EIILM UNIVERSITY
SIKKIM

INDUSTRIAL MARKETING

www.eiilmuniversity.ac.in

Subject: INDUSTRIAL MARKETING **Credits: 4**

SYLLABUS

Basics of Industrial Marketing
Introduction to Industrial Marketing; Industrial versus Consumer Marketing; Industrial Marketing Landscape; Economics of Industrial Demand; Classification of Industrial Customers.

Buying Behaviour
Unique Characteristics of Organizational Procurement; Purchasing in Government Units; Industrial Buying Behaviour in Indian context; Conceptualization of Buying Behaviour; Stages in Buying.

Inputs to Industrial Marketing
Uncertainty Management in Industrial Marketing; Purchasing Agents in Industrial Buying; Negotiation in Industrial Marketing.

Strategic Planning
Process of Strategic Planning; Macro and Micro Variables Used to Segment Industrial Marketing; Industrial Marketing Strategy in India; Managing the Development of Strategic Planning and McKinsey's 7-s Framework.

Strategy Implementation
Understanding Strategy Formulation and Strategy Implementation; Industrial Marketing Strategy Components; Industrial Marketing Strategy in India; Industrial Marketing Research for New Product Development.

Channel Optimization
Channel Participants; Channel Functions and Dual Channels; Choosing the Right Distributor; Distribution and Manufacturers' Representatives.

Logistics and Marketing Control
Purchasing Practices of Industrial Customers in Indian Context; Marketing Logistics: Physical Distribution and Customer Services; Marketing Control.

Sales Force Planning
Development of Industrial Sales Force; Motivation of Sales Force; Effective Use of Sales Compensation.

Pricing
Price: A Crucial Element in Product Strategy; The nature of Derived Demand; Industrial Product Pricing in India; Segregation of New Product Cost; Pricing in Industrial Marketing.

Suggested Reading:

1. Industrial Marketing: A Process of Creating and Maintaining Exchange by Krishnamacharyulu Csg, Lalitha R, Publisher: Jaico Book House
2. Industrial Marketing by Ghosh, Publisher: Oxford University Press
3. Industrial Marketing 2e by K. K. Havaldar, Publisher**:** Tata McGraw-Hill Publishing Company limited
4. Industrial Marketing Management by Govindarajan, Publisher: Vikas Publishing House Pvt Ltd.
5. Industrial Marketing by Phadtare M. T, Publisher: Prentice Hall of India Private Limited
6. Industrial Marketing Text Book: ICMR

COURSE OVERVIEW

Dear Students,

Before we take up the course let us see why do we study Industrial Marketing, when we have learnt so much of Marketing Management in the previous semesters. To speak about Industrial Marketing as a subject in marketing let us read the article of some of the world fame-marketing gurus.

“Each year, Cosmetics Company’s sell billions of dollars worth of potions, lotions and fragrance to consumers around the world. In one sense, these products are no more than careful mixtures of oils and chemicals that have nice scents and soothing properties. But the cosmetics companies know that they sell much more than just mixtures of ingredients, they sell the promise of what these concoctions will do for the people who use them.

Of course in a cosmetic business, like anywhere else, equality and performance contribute to success or failure .For example perfume marketers agree, “No smell; no sell.” however, $180-an-ounce perfume may cost no more than $10 to produce. Thus to perfume consumers, many things beyond the scent and a few dollars’ worth of ingredients add to a perfume’s allure. For instance, a perfume’s packaging is an important product attribute- the package and the bottles are the most real symbols of the perfume and its image. The mane is also important –fragrance name such as Obsession, Passion, Gossip, Wild Heart, Opium, Joy, White Linen, Youth Dew, and Eternity suggest that the perfume will do something more than just make you smell better.

What is the promise of cosmetics? The following account by a” New York Times” reporter suggest the extent to which the cosmetics take on meaning far beyond their physical make up.

Last week I bathed in purple water (I Trust bubble bath, made by Philosophy) and powdered up with pink powder (Rebirth, by 5s,”to renew the spirit and recharge the soul”). My moisturizer was Bliss (Chakra Vll by Aveda, for “the joyful enlightenment and soaring of the spirit”); my nail polish was Spiritual (by Tony and Tina, “to aid connection with the higher self ”). My teeth were clean, my heart was open –however, my bathroom was crowded with bottles and brochures, the latest tools and totems from the human potential movement, that I could hardly find my third eye.

If you are looking for enlightenment in all the wrong places, cosmetics companies are eager to help. Because today feeling good is new religion. And cosmetics companies are the newest of the new prophets, turning the old notion of hope in a jar on its head.

Cosmetics are our satellite to the divine!” this is what you will here from Tony and Tina, for example. Tony and Tina (Antony Gillis and Christina Bernstein) are young artists. He’s from London, she grew up in New York. Chakra nail polish, which they invented for an installation at the Gershwin Gallery In Manhattan two years ago, was intended an ironic commentary on beauty business. But a friend suggested they get into the beauty business, and now Tony and Tina have a $2 millions cosmetics company with a mission statement: “To aid in the evolution of human consciousness.” Their products include nail polishes (Vibrational Remedies) in colors meant to do nice things to your charkas, as well as body glitter and hair mascara, lipstick and eye shadow. You can buy them at Fred Segal, Nordstrom and Bloomingdale’s, where last month they outsold Hard Candy and Urban Decay.” We think colour therapy is going to be the new medicine”, said Tony.

All this might sound like only so much flim-flam, but the underlying point is legitimate. The success of such brands affirms that products really are more than just the physical

entities. When a woman buys cosmetics, she really does very much, much more than just oils, chemicals and fragrances. The cosmetics image, its promises and positioning, its ingredients, its name and package, the company that makes it, the stores that sell it –all that became a part of the total cosmetics product. When Aveda, philosophy, and 5s cell cosmetics, they sell more than just tangible goods. They sell life style, self-expression, exclusivity and spirituality; achievement, success, and status; romance, passion, and fantasy: memories, hopes, and dreams."

After reading this article one thinks well who are the people who sell these nice scents, who sell the chemicals & who sell these attractive packaging. Well the simplest answer is marketing men. But are they, the same marketing men who sell the toothpaste, the bathing soap or the shaving cream?

NO, there are sets of marketing men, who sell the changing lifestyles, who sell the hopes or who sell the dreams to organizations. They are the marketing men who sell the basic ingredient to the industries and the dreams to the organization that their organization will succeed and grow. They are Industrial Marketing marketers.

Course Objective

The overall objective of the course is to provide the students with in depth knowledge of industrial market structure and how they function. Further more the course aims to provide students with understanding of the various attributes and models applicable in this field. The significance of industrial marketing emanates from the fact that industrial markets have been growing at unprecedented rate during the past few decades and the demands for industrial products and services have exceeded the actual industrial output. The course comprises basics of industrial marketing, components of strategy, channel strategy, marketing communication & pricing. Industrial Marketing has close links with Business Environment, Human Resource Management & of course is a part of Marketing Management.

Learning Outcomes

- Basics of industrial marketing.
  1. Defining industrial marketing
  2. Differentiate between consumer markets and industrial markets.
  3. Analyze the industrial market environment.
- Components of strategy in industrial marketing.
  1. Identify the planning process in industrial marketing.
  2. Assess the marketing opportunities, segmentation & target market.
  3. Suggest ways to develop new product strategies & innovations.
- Channel strategy in industrial marketing.
  1. Procedure of formulation of channel strategy in industrial marketing.
  2. Relation between logistics and physical distribution.
  3. Role of participants in business channel.
- Marketing communication and pricing
  1. Describing selling functions and industrial sales force.
  2. Ways of managing advertising, sales promotion & publicity.
  3. Analyze the determinants of pricing and decision-making.

INDUSTRIAL MARKETING

CONTENTS

INDUSTRIAL MARKETING

CONTENT

LESSON 1:
INTRODUCTION TO
INDUSTRIAL MARKETING

Learning Outcomes:

- **Why there's a need to study Industrial Marketing?**
- **Difference between a product and industrial product**
- **Defining Industrial Marketing**

Why Study Industrial Marketing?

With the increasing marketing competency of the 1980's, managements of many firms saw some weaknesses in their organizations and that resulted in-

1. Lack of guidance and stimulation for research and development of new products.
2 Lack in developing markets for new products.
3. Lack of methods for promoting products to customers in the face of cost & promotional factors.
4. Lack in innovation of logistics with the needs of industrial customers on national and global basis. .
5. Lack in meeting the new competition through traditional ways of business.
6. An inability to modify product positioning.

The marketing people needed to correct such situations with experiences of the marketplace.

Industrial practitioners have defined the skills needed for success in industrial marketing as they dictate the market.

- Market Planning
- Market Analysis
- Sales Forecasting
- Market Research
- Product Planning
- New Product Development
- Product Management
- Pricing Strategies
- Price Theory
- Sales Management

These ten qualities and some more were the basic requirements of successful marketing of the marketing people. It was necessary for continuous upgrade of knowledge and skill development for the marketing men in these areas of marketing management. Failing which the six lack of functions of marketing mentioned above could not or would be very difficult to overcome.

To make the subject of Industrial Marketing more precise and to make the career of people in Industrial Marketing, research methodology in marketing, marketing planning & market forecasting techniques are viewed as the most important areas of study.

Although the basic tenets of consumer marketing are quite applicable to industrial marketing but industrial markets are different as the ways of marketing are uniquely specialized ways of handling sophisticated customers while maintaining the corporate image and business, generating profits.

This is what Industrial Marketing is: - (A point to ponder)

The question which one has to think for an answer and if not he/she has to either go for a research, or a market plan or may be a market forecasting technique.

No one knows better than mom, right?

But does she know how much underwear you own? Well " VIP" does.

The number of ice cubes you put in a glass of cold drink? Of course "Coca Cola" knows it.

When you open a packet of "Lehar Kurkure" how many you eat broken ones & how many whole ones? Try asking "Frito-Lays", you will get the correct answer.

The big companies know all these what's, where's, how's and when's of their consumers needs and wants and their demands.

They figure out all sorts of things about the customer's moves, which the industrial marketers satisfy by giving the support to the organization.

This gives rise to many such other questions, like: -

- Do we know that how many men put their right leg first when putting on pants?
- Do the pharmaceutical companies know that what amount of Aspirin is consumed by Indians daily?

There can be many such questions which one has to think and look for an answer and if not he/she has to either go for a research, or a market plan or may be a market forecasting technique.

What is a Product?

We define a **product** as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy the wants and needs of a customer or a consumer. Similarly the term **service** can be put forward as an activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

A pure tangible good:
A bath soap, toothpaste or pack of salt these are the examples of pure tangible goods as no service accompanies them.

A tangible good with accompanying service:
One buys a Maruti car or a Hero Honda motorbike is an example of tangible goods with accompanying service. The warranty period the free services the routine checks are all such examples.

A hybrid offer:

A part of goods and the part of services may be in equal proportions are termed as hybrid offers. In Mc Donald's it provides you with food and service both.

A service with accompanying goods:
A major service but accompanying goods. Air India for example. Once you travel the service offers you many tangible goods, such as food and drinks and complimentary gifts for you to please you.

But none of these tell us clearly that what are industrial products. Are industrial products something different from the products above, are they something unique or are they something highly technical? To have an answer to the question let us go more in details about products i.e. the levels to which we can break up products.

A core product:
it is a core benefit that the customer gets or the core benefit that the consumer gets on acquiring the product or service. Revlon the world famous cosmetic people say that in the factory we make the cosmetic but at the store we sell the hope. It is the core of benefits the product will offer to the consumer.

An actual product:
Actual products have five major characteristics:

1. The quality
2. The features
3. The design
4. A brand name
5. The packaging. A Nokia cellular phone is an example of a product in this case.

An augmented product:
It is the actual customer service that one offers along with the actual product. A handsfree connector and the after sales service and the period of warranty are the add-on features, which are added to the purchase, are the examples of augmented products.

What is an Industrial Product?

Industrial products are the products, which are used for processing or for use in conducting a business. Thus the distinction between a consumer product and an industrial product is based on the purpose for which the product is bought.

Example of the statement above we can say a customer buys a mixer/juicer/grinder for domestic use it is a consumer product, but when the same mixer/juicer/grinder is purchased for the use of a fruit juice vender it is termed as an industrial product.

Industrial marketing can also be carried out in Business Services. An American organization named **Service Masters** supplies business services for wide range of organizations. They offer services to schools and colleges ranging from custodial, grounds, technology, and energy management services to maintenance and food services.

Industrial Products can be classified in three broad categories:

1.Materials & Parts.

2.Capital Items.

3. Supplies and Services.

Now let us put some examples to each to understand them clearly.

Material & Parts:
These include raw material, finished material & parts. Raw materials are mostly farm products namely cotton, wheat, vegetables etc. They can be some natural products also, namely meat, petroleum product, iron etc. Manufactured material and parts could be iron rods, linen yarns, wires and cables etc. Component and parts are the items like household appliance motors, components of PC's, component parts of motor vehicles etc.

Selling Method: Mostly they are sold directly to industrial users.

Price & Service: A major factor in marketing.

Advertising & Promotion: Less important.

Capital Items:
These are the industrial products that aid the buyer's productions and operations. They can be accessory equipments, installations or may be buildings, complex computer systems.

There are also some other items which can be added to this are the accessory equipment which can be like tools for work in the production, fork lift trucks for material handling, equipments & furniture etc. These have a shorter life span than the one mentioned at the beginning of this paragraph.

Supplies & Services:

This is the final group of products and services in industrial marketing. Supplies are the items, which have a continuous use in the plant or in office. Cleaning equipments, paints, pencils, printer inks, photocopy papers, etc. Supplies are the convenience products and are purchased with ease. Maintenance and repair services are the items like window and furniture cleaning material computer repair etc. Lastly are the business advisory services like legal, management consulting, advertising etc.

DEFINING ORGANISATIONAL MARKET

This market consists of industrial markets, reseller markets, and government markets. Industrial buyers buy goods and services to aid them in producing other goods and services (derived demand). Resellers buy goods and services to resell them at a profit. Government agencies buy goods and services to carry out mandated governmental functions.

DEFINING INDUSTRIAL MARKET

The industrial market (also called the producer market or business market) is the set of all individuals and organizations that acquire goods and services that enter into the production of other products or services that are sold, rented, or supplied to others. The major types of industries making up the industrial market (business market) are agriculture, forestry, and fisheries; mining; manufacturing; construction and transportation; communication and public utilities; banking, finance, and insurance; and services.

DEFINING INDUTRIAL MARKETING

Industrial marketing consists of all activities involved in the marketing of products and services to organizations which may be commercial, profit or non profit institutions, government

agencies or resellers that use products or services in the production of consumer or industrial good and service, and to facilitate the operations of the enterprise.

Reeder, Brierty & Reeder, gives this definition in Industrial Marketing.

Dear Students,
Let us explain and elaborate the definition.

There can be four different types of exchanges in industrial marketing

1.Product exchange:

Supply of raw materials to the organization to process the finished goods for the end user or consumer.

Examples can be many. Supply of soap/ detergent powder to the manufacturers of soaps or detergents. To HLL there must be suppliers of the raw materials of soap/ detergent raw materials to give the end product s like Rin Detergent Bar or Surf Excel.

2. Information Exchange:

When one organization gives the technical knowledge, economic consultancy, or giving replies to organizational questions to another organization it is termed as information exchange.

To site an example we say that the installation of sophisticated software's in an organization and operating system of that software can be termed as information exchange.

3. Financial Exchange:

Grant of credit facilities to an organization is financial exchange.

Exchange of currency from one organization to another country.

Example of this we can say the functioning of Industrial Development Bank of India (IDBI), which grants loans to industries.

4. Social Exchange:

Social exchange is important in areas of reducing uncertainty between buyer and seller, avoiding short-term difficulties and thus maintaining a better relation over a long period of time.

We repeat our statement again that though consumer marketing and industrial marketing have the same tenets but significant differences do exist. Those can be: -

a. Market Size

b. The Geographic Concentration

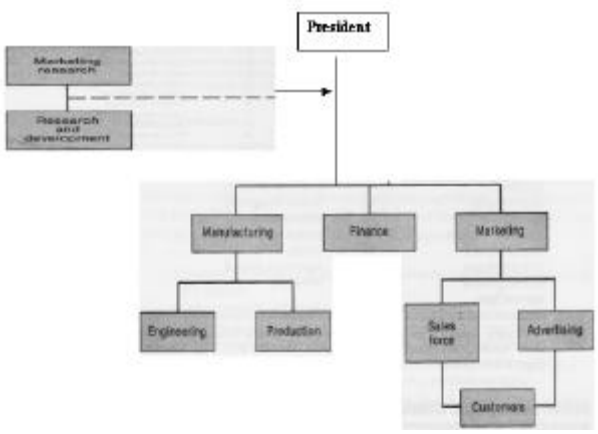
c. The Competitive Nature of the Market.

Industrial Versus Consumer Marketing Management

While the basic tasks of marketing management apply in both the consumer and industrial markets, unique forces combine to pose special challenges for the indus-trial marketing manager. In the industrial market, markets are relatively concen-trated and channels of distribution are shorter; buyers are well informed, highly organized, and sophisticated in purchasing techniques; and multiple influencers con-tribute different points of view to purchasing decisions. Thus, industrial marketing creates its own set of conditions for marketing decisions.

As in the consumer market, industrial marketers must define their target mar-kets, determine the needs of those markets, design products and services to fill those needs, and develop programs to reach and satisfy those markets. However, in comparison to consumer marketing, industrial marketing is more a responsibility of gen-eral management. In fact, many industrial executives have difficulty in separating marketing from corporate strategy and policy.

In consumer marketing, changes in marketing strategy are often carried out completely within the marketing department through changes in advertising, promo-tion, and packaging. However, as Figure 1-1 indicates, changes in industrial marketing strategy tend to have company wide implications. Such implications may involve departures from traditional engineering and manufacturing techniques or major shifts in developmental emphasis. As. in the case of Caterpillar, this may require capital commitments for new plants and equipment. (To revamp one 40-year old facility will take Caterpillar five years and $200 million)? Although marketing may identify the need for such departures from tradition, decisions on such departures are often the responsibility of general management, which must provide the follow-through in all functional areas.



The diagram shows Company involvement in Major Industrial Marketing Strategy Change.

Notes -

LESSON 2:
INDUSTRIAL VERSUS CONSUMER MARKETING

In this chapter, we'll compare industrial marketing with consumer marketing.

Comparing & Contrasting Industrial Vs Consumer Marketing

	Industrial Markets	Consumer Markets
Market Structure	Geographically Concentrated. Oligopolistic Competition	Geographically Dispersed. Monopolistic competition.
Products	Technical Complexity Customized Service very important	Standardized. Service somewhat important.
Buyer Behavior	Functional Involvement Interpersonal Relationship	Family Involvement. No personal Relationship.
Decision Making	Distinct observable stages.	Unobservable mental stages.
Channels	Shorter & Direct	Indirect & multiple linkages.
Promotion	Emphasis on Personal Selling	Emphasis on Advertising
Price	Competitive Biddings and Negotiating.	List Prices

After going through the comparison above, my dear students, we see that not only the factors like size of the market, the geographic concentrations & competitive nature of the markets will differ but also factors like: -

1. Characteristics of the products
2. The type of buyers
3. The channel characteristics
4. The promotional characteristics
5. The price characteristics

will all differ in industrial marketing and consumer marketing. In situations when a consumer marketing man is shifted to industrial marketing he/she takes time to fix their mindset and apply their cultivated knowledge.

Industrial Marketing Defined

Industrial marketing consist of all activities involved in the marketing of products and services to organizations (i.e., commercial enterprises, profit and not-for-profit institutions, government agencies, and resellers) that use products and services in the production of consumer or industrial goods and services, and to facilitate the operation of their enterprises.

Viewed from the perspective of "marketing," indus-trial marketing is, then, human activity directed toward satisfying wants and needs of organizations through the exchange process

Product Exchange

The characteristics of the product or service involved have a significant effect on the industrial exchange process. The ease of exchange depends upon the ability of the seller to identify the buyer's needs and the product's potential to satisfy those needs.

Information Exchange

Information exchange often consists of answering techni-cal, economic, and organizational questions regarding pre- and posts ale mainte-nance and servicing. Products must be planned and designed to serve customers.

To accomplish this, buyers and sellers tend to work together, exchanging product specific information over long periods of time.

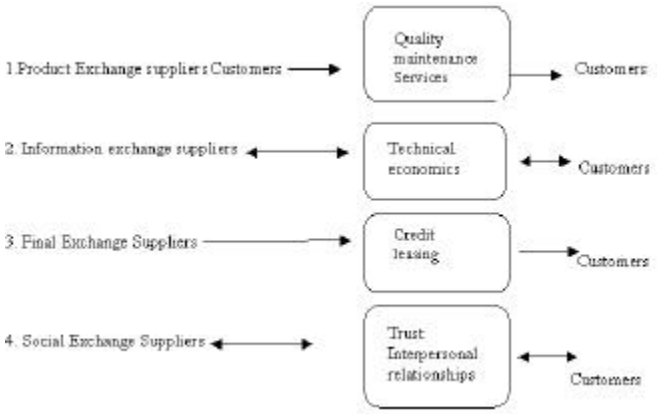
Financial Exchange

Financial Exchange may involve such consider-ations as the granting of credit or the need to exchange money from one currency from another when dealing with foreign buyers.

Social Exchange

Social Exchange is important in such areas as reducing uncertainty between buyer and seller, avoiding short-term difficulties, and maintaining the exchange relationship over a lengthy transaction period.

Many aspects of an agreement between buyers and sellers in the marketing field are not fully formalized or based on legal criteria until the end of transaction period. Rather, much of the process of exchange is based on mutual trust.



Notes -

LESSON 3:
INDUSTRIAL MARKETING LANDSCAPE

Learning Objectives

- **Industrial Development in India**
- **Current trends in Indian Industrial market**
- **Elements of Industrial Development Strategy**

Let us try to understand how industrialized nations differ from less developed countries.

Industrialized nations have many advantages over the less developed countries. They possess the necessary capital, the requisite financial institutions, the technical expertise, the business skills and connections, the research facilities, and abundant management talent at every level of production. The industrial progress of the industrialized nations will continue to be above that of the developing countries.

The recent rapid growth of industrialized nations has, in some cases, been excessive. Too much manufacturing capacity in some fields of production has forced companies to sell their surplus products on world markets at prices lower than normal. This will retard the development of local industries because consumers will prefer to buy cheaper imported products than locally manufactured products.

Indian Scenario

The Nineties have ushered up liberalization, globalization, Dunkel Draft, fluctuating sensitive stock indices, stock scams, political changes, fall of Berlin Wall, stronger green movements, hi-tech wars, collapse of Soviet Union, coalition government and so on. The internal organizational environments are also changing with the increase in employees 'knowledge level", the real time information processing, flattening of organizational pyramids, and corporate emphasis on quality.

Industrial marketing is characterized by its rational buying policy of the discerning buyers, long manufacturing cycle, high value of purchase of relatively few customers, durability and service requirements of industrial products. Every Indian company is trying to take maximum advantage of the opportunities created by the liberalized economic policies and is going in for diversification collaboration, product improvement and strengthening the market set up. Government's liberal licensing policy, has allowed access to foreign technology and even liberalized imports so that the required industrial growth can be achieved at optimum cost and quality. In other words, the industrial revolution that is silently taking place will change our base from 'production-oriented economy' to 'market-oriented economy.

Industrial Development In India

Historically, the industrial development in India has proceeded in three stages. In the first stage the secondary industry was concerned with the processing of primary products, i.e. milling grain, extracting oil, tanning leather, spinning, and vegetable fibers, preparing timber and smelting ore. The second stage, it comprised of transformation of materials, i.e. making bread and confectionery, footwear, metal goods, clothe, furniture and paper. The third stage consisted of manufacture of machine and other capital equipment in order to facilitate the future process of production. Thus the industrial development in India is generally marked, by low capital intensity and imbalance between consumer goods and capital goods industries.

The Engineering industry is an engine of growth. Its contribution to the Indian economy has been immense, as it employs about three million persons. The products cover a wide range of items and the units are situated predominantly in western India. The industry has made phenomenal progress over the last five decades and it accounts for over 30 percent of the total industrial output. The rapid growth of this industry has been helped by the assimilation of technology and spate of collaborations.

Upgrading of both the technical and the commercial fronts has been an on going process and already many companies have achieved ISO 9000 certification. Many Industries such as the forging, the foundry, the railway, the automobile and building machines, are modernizing their old machinery so as to meet the stringent needs of the export market.

For instance the forging industry, which played a crucial role in the industrial progress of India over the last four decades and has been catering to the needs of the automobile industry is now producing world-class forging; serving as import substitutes to priority sectors like power generation, petro chemicals, railways and defiance. Its growth rate has been phenomenal over the years and it is now set for a massive globalization drive.

Current Market Scene

The current trends in the Indian industrial market scene can be broadly classified as under:

1. Shift from the seller's market to buyer's market in most of the products, basically due to increased production. In some areas, production capacities are in excess of the demand i.e. tractors, tyres and more recently commercial vehicles.
2. Since production is more than demand, there is an increased need for extending the application-engineering concept. Over dependence on anyone particular market segment led thereby to the application engineering concepts, helping to identify new application areas for the same product.

   Some examples are:

   (a) Escorts, manufacturer of tractors is now, moving to manufacture motorcycles of Indian and Japanese origin as well as diversifying into other areas such as shock observers, railway coupling equipments, railway shock damping mechanisms and floating dry docks and so on.

   (b) Sundaram Clayton, manufacturer of automobile ancillaries like air brake system, is moving into manufacturing mopeds, railway signal equipments and so on.

(c) HMT, manufacturer of watches, is moving into making general-purpose machine tools, special purpose machine tools, program controlled machines, CNC type machine tools, lamp making machinery, milk vending machines and printing machinery.

(d) Torrent group is changing from pharmaceuticals to power, and Modi group plans to diversify from electronics to aviation and publishing.

(e) Videocon group is moving from consumer electronics business to power, oil drilling, petroleum refining, telecommunications, banking and financial service sectors.

(f) Reliance is moving from textiles and man-made fibers into oil exploration, oil refining, petrochemicals, power, diamond mining, iron, shipping, finance, Iron ore, steel, telecommunication, banking and insurance, exports, construction and industrial infrastructure.

(g) ITC is moving from tobacco, cigarettes, edible oils, paper and paperboards, aqua farming, hotels, financial services and travel services into Biotechnology, rubber, brewery, insurance and stock broking etc.

3. Increased awareness of consumer - thanks to technological advancement is making a sea change in product improvement. For instance, a medium-sized industry due to its increased awareness of the positive features of the CNC machines would prefer to go in for such machines from HMT in place of general purpose machines.

New Economic Order

There are two schools of thought regarding the current Indian industrial scenario. According to one school, especially academicians, recession is bound to occur since the country is passing through a transitional phase

Whereby it is moving from a controlled regime to free market economy. The other school, representing the industry, argues that the Government has been cutting back on development expenditure. Cheaper imports and inadequate bank credit have resulted in a slowdown in industrial growth.

To integrate the Indian economy into global market, the government had initiated its new economic policy measures in July 1991. The thrust of the new policy was on creating a competitive environment as a means to improve the productivity and efficiency. The effects of the new policies are already visible in the Telecom, Transport equipment, Textiles and Consumer durables industries, which are also experiencing an unprecedented boom in demand.

For a long time the domestic market in India remained heavily regulated and oligopolistic. This trend was more pronounced in machine tools and other industrial products; the basic reason being the licensing procedure and other market entry barriers. Hence, the process of rebuilding the industrial structure of the country became the first priority in the new economic order. The objective of the Government has been to permit both Indian and Foreign entrepreneurs to enter power, telecommunications and even petroleum sectors so that the central and State governments can lay greater emphasis on the execution of social welfare programmes.

Elements Of Industrial Development Strategy

The important elements of Industrial development strategy are given below:

(a) Industrial development must be made a National Crusade, and all groups in the country must support it widely.

(b) The approach must be experimental and as free as possible from prejudices concerning policies and methods.

(c) The government must take the lead and supply the initiative for industrial development.

(d) An industrial environment must be created that will offer incentives to make industrial investment highly profitable.

(e) Developing countries should accept the importance of obtaining foreign capital, and, should understand that it is equally important both to locate investors and to retain them

(f) Considerable emphasis should be given to the training and development of industrial managers and technical specialists.

(g) Industrial development should be in proper relation to other sections of economy whose development may be equally or more promising and whose growth may be an essential basis for industrial expansion.

Importance Of Infrastructure Development

The development of the infrastructure is important to growing economy, primarily, because it provides essential services. But the development of the infrastructure can also do much to stimulate economic growth. The employment generated by major projects in this area creates new markets for manufactured goods. Work on infrastructure projects has a training value; workers are introduced to industrial employment and are, thereby, prepared to work in production industries. Thus, major infrastructure projects assist a developing economy *by* providing work for the unemployed. New wealth is created in the form of capital goods-one of the greatest needs of a developing country.

Joint Venture

With economic liberalization, came a spate of joint ventures and collaboration. There are three distinct phases in the lifetime of a Joint Venture-an exploratory period when the partners explore their form of a marketing arrangement, a technology transfer deal and a licensing arrangement. Once the decision of financial participation has been taken, the Joint Venture enters its first phase. The transnational secures quick entry into a foreign market, sometimes even adding strong local brands to its portfolio, and amasses knowledge about the market, the business environment, the regulatory framework, the cultural nuances, and the necessary skills.

On this part, the Indian partner gains, technology, contemporary management practices, and perhaps most important protection from another competitors through the alliance with a powerful, financially strong global player. The second phase begins when these companies start plateauing. When, market penetration is completed, older brands are milked and replaced

by the transactional 's brands, and familiarity with local conditions is achieved. The Indian partners acquire information on technology. Management skills are transferred. Access to export markets has been assured. The partners utilize the changing developments to rework their objectives; many of the original compulsions which catalyzed the formation of Joint venture are discarded, with their place being taken by a set of other objectives. To fulfill them, the partners have to renegotiate the terms and conditions of their alliance; either reinventing their existing joint venture in the process, or dissolving it and start a new one instead, thus entering the third phase of Joint Venture.

Some examples of Joint Venture are:

- Consequent to GEA's takeover of Niro *A/S* of Denmark which has a Joint Venture with tar1ien & Toubro, the Indian company' has become a business associate of the German GEA group. The two are exploring the possibilities of working together in power and cooling tower sectors.
- Therax, the Pune-based engineering company, has signed 'Memorandum (MoUs) with two US firms-Energy Performance Services (EPS) and Proven Alternatives. The agreement with EPS is aimed at tapping the energy efficiency and conservation of business in India. The other MoUs is for a Joint Venture to pursue the development of micro cogeneration projects and thermal storage and desiccant cooling technologies.
- Alezcon Foamcast of Bombay and Vulcan Engineering of UK have entered into a tie-up for technical know how plus plant and equipment for foam technology to make castings.
- Videocon Group has tied up with Philipp Holzn1ann of Germany for various infrastructure projects in the country. The Joint Venture, Holzmann Videocon Engineering, will undertake to build refineries, power plants, roads and airports.
- Balmer Lawrie, a public sector unit, has entered into a marketing alliance with Fuchs Petrolub of Germany for lubricants and greases. The new company - with a share capital of Rs.4 crore - will be called Balmer Lawrie Fuchs Ltd.
- Hindustan Shipyard has entered into an agreement with the Daewoo Heavy Industrial Corporation of South Korea for ship building and sharing of production technology for the same.
- RPG Telecom is collaborating with BICC of UK to enter the optical fiber cable market. This is a part of the company's plans to enter the telecom arena in a big way.
- Gujarat Tractor has entered into collaboration with two UK firms - Marshall Leyland and Agricultural Tractor Technology development - to, make world-class tractors, primarily for exports. The former will provide the synchromesh gear technology and the latter, a research organization; will assist the Indian company in conforming to European fuel emission standards.
- Sona steering has entered into a tie up with Ferodo of UK to make asbestos-free brake liners to be used in automobiles.
- Williamson Magor will set up a power project in Assam in collaboration with Deutsche Babcock of Germany. The two companies will be equal partners in the project.
- Apollo Tyres has plans to enter into a buyback alliance with Bridgestone of US for the supply of unbranded tyres, which the latter will brand and sell in the international markets.
- Fusion Engineering Products, a leading welding company, has entered into several strategic pacts with global majors. These include MOSA Spa and CEBORA of Italy and Migratronics of Denmark for a range of sophisticated welding equipments. Butcher Brothers of UK will be its partners for gas accessories.

Globalization

To integrate the Indian economy with the global market, the Government had initiated its new economic policy measures and changes in July 1991. Its major objective was to improve the efficiency of the system. The regulatory framework of the post-independence period involving multitudes of controls had fragmented capacity and thereby reduced competition even in the private sector. In order to globalize the Indian economy, the emphasis was shifted from mere production to focusing on the need for continuous innovation and improving product and service quality standards. With increasing competition, many Indian companies were forced to raise the quality of their goods and services. In fact, with the relatively free flow of technology from abroad, differentiation on product quality has become progressively less pronounced and service is fast becoming the major differentiation parameter. This phenomenon is highly pronounced in the case of industrial machinery and consumer durables where it is not just the cost of acquisition but also the cost of consumables and services over the lifetime of the asset, that playa crucial part in brand choice.

Problems In Standardization

Total standardization of marketing mix across countries may not be possible. Except in cases where global consistency is required (global contracts), pricing could be customized to offer certain advantages to the marketer. Customer service standards for delivery and ordering are difficult to standardize because they depend on the extent of urbanization and transportation in each nation. Media choice is another area where Standardization may not be possible because of either the way the media has developed over a period of time or because of regulations.

Product Adaptation

Another significant area of challenge arising out of globalization relates to product adaptation. This requires continuous up gradation of techno logy and huge investment in brands. Indian companies aiming at globalization should be prepared for strategic alliances with multinational companies. This could take various forms such as licensing arrangements, a joint venture or a research or marketing cooperative arrangement. Such a strategy is in1portant in the present context where

multinationals are going global very *fast* by joining hands even with rivals.

Trends In Industrial Marketing

1. The education and experience of management industrial firms emphasizes technical and production considerations, which result in a strong product orientation. In addition, much of the informa-tion industrial marketing managers have to work with is classified on the basis of product, process or material rather than markets.
2. The demand for industrial goods and services is a derived demand, whereby creating a customer often Involves satisfying his direct and indirect needs. Thus, the distance between the industrial marketer, and those who are the ultimate consumers is often so great that relevant needs and competition are obscured. The conflicting interests of the direct customer further restrain the ability to-take effective action on indirect customer.
3. Four developments, which have significant-current momentum, appear to be of particular importance and provide -the basis for expected trends in industrial marketing. They are (a) the significant changes in the pattern_ of final demands (b) the rapid pace of technological change (c) the increasing size and complexity of the industrial firm and its customers and (d) the growing impact of the computer and the management sciences. These developments results in
   - More effective coordination, direction and control and spacing
   - New directions in marketing research.
   - Increased marketing involvement in R&D and acquisitions
   - Increased use of formal marketing planning
   - Emphasis on systems in all aspects of marketing

Notes -

LESSON 4:
ECONOMICS OF INDUSTRIAL DEMAND

Learning Objectives

- **Demands in Industrial Marketing**
- **Understanding Industrial Markets**
- **Diversity of Industrial Markets & Products purchased**

Demand for the industrial demand develops from the ultimate demand for consumer goods and services. Demand is derived from the choice and likes of consumers.

There are principally three types of demands in industrial marketing. They are: -

1. Derived Demand.
2. Joint Demand.
3. Cross Elasticity of Demand.

Now let us try to understand them one by one with examples from industry.

Derived Demand

It is the single most important force in the marketing of industrial goods and services.

We shall now clarify this statement with an example. The garment industry, which makes readymade garments, will have a constant requirement for buttons, zips, labels etc. Since the garment industry will sell the garments to the consumers as per their taste and choice the demand for the finishing items like buttons and all will always be there for continuous production. They may vary in size shape or color but the demand will always be there as long as we have the garments with us.

Joint Demand

Joint demand is commonplace in industrial marketing. It is when one product requires the existence of other product to be useful. While exceptions may be found most products require several component parts or ingredients.

Cross Elasticity of Demand

It is the responsiveness of the sales of one product to a price change of other.

The example of this kind of demand estimate we can say in industrial market is steel and aluminum

The quantity of steel in demand is closely related to its close substitute aluminum.

Industrial marketing will also exist in resellers market also. By the term resellers market we mean the buyers who buy the materials but do not consume it for some final product but again sell the product further ahead to some other final goods manufacturer. We can also term the resellers as merchandisers.

Examples of this kind of resellers/merchandisers are like the people who market dyes & chemicals, industrial chemicals and machine accessories etc.

With this we end our discussion on the basics of industrial marketing and in the next page we shall discuss classification of industrial products and unique ways of procurement of industrial products.

