many industrial supplies, marketers of such products frequently need to remind users and potential users of their firms' unique capabilities or make them aware of new products and services. The cost of reaching large numbers of buyers through personal contact cannot only be prohibitive, but unjustifiable.

Supporting Channel Members. Manufacturers who use middlemen must support those intermediaries' efforts by ensuring that end markets are aware of their products. While middlemen are interested in the producer's support activities, resellers, because they are positioned so closely to ultimate consumers, are even more concerned with consumer acceptance. They will also want to know what profit they can expect on a product, and what the producer is doing in the way of consumer advertising and other promotional support activities.

INDUSTRIAL ADVERTISING MEDIA

While some industrial advertisers use traditional consumer media when they serve their advertising objectives, their choices generally center on whether to use print media (business magazines, trade publications, and industrial directions) direct marketing (direct mail, telemarketing, catalogs, and data sheets), or some combination thereof.

General Business **and Trade Publications.** General business and trade publications are classified as either horizontal or vertical. Horizontal publications deal with specific functions, tasks, or technologies and cut across industry lines. Vertical publications are directed toward a specific industry and may be read by almost anyone from the person on the assembly line to the company president. The choice of one or the other, or both, is dictated by the desire to penetrate a particular industry, reach common influencers across industries, or optimize the goals of reach and frequency.

General business publications (e.g., *Fortune, Business Week,* and *The Wall Street Journal* (tend to be read by business professionals across all industries because of their general business editorials. Specialized business publications, such *as Advertising Age, Purchasing, and Chemical Week* are targeted to individuals across industries who have responsibility for a specific task or function such as advertising or purchasing, or who are interested in a particular technology such as chemicals. Industrial publications, such as *Consulting Engineer* and *Electronic News* address the information needs of readers with specialized knowledge in technical areas such as engineers and electricians and also cut across industries. However, other specialized business publications—*Iron Age and Steel,* for example—are targeted to individuals in a specific industry.

Directory Advertising. Every state has an industrial directory, and there are also a number of private ones. One of the most popular industrial directories is the New York-based *Thomas Register,* which generates "$400 million in daily direct response sales or about $102 billion a year for its advertisers." The *Thomas Register* consists of nineteen volumes, containing 60,000 pages of 50,000 product headings and listings from 123,000 industrial companies selling everything from copper tubing to orchestra pits. Although there are similar publications, such as Sweet's architectural catalog, the *Register* has practically no competition**.**

One of the *Register's* biggest users is General Electric, which buys as many as 300 sets a year, diverting some to its overseas divisions. In fact, the *Register* estimates that as many as 30,000 sets are in use overseas, many of which have been distributed by departments of commerce and state. Thus, many inexperienced American manufacturers have been able to develop some international business.

The main advantage of directory advertising is that is a highly credible medium, and for many buyers, their basic purchasing tool. One disadvantage is that unless buyers purchase directories for use, advertising in this medium is not seen.

Consumer Media. Consumer media, in spite of wasted circulation, cna be very effective because it tends to experience a minimum of competition from other industrial advertisers. Since the message exposure occurs away from the office, it also experiences less competition form the receiver's other business needs. According to Sarah Lang, an account executive for Wight, Collins, Rutherford, and Scott, a London-based advertising agency, "TV is the medium for reaching small businessmen, who are a mass audience....It is also the most effective for shifting attitudes, which is the job we have to do. Where market coverage is limited geographically, consumer media may also provide an excellent Way of reaching a market. One industrial supplier of food equipment, for example, has been quite successful in his use of television for generating sales inquiries. When it was discovered that the average sales call cost $200, he began to advertise heavily on television, and backed it with direct mail and classified ads in local newspapers and a 24-hour, toll-free answering service.

Direct Marketing. In addition to trade magazines and general business publication, industrial marketers also utilize various other vehicles, such as direct mail, telephone, catalogs, and data sheets, to reach their markets. In fact, with the increasing sophistication of computer technology, industrial marketers are 'turning to direct mail as never before. For example, Xerox has more than tripled its" sales for low-end products through the use of direct mail. Additionally, numerous industrial marketers are also making more use of the telephone as a means of enhancing the efficiency of their overall communications program.

Direct Mail, Direct mail is an especially useful tool that is frequently employed in conjunction with, or as an alternative to, business or trade publication advertising. When carefully conceived, because of its potential to gain the reader's full attention, direct-mail advertising can provide a greater impact than can an advertisement in trade or business publications.

