UNIT 1: INDUSTRIAL MARKETING SYSTEM

Contents

1.0 Aims & Objectives
1.1 Introduction
1.2 Definition of Industrial Marketing
1.3 Who are Industrial Customers
1.3.1 Commercial Enterprises
1.3.1.1 Original Equipment Manufacturers
1.3.1.2 User Customer
1.3.1.3 Industrial Distributors
1.3.2 Government Organizations
1.3.3 Institutional Customers
1.4 Classification of Industrial Products
1.5 The Industrial Marketing System
1.6 Basic Difference Between Industrial & Consumer Marketing
1.7 Summary
1.8 Answer to Check Your Progress Exercise

1.0 AIMS & OBJECTIVES

A student beginning the study of any subject is wise at the outset to seek a general understanding of its nature, its dimension and its place in the scheme of things. So the aim of this unit is to present the core concept of the kinds of things that are handled in the process of industrial marketing.

By the time you finish this unit you should be able to:

- define industrial marketing
- identify the components of industrial marketing system
- identify the major classes of industrial products
- identify the three basic types of industrial customers.

1.1 INTRODUCTION

In its simplest term a market is composed of buyers and sellers, exchanging goods and services and money. It is usually helpful, however, to also think of markets in terms of the channels through which buyers and sellers contact as well as of the relationship such contacts can establish. A market system, therefore, includes at least three elements-participants (buyers and sellers), distribution channels and relationships.

1.2 DEFINITION OF INDUSTRIAL MARKETING

There are various definitions of industrial marketing as there are authors of industrial marketing. The following definition is proposed for this text. ***Industrial marketing*** is a human activity directed towards satisfying need and wants of professional buyers and other individuals influencing purchases in commercial, institutional and governmental organizations through the process of exchange.

Here the basis for defining industrial marketing appears in line with the understanding of the industrial customer rather than the products involved. This is because products and/or services are want satisfier in consumer or industrial market. However, some big differences exist in the rationale behind buying motivations in the two market and the basic structure of the two market contrasts sharply. In a general sense, industrial marketing describes all marketing activities not directed towards the household or the ultimate consumer. Now in order to formulate and implement a realistic and practical marketing decision in the industrial market the industrial manager has to know management of demand or marketing management.

Industrial marketing management can be defined as the analysis, planning, implementation and control of programs designed to create,

build and maintain mutual beneficial exchange relationship with target market for the purpose of achieving organizational objectives.

In short, marketing management refers to the managing of subordinates in the completion of those marketing programs and activities necessary to achieve the organizations marketing objectives. This involves the implementation of required marketing activities through the effort of others inside the organization and often outside of it.

1.3 WHO ARE INDUSTRIAL CUSTOMERS?

Based on the previous definition of industrial marketing, industrial customers are all customers other than the Ultimate Consumer. Industrial customers are classified into three groups, which, at times, may overlap.

These three classifications will be discussed as follows:

1.3.1 Commercial Enterprises

This group includes commercial business enterprises purchasing industrial good and/or service for use other than selling directly to ultimate customers. In industrial marketing, commercial enterprises are further classified into three as follows:

1.3.1.1 Original Equipment Manufacturers

The original equipment manufacturers are more commonly referred to as the OEM. OEMs' are commercial customers who buy products and sometimes service to incorporate into the products, which can be sold either in the industrial market or consumer market. In short OEMs' buy products, which becomes an integral part of the final customers' product.

Example:

An electronics company selling components to a manufacturer of television set would consider the television firm as OEMs' customer.

1.3.1.2 User Customer

In industrial marketing, this term is used to refer to those commercial enterprises purchasing goods and/or services, for use in producing other goods and/or services, which are then sold into the industrial or consumer market or both.

Example: Manufacturing companies purchasing lathes, driving, bending and forming machines that they use in their production. In a purely economic sense the user customers are purchasers of capital goods.

In contrast to OEM, the industrial products purchased by user customers never end up in the final products being produced.

1.3.1.3 Industrial Distributors

The third type of commercial enterprise customer is the industrial distributor. Strictly speaking, these are not customers in the industrial market but rather middle men who purchase products from the manufacturers or other distributors and then, it turn, sell these same products to the OEM's to other distributors or to user customers.

In a loose sense, distributors are very similar to industrial wholesaler but because of the fact that they will take title to the products they purchase, many practicing industrial managers treat them as customers.

N.B. Throughout this text, distributors shall be considered as middlemen rather than as industrial customer.

1.3.2 Government Organizations

These are the federal state or local agencies that buy goods and services for the constitutions they serve. Governmental agencies are the largest purchasers of goods and services in any country. Besides this great variations occur amongst governmental customers in their buying pattern, purchasing procedure and volume of purchasing. Based on the above variations, governmental customers are broadly classified into local governments, state governments and federal governments.

- ***Local governments:*** these are the lowest administrative units of governments. They serve specific populations in defined areas and are typically responsible for many government functions. They include municipalities, townships, special distinct and kebeles.
- ***State governments:*** if there are states within a given nation, the states are also customers for many industrial marketing firms. In our context there are 14 states whose major expenditures are made in such areas as education, health, road and so forth.

- ***Federal governments:*** are also large buyer of goods and services for civilian and military purpose.

Effective marketing strategy for reaching government customers involves the marketer's thorough understanding of each group and the complex purchasing procedures.

Government purchasing is also based on contractual arrangements. These contracts often contain provisions that have little to do with the product under consideration. Rather, they are more concerned with broader social goals. All government contractors must meet general contract provisions that are set forth by law. These provisions include production inspection requirements, payment methods, and actions to be taken as a result of default and disputes and other provision based on the suppliers performance.

1.3.3 Institutional Customers

This market includes those customers not falling into commercial or government classifications. Institutional buyers are a mixture of government and private organizations and industrial marketers must consider them on individual basis to respond successfully according to their unique characteristics, purchasing practices and policies. Examples are schools, college and universities, churches, hospitals, non-profit foundations etc. Some of these institutions follow rigid rule and purchasing procedures, while others follow, far more causal procedures.

Although all three types of industrial customers are dissimilar in many respects, they are generally considered to comprise the industrial market because they all purchase goods and/or services to use either directly or indirectly in providing good and/or services to their own customers. They all differ from the ultimate consumer in that they all purchase goods and services only to satisfy the demand of their own customers, either directly or indirectly.

1.4 CLASSIFICATION OF INDUSTRIAL PRODUCTS

Under this topic the main objective is to acquainted the student with the characteristics of industrial product. There are several ways of classifying industrial products. However, for our discussion, we will classify them into the following major categories.

1. Heavy Equipment Products

Heavy equipment products are basically capital items used in the production process and wear out over time. They can be purchased outright or leased by user customers. It includes metal cutting machine tools, metal forming machines, (hydraulic and forging process), forklifts, blastfurnace etc.

The marketing implication of these products include:

- Time taking negotiation is involved because of the heavy expenditure associated with the equipment.
- The distribution system is usually direct i.e., from the producer to customer
- Purchasing decision is influenced by cost, return on investment and desire for industry leadership.

2. Light Equipments

The light equipment classification industrial product includes portable power tools like drills, saws, grinders, polishers and so forth, measuring instruments, type writers, calculators and other similar products.

The market of light equipment is also normally comprised of user customers but transaction values are considerably lower than heavy equipments.

3. Consumable Supplies

Consumable supplies do not become part of the finished product but most parts are continuously worn out or used up in the process of operating or facilitating the operation of an enterprise. Such items as paints, soaps and detergents, oils, cleaning materials and stationary belongs to this category.

The typical consumable supplies are needed by many different firms in many different industries. The function that such goods perform all likely to be common to many types of enterprises. Moreover, the products are considered expense items and cannot be depreciated for tax purpose.

4. Component Parts

Component parts are those products that are purchased for the purpose of inclusion into the final products of an industrial company. They can be installed directly in to the products with no additional changes and end up within the product of the purchaser.

Examples include switchers, transistors, motors gears, screws and other such products of this type. Components products may have two distinct markets – an OEm market and a replacement market. In the case of OEm market the components are sold to industrial customers who use them in the production process and they contribute to the salacity of the customers' final product. But in the case of replacement market the component parts are sold to repair and service facilities.

5. Raw Materials

It includes all those products generated by the extractive industry, which is subject to some amount of processing before becoming a final product. Typical of these products include coal, iron ore, gypsum, crude oil, fish, lumber, field crop and other similar products. These products at times be marketed to users or OEm's.

6. Processed Materials

Processed materials resemble component parts in that they usually enter in to and form an indistinguishable part of the finished product. Process materials differ from component parts chiefly in that most of them cannot be identified so that they cannot be recognized in the finished product.

7. Industrial Services

Many companies also operate in the service market and organizations require a wide range of services. Industrial services are of a great variety and differ considerably in terms of cost and sophistication. Common examples of service include janitorial or cleaning service, repair and maintenance, installation service, delivery & warehousing consulting, advertising, accounting service etc.

However, some organizations lack internal capacities to give such services as legal counsel, market research, advertising and product development. Since buying firms usually contact professionals on the basis of their word of mouth reputations, the marketing strategy for professional service is to use a more consultative selling effort aimed at helping the customer to develop an objective and relevant definition of the problem so that the implemented solution will be effective and beneficial.

To sum up, it is extremely important that the industrial marketing manager realize the classification of his product as they are purchased by his customers. This is because buying motivations differ within product classifications – processed materials are not purchased for the same reason as are component parts.

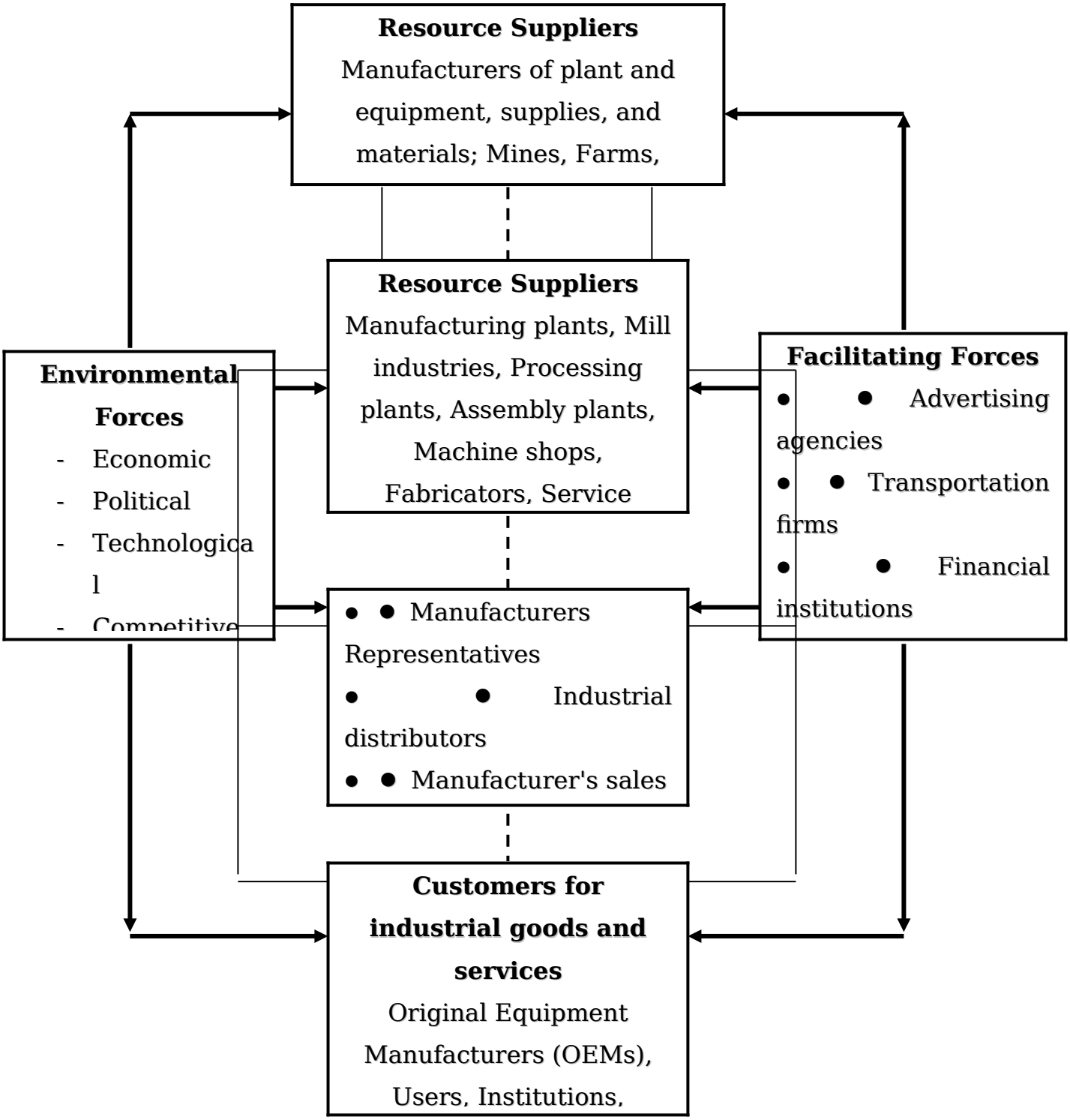
1.5 THE INDUSTRIAL MARKETING SYSTEM

The industrial marketing system can be described by identifying its components. The basic components are:

1. producers of industrial products
2. suppliers to these producers

3. customers for industrial products
4. channel components between buyers and sellers
5. environmental & facilitating forces that affect the relationship among the above parties.

The Industrial Marketing System



Key: Flow of Information _____

Flow of influence by outside forces →

Flow of Goods and Services – – – –

The following parts provide a brief description of the roles played by each of these components.

1. Producers of Industrial Goods and Services

Industrial product and/or services are produced by such business organizations as manufacturing plants, mill industries, processing plants, assembly plants and fabricating plants.

2. Resource Suppliers

Producers of industrial goods and services require materials to produce their offerings and often these materials must be purchased from other organizations. Inputs such as raw materials and component parts, labor and capitals are supplied by other organizations to industrial firms for use in producing outputs. Industrial customers and distributors purchase from suppliers and they themselves are suppliers to other firms. The survival of an industrial firm depends on its good relationship with its input suppliers.

3. Customer for Industrial Goods & Services

Here the primary customers for industrial goods and services are commercial organizations, institutions and governmental agencies.

4. Channel Component in the Industrial Market

Distributors link industrial producer and industrial customers. They include the manufacturers sales branch, the industrial distributor and the manufacturer's representative.

The channels for industrial products are analyzed in detail later in the text.

5. Environmental and Facilitating Forces

A number of environmental forces affect the behavior of the industrial marketing system. External factors such as economic changes, technological changes, changing political climate, competition,

international pressures all affect producers, suppliers, customers and channel component members.

In addition to environmental forces, the industrial marketing system is affected by facilitating organizations who may not be directly involved in the system but who become involved in the various capacities such as advertising agencies, warehouse, transportation firms, financial institutions and consulting firms. These forces affected the behavior in the industrial marketing system and must be considered as parts of the total system. For example, advertising agencies provide the necessary communication flow between sellers and buyers through the formulation of meaningful information. The use of advertising in reaching potential buyers and a multitude of buying influences is vital in the overall communication plan of industrial marketers.

In sum, industrial marketing system is open, interactive and part of the larger system.

1.6 BASIC DIFFERENCE BETWEEN INDUSTRIAL AND CONSUMER MARKETING

In order to gain a better understanding of the industrial marketing area, let us contrast it with consumer marketing. The differences may be classified in terms of the following criteria.

I. Differences Related to the Characteristic of the Market

There are many differences between industrial and consumer marketing than can be traced to differences in the market served by two some of these differences are:

- A relatively small number of customers comprise the market for a particular industrial goods and services.
- Although there may be relatively few industrial customer, they are normally large in size.

- ✎ The purchase orders of industrial customers are often very large and they engage in large volume of purchases.
- ✎ Industrial customers are not spread uniformly but they are concentrated in some specific areas.
- ✎ The industrial market is characterized by derived demand, which means that the demand for industrial product is derived from the ultimate consumer demand.

  The industrial market is also characterized by joint demand, which means that industrial customers often buy products that they combine with other purchased or manufactured products to form their final products. Thus industrial goods and demanded jointly with other goods, or they are not demanded at all.

- ✎ There is a high degree of cross-elasticity of demand in the industrial market. Cross-elasticity of demand is the responsiveness of a sale of one product to the price change of another product(s). It is the degree to which resources are substitutable for one another. The demand for many industrial goods is influenced by the price of other goods. For example, the quantity of steel demanded is related to the price of its close substitute aluminum.

II. Differences Related to the Characteristics of the Product

There are differences in the products sold in to the consumer and industrial markets. Some of the major differences are as follows:

- ➥ The products in the industrial market are usually of a more technical nature.
- ➥ Products in the industrial market are purchased on the basis of specifications.
- ➥ Industrial buyers purchase products for production inventory purpose as opposed to immediate use.

- There is tremendous emphasis on the importance of after sale service in the industrial market.
- Packing in the industrial market is generally more protective in nature than promotion, although it is not always true.
- Industrial customers do not always have to purchase the products they require but sometimes produce them with their own facilities.

III. Differences Related to the Characteristics of Industrial Buyers

Some of the major differences between industrial and consumer marketing occur because of the differences in the buyers in the two markets. Some of these differences are:

- The industrial market is normally characterized by more technically qualified and professional buyers.
- The buying decisions of industrial customers are often made on the basis of such factors as specifications, supplier analysis and cost effectiveness as opposed to emotional purchasing motives of customers in consumer market.
- In industrial market the decision for purchase are not made by one person but rather by those individuals within the purchasing unit.
- Comitte buying is often found in the industrial market.
- There are very few women buyers in the industrial market in contrast to the large amount of purchasing by women in consumer market.
- The industrial market is characterized by situation of reciprocity where by buyers buy only from their own customers i.e., two companies are both buyers and sellers to each others.
- Industrial customers often select two or more suppliers to buy the same product just to protect themselves against single suppliers not being able to supply the required amount.

V. Differences Related to the Promotional Characteristics

Promotion also differs in the two markets. Some of the major promotional differences are:

- There is generally a much heavier emphasis on personal selling in industrial market.
- Sales people in the industrial market are more like consultants and technical problem solvers to their customers, which may not hold true in consumer market.
- Salespeople in the industrial market posses more technical background and are more likely fall in to the classification of sales engineers.
- In industrial market advertising plays the role of laying down the foundation for the industrial salesperson's call.
- Advertising media in industrial market differs from media in consumer market the two prime medias in the former are trade journals and direct mail.

VI. Differences Related to Pricing

- Price is less important in industrial purchasing compared to:
  - the quality and uniformity of the products purchased
  - certainty of delivery of the products purchased
  - service and technical assistance
- Prices are often based on competitive bidding.
- Negotiation in setting price is quite common in industrial market.
- Industrial marketing firms often provide financing arrangements for their customers in case of high dollar amount industrial goods.
- Leasing is often used as a price alternative to the marketing of capital goods.

- Prices are quiet stable in the industrial market and result in non-price competition.
- Return on investment pricing techniques is widely used in the industrial market.

VII. Differences Related to the Characteristics of the Channel

- Channels of distribution in the industrial market generally tends to be shorter and much more direct.
- Since there are relatively few buyers who tend to be concentrated, the intermediaries in the industrial market are few in number.
- Industrial distributors and manufacturers' representatives are the primary middlemen to facilitate the flow of goods in the industrial market if they are needed at all.
- There is greater expectation of sales effort from industrial channel components than from those in consumer market.
- Physical distribution is extremely important in industrial market.

Check Your Progress Exercise

1. There are many fundamental differences between consumer market and industrial market. If you had to choose five differences as being the most important, on the development of marketing strategy, which ones would you choose? Why would you choose each of them?

.....

.....

.....

.....

2. "No matter what the product is marketing whether it is in the consumer market or in the industrial market a product marketer can

move products in any part of the market place?" Do you agree with this statement?

.....

.....

.....

.....

3. List the three basic types of industrial customers?

.....

.....

.....

.....

4. If a particular product could be purchased in both consumer market and in the industrial market, how would you think marketing of identical product might differ depending up on the particular market involved?

.....

.....

.....

1.7 SUMMARY

The purpose of this initial unit has been to lay a foundation for an understanding of the industrial market and the tasks of the industrial marketing management. A general definition of industrial marketing was developed. Industrial customers were classified into three basic groups: (1) commercial enterprises, (2) governmental organizations, and (3) institutions. Industrial products were also classified as heavy equipment, light equipment, consumable suppliers, component parts, raw materials, and processed materials and industrial services.

The industrial marketing system was described in terms of who produces industrial goods and services, who consumes these goods and services,

and who are involved as middlemen between industrial and consumers marketing were examined with emphasis on market characteristics, buyer characteristics, channel characteristics, promotional characteristics and pricing characteristics. The central point of this unit has been to emphasize that although marketing in the industrial market is similar in principles to marketing in consumer market, there are distinct differences that must be understood if effective marketing management is to take place.

1.8 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer to 1.6
2. Refer 1.4
3. Refer 1.3
4. Refer 1.6 (II)

UNIT 2: THE DEMAND FOR INDUSTRIAL GOODS

Contents

2.0 Aims and Objectives

2.1 Introduction

2.2 The Total Demand for Industrial Products

2.3 Demand Characteristics of Industrial Products

2.4 Summary

2.5 Answer to Check Your Progress Exercise

2.0 AIMS AND OBJECTIVES

The aim of this unit is to give a brief account on the demand characteristics of industrial products.

By the time you finish this unit you should be able to:

- define derived demand and joint demand
- identify the different demand characteristics of industrial products

2.1 INTRODUCTION

To market effectively into the industrial market requires a thorough understanding of demand mechanisms in that market. As it was pointed out in the preceding unit, the industrial market differs appreciably from the consumer market and many of the key differences can be traced to differences in demand in the two market.

2.2 THE TOTAL DEMAND FOR INDUSTRIAL GOODS

Estimating the total demand for the producer of industrial goods and services is relatively difficult to accomplish. There is no single source that provides such data on the total market for industrial products as reflected by commercial enterprises, government customers and institutions. Here for the practicing industrial marketing manager, it is not important to

know the total industrial market, it is more of an academic interest than it is a practical decision – making factor.

2.3 DEMAND CHARACTERISTICS RELATED TO INDUSTRIAL PRODUCTS

The marketing manager has to understand a number of demand characteristics, which are peculiar to the industrial market. These characteristics may be classified as follows:

I. Those Characteristics Related to the Concept of Derived Demand

Derived demand may possibly be the single most important force in the marketing of industrial goods and services. Basically it is a simple concept, although many people are confused by the term. The term, derived demand refers to the indirect way in which the need for industrial good is generated i.e., from the demand for consumer goods and services they are used to make or provide. In other words, industrial customers do not purchase goods and services because of their own personal need or desires but rather to produce other goods and/or service for their own customers. This is where the use of the word derived demand originates – the demand of industrial good and services by industrial customer is derived from the demand for their products by their customers.

A simple example may help to explain how derived demand works. A fertilizer company purchasing ingredients from a chemical manufacturer buys those ingredients not because of personal preference but because such ingredients are required to satisfy demand for Fertilizer in the ultimate consumer market logically then the demand of the fertilizer company for the chemical ingredient is derived from the demand of ultimate consumer for the fertilizer produced from those ingredients.

In actual business world, there are often many levels in the derived demand concept. For example, the demand for cotton is dependent upon the demand of the textile industry, which, in turn is dependent up on the

demand of the garment industry, which is ultimately dependent up on the demand ultimate consumer for clothing in general and for cotton products in particular.

II. Characteristics Related to the Concept of Joint Demand

Another demand characteristics that must be understood by the industrial marketing manager is joint demand. Joint demand occurs when the demand of one product depends upon that product's being used in conjunction with another product. In such a situation the products are demanded jointly, or they may not be demanded at all.

Joint demand is very common in the industrial market, particularly with OEm customers. A fabricator purchasing 500 component parts for assembly into a finished product has a joint demand for all those components. For lack of a single component, no matter how large or small, the final product cannot be assembled.

Joint demand may also occur in the case of user customers. For example, if a manufacturer is currently using a particular brand of machine in its production process, other pieces of peripheral equipments must be compatible with that machine if the production line is to function effectively. If, however, the manufacturer replaces the machine with a new updated version and the replaced machine is not compatible with the peripheral equipment previously purchased, the demand for the latter (peripheral equipment) may be depressed and even eliminated because the joint demand relationship is dissolved.

The main point is that joint demand is very common and it may take various forms. The industrial marketing manager must be aware of any such joint relationships with the products and/or services offered by the company.

III. Characteristics Related to the Types of Products

Demand in the industrial market will also vary depending up on the types of products being marketed. To illustrate, the demand for processed materials may differ considerably from the demand for capital equipment primarily because of the characteristics of the products themselves. Perhaps the best way to understand these differences is to review each classification of industrial products and discuss those factors that may influence an industrial customer to purchase from one supplier rather than another.

The following is a partial list of those factors affecting demand for each of the classification of industrial products.

➲ Heavy Equipment

When industrial customers purchase heavy or major equipment, their ultimate selection of suppliers may be influenced by factors such as:

1. Strict conformance of the equipment to buyers specifications
2. Service capabilities of the supplier in case of breakdown or malfunction
3. Technical assistance provided by the supplier at the time of installation
4. Product warranties
5. Price, price conditions and other financing arrangements
6. Timely delivery of equipments by the suppliers
7. Past performance of the suppliers
8. Effects on manpower requirements or labor reduction of the new equipments
9. Energy consumption requirements of the equipment
10. The difficulty or ease of operating the new equipments by the existing employees

➲ Light Equipment

The demand for light equipment in the industrial market is often influenced by the following factors.

1. Price and price considerations such as quality and trade discounts
2. Speed and certainty of delivery
3. Personal preference of those who use the equipments – personal like and dislikes of users
4. Product warranties
5. Service capabilities of the suppliers
6. Past experience with the supplier and his equipment
7. Competitive alternatives open to the purchaser
8. Provisions for returning defective equipments

Since the light equipment is often standardized and marketed into a wide spectrum of industries its demand is influenced by factors different from heavy equipment, which may be non-standardized and custom produced to individual buyer preference.

