

CHAPTER FIVE

5. Marketing Mix – Sub strategies in the Industrial Market

5.1. Industrial Product Strategy

Within the overall marketing strategy and plan, decisions must be made regarding products to be offered. It should consider such factors as additions to the product line, deletions, expansions, services, and technical assistance offerings etc. Product strategy by definition is the same in both the consumer and industrial markets although practices may differ considerably owing to the characteristics of the products and the consumer involved. The basic principles are the same. Some of the basic differences are:

- In industrial product strategy services play a larger role than the consumer products strategy.
- Industrial goods customers are more rational than emotional in their purchasing.
- Industrial product packaging is more of a protective nature than it is of a promotional nature.
- Market research is quite commonly found in the more technical industrial market.

The Importance of Product Planning

Product planning is essential to the continued success in the industrial market. There are three ways for a company to continue to exist and succeed.

- To increase sales of existing products to both present and potential customers. This might face a problem of market saturation and technical product obsolescence in the long run.
- To introduce new products on a continuous and successful basis.
- To expand product offerings via merging with or acquiring other companies and thus add new products in this manner. The problem of this strategy, however, is government restrictions, reluctance of firms to be absorbed, image differences of merged companies and various other reasons.

Product planning is particularly important in industrial market for the following reasons:

Increased Competition: Industrial buyers have more choice in their purchasing. They will not continue to buy existing products if better competitive choices come along. Thus, the industrial marketing manager should develop new materials, new processes, new technologies and new sources of new process, new technologies and new sources of supply and the like to keep pace with competition.

Derived Demand: This is an area where ultimate consumer wants and needs are changing faster than they ever did before. This has definite effect on the demand for industrial goods and services used to produce goods sold into the consumer market. Products must be planned to adapt to changing requirements in the ultimate consumer.

Labor Saving Requirement: Industrial customers are constantly looking for labor savings in their equipment and materials. Customers will switch suppliers for labor saving reasons even if they are reasonably satisfied with their present.

Energy Saving Requirement: Manufacturers are constantly seeking products that will reduce energy consumption in their manufacturing processes associated with energy crisis (decreased availability and increased cost)

5.2. Industrial Pricing Strategy

Pricing should be considered when the product is in the screening stage and those products whose costs exceed prices should be screened out. Industrial pricing strategy is developed to decide the price that covers the costs involved to produce and market the product in question. In a properly executed marketing strategy, the demand schedule for a product and the prices that can be charged should be known before the product is actually produced in mass. In role of price in the industrial market is basically the same to the role it plays in the consumer market, although there are some distinct and important difference:

- Industrial buyers often rate price as a less important factor than certainty of delivery quality of products, service provisions by the manufacturer, and technical assistance. It makes little sense to buyer lower-priced products if the suppliers can not deliver on time, quantity required, quality etc.
- In industrial market prices are determined through the bidding process based on product specifications.
- Many industrial products are marketed at a price agreed up on by both buyers and sellers by negotiation between the two, even in bidding situations.
- Derived Demand: It also affects pricing role in industrial market. Derived demand has the effect of making price less influential than it might be industrial customers purchase no more when prices or dropped or when the demand for their final products rise. Industry price elasticity of demand it relatively inelastic, but the demand for products to each supplier in that industry may be relatively elastic as the negotiation process has indicated.
- In industrial market, prices set and prices actually paid (net prices) are quite different. But these prices are generally the same in consumer market. In industrial market, net prices or prices actually paid by the customer are list prices minus such factors as cash discounts, trade, quantity, geographic differences for freight etc.

Major Characteristics of Industrial Pricing

There are some particular areas of importance that must be understood if effective pricing is to take place.

1. List and net prices: it is very common in the industrial marketing to discount from the list price to arrive at the net price or prices to be actually charged by the customer. In most cases nobody probably pays the list price. There are different types of discounts given to different customers:

- Trade discounts: are discounts given to different middle men according to the type of business.

- Cash discounts: are discounts given to encourage rapid payment by customers and allow faster cash flow for the marketing manager's firm.
- Quantity discounts: are given for the amount or quantity of goods purchased.

2. Return on Investment (ROI): return on investment pricing is common in the industrial market. Most business people use ROI as a screening device for their pricing. That is to determine whether product lines will achieve the desired return on investment. It indicates the cut-off point either to accept the product and its prices or not.

