

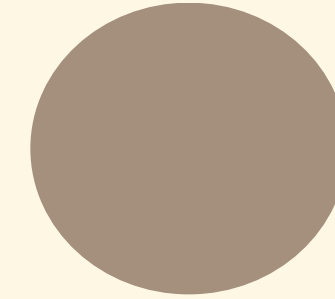
ORGANIZATIONAL MARKET SEGMENTATION



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DEALING WITH ORGANIZATIONS

ARE BUSINESSES LIKE PEOPLE TOO!



The previous lesson was focused primarily on the consumer market, which involves selling retail to individual consumers (hopefully, a lot of them).

But a reality check is in order: selling to the retail market is a difficult proposition. A reality check is in order: selling to the retail market is a game where more often than not you need to invest heavily in perceptions, distribution, merchandise management, customer service systems, and a host of other factors.

Meanwhile, selling directly to organizations—businesses, institutions, government units, and other groups—allows you to have an operation with potentially lower overhead. There are generally fewer factors to worry about when dealing with enterprise buyers as these generally buy in bulk and are most concerned about product quality, competitive prices, and service quality.

EXAMPLES

OF ORGANIZATIONAL MARKETS:

01

Manufactures

02

Restaurants and Quick-service food chains

03

Wholesalers and Retail chains

04

Marketing and distribution companies

05

Local government units (LGUs)

06

Government owned and controlled corporations (GOCCs)

07

Non-profit organizations

08

Hospitals and health centers

CHARACTERISTICS OF ORGANIZATIONAL MARKETS

While there are a number of similarities between consumer markets and organizational markets, here are some of the features that differentiate organizational selling from direct consumer sales:

FEWER AND LARGER BUYERS

Fewer and larger buyers. You will be dealing with private or public institutions and these tend to be few in number for any given industry. But when they do purchase items, they tend to do so in bulk. If you are selling stationery, for instance, you will probably only sell one notebook to each individual retail customer. But if you sell to a wholesaler, retailer, or to the purchasing office of a big company, then you will likely be selling notebooks by the hundreds to just this one client.

● **CLOSE CUSTOMER RELATIONSHIP**

Close customer relationships. Your salespeople tend to be a valuable resource when dealing with organizational clients. They try to build lasting relations with organizational customers, which generally includes the scheduling of regular client calls to always be attuned to the clients' needs.

● **GEOGRAPHIC CONCENTRATION**

Geographic concentration. Industries tend to locate in the same area as this allows for economies of industrial scale. Suppliers and buyers alike will locate at the same area to minimize transport, coordination, and other logistical costs. An example would be the Marikina shoe and leather manufacturing sector.

● **DERIVED AND FLUCTUATING DEMAND.**

When dealing with organizations, the demand for your product will actually be a function of the demand for their products. This is especially true when you supply materials for their production, but this is also likely true for the sales of non-component goods. It is because when business is good for your client, then chances are, their budgets for purchases go up as well. This also means, however, that demand can be unpredictable and inconsistent because your sales will depend on the particular industries' performances.

● **POTENTIAL FOR INELASTIC DEMAND.**

Inelasticity refers to a relative insensitivity of the sales of your product to any increase or decrease in its price. For example, you may raise your price and your customers may have no choice but to accept it provided that your product is considered to be an invaluable input to your customer's own products. An example would be if you are offering a superior building material to the construction industry and it has no competitive substitutes.

● **PROFESSIONAL PURCHASING.**

While consumer markets are often characterized by emotionally-triggered purchasing, well-run organizations typically set up purchasing offices that seek to maximize the impartiality of their purchase decisions.

The key difference between business markets and consumer markets is that the goal of business markets is to professionalize their purchasing procedures. This is because organizations seek to minimize possible opportunistic behaviors by its own buying officers. At the same time, they need to institutionalize effective buying processes in order to maintain consistency over the long run. This of course means that the less professional an organization is in how it conducts business, the closer it appears to approximate the behavior of an individual consumer.

MINIMIZING THE RISK OF PURCHASE

An organization that practices professional purchasing seeks to minimize its risks by implementing a set of procedures that are designed to (1) ensure access to sufficient information about the potential suppliers and their products (2) maximize the impersonality of the buying process: and (3) ensure a fair and competitive assessment of potential suppliers and their products. this complex process is equivalent to complex buying behavior in this case of consumer markets.

On the other hand, a less professional organization may opt to place a lot leeway on the decision-making abilities of just one or a few key people in the organization. This is especially ting structure. There may be no efforts professionalize purchasing, so decisions on which supplier to select may either be arbitrary or depend on who the decision-maker likes more on a personal basis (which is precisely what a professional purchasing organization seeks to avoid) Thus, in such non-professional buying setups, it is common for buyers to choos relatives, friends, or people who offer the most "gifts" as their supplier of choice.

BUYING SITUATIONS

STRAIGHT REBUY

- This refers to routinized purchases. This is ideal for suppliers who, for obvious reasons, hope to make purchases of their products a habit. Smart suppliers therefore seek to "lock" their markets to their products. The biggest challenge to suppliers would be professional buyers who institute a policy of reinitiating supplier searches every year or so. This is especially true when the act of switching suppliers does not take much cost on the part of the buyer.
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MODIFIED REBUY

- Here, a firm has already purchased the product in the past, so it is now familiar with the suppliers and basic data about their wares. However, the firm's specifications have changed from the last time, necessitating a new round of searching. At this stage, however, the firm has experienced working with at least one of the suppliers and therefore may have existing opinions about some suppliers already. It should be noted that being the existing supplier for a firm provides the supplier with a dramatic opportunity to prove that it is far better than other suppliers in the market. Such a precious opportunity should not be wasted!