➲ Component Parts

The demand for component parts may be influenced by factors quite different from those affecting the demand for capital equipment, heavy or light. One major difference is that heavy or light equipment is sold to user customers, whereas components are typically marketed to OEm customers. The impact of this difference is on derived demand nature of component parts.

The selected process by OEm customers among possible suppliers is often made on the basis of factors such as the following

1. Strict conformance to buyer specifications
2. The quality and uniformity of the purchased components.
3. Certainty of delivery
4. Price and price considerations
5. Capability of the suppliers to provide the required quality of parts

6. The price of the purchased components compared to the cost of the purchaser producing the parts in their own plant
7. Return provision of defective parts
8. Past experience with the supplier and component parts
9. Specific derived demand considerations

➲ Processed Materials

The demand for process materials is also influenced by the OEm market, but this differs in two major ways from the demand for component parts. First, there is usually no replacement market for processed materials. Second, processed materials are usually not used in the same form by the purchasing OEm as are components parts.

In choosing among suppliers of processed materials, industrial buyers are influenced by factor such as the following:

1. Strict conformance to buyer specifications
2. Price and price considerations
3. Quality and uniformity of the materials
4. Certainty of delivery
5. Capability of the supplier to provide the quantity required
6. Return provision for defective materials
7. Freight difference among suppliers
8. Past experience with the suppliers materials
9. Competitive alternatives open to the buyer

➲ Consumable Supplies

Consumable supplies have probably the simplest demand mechanism of all industrial goods. Normally, they are standardized products that can be sold to all different types of industrial consumers.

In choosing among possible suppliers of consumable supplies, industrial customers base their decision to purchase on such factors as:

1. Price and price consideration such as quantity and trade discount
2. Certainty of delivery
3. Brand name of the supplier
4. Capability of the supplier to provide the required quantity
5. Past experience with the supplier
6. Competitive alternatives open to the purchaser

➲ Raw Materials

In choosing among suppliers of raw materials, industrial customers base their decisions on factors as the following:

1. Standard and grades of the material
2. Certainty of delivery
3. Capability of the supplier to provide the quantity required overtime
4. Price and price considerations
5. Freight rates and charges involved in buying from different suppliers
6. Past experience with the supplier
7. Competitive advantage open to the buyer

In sum, the industrial marketing manager must understand fully those characteristics of demand peculiar to the particular products or product lines of the company. It should be apparent that an industrial marketing company selling capital equipment via custom sales to user customers face a completely different demand mechanism from that of the firm selling standardized component parts to a lot of different industries.

IV. Characteristics Related to the Nature of the Market

In addition to the demand characteristics discussed thus far, another factor that must be considered by the industrial marketing manager is whether he is selling goods and/or services into a horizontal or a vertical market and the degree of concentration in that market.

A vertical market exists when a company sells its product and/or service to one specific industry, whereas a horizontal market exists when a firm is able to market its good and/or services to a broad spectrum of industries. To illustrate, the market for the manufacturers of blast furnaces is quite vertical where as the market for manufacturers of machines tool might be horizontal. Vertical or horizontal markets may exist for all types of products and services in the industrial market.

Concentration refers to the total number of companies in the market and the percentage of purchase made by the larger more dominant firms (members). The individual industrial marketing manager must look at each of his company's markets to determine if a few large customers dominate the market or if the market potential is scattered among many firms.

V. Characteristics Related to the Nature of Industrial Buyers

Because industrial goods and services are purchased by people, it is difficult to generalize about the nature of industrial buyers. Nevertheless, some generalizations will help us to understand what influences industrial purchasers in their buying as follows.

- Price is often not the major determinant of demand as buyers would be willing to pay more if certainty of delivery, quality, service, technical assistance, and so forth were assured.

- Buyers will often split purchases of product rather than buy from a single source of supply to assure themselves of having at least one source of reliable supply.
- Many buyers prefer to purchase from those firms they perceive to hold positions of technical leadership with the logic that this allows the buying firm to keep up to date with new technological innovations.
- Reverse elasticity of demand often occur in the short run owing to buyer expectation. A price increase by a supplier brings about an increase quantity demanded as buyers expect even further price increase and thus purchase and keep them in their store to protect themselves against anticipated price increase.

VI. Characteristics Related to the Geographic Concentration of Customers

The demand for industrial goods and services is not spread evenly in any country, but is often concentrated in some specific areas. It is important that the industrial marketing manager recognize the important location demand characteristics for individual goods and/or services. The rationale behind this is to save or economically use our effort in areas where no demand exists and invest our maximum potential in other areas where the demand is largest.

Check Your Progress Exercise

1. Explain the concept of derived demand and how it works by citing typical examples that show how they are interrelated to each other.

.....

.....

.....

.....

2. Do you believe a price decrease would be an effective marketing tool if an industrial marketing manager finds a decrease in demand for products in consumer market? Discuss.

.....

.....

.....

.....

3. "The concept of joint demand is a concern only for manufacturers and marketers of capital equipment." Do you agree? Discuss.

.....

.....

.....

.....

4. Why is the concentration of demand a problem for industrial marketing manager? Would you prefer to market in a situation where a few large buyers dominated the market, or to market in a situation where little concentration exists? Explain.

.....

.....

.....

.....

5. Do you believe the differences in demand attributable to characteristics of products involved are sufficient to warrant separate marketing program of each classification of products? Explain your answer.

.....

.....

.....

.....

2.4 SUMMARY

Understanding demand is the industrial market is critical for the marketing manager and is one of the first steps in formulating a realistic and effective marketing strategy. As this unit has shown, industrial demand involves the understanding of the various characteristics that combine to make the job of the industrial marketing a formidable one. The industrial marketing manager must be able to integrate the characteristics of derived demand, joint demand, industrial concentration, vertical or horizontal market and the peculiarities of individual buyers in assessing demand for the firms products or product lines.

2.5 ANSWER TO CHECK YOUR PROGRESS EXERCISE

For all questions, refer 2.3 and the following sub parts of:

1. I
2. V
3. II
4. VI
5. III

UNIT 3: THE INDUSTRIAL CUSTOMER

Contents

3.0 Aims and Objectives

3.1 Introduction

3.2 How to Define Industrial Customers to be Reached

3.3 Understanding Organizational Characteristics

3.4 Value Analysis in Industrial Marketing

3.5 Summary

3.6 Answer to Check Your Progress Exercise

3.0 AIMS AND OBJECTIVES

For those who have anything to do with a business, the customer is the most important. All others are expendable. He is not. The aim of this unit is to show how we can identify industrial customers to be reached and the characteristics of customer organization together with its effect on purchasing.

By the time you finish this unit you should be able to:

- define industrial customers
- describe the SIC and input-output model
- explain value analysis in the context of industrial marketing

3.1 INTRODUCTION

As it was developed in the opening unit, customers in the industrial market fall into three basic classification: (1) commercial enterprises, (2) government, and (3) institutions.

Within this classification the purchasing decision vary with the type of industrial good and services under consideration. So the industrial marketing must know his/her customers explicitly and perform detailed

research and analysis into market segmentation, organizational behavior, purchasing policies and procedures, and formal & informal buying influences appropriately.

3.2 HOW TO DEFINE INDUSTRIAL CUSTOMERS TO BE REACHED

The first and most important issue that should be addressed by the industrial marketing manager is to define the customer groups to be reached.

1. The Standard Industrial Classification (SIC): is the tool used to obtain data about industrial customers to be reached by classifying them into various groups. SIC is a uniform numbering system by classifying the establishments according to their economic activity. It divides the economy into sub-classification as:

- → Agriculture, forestry and fishing, cattle breading 01 - 03
- → Mining 04 – 06
- → Construction 07 – 10
- → Manufacturing 11 – 13
- → Transportation, Communication, gas & sanitary 14 – 16
- → Trade (Wholesale & Retail trade) 17 – 19
- → Finance & Insurance, real estate service 20 – 22
- → Public administration 23 – 27
- → Non classifiable establishments 28

Within each major industry group, detailed sub groups and industries can be defined. Then, each group will be assigned two digit numbers. Each major two-digit SIC industry groups are then defined by a third digit and detailed industries are defined by a fourth. Thus, the longer the number, the more detailed the industry being defined.

Here the standard industrial classification is a tool for classifying those customers to be reached. By itself, SIC will not necessary tell the

industrial marketing manager who the industrial customers are or who they should be or where they are or how big they are, and so forth. There are ways, however, of finding out these things and then using the standard industrial classification system to refine market segments further.

2. Input-output Analysis: this method is based on the simple concept that the sales or output of one industry are the purchases or inputs of another industry or an industry's inputs are a function of a supplier's output.

Input-output analysis is a useful tool for the industrial marketing managers. It provides an objective and practical way to determine prospective customers by the quantity of purchases. It helps to know which industries are major customers and enables the marketer to compare company market segments with industry market segments in terms of sales percentages.

Once major customers segments are found through input-output analysis, the industrial marketing manager must now locate specific industrial customers, find specific information on such customers and direct marketing effort towards them. The information may include:

- → firm name, address and phone number
- → corporate officers by name, title and positions
- → directors by name
- → annual sales volume
- → number of employees
- → appropriate SIC number
- → product and service produced

3.3 UNDERSTANDING ORGANIZATIONAL CHARACTERISTICS

Once industrial customers have been defined and located, each must be further analyzed in terms of characteristics that will have an effect on its purchasing. Typically, this involves researching each of the customers located in the preceding section with regard initially to the purchasing functions of the particular firm in question. Purchasing functions differ among industries and among companies in the same industry. Thus, it is important that the marketing manager gain insight in to the purchasing behavior of each and every present and prospective customer firm. It is generally conceded that the first step in understanding the very complex area of corporate industrial purchasing behavior is to understand the organization of the particular firm involved.

The major factors influencing organizational purchasing are discussed as follows:

1. Size of the Customer Firm and Specialization of Purchasing

Although there is no hard-and-fast rules, the size of the company generally has an effect on the way in which it purchases goods and services, and thus size has an effect on the marketing approach to be used. For example, in smaller firms, purchasing is often a part time responsibility held by someone such as office manager or owner/manager. This implies that the purchaser is normally not a specialist, and educational selling on the part of the marketing manager is required. However, in large industrial firms, it is very common to find a great deal of purchasing specialization in very formalized departments. There are definite lines of authority and responsibility and highly specialized buyers are the rule.

2. Purchasing Positions in the Customer Organizations

Another extremely important characteristics that must be determined for each and every customer is the position of the purchasing department in the formal organization of each customer firm. In attempting to

determine the position of purchasing in the customer organization, the following questions are extremely important.

A) Is the purchasing department line or staff?

In some companies, purchasing is a line position, whereas in other it may be a staff position. The importance of this to the industrial marketing manager is vital. Line purchasing departments possess the authority to decide, what will be purchased and from who it will be bought. Staff purchasing departments, on the other hand, usually operate in an advisory capacity, advising such other departments as production, engineering and so on, on what they might buy and from whom; but the authority is vested in the other departments. If the marketing firm is spending its time cultivating a staff purchasing department when the decision are actually made else where, that firm will lose orders if the recommendations of purchasing as an advisor are not followed.

B) Where is the level of the purchasing department in the organization?

In addition to determining whether purchasing is a line or staff position, the industrial marketing manager must also discover how high or low the purchasing department is in each buyer firms organization. This is the kind of information that shows on formal organizational chart, and it can be found with some effort. It determines the authority and decision-making power of the purchasing department although it still holds a line position.

C) Are purchasing responsibilities split between head quarters and operating divisions?

In many industrial companies where multiplants and/or division are found, there are split purchasing responsibilities. The division or plants have the authority to purchase operationally, but overall purchasing policy may be determined at the corporate level at the home office or head quarters.

The marketing implication of this may be:

- → there are different operational units that make actual and specific decisions
- → purchasing may not follow uniform procedures to buy the same products
- → in order to purchase heavy equipment, the plants may need to obtain authorization from home offices etc.

D) What purchasing policies are involved by each customer firm?

Different companies have different polices governing their purchases. Yet, it might be difficult to recognize each customer purchasing policies unless it is made known to all possible suppliers. Such policies include

- → buying from local suppliers whenever possible
- → request for bid when the requirement exceed certain amount
- → reciprocal agreements with customers
- → buying from at least two suppliers on every purchase

All of these determine the customer's purchase decisions. It makes a difference in formulating marketing strategies and requires first to know the changes in policies and adopting them.

3.4 VALUE ANALYSIS IN INDUSTRIAL MARKETING

Value analysis is a management technique, which involves in-depth investigation of an item in terms of the function and cost (price) to determine the most effective specifications and achieve the lowest possible cost. The logic behind this analysis is *cost saving* by identifying unnecessary cost elements in the item and eliminating them without negatively affecting the items functions.

Value analysis, as developed by most companies, is a step-by-step procedure that involves

1. Selection of a product that need's improvement or chosen for value analysis
2. Gathering information by the team coordinator before the team first meets. Value analysis team often includes purchasing specialist, design and production engineers, marketing and finance manager, and technical salespeople from supplying firms. Team members are asked to send information on such issues as drawing, costs, scrap rates, usage forecast, and operation sheets.
3. The team then meets and defines essential functions of the product followed by the determination of the present cost of each function. This reveals which function represent major expenditures. To this end, individuals are required to search for the primary and secondary function is knowledgeable in value analysis, the marketing firm can play an active role in the process, predict or anticipate customer needs, or even initiate a value analysis study.

The value of the basic and secondary functions are analyzed in terms of four definitions of value.

- use value of an item which refers to its ability to perform
- esteem value which is the ability of the item to inspire people
- cost value which describe the money or labor cost of the product; &
- exchange value of the product

4. Generating alternative using brainstorming technique: team members suggest ideas for new and different ways to accomplish the function. Brainstorming is a process designed to stimulate creative thinking. A group of individuals with different backgrounds meet for the purpose of generating ideas useful in solving a particular problem. Emphasis is placed on the free generation of ideas, which are recorded as soon as they are made. During this period, no one in the group evaluates or criticize any ideas, since

the objective is to develop spontaneous and positive ideas. Brainstorming involves asking a checklist of questions that systemize a value analysis activity. The following are some of the most important general questions in the value analysis checklist.

- Can the item be eliminated?
- If the item is not standard, can a standard item be used?
- Does the item have greater capacity than required? Can the weight be reduced?
- Is unnecessary machining performed on the item?
- Is commercial quality specified?
- Can you make the item less expensive in your plant?
- Can cost of packing be reduced?
- How might the item be modified?
- How might the item be rearranged?
- How might the item be combined with other items?

5. Evaluation of alternatives: Alternatives will be evaluated based on different factors, including
   - cost elements (labor, material)
   - incremental costs
   - cost per unit of dimension (length, area, weight)

   The evaluation process further reduces the list to one or two good ideas.

6. Presentation: the final alternatives are refined and presented to a management committee as value analysis change proposal.
7. Implementation: The approved value analysis is translated into an analysis change order and implemented.

Check Your Progress Exercise

1. If an industrial manager wanted to determine appropriate market for the company's product, how would that manager uses input-output analysis to do so?

.....

.....

.....

.....

2. Although there are no rules to follow, the size of an industrial customer's firm affects the manner in which that firm purchases goods and services. What are the industrial marketing implications of this statement?

.....

.....

.....

.....

3. "For the most part, it is irrelevant to the industrial marketing manager whether that manager is marketing to a line or staff purchasing department in a customer firm". Do you agree?

.....

.....

.....

.....

4. For an industrial customer to purchase the same product from two or more suppliers, it is totally inconsistent purchasing behavior if the product in question could be purchased cheaper from any one particular supplier. Do you agree? Discuss?

.....

.....

.....

.....

3.5 SUMMARY

This unit has been developed to understanding the industrial customer. A method for using input-output analysis and the standard industrial classification to define specific target markets has been illustrated. To market to the industrial customers involves first discovering what that customer is, finding out how many of those customers exist, finding out where they are in terms of sales volume and value of shipments. Once this is accomplished, a better understanding of each customer and its purchasing behavior must be undertaken. Initially, this involves analyzing each customer firms purchasing behavior in terms of its formal organization. The difference that size of the customer company makes in purchasing behavior was discussed, and the implications in line and staff purchasing functions were developed. The level of purchasing in the organizations chart was discussed along with split purchasing responsibilities and purchasing policies as they affect the industrial marketing manager.

3.6 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer 3.3 (2)
2. Refer 3.3 (1)
3. Refer 3.3 (2A)
4. Refer 3.3 (2D)

UNIT 4: UNDERSTANDING INDUSTRIAL BUYING BEHAVIOR

Contents

4.0 Aims and Objectives

4.1 Introduction

4.2 Definition of Industrial Buying Behavior

4.3 Models of Industrial Buying Behavior

4.4 The Purchasing Decision Process in the Industrial Market

4.5 Who is Involved in the Organizational Buying Process

4.6 Understanding Buyers Motivation

4.7 Summary

4.8 Answer to Check Your Progress Exercises

4.0 AIMS AND OBJECTIVES

Once the industrial customer have been defined, located and analyzed from an organizational characteristics point of view, each customer firm must then be analyzed in greater depth to determine those characteristics peculiar to its individual buying of goods and services.

The aim of this unit is then to discuss the concepts of industrial buying behavior, the theories of organizational buying, the purchasing process and the various roles of buying influence in purchasing decisions.

By the time you finish this unit, you should be able to:

- define industrial buying behavior
- discuss the different models of industrial buying
- identify the steps in the buying process and the parties involved in the decision of buying.

4.1 INTRODUCTION

There are no short cut or single rule of thumb approaches that can be employed to discover individual customer buying behavior. This must be

learned overtime by marketing departments and field sales personnel who make concentrated effort to discover how each and every customer buys. It requires insight and stamina to ferret out such information and keep track of it for future use.

4.2 DEFINITION OF INDUSTRIAL BUYING BEHAVIOR

Industrial buying behavior has been defined as:

An explicit or implicit transactional decision making interaction through which formal or informal profit centers represented by authorized delegates:

1) establish the need for product/service
2) search among and identify potential suppliers
3) evaluate the marketing mix (4P's) of potential suppliers
4) negotiate for and enter agreement about purchase term
5) complete a purchase, and
6) evaluate the purchases utility.

This definition is useful in that it points out that industrial buying is not simply the action someone takes, but rather the outcome of interaction between buyers, users, influences, suppliers and others. Buying is a transaction that is part of a total decision-making process and as such is rarely an action in and of itself.

4.3 MODELS OF INDUSTRIAL BUYING BEHAVIOR

A brief discussion of some of the more common models is in order. In general, there are three classes of models: (1) task model, (2) non-task mode, and (3) complex or joint model.

1. Task Model

Task models attempt to explain industrial buying behavior by focusing upon variables that can be directly related to the purchasing decision itself. Some of the more common task models are as follows:

A. ***The Minimum Price Model***: it assumes that the buyer has reasonably perfect knowledge of all buying choices available and simply buys the product from the supplier offering lowest price. Note that low price is one thing and low cost is an entirely different concept.
B. ***The Lowest Total Cost Model***: this is an extension of the minimum price model. It differs, however, in that it assumes that additional costs such as training and freight as well as purchase price are significant. The buyer then purchases the product from the supplier providing the lowest overall cost.
C. ***The Rational Buyer Model:*** price cannot be considered in isolation. The buyer estimates the relative total value of each supplier's offering and then selects the supplier who will satisfy the buyer's total economic expectations. That is customers do not buy products rather they buy value or satisfaction.
D. ***The Materials Management Model:*** the chief purchasing executive or the industrial professional buyer determines the quantity and quality of the products desired and then searches for that particular supplier who can and will provide to such specifications. They search for quality level that fits the intended use or purpose. They are reluctant to pay for extra quality and are unwilling to compromise specification for a reduced price. A supplier who has a reputation for high quality products and dependable delivery may be awarded a contract even though his prices are high.
E. ***The Reciprocity Buying Model:*** Reciprocity is giving consideration to selected suppliers because of their values as

customers. It assumes that one company buys from another because the latter also buys from the former. It is based on trade relations and ignores all buying where reciprocity is not involved.

The objective of reciprocity is to reach an agreement in an exchange of business that is mutually beneficial. It is particularly useful when one purchases items in large volumes and need for special suppliers. Reciprocity is legal if it is not enforced through coercive power or if a reciprocal arrangement does not substantially reduce competition.

F. ***The Constrained Choice Model:*** it focuses on the contention that most buyers purchase from a limited set of suppliers. Source loyalty, which explains buying as a repeat or habitual task to favor previous or present suppliers, is very essential.

2. Non-Task Models

Non-task models introduce the human element into organized industrial buying. In essence, they add non-economic or non-rational elements into the buying process. Some of the better know non-task models are as follows.

A. The Ego Enhancement Model: the ego enhancement model argues that the buyer will favor suppliers who provide recognition and worth to that buyer. Basically, the buyer is seen as being on an ego trip and buying from those suppliers who feed this ego.

B. The Perceived Risk Model

In the perceived risk model, the buyer acts in such a ways to reduce the amount of risk involved in a buying situation to an acceptable level. This might mean that the buyer purchases from trusted present suppliers, from large suppliers, or from better know suppliers. All of these things may be seen as ways to reduce the risk inherent in the buying decision.

C. The Dyadic Interaction Model

The dyadic interaction model focuses on the interaction between the buyer and suppliers salesperson. It argues that the buyer develops certain role expectations for sales people calling on the company, and tends to favor those sales representatives conforming to these expectations.

D. The Lateral Relationship Model

The lateral relationships model focuses not up on the interaction between buyer and sales person, but rather up on the buyers interactions with others in his or her company. It argues that the buyer develops.

This enables the marketer to identify critical decision phases, the information needs of purchasing organizations, and the various criteria buyers consider when making purchase decisions.

E. The Buying Influences Model

This is based on the premise that the buyer is one person out of many in a company who might influence a purchase. It explains buying as a joint effort of all influences involved.

Buying influence are those people in each company who have an effect on what is purchased or not purchased. They differ among firms in the same industry buying essentially the same goods and services. It is any one in the purchasing firm who not only has the power to make decisions in favor of the product involved, but who may also be able to throw a negative vote for the product.

The key buying influences are those who are able to bring other influences to their way of thinking sometimes by design or even without realizing it. But experience and diligence seem to be the major rules to find or locate the key buying influences. Thus, the ability to pick out key buying influences and sell them the product in question is an integral part of industrial marketing.

F. The Diffusion Process Model

The diffusion process model views the buyer's company in terms of its receptivity or lack of in terms of buying new products or services. Basically, it attempts to place the organization in the diffusion process by defining it as an innovator, early adopter, early majority, majority, or laggard type of organization. It then attempts to explain buying behavior based on where the particular organization is in the diffusion process.

3. Complex or Joint Models

These models attempt to consider more than a single variable or set of variables. Typically, they combine various task and non-task models in the attempt to better understanding industrial buying behavior. Some of the more common complex models are as follows:

A. The Decision Process model

This model sees industrial buying decision making as a five-stage process:

1. Problem recognition
2. Identification of alternatives
3. Evaluation of alternatives
4. Selection of a course of action
5. Implementation

Tactics for managing others within the company in such a way to build recognition, status and power and these tactics in turn affect the way that buyer purchases.

B. The Competence Activity /COMPACT/ Model

This is a three dimensional model that integrates purchase decision with individual behaviors and organizational characteristics. It integrates the following activities.

1. The activities of industrial purchasing decisions such as awareness, selection of suppliers, applying or using the product, follow-up and assessment, and commitment to the supplier.
2. The level of organizational planning and decision making such as the user of the product, the immediate supervisor, operating management and top management.
3. The levels of individual motivation and competence

But this model is too abstract than practical.

C. The Buygrid Model

This model provides a frame of reference for organizational buying process by integrating buying decision process with three types of buying situations. Understanding organization-buying behavior is easier if it is divided into the various buying decision steps/phases and those phases are analyzed under different buying situations.

This enables the marketer to identify critical decision phases, the information need of purchasing organizations, and the various criteria buyers consider when making purchase decision.

Buying Situation

The same purchase in two different organization may produce different purchasing strategies under different buying situation. Therefore, marketing strategy must begin with identifying the types of buying situations.

1. **New Task Purchase:** is where the buying firm is buying a new product for the first time for the purpose of accomplishing a new task or solving a new problem. For example, when a firm is planning to add a new product line as a result of change in customer's preference, the decision may necessitate the purchase of new equipment or new material. Since decision makers and influencers lack the experience and product knowledge to make comparisons of alternative products and suppliers, they enter into extensive problem solving activity. So purchasers should obtain adequate information to explore alternative solutions.
2. **Straight Rebuy Purchase**: the most common buying situation in industrial purchasing is the straight rebuy. It is when the buying firm simply buys on a repeat basis. When the company purchases similar products on a continuous or recurring basis, little or no information is required. Organizational buyers usually have well developed choice criteria that have been used and refined overtime.
3. **Modified Rebuy Purchase**: is when for one reason or another, the buyer company modifies a new task purchase for the second or third time or modifies a straight rebuy purchase by looking lower price, better service, delivery or some other factors. It is used when significant benefits such as quality improvements or cost reduction

may be derived from evaluating alternatives or when there are uncertainties about which supplier can best fill specific needs. These conditions trigger the buyer to seek additional information and reevaluate supply alternatives.

D. The Sheathe Industrial Buyers Behavioral Model

This is rather complex stimulus response model of the industrial buying process. Its complexity is due to its large number of interacting variable and the presence of joint decision-making process that involves individuals. Individuals, in turn, are also influenced by a number of variable such as information source, time pressure, perceived risk and conflict resolution in the industrial buying process.

E. The Webester and Wind Organizational Buying Model

This model integrates four factors into a sequential decision model. Here industrial buying and is a joint function of:

1) Individual characteristics
2) Group factors
3) Organizational factors and
4) Environmental factors

This model has value in that it points out variables that marketing personnel could address. However it has been criticized as not explaining what the exact decision making process is, and for omitting sources of information and the effects of different classes of buying decisions.

4.4 THE PURCHASING DECISION PROCESS IN THE INDUSTRIAL MARKET

Although there is no single format directing how industrial companies actively purchase goods and services, there is a relatively standard process that is followed in most cases.