Direct mail offers the advertiser numerous advantages over the use of business or trade publications. Advertising messages can be developed and targeted toward a precisely defined market to introduce a new product, promote the corporate image, support the sales force, or communicate with industrial distribution. It is relatively low in cost, highly selective, and flexible with regard to timing, and it offers considerable space for telling the "full story."

There are, however, definite disadvantages in using direct mail. Direct mail can be extremely wasteful if prospects are not clearly identified. It is also often thought of as "junk mail" and tends to be tossed aside without ever being read. It may also never get past the secretary to the intended recipient. To avoid these problems, direct-mail programs should be carefully conceived and directed toward a specific target audience whose names, job titles, or functions are known.

It is relatively easy to develop mailing lists that contain the names, title, and functions of the audience to be reached. Mailing lists can be secured from trade publications, industrial directories, mailing list houses such as Dun & Bradstreet's Marketing Services Division or National Business Lists, lists obtained through trade show leads, and the company's own marketing information system. When obtaining mailing lists from outside sources, however, care should be taken to make certain that the lists are up to date.

Telemarketing. According to recent studies, approximately 20 percent of the industrial firms in the United States, including Xerox, IBM, and NCR, use telemarketing to generate nearly $100 billion in yearly sales.

Telemarketing is a marketing communications toll that employs trained specialists who utilize telecommunications and information technologies to conduct marketing and sales activities. These activities may be through incoming calls (calls originating with the customer) or outgoing calls (calls originating with the company). Most organizations utilize both. It is interesting to note, however that outgoing telemarketing offers the largest future growth potential as the cost of face-to-face sales continues to increase.

The use of telemarketing, which is increasing at the rate of twenty-five percent a year, is viewed as a means of complementing, rather than replacing, face-to-face selling. According to one study of 249 industrial sales and marketing managers, the major uses of telemarketing are (1) to qualify sales leads, 73.6; (2) support field sales representatives, 73.2; (3) generate sales leads, 73.1; and (4) to handle marginal accounts, 70.0. (The number above indicates the percentage of firms studies that used telemarketing for the reasons given.) When used effectively, however, telemarketing also enhances the effectiveness of publication and direct-mail advertising. When a toll-free number is included in print and direct-mail advertising, prospects can easily respond and get immediate information while the advertised message is still fresh in their minds.

Successful telemarketing, however, requires specific goal setting, clearly established target markets, and careful planning. The major reasons attributed to failure in the use of telemarketing, according to Benein, are (1) lack of commitment, (2) improper facilities, (3) lack of formal scripts, and (4) poor human resource planning.

Catalogs and Data Sheets. Catalogs and data sheets are an important part of a firm's promotional effort because of their unique ability to support the selling function. Industrial customers use catalogs to compare product, product applications, and prices of potential suppliers. Rarely, however, are catalogs alone used to make a purchasing decision. They merely provide buyers with a basis of comparison with other companies' products once a decision has been made to purchase a particular product. When properly prepared and effectively distributed, however catalogs can speed up the purchasing process by providing information, securing recognition for the company, and additional opportunities for business. Catalogs also support the efforts of distributors because it is not always possible for them to carry in inventory all the items a manufacturer supplies. Thus, most manufacturers provide their distributors with loose-leaf catalogs so that non inventories items can be located and ordered quickly from the catalog.

Data sheets provide detailed technical information on such things as product dimensions, efficiencies, performance data, and cost savings and, thus, are an important complement to the personal selling effort. Sales people seldom have all the answers that technical buyers require. Further, buying decisions are often made when a salesperson is not present. When data sheets are prepared so that key selling points and technical information are presented in a clear, persuasive, credible manner they can be powerful sales tools. Data sheets should include enough technical and product performance information to assist customers in their decision making and should be left by sales people with the appropriate decision makers.

In designing an effective publicity program, the industrial marketer must be aware of the fact that publicity is most effective when it is used to complement the total promotional program.

DEVELOPING THE INDUSTRIAL PROMOTIONAL PROGRAM

Today's economic conditions call for careful consideration of the elements that are essential in developing an effective communication program—whether it is industrial or consumer oriented. Promotional variables must be artfully integrated if communication objectives are to be achieved most effectively.

