ST. MARY'S UNIVERSITY

FACULITY OF BUSINESS

DEPARTMENT OF MARKETING MANAGEMENT

TEACHING MATERIAL

FOR THE COURSE INDUSTRIAL MARKETING MANAGEMENT

COURSE CODE: MkMg 252

GIRMA WORKNEH WOLDE

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Department of Marketing Management

Course Title: Industrial/Business Marketing
Course Code: MkMg 252
Credit Hrs: 3
Program: Degree
Prerequisite: Principles of Marketing (MkMg 211) and Agricultural Marketing (MkMg 242)
Co-requisite: None

I. COURSE DESCRIPTION

Business marketing blends both concepts and applications with a managerial orientation. Throughout the course, emphasis is on the application of concepts and perspectives to current marketing problems and opportunities through varied instructional instruments. Students take an analytical approach and apply industrial marketing principles to solve "real world" problems. In this course you will explore the nature of business to business marketing from two perspectives: conceptual and practical. From a conceptual perspective we'll examine fundamental concepts including the nature of business markets, the buying process and the dynamics of organizational buying behavior, business marketing programming and industrial marketing system. From a practical perspective, you'll study examples of real-world problems faced by marketing managers and approaches to achieve workable solutions. Students contemplating a career in this exciting area will be equipped to participate in the daily activities of an organization participating in business to business markets

II. COURSE OBJECTIVES/LEARNING OUTCOME

Upon completion of this course, successful students will be able to:

2. Illustrate the differences and similarities that exist among consumer and industrial marketing.
3. Monitor and predict environmental influences, for example, economic, political, technological, and competition.
4. Formulate the business marketing mix: product or service, channels of distribution, pricing, personal selling, advertising, and sales promotion.
5. Analyze organization buying behavior, select target market segments, and evaluate alternative market segments.
6. Describe the marketing implications of each of the stages of the process
7. Plan for and acquire industrial marketing information.

III. COURSE CONTENTS

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IV. TEACHING METHODOLOGY

The principal teaching methods are lectures--Interactive Lecture (including lectures of guests, if possible) with power point presentation as a teaching aid, discussion, off-campus visitations, assignments with /or without presentation, in-class exercises will serve to bring life to the instructor's lectures. The lectures will be devoted to discussion of the topics depicted on the course syllabus as detailed as necessary and possible. The students are expected to come up with ideas and /or questions abut every class sessions' lessons from the recommended references and other related literatures (if any) and actively participate in the class discussion.

V. METHOD OF ASSESSMENT

Type of assessment	*Weight*	*Due Date*
In-class Exercise (to be given during class)	5%	3rd Week
In-class Exercise (to be given during class)	5%	5th Week
Assignment 1(see it on the last page)	10%	6th Week
Mid-exam	20%	**6th or 7th Week**
Assignment 2 (see it on the last page)	20%	8th Week
Class participation	5%	During all the weeks
Final-exam	30%	16th Week

VI. TEXT BOOK

Havaldar Krinshna K. (2203), **Industrial Marketing:** Tata McGraw-Publishing Company Limited—New Delhi.

VII. REFERENCE

Charles W. Lamb, Jr, and et al: **Marketing**, 6th ed. South-Western Publishing

Govindarajan M. (2003) **Industrial Marketing Management:** Prentice-Hall of India Private Limited.

Hill, R.M and et al (2004). **Industrial Marketing** 4th ed. Delhi: AL.T.B.S publishing and distributor

Hutt Michael D. and Speech Thomas W. **Business Marketing Management**: **A strategic view of industrial and organizational markets** 6th ed. South- Western Publishing

Nibretu Kebede (2002) **Industrial Marketing**, St. Mary's University

Robert F Dwyer and et al. **Business Marketing**: **connecting strategy relationships and learning**, South-Western Publishing

Robert, R and et al (2001) **Industrial Marketing**: **analysis, planning and control,** 2nd ed. Prentice-Hall of India Private Limited

Other references you thing is essential can be consulted

CHAPTER ONE

INDUSTRIAL MARKETING SYSTEM: CONCEPT AND CHARACTERISTICS

STRUCTURE

1.1 Introduction
1.2 The Concept of Industrial Marketing
1.3 Definition of Industrial Marketing
1.4 Characteristics: Industrial and Consumer Marketing
1.5 Demand in Industrial Market
1.6 Summary
1.7 Questions for Discussion