The following is a typical of the process by which industrial goods and services are purchased.

1. Anticipation or Recognition of a Problem (Need)

The purchasing decision process is triggered by the recognition of a problem or need. Such recognition may originate within the buying organization when products become out moded, equipments breakdown, or existing materials are unsatisfactory in the quality or availability or outside the buying organization such as when the marketer recognizes opportunities for performance improvement.

In the new task situation, marketing opportunities depend upon anticipating, recognizing, and understanding customer problem to provide the right information and assistance at the right time. This is difficult because problem recognition is largely internal to the buying firm. Thus, marketers need to use appropriate advertising media as well as creative salespeople.

In a straight rebuy situation, current suppliers should maintain a close relationship with users and purchasing personnel. To prevent or minimize shifts to a modified rebuy. Consistent quality and service standards must be provided. This is because dissatisfied customers with present suppliers often react by changing suppliers. Potential suppliers need to develop systematic sources of information to detect and respond quickly to any developing trends that might lead to a modified rebuy.

2. Determination and Description of the Characteristics and Quality of the Needed Item

Organizational members determine specifically how the problem will be resolved by developing solution alternatives. They complete a purchase requisition form that describes the desired specification that the product must fulfill and sent the purchase requisition to the purchasing department. Thus, the firm needs to answer questions such as "What

performance specification need to be met?" "What type of goods and services should be considered?" And "What quantities will be needed?"

3. Search for and Qualifying Potential Suppliers: once the buyer has clearly defined the kind of the needed item, a buying organization begins to search alternative potential source of supply. This leads to the qualification of suppliers.

In the new task situation, potential suppliers must demonstrate ability to perform the job and current suppliers should maintain dependability to their customers. This is because buyers may evaluate the suppliers managerial capabilities, general business reputation and financial responsibility. The primary task in a straight rebuy situation for the existing supplier is to maintain performance and communicate flow so that the customer will not consider alternative suppliers.

The marketing task for potential suppliers in a modified rebuy situation is to convince the potential customer that superior value such as better quality control, faster deliveries, significant cost savings are possible.

4. Analysis of Proposals or Bids

Once a set of potential suppliers has been located, buyers request, solicit, and receive specific proposals from each based on specifications when the item is frequently purchased, standardized or technically simple product, the buyer might simply make a few phone class or consult suppliers various catalogs.

During this stage, the various members of the buying firm analyze the acceptability of the various proposals for price, delivery, quality service, etc and rate potential suppliers.

Marketing task in the new task or modified rebuy situation should be directed at understanding the specific details of the customer's problem and providing technical assistance. This may include cooperative

involvement in cost studies, product testing, and evaluation. The supplier should also determine the relative importance of the various specifications details to the customer. They have to emphasize on those factors that have greatest importance to the customer and avoid designing product characteristics that increase cost without increasing the customer value perception. In the straight rebuy, existing suppliers should make timely proposals and quotations up on request. The goal is to maintain quality service to prevent a shift to a modified rebuy.

5. Comparing Proposals with the cost of producing the needed item in-house in a make-or-buy analysis decision.

If the buying firm decides to produce the needed item more economically, the buying process terminates.

6. Evaluation of Proposals and Selection of Suppliers

Various proposals of selecting suppliers are weighted and analyzed and then the firm selects source of supply from those who have submitted their proposals. If the firm accepts one or more competing suppliers, further negotiation continues on term of price deliveries, or other aspects of supplier's proposals.

7. Selection of an order route

Order routes are established by forwarding purchase orders to the vendors and sending copies of the purchase order and status reports to the originating department, accounting and other interested departments in the company. Consequently, the purchasing department is often involved in expediting and delivery of goods other internal activities must also be carried out when the order is delivered. The goods, must be received, inspected, paid for and entered in the firm's inventory record.

8. Performance evaluation and feedback

When a purchase has been made and the goods delivered, an evaluation process begins with regard to the product and the supplier performance.

The buyer with the originating department inspects the goods whether they meet the specification described in the purchase agreement and the purchase item solved the original problem.

In sum the direction of marketing strategy is greatly affected by both the purchase situation and the decision phase of the customer firm. Greater amounts of information is needed by organizational buyers as the purchase situation changes from straight rebuy to a modified rebuy and then to a new task situation.

4.5 WHO IS INVOLVED IN THE ORGANIZATIONAL BUYING PROCESS?

Organizational purchasing often involves a variety of activities and a number of people from different departments within the firm. Peoples from marketing, production, engineering, purchasing, research and development, logistics and transportation, general management, etc. involves in the buying decision process.

They have various responsibilities and important source of information. Marketing, for example is responsible for the selling activity of the firms product, prediction determines the most economic way of producing the item and so on. These participants in the buying process can be grouped into six groups: initiators, users, influencers, gatekeepers, buyers, and deciders.

1. ***Initiators:*** are the people who perceive a problem or opportunity that may require the purchase of a new product and thereby trigger the buying process in motion. The initiator can be anyone at any level in the firm.
2. ***Users:*** are those organizational members who use or work with the products and services. Thy exert from a minor to a very significant

degree of influence on the purchasing decision. They may even initiate the purchasing process and play an important role in defining purchase specifications.

3. ***Influencers:*** those individuals inside and outside the organization who influence the decision process (directly or indirectly) by providing information on criteria for evaluating alternative products and suppliers. They often play a role in determining the specifications and criteria to use in making the purchase decision. They are usually technical experts (such as design engineers and quality control inspectors) drawn from various departments whose knowledge is useful in making wise decisions.
4. ***Deciders:*** those organizational members who have formal or informal authority to make the final purchase decisions. Higher-level executives in the organization usually retain it. However, identifying deciders is often the most difficult task. In routing purchases of standard item the buyer is usually the decider.
5. ***Buyers':*** are purchasing agents or higher level officers of the company who have the formal authority in the selection of suppliers, negotiate purchases, and in the implementation of procedures involved with purchasing. They may involve in developing specifications but their major role is in selecting suppliers and negotiating purchases within buying constraints.
6. ***Gatekeepers:*** those organizational members who control the flow of information (kind and amount) that reach other people involved in the purchasing process. This can be done by controlling printed information and advertisements, as well as by controlling which salespersons are allowed to speak to individuals within the buying centers. They can include the organization's purchasing agent and the supplier's salespeople.

4.6 UNDERSTANDING BUYERS MOTIVATION

In addition to understanding the industrial buying process and defining the buying influences operating within that process, the industrial marketing manager must seek out and understand the buying motivations involved in each case. For instance, assume that a drill press is being marketed to an industrial user customer for use in the customer's production line. The main buying influences are located and found to be the purchasing agent, the foreman of the using department and the production supervisor. Although each is interested in the same product – in this case the drill press – they may not all be looking for the same thing in than drill press. The purchasing agent may make the decision among suppliers on the basis of price and certainty of delivery, the foreman may be choosing on the basis of ease of operation for workers, and the supervisor may make his decision on the basis of how well the drill press integrates into the entire production process.

The point is that although all the three are buying influences for the same product, their buying motivation differs and unless the industrial marketing manager and the field salesperson address themselves to these differences, they may not communicate at all with their buying influences. If they are talking to the purchasing agent about ease of operations when that is not at all the basis of his decision, their marketing message will have little effect. All this implies the need to analyze further the buying influences once they are defined and located.

Rational Versus Emotional Motivations

Industrial buying influences may be motivated by both rational and emotional factors in choosing among suppliers of required goods and services. ***Rational motivating*** factors are those based primarily on economic considerations such as lowest price, reciprocity, technical assistance service, certainty of delivery, and demands by customers and middlemen for certain brands. Emotional motivating factors, on the other

hand, are more subjective in nature and may best be explained by such things as the image of a suppliers or a brand, the size of the supplier's operations, the reputation of a supplier for prompt delivery, and whether or not a company is a present supplier or a new supplier. ***Emotional motivating*** factors are based more on buyer impressions, attitudes, opinions, feelings, personal like and dislikes, and so on than on hard economic realities.

Although it is generally conceded that industrial buyers are more rational in their purchasing than are ultimate consumers, those buyers are still people, and as such, they are influenced by some degree of emotions almost every time they purchase.

Check Your Progress Exercise

1. Is there a standard industrial buying process common to companies in the industrial market.

.....

.....

.....

2. How does marketing to a straight rebuy differs from marketing to a new task situation in the industrial market?

.....

.....

.....

3. "For the most part, industrial buying is rational and an economic process that leaves little room for emotional consideration." Do you agree with this statement? Discuss.

.....

.....

.....

4. In which phase of the purchasing process will top management most likely involved? At what stage should the marketer attempts to become involved?

.....

.....

.....

5. Identify the different models of industrial buying behavior.

.....

.....

.....

4.7 SUMMARY

Understanding how industrial corporation purchase goods and services is imperative for effective industrial marketing, as industrial purchasing is the other side of the coin, and it is highly unlikely that any manager can effectively market without a thorough understanding of how such firms actually buy. Toward this end, various models of industrial buying behavior were reviewed for their input into a better understanding of industrial buying. It must be understood that there is an industrial purchasing process and that people, not companies, actually do the purchasing. Those people in each company who have an effect on what is purchased are called buying influences, and those buying influences differ among firms, every firms in the same industry buying essentially the same good and services. Moreover, each buying influence may be motivated by different factors, and these must be understood if they are to be addressed in the marketing strategy. Some of these factors are rational or economic in nature, and some are emotionally derived.

4.8 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer 4.4
2. Refer 4.3 number 3 under 4.3
3. Refer 4.6
4. Refer 4.4
5. Refer 4.3

UNIT 5: PLANNING THE INDUSTRIAL MARKETING STRATEGY

Content

5.0 Aims and Objectives

5.1 Introduction

5.2 Meaning of a Strategy and Strategic Planning

5.3 The Strategic Planning Process

5.4 The Marketing Plan

5.5 Summary

5.6 Answer to Check Your Progress Exercise

5.0 AIMS AND OBJECTIVES

Once the target customers have been defined, located and analyzed the actual task of marketing decision-making begins. This basically involves the formulation of marketing strategy so as to reach those target customers. This unit provides detailed information on the components of a strategic plan and the different market coverage strategies.

By the time you finish this unit you should be able to:

- define strategic planning
- identify the strategic planning process
- describe the different market coverage strategies.

5.1 INTRODUCTION

Success in the industrial market depends on recognizing the importance of strategic planning. If industrial marketers are to meet the challenges of today’s rapidly changing markets and increasing global competition, marketing decisions must be based on well-conceived strategies. Clearly defined strategies and resulting plans as well as optimal utilization of limited resources are vital to achieve the firms objectives

5.2 MEANING OF STRATEGY

The word “strategy” is of Greek derivation and originally was applied to military endeavors. From business perspective, strategy is defined as “an organized statement of broad tasks and/or areas of activities necessary to achieve an objective”. This definition implies action – the definition of goals or objectives followed by activities being undertaken to achieve those goals or objectives.

Strategic planning is the managerial process of developing and maintaining a relationship between a total organization and those elements comprising its environment. In other words strategic planning is a process that consist of developing a system of objectives and plans that consist of developing a system of objectives and plans as well as the allocation of resource to achieve objectives. It involves in recognizing, anticipating, and responding to changes in the marketplace to ensure that resources are directed towards achieving those opportunities that are consistent with the firm’s capabilities. It is a formal, long-range planning process that focuses on an organization’s basic mission, objectives, and strategies needed to accomplish these objectives. Strategic planning at the corporate level involves decision on which markets to compete in determining corporate mission and objectives, acquiring needed resources, and allocating those resources among the different markets to achieve corporate goals. It basically involves:

- Developing products that relate to the needs of target customers.
- Promoting products to expose product to customers.
- Distributing properly so that products are physically accessible to target consumers.
- Pricing them in a manner that will be reasonable to consumers.

Strategic planning at the business level addresses how and on what bases the firm will compete in a market and provides guidance as to how the

various functional areas will be coordinated to achieve corporate objectives.

5.3 THE STRATEGIC PLANNING PROCESS

Any industrial marketing managers should understand a number of steps involved and analyze What is involved in each of these steps in designing an effective industrial marketing strategy. These steps be discussed below:

1. Analysis of the Present Market Situation

This involves a through analysis of the present market situation both within and outside the company through the use of marketing intelligence. At this stage the industrial marketing manager should perform the following major activities.

A) Opportunity and Threat Analysis

Evaluation of the present and future marketing opportunities and threats are very essential in order to determine what business we are in. Opportunity and threat assessment shapes organizational efforts, determines how resources should be deployed and guides the organization future. It answers questions such as the market to serve, which products to add or drop, how the sales force should be deployed and what services should be offered. In effect, it guides the organization to the development and revision of its objectives as well as the development of profitable marketing strategies and plans. The purpose of having this assessment is to enable an organization to capitalize on its ability to develop, maintain and defend a specific position in the market.

According to Kotler an environmental opportunity is a relevant marketing action in which a particular company is likely to enjoy a differential advantage so a marketing opportunity is a favorable situation that depends not only on environmental factors but on the organization’s actual and potential resources as well.

A threat, on the other hand, is a challenge posed by unfavorable trend or development in the environment that would lead, in the absence of marketing action, to the erosion of the company's position.

Finally, environmental monitoring or scanning is the analysis of past developments and current situations as well as further projections should be carried out in order to identify likely opportunities and threats of the external environment.

B) Internal Company Analysis

This is identifying the specific strengths and weaknesses upon which strategic planning should be based. In order to take advantages of the external business opportunity and to minimize the impacts of threats, an organization must develop its strength. It has to review the company's past and present performance with respect to its product and markets, industry trends and characteristics.

In sum, the industrial marketing manager would be analyzing such factors as:

1. The performance of the firm's industry relative to the growth and fluctuations in the general economy.
2. The firm's sales volume and market share.
3. The company's product or service mix.
4. The composition of present and potential markets.
5. The buying practices of firms in those defined markets.
6. The production technologies and distribution patterns affecting the company.
7. Pricing trends and the emphasis on pricing competition.
8. The capabilities of the company's production engineering, financial, and sales facilities.
9. Competition from external firms in other industry and within the same industry

10. The social, legal, and political environment in which the company operates.
11. The firm's promotional strategy
12. The company's distribution capabilities

2. Identification of Target Markets Through Market Segmentation

Market segmentation is the process of dividing a larger market into sub-markets, each having different demand patterns, needs, buying styles, and responses to various supplier's marketing strategies market segments must be assessed in terms of their market potential, competition, customers profiles and the company's capability in serving them.

Identification of the target market involves the careful definition of markets in terms of the standard industrial classification system and then clearly locating customers within this SIC system. Once this is done, the marketing manager must objectively appraise what resistance will be encountered and what difficulties will have to be overcome in marketing to these customers. The fact that potential market targets exists is not enough: the manager must realize that competitors will also be looking at these markets and that penetrating these markets will not be easy. Thus, it is important that the manager attempt to define the areas of difficulty that will be encountered in the attempt to penetrate those markets.

3. Establishing Company Objectives

Situational analysis reveals a firm to take advantage of an environmental opportunity or to avoid a threat. It helps the organization to redefine its business domain and adopt a more effective marketing strategy. Corporate objectives identify the overall business directions to the company. They are the specific results desired by the company while mission statement is the underlying aim or thrust of a company.

Objectives are important in the strategic planning process because they provide people with a specific role in their organization, lead to consistency in decision making among the various functional managers, stimulate exertion and accomplishment, and provide the basis for specific planning and control.

The marketing manager then, must set SMART objectives i.e., the objectives must be specific, measurable, attainable, realistic and should be time bound.

Given the assessment of the current and future market situations, specific marketing objectives must be determined in such areas as:

- Sales volume (by product line, market area, customer type, time periods)
- Market shares and sales growth rates
- Gross margin, profit, or return on investment
- Product mix
- Penetration of present and potential market targets
- Company image

4. Selection and Implementation of the Appropriate Marketing Mix

Once marketing objectives and target market(s) have been identified, alternative-marketing strategies must be analyzed. The industrial marketing manager must carryout both intensive analysis (which identifies possible strategic alternatives within the company's current areas) and diversification analysis (which identifies strategic alternatives outside the firms current business areas) to determine strategic marketing alternatives. They should develop the right combination of marketing mixes (product, promotion, channels and price) on the basis of good use of marketing information and personal judgment.

Decision with respect to the product line, features, quality levels, services, and new product development used to satisfy customer needs must be clearly formulated and integrated with manufacturing, R & D, and technical services.

Since the product or service must be delivered to customers when and where they are wanted, distribution strategy is primary concerned with developing the right combination of factors to ensure consistency with the total marketing strategy. Promotion strategy defines the manner in which the firm will communicate with its target market and provides the basis for formulating personal selling, advertising, sales promotion, and media selection plans. promotional strategy must be consistent with other strategy components and be closely integrated with financial strategy due to cost considerations.

Because of its influences on demand and supply, profitability, customer perception and regulatory response, price strategy must be carefully developed together with internal factors such as cost, return on investment, and profitability.

Marketing mix strategy is tactical scheduling of activities within each sub-strategy that constitute the overall marketing strategy.

5. Implementing and Controlling the Marketing Strategy

Once marketing strategies and plans have been determined, they must be implemented and carried out. This steps helps to determine if the strategy is succeeding or not, or helps to apply elsewhere or not, capitalized the correct moves, make corrections and evaluate objectives that dictate product changes, price alternation, switching channels and reversing promotional efforts.

To evaluate and control the performance of each strategy, a number of performance standards for control must be established. This may include

- Sales and cost analysis or the predetermined objectives.
- Reports and the company's periodic information systems.
- Historical trends in performance.
- Budgets.
- Industry averages in performance.

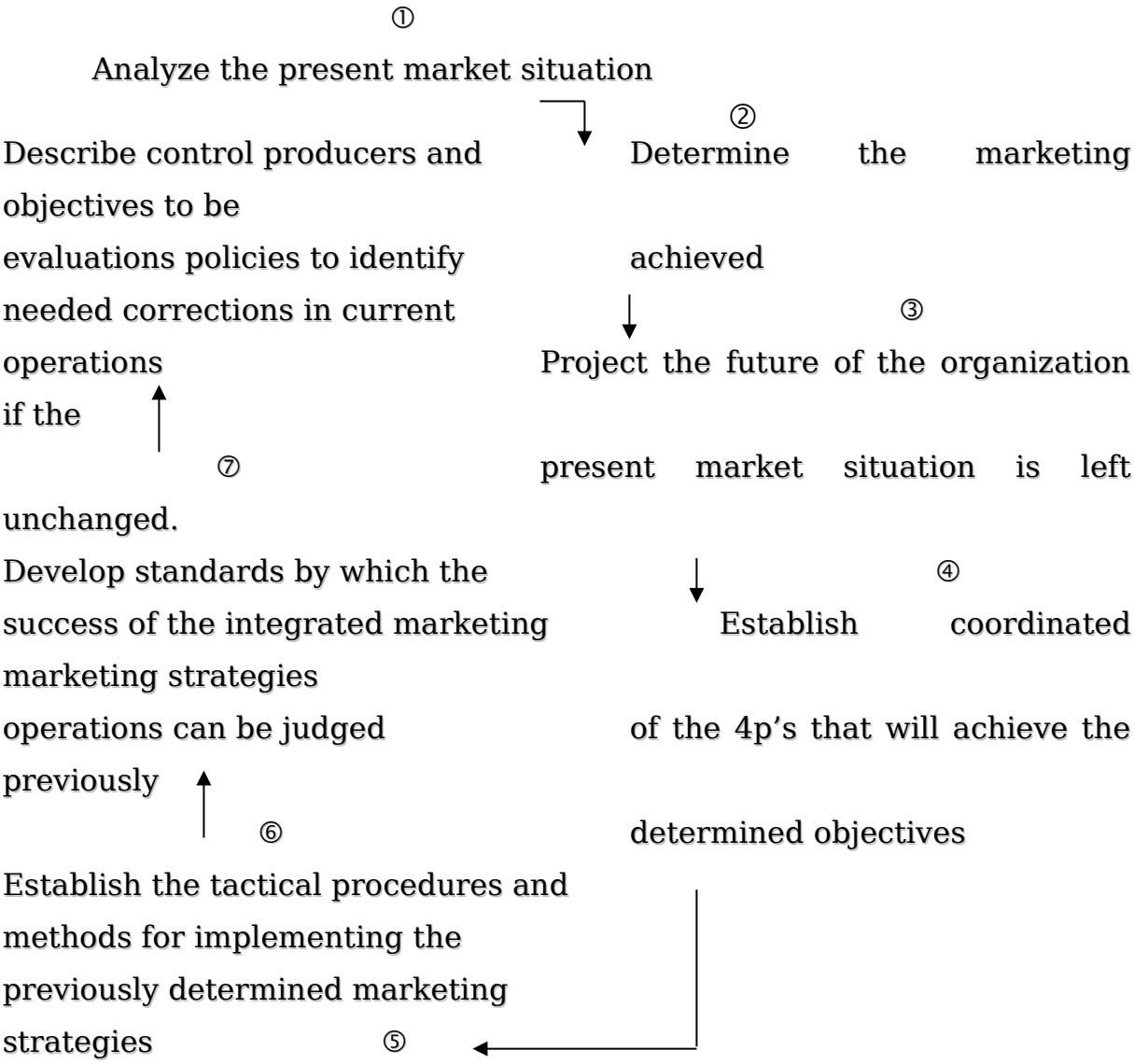
In order to control the marketing strategy one can also consider the following questions.

- Who is responsible for each area of the strategy?
- What routing control reports should be required and from whom?
- How much deviation from the standard will be permitted?
- Who is responsible for the overall control of the marketing strategy?

5.4 THE MARKETING PLAN

Marketing is a systematic anticipation and analysis of future changes coupled with the methodology for adapting to such changes. Thus, the marketing plan is future oriented and can relate to the immediate intermediate, or long-run futures. In short, the marketing plan is the formal written documentation of the marketing strategy – it is composed of a series of sub plans in the functional areas of marketing that allow the company to adapt to anticipated and even unanticipated changes in accordance with carefully defined objectives over a specified period of time in the future.

The Industrial Marketing Process



What Makes a Good Marketing Plan?

As was stated earlier in this unit, there is no single marketing plan that is correct for all companies. There are, however, certain characteristics that the best marketing plans have in common. These characteristics are:

1. The plan must be specific – the details of the plan must be precise enough for implementation and control.
2. The plan must be measurable the result of the plan must be measurable

3. The plan must include a specific tenie frame.
4. The plan must be flexible enough to be adapted to unforeseen changes.
5. The plan should identify the responsible person with equivalent authority for each activity.

Advantages Gained from Market Planning

The marketing plan is not a luxury item for the industrial marketing manager. Indeed, it is an absolute necessity with any degree of effectiveness. Some of the major advantages are as follows:

- It facilitates organized thinking both within and outside the marketing department.
- It gives the manager some degree of control over the future.
- It provides continuity in the marketing function – since planning is not a one-shot effort but rather a continuous process.
- The marketing plan provides a working document for the implementation of marketing strategy.
- It forces the manager to establish objectives for marketing direction.
- It prioritizes activities is the proper manner – it forces all marketing activities to be coordinated and integrated.

Market Coverage Strategies

Market segmentation allow the marketer to determine where opportunities exist, how marketing strategy may be developed and which segments are profitable. Once this activity is accomplished, decision must be made as to which segments will be served or targeted. This involves the matching of those plans and programs designed to develop product mixes of the organization with target markets. However, there is no single type of marketing strategy appropriate for all marketing situations. Basically, there are three alternative market selection strategies.

1. ***An undifferentiated marketing strategy:*** this strategy occurs when the marketing manager develops broad marketing effort to appeal to all potential customers. It is appropriate when the company markets relatively standardized products or services into a horizontal market. Undifferentiated refers to the fact that the firm ignores segment differences and develops a single marketing program that will focus on what is common to all buyers.
2. ***A differentiated marketing strategy:*** this is when a company markets its products or service to a number of market segments whose needs, products usage, market response or buying behavior differs appreciably. Here the marketing manager should determine specific marketing efforts towards each market or segment.

   Industrial marketers do sell different types of products to a number of customers and each customer defines its own product specifications.
3. ***Concentrated marketing strategy:*** this is choosing to focus on only one of those segments from the various segments for various reasons when a company's resources are limited, the firm may choose to go after a larger share of one or a few markets. It occurs in a vertical marketing and in almost any type of industrial products with its own inherent problems.

Within each basic types of strategy, industrial marketing manager can see other options such as:

- A strategy to retain a present market share
- A strategy to increase present market share
- A strategy to develop a new market for existing products
- A strategy to develop a new market for new products, etc.

Check Your Progress Exercise

1. What do you believe are the major benefits to be obtained from marketing planning in the industrial market?

.....

.....

.....

2. If an industrial marketing plan is to be effective, what essential components must that plan contain?

.....

.....

.....

3. What do you see as the biggest dangers of
   a. Undifferentiated marketing strategy; and
   b. A concentrated marketing strategy in the industrial marketing.

.....

.....

.....

5.5 SUMMARY

The intent of this unit has been to create the impression of the importance of marketing planning and marketing strategy formulation. Without such an approach, the industrial marketing manager will forever be on the defensive with all its accompanying disadvantages that usually lead to management by crisis. A marketing planning model and format were illustrated to show the scope and complexity of such planning and to give insight into what should be included in a realistic and effective marketing plan. The approach taken in this unit permits the manager to formulate marketing strategy in regard to products and customers individually instead of to all of them collectively. By doing so, the

manager will find it easier to formulate sub-strategies in product, promotion, channels, and price that will comprise the overall marketing strategy.

5.6 ANSWER TO CHECK YOUR PROGRESS EXERCISE

For all questions, refer sub parts of 5.4

UNIT 6: INDUSTRIAL MARKETING INTELLIGENCE

Contents

6.0 Aims and Objectives

6.1 Introduction

6.2 Definition of Marketing Intelligence

6.3 Industrial Marketing Research Process

6.4 Differences Between Marketing Intelligence & Marketing Research

6.5 Differences Between Industrial and Consumer Marketing Research

6.6 Summary

6.7 Answer to Check Your Progress Exercise

6.0 AIMS AND OBJECTIVES

As the preceding unit has indicated, effective marketing strategy formulation is dependent up on sound information from the market place. Therefore, the aim of this unit is to give brief explanation on the sources and components of marketing intelligence.