Understanding Industrial Markets

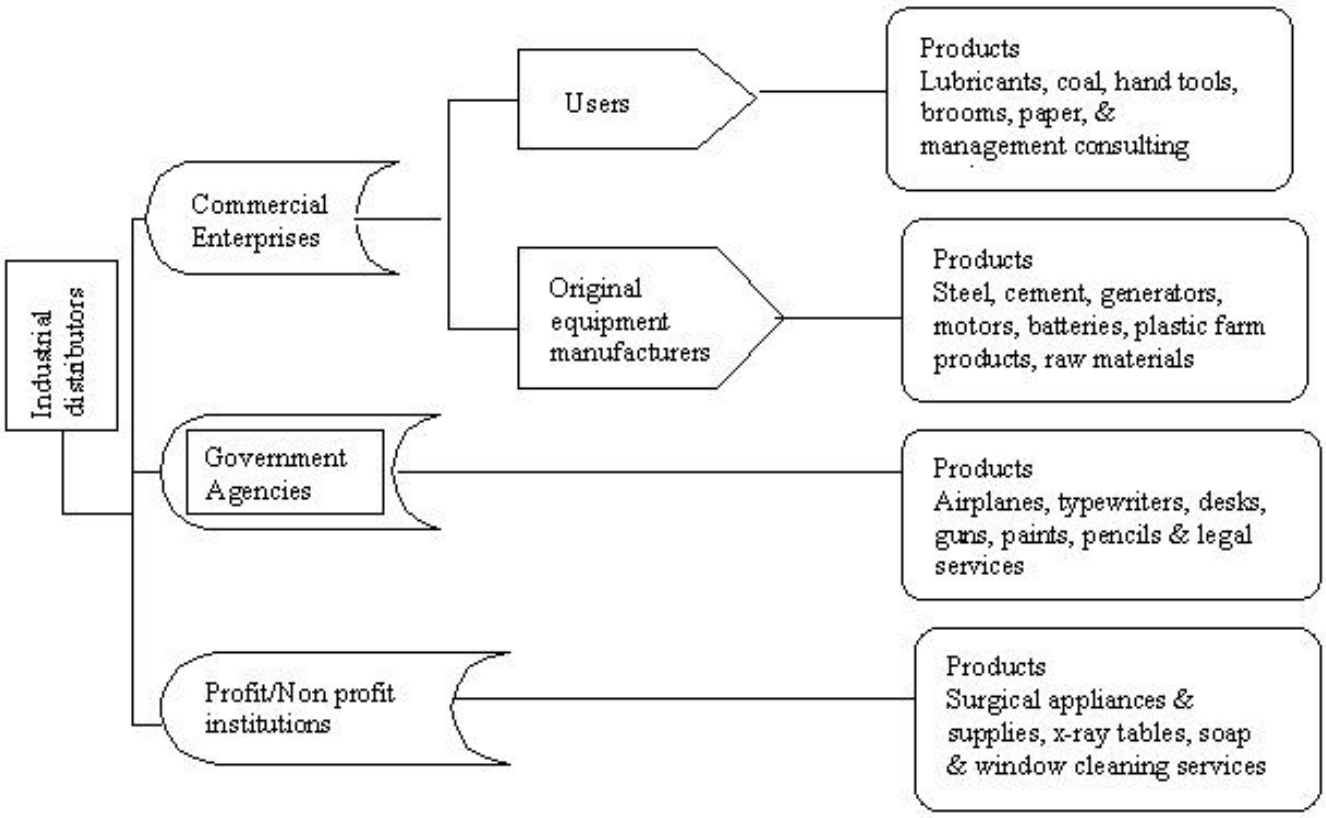
The industrial market is composed of commercial enterprises, governmental organi-zations, and institutions whose purchasing decisions vary with the type of industrial good or service under consideration. Effective marketing programs thus depend upon a thorough understanding of how marketing strategy should differ with the type of organization being targeted and the products being sold. The objective of this chapter, then, is to expose you to

1. The diversity of industrial customers and the types of products and services they pur-chase.
2. The type of customer being served and the product or service being marketed influences marketing strategy.
3. The unique characteristics of organizational purchasing.

The industrial market is characterized by tremendous diversity both in cus-tomers served and

products sold. General Motors, for instance, purchases $500 worth of electronic fuel injectors, microelectronic sensors, and electronic noses for each subcompact car it produces; the federal government purchases $2,900 Allen wrenches to keep its spare parts inventory up to date; universities purchase $100 surge suppressors to protect their investment in IBM computers; while Computer Land, the largest U.S. computer chain, sells maintenance

Component parts, spare parts, accessory equipment, and services are only a small example of the types of products purchased by the variety of customers in the industrial market. As indicated in the figure, industrial distributors or dealers who in turn sell to other industrial customers, commercial businesses, government, and institutions buy a variety of products that, in one way or another, are important to the functioning of their business endeavors. Knowing how this vast array of indus-trial customers purchase and use products and what criteria are important in their -purchasing decision is an important aspect of industrial marketing strategy.



The Diversity of Industrial Markets and Products Purchased

Notes -

LESSON 5:
CLASSIFICATION OF INDUSTRIAL CUSTOMERS

Learning Objectives

- **Classification of Industrial Customers**
- **Classification of Industrial Products**

Organizational Customers

One way to understand the diversity of industrial customers and the products they purchase is to begin by examining the various types of customers. Industrial cus-tomers are normally classified into three groups:
(1) commercial enterprises, (2) gov-ernmental agencies, and (3) institutions.

Commercial Enterprises

Commercial enterprises, such as IBM, General Motors, Computer Land, and Raven Company, purchase industrial goods and/or services for purposes other than selling directly to ultimate consumers. However, since they purchase products for different uses, it is more useful from a marketing point of view to define them in such a way as to understand their purchasing needs and, when we have examined the variety of products they purchase, how marketing strategy can be devel-oped to meet their needs. Thus_ it is more logical to look at commercial enterprises as consisting of

- Industrial distributors or dealers
- Original equipment manufacturers (OEMs)
- Users. These categories; which at times tend to overlap, are useful to the industrial marketer because they point out how products and services are used by buying firms.

Industrial Distributors and Dealers

When a commercial enterprise, such as Com-puter Land, or VWR, purchases industrial goods and resells them in basically the same form to commercial, government, and institutional markets, we classify them as industrial distributors or dealers. Industrial distributors and dealers take title to goods; thus, they are the industrial marketer's intermediaries-acting in a similar capacity to wholesalers or even retailers. For instance, while living in California, your author's often-patronized industrial plumbing, lumber, and electronic supply houses to purchase, at wholesale prices, products needed for home remodeling pur-poses. However, as Figure 2-1 indicates, while a few may also serve the consumer market, they generally serve other business enterprises, government agencies, or pri-vate and public institutions. Because of their importance in the industrial channel to both large and small manufacturers and because they are growing in number and sophistication, we shall discuss them further in Chapter Eleven.

Original Equipment Manufacturers

When enterprises such as Hyster, Xerox, or Ford purchase industrial goods to incorporate into products that they produce, we classify them as original equipment manufacturers (OEMs). That is, the electronic engine controls producer who sells parts t_ Ford would view Ford as an OEM. The important point, however, is that with this type of customer (Ford), the product of the industrial marketer (in this case, Motorola) becomes a part of the customer's product.

User

On the other hand, when a commercial enterprise, be it Hyster, Montgomery Ward, or VWR, purchases industrial products or services to support its manufactur-ing process or facilitate the operation of its business, we classify it as a user. Prod-ucts used to produce output consist of items such as lathes, drilling machines, and grinding wheels, whereas products that facilitate the operation of a business might consist of computers, typewriters, and adding machines. In contrast to the products purchased by OEMs, products purchased by users are not incorporated into the final product.

Overlap of Categories

It should be obvious that the preceding classifications cen-ter on how products and services serve the customer. A manufac-turer of forklifts can be a *user*, purchasing metal-cutting machine tools to support the manufacturing process, or an *OEM*, purchasing gear drives and transmissions to incorporate into the forklifts being manufactured.

The important point is that OEM purchasers will be concerned with the impact that products have on the quality and depend-ability of the end products they produce. Since users buy products for use in the production process or to facilitate the operations of their businesses, their concerns will center on prompt, predictable delivery and maintenance service. And industrial distribu-tors or dealers will be more concerned with how products match the needs of their customers. On one point, however, all commercial customers agree: their purchases are expected to enhance the profit-making capability of the firm.

Governmental Agencies

The largest purchasers of industrial goods in the United States are the various fed-eral, state, and local governments-spending nearly a trillion dollars annually for products and services. These government units purchase virtually every kind of good-from $2900 Allen wrenches to multimillion-dollar ICBM missiles-and repre-sent a huge market, accounting for approximately thirty-seven percent of our total gross national product. The result of this volume purchasing is that procurement adminis-tration and practices are highly specialized and very often confusing.

When a particular product or service is needed, government buyers may negotiate directly with vendors or carefully develop detailed specifications and invite qualified suppli-ers (through the media) to submit a price bid in writing, usually awarding the bid to the lowest, qualified supplier. In the case of the $2900 Allen wrench, in accord-ance with customary contract specifica-tions at the time, overhead and direct engi-neering man-hours were allocated across all items in the "kit."

Thus, for the limited production run of the single Allen wrench, direct engineering costs came to $1,034.64; engineering overhead came to $503; $507 was necessary for fringe bene-fits; $149 for general and administrative costs and $388.79 was billed for profits, plus some other costs.

The total price-though thoroughly documented and neces-sary in view of cost allocations, various actions necessary to comply with contract specifications and many visits, discussions, and inspections by government offi-cials-appeared to be an unrealistic $2,917.45 per wrench.2 Since effective market-ing strategy for reaching government customers lies in the marketer's understanding of these complex purchasing procedures, we will discuss government purchasing in more detail when we introduce the unique characteristics of organizational procurement later in this chapter.

Institutions

Public and private institutions such as churches, hospitals, colleges, sanitariums, and prisons are another important classification of industrial customers. Some of these institutions follow rigid rules and purchasing procedures while others follow far more casual procedures. The important difference with this type of industrial customer is that effective marketing rests on the industrial marketer's ability to rec-ognize the way in which each institution purchases its goods or services.

Classifying Industrial Products

As further indicated by wide arrays of goods and services are required by industrial organizations. Although solutions to industrial customers' problems, go far beyond a preliminary identification of which products belong under which classification, classifying industrial goods gives the industrial marketer a better indication of the scope of the market, who is involved in the purchasing process, and what marketing factors affect the buying decision.

Whereas there are various methods for classifying industrial goods, the most useful method analyzes how products or services enter the production process or affect the cost structure of the firm.4 This enables marketers to view their offerings from the customer's perspective and adapt or adjust marketing strategy to maximize potential customer benefits based on the product's intended use.

Given this perspective, the following three broad classifications are useful:

(1) materials and parts, goods that enter the product directly;

(2) capital items, goods that affect the cost structure of the firm;

(3) supplies and services, goods that facilitate the firm's operation.

MATERIALS AND PARTS

Goods that enter the product directly consist of raw materials, manufactured mate-rials, and component parts. The purchasing firm treats the costs of these items as expenses that are assigned to the manufacturing process

Raw Materials

Raw materials such as agricultural products or natural gas normally enter the production process with little or no alteration. They may be mar-keted as either OEM or user products. For instance, when Sara Lee purchases gas to fire the massive ovens used to produce all those delicious cakes in the freezer sections of the grocery stores, it 'is a "user" customer. When it purchases fruits for further processing to fill those delicious delicacies, it is an OEM.

Electrical and Electronic Products

This industrial sector covers the manufacturing and marketing of electrical and electronic products or in providing computer services. Marketing here refers to wholesaling and related service functions.

Household Appliances and Electrical Products

This subsector consists of groupings of companies primarily engaged in the manufacturing and marketing of household appliances and electrical industrial machinery and equipment. The manufacturing and marketing of electronic household appliances are covered here.

Household Appliances

Companies primarily engaged in manufacturing and marketing household electrical and electronic appliances.

Household Appliances Wholesaling

Companies primarily engaged in wholesaling small electrical household appliances, major household appliances (electric and non-electric), and home entertainment appliances.

Household Appliances Manufacturing

Companies primarily engaged in manufacturing and marketing small electrical household appliances, major household appliances (electric and non-electric), and home entertainment appliances.

Electrical Industrial Products Manufacturing

Companies primarily engaged in manufacturing electrical transformers, electrical switchgear and protective equipment and electrical industrial products not elsewhere classified. The manufacturing of electronic industrial control equipment is covered in 3618 - Other Electronic Equipment Manufacturing. The Manufacturing of motor vehicle generators is covered in 3021 - Motor Vehicle Parts and Accessories Manufacturing; and cast iron pole line hardware is covered in 2012 - Iron Foundries.

Other Electrical Products Manufacturing

Companies primarily engaged in manufacturing electric wire and cable and electrical products not elsewhere classified.

Communication and Energy Wire and Cable Manufacturing

Companies primarily engaged in manufacturing electric wire and cable both insulated or armoured and non-insulated.

Other Electrical Products Manufacturing n.e.c.

Companies primarily engaged in manufacturing electrical lighting fixtures, electric lamps and shades, light bulbs and tubes, batteries and other electrical products not elsewhere classified. The manufacturing of power fuses is covered in 3521 Electrical Industrial Products Manufacturing.

Electrical Machinery, Equipment and Supplies Wholesaling

Companies primarily engaged in wholesaling electrical wiring supplies, electrical construction materials, new and used electrical generating and transmission equipment and supplies and electrical equipment and supplies not elsewhere classified. The

wholesaling of motor vehicle generators and voltage regulators is covered in 3022 - Motor Vehicle Parts and Accessories Wholesaling; and of electronic alarm apparatus in 3619 - Electronic Equipment Wholesaling.

Electronic Equipment and Computer Services

This subsector consists of groupings of companies primarily engaged in the manufacturing and wholesaling of electronic products including parts and components, business machines, data processing equipment (along with the related input, software and maintenance services) and telecommunications equipment. The manufacturing and wholesaling of electronic home entertainment appliances are not covered here.

Electronic Equipment

Companies primarily engaged in manufacturing and wholesaling telecommunications equipment, electronic parts and components and office, store and business machines except data processing equipment. The manufacturing of data processing equipment is covered in Segment 363 - Computer Equipment and Related Services, Integrated Operations.

Electronic Parts and Components Manufacturing

Companies primarily engaged in manufacturing electronic parts and components for electronic sub-assemblies and electronic equipment.

Communication Equipment Manufacturing

Companies primarily engaged in manufacturing telephone, telegraph, microwave transmitting and related equipment.

Other Electronic Equipment Manufacturing

Companies primarily engaged in manufacturing electronic and business machinery (except electronic data processing equipment), alarm systems and electronic equipment not elsewhere classified. Electronic data processing equipment manufacturing is covered in 3631 - Computer Equipment and Related Services Integrated Operations. Manufacturing of electronic household appliances is covered in 3512 - Household Appliances Manufacturing. Manufacturing of scientific scales including electronic is covered in 2612 - Scientific and Professional Apparatus Manufacturing.

Electronic Equipment Wholesaling

Companies primarily engaged in wholesaling electronic parts and components, communications equipment and other electronic equipment (except electronic data processing equipment) and electronic household appliances. The wholesaling of electronic data processing equipment is covered in 3623 - Computer and Peripheral Equipment Sales and Service or 3631 - Computer Equipment and Related Services Integrated Operations. The wholesaling of electronic household appliances is covered in 3512 - Household Appliances Manufacturing.

Computer Services

Companies primarily engaged in computer programming and systems work, computer equipment servicing and computer wholesaling.

Computer Programming and Systems Analysis Services

Companies primarily engaged in providing computer programming and systems analysis services.

Computer Data Input and Systems Services

Companies primarily engaged in renting computer time and providing data input and systems services.

Computer and Peripheral Equipment Sales and Service

Companies primarily engaged in the selling and servicing of new and used computers and peripheral equipment. Companies primarily engaged in finance leasing are covered in 6122 - Financial Leasing Companies.

Computer Equipment and Related Services, Integrated Operations

Companies primarily engaged in operations which integrate the manufacturing, marketing and servicing of electronic computing and peripheral equipment and provide computer programming and systems analysis, computer time renting and data input preparation services.

Notes

LESSON 6:
UNIQUE CHARACTERISTICS OF ORGANIZATIONAL PROCUREMENT

Learning Objectives

- **Unique Characteristics Of Organizational Procurement**
- **Value Analysis**

Unique Characteristics Of Organizational Procurement

Selling in the industrial market is complicated by a broad spectrum of customers. Commercial enterprises (including resellers), governmental organizations, and insti-tutions give buying responsibility to individuals who are quite knowledge-able in their particular markets. These individuals are often more realistic in assessing the competitive value of a vendor's product than is the vendor. Thus, they normally identify, evaluate, and select suppliers, domestic or foreign, who provide the great-est value. The foundation for formulating successful industrial marketing strategy, then, lies in knowing how the buying function is administered in a diversity of mar-kets and situations.

Purchasing in Commercial Enterprises

How goods and services are purchased by commercial enter-prises depends on the nature of the business, the size of the firm, and the volume, variety, and technical complexity of the products purchased

Multiple Influencers

With the exception of very small organizations, several people usually share the purchas-ing decision. Multiple influencers in commercial purchasing can include production people, engi-neers, cost accountants, middle and upper management, and purchasing agents.

Technical Sophistication

Techniques such as materials requirement planning, sup-plier rating systems economic order quantity and value analysis are commonly used in the industrial market. Purchasing managers now make greater use of the firm's internal engineering capability to evaluate competitive products. They are more knowledgeable of price trends, and quite expert in the art of negotiation, and tend to be specialists capable of developing detailed knowledge with respect to man-ufacturing processing and design specifications of those products and materials for which they are responsible.

Knowledge of the buyer's needs, the products that can fulfill those needs, and the capabilities of existing and potential competition is essential. Industrial market-ers can develop a more realistic perception of customer needs by understanding a process called *value analysis.* While buyers use value analysis more frequently, suppliers who can predict or anticipate a customer's value judgments are in a better position to react in accordance with these judgments.

Value Analysis

Value analysis involves systematized techniques for reducing costs and improving the performance value of materials, components, and manufacturing processes. The first industrial application of value analysis, attrib-uted to Larry Miles of the General Electric Purchasing Department, occurred in 1947. The Department of Defence, which has done much to promote value analysis (sometimes referred to as value engineering), defines value analysis as an intensive appraisal of all the elements of the design, manufacture, or construction, procure-ment, inspection, installation, and maintenance of an item and its components, including the applicable specifications and operational requirements in order to achieve the necessary performance, maintainability, and reliability of the item at minimum cost.

Value analysis, as developed by General Electric, involves a step-by-step proce-dure:

1. **Selection**. A product that is ripe for improvement is selected for value analysis.
2. **Information gathering**. The team coordinator collects drawings, costs, scrap rates, usage forecasts, and operations sheets before the team first meets. Team members are asked to send in whatever information they have.
3. **Function definition.** The team meets and defines each function of the product. A func-tion is defined in two words, a verb and a noun (e.g., a flower pot *contains soil).* Only essential functions are included. Next the team determines the present cost of each function. This reveals which functions represent major
4. **Generation of alternatives**. Team members suggest ideas for new and different ways to accomplish the functions. This is known as brainstorming. All ideas are recorded and later culled to a list of manageable size expenditure
5. **Evaluation of Alternatives**. Alternatives are evaluated on various factors, including fea-sibility and cost. This 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 proposals
7. **Implementation.** The approved value analysis change proposal is translated into an analysis change order and implemented

The two-word function definitions, step 3, stimulate thinking by requiring individuals to search for the primary and secondary functions of items. For example, possible definitions of a soft drink container could include "contains cola," "con-tains beverage," "contains liquid." By moving away from specifics (cola and bever-age) toward a generality (contains liquid), mental restrictions regarding the product are removed. Thus, containers that customarily contain liquids other than soft drinks can be

considered. Secondary function definitions are also listed, such as “maintains fizz,” “provides access,” “enables dispensing,” “promotes selling,” and “allows stacking,” Secondary functions usually account for at least 80 percent of the cost of all items.

The values of the basic and secondary functions are analyzed in terms of four definitions of value: use, esteem, cost, and exchange. The “use value” of an item refers to its ability to perform a specific function; “esteem value” deals with its ability to inspire people to want the item; “cost value” quantifies the money or labor cost of the product; and “exchange value” refers to the trade-in value of the product. Esteem, cost, and exchange values of the Rolls Royce account for its high price.

Brainstorming, step 4, involves asking questions such as:

To what other uses can the product be put?

What other products or substitutes might be used?

How might this item be modified?

How might this item be magnified or “minified”?

How might the item be rearranged?

How might the item be reversed?

How might the item be combined with other items?

Once alternatives are evaluated, costs are considered from several perspectives: the costs of elements (labor, material, etc.), the cost of increments (how costs. build up through various assembly stages), cost change over time, cost per unit of dimension (length, area, weight, etc.), and cost per function.

Value analysis continues to serve our current life-styles and make our latest technological achievements even better. Edward Walter depicts the role value analy-sis played in cutting the size of Jacuzzi Motor inventories by fifty percent, he tells of how Xerox used it to develop an electronic voice recognition system and successfully inventory over two million parts, and he explains how value analysis was used by a disc drive manufacturer to save $120,000 through the use of better fitting screws to overcome the severe braking forces needed in disc drives.

Notes -

LESSON 7:
PURCHASING IN GOVERNMENT UNITS

Purchasing in Government Units

As stated earlier, the largest purchaser of goods and services in the United States is government. To compete in this market, industrial marketers must develop a thor-ough understanding of the complexities involved in selling to the government. While the scope of this text does not allow a detailed coverage of government purchasing practices, perhaps a few comments will provide an idea of just how specialized and complex governmental purchasing really is.

Widely Dispersed Markets

There are many functional areas within both federal and state government organizations. In addition to the various agencies of the fed-eral government (e.g., defense, space, interior, transportation, and the postal ser-vice), there is a broader range of government units at the state, county, and munici-pal levels. Thus, the industrial marketer is faced with a widely dispersed market. There are more than 70,000 buying centers at the federal, state, and local levels. Compounding this fact is the large number of influencers in the purchasing process. Government buyers are responsible to and/or influenced by numerous interest groups who specify, legislate, evaluate, and use the goods and services purchased.

Complicated Procurement Laws

Government purchasing, regardless of the level, is also based on legal requirements that establish the guidelines for contractual ar-rangements. Government contracts often contain provisions that have little to do with the product or service under consideration. Rather, they are more concerned with broader, social goals. They may require the contractor to give preference to small subcontractors, to employ a certain proportion of minorities, or pay the mini-mum wage. Where the federal government is concerned, all contractors must meet general contract provisions that are set forth by law and are published as part of the federal procurement regulations. These provisions include product inspection requirements, payment methods, and actions to be taken as a result of default and disputes, and many other provisions relative to the supplier's performance.

Understanding Government Contracts

Besides the need to understand procure-ment laws, marketing to the government also requires an understanding of the types of contracts that might be employed. Basically, there are two types: fixed-price con-tracts and cost-reimbursement contracts. In the fixed-price contract, a firm price is agreed upon before the contract is awarded, and full payment is made when the good or service is delivered in the condition agreed upon in the contract. Under cost -reimbursement contracts, the supplier is reimbursed for allowable costs incurred in performing the contract.

A provision is made for profit, either a specified dollar amount above cost (cost plus fixed fee) or a predetermined percentage of total con-tract prices. In most cases, the fixed-price contract permits the greatest profit poten-tial; however, greater risks are involved if unforeseen expenses are incurred. But if the supplier can effect unforeseen cost reductions during the contract period, profits may be earned beyond those originally estimated. Because of the low incentives for contractor efficiency contained in cost-reimbursement contracts, the government carefully administers them. They are usually employed for developmental work where is difficult to forecast efforts and expenses.

When nonstandard zed products are involved, or when there are very few sup-pliers capable of providing a product, negotiated contract buying is employed. This type of purchasing strategy is much more flexible, since the government purchasing office has a wide range of personal judgment it can exercise. However, in its at-tempts to provide some uniformity to the negotiation process, the military has set up a uniform negotiation procedure that specifies the manner in which purchase needs are to be established, potential suppliers identified, proposals evaluated, and contracts negotiated and awarded.

In summary, selling to the government is very involved, complex and time consuming. Within this market can be found some of the most sophisticated buyer-seller environments. To assist suppliers in selling to the government, numerous manuals and publications are provided that explains the process, such as "selling to the Military" and " selling to the U.S Air Force", which are available through the department of Defense.

Institutional Purchasing

Purchasing in the institutional market, as previously discussed, involves practices lying somewhere between commercial enterprises and government. For instance, a multicampus state university with centralized buying for all its campuses may purchase products much like a government customer; while another multicampus uni-versity with decentralized purchasing authority may purchase products in the same manner as commercial customers. Institutional buyers are a mixture of government and private organizations and the industrial marketer must consider them on an individual basis to respond successfully to their unique needs and characteristics- on one hand, public institutional buyers are.

Quite similar to government buyers due to the constraints of political considerations and dictates of law; on the other hand private institutions are managed very many like commercial enterprises. Thus, insti-tutional marketers may have to develop separate strategies to meet the needs of a purchasing agent who buys for an entire school system through formal bidding as opposed to a purchasing agent for a private health care institution.

Purchasing in the Reseller's Market

Buyers in the reseller's market select vendors by evaluating them primarily on the expected contribution toward increased sales volume and profits. Thus, buyers in the reseller's market are not

only interested in the products of potential suppliers but in their marketing policies as well (e.g., their choice among intensive, selective. or exclusive distribution, and their attitude toward cooperative advertising and the provision of point-of-purchase displays).

Both products and policies affect resellers' ability to match, beat, or avoid competition. Suppliers who can assist resellers in their selling effort, counsel them on inventory management and procurement, and provide prices, terms, and financ-ing policies that enable the reseller to function competitively and with reasonable risk, are virtually assured a share of the business. However, some manufacturers of well-known consumer brands have chosen to depend upon consumer acceptance rather than supportive policies to maintain reseller allegiance. But resellers say, "I buy from XYZ Corp. because I have to, not because I want to. When the day comes that I no longer have to buy from them, watch how fast I change suppliers.

Notes

LESSON 8:
INDUSTRIAL BUYING BEHAVIOUR IN INDIAN CONTEXT

Learning Objectives

- **Industrial Buying Behaviour in Indian Context**
- **Purchase Complexity**

Industrial Buying Behavior in Indian Context

1. Recognition of a need
2. Confirmation of the need
3. Agreement on specifications
4. Recommendations as to supplier
5. Purchase authorization and
6. Placing of the order

Industrial Purchase

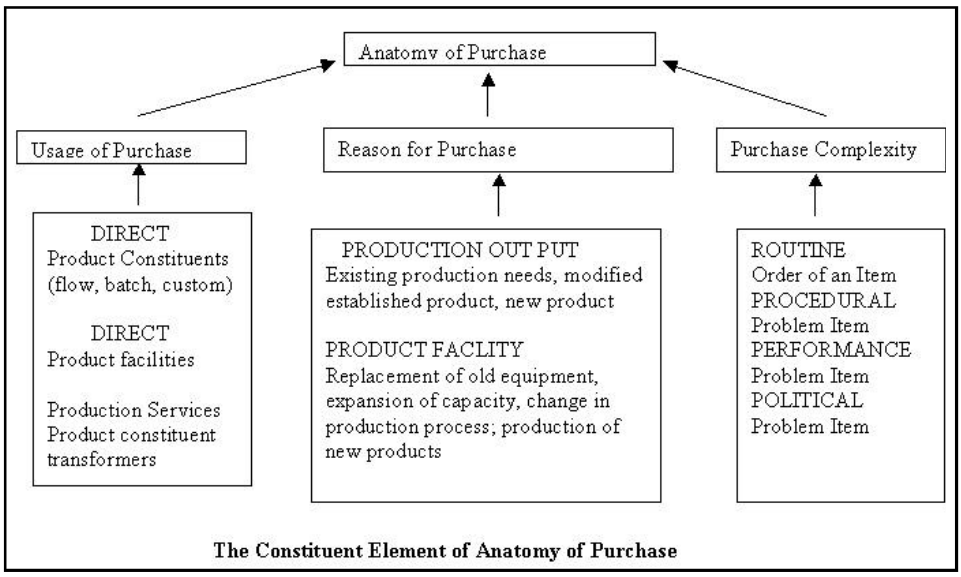
The elements of industrial purchase are usage for the purchased item, reasons for purchase, and the purchase complexity.

Necessity to the Purchased Item

The purchased industrial goods may be used for incorporation in production output, for utilization during the production process (but not incorporated in the output), providing a production facility, either in manufacture, service or resale, use in maintenance operations, and for use in development and/or engineering works. The criteria used in the purchasing decision process by various people involved will vary according to the usages for which the items are purchased.

Reason for Purchase

There are a variety of reasons for industrial purchase. For **Production Output-existing** production needs, production needs for modified/established product, and production needs for a new product. For improving *Production Facility-replacement* of old equipments, capacity expansion, de-bottlenecking or change in production process.



The Constituent Element of Anatomy of Purchase

Purchase Complexity

If products could be classified on the basis of problems inherent in their adoption, such a classification might be both predictive of the relative importance of product/supplier attributes and buyer's preferences with regard to vendors.

(a) Routine-Order Products No significant usage problems because of familiarity.

(b) Procedural-Problem Products Problems may arise unless the personal are taught how to use them

(c) Performance-Problem Products Concerns with the technical outcome of using the products.

(d) Political-Problem Products Problems arise when large capital outlays are involved and more frequently when the products are inputs to several departments whose needs may not be competitive.

If the supplying company finds that most of its customers experience problems (b), (c) and (d) mentioned above, then there is a high degree of purchase complexity. A procedural-problem products in one firm may give rise to performance and political- problems elsewhere.

Perpetual Factors

Where products and services are more and more objectively identical, the buying decisions are increasingly influenced by subjective or perceptual factors. It is, therefore, not surprising to discover that behavioral variables such as working relationship with the suppliers have been shown to be twice as important to the industrial buyer as the price. When it comes down to the final choice of one vendor over another, the key variables are the buyers' attitudes and image of suppliers' quality, salesmen, delivery, service, etc. Most of the vendor selection studies centered on the traditional variables of price, quality, delivery and service. The human role in this selection process was largely ignored. The industrial buyer has been recognized as an important element because more than the traditional set of vendor selection variables influences his purchase decisions. Each buyer views the buying process with a unique perceptual bias reflecting his own psychological map and the specific characteristics of the particular purchase under consideration.

Vendor Performance

Most of the theoretical approaches have actual performance data as their basis. This approach has considerable appeal in that industrial firms prefer to select vendors with whom they have some experience. In situations where no experience is available for the

selected supplier, the buying firm may place a low risk order such as a small quantity until actual performance data is generated. Selected performance data such as quality, price and delivery are combined in some manner to produce a composite score, which becomes the basis for action. There are four approaches.

Total Cost Approach

Ideally a finite cost should be affixed to every action relating to the product purchase. This would include much more than the simple sum of the purchase price and delivery charges. This method has great theoretical appeal but little utility.

Cost of Quality

This plan considers the c ost of quality assurance for the purchased items. One cost is to prevent purchasing from improper sources. Another cost is to detect lots of unacceptable quality. Other costs are for inspection of manufactured goods and rejected production.

Categorical Plan

Buyers keep continuous notes on their dealings with the vendor. Then, at a group meeting, these cumulative records on each supplier are perused for the purpose of assigning a rank to each vendor. Effective results depend heavily upon the competence of the individuals using it. The advantage of this procedure includes minimum amount of data collection and simple analytical technique.

Weighted Plan

The Weighted Plan explicitly recognizes that the relative importance of variables such as price, quality, and service vary with purchase situation. Weights are established for each of the factors deemed significant. Then, these weights are multiplied by the respective performance data of a firm. The overall performance rating for that vendor is the sum of the products of weights time's factors.

Notes -

LESSON 9:
CONCEPTUALIZATION OF BUYING BEHAVIOUR

Learning Objectives

- **Concept of Decision Making Unit**
- **Characteristics of Decision Making Unit**

Conceptualisation Of Buying Behaviour

Industrial buying behavior can best be conceptualized as decision-making in which both organizational and individual variables are paramount. Several people are involved including users, influencers, the members of the buying decision. These decision makers are motivated by a combination of individual and organizational needs.

Concept of Decision Making Unit

The Decision Making Unit (DMU) consists of individuals who actively participate in the purchase decision-making process. All these decisions are influenced by economic (task) factors and emotional (non task) factors. Some examples are given below:

Task and Non-Task Buyer Behavior

Economic (Task)	Emotional (Non-Task)
Source Searching	Ego Enhancement
Vendor Evaluation	Personal Risk Reduction
Product cost management	Previous Experience
Purchase Price Analysis	Interpersonal relationship

Characteristics of DMU

(a) DMUs may differ with respect to the composition and position within the firm and with respect to their decision-making behavior. If a DMU is composed of relatively newcomers, none of whom occupies a top-level position in the department, it is likely to have little power to press it recommendations

(b) DMUs may differ with respect to the importance they attach to the purchase of a particular item, the relative weight they attach to such purchase variables as price, quality and service, their attitudes towards particular type of vendors and the specific rules they employ to seek and evaluate alternative offerings.

(c} DMUs which consider a specific product important require prompt delivery and perhaps technical assistance, wish to deal with well known vendors and seek a bid first from a supplier with whom they have-dealt previously.

Buy Phases

The industrial buy phases are classified into three categories - Straight Rebuy modified rebuy and New task.

Modified Rebuy

This buying situation is essentially characterized as learning problem, which has certain new aspects, but limited importance of considering alternatives. Modified rebuy situations are located in the continuum between straight rebuy (habitual behavior and automatic recording) and new task (complex decisions involving significant change from previous experience).

Typically the modified rebuy situation involves the consideration of new suppliers, item of marketing services of buyers who have considerable relevant buying experience. A modified rebuy situation does not necessarily infer that new source or new products will be purchased. The requirement is the serious consideration of alternative solutions. This may require intervention/ approval at high management level.

Straight Rebuy

The problem faced is not a new one; information requirements are minimal and there is no consideration of alternatives. Straight rebuys are highly routinized as the problem arises on a regular or recurring basis. Current and future decisions will largely reflect how current suppliers and products have performed in the past. This situation is the most prevalent one in industrial marketing is also called “automatic recording” and is usually decided at the lower base management level.

New Task

New Task describes buying situation in which the problem uncounted is a new one, information requirements are high and consideration of alternatives is very important. The buying group is presented with a problem, which it has not dealt with previously. Consequently, the buying decision makers have little, if any, relevant experience. As information needs are maximum and the consideration of alternatives is important, this type of problem has a large probability of being solved at a high management level.

Notes -

LESSON 10:
STAGES IN BUYING

Learning Objective

- **Different Stages in Buying**

Stages in Buying

No two companies follow the same purchasing procedure. The industrial purchasing process might be broken down into eight distinct stages for the purpose of analysis. Though, they are sequential &B segmental, they may also occur concurrently. Table 3.1 shows the buy-grid analytic framework for industrial buying situation

Buy-grid analytic framework for industrial buying situation

		Categories		
	Stages in buying	New Task	Modified Rebuy	Straight Rebuy
1.	Anticipation or recognition of a problem (need) and general solution			
2.	Determination of characteristics and quantity of needed item			
3.	Description of characteristics and quantity of needed item			
4.	Search for and qualification of potentials sources suppliers			
5.	Acquisition and analysis of proposals			
6.	Evaluation of proposals and selection of supplier(s)			
7.	Selection of an order routine			
8.	Performance feed back and evaluation			

1. Anticipation or Recognition of a problem (need)

Recognition of a problem triggers the purchasing process .The firm's product become out modded, equipment break down, or existing materials are unsatisfactory. A marketer can precipitate the need for a product by demonstrating opportunities for improving the organization's performance, there by achieving a greater probability of success in securing the account .It is important to not that purchasing managers and design engineers actively encourage early supplier involvement, specially when confronting unfamiliar technology.

2. Determination of Characteristics and the Quantity of Needed Item

These decisions are generally made within the user department, where the needs invariably emerge. For example, members of the production department determine the characteristics needed in a high-speed packaging system. For technical products, the user department prepares performance specifications. The development of performance s specifications has a critical impact on the final choice of a product and a Supplier. The decisions made in the early stages of the process inevitably limit and shape the decision-making in the later stages of the process. The industrial salesperson is a vital source of information to organizational buyers throughout the purchasing process.

3. Description of the Characteristics of the Item and the Quantity Needed

This involves a detailed and precise description of the needed item, a description that can be readily communicated to others. This can 'be a critical stage for the marketer because key buying influences emerge here. Recognizing these buying influences and their relative roles and importance can give the marketer a distinct advantage. A marketer who triggers the initial need has the benefit of a close working relationship with key organizational members throughout these formative stages in the procurement process.

4. Search for and Qualification of Potential Sources

Once the organization has defined the accurate that will satisfy its requirements, the search turns to sources of supply, in order to determine which of the many possible suppliers can be considered as potential vendors. The intensity of evaluation varies by organization and by the particular buying situation. The organization invests more time and energy in the evaluation process when the proposed product or service has a strong bearing on organizational performance.

5. Acquisitions and Analysis of Proposals

For more complex goods such as machine tools, many months may be consumed in the exchange of proposals and counter proposals. This stage emerges as a distinct component of the buying process only when the information needs of the buying organization are high. Here, the process of acquiring and analyzing proposals may involve different organizational members.

6. Evaluation of Proposals and Selection of Suppliers

Alternative proposals are analyzed. One or more of the offers is accepted, and the others are rejected. Negotiations concerning the terms of the transaction may continue with the selected suppliers.

7. Selection of an Order Routine

The user department will not view its problem as resolved until the specified product is available for its use. Concerning the order routine, a purchase order is forwarded to the vendor, status reports are forwarded to the user department, and inventory levels are planned. Thus procurement procedures (the size and frequency of orders) are established for the item.

8. Performance Feedbacks and Evaluation

This is the final stage in the procurement process. Feedback may flow through formal or- Informal channels. Feedback, critical of the chosen supplier and supportive of rejected alternatives, can lead members of the decision-making unit to re-examine their position. If the product fails to, meet the needs of the user department, vendors screened earlier in the procurement process maybe given further consideration. To retain a new account, the marketer must ensure that the needs of the buying organiza-

tion have been completely satisfied. Failure to follow through at this critical stage leaves the marketer vulnerable.

Notes -

LESSON 11:
UNCERTAINTY MANAGEMENT IN INDUSTRIAL MARKETING

Learning Objectives

- **Information Search, Purchasing Strategies, Role Participants**
- **Central Role of Buying Defined**

Uncertainty Management in Industrial Marketing

Members of the buying center approach the selection of a vendor with uncertainty. Many other dimensions of uncertainty exist and include product attributes such as quality, and vendor attributes such as delivery on time. The basis of this uncertainty is the lack of perfect information and the consequence is fear. Alleviation of uncertainty is achieved by several mechanisms. If a buyer is motivated to reduce or minimize uncertainty, he can be expected to be loyal to reliable sources of the past and or to split every order between two or more sources. Often he will employ a strategy of short-run decisions involving a short-run reaction to daily feedback information. Another mechanism of arranging a negotiated environment is also prevalent in industrial selling.

Information Search

Throughout the industrial buying process, one or more of the decision makers engages in information search. Any search performed is stimulated by the recognition of a new problem and is directed specifically towards problem resolution. The purpose of information is to reduce the uncertainty of the decision outcome. Every outcome has a consequence, but the industrial buyers have limited ability to adjust or to reduce the impact of this consequence. Two opposing forces affect the information search process. First is the pressure to minimize search resulting from large workloads, short project deadlines, and the ever increasing management attention to cost minimization. The second is the buying group's desire to reduce uncertainty and thereby increase the probability of the decision outcome to bring positive rewards to the individual members.