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 decisionmaking. 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 organizational questions: pre and post sale maintenance and servicing must be exchanged to the participants of business organizations. 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.	**Decisionmaking**	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 Ethiopia such as Addis Ababa, Dukem ,Modjo,Adama, Bahirdar,Hawassa and Mekele. 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 Saudi Arabia, UAE and Northern Sudan 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 USA. 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 oligopolistic buying. In the industrial arena, oligopolistic 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 oligopolistic‘ 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 geographical 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

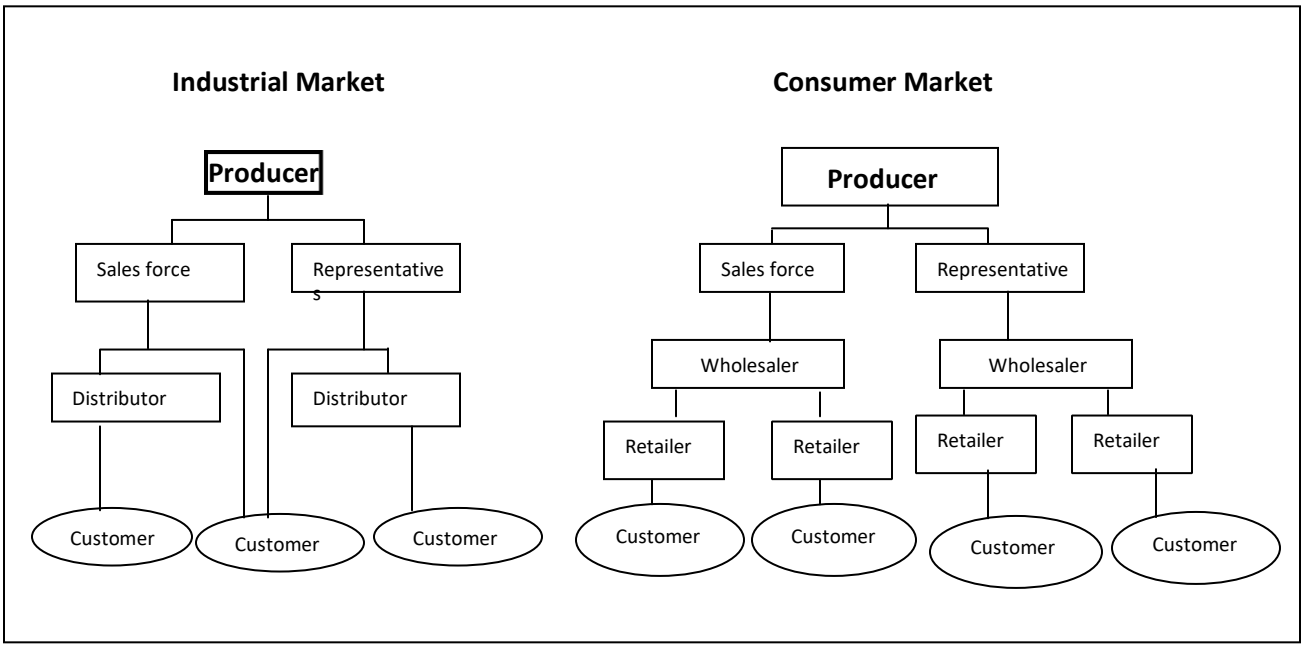
generally take a longer time and involve many individuals from technical, commercial/materials, and finance departments. After the initial offer made by a seller, there are negotiations and exchange of information between the specialists and representatives from both the buyer and the seller organisations. 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, motorcycles, 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 pump sets cannot be used for pumping water, if the electric motor or diesel engine is not availab1e. Similarly,

the Ethiotelecom , 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.

CHAPTER TWO

INDUSTRIAL MARKET STRUCTURE

2.1 Introduction
2.2 Types of Industrial Customers
2.3 Industrial Products and Services
2.4 Marketing Implications for different Customer and Product Types
2.5 Purchasing Practices of Industrial Customers
2.6 Summary
2.7 Questions for Discussion

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 endeavors. 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