By the time you finish this unit you should be able to:

- describe marketing intelligence
- identify the components of marketing research
- differentiate industrial marketing from consumer marketing research.

6.1 INTRODUCTION

It should be recognized that product decision made without the benefit of market input from those who will purchase and use that product may easily be an error or irrelevant. The same logic applies to the areas of promotion, distribution, and price and of course, to the overall marketing plan and strategy. Information must be obtained from the market place, if sound decisions are to be made. From a marketing strategy perspective, such information is called marketing intelligence.

6.2 DEFINITION OF MARKETING INTELLIGENCE

Marketing intelligence refers to any useful information that could be used by marketing manager to enhance their competitive positions. It is used in market segmentation and overall marketing strategy formulation and market planning.

Such information could vary all the way from complaints by distributors about packaging to date provided by the company's own accounting department regarding increasing cost of raw materials, and so forth.

Sources of industrial marketing intelligence

The sources of marketing intelligence are as numerous as the type of information sought by marketing managers in the industrial market. But, they are categorized into two basic sources.

1. Internal Marketing Intelligence – this includes useful information obtained from such sources within the company as:
   - production department for sales forecast
   - production control
   - purchasing
   - quantity control
   - research and development
   - accounting
   - date processing
   - personnel
   - legal department
   - logistics and shipping

2. External marketing Intelligence – these could be any type of useful information obtained from sources outside the company such as:
   - company sales people in the field
   - feedback from manufacturers' representative about customers

- distributors if used
- formal marketing research projects
- customers both in terms of direct and derived demand
- analysis of competitors
- trade shows and trade publications
- outside consultants employed by the company

These lists are not intended to be complete, but only to illustrate the sources of intelligence in the industrial market. As can be seen, the sources are just about as varied as the types of information sought. There are many sources of marketing intelligence open to the industrial marketing manager. Yet, the collection of marketing intelligence must be selective and must be colleted by design if it is to be used to the advantage. It should be selective in terms of the specific objectives in the marketing plan, and it should be selecting interms of choosing those sources of intelligence most likely to produce valid information. This helps to develop the flow of desired information, which is called ***Marketing Information System (MIS)***.

MIS is an attempt to collect, analyze, and distribute to those who will use market data on a continuous basis where as industrial marketing research is (normally defined as) the systematic gathering, recording and analyzing of data pertaining to the marketing of industrial goods and services or in short to individual problems that are encountered either at periodic or irregular intervals.

MIS is the basis of all sound marketing strategies and marketing plans. It clearly show the producers to be followed in collecting information. Without this procedure the result will be collecting all kinds of bits and pieces of information that have little value in the decision making process.

6.3 INDUSTRIAL MARKETING RESEARCH PROCESS

Industrial marketing research is undertaken to gather reliable marketing information to facilitate planning and control. It intends to provide benefits to the firm by indicating environmental opportunities and threats. Research can also indicate lesser contingencies or unforeseen chances, constraints or restrictions, and how the firm can best operate or react to them. Therefore, the value of the result will depend on the design and implementation of research methods. Marketing research then is viewed as a process that follows the following basic steps.

1) Defining the problem and research objectives. This is establishing the nature of the opportunity to be sought or the threat to be overcome.
2) Developing the source of information
3) Collecting/gathering the information
4) Analyzing the information
5) Presenting the findings

6.4 DIFFERENCES BETWEEN MARKETING INTELLIGENCE AND MARKETING RESEARCH

The two concepts differ appreciably from each other although marketing research is part of marketing intelligence.

1. Marketing Research is more confined in scope and generally considered as part of the overall marketing intelligence.
2. Marketing research normally involves projects of a single or non-repetitive nature where as marketing intelligence is gathering information in a more continuous process. In other words to collect data through marketing research on a continuous basis requires a tremendous costs in terms of time, money, and manpower even if

continuous information is essential in making sound marketing decisions.

3. Marketing research is conducted to build a data base for individual marketing problems such as in the product, promotion, pricing or channel areas, whereas marketing intelligence is broader and may encompass many problems at the same time.

With this concept, marketing research whether it is the consumer or the industrial market has more similarities than differences with marketing research.

6.5 DIFFERENCES BETWEEN INDUSTRIAL AND CONSUMER MARKETING RESEARCH

Differences in the amount of technical knowledge required in researching the industrial market. The industrial marketing researcher must be more technically oriented than his consumer-marketing counterpart.

In industrial marketing, knowledge of buying influences and organizational behavior is necessary to perform the job effectively. The researcher must understand the formal, informal and key buying influences, purchasing processes, purchasing policies, etc of the organizations.

While the consumer-marketing research is concerned often only with the direct consumer demand, in industrial marketing research both direct and derived demand must be understood.

Market structure differences exist in the two markets. In the consumer market, there are often many customers and a single interview may be sufficient to collect the required data for such customers. But in the industrial market, there are few customer firms, and in most cases each of them must be interviewed in-depth. This implies that there are sampling differences in researching the two markets.

The consumer marketing research moving in to the industrial marketing will have to turn to entirely different sources of data and until these sources are learned, effectiveness will be impaired. However, in the industrial market, due to the smaller concentration of industrial buyers, information sources tend to be concentrated and there is great reliance on secondary source of data and experts judgment.

Check Your Progress Exercise

1. What are the basic differences between industrial marketing research and industrial marketing intelligence?

.....

.....

.....

.....

2. Should the first steps in formulating a realistic plan be the systematic gathering of information or should it be the establishment of realistic quantifiable objectives? Explain your answer.

.....

.....

.....

.....

3. Industrial marketing intelligence can be defined as being either internal or external what are the major differences between these two forms of marketing intelligence?

.....

.....

.....

.....

6.6 SUMMARY

The purpose of this unit has been to emphasize strongly the need for market information for incorporation into the industrial marketing manager's marketing plan and marketing strategy and subsequently into the sub strategies. A marketing plan or marketing strategy without the benefit of input from the market is unrealistic and doomed to failure. Therefore, it is imperative that the industrial marketing manager understands what types of market information or intelligence are required and know what sources could best provide such information. The area of industrial marketing research was developed in terms of how it differs from consumer marketing research.

6.7 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer 6.4
2. Refer 5.3
3. Refer 6.2

UNIT 7: PRODUCT STRATEGY IN INDUSTRIAL MARKETING

Contents

7.0 Aims and Objectives

7.1 Introduction

7.2 Industrial Product Strategy

7.3 Difference Between Industrial and Consumer Product Strategies

7.4 The Importance of Product Planning

7.5 The Product Lifecycle

7.6 Product Planning Implications in the Lifecycle

7.7 Applying the Product Lifecycle to Industrial Marketing

7.8 A Format for New Industrial Products

7.9 Analysis of Industrial Product Failures

7.10 Product Management in the Industrial Market

7.11 Summary

7.12 Answer to Check Your Progress Exercise

7.0 AIMS AND OBJECTIVES

After reading this unit, you must be able:

- to explain the industrial product strategy
- to point out the major differences between industrial and consumer product strategies
- to describe the major characteristics of a product lifecycle under each stage and analyze the industrial product failures and
- to explain how the industrial product management is.

7.1 INTRODUCTION

Overall marketing strategy is comprised of the four basic sub strategies of product, channels, promotion, and price. Once market segments have

been defined, located and assessed and once appropriate marketing intelligence has been gathered, the industrial marketing manager must develop overall marketing strategy and construct a marketing plan for carrying out that strategy. Within this strategy and plan decisions must be made regarding products and/or services to be offered, channels of distribution to be used, promotional efforts to be employed and prices to be charged. The following units of this material are devoted to the areas of product, channels, promotion, and price and their implications for marketing decision-making and marketing management.

7.2 INDUSTRIAL PRODUCT STRATEGY

Industrial product strategy actually involves such matters as the determination of a company's basic product policies, the establishment of specific product objectives that are consistent with previously defined marketing objectives, the determination of what particular products and/or services are to be manufactured and marketed, and the determination of what the specifications of those products and/or services will be. In other words, product strategy ranges all the way from the broad product policies down to specific grades, models, and sizes to be produced and specific services to be performed.

Inherent in industrial product strategy formulation is the area of product planning. The following is an excellent practical description of what is involved in product planning.

Product planning is the continuous process of fully investigating the planning, timing, and pricing and the servicing required to add the new, discontinue the undesired and maintain, modify, and improve the existing products so as most profitably to meet marketing needs and justify the manufacture of these products by the company.

The description implies a number of areas of responsibility for the marketing manager in product planning and product strategy in the industrial market. These areas are:

→ establishing product policies
→ setting product objectives
→ searching out new product additions
→ determining the product specifications
→ introducing new products
→ modifying existing products
→ dropping old products
→ maintaining the proper product line
→ packaging the products and
→ providing the necessary technical assistance and pre-and post sale servicing required by the industrial customers.

A very important point must be made here. The product area of industrial marketing must not be viewed as a given or uncontrollable element in the marketing mix. The manager must remember that the market place is the fundamental reason for the existence of any industrial product or service. Once the product or service fails to fulfill a need in the market place, its sales will decline and its marketability may be finished. Far too many industrial marketing managers and product managers have a tendency to see industrial marketing as those activities that take place in distribution, promotion and pricing after the product or service has been developed. This thinking is faulty and involves a product rather than a market orientation. The manager must remind himself or herself constantly that intelligent product strategy is dependent up on good market input just as are the other three marketing sub strategies of channels promotion, and price.

7.3 DIFFERENCE BETWEEN INDUSTRIAL AND CONSUMER PRODUCT STRATEGIES

Product strategy by definition is basically the same in both the consumer and industrial markets, although practices may differ considerably owing to the characteristics of the products and the customers involved. The following table illustrates some of the basic differences based on a survey of 334 industrial marketing companies and 139 consumer goods manufacturers.

	Producers of:		
Product effort activity	Industrial Goods (%)	Consumer Durables (%)	Consumer Non-durables (%)
Presale service	23.7	12.8	12.1
Postal service	17.7	14.2	9.2
Technical R & D	34.5	34.6	38.6
Market Research	15.7	17.8	27.5
Style R & D	6.1	18.8	9.6
Other	2.3	1.9	3.0
Total	100.0	100.0	100.0

Table: Relative importance of the elements of product strategy

As can be seen, service plays a large role in industrial product strategy than it does in consumer product strategy, and this is particularly so as regards service before the sale. It is also interesting to note that although technical research and development (R&D) plays about the same role in both markets, industrial marketing managers place much less emphasis on style research and development, which implies that many industrial marketing managers believe their buyers are more rationally than emotionally motivated in their purchasing.

Market research also seems to play a lesser role in the industrial market than it does in the consumer market. This latter is a phenomenon found quite commonly in the more technical industries such as are often found in the industrial market. The reasons for this are many, but generally

products in such industries are developed by in-house engineering and R & D departments, which possess the technical sophistication necessary to develop such products, but which often do not believe the same level of sophistication exists in the customers for these same products. Therefore, little market research takes place.

Another difference is in the area of product protective nature than it is of a promotional nature, although the latter has become quite popular in OEM Products of the off-the-shelf variety sold through industrial distributors. Other differences between product strategy in the two markets will arise at times in this unit, with the point being that industrial marketing product strategy decisions differ from those found in the consumer market even though the basic principles are similar. Product characteristics and the characteristics of industrial customers almost of necessity dictate a different approach to the products sold into the industrial market.

7.4 THE IMPORTANCE OF PRODUCT PLANNING

With few exceptions, sound product planning is essential to continued success in the industrial market. Viewed broadly in terms of product strategy there are only three ways for a company to continue to exist and succeed:

i. the company can continue to increase sales of its existing products to both present and potential customers.
ii. the company can introduce new products on a continuous, successful basis, and
iii. the company can expand its product offerings via merging with or acquiring other companies and thus add new products in this manner.

Analysis of the above three options leads to one basic conclusion-unless the marketing manager continues to introduce a stream of successful new products over time, the long range potential of the company is limited. To emphasize continued sales of present products as the basic product philosophy is foolhardly in the long run because of such factors as market saturation and the high rate of technical product obsolescence found in the industrial market. To emphasize mergers and acquisitions as the primary product philosophy also has shortcomings because of such factors as government restrictions, particularly in the antitrust area, reluctance of firms to be absorbed, image differences of merged companies and various other reasons.

What all this means to the industrial marketing manager is that to be successful, he must recognize the need for new products in the marketing strategy. This doesn't mean, of course, that the manager wouldn't continue to attempt to expand the customer base for his existing products, not does it mean that he wouldn't pursue merger or acquisition possibilities if they arose and were consistent with overall marketing and product objectives. What it does mean, however, is that the manager must somewhere in the product strategy and the marketing plan include emphasis on the development of new products. Not to do so may be tantamount to marketing disaster, and thus product planning is of critical importance to the industrial marketing manager. All of this discussion appears to be common sense, but in the actual industrial market, it is often overlooked, as marketing managers become obsessed with the marketing of their present products and they are not prepared to replace those products when their demand decreases or ceases to exist. This means that they are often caught unaware by competitive moves and as a result placed on the defensive in their strategy, which is not where any aggressive marketing manager whishes to be.

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

Increased Competition: Because of increased competition, both domestic and foreign, industrial buyers today have more choice in their purchasing. New materials, new processes, new technologies, new sources of supply, and the like place great strain on the industrial marketing manager as regards product strategy. Customers will not continue to buy existing products if better competitive choices come along. Thus, the manager must keep pace with competition.

Derived Demand: Because of the derived demand aspect, the industrial marketing manager must pay very close attention to product planning. This is an era where ultimate consumer wants and needs are changing faster than they ever did before, and this has defined effects on the demand for industrial goods and services used to produce goods sold into the consumer market. This means that the industrial marketing manager cannot be complacent about the product line even if industrial customers are seemingly satisfied.

Greater Sophistication in Industrial Purchasing: Another factor that is forcing closer attention to industrial product planning is the growing sophistication found in industrial purchasing professionals and other buying influences. As these people become more knowledgeable, more specialized, and more discerning in their purchasing, they became more picky in relation to competitive choices open to them. Industrial products are screened closely by buyers and buying influences on any number of different factors. Product quality and performance are judged harshly by value analysis, vendor analysis, and other such sophisticated methods. This implies a distinct need for effective product planning to supply the buyers and buying influences with products that satisfy their particular requirements.

Laborsaving Requirements: For years now, some industries has been hit hared by rising labor costs, and in their purchasing manufacturers are constantly looking for labor savings in their equipment and materials. This means that purchases are viewed with this aspect in mind, and customers will switch suppliers for laborsaving reasons even if they are reasonably satisfied otherwise with their present products. For example, if a manufacturer presently were purchasing production line equipment that required three men to operate, it might very well switch to a competitor who could offer a similar piece of equipment that could be operated by two men or a single worker. This demand for laborsaving by industrial customers has also placed great stress on the industrial marketing manager in product planning, particularly in firms selling to users customers.

Energy Saving Requirements: Manufacturers are constantly seeking products that will reduce energy consumption in their manufacturing process. This in turn means that industrial customers will switch products and/or suppliers if energy savings could be realized from such action. Studies have shown that industrial buyers and buying influences are very interested in such factors as economy of operation, and cost saving in operation in their purchasing of required equipment, parts, and suppliers. This implies that industrial customers will shop for such savings and this means that product planning must accommodate such buying patterns if the manager is to continue to sell products to such customers.

Cost of Industrial Product Failures: another factor affecting the need for industrial product planning is the cost involved in producing and marketing industrial products, particularly capital goods. Although it is true that there are also high costs involved in producing consumer goods, the unit cost is usually less constraining. What this means, of course, is that the costs involved in product failures that can be attributed to poor product planning can be tremendous in the industrial market.

Rate of Failure of Industrial Products: New industrial products are risky just as new products are in the consumer market. Although it is difficult to define what constitutes a product failure, it is estimated that about 80% of all industrial products fail to meet company objectives and therefore, are considered failures. Adding to this fatality rate is the high cost of industrial product failures. These two factors collectively almost automatically impress upon the manager the need for careful and effective product planning.

7.5 THE PRODUCT LIFE CYCLE

Just as in consumer marketing, probably the most widely recognized product-planning concept is the product lifecycle. Basically, the concept holds that products and services have lifecycles similar to the human lifecycle. Products and services are born, grow up, mature, and die. Every product and every service have a lifecycle and, in fact, have a different lifecycle for each of their respective markets. This is just as true for industrial products as it is for consumer products, although it is sometimes argued that the further away from the ultimate consumer, the longer the product lifecycle. For drugs, cosmetics or grocery shelf items, the cycles may run from two to five years, whereas in producers' goods such as machine tools, the cycles may run for 15-25 years, and for basic industries such as coal, steel or aluminum, lifecycle may be as long as from 50-70 years. But to assume figures such as these as rules would be a mistake because "industry's hardheaded purchasing agents are willing to buy a new product – or drop an old one in short order if the reason is demonstrable." And, of course, the lifecycles of particular models of those products can be very short for many reasons. The point is that lifecycles in the industrial market for particular models of particular products in a particular markets can be just as short as they are in the consumer market, and the astute industrial marketing manger is well aware of this.

7.6 PRODUCT PLANNING IMPLICATIONS IN THE LIFECYCLE

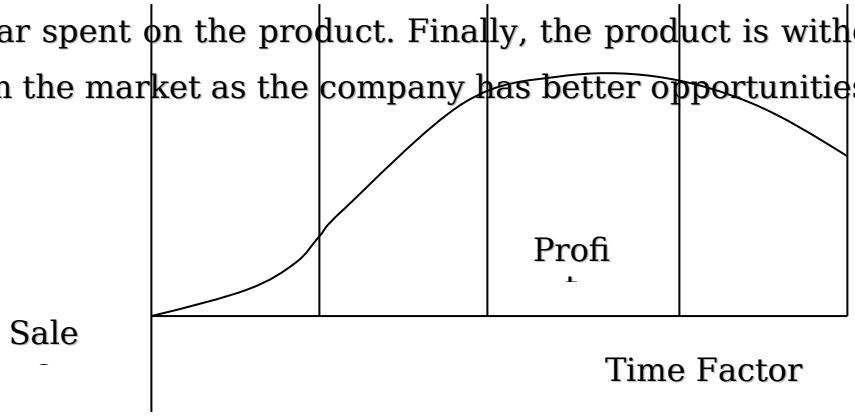
The figure below illustrates the typical conceptual product lifecycle. The introductory stage is characterized by low sales volume as prospective buyers and buying influences are unaware or unfamiliar with the product. In this stage, the industrial marketing manager's primary task is to create awareness of the product. Net profits in this stage are usually low, if there are any, with most revenue being used to promote the new product. From a marketing management perspective, the important strategic variables would appear to be the product and its promotion, although channels and pricing can and do play a significant part. This is a crucial period for the products should it fail to gain acceptance in this stage, it will fail, should it survive this stage, it will enter the growth stage. The manager's skill in testing, launching and monitoring the progress of the new product is very important.

The growth stage is characterized by a rapid increase in demand for the product. The cumulative effects of the company's promotion and examples of industrial customers purchasing and using the product create a favorable image and stimulate more buyers and buying influences to consider the product. Often this increased demand encourages competition to enter the market, and the manager may have to consider the differentiation of the product. With specifications, this is not always easy to accomplish in the industrial market, but it can be done through improved product modifications and through selling and service features. With increased competition, such differentiation may be necessary to increase or maintain a market share. In this stage, there may also be strong competition for the services of industrial distributors and manufacturers' representatives if such middlemen are appropriate.

The maturity stage is characterized by the rate of sales increase beginning to decline. The early part of this stage finds relatively stable

sales and declining unit costs of production. Thus, profits are often relatively high in this period. New customers at this point may be more deliberate and more price-conscious than new customers in the previous two stages. With sales volume stabilizing, less competitive suppliers may being to pull out of the market. In the latter part of this stage, when sales volume may show almost no increase, the market may be saturated. Without an expanding market to absorb productive capabilities and possibly to absorb build up inventories, some suppliers may begin to cut prices to protect their market shares and to maintain profitable operations. Companies using a direct sales channel may switch to independent middlemen in an attempt to continue servicing existing customers and reduce costs at the same time.

The decline stage is characterized by continuously declining sales as the product loses its appeal to past customers and fall if any, new customers are entering the market. Many competing suppliers have pulled out of the market in search of better opportunities elsewhere. Those who are left are seeking methods of retrenching their marketing efforts in an attempt to extend the product's life cycle. If the company has continued to use direct sales to this point, it may seriously be considering the use of manufacturers reps or distributors if either is appropriate, or it may be making arrangements to franchise out service requirements to independents. Ultimately, the product will be selectively and slowly withdrawn as demand recedes. In this stage, the manager's task is basically that of managing expenditures to optimize the return for each dollar spent on the product. Finally, the product is withdrawn completely from the market as the company has better opportunities elsewhere.



There are a number of important implications in the product lifecycle. A strong argument can be made that knowledge of stage in the lifecycle is a prime requisite for all marketing strategy decisions, particularly as those decisions relate to the strategies of product, promotion, channels and price.

In this section, however, focus will be primarily on the product planning implications in the product lifecycle. Some of the major products planning implications are as follows:

- All products and services have life cycles: the marketing manager must recognize this and understand further that product lifecycles will differ for each product in each market according to the product and individual market development rates.
- The marketing manager must know where each product is on its respective lifecycle for each appropriate market segment.
- The manager should recognize that new replacement products should be planned in the rapid growth stage of the lifecycle of the product eventually to be replaced.
- The manager should recognize that the replacement product, planned in the rapid growth stage should be introduced in the maturity stage – this will permit the manager's company to replace its own products in the market place rather than give such opportunities to competitors.
- The manager should recognize that product modification, if feasible, should also be planned in the growth stage of the product to be modified rather than left to chance later in the cycle.

- The marketing manager should recognize that there is a time to drop products in the sales decline stage – this means that there is a time when further actions such as product modification, promotional and pricing changes, and so forth, cannot save the product, but will, in fact only incur additional unnecessary expenses – in other words, the astute manager will recognize that there comes a time in a product's declining years when it is terminal – it cannot be rescued, not can its life cycle be lengthened, and
- The manager should also understand the relationship of profit to sales in the life cycle.

There are many other product planning implications in the life cycle, but time and space will not permit discussion of all of them. The point of this discussion, however, should be clear. To make effective product decisions, as well as effective overall marketing decisions, the industrial marketing manager must make use of the product lifecycle concept. If the manager doesn't know where products are on their respective lifecycle, it is very difficult to make realistic decisions regarding product additions, deletions and modifications.

7.7 APPLYING THE PRODUCT LIFECYCLE TO INDUSTRIAL MARKETING

Applying the concept of the product lifecycle to industrial marketing can be relatively simple if a matrix planning model is used. It is known that the segment analysis (in matrix planning model) actually plots industry lifecycles as well as individual company product lifecycles by analyzing past, present and potential sales figures. In addition, the segment analysis of the matrix plots such figures for each and every product in each and every market segment. If such a matrix planning model were used the industrial marketing manager would know at all times where each of the company's products and/or services stood in their respective

lifecycles for each market. This is so because each cell analysis is basically nothing more than past, present, and potential sales data, which are essentially the same data that constitute the product lifecycle.

In addition, the cell analysis provide industry lifecycles as well as company product lifecycles because they force the manager to review past, present, and potential industry sales of each product as well as those of company products. Thus, by using the matrix model approach, the manager would know at all times where the company's product was and where the industry was on their respective lifecycles. Once this is known, comparisons would be relatively simple and product decisions could be more meaningful than if industry figures were ignored or unknown. Because of fewer customers and more precise product specifications, the use of the product lifecycle in the industrial market in matrix modeling would appear to be easier than in the consumer market.

There is, however, little evidence to conclude that industrial marketing managers make good use of the lifecycle concept. According to Industrial Marketing Magazine, industrial product managers "ideally" should keep close watch on the product lifecycle, not only on the sales volume, but also on net profit. But the magazine contends that industrial product managers "as is", often do not keep track of the product lifecycle. Another study of senior marketing executives showed that none used the lifecycle concept in any strategic manner at all, and very few even used it in any tactical manner. This behavior appears to exist despite all the factors shortening the lifecycles of industrial products. As lifecycles shorten, new product development understandably becomes more important. Yet "it is painfully evident --- that the graveyards of business are full of people who thought their present product line was good enough.

7.8 A FORMAT FOR NEW INDUSTRIAL PRODUCTS

The product lifecycle provides an excellent product strategy tool once products are introduced into the market place and are accepted by industrial customers. But the lifecycle is of little help in deciding which products to market. How does the industrial marketing manager decide what specific products and/or services to add to the product line? With an 80% fatality rate, it is apparent that the company cannot simply add all products that are suggested to it. Some form of screening process must be employed. In addition, in the industrial market, it appears there is never a shortage of product suggestions from such as sales people in the field, engineering personnel, production people, purchasing agents, top management, and other with in the company.

It takes time, money and effort when product ideas are chased with little or no hope of commercial success. Thus, some format is required for an objective and orderly assessment of new product ideas, not does it want to spend inordinate amounts of time, money and effort on product ideas that never materialize into a commercial successes. The following is typical of what might be used to screen products in the industrial market. The marketing manager should:

i. establish objectives that products are to achieve
ii. assess the market potential for each product considered
iii. determine the company's capabilities of producing and marketing each product considered and
iv. determine the effect each product considered will have on the rest of the company. Because there are extremely important considerations for product success, it is worthwhile to look at them in some detail.

Establish Product Objectives

The most basic step in setting up a new product-screening process is to establish specific objectives for such products-objectives that are realistic, objectives capable of measurement, and consistent with overall

corporate goals and objectives and overall marketing objectives. To have product objectives that are inconsistent with overall corporate or marketing objectives makes no marketing sense whatsoever!

It must also be understood that companies often don't have single product objectives, but rather pursue a number of them simultaneously. Once specific product objectives are established potential product ideas are then assessed in terms of those objectives, and any ideas inconsistent with those objectives are immediately screened. There are many ways to define product objectives in the industrial market, and the following are typical of policy-type objectives found.

