Course- MBA
4th Semester
BUSINESS TO BUSINESS (B2B)MARKETING LECTURE NOTES
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Module-1 Introduction to Business Marketing

Introduction

The fundamentals of consumer marketing are equally applicable to the industrial marketing. The work of the industrial market is exclusively different, as all the forces of market that affect industrial demand.

The managers of industrial market must react in a different way to change the markets, develop products to meet these changes, and market them in exclusively different ways to the target and business to business customers while maintaining corporate policies.

The Concept of Industrial Marketing

The Marketing concept for the business enterprises of industrial buyer is to define the needs of a target market and modify the organization's product or service to satisfy those needs more successfully than its competitors.

The marketing concept is applicable and important in both the industrial and consumer markets due to the differences in terms of the nature of markets. It is evident that consumer marketers have embraced the marketing concept fully than their industrial counterparts because Industrial customers like organizations-businesses, institutions, and government agencies have unique needs.

The industrial marketing concept involves more than facilitating exchange with these customers because it is based upon the structure of a partnership between buyer and seller for the purpose of achieving the organizational goals of both.

Definition of Industrial Marketing

The word Industrial Marketing is also interchangeably used as Business-to-Business Marketing, or Business Marketing, or Organizational Marketing. Industrial marketing/business marketing refers to marketing of the products and services to business organizations: manufacturing companies, government undertakings, private sector organisations, educational institutions, hospitals, distributors, and dealers. The business organizations, buy products and services to satisfy many objectives like production of goods and services, solving problems related to product usage, reducing warranty claims , making profits, reducing costs, and, so on.

Further, industrial marketing consists of all activities involved in the marketing of products and services to organizations, that use products and services in the production of consumer or industrial goods and services, and to facilitate the operation of their enterprises.

The vendor or marketer that sell steel, machine tools, computers, courier services, and other goods and services to business firms/buying organizations need to understand the buyers' needs, purchasing power/ resources, policies, and buying procedures. They have to create value (benefit) for the buying organizations (customers) with products and services and focus on buying organizational needs and objectives. For example, a small and proprietary firm, giving technical advice (or services) to paint-manufacturers is also doing business marketing.

Types of Exchange Process In Business Marketing

***Product Exchange**

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

***Information Exchange**

The information consists of technical, economic, and organisational questions:

1. Pre-sale, sale and post sale maintenance and servicing must be exchanged with the participants of decision making of business organization or buying firm.
2. Products and services must be designed, planned and implemented to serve customers efficiently.

***Financial Exchange**

The granting of credit or the need to exchange money from one currency to another at the time of dealing with foreign buyers/customers are included in this exchange. There exists reciprocity between buyer and seller in reference to financial exchange. As seller give credit the buyer also given loans to the seller during his shortage of working capital.

***Societal Exchange**

Societal exchange is important to reduce uncertainty between buyer and seller, avoiding short-term difficulties, and maintaining the long-term exchange relationship to one another. A number of aspects of an agreement between buyers and sellers in the industrial market are based on arbitration and mutual trust, not fully formalized or based on legal criteria until the end of the transaction period.

Importance of Industrial Marketing

- Deciding the target markets
- Finding out the needs and wants of the target markets,
- Developing products and services to meet the requirements of those markets, and
- Evolving marketing programmes or strategies to reach and satisfy target customers

Characteristics of Industrial Marketing

The Characteristics of industrial markets are

- Geographically concentrated
- The customers are relatively fewer
- The distribution channels are short
- The buyers (or customers) are well informed
- The buying organisations are highly organised and
- Use sophisticated purchasing techniques
- The purchasing decisions are based on observable stages in industrial marketing.

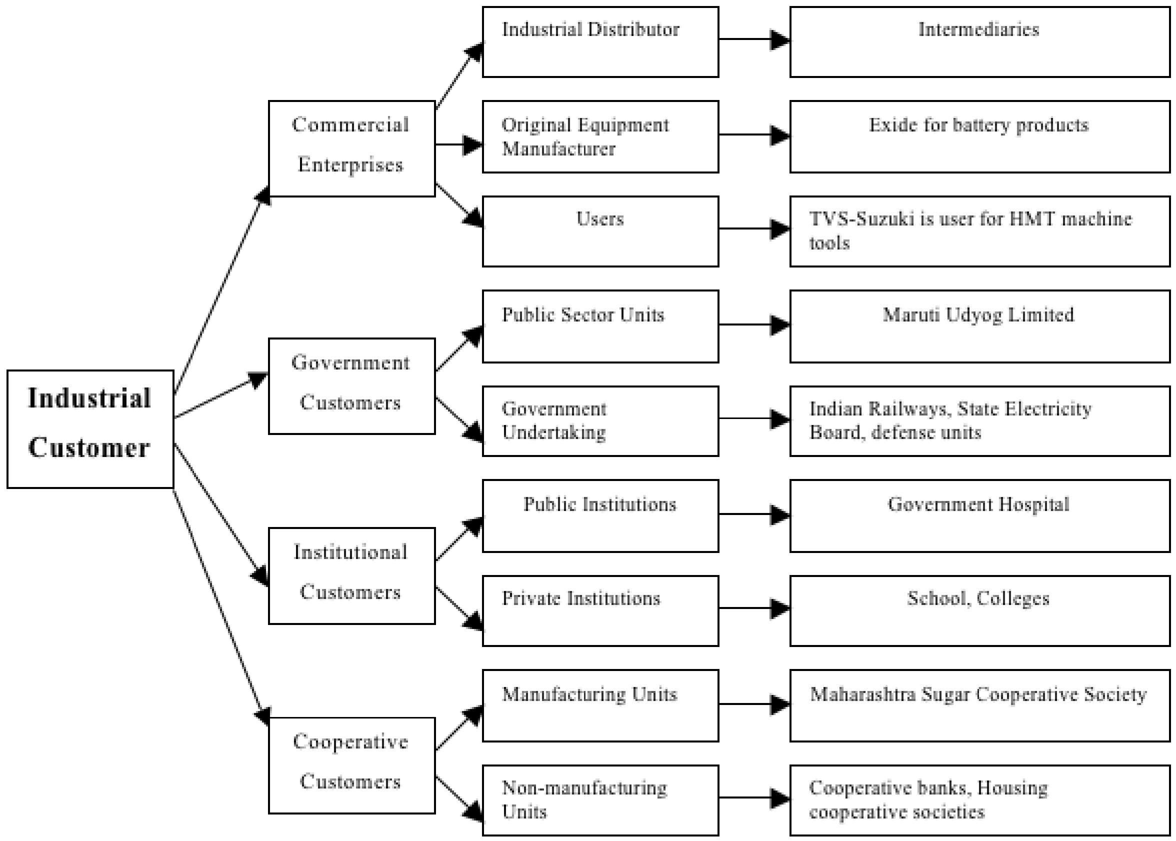
Consumer Marketing Vs. Industrial Marketing

Sr No.	Bases Of Segmentation	Industrial Markets	Consumer Markets
1	**Market characteristics**	Geographically concentrated, Relatively fewer buyers	Geographically disbursed, Mass markets
2	**Product characteristics**	Technical complexity, Customised	Standardised
3	**Service Characteristics**	Service, timely delivery and availability very important	Service, delivery, and availability somewhat important
4	**Buyer behaviour**	Involvement of various functional areas in both buyer and supplier firms, Purchase decisions are mainly made on rational/ performance basis, Technical expertise important, Stable interpersonal relationship between buyers and sellers	Involvement of family members, Purchase decisions are mostly made on physiological/social/ psychological needs, Less technical expertise, Non-personal relationship
5	**Decision-making**	Observable stages, Distinct	Unobservable, Mental stages
6	**Channel Characteristics.**	Shorter, More direct, Fewer intermediaries/ middlemen	Indirect, Multiple layers of intermediaries
7	**Promotional Characteristics**	Emphasis on personal selling	Emphasis on advertising
8	**Price Characteristics**	Competitive bidding, leasing, negotiated prices.	List prices or maximum retail price (MRP)

Types Of Business Customers

Industrial customers are normally classified into four groups:

- Commercial Enterprises,
- Governmental Agencies,
- Institutions, and
- Co-operative Societies.



- **Commercial Enterprises**

Commercial enterprises are private sector, profit-seeking organisations such as IBM, General Motors, Computer Land, and Raven Company, purchase industrial goods and/or services for purposes other than selling directly to ultimate consumers. However, since they purchase products for different uses, it is more useful from a marketing point of view.

Three types of commercial enterprises are categorised below;

I. Industrial Distributors and Dealers

Industrial distributors and dealers take title to goods; thus, they are the industrial marketer's intermediaries; acting in a similar capacity to wholesalers or even retailers. The intermediaries not only serve the consumer market but also serve other business enterprises, government agencies, or private and public institutions. They purchase industrial goods and resell them in the same form to other industrial customers.

II. Original Equipment Manufacturers (OEMs)

These industrial customers purchase industrial goods to incorporate the product into their final product that they produce . For instance, a tyre manufacturer (say, MRF), who sells tyres to a truck manufacturer (say, TELCO), under such as circumstance the truck manufacturer is referred as an OEM. Thus, the product of the industrial marketer (MRF) becomes a part of another firm's final product, say TELCO in this case.