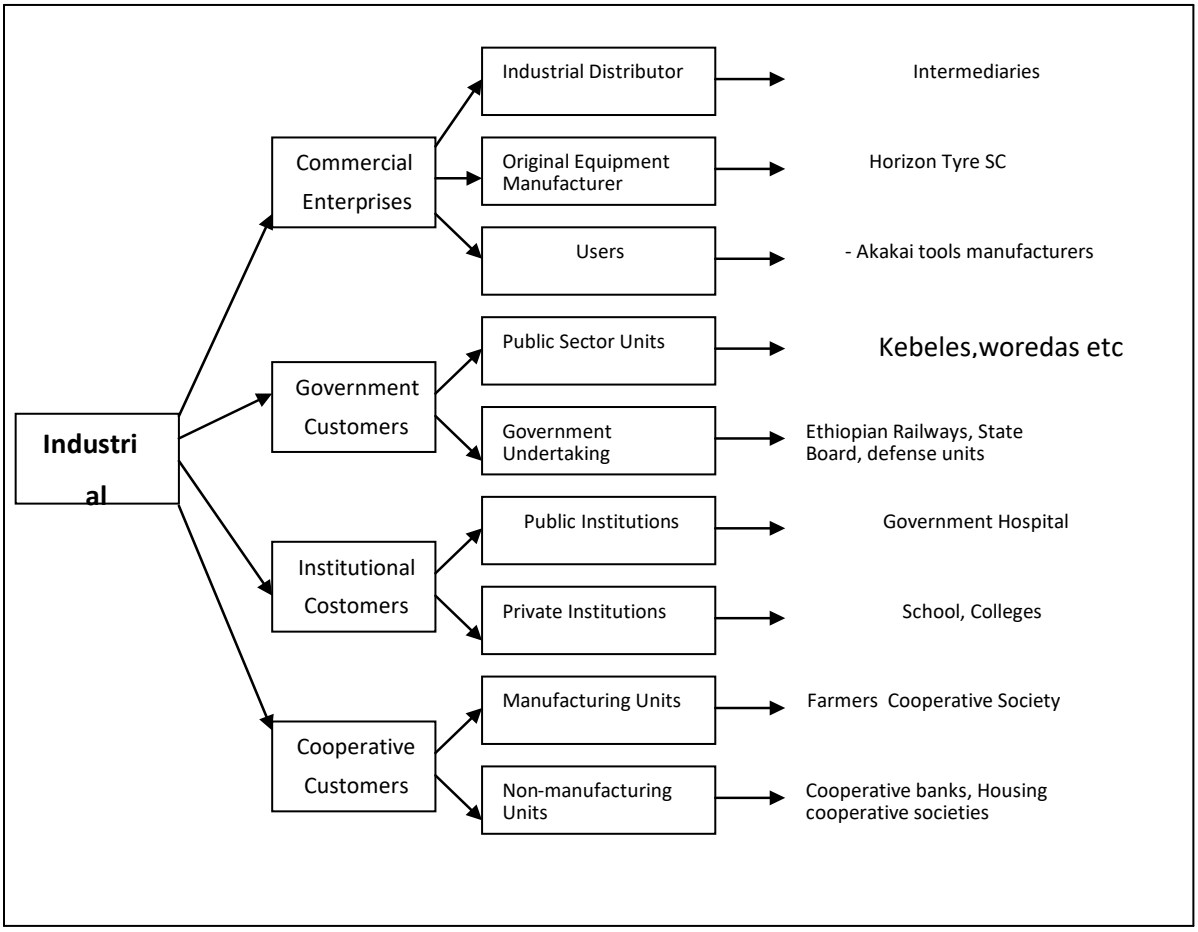
Industrial customers are normally classified into four groups: (i) Commercial Enterprises, (ii) Governmental Agencies, (iii) Institutions, and (iv) Co-operative Societies. These are as shown as follows in the Figure 2.1.

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.

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 hen,

Figure 2.1: Industrial Customers



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?

CHAPTER III

Marketing Intelligence (MI)

Introduction

Information and reliable data form the bedrock of any management decision. They also form the basis for all the diagnostic and prognostic efforts of managers. From a marketing stand point, problems can only be anticipated, identified, analysed and resolved or prevented if accurate and reliable, relevant information can be obtained promptly from both internal and external sources.

Marketing is becoming a battle based more on information than sales power. The impact of competition in the business environment has compelled many organizations to turn around and start scanning the environment for information, so as to have competitive edge over other similar organization within the industry. Organization have to embark on efficient and effective marketing intelligence in order to maintain their competitive position in the industry in light of this.

The marketing environment is changing at an accelerating rate, so the need for real time market intelligence and information had never been more pressing. The shifts are dramatic, from local to national and to global marketing, from buyers needs to buy wants, from price to non- price competition. As companies expand their geographical market coverage, the managers need more information more quickly: as incomes improve buyer become more selective in their choices of goods and services. To predict buyer's responses to different features, styles and other attributes, seller must turn to marketing intelligence. As sellers increase their use of branding, product differentiation, advertising and sales promotion, they equally require information on the effectiveness of this marketing tools.

3.1. Definition of Marketing Intelligence

What is MI?