In terms of customer functions to be served: many industrial marketing managers define their product objectives in terms of their customers' requirements and will accept or reject product ideas on this basis. Thus, by defining a product objective in terms of customer needs, the marketing manager can offer the company more flexibility in its product line offerings and at the same time have a higher probability of producing products that have customer acceptance in the marketplace.

In terms of basic material produced: in contrast to the product objective based on customer needs, many industrial marketing managers define their product objectives in terms of supplying basic materials. A cement manufacturer, for example, may define its product objective in terms of cement, its basic material.

In terms of technology: it is also quite common to find industrial firms defining product objectives in terms of their technological expertise. What this means is that the company will accept new product ideas consistent with its technological expertise, and any product ideas not consistent with the expertise will be rejected. An electronics manufacturer, for example, might accept product idea that are based on

an understood technology and reject other ideas if they do not utilize the same technology required to product and market the product?

- Does the company possess these resources and capabilities to the degree required, and should they be committed to this project?
- Can the product be produced with existing manufacturing and warehouse facilities, or will new facilities be required?
- Can the company's existing channels of distribution be used to reach potential customers, or will new channels have to be implemented?
- Are existing customers also potential customers for the new product, or will the company be dealing with entirely new customers?
- Does the company have the capital to produce and market the product, and will the return on investment be high enough to justify the use of this capital?
- Are the company's salespeople technically competent to sell the new product?
- Are the company's sales people technically competent to sell the new product?
- Can the company produce a product that will be superior to competitive products now in the marketplace?
- Does the company possess the service capabilities to provide the level of service and technical assistance that will be required?
- Lastly, can the company produce the product in the quantities that will be required?

Checklist questions such as these are intended to force the industrial marketing manager to view realistically the company's capabilities to produce and market the product at a profit. Again, this is a "go – no go" phase! If it is discovered, through objective and realistic answers to such questions, are of a positive nature (the potential is good, the buyers would buy from his company, and so on), then the product idea proceeds for

further screening. If, however, the answers are of a negative nature, the product idea should be scrapped. The point being made here is that before any new product idea proceeds into the costly areas of research and development, engineering, and production, its market potential should be fully appraised by the industrial marketing manager.

Determine Company Capabilities: if the product idea is found to be consistent with corporate, overall marketing, and product objectives and if market potential is found to exist, the marketing manager should then proceed to analyze the company's ability to produce and market the product. This is really the acknowledgement that although the market potential exists, it may not exist for the marketing manager's own company. Again, a checklist approach might be employed to determine the company's ability to manufacture and market the particular product in its predetermined market segments. The following are typical of the types of questions that should be included in the checklist.

What technical resources and capabilities will be:

In terms of profitability: in addition to any of the previous objectives, it is very common to find industrial marketing managers establishing product objectives in terms of specific profit figures.

These are but a few of the types of product objectives employed by industrial marketing managers. The point is that product objectives should be established in terms of market demands, company capabilities, middlemen requirements, governmental or legal restrictions, and return on investment. Once objectives are established, the intelligent marketing manager will screen new product ideas against such objectives and reject at this point those ideas that are inconsistent. Without such an approach, the manager will be spending a great deal of time, effort and money chasing ideas that have no merit at all from a marketing perspective.

Access the market: if a product idea is found to be consistent with the company's overall marketing objectives and its product objectives, then it should be screened further by the marketing manager in terms of its marketing potential. One approach to doing this is for the marketing manager to employ a checklist method to assess the marketing potential for the product in question. In such a checklist, the manager might look in detain into such areas as the following:

- How big is the total market for the product
- What sales volume levels can be expected, and in what time frames?
- Who will use the product
- What are the purchasing habits of the purchasing people and the other buying influences?

If, however, it is found that the firm doesn't have the capabilities or that the return on investment is not high enough to meet company objectives, the product idea should be discarded and other opportunities assessed similarly. Those product ideas passing this phase of the format will then proceed to a final assessment in terms of their contributions to the total company. Those ideas not passing this phase should be rejected.

Determine the product's contribution to the company: even if the product idea successfully passes through the first three phases of this format, it may be that the company still shouldn't produce and market the product because of its effort on other products produced by the firm or on other areas of the company. To illustrate, what is to be gained if the company adds a new product that is consistent with product objectives, has market potential, and can be economically produced, if that product has adverse effects on other good products in the company's product line?

This can happen, and, therefore, it is important that the product idea be subjected to one last round of questions such as the following:

- Will the company's distributors or manufacturers reps accept the product in preference to competitive offerings?
- Does the product fill a gap in an otherwise incomplete product line?
- Does the product enhances the marketability of all the products in the company's product line, or does it detract from other products?
- How will the new product affect the image of the company's present products?
- Will the new product affect the image of the company's present products?
- Will the new product give the company's sales force a more complete product system to sell?
- Will the new product have any effect on present company reciprocal agreements – will it compete with the products of present customers?
- Will the new product compete with existing products and cause existing customers to split purchases between the company's products?
- Will the company's sales people be able to sell the new product without sacrificing sales of other products presently in the company's product line?
- Will the new product utilize any excess plant capacity and thus contribute in that manner?
- Will the new product help the company over seasonal fluctuations in the existing product line?
- Lastly, will the new product contribute because a large existing customer wants it and will switch all his present purchases if the company does not supply the product?

Checklist questions such as these are also of crucial importance and force the industrial marketing manager to view the new product idea from still another perspective – its effect on the overall firm. This is also a "go – no

go" step. If the answers to such questions are of a negative nature, the product idea should be scrapped, as it would have an adverse effect on the total company. On the other hand, positive responses to the questions would imply a product idea thoroughly screened in terms of its marketing merits. The product idea would then proceed to research and development, engineering, and production for prototyping, testing and perhaps ultimate production and entry into the market. At that point, the product would enter the introduction stage of its lifecycle.

7.9 ANALYSIS OF INDUSTRIAL PRODUCT FAILURES

It is always worthwhile to attempt to learn from failure, and this certainly applies to industrial product. It is easy, however, to define a product failure in the industrial markets. As was stated earlier in this unit, one estimate is that about 80% of all industrial products fail to meet company objectives and thus are considered failures by their firms. This rate appears to be rather high, but this may be due to that particular definition of a product failure – one that doesn't achieve its objectives. If the reasons for industrial product failure can be determined, then the marketing manager can guard against their taking place with the company's products.

Much has been written on product failures, and it is easy to find reasons why products in general fail. Perhaps the best summary of product failures appeared in the Conference Board Record. According to this source, there are eight basic reasons why products fail. These are:

- Inadequate market analysis
- Product defects
- Higher costs than anticipated
- Poor timing
- Competition
- Insufficient marketing effort

- Inadequate sales effort and
- Weakness in distribution.

These reasons apply to all products, industrial as well as consumer, but they are not specific enough to be of much value to the industrial marketing manager. In more specific terms, industrial products appear to fail for the following reasons:

- Failure to define the specific market segment or segments for the product
- Inadequate understanding of the buying process in prospective customer firms
- Lack of knowledge of buying influences in prospective customer firms
- Lack of knowledge of required marketing effort
- Lack of awareness of existing customer – suppliers relationships
- Underestimation of new investment requirements in customer firms
- Failure to understand the new product's technical requirements in customer firms
- Overemphasis on technical and production requirements
- Time lag between research and production

7.10 PRODUCT MANAGEMENT IN THE INDUSTRIAL MARKET

The area of product management must be addressed. Throughout the unit references have been made to the marketing manager as the decision maker in the various product area decisions. In many industrial marketing companies, this is the way it is – marketing aspects of product strategy are the direct responsibility of the marketing manager. In other firms, however, various product management options are used to introduce specialization into the product area of the overall marketing mix. The major product management options are:

- The Product Manager
- New Product Committees
- Project Teams, and
- Venture Teams

Since each of these may be found in the industrial market, used by itself or in conjunction with others, a classification of each is in order.

The Product Manager

Product managers have evolved overtime in the industrial market because many marketing managers have found the product area to be so critical and so complex that specialists were required to handle the area adequately. It has even been argued that in the market place companies do not really compete – it is their products that compete. This reasoning has led to the recognition that because products may well be the determinant of success or failure, the product area is no place for a generalist, with the result that specialists, the product managers, have come into prominence.

New Product Committees

With the new product committee option, decisions are made by a committee whose members are borrowed from other departments with in the company. For example, a company may initiate a new product committee whose members might be drawn from such departments as production, engineering, purchasing, sales, marketing research, and Research and Development. Typically, these people are involved in a temporary capacity in various areas of product development in addition to performing their normal duties.

Project Teams

The new product project team is an extension of the new product committee. Responsibility for new products is assigned to a separate unit that may report to top management at the same level as other functional

departments. Again, specialists from other departments are assigned to the project team, and a project manager appointed. Typically, members are appointed to the project team for a longer time period, usually seeing the project through to completion.

Venture Teams

The venture team is a newer approach to product management in that it is an extension of the project team. Typically, it is used to develop a new product or a new business that is totally different from the company's present line of business. Its basis is more permanent than the project team's basis.

Check Your Progress Exercise

1. Explain product planning and differentiate the basic differences between industrial and consumer product strategies.

.....

.....

.....

.....

2. What are the major importances of an industrial product planning?

.....

.....

.....

.....

3. Assess the characteristics of a product at each stage and identify the corresponding roles of product manager in the industrial marketing.

.....

.....

.....

.....

4. Industrial products fail in the market place for essentially the same reasons that consumer products fail. Do you agree? Why or why not?

.....

.....

.....

.....

5. Identify the major product management options and clarify the roles of each group.

.....

.....

.....

.....

7.11 SUMMARY

Product strategy is generally considered the first sub-strategy in the overall marketing strategy formulation of the industrial marketing manager. This is so because without the product, the other sub-strategies of promotion, price, and distribution are almost impossible to select. Industrial product strategy was defined, and the basic differences between industrial and consumer product strategies were developed. The importance of industrial product planning was discussed, and the product lifecycle was analyzed in relation to the types of decisions made in industrial product strategy. A format for screening new industrial product ideas was developed, and causes of industrial product failures were analyzed. Models were developed for use in both new product planning and introduction into the market place. Finally, product management options were reviewed with project teams, and venture teams.

7.12 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer to Sections 7.2 and 7.3
2. Refer to Section 7.4
3. Refer to Sections 7.5 and 7.6
4. Refer to Sections 7.9
5. Refer to Section 7.10

UNIT 8: CHANNEL STRATEGY IN INDUSTRIAL MARKETING

Contents

8.0 Aims and Objectives

8.1 Introduction

8.2 Industrial Channel Strategy

8.3 Differences Between Industrial and Consumer Channel Strategies

8.4 Formulating Industrial Channel Strategy

8.5 Analysis of Industrial Middlemen

8.5.1 The Individual Distributor

8.5.2 The Manufacturer's Representatives

8.5.3 The Manufacturers Sales Branch

8.6 Physical Distribution in the Industrial Market

8.7 Summary

8.8 Answer to Check Your Progress Exercise

8.0 AIMS AND OBJECTIVES

After studying this unit, the reader must understand:

- the behavior of industrial channel strategy
- the differences between industrial and consumer channel strategy
- the different possible kinds and behavior of industrial middlemen and
- how physical distribution in industrial marketing looks.

8.1 INTRODUCTION

Once customer firms have been defined and located, a marketing plan formulated on the basis of sound marketing intelligence, and a product strategy developed, the next logical area to be addressed is that of getting the product physically to the customer. This is the area of channel

strategy in the industrial market setting up and maintaining those channels of distribution most effective in getting the company's product mix to the intended market segments in the most economical manner. The actual formulation of such a channel strategy to accomplish this basic task can be called channel management.

In the industrial market, channels can be "direct," which means that the marketing organization sells directly to its industrial customers. No middlemen are involved in the direct channel.

Industrial channels of distribution can also be "indirect", meaning that the marketing company utilizes independent middlemen, most usually industrial distributors or manufacturers' representatives or both, to reach its intended customer firms.

Both direct and indirect channels are widely used in the industrial market, and the circumstances leading to the use of each will be developed in detail in this unit.

8.2 INDUSTRIAL CHANNEL STRATEGY

It is an area which involves the determination of specific channel objectives, the choice of what kinds of channel arrangements are to be used, the decision to use or not to use middlemen, the determination of the types and number of such middlemen if they are to be used, the setting up of procedures and arrangements for working with such middlemen, the making of decisions regarding the physical distribution of goods and services through the selected channels, and control and evaluation of the adopted channels.

The industrial channel strategy involves, therefore, the following major responsibility areas:

- ↣ Determination of channel objectives

- ➳ Evaluation of channel alternatives and choosing the channel arrangements to be utilized
- ➳ Determining the types and number of middlemen, if any, to be used
- ➳ Establishing policies and procedures for serving those selected middlemen-policies and rights of both manufacturer and the middlemen.
- ➳ Creating contractual arrangements with those middlemen selected
- ➳ Implementing or making operational the channel(s) selected
- ➳ Moving goods physically through the channel(s) selected
- ➳ Controlling the channel(s) to see if they are operating smoothly and attaining the defined objectives
- ➳ Modifying the selected channel(s) as the occasion requires and
- ➳ Redefining objectives if necessary.

The chosen channels, however, must

- cover each customer group
- cover each geographic area that must be covered
- properly present each of the product lines to the appropriate customer firms.

8.3 DIFFERENCES BETWEEN INDUSTRIAL AND CONSUMER CHANNEL STRATEGIES

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

➳ The industrial market is characterized by shorter channels of distribution owing to buyer's expectations and to product characteristics. Customers buying high priced and complex products often do not want to deal with middlemen. The higher the unit value of the product being marketed, the more it will be sold directly. In addition, it is often very difficult to find middlemen who possess the

required technical and service capabilities to sell sophisticated products to the industrial buyers.

- ➳ The types of middlemen found in the industrial market are different from those found in the consumer market: there are no true retailers or wholesalers in the industrial market although many industrial products are sold through such middlemen for ultimate consumers. In these cases, however, industrial marketing actually is not taking place.

- ➳ The industrial marketing manager has fewer choice of channel options than does his/her consumer marketing manager counterparts: It has three options (the direct channel, the industrial distributor, and the manufacturer's representatives), which all provide different functions. Because of customer expectations and the complexity of industrial products, industrial channels have to do much more on selling, service, and technical assistance than consumer channels normally do. Personal selling, pre and post sales servicing and technical assistance in setting up operations are pre-requisites for effective industrial market although this is true in the consumer durable market.

8.4 FORMULATING INDUSTRIAL CHANNEL STRATEGY

Channel strategy is one part of overall marketing strategy, and it must be formulated with in the context of the company's marketing plan. Constructing industrial channels requires specific market segmentation and also a sound knowledge of the product or service and its requirements. Unless these two things are known, it is virtually impossible to construct realistic and effective channels of distribution. To attempt to build a channel of distribution without knowing whom it is supposed to reach makes no marketing sense whatsoever. Similarly

trying to pick channel components without knowing the product or its requirements is equally foolish. It is now necessary to match those products and market segments with an appropriate channel of distribution. To accomplish this the marketing manager must undertake the following activities:

- channel objectives must be established
- channel alternatives must be assessed
- the appropriate channel(s) must be selected
- arrangements must be set up with the selected channel components
- the selected channel(s) must be made operational and then controlled.

Establish Channel Objectives: once segments have been defined and located and once product strategy has been formulated, the establishment of channel objectives should be undertaken. As was developed in the case of product objectives, channel objectives must be consistent with overall corporate and marketing objectives in the company's marketing plan.

Assess Channel Alternatives: once channel objectives have been established, it is the task of the industrial marketing manager to study various channel alternatives that could be employed to these objectives. Can the channel objectives best be achieved through the use of direct or indirect channels? It is clear that the marketing manager should analyze the basic industrial channels to decide which of them would be best fit particular objectives, be compatible with products, and at the same time satisfy the purchasing requirements of customers in the market place.

Choose the Appropriate Channel or Channels: after channel objectives have been established and alternatives consistent with those objectives have been analyzed, the manager must choose the channel(s) to be used. This choice is normally made by taking into account all the possible factors that will influence channel decisions.

Setup Arrangements with Selected Channel Components: here the job of the manager is to set up operational arrangements with the selected channel components. If the direct channel is decided upon, channel management decisions are over, and sales management takes over. If, however, indirect channels are required, the channel management area becomes more complex. Specific types of middlemen must be selected and approached regarding their taking on the company's products.

Implement and Control the Channel(s): after arrangements are made with selected middlemen, the channel should be made operational. The marketing manager should then monitor the channels for their effectiveness via the marketing information system in terms of the channels and overall marketing objectives and requirements.

8.5 ANALYSIS OF INDUSTRIAL MIDDLEMEN

At this moment, it should be apparent that to make intelligent channel decisions in the industrial market, the marketing manager must have a thorough knowledge and understanding of both the industrial distributor and the manufacturer's representatives. Therefore, an in-depth analysis of both the industrial distributor and the manufacturer's representative is in order.

8.5.1 The Industrial Distributor

The industrial distributors are middlemen who buy and sell products for industrial users. They offer the service of taking title to and stocking

products, assuming some of the risks of marketing and maintaining reasonably close contact with buyers.

An industrial distributor is an independently owned and locally managed operation that buys, stocks, and sells the production tools, operating equipment, and maintenance suppliers used by all forms of industry. The distributor differs from the wholesaler in that is sells and services the industrial market as opposed to in the consumer market. They can specialize in one particular product line or a distributor handling general line just like an industrial supermarket stocking a wide variety of goods and having not particular area of specification.

The basic characteristics of industrial distributors include the following:

- They are receivers who purchase products from manufacturers or other distributors and then sell these same products often in the same form as purchased to other distributors, or to user customers.
- They can be highly specialized or vary widely in their product line offerings and their sales and service capabilities.
- They are normally local and independently owned and operated.
- They take title to and possession of the goods they handle.
- They stock the goods and perform a field inventory function for the manufacturer
- They perform quite a similar function in some respects, as wholesalers in the customer markets except for their target customers are industrial markets.

Advantages of Using Industrial Distributors

Industrial distributors generally perform a number of functions, which make them a viable marketing channel for many types of industrial goods, such as:

- Selling: this is to provide the necessary sales effort and local market coverage.

- Warehousing or carrying inventory for the manufacturers.
- Financing: it can perform a credit function for the manufacturer or to the buyer.
- Supplier and customer services: such as delivery, installation, maintenance, and repair, etc. Services on a local basis.
- It is often a good source of local market and product information.
- It can lower the cost of distribution for the manufacturer through fast and economic delivery.

Limitations of Using Industrial Distributors

The preceding section implies so many benefits from using the distributor that an industrial channel of distribution without these middlemen seems illogical. Yet for many marketing managers in the industrial market, distributors may make little sense. Some of the reasons are as follows:

- It may be impossible to control distributors
- They may not possess the technical sales or service capabilities to handle sophisticated products
- They often handle competing products and will not emphasize the marketing manager's products in particular.
- They may not accept products that take considerable time to sell.
- Because warehousing costs them money, they may be very reluctant to handle products of large bulk and maintain relatively low inventory levels while manufacturers seek to keep them as high as possible.
- Many distributors are small and operate as "mom and pop" type of business and their management is subject to questions.

8.5.2 The Manufacturer's Representatives

The other middlemen most often found in the industrial market is the manufacturer's representative, commonly called the manufacturer's rep, or simply the MR. In some markets, they are known as ***manufacturing***

agents, engineering representatives and even brokers. They are independent middlemen who works as an agent for manufacturing principles on a contractual basis. They take no title to the goods involved and they don't even take possession of the goods although many may carry stocks on consignment basis. They have the following basic features:

- They are basically independent salespersons who sell on a commission basis for manufacturers, thus eliminating the need for manufacturers' to employ company salespeople.
- They often represent a number of manufactures whose products are complementary and not competitive.
- They assigned sales territories just as company field salespeople except that they are independent and usually represent a number of manufacturing principals.
- Under normal conditions, they possess limited authority with regard to prices and terms of sale.

The basic functions of manufacturer's representatives are:

- Selling their principal's products in the assigned sales territory.
- Establishing contacts in the market place and providing immediate entry into markets.
- By representing many manufacturing principles, manufacturer's representatives offer a complete product line than the company sales person can do. The other products in the line can contribute to the sales of the company's products.
- They can reduce the costs of selling when the marketing manager faces a seasonal product demand. This is because overhead costs could be reduced in the slack periods.

- ↬ It can be used when the company cannot support full time salespersons. That is, when the sale of industrial products cannot economically support full time company sales persons.
- ↬ Since they are paid a commission only when they sell, they advantages us to the companies when these companies are financially constrained, and provide the manufacturer with a fixed sales cost.
- ↬ The manufacturer's representatives are often technically trained and can provide technical expertise at a reasonable cost.
- ↬ They require no fringe benefits from the manufacturer, as they are independent agents.

Limitations to Using Manufacturer's Representatives

In spite of the contributions indicated in the above discussion, there are serious drawbacks to using manufacturer's representatives in the industrial channel of distribution. These included:

- ↬ Lose Control: it is very difficult to control manufacturer's representatives. Their product lines often make it impossible for any one principal to direct their efforts to its advantage. If a product requires a great specialized care, the manufacturer's representatives may be unwilling to take time to provide such care, furnish market feedback, provide necessary service, etc.
- ↬ Manufacturer's representatives normally provide little field inventory or carry a stock of goods, thus, give little help when local services or parts are required.
- ↬ Lack of flexibility: since manufacturer's representatives typically sell at a price fixed by their principals, they may not win in the competitive bidding. A discretion measure with respect to price depending on the situation is essential. The principal not by the manufacturer's representatives often makes this.

- Great differences in selling and technical competencies of individual manufacturer's representatives. They must screen very carefully in terms of the channel objectives.

Thus, in choosing manufacturers representatives, industrial marketing managers normally look for the following factors:

- selling and technical competencies of the representative
- the ability of the individual manufacturers representative to operate his/her business in a reputable, profitable, and lasting manner
- the possession by the representative of such desirable characteristics as honesty, openness, conscientiousness, reliability, and integrity.

8.5.3 The Manufacturers Sales Branch

These are wholly owned field operations of manufacturers in the industrial market and as such they are not independent middlemen. Nevertheless, they provide middlemen functions by the manufacturers. They are of two types:

A. **The Branch House:** This is a field warehouse owned and operated by the manufacturer and placed at strategic locations for serving customers. It carries inventories.
B. **The Branch Office:** This is essentially owned and operated by the manufacturer as a field sales office. It carries no inventory, in contrast to the branch house, but is strategically located office in which the company's field sales personnel operate in their respective territories.

At times the two may be housed in the same physical facilities and at other times they may be housed independently. The manufacturer may also use only branch houses to field inventory its products and use manufacturer's representatives to perform the selling function.

8.6 PHYSICAL DISTRIBUTION IN THE INDUSTRIAL MARKET

Regardless of the channel(s) selected, the industrial marketing manager must also manage the physical distribution of the company's products through selected channels. Physical distribution refers to that area of marketing management responsible for getting the goods physically to the customer in the right amount and at the right time. The following are the major areas of physical distribution management.

- **Transportation:** it involves the decisions of the actual mode or modes of transportation to be used in shipping the goods to customers and/or middlemen. For the marketing manager, choices include shipping by airfreight, rail, motor carrier, water, and in some instances pipeline. In deciding among modes of transportation, the manager should consider such factors as the speed, dependability, capability and availability of each mode as well as its operating costs.
- **Field Warehousing:** it involves the physical location of warehouses in the field to best supply goods and some times services to customers and/or middlemen. Choices here include the use of private or public warehouses or, in some instances, warehouses of distributors, when the latter are used in the channel. Two major considerations here are where to locate the field warehouse and how many such warehouses to include in the physical distribution system.
- **Field Inventory Control:** inventory must be properly maintained in the field warehouses to supply the needs of customers and/or middlemen. Both over and under stocked inventory levels are costly and the manager's task here is to maintain optimum levels. In deciding such levels, the manger should consider such factors as the average month end unit levels, turnover rates by individuals

warehouse, average value of the inventory and inventory carrying costs.

- **Materials Handling:** it involves the actual handling of inventory in the warehouses or elsewhere in the total physical distribution system. Included in this are such as the use of forklifts, hand lifts, conveyors, cranes, hoists, industrial tractors, motorized hand trucks, and other such equipment used to move and store inventory physically. Included also are the personnel required to perform the materials handling function.
- **Protective Packaging:** goods to be shipped and stored must be package in a manner that will protect them both in shipment and in the warehouse. This is the protective packaging function of physical distribution. In this regard, the manager should consider such factors as filling and container costs, repackaging costs, Interstate Commerce Commission requirements, possibilities of standardization, and changing customer requirements that affect packaging.
- **Order Processing:** along with the above indicated physical distribution management systems, the manager must establish an order processing system to service those functions. This system will normally take into account order processing, communications, and other related data – processing activities required to permit the entire physical distribution arrangements to function properly.

Most industrial companies view the above physical distribution systems as individual functions, but rather as a total integrated system of physical distribution. Thus, distribution decisions are often trade-offs such as transportation costs versus field inventory costs, and so on and this is what is referred to as the total cost concept in the physical distribution. This approach to physical distribution has led to industrial companies shipping via airfreight, even though its cost is higher, because its mode is

faster and the speed cuts down on required field inventories, thus reducing total distribution costs.

Check Your Progress Exercise

1. What do you believe are the most important differences between an industrial distributor and a manufacturer's representatives?

.....

.....

.....

2. Indicate some of the major responsibility areas of the industrial channel strategy.

.....

.....

.....

3. The basic areas of responsibilities in industrial and consumer channel strategies are essentially the same, but the implementation is different. Do you agree? Why or why not?

.....

.....

.....

4. Why is the determination of channel objectives so important in the setting up of channels of distribution in the industrial market? How would objectives actually affect the channels used?

.....

.....

.....

5. Why is physical distribution such a vital part of industrial channel strategy and overall industrial marketing strategy? Explain your answer.

.....

.....

.....