NEW TASK

New Task. At this point, a firm still has no experience with the different suppliers in the market. Also, at this point, suppliers who have some brand recognition will have an advantage over the others, especially if the buyer is not equipped to assess technical differences among the products.

ROLES IN THE BUYING PROCESS

The following are the typical buying roles in organizational markets. Note some similarities between roles and those in consumer markets:

INITIATORS -identify problems.

INFLUENCERS -affect buying decisions.

BUYERS have formal authority to select suppliers and arrange terms.

DECIDERS have formal or informal power to select or approve final suppliers.

GATEKEEPERS -control the flow of information to others.

One difference would be the existence of the gatekeepers. Gatekeepers are people with authority or power to limit or filter the information that penetrates the organization. They can be as powerful as an executive secretary who refuses to allow a sales personnel to see a decision-maker or as trifling as a security guard who refuses to let a salesperson into the building.

Smart sales strategists minimize their arrogance and befriend gatekeepers of business markets, even possibly going as far as to give them gifts (note that even in a government contract bidding, there are no laws against giving gifts to gatekeepers because, technically, they are not part of the bidding committees!). Not only can gatekeepers get suppliers in, but they can even supply valuable intelligence information at times.

In fact, building good customer relations is just the first step in getting one's foot into the company's door. The next step involves convincing key buyers that your product offers maximum return on their investment and that the risks involved in selecting you as their supplier are acceptable. The third step involves building further on the relationship with the client by actively collaborating with them so that you become part of their reason for success. (Doerr 2014)

THE BUYING PROCESS

PROBLEM RECOGNITION

THE CLIENT ORGANIZATION
ACKNOWLEDGES THE NEED FOR A
PARTICULAR PRODUCT OR SERVICE.

GENERAL NEED DESCRIPTION

This is the start of a formal buying process where forms are filled out that justify the need for the purchase.

PRODUCT SPECIFICATION

Technical personnel are engaged in this process in order to provide the specific technical details for the needed product or service.

SUPPLIER SEARCH AND/OR PROPOSAL SOLICITATION

Possible suppliers are sought out or ads are placed in order to invite potential bidders.



THE BUYING PROCESS

SUPPLIER SELECTION

A formal selection process is consummated based on pre-established guidelines, leading to the determination of the supplying enterprise.

ORDER-ROUTINE SPECIFICATION

The purchase order is made out. If this will be a recurring purchase, then it is possible that this will become a long-term and therefore, routine transaction.

PERFORMANCE REVIEW

Both the product and the relationship with the supplier are evaluated in order to establish if there may be a need to look for alternative suppliers on the next round.



THE BUYING PROCESS

Generally professional buying of purchase (as discussed earlier) while unfortunately maximizing bureaucracy the process. Sales guru Jill Konrath recommends taking advantage of "trigger events in a company's operations th order for sales people to more easily penetrate the company. These are events that can drastically change the company's priorities such as poor quarterly earnings, new strategies, new products, rapid growth changes in ownership, or newingsgraphical expansions. These events often signaj moments when the company's guard goes down and their needs become urgent Under these conditions, purchasing opportunities can come about (Konrath 2010). For instance, if you are selling automobiles and you learn that a company is expanding its management, then this can be an opportunity to sell them car plans.

LOCKING DOWN THE CLIENT

It is important for a supplier to learn how to "lock" the client to its products and services. In other words, there must be something that the supplier can offer that would make it invaluable to the market. In order for this to happen, however, the supplier must first be strategically differentiated versus other possible suppliers.

A lack of differentiation among suppliers typically leads to a situation where each time a buyer needs an item, the buyer can easily initiate a modified rebuy situation rather than go for a straight rebuy. This is because the lack of differentiation among suppliers means that the buyers are looking at a commodity market: with one supplier being the same as any other, the buyer will be better off just making the suppliers fight it out over his account, possibly leading to a price war which will be to the buyer's benefit.

The trick is for the supplier to create tremendous "switching costs." These are the costs that will be incurred by a buyer if it decides to switch to a different supplier. Switching costs can come from the supplier making himself so indispensable to the operations of the buyer that the buyer will think twice before changing suppliers.

LOCKING DOWN

In small businesses, switching costs can be as simple as the supplier becoming a "Ninong" (godfather) to the buyer's child. In more professionalized circles, however, typical switching costs are more structural. In Japan, for instance, setting up a Just-In-Time manufacturing arrangement between a supplier and a firm, where the supplier is made the exclusive partner for a particular product or service in exchange for its strict adherence to the buyer's operational requirements, locks up the relationship practically for life because they become indispensable to one another.

THE CLIENT

A supplier that is sufficiently differentiated and offers highly invaluable goods and services can have a strategic advantage. Even a firm that has a tight buying bureaucracy in place may go as far as to decide to override this bureaucracy if there is no other supplier who can offer what a particular supplier can.



GEGE SALAMAT