Purchasing strategies

Industrial-purchasing strategies can be defined as consistent patterns of supplier selection behavior. Each step in the decision process is directed, to some degree, by buyers' past experience. The result of this learning is consistency in purchasing behavior. The behavioral theory of the firm states that, when an organization discovers a solution to a problem by searching in a particular way it will be more likely to react in that way in future for problems of the same type. Thus, the order in which various alternative solutions to a problem are considered will change as the organization experiences success or failure with alternatives. Tendencies to act or behave in certain ways are learned responses. People become programmed to think and behave in certain ways and do not have to face the difficulties of coping with strange or unfamiliar phenomena once an attitude or system of evaluative orientation is learned.

Role participants

The buying center is defined as members of the organization having face-to-face contact with others with respect to the purchase decision and who realize or perceive both an influence and a responsibility to a purchase decision. In the tradition of formal organizational theory, the responsibility and authority of the member's organizational position creates a formal stake for him/her in purchase decisions involving his domain. Also, an individual can become a buying center member by possessing information critical to the decision. The main role participants are purchasing agents, scientists and managers. Table 3.4 shows the central roles of buying.

Central Role of Buying Defined

This chart gives us the role of users, gatekeepers, influencers, deciders and the final buyers.

Each independent role player has some activity in the industrial buying and in the decision process

Users

Users are the personnel who will be using the product in question. Users may have strong influence on the purchase decision. They may even develop the product specifications.

Gatekeepers

Gatekeepers control information to be reviewed by other members of the buying center. The control of information may be done by disseminating printed information or by controlling which sales person will speak to which individuals in the buying center.

Influencers

Influencers affect the purchasing decision by supplying information for the evaluation of alternatives or by setting buying specification. Technical personnel, quality-control personnel, and R&D personnel are significant influences on the purchase decision.

Deciders

Deciders are the individuals who actually make the buying decision, whether or not they have the formal authority to do so. The identity of the decider is the most difficult role to determine; buyers may have formal authority to buy, but the president of the firm may actually make the decision.

Buyers

The buyer has formal authority for selecting a supplier and for implementing all procedures connected with securing the product. The purchasing agent, who executes the clerical function associated with a purchase order, often assumes the buyer's role.

LESSON 12:
PURCHASING AGENTS IN INDUSTRIAL BUYING

Learning Objectives

- **Various Purchasing Agents in Industrial Buying**
- **Industrial and Organisational Goals in Industrial Buying Behaviour**
- **Models of Organisational Buying Behaviour**

Purchasing Agents in Industrial Buying

The term "purchasing agent" includes all purchasing department personnel, regularly having personal interaction with the vendors, and other organization members who are responsible for specific vendor selection decisions. Firms exhibit a natural tendency to process routinely purchases that occur regularly. As routinisation increases, the role of the purchasing agent increases. He becomes the gatekeeper of the buying process. As a blocking influence, his involvement may primarily be negative. At times, he must be an arbitrator or judge reconciling the internal requirements and personalities with the external situations.

He-is responsible for the maintenance of good relationship with suppliers and for the assurance of long-range sources of supply. Simultaneously, he must be the catalyzing to generate alternative solutions to purchasing problems. Marketing, legal, finance, production and design specialists are all involved to some degree in the procurement process. Integration of all these separate skills into a framework for meeting the firm's need is, to a significant degree, the task of the purchasing agent.

Scientists

In the context of industrial purchasing, scientists are defined as people who have considerable education, formal or otherwise, in such areas as engineering, chemistry, physics and natural sciences, and who are currently abreast of the technical literature relative to their organizational assignment. Thus, scientists are those personnel who influence the purchase decision by commenting competently on technical parameters and who have a corresponding responsibility for consequences of the decision outcome. As a frequent participant in purchase decision, the scientist is primarily involved with determining feasible set, based on technical criteria or attributes. If more than one firm can satisfy the feasible set, then the purchasing agent's influence becomes more important.

Managers

As the industrial firms have grown and the business environment has become increasingly competitive, management has been forced to spend less time on operational purchases and more on long term planning. Top management can logically be expected to participate in those situations where top management possesses information not available to those at lower organizational levels. Thus the top level of management would often be active in new purchase situations where the consideration of new alternatives is of utmost importance. In bulk purchases, top management plays an identifiable role in the purchase process, either as an active participant or as a reviewing authority.

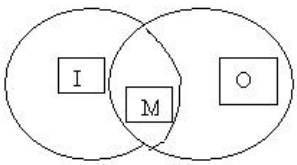
Individual and Organisational Goals in Industrial Buying Behavior

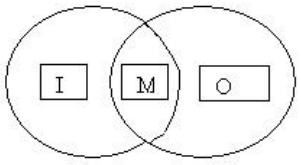
A Venn diagram illustrates the various blending of organizational and individual goals and the marketing implication of these goal relationships are clear. In situation A, there is a great deal of overlap between individual and organizational goals. In such a situation, the use of rational appeals, illustrating how a product will help in organizational goal achievement, should receive a great deal of acceptance from purchasing personnel. Such is the case when individuals responsible for the buying decision perceive that the best way to achieve their personal ends is to seek achievement of the organizational goals.

Thus, promotional efforts, which emphasize the congruence of goals, should be most effective here. In situation B, there is very little goal overlap. This is not a desirable state of affairs from the standpoint of the buying organization. If the true nature of the goal relationship is perceived by the sel1ers, then the promotional activity will be directed to stimulation of efforts by individuals to achieve their personal goals even at the expense of corporate well being. In situation C, there is better balance between individual and organizational goals. The area of goal mutuality (M) is larger than the area of segment I or O. Given this type of situation, the prospective seller will depend not only on rational product assignment but will supplement these appeals with others of If more emotional nature, aimed at the egos of the individuals in the buying process. The circumference *of* the outer circle represents the length *of* industrial buying process. If anyone function changes, the areas *of* the associated circles also change. The functions are closely interrelated and hence fl synergistic effect is possible.

The Venn diagram gives us a picture of Individual an Organization goals

I – Individual Goals
O – Organization Goals
M – Goals of Mutuality





MULTIPLE INFLUENCE GROUPS

Each "buy" phase *of* the industrial purchase process is the responsibility *of* several individuals performing different functions within the organization. Top management has routinely delegated authority to these persons to make the necessary decision based on their evaluation *of* the pertinent factors. Top management rarely takes a direct hand in the buying process. Most *of* the decisions are group decisions and the, composition *of* these groups characteristically changes from phase to phase. These groups *of* individuals involved in the purchase process are called multiple purchase influence group. They are mostly composed *of* middle-management people.

Models Of Organisational Buying Behaviour

Industrial buying tends to reflect organizational goals. However, when the suppliers' proposals are substantially similar, personal factors become important. Task-oriented objectives center on price, quality, service and return-on-investment. Non-task objectives center on personal factors such as the desire for job security, recognition, promotion, and salary increases. Organizations work best when people accomplish personal and objectives simultaneously. There are two frameworks available m explain organizational buying behavior.

Webster and Wind Model

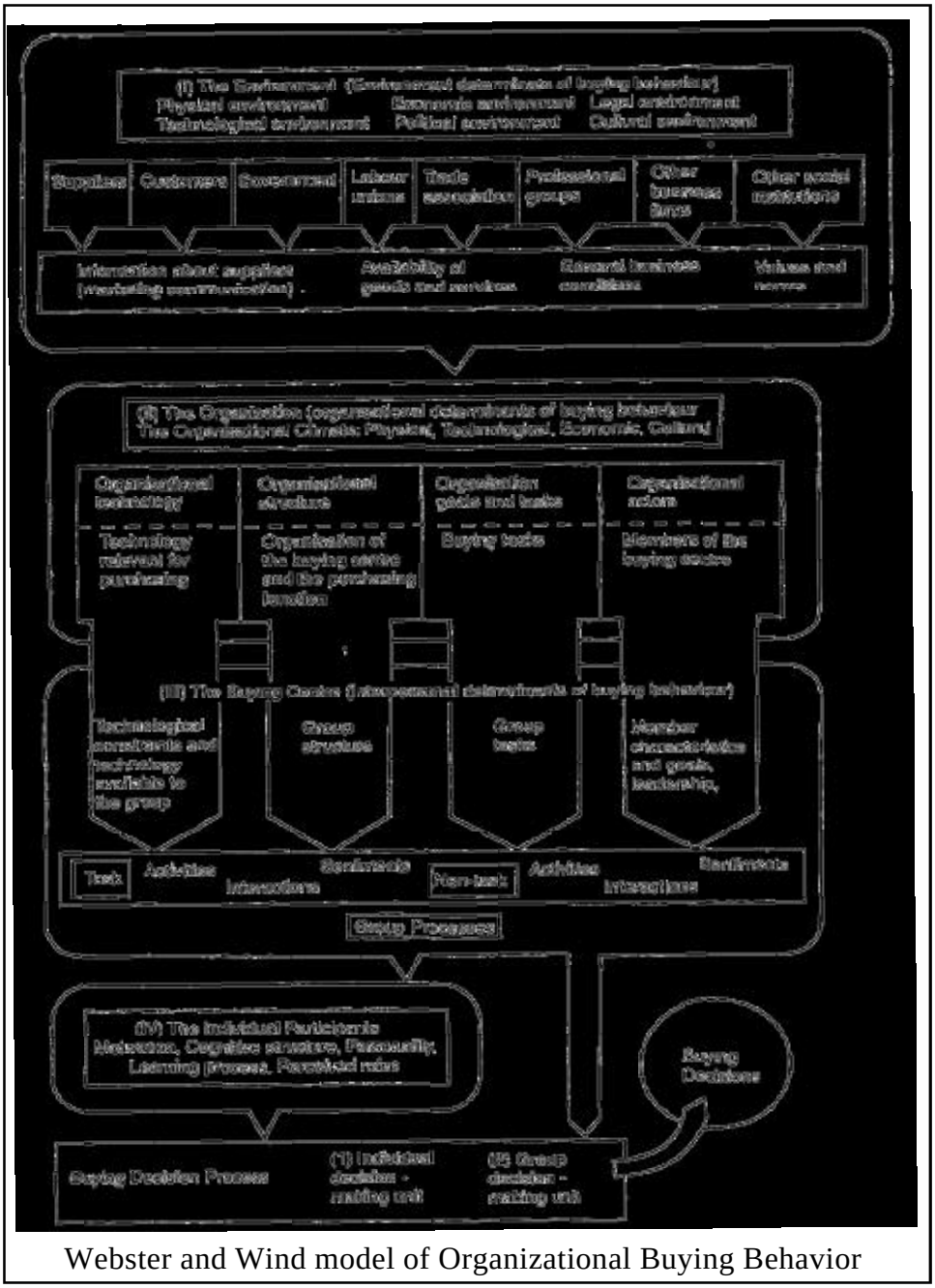
This model is comprehensive and identifies many key variables while developing marketing strategies. The model considers *four* sets *of* variables, which affect the buying decision-making process in a firm, namely, environmental, Organizational buying center, and individual Physical, technological, economic, political, labour unions, cultural, customer demand, competition and supplier information are included as environmental variables. These factors influence the buying decisions of individual organizations.

Objectives, goals, organization structures, purchasing policies and procedures, degree of centralization, evaluation and reward system are included in organizational variables. These factors influence the composition and functioning of the buying center.

The functioning of buying center is influenced by the organizational, environmental, and individual variables. The group decision-making process of the buying center results in solutions to the buying problems and satisfaction of personal goals of individual members.

The diagram in the next page demonstrates the Webs and Wind model of organizational buying behavior in details

Webster and Wind model of Organizational Buying Behavior



Webster and Wind model of Organizational Buying Behavior

Sheth Integrative Model

The Sheth integrative model of industrial buying behavior is shown in Figure in the next page. The model focuses on the complex relationship involved in joint decision making. The factors considered are:

(a) The conditions that precipitate joint decision-making

(b) The psychology of the individuals involved

(c) The conflict among those involved and its resolution.

The number of organization members involved in a buyingdecision depends on.

(i) The size and organization characteristics of the firm

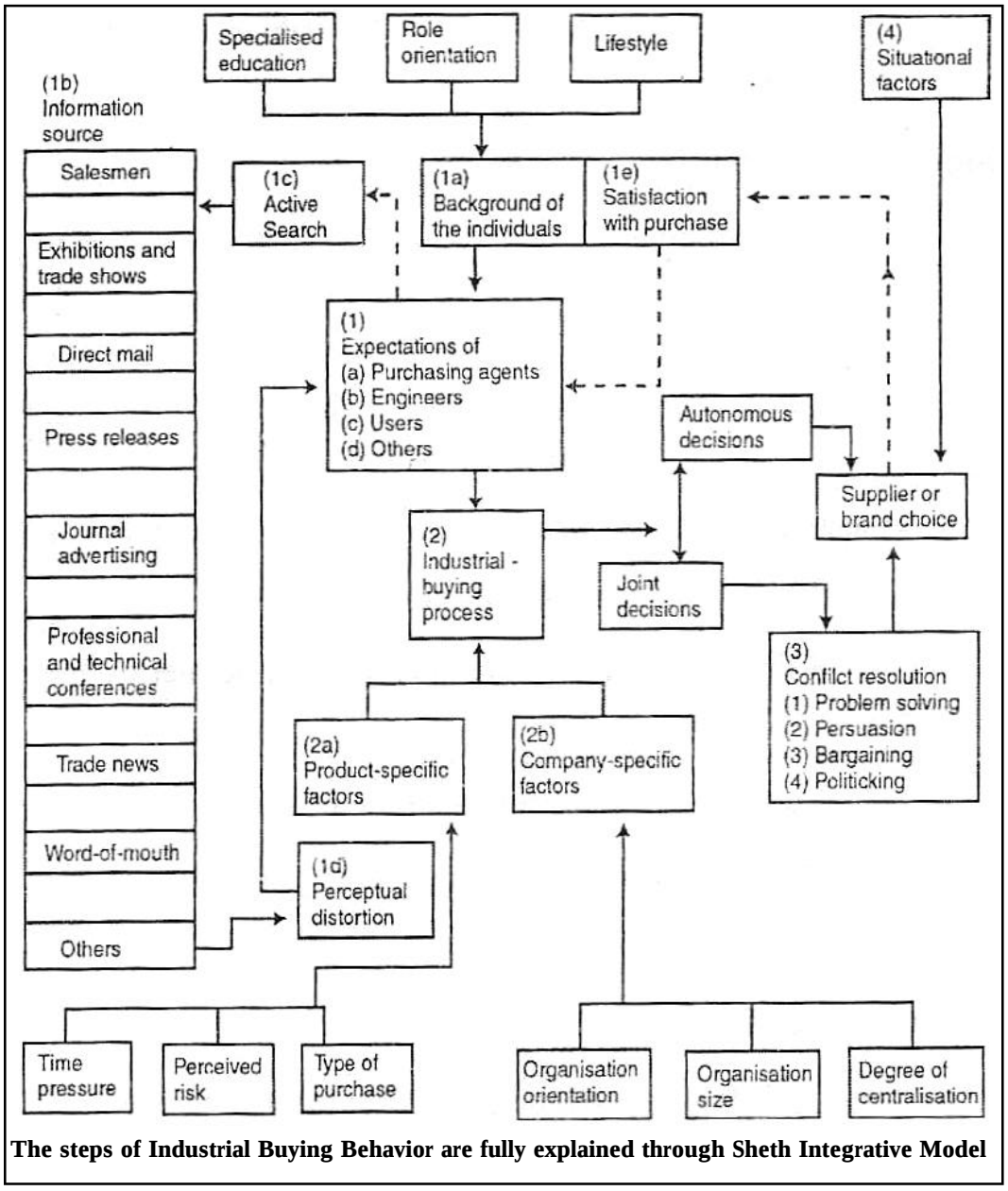
(ii) Type of purchasing situation

(iii) Perceived importance of the product

(iv) Available resources for handling the purchase

Sheth refers to these areas in his model as company-specific factors (1,4) and product specific factors (2,3).

Whenever two or more individuals have to reach an agreement over issues such as product specifications, vendor selection, contract terms etc., the potential for conflict exists. The component (3) in the model indicates the methods used for conflict resolution in joint-decision making process.



The steps of Industrial Buying Behavior are fully explained through Sheth Integrative Model

Notes -

LESSON 13:
NEGOTIATIONS IN INDUSTRIAL BUYING

Learning Outcomes

- **Decision Guidelines**
- **Preparation of Planning**
- **Negotiation Strategy**

Negotiations In Industrial Buying

Negotiation is a process that tries to maximize the benefit to both buyer and seller, and takes a long-term view of their relationship. For giving effective customer service, it is necessary to have interaction with customers. Organizations first recognize their needs. Next, they evaluate the various options; resolve them and only then do they make a decision to buy. Between the need and the buying decision, there are several things that will probably happen – Word--of-mouth message, trial and evaluation. For a sales person, the overall objective should be to:

(a) Identify and influence the decision guidelines by which the product or service and the selling organization will be judged.

(b) Work to improve the match between them and the product or service being offered.

Decision Guidelines

Decision guidelines are the criteria, standards or dimensions that a person uses to make a judgments or decision. Without decision guidelines, a buyer has no mechanism for making choices between alternative solutions. A sales person can and should influence decision guidelines throughout the period of the selling cycle. The following are the major strategies that can be used to influence guidelines:

(a) Develop guidelines from explicit needs.

(b) Reinforce crucial guidelines that can be met by the product or service being sold.

(c) Buildup incidental guidelines in the areas of strength.

(d) Reduce the importance of crucial guidelines that the product or service cannot meet.

Perception of Power

The perception of power has a great bearing on negotiation. Effective negotiators appreciate the fact that much of the relative power balance in a negotiation often results from perception. If you feel more powerful, then you are more powerful and vice versa. Power can be loosely defined as that which gives one party a leverage over the other or something that provides a bargaining advantage, or that which gives one party a better movement than the other.

Bargaining is the process of bilateral movement towards a creative agreement that is perceived by both parties as win-win. Effective bargaining is the precursor to a satisfactory negotiation that ends in win-win deals for all concerned. Successful negotiators never go into the bargaining stage without knowing all the details.

Situational Power

This is the most easily recognized and most feared kind of power. It is derived from market conditions. The seller in a monopoly market, the buyer in a buyers' market and a large organization negotiating with a much smaller organization, all enjoy immense power in a selling or negotiating situation. To balance the power one could use such factors like looking at an alternative supplier in a monopoly market, considering a higher bid, or looking at a more suitable, but different kind of product or solutions.

Information Power

The amount of information and one's ability to put it to effective use can dramatically alters the status of power. Why is it that sellers are generally regarded as being in a lower power position relative to their customers? This is because customers have the option of closing the sale with several buyers, and they invariably have extensive knowledge about each and every one of the sellers' products. That is, the buyer enjoys situation power. Each party behaves according to the power it perceives itself to have, not according to some externally defined and purely situational conditions. This perception is based on three things.

(a) Shared and real external facts.

(b) Assumptions about the other party made during the negotiation are based on the information gathered during the planning stage.

(c) Information sought during the negotiation or information revealed knowingly or unknowingly by the other party.

The more information that is available to both sides, the less the alteration that can be affected in the power balance.

Preparation and Planning

Before negotiating, one must make sure that the preparation and planning are in order. Preparation refers to the gathering and analysis of facts and figures while planning refers to the process, which decides how to use the information gathered. Preparation involves the following steps:

(a) **Setting Objectives:** A good objective specifies the final goal of implementation of the agreement and also gives the indication of the overall approach. It will take into accounts both the long and short-term objectives.

(b) **Establish fallback position:** The fallback position is the most acceptable course of action one could take in the event of the negotiations breaking down. The lower the fallback position, the lower will be the targets and wider the limits. In a sales negotiation the fallback may be another client who may be willing to buy the product.

(C) **Identify Issues and Priorities:** Successful negotiators appear to use a four-step approach. (i) They list all foreseeable issues, irrespective of their importance and their willingness to give away concessions on these. (ii) They put themselves in the shoes of the other party and do a similar listing (iii) They assign priorities to the issues. (iv) They estimate the priority ratings of the other party in a similar fashion.

(d) **Set limits and Targets:** Since movement is a major feature of a negotiation, a fixed target approach can be very limiting and lead to a deadlock with neither pm1y giving way.

(e) **Calculate the cost of concession:** In any negotiation, all concessions cost something either in money or in kind. A negotiator who is fully aware of all such costs is much less likely to make unwise decisions or expensive concessions during the course of the negotiation.

In the wild world of business, successful negotiating is the key to all transactions that leave both the buyer and seller feeling good about conducting business in the future. Isn't that the goal of a successful business, especially in the industrial world? The seller gains business, a trusted ally, and frank information. The buyer gains the product(s) that they need, a trusted ally, and a source of future support. Both the buyer and seller can continue to prosper from such a relationship. However, these relationships can only be forged by successful negotiating while conducting business between one another.

Now, everyone involved in business has a theory regarding negotiating. What you should do, what you should never do, what you should say, what you should never say.....the list goes on and on. Naturally, I can be no different. I can only share my opinion along with some information that I perceive as valuable. So let's begin our discussion about negotiations.

Understanding the Players Involved

No negotiation can be successful without a clear understanding of what each person involved hopes to gain. The seller, often a sales representative for equipment or other vendors, must understand what each person at the plant level wants. The project manager wants the products delivered on time and he/she wants the project completed under budget. The purchasing manager wants the best price...period. The process engineer wants only a product that will do its job and help he/she avoid down time that they will be responsible for explaining. The process engineer is typically interested in future support for maintenance and technical issues that may arise. That being said, a well-prepared seller should be prepared to addresses all of these issues.

The buyers must recognize that the seller, obviously, has two major objectives: gain the business at the highest possible price and secure future business. Buyers should also recognize that a seller who is continually subjected to what I call "strong arm" tactics will not serve as a good source of future information or service.

It's clear that obtaining a win-win negotiation is to everyone's advantage. If the buyer receives a fair market price and the seller supports the buyer well, a business relationship can be forged and will be profitable for everyone in the long run.

The Value of Trust

Just because a local sales representative is a.....sales representative, buyers should not assume that they know nothing about what it is they do in their plant. Industrial sales people are often degree carrying engineers and those who have been around for awhile can be a very valuable, and relatively inexpensive resource to help you make your process better.

While doing business with anyone for the first time can be considered risky, the ice must be broken at some time. As a buyer, if you're about to do business with a seller for the first time, try to limit your exposure by starting small if possible. Perhaps by purchasing an item that is not considered "mission critical" to your operation. This will allow you to get a feel for how the seller conducts themselves and their business. Use this opportunity to find out if they're responsive, honest, and knowledgeable. Chances are that if a seller meets these criteria on a relatively small project, they'll perform even better when the stakes are higher for you as a buyer.

There is a certain amount of risk for a seller to engage in business with a new buyer as well. They have no payment history to use to form an opinion of a new buyer. Will the new buyer make payment in a timely fashion? Will the buyer make payment at all? Each time a seller begins to conduct business with a new company, they commit time and resources to that potential buyer. For a seller, keep in mind that they're time is as valuable as money. Many of them make a living on a commission basis, so if they don't make a sale, they don't get paid.

So, if a seller works on commission, they're only interested in selling you something as a buyer. But, do they really care if the product performs well? Absolutely! Remember, an unhappy buyer will not be a buyer the next time that they need something. The seller is just as concerned (if not more) as the buyer about their products performing well. Put yourself in the seller's place. Would you want to begin to gain a reputation for selling "junk". If you do, your business is finished!

Avoiding Misunderstandings

Even with the most trusting seller and buyer preparing to conduct business, a simple (or complex) misunderstanding can quickly undo much of the hard work and time invested by both parties. Open, honest discussions about all aspects of the business transaction will help avoid misunderstandings. Start these discussions early. If you know, as a buyer, that your company insists that all vendors agree to your commercial terms in order to conduct business, give a copy of these terms to the seller at the introductory meeting. This will achieve two goals: first, it will allow the seller the opportunity to review the terms prior to sitting down at the negotiating table and secondly, it will immediately show respect for the seller's time. Image that the seller spends hours on a buyer's account, then learns that they simply cannot agree to the buyers terms! You have a seller who feels like he was just "strong armed" or forced into agreeing to the terms. This is not the way that you want to begin a business relationship, but it's a very common occurrence.

A seller should openly discuss product limitations, expected maintenance costs, and commercial needs at the start of the sales process. This will help avoid a feeling of resentment when the buyer calls later to get replacement parts and sees a price tag that is twice what they had expected. Now, the buyer is feeling "strong armed" into paying too much for parts. All of these

feelings of resentment can slowly (or in some case, instantly) destroy a business relationship.

In the wild world of business, successful negotiating is the key to all transactions that leave both the buyer and seller feeling good about conducting business in the future. Isn't that the goal of a successful business, especially in the industrial world? The seller gains business, a trusted ally, and frank information. The buyer gains the product(s) that they need, a trusted ally, and a source of future support. Both the buyer and seller can continue to prosper from such a relationship. However, these relationships can only be forged by successful negotiating while conducting business between one another.

Now, everyone involved in business has a theory regarding negotiating. What you should do, what you should never do, what you should say, what you should never say.....the list goes on and on. Naturally, I can be no different. I can only share my opinion along with some information that I perceive as valuable. So let's begin our discussion about negotiations.

Understanding the Players Involved

No negotiation can be successful without a clear understanding of what each person involved hopes to gain. The seller, often a sales representative for equipment or other vendors, must understand what each person at the plant level wants. The project manager wants the products delivered on time and he/she wants the project completed under budget. The purchasing manager wants the best price...period. The process engineer wants only a product that will do its job and help he/she avoid down time that they will be responsible for explaining. The process engineer is typically interested in future support for maintenance and technical issues that may arise. That being said, a well-prepared seller should be prepared to addresses all of these issues.

The buyers must recognize that the seller, obviously, has two major objectives: gain the business at the highest possible price and secure future business. Buyers should also recognize that a seller who is continually subjected to what I call "strong arm" tactics will not serve as a good source of future information or service.

It's clear that obtaining a win-win negotiation is to everyone's advantage. If the buyer receives a fair market price and the seller supports the buyer well, a business relationship can be forged and will be profitable for everyone in the long run.

Target Audience

The negotiations are designed for senior sales staff, purchasing staff and management.

Method

After a short briefing the training group is divided into pairs of Buyers and Sellers each of three to five participants. These teams consider the problem and progress through the following stages:

1. **Planning**
2. **Information Gathering**
3. **Preparation Of Initial Proposal**
4. **Initial Negotiation**
5. **Modification Of Proposal**
6. **Final Negotiation**
7. **Review & Discussion**

The negotiation may be videoed.

Besides these elements of a negotiation role-play, separate planning models are provided to the selling and buying groups to allow them to forecast the financial impact of their proposals.

The use of computer models allows the financial impact of the proposals to be fully analysed (without overly stretching the participants' mathematical ability)! Also, the design of these models coupled with the fact that teams cannot "invent" the financial dimension, means that the negotiation invariably leads to a **Win-win** situation.

Availability

Commercial and Sales Negotiation are available **off-the-shelf** and a comprehensive Trainer's Pack is provided allowing trainers with little or no experience with simulations to run the simulations. Systems Negotiation is only available tutored.

Key Learning

Negotiation Objectives

Besides the usual price, profit & cost objectives, each group has other objectives. For the FMCG negotiation, the sellers have surplus brewing capacity and the retail buyers (with cash flow problems) require delayed payment. This raises the issues of the objectives of both parties. For the buyers these include least total cost purchase, ease & safety of purchase, politics of the buying group etc.. For the sellers the include profits and profitability, size of order, future business opportunities etc..

Negotiation Strategy

The role-play takes the participants through all the stages of the negotiation (from planning through information gathering, initial proposal to final proposal to agreement). At each stage, as the negotiation unfolds, teams must decide strategy and manage the process. Not only does this involve deciding who says what, but includes body language and even the physical arrangement of the negotiating arena.

Trade-offs

Each negotiation involves reaching agreement in several (six or seven) areas. Each area differs in importance to buyers and sellers and has different impact on financial results. So, not only must teams consider the importance and cost to their side but must find the importance to the other side. This allows trade-offs in areas that are important to one side but not the other. Additionally, some areas may benefit both sides. In the FMCG negotiation, if the selling group provides more advertising support to the buyer than the basic amount, the additional sales more than cover the cost of the additional advertising support. (However, if the two sides are in conflict, this mutual benefit will not be explored.)

Negotiating Behaviour

Although, almost invariably, the simulation concludes with a win-win agreement, this does not mean that conflict and inappropriate behaviours do not happen. This provides the opportunity to explore and discuss these behaviours and contrast them with helpful behaviours using actual examples

from the negotiation. This is illustrated by the following exchange:

Buyer: "You obviously failed to heed our statement on price."

Seller: "No with respect ....."

Buyer: "But when you quoted ....."

Seller: "We did not quote - we mooted ....."

(Despite this acrimonious exchange, the group reached a win-win agreement!)

Financial Implications

Although participants do not have to do calculations or have deep accounting knowledge, each negotiation explores the financial implications of the negotiation. Implications in terms of profit, cost and cash flow. The negotiations emphasise, for the buyers, the total cost of acquisition (financing, quality, purchase cost etc.) rather than just purchase cost. For the sellers, the total cost of supply (selling, servicing, financing and product) are explored.

Team Management

By participating in a team negotiation, participants not only must consider the other party to the negotiation but, also, must manage their team. Also, working in a team means that the different negotiation tasks and roles can be explored. Tasks such as negotiator, chairman, observer and recorder. Where the participants normally work in a negotiating team, this role separation is vital. However, even when the negotiation is done as an individual, these roles are still necessary (albeit provided by the individual).

Constructive Negotiation

Constructive Negotiation was developed for a major construction company. It involves a negotiation between a construction company and a local government about the purchase of *Prefabricated One-person Dwellings* for the low paid.

Areas of agreement cover price, dwelling type, number of dwelllings, fitting. commencement and completion dates and payment terms.

Currently, Constructive Negotiation is only available as a fully tutored basis.

Besides the Participant's Brief (download below), there are separate briefs for Sellers and Buyers and on request these can be e-mailed.

Commercial Negotiation

Commercial Negotiation was developed for the **Chartered Institute of Marketing's college** following their experience with Sales Negotiation. It involves a negotiation between a brewery and a supermarket chain about the sales of an own-brand beer.

Areas of agreement cover price, duration of contract, strength of beer, delivery, payment terms and promotional support.

Commercial Negotiation is available as a package for trainers, on a rental basis or as a fully tutored basis.

Besides the Participant's Brief (download below), there are separate briefs for Sellers and Buyers and on request these can be e-mailed.

Sales Negotiation

Sales Negotiation involves a negotiation between an electric motor manufacturer and a steel maker about the purchase of steel raw material.

Areas of agreement cover price, duration of contract, quality of steel, delivery frequency, payment terms and payment currency.

Sales Negotiation is available as a package for trainers, on a rental basis or as a fully tutored basis.

Besides the Participant's Brief (download below), there are separate briefs for Sellers and Buyers and on request these can be e-mailed.

Notes -

LESSON 14:
CASE STUDY

Indian Iron Industry

Indian Iron Industry (III) is one of the two major producers of Wide Flange Beams. The other major producer is TATA Steel, which is larger than III, as far as production capacity on the particular product is concerned. TATA Steel and III are the major competitors, because, typically, the mill price charged by all producers is the same and the customer must pay freight from the mill.

Product

Wide-Flange Beams are used in construction. They are known as "1-Beams". TATA Steel rolls out a full range of wide flanges from 6 inches to 36 inches. III entered the field about 15 years ago, when it converted existing mill to produce this product. The mill is limited to flanges up to 24 inches. At the time of conversion, it was estimated that customer usage of sizes over 24 inches was likely to be small. In the past few years, however, there has been a very pronounced trend towards the larger and heavier sections. The beams produced by various competitors are almost identical, since the customers buy according to standard specifications. In the smaller size range, there are a number of competitors, but above 14 inches only, TATA Steel and III compete. Above 24 inches TATA had no competition.

Customer

All the Steel companies sell these beams through their own sales force. The customer for these beams is called Structural Fabrication. This fabricator typically buys unshaped beams and other steel products from their mills and shapes them according to the specifications of his customer. The fabricator's customer is the contractor or the owner of a particular building or structure, which is being built. The structural fabricator typically sells his product and services on a competitive bid basis. The bidding is done on the basis of plans and specifications, which are prepared by an architectural or structural engineering firm and forwarded to him by the contractor deciding they bid. Since the price is the same from all produce, typically buy beams on the basis of availability (availability to meet production schedules) and performance (reliability in meetings the promised delivery schedule).

Innovation

Several years ago III production schedulers saw that they were going -to have an excess of hot-rolled plate capacity in the near future. The same time, a new production technique was developed which would enable a steel company to weld three plates together in to a section with the same dimensional and physical properties and almost the same cross section as a rolled wide-flange beam. This technical development appeared to offer two advantages to ill, (1) It would enable III some of the excess plate capacity, and (2) larger size of wide-flange beams could be offered. Cost analysts showed that by using a fully depreciated plate mill and the new welding process, it would be possible to produce and sell larger wide-flange beams at "competitive" prices, i.e. at the same price charged by TATA.

Game Plan

III executives were excited about these possibilities because they thought the customers would appreciate having a second source of supply. Also, the new approach would allow the production of up to a 60-inches depth of section and almost 30- inches width of flange. With a little imagination, these larger sizes could offer a significant breakthrough for the construction industry. III decided to go ahead with a new project. As the production capacity was being converted, the salesmen were kept informed of the progress. They, in turn, promoted this new capability, emphasizing that soon they would be able to offer a full range of beam products. Several general information letters were sent to the trade, but no advertising was used. Moreover, the market development section of the sales department was very busy explaining the new possibilities of the process, particularly to fabricators at engineering trade associations and shows.

When the new line was finally ready to go, the reaction was disappointing .In general, the customer were vary of the new product. The structural fabricators felt they could not use it without the approval of their customers, because it would involve deviating from the specified rolled sections. And, as long as they could still get role sections, why make extra effort for something unfamiliar, especially with no price advantage.

Questions

1. What went wrong at the customer's end for which the customer did not take interest in the new line of (III) product?

   If you were the marketing head of Indian Iron Industry (III) what corrective measures will you take to improve the situation?

Notes -

LESSON 15:
PROCESS OF STRATEGIC PLANNING

Learning Outcomes

- **Industrial Marketing Segmentation**
- **Market Segmentation**
- **Basis for Industrial Marketing Segmentation**

Strategic Planning Process

Industrial Marketing Segmentation

Successful industrial marketing strategy rests on the marketer's ability to identify, analyze, and evaluate attractive market segments. Effective market selection is necessary if the firm is to allocate its resources so that those markets served contribute to the achievement of organizational objectives. In this chapter, then, we discuss

1. Market segmentation and its benefits, requirements, and cost.
2. How industrial marketers can go about segmenting the industrial marker
3. The need for evaluating potential segments to choose target markets effectively
4. Market coverage strategies.
5. The importance of developing effective positioning strategy.

Few firms have the resources to pursue actively all potential markets, "nor could they justify doing so on a return-on-investment basis." Thus, the task facing the industrial marketer is to identify, evaluate, and choose those markets in which -it can compete most effectively. In choosing markets to serve, however the firm is not only choosing its customer base, it is choosing the competitive, technical politi-cal, and social environments in which it will compete. This is not an easy decision to reverse. As Raymond Corey points out,

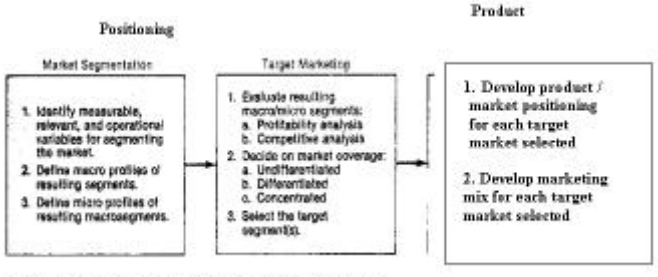
Having made the choice, the company develops skills and resources around the markets it has elected to serve. It builds a set of relationships with customers that are at once a major source of strength and a major commitment. The commitment carries with it the responsibility to serve customers well, to stay in the technical and, product-development race, and to grow in pace with growing market demand.

Market choices, then, must be based on an evaluation of the company's distinctive competencies and differential advantages in the areas of marketing, manufacturing, and technical strengths.

Market Segmentation

Market segmentation is the first in a series of steps that ultimately enables a firm to maximize the return on its investment. Attractive mar-ket segments must be identified and evaluated, target markets selected, and deci-sions made as to how the firm will compete in those markets before positioning and marketing mix strategies can be developed.

Industrial customers, like consumers, differ in their needs, resources, and buy-ing attitudes. A practical approach to understanding these differences is to identify variables by which potential buyers can be segmented. Market segmentation strategy, then, is undertaken to identify groups of firms whose purchasing requirements and responses to marketing programs are similar. Market segmentation, however, is not the same as target marketing. Market segmentation strategy is the process of dividing a market into distinct groups of buyers whose marketing responses to prod-ucts and/or marketing mixes may be similar. Thus, the firm (1) identifies different ways to segment the market, (2) develops profiles of each resulting segment, and (3) evaluates each segment's attractiveness. Target marketing, on the other hand, is "the act of evaluating and selecting one or more of the market segments to enter.



A Market Segmentation and Product Positioning Model

Requirements for Effective Market Segmentation

Measurable

Information on the variables of interest should exist and be obtainable either through secondary or primary information sources.

Relevant

The variables chosen should impact on decision making fm a signifi-cant number of potential customer groupings and relate to important differences across customer groups regarding responses to different Marketing programs

Operational

The variables chosen for evaluation among customer groups should be related to differences in customer requirements and buying behav-ior. They should indicate marketing approaches' with respect to prod-ucts, pricing, communication, or distribution.

The purpose behind segmenting the industrial market is to enable-the market-ing firm to allocate its resources more effectively to maximize return on investment. Thus, not only should the resulting market choices be sufficiently large and profit-able to warrant attention, they should be different enough to enable distinctive mar-keting programs.

It should be noted, however, that market segmentation is not always practical, particularly when the market is composed of oligopolistic buyers, a single large customer, or when the

"market is so small that marketing to a portion of it is not profitable.