8.7 SUMMARY

Channels strategy can be a critical part of industrial marketing management because of the greater emphasis on personal selling in the industrial market. A format for developing industrial channel strategy was developed and differences between industrial and customer channels were discussed. Analyses were undertaken of the most common industrial middlemen, the industrial distributors, the manufacturer's representative and the manufacturer's sales branch. Characteristics of each of these middlemen were developed, and the contributions and limitations of each type were analyzed from the point of view of the industrial marketing manager. Finally, a discussion of physical distribution in industrial marketing management was undertaken.

8.8 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer to Section 8.5 of item 8.5.2 and 8.5.3
2. Refer to Section 8.2
3. Refer to Section 8.3
4. Refer to Section 8.4
5. Refer to Section 8.6

UNIT 9: PROMOTIONAL STRATEGY IN INDUSTRIAL MARKETING

Contents

9.0 Aims and Objectives
9.1 Introduction
9.2 Industrial Promotional Strategy
9.3 Personal Selling in the Industrial Market
9.3.1 Sales Management in the Industrial Market
9.3.2 Formulating Industrial Selling Strategy
9.4 Advertising in the Industrial Market
9.4.1 Advertising's Roles in Industrial Marketing
9.4.2 Media in the Industrial Market
9.5 Sales Promotion in the Industrial Market
9.5.1 Catalogs
9.5.2 Tradeshows
9.5.3 Dealer and Distributor Materials
9.5.4 Publicity and Public Relations
9.6 Formulating Industrial Promotional Strategy
9.7 Summary
9.8 Answer to Check Your Progress Exercises

9.0 AIMS AND OBJECTIVES

After studying this unit, you must be able:

- to explain the basics of industrial promotional strategy
- to manage and formulate the industrial selling strategy
- to describe the kinds or mixes of promotional strategy in the industrial market and
- to managing and in general formulating industrial promotional strategy.

9.1 INTRODUCTION

After markets have been defined and located, a marketing plan formulated to reach those markets, product strategy developed, and channels of distribution chosen, it is necessary to promote those products to the specified market segments. This is the promotional area of marketing management and a very important aspect of the marketing of industrial goods and services. In today's market, it is not sufficient to produce technically perfect products and then wait for customers to come in. The merits of these products must be communicated to industrial purchasing agents and other buying influences in prospective firms. This is the role of promotion in overall marketing strategy communicating the market to stimulate demand for the company's goods and services.

It is probably safe to say that a good promotional mix usually has some combination of personal selling, advertising, sales promotion and publicity, but this is not a rule. Some companies have been very successful without personal selling and other firms have succeeded without much emphasis on advertising. Still others have succeeded with no sales promotional activities at all. Marketing managers have different opinions about the effectiveness of each component, and market considerations affect the valid use of each. What components are in a promotional mix is not important as long as the overall mix communicates effectively with the target audience of buyers and buying influences, convinces them to purchase or buyers and buying influences, convinces them to purchase or take some other desired action, and competes favorably in the market place with the promotional mixes of competitors. And, of course, the components of any particular company's promotional mix should not compete with each other, but should rather complement one another. As with the other strategies, to be effective, promotional strategy must be compatible with the company's objectives and its marketing plan.

9.2 INDUSTRIAL PROMOTIONAL STRATEGY

In industrial promotion, there are sales managers, advertising managers and sometimes sales promotion managers who head their own departments and report to the marketing manager in their own respective specialized areas. It is then the task of the marketing manager to integrate the promotional mixes into one total promotional package that is then further integrated into the total marketing strategy with product, channel and pricing decisions. In view of this division of promotional efforts, no format for overall industrial promotional strategy will be developed. Instead, formats will be developed individually for sales, for advertising and for sales promotion.

Difference between industrial and consumer promotional strategies

It is in the area of promotion that industrial and consumer marketing practices differ sharply even though the basic tasks may be the same. Thus, it is helpful to understand the tasks or basic steps to be accomplished in promotion. These are:

- making initial contact with a prospective customer
- arousing interest
- creating a preference for the firm's product over those offered by competitors
- making specific proposals to answer customers questions
- closing the order, and
- once sold, taking care of that customer so that there is little reason to look elsewhere.

Accomplishment of these tasks would indicate an effective promotional strategy, whereas the inability to do so would indicate a lack of effectiveness if the marketing manager had a competitive product and a clear understanding of marketing targets to be reached.

Some of the differences between the relative importance of promotional mix components as seen by consumer and industrial marketing executives include:

- → Personal selling which plays a much greater role in the industrial market. It emphasizes on the importance of personal contact with industrial buyers and buying influences.
- → Mass media, promotional branding and promotional packaging are less used in the industrial market. Branding is for identification of one company's products from others not for promoting it.
- → Consumer marketing promotional strategies differ from those found in the industrial market because buyer's expectations and product characteristics are different.
- → Media differ in the two markets. Most of industrial advertising is done through trade journals and direct mail media.
- → Industrial advertising themes or messages are generally less emotional than those found in the consumer market. They are generally more factual and economic.

There are enough differences between industrial and consumer promotional strategies to merit an in-depth analysis of each of the components of personal selling, advertising and sales promotion.

9.3 PERSONAL SELLING IN THE INDUSTRIAL MARKET

Personal selling is an important component in the marketing strategies of industrial marketing managers. This is borne out by the large number of direct channels in the industrial market. As was discussed in the preceding unit on channel strategy, it is estimated that about three-quarters of all industrial goods, based on their dollar volume, are marketed without benefit of independent middlemen. This in turn, implies the use of company salespeople. Moreover, as has also been shown, even

manufacturer's representatives and distributors are chosen because of their sales capabilities.

Personal selling has great application to the marketing of industrial goods and services. To make it more brief, the customers are relatively few in number, and they can be specifically defined and located. The products are often complex and expensive, and large volume sales are common. Buyers and buying influences require and demand very technical, on the spot answers to complex questions before they will purchase, and post- and presale services and technical assistance are common requirements. Conditions such as these account for the great emphasis on this personal selling form of promotion in the industrial market is to be discussed adequately a division must be made between the personal selling function as performed by the industrial field salesperson and the management of this sales function as performed by the sales manager.

The Industrial Salesperson

The industrial salesperson can be defined as a technically oriented individual, whose primary responsibility is to sell industrial goods and services to buyers and buying influences in industry, government and institutions. These salespeople can be:

1. **The Sales Engineer:** who is highly technically trained and calls upon technically oriented personnel. Products sold are normally of a complex technical nature and require technical competence to sell.
2. **The Executive Salesperson:** this includes individuals such as purchasing directors, personnel managers, production managers, data processing managers, advertising managers and other such corporate officers. They normally sell software programs, consulting services, advertising, insurance, programs etc. that might be required in the operation of the customer's company.

3. **The Industrial Supplies Salesperson:** it describes those who sell for manufacturers or distributors relatively standardized industrial products, such as component parts, raw materials, processed goods and the like. Though technically oriented and trained, they do not require the engineering background of the sales engineer and generally they sell to manufacturers rather than user customers.
4. **The Inside Salesperson:** this is basically a phone sales person that do not work in the field as others do. He/she sells through phone of the manufacturer or distributor's facilities. Such personal are used for repetitive accounts because they are much less expensive than field sales personnel who require expenses such as car, travel, meals, lodgings and etc. Training expenses of inside salespersons are also less than are field salespersons.
5. **The Missionary Salesperson:** these are who work with industrial customers and middlemen in a consulting or advisory capacity as opposed to selling per se. They help a customer with technical assistance training customer employees in the operation of machinery and equipment, training distributor with inventory control, and other similar functions.

To be effective in the industrial market, any industrial salesperson would have to possess the following forms of knowledge.

- → an understanding of customer's business operations
- → an understanding of the product well enough to relate them to problems faced by the customers
- → an understanding of the buying influences involved in buying the product in each customer firm
- → knowledge of buying influences as individuals and understanding of what motivates each of them. This implies that buying influences not only affect the industrial salespersons in terms of their formal responsibilities but also in terms of their personal characteristics

such as interests, attitudes, opinions, feelings, preferences, prejudices and so forth.

- knowledge of competitions: it is necessary to know who the competitors are as well as their products, their prices, service capabilities, ability to deliver when promised, advertising and sales promotion techniques, approaches used by their salespeople and the like.

9.3.1 Sales Management in the Industrial Market

The use of sales people in the promotional mix requires the management of those sales people. This is the function of sales management in the industrial market and the executive in charge of this area is the sales manager. Sales management, a highly complex area, includes the following tasks:

- developing a sales plan consistent with the company's overall marketing plan
- setting of sales objectives
- setting up sales budgets and forecasts
- organizing the sales force by product lines, customer groups regions and so on
- organizing of the in-house company sales department to work with the salespersons in the field, including sales analysis, inside salespersons, clerks, and the like
- appointing regional and/or district sales managers if required
- writing of the job description for field salespersons
- recruiting and hiring salespersons
- training salespersons and defining sales territories and setting sales quotes
- assigning salespersons to those territories
- evaluating salespersons to those territories

- → transferring salespersons to other territories and/or to new positions.
- → Promoting and motivating salespersons to increase their sales
- → Terminating salespersons who cannot produce.

These tasks indicate that sales management is a rather specific area and is not to be confused with marketing management. Where the marketing manager is responsible for the entire marketing program of the company, the sales manager is responsible for the personal sales aspects, as one part of the marketing program.

9.3.2 Formulating Industrial Selling Strategy

If it is assumed that personal selling is an appropriate component in an industrial marketing manager's promotional mix, a selling strategy must be developed that is consistent with corporate and marketing objectives, the company's overall marketing strategy and marketing plan, and with the substrategies of product, price and channel. With these considerations in mind, a sales strategy would be developed based up on the following criteria:

- → Define specifically in terms of those customer firms whom the sales force will be expected to call.
- → Determine where these customer plants are located by county and by the size of the company.
- → Determine the size of the markets in terms of potential sales of the companies defined in the above two steps.
- → Establish sales territories based on market potentials and on geographic limitations.
- → Establish sales quotes and profit objectives for each of the defined territories based on the sales potential and competitive constraints involved in each territory.

- → Determine how the defined territories will be covered; how many regional and/or district sales managers, if any, shall be used and where they will be headquartered.
- → Determine specifically what buying influences must be reached by the salespeople if they are to sell effectively, and determine what their influencing motives are.
- → On the basis of the products to be sold and the buyer characteristics involved, develop a job description for the field salesperson specifically outlining his/her duties, responsibilities, requirements, and other such factors.
- → Formulate a compensation plan that is attractive, motivating, realistic and compatible with the products being sold, the customer's expectations, the breadth and depth of the market, the time required to close the sale, etc in the form of salary, commission, bonuses and others both to attract and retain salespersons.
- → Recruit, select, hire and train salesperson and assign them to the defined territories.
- → Motivate the salespersons, evaluating their performance in the light of the job description and the sales objectives, transferring them when necessary, promoting when appropriate and replacing when necessary.
- → Being flexible and modifying all the above steps, as the occasion requires.

This formats is admittedly superficial, but time and space do not permit an extensive and exhaustive analysis of the industrial sales managers job. Personal selling, as with products and channels, is not an entity in and of itself. To be effective, personal selling must be integrated into the entire marketing plan and marketing strategy.

9.4 ADVERTISING IN THE INDUSTRIAL MARKET

In a general sense, advertising is advertising whether it be in the consumer market or the industrial market. It is basically a communication process that aims to reach and influence people with its message. The type of influence might be educational, persuasive, or cognitive. The general objective of advertising is to bring about some kind of change in a target market – a change in awareness, the level of knowledge, attitude, or whatever. This kind of desired change is positive, but advertising is also used to maintain levels of awareness or levels of knowledge, and so on.

Advertising is characterized by its non-personal mass appeal. In a way, it is the other end of the communication spectrum from personal selling. In the industrial market, advertising is a much cheaper form of communication than personal selling and as such, can perform certain tasks much more economically than can company salespeople. On the other hand, industrial marketing frequently requires personal contact if sales are to be consummated. Industrial buyers rarely buy goods and services initially through advertising alone. This means that advertising can perform some of the previously discussed promotion tasks better than can the salesperson, but the latter can perform other tasks more effectively than can advertising. This almost naturally leads to a blending of the two components, although many industrial marketing managers probably fail to realize it.

9.4.1 Advertising's Roles in Industrial Marketing

Industrial advertising's roles differ from the roles played by advertising in the consumer market. Consumer marketing managers are often able to use advertising alone to bring a prospective customer all the way from awareness to the closing of the sale and even use advertising to keep that customer sold. In most cases, industrial advertisement cannot do this. Product complexities and buyer expectations require personal contact. This alters advertising's role in the industrial market. The following are some of the major roles played by advertising in the industrial market.

- *To create a favorable climate for personal sales:* it plays a foundation prior to the sales person's call. It believes in the statement, "I do not know who you are, your company, your company's product, you company's customers, reputations, etc.. before advertising."
- *To stimulate derived demand:* because of the volatility of a derived demand in the industrial market, many industrial marketing managers use advertising to stimulate demand for the products of their customers, thus bolstering direct industrial demand.
- *To project a favorable corporate image:* owing to the furor and concern brought about by environmentalists and others in the ecology movement that has developed in recent years, many industrial companies have used advertising to project a favorable image to the public.
- *To provide the most economical promotional mix:* advertising plays a major role in industrial marketing. Because it can reduce promotional costs, often without any detrimental effects.
- *To reach inaccessible buying influences:* for various reasons, these buying influences refuse to see salespeople and they may still exert considerable influence on products being purchased by their

companies. These people, however, may read trade publications and general business journals and reached by advertising.

- *To reach unknown buying influences:* there are other times when field sales people do not know all of their buying influences. This is often the case (a) whit new salespeople or (b) new customers, but it can even be true with experienced salespeople where customer corporate reorganizations and the like have shuffled buying influences.

9.4.2 Media in the Industrial Market

Almost all types of advertising media have been used at one time or another by industrial advertisers but the following three types have found the widest application:

1. Space advertising: it includes general magazines, general business publications and trade journal publications. If they are properly selected they can reach all the buying influences with a message appropriate for each.

The value of trade, general business and general magazine publication to reach the intended buying influences in defined customer firms. It depends on questions like the following:

- What is the publication's circulation?
- Who specifically reads it? This is concerned with readership.
- How good is its editorial content?
- How good are its articles? This is concerned with value of articles?
- How much are its advertising costs?

In selecting space media, the industrial marketing manager and advertising manager should be guided by three factors. These are:

- to reach as many people as possible in those companies in the defined target markets

- to reach as many of the known buying influences as possible with in those customer firms, and
- to accomplish both of these at the most reasonable cost.

2. Direct mail advertising: it is the second most used advertising medium that can be defined as any printed or processed form directed to selected individuals by controlled distribution. There are three basic types of direct mail. These are:

    i) Direct mail advertising, which is basically the same as other advertising except that it utilizes the direct mail medium – the advertising copy may be identical to that used in space advertising.

    ii) Direct mail sales promotion that tries to get the respondent to react in some manner, such as obtain leads for salespeople, to open the door for salespeople, to get the respondent to identify him/herself by offering further information and so non.

    iii) Direct mail selling where the sender actually tries to sell via mail with no personal selling involved. This type is not as common in the industrial market as the first two types, but it can be used effectively with established customers who know and trust the advertiser.

Direct mail can be effective industrial advertising medium when prospective buying influences can be identified and located by name. It is an extremely selective and flexible medium. Almost any format or approach can be used with direct mail, which is not the case with other media. Industrial companies have used direct mail to send brochures, catalog sheets, letters, bulletins, folders, sales manuals, price lists and even samples. No other advertising medium offers such flexibility.

However, direct mail can be wasteful and expensive if prospects cannot be pinpointed. "Nothing wastes money and time faster than untargeted direct mail marketing campaign." Therefore, to compile a mailing list:

- prospective firms must be identified and specially located
- buying influences must be identified
- those buying influences must be identified by name.

3. Industrial directory advertising: this is also called an industrial buyer's guide. An industrial directory lists supply sources for various products (that are intended for use as buying guides in industry). If a purchasing agent wishes to purchase a certain product, that person may refer to a directory to find out who could supply such a product.

Directories are used as reference material by buyers and buying influences. Advertisements in directories are more permanent. Buyers do refer directories when they make decisions. They are a highly credible medium and a basic buying tool. However, advertising in directories is coasty and many industrial companies do not purchase them for these reasons. Directories are also read by competitors that fractionalize advertising readership. Advertisings placed in directories will not reach prospective companies not purchasing those directories.

The three media of space advertising, direct mail, and industrial directory advertising comprise the bulk of industrial advertising. Although newspapers, radio, and television are used at times, they are not considered of major importance in industrial advertising. Industrial advertisements must reach the buying influences, and if they do not, they are of little value to the marketing manager. In the minds of most industrial marketing managers and their advertising managers, space advertising in trade publications and direct mail offer the best chances of communicating with these buying influences.

9.5 SALES PROMOTION IN THE INDUSTRIAL MARKET

In many industrial firms, little difference is made between advertising and sales promotion. Often the two areas are handled as one – there is a single budget out of which allocations to both areas are made, and one manager is responsible for both areas. In other companies, advertising and sales promotion are separate departments, each having its own department head who reports directly to the marketing manager. In this part, sales promotion shall be defined to include those non-personal areas of promotion other than advertising. Four areas account for a lion share of what industrial firms spend in their sales promotion budgets. A discussion of each of these areas may help to provide more insight into the use of sales promotion in the industrial promotional mix.

9.5.1 Catalogs

They are complete or comprehensive printed information about a product, designed for demonstration and/or reference work. The catalog is a reference form of promotion. Buyers and buying influences in industry keep catalogs in their plants and when purchasing opportunities come up, they refer to their catalogs, for comparisons of specification, prices, terms, etc., to screen potential suppliers.

Effective use of the catalog depends upon how well it is prepared, how well it is distributed, and the use sales force makes of it. A poorly prepared catalog soon loses credibility regardless of how well it is distributed to those who could use it. Moreover,

- the practical value of a catalog increase if it is perfectly organized
- it must reach those buying influences making decision over distribution whereas under distribution brings about opportunity losses because, the catalogs do not reach the key buying influences who specify competitive products.
- Salespeople must be properly trained to use the catalog in the field.

Note that catalog promotion is constantly in house with the customer, and the buying influences use catalogs as references much as they use industrial directories. Nevertheless, catalogs are a relatively high priced promotional medium and their cost further increases when effectively distributed.

9.5.2 Tradeshows

They are a common form of industrial sales promotion. This is about the oldest form of industrial promotion and its origin can be traced back to medieval times. When artisans exhibited their wares at fairs. In general sense, today's tradeshow is still an industrial fair, complete in many instances will all the characteristics of any fair. Tradeshows have a basic characteristics different from all other forms of industrial promotion:

- they bring the customer to the company as opposed to the opposite, resulting in a concentration of customers that might not be achieved in any other manner.
- Often the tradeshows in an industry bring the bulk of buyers and buying influences under one roof for the express purpose of shopping.
- Tradeshow promotion has concentrated power as does no other form of industrial promotion.

Analysts of trade show promotion, however, shows that there is no universal acceptance of tradeshows as an industrial sales promotion medium. Industrial marketing managers who believe in them do so strongly and use them extensively. Those who do not believe in them appear to be just as strong in their convictions. Industrial marketing managers do not appear to be indifferent toward tradeshow promotion – they either like them or they do not. The result is that a relatively small number of industrial companies appear to account for most trade show promotion.

Tradeshows in general continue to experience strong increase in attendance, in number of exhibitors, in an amount of space sold at the show. Despite materials shortages, fuel shortages, recession, inflation, higher prices, and all the rest tradeshows continue to be used as an industrial marketing tool.

Thus, the value of tradeshow promotion can be best understood with the following objectives in mind:

- meeting potential customers
- accumulating a mailing list
- introducing new products
- discovering new applications for existing products
- demonstrating non-portable equipments
- hiring new personnel and
- establishing new representatives and dealers.

It is highly unlikely that any other single form of industrial promotion could be used to accomplish such objectives effectively and economically.

9.5.3 Dealer and Distributor Materials

Some part of an industrial sales promotion budgets go towards dealer and distributor materials that manufacturers provide to their middlemen to help the latter promote effectively in their local markets. Typical of such materials are:

- Point of Purchase (POP) displays for dealer showrooms
- Technical bulletins
- Dealer sales kits
- Specialty advertising items such as calendars and business gifts
- Direct mail stuffers
- Price lists

For any manufacturers using distributors and/or manufacturers' representatives in its channel of distribution, this form of promotion is virtually a necessity if any degree of control is to be exercised over local promotion at the middleman level.

9.5.4 Publicity and Public Relations

There is often confusion regarding these two activities and their functions. Publicity is defined as "non personal stimulation of demand for a product, service or business unit by planting commercially significant new about it in a published medium or obtaining favorable presentation of it on radio, television, or stage that is not paid for by the sponsor. Properly used publicity can be a good supplement to advertising – it can be used as a tool to help build a favorable corporate image and such can contribute indirectly to company sales.

Public relations, on the other hand, can be defined as "the deliberate, planned, and sustained effort to establish and maintain mutual understanding between an organization and its public. Public relations is broader in scope than publicity and is aimed not only at present and potential customers, but also at stockholders, employees, government, voters and other such groups.

In many industrial companies publicity and public relations are lumped together and assumed to be the same even though there are technical differences. Regardless, this type of promotion can be very productive to the marketing manager believing in the corporate promotion approach.

9.6 FORMULATING INDUSTRIAL PROMOTIONAL STRATEGY

In the final analysis, the task of industrial marketing manager is to integrate personal selling, advertising and sales promotion into an overall promotional mix that communicates effectively with the market being sought. This mix must be consistent with corporate and marketing

objectives, the firm's marketing strategy and marketing plan. In the formulation of such a promotional strategy, the following format might be considered:

- ⇒ Defining specifically those customer firms to be reached by the company's promotional strategy.
- ⇒ Defining specifically the buying influences (if possible by name and position) that must be reached by the company's promotion.
- ⇒ Determining the size of the market (the number and concentration of customer firms to be reached).
- ⇒ Defining specifically the objectives of each promotional component. What is the objective of personal selling? Advertising? And sales promotion?
- ⇒ Determining specifically what message is to be communicated to each buying influence by position. What does each of the key buying influences required to make a decision on the product?
- ⇒ Selecting the proper medium or combination of media most capable of registering the intended message with the key buying influences at the most reasonable cost.
- ⇒ Recognizing how many buying influences in the target firms already know or are aware of the basic promotional message being communicated. This is to determine the effectiveness of promotion.
- ⇒ Determining the methods by which the promotional efforts will be evaluated. If personal selling, advertising or sales promotion are used, how will its contribution be measured?
- ⇒ Determining the budget required to implement the promotional strategy defined and adjust according to constraints and promotional objectives.

Check Your Progress Exercises

1. Advertising and sales promotion in the industrial market are often seen as support functions for personal selling. Explain.

.....

.....

.....

.....

2. Identify and explain the four major areas of sales promotion.

.....

.....

.....

.....

3. Indicate the differences between industrial and consumer promotional strategies.

.....

.....

.....

.....

4. define sales management and differentiate between sales management and marketing management.

.....

.....

.....

.....

9.7 SUMMARY

Promotional strategy is of major importance to the industrial marketing manager because, in many instances, product specifications make competitive products very similar and price stabilization objective of industrial competitors bring about non-price competition. This means that the real areas of competition take place in promotion.

The role of sales force in actuating the marketing concept makes it the primary emphasis in the industrial marketer's promotional mix. That the

sales force plays such a principal role in promotion depicts a major difference between industrial and consumer marketing and mandates the necessity of understanding the environment with in which sales people operate and the functions of sales management. How effective, efficient, and professional sales people operate in their environment depends on how well they are managed.

Moreover, emphasis is given to complete the promotional strategy and show how advertising and sales promotion are integrated with personal sales in the formulation of industrial promotion. Advertising, sales promotion, and publicity play an important part in the communication strategy of industrial marketers. These variables, however, must be carefully coordinated with personal selling if they are to contribute to the overall effectiveness of communication strategy. Industrial advertising is used to reach unknown or inaccessible buying influences, to create awareness of the company, to enhance the sales call, to increase the overall effectiveness of the selling effort, and to support distributors' effort. While media usage generally differs from that used in the consumer market, the same principles apply in developing advertising and other promotional strategy.

9.8 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer to Sections 9.3 and 9.4
2. Refer to Section 9.5 of item 9.5.1 to 9.5.4
3. Refer to Section 9.2
4. Refer to Section 9.3 of item 9.3.1

UNIT 10: PRICING STRATEGY IN INDUSTRIAL MARKETING

Contents

10.0 Aims and Objectives
10.1 Introduction
10.2 What is a Price
10.3 The Importance of Price
10.4 Pricing in the Industrial Market
10.5 Factors Influencing Industrial Pricing Decisions
10.5.1 Customer Demand
10.5.2 The Nature of Derived Demand
10.5.3 Competition
10.5.4 Cost Considerations
10.5.5 Company Pricing Objectives
10.5.6 Company Top Management
10.6 Major Areas of Industrial Pricing
10.7 Pricing Strategies
10.8 Summary
10.9 Answer to Check Your Progress Exercise

10.0 AIMS AND OBJECTIVES

After reading the unit you must be able:

- to understand the importance and nature of price in industrial marketing
- to explore the relevant pricing strategies in industrial marketing
- to point out the actors that play an important role in pricing decisions.

10.1 INTRODUCTION

The fourth strategy in marketing involves the pricing of goods and services in the marketplace. This is not to imply that pricing takes place only after markets have been defined, their potential assessed, products produced, channels selected and implemented, and promotional programs introduced. To proceed through all these phases and then decide upon a price can be tantamount to marketing disaster if the price that will be paid by the market is less than the costs involved to produce and market the product in question. In other words, pricing strategy is not necessarily the last sub-strategy for the marketing manager to consider in putting together the overall strategy. Pricing should be considered when the product is in the screening stage and those products whose costs will exceed prices commanded in the market place should be screened out on this basis.