Many of the principles that are followed in developing consumer advertising programs are not only applicable but are necessary in developing an effective industrial promotional program. The objective of industrial advertising, for instance, is to communicate something about the company and its products. It should be designed, then, to enable the company and its sales people to become favourably known to current and potential customers, to convey specific and technical information regarding the characteristics of a particular product(s), to help sales people in their selling effort, to motivate distributors of industrial goods, and to reach those who either directly or indirectly influence the buying of industrial goods.

An effective advertising program is built around careful consideration of advertising objectives, the advertising budget, the audiences to be reached, and the message strategy.

Advertising Objectives. The first step in developing an effective advertising plan begins with the formulation of advertising objectives. Advertising objectives, however, cannot be formulated in isolation. They must be formulated on the basis of the firm's overall corporate and marketing objectives. In the development of corporate objectives, a company sets the direction for its desired business performance. Once established, management chooses the strategies and actions necessary to achieve those objectives. Figure depicts how communication strategies evolve from corporate objectives.

Marketing objectives indicate what is to be accomplished through advertising to achieve corporate objectives. For instance, if the corporate objective is to increase return on stockholders' equity by five percent, the marketing objective may be to increase sales by thirty percent. The advertising objective, then, should be stated in terms of increasing product knowledge, or in terms of generating sales leads.

Advertising objectives should never be stated in terms of increasing sales. While increased sales are usually the ultimate objective desired, it is difficult, if not impossible, to link advertising directly to sales. Personal selling, price, product performance, competitive actions, and other factors, such as increased consumer demand for end products, also affect sales levels. Thus, pinpointing the impact of advertising on sales is a difficult job indeed.

Whatever the marketing objective, to set the direction for creating, coordinating, and evaluating the entire promotional program, advertising objectives must specify exactly what is to be accomplished in terms of the marketing objective, and they must be stated in specific, measurable, realistic and obtainable terms that delineate what is to be accomplished within a specific period of time, for example,

APPROPRIATING ADVERTISING FUNDS

Since industrial advertising accounts for fourteen percent of all American advertising spending, it is an important element in the marketing budget. Research suggests, however, that industrial marketers have tended to rely on arbitrary methods for developing promotional budgets. The appropriation of funds for advertising involves considerations of the cost of purchased space or time in advertising media (including the cost of direct mail) and the cost of producing the advertisements that appear in the purchased media over a specific time period, generally one year. An advertising budget, on the other hand, details how advertising dollars are to be expended from monies appropriated for advertising for individual campaigns by media, by time frames, by market segments and audiences, and by geographic areas.

To ensure that expenditures budgeted for advertising can be effectively monitored, advertising appropriations should not include trade shows, catalogs, or other promotional outlays. These outlays should be monitored separately to evaluate their individual effectiveness. To monitor the effectiveness of these promotional expenditures, promotion funds should be appropriated and budgeted separately. An advertising appropriation should not be a "catch-all' for other promotional expenses.

Advertising appropriations are approached in a variety of ways depending on the philosophy of the particular company. While some firms use such computer simulations for experimenting as ADVISOR, others use a variety of other methods. Computer models are built on a series of situations such as the life-cycle state of the product, frequency of purchase, market share, and concentration of sales, profit patterns, and controlled advertising experiments. In addition to the "what can we afford method," two other conventional appropriation techniques used by industrial advertisers are the rule-of-thumb and the objective-task techniques.

Rule of Thumb. A rule of thumb relates advertising expenditures to some other measure of company activity in a consistent way. For instance, funds can be allocated on the basis of past sales (two percent of sales, say, to advertising) or on the basis of industry averages. Such rule of thumb methods for appropriating advertising dollars are quite common in industrial marketing, particularly where advertising is a relatively small percentage of the total communication budget.

The problem with this method of allocation is that it violates the basic marketing principle that marketing activities stimulate demand and thus sales. When advertising dollars are fixed as a percentage of sales, for instance, advertising increased when sales increase and decreases when sales decrease. Thus, this method ignores all other business conditions that might be suggesting to totally opposite strategy.

Objective Task. Recent studies suggest that the popularity of the "objective-task" method for setting the industrial advertising budget is increasing, moving from a fourth or fifth ranking in popularity in the 1970s to second in the 1980s. The objective task technique is a relatively logical method for establishing the advertising allocation in that the steps involved (see Table) in developing the advertising program formulate the bases for appropriating advertising funds. The costs involved in implementing the bases for appropriating advertising funds. The costs involved in implementing the advertising program become the basis for determining the advertising appropriation. In developing the appropriation, the company's financial position is also considered. If the appropriation appears to be too high, the objectives may be scaled down and strategies adjusted accordingly. Program results are also monitored in light of appropriate revisions for the next planning period.