3. Bidding in the Industrial Market: many industrial, market transactions are conducted through the inquiry/bid system. A purchasing agent desiring to buy certain products sends request for proposal or invitations to bid to those companies producing the product involved. The invitation to bid sent by the buyers to suppliers give all the necessary data regarding the requirements of the prospective buyer such as:

- Specification of the products being bought
- Terms and conditions of the bid
- Bids may cover individual products or lines of products
- They may be for a single sale or for term contracts for a longer period of time

Buyers use the bidding system because they feel that it permits them to obtain the most reasonable price in the purchase of the required goods and/or services. Therefore, suppliers must submit bids to prospective purchasers stipulating their prices from which choices are made on the basis of prices awarded.

4. Negotiation In the Industrial Market: not all prices in the industrial market are the result of bidding process. It is also common to find prices arrived at through the process of negotiation. Negotiation is the process of working out a procurement and sales programs together to the point of reaching a mutually satisfactory agreement. It typically takes place in more complete buying situations in which buyer and seller both make a number of proposals and counter proposals before a price is agreed upon.

5. Leasing in the Industrial Market: leasing of capital equipment by industrial companies, as opposed to purchasing, has gained great momentum. Thus, in any industrial companies marketing user products, the concept of leasing rather than selling must be considered.

5.3. Industrial Channel Strategy

This is the area of getting the product physically available to the customers or to the intended market segments in the most economical manner. The distribution strategy, thus is concerned with the formulation of channels and methods for more effectively moving products and title to the target markets. The industrial channel strategy involves, therefore, the following major responsibility areas:

- Determination of Specific channel objectives
- Evaluation of channel alternatives and choosing the channel arrangements to be used.
- Deciding to the type and number of middleman to be used.
- Establishing of policies and procedures for serving those selected middlemen. It should clearly show/define the responsibilities and rights of both the manufacturers and the middlemen.
- Creating contractual arrangements with those middlemen selected for the physical distribution of goods and services and moving goods through them.
- Modifying channels as the occasion requires
- Redefining objectives, if necessary

In principle, the basic areas & responsibility in the two markets are essentially the same. But the implementation of those principles is quite different. These differences are:

- The industrial market is characterized by shorter channels & distribution owing to buyer's expectations and to product characteristics customers buying high prices and complex products often do not want to deal with middlemen. The higher the unit value of the product being marketed, the more it will be sold directly.

In addition, it is often very difficult to find middlemen who possess the required technical and service capabilities to sell sophisticated products to the industrial market.

- The type of middle men found in the industrial market are different from those found in the consumer market.

- The industrial marketing managers has fewer choices of channel option than does the consumer marketing manager counterparts. It has three options (direct channel, the industrial distributors, and the manufacturers representatives) which all provide different functions. Because of customer expectations and the complexity of industrial products, industrial channels have to do much more on selling, service and technical assistance, than consumer channels have to do much more on selling, service and technical assistance, than consumer channels normally do personal selling, pre and post sales servicing and technical assistance in setting up operations are a pre requisites for effective industrial marketing.

Analysis of Industrial Middlemen

To make intelligent channel decisions in the industrial market, a thorough knowledge and understanding of industrial channel membership is significant.

1. The Industrial Distributors: They are middlemen who buy and sell products to industrial users. They offer the service of taking title to and stocking products, assuming some of the risks of marketing and maintaining reasonably close contact with buyers. An industrial distributor is an independently owned and locally managed operation that buys, stocks, and

sells the production tools, operating equipment, and maintenance supplies used by all forms of industry.

The distributor differs from the wholesaler in that it sells and services the industrial market as opposed to in the consumer market. They can specialize in one particular product line or a distributor handling general line just like an industrial supermarket stocking a wide variety of goods and having no particular area of specification.

2. The Manufacturer's Representatives: These are also known as manufacturing agents, engineering representatives, sales agents, engineering representatives, sales agents, and even brokers. They are independent middlemen who sell on behalf of manufacturing principal on a contractual basis. They take no title to the goods involved and they don't even see or handle them.

2. The Manufacturer's Sales Branch: these are wholly owned field operations of manufacturers in the industrial market and as such they are not independent middlemen. Nevertheless, they provide middlemen functions by the manufacturers. They are of two types:

- **The Branch House:** This is a field warehouse owned and operated by the manufacturer and placed at strategic locations for serving customers. It carries inventories.