III. Users

An industrial customer, who purchases industrial products or services, to support its manufacturing process or to facilitate the business operations is referred as a user. For example, drilling machines, press, winding machines, and so on are the products which support manufacturing process, again the products such as computers, fax machines, telephones, and others facilitate the operations of business.

- **Government Customers**

In India, the largest purchasers of industrial products are Central and State Government departments, undertakings, and agencies, such as railways, department of telecommunication, defense, Director General of Supplies and Disposal (DGS&D), state transport undertakings, state electricity boards, and so on. These Government units purchase almost all kind of industrial products and services and they represent a huge market.

- **Institutions**

Public and private institutions such as hospitals, schools, colleges, and universities are termed as institutional customers. Some of these institutions have rigid purchasing rules and others have more flexible rules.
An industrial marketing person needs to understand the purchasing practice of each institute so as to be effective in marketing the products or services.

- **Cooperative Societies**

An association of persons forms a cooperative society. It can be manufacturing units (e.g. Cooperative Sugar Mills) or non-manufacturing organisations (e.g. Cooperative Banks, Cooperative Housing Societies). They are also the industrial customers.

Types Of Business Products And Services

- **Materials and Parts**

Goods that enter the product directly consist of raw materials, manufactured materials, and component parts. The purchasing company, as part of manufacturing cost treats the cost as current or capital.

a) **Raw Materials**

These are the basic products that enter in the production process with little or no alternations. They may be marketed as either OEMs or user customer. For instance, when a large bakery purchases natural gas to fire the ovens that are used to produce cakes, it is a user customer. When the same firm purchases sugar for processing the cakes, it is an OEM.

b) **Manufactured Materials**

Manufactured materials include those raw materials that are subjected to some amount of processing before entering the manufacturing process e.g., Acids, fuel oil, and steel that are the basic ingredients of many manufacturing activities. For example, an aluminium extrusion unit buys aluminium billets to manufacture aluminium-extruded products such as door and window frames, by using an extrusion press. Thus, aluminium billets are called manufactured materials.

c) **Component Parts**

Component parts such as electric motors, batteries and instruments can be installed directly into products with little or no additional changes. When these products be sold to customers who use them in their production processes. Component parts are sold to the buyer based on the buyer's specification. The component parts are also sold to the dealers or distributors, who resell them to the replacement market. For example, MICO spark plugs are sold to a truck or car manufacturer, as well as to automotive dealers/distributors throughout India.

- **Capital items**

Capital items are used in the production processes and they wear out over certain time frame. Generally they are treated as a depreciation expense by the buying firm or user customers. These are classified as follows:

a) **Installations/Heavy Equipment**

Installations are major and long-term investment items such as factories, office buildings and fixed equipments like machines, turbines, generators, furnaces, and earth moving equipment. These items when purchased are shown in the balance sheet as plant and equipment, since they are fixed assets to be depreciated over a period of years. However, if these are leased, the purchaser treats the cost for tax purpose as an expense. As the unit purchase price of capital items is high, borrowing money for a period of time, which is roughly equivalent to the expected life of the fixed assets, finances these items.

B) Accessories/Light Equipment

Light equipment and tools which have lower purchase prices and are not considered as part of fixed plant, are power operated hand tools, small electric motors, dies; jigs, typewriters and computer terminals. Purchases of accessories are either consid¬ered as current expenses with purchase prices taken as operating expenses in the year purchased, or they may be considered as fixed assets and therefore, depreciated over a period of few years.

C) Plant and Buildings

These are the real estate property of a business/ organisation. It includes the firm's offices, plants (factories), warehouses, housing, parking lots, and so on.

- **Supplies and Services**

Supplies and services sustain the operation of the purchasing organisation. They do not become a part of the finished product. They are treated as operating expenses for the periods in which they are consumed. These items are referred as maintenance, repair and operating (MRO) items.

a) Supplies

Items such as paints, soaps, oils and greases, pencils, typewriter ribbons, stationery and paper clips come under this category. Generally, these items are standardized and marketed to a broad section of industrial users. **Operating items:** Again rugs, cotton, gloves, lubes and such likes are considered to be operating items since they are essential for running the machine smoothly.

b) Services

Companies need a broad range of services like building maintenance services, auditing services, legal services, courier services, marketing research services and others.

Buy-grid model

The buy-grid model is a business model depicting rational organizational decision making. Business marketers use the buy-grid model to portray the steps businesses go through in making purchase decisions. The model includes two components: **Buy Phase** and **Buy Class**.

Buy phase represents the logical **Eight steps businesses** in business decision making process. On the other hand the number of steps varies with the **Buy-class**.
There are **Three buy-class categories**:

- New buys,
- Rebuys, and
- Modified Rebuys.

While the complete buying process is typically used for new buys (purchases of products or services never used before), a majority of business purchasing decisions are either straight rebuys or modified rebuys. In straight rebuy situations, only the need recognition (the company almost out of the product) and reordering steps are used.

Many organizations, including government agencies, have formal purchasing procedures incorporating the buy-grid model.

Phases of Business Decision Making Process

Unlike the consumer purchasing decision process, which is 'mainly a series of mental stages, industrial purchasing decision making involves more physical and observable stages.

There are many decision makers involved in each of the **Eight stages as elaborated by the buy grid framework.**

1. Phase 1: Recognition of a Problem:

The purchasing/buying process begins when someone in the company recognises a problem or need that can be met by acquiring goods or services.

The common events that lead to this phase could be:
i. The company decides to develop a new product and needs new equipment and materials to produce this product.
ii. It decides to diversify or expand and hence requires a multitude of new suppliers.
iii. Purchasing Manager assesses an opportunity to obtain lower prices or better quality.
iv. A machine breaks down and requires replacement or new parts.
v. Purchased materials turn out to be unsatisfactory and the company searches for another supplier.

2. Phase 2: Description of the need:

This phase involves determination of the characteristics and quantity of the needed item. The general characteristics could be reliability, durability, price etc. and the marketer along with the purchasing manager, engineers and users can describe the needs.

The questions that could be posed are:
i. What performance specifications need to be met?
ii. What types of goods and services should be considered?
iii. What are the application requirements?
iv. What quantities would be needed?
The answers to such questions will give the marketer a general description of the need which will be the input for the next phase.

3. Phase 3: Product Specification:

Obtaining the input from the second phase, the buying organisation has to develop the technical specifications of the needed items. In this phase, the product is broken down into items. The items in turn are sorted into standard ones and new ones which need to be designed.

The specifications for both are listed. As a marketer, he must involve himself and his Technical and financial counterpart to determine the feasibility and also to elaborate the services they can offer to develop and supply the product. Unless it is a known supplier many companies do not encourage the supplier participation at this stage. Customer relationship plays a vital role here.

Here is an example of how the supplier firm can help the buyer firm in this phase.
Toyota Motor Corporation wanted to make a **'thinking car'** which could learn, memorise and react to inputs from the human environment. They found Sony Corporation had developed a mechanical dog displaying these features.

They involved Sony in the design of the car and evolved a 'pod' which was displayed at the 35th Tokyo Motor Show. Pod can exchange information with other vehicles, gauge the drivers' skill level; understand the drivers' mood etc. Instead of a steering wheel, it has a joystick. Sony Corporation was involved with Toyota Motor right from the design stage and its inputs were individual components styling the portable terminal, interior displays, joystick and development of ECU (Emotional Communication Unit) for expressing emotions.

4. Phase 4: Supplier Search:

This phase pertains to the search for the **qualified suppliers** among the potential sources. The marketer has to ensure that he is in the list of potential suppliers. For this to happen, he has to make periodic visits to all potential companies and create awareness. Brochures have to be circulated and advertisements placed in specific media like trade journals. This phase only involves making a list of qualified suppliers.

5. Phase 5: Proposal Solicitation:

The lists of qualified suppliers are now further shortened based on some critical factors. For example, if the buyer is not willing to try any new firm which has not been in the market for more than three years, it can delist those suppliers. Then the purchasing departments ask for proposals to be sent by each supplier.

After evaluations, based on the specified criteria, some firms are asked to come over for formal presentations. The proposal must include product specification, price, delivery period, payment terms, taxes of experts and duties applicable, transportation cost, cost of transit insurance and any other relevant cost or free service provided. For purchase of routine products or services, phases 4 and 5 may occur simultaneously as the buyer may contact the qualified suppliers to get the latest information on prices and delivery periods.
For technically complex products and services, a lot of time is spent in analysing proposals in terms of comparison on products services, deliveries and the landed cost.

A leading MNC which manufactures soaps requires the would-be suppliers to pass through three stages: that of a **Qualified supplier, an Approved supplier and a Select supplier.** To become qualified, the supplier has to demonstrate technical capabilities, financial health, cost effectiveness, high quality standards and innovativeness.

A supplier that satisfies these criteria then applies sample lot for approval. Once approved, the supplier becomes a ‘select supplier’ when it demonstrates high product uniformity, continuous quality improvement **(TQM) and JIT** delivery capabilities.