Steps in the Objective-Task Method of Appropriating Advertising Funds

Examples

1. Determine marketing objectives

2. Determine advertising objectives

3. Determine audiences to be reached
4. Determine reach, frequency, and continuity needs communication objectives)

5. Determine appropriating media to reach audiences
6. Establish other promotional support needs
7. Determine control measures
8. Estimate necessary promotional funds to achieve media **and** communication objective Introduce a new product, increase market share or sales.Increase product awareness, generate sales leads Engineers, production, purchasing How wide is the market, how often must the message be repeated to have impact, and how long will it be necessary to run the campaign to achieve the desired results. Business or trade publications

Publicity, incentives, data sheets Pre- and post-testing Computer simulation of media costs

The important aspect of the objective-task method is that is forces the firm to think in terms of objectives and whether they are being accomplished. The major drawback of the task method, however, lies in the difficulty of determining in advance the amount of funds that **will** be needed to reach specific objectives. Further, while techniques for measuring advertising effectiveness are improving, they are still not sufficient in many areas. As these techniques become more exact, though, advertisers are using this method more and more.

DEVELOPING MESSAGE STRATEGY

Message strategy specifies how advertising objectives are to be achieved by defining the theme for the communication program and the company image (positioning) desired in the marketplace. When industrial buyers make purchases, though, they are buying physical products, they are in a deeper sense purchasing problem-solving benefits and abilities to improve operations. Thus, industrial advertising must provide the reader with useful information regarding these intangible benefits. Additionally, industrial buying criteria generally center on technical rather than emotional issues:

Unlike the consumer marketplace, where products, service and even the ads themselves often must promise satisfaction for strong emotional desires, the context of business/industrial advertising is the reader's work. He needs to make correct decisions heavily dependent on performance and value facts. Although emotions such as fear, anxiety, frustration and status attainment can play a large role in a business buyer's mind, those desires to achieve are best served and those fears are best assuaged by the performance and value benefits attached to a business decision.

Advertising messages must be formulated on the basis of how the supplier's product(s) can assist in solving customer problems and relate to the needs of the particular target audience. Research, however, has indicated that many industrial advertisers do not understand the major considerations that influence their markets.

Identifying **Audience** Needs. Determining the requirements of the audiences to be reached is the key element in developing message strategy. Information needs and responses will vary across influencers. For instance, in one stud} of industrial cooling system purchases, operating cost and energy savings were of major concern to production engineers, while heating and air-conditioning consultants were more concerned with plant noise levels. To reach the production engineers, then, message objectives might have been stated in terms of "Advertise Acme Widget's economical operating cost and maintenance advantages compared to the XYZ product."

Keep the Message to Important Specifies. Many industrial advertisers attempt to cover too much in their advertising messages. Industrial buyers tend to purchase on the basis of a few specifics. Thus, advertising messages should be developed around what is *really* important, emphsizing the major concerns of the audience as they relate to their business needs or objectives**.** Table emphasizes the ingredients that are essential to successful industrial advertising.

Advertising messages can be developed around case histories**,** testimonials, short stories, audience participation, or straight exposition.

Case Histories. Case histories use the experience of the user and show readers how they can benefit by purchasing from the supplier. This approach is quite useful when an audience can be reached through very specialized trade journals since readers tend to share common experiences.

Testimonials. Testimonials are similar to case histories except that **those** giving testimonials are usually chosen from well-known companies.

Table : Copy Chasers Criteria

1. The successful ad has a high degree of visual magnetism.
2. The successful ad selects the right audience.
3. The successful ad invites the reader into the scene.
4. The successful ad promises a reward.
5. The successful ad backs up the promise.
6. The successful ad presents the selling proposition in logical **sequence.**
7. The successful ad talks "person to person."
8. Successful advertising is easy to read.
9. Successful advertising emphasizes the service, not **the** source.
10. Successful advertising reflects the company's **character.**

Source : "Our Choice: 1984's Best Business/Industrial Print *Ad,"Business Marketing,* **January** 1985, pp. 114-128. Reprinted with permission.

Short Stories. While research has shown that **only a small percentage** of industrial companies use the strictly comparative **format fo advertising,** when communication strategy is enhanced through comparison **to competitors,** short stories are often effective.