- **The Branch Office:** This is essentially owned and operated by the manufacturer as a field sales office. It carries no inventory in contrast to the branch house, but is strategically located office in which the company's field sales personnel operate in their respective territories.

5.4. Industrial Promotion Strategy

It is not sufficient to produce technically perfect and then wait for customers to come in. The merits of these products must be communicated with the market (to industrial buying agents and other buying influences in prospective firms) to stimulate demand for the company's goods and services. It is exposing the product to the customers and attracting them.

The industrial promotional strategy comprises a combination of personal selling, sales promotion and publicity/public relation. The industrial marketing managers, therefore, must integrate these elements into one total promotional strategy that are further integrated into the total marketing strategy.

- **Personal Selling In The Industrial Market**

Personal selling is an important component in the marketing strategies of industrial marketing managers. Buyers and buying influences require and demand very technical, on the spot answers to complex questions before they will purchase, and pre and post sale services and technical assistance are common requirements. These conditions greatly emphasize the importance of personal selling form all other forms of industrial promotional mixes. The industrial sales person is a technically oriented industrial whose primary

responsibility is to sell industrial goods and services to buyers and buying influences in industry, government, and the institutions. To be effective in the industrial market, any industrial salesperson would have to possess the following knowledge.

- ↳ An understanding of the customer's business operations.
- ↳ Knowledge of the products being sold to relate them to problems faced by the customers
- ↳ An understanding of the buying influences involved in each customer firm for each product in the company's line.
- ↳ Knowledge of competitions

○ **Advertising In The Industrial Market**

Advertising is basically a communication process that aims to reach and influence people with its message. It plays its own part in contributing to an effective overall promotional strategy. It tries to bring some kind of change in the target market such as awareness creation, increasing the level knowledge, and changing attitude etc.

Advertising is a much cheaper form of communication than personal selling. As such it can perform creation tasks much more economically than can company salespeople. Industrial marketing frequently requires personal contact if sales are to be completed. Industrial buyers rarely buy goods and services initially through advertising alone.

Media in the Industrial Market

There are three major types of industrial advertising media:

- **Space Advertising:** That includes general magazines, general business publication, and trade journal publication.
- **Direct Mail Advertising:** This is any printed or processed form directed to selected individuals by controlled distribution.
- **Industrial Directory Advertising:** These are also called industrial buyers guide. An industrial directory lists supply sources for various products (that are intended for use of buying guides in industry). If a purchasing agent wished to purchase a certain product, that person may refer to a directory to find out who could supply such a product. Directories are used as a reference material by buyers and buying influences. Advertisements in directories are more permanent. It is a highly credible medium at a basic buying tool.

○ **Sales Promotion In the Industrial Market**

In many industrial firms, little difference is made between advertising and sales promotion. Often the two are handled as one. But sales promotion includes those non personal areas of promotion other than advertising. The area of sales promotion most common to the industrial market is catalog, trade shows, dealer and distributor materials.

- **Catalogs:** are complete or comprehensive printed information about a product, designed for demonstration and/or reference work. The catalog is a

reference form of promotion. Buyers at buying influences in industry keep catalogs in their plants and when purchasing opportunities come up, they refer to their catalogs, for comparisons of specifications, prices terms etc to screen potential suppliers.

- **Trade Shows:** these are the oldest form of industrial promotion. They bring the bulk of buyers and buying influences under one roof for the express purpose of shopping. They result in a concentration of customers that might not be achieved in any other manner.

- **Dealer and Distributor Material:** these include point-of-purchase displays, for dealer show room, technical bulletins, dealer sales kits, and specialty advertising items such as calendars, and business gifts, price lists, etc.

- **Publicity and Public Relation**

Publicity is a non-personal stimulation for demand for a product or business unit by planting/transferring commercially significant news about it in a published medium or obtaining favorable presentation of it on a radio, television, or stage that is not paid for by a sponsor. It is a good supplement to advertising that build a favorable corporate image and to increase sales. Public relations are broader in scope than publicity it aimed not only at present and potential customers but also government, stakeholders, employees, voters etc. they are the deliberate, planned, and sustained effort to establish and maintain mutual understanding b/n an organization and its public.