6. Phase 6: Supplier Selection:

Each of the supplier’s presentations is rated according to certain evaluation models. The buying organisation may also attempt to negotiate with its preferred suppliers for better prices and terms before making a final decision.

7. Phase 7: Order Routine Specification:

After the suppliers have been selected, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties etc. In case of maintenance, repair and operating items, buyers are increasingly moving towards blanket contracts rather than periodic purchase orders. ***Blanket contracting*** leads to more single sources buying and ordering of more items from that single source. This system brings the supplier in closer with the buyer and makes it difficult for out-suppliers to break in unless the buyer becomes dissatisfied with the insuppliers’ prices, quality or service. SKF India, the Swedish multinational manufacturing bearings in Pune and Bangalore, was the single source supplier of ball bearings to TVS Motor Company, located at Chennai.

8. Phase 8: Performance Review:

The final phase in the purchasing process consists of a formal or informal review and feedback regarding product performance as well as vendor performance. The buyer may contact the end user and ask for their evaluations which are in turn given to the supplier or he may rate the supplier on several criteria using a weighted score method or the buyer might also aggregate the cost of poor supplier performance to come up with adjusted costs of purchase including price.

Buying Situation Types

There are three common types of buying situations namely
* New Buy(or New task),
*Modified Re-buy, and
* Straight Re-Buy; discussed as follows

* **New Buy**
The industrial buyers buy the item for the first time in this situation. The need for a new purchase may be due to internal or external factors. For example, when a firm decides to go

for new purchase (i.e., the firm not having bought the product previously) the buyers have no knowledge or insufficient knowledge coupled with lack of previous experience.

Therefore, the buyer has to obtain a variety of information about the product, the suppliers, the prices and so on. The risks are more, decisions may take longer time, and more people are involved in decision making in the new purchase decisions. It is a case of active search and high involvement on the part of the decision making unit.

*__Modified Re-Buy__

This situation occurs when the organisation is not satisfied with the performance of the existing suppliers, or the need arises for cost reduction or quality improvement. The change in supplier may also be necessary if technical people in the buying organization ask for changes in the product specification, or marketing department asks for redesigning the product to gain some competitive advantage.

As a result, search for information about alternative sources of supply becomes necessary.

Therefore, the modified re-buy situation occurs mostly when the buying firms are not satisfied with the performance of the existing suppliers. The search process is passive search or limited search coupled with low involvement situation.

*__Straight Re-Buy__

If the buying organization requires certain products or services continuously and products/services had been purchased in the past then the situation of repeat purchase occurs. In such a situation, the buying organisation reorders/places repeat orders with the suppliers who are currently supplying such items.

This means that the product, the price, the delivery period, and the payment terms remain the same in the reorder, as per the terms of trade that were agreed upon while the vendor was being empanelled as a supplier. This is a routine decision with low risk and less information needs, taken by a junior executive in the purchase department. Generally, the buying firms do not change the existing suppliers if their performance is satisfactory.

Decision Making Unit or Buying Centre

It is essential to understand the roles of buying-centre members or decision-making units (DMUs) before identifying the individuals and groups involved in the buying-decision process. It is helpful to the industrial marketers to develop an effective promotion strategy. The roles of buying centre members are as follows:

*__Initiators__

The initiators might be individual(s) in the buying firm. Often, the users of a product/service play the role of the initiators.

*__Gatekeepers__

The gatekeepers are those individuals who control (or filter) the flow of the information regarding products and services to the members of the buying centre. Sometimes, the gatekeepers may control sales people's meetings with the members of the buying centre. Gatekeepers are often the assistants or junior persons attached to purchase (or materials) manager.

*__Influencers__

Those individuals who influence the buying decision are known as influencers. Generally, technical people such as designers, quality control engineers have a substantial influence on purchase decisions. Sometimes, individuals outside the organisation, who are experts or consultants, play the role of influencers by drawing specifications of products or services.

***Deciders**

The deciders make the actual buying decisions. They may be one or more individuals involved in the buying decision. It is very significant to identify the deciders, although at times it may be difficult task. Generally, for routine purchases the buyer (or purchase executive) may be the decider. But, for high-value and technically complex products, senior executives are the deciders.

*__Buyers__

The major roles of buyers are obtaining quotations (or offers) from suppliers, supplier evaluation and selection, negotiation, processing purchase orders, speed up deliveries, and implementing purchasing policies of the organization. Generally, they are the purchase (or material) officers and executives.

* **Users**

The user is those individuals who use the product or service that is to be purchased. Generally, users play the role of the initiators. The influence of the users in purchasing decisions may vary from minor to major. They may define the specifications of the needed product. They may be shop-floor workers, maintenance engineers, or R&D engineers.

After understanding the roles of DMUs, industrial marketers, must identify the individuals and groups who are the members of buying centre. The DMUs are useful tools which answers the questions of a purchase act-Who are involved in buying decision in an industrial organization? It is defined as a body of all the individuals or groups participating in the buying decision process and who have interdependent objectives and share common risks. The emphasis in the buying centre is on the organizational groups i.e. the functional areas, which participate in the buying decision process.

Key Members in Buying Organisation

The following discussion clarifies different key members or DMUs in industrial buying decisions:

***Top Management**

For purchases of high value capital equipment, the top management in most firms got involved in the supplier selection, as it may have a major impact on the firm's operations. The top management in an industrial organisation consists of managing director, director, presidents, and vice-president of general manager. They are generally involved in purchase policy decisions such as diversification into a new product/project, approval of purchase or materials department annual budgets and objectives, and deciding the guidelines for purchase decisions.

***Technical Persons**

The technical persons are designers, production manager, maintenance manager, quality control manager, R & D manager, and industrial engineers. Generally, they are involved in product specification or description, technical evaluation of offers received from suppliers, negotiations with suppliers, performance feedback on products supplied, and so on. They visit the factories of potential suppliers to achieve more information and assurance of manufacturing capability.

***Purchasers**

Buyers are the individuals in the purchase or materials department. They may be senior executives or managers, and also, at junior levels, purchase officers or assistants. Generally, they are involved in most of the phases or steps of the purchase activities. They coordinate with technical persons, top management, accounts or finance persons within an organization, as well as, with suppliers or vendors externally. Buyer's influence on selection of suppliers is considerable. They are conscious of keeping good relations with other decision-making members within the organization and also with the suppliers.

***Accounts/Finance Persons**

The contribution of finance/accounts persons are seen while finalizing commercial terms such as modes of payment, issuance of bank guarantees, financial approval of capital purchases, issuing payments to suppliers, and so on.

***Marketing People**

When a purchase decision has an impact on the marketability of a firm's product, marketing people become influencers in the buying decision process. For example, a manufacturing firm market the electric motors had to change its packing due to damages caused to the product in transportation. It also affects the satisfaction level of the customers. The marketing manager insisted that suppliers should use good quality and thicker wood for packing the motors to minimize damage in transit.

<u>The Webster and Wind Model</u>

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

The environmental variables include physical, technological, economic, political, legal, labour unions, cultural, customer demands, competition and supplier information.
For example, in a recessionary economic condition, industrial firms minimize the quantity of items purchased.
The environmental factors influence the buying decisions of individual organisations. The organizational variables include objectives, goals, organisation structure, purchasing policies and procedures, degree of centralization in purchasing, and evaluation and reward system.

These variables particularly influence the composition and functioning of the buying center, and also, the degree of centralization or decentralisation in the purchasing function in the buying organisation.

Environmental variables
• Physical
• Technological
• Economic
• Political and legal
• Labour unions
• Cultural
• Customer demands
• Competitive practices moreover pressures
• Supplier information

Organisational Variables
• Objective/goals
• Organisation structure
• Purchasing policies and procedures
• Evaluation and reward systems
• Degree of decentralization in purchasing

Buying Centre Variables
• Authority
• Size
• Key influencers
• Interpersonal relationship
• Communication