Market Segmentation Involves Costs

Market segmentation strategy involves costs in obtaining and analyzing data, and in developing and implementing separate mar-keting and manufacturing plans to serve segments effectively. Market segmentation efforts, then, must result in sufficient additional sales volume and profits to justify its costs. Thus, before embarking on a segmentation analysis; some estimation of the costs versus the benefits must be made.

Basis For Segmenting Industrial Markets

There is no magic formula for segmenting the industrial market. In approaching this task, the marketer will have to try different segmentation variables, either alone (which may be sufficient in some cases) or in combination. For segmentation vari-ables to be meaningfully evaluated, however, they must be based on characteristics that are easily identified, understood, and discernible. While consumer markets are typically seg-mented on the basis of demographic or psychographics variables, industrial marketing segmentation is approached on the basis of what has been termed macro- and micro segmenta-tion**.**

Macro segmentation approaches the task on the basis of differences between industries and organizations, such as size, geo-graphic location, or product application.

Micro segmentation approaches it on the basis of the differences in criteria that are more directly related to the purchasing decision-making process and behavior of those individuals involved in the decision- making units'" Because of the fundamental differences between organizational and individual buyer behavior, Wind and Cardozo have recom-mended that market seg-mentation be approached in two stages: (1) identify meaningful macro segments and (2) subdivide those macro segments into meaningful micro segments.

Strategic planning

In **organizational development, strategic management, and marketing,** organizations employ **strategic planning** as a way to move toward their desired future states. It is the process of developing and implementing plans to reach goals and objectives. Strategic planning, more than anything else, is what gives direction to an organization.

Process

Most strategic planning methodologies are based on the STP process:

- Situation - Where are we right now? How did we get here?
- Target - Where do we want to be?
- Path - How can we get there?

General Approaches

In general terms, there are two approaches to strategic planning:

- **The Industrial Organization Approach**
  - o based on economic theory - deals with issues like competitive rivalry, resource allocation, economies of scale
  - o assumptions - rationality, self interested behaviour, profit maximization
  - o examples - M. Porter's 5 forces model, J. Barney's resource model
- **The Sociological Approach**
  - o deals primarily with human interactions
  - o assumptions - bounded rationality, satisficing behaviour, profit sub-optimality
  - o examples - the Peter Principle

Methodologies

There are two ways of doing strategic planning:

- **Strategy as logical incremental steps**
  - o formal approach
  - o 4 steps:
    - -situation analysis including environmental scanning, internal resource assessment, industry or market research, competitor analysis, and customer marketing research
    - -strategy development including determining vision, mission, objectives, and strategum generation
    - -strategic plan including strategy specification and resource allocation
    - -implementation, monitoring, adjustment, and control
- **Strategy as revolution**
  - o more a mind-set than a formal technique
  - o not rule or ritual oriented, not reductionist, not reactive, not autocratic
  - o identify the unquestioned beliefs in your industry and challenge them - Look for opportunities to re-write the rules of the industry
  - o look for major discontinuities in technology, lifestyle, habits, and geopolitics, and embrace the change wholeheartedly - Do not waste time making small incremental adjustments - Be prepared to create a completely new business model at any time

Elements

While there are many variations, most strategic planning processes include:

- Environmental scanning
- SWOT (Strengths, Weaknesses, Opportunities, Threats)
- GTSM (Goals, Targets, Strategies, Measures)
- A **good strategy** should be:
- a good fit between the business environment and a companies resources and core competency - It must be feasible and appropriate
- capable of providing the company with a sustainable competitive advantage - It should be unique and sustainable
- dynamic, flexible, and able to adapt to changing situations and value migrations

- sufficient on its own - ie.: profitable without cross-subsidization

Reasons Strategic Plans Fail

There are many reasons why strategic plans fail, especially:

- Failure to understand the customer
  - why do they buy
  - is there a real need for the product
  - inadequate or incorrect marketing research
- Inability to predict environmental reaction
  - what will competitors do
    - ⇒ fighting brands
    - ⇒ price wars
  - will government intervene
- Over-estimation of resource competence
  - can the staff, equipment, and processes handle the new strategy
  - failure to develop new employee and management skills
- Failure to coordinate
  - reporting and control relationships not adequate
  - organizational structure not flexible enough
- Failure to obtain senior management commitment
  - failure to get management involved right from the start
  - failure to obtain sufficient company resources to accomplish task
- Failure to obtain employee commitment
  - new strategy not well explained to employees
  - no incentives given to workers to embrace the new strategy
- Under-estimation of time requirements
  - no critical path analysis done
- Failure to follow the plan
  - no follow through after initial planning
  - no tracking of progress against plan
  - no consequences for above

Notes -

LESSON 16:
MACRO & MICRO VARIABLES USED TO SEGMENT THE INDUSTRIAL MARKET

Learning Outcome

- **Macro variables & Micro variables**

Macro Variables

Table below lists some of the macro variables that industrial marketers can use to identify and evaluate potentially attractive markets during the first stage of market segmentation. Most of those variables are not difficult to identify and are easily obtained through secondary sources of information such as trade directories and publications, general business magazines and directories, government reports, and market research companies as well as company sources of information.

Some Macro Variables used to Segment the industrial Market

Variables

Industry
Agriculture mining construction, manufacturing, transportation, wholesale, retail, finance, services

Organizational Characteristics Size of characteristics
Size of customers' parent company, size of customers' business, and number of plants sold

Plant Characteristics
Size of customers' plant, age of customers' plant, inventory turn-over, and degree of automation

Location
Distance from plant, state of plant, and suburban/urban/rural location

Economic Factors
Cyclically of customers' industry

Customers Industry
Growth rate of industry and customers' growth stage within the industry; ultimate customer of customers' product

Competitive Forces
Degree of competition in customers' industries, ease of entry into customers' industries, and ease of customer switching

Purchasing Factors
Decentralized versus centralized, and number of levels of purchasing authority

End-use Marketers
Residential commercial contractors, coal/ore miners, foresters, fed-eral/state highway maintenance departments, banks/ insurance/ brokerage houses

Product Application
Small appliance, computer, television and airplane manufacturers

Industry Characteristics
Many firms produce products and services that can be targeted to different, even dissimilar, industries. For example, computer manufacturers can market their prod-ucts to such diverse industries as health, finance, manufacturing, and retailing. For these marketers, effective market segmentation and subsequent marketing programs will rest on a clear understanding of the similarities and differences between these industries. For example, while retailers, banks, and hospitals will have some com-mon needs with respect to computers, many of their requirements will be markedly different, as will their attitudes and approaches toward purchasing

Significant differences may also be present within an industry. Consider, for instance, the sale of computer equipment and software programs within the finance industry. While commercial banks, stock brokerage houses, savings and loan associ-ations, and insurance companies are all part of the finance industry, their product and service requirements with respect to terminals, data handling, and software pro-grams will be considerably diverse. Thus, in some instances, further subdividing of individual industries maybe necessary to obtain a more detailed segmentation. Scheme

Organizational Characteristics
Demographics. Industries and organizations within industries, like consumers, have different demographic characteristics. Larger organizations, like larger fami-lies, have different purchasing requirements (e.g., volume purchasing, normally accompanied by quantity discounts) and will respond differently to marketing pro-grams than will smaller firms that purchase in smaller quantities. Thus, when com-panies are segmented on the basis of size, larger producers may want to avoid small firms because their low volume needs cannot be served profitably. On the other hand, smaller producers may want to avoid large companies because their volume requirements exceed production capacities.

Customer location can also be an important segmentation variable. In the in-dustrial market, for example, on-time delivery is an important factor in serving cus-tomers. Thus, due to effects on inventory, transportation, and warehousing, marketers may want to avoid those customer markets that are located too far away or are too dispersed. Location also affects sales force organization and deployment. Borg-Warner, for instance, which produces mechanical seals for slurry coal pipelines, would want to provide more coverage in those areas where coalmines are concentrated.

Decentralized versus centralized procurement is another important macro segmentation variable due to the influence it can have on the purchasing decision. As discussed in Chapter Five, when purchasing is centralized, the purchasing managers' power and specialization, the criteria emphasized, and the composition of the buy-ing center are strongly affected. Thus, purchasing factors provide a good base for isolating specific needs and marketing requirements of individual organizations within industries and enable the marketer to organize the sales

force to serve chosen customers better within markets (e.g national versus local account sales force orga-nization).

Segmenting organizations by demographics is crucial in deciding which mar-kets to serve and in the development of marketing strategy for the long run as well as the short run. And, as Table outlines, organizational demographic analysis can also include evaluating plant characteristics, economic factors, industry forces, and competitive forces as well as organizational size, location, and purchasing vari-ables. Business Marketing, a well-known trade publication, for instance. 'Points out that organizational demographics is an important tool in selling business to business and that too few industrial marketers make use of these important variables in devel-oping and implementing their strategies.

When customer demographics are analyzed in conjunction with potential sales and profitability, a firm gains valuable informa-tion that can be applied to the devel-opment of long-range as well as short-range strategy. For example, when customers are segmented on the basis of decentralized versus centralized pur-chasing factors, the firm might want to organize its selling approach to serve na-tional accounts versus local accounts. Further, when sales personnel are more aware of the unique demographic traits of their respective customer base, they are in a better position to approach or serve those accounts on the basis of their distinctive differences.

End-Use Markets. Many firms also produce products and services that can be of-fered to a multitude of end-use markets. For example, International Harvester man-ufactures such heavy-duty equipment as wheel loaders, excavators, off-highway trucks, and long skidders. These various equipments, for instance, can be marketed to residential and commercial contractors, coal and ore miners, foresters, and fed-eral and state highway maintenance departments. Banks and other commer-cial lend-ing institutions also offer a multitude of end-use services to such markets as mining, agribusiness, construction and engineering, and shipping and marine. "Such oppor-tunities differ in different markets and since the future of a multi end-use product or service is tied to the future of its market," market segmentation via the end use of products by market is a key component in identifying attractive markets to serve.

Product Application. Many products are used in several different ways. For in-stance, small electrical switches are used in the production of small household appliances, computers, televisions, and even jumbo jets. Thus, markets can be seg-mented on the basis of product application.

Micro Variables

Macro segmentation facilitates the identification of industry, organizational, endues markets, or product applications variables that are similar across industries. Micro segmentation, as Table next indicates, allows the marketer to subdivide further those segments through the identification and evaluation of specific organizational, purchasing, and individual criteria that are more directly related to the purchasing decision. To isolate those variables effectively, however, it is often necessary to gather primary information-either through the company sales force or by conduct-ing special market studies.

Organizational Variables

Purchasing Situation/Phase. As discussed in Chapter 4, marketing strategy, par-ticularly communication strategy, is significantly affected by the type of purchasing situation customer firms are facing and where they are in the purchasing decision

Micro Segmentation Variables

Variables

Organizational Variables

Purchasing situation/phase New task, modified or straight rebury; stage in the purchasing decision process. In the new task situation, for instance, the firm's ability to penetrate the market will depend on its ability to assist in problem solutions, to provide informa-tion to key decision makers, and to work with customers through all phases of the purchasing decision process. IS On the other hand, in a straight rebuy purchasing situation, out suppliers must be capable of convincing custom-ers that it is worth reevaluating current suppliers by offering superior product advantages or significant price differences, Thus, segmentation across the Buy grid continuum is an important micro step in examining buyers' purchasing needs, informa-tion requirements, and the structure of the buying center and interaction patterns.

Customer Experience Stage

Product life-cycle stages (Le., introduction, growth, and maturity) as it relates to customer adoption process (i.e early and late adopters)

Customer Interaction needs

Dependence on supplier in implementing decision-making process or supplier's knowledge compared to customer's knowledge

Product Innovativeness

Innovative versus followers firms

Organizational Capabilities

Extent of operating, technical, or financial capabilities

Purchase Situation Variables

Inventory requirements

Material requirement planning or just-in-time systems

Purchase Importance

Degree of perceived risk (Le., cost, usage factors, or time)

Purchase Policies

Market-based prices, bids or leasing preferences Supplier reputation, technical services reliability, flexibility, etc.

Purchasing Criteria

Supplier reputation, technical service, reliability, flexibility etc.

Structure of the banking center Key influencers and decision makers (e.g.. engineering. marketing, plant managers, and R&D)

Individual Variables

Personal Characteristics

Demographics (e.g., age and experience) personality, no task motives. Perceptions and risk takers/avoiders Collaboration, compromise, avoidance, or coalition forma-tion

Power Structure
Collaboration, compromise, avoidance or coalition formation

Customer Experience (or PLC Considerations)
When customers are unfamiliar with products (product introduction), they tend to assign purchasing responsibility to those persons within the firm who are competent in dealing with the uncertainties involved. They also tend to be attracted by "a bundle of vendor supplied benefits and proven technology. As they become more familiar with product application, however, they tend to shift purchasing responsibility to functional specialists or pur-chasing agents who are more price sensitive, and supplier support programs begin to decline in value, opening the door to out suppliers. Thus, the level of customer experience, as Table shows, not only affects the composition of the decision making unit and the decision-making process, it also affects marketing strategy con-siderations for current as well as potential customer firms.

While customer experience can evolve with the product life cycle, "the transi-tion from inexperienced to experienced customer often takes place independent of product maturation."18 Since, as DeBruicker points out, product benefit patterns are identifiable and predictable as customers move from product inexperience to product experience, market segmentation by customer experience level can provide a basis for further refinement of micro segments.

Customer Interaction Needs
Where complex or strategically important products, such as computer hardware and software or capital goods, are concerned, final pur-chasing decisions often depend on the buyer's response to the seller's marketing stimuli during the decision-making process. Since product packages must be adapted to customer needs, the buyer-seller relationship often involves considerable interac-tion. The duration and involvement of that interaction will depend on whether buyers are capable of determining their own needs or are dependent on suppliers. Buyers who are uncertain of their needs will exhibit different sets of problems and behaviors and desire considerably more supplier interaction. In the case of com-puters, for instance, when buyers are capable of determining their own needs, the purchasing decision process will be shorter, and buyers will be less dependent on suppliers' knowledge and support. Thus, market penetration will consume consider-ably less resource allocation than when buyers are more dependent on suppliers. Micro segmentation .on the basis of different needs during the interaction process, then, can be a useful tool to marketers of complex products.

Customer Benefits
Benefit segmentation-identifying similar user needs and product attributes within groups of potential customers-can provide a detailed and multifaceted picture of customer needs. Such identification is useful for product design, pricing, distribution, and marketing support decisions. It also affords a look at competitive offerings in terms of their technical sophistication and service requirements, thereby alerting the firm to potential weakness in technology or mar-keting skills, or to gaps in the existing product line. In fact, according to some authorities, segmentation by benefits sought is frequently more relevant in industrial markets than segmentation on some purchase characteristic, particularly among firms in such basic industries as steel forging.

Product Innovation
According to recent studies, considerable differences exist in the buying needs and practices of organizations that are innovative product leaders as opposed to those that are followers. For example, high-technology component purchase decisions in the instrument manufacturing industry tend to be influenced by current product innovation practices. As Table shows, buying center structure and degree of interaction differs during the initiation and implementation stage of new product development as well as between innovative leaders and followers. For instance, an examination of Table shows that innovator firms tend to adopt rather loose (LOW) structures during the initiation phase and tight (HIGH) struc-tures during the implementation phase of the product development process. Posi-tional (followers) firms, on the other hand, tend to adopt relatively tight (HIGH) structures during the implementation phase, loosening their structures during the implementation phase (MEDIUM to LOW).

Notes -

LESSON 17:
INDUSTRIAL MARKETING STRATEGY IN INDIA

Learning Outcomes

- **Strategic Planning in the Industrial Market**
- **Conflicting Areas between Marketing & Engineering**

Industrial Marketing Strategy in India

Marketing planning involves the selection of a marketing strategy and the tactics of implementing it to reach a defined set of goals. Marketing planning differs from Strategic market planning in three ways: time horizon, responsibility, and details. The components of marketing planning are executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action plans and control measures.

The strategic planning process consists of developing the company's mission; objectives and goals, business portfolio, and functional plans. Controlling requires that various relevant aspects of performance be measured and compared with corresponding aspects of the plan. The purpose of the situation assessment is to identify threats and opportunities posed by changes in the environment (environmental assessment). The issue of strategy formulation and planning for any new product or market is dependent on the product life cycle.

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

Corporate strategic planning involves four planning activities.

The first is developing a clear sense of the company's mission. A well-developed mission statement provides employees with a shared sense of purpose, direction, and opportunity.

The second activity calls for identifying the company's strategic business units (SBU). Its customer groups, customer needs, and technologies define a business. SBUs are business units that can benefit from separate planning, face specific competitors, and be managed as independent profit centers.

The third activity calls for allocating resources to the various SBUs based on their market attractiveness and company business strengths. Several portfolio models, including those by Boston Consulting Group and General Electric, are available to help corporate management determine the SBUs that should be built, maintained, harvested, or divested.

The fourth activity calls for expanding present businesses and developing new ones to fill the strategic-planning gap. The tools described provide powerful support for the Formulation of marketing strategies. In particular, they are useful to evaluate the firm's current Product-Market portfolio, evaluate competitors' current Product-Market portfolio, project the firm's future competitive situation and guide the development of a Strategic Intelligence System.

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

STrategic Planning In The Industrial Market

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

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

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

Functional Isolation

While planning in the industrial market is as sophisticated as it is in the consumer arena, too often industrial firms concentrate planning efforts in the marketing de-partment, failing to recognize the interdependency between marketing and other functional areas. Perhaps this is due to what may be referred to as "functional isolation."4 That is, not only does marketing tend to ignore its interface with other areas such as finance, manufacturing, and R&D, but "marketing concepts, methods and inputs are frequently ignored in the decision perspectives of other business func-tion & While marketing should take the

lead in defining market segments, needs, and opportunities and in determining what it will take to satisfy the various markets and, segments, planning in the industrial arena must be a collaborative effort be-tween all key functional areas. Unfortunately, as Wind and Robertson point out, the isolation between marketing and other functional areas may continue until we:

Find solutions to the inherent conflict between marketing and other functional areas.

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

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

Functional Conflict

While successful planning depends on cooperation between the different functional areas, whenever tasks and objectives are different or unclear between two or more departments a strong tendency for disharmony exists. As Table 6-1 highlights, potential areas of conflict between marketing and engineering exist in such basic matters as new product development, product quality, and technical services. Potentials conflict also exists between marketing and manufacturing in such areas as sales casting and production planning, and between marketing and R&D in the new product development

A Catalog of Potential Conflicting Areas Between Marketing / Engineering

Areas	Marketing Responses	Engineering Responses
New product Design	They don't give us products we can sell. By the time we get them to design the product it will be obsolete.	We're limited in what we can p it design because we have to keep it simple for marketing
Breadth of the product line	We need more variety.	We have too much variety now
Product appearance	Our line looks so inferior. of fancy	Our line does not need a lot window dressing.
Product problems	Why can't engineering make workable products?	Neither the customer nor our marketing department understand the product and how it is supposed to work
Product promotion	The information we get from engineering is so dull and technical that no one would read it	The information that marketing includes is so exaggerated. We could get sued for false advertising.
Packaging	It looks so cheap and functions so poorly that it makes our products hard to sell.	Trying to package so many products and hold costs down is extremely difficult
Quality	Why can't we have reasonable Quality at reasonable costs.	We must design so many products with numerous options that it is hard to maintain quality and keep costs down.
Technical	We need a technical expert to soothe customers even though they really do not have a problem.	We don't have enough manpower hold the hand of some pet customers of marketing.
Warranty	Engineering always goes by the book, they don't understand that you have to bend a little.	Marketing wants us to pay the full amount of every claim, even an invalid one.

Alleviating Conflict

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

Some degree of conflict is necessary and can be very constructive in that it promotes more efficient and effective use of the company's resources. However, when conflict begins to diminish the ability of the organization to coordinate the efforts of its various' functional areas, it becomes counterproductive and impedes the organization's effectiveness in achieving its primary goals.

Alleviating conflict, however, is top management's responsibility. Conflict can only be alleviated when an atmosphere of cooperation is created through (1) promotion of clear and straightforward corporate policies, (2) evaluation and reward systems that stress inter functional cooperation and responsiveness, and (3) formal and informal inter -functional contacts (e.g., including manufacturing people in sales meetings and marketing people in product design decision meetings or establishing squash courts for noon-hour use by all company members).

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

LESSON 18:
MANAGING THE DEVELOPMENT OF STRATEGIC PLANNING AND MC KINSEY'S 7-S FRAMEWORK

Learning Objectives

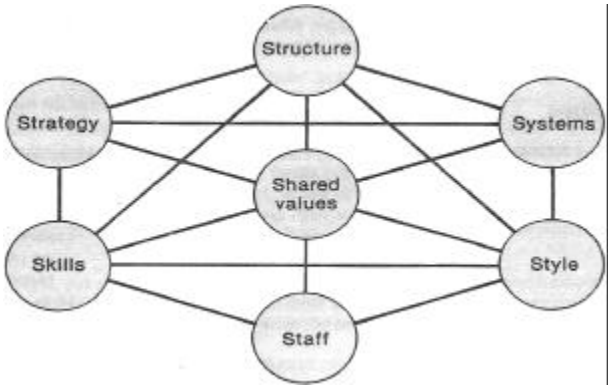
- **Mckinsey's 7-s Framework**
- **Strategy- An Intellectual & Social Process**

Strategic planning, however, is not the total answer to marketing success. A firm must be managed effectively. And many companies are coming to recognize that effective management does not just lie solely in the area of strategic decision-mak-ing, it also depends on other factors. According to one .of the world's leading con-sulting firms, McKinsey & Company, strategy is only one of seven factors that the best managed organizations exhibit.

As a result of studying a large sample of excellently managed companies, such as IBM, Boeing, and 3-M, and discovering that their strengths included more than strategy, structure, and systems, consultants at McKinsey added four other factors- Figure below shows the seven factors that McKinsey considers necessary for a company to perform successfully over time.

The first three factors-strategy, structure, and systems-are what McKinsey sees as the hardware of success? The next four-style, staff, skills, and shared val-ues-are seen as the software of success.

Style refers to the fact that employees share a common style in behaving and thinking, sometimes referred to as "culture." *Skill* refers to the fact that the necessary skills needed to carry out the strategies, such as marketing planning and finan-cial analysis, have been mastered by the firm's employees. Staffing means that the company has hired capable people and placed them in the right positions to take full advantage of their respective talents. The last factor, shared values, means that employees share the same guiding values and mission, that is, an excellently managed company has a driving purpose and philosophy that is known and practiced by everyone.



Mc Kinsey's 7-s framework

Strategy: An Intellectual and Social Process

In his study of large international companies, Horovitz has discovered that manage-ment is becoming more and more concerned with three areas, areas that are believed to be the key to quality in strategic decision making: (1) the organization structure, (2) the planning process, and (3) the activating modes used to produce strategic changes (people and style).

To overcome the problems and challenges faced in today's market, all com-panies studied were looking for "cleaner, simpler structures and a better bal-ance between line and top management." Thus, many companies are moving away from the matrix structure of the 1970s toward smaller, more manageable units. Fur-ther, to create an entrepreneurial spirit, the capacity for innovation, and a sense of responsibility, many companies are undergoing a complete realignment of their organization structure so that each manager will have the necessary resources, re-sponsibility, and scope of decision making (including financing, asset management, and legal problems) for his or her business unit.

Most companies, however, felt that the greatest need for improvement was in the area of developing

People-people, who are able to present alternatives, make judgments, and think strategically. When a firm fails to choose the right people, to train, educate, and motivate them, it can affect the firm's ability to adapt to its environment.

Concern is Strategic Management

Steps	Process	
	Intellectual process	Social Process
Strategy formulation	What are the prospects in a particular industrial sector? Can we handle a changing environment with our current resources and capabilities? What should we do in our current businesses? How can profits be restored? What businesses should we be in? What portfolio should a business has given its objectives? What firms can be bought? What units/activities should be sold?	How should the responsibilities to prepare, present defined and carry out plans (SBUs) defined? How much more should be spend on planning processes and systems in the organization? How can staff be involved and a balance of viewpoints be maintained? How can innovative ideas be fostered and the right addressed? How can checks be made to ensure that plans presented make a sense? How can priorities be selected? How should no/yes be said? How can corporate wide spirit and concerns be instilled?
Strategy Implementation	How well does the structure fit the purpose? How can our efforts be organized to generate new businesses innovation and new strategic alternatives? What delegation is required for fast adaptation to changes in the marketplace? How detailed should we plan the different aspects of the business? What information is needed and at what level to respond to the requirements of markets, to anticipate problem areas, and to trigger in advance strategic responses? What training and reward systems best fit our strategy?	How can we get our manager's to think strategically? How can we get people committed to make it happen? How can new ideas be made standard practice? How can individual _motivation kept high? How can we ensure that the objectives are carried _out effectively through the chain of command? How can efforts be around a few values and objectives? How can withholding of information deformation of purpose resistance to change, and defiance toward innovation be prevented?

Notes -

LESSON 19:
UNDERSTANDING STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION

Learning Outcomes

- Strategic Planning Process
- Developing Marketing Strategy in Industrial Marketing

According to the industrial marketing experts the concerns of management in the development of strategy, shown in Table are best understood when viewed from two dimen-sions: (1) the steps necessary to formulate and implement strategy and (2) the pro-cesses that are used Steps involve:

1. **Strategy formulation** - deciding in which direction to go
2. **Strategy implementation-**deciding how the organization is going to get there internally

The processes by which strategies are formulated and implemented involve

1. An intellectual process. A decision maker, through certain methodologies and tools, thinks through the best way to formulate a strategy and the organizational arrangements that best suit the orientation chosen or helps managers define better their long-term orientations.

2. A social process through the planning process, the members of an organization partic-ipate one way or the other in the formulation of strategy. The people's profile and ability, as well as the CEO's activating mode, will determine whether and how well the strategies actually "happen." These factors also ensure that the actual behavior within the organization supports the accomplishment of the purpose.

The Strategic Planning Process

As previously mentioned, the strategic planning process, shown in Figure 6-2, in-volves the organization in recognizing, anticipating, and responding to changes in the marketplace to ensure that resources are directed toward achieving opportunities that are consistent with the firm's capabilities. Strategic planning is a formal, long-range planning process that focuses on an organization's basic mission, objectives, and the long-range strategies needed to carry them out.

The Corporate Mission As A Directing Force In The Development Of Strategy

All successful companies exhibit a distinct and widely shared culture that directs corporate strategy, a corporation's culture, like a society's culture, "is reflected in the attitudes and values, the management style, and the problem-solving behavior of its people. The foundation for the development of that culture lies in a sys-tematically and comprehensively developed mission statement. It is the company mission, or purpose, that provides the basis for the culture that guides executive action and directs the formulation and implementation of strategy. When manage-

Developing Marketing Strategy In Industrial Marketing

Once strategic alternatives have been decided upon, the development of marketing strategy, rests on

(1) market segmentation analysis

(2) target market(s) selection and

(3) the development of the marketing mix strategies.

Market Segmentation And Target Marketing

Market segmentation analysis is fairly well recognized by most marketing managers and can be thought of as a process of dividing a larger market into sub markets each having, different demand pattern needs, buying styles, and responses to various suppliers' marketing strategies. Market segments must be assessed, however, in terms of their market potential, competition, customer profiles, and the company's -capability in serving them. How industrial markets are segmented is covered in Chapter Eight. The important point is that marketing planning cannot be undertaken until the firm has carefully chosen those markets it is capable of serving. Assessment of potential target markets must be based on

1. Their current size-which must be sufficient if marketing objectives in terms of sales volume, market share, profitability, or return on investment are to be achieved.
2. Their potential for future growth-if the firm is to realize a sufficient return for its efforts to serve a particular market.
3. Whether they are owned or over occupied by existing competition-if the firm is to assess realistically its capability of penetrating a particular market.
4. Whether there exists a relatively unsatisfied need that the firm can satisfy better than its competitors

Formulating Marketing Mix Strategy

Once a target market has been identified, marketing strategy can address the compo-nents of product, place, price, and promotion. Table 6-7 briefly outlines the decision areas covered by these four components.

Decisions with respect to how product lines, features, quality levels, services, and new product development will be used to satisfy customer needs must be clearly formulated and integrated with manufacturing, R&D, and technical services.

Since products or services must be delivered to customers when and where they are wanted, distribution strategy is primarily concerned with developing the right combination of factors (e.g., inventory levels, storage facilities, and transportation modes) 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 bases for formulating personal selling, adver-tising, sales promotion, and media selection plans. Not only must promotion strat-egy be

consistent with other strategic components, it must be closely integrated with financial strategy due to cost requirements.

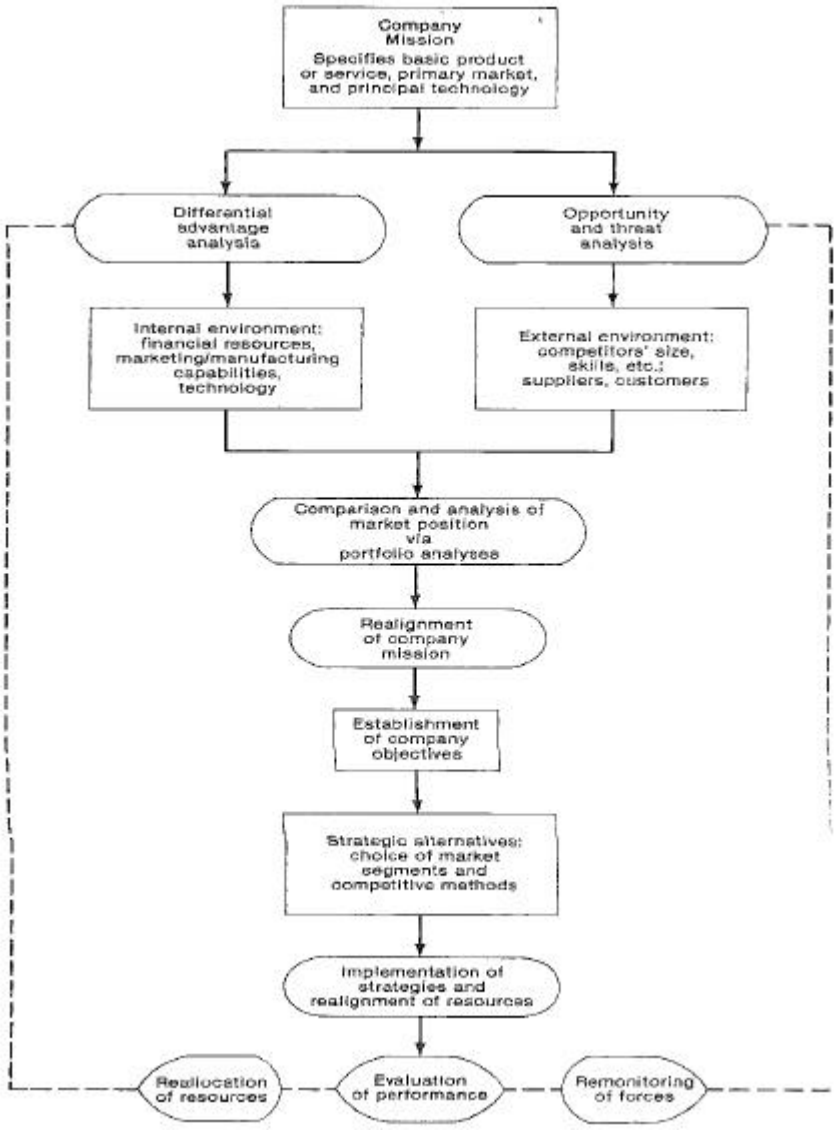
Pricing strategy, because of its influence on demand and supply, profitability, customer perception, and regulatory response must be carefully developed in con-junction with internal factors (e.g., cost, return on investment, and profitability). When strategies in the four areas of the marketing mix are properly developed, they should produce a synergistic marketing effect.

Developing Marketing Plans

Marketing planning involves considerations with respect to developing specific marketing activities to implement strategies such as test marketing a new product, training sales personnel, and developing advertising programs. It also involves develop-ing budgets, based on realistic sales projections for each of the company's divisions and products, and allocating those budgets across the various components of the marketing mix.

Successful marketing planning, however, also requires careful timing and implementation. Hofer and Abel have suggested that in many industries there are "strategic windows" -limited periods of time during which a firm may successfully adopt and implement a completely new strategy. Thus, timing is particularly criti-cal when a firm is developing, or radically changing, its strategy. Scheduling is a useful means of controlling the timing of activities, as well as the deployment of resources, in implementing plans

Scheduling can be accomplished through the use of such techniques as the critical path method (CPM) and program evaluation and review technique (PERT). Both CPM and PERT are especially useful when major changes in purchasing or production schedules are called for in the implementation of marketing plans.



The Strategic Planning Process

Notes -

LESSON 20:
INDUSTRIAL MARKETING STRATEGY COMPONENTS

Learning Outcomes

- Product Planning & Development
- Implementing and Controlling Marketing Plans

Product Planning and Development

1. Product from that of competitors as viewed by customers.
2. **Offeronly** one product and try to attract all buyers (i.e., use an "undifferentiated" strategy)
3. Develop separate products and marketing programs for each market segment (i.e., use differentiated" strategy).
4. Create new uses for existing products [through improved performances and/or exclusive features
5. Diversify into new markets with new products.
6. Establish product leadership through development of quality products
7. Develop new products for commercialization each year, beating competition to marketplace and establishing a reputation for innovation.

Distribution

1. Warehouse products at locations that enable quick delivery to each distributor and customer
2. Provide additional outlets to reduce distribution cost per sale.
3. Use only one warehouse to minimize inventory control problems.

Sales / Service

1. Expand geographic area of operations to penetrate high potential regions not currently approached-
2. Reshape distribution channels (i.e. dealers, distributors, agents, and company sales force) to satisfy market-buying preferences more closely.
3. Develop more competent sales force and/or dealer/ distributor organization.
4. Require sales force to improve its knowledge of customers and their products.
5. Employ target marketing to identify and reach high-potential customers and prospects.
6. Minimize reciprocal purchases with suppliers where prudent.
7. Increase sales effort on most profitable products and customers.

Advertising/Promotion

1. Employees "push" strategy to encourage dealers, distributors, and company sales force to move your product lines (good margins, bonuses. services, advertising. and promotional subsidies
2. Employ pulls strategy to stimulate customer demand through increased brand concept and product acceptance.
3. Maximize advertising and promotion coverage to increase volume, which will permit mass production and distribution.
4. Address advertising and promotion to key customers and "best" prospects to maximize the benefits of these expenditures in a limited market segment.

Pricing

1. Set low, price for new products to discourage competitive entry into market.

2. Set low, price for products to encourage high sales volume which permits mass production and low cost unit

3. Provide minimum "extra" services to permit lower prices.

4. Price parts service, and repairs at cost or with slight markup to gain maximum good will

5. Price products to obtain principal profit on original sale rather than on follow-up service and parts.

Offer quantity discounts to encourage larger unit purchases.

Implementing and Controlling Marketing Plans

Once marketing strategies and plans have been determined, they must be imple-mented and carried out. To evaluate and control their performance, standards for control must also be established. Since marketing strategies and plans are formu-lated to achieve objectives, these same objectives can be used to establish standards against which performance can be measured, such as objectives regarding profit, market share, and sales penetration. The company's historical trends can also be used to establish objective targets in these areas. Industry trends, such as sales per salesperson or percentage return on sales, can also be used.

Evaluation and control methods "make it possible not only to determine better the impact of current marketing activities on costs, revenues, and profits but also to respond more quickly to opportunities and threats. A number of different per-formance measures are available for purposes of control:

1. Sales analysis-provides valuable data and serves as an early warning system for identifying declining or rapidly growing sales.
2. Sales performance analysis-compares sales volume to predetermined objectives or quotas and provides a benchmark against which to evaluate sales. Sales can also be compared to last year's sales, competitors' sales, forecasted sales, or industry sales.
3. Marketing cost analysis-measures marketing expenses against their magnitude and gives insight into the costs of doing business and the patterns of these costs.

4. Contribution margin analysis-subtracts direct costs from sales to determine contribu-tion to overhead and profits.
5. Net profit analysis-subtracts both direct and indirect costs from sales to determine profitability.
6. Return on investment analysis-compares profits to the assets involved in generating profits to measure marketing productivity.

Common performance measures and the extent of their use in the industrial market are shown in Table

Schedules and Control Charts

Schedules and charts are two common and logical types of control tools. As mentioned, CPM and PERT are used to plan and monitor schedules of activities. Gantt charts can also be used. Control charts are used more for repetitive-type activities to detect when an activity deviates significantly enough to warrant investigation.

Reports

To assist those persons responsible for implementing, evaluat-ing, and controlling marketing strategy, companies' information systems produce periodic reports. These reports are helpful if they are prepared so as to report on how we objectives are being accomplished. Too frequently, though, once an information system begins producing reports relative to particular objectives, it will continue to do so, long after the objectives have changed.

Budgets

Budgets are an excellent control and evaluation tool, usually established for a one-year period and projecting costs for each budgeted category, such as sales and advertising. Since each budgeted item can be isolated for departments and indi-viduals, deviations can be traced to the responsible activities or persons.

Sales and Cost Analyses

Sales and cost analyses are an effective means of discov-ering unexpected problems. Since sales analyses are subdivided by product, product line, customer type, and geographic area, components that need attention can be easily pinpointed. Where possible, when costs are separated and matched to specific products, product lines, customers, and geographic areas, profit measures can also be obtained.

Marketing Audits

A marketing audit consists of a systematic, periodic assessment of the entire marketing program with respect to its objectives, strategies, activities, organization structure, and individual personnel. It also includes an assessment of the firm's environ-ment with respect to company image, customer characteristics, competitive activities, regulatory constraints, and economic trends. To ensure that an audit is carried out objectively and in an unbiased manner, however, persons who have no vested interests in the findings should perform it.

Notes -

LESSON 21:
INDUSTRIAL MARKETING STRATEGY IN INDIA

Learning Objectives

- Industrial Marketing Strategy in India
- Industrial Product Planning

Industrial Marketing Strategy in India

Marketing planning involves the selection of a marketing strategy and the tactics of implementing it to reach a defined set of goals. Marketing planning differs from Strategic market planning in three ways: time horizon, responsibility, and details. The components of marketing planning are executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action plans and control measures. The strategic planning process consists of developing the company's mission; objectives and goals, business portfolio, and functional plans.