In a properly executed marketing strategy, the demand scheduled be known before the product is actually mass produced. The prospects of producing and marketing a product and hoping the price in the marketplace will be high enough to generate required profit objectives leave a great deal to be desired. Therefore, although this unit will cover the fourth marketing sub-strategy of pricing, this does not imply that pricing is the fourth in importance in the formulation of overall marketing strategy.

10.2 WHAT IS A PRICE?

Price is a relatively simple term, but it is not simple in its interpretation. From a marketing point of view, price is the value placed on a good or service by customers at some point in time. It is important that the word value be emphasized strongly. A product or service place in the market with a price higher or lower than the value perceived by potential customers does not really contain the customer orientation necessary to market that good or service. This value may be subjective, and it can

change at a moment's notice. Nevertheless, not to include customer values into the pricing decision is in error. Yet a great many goods and services are priced with little or not market input or even suspicion of customer perceived value. Many manufacturers take the cost of the product, and on a margin, and call that the price. Although this may be a simple way to price, it lacks reality in that it does not take into account:

- market condition
- excess production capacity
- competitive prices
- available substitutes and their prices
- product differences
- phase of the product lifecycle and growth rate of the market
- whether other prices are rising, stable or falling
- market share and the market's ability to buy
- the market's expectation and competitor responses to price
- industry changes.

When it is recalled also that in marketing a product or service is a want satisfier, it is most logical to assume that the pricing of that same product or service should be consistent with want satisfaction and thus relevant to customer value. In this material, price will be defined as value to the customer and pricing shall mean the process of determining this value and then converting it into dollars and cents and then making comparisons in the marketplace.

10.3 THE IMPORTANCE OF PRICE

Price can be extremely critical part of the marketing strategy of many companies. It is useful:

- ➤ to produce a proper product for a market segment
- ➤ to get it into an effective channel of distribution

- to promote it in an effective manner
- to get market acceptance for a product
- to offset competitive thrusts when price competition play a major part
- to determine the firm's revenue and financial position in general.

The importance of price differs appreciably in the marketing mix of different industrial companies. For instance price has been found to be an extremely important in the life truck industry specially with small to medium sized products.

All told, there are enough reasons why price cannot be ignored and cannot be handled as a marketing residual activity. Proper or improper pricing strategy can often determine the success of an entire marketing strategy. It is not an area to be taken lightly by the marketing manager, and it requires very specific criteria – criteria much more specific than the other three sub-strategies. To miss a price by two or three cents can often lead to rejection in the marketplace.

10.4 PRICING IN THE INDUSTRIAL MARKET

The role of price in the industrial market is basically similar to the role price plays in the consumer market, although there are some distinct, important differences. For example, many industrial buyers rate price a much less important buying consideration that certainty of delivery, quality of the products, service provisions by the manufacturer and technical assistance. For those buyers, it makes little sense to buy lower-priced products if the suppliers cannot deliver on time and in the quantity required or if their product quality is lower, and so forth. With a production process, these factors add to cost rather than save money.

Another factor affecting the role of price for some industrial marketing managers is the bidding process. In bidding situations, because all bidders must conform to specifications, price may be the deciding factor in a sale. Million dollar orders can be lost because of $50 differences in bids. The bidding process puts tremendous pressure on some industrial marketing managers and their pricing analysts. The bidding process has brought about the use of bidding models and other sophisticated approaches to the pricing of industrial products.

An additional factor involved with the pricing of industrial products is negotiation. Many industrial products are marketed at a price agreed upon by both buyer and seller by negotiation between the two. To understand better how this works, an example might be helpful. Assume that a purchasing director wishes to purchase a line of original manufactured products. He then contacts appropriate suppliers to bid on the components. Requests for proposals are sent to the suppliers requesting unit prices by size and in various quantities in accordance with specifications in the bids. The quotations that come back will almost always vary by unit price and overall price. This is what negotiation

means, and it is very common in industrial marketing, even in bidding situations.

Derived demand also affects pricing's role in industrial marketing. For example, an automobile manufacturer will only purchase component parts such as batteries, tires, and so on, when there is demand for its product. Thus, when auto sales drop off, the demand for auto component parts also drops off, regardless of price. In other words, derived demand has the effect of making price less influential than it might be. What this means is that the industry price elasticity of demand is relatively inelastic, but the demand for the product of each supplier in that industry may well be relatively elastic, as the negotiation process has indicated.

Still another factor involved in industrial pricing is that prices charged and prices actually paid may be quite different. In the consumer market, sticker prices and actual prices paid are generally the same. In the industrial market, it is often impossible to determine the actual price paid. To illustrate, many industrial marketing management start off with their list prices, which are those prices actually printed on their price lists. But none of their customers may eventually pay those list prices. Net prices, or prices actually paid, are determined from list prices minus such factors as cash discounts, trade and quantity discounts, sales rebates, geographic freight differences and so on. What it all amounts to is that it is often impossible to determine who paid what for what, and thus actual prices paid are often a mystery.

All this implies that although pricing plays about the same role in both the consumer and industrial markets, there are differences in the actual practice of pricing in the two markets.

10.5 FACTORS INFLUENCING INDUSTRIAL PRICING DECISIONS

There is no simplistic approach to the industrial pricing decision. Rather, this decision depends on multiple factors, and consideration must be given to the interaction of

- customer demand
- the nature of derived demand
- competition
- cost and profits relationship
- company pricing objectives
- company top management
- government regulation

Each of these dimensions is independently and jointly significant in the pricing decision.

10.5.1 Customer Demand

The demand for virtually all-industrial products is derived from the demand and production of some consumer end product. As a result, industrial buyers are more concerned with the questions of whom to buy from and why than whether or not to buy (this ignores the "make-or-buy" decision). In turn, the industrial marketer usually worries more about influencing the more immediate industrial demand than about stimulating demand in the consumer market.

However, the industrial market is diverse and complex. A single product may be used in many different applications and have varying usage levels across individual firms and market segments. The importance of the product to buyers' end products may also vary. For these reasons, potential demand, sensitivity to price, and potential profitability differ across market segments. In setting price to influence demand therefore, industrial marketers must understand:

- how products are used
- recognize the potential customer benefits

- examine the cost of owning and using the products and
- determine product values from the customer's perspective

Analyzing customer benefits: in evaluating competing suppliers, organizational buyers assess the benefits of each suppliers total offering in relation to the price quoted. However, the various buying decision influencers with in the firm emphasize different benefit and, thus, do not all value the product identically. Product benefits may be functional, operational, financial or personal.

Functional benefits involve product design characteristics, aspects that might be particularly attractive to technical personal. Operational benefits focus on product attributes such as reliability and consistency and are usually deemed important by manufacturing and quality control people.

Financial benefits center on favorable credit terms and cost saving opportunities that are important to purchasing managers and controllers. Personal benefits involve such factors as reduced risk, organizational status, and the personal satisfaction of doing a job well. These benefits might impact the decision of any influences.

Analyzing customer costs: in addition to weighing benefits, organizational customers assess the costs associated with owning and using the product. By applying lifecycle costing, a method that calculates the total cost of a purchase over its life span, the buyer evaluates all relevant costs. Maintenance, repair, operating costs and useful product life are included in lifecycle costing analysis.

Price Sensitivity: product value is related to the buyer's sensitivity to price. Price sensitivity varies with purchasers, overtime, and from one set of circumstances to another. For instance, the buyer who can pass on the cost of a purchase (to a subsequent customer) is less likely to be price

sensitive than one who cannot. Product price may be less important to engineers than performance variables, less important than reliable delivery to manufacturing personnel, and less important than supplier innovation to top management.

10.5.2 The Nature of Derived Demand

Derived demand means that sales to an original equipment manufacturer (OEM) ultimately depend on the level of customer demand for products that the OEM makes. Total quantity demanded by the OEM for component parts, raw material, capital equipment, and ancillary services will increase only as a result of increased purchases by end product users. Because of the relatively distant relationship between an industrial supplier and ultimate consumer, what was a direct relationship between price and quantity demanded in the consumer market becomes an indirect and often reversed relationship. For the supplier, a number of non-price contingencies can work to reverse the theoretical price/quantity relationship.

Consider the following situation. A supplier to a large, quality-oriented OEM reduces price in an attempt to increase its share of business. Instead, its volume declines further. The OEM has had reservations about the supplier's product and sees that price reduction as confirmation of inferiority. Less technically oriented ultimate consumer might not have had the same reservations.

10.5.3 Competition

Existing and potential competition inevitably affects pricing strategy by setting an upper limit. Research indicates that "competitive – level pricing" is regarded by the majority of firms as the most important pricing strategy. The amount of latitude a firm has in its pricing decision depends largely on the degree to which it can differentiate its product in the minds of buyers. As it is indicated previously, price is only one

element of the buyer's cost/benefit analysis. A product that is differentiated by its functional design, the supplier's reputation for dependable service, or technical innovation can command a higher price.

Pricing strategy is also influenced by the anticipated reactions of competitors to pricing decisions. In contemplating price changes, therefore, competitive responses must be considered. Price reductions on products that are relatively undifferentiated are generally met immediately by all suppliers, resulting in little shift in market share. However, this is not always the case. The following are factors that determine a competitor's ability to react to a price reduction:

- costs
- time to react
- existing commitments
- relative sales volume
- existing operating capacity

Price leadership: when initiating price increases the marketer must predict how competitors will react. A price increase that is not followed by competitors will most likely lead to a loss of market share. For competitors to follow a price increase, they must believe that:

- total demand will not be reduced by the increase
- other major suppliers will also follow the increase, and
- the initiator of the price increase is acting intelligently and in the best interest of all suppliers.

Most major industries are oligopolistic – a market structure with few sellers – (for example, basic metals, chemicals, glass, automobiles, electronic systems, and machine products). When the firm operates in such an industry and is not a dominant source, it normally cannot induce its major competitors to follow a price increase. On the other hand, a price reduction often brings swift reaction, even an undercutting. Market leaders can usually induce their competitors to follow both price

increases and reductions. Because total demand for industrial goods is often inelastic due to its derived nature, market volume is not increased by price reductions, but an individual firm's market share will certainly suffer unless it remains price competitive.

Price leaders cannot always dictate prices in the market. Since the general price level tends to reflect both supply and demand pressures, leaders have only limited power; however, the price leader does act as the dominant reference point among competing sellers. This does not imply that other firms do not influence price levels. Smaller firms can develop technologically superior products or innovative marketing programs that impact pricing strategies for all competing firms.

10.5.4 Cost Consideration

Competition typically set the upper limitation on the price the industrial marketing manager can charge, and cost normally determines the lower limitation. To price without considering cost makes little sense, and few industrial prices do so. On the contrary, too many managers use cost almost exclusively as the basis of the prices they will charge. The fixed and variable costs of producing the product are determined, and then a desired profit margin is tacked on for the final selling price. Basically, this type of pricing amounts to total emphasis on the company's supply curve and almost no emphasis on the demand curve. In spite of its almost obvious shortcomings, pricing based on cost is widely used. As most studies indicated that a lion share of industrial companies used a "cost plus" pricing system. Cost plus pricing appears to be widely used by those industrial companies that do little research on their pricing. Studies have shown that many firms employ cost plus pricing based on past cost data and future cost estimates plus a recognized profit margin that remains stable overtime and is thus considered normal for those operations.

In addition, many industrial companies marketing to the government have used forms of "cost plus" pricing such as cost plus fixed fee, cost incentive contracts, cost plus incentive fee, cost plus award fee, cost only, and cost sharing contracts. Needless to say, when prices are made under these constraints, cost is the basic element in the prices charged.

The point being made here is not that industrial marketing manager should price via the "cost plus" method, but rather that cost must be incorporated into the final price with the other elements such as demand, competition and so on. The most common method for achieving this integration is by break-even analysis. In simple terms, break-even analysis tells the manager how many units must be sold at a given price to breakeven or to cover total costs.

Breakeven is a common financial tool and does not require an in-depth analysis in this unit. To employ this concept, the marketing manager must know the fixed and variable costs involved with the production and marketing of a single product and also the price under consideration.

Illustration

Assume the manager of a company marketing an original equipment manufactured component part wish to price that part at Birr 25 each. Given fixed costs of Birr 400,000 and variable costs of Birr 10 per unit, how many units must he/she sell to breakeven? The answer is 26,666 units must be sold the computation is as follows

At breakeven point: Total Revenue = Total Costs

$PQ = TFC + TVC$

$25Q = 400,000 + 10Q$

$25Q - 10Q = 400,000$

$Q = \frac{400,000}{15}$

$Q = \underline{26,666 \text{ Units}}$

Where, P = Unit selling price

Q = Quantity sold

TFC = Total Fixed Cost

If the manager drops his/her price to Birr 20 per unit and his costs remain the same, he/she must sell 40,000 units to breakeven. Given those same costs and a price of Birr 30, per unit, he must then sell 20,000 units to breakeven. The real value of such analysis becomes apparent when units required to breakeven at each price are compared with units that will be demanded at each price as determined by customer demand.

10.5.5 Company Pricing Objectives

Pricing decisions of the marketing manager must be in accordance with company pricing objectives, and the latter will differ according to company and industry. There are five common pricing objectives used by different companies in the world, and these apply to industrial marketing firms as well as to consumer marketing firms. These objectives are:

- pricing to achieve a target return on investment
- stabilization of price and margin
- pricing to maintain or improve market position
- pricing to meet or follow competition, and
- pricing related to product differentiation.

Most companies have primary pricing objectives and secondary or collateral pricing objectives. It is interesting to note that price stabilization is quite common as a secondary objective and reinforces the points made earlier in regard to customer and derived demand. The main point, however, is to realize that the company pricing objectives affect pricing decisions being made because these decisions must be in agreement with the established objectives. It is also important to note that companies in the same basic industry, might have different pricing objectives. It is also important to note that companies in the same basic industry, might have different pricing objectives. This implies that their prices, even of identical products, may differ, not because of the product or the customer involved, but because of the pricing objectives of each

firm differ. The pricing decision of the manager or the pricing analyst must integrate these objectives in to demand, competitive and cost considerations. Thus, it can easily be seen that company-pricing objectives in the industrial market can greatly influence the actual price being charged on the product.

10.5.6 Company Top Management

Top management in many industrial companies exert great influence over prices attached to their products. Although the actual pricing decisions are often made in the sales or marketing department, it is very common for those prices to be reviewed in some manner by company top management. Most survey revealed that different units might be responsible for pricing decisions in an industrial undertaking. This may include sales or marketing departments, finance department, production department and others. But in all cases it is indicated that pricing decisions were reviewed by senior management, and in most companies a committee is assigned in the review. Moreover, in a great number of companies, once prices are established, could only be changed by those people who are initially set them. Price is important, and it is something that everyone relates to; thus, top management preferences, desires, expectations and whims: and the industrial marketing manager must be able to anticipate these and be prepared to react to them if his or her own pricing convictions differ from those of top management.

10.5.7 Government

Government at all levels, but particularly at the federal level, may have considerable influence on the pricing practices of industrial marketing managers. This is a complex area and cannot be covered in full in a material of this size, but some of the major considerations will be addressed. Basically, government can affect an industrial company's pricing in the following ways:

- through taxes, which can directly and indirectly affect the price being charged
- through legislation or threat of legislation
- through sales of stockpiled strategic materials such as copper, aluminum, and so on
- as a customer and usually a large one, government can exert influence on the prices of many industrial products and,
- through the threat of reduced or curtailed purchases if a price increase by a supplier is enacted.

Development of some of these may be helpful for better understanding the role government plays in pricing in the industrial market.

As a customer, government also affects prices of some industrial goods. It does so directly with such contracts as cost plus fixed fee, and so on, where it indicates the price that will be charged. Indirectly, government can also affect prices of some goods in the industrial market. For example, an industrial firm selling the same product to both industrial customers and large government buying organizations may find that the large governmental purchases allow the firm to take advantage of economies of scale and produce to its industrial customers. In addition, when government is a present customer, it can react to price increases by threatening to stop its purchasing from the supplier enacting the

increase. Obviously, this threat has a definite influence on the pricing decisions involved.

In summary, industrial prices are generally a compromise between demand or what the market will pay, what competition will allow, what costs will permit, what is consistent with company pricing objectives, what top management will agree to, and what government will allow. It is the task of the industrial marketing manager and those responsible for pricing to integrate somehow all of these constraints into a base price for each of this products.

Pricing for profit requires a solid understanding of the markets being served and the business profit economics, top management commitment to a firm pricing policy, exercise of an enforcer's tight control over individual pricing decisions that will ensure business is actually conducted consistent with policy, and above all, a clear understanding that volume is not the key profit level in most industrial operations, especially those built around the relatively mature products that account for the great bulk of industrial sales.

Four reasons explain why industrial companies get themselves into pricing problems and poor profit results

i) failure to understand the market and the economics of business
ii) failure to comprehend the economics of inflation
iii) failure to tie the pricing strategy into the company's total business strategy; and
iv) failure by top management to maintain tight control over individual pricing actions and decisions.

If pricing performances are to improve, one authority states that industrial marketing managers need to:

- formulate specific growth and profit objectives
- develop sound data pertaining to the cost of each product line

- carefully define company pricing policy and communicate it to those responsible for pricing decisions, and
- follow through to ensure that the pricing policy is effectively administered.

10.6 MAJOR AREAS OF INDUSTRIAL PRICING

In addition to the more generalized aspects of industrial pricing, there are some particular areas of importance that must understood. Attention will now be focused upon five major areas of industrial pricing that must be understood if effective pricing is to take place. These areas are:

1. List and Net prices in industrial market
2. Return-on-investment (ROI) pricing
3. Bidding in the industrial market
4. Negotiation in the industrial market; and
5. Leasing in the industrial market

Since, there are important managerial areas, each will now be discussed in some detail.

1. List and Net Prices

Much of the difficulty in determining what prices are actually paid by industrial customers is caused by differences between list prices (what is specified on the price lists) and the net prices (those actually paid by the customer). It is very common in industrial market, to discount from the list price to arrive at the net price or prices to be actually charged. This concept is often misunderstood by those not in the industrial marketing area, but it does make sense. The industrial marketing manager prints up one price list for all his or her products and distributes his list to all customers, regardless of their type or classification. A discount system is then set up where by each customer type or classification is given certain discounts off that list for the net price to be charged. In most cases, nobody probably ever pays the list price. The advantage to the manufacturer is that it allows the printing up of one list price sheet and the use of it almost forever – any price changes that take place are accomplished by adjusting the discount system. Thus, cost of printing and reprinting price lists are eliminated. This is a considerable saving for firms producing multiple product lines especially when production and marketing costs are changing rapidly, in turn causing price changes. In addition, the list price concept allows competitors to hide their actual prices, at least to a degree. Discounts and net prices are guarded jealously and, although they can be found out, it is often with much effort.

Thus, although the list price and net price concept does not appear to make much sense, it does have logic, and its wide application to the pricing of many industrial products bears this out.

Types of Discounts

The discussion in the above section refers to the discount given to different types of customers that is found in the industrial market. A more complete listing of the types of discount used follows:

Trade discount: are those that are given to different classifications of customers and/or middlemen according to their trade or type of business.

Cash discounts: are those given to encourage rapid payment by customers and to allow faster cash flow for the marketing manager's firm. Typical of these are such as 2/10 : n/30, where by the customer deducts 2% if it pays with in ten days of invoice and the full amount if it takes longer.

Quantity discounts: are those given for the amount or quantity of goods purchased, either on individual orders or purchases over a longer period of time such as one year. The objective of such a discount is to encourage customers to buy in large volumes. Typically, such discounts accelerate as the volume increases. For example, no discounts if under 25 units are purchased, 2% if between 26 and 50 units are purchased 4% if from 51 to 100 units are purchased, and so on.

Rebates: are special kinds of quantity discount and are quite common in some industries. The basic difference between a rebate system and a longer time period quantity discount is when the buyer actually receives the discount. In the latter, discounts are given off list price on invoices. In the rebate system, the buyer receives an actual cash rebate at the end of the designated time period based on sales volume during that period. A typical rebate system may work as follows. If a customer purchases less

than $10,000 in equipment per year, it receives no rebate; if it purchases between $10,000 and $25,000 it may receive a 2% cash rebate, if it buys from $25,000 to $50,000 of equipment, the rebate may be 4%; and so on. The rebate is a cash incentive for encouraging larger purchases.

Geographic price differences: price differentials based on geographic location of customers are not strictly discounts, but they do affect the final prices paid by customers. Basically this amount to freight considerations, which may increase the actual price paid by the customer, depending on how far the goods must be shipped.

Fob considerations: f.o.b points actually affect the prices paid by industrial customers, although it can be argue that whether a product is shipped f.o.b destination or f.o.b shipping point, it is immaterial in as much as the final price paid by the customer will be the same. To illustrate, if the manufacturer ships f.o.b shipping point, it means that the buyer pays the invoice price plus freight. But if the same goods are shipped f.o.b destination, it means that the seller ships freight prepaid and the buyer pays only the invoice price. It is however, highly unlikely that the manufacturer will absorb the freight in the latter case, and the invoice price includes the freight in almost all cases. Differences can arise, however, dependent upon the freight or mode of transportation used-rail may be cheaper than truck, and so on.

2. Return on Investment Pricing

Return on Investment (ROI) Pricing is common in the industrial market. A rough estimate is that about one-half of the industrial companies in the world use some form of ROI in their pricing. Some firms use it for single-year purpose, and some use it for longer-run purposes. Some use it for single products and some use it across the board for all products. Some firms use it as a rigid rule for pricing, whereas, others use it as a bench mark for their pricing.

There is a lot of controversy over the use of ROI in pricing with in industrial business firms. Much of this controversy centers about the way in which business-people actually use the concept in their pricing, and much of it centers around the way in which ROI is calculated. There are probably as many methods used to calculate ROI in the actual industrial market as there are firms using the method. Since different industrial firms may define the term as everyone seems to have his or her own preferred method for calculating ROI, comparisons among firms and among industries are sometimes quite meaningless.

Theoretically, the correct method for computing ROI is to divide the discounted present value of annual future revenues by the initial investment. This method can be adopted to the pricing of industrial products and can be used to provide an estimate of ROI for bench-mark purposes. Evidence indicates that most business people use ROI as a screening device or a reference point for their pricing. What this means is that they will define a required ROI and then attempt to determine whether or not various prices attached to their products or product lines will achieve that desired return on investment. If it does, they will accept the product and the price and market it. If it does not and if costs cannot be adjusted favorably, they may decline not to market the product. This is what is meant by bench – mark use of ROI in pricing.

ROI pricing is quite common in the industrial market for the following reasons:

- It allows the marketing manager to use the principles of capital budgeting in the pricing of products, treating new products as investments rather than as expenses.
- The manager can treat new and existing products just as any other capital investment in which capital funds are expanded.

- It permits managers to compare performances of products, product lines and so on.

Return on investment is not easy to implement, and its use can be risky if costs are not known precisely or if demand schedules are inaccurate or if improper ROI methods are used. But as can also be realized, with proper usage, such a model could prevent product losses through poor pricing that does not even permit the recapture of funds expanded in the product. In fact, for a price leader, return on investment pricing may be the most feasible method.

3. Bidding in the Industrial Market

Many industrial marketing transactions are conducted through the inquiry/bid system, also called the bidding process. In this process, a purchasing agent in a company desiring to buy certain products may send requests for proposals, also called invitations to bid, to those companies believed capable of producing the product involved. Sometimes the request for proposals are sent only to selected firms on the buyer's bid list, and at other times open bidding is encouraged where by any supplier is free to bid. In bidding, the emphasis is placed upon price-the request for proposal gives all the necessary data regarding the requirements of the prospective buyer. Such factors include the specifications of the product involved, terms and conditions of the bid. Bid may cover individual products or lines of products, and they may be for a single sale or for term contracts for a longer period of time. Buyers use the bidding system because they feel that it permits them to obtain the most reasonable price in the purchase of required goods and/or services. In accordance with the conditions of the request for proposal, suppliers must submit bids to the prospective purchases, stipulating their prices. The bids are then analyzed by the buyer, and a choice is made on the basis of price in awarding the sales contracts.

It is not necessarily the lowest bidder that gets the contract in many cases, as some companies and many governmental and institutional customers award contracts on the basis of what is commonly referred to as the "lowest responsible bidder." This term is subject to interpretation by the individual purchaser, but basically it includes an assessment of the bidder's ability to deliver as promised, production capabilities, past record and so on.

For the bidding process to take place, a number of criteria must be present. These criteria are:

- the item in question must be capable of being defined specifically so both buyer and seller are clear on what is involved.
- There must be enough sellers to allow for bids to compete
- The sellers must want the job and be willing to bid completely
- The products dollar value must be large enough to support the costs to both buyer and seller, and
- Sufficient time must be available for the bidding process to take place.

4. Negotiation in the Industrial Market

As was developed in the preceding section, not all prices in the industrial market are the result of the bidding process. It is also common to find prices arrived at through the process of negotiation. Negotiation is defined as, "the process of working out a procurement and sales program together, to the point of reaching a mutually satisfactory agreement." Negotiation typically takes place in the industrial market in more complex buying situations in which buyer and seller both make a number of proposals and counterproposals before a price is agreed upon. Factors commonly involved in such negotiation process in addition to price are:

- services
- technical assistance

- delivery terms
- product characteristics and
- quality

Most major purchases and contracts in the industrial market are negotiated.

There are a number of reasons why negotiated pricing is popular in the industrial market. Some of the major reasons are:

- The bidding process works well only where product specification are airtight – where the buyer knows exactly what is wanted. Negotiation permits buyer and seller to work out an arrangement, which is not possible with the bidding process.
- Many industrial buyers and buying influences believe that negotiated prices come closer to the "right" price that straight forward bid prices.
- Incase where new products are involved and/or little manufacturing experience is available, sellers often prefer to negotiate.
- Many buyers prefer to negotiate because with good negotiation tactics, they can get concessions from suppliers who really want the business.
- Negotiation is also found in instances where a buyer requests bids but then finds none of them to be satisfactory.
- With inflation, rising costs and shortages of materials many sellers prefer to negotiate price rather than be tied to a fixed bid price. This is especially true with longer term contracts, and
- Even where the bidding process is used, it is common to fine negotiation taking place between the buyer and the winning bider.