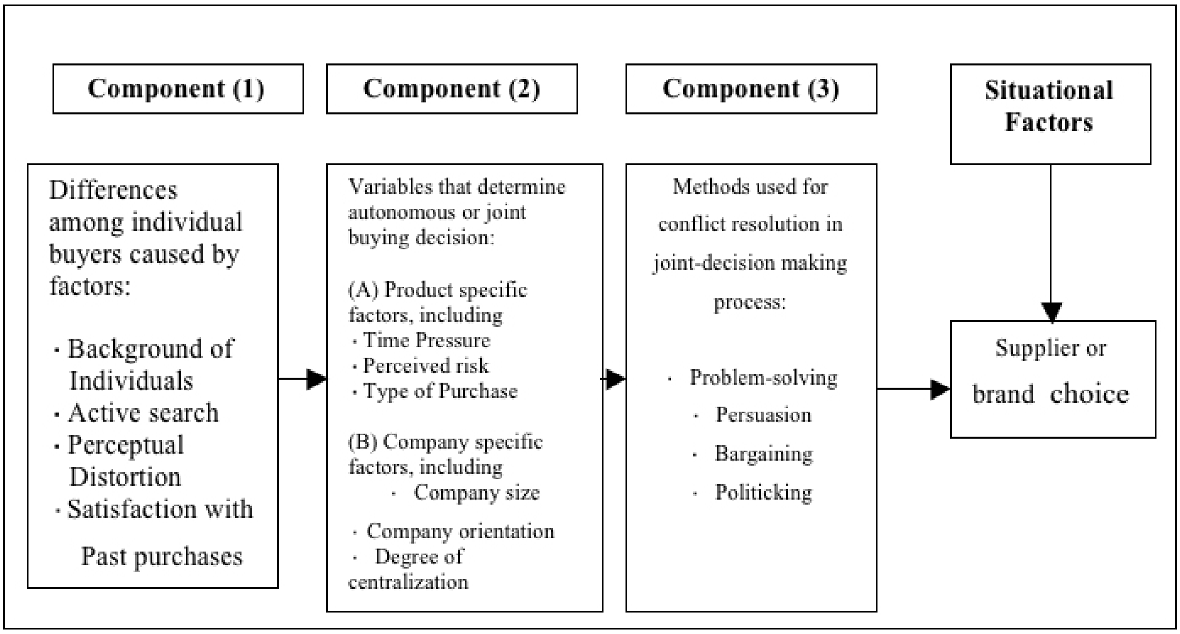
Organisational Buying Decisions
- Choice of Suppliers
- Delay decision and search for more information
- Make, or lease, or buy
- Do not buy

Individual Variables
• Personal Goals
• Education
• Experience
• Values
• Job position
• Lifestyle
• Income

Diagram of Webster and Wind Model.

The functioning of buying centre is influenced by the organisational variables the environmental variables, and the individual variables. The output of the group decision-making process of the buying centre includes solutions to the buying problems of the organisation and also the satisfaction of personal goals of individual members of the buying centre. The strengths of the model, developed in 1972, are that it is comprehensive, generally applicable, analytical, and that it identifies many key variables, which could be considered while developing marketing strategies by industrial marketers. However, the model is weak in explaining the specific influence of the key variables.

The Sheth Model



In 1973, Professor Jagdish N Sheth developed the Sheth model. This model highlights the decision-making by two or more individuals jointly, and the psychological aspects of the decision-making individuals in the industrial buying behaviour It includes three components and situational factors, which determine the choice of a supplier or a brand in the buying decision making process in an organization.

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MODULE-2 Segmentation, Targeting and Positioning in Business Market

- Meaning of Industrial / Business Marketing
- Difference between Business and Consumer Marketing
- Marketing planning - the link with strategic planning
- Driving growth parameters in business-to-business (B-2-B)

Introduction

Business marketing is the practice of organizations, including commercial businesses, governments and institutions, facilitating the sale of their products or services to other companies or organizations that in turn resell them use them as components in products or services they offer, or use them to support their operations. Also known as industrial marketing, business marketing is also called business-to-business marketing, or b-to-b marketing, for short.

Business marketing vs. Consumer marketing

While consumer marketing is aimed at large demographic groups through mass media and retailers, the negotiation process between the buyer and seller is more personal in business marketing most business marketers commit only a small part of their promotional budgets to advertising and that is usually through direct mail efforts and trade journals. While that advertising is limited, it often helps the business marketer set up successful sales calls.

Who is the Business Marketing Customer?

While “other businesses” might seem like the simple answer, business customers fall into Four broad categories:

1) Companies that consume products or services (OEMs/ USERS),

2) Government agencies and Private organisation

3) Institutional Buyers and

4) Resellers.

The first category includes original equipment manufacturers, such as automakers, who buy gauges to put in their cars, and users, which are companies that purchase products for their own consumption. The second category, government agencies, is the biggest. In fact, the U.S. government is the biggest single purchaser of products and services in the country, spending more than $1200 billion annually. But this category also includes state and local governments. The third category, institutions, includes schools, hospitals and nursing homes, churches and charities. Finally, resellers consist of wholesalers, brokers and industrial distributors.

Marketing planning

Businesses that succeed do so by creating and keeping customers. They do this by providing better value for the customer than the competition. Marketing management constantly have to assess which customers they are trying to reach and how they can design products and services that provide better value ("competitive advantage"). The main problem with this process is that the "environment" in which businesses operate is constantly changing. So a business must adapt to reflect changes in the environment and make decisions about how to change the marketing mix in order to succeed. This process of adapting and decision-making is known as marketing planning

Strategic planning- A key to Effective Marketing Planning

Strategic planning is part of strategic marketing management. It addresses the need to respond to external environment, competitive environment and internal environment. It is concerned with marketing, of course. But it also involves decision-making about production and operations, finance, human resource management and other business issues that affect the marketing response to combat the external and competitive environment.

The objective of a strategic marketing plan is to set the direction of a business and create its shape so that the products and services it provides meet the overall business objectives For example, in many small businesses there is only one geographical market and a limited number of products (perhaps only one product). However, consider the challenge faced by marketing management in a multinational business, with hundreds of business units located around the globe, producing a wide range of products. How can such management keep control of marketing decision-making in such a complex situation? This calls for well-organised marketing planning.

Key issues that should be addressed in Marketing Planning

- The following questions lie at the heart of any marketing (or indeed strategic) planning process:
- Where are we now?
- How did we get there?
- Where are we heading?
- Where would we like to be?
- How do we get there?
- Are we on course?

Essential of Market planning

Businesses operate in hostile and increasingly complex environment. The ability of a business to achieve profitable sales is impacted by dozens of environmental factors, many of which are inter-connected. It makes sense to try to bring some order to this chaos by understanding the commercial environment and bringing some strategic sense to the process of marketing products and services.

A marketing plan is useful to many people in a business. It can help to:

- Identify sources of competitive advantage
- Gain commitment to a strategy
- Get resources needed to invest in and build the business
- Inform stakeholders in the business
- Set objectives and strategies
- Measure performance

What are the driving growth in B-to-B

The tremendous growth and change that business marketing is experiencing is due in large part to three "revolutions" occurring around the world today. Some of the key criteria that are evident in business arena are as follows:

First is the **Technological revolution**. Technology is changing at an unprecedented pace, and these changes are speeding up the pace of new product and service development. A large part of that has to do with the Internet, which is discussed in more detail below.

Second is the **Entrepreneurial revolution**. To stay competitive, many companies have downsized and reinvented themselves. Adaptability, flexibility, speed, aggressiveness and innovativeness are the keys to new frameworks, theories, models and concepts. Marketing is taking the entrepreneurial lead by finding market segments, untapped needs and new uses for existing products, and by creating new processes for sales, distribution and customer service.

The third revolution is **Relationship Marketing**, the one occurring within marketing itself. Companies are looking beyond traditional assumptions and adopting new frameworks, theories, models and concepts. They're also moving away from the mass market and the preoccupation with the transaction. Relationships, partnerships and alliances are what define marketing today. The cookie-cutter approach is out. Companies are customizing marketing programs to individual accounts.

Marketing Planning vs. Strategic Planning in Business Marketing

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.

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**- A market leader is a company with the largest market share in an industry that can often use its dominance to affect the competitive landscape and direction the market takes.
- **Market challenger**- A market challenger is a firm which is just below the market leader with a good presence. The basic aim of the market challenger is to expand its market share and become the industry leader by introducing a new variety of products or by improving customer service etc.
- **Market follower**- A market follower is a company that follows what the leader in its sector does. A market follower does not like taking risks, i.e., it is the opposite of a maverick. Instead, it waits and observes what its competitors do, especially the market leader. It then only adopts the leader's successful strategies.
- **Market nicher**- Market Nichers are the marketers or companies who make specific products and/or services which made for specific demand of customers which are not met by otherwise available products. They produce highly customized and specialist products/ services which serve a narrow market range.

There are **Five 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.
  (Example- Android vs. Apple's iPhone)

Corporate strategic planning involves four planning activities

1. 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.
2. 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 centres.
3. The third activity calls functional level strategic management in each of the SBU.

4. The fourth activity calls for expanding present businesses and developing new ones to fill the strategic-planning gap.

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.

Strategic Planning In the Industrial Market

While the basic principles of planning apply in both markets namely, industrial and consumer, 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 marketing approach. A producer of communication equipment, for instance, may market 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.

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 department, failing to recognize the interdependency between marketing and other functional areas. Perhaps this is due to what may be referred to as “functional isolation.

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 function and 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 between all key functional areas.

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. 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.

- The firm is limited in what it can design because one has to keep it simple for marketing because neither the customer nor the marketing department understand the product and how it is supposed to work.
- The information that marketing includes is sometimes so exaggerated, that the firm could get sued for false advertising.
- Trying to package so many products and hold costs down is extremely difficult and finally it could lead to a situation where to sell such a product is difficult. The query exist that why can’t we have reasonable Quality at reasonable costs.
- Technical selling through technical expert to soothe customers is the call of the day even though the buying firm really may not have a problem.
- Engineers always go by the book, they prefer that the warranty clause be robust enough for the product failure to be remote or only incidental and in such cases contingency plan must be ready.