Audience Participation. Audience participation **is a unique** way **to get** readers involved in the advertising message. This **approach involves asking** readers to complete quizzes or **mathematical calculations to obtain some of** the message's information.

Straight *Exposition.* The most commonly **used message approach, one that is generally** respected by **industrial buyers, is the straight exposition.**

This approach uses a straight forward narration regarding the company's product and its uses.

In developing the advertising message it must be remembered that buyers tend to screen out messages that are inconsistent with their attitudes, needs, and beliefs. They also tend to interpret information so that it conforms to their beliefs. Thus, unless the message is carefully designed around **the** needs of the target audience, it will be disregarded or improperly interpreted.

Developing the Media Plan. An effectively developed media plan in the industrial market involves consideration of (1) the number of different target audiences to be reached (reach), (2) the number of times they should be reached for the message to have impact (frequency), (3) the length of time the campaign is to run (continuity), (4) media selection, and (5) scheduling.

Reach. In the typical industrial purchase, multiple buying influencers are involved: influencers with unique information needs and interests who read different types of publications. To reach these buying influencers with a message that address* s their needs, different message strategies must be developed and delivered through media that addresses their interests.

Frequency. One -time ads are generally ineffective as several exposures are necessary before a message has an impact. As the number of message exposures increases, both the number of individuals who remember it and the length of time they can recall it increases. However, over exposure of a message can be wasteful. When an audience experiences wear-out effects, it tends to tune out the message. In justifying the media plan on the basis of frequency, then, media planners must assume some response function that relates to the number of exposures.

Continuity. When the same message is repeated over and over for a long period of time and has both long continuity and high frequency, wear-out effects can be severe. In developing message strategy, then, the advertiser may want to build in variety yet maintain the overall theme and positioning strategy. For example, the Borg-Warner campaign in Figure 15-3 has been running for more than five years. While the theme "Watch Borg-Warner" is continuously maintained, as noted, advertisements feature different product categories and different advertising messages. Determining the best mix of reach, frequency, and continuity is directly related to media selection and scheduling.

Media **Selection.** Selection of the appropriate media focuses on the target audience to be reached, the ability of the media to reach the audience, and the efficiency with which the media can be utilized to maximize reach, frequency, and continuity goals within budgetary constraints.

Media selection also depends on whether the advertiser wishes to penetrate a particular industry or cut across various industries. It would make little sense to pay the higher costs of advertising in publications read in several industries than the lower costs charged by publications directed at only those few industries in which the advertiser's product is used. On the other hand, where many industries are potential users, and the functional areas of key buying influencers are not well defined, publications that cut across industries and functional areas can produce the best results.

Circulation, Editorial Comment, and Cost. Selection also depends on circulation, editorial content, and the cost of advertising space. Thus, media planners must carefully assess these variables. To define the audiences of particular publications accurately, media planners use the circulation audits of business publications. Three organizations, the Audit Bureau of Circulation, the Business Publications' Audit of Circulation, and the verified Audit circulation via SIC codes, of their member businesses. Business publications are also listed by such services as the *Standard Rate and Data Service's Business Publications* and the *Business Publication Rates and Data Directory,* which provide information on editorial content, advertising rates, closing dates for ad placements, and circulation figures.

Controlled Circulation. Business and trade publications are circulated on a paid basis or a controlled basic. When a publication is available on a paid basis, the recipient pays the subscription price to receive it. Controlled circulations are free and are mailed to a selected list of individuals, chosen by the publisher on the basis of their unique position to influence purchase decisions. To qualify, recipients must designate their profession or occupation, their job title, function, and purchasing responsibilities. Thus, users of controlled circulation publications can more accurately evaluate which target markets their publications reach and whether their advertising dollars are being properly expanded.

Scheduling. Scheduling in business or trade publications depends on whether they are monthlies, weeklies, or dailies. If the media plan incorporates the use of a daily, a weekly, and a monthly publication, scheduling of advertising inserts to achieve frequency objectives might, for example, require six inserts per year in the monthly, twenty six inserts per year in the weekly, and fifty-two inserts per year in the daily.

Scheduling also depends on the objectives of the advertising program. If the advertising objective is to achieve recognition, scheduling might call for a steady year-round campaign. For advertising to achieve recognition, it takes time. If it is to introduce a new product, scheduling might call for heavier advertising at the beginning of the campaign with periodic pulsing at regular intervals throughout the year to keep influencers reminded of the product's existence.