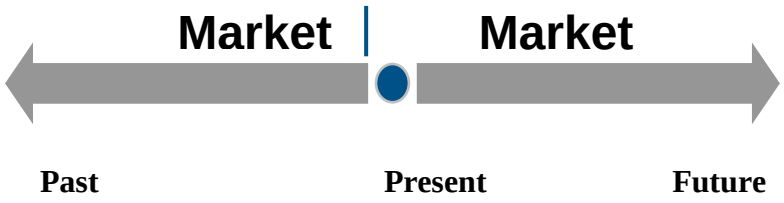
Def 1.MI is a way of working with data and information on a very high level. Basis of MI is a standardized system of data collection from many different sources and its complex analysis.

Def 2. A Market Intelligence is one that systematically gathers and processes critical business information, transforming it into actionable management intelligence for marketing decisions.

Def 3.

Market Intelligence describes the set of activities that provide a company with a view of a market using existing sources of information to understand what is happening in a market place, what the issues are, what competitors are doing, what customers or consumers are doing (eg social media) and what the likely market potential is for new products or services based on previous activities and responses.

MI is primarily focused on the future



3.2.Essence of Marketing Intelligence

As a business organisation increases in size and complexity the need for marketing intelligence also increases simultaneously. When addressing the issue of marketing intelligence certain questions needed to be addressed:

1. What environment do firms need to scan or probe?
2. What information in the environment does the firm need to gather?
3. What are those necessary, relevant and up-to-date consumers need and want (in terms of information do we need to have as an organisation?
4. Of what relevance is this information?
5. What techniques are available to marketing executives or managers for scanning?

The above questions coupled with the following questions, make the marketing intelligence indispensable in the modern market.

a. What kinds of people buy our product?
b. What do they value?
c. What do the buy?
d. What kind of new product would they like to see in the market?
e. Why the sudden change in consumers buying patterns?
f. What if our competitors are attracting more consumers and why?
g. What would be the effect of changes in the price of our product?

3.3.Types OF Market intelligence

Broadly speaking Market Intelligence can be divided into two areas depending on the source of the data:

- Market Intelligence based on external data
- Social media monitoring
- Market Intelligence based on internal data

These last two categories are increasingly being redefined as Big Data. However, Market Intelligence is also used to refer to the collection and monitoring of external data such as analysts' reports, competitor financial data, press monitoring or social media monitoring. Increasing attention is on Market Intelligence from internal information that provides an insight into markets and customer behavior, from sources such as databases, prospect lists, website activities, transaction histories, loyalty cards and so on.

3.3.1.Market Intelligence from external data

Market intelligence from external data is normally gathered by looking at secondary information sources, usually through ***desk research*** or carried out through a continuous or semi-continuous monitoring process. Often this means sourcing and analyzing published information to build a picture of a market and to try and answer some specific commercial questions such as what is the market potential, what are competitors future plans likely to be, what prices might customers be willing to pay, what's the best means of entering a market.

Central to successful desk research is the ability to track down sources of information and to provide a skilled analysis to read the data and identify not just the data, but the story behind the data.

For example identifying who your competitors are and analyzing their market position against yours to find strengths and weaknesses and indications of new developments, or identifying potential channel partners or locations to set up new offices.

Market Intelligence specialists usually have a nose for what they don't see and what is missing in the data that they find. These can often translate into hidden market gaps and opportunities.

They also have a sharp sense of how to use partial data such as financial reports, in order to make assessments about general performance - for example whether revenue growth is being led by prices or by sales growth.

To help internal market intelligence or market analysis, many companies use external resources like analyst houses who provide not just data, but also a commentary and advice on the current market picture based on their contact with suppliers and other companies. Many of the analyst houses act as brokers between suppliers, collating information and sharing it more widely. In some industries the analyst house can have very specific and large sets of data such as retail audits.

Competitor intelligence

A specific form of Market Intelligence is competitive intelligence. This is typically undertaken on an on-going basis and involves the collection of news, materials and other information about competitors from a wide variety of sources. This may involve collecting information about market positioning and market messages, core clients or contracts, size and structure of the business and issues like pricing or typical deal structures. Examples might include collecting price-check information, or details of promotional and advertising campaigns, or monitoring news channels for information about new products or new technologies (eg patents). Although competitor intelligence can be carried out as a one off project, in reality, because of its on-going nature, competitive intelligence is often more about putting structures in place to enable information about competitor behaviour to be fed-back and monitored, than specifically finding one-off pieces of

data. One key point is that for legal and ethical reasons, competitor research should not be carried out in any underhand way (eg misrepresentation) and so should rely only on openly available information sources.