Alleviating Conflict

Alleviating conflict begins with developing an understanding of the basic causes of interdepartmental conflict. Conflicts arise due to the fact that each area is evaluated and rewarded on different dimension.

The inherent complexities of the different functional areas and the different perceptions of the individuals involved magnify the problem. Conflicts owing to differences in how departmental individuals perceive their prestige, power and knowledge are quite common. Budget constraints, rapid company growth, and the rapid pace 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) are increased between the marketing and other .

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

Firms often design many products, now with numerous options it is hard to maintain quality and keep costs down.

Firms suffer from the drawback of not having enough manpower and further they hold the hand of some pet customers of marketing thereby limiting their knowledge base.

Often marketing departments want the firms to pay the full amount of every claim, even when sometimes the claim being invalid one.

Market Definition

A market is

It represents a set of present and potential individual(s) or organizations, who have needs for products in a product class and who have the ability, willingness and authority to purchase such products (conditions needed for an exchange).

Types of markets

1. **Consumer Market**- It intends to consume or benefit for an outcome of satisfaction, but not to make a profit.
2. **Organizational/Business Market** For:

- ✓ Resale
- ✓ Direct use in production
- ✓ General daily operations.

Developing a Target Market Strategy

- ✓ A Product will not sell by itself;
- ✓ The Firm needs the best of strategies.
- ✓ At first a firm intends to define a segment or segments where in it intends to operate.
- ✓ After drawing a strong strategy plan for each such segment(s), one needs to develop a target market based on one's limited asset.

Targeting: Selection of Right segment

A Product will not sell by itself; it needs the best of strategies. At first a firm intends to define a segment or segments where in it intends to operate. After drawing a strong strategy plan for each such segment(s), one needs to develop a target market based on one's limited asset. .

1. Selecting Target Markets by Analyzing Demand

(a) Market Segmentation Approach.

Market segmentation is the process of dividing a total heterogeneous market into market groups consisting of occupants who have relatively similar product needs, there are clusters of needs. The major bases of segmentation for Industrial Marketing are following enumerated below:

- ❖ **Characteristics of Buying Organisations**

  - Size (The scale of operations of the organization)
  - Geographical Locations
  - Usage Rate
  - Structure of Procurement

- ❖ Product Application

- ❖ **Characteristics of Purchasing Situations**

➢ **Type of Buying Situation**

- New Task
- Modified Rebuy
- Straight Rebuy

➢ **Stage of Purchase Decision Process**

- Need/Problem Recognition
- Information Search
- Evaluation of Alternatives
- Purchase Decision
- Purchase
- Post purchase decision

***Selected Micro bases of segmentations** are used to further segment the market. Some of the important variables are enumerated below:

- Purchasing Strategies
- Structure of Decision Making
- Importance of Purchase
- Attitude towards Vendors
- Organisational Innovation
- Some key criteria (Quantity, Delivery, Reputation,etc)

The major and minor bases make the segmentation effective. One finds that the segmentation variables are different in industrial market from that of consumer market. The criteria of the segments being considered so are:

- It should be measureable.
- It should be accessible
- It should be substantial for doing business
- It should be communicable.

The firm has limited capacity and considering the segment to be large it has to operate based on its own resource base or the asset base. Thus though segments could be many it needs to follow some strategy to meet its own goal.

(b) Target Market

Developing a target market strategy has three phases:

1. Analyzing consumer demand
2. Targeting the market(s)

- Undifferentiated
- Concentrated
- Multi-segmented

3. Developing the marketing strategy

- **<u>Concentration Strategy</u>**

A firm that does targeting of only one segment with a unique marketing mix is referred as concentrated marketing strategy. It the company is small or new to the field, it may decide to go for concentrated strategy.

- **Multi-segment strategy (or also called as Differentiated marketing strategy)**

Here targeting is inclusive of many segments using individual marketing mixes is called differentiated marketing strategy. Here two or more segments are sought with a Marketing Mix for each segment, different marketing plan for each segment. This approach combines the best attributes of undifferentiated marketing and concentrated marketing. On long term for full coverage this a worthwhile strategy.

- **Undifferentiated Approach (Total Market Approach)**

This approach does not differentiate the market according to any variable. In this case a Single Marketing Mix for the entire market identified is laid out. All consumers have similar needs for a specific kind of product. Target Market may be following a concentrated segment, multiple segments or an undifferentiated segment but it must be portion of it. This portion is chosen based on the following criteria.

- Firm’s strategic incursion to a segment.
- The preference to the product awareness more rather than the unawareness
- The favourable demand situation where in the threat of entry is less
- The incremental margin or revenue is high to cost
- There exists the possibility of faster penetration and higher growth.

Differential Value Creation in Marketing Mix

In modern internet marketing era, the organisations are bound by 3 key elements link the organization to its customers

- Information Technology
- Micro Marketing
- Relationship Marketing

- **Information Technology (IT)**

IT designed computer and communication systems to satisfy organizations Information needs.

Marketing Research is the information gathering arm of IT. IT is the framework for the day-to-day management and structuring of information gathered regularly from sources outside and inside the organization:

Effective **IT** provides a continuous flow of information, regarding: prices, advertising expenses, sales, and competition distribution expenses.

Processing classifying information and developing categories for meaningful storage and retrieval. Marketers can then determine which information-the *output*-is useful for decision making. *Feedback* enables adjustments to the input.

- **Micro Marketing Segmentation**

- Demographic
- Media
- Consumption profiles of customers.

In order to target customers more efficiently marketers can use multi variable segmentation incorporating Buyer Behaviour information and Demographic information. What people have done in the past (Purchase) is a better predictor to future behaviour than any other characteristic/variable. Use frequent user programs to collect data on heavy user customers.

- **Relationship Development for high performance.**

Old model, sell one product to as many customers as possible (target market). New model, sell as many products to one person, one-to-one focus on the life-time value of the customer (LVC) instead of the individual transaction. While life time value is the method the preceding condition is that the relationship should be worth developing which means that there should be and economic criteria for the customer to be included for such relationship marketing. Firms first provide for the financial relationship, then the social relationship and finally the structural relationship. Customers previously in banking had a ‘one to one relationship’ with firm, this was the inception point where in services this relationship marketing bloomed, of course this marketing diffused to other industry as well later on owing to its merits. Now companies have the technology to have a 1 2 1 (few) relationship with their customers.

- ✓ Businesses will tend to work on creating positive relationships when it comes to business to business marketing where the main goal is to build a long term relationship.

- ✓ There is few importance of relationship development in B2B marketing. One of the importance is to create an ongoing repeated relationship where the buyer makes constant purchases as post purchase services will be offered.
- ✓ Besides that, innovative solutions can be created when there is a good relationship developed between the seller and the buyer.

This is where the buyer can get solutions for the problem that the buyer is facing when they confront the seller. Furthermore, the period of buying and selling can consume time and having a well developed relationship will allow the buyer and seller to have patience.

- ✓ ***And lastly, a solution oriented relationship can be created which will allow the buyer and seller to focus on coming out with solutions that would help them to do the business***

Pricing of Industrial Products

The industrial marketers should understand the various aspects of the pricing, since pricing is the most critical part of industrial marketing strategy. Different strategies such as market segmentation strategy, product strategy, and promotion strategy are related to pricing strategy. In order to achieve the dual objective such as to meet the company objective and satisfy the market needs, the industrial marketer has to integrate the various strategies.

Product specific attributes

➢Company related attributes and

➢ Sales personnel related attributes.

Therefore, the total product includes much more than its physical attributes. In the same way the cost of industrial products includes much more than the seller's price. Hence, decisions on pricing and products are inseparable and must be balanced with in the firm's market segmentation plan.

Factors Influencing Pricing Decision

The factors influencing pricing decision of an industrial marketing firm is explained below.

a) Survival

Survival is one of the short term objectives for many industrial companies. Due to intense competition and other reasons the firm may be unable to sell its products. For the survival of the firm it reduces the prices to convert the inventory into sales. The survival is more important than prices. The prices are fixed in such a way that they cover variable cost and a part of fixed cost so that the company continues in business. Survival is only a short term pricing objective and in the long run the firm must increase its prices to cover total cost and end up with some profits.

b) Maximum short term sales

To maximize the sales revenue in the short run is the pricing objective for some firms. The belief behind such an objective is that by maximizing sales revenue in the short run the firms will have growth in terms of market share and also have profit maximization.

c) Maximum short term profits

Setting prices with the objective of maximization of profit in the short run may be pricing objective of some of the marketing firms. These firms estimate the market demand and costs at alternative prices and select the price that maximizes the present profits. Estimating demand and cost is very difficult. This objective emphasizes on short term profit maximization rather than long term performance and customer relationships. The competitors' reactions and legal implications are not considered by the companies adopting this objective.

d) Market penetration

Based on the assumption that the market is price sensitive and that the low prices will increase sales; the prices of products are fixed as low as possible by some firms with the objective of maximizing sales volume and market share of its products. The other assumptions underlying are low prices will discourage entry of potential competitors and highest volume will reduce the production and distribution cost and leads to higher profits in the long run.

e) Maximum market skimming

In the initial stages of the product life cycle high prices are fixed by some firms when they introduce new and innovative products. The new product is initially aimed at those market segments where demand is least sensitive to price. The firm skims maximum revenue and profits by adopting the skimming objective of pricing.

f) Product-quality Leadership

By producing superior quality products and charging little higher prices than the competitors price the industrial marketing firm may have an objective to be product quality leader in the market. This pricing objective results in higher profits.