Many buyers employ some interesting tactics in negotiating prices with industrial field salespeople and marketing managers. For example, the following tactical rules have been suggested to buyers:

- negotiate only your home ground according to your arrangements
- let the supplier do most of the talking
- when you talk, do not fumble over facts and figures
- do not get emotional
- if the supplier must retreat on a point, permit him or her to do so gracefully
- avoid premature showdowns, and
- satisfy the emotional needs of the people you are negotiating with

It should be apparent that an unaware salesperson or marketing manager negotiating with a shrewd buyer employing these tactics could well end up on the short end of the price. Thus, the industrial marketing manager must realize that effective negotiation requires a thorough knowledge and understanding of many factors and a well prepared presentation.

5. Leasing in the Industrial Market

One other area that deserves some mention is leasing in the industrial market. Leasing of capital equipment by industrial companies as opposed to purchasing that capital equipment is a trend that has gained great momentum in the past few years. Thus, for any industrial company marketing user type products, the concept of leasing rather than selling is something that should be considered. The argument is made that any product that can be sold can also be leased. This appears to be true the following are types of products that have been or are being leased to industrial customers: printing presses, metal fabricating equipment, forklift trucks, oil well meter equipment, machine tools, dairy equipment,

compressors, warehouse machinery, fallow rendering equipment, canning and food-packing equipment, kelp-drying ovens, cargo-handling equipment, among others.

For the industrial marketing manager in any company marketing such goods, leasing can be an alternative to selling those products to potential customers, and leasing may allow the company to penetrate markets that might otherwise not exist for the company's product if it had to sell them outright. In simple terms, leasing may allow the customer pay for it over a longer period of time. Basically, leasing expands the market base for many high-priced industrial products.

The marketing manager must understand that leasing has both benefits and disadvantages when viewed from the customer's perspective. On the benefit side:

- Leasing can provide customers with up to 100% financing in some instances.
- Leasing can help the customer obtain more favorable cash flows
- It can conserve the customers working capital, giving that customer more flexibility
- It is basically an alternative to borrowing, the customer if well financed may find that the cost of leasing is less than the cost of borrowing the equivalent amount of money.
- Leasing can often help the customer protect itself against loss from product obsolescence.
- If a lease is properly constructed, it provides a method of financing equipment without showing debt on the lessee's balance sheet thus customer a more favorable financial picture.

In summary, the customer gains from leasing because it avoids the cash purchase price, avoids the interest and operating expenses, and yet takes

advantage of the tax shield provided by lease payments. These are general advantages that may or may not apply to specific lease agreements.

There are also disadvantages to the customer's leasing industrial equipment. Some of them are:

- In the long run, leasing usually requires a greater outlay of capital than does debt financing. That is, the customer may pay more for the same equipment.
- Although the customer may view lease payments as operating expenses, they are, in fact, fixed payments that he/she must meet.
- Some customers also take great pride in owning their businesses, including their plant and equipment. With such customers, leasing is not seen as advantageous.
- Lease agreements can be hazardous if the customer is not careful. This is especially true if the equipment leased is subject to rapid obsolescence, as the customer can be tied to a lease agreement whose duration exceeds the useful life of the equipment.

A study of executives in some industrial firms found that six factors affected their decision to lease rather than buy:

- leasing provides 100% deductibility of costs
- leasing does not dilute ownership or control
- leasing allows for piecemeal financing of small acquisitions
- the after tax cost of leasing is less than the after tax cost of equity
- leasing allows for the pass through of the investment tax credit to companies with low or heavily sheltered earnings; and
- lease payments provide a greater tax shield than depreciation or interest.

Types of leases: although there are many types of industrial leases, they are usually one of two basic types. These are:

1. ***The financial lease:*** is a purely financial mechanism which is typically long or intermediate term and fully amortized over the term of the lease.
2. ***The operating or service lease***: it is usually short term, not fully amortized, and it can be cancelled. The primary purpose of the service lease is to provide the customer with equipment, which is only needed for short periods of time. Typically, the lesser or marketer provides maintenance, service, and other provisions which is why it is called a service lease. Actually, leasing plans are developed to the specific demands of the markets involved.

What all this means is that for the industrial marketing manager, there may be an alternative to pricing products and selling them outright. This alternative is to lease them to customers. Simply stated, leasing broadens a company's product and service offering and expands its opportunity for profit.

10.7 PRICING STRATEGIES

Pricing strategies must be convinced in relation to overall business objectives and marketing strategy. The success of any business depends on a blend of long run profit, growth, and survival objectives. Price, because of its influence on unit sales volume and profit margins, affects long run profit objectives. By contributing to a positive cash flow, price helps to finance growth objectives. And maintaining profit ability through sound pricing practices is necessary to ensure the firm's survival overtime. It should be recognized, however, that a diversified firm with multiple product lines can have several pricing strategies in operation at

one time. They must be consistent with one another as well as with overall marketing strategy.

New Product Introduction

Activities associated with the development and marketing of a new product (research, planning, testing, and market introduction) represent a substantial investment that the firm must eventually recover. How fast a firm should attempt to recover its investment, however, depends on the nature of the product and its projected life span, the strength of potential competition, the type of demand, and the financial strength of the company. Generally, two broad strategies are available in pricing a new product:

1. Market Skimming: setting an artificially high price that the market will not be able to sustain the long run and
2. Market Penetration: setting price at or near the level it would eventually reach after competition developed.

Market skimming strategy: it is charging an artificially high price and then gradually reducing it overtime, has the advantage of generating greater profits per unit earlier than would be possible with a lower price. If development and marketing costs can be recovered before competitors enter, surplus earnings can be used for product improvement and expansions into large-volume markets, thus reducing the average cost of producing. Unless late-arriving competitors achieve a real breakthrough in product design or processing, they will be at a cost disadvantage relative to the innovative firm.

The greatest disadvantage to market skimming is that the high margins attract competition. A firm that has a successful price skimming strategy can expect competitors to introduce similar products.

The following are conditions that favor price skimming:

- product has a strong patent protection or other barriers to market entry
- genuine product innovation that is likely to represent substantial value to potential users
- buyers who are willing to pay a premium to enjoy the product's benefits.
- a relatively short lifespan, so that a quick recovery of investment is essential
- potential competitors are relatively weak or distant in time
- uncertainty concerning the market's price sensitivity. Should the initial price proven to be in error, the firm can always lower price, whereas a low price may be difficult to raise.

Market Penetration Strategy: it is based on the assumption that demand for the product is highly elastic. By setting a relatively low price, the firm hopes to stimulate market growth and capture a large share of it. The advantage is that penetration pricing tends to discourage competition, because there is less opportunity to reap an unusually high return on investment. Penetration pricing may also be sued to achieve economies of scale. By seeking a dominant market share, a firm may increase both its scale and efficiency of operation, realizing lower production costs than competitors and thus, greater potential profits.

There are, however, two primary disadvantages to penetration pricing. First, a large volume must be sold before start-up costs are recovered. Thus, short run profits are sacrificed to gain market share and long run profits. Second, although the absolute magnitude of profits could be higher than that realized with a skimming strategy, the profit ratios (the return on assets or investment, or the profit on sales) could be lower. Firms that judge their success on these ratios will be reluctant to use a penetration strategy.

Conditions favorable to penetration pricing are outlined below:

- the market appears to be highly price sensitive
- unit cost of production and distribution fall with accumulated output
- strong potential competitors exist who are seeking new profitable ventures
- the firm's primary goal is significant market share rather than maximized short-term profits
- the product has hidden or subtle benefits that will become obvious only after use
- the sale of complementary products will also increase.

Skimming and penetration pricing strategies are only guides and cannot be applied in all situations. Some situations will require that an intermediate price be set, somewhere between a high or low initial price. The choice of an appropriate pricing strategy for new products is dependent upon the firm's objectives, the relevant customer segments, the impact of price on the actions of present and future competition, cost considerations, and appropriate distribution strategies.

Check Your Progress Exercise

1. What are the differences between list and net prices in the industrial market? Why are both used in the industrial marketing?

.....

.....

.....

.....

2. Negotiated pricing occurs in the industrial market because bid pricing is not appropriate for all industrial marketing transactions. Do you agree? Why or why not?

.....

.....

.....

.....

3. explain the importance of pricing in the industrial marketing.

.....

.....

.....

.....

4. Identify and give brief definitions for all the factors that influence pricing decisions.

.....

.....

.....

.....

5. Explain the basic pricing strategies for new product introductions in the industrial market.

.....

.....

.....

.....

10.8 SUMMARY

Pricing is the fourth major sub strategy involved in overall marketing strategy. It is important, however, to realize that pricing decisions must be integrated with decisions regarding products, channels, and promotion through time and not simply at one point in time. Pricing is not something that takes place after products have been manufactured, channels established and promotional campaigns inaugurated – it must be

considered simultaneously along with all the other functional marketing decisions that the manager has to make. The role of pricing in the industrial market was explained, and factors influencing the actual pricing decision were developed in depth. The concept of list and net pricing was covered. The concept of ROI pricing was explained and a ROI pricing model was introduced. Bidding in the industrial market was examined and the basic bidding model was developed. The area of negotiated pricing was explained. Finally, the possible kinds of pricing strategies in the industrial market was examined.

10.9 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer to Section 10.6 of item 1
2. Refer to Section 10.6 of item 3 and 4
3. Refer to Section 10.3
4. Refer to Section 10.5 of items 10.5.1 and 10.5.6
5. Refer to Section 10.7

UNIT 11: INDUSTRIAL MARKETING PERFORMANCE: CONTROLLING AND EVALUATING

Contents

11.0 Aims and Objectives
11.1 Introduction
11.2 Control and Evaluation Defined
11.3 Levels of Marketing Control and Evaluation Activity
11.4 Mechanisms for Marketing Control and Evaluation
11.5 Summary
11.6 Answer to Check Your Progress Exercises

11.0 AIMS AND OBJECTIVES

After reading the unit the student must be able:

- to create an understanding of both control and evaluation as both relate to industrial marketing management
- to point out levels of marketing that should be controlled and evaluated
- to describe and illustrate useful mechanisms that may be used for controlling and evaluating marketing management actions.

11.1 INTRODUCTION

Industrial marketing planning and strategy formulation is a complex undertaking in that it involves coordinating many functions and tasks in response to changes by customers, competitors, suppliers and other involved third parties. As the format of this material has developed, overall industrial marketing strategy requires the careful integration of products and/or services, channels, promotional efforts and prices. The marketing manager must attempt to determine which elements in his or

her overall strategy are effective and which are not. Marketing is simply too complex an activity for any manager to ignore its interactions and results. Without solid control and evaluation procedures, the industrial marketing manager cannot determine where strategies and tactics are working effectively or where they are in error. If these are not discovered, corrective actions cannot take place and the result is that errors compound and effective decisions go unnoticed.

11.2 CONTROL AND EVALUATION DEFINED

The terms control and evaluation are sometimes used synonymously. They are, however, different enough from a managerial perspective that their industrial meanings should be clarified.

Control implies keeping on track or on target, and typically takes place while activities or programmes are in progress. Individual managers, such as product or sales managers, are informed when meaningful deviations from objectives are observed. For example, a product manager may have an objective of achieving a 15 percent share of a particular market at the end of a specified time period, such as five years. Control would be involved with monitoring progress towards that specific objective.

Evaluation is more diagnostic in nature and is concerned with reviewing results to determine how well objectives are or are not being achieved. Evaluation is aimed at explaining differences that are observed in the control process.

In actual practice, control and evaluation are usefully considered a single interrelated process of detecting, assessing and correcting differences between desired and actual performance in various marketing activities. From here on control and evaluation will be considered on a single process.

11.3 LEVELS OF MARKETING CONTROL AND EVALUATION ACTIVITY

The interrelated process of control and evaluation can be applied to a number of levels of marketing activity. These levels can range all the way from a company's overall marketing strategy or plan to individual managers of marketing functions such as advertising, sales or marketing research and may include the actions of outside organizations as well. The discussion below depicts the six levels of marketing control and evaluation that may be found into industrial marketing firms. Not all companies use all six levels but a discussion of each is appropriate in that all may be involved at one time or another in industrial marketing companies.

Level 1: Control and evaluation of overall marketing planning and strategy

Referring back to unit 5, it will be recalled that the overall marketing strategy or marketing plan is an industrial company's basic approach to its marketplace. Overall marketing strategy involves the identification of market opportunities, selection of the most profitable markets, and the determination of how the company should serve these selected markets in a manner most consistent with company objectives. As was developed in unit 5, strategy development is the most basic marketing activity and all other marketing decisions, programmes and tactics must be consistent with this overall strategy. This being the case, control and evaluation of the overall marketing strategy chosen by an industrial company is a logical management function.

The control and evaluation of the overall marketing strategy or plan involves three basic considerations:

- Is the marketing strategy being carried out at all?

- If it is being carried out, how well is it being implemented?
- Is the strategy that is being implemented really the most effective in terms of changing competitive and market conditions?

These considerations are of more than passing interest – they are essential to any realistic control and evaluation of an industrial marketing manager's overall strategy.

Level 2: Control and Evaluation of profit centers and/or business unit strategies.

Unit 5, discussed strategic planning and its ramifications for marketing planning and strategy formulation. The Boston Consulting Group (BCG) recommended that multi product, multi market companies create "business units" or "profit centers" and then develop separate strategies for each as if they were unrelated entities. The composite strategies would then be compiled into an overall strategy, but each would be evaluated independent of each other. Since each "business unit" would have its own portfolio of products and/or services, it would be controlled and evaluated on this basis.

This type of control and evaluation is becoming more common as industrial firms adopt strategic planning and focus more on "business units" or "profit centers" rather than on industrial products. In a sense, this level of control and evaluation is similar to that involved with specific programs and many of the points that relate to program control and evaluation are appropriate here.

Level 3: Control and evaluation of specific marketing programs

Within an overall marketing strategy and within "business unit" strategies, it is common to find programmes developed to carryout those strategies. A program is the blend of marketing elements such as product, distribution, promotion and price and it is to this blend that the

customer responds with a purchase. Program evaluation involves looking at the components of the individual program as a system rather than as a collection of unrelated parts. All elements should be considered in an interrelated synergistic fashion. If one element changes (price is increased due to rising costs), the effects will be felt on other elements (product quality and specifications, channels, distribution, advertising and sales) as well as on the total program. It is in this light that individual program control and evaluation should take place.

An industrial company may employ a number of programs simultaneously within the same overall marketing strategy. But it is necessary to control and evaluate them individually to gain the proper perspective of each program.

Program control and evaluation requires the marketing manager to devote attention to several major concerns:

- how well does each program concide with the company's overall strategy? Are some programs out of step with overall strategy? Are some programs inconsistent with one another ro even mutually exclusive?
- How effectively are resources being allocated to the various programs? Should some programs receive more attention and resources while others could succeed with less? Is the funding adequate to ensure the success of each program?
- How effective and efficient is the marketing mix in each program? If each program is viewed as a system, the marketing mix of each program should be reviewed in terms of cost and effectiveness.

Program control and evaluation may or may not be the direct responsibility of the industrial marketing manager, but it is always the ultimate responsibility of that manager. To illustrate, when a company uses product managers, marketing managers or program managers,

those individuals are typically responsible for controlling and evaluating their own programs. However, these people often are in turn responsible to the marketing manager. Thus, the latter is ultimately held responsible by top management for individual program successes and failures. In addition, the responsibility for controlling and evaluating the overall mix of individual programs is almost always given to the marketing manager.

Level 4: Control and Evaluation of Marketing Functions

Within overall strategy, within "business unit" strategies and within specific programs, marketing activities or functions are carried out by departments such as sales, advertising, and marketing research. How well each functional department performs is what is involved in control and evaluation at this level. This is where strategy changes into tactics. In product strategy, for example, attention focuses upon specifications, grades and models, service and warranties: in advertising the focus is upon evaluating copy and media and in sales it is the number of calls, orders and average order size obtained by sales force members.

Control and evaluation of particular marketing functions typically requires standards peculiar to the particular function involved. Advertising is not evaluated according to the same standards as those used in distribution or pricing. Usually, functional standards are stated in terms of overall marketing goals such as market share or sales volume growth, or in terms of more intermediate goals such as awareness and knowledge of product features among target market customers.

Level 5: Control and evaluation of individual personnel of the marketing organization

Individual members of the company's marketing organization typically are assigned responsibilities that are expected to contribute to the achievement of functional or program objectives. Individuals ranging

from advertising managers, product managers and sales managers down to field sales personnel are usually subject to control and evaluation.

There are basic reasons for control and evaluation of individual efforts. A major reason is to identify areas where performance may be improved. Another reason is to provide information regarding personnel decisions such as promotion salary adjustments, and even termination. The point is that while many industrial marketing managers do not like to apply control and evaluation to subordinates, it is necessary for many reasons.

Standards for assessing individual performance are often derived from the person's present job description (what he or she is expected to do) and from the job description of the next highest job to which the person might be promoted.

Three types of standards are commonly used:

1. *Hard standards*: are those that refers to precise numbers such as sales volume, quotas or contribution to profit.
2. *Soft standards*: are those that involve factors such as personality character, initiative, judgment and organizing ability.
3. *Task specific standards*: standards that are directly related to short term problems or projects are also commonly used. For example, a field sales representative may be expected to set up 25 new industrial distributors within one year for a new industrial product. Such task specific standards may be both "hard" and "soft" but are tied directly to defined projects rather than overall performance.

Level 6: Control and evaluation of outside marketing organizations

Since many industrial-marketing managers make use of outside organizations, control and evaluation of these organizations is a necessity. Typical of these are manufacturers representatives, industrial distributors, sales agents, common carriers, public warehouses, computer service organizations, and advertising agencies. They all perform

different functions and thus must be evaluated according to different standards. The company evaluates its representatives on the basis of three criteria:

i) the representative's selling and technical competence
ii) the representative's ability to conduct a reputable, profitable and enduring business, and
iii) the representative's personal and character traits such as a good health, lack of distracting personal problems, honesty, openness, ability to work with others, reliability and integrity.

These standards wouldn't be appropriate for evaluating an industrial distributor or an advertising agency where vastly different functions are performed. The amount of this type of control and evaluation is directly proportionate to the number of outside organizations used. Companies that are heavy users of representatives and/or distributors will spend considerable time evaluating their performance.

11.4 MECHANISMS FOR MARKETING CONTROL AND EVALUATION

Following is a summary of some of the major mechanisms that may be used by the industrial marketing manager in the control and evaluation of strategies, profit centers, programs, functions, personnel and outside organizations.

i. Schedules and Control Charts

Many industrial marketers use control charts to schedule key events and map outdates of completion. This unit makes use of PERT charts and critical path analysis for their control and evaluation contributions.

Critical Path Method (CPM) is used in analyzing, assigned time frame and assigned to a function such as marketing, engineering, or manufacturing. Using such a chart the marketing manager can compare actual

completion times with expected completion times and determine areas where variation is significant. In addition, where significant variance does occur, it can be traced back to a specific area of responsibility.

Schedules and control charts are useful for controlling functional activities and, when tied to responsibility centers, they can also be used to evaluate personnel. They are also useful in monitoring overall marketing plans and programs where many separate activities must be coordinated for optimum impact. Finally, control charts can be used with quantitative standards to provide quantifiable performance standards.

ii. Reports

Another common control and evaluation technique is the report. Like other organizations, industrial companies use various reports to communicate progress and results among employees. These types of reports are most common:

1. ***Progress report*:** are usually short descriptive reports prepared at dates of important events by managers responsible for completion of activities involved. They are widely used means of controlling scheduled events and are often used in conjunction with PERT charts or other scheduling devices.
2. ***Activity reports:*** they are typically are used by managers to evaluate activities performed by subordinates. Perhaps the best known activity report is the industrial salesperson's call report which outlines such factors as number of calls made, length of sales call, amount of travel, person seen, and other such factors.
3. ***Informational reports:*** they are basically what the term implies – they are reports submitted by subordinates to inform their superiors of the status of various activities or circumstances. A common example is that money industrial sales representatives are required to report on developments in their market areas.

The industrial marketing manager must be careful in the use of reports for control and evaluation purposes. Report gathering often becomes an obsession and its value is diminished by the bulk of paperwork involved. Many industrial marketing companies have incorporated their report gathering activities into their marketing information systems to facilitate more effective report processing and to reduce paperwork.

iii. Budgets

Budgets are developed, as parts of the planning process are also useful control and evaluation tools. As a marketing manager accounts for the various activities that will comprise his or her overall strategy, that manager must also provide funding for those activities. This funding in turn, becomes the marketing budget. As the activities are performed, their actual costs may be compared with budgeted figures for control purposes. A typical budget may be the one-year budget where annual costs for each category are often subdivided by quarters, months or even weeks for control purposes. Each category's budget level may then become a standard similar to that used in a control chart. As the manager compares actual expenditures with budgeted figures, variances between the two will be seen.

Budget control is most appropriate for levels of marketing activity involving functions and individuals. At these levels, costs are best-isolated and traced to persons responsible. Where variances are observed, they can often be identified quickly and remedied at these levels.

iv. Sales and Cost Analysis

Sales and cost analysis are used to discover weaknesses or unexpected patterns in marketing results. Typically, overall company sales may be subdivided according to product types, customer type, geographic area or some other similar classification. Then, each classification is analyzed in terms of its sales and its cost considerations. The value of this approach is that while overall sales volume and revenue may be acceptable, the

performance of individual products or markets may not be nearly as acceptable. Some breakdown however, is required to discover this. For example, products A, B, C and H are good performers, but products D, E, F, G and I are actually losing money. This true picture would have been overlooked if the manager had been satisfied with overall results and had not analyzed the contribution of individual products. Sales and cost analysis aid the manager in deciding which areas should receive marketing attention and which are properly functioning.

Cost analysis is often difficult – much more so than sales analysis. The reason is that many costs are not chargeable to individual categories. This is particularly true of many overhead costs. Regardless of difficulties involved, cost analysis is seen by many industrial marketing managers as a necessary element in control and evaluation.

v. Variance Analysis

Variance analysis, which is an extension of sales and cost analysis, is the process of identifying those factors that cause differences between actual costs or sales and targeted costs or sales. Here, the manager compares such specific factors as quantity sold, price per unit, profit contribution, and market share to find areas where large variances are in evidence. Where major variances are discovered, they are further analyzed to determine reasons for such divergence. Then action may be taken to correct these variances in the future.

vi. Performance Appraisals

In many industrial marketing companies, the performance of individual marketing personnel is appraised annually by one or more superiors. Typically, a marketing manager must appraise performances of subordinates such as product managers, the sales manager, the advertising manager, and the marketing research manager. Those managers in turn must evaluate the performances of their staff

employees. Many approaches are used but the following three are the most popular.

Rating Systems: Rating systems are used predetermined seals defining employee and job characteristics. Although there are problems with rating systems, they are used often in the evaluation of performance of marketing personnel in industrial companies.

Open-Ended Evaluations: another form of individual performance appraisal is the open-ended evaluation where by supervisors are required to submit written evaluations in terms of such factors as “willingness to make decisions” or “need for specific instruction.” Two major problems, however, may be involved:

- considerable rater time is required; and
- much depends upon the rater’s writing skills – a rater who writes poorly could unknowingly jeopardize a subordinate’s appraisal.

Management by Objectives (MBO): Still another common performance evaluation tool is the management by objectives or MBO tool. In the MBO process, the employee and the supervisor jointly agree upon the employee’s goals for the period involved. The MBO approach is the most individualized of the three methods that have been discussed. However, this same individualize approach requires considerable planning and time on the part of the supervisor.

vii. Marketing Audits

The most comprehensive control and evaluation process in marketing is the marketing audit. The marketing audit is defined as, “A comprehensive, systematic, independent, and periodic examination of a company’s or a business unit’s, activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the company’s marketing performance.” Systematic implies a

logical framework to guide the audit: comprehensive means that all factors influencing marketing performance are considerable; and independent indicates that it is to be carried out objectively by people who do not have a vested interest in its outcome.

Marketing audits are complex and costly and constitute a major undertaking. The overall audit is often broken down into sub audits such as:

- a marketing environment
- a marketing strategy audit
- a marketing organization audit
- a marketing systems audit
- a marketing productivity audit
- a marketing function audit.

Thus the contents of a firm's overall marketing audit will often parallel the contents of its marking plan. This is logical in that the audit is considered to the control element in the marketing plan.

Check Your Progress Exercise

1. What is the difference between control and evaluation in industrial marketing?

.....

.....

.....

2. Why is it necessary for the industrial marketing manager to evaluate marketing personnel as well as to evaluate marketing strategies, programs; and activities?

.....

.....

.....

3. Explain the roles played by budgets in control and evaluation in the industrial market.

.....

.....

.....

4. Define marketing audits and explain the major areas of applications in marketing audits.

.....

.....

.....

5. Identify possible and common standards that could be used in assessing individual performances; and give explanation with examples.

.....

.....

.....

11.5 SUMMARY

Marketing control and evaluation is the logical follow up of marketing planning and strategy formulation. Marketing performances must be evaluated in light of objectives to be achieved, acceptable standards of performance, opportunities for improvement, variances in actual and forecasted performances, and redirected marketing efforts required. This assessment may involve marketing control and evaluation processes at six different levels: overall marketing and strategy; “Profit centers” or “business units” strategy specific programmes designed to carryout strategies; marketing tactics or functions employed to implement the programs: individual marketing personnel responsible for performing

activities and functions; and outside marketing organizations used by the company.

In controlling and evaluating marketing performances at any or all of these levels, a number of various tools and mechanisms may be used. These include: schedules and control charts, reports, budgets, sales and cost analysis, variance analysis, performance appraisals, and the marketing audit. Use of these tools was discussed in light of some of their useful applications to industrial marketing effort is costly, complex, and time consuming. Yet both are integral interrelated parts of the planning process and a necessity in effective industrial marketing management.

11.6 ANSWER TO CHECK YOUR PROGRESS

1. Refer to section 11.2
2. Refer to section 1.3 starting from level 1 to 6
3. Refer to section 11.4 of item iii.
4. Refer to section 11.4 of item vii.
5. Refer to section 11.3 of level 5