Controlling requires that various relevant aspects of performance be measured and compared with corresponding aspects of the plan. The purpose of the situation assessment is to identify threats and opportunities posed by changes in the environment (environmental assessment). The issue of strategy formulation and planning for any new product or market is dependent on the product life cycle. There are three basic approaches for strategy formulation for new products. The essential task is to identify a proper product market combination where the barriers to entry are at a minimum.

A marketing strategy has to take several factors into account, the prime one being the company's position in the particular market, specifically whether it is a market leader, challenger, follower or nicher. There are four major marketing strategies depending on the timing of the technologically intensive firm's entry into an industry. Follow the Full Product Life cycle, Develop New Products, Follow the Leader, Application Engineering, and Me-too products.

Corporate strategic planning involves four planning activities. The first is developing a clear sense of the company's mission. A well-developed mission statement provides employees with a shared sense of purpose, direction, and opportunity. The second activity calls for identifying the company's strategic business units (SBU). Its customer groups, customer needs, and technologies define a business.

SBUs are business units that can benefit from separate planning, face specific competitors, and be managed as independent profit centers.

The third activity calls for allocating resources to the various SBUs based on their market attractiveness and company business strengths. Several portfolio models, including those by Boston Consulting Group and General Electric, are available to help corporate management determine the SBUs that should be built, maintained, harvested, or divested.

The fourth activity calls for expanding present businesses and developing new ones to fill the strategic-planning gap. The tools described provide powerful support for the formulation of marketing strategies. In particular, they are useful to evaluate the firm's current Product-Market portfolio, evaluate competitors' current Product-Market portfolio, project the firm's future competitive situation and guide the development of a Strategic Intelligence System.

The need for a lengthy time frame in industrial marketing can arise from a variety of reasons, like long lead times, long life cycles of many existing industrial products and alternative sources of resources on a long-term basis. The selection of a suitable forecasting technique depends on

(a) identification of new opportunities or threats

(b) identification of potential markets and

(c) market estimation and product specification.

Industrial Product Planning

New product decisions often must be made with considerable uncertainty relating to sales, product and process development outcomes, manufacturing costs and so on. There are two basic dimensions. The first dimension is the newness of the technology within the new product relative to technologies already developed by the firm. The second dimension is the newness of the market application for which the new product is targeted compared with the users of past products.

A product innovation is assumed to embody at least one identifiable core technology and it may include several or more separate technologies. The five dimensions of innovation are: Relative Advantage, Compatibility, Complexity, Divisibility, and Communicability. The idea for new products may come from both internal and external sources. The product sources can be centers of innovation, universities, inventors, and information sources press, articles and technical journals, as well as industrial or professional contacts.

The ultimate objective of new product planning is to secure the long-term viability of the total company's activities and to form the basis for continued development and growth. The new product development process consists of eight stages: idea generation, idea screening, concept development and testing, marketing strategy development, business analysis, product development, test marketing and commercialization. There are several new product strategies like investment, building, and innovation strategies.

Technological innovation is a logically sequential process, which can be subdivided into functionally separate but interacting and independent stages. Product planning embraces all activities, which enable producers, and middlemen to determine what should constitute a company's line of products. Ideally, product planning will ensure that the full complement of a firm's products are logically related, individually justifiable items designed to strengthen the company's competitive and profit position.

The concept of the product life cycle is useful both in assessing the future contribution of existing products and in selecting

new ones. Products have a recognizable life-pattern: development, growth, maturity and decline. Every product reaches its period of obsolescence and is replaced, either by its producer or its competitors. Technological forecasting is a systematic method of outlining possible future through careful study of possible Technological developments and their social, economic, and technological repercussions. The choice of technology depends on factors like Appropriateness, Cost structures of Alternative Technologies, Automation and Capital Saving Technology.

Three major techniques currently used for ensuring a continuous evaluation of competitive activity are the Life Cycle Model, Technological Mapping, and Strategic Analysis. Technology Assessment can be defined as the process of forecasting long-term secondary effects of a technological development on the social, political, economic, and environmental well being of the society. Some of the techniques, which can be used for technology assessment, are cost benefit analysis, a system of multiple networks, cross-impact analysis, operations research techniques, and the questionnaire approach.

The four ingredients of product designing, namely,

- theory
- concept generation
- experimentation
- experience and engineering judgment

play a great role. Process Development comprises of manufacturing engineering, material flow and application of labour. Several forecasting methods are listed.

What is GM's strategy in India?

Anthony P. D'Costa

Opel Swing: Will GM switch to the fast lane in India?

General Motors is one of the largest corporations in the world. In 1999, based on foreign asset holdings, the UN's World Investment Report (2001) ranked it No 4 among the top 100 transnational corporations. Interestingly, it ranked only 83 (18th from the bottom) based on the transnationality index (a composite number based on foreign assets, foreign employment, and foreign sales that measures the degree to which a firm is global). This is in sharp contrast to the perception of GM being highly global.

is evident that large corporations from large economies do not need to be as global as large firms from smaller economies. On the face of it there appears to be a similarity of strategies by GM and Toyota (ranked 6 and 82), suggesting an optimal mix between foreign and home market operations. Yet, there are considerable variations in how firms expand overseas and transnationalise their operations. For example, Toyota has tended to produce at home and export, until rising costs at home or availability of new markets compel greenfield investment overseas. GM has expanded through greenfields too but makes foreign acquisitions also a part of its global strategy.

Let us look at GM's evolving strategy in India and see if it might be unwittingly pursuing an acquisition strategy to globalise its operations that has implications for a challenging market like India's. India has a fraction of GM's total foreign assets of $68.5billion (25 per cent of total assets). It has a small plant in India, in Halol in Gujarat. The facility was launched in the late1990s as the the automotive sector was de-licensed, allowing foreign companies to partake of the growing domestic market.

GM, of course, is not new to India. As early as1928 GM assembled cars and trucks from imported CKD (completely knocked down) kits. After Independence, GM (and Ford) left India due a limited market and government regulations on investments and local content.

GM continued its subtle Indian presence through technical collaboration with Hindustan Motors, India's flagship car company until1985. It is this partnership that brought GM and HM together in the 50:50 Halol joint-venture. Rajiv Gandhi, elected Prime Minister in 1984, ushered in a wave of liberalisation to unleash market forces on the moribund economy. The creation of Maruti Udyog Ltd. as joint-venture between the government and Suzuki Motors transformed the Indian industry. MUL has been a catalyst in the massive industrial transformation. Part of its success lay in the first-mover advantage.

For over a decade since MUL's inception, the government kept the passenger car market closed to new entrants. When the auto sector was completely opened up in 1995, MUL was sitting on huge fixed investments that had been largely amortised. It was reaping the benefits of economies of scale and scope. MUL also incubated a reliable supplier industry for its growing output. The entry barrier for new players was much too high in the small car segment, unless companies had deep pockets and expected to be in India for the long haul or had the technical competence and knowledge of the Indian market to challenge the Japanese product.

Interestingly two South Korean companies, Daewoo and Hyundai, gradually got into the small car market. So did Tata Engineering. Other multinationals, however, stuck to the small but potentially more profitable mid-size and luxury cars. GM was in this category. Led by MUL, the Indian passenger car market grew from under 50,000 units in 1980 to half a million by 2000. Of this MUL had cornered 60 per cent of this growing market.

GM with HM as a partner got into the act, producing its well established Opel brand in India. The Opel operation, German in origin, was acquired by GM as part of its European expansion plans. HM by now was barely surviving, having been routed by MUL. It had forged foreign alliances with Isuzu (for engines) and Mitsubishi to produce the Lancer. Given the small Indian market and the intense competition in the segment, the

volume of production remained low. GM expanded its Halol operations to produce newer Opel models even as it was running in the red. Its local partner HM withdrew from the venture as it could not come up with the necessary capital. Now the Halol plant is a 100 per cent subsidiary of GM.

In this rather convoluted history can a GM strategy be discerned? Is it in India for the long haul? Will GM's operations become important in India and for that matter India for GM's global operations? Behind its mundane business routines, GM is actively shaping an international division of labour that enhances India's position in the global economy.

Consider the following: GM as an American company in India is making a German product for the Indian market, using imported Brazilian engines, and using Indian labour and components. Local content is 60-70 per cent. There is more to GM's strategy than what has been revealed. The Halol unit is not doing well, despite using modern technology and advanced organisational practices. It is also true that GM has deep pockets and its Indian operation is minuscule. Yet, we should not forget that GM can expand by acquiring foreign companies. So far it really has not acquired much except to buy HM's 50 per cent share. But we also know GM has stakes in Suzuki Motors (20 per cent), Isuzu (49 per cent), and Fuji Heavy Industry (makers of Subaru; 20 per cent). A few years ago it secured a 20 per cent stake in Fiat. While GM has allowed these companies to run autonomously, capturing market share through acquisition is a sound strategy for global expansion. How does all this affect India? All of these companies save, Fuji and Isuzu, are involved in production in India. But, more important, two recent developments suggest a greater presence by GM in India. GM is ready to acquire Daewoo's main plants in South Korea and one in Vietnam. Daewoo's overseas operations, including an important one India are excluded in the deal but their selective acquisitions by GM not ruled in the future. Furthermore, New Delhi has initiated the gradual process of privatisation. With the latest disinvestments, Suzuki has even firmer control in India and, indirectly, GM.

So what does this all amount to? GM's grip on the Indian market may be far greater than what meets the eye: A 100 per cent affiliate, indirect engagement through Daewoo and Suzuki, and a partner in India's largest auto venture MUL. Assuming for the sake of argument that the Indian market will not grow rapidly in the near future, how should GM respond in India? It is one thing to lose money on one unit but quite another to acquire new units and lose more money. Some sort of consolidation in India is in order, acquiring Daewoo and creating space is one option. But GM is weak in small car production and its presence in Asia is lacklustre.

Would India be a springboard for small car specialisation, leaping into the promising Asian markets, and taking advantage of India's low labour costs? One is tempted to suggest that GM indeed has a grand design in India. It may not but its actions are consistent with a global strategy of acquiring firms and it seems to have accidentally placed the ball in the Indian court.

GM is certain to increase its foreign asset holdings and thus its overall TNI. The question is will India rise to the occasion by being internationally more competitive and be a player in GM's scheme of things? Or will it unwittingly let global developments dictate its economic destiny?

Notes -

LESSON 22:
INDUSTRIAL MARKETING RESEARCH FOR NEW PRODUCT DEVELOPMENT

Learning Outcome

- **Industrial marketing research for new product development**
- **Qualitative & Quantitative Strategy**

Industrial Marketing Research for new Product Development

Inbound marketing includes researching (with market research methods) to find out:

1. What specific groups of potential customers/clients (markets) might have which specific needs (nonprofits often already have a very clear community need in mind when starting out with a new program — however, the emerging practice of nonprofit business development, or earned income development, often starts by researching a broad group of clients to identify new opportunities for programs)
2. How those needs might be met for each group (or target market), which suggests how a product might be designed to meet the need (nonprofits might think in terms of outcomes, or changes, to accomplish among the groups of clients in order to meet the needs)
3. How each of the target markets might choose to access the product, etc. (its "packaging")
4. How much the customers/clients might be willing pay and how (pricing analysis)
5. Who the competitors are (competitor analysis)
6. How to design and describe the product such that customers/clients will buy from the organization, rather than from its competitors (its unique value proposition)
7. How the product should be identified — its personality — to be most identifiable (its naming and branding)

Outbound marketing includes:

1. Advertising and promotions (focused on the product)
2. Sales
3. Public and media relations (focused on the entire organization)
4. Customer service
5. Customer satisfaction

Too often, people jump right to the outbound marketing. As a result, they often end up trying to push products onto people who really don't want the products at all. Effective inbound marketing often results in much more effective — and less difficult — outbound marketing and sales.

Marketing research is a systematic and objective process of gathering, recording and analyzing data for making marketing decisions. Marketing research is made use of to measure how many buyers exist in the market and how sales are distributed among them. Marketing research studies also carries out an analysis of the supply aspect of the market. Segmentation research specifically helps in designing the product that truly matches the demands, of the market, and directing the appropriate advertising appeals and promotional packages to the most potential and profitable segments of the market.

Marketing Research is invariably used to measure consumer awareness recall of advertisement, interest shown, and in general, to assess the impact of different advertising campaigns and is utilized to as certain the impact of different consumer promotion programs and is utilized to ascertain the impact of different consumer promotion programmer. Marketing research is also done to examine the effectiveness of different media. Marketing research may be carefully used to know the diverse social, economic, technological factors and government policies affecting the market.

The basic steps in the systematic marketing research process are

(1) identify and define the problem or opportunity

(2) determine the research objectives;

(3) create the research design;

(4) collect, process and analyze the data; and

(5) communicate the information to the decision maker. A research design is a framework, which specifies the type; of information to be collected, the sources of data and the data collection procedure. In experimental design, one variable is manipulated and its effects upon another variable are measured while controlling all other variables.

Exploratory research is designed to facilitate recognition of a decision-making situation and aids in identifying alternative courses of action. Conclusive research is concerned with providing information to evaluate and select a course of action; Performance-monitoring research serves to control the marketing program in accordance with objectives by providing feedback regarding performance. The data for decision-making can be obtained through either Desk research or Field research.

The MIS first assesses information needs by interviewing marketing managers and surveying their decision environment to determine what information is needed. The MIS next develops information and helps managers to use it more effectively. Finally, the MIS distributes information gathered from internal sources, marketing intelligence and marketing research to the right managers at the right times. Some Marketing Sub-systems like the sales analysis, Business Intelligence, Customer Contact, Market Data and Competitor -Analysis systems are explained. The systems approach is an orderly discipline for dealing with complex problems of choice under uncertainty. System Simulation involves system description and feedback analysis using alternative system -structures and control policies.

Primary Data collection may be done through Observation Experiment, Survey, Expert Estimation, Retail Audit and Test Shop methods. A questionnaire is a formalized schedule for collecting data from respondents. The questionnaire is used to measure East behavior, attitudes and respondent characteristics. Secondary data can be collected from both company records and other published sources. Many industrial surveys do not use formalized sampling technique. All methods of sampling can be classified into either 'random or non-random. Only - random methods are amenable to statistical analysis. Non-random methods are called judgment or selective sample - because the sample is selected with a purpose in mind. The various techniques are classified into statistical tools, models and optimization routines.

The status of Marketing Research in the Indian corporate sector is briefly outlined.

Formal use of marketing research in Indian corporate sector began sometime in mid 70s .The corporate sector has now fully realized the utility *of* data based marketing decision-making. In India, considerable amount *of* secondary data is presently available. *For* instance, organizations like Registrar General of India, Planning Commission, Reserve Bank of India, Director General *of* Commercial Intelligence, National Sample Survey, Bureau *of* Economics & Statistics *of* each state, Central Statistical Organization; research organizations like National Council *of* Applied Economic Research; trade organizations like ATIRA, different chambers *of* commerce, All India Manufacturers Organization, and some private organizations like marketing research agencies carry out numerous studies on a regular basis. These study reports are published under different titles. *For* instance, there are several trade and industry associations in India like Indian Cotton Mills Federation, Chambers *of* commerce who periodically collect, analyze and publish reports on many impol1ant issues affecting their member organizations. Although such study reports are not very widely circulated, they are available for reference on request. The names *of* a few more well known reports about Indian industries are given below.

1. Thapar's Indian industrial Directory and Import-Export Directory *of* the Entire World.
2. Kothari's Industrial and Economic Guide of India.
3. Small Industries Research Institute (SIRI) Directory of Industries in India.
4. Handbooks and Directory of Indian Industries.
5. Indian Industries.
6. The Hindu Survey of Indian Industry.
7. Commerce Yearbook *of* Public Sector.
8. Directory *of* Foreign Collaborations in India.

Qualitative Research

This form of research encompasses focus groups and depth interviews.

Focus Groups

Focus groups are usually conducted in a special group facility equipped with a separate one-way mirror viewing area. This enables clients to personally observe group dynamics: members stimulating other members in their own environment. Sessions are tape-recorded (audio/video) to facilitate an accurate and comprehensive analysis of the proceedings. Qualified individuals are normally offered a cash incentive to guarantee attendance.

The group approach is ideal for ascertaining interest in and acceptance of new products. A major benefit is that analysis of the discussions allows for enhancement of product offerings so they more accurately match customer needs.

Focus Group Methodology

Homogeneous groups, composed of decision-makers - or those who at least contribute to the purchasing decision - in the same target market, with similar needs and interests, work best. Customers and non-customers are always put in separate groups. Groups typically number 8 to 10 persons; working with more participants can easily become unwieldy.

Participants are encouraged to talk freely without any fear of disapproval, but with the moderator maintaining control. The objective is to look for consistencies in, for example, behavior, perceptions or purchase intent.

Focus groups are particularly suited to motivational research: examining the influences of attitudes and perceptions on buying behavior ... and interpreting the responses from members when they are presented with new information or products.

So as not to lead group members, a non-structured approach is taken at the beginning of the session: e.g. "Tell me about the last time .... Later, to solicit their reactions, specific alternatives are presented in order to have individuals trade-off, for example, features versus benefits, versus value.

Anticipate Respondent Rationalization

The motivations of participants usually involve a multitude of factors, some of which may not be thoroughly understood even by themselves. Sometimes members try to rationalize their behavior, obscuring perhaps sensitive issues ... such as a reluctance to admit to a lack of knowledge, or economic factors.

In these situations, it is necessary for the moderator to delve below apparent motives to reveal how decisions are actually made. Only real needs and interests must emerge from the discussion.

Quantitative Research

Usually a second research phase is undertaken. When this occurs, the qualitative findings (from focus groups or depth interviews) are used to design a quantitative phase (often structured telephone interviews).

Use of the results from the qualitative round ensures a functional questionnaire in terms of phrasing, placement of the questions in a judicious order, and the elimination of (as much as possible) open-ended questions.

After learning to speak the customer's language in the first phase, and armed with a better understanding of their perceptions, tentative conclusions are then rigorously tested via a larger, statistically valid, sample.

Once completed, questionnaires are coded and tabulated, providing a detailed breakout of responses for the entire sample, and for meaningful cross-tabulations such as demographic characteristics or business classifications.)

Secondary vs. Primary Market Research

Success depends on a lot of things, but when you have information about a particular market segment, a geographic area or customer preferences, you'll be better-prepared to make the decisions that can make or break your business.

Many companies use market research as a guide. Whether you want to expand your business into a new area or introduce a new product, primary and secondary market research can provide valuable insight to help you shape your business and prevent costly missteps.

Secondary Research

If you're considering extending your business into new markets or adding newservices or product lines, start with secondary research. This type of research is based on information gleaned from studies previously performed by government agencies, chambers of commerce, trade associations and other organizations. This includes Census Bureau information and Nielsen ratings.

You can find much of this kind of information in local libraries or on the Web, but books and business publications, as well as magazines and newspapers, are also great sources.

Although secondary research is less expensive than primary research, it's not as accurate, or as useful, as specific, customized research. For instance, secondary research will tell you how much teenagers spent last year on basketball shoes, but not how much they're willing to pay for the shoe design your company has in mind.

Primary Research

Simply put, primary research is research that's tailored to a company's particular needs. By customizing tried-and-true approaches — focus groups, surveys, field tests, interviews or observation — you can gain information about your target market. For example, you can investigate an issue specific to your business, get feedback about your Web site, assess demand for a proposed service, gauge response to various packaging options, and find out how much consumers will shell out for a new product.

Primary research delivers more specific results than secondary research, which is an especially important consideration when you're launching a new product or service. In addition, primary research is usually based on statistical methodologies that involve sampling as little as 1 percent of a target market. This tiny sample can give an accurate representation of a particular market.

But professional primary research can be pricey. Tabs for focus groups can easily run from $3,000 to $6,000, and surveys cost anywhere from $5,000 to $25,000 and up. Do-it-yourself research is, of course, much cheaper. Services that provide online survey tools usually charge a flat fee (typically around $1 or more per response) plus a setup fee. There are also a host of software products available that will help you conduct your own online and offline primary research.

Using Both for Your Business

Savvy entrepreneurs will do secondary research first and then conduct primary research. For example, the owner of a video-rental shop would want to know all about a neighborhood before opening a new store there. Using information gleaned from secondary sources, the owner can find all kinds of demographic data, including detailed income data and spending patterns.

They can then send out a questionnaire to a sampling of households to find out what kinds of movies people like to rent. That primary-research technique will help when it comes time to stock the store with the latest Hollywood releases.

Secondary research lays the groundwork and primary research helps fill in the gaps. By using both types of market research, business owners get a well-rounded view of their market and have the information they need to make important business decisions.

Some Typical Market Research Questions

For example, businesses are often interested in information about a market, such as:

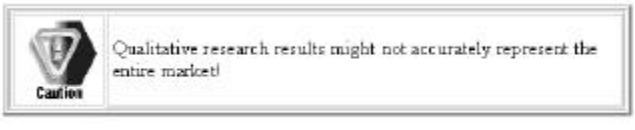
1. What is the market, including what is being sold and to whom and for how much? How many people might be interested in buying that product or service? How much money might be generated from those sales? Where is your business in the market?
2. Who is the customer? What are their preferences? When, where and how do they typically buy?
3. Who is the competition? What are they selling, specifically? When, where and how are they selling and to whom?

Qualitative Research

Qualitative research is original company research ("primary") on a subject in the normal course of company business ("non-experimental"). It is primarily concerned with getting a subjective "feel" for the research topic, *not* a numerical, statistically predictable measure.

More concretely, you can think of qualitative research as in-depth subjective interviewing or conversing with target buyers or potential users of your product or service.

For example, asking friends and neighbors about how they "feel" about political candidates and their election platforms is technically qualitative research. However, a good researcher would make sure they all qualify as registered voters who do cast their ballots regularly in order to provide a comfort level for the results of these conversations about political candidates in a given election. And even if you conclude that 100 percent of your friends and neighbors will vote for the Republican party, this information may not be reliable in predicting election trends. The information is biased by your friendship with the respondents, their demographic and geographic location, and lifestyle influences.

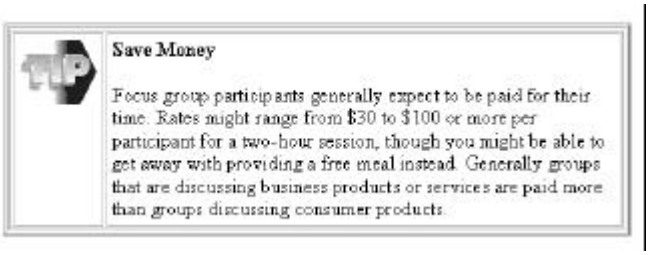


However, if you were to discuss the wants and needs of these voters and any other group of voters, you could probably conclude that most people want to have lower taxes, reliable public transportation, good schools, and safe neighborhoods.

In other words, the results of qualitative research depends on the subject matter, the background of research respondents, and the skill of the researcher.

Focus groups and interviews. Traditionally, qualitative research consists of focus groups and individual interviews. Focus groups can be thought of as "group interviews," where a manageable number of target buyers are brought together, presented with an idea or a prototype product, and asked to discuss their opinions with a moderator and with each other.

You can hire a market research company to locate the focus group members according to criteria you specify, and to conduct the session using a professional moderator, while you watch from behind a one-way mirror. Or, you can do it the economical way by conducting the sessions yourself, using target buyers you've located via the phone book.



You can also conduct your own individual interviews with potential target buyers or with people who already purchase a competitive product.

Even better, have a prototype for people to examine and try. Assuming you have already researched secondary databases and found that the size of the industry available to you is large enough to sustain your company with a modest market share, conduct interviews with a short questionnaire.

Qualitative data analysis is subject to large statistical errors in accurately predicting the behavior of the total market of users. However, lack of funds, quick turnaround times, low startup costs, and staying close to the market and customers are all trademarks of smaller companies. And some of these attributes may allow smaller companies to recover from actions taken as a result of inaccurate qualitative research.

Quantitative Research

Quantitative research is a type of non-experimental market research that provides numerical measurement and reliable statistical predictability of the results to the total target population. Like qualitative research, this is original company research ("primary") on a subject in the normal course of company business ("non-experimental").

Quantitative research is distinguished from qualitative research primarily by the large numbers of people who are questioned ("sampled respondents") and the type of questions asked. Generally, sample sizes of 100 are adequate for simple "yes/no" questions to get results that are 95 percent reliable as being accurate for the entire market of buyers. To increase the accuracy to 97 percent to 99 percent, the sample sizes would have to increase to 400 to 2,000 or more, depending upon the subject matter and complexity of questioning.

For example, a company might design a prototype product that it evaluates using qualitative research through focus groups made up from a target consumer group. Once the features and benefits of the prototype have been refined to consumers' satisfaction, and communication of the product's brand positioning in the marketplace has been discussed and modified, quantitative testing may be done.

At this point, larger companies continue to refine the prototypes and may conduct a series of blind tests, in-home usage studies, and even market forecast simulations costing up to $100,000. For smaller companies, it may be less expensive, faster, and just as accurate to do a small field-study test in the real market, despite the risks that the results of the test may not translate to other markets.

To do good quantitative research, you need the following three elements:

- a well-designed questionnaire
- a randomly selected sample
- a sufficiently large sample

Market Segmentation

Supports market understanding and is a critical input to product definition and market research. Helps the team visualise the motivations of different clusters of users & customers.

Description

For all product types and markets, different groups of customers will have different requirements. The market for any product can be split into individual segments, where each segment describes a number of customers with similar requirements, tastes, characteristics, interests, lifestyles or responses toto the 'marketing mix'.

Effective segmentation can indicate gaps in the market and provides insights into the requirements of different types of users, enabling potential product offerings to be carefully positioned to meet those needs.

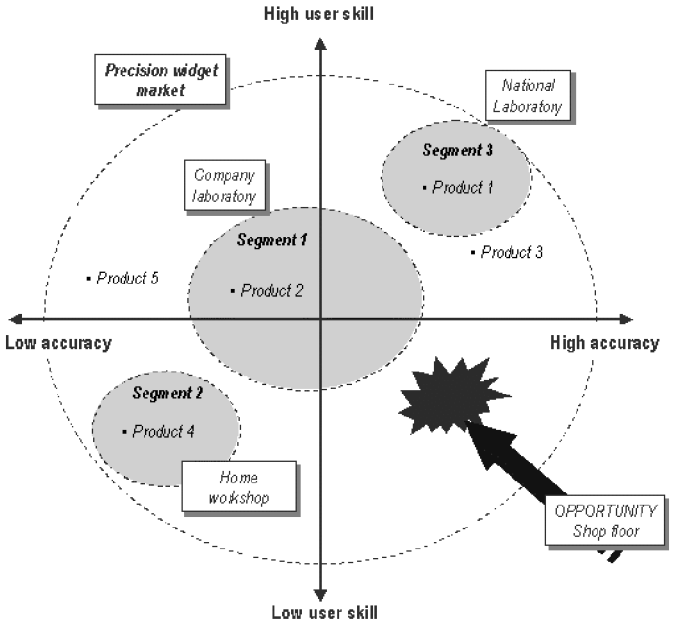
Method

The process of market segmentation can considered in four stages:

1. **Define the total market**
   The way a market is defined impacts upon how it can be segmented. For example, a market could be called 'small cars' or 'personal transport', depending upon the definition, the segments which emerge could be very different.
2. **Choose the bases of segmentation**
   A market can be segmented in many different ways. For the small car market, many bases of segmentation may be appropriate, including age, lifestyle, distance travelled, occupation etc. There is no correct approach, but well chosen bases help to describe the motivations, desires or characteristics of users and reflect the benefits which different clusters of users may derive from the product. It is useful to try a range of different bases. Where possible avoid bases which describe price and chose bases which reflect the demographics or behaviour of users.
3. **Draw chart & map products and segments**
   The perceptual map (illustrated) provides a visual way of representing the market and mapping your own and competitive products. An effective map will enable clusters of users to be identified and where possible, named. This is

especially helpful when trying to determine who to involve in customer research. The relative position of products is dependent upon the perceptions of users & customers.

4. **Target an opportunity and position a solution**
   Having positioned the different competitive offerings, it should be possible to identify gaps in the market and target opportunities for new products. By understanding the needs of a segment, it is possible to closely position a new product to match these user requirements.



Notes

For all product types and markets, different groups of customers will have different requirements. The market for any product can be split into individual segments, where each segment describes a number of customers with similar requirements, tastes, characteristics, interests, lifestyles or responses to the 'marketing mix'.

Notes -

LESSON 23:
CASE STUDY

Product

The new product 'Poly-fil" was the result of extensive engineering research with silicone. Since IGC is jointly owned, an important objective is to increase each parent company's sales of its own products through developing new uses for silicone products. The sales department came across the solid-fil tyre applications. The production process, while not yet patented is relatively simple. In the poly-fil tyre application, a sausage shaped strip of the material is inserted into an ordinary tyre casing. Under heat treatment, the material expands into a sponge like substance that completely fills the casing. Since the tyre contains no air, there can be no blowouts. Extensive tests have shown that tyres remain solid after firing bullets into them, drilling holes through them, slashing them with knives and driving them over spikes. Further, tread wear is not affected.

Sales Efforts

Sales efforts are aimed at manufacturers of heavy-duty tyres. It was expected that construction equipments, large and small trucks, military vehicles and other commercial users would be the best market because of their frequency of blowouts caused by travel over rough terrain. Facing no competition, IGC decided to use its existing sales force to introduce and sell the product. These salesmen regularly call on electronic firms and other major silicone users, and are technically competent to answer any questions about the chemical properties of poly-fil. It was also decided that advertising would not be needed, since once a potential customer heard from the salesman about the poly- fil, it was expected that he would probably be willing to buy.

Product Review

In August 1988, the Department of Transportation and National Bureau of Standards went on record as showing great concern about the heat build up in solid-fil tyres. Weight and cost were also sighted as problems, Foam-filled tyres weigh about twice as much as ordinary tyres and cost about three times as much. Also they require more horsepower and improved suspension system for operation.

Questions

1. (a) Was there any thing wrong with the strategic planning process?

   (b) Give reasons to support your answers.

Notes -

LESSON 24:
CHANNEL PARTICIPANTS

Learning Outcomes:

- Marketing channel participants in industrial marketing
- The function of intermediaries
- Types of channels

Marketing Channel Participants in Industrial Marketing

The industrial firm seeking a distributor or manufacturers' representative will face decisions and pitfalls similar to those encountered by the lonely single in search of a mate. For even though channel members remain independent of the manufacturer, free to seek their own goals and profits, both parties agree to work together for common goals and even greater profits than either could achieve independently. And, as is true of individuals, these business partners will have a greater likelihood of success the more their values, priorities, and "life styles" are similar. This chap-ter discusses

1. The internal and external factors that indicate that a marketer should probably use distributors
2. The services that industrial customers require of distributors.
3. The characteristics that a marketer should consider in choosing a distributor.
4. The circumstances that dictate the use of manufacturers' reps (or other sales agents) instead of an employee sales force.
5. The steps that the industrial marketer must take to ensure that indirect channels are effective

Just as manufacturers can be classified as large or small, innovative or tradi-tional, venturesome or conservative, and oriented toward quality or price, distribu-tors and manufacturers' representatives are differentiable by these same characteris-tics. The stereotypical image of a large, innovative well-managed manufacturer being forced to use small, unimaginative, poorly run intermediaries (middlemen), who sell primarily on price, is just that-a stereotype that simply does not reflect modern realities.

In this chapter, then, we will attempt to establish a realistic profile of industrial middlemen as they exist and function in today's marketplace. Distributors will be examined first, followed by manufacturers' representatives and several specialized forms of middlemen.

Why Use Distributors

It would be unusual if a manufacturer did not ask this question at some point, particularly when struggling with a strategic marketing decision involving profitabil-ity, growth, market share, or competition. Regarding profits, manufacturers wit often view distributors as a cost rather than a contribution to profits. After an, distributors demand a profit margin, which means that the manufacturer must sell to them at a price lower than 'would be realized by selling direct. And it is "common knowledge" that distributors are only interested in serving markets that the manu-facturer has developed, so they make no effort to develop either new markets 0: new product applications in existing markets. But the worst situation involves mar-ket share and competition. Distributors traditionally sell not only complement products, but also identical products from competing manufacturers. So indeed why use distributors?

Distribution Of Industrial Goods

American industry is its own best customer. Every factory, and to some extent every business organization, is a buyer—not necessarily of finished goods that people need in order to live, but of products which industry uses to produce the finished articles and services which the consumer demands. Goods sold in the industrial market consist of machinery and equipment and tools and supplies necessary in the operation of business concerns, but chiefly of raw materials and semi-finished products which undergo further processing and fabrication before they appear as finished goods and services ready for consumption.

The industrial market, it must be emphasized, does not apply to the large volume of goods bought by wholesalers or intermediaries and by retailers to be sold again in unchanged form. Also, for the purposes of this study, supplies sold to farmers are not included, for this trade is largely handled by retailers who deal in consumer goods. The movement of products from the farms to factories and packing plants, however, regardless of the channels they follow, is necessarily included in the industrial market.

Size of the Industrial Market

The size and limits of the industrial market are readily apparent from a glance at the Flow Chart. Purchases of supplies and equipment by the extractive industries, shown by the bands entering this rectangle from the left, amounted to $1.2 billion. Manufacturing industries, with purchases of $47.2 billion—chiefly raw materials and semi-finished products for further fabrication—were the largest element in the industrial market. Among terminal buyers, represented by the rectangles at the right side of the Chart, utilities (including transportation agencies and the construction industry) purchased $7.4 billion worth of industrial goods used in producing services sold to the public. Institutional buyers, including hotels, hospitals, government institutions, etc., accounted for an additional $4.4 billion. Goods sold to the industrial market, therefore, amounted in the aggregate to more than $60 billion, a larger total by $11 billion than the sales of all retail stores in 1929.

Nature of Industrial Market

The industrial market differs from the consumer market in many ways. For one thing, the whole setup of industrial

marketing is relatively simple, as contrasted with the marketing of consumer goods. Industries generally buy for utility. Taste and style considerations are almost absent and the buyers of industrial goods, as a rule, are in a much better position to state what they want in terms of actual standards of utility, than are the shoppers for house-hold supplies. As a result there is much less guesswork, both in the production and distribution of industrial goods.

When he is ready to buy, the large industrial buyer has no end of assistance, which the average consumer does not have. He has a purchasing department trained in the science of buying. In any case he is not tempted to buy a lathe or a crane because some agent assures him that it exactly suits his personality and would give him a reputation as a distinguished manufacturer. He would want to know, rather—and he would have means of finding out—just what the machine could do. Standardization and buying on specifications, in fact, have gone so far in the matter of industrial goods that it is next to impossible for dealers in most raw materials and factory equipment to successfully misrepresent their wares.

A large quantity of typical industrial goods goes through but one layer of dealers. Some manufacturers sell their large and special equipment directly to industrial consumers, leaving only miscellaneous products to be sold by the trade. The bulk of the trade to small establishments, however, usually passes through one or more intermediaries.

For many reasons the buyers, rather than the sellers, generally dominate the industrial goods market. Buying, as a rule, is planned for a considerable period in advance; and with the tendency of industries to cluster in certain centers, such as automobiles in Michigan and moving pictures in Hollywood, the bulk of the market is easily accessible to those supplying it. Of the 3,073 counties in the United States, 106 counties, each with a total of $100 million or more value of manufactured goods, in the aggregate accounted for almost 70 per cent of the manufacturing of the entire country. Nearly 94 per cent of our factory output, moreover, was produced by less than 32 per cent of our manufacturers—those doing an annual business of more than $100,000 each in 1929.

Captive Sources and Captive Markets

Many industries directly control their most important sources of supply. Steel companies, for instance, own and operate many captive coalmines. Both selling and purchasing costs are largely eliminated. This tends to reduce the costs of distribution of coal to the actual expense of transportation and accounting. There are many other similar captive sources such as ores, lumber, rubber, and other raw materials.

There are also captive markets. Utility companies, for instance, may be regularly supplied by some large manufacturer of electrical goods who has captured the market through contract or (in earlier periods) by ownership of stock in a utility holding company. In such cases it is difficult to say whether the producer or the buyer of industrial goods really dominates the market.

The economic danger of capturing either markets or sources of supply is obvious. While such an arrangement may eliminate many real costs it also eliminates competition and often tends to substitute unprogressive routine for the constantly better methods, which keen competitors, are forced to discover and adopt. Many manufacturers have invested heavily in sources of supply, only to find in the end that much cheaper ways of supplying their needs have been developed and are already being used by their competitors.

The Ford Motor Company is often cited as a vertical organization, which achieves economies through the control of all the processes of production and distribution from the raw materials to the finished product. A careful study of Ford practices, however, shows that the company has regularly been opportunistic in this respect, readily disposing of its captive interests as soon as the special purpose of each capture has been achieved. Its control of sources of supply has generally been undertaken not for the purpose of achieving a monopoly, but in the hope of breaking one.

Distribution of Industrial Goods

The $60.2 billion paid by industrial buyers for goods bought in 1929 includes not only the amounts received by the sellers of domestically produced commodities, but also the costs of delivering these goods, as well as the money paid for imported goods entering the industrial market.

Deducting the value of imports and the estimated total of transportation charges leaves a total of $54.7 billion which represents the sales value of all American goods bought by manufacturing concerns, public carriers and utilities, hotels, mines, oil wells, government agencies, hospitals, hotels and institutions and other industrial buyers. Manufacturing industries, with purchases of $42.1 billion, were the largest buyers of industrial goods. More than half of what they bought came directly from other manufacturers. Other industrial buyers supplied nearly half their needs with purchases from manufacturers. The importance of the middleman even in this field, however, is evident from the fact that nearly $23 billion worth of industrial goods, or more than 40 per cent of the total of $54.7 billion, was distributed through intermediary dealers.

The wide variation in the channels followed by different kinds of goods entering the industrial market is evident from the table. A large proportion of iron and steel products—the most important single class of industrial goods, with sales of $7.7 billion—went directly from producers to buyers; while the almost equally large volume of food and farm products reached the industrial market chiefly through intermediary channels. Intermediary dealers also play an important—though not dominant—role in the distribution of iron and steel, textiles, machinery, paper, coal and coke, and leather products. Transportation equipment, forest products, printing and publishing, and petroleum products, on the other hand, are distributed to an overwhelming extent directly from producers to the industrial users.