Pricing of industrial products

List price

List price is a base price or the basic price of a product consisting of various sizes or specifications. It is the published statement of basic prices which is sometimes quoted or informed to the customers. The list price statement indicates the effective date of its applicability and mentions the extra charges for optional product features, the excise duty, freight, sales tax, octroi, and transit insurance. The net price is worked out based on list price less discounts or any other concessions. The net price is most important to the organizational buyers because that is the price which is applicable to the industrial buyer after subtracting discounts and concessions.

Trade Discounts

The trade discounts are offered to the intermediaries such as dealers and distributors. The amount of trade discount depends on the particular industry norms or the functions performed by the intermediaries.

Quantity Discounts

A quantity discount is granted to industrial customers who buy large volumes. It is a price reduction given by subtracting the volume discount from the list price. The quantity discounts are justified as they reduce the cost of selling (since a bulk moves out with lesser of personal selling expense), inventory carrying, and transportation. The quantity discounts are given either on individual orders or on a series of orders over a longer period of time, usually one year. The basic idea behind offering quantity discount is to encourage customers to buy larger quantities and to maintain their loyalty. The decision on the amount of quantity discount depends on demand, costs, and competition analysis.

Cash discount

To ensure prompt payments cash discounts are offered to customers in industrial marketing. It is discount applicable on the gross amount of the bill, provided customer pays the bill within the stipulated period from the date of invoice.

Geographical Pricing

Geographical pricing refers to the location at which the price is applicable. Geographical pricing strategy is influenced by a number of factors such as the location of the company's plant, the location of the competitors' plants and their pricing strategies, dispersion of customers, extent of transport costs, demand and supply conditions and competitive environment. In geographical pricing, there are generally two methods of price basis which are stated in the offers or quotations submitted by a seller to a buyer. These are

(i) Ex-factory and

(ii) FOR destination.

Ex-Factory

"Ex-factory" means the prices prevailing at the factory gate. When a seller quotes to a buyer "ex-factory price', it means that the freight and transit insurance costs are to the buyer's account. In other words, the seller will charge the costs of freight and insurance to the buyer. The more distant customers' landed costs are higher because of freight cost.

FOR Destination or FOB Destination

When a seller quotes to a buyer "FOR destination or FOB destination" (free on road/free on board destination), it means the freight costs are absorbed by the seller or included in the quoted prices

In this method of price basis, all the customers get the product at the same price irrespective of their locations from the seller's factory premise. If the quotation or the price list is on FOR destination basis, generally the industrial marketer estimates the average freight and insurance costs and adds the same to the basic product prices. Absorbing these costs is rarely done by a seller; it is done only in an intense competitive situation to get business from a particular customer.

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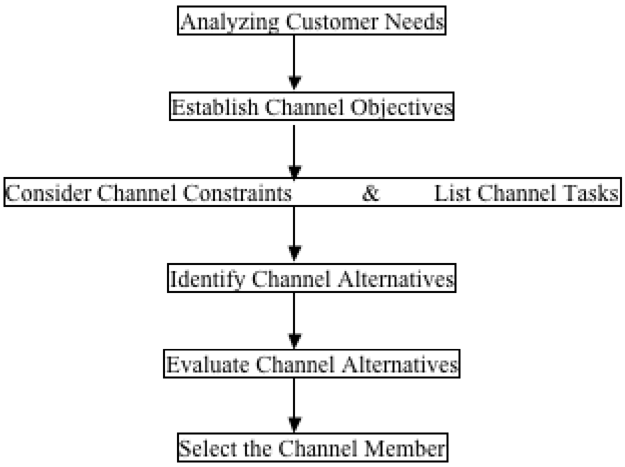
MODULE-3 DISTRIBUTION MANAGEMENT

Introduction

It is very important that a distribution channel is properly aligned to satisfy the needs of channel members and also for the success of any industrial marketing strategy. A good industrial channel creates the title and physical supply linkages with existing and potential customers. Channel designing is a dynamic process that consists of either developing the new channels or modifying the existing ones.

Business Channel Design Process and Strategy

Designing an appropriate industrial channel and managing it is a tough and continuing task. A well designed channel structure helps to achieve the desired marketing objectives. A channel structure consists of types and number of middlemen, terms and conditions of channel members, number of channels. The various steps that are involved in channel design are given in the following figure.



a. Analyzing the needs of the customer

When a marketer designs a marketing channel, he must understand the service output levels desired by the target customers. Different customers have different levels of service requirements. A high potential customer needs to be offered effective and professional service backup, ensured availability of varied products compared to the low potential customer. The marketing channel designer has to know at this stage itself that providing superior service output means increased channel costs and higher prices for customers.

b. Establishing channel objectives

Channel objectives are aligned to the company's marketing objectives that need to be stated in terms of targeted service output levels. Profit considerations and asset utilization must be reflected in channel objectives and the resultant design.

For example, while a customized non-standard product requires company sales force to sell directly, products like HVAC (Heating, Ventilation and Air-conditioning) are either sold by the company or its franchised dealers.

c. Considering channel constraints

The industrial marketer develops his channel objectives keeping into consideration various constraints like the company, competition, the environment, product characteristics and the level of service output desired by the target customers.

***Company**

If a company has financial limitation as constraint, then it may restrict its direct distribution approach through company sales force to few high potential customers.

***Competition**

If a competitor has been very successful through direct service then it may force all other firms also to adopt the same strategy of direct selling.

***Environment**

Economic conditions, legal regulations are the environmental factors that affect channel design. During recession, producers use economical ways to sell the products to avoid additional costs. Similarly, the law looks down upon those channel arrangements that tries to build a monopoly market or minimize competition.

***Product characteristics**

As already mentioned, complex and non-standard products require direct distribution without any intermediaries. Eg. If an industrial marketer is providing customized machinery to his customer, then he deals directly with him rather than involving any intermediary to understand the customer needs better.

***Customer**

The industrial marketers depends on intermediaries to offer services to customers who are either giving less business or are located at far-off places and prefers to serve the nearby or high potential customers by themselves.

d. Listing channel tasks

The industrial marketers have to creatively structure the necessary tasks or functions to meet customer requirements and company goals. They have to first make a list of various tasks to be performed, identify the critical tasks, take objective and realistic decisions on which tasks can be effectively performed by the company and which cannot be performed due to certain constraints. For instance, a company manufacturing pumpsets depend on distributors to sell them to customers who are located at distant locations but they would use their own sales force to serve those customers who are of high potential.

e. Identifying channel alternatives

There are four issues that are involved in identifying the channel alternatives. They are:

- The types of business intermediaries,
- The number of intermediaries,
- The number of channels and
- The terms and responsibilities of each channel members.

- **The types of business intermediaries**

There are different types of intermediaries that the industrial marketers should identify. They have to consider various factors like the tasks to be performed, product and market conditions before selecting either manufacturer's representatives or agents, industrial distributors, brokers, commission merchants or value-added resellers.

A. **Number of intermediaries**

The manufacturers have to settle on the number of intermediaries they wish to use in their channel structure. They may either go for intensive, selective or exclusive distribution.

B. **Intensive distribution**

In this strategy, standard products that are purchased more frequently and have less unit value like raw materials and other convenience goods are distributed intensively i.e. products are stocked in numerous outlets so as to make them available to varied customers on demand.

C. **Selective distribution**

The industrial marketer selects few intermediaries to distribute the products to the target customer. This gives the marketer to develop a good working relation with the selected intermediaries, have better control, incur less costs and finally expect a better than average selling effort.

D. Exclusive distribution

This strategy helps to enhance the product image and is more prevalent in consumer markets where some intermediaries exclusively deal and distribute the products of one manufacturer. They are not allowed to handle the competitor's products. The manufacturer expects aggressive selling by the intermediaries and tries to have control over their pricing policies, promotion strategy, credit terms and other services.

- **Number of channels**

Industrial marketers need to serve various market segments. This necessitates them to use more than one channel for distributing and marketing their products. This multi-channel approach helps them not only to increase their market share but also reduce their costs.

- **Terms and responsibilities of Channel Members**

There are various terms and conditions which the industrial marketer must make clear to the participating channel members like the responsibilities and tasks, conditions of sale and territorial rights that would enable both of them to enhance their performance.

i. ***Responsibilities and tasks**

In order to avoid any future disagreements, there should be clarity in the roles of both the industrial marketers and the channel partners. Each should comply with the commitments about their individual responsibilities and tasks to be performed.

ii. ***Conditions of sale**

It should be clearly mentioned well in advance about the discounts offered by the manufacturers to the distributors, the commission to be paid to the agents or brokers. Other terms relating to warranty period, replacement of defective parts also should be appropriately stated.

iii. ***Territorial rights**

The territory between the distributors should be well demarcated so as to avoid any future confusion that may lead to legal issues.

f. Evaluating alternate channels

There are several channel alternatives available to the industrial markets. They have to determine the best among the alternatives by evaluating them based on the following criteria:

- The economic performance of the channel.
- The degree of control exercised on them.
- The degree of adaptability of channels to the market situations.