Competitive intelligence can also use primary sources of data, such as feedback from sales teams, suppliers or distribution channels or feedback based on direct win-loss research that are often used to track bid performance.

Social media monitoring

Increasingly, Market Intelligence can involve collecting data from posts, tweets and other social media. This type of 'market intelligence' overlaps with some forms of market research and with PR monitoring. For some companies, the volume of comment (Big Data) together with the need to manage and monitor across multiple languages and multiple domains mean that large scale software is used to capture and then text-analyze the data to produce what is called sentiment analysis to gauge the general tone of the online commentary. Social media can provide companies with good insights into the mood of a market about, for instance, a new product that has been launched and it can provide very specific detail and suggestions for product or service improvements. However, much of this monitoring is also about reputation monitoring as part of a communication or PR campaign to allow companies to be alert to negative comment or problems that are publicised via the social networks.

From a data point of view, obviously there are potentially very large sources of data and IT tools for social media monitoring need to be large scale in order to scrape (ie capture) data from a wide range of sites in a similar way to a search engine robot, and then mine this data with text analytics to find useful information. The scraping of data also brings in some ethical issues as some conversations may be deemed to be private particularly in juristictions like Europe, where companies are only allowed to collect information to a legal limit. Obviously this differs from the US where all information in the public sphere can be freely used by businesses.

There is also some caution necessary over how representative views are. Not all sites can be scraped (some like Facebook do not allow social media listening) and those that can be scraped might not be representative and commentators themselves tend to be more active and enthusiastic

(positively and negatively) and may not properly represent the views of the whole market. The structure of discussions online also needs to be taken into consideration. For instance more opinions are voiced where there is disagreement than where there is agreement. Although online conversations might not be representative it is quite possible that they include or influence important opinion leaders. For this reason it is advisable to cross-check and validate how sentiments online translate into more representative forms of market research.

3.3.2.Market Intelligence from internal data

While much marketing intelligence is associated with collecting information externally, a great deal of insight can come from making better use of existing information such as customer databases, web-analytics and test-marketing - an area that is increasing being known as 'Big Data' analysis. For instance by carrying out database analysis on orders taken it may be possible to understand where you have cross-sale and up-sale opportunities, or to understand what type of customers are your most profitable. Common database analysis include tracking recency, frequency and value of purchases. Looking for pareto segments. Augmenting database lists with external data to identify purchasing patterns.

Database information is not the only source of market data. Your website may also include a high degree of valuable information about who is looking for your products and services. Web site traffic analysis can help you understand what customers are looking for and why, and can be used in conjunction with test advertising and variations in site and page delivery (eg varying landing pages) to provide direct measurement and enhancement of marketing effectiveness.

One challenge is the increasing volume of data that is potentially available (Big Data). Large sources of data have the potential for showing hidden patterns and correlations within the data. Finding these patterns from a large dataset is a challenging statistical task both to handle the data size and to be able to extract meaning from the potentially infinite number of cross-relationships, without getting lost among false-correlations.

At the moment there is great hope for statistical analysis of Big Data, but it may be more effective to use the flow of information as a means of carrying out more experiments. That is testing something in the market and then seeing how the market reacts. Experiments online can be carried

out small scale and very rapidly to test for improvements and refinements - eg A-B testing to see which advertising message works best, or experimental designs to look at how landing page combinations deliver sales conversions. These experimental approaches also translate directly into **algorithmic marketing**. That is, automated rule generation that adjusts marketing communications and messages based on observed responses in a similar way to Amazon's recommendation list, or Google's personalised search.

Finally, don't overlook knowledge about customers, markets and competitors that comes from your staff. Often this is a poorly tapped source of information. Collecting and disseminating such information falls into the realms of customer knowledge management and making better use of this customer knowledge can help businesses focus far more on what the customer wants and says.

3.4.Benefits of Marketing Intelligence

1.**Market and customer orientation** - implementing an MkIS will encourage people throughout the organisation to focus externally.

2.Identification of new opportunities One company in a component industry identified a new trend before the 'expert' industry analysts.

3.**Early warning of competitor moves** - through good intelligence, One chemical company thwarted the siting of a competitor's manufacturing plant in one of their most profitable sales territories.

4.**Minimizing investment risk** - ongoing intelligence and analysis is more likely to temper unbridled enthusiasm to follow the bandwagon into those "mustn't miss the window of opportunity" markets

5.**Better customer interaction** - An insurance company downloads into their salespeople's

portables up to date profiles, order history and relevant 'news bites', for the clients they are about to visit.