There are several intermediaries in an industrial supply channel from the mill to the product producer (original equipment manufacturer, OEM) that may hold title or process the material, or both. Traditionally, wholesalers and importers hold inventories of different items while OEMs, component suppliers or contract manufacturers do the processing. Steel service centers (SSCs) are relative newcomers that combine the stockholding and processing activities. The tremendous growth of the international SSC industry during the late nineteen hundreds

has coincided with several structural changes in most steel-using industries.

The research problem of this thesis is the transformation of the logistic roles of the operators excluding, however, some service providers such as transport companies, carriers, forwarders and consultants, as they do not own, stock or process the products. Empirical analysis is guided by the choice of a theoretical framework consisting of three models.

The first is the Distribution Service model of Shapiro and Heskett that relates the extent of stockholding to the speed of delivery.

The second model of Production Capabilities is by Hayes and Wheelwright, and it provides normative advice on the matching of the desired product-mix with the required automation in processing facilities.

The third model considers the physical characteristics of products as potential determinants of the appropriate type of intermediation. In the case of bulky products such as steel and paper, one would expect the logistics capabilities of operators to affect the choice operational units and intermediary roles of companies despite the different forms of financing, customer relationships or vertical integration. To that end, a framework for classifying the intermediate products in terms of size, weight and design complexity was developed here to trace the footsteps of logistic operations.
The objective is to analyze the logistic capabilities in terms of distribution services and manufacturing processes of the operators in any industry, and to determine the evolution of the logistic roles of the operators in steel distribution with special focus on the Finnish market. For comparison, some general trends are proposed from literature for finding the direction of evolution. These trends point towards higher levels of service, investment in automated processing, and more complicated designs of products.

A historical review of the steel markets in several countries is then used to elaborate the logistics roles that the different operators have taken on during the transformation of markets and distribution channels.
The evidence for these trends is sought in steel distribution in the US and Europe. The findings indicate that transformation from ordinary stockholding to value-added processing and specialization in local and international steel distribution has taken place. The differentiation of the logistics roles has created a competitive market of regional, multi-location SSCs with a full-line availability and versatile processing service and stockists each specialized on a narrow range of product lines.
Finally, the evolution of Finnish steel distribution is described from a historical perspective with three periods determined by the business environment of imports, domestic production, and open markets. The steel industry in Finland has followed, by and large, the international trends with the exception of lesser role of independent steel service centers and considerable time lag.

The key roles for coordination have changed from entrepreneurial importer or trading house to producers closely associated with the steel mills, balanced by consolidation of stockists and steel service centers. Eventually vertical integration and international trade have dominated the operations especially in Scandinavia. The applicability of the framework was explored also in the cases of paper and sawn goods industries resulting in satisfactory results concerning the identification and separation of the roles of operators in heavy logistics.
To conclude, the framework used in the thesis proves applicable for the analysis of logistic operations and corporate roles in distribution.

The diffusion of the roles of intermediary companies from the early days of industry seems to reflect the type of integrative strategy fashionable at that time rather than too low a resolution of the matrices. Especially the new model of Product Characteristics succeeds in separating the roles of most operators in any industry whereas the models of Distribution Services and Processing Capabilities run into difficulties in proper estimation of channels dealing with assembled goods and pure stocking operations, respectively.

The recent development in steel industry does indicate that suppliers and service centers are differentiating and expanding their logistic roles further, thereby narrowing down the domain of mills and OEMs within the distribution channel. Hence, it remains an intriguing question for the managers and scholars alike whether the results that synthesize the history of heavy logistics also illustrate the basic principles of networking for modern supply chain management.

Critical Functions and Weaknesses

A manufacturer should really ask this question prior to developing marketing strat-egy, but not before pondering several other equally significant questions. First, the manufacturer should ask what marketing functions, such as quick delivery or excep-tional service, will be critically important to the success of the marketing strategy.

Such functions require special attention to achieve superb performance. Second, which of these functions involves a weakness in the firm either in the form of scar-city (e.g., financial resources, manpower, expertise, or time) or opportunity trade offs (i.e., would assets be better utilized elsewhere)? Finally, if such weakness exists, can these critical functions be performed efficiently and cost effectively by an outside agency?

If manufacturer views distributors in this context, the probability is greater that any decision made will be more realistic, objective, and unbiased distributors will be evaluated for what they can contribute, not for what they cost. They will be seen as valuable partners in a joint marketing venture instead of opportunities profiting from the efforts of the manufacturer. All this assumes that they do indeed have something to contribute.

Customer Expectations

Both formal academic research and less formal industry surveys indicate that indus-trial buyers are very concerned with the "nuts and bolts" of marketing-customer service. In fact, Perreault and Russ have concluded that industrial buyers consist-ently rate distribution service second only to' product quality as a factor influencing their buying decision.

To discover why industrial firms choose particular distributors, Electronic Buyers' *News* ran replicate surveys of their readership (1980 and 1981). Where responses could have multiple implications, we have listed them under two categories. The replies are consistent with other research findings. Buyers are clearly more concerned with service than with price, and they gauge the quality of service by prompt and accurate communications

coupled with adequate inventories. They also do not expect distributors to be the primary source of technical assistance. A manufacturer's sales force plays this role.

In times of excess supply, customers usually experience little difficulty in get-ting timely shipment of products. However, they do run across some distributors who cut back on inventory levels or sell at uncompetitive prices in an attempt to shore up eroding profits. Overall, though, the idea of local service provided consistently and dependably, remained the primary reason that buyers did business with L particular distributor.

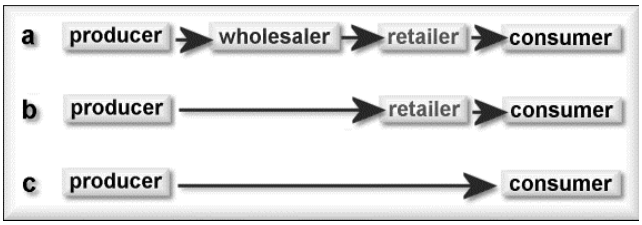
Distributors Are True Middlemen

Manufacturers and industry observers primarily as customer agents often perceive distributors. Thus, manufacturers fear that distributors will lack the commitment to carry out critical marketing tasks. Table 11-2 lists the more significant distributor functions. We can analyze these functions as though they were two sided coins. One side benefits the seller (product manufacturer), while the other side benefits the buyer (product user). Thus, each time a distributor serves a customer well the cause of the product manufacturer is served equally well.

Successful distributors may indeed appear to be customer oriented because of their emphasis on service. They, too, read the results of industry surveys and act accordingly. However, distributors are only as strong as the product lines they carry. They neither create nor produce these products. Desirable franchises are essential to a distributor's success. Therefore, only a naive middleman would ignore the necessity to satisfy suppliers as well as customers.

Manufacturers who view distributors as being overly customer oriented usually fall into one of two categories. Either their product lines have failed to generate a desired level of interest in the marketplace, or their own commitment to customer service is less than optimal.

Within the marketing mix, **Place** is the title given to all aspects of the approach taken to **distributing products** into the market, so that customers can purchase them. Dependent on the structure of the **market**, there are a number of different methods of distribution, which are referred to as **channels of distribution**.



Within each **channel of distribution** there are a differing number of **channel intermediaries**, namely **wholesalers** and **retailers**, which stand between the producer and the consumer. The number of intermediaries in any particular channel is referred to as **length** of the **channel**.

Distribution Options

a : Indirect - marketing channel : Producer, Wholesaler, Retailer, Consumer This traditional channel of distribution has two **intermediaries**, the **wholesaler** and the **retailer**. Often used by manufacturers of food, drugs, and hardware, the Wholesaler purchases the product in large bulk quantities from the producer, and then breaks theses bulk purchases down into smaller quantities, which are then sold onto retailers, who then sell them to the consumer, often individually.The advantage for the producer in using this traditional channel of distribution is that they can sell all their product to one, or more normally a small number of wholesalers, who have formed a close working relationship with networks of retailers across the UK and overseas.In return for taking on the task of distributing the product to retailers across the UK and overseas, Wholesaler will add their profit margin to the cost of the product, before it is purchased by the retailer.Small retailers, who would not be able to purchase in large enough quantities to justify purchasing directly from the producer, can still acquire the product from the wholesaler, in smaller amounts. In addition the wholesaler will offer a number of incentives to retailers to purchase product through them, including credit, special delivery arrangements, alongside advice and choice in terms of offering product from a number of competing producers under one roof.

b : Indirect - marketing channel : Producer, Retailer, Consumer Producers of televisions, furniture, and major appliances, tend to sell their product to large retailers such as Marks & Spencer and Dixons. Able to buy in the large quantities preferred by the producer, the major retailers organise their own distribution of the product to their retail outlets. By purchasing in large quantities they are able to negotiate discounts for the producer, which more than cover the costs of providing their own distribution network.Producers are attracted to larger not only for their capacity to purchase in bulk, but also for the large share they have of the markets the producer wishes to supply.

c : Direct - marketing channel : Producer, Consumer By selling directly to the consumer, producers can potentially offer their product at prices lower than those of competitors, who supply through channel intermediaries - wholesalers and retailers. Alternatively the profits that had been shared with channel intermediaries can be retained by the producer, by selling directly to the consumer. Companies such a Dell, sell their computers by mail-order or over the Internet, rather than through large retailers such as PC World. The growth of the Internet, and online purchasing has provided many producers, who where previously reliant on securing deals with the large retailers, or wholesalers, with the ability to sell direct to the consumer.

The choice of a distribution channel will be influenced by a number of factors:

- **The type of product.** Perishable, fragile or extremely large products that are difficult to transport are more likely to be distributed direct to avoid incurring additional costs.
- **The structure and geography of the Market** Scattered or difficult to reach markets usually require the services of established wholesalers who will have the facilities and expertise to deal effectively and efficiently with these types of market.
- **The complexity of the product.** Technically complex products which require expert advice and after sales service, are more efficiently distributed either directly from the producer to consumer, or through expert retailers. The same will apply to individually tailored products or services,

which require a high level of communication between the producer and consumer prior to production.

- **The quantity and price of a product** Producers who rely on selling large quantities of a product at low prices, will look to reduce their overheads in terms of storage, and distribution of the product into the market, by selling to wholesalers.

Notes -

Notes -

LESSON 25:
CHANNEL FUNCTIONS & DUAL CHANNELS

Learning Outcomes

- **Dual channel strategies**
- **Direct vs. indirect distribution**

Dual Channel Strategies in Industrial Marketing

The majority of manufacturers serving industrial customers utilize both direct and in-direct channels of distribution, or stated another way, they sell though a company -employed sales force as well as through industrial distributors and manufacturers' representatives. As with any generalized statement, this one has some exceptions. For example, some firms use manufacturers' reps exclusively rather than their own sales force for reasons we discuss later.

So that we may analyze the quantitative aspects of this dual-channel strategy, we have selected seven industry segments with associated data from their wholesale sales volumes for 1972, 1977, 1982, and 1987, and their 5-year growth rates over this time span. These data will serve as background information for "our analysis. As a benchmark for comparison, wholesale trade for all durable goods (SIC 50) excluding automobiles (SIC 5012) grew at an annual rate of 6.1 percent from 1982 to 1987. This figure would roughly approximate the growth of the industrial market.

They include both "smokestack" and high-tech industries

They cover capital equipment as well as component parts.

They have experienced considerably different growth rates.

Most sales are made to industrial customers.

Regarding the fourth reason, there are various other industry segments wherein a portion of the wholesale trade volume involves industrial customers (com-mercial enterprises, government agencies, and institutions), but most of the total volume goes through the wholesaler-retailer channel to consumers. This is true, for example, of motor vehicles (SIC Code 5012), furniture (5021), electrical appliances (5064), and hardware (5072). Including such segments, then, would bias the picture in favor of indirect distribution since the bulk of consumer directed products flow in this manner.

Indirect Versus Direct Distribution

Researchers regularly conclude that distributors are more readily acceptable to both suppliers and customers when (1) the product is relatively simple and inexpensive, (2) the customer's total buying potential is modest, and (3) the overall market is made up of many customers geographically dispersed.

Smokestack industries (basic metals, industrial supplies) presumably involve products of less technical complexity than high-tech products such as monolithic memories and micro-processors (included in electronics) and computers (formerly part of SIC 5081, now listed separately as SIC 5045). Hence there would be greater use of distributors in selling these simpler products

However, capital equipment involves a much higher average price than do components or supplies, and purchases are made less frequently, two conditions that usually suggest managerial decision making and direct-channel selling. This suggests that manufacturers of construction/mining and other costly equipment are more likely to use direct selling than are producers of industrial supplies.

The occasion of an industry slump (such as experienced during 1982-87 in most industries, particularly SIC codes 5084 and 5085) can also affect the involve-ment of middlemen in both directions. On one hand, manufacturers will try to re-duce overhead by eliminating the fixed expense of a sales force in favor of the con-stant and predictable cost-to-sales ratio of indirect distribution. On the other hand, the critical need to increase market share can convince many manufacturers that they require the greater control and commitment of direct sales.

Actual Market Circumstances

The industries have as many differences as commonalities; neverthe-less, distributors' share of the trade has at least remained steady in all industries and increased notably in some. Even the ten-year decline in SIC 5065 was reversed. Two market conditions during the 1982-87-time period probably contributed to this result. First, a slower market growth threatened sales revenues and prompted manu-facturers to reach as broad a customer base as possible. Simultaneously, severe price competition caused lower profit margins and necessitated cost reductions wherever possible, including in sales expenses. Many manufacturers saw distributors as a logi-cal solution to this two-pronged problem.

It is interesting to compare the electronics industry (5063) with industrial sup-plies (5085), Both industries had fairly constant channel percentages from 1972 to 1982 and then exhibited significant increases in distributor shares. This phenomenon is certainly not the result of industry similarities. Electronics underwent a series of major technological changes during this period, while the supplies industry re-mained relatively constant and unsophisticated. Moreover, the growth in electronics was double the industrial average; the supplies industry stagnated.

The industrial supplies data present a "textbook" story. Distributors theoreti-cally gain their greatest importance in a slow-growth, mature market for unsophisti-cated products. However, the electronics data clearly indicate that distributors are not discarded solely on the basis of product complexity, technological change, or market growth. This fact is further supported by SIC 5051, which was dominated by computers and peripheral hardware, software, photocopy and microfilm equip-ment. In this composite industry, the distributor share actually increased as products became more complex. It is reasonable to assume, however, that the lower absolute distributor share in both 5065 and 5045, compared to other industries, correlates to greater product complexity and changing technology.

Thus, market data substantiates theory regarding (I) less use of direct sales given product simplicity and (2) increased use of distributors in mature markets. However, the data for SIC 5082 opposes the theory that the largest portion of equipment with higher price tags is sold directly. Moreover, distributors can and do play a significant role in the sale of complex, evolving technologies.

Notes -

LESSON 26:
CHOOSING THE RIGHT DISTRIBUTOR

Learning Objectives

- **Why a particular distributor is chosen?**
- **Product Line Coverage**

Choosing The Right Distributor

When a manufacturer decides to utilize independent distributors, this initial decision prompts several other choices regarding the potential relationship. The manufac-turer must also decide

(1) what marketing functions will be assigned to or shared with distributors;

(2) what portion of the product line will be sold through this channel;

(3) what size and type of distributor should be chosen;

(4) should exclusive or multiple distribution be used;

(5) how should the selling function be divided be-tween distributors and the company sales force; and

(6) what policies must be spelled out to ensure an effective, profitable, mutually satisfying relationship.

Assigning Marketing Functions

Almost invariably a distributor will be expected to carry local inventory sufficient to serve the market. In addition, the manufacturer will often divide existing and potential customers into two broad categories: those that will be sold directly via the company sales force, except for emergency shipments that the distributor will make, and those that will be served almost entirely by the distributor, except for occasional technical support provided by the manufacturer.

As one might expect, customers that are handled directly tend to be larger, and fewer in number. In effect, most manufacturers "high spot" target markets with their direct sales force. The remaining accounts are assigned to the distributo-r or perhaps allocated, if more than one distributor is franchised in a given geographic market. This latter approach can become rather sticky, since a manufacturer cannot -legally restrain a distributor from selling to any customer.

Along with inventory and sales responsibilities, the distributor will be expected to assume credit liability for those customers who buy through distribution. This often relieves the manufacturer of a problem disproportionate to the sales volume involved. While one cannot make a sweeping generalization, there is normally a -greater likelihood of assuming bad credit risks when dealing primarily with small firms.

Other responsibilities, such as repairs, in-warranty service, local advertising trade show participation, and new product sampling may also be assigned to distributors, but these tend to be quite product specific. Inventory maintenance, selling and credit risk assumption are universal.

If I get the product **right**,
getting the best **distributor** will be easy

The **right** product is gives you a ticket to play

Research how end-users behave – which model of distribution offers the closest fit.

Choose distributors – don't let them choose you

Look for distributors capable of developing markets rather than those with a few obvious customer contacts..they represent the market status quo

Often the most eager **distributor** is the one you don't want. They may just want to control the category

Confirm the level of commitment & resources for your product

Select local partners – not temporary market entry vehicles

2nd

myth of distribution

If I get the product **right**,
getting the best **distributor** will be easy

Sharing of product development

Best in non-competing markets

One-way technology transfer

Fast

No equity risk

Non-equity alliances

Protection of IP

Dependence

Lack of market experience

Fast & low investment

Licensing

Accurate estimate of significant sales volume

Investment

Control & possible higher return

Direct export

Agent with strong contacts & skills

Can't gain market experience

Lowest risk

Indirect export

Success factors

Costs

Benefits

Strategy

2nd
myth of distribution

If I get the product **right**,
getting the best **distributor** will be easy

Often used successfully as a second step

Highest risk & capital outlay

Undiluted brand building

Total control

Wholly-owned start Ups

Successful integration

High capital outlay

Culture & integration problems

Critical mass

Control

Acquisitions

Protect core competencies

Limit markets covered

Co-ordination costs & problems

Deskilling one partner

Economies of scale & scope

Value chain synergy

Joint ventures

Success factors

Costs

Benefits

Strategy

Source: Francoise, Simon "Global Market Entry Strategy" 1999 SDC Group Inc

3rd
myth of distribution

If I get distribution **right**,
getting sales will be easy

It never is!

Where possible build and invest in your own brand equity

Support market entry with money, people & ideas

Maintain influence/control over **marketing** strategy

Maintain detailed market and financial performance data

Form links among national distributors

Be involved

3
triumphs of distribution

Product Line Coverage

Fragmented Channels. Manufacturers will sometimes decide to fragment the chan-neling of their overall product line. They usually reach this decision on the premise that portions of the product line are aimed at different market segments and, hence require different distributor groups. For example, Texas Instruments markets semi-conductor devices through electronic parts distributors who deal primarily with original equipment manufacturing (OEM) customers. However, to market calculators effectively, TI franchises distributors who deal primarily with retailers.

As a general rule, though, marketers are wise to minimize the fragmentation of their product lines. Within the bounds of practical application, customers will more likely use the comple-mentary products of a manufacturer (products that are demanded jointly) when these products are available from a single source.

Specialized Products. The major exception to the sourcing of a complete product -line through distributors is custom-designed or single-customer products. The aver-age distributor lacks the technical competence to negotiate complex specification with industrial users. Thus, it is better for the marketer to handle these matters directly. Moreover, customer-engineering departments have a habit of redesign special products from time to time, which can leave the distributor with a useless inventory of expensive parts that no one wants, including the manufacturer. There-fore, it usually makes for better control, communication, and relationships to sell specialized products direct.

Distributor size

Some manufacturers are unaware that this topic represents a major decision; others make the decision, but traumatically and subjectively. If all distributors were indeed the stereotypical $1 to 2 million, ten-employee, single-location type of operation, this decision would be relatively simple.

Top 350 distributors are, on average, $158 million organiza-tions, each employing over 400 people and operating from 15 stocking locations-each of which generates almost $11 million in sales.

This combined volume and cost-effectiveness suggests several associated points. First, these firms can afford to carry a larger and more complete inventory for better customer service. Second, with lower selling costs, they can either generate higher profits to support complementary services or pursue increased sales with more aggressive pricing. In addition, given their size and relative success in their marketplace, they can regularly attract franchises for those product lines most in demand by industrial users.

These strengths, however, are a mixed blessing to any marketer seeking to establish a distribution channel or improve upon an existing one-particularly if the manufacturer's product line commands only a weak market share. While the distributor's strengths, if conscientiously applied, could undoubtedly help to in-crease that market share, the manufacturer must question whether these strengths will indeed be applied to a secondary line, and if applied, who will have control of channel strategy.

Manufacturers do have the alternative, of course, to select one or more of the many small distributors. Perhaps such firms will, through solid effort, commitment, and enthusiasm, produce outstanding results. Moreover, manufacturers are more likely to retain strategic control. 6 There might also be greater compatibility between two smaller firms trying to battle the industry giants together. While this begins to sound like a most promising scenario, there remains the unfortunate possibility that these smaller firms can also fail together, lacking the strength to offset or compen-sate for each other's weaknesses. As was suggested earlier, the choice of distributors can be a very traumatic experience.

Distributor Type

Even though all distributors perform the same primary functions (carrying inven-tory, selling, and providing credit), the relative importance and effort they assign to each will vary. There is also notable variation in the types of customers pursued, the emphasis placed on price, the number of product lines carried, and the relative amount of time spent on creative versus

maintenance selling. Thus, manufacturers must choose not only the distributor's size (assuming options are available), but also the type of business being conducted.

This latter choice harks back to the basic questions that marketers must answer before establishing a channel strategy, namely: "What marketing functions are criti-cal to the success of strategy?" and "Which of these functions can best be performed by an outside agency?" Obviously, if a marketer sacrifices some degree of control by shifting responsibilities outside the firm, there should be reasonable assurance that the contracted functions will be well performed. And, since their specific strengths and areas of concentration can categorize distributors, there is no reason to make this choice a coin-tossing exercise.

Why a Particular Distributor Is Chosen.
In 1979 the American Supply and Ma-chinery Manufacturers' Association (ASMMA) hired a research firm to determine the answers to several important questions:8 (1) Which type of distributor is most effective in selling a product line? (2) What amount and type of market coverage do they provide? (3) What sales and inventory support can manufacturers realisti-cally expect from distributors?

Notes -

LESSON 27:
DISTRIBUTION & MANUFACTURERS' REPRESENTATIVES

Learning Objectives

- **Representatives' comparison with distributors**
- **Expectations from a Representative**

Manufacturers' Representatives

Reps Compared to Distributors. Manufacturers' reps share relatively few charac-teristics with distributors. Both distributors and reps are independent entrepreneurs, and both are primarily selling organizations. Beyond these factors, however, differ-ences abound. Distributors buy and stock inventory, which they resell at prices of their own choosing. Reps, as sales agents, do not buy the products they sell, rarely carry inventory, and sell at prices dictated by the manufacturer. Distributors, as previously mentioned, also regularly sell competing products, whereas reps will han-dle complementary products, but not competing lines. And, although both empha-size the selling function, reps are more likely to develop new markets and applica-tions through a combination of persuasive selling skills and technical compe-tence. Part of this technical competency stems from the fact that reps usually handle only five to eight product lines that they learn fairly well. Distributors, however, handling 50 to 100 different product lines, cannot be expected to provide a customer with much more than catalog information. Finally, a product manufacturer will fre-quently use more than one distributor in a geographic market. Reps, with rare ex-ception, operate under an exclusive franchise in their assigned territory.

Although reps are usually described as an indirect marketing channel, this des-ignation can be misleading. Distributors are indeed an indirect channel, because they purchase products made by a manufacturer and resell these products to various customers. The products do not flow directly from maker to user. That same manu-facturer may sell part of its output directly to other customers. Company-employed sales person-nel, independent reps, or a combination of both may handle customer contacts, negotiations, and follow-ups. In this context, reps are not really an indirect channel, but a substitute or alternative for a direct sales force. What is important do distributors and reps, not their semantic definitions, perform an understanding of the marketing roles.

What to Expect from a Rep

Reps have been described as the purest form of sales practitio-ner. Indeed, operating as they do with no assets other than personal skills, rewarded on straight commis-sion (no sales, no income), and subject to the whims of both suppliers and cus-tomers, they are certainly not lacking in self-confidence and motivation. In addi-tion, given any reasonable success, a rep also evidences product and marker knowledge, customer acceptance, and the ability to compete. In short, the rep would appear to offer all the traits that a corporate sales manager seeks in employ-ees, but cannot always find or afford.

As one might expect, firms are likely to opt for reps instead of a company sales; force when experiencing some sort of financial constraint, such as limited resource, disappointing cost/sales ratios, or a declining market potential. Since reps are paid on a straight commission basis, the marketer will not face fixed personnel expense -without sales, and once sales start to flow, the cost/sales ratio will be predictable and fixed at the commis-sion rate.

Even though start-up firms might have the financial ability to hire and support their own sales force, they can still benefit from a rep organization's established market presence and customer rapport. In addition, the complementarily of the rep's other lines often serves as an indirect door-opener for the new line, an advantage the manufacturer would not have selling directly. Finally, an established rep firm will provide a level of experience, professionalism, and cohesiveness that manufacturer would have difficulty matching with new sales force hires. These factors will prompt many firms to begin their sales efforts with reps, even though they intend to hire a sales force eventually.

Potential Problems in Dealing Through Reps

Lack of Control. A reason frequently given by manufacturers who do not -reps, and a common complaint by those who do, is the lack of control over reps activities. Neither group perceives open rebellion, but it is a fact that independent entrepreneurs are not as easy *to* direct and control as company employees. Some manufacturers go a step further and state that reps are also more difficult to motivate

Not all manufacturers, however, lay blame for these problems completely the feet of their reps. As one firm, which has been quite successful in selling through- reps, expressed its feelings, "Too many of us expect the rep to do all the work in return for his commission." 15 This spokesperson could well have been thinking that manufacturers often expect more from reps than they would from their own sales force.

For example, reps often complain about being loaded down with excessive missionary sales, market research, credit and collection problems, and similar tasks that subtract from their productive selling time and do not generate commissions. Yet, if the offending firm had a company sales force, one of the primary concerns would be keeping sales people free of tasks that do not produce sales. For instance, product managers would perform the preliminary missionary work and market re-search (perhaps aided by a research department or outside agency), a credit depart-ment would worry about delinquent payments, and customer service people would take care of routine paperwork and follow-up. Moreover, the rep's sales skills and customer contacts will not substitute for desirable products, competitive prices, and effective advertising. Without these prerequisite tools, the world's greatest salesper-son will be ineffective.

Competing Product Lines. Marketers must also remember that they face competi-tion at two levels when selling through

reps.16 Not only do they face competition from other manufacturers' product lines, they also face the competition of other firms selling products through the same reps. In this instance, they are competing for time and attention. Theoretically, a rep with five complementary product lines might spend 20 percent of his or her effort on each line.. In reality, this situation rarely occurs. As any logical and goal-oriented individual does, the rep allocates time and effort in proportion to results obtained. As one firm becomes responsible for art increasing share of the rep's sales, it will place greater demands on the rep for time and attention, and the rep finds it very tempting to oblige. Thus, products, prices, promotion, and supportive services are essential not only to attract cus-tomers, but also to motivate reps that sell to those customers.

Franchise Agreements for Reps

Many of the comments made earlier regarding distributor franchise agreements apply equally to rep agreements. Since the functions of a rep and a distributor differ, however, the agreements will emphasize different operational details. For example, since the rep is acting as the duly authorized sales agent of the manufacturer, the laws of agency apply. Therefore, if for no other purpose, the manufacturer would want an agreement that clearly spells out the range and limitations of the rep's dele-gated authority. But, in addition to legal consider-ations, the critical need to spell out shared or mutual responsibilities as well as individual rights and protections exists.

PARTICIPATION OF REPS IN THE INDUSTRIAL MARKET

In 1984, an estimated 45,000 to 50,000 U.S. manufacturers, plus some unknown number of foreign suppliers, were selling through reps." And a 1982 survey the number of reps being utilized at approximately the same level. 18 About 60 percent of those reps, or 30,000, operated in the industrial market.

Not unlike distributors, reps are often stereotypically defined, especially as to how and where they function. They are usually pictured as handling the products of smaller manufacturers, or serving larger manufacturers only in secondary markets. Their tenure with the smaller manufacturer is described as short and tenuous for as the business increases; the manufacturer will "grow out of" the relationship and hire its own sales force.

Large Manufacturers Also Use Reps.

When viewed as generalized comments these descriptive observations of reps are reasonably accurate. However, not all firms using reps are small. Manufacturers like National Semi-conductor, ITT concerning, Monsanto, Teledyne, and Mobil Oil are included. Nor are the relationships always short. National Semiconductor began using reps in the early 1960s when the firm's total sales were less than $50 million. It continues this practice in the 1980s even though it has become a billion-dollar manufacturer.

A review of Table 11-4 might help to put the rep's participation into perspective. In these seven selected industries, reps are responsible for about 10 percent of total industry sales, and this percentage has been relatively constant since 1972.We can see, however, that the participation level varies considerably among industries. Although no known research has been published to explain why this variability exists, one can make conjectures as to plausible reasons.

In the electronics industry (SIC 5065), rep participation is the highest. This could be the result of many small, specialized U.S. manufacturers (plus an increas-ing number of foreign suppli-ers) competing for market share. These firms lack the financial resources, market acceptance, or breadth of line to support their own sales force. On the other hand, the computer/software industry (SIC 5045) and the construction/mining industry (SIC 5082) are dominated by large firms that employ their own sales personnel. These groups include firms such as IBM, Xerox, Hewlett Packard, Caterpillar, and Tenneco. Perhaps two points would best summarize the situation:

(1) those firms that represent the bulk of industrial wholesale trade dollars have opted to use their own sales force rather than reps, but

(2) indirect sales combined total of distributors and reps, is the dominant industrial channel.

There's a lot of misunderstanding among retailers concerning independent manufacturers' representatives. Some dealers see them as akin to distributors, and this isn't completely wrong. Others see them as an adjunct to company salesmen, and this isn't entirely incorrect, either.

Larry Tucker is the principal owner of Tucker & Associates, a rep group in Orem, Utah. He says the roles of the distributor and manufacturer's rep sometimes overlap.

"In many cases, the manufacturer's representative sells to the wholesaler or the distributor," Tucker said. "In that case, the wholesaler or distributor is an extension of the manufacturer's representative."

In other cases, however, manufacturers' reps work directly with retailers.

"Some manufacturers don't sell through distributors," Tucker said. "They sell directly to the dealers, so they bypass the distributor."

In most cases, working with a manufacturer's representative is the only way you'll have access to those products. The manufacturer's rep also plays a major role in promotions and other programs.

"Along with the manufacturer, we set the programs for the wholesaler," Tucker said. "We know the promotions that are going on for the dealer, and we update the dealer on new items. We go to the dealer and demonstrate how things work, and present new items. Then the dealer buys it out of the wholesaler's warehouse."

Or in the case of a manufacturer who doesn't work with distributors, the dealer would place an order directly with the rep.

Another way to look at the difference is in terms of inventory. The distributor keeps inventory; the manufacturer's rep doesn't. The manufacturer's rep takes orders for companies who don't work with distributors, or sends the retailer to the right distributor for companies that do.

At the SHOT Show this year, one of the information sessions addressed the issue of independent representatives. A panel of professionals gave suggestions and tips for working with independent reps.

Bill Cullerton Jr., of Cullerton Co., Chicago, opened the discussion with an explanation of how an independent manufacturer's representative operates.

"You have to be a sales professional to be in this business," he said. "In essence we feel that our first responsibility is to represent the factory, and its marketing principles and desires, to the customer. But we need to reverse that role with just as much passion when we need to represent our customer to the factory.

"We're kind of like the common ground where both the factory and the customer can sit and have an intelligent conversation. They might not agree, but sometimes we can facilitate sensitive conversations involved in getting business done. So we represent both sides on an equal basis, and try to do that with a lot of ethics."

Cullerton defines "customers" as retailers and distributors who purchase the products of the companies he represents.

Beyond that, Cullerton said, the role of the independent rep has very much broadened over the past few years.

"As factories have constricted their sales force, many of them don't have as strong a marketing area as they did at one time," he said. "More and more, we play a real marketing role in setting prices, coming up with new product ideas, packaging, and discussing competitive issues. We do the same for our customers. Not only do we present programs to our customers, but we also need to have an in-depth knowledge of everything they carry, who their competitors are, and what their corporate objectives are. Then we take our lines and fit them into their plans."

If the rep sees problems with the plans of a customer, Cullerton said, then the rep has the responsibility to help the customer see how to use certain products to his or her advantage.

"So it's really developed into a full-service situation," he said. "To be a rep today, you really have to live with it every single day."

Trip Banks, with Banks Inc. of Lake Forest, Ill., addressed finding and working with a manufacturer's representative. These principles apply equally whether you're a manufacturer, a distributor, or a retailer.

"If you just go out and begin interviewing, you're doing yourself a real disservice," Banks said. "You need to first identify what it is that you're looking for. You need to identify the nuances of your business and the personality of the rep group that you're looking for. Sit down and make a list of just what it is that you want."

Banks suggested several areas that you should look at as you're considering rep groups. First, he said, is communication.

"Some people prefer to just have one contact," he said. Or, you may prefer to have regular input from a number of people in the rep group.

"Either way is fine," Banks said. "You just need to consider which you prefer, and how that relates to how the particular rep group operates and what they can provide for you."

Then there's product mix. You need to consider what you have in your store, what you want and what the particular rep group handles.

"Very few products any more fall into just one category," Banks said. "Outdoor reps in general get into a lot of different categories." You need to decide if you want to work with several different reps for different categories of products, or find one who handles most or all of them.

Then there's product pricing. Some rep groups handle only big-ticket items. Others work with smaller products.

"The small ticket items require a lot of detail, and reps do a lot of work," Banks said. "Some reps prefer not to be involved in the details like that." Look for a rep group that handles the size products you carry.

Also consider customer base.

"At one time, reps went up and down the road and called on everyone," Banks said. "That's not the case any more." Rep groups work with different kinds of retailers, from specialty stores to large chains. You need to find one that works with the kind of retail establishment you have.

Other Questions to Ask:

- Do you want to communicate through e-mail?
- Do you want access to a pro staff, including demonstration or pro shooters?
- How much in-store sales and other training does the rep group provide?
- Do the reps work on laptops in the field, or are they still paper-and-pen? How does this interface with your level of computerization?
- What rep groups do other retailers, who are similar to you, use?

Notes -

LESSON 28:
PURCHASING PRACTICES OF INDUSTRIAL CUSTOMERS IN INDIAN CONTEXT

For effective industrial marketing, it is important to understand the purchasing practices adopted by various industrial customers.

Commercial Enterprises

Purchasing depends on the nature of business, the size of the buyer organization, volume, variety and technical complexities of the product purchased. Many people influence the purchase decisions. Various techniques such as material planning, supplier rating system, economic order quantity, value analysis, and so on are used by buyer organizations. The major tasks involved are identifying potential suppliers, negotiating and selecting suppliers, ensuring right quality and quantity of material at the right time and a long-term business relationship with the suppliers.

Government Units

The Government is the largest buyer of industrial goods and services. They buy a variety of products for railways, space research, electricity boards, defense, and so on. The director general of supplies and disposal (DGS & D) is an agency, which finalizes running contracts for various standard products on behalf of the Government. The usual procedure followed is given below.

The first step is to get the name of the company and products registered with the Government Units. Inspection of the company's manufacturing facilities is carried out and based on the report from the Government Inspector; the company is registered as an approved supplier for those products. For standard products and services, tender notices are advertised in national newspapers, based on which suppliers procure tender papers from the specified Government authority after paying a small amount of tender fees. The suppliers are then required to submit tender offers in sealed envelopes, duly signed by the signing authority within certain specified time and date. After the tender offers are received, the sealed covers are opened at the specified date and time in the presence of the representatives of the suppliers and then prices; delivery and other relevant terms are read out for the benefit of those attending the "Tender Opening". Based on the lowest prices or lowest landed costs (i.e. after adding to the basic price, excise duty, freight, sales tax, octroi charges), the orders are released to the lowest bidder subject to technical specifications, delivery period, and payment terms being the same as per tender enquiry.

Institutional Buying

Institutional buyers are either the Government or private organizations. If it is a Government Hospital or college, it normally follows the Government purchase procedures. However, in cases of privately owned 'educational or other types of institutions, the purchase procedures are similar to those followed by the commercial enterprises.

Reseller's Market

Reseller market (also called Replacement Market) consists of industrial dealers/distributors whose main goals are profits and sales volume. Hence, they select a supplier based not only on the product quality but also on the policies of the supplier's product. The reseller has to ultimately abide by the policies of the supplier. If a reseller does not make a profit over a period of time from the product or services of a manufacturer/supplier, he would most probably change the supplier because the main goal of profitability is not achieved.

Distribution Channels

While products of general nature, such as raw material and stores can find their way to the customer through the intermediaries, such as wholesaler and retail distributor, for majority of the components and parts sold to OEM customers, the established approach is one of operating through manufacturers' agents are directly by the manufacturers themselves.

Manufacturer's Sales Branch

There are two basic types this operation. The first is the manufacturer branch, also called Branch House. The Branch House is primarily a field warehouse owned and operated by the manufacturer and placed at strategic locations for serving the firm's customers. The second type is the Branch Office, which is essentially owned and operated by manufacturer as a field sales office. Branch offices carry no inventory, but are rather strategically located offices from which the company's field sales personnel operate in their respective territories. A manufacturer may select only a branch office for selling purpose, and ship directly from the factory, thus performing no inventory function in the field and therefore requiring no Branch House. Yet, in other instances, . a manufacturer may use only the Branch Houses to keep inventory and use the manufacturer's representatives to perform the selling functions.

Industrial Distributor

These are technically middlemen reselling goods in the industrial market. They are normally local and independently owned and operated, take title to and possession of the goods they handle. They stock goods, thus performing a field inventory function for the manufacturer. Industrial distributors can be highly specialized or widely diversified in their products line offerings, and their sales and service capabilities.

Manufacturer's Representatives

The manufacturer's representative, also called Manufacturer's Agent, is an independent middleman but is quite different from the distributor. As such, they take no title to the goods involved and they often do not even see or handle these goods. Basically, they are independent sales people who sell on a commission basis for manufacturers, thus eliminating the need for those manufacturers to employ company sales people. The manufacturer's representative often represents a number of manufacturers whose products are complementary and not

competitive. They are compensated on a commission basis and assigned to sales territories just as company field sales people.