Channel Management Decisions

After a company completes the task of choosing a channel alternative, it has to start the process of selecting the intermediaries, motivate them, control any channel conflicts and evaluate the performance of channel members.

1. Selecting the intermediaries

Selecting the intermediaries is not part of channel design as some intermediaries leave the channel while others are terminated by the manufacturer. Selecting the best intermediary is a continuous process that is sometimes a more difficult task as producers have to work hard to get qualified middlemen.

2. Managing Channel Conflicts

A well designed distribution channel though has several benefits as observed, it is not the ultimate for the manufacturers. There are several differences and problems that still exist between the manufacturers and the distributors due to various simple and intricate reasons like,

***Dissimilar objectives**

If the objective of manufacturer is to offer good customer service to develop long-term relationship while that of distributor is to somehow make short-term profits, then it gives rise to conflict among the two.

***Less interest on products by the distributors**

If distributors concentrate on those manufacturer's products where they earn more profits or which are fast moving in the market, then it creates a conflict between him and the other manufacturers on whose products the distributors do not focus.

***Customer dealings**

This is another common source of conflict that generally happens where the manufacturer tries to cater to large customers directly and makes the distributors serve the small customers thus making them earn less profit and hampering their business growth.

***Dissimilar views**

If the manufacturer is of the view that a promotional scheme would increase the business while the distributor feels that it would decrease their margins as it involves cost, then conflict arises.

***Commission to distributor**

If the distributor demands more commission while the manufacturer feels the existing commission is too high and denies the same, then it causes conflict.

***Territorial problems**

When the areas among the distributors are not properly demarcated then it leads to conflict as one tries to enter the other's territory to get business.

A dispute in the channel network can seriously affect the performance of channel members. It instigates a need for the industrial marketers to assess the areas of conflict and take corrective measures. There are different ways in which channel conflict can be controlled. They include.

***Creating an effective communication set-up**

There should be effective communication between the manufacturer and the other members of the channel network. This can happen through frequent interactions with the channel members where they can discuss the common issues and sort them out.

***Setting joint goals**

All the channel members jointly set the goals they wish to achieve by coming to a common agreement. The goals set by them can be anything in common that range from customer satisfaction, increasing market share, increasing profits, reducing costs, improving quality of service etc.,

***Involving mediators**

A third party in the form of arbitrator or mediator enters in-between the two parties among whom conflict arises and tries to solve their problems by eliminating disagreement.

3. Evaluating Channel Performance

The performance of the channel is said to be effective if the channel members are able to reach the overall objectives smoothly. This calls for periodic evaluation of their performance where various parameters like meeting the sales target, maintaining the required inventory levels, on time delivery to customers, their cooperation and service levels, generation of new customers, etc., are taken into consideration. The aspects where the middlemen score less during the evaluation process are analyzed and discussed with them where they are motivated to improve upon those areas.

Types of Industrial Middlemen

The industrial middlemen are the intermediaries used by the manufacturers to deliver their products to the end users. They are categorized based on the number and the extent to which they specialize in the performance of certain functions. Different types of industrial middlemen are manufacturers' representatives (also called agents), brokers, commission merchants, industrial dealers or distributors, value-added resellers (VARs), jobbers, drop shippers.

***1.* Manufacturers Representatives**

The manufacturer's representatives (sales agents or manufacturers' agents) are very commonly seen middlemen who secure orders from existing and potential customers. They provide relevant information on market conditions to the manufacturers as well as customers. They are paid a certain amount of pre-specified commission on sales and other tasks performed to make the sales. Generally small and medium-sized industrial firms use the services of agents in territories with low market potential. Agents are cost-effective for them because commission is paid as per the orders generated. The agents particularly have good knowledge about the product, their target market besides having excellent contacts with the buyers.

***2.* Brokers**

Brokers are the middlemen who represent either the buyer or the seller. They help the manufacturer to find potential buyers and vice versa and take the commission when sales process is complete.

***3.* Commission Merchants**

They deal with large quantities of items like raw materials. They are paid commission by the manufacturers when they perform certain functions. Their general functions include getting the raw materials inspected, negotiating during sales and finally close the sales. They receive the commission based on the net sales value as is compensated to agents and brokers.

***4.* Industrial Distributors**

Industrial Distributors are the important and most preferred middlemen that are typically small and independent serving narrow geographic markets. They perform functions like buying, transportation and warehousing, promotion and selling, and offering credit. Because of such varied functions, they are sometimes referred to as full function intermediaries. They are offered trade discounts on the price list of the products as their compensation.

***5.* Value-added Resellers (VARs)**

They add some value or feature to an existing product and sell to end-users as a new package. This is found often in the computer industry, where a company purchases computer components and builds a fully operational personal computer. By doing this, the company has added value above the cost of the individual computer components. Customers would purchase a computer from the reseller to either save time or if they do not have the skills to build a unit themselves.

***6.* Jobbers**

They get orders from the customers and pass them to the manufacturers. Though they do not handle the goods physically in any form, they take the title to the products they sell. Jobbers specialize in marketing bulky products like coal, iron ore etc, that are transported in huge quantities and do not require assorting or grouping of products.

***7.* Drop Shippers**

When an online marketer has certain concerns like where to get the goods from, where to store them until they are sold, and what amount to charge for shipping the goods to the customers, then drop shippers come to the rescue of such marketers who work with merchants to move the products. Drop Shipping is generally used by web site owners (like amazon.com), shop owners and mail order firms who do not stock inventory of the products sold for future delivery through mail order, catalogue and internet advertising. Middlemen send single unit orders for products to manufacturers, or major stocking distributors, who in turn drop ship the merchandise direct to the customers of the middlemen

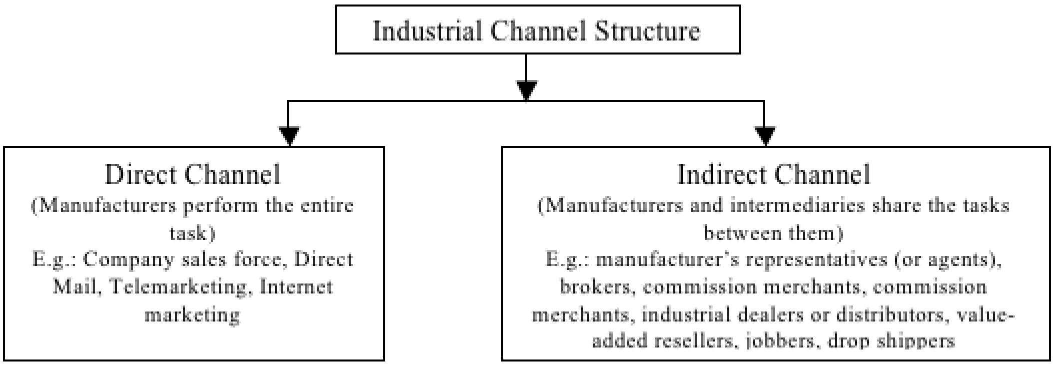
The Functions and Responsibilities of Distributors

Nothing prevents a producer from meeting his customers directly and effecting sales. If he does not use this privilege, he has to borrow the services of different middlemen who act as a vital link in the distribution network to pass on the production to the actual users and also take the risks of changed titles. A full function intermediary or the distributor performs all or most of the distribution functions like

- Purchasing products from the producer to resell back to the industrial buyers
- Promoting the product through ads, negotiating by offering discounts and securing orders from customers
- Extending credit to customers while reselling the products
- Storing the products safely at warehouses and ensuring its availability to the customers
- Inspecting and testing the product, and assigning distinct quality grades. (Various grades of products are sold to different end users at different prices)
- Transporting the product from warehouses to customers' place
- Providing information on product features, price etc., to the customers and competition, market demand etc., to the manufacturers.

Providing pre-sales and after-sales services to the customers through their technical service personnel.

Business Channel Structures



SUPPLY CHAIN MANAGEMENT

There should be proper supply chain management (SCM) systems in any channel network that calls for substantial investment of resources in the entire process. An efficient SCM helps the channel network to reduce average cost per customer, minimize wastage and prevent duplication, cut down on delivery time, and provide better customer service Supply chain management deals with all the activities in the channel network that begins with procuring the raw material by the manufacturer till delivering the goods in the hands of the end user. The entire network is well connected with the organizations in the chain dependent on each other that mutually cooperate and work together. This helps in the systematic flow of products, services and information from the manufacturer to the intermediaries and then to the customers. An inefficient and untimely delivery can make the customers to terminate their relationship with the manufacturer and go in search of a new supplier. This means that products must be delivered to the customers as and when required by them, at their place of choice, while maintaining the quality.