6.**Better market selection & positioning** - good understanding of customer needs and competitor positioning will help a company better carve out its own unique niche

7.**Quicker, more efficient and cost-effective information** - establishment of a system will make information more quickly and easily accessible. One company avoided the need for an expensive piece of market research by tapping into its existing MI.

3.5.MI and market

MI divides market into five basic elements = 5C 's

These are Company ,Competitors, Clients ,Customers &Context

Marketing intelligence is based on mix of data :these are

3.6.Key Elements of MI

Basic Source of Data	Data type
Company	Analysis of hard data, market share
Competitors	Primary & secondary market research
Clients	Market and opinion research
Customers	Satisfaction study ,internal database &
Context	Analysis of customer behavior and macro economic impact

A. **Information**

A continuous flow of information is the lifeblood of a good market intelligence system - information about new technologies, markets, customers, the economic and regulatory environment etc.

Both formal (routine reporting, factual) and informal information (gossip, opinions) must be tapped.

B. Information Management Processes

With many professionals having external information delivered to their desktops, from online services such as Reuters or MAID, and increasingly from the Internet is easy to believe that users have all the information they need on tap.

However, this is raw information and will need transforming into intelligence. Before that, however, this information must be classified, stored and made accessible - applying good practice principles of Information Resources Management (IRM).

C. **Intelligence Development Processes**

A good intelligence system is more than information

It is a recurring cycle of linking the needs of decision makers to the processes of turning the information into actionable intelligence.

This requires human interpretation, communicating and sharing of information and perspectives between internal and external experts.

D. **Computer Systems**

A comprehensive MkIS will combine many of the features of decision support systems, EIS, online databases and library systems. It is therefore likely to include many of the following:

For gathering information: CD-ROMs, online data-base access, data feeds, email, Internet access, filters, intelligent agents etc.

For storage and retrieval: Database/document management facilities, text retrieval, search engines, intelligent agents

For processing and analysis: modelling and visualisation software, groupware, group decision support systems (GDSS)

E. **An Organizational Focus**

Although many professionals do much of their own information gathering and analysis, there still needs to be a clear focal point of MI responsibility.

This may be a named individual or a small group who have the distinctive skills needed (such as those promulgated by *SCIP - the Society for Competitor Intelligence Professionals*).

Its role is to ensure a cohesive approach and effective interdepartmental co-ordination.

3.6.Steps to succeed in marketing intelligence process

1. **Define the Customers.**

Always a good place to start! For MI there are usually three distinct groups of customers who will need different solutions:

Field Personnel e.g. sales and service - their needs are immediate and specific: *"I want the price of product X for competitor Y ... and I want it yesterday!"*

Marketers and planners - more strategic but focused; market and product trends to develop marketing plans and adjust the mix - pricing, packaging promotion etc.

Board level management - strategic and broad: general industry and market developments that affect investment and other strategic decisions.

2. **Understand Needs**

A common starting point is an **information audit** a detailed analysis of information entities - their origins, uses, and formats.

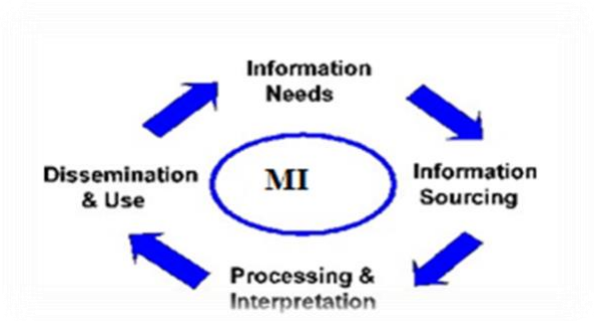


Fig .The Cyclic nature of MI

However, we would advocate a less onerous and more focused approach the study of your customers' **work** and **decisions**, using structured interviews (taped if possible), focus groups etc.

3. **Map Needs against Decisions & Sources**

This will list information originators and users, sources required and decision supported.

It will also identify high pay-off opportunities, for example where certain information has multiple uses.

4. **Implement a Sourcing Strategy**

The source/needs map from step 3 will point to clusters of information needs that can give economies in purchasing.

For example, purchasing a networked CD-ROM may be more cost-effective than doing multiple ad-hoc online searches.

5.**Define Information Policies & Standards**

Steps 1-4 will reveal, often to many people for the first time, the sheer wealth of information that is available.

This step therefore involves classification standards, ownership, life-cycle management standards and agreed 'protocols and procedures' between owners and users.