Organisational Characteristics Of Customer Firm

The following organizational characteristics should be taken into account while making industrial purchases

1. Size of Customer Firm
   - Purchasing - Part- time Responsibility
   - Formal Purchasing department
   - Purchasing Specialization
2. Purchasers Position
   - Line or Staff
   - Level of purchasing department
   - HQ and Operating Divisions.
3. Purchasing Policies
   - Buying Locally
   - Domestic Supplier
   - Centralized Purchasing
   - Centralized Purchasing
   - Require Bids when purchase exceed.

Difference Between Industrial And Consumer Marketing

The major factors of the industrial market that distinguish it from the consumer market are:

(a) A part of the demand for industrial goods is derived demand from Consumer goods and services.

(b) Industrial Buyers usually make purchases based on a clear-cut policy expressed on a projected cost analysis (Rational Buying Motive).

(c) Industrial Buying covers volume purchasing of Raw materials, component parts and supplies.

(d) Multiple - buying responsibility is usual in the purchase of major items of equipment.

(e) Leasing and renting of equipment is most prevalent.

(f) Prices of industrial goods fluctuate within narrower limits. Bids, quotations and contracts, evaluated in terms of projected product performance are more often the basis of purchase.

(g) The descriptions, specifications, and acceptance tests for industrial goods are usually more precise. They are subject to greater standardization as the influence of obsolescence is largely in utility.

(h) The channels of distribution for industrial goods are shorter.

(i) The industrial marketer usually reaches his prospects through the trade and business publications.

(j) Reciprocity in buying is important. Production for inventory is less wide spread. Speed and dependability of delivery are important.

(k) Longer periods of salesman training are generally required for industrial marketing.

(l) In Industrial marketing research, it is essential that well-trained technical people do the basic interview work because of the technical problems involved and technical questions, which may be asked during the interview.

(m) The packaging of industrial products is both functional and serviceable. Containers for industrial goods are often designed for return to the manufacturer and reuse for the same purpose

Notes -

LESSON 29:
MARKETING LOGISTICS: PHYSICAL DISTRIBUTION & CUSTOMER SERVICES

Learning Objectives

- Marketing Logistics in Industrial Marketing
- Relationship of Logistics & Physical Distribution

Marketing Logistics

Industrial Marketing

Industrial marketing performs a linking role between technology and human needs. Industrial firms develop and supply products, services, processes and other knowledge to support consumer goods distribution companies. In turn, consumer companies apply these technological advances to serving their own customers more effectively and efficiently. Industrial marketing encompasses both stock and specification items. In the case of stock items the seller participates in application and installation. The sale of more products/services requires working with the professionals in the buyer's organization from the design stage to product installation and operation. Given the service orientation of industrial marketing, the relationship between the industrial firm and consumer goods distributor is long-term and must be communicative. Understanding the psychology of the decision-making group at a particular company is essential in dealing with its customers, suppliers and in-company personnel. For the industrial marketer, the typical entry-level position is sales manager or territory representative. Responsibilities in these sales positions don't resemble typical door-to- door sales jobs. Instead, the industrial sales representative is an account manager who solves problems and explains technical product attributes to customers. Through this entry level position, the industrial marketer gains infinite knowledge of his/her company's products and technical abilities as well as those of his/her corporate customers. Although career progression in industrial marketing is unstructured, new developments have created a need for product managers and channel marketing managers. The product manager matches company resources with customer needs. This position requires general management skills to coordinate production capabilities with sales, finance and administrative goals. The manager also has profit and loss responsibility. The channel marketing manager specializes in distribution and sales force management. The staff marketing manager coordinates a company's warranty, price and distribution policies.

Physical Distribution and Customer Service

Regardless of the channels utilized, unless products are delivered in the right -amount, at the right time, and in proper condition, buyers will not hesitate to switch suppliers. However, suppliers must be able to furnish this service at a cost that still allows them a satisfactory profit margin. Thus, manufacturers invest substantial resources in physical distribution systems that provide a satisfying level of customer -service at an affordable cost. This chapter discusses.

1. The importance of logistics in a marketing strategy.
2. The role of physical distribution and customer service.
3. Methods used to optimize customer service levels and reach desired profit goals.
4. Difficulties involved in optimizing customer service.

Customer service is a crucial element in any marketing strategy. Industrial customers depend on consistent deliveries to maintain production flow. Shutting d own a production line due to a parts shortage results in a sizeable financial loss. Thus - as mentioned in Chapter Eleven, industrial buyers rank dependable service Second -only to product quality and more important than price when selecting suppliers

Logistical marketing activities-transportation, inventory availability, warehousing, materials handling, and order processing-can also have a significant im-pact on customer costs and operations. Poor service in any area can cause delayed or inconsistent deliveries, forcing customers to carry larger safety stocks, to develop secondary sources of supply, or to utilize another source entirely to ensure a: smooth -running, cost-effective operation.

Thus, the typical firm finds that the most effective logistical system is one that balances overall performance against total cost. Rarely will either lowest total cost or highest service performance be the best logistical strategy.

The Relationship Of Logistics And Physical Distribution

The term "logistics" originated in the military. In fact, Webster's dictionary gives the definition as "the aspect of military science dealing with the procurement, maintenance, and transportation of military materiel, facilities, and personnel." The unprecedented problems faced by Allied armed forces during World War II led to the development of distribution systems that were quite remarkable for their time. To-day, manufacturers use modern revisions to serve worldwide product markets.

In the business arena, logistics refers to the interrelation and management of all the activities involved in making products and raw materials available for manufacturing and in providing finished products to customers when, where, and how they are desired. This requires the management of two primary product flows: physical supply and physical distribution. Physical supply (also called materials management) involves all those activities necessary to make production inputs (raw materials, component parts, and supplies) available to the manufacturing process. Physical distribution encompasses those tasks necessary to deliver the completed product to customers or channel intermediaries. These flows must be -coordinated to meet delivery requirements of customers. However, while physical supply is certainly important, it is more the responsibility of production and purchasing. Thus, in this chapter, we focus on logistical

activities involved in physical distribution, which is a responsibility of marketing. It is the physical distribution side of the logistical function that interacts with the customer's physical supply system. To support the customer's manufacturing process, suppliers must develop the logistical capability to respond to their needs. Failure to provide timely inputs the production process can cost thousands of dollars in lost production.

Typical Logistical Activities

Typical Logistical Activities

Key Elements	Supporting Activities
1. Transportation a. Space determination. b. Carrier routing c. Vehicle scheduling 2. Inventory management a. Stock-level policies b. Short-term sales forecasting c. Product mix by location d. Stocking locations e. Mode and carrier selection 3. Customer Service a. Determine customer needs b. Analyze customer response to service c. Set customer service levels 4. Order processing a. Sales order-inventory interface b. Order information transmittal c. Ordering rules	1. Ware housing a. Space determination b. Warehouse configuration c. Stock layout placement 2. Materials handling a. Equipment and personal b. Order picking procedures c. Stock storage and retrieval 3. Protective packaging a. Design of handling b. Design of storage c. Design of protection 4. Production Scheduling a. Aggregate volume forecasts b. Sequence and timing of production 5. Information maintenance a. Collection and storage b. Data Analysis

Physical Distribution And Marketing Strategy

Industrial marketers can use logistics to create a competitive advantage in the mar-ketplace.3 Thanks to the computer; most organizations have become more sophisti-cated and effective in their problem-solving techniques. For example, both manufacturers and resellers have installed inventory control systems that can analyze demand trends, recalculate minimum-maximum quantity levels, and automatically issue nec-essary purchase orders or cancellations.

Faced with the necessity of reducing costs wherever possible, many businesses are lowering their holding costs by reducing inventory levels, seeking better utiliza-tion of their facilities, and becoming more efficient in materials handling. By estab-lishing an efficient physical distribution system capable of providing quick, reliable delivery, the industrial marketer can pass on substantial savings to customers and gain a competitive advantage.

The importance of physical distribution and its ultimate impact on marketing objectives, however, depends on the type of product being marketed, the needs of the customer, and the structure of the distribution channel. Where products are used as inputs in the manufacture of other end products, buyers normally face a wide range of problems, including storage, stock control, order processing, and traffic management. Thus, suppliers of component parts frequently face challenging logistical performance demands from their customers. Suppliers of heavy equipment, on the other hand, are more concerned with the problems of meeting scheduled delivery dates than with the maintenance of a finished goods inventory and, therefore, tend to have relatively low logistical service requirements.

The effectiveness of physical distribution also has a dramatic impact on the ability of distributors and resellers to serve end markets. When manufacturers' de-livery service is erratic, middlemen are forced to carry higher inventory levels or face stock outs, which can result in the loss of customers. Thus, their costs, as well as their ability to provide adequate product availability, are directly influenced by the physical distribution system

The Total-cost Approach

The objective of an efficient physical distribution system is to minimize the costs involved in storing products and moving them from the point of production to the point of purchase within a specified level of customer service. Management of logis-tical activities, then, focuses on two essential variables: (1) total distribution costs and (2) the level of service provided to customers. The logistics system must result in a combination of costs and service levels that maximize profits to the firm and to channel members. Logistical costs in industrial markets vary considerably, depending on the nature of the product and the level of service. At the manufacture -level, logistical activities may consume as much as twenty-five percent of every sales dollar.

Interactive Costs

The total-cost approach to logistics management is based on the premise that a firm should consider as a lump sum the costs of all the activities involved in physically moving and storing materials and products when it attempts to establish specific customer service levels. The costs of logistical activities intern often in an inverse manner. For instance, a policy of maintaining low inventory levels to reduce holding costs can result in stock outs and backorders, special production runs, costly airfreight shipments, or even lost customers. When logistical activities are evaluated individually on their ability to achieve a given management objective, sub optimization often occurs. The total-cost approach seeks to achieve efficiency of the entire system, not just one specific activity. Thus, all cost items should be considered simultaneously, including the cost of lost sales that may result when service levels are too low.

Evaluating Cost Trade-offs

Cost trade-offs are not limited to any specific activity. They occur among all logistical activities. For example, Xerox once had forty sales branches stocked with complete inventories of supplies, including parts and chemicals, for their copying machines. When an investigation disclosed that only twenty percent of the items were ordered regularly, the firm decided to stock only those few items locally and consolidates the remaining inventory in selected regional warehouses. It was further recommended that goods be shipped from regional warehouses to sales branches overnight via airfreight to maintain customer service m-anagement had never considered air freight as a normal transportation method because of its expense, failing to weigh that cost against the cost of maintaining multiple warehouses. Xerox is reported to have saved millions of dollars, in spite of increase transportation costs, by closing thirty-three warehouses.

Hammond Valve Company's experience, on the other hand, was just the opposite. By opening six additional warehouses, it was able to cut total order cycle time from six weeks to two days. While overall logistical costs increased, they were more than offset by additional sales revenue due to the improved customer Service level, so total profits went up. Obviously, then, each aspect and level of logistical activities must be evaluated in relation to the revenue generated from the desired customer service level.

Notes -

LESSON 30:
MARKETING CONTROL

Learning Objectives

- Logistics Subsystems
- Channel Conflicts in Industrial Marketing

Logistics and Marketing Control In India

Logistics or Physical distribution is an area of high potential cost savings, improved customer satisfaction and competitive effectiveness. When traffic managers, inventory managers and warehouse planners make decisions only with reference to their framework, they affect each other's costs but do not take them into consideration. The physical distribution concept calls for treating all these decisions within a unified total systems framework.

Logistics Subsystems

The major subsystems include

(1) warehousing

(2) inventory control

(3) materials handling

(4) order processing, and

(5) transportation. The key to integrating and coordinating these subsystems is implementation of the systems view of logistics management. The objective is to set a desired level of customer service and minimize the cost of providing it. The total-cost concept, the cost trade-off concept and the optimization concept underlie the systems

Warehousing

The warehousing subsystem seeks to develop and maintain a steady flow of products. In effect, warehousing serves as a valve to regulate the flow of products through a marketing channel.

Inventory

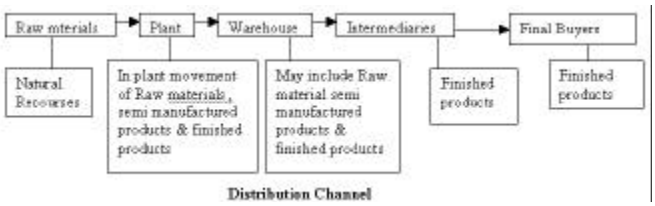
The inventory control subsystem seeks to minimize the working capital tied up in inventory while providing the specified level of consumer service. Order timing and order quantity are two major inventory control decisions. The major costs are the inventory carrying cost and the order processing cost.

Order Processing

The order processing subsystem seeks to ensure that orders are received, handled and filled accurately, reliably and speedily. Activities include order receipt, credit approval, preparation and collection of accounts receivable, etc.

Transportation

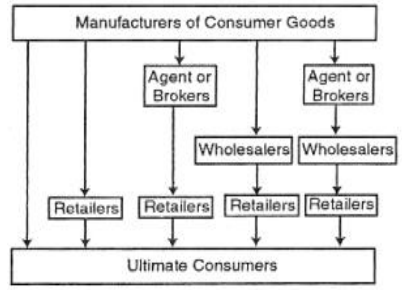
The transportation subsystem is concerned with moving products through time and space.

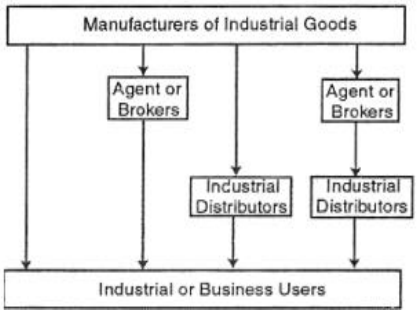


Distribution Channel

Marketing Channels

A marketing channel is the series of interdependent marketing institutions that facilitate transfer of title to a product as it moves from producer to ultimate consumer or industrial user. The title may be transferred directly, as and when the commodity is bought or sold outright, or indirectly, as and when the transaction is negotiated through a functional middleman such as an agent or broker who does not take credit to it.





Distribution Channel

Characteristics

Channels create utility, improve exchange efficiency and help match supply and demand. They bring suppliers and buyers together. Each channel system has a different potential for creating sales and producing costs. The chosen channel will significantly affect and be affected by the rest of the marketing mix. A channel's vertical dimension (length) is determined by the number of types of participants in the channel. There are no intermediaries in the most direct channel (a zero-level channel). This gives producers greater control over their products distribution. Intermediaries stand between the producers and final buyers in indirect channels. A channel's

horizontal dimension (width) is determined by the number of participants of anyone type on the same level in the channel. The situation varies considerably from one line of goods to another. Many manufacturers find it necessary to use more than one kind of channel for the same market. For example,

Automative tyres. The industry's output which is sold *for OEM*. distributed direct from tyre factories to manufacturers. Tyres replacement for cars on the road is sold mainly through retailers. Some manufacturers have different products that require separate distribution channels. Finally, some manufacturers find it feasible to use different channels in different parts of the country.

Trade Channels

The channel objectives are conditioned by the particular characteristics of customers, products, middlemen, competitors and environment. The firm has to select particular firms to work with or find business firms willing to work with it. It has to periodically evaluate the performance of individual channel members against their own past sales and other channel members' sales.

Channel Conflict

A channel is a type of social system in which each member is expected to fulfill certain roles and perform certain functions. In carrying out -their specialized roles and functions, channel members' may cooperate conflict and compete with one another. Conflicts can be functional or dysfunctional. Vertical Marketing Systems (VMS) represent a major step towards resolving dysfunctional conflict. In contrast to a traditional channel that focuses mainly on the independence of channel members a VMS focuses on their interdependence. A Horizontal System (HMS) involves cooperation between two or more organizations on the same level of distribution to accomplish a common goal.

Marketing Channel-Functions And Flows

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time; place and possession gaps that separate goods and services from those who would use them Members in the marketing channel perform a number of key functions and participate in the following marketing flows.

Information

The collection and dissemination of marketing research information about potential and current customers, competitors and other actors and forces in the marketing environment.

Promotion

The development and dissemination of persuasive communication about the offer designed to attract customers.

Negotiation

The attempt to reach final agreement on price and other terms so that transfer of ownership or possession can be affected.

Ordering

The backward communication of intentions to buy from the marketing channel members to the manufacturer.

Financing

The acquisition and allocation of funds required financing inventories at different levels of the marketing channel.

Risk Taking

The assumption of risks connected with carrying out the channel work.

Physical Possession

The successive storage and movement of physical products from raw materials to the final customers.

Payment

Buyers paying their bills through banks and other financial institutions to the sellers.

Title

The actual transfer of ownership from one organization or person to another.

Some of these flows are forward flows (physical, title and promotion); others are backward flows (ordering and payment) still others move in both directions (information, negotiation, finance and risk taking). All of the functions have three things in common. They use up scarce resources; they can often be performed better through specialization; and they are shift able among channel members. To the extent that the manufacturer performs the functions, the manufacturer's costs go up and its prices must be higher. When some functions are shifted to middlemen, the producer's costs and prices are lower, but the middlemen must add a charge to cover their work. If the middlemen are more efficient than the manufacturer, the prices faced by consumers should be lower. Consumers might decide to perform some of the functions themselves, in which case they should enjoy lower prices.

Notes -

LESSON 31:
MARKETING CONTROL

Learning Objectives

- Marketing Control System
- Tools & Techniques of Marketing Control

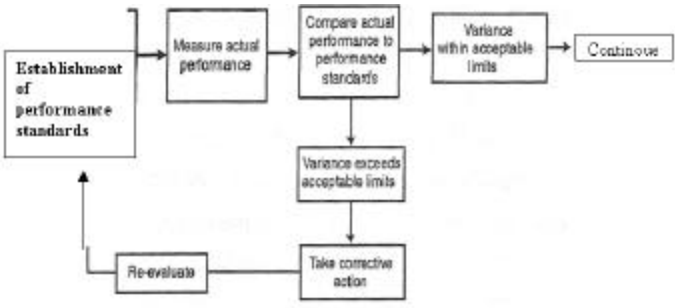
Marketing Control

Marketing control provides the means of testing whether the desired -goals and results arc actually being achieved or not. It is an on going monitoring of the marketing activity in all aspects. Marketing control involves gathering information on marketing performance and comparing the achieved performance against the planned or budgeted performance using predetermined standards and yardsticks. In a dynamic environment, the marketing programs cannot be implemented effectively without continuous monitoring, controlling and corrective adjustments. Marketing control is an integral part of management.

Marketing Control System

In designing a control system, the following steps are involved

- Starting with the predetermined objectives.
- Setting clear measures of performance.
- Defining the levels at which different controls are to be active.
- Developing an effective monitoring system to provide the feed back to the different levels.
- Choosing the tools and techniques of control.
- Observing, analyzing, interpreting and evaluating the variance.
- Developing a mechanism that can correct existing activity so as to achieve the predetermined norm / bjective.



Control Process

The control system design must ensure that major variance are automatically distinguished and highlighted. It must also be capable of correctly interpreting the variance; the control process should bring out the true meaning of the variance. Further, the control process should facilitate the focusing of attention on exceptions. While using marketing information for marketing control, it is however essential that control data, planning data and general-purpose statistics are properly distinguished from one another out of the various marketing information outputs. Only then marketing information can be used as an effective control tool.

Tools And Techniques Of Marketing Control

There are several tools and techniques with which marketing control is exercised by a business firm. The important ones among them are briefly discussed.

Marketing Audit

Marketing audit is a continuous, systematic and objective study of the total marketing efficiency of the firm. Marketing audit is concerned with the long-term business interests and challenges of the firm rather than the short-term achievements. Marketing audit seeks to review even basic assumptions of strategy. For the major part, marketing audit is qualitative and strategic.

Marketing Cost Analysis

Marketing cost analysis helps in reducing the marketing costs; identify costs of performing specific marketing functions/ activities, throws up alternative ways of performing these functions/activities and provides an evaluation of relative cost benefits of various alternatives to improve the market. It helps drop unprofitable customers, products, channels and markets and enables the firm to identify and concentrate on relatively high profitable customers product and markets; appraise the true cost and true value of each marketing service provided by the firm, such as delivery, presale service, credit facilities, etc.

Credit Control

Business firms are often forced to extend credit to increase sales. As a part of credit control, it must be ensured that customers and the channel do not exploit the credit policy of the firm. Credit has two dimensions:

(i) the interest on the money involved in credit transaction and

(ii) the risk of bad debts. Bad debts must be seen and understood as an important part of the cost of credit. Credit rating ensures that the creditworthiness of the client or dealer, as the case may be, is assessed objectively before the firm proceeds with the risk of extending credit facility to a buyer.

Market Share Analysis

Market share analysis can be utilized for evaluating the market / business performance of a firm; for setting targets for the firm and for developing long term sales forecasts for the firm. Market share has to be measured on rational grounds. Comparisons may be made with the most efficient firms in the industry, or the industry leader, or a group of growing firms. Comparisons can also be made against industry average performance. The general economic conditions, which have a bearing on the industry's performance, have to be given due weight age.

Budgetary Control

Budgetary control essentially involves preparation of control statements at specified intervals of time, showing the budgeted figures, the achieved figures and the variance. Review and remedial action is the other part of a budgetary control. In marketing, sales volume, sales expenses and profits are the main aspects to be controlled through the budgetary control device.

Ratio Analysis

As far as marketing is concerned, ratio analysis seeks to measure the effectiveness and profitability of the various marketing functions and activities by the use of certain ratios. Ratio analysis focuses attention on relative figures. Return on Investment (ROI), Return on the Net Worth (RONW), Inventory to Turnover Ratio are examples. Proper integration of marketing and financial control tools is essential for meaningful and effective marketing control.

Notes -

LESSON 32:
CASE STUDY

Hindustan Chemical Company

Hindustan Chemical Company (HCC) is a chemical company manufacturing diversified line of organic and inorganic chemicals, plastics, bio products and metals. Research has played a vital role in the company's growth. Recently, HCC developed a new product in the antifreeze line-Dowtherm.

Product

The antifreeze commonly used is ethylene glycol. If it leaks into the crankcase oil, it forms a thick pasty sludge that can produce bearing damage, cylinder scoring, or other costly and time consuming troubles for both the operator and the owner of heavy duty equipments. HCC believes that Dowtherm would be very valuable to the owners of heavy-duty diesel and gasoline trucks as well as other heavy-equipment owners. Chemically, Dowtherm consists of methoxy propanol as distinguished from the conventional glycol and alcohol products. It cannot prevent leakage, but if it does not get into crankcase, it will not cause any problem. Dowtherm has been proven in the laboratory to prevent seizing of rod and main bearings, pistons, rings and piston pins (common with glycol leakage). The new product will not remain in the engine oil and will cut down on the sludge residue.

Market

At first, HCC thought it had two attractive markets for this product. (1) The manufacturers of heavy-duty equipments and (2) The users of heavy-duty equipments. The salesmen have made numerous calls and so far neither type of customers has been very interested. The manufacturers are reluctant to show interest in the product until it has been proven in actual, use. The buyers for construction companies and other firms using heavy-duty equipment have also been hesitant. Some felt the price was far too high for the advantages offered. Others did not understand what was wrong with the present antifreeze and dismissed the idea of paying extra for "just another" antifreeze.

The price of Dowtherm is Rs. 100/- per liter, which is more than twice the price of regular antifreeze. The higher price is the result of higher costs in producing the product and an increment for making a better type of antifreeze.

Questions

1. How HCC should target the market for " Dowtherm"?

2. What distribution channel should they use for marketing " Dowtherm"?

Notes -

LESSON 33:
DEVELOPMENT OF
INDUSTRIAL SALES FORCE

Learning Outcomes

- **Developing Industrial Sales Force**
- **Career path in Industrial Selling**
- **Recruiting & Selecting Sales force**

Developing Industrial Sales Force

Salesmanship, according to Irving Shapiro, is "the art of successfully persuading prospects or customers to buy products or services from which they can derive suit-able benefits. Successfully persuading today's buyers, however, requires the capa-bility of analyzing buyers' and potential buyers' needs to communicate effectively the firm's offering, skills in interper-sonal relations to deal with the diversity of per-sonalities encountered, and the ability to negotiate over areas of differ-ences to bring about a mutual satisfaction of the goals of both the buyer and the seller. The pur-pose of this chapter, then, is to discuss how sales managers can develop and direct an efficient, professional sales force by

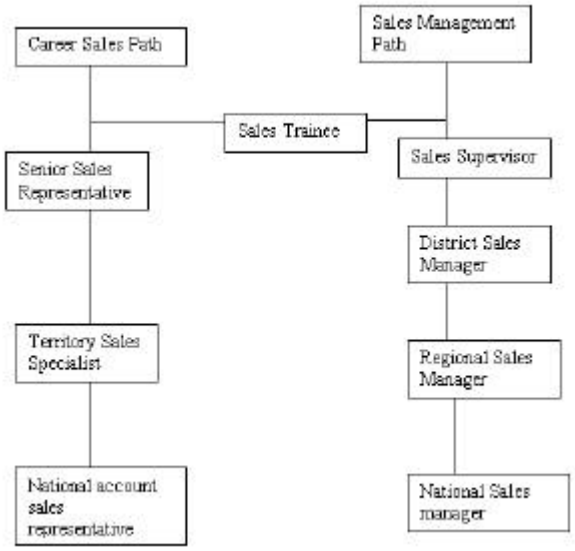
1. Effectively selecting and hiring potentially' successful sales people.
2. Utilizing sales training as a means of maximizing the full potential of sales people.
3. Using methods of directing the sales force to produce the most favorable results.
4. Developing compensation packages and other incentives to achieve the greatest amount of sales force motivation.

As many successful salespeople will tell you, selling is a person-ally rewarding career opportunity. Not only does it offer the career person a lucrative income and career path, but it provides a springboard for those who wish: advance into management positions; According to a recent survey, nearly half this nation's top CEOs have business degrees, with very nearly equal proportions coming from each major business degree. For example, thirteen percent hold marketing degrees.

According to the U.S. Labor Department, by the year 2000 approximately million people will be employed in industrial sales. The greater portion oos-ing industrial sales as their career.

Professional salespeople, those people who choose to stay in selling, however, are unique, different from other people. They have particular and even peculiar desires-desires that somehow set them apart from other members of the corporate firm. These uniquely different individuals are often difficult to find. Thus, conven-tional methods of personnel selection can too frequently lead one with hiring au-thority to make a sub optimal selection of a salesperson in the industrial arena. Pro-fessional salespeople, the people who are vital to the firm in developing and carrying on the long-term buyer-seller relation-ship, are motivated by means other than those that inspire the more conventional corporate employee.

To cultivate a professional sales force with such enviable attributes from among the masses of more ordinary people, sales managers must be especially thoughtful in developing procedures that differentiate among applicants for sales positions. Then, to develop their full potential, sales managers must tailor training programs so that they provide not only the usual selling skills but also additional human relations and negotiating skills, skills that are so necessary in the long-term buyer-seller interface.



Career Path in Industrial Selling

Selecting And Recruiting Industrial Salespeople

Recruiting and Selecting Sales Representatives

A sales manager should develop a list of qualifications and personal attributes that he/she expects a sales representative to possess, to guide them in their recruitment and selection choices. Desirable characteristics include enthusiasm, intelligence, confidence, and courtesy.

In addition to these characteristics, a potential sales representa-tive should display knowledge about his/her company, the sales territory, products and services, competitors and buyer behaviour. Any new company sales representative should also display their ability to exercise good judgement in practical business matters and their abilities to be persuasive when making sales arguments or presentations. Sales representatives must also be able to deal with a key part of their work, namely handling customer complaints. Furthermore, the sales represen-tative should demonstrate an ability to conduct a successful sales interview. A typical sales interview comprises of five parts:

the preparation, the approach, demonstration and presentation, negotiation, and the close.

In selecting and hiring salespeople, any or all of the conventional selection steps can be employed. As Table shows, the personal interview, personal history application evaluation, and personal reference check are the most commonly used methods of selecting sales personnel. In fact, over ninety percent of all businesses use personal interviews.

The Sales Man

Usually has no one he's trying to impress. He feels his production speaks for itself.

Gives a straight answer under alt circumstances, even if he knows the boss realty wants to hear something else.

Would like to get involved in the "big picture" to an extent, but will not lose any sleep if he is

not asked to participate.

Prefers "action oriented" direction, rather than coffee klatch philosophizing.

Does not get involved with internal political movements.

Almost always looks to his peer group for the acknowledgment of his personal contributor rather than to the "titled ones."

Is not afraid to ask for suggestions from people in other departments, as long as the sugges-tions will help him accomplish his goals.

Feels he is a crusader for the company's cause.

Truly feels that he has more insight into the customer's needs and wants than anyone else (Including the president).

Normally more than happy to give field input but must first feel that the request is genuine.

Is the type of person who truly recognizes the help given by people in all departments to properly service the customer?

Advocates internal communication either directly or by phone and has very little use or re-spect for typewritten memos.

His competitive drive comes naturally and he shows a great deal of genuine enthusiasm for a common cause that he believes makes sense.

Feels all customers are important.

Primary Selection Criteria

Generally, organizations tend to evaluate three criteria when searching for sales per-sonnel: motivation, human relations skills, and job knowledge. In searching for industrial salespeople, sales managers should also look for individuals who have technical backgrounds and abilities in performing negotiations.

In the area of industrial selling, it is quite common to consider a candidate's technical background to determine how well that person can meet the demands for technical knowledge. Individuals with good technical skills are better able to identify buyer problems and suggest solutions-an increasingly important consideration in industrial selling.

Due to the nature of the buyer-seller interface, which typically requires negoti-ating sizable purchases and the maintenance of favorable inter company relation-ships over long periods of time, industrial salespeople must possess good human relation skills and negotiating abilities. Not only does IBM, for example, look for people who are highly motivated with good communication skills, it looks also for candidates who have technical abilities or aptitudes. Thus, all candidates for a sell-ing position with IBM are required to take the Information Processing Test to deter-mine if they possess the ability to learn and/or understand technical information.

Personal Interviews

The primary method used to determine if a candidate is motivated, has good human relations skills, and has the ability to learn the necessary technical, selling, and nego-tiating skills is the personal interview. Numerous studies, however, have shown that its validity (ability to determine what it is intended to determine) is lower than other selection techniques.

Multiple and Panel Interviews. To overcome the weakness in the personal inter-view, many companies are turning to multiple or panel-type interviews. Multiple interviews involve interviewing the candidate at different times with various com-pany individuals. In the panel interview, the candidate appears before a diverse group on just one occasion. Both techniques, however, help in reducing biases that can occur when only one interviewer is involved. They also provide a better means of determining the technical skills of interviewees.

Patterned or Structured Interviews. The most successful interviewing method of the patterned or structured interview, which involves constructing questions before-hand and asking all interviewees those same questions. This technique allows interviewers to compare responses among candidates. During the interview, for example candidates can be asked open-ended questions (questions that cannot be answered by a simple "yes" or "no"). Since open-ended questions begin with words like who, what, why, where, when, and how, they force the interviewee to reveal more of his or her thought processes. Thus, they are more valuable than are less thought Provoking closed-ended questions.

Problem-solving questions are also used to reveal reasoning abilities and are useful in determining a candidate's technical capabilities. Such questions involve the candidate in a situation that must be analyzed and responded to. For example, the candidate might be asked: "What would you do if a buyer made several appoint-ments to meet with you but was never in her office when you arrived?

Realistic Job Previews. Increasingly, companies are using "realistic job pre-views. This type of interview involves informing the candidate about the difficul-ties as well as the favorable aspects of the position. Many companies also allow the candidate to spend a day in the field, making sales contacts with a company salesperson. Realistic job previews enable a candidate to feel that he or she has contribute more in making the decision to join the company; that is, he or she "owns" the decision. Individuals who believe that they make decisions (versus being "sold) tend to attempt to prove that they made the correct decision.

Personal Selling: Recruiting

A job calls for generally routine order filling and servicing. Should the sales manager hire the best, highest qualified candidate available? (Notice that this is "trick" wording.)

For a position in sales, would you hire students right out of college or would you hire seasoned professionals?

What is a polygraph test? Honesty test? Aptitude test? Knowledge test? How do each of these work? How is each supposed to work? What are some legal issues associated with these? What are some problems and advantages to these?

Do you think that a test should be used in the salesperson selection process?

Responsibility For Staffing

- centralized
- decentralized

You could be interviewed by a recruiter from the corporate home office (centralized) or could be interviewed by a local district sales manager (decentralized). In some cases, initial screening will be centralized, but final selection will be made by the local sales manager.

There are advantages and disadvantages of each of these to the organization. As the job candidate, however, keep in mind that a district sales manager has different objectives than a professional corporate recruiter who might never have worked in sales.

Decentralized Staffing

- no relocation problem
- less elaborate, less costly selection procedures
- better adjustment of recruit to local environment
- sales rep from local area more likely to be accepted by local customers
- looks better to community

Centralized Staffing

- more expertise available
- more sources of candidates can be explored
- selection process tends to be more objective
- leads to more uniform quality across the firm
- wastes less of the field manager's time

Things A Sales Organization Does Before Recruiting

- determines the types of salespeople needed:
  - account rep/ route salesperson
  - industrial products salesperson
  - detail person
  - sales engineer
  - services salesperson
- determines specific requirements for the salesforce:
  - desired caliber
  - turnover expected
  - level of training to be provided
  - level of supervision to be provided
- performs:
  - job analysis
  - job description
  - job specification/qualification

Job Analysis
study of the job by observing and surveying what people actually do in the job

- ask salespeople, company execs., customers
- accompany salespeople on sales calls

Job Description

formal description of:

- characteristics of the job
- duties (e.g., selling activities, customer service, trade shows, etc.)
- responsibilities of a specific position
- working conditions (e.g., required travel)

Job Specifications
individual traits and characteristics required to perform the job well

Sources Of Salespeople

- internal
  - current employees
  - promotions
  - transfers
- competitors
- non-competing organizations
- advertisements
- schools and colleges
- employment agencies
- walk-in applicants

Notes -

LESSON 34:
MOTIVATION OF SALES FORCE

Learning Objectives

- **Motivating Sales Representatives**
- **Motivating Theories**

Directing (Motivating) The Sales Force

Many industrial salespeople experience considerable stress because their jobs seem to have very few "average" days, but instead seem to be composed of extremes, either very good or very bad days. It is not unusual for industrial salespeople to become depressed by the solitude of on-the-road days and in-the-motel nights. Fur-ther, in industrial sales, where salespeople are committed to customer satisfaction, they can also become frustrated in their attempts to perform the often-conflicting role of satisfying needs of both buyers and sellers. Because of these considerations many industrial sales managers find that their most important function is that of attempting to renew their salespeople's motivation.

Motivating Sales Representatives

Financial incentives alone are not enough to satisfy most sales representatives. Sales representatives also need to satify personal needs and achieve personal goals. Sales managers need to understand their sales representatives motives and goals, with a view to creating an organisational climate that allows their sales personnel to satisfy their personal needs.

Many companies use sales contests to motivate their sales representatives. Such contests help sales personnel to focus on increasing sales, new accounts or promotion of special items. To be successful, such an incentive system must be accepted by the participating sales representatives and have positive consequences in the marketplace. Sales personnel should not damage customer relations in an attempt to generate orders at any cost because of their desire to win a contest.

Elements of Good Negotiating Strategy

Steps	Elements
Prepare for negotiating	Gather information on buying organization and competitors; know where each party stands Arrange for favorable negotiating atmosphere. Use graphs and charts where possible.
Establish attitudes	Define problem and sub problems. Discuss negative and positive aspects. Express degree of commitment.
Conduct negotiations	Focus on both parties' interests. Ask questions avoid statements. Break issues into subparts. Have alternatives for solving problems. Be prepared to stand your ground.

Motivating Theories

Directing "is concerned with stimulating members of the organization to undertake action consistent with the plans. "30 As a function performed by industrial sales man-agers, directing is generally perceived to be synonymous with motivating. Motiva-tion theories are generally divided into two groups: content theories, which describe the internal drives or needs of individuals, and process theories, which describe the reasoning processes involved in motivation.

Content Theories

Two popular content theories are those developed by Abraham Maslow and Frederick Herzberg. Maslow discussed a hierarchy of needs and hypothesized that individuals progressed through physiological, safety and security social, esteem, and self-actualization levels of needs. The hierarchy's ultimate need, self-actualization, is defined as involving fulfilling one's true potential and growth, that is, being all that one can be. Herzberg theorized that people are not Motivated by salary, work conditions, job security, and other external considerations, but instead are motivated by achievement, recognition, responsibility, ad-vancement, and growth opportunities, that is, feelings of self-accomplishment.

Process Theories

One popular process theory is *expectancy theory*, which is expressed by the formula

$$\text{Motivation} = E\text{-}P \times P\text{-}Q \times \text{valence}$$

Where

E-P = a person's perceived probability of performing a task given he or she puts in the effort to do so

P-O = a person's perceived probability of obtaining an outcome (such as a re-ward) given that he or she does perform the task

Valence = the anticipated value (satisfaction or dissatisfaction) one perceives he or she will obtain from an outcome

Another process theory, attribution theory, holds that individuals are moti-vated or demotivated as a result of their perceptions regarding who is in control or responsible for their actions. It stipulates that those who perceive themselves to be in control tend to be motivated, while those who perceive someone else to be in control are not motivated. One study of two groups of school children, for instance, showed that those praised but not paid continued to work on a puzzle during their free time, while those who were paid (thus, perceiving someone else to be in control) did not work during their free time even though they had also been praised.

Implications for Sales Management

Expectancy theory implies that sales manag-ers must consider ways to increase the salesperson's perception of probabilities in both *E-P* and *P-O* areas. Studies have shown that improved communications, train-ing, co-workers, and previous experiences can lead people to believe that if they put in the effort they can do the job and that they will receive the rewards.35.36 The model also implies that people will be motivated by different

and unique consider-ations. Some people will need more training than others to increase their belief that their attempts will in fact lead to accomplishments. Others, with higher levels of self-confidence, will need considerably less training.

The outcomes that individuals attempt to achieve will also have considerable variability. While one salesperson may press harder to receive a promotion to im-press a spouse, another may press harder simply to receive recognition from a sales manager. Such variability in outcomes desired implies that the sales manager who develops personal job relationships with his or her sales people will be more suc-cessful.