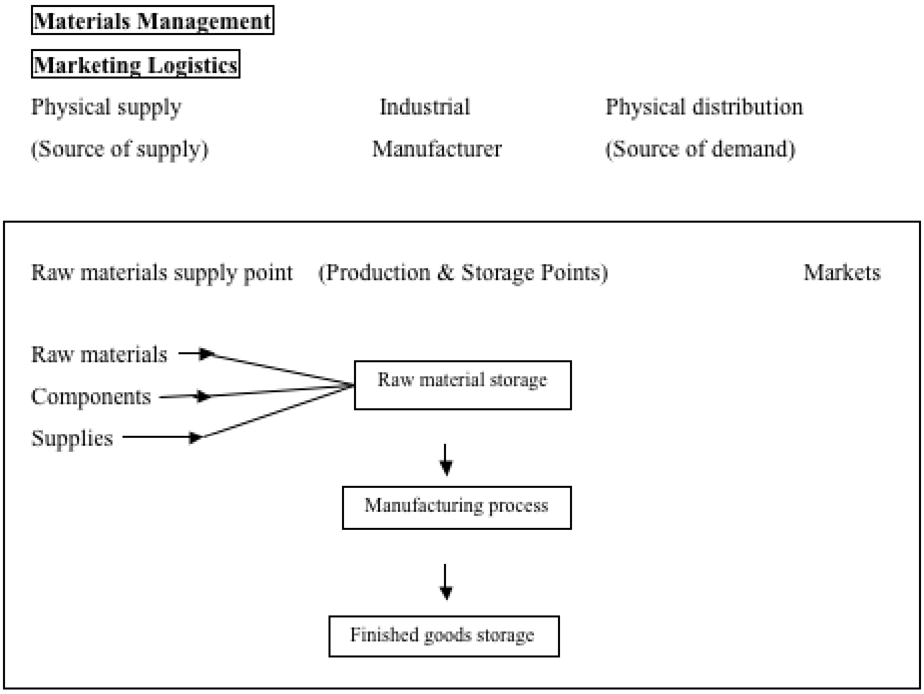
Logistics Management

Logistics is a military term that refers to the management of various activities like transportation, inventory, warehousing right from the stage of processing the raw materials by the manufacturer to convert it into finished goods till they are made available to the customer for use. While logistics management helps to optimize the flow of material within the organization, supply chain management crosses the boundaries of organization extending material flow integration upwards to suppliers and also descending down to customers.

Logistics basically represents two primary product movements

➢ Physical supply, concerned with supply of raw materials, component parts, and other related supplies necessary for the manufacturing process. This comes under the purchase function (Materials Management);

➢ Physical distribution, concerned with delivering the finished product to customers and the middlemen. This comes under the marketing management that is also called as **Marketing Logistics.**



<u>Marketing Logistics</u>

Marketing logistics is the process of delivering the finished goods to the intermediaries as well as customers. An efficient delivery system helps to reduce the costs, improve customer service, and minimize time that finally helps to gain customer loyalty. A physical distribution system involves various tasks (as given in the table below) that interact with each other and play an important role in the overall performance of the logistics system. A particular logistics activity cannot be performed without evaluating its impact on other areas. For instance, the objective of maximized customer service may develop into a conflict with the objective of minimized distribution cost. Hence, total cost approach has to be considered to manage such inconsistency.

KEY LOGISTICS MANAGEMENT ACTIVITIES

1. Transportation - An important activity that involves movement of goods from the manufacturer to the customer.

2. Warehousing- A place where goods are stored till they are made available in the market place when needed.

3. Inventory Management- Ensures that right mix of product is available at right place/time in sufficient quantity.

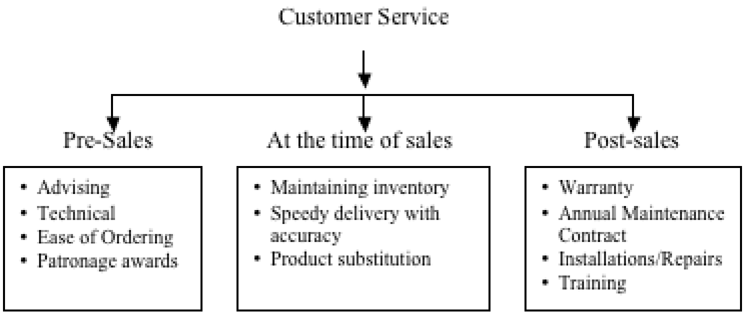
4. Packaging- Protects the products, maximizes use of warehouse space, maintains product identity.

5. Materials handling- Maximizes speed, minimizes cost of order-picking, moving to and from storage, loading and unloading operations.

6. Order processing- Communicates requirements to appropriate locations through inventory management. Order Processing is the beginning of the physical distribution process.

7. Production planning- Goods are made available for inventory. Planning of warehouse facility utilization, transportation requirement

8. Customer service- Establishes customer service levels with marketing objectives as well as cost limitations.



9. Plant location- Facilities planning (factory and warehouse location) to ensure capacity & reduce transportation cost.

10. Just-in-Time (JIT) -It refers that the material arrives at the buyer's factory exactly when needed by the buyer. It minimizes the inventory, and increases the quality and productivity. The goal of JIT delivery is zero inventory and excellent quality of the material delivered by the supplier. This ensures nil rejection at the buyer's factory. The JIT delivery means that the buying and selling organizations work together closely to reduce costs.

11. Single Sourcing- In this activity, the industrial customers place orders with only one supplier not to two or three suppliers. It means all the eggs are in one basket. The practice makes possible for the buying and selling organizations to work closely together, involve the supplier from the design stage, and utilize the supplier's expertise.

12. Value Analysis- The industrial manufacturer plans to reduce cost while not compromising of functional marketable attributes and maintaining product reliability through the process of value analysis. The manufacturer (who is also the vendor) may thereby compete with other suppliers in business deals by providing higher value or equal value at lesser of cost.

<u>Tendering Quotations and Negotiation in Government Units</u>

The Government units are the largest purchasers of industrial goods and services. To compete successfully and to get more business, an industrial marketer must understand the complexities involved in selling to Government units. There are many centres where State and Central Government units buy a variety of products required by railways, department of telecommunications, state electricity boards, state transport undertakings, defence units, and so on. DGS&D is an agency, which finalises running contracts for various standard products on behalf of the Central Government. Though, other large Central and State Government units have their own procurement departments with a set of standard from and conditions to be fulfilled by suppliers.

In general, the first step is to get the name of the company and the products registered with the Government units. Generally, the procedure of registration involves the submission of duly filled standard forms, product leaflets, and company details properly certified by a chartered accountant. Some Government units depute their inspectors to inspect the company's manufacturing facilities, and based on the favourable report from the Government inspector, the company is registered as approved supplier for those products consequently.

For standard products and services, tender notices are advertised in national newspapers, based on which suppliers procure tender papers from the specified Government authority after paying a small amount of tender fees. The suppliers are then required to submit tender offers in sealed envelopes, duly signed by the signatory authority, as per the instructions given in the tender papers, by certain specified time and date.

After the tender offers are received in the "tender box", the sealed covers are opened at the specified date and time in the presence of the representatives of the suppliers and then the prices, delivery, and other relevant terms are read out for the benefit of those attending the "tender opening". For closed tenders or limited tenders, the tender opening procedure of reading out the prices and other terms are not followed. In closed or limited tenders, tender enquiry is sent to only limited (a few) suppliers who are registered with the Government unit for certain category of non-standard products.

The purchase orders are issued based on the evaluation of tender offers, with or without negotiations with the suppliers. The tender offers of various suppliers are kept secret and not made known to suppliers. Based on the lowest prices or the lowest landed costs i.e. adding all charges with basic price, the orders are released on the lowest bidder who has quoted the lowest price or has the lowest landed cost, if other factors such as technical specifications, delivery period, and payment terms are the same as per tender enquiry.

If the value of tender enquiry is small, the orders are placed to one or two suppliers. If the tender value is large then the maximum share of the total value is decided on the lowest bidder and the balance orders are distributed to more than one bidder after other bidders agree to match the lowest price. There may be small variations in the purchase procedures described above in different Government or public sector units, but whatever are the procedures or terms and conditions, the same are indicated in the tender papers.

Reverse Logistics

Reverse logistics stands for all operations related to the reuse of products and materials. It is "the process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal.

More precisely, reverse logistics is the process of moving goods from their typical final destination for the purpose of capturing value, or proper disposal. Remanufacturing and refurbishing activities also may be included in the definition of reverse logistics." The reverse logistics process includes the management and the sale of surplus as well as returned equipment and machines from the hardware leasing business. Normally, logistics deal with events that bring the product towards the customer. In the case of reverse logistics, the resource goes at least one step back in the supply chain. For instance, goods move from the customer to the distributor or to the manufacturer.

When a manufacturer's product normally moves through the supply chain network, it is to reach the distributor or customer. Any process or management after the sale of the product involves reverse logistics. If the product is defective, the customer would return the product. The manufacturing firm would then have to organise shipping of the defective product, testing the product, dismantling, repairing, recycling or disposing the product. The product would travel in reverse through the supply chain network in order to retain any use from the defective product. The logistics for such matters is reverse logistics.

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