6. **Select a Pilot Project.**

This is to create a 'quick win' to demonstrate the power of an MI.

Select a key decision process that involves people across several departments. Pricing can be a good one.

It is something that needs to be reviewed regularly and has direct bottom line impact - a 1% price change flows straight to the bottom line and can equate to more than a 10% change in sales.

The careful selection of a pilot cannot be overestimated. Pick the wrong one, and it be difficult to regain credibility.

7.**Select & Adapt Appropriate Technology**

With the selected pilot project acting as a focal point, now is the time to start detailed consideration of the computer solution.

The choices are bewildering, and are proliferating daily. Therefore, selecting the right solution may need the involvement (or even the approval) of your MIS department - but make sure they are well-tuned into end-user computing styles (as opposed to the "we'll give users access to the Internet over my dead body" brigade - exact words recently relayed to me by an MIS manager).

8. **Nurture the Intelligence Processes**

This requires encouraging interaction across departmental boundaries and sub-cultures.

Therefore, the creation of events and forums to encourage this interchange is often a useful starting point.

Advanced MkIS users extend their systems access to business partners and external experts as part of this process.

9. **Focus Dissemination**

-Intelligence on the shelf - or buried in a computer - is of little use to anyone.

-It needs to reach those in decision making situations.

-This can be in the form of regular dissemination, an alerting service or responding to an ad-hoc requests to the intelligence base.

-Many MIS departments issue weekly or monthly bulletins of key developments. -These should be short and focused.

-They give company relevant and specific information that no external newsletter, with its generic coverage, can provide.

10. **Market the Capability**

Good MI managers create two way interaction with their clients.

Use all the techniques of marketing to reach your internal audience and consider carefully the incentives you can offer to encourage the regular inflow of useful information.

After all the best intelligence is already probably lying somewhere within your own organisation.

It comes from contacts made between employees and the outside world - marketing people at exhibitions, business managers at professional meetings, and perhaps, most important of all salespeople on customer visits etc.

CHAPTER. 4: INDUSTRIAL BUYING BEHAVIOUR

STRUCTURE:

4.1 Introduction
4.2 Purchasing Objectives of Industrial Buyer
4.3 Purchasing Activities of Industrial Buyers
4.4 Buying Situation Types
4.5 Decision Making Unit
4.6 Key Members in Buying Organisation
4.7 Models of Organisational Buying Behaviour
4.8 Modern Purchasing Activities
4.9 Summary
4.10 Questions for Discussion

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.

4.1 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.

4.2 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.

4.3 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:

4.3.1.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.

4.3.2 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 uality 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.

4.3.3 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.

4.3.4 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 used 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.

4.3.5 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.

4.3.6 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.

4.3.7 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.

4.3.8 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.

4.4 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:

4.4.1 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.

4.4.2 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.

4.4.3 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.

4.5 DECISION MAKING UNIT

It is essential to understand the roles of buying-center members or decisionmaking 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:

4.5.1 Initiators

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

4.5.2 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.

4.5.3 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.

4.5.4 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.

4.5.5 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 highvalue and technically complex products, senior executives are the deciders.

4.5.6 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.

4.6 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.

4.7 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:

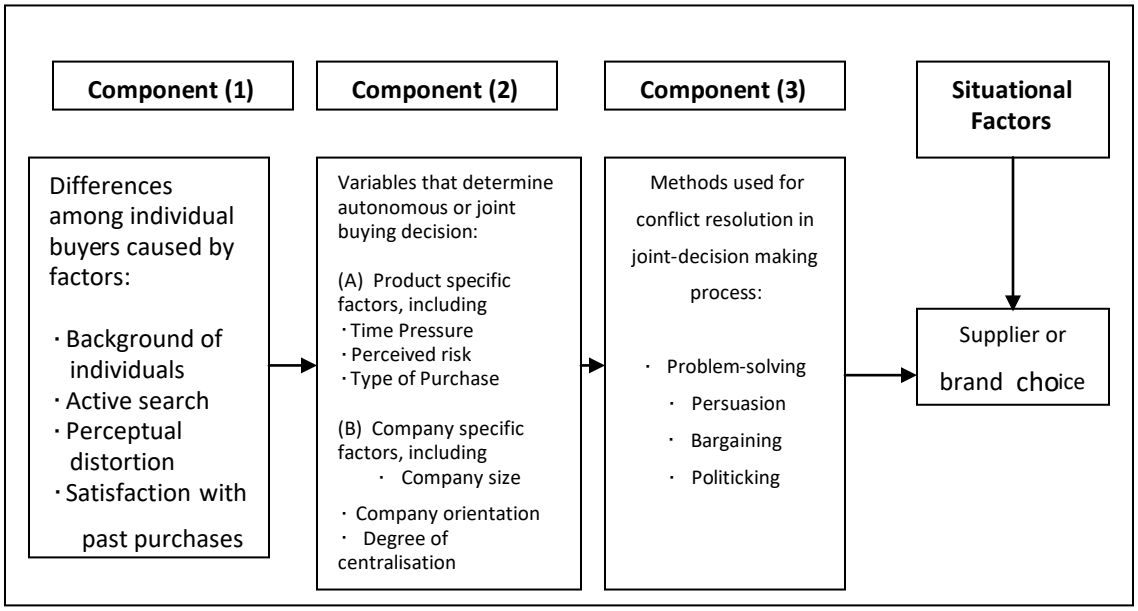
The Webster and Wind Model

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

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.

4.7.2 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.

4.8 MODERN PURCHASING ACTIVITIES

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

4.8.1 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.

4.8.2 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.

4.8.3 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.

4.8.4 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 decisionmaking. 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.

4.9 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 buyingdecision 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.

4.10 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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CHAPTER FIVE

PRICING,PLACEMENT AND PROMOTION IN INDUSTRIAL MARKET

Pricing of Industrial Products

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. 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.

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.

Industrial Pricing Objectives

The objectives of industrial 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.

1. 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.
2. 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.
3. 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.

4. 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.
5. 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.
6. 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.
7. 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.

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:

Price elasticity of demand = Percentage change in quantity demanded / Percentage change in Price

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

Competitive Analysis

Competitive level pricing is considered as an important pricing strategy used by many industrial marketers for the purpose of pricing of industrial products. 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.

Industrial Distribution Channel

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.

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.

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.

1. **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.
2. **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.
3. **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.
4. **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'.

The Structure of Industrial Distribution 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.

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)

Indirect Channel Structures: 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..

Types of Industrial Middlemen

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 and drop shippers.

1. **Manufacturers Representatives:** The manufacturers 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.
2. **Brokers:** 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.
3. **Commission Merchants:** 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.
4. **Industrial Distributors:** 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. 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 sell directly to industrial customers as well as some other retailers or dealers.

5. **Value-added Resellers (VARs):** 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.
6. **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.
7. **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, 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.

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.

Reasons Industrial Customers prefer Distributors

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

1. **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.
2. **Information:** Distributors provide relevant information on various products like technical information, price, availability, quality that helps the customer select and buy the best.
3. **Variety:** The distributor stocks variety of products at one place that caters to all the requirements of the industrial buyers.
4. **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.

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:

1. Providing increased margins or financial help that stimulates the distributor to increase inventory levels
2. Improving distributor's performance through deploying its sales force where supplemental technical support can be provided or joint sales calls can be done
3. Imparting technical and general training to the distributor personnel to improve their effectiveness and strengthen the bond.

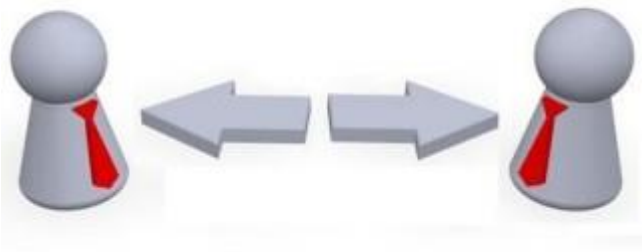
Simultaneously, the distributors should also execute all their basic functions and meet their responsibilities (that have been discussed earlier) in a systematic way that would help the manufacturer perform better. In addition, they should recognize the significant trends unfolding in the industry by 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.

Industrial Promotion

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 industrial advertising program is built around careful consideration of advertising objectives, the advertising budget 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. 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.

Advertising Budget

Research suggests 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 "catchall' 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

The objective task technique is a relatively logical method for establishing the advertising allocation in that the steps involved 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 are:

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 objectives.

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.

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.

1. **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 study 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 economical operating cost and maintenance advantages compared to the XYZ product.
2. **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. 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.
    - **Short Stories.** While research has shown that only a small percentage of industrial companies use the strictly comparative format for advertising,

when communication strategy is enhanced through comparison to competitors, short stories are often effective.

3. **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.
4. **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.

1. **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 addresses their needs, different message strategies must be developed and delivered through media that addresses their interests.
2. **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.

3. **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. Determining the best mix of reach, frequency, and continuity is directly related to media selection and scheduling.
4. **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. Media 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.
    - **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.

5. **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