Notes -

LESSON 35:
EFECTIVE USE OF SALES COMPENSATION

Learning Objective

- Different Motivational Schemes

During the early years of the twentieth century, money was believed to be *the* moti-vator. Since then considerable research and increases in our standard of living have caused many people to wonder if money is indeed the primary motivator. Attribution theory, for example, indicates that money, in some instances, can be a demoti-vator. It is interesting to note, however, that in 1988 the average amount spent on compensation and field expenses to support one salesperson in the field was $87,500-a sufficiently sizeable amount to indicate that business perceives money to be a prime motivator in the area of selling.

Monetary Compensation

These differences of opinion can be partially reconciled if we realize that money motivates an individual to work in three different ways. First, a sufficiently high salary can motivate one to accept a job offer. Many students who believe it is money that motivates them to work may in fact only be feeling motivated to take a job offer because of money; they may feel little motivation to work once they are on the job.

Second, money motivates an individual to keep a job. Individuals so moti-vated, however, usually perform only the minimum amount of work necessary to keep from " being fired. The exception occurs when they are also motivated by some other consideration, such as Protestant work ethic conditioning, which causes them to believe that they should contribute an "honest day's work for an honest day's pay."

Straight salaries can be thought of as providing this type of motivation and are often used as a basis of sales compensation because they give the salesperson a sense of security. In addition, they are easy to understand and administer, remain constant (to the benefit of the company) as sales increase, and reduce salesperson resistance to direction from sales managers requiring performance of non selling ac-tivities, such as reporting customer responses to product surveys or making mission-ary sales calls. The important realization is, that in this instance, money alone motivates the individual to expend only the minimal effort necessary to retain the job.

Finally, money can motivate an individual to perform something more than the minimal job retention amount of work. For this type of motivation to exist, however, the money paid must depend upon the amount or quality of work per-formed. Such a tie between work effort and money received is characteristic of sales compensation programs.

Herzberg's contention that people are not motivated by salary can be equated with these three ways in which money motivates. Most U.S. workers are paid straight salaries that motivate them only to accept jobs and display some minimal performance level to retain those jobs. However, industrial sales compensation plans are frequently constructed with the intention of providing the third type of motivation.

Straight Salaries, Commissions, and Bonuses. Table depicts the tendency of companies to pay sales personnel on the basis of both a straight salary and either a bonus or commission tied to the salesperson's accomplishments.

As Table indicates, only fourteen percent of industrial companies pay sales compensation in the form of a straight salary. The majority of industrial com-panies (86 percent) use money as a motivator that is tied to the work involved b:' compensating salespeople through commissions, or through a combination o_ straight salary plus commission and/or bonus. In fact, the two most popular com-pensation plans are "salary plus commission" and "salary plus bonus." A commis-sion is a predetermined percentage of sales, or profits, and is usually paid on a monthly basis. On the other hand, a bonus is a discretionary amount of money, usually paid for the achievement of goals, and is paid less frequently on a quar-terly, semiannual, or yearly basis.

Percentages of Companies Using Various Compensation Plans

Method	Industrial Products	Consumer Products
Straight Salary	14%	12%
Straight Commission	19	21
Salary plus Commission	28	26
Salary plus Bonus	26	32
Salary plus Commission plus Bonus	10	5
Total	100%	100%

Commissions and Bonuses as Motivators. Both commissions and bonuses are used to motivate salespeople. Commissions can be adjusted as a proportion of total compensation to provide increased or decreased motivation. For instance, a marketer who increases commission payments from ten to thirty percent of the salesperson's total compensation does so in expectation of adding increased motivation. Commis-sions are also more easily explained to salespeople than are bonuses. Since they are paid on a more frequent basis than are bonuses, they also tend to strengthen the perceived relationship between increased performance and reward (expectancy theory).

Bonuses are usually determined more subjectively and are frequently based on the accomplishment of various tasks, such as improved customer relations, obtain-ing new accounts, feedback reports regarding customer needs, or increased sales. Bonuses facilitate motivation with regard to the many non selling activities that are important in industrial marketing, as well as sales activities. While widely used, however, there are various drawbacks to the system. For instance, because they are usually determined more subjectively than commissions,

salespeople tend to ques-tion whether they are determined fairly. Additionally, the infrequent payment of bonuses makes it more difficult for the salesperson to perceive the relationship be-tween performance and reward.

Secrecy versus Openness in Pay Differentials. Because of the tendency for sales-people to condemn as unfair subjective methods of determining compensation, one study has found that it is best to keep compensation differentials secret from sales people, even though such secrecy reduces the motivational potential of bonuses. If sales force pay differentials are to be made public in attempting to motivate sales people, objective versus subjective criteria must be employed when determining the differentials, and, according to another study, salespeople should have some input into determining the objective criteria.

Industrial salespeople, who are called upon to perform many and varied tasks, can certainly be expected to be capable of comprehending and evaluating even the more complicated methods of bonus determinations; secrecy is not essential if objec-tivity is maintained, no matter how complicated objective formulas may be.

Incentive Programs as Motivators

Sales managers often use the term "incentive program" to describe an array of motivational schemes other than those involving monetary compensation. Such in-centive programs usually involve contests. Due to the strong American enculturation of competitiveness, contests tend to yield excellent motivational results. They also add an element of recognitional "stroking," an important element, since employ-ees in the United States too frequently display a lack of fulfillment in their self-esteem needs.

Signode's programs illustrate several important considerations regarding non--monetary compensation. Incentives should be tied to specific sales objectives, such as opening new accounts. When incentives are tied to general objectives, such as increasing overall sales, sales people tend to concentrate on high-priced, large- volume items at the expense of other products. General objectives also tend to favor sales people with seniority that has established clientele to the detriment of new sales people. Incentive programs must offer some motivation for everyone and be designed so that they provide more bangs for the buck than other types of compensa-tion.

Use Appropriate Motivational Frills. Non monetary compensation programs should also have the appropriate motivational frills. Thus, they should be designed so that they have clever and exciting themes, are colorfully reinforced, are used frequently, and are varied often. Prizes should be intrigu-ing and inspiring. A highly intriguing but inexpensive prize can provide inspiration that far surpasses that of a much more costly bonus. Several companies have been formed to effect just this end. For example, GoldChex, travelers' checks issued by a company in Cincinnati come in $25 and $50 denominations and can be used to cruise on sixteen different shipping lines, to charter a yacht, to fulfill a baseball fantasy, to rent a car, or to stay at 190 different hotels or seven hundred KOA campsites around the United States.47 Such checks, issued for varying amounts, allow the salespeople to accumulate them until they have acquired sufficient amounts to take a vacation of their own design.

Non-monetary incentive programs provide an increasingly vast array of opportunities for inspiring salespeople, an array limited only by the imagination of individ-uals in companies that choose to use them, but an array of programs that provide more motivation for the dollar than salaries, commissions, or bonuses. They provide an opportunity that few companies can afford to overlook. And the more time spent in designing an incentive program, the better the results tend to be."

Notes -

LESSON 36:
PRICE: A CRUCIAL ELEMENT IN PRODUCT STRATEGY

Learning Objective

- Factors that Influence Pricing Strategy

For two reasons, price must be viewed as a part of the product offering as well as a separate element in the marketing mix. First; from the buying firm's perspective, it is the cost that must be weighed against product quality, delivery, and supplier service. Second, from the seller's point of view, the price charged determines the profitability of the product and provides the margins necessary to support other aspects of the product offering, such as post purchase service and technical assist-ance.

To the industrial buyer, price is only one determinant of the economic impact that a product will have on the firm. Buyers are concerned with the "evaluated" price of a product, that is, the total cost of owning and using the product. Such costs include, in addition to the seller's price, transportation charges, the cost of installing capital equipment, inventory carrying costs for parts and material, possi-ble obsolescence (due to engineering process changes), order processing costs, and less apparent costs such as production interruption caused by product failure, late delivery, or poor technical support. This distinction between cost and price is im-portant and should not be overlooked by the industrial marketer. Price merely mea-sures the amount of the customer's capital investment; cost is a reflection of a product's efficiency. Cost savings in the use of a product may offset a high price, while a low price may lead to higher operating expenses, shorter product life expect-ancy, and other increased costs.

Factors That Influence Pricing Strategy

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

(1) customer demand

(2) the nature of derived demand

(3) competition

(4) cost and profit relationships

(5) the market's reaction to and perception of price, and

(6) government regulation. Each of these dimensions is independently and jointly significant in the pricing decision

Customer Demand

As discussed in Chapter 1 the demand for virtually all-industrial products is derived from the demand and production of some consumer end product. As a result, indus-trial buyers are more concerned with the questions of whom to buy from and why than whether or not to buy (this ignores, of course, the "make-or-buy" decision). In turn, the industrial marketer usually worries more _bout 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 individ-ual 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 supplier's total offering in relation to the price quoted. However, the various buying-decision influencers within the firm emphasize different benefits and, thus, do not all value the product identically. Product bene-fits may be functional, operational, financial, or personal.

Functional benefits involve product design characteristics, aspects that might be particularly attractive to technical personnel. Operational benefits focus on prod-uct 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 manag-ers and comptrollers. 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 influencer.

Analysis of potential customer benefits begins by focusing on the attributes of a physical product (horsepower or yards of earth moved per hour) as well as the elements of the augmented product (delivery, financing, or technical support). Anal-ysis of all potential benefits enables the marketer to view the product from the cus-tomer's perspective, evaluate competitive strengths more objectively, and identify unique market opportunities.

While' it is relatively easy to analyze physical product benefits, augmentation benefits may be more difficult to define. However, because many competing indus-trial products are virtually identical in physical attributes and are purchased to customer specifications, a firm may be able to differentiate its product only by the type of services offered.

Analyzing Customer Costs

In addition to weighing benefits, organizational cus-tomers assess the costs associated with owning and using the product. By applying *life-cycle 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 life-cycle costing analysis.

Effective cost analysis should also include less obvious costs such as product failure or potential production delays, particu-

larly when these events represent un-acceptable risks that customers will pay a price premium to avoid.

Price Sensitivity

Product value is related to the buyer's sensitivity to price. Price sensitivity varies with purchasers, over time, and from one set of circumstances to another. For instance, the buyer who can pass on the cost of a purchase (to a subse-quent 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.

The price of the product in relation to the total cost of producing an end product can also influence a buyer's sensitivity to price, as can the uncertainty that accompanies a switch from a proven source to a new supplier. Therefore, price differences must be significant enough to overcome a buyer's anxieties about prod-uct quality, service, and reliability of unknown suppliers before they will switch from a known, dependable source of supply.

Notes -

LESSON 37:
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 be-tween 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 contingen-cies can work to reverse the theoretical price/quantity relationship.

Consider the following scenario. 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 the price reduction as confirmation of inferiority. Less technically oriented ulti-mate consumers might not have had the same reservations.

Competition

Existing and potential competition inevitably affects pricing strategy by setting an upper limit. Research indicates that the majority of firms as the most important pricing strategy regard "competitive-level pricing"? The amount of latitude a firm has in its pricing decision depends largely on the degree to which it can differen-tiate its product in the minds of buyers. As previously discussed, 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 re-sponses must be considered. All suppliers, resulting in little shift in market share, generally meet Price reductions on products that are relatively undif-ferentiated immediately. However, this is not always the case.

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 (1) total demand will not be reduced by the increase, (2) other major suppliers will also follow the increase, and (3) the initiator of the price in-crease is acting intelligently and in the best interest of all suppliers.

Most major industries are oligopolistic (for example, basic metals, chemicals, glass, automobiles, electronic systems, and machine products). When a firm oper-ates 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 undercut-ting. Market leaders can usually induce their competitors to follow both price increases and reductions. Because total de-mand 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 cer-tainly 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 compet-ing sellers. This does not imply that other firms do not influence price levels. Smaller firms can develop technologically superior products or innovative market-ing programs that impact pricing strategies for all competing firms.

Cost and Profit Relationships

While competition sets the upper limits on price, costs set the lower limits. There-fore, it makes little sense to develop pricing strategy without considering the costs involved. However, many organizations tend to set prices based on their costs alone, adding some acceptable increment for profit. Such an approach does have advan-tages. First, it is relatively simple to calculate. Second, for a low-cost producer, cost- plus pricing can be a very competitive strategy. The trade-off for such simplicity, however, may be lost profits-profits that are sacrificed due to the differ-ence be-tween what customers are charged and what they would be willing to pay. Cost-plus pricing fails to consider the customer's perception of value, the degree of differenti-ation from competition, and the interaction of volume and profit. Since costs vary over time and fluctuate with volume, they must be considered in relation to demand, competition, and the market share objectives of the firm. Marketing, production, and distribution costs are all relevant to the pricing decision.

The total cost of a product is made up of multiple elements that react differently to changes in the quantity produced. Properly identi-fying and classifying these separate costs is an essential step toward making profit-able pricing decisions. The marketing manager should determine which costs is volume dependent, which products or markets generate the costs, and where oppor-tunities for additional profits might exist.

When fixed costs make up a large portion of total cost, prices must be set to maximize the use of operating capacity. Until fixed costs are covered, a firm is losing money. Once covered, each incremental sale can contribute to profits. On the other hand, when variable costs are relatively high, pricing to maxi-mize the contribution margin (selling price minus variable costs) is crucial to profitability. Break-even analysis, a method of determining quantity levels of production that are necessary to cover fixed and variable costs, is discussed in Chapter Seventeen.

Under certain conditions, a firm may elect to price at less than full cost (that is, not counting those costs, direct and indirect, that are traceable to a particular activity). For example, during a recession a firm with high fixed costs may set price to cover variable costs and make some contribution to fixed costs to

keep its plant in operation. This is often called "survival" pricing. Such pricing strategy may also be used in the short run to secure an exceptionally large order, to penetrate a specific customer, or to gain market share. In these instances, it is "preemptive" or "preda-tory" pricing, and may be illegal. If an irate competitor were to allege, and subse-quently prove in court, that the price cutter's primary purpose was the reduction of competition, the offending firm could be found in violation of the Sherman Anti-trust Act, the Clayton Act, and/or the Robinson-Patman Act (depending on the exact nature of the preemptive pricing).

Over the short run, when a firm has excess capacity, manage-ment tends to ignore allocated costs so long as the pricing received for an additional order covers more than its direct cost and makes a contribution to overhead. However, over the long run, all costs must be covered if the firm is to survive. The industrial firm that views its costs in these various categories adds increased dimensions and valuable new perspectives to its decision making.

Marginal Costs and Revenue. To develop a profitable pricing strategy, the price setter must also understand the concept of marginal revenue and cost. Theoretically, the firm should continue to increase sales and production volume as long as the total cost of producing the last unit does not exceed its selling price. In practice, it can be quite difficult to determine actual cost trend lines, as opposed to spurious aberrations, and even more difficult to maintain sales at the optimum level. Moreover, the marginality theory must be balanced against the learning curve concept, which holds that the firm's variable costs will decline as quickly (or as slowly) as total volume accumulates. If the firm forsakes business opportunities based on current costs, and these opportunities are seized by a more aggressive competitor (whose current costs might be equal), the competitor will drive its costs down more quickly and eventually be in a position to command industry pricing-and profits. This subject is discussed further under "Cost Behavior over Time.

Estimating Cost. Price setters can use two different sources of information in esti-mating costs: accounting records plus engineering and manufacturing estimates. Ac-counting records on cost are useful where past experience can be applied to the pricing decision. Engineering and manufacturing estimates are used when no cost precedent exists. Based *on* knowledge *of* the production technology involved and the product specifications set by engineering, cost estimators determine the optimal input combinations to produce any given output. Costs are then formulated by mul-tiplying each input by its price. Engineering estimates are very useful for determin-ing the costs of new products where historical data necessary for statistical cost analysis are unavailable.

If enough information can be gathered via historical records, multiple regres-sion analysis can be used to aid the estimation process. This approach is particularly useful when products share production and/or marketing costs. Once the total-cost function has been estimated, then marginal cost, the cost influence of order size or multiple product mix, and other factors can be extrapolated. Importantly, total-cost curves for the construction of break-even charts can be determined.

Notes -

LESSON 38:
INDUSTRIAL PRODUCT PRICING IN INDIA

Learning Objectives

- **Factors Affecting Prices**
- **Pricing Decisions & Pricing Problems**

The total revenue of a company is obtained by the prices charged for the product and volume of sales. From this fund of revenues, the cost of purchases, manufacturing costs, inventory, distribution and sales costs, wages and overhead expenses have to be met, and also the profit which a company needs to continue in business or to grow. Pricing is only one aspect of marketing strategy and the pricing policy depends on business objectives.

Factors Affecting Prices

Both external and internal factors affect prices. The external factors are those factors, which are beyond the control of a firm. Such factors include the government price policy, elasticity of demand, consumers' tastes and preferences, the purchasing power of the buyer and so on. On the other hand, internal factors are those, which are within the control of the firm.

Objectives Of Pricing Policy

While setting the price, the firm may have one or more of the following objectives.

Price Stabilization

Frequent price changes create uncertainty in the minds of consumers. They are harmful for forward planning of turnover and stock investment.

Maintenance of Market Share

This concept is generally followed by firms, which are interested in steady growth.

Target Rate of Return on Capital

Monopolies set a very high rate of return on capital, while other firms -in a highly competitive situation may set a very low rate of return.

Preventing competition

By adopting the entry prevention pricing, the firm maximizes profits in the long run, though it sacrifices some profits in the short-run

Rapid Cost Recovery

Prices will be set at a level where all costs related to the particular products can be recovered as soon as possible.

Satisfactory Return on Capital

The problem of setting price levels to achieve a satisfactory return will become more difficult as the time lag between order, receipt and final payment increases.

Pricing Decisions

The pricing decisions require a decision-making framework, which identifies the following stages.

Recognize the Need for a Pricing Decision

A firm's pricing difficulties and opportunities are related to its overall objectives. Table 7.1 provides a list of feasible pricing objectives.

Potential Pricing Objectives

1. Maximum long-run Profits
2. Maximum Short-run profits
3. Growth
4. Stabilize market
5. Desensitize customers to price
6. Maintain price-leadership arrangement
7. Discourage entrants
8. Expedite exit of marginal firms
9. Avoid government investigation and control
10. Maintain loyalty of middlemen and get their sales report
11. Enhance image of firm and its offerings
12. Be regarded as "fair" by customers (ultimate)
13. Be considered as trustworthy and reliable by rivals
14. Help in the sale of weak items in the line
15. Make a product "visible"

Some Pricing Problems From the above list of objectives, some of the pricing problems that firms face can readily be inferred

Pricing Problems

1. A decline in sales.
2. Prices are too high for the benefits provided.
3. Price is too low in certain markets and not in others.
4. The company is not regarded as trust worthy.
5. Excessive financial burdens on its resellers.
6. The price differences among items in the line are high.
7. The price changes are too frequent.
8. The price is unstabilizing the market.
9. The firm's prices seem higher to customers than they are.
10. The firm's pricing behavior makes customers unduly price sensitive and unappreciative of quality differences

Price Monitoring System To identify the problems listed, a firm requires a monitoring system for potential problems and opportunities present are indicators that might suggest the existence of pricing problems. It is evident that some of these indicators are very difficult to measure with accuracy. Table 7.3 also shows the data needed for designing a price monitoring system.

Data used for designing a Price Monitoring Systems

1. Sales, in units and in monetary value - Previous year comparison, Different markets/channels comparison.

2. Company's sales at "off list" price measured as a percentage of total sales, revenue as a percentage of sales at full price.
3. Rival prices.
4. Inquiries from potential customers about product line.
5. Types of customers getting the price benefits.
6. Market shares - in individual markets.
7. Marketing costs, production costs.
8. Price complaints from customers and salesmen.
9. Inventories of finished goods at different levels.
10. Customers attitudes towards firm, prices, etc
11. Number of lost customers (brand-switching).
12. Inquiries-and subsequent purchases.

Problem Detection

A warning system will detect pricing problems and allow the manager to decide how much attention to give to each potential price problem and to whom to assign it. In assigning a problem for study, a decision maker must determine whether to use his own staff or call upon outside resources.

Developing a Pricing Model

Economic models developed rarely direct a pricing executive's attention to the key variables. Behavior science offers far more insight into the factors that determine how price changes will be perceived and reacted upon by consumers

Mathematical Modeling The Multiple Regression model based 011 historical data determines a linear functional relationship between sales and factors such as price, advertising, personal selling, relative product quality, product design, distribution arrangements and customer services. Simulation models allow the pricing specialist to combine wide varieties of inputs to achieve desired results such as short and long run sales together with the costs incurred. Adaptive modeling combines historical analysis with different environmental situations. A given input mix may have widely divergent results for each situation. This type of approach is particularly helpful in assessing the merits of the market expansion, segmentation analysis, and so on.

Identify and Anticipate Pricing Problems

Information about customer's reactions to a product is extremely difficult to interpret. Salesmen's reports are the primary sources of information available to most of the firms.

Develop Feasible Courses of Action

In addition to varying the price level, the executive responsible for pricing may also change the timing of the price change, the time interval to which the price change applies and the number of times he applies the changes.

Forecast the Outcome of Each Alternative

Once a price setter has selected the most feasible actions available he must forecast their consequences to determine how best he can -achieve his goals.

Monitor and Review the Outcome of Each Action

When a price-setter forecasts the outcome of alternative actions, he selects that alternative which will best achieve his objectives.

Pricing A New Product

Pricing a new product is important in two ways: it affects the amount of the product that will be sold and it also determines the amount of revenue that will be received for a given quantity of sales.

Skimming Pricing

A skimming approach, appropriate for a distinctly new product, provides the firm with an opportunity to profitably reach market segments that are not sensitive to the high initial price.

Penetration Pricing

A penetration policy is appropriate when there is high price elasticity of demand, strong threat of imminent competition, and opportunity for substantial reduction in production Costs as volume expands.

Pricing Strategy for New Products

For products whose market potential looks big, a policy of low initial prices makes sense. One should appraise the competitive situation very carefully for each new product before deciding on pricing strategy

Five factors are to be taken into account. They are

(1) potential and probable demand for the product

(2) cost of making and selling the product

(3) market targets

(4) promotional strategy and

(5) suitable channels of distribution.

Notes -

LESSON 39:
SEGREGATION OF NEW PRODUCT COSTS

Segregation of New Product Costs

Estimating Market Demand

One should make some estimate of the total potential market for the new product and all its competing substitutes and then estimate the portion of this potential that his product is likely to get. Next, the competitive range of prices 'should be determined. The final step is to guess the probable sales volume at two or three possible prices within the price range.

Estimating Costs

The investment estimate should include estimates of increased working capital that will be required for various sales volumes. Then estimate the added costs of manufacturing and selling the product at various possible sales volumes. Allocations of overheads that are already being incurred should not be assigned to the new product because they will be the same whether or not one goes ahead with the addition to the product line. New product costs may be segregated into direct labour, materials and supplies for production, components purchased outside, special equipment, plant overhead, and sales expenses.

(i) Direct Labour-

Methods of estimating direct labour may be built up in one of the following three ways:

(a) Compare each operation on each component with accumulated historical data on similar operations for similar components.

(b) Develop a mockup of the proposed work-place layout and actually time an operator who performs a series of manufacturingoperations, simulated as accurately as possible.

(c) Apply one of several items of predetermined, basic motion times, which are currently available from private sources. When the total direct labour time is determined multiply it by the appropriate labour rates.

(ii) Materials and Supplies for Production

Having listed everything in an organized fashion, one can enter the specifications and costs on a manufactured-component estimate form. Remember to include any extra costs, which may be incurred as a result of requirements for particular length, width, qualities, or degrees of finish. Allowances for scrap should also be made as accurately as possible and corrected by applying a salvage factor if the scrap can be sold or reused

(iii) Components Purchased Outside

Place specification for parts purchased from other concerns with more than one reliable supplier and get competitive bids for the work. But ill addition to price considerations be sure to give proper weight to the reputation and qualification of each potential producer.

(iv) Special Equipment

To avoid trouble in this area, make a table showing all cases where special equipment will be needed. The actual estimating of the Costs of such a equipment is best done by a qualified tool-shop. Here again competitive bidding is an excellent protection on price.

(v) Plant Overhead

The overhead item may be estimated as a given percentage of direct -labour, machine utilization, or some other factor determined h; accountants to be the most sensible basis. In this way, one can allocation satisfactory charges for administration and supervision, for occupancy and for indirect service related to producing the new product

(vi) Sales Expenses

Estimates of sales revenue at various potential volumes can now be compared with the estimates of added costs at those volumes. The difference will be the added profits of introducing the new product. No price that is set will provide enough revenue to produce an adequate profit over the added costs, then one should either drop the venture, try to cut costs, or wait for a more favorable time to introduce the product.

Notes -

LESSON 40:
PRICING IN INDUSTRIAL MARKETING

Pricing Methods

The pricing objectives provide guidelines for taking pricing decisions in the actual business world. Some of the popular pricing methods are

Full Cost or Cost-plus Pricing

The Cost-plus pricing or full cost pricing or markup pricing is widely prevalent in the business world. Full cost pricing means pricing a level covering total costs and selling expenses plus a predetermined markup. Sometimes, a rigid predetermined markup is added to costs. Alternatively, the markups are flexible, varying with business conditions.

Marginal Cost or Variable Cost Pricing

Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost." Instead of using full costs as the lowest possible price, this method suggests that variable cost represents the price that can be charged. Since variable cost is the basis of pricing, it is also known as variable cost pricing. In marginal' cost pricing, the objective of the firm is to maximize its total contribution to fixed costs and profit.

Target Return-an-Investment Pricing

It is based on standard costs, which vary much less than actual costs. Target return on investment is well suited for an industry where price leadership is prevalent.

Transaction Costs Analysis

Increasingly, managers are turning to the market to purchase intermediate goods and services. The advantages are: it frees capital and reduces problems for managers. However, the cost of using the market place is not insignificant. There are costs-associated with discovering prices and the ability to negotiate contracts.

Pricing Levels

The possible price for a product could vary over a wide range. The absolute lower limit of price is decided by the extra variable cost of producing one more unit of the product. There is no inherent upper limit. Three possible bands of price levels can be obtained.

Low Band

All possible prices between a lower limit of variable cost of producing one more unit of the product and an upper limit where all costs are being recovered at the given level of output, fixed and variable, but no profit is being obtained.

Mid Band

The price levels falling between the two limits of complete cost recovery and the lower limit of competitive prices

Top Band

A majority of businessmen believe that the price set for a particular product must be above the break-even point (the boundary between low and mid bands), and at the other extreme, must be below the level of competitive prices, if at all possible.

Pricing Policies

Industrial customers are geographically dispersed and buy industrial products in different quantities. Pricing policies involve adjustments to the base price to account for these differences.

List Price

This is also known as price list or basic price, The list-price statement indicates the effective date of its applicability and mentions the extra charges for optional features-the sales tax and excise duty, octroi, Insurance etc. The list price less discounts is the net price. List price -provides a common base from which a wide variety of discounts can be subtracted.

Trade Discount

This is offered to the trade-dealers and distributors. The amount trade discount depends on the particular industry norms or the functions performed by the intermediaries. Discounts to OEMs can be justified on the basis of their high-volume purchasing and lower marketing / sales ratio. The discount should be uniform to all the dealers and distributors. Any variance will attract MRTP Act.

Quantity Discount

A quantity discount is given to industrial customers for buying in huge volumes. It is a price reduction given by subtracting the volume discount from the list price. It is given to encourage volume purchasing and to maintain buyer loyalty. Quantity discount on individual orders is known as non-cumulative and on a series of orders for a period of one year is known as cumulative discounts.

Cash Discount

Cash discounts are given with the objective of getting prompt payments. It is a discount applicable on the gross amount, provided the customer pays the bill within the stipulated period from the date of invoice. Large customers sometimes take advantage of cash discount but do not make the payments as per the conditions. Such problems should be resolved through mutual discussion, keeping in mind the importance of buyer-seller relationship.

Geographical Pricing

There are two methods of pricing for different geographic locations. They are (i) Ex-Factory and (ii) FOR Destination

EX-Factory

When a seller quotes Ex-Factory price, it means that the freight and transit insurance costs are to the buyer's accounts. Ex-Factory means the prices prevailing at the factory gate.

FOR/FOB Destination Free on Road/Free on Board means that the freight costs are absorbed by the seller or included in the quoted prices. All the customers get the products at the

same price irrespective of their locations. If it is FOR Destination basis, the industrial marketer estimates the average freight and insurance costs and adds the same to the base price. Absorbing these costs are rarely done by a seller.

Notes -

LESSON 41:
CASE STUDY

Indian Wires Company

Indian Wires Company produces wire rope and cable ranging from 0.5 inch to 4 inches in diameter. The Company produces and sells on a national basis. Principal users of the products are manufacturing firms employing cranes and various other overhead lids in their operations. Lately, several ski resorts have become customers, as cables are used in the various lifts. However, the principal customers are still cement plants, railroad and boat yards, heavy equipment manufactures, mining operations, construction companies and steel manufactures. The Company employs its own sales specialists to call on the purchasing agents of potential users. All the men are qualified engineers who go through extensive training programmes covering the different applications, strengths and other technical details concerning rope and cable. Then, they are assigned a region or district, the size depending on the number of customers.

Service

Mr. Rastogi went to work for the company in 1970 immediately after receiving a civil engineering degree. After going through the training programme, he was assigned to the western region. His job was to service and give technical assistance to the present customers of rope and cable. He was expected to solicit new customers when the occasion arose. But his primary duties were to

(1) Supply the technical assistance needed to use rope or cable in the most efficient and safe manner,

(2) Handle complaints, and

(3) Provide evaluation reports to customers' management regarding their use of cabling.

Rastogi became one of IWCs most successful representatives. His exceptional ability to handle customer complaints and provide technical assistance was noted by many of the firm's customers. He also brought in a considerable amount of new business, primarily from the automobile manufacturers.

Although the company's sales in western region have not continued to grow in the last few years, the replacement market has been steady and profitable. This fact is primarily due to the ability and deputation -of Rastogi. Four years ago, IWC introduced an extensive wire sling device for holding cable groupings together. The sling makes operations around the cable much safer and its use could reduce hospital and lost time costs due to accidents. The profit margin for the sling is high and IWC urged all its representatives to push the sling. The, question confronting IWC management is; Should they gamble losing profitable customers in western region in hopes that sling sales will increase?

Notes -

Point to poinder

INDUSTRIAL MARKETING

DEFINITION & NATURE

"MARKETING OF PRODUCTS AND SERVICES TO ORGANISATIONS, THAT USE PRODUCTS OR SERVICES IN THE PRODUCTION OF CONUMER OR INDUSTRIAL GOODS AND SERVICES TO FACILITATE THE OPERATION OF THE ENTERPRISES"

TRANSACTIONS

1.PRODUCT EXCHANGE

2.INFORMATION EXCHANGE

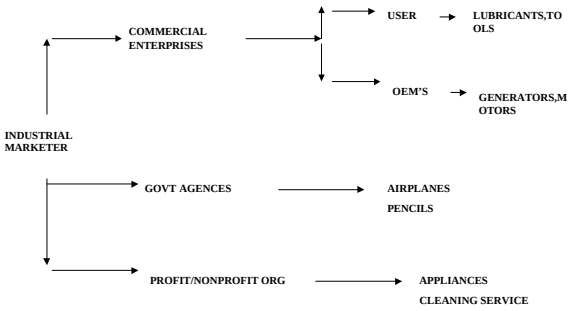
3.FINANCIAL EXCHANGE

4.SOCIAL EXCHANGE

INDUSTRIAL MARKET VS CONSUMER MARKET

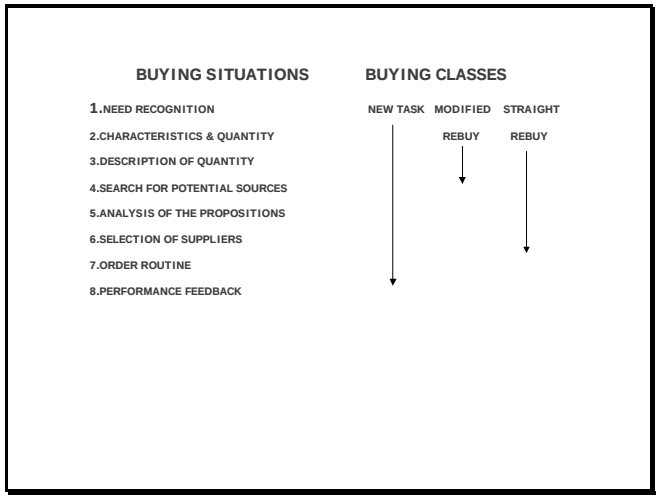
	INDUSTRIAL MARKET	CONSUMER MARKET
Market Structure	Geographically concentrated	Dispersed
Products	Technical	Standardised
Buyer Behaviour	Functional involvement	Family involvement
Decision Making	Distinct	unobservable
Channels	Short	Indirect
Promotion	Personal Selling	Advertising
Price	Competitive bidding, Negotiating	Listed price

INDUSTRIAL MARKET



BUYGRID MODEL

BUY PHASES



INDUSTRIAL MARKET SEGMENTATION

MACRO VARIABLES

VARIABLE	EXAMPLE
A) INDUSTRY	ANY AGRI,MINING,MANUFACTURING
B) SIZE	PLANTS, LOCATIONS
C) PLANT CHARACTERISTICS	SIZE OF CUSTOMERS, INVENTORY TURNOVER
D) LOCATION	DISTANCE, LOCATIONS
E) ECONOMIC FACTORS	GROWTH OF INDUSTRY
F) COMPETITIVE FORCES	DEGREE OF COMPETITION
G) PURCHASE PATTERN	CENTRALISED/ DECENTRALISED
H) END-USE-MARKET	RESIDENTIAL / COMMERCIAL
I) APPLICATION	SMALL USE / LARGE SCALE USE

MICRO VARIABLES

ORGANISATIONAL VARIABLES

PURCHASE SITUATION → NEW TASK,MODIFIED REBUY OR ROUTINE BUYING

CUSTOMER EXPERIENCE STAGE → ? WHERE IN PLC STAGE

PURCHASE SITUATION VARIABLES

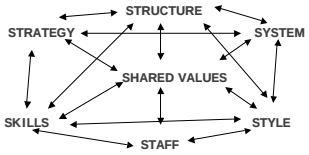
- INVENTORY VARIABLES
- PURCHASE IMPORTANCE
- PURCHASE POLICIES
- PURCHASING CRITERIS

INDIVIDUAL VARIABLES

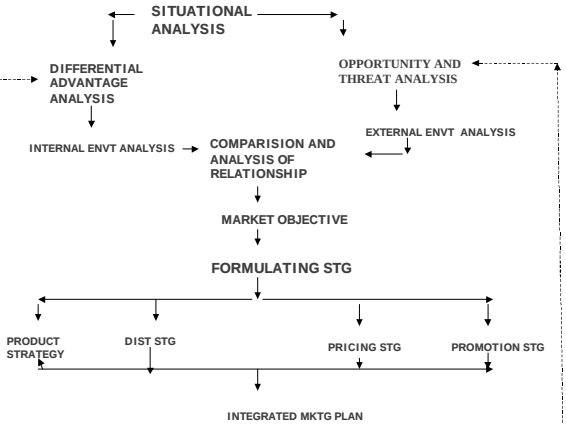
- PERSONAL CHARACTERISTICS
- POWER STRUCTURE

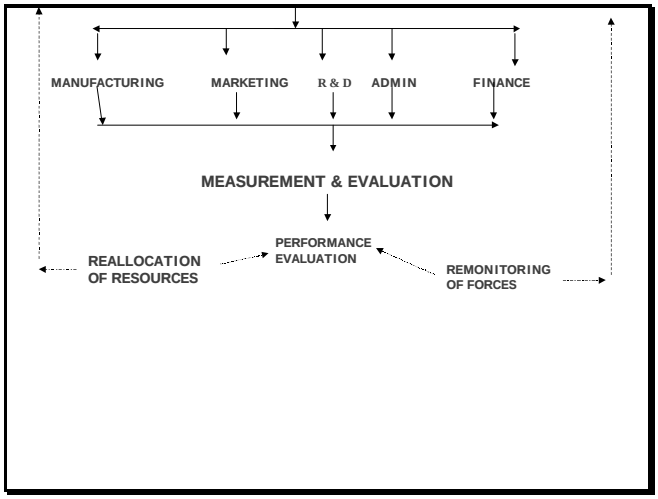
STRATEGIC PLANNING PROCESS

MC.KINSEY'S 7-S FRAMEWORK



- STRATEGY, STRUCTURE AND SYSTEM ARE THE HARDWARE
- SKILLS, STAFF, STYLE AND SHARED VALUES ARE THE SOFTWARE



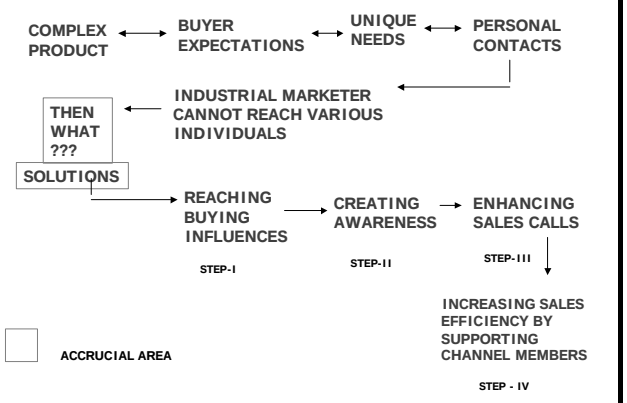


MARKETING COMMUNICATIONS

QUALITIES OF A GOOD SALES PERSON

1. His achievements speaks.
2. Gives straight answers.
3. Would not participate if not asked.
4. Prefers actions to Philosophizing.
5. Doesn't involve in internal politics.
6. Always looks towards the peer group.
7. Not afraid to ask for suggestions.
8. A crusader for the company.
9. Feeling's for company needs.
10. Insight for customer needs.
11. Happy to give field inputs.
12. Appreciates help given by department's for customer needs.
13. Believes more on phone than memo's.
14. Competitive drive comes naturally
15. Feels customer is God

ADVERTISING IN INDUSTRIAL MARKET



EIILM UNIVERSITY
SIKKIM

Jorethang, District Namchi, Sikkim- 737121, India
www.eiilmuniversity.ac.in