

STUDY OF INDUSTRIAL AND CONSUMER MARKETING

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ABSTRACT

The basic concepts of marketing (in terms of exchange processes between buyers and sellers) remain the same for both the consumer marketing and industrial (or business) marketing. However, there are differences between consumer markets and industrial markets. These differences must be understood well by industrial marketers who want to reach and satisfy the customers better and faster than their competitors, in order to achieve the corporate objectives.

Industrial or business marketing is a dynamic and challenging area that presents opportunities for the application of marketing concepts and principles. To market effectively in an industrial market, we must understand the nature of industrial marketing which functions differently, in many respects, from consumer marketing. It is therefore necessary to study industrial marketing for those who are planning a career in industrial marketing.

WHAT IS INDUSTRIAL (BUSINESS) MARKETING?

Industrial marketing is also referred to as 'business marketing' or 'organizational marketing'. Industrial marketing (or business marketing) is the marketing of products and services to business organization. Business (or industrial) organizations include manufacturing companies, government undertakings, private sector organizations, educational institutions, hospitals, distributors, and dealers. Business organization buy products and services to satisfy many objectives like production of other goods and services, making profits, reducing costs, and so on. In contrast, consumer marketing is the marketing of products and services to individuals, families and households. The consumers buy products and services for their own consumption.

The companies that sell steel, machine tools, computers, courier services, and other goods and services to business firms (buying organization) need to understand the buyers' needs, resources, policies, and buying procedures. The important point is business marketing is to create value for the buying organizations with products and services that focus on buying organizational needs and objectives. For example, a company manufacturing and marketing precision steel tubes company, must understand the needs of bicycle manufacturers such as hero cycle and atlas cycle in terms of their quality requirements, applications for tubes, availability or delivery on daily or weekly basis, and so on.

Similarly, a small and proprietary firm, giving technical advice to paint-manufacturers is also doing business marketing.

However, there are differences in the characteristics of industrial and consumer markets.

DIFFERENCES BETWEEN INDUSTRIAL AND CONSUMER MARKETING

In industrial marketing, the markets are geographically concentrated; the customers are relatively fewer; the distribution channels are short; the buyers are well informed; the buying organizations are highly organized and use sophisticated purchasing teaching the purchasing decisions are based on observable stages.

In comparison to consumer marketing, industrial marketing is more a responsibility of general management. Sometimes, it is difficult to separate industrial marketing strategy from the corporate strategy. In consumer marketing, many times the changes in advertising, sales promotion, and packing. However, the changes in industrial marketing strategy generally have companywide implications.

For example, in 1983, a newly recruited marketing manager of a precision steel tubes company wanted to evolve a marketing plan. He initially carried out a market survey to understand the needs and the requirements of the existing and new customers. One of the major finding of the market survey was, that out of seven different market segments, two segments namely bicycle and automotive—required 70 percent of the total market of precision steel tubes in India and that their future growth was much higher than the other segments. However, both the segments needed a higher volume of value added tubes, which were also giving a much higher contribution to fixed costs and profits. The marketing strategy of focusing marketing efforts on bicycle and automotive segments could be achieved only when it become a part of the corporate strategy, by investing Rs Five crores for increasing the production of cold drawn welded tubes from 80 metric tons per month to 400 metric tons per month. The company could, therefore, achieve its objective of becoming the market leader by 1986.

A large number of households, geographically dispersed all over country, are included in the mass market for consumer goods and companies to represent the total market, it is common to find less than 1000 companies to represent the total market for an industrial product or service. For example, for a consumer product like tooth paste or soap, a mass market, consisting of all the households in India, exist. However, for industrial products such as, large power transformer or high tension switchgears there are limited numbers of customer mainly state electricity boards, large private and public sector organizations.

In industrial marketing, the products or services are generally technically complex. They are used for serving the operations of the organization. Because of the importance given to the technical aspects or products, the purchases are made based on the specification evolved by the buyers.

The real risk in “falling in love with the technical aspects of a product” in industrial marketing is to ignore the flexibility in responding to customer’s needs in a competitive market. Some companies, as a result, commit the serious mistake of trying to change the customer to fit the product.

For example, the quality control manager of a “cold rolled steel strip” manufacturing company informed an important customer that the customer was not justified in rejecting his company, product as it was as per the relevant Indian standard specifications and that the customers product. However, the customer refused to accept the product, as it was failing at the shop floor operations. The customer, therefore, not only returned the entire rejections but also canceled the balance orders. Subsequently, other competitors supplied the product as per the needs and specifications of the customer, who placed orders with them.

As compared to consumer marketing, industrial customers place as greater importance on service, that is, timely delivery or availability of product, because any delay in supply will have a significant impact on the production or operations.

In industrial marketing, the buying process is more complex as compared to consumer marketing. The purchase decisions in industrial marketing are based on many factors, such as compliance with product specifications product quality available or timely supply acceptable payment and other commercial terms, cost effectiveness, after sales service and so on. The purchasing decisions generally take a longer time and involve many individuals from technical, commercial, and finance departments. After the initial offer made by a seller there are negotiations and exchange of information between the specialists and representatives from each functional area, from both the buyer and the seller organization. Thus inter organizational contacts take place and interpersonal relationships are developed. The relationships between the sellers and buyers are highly values and over a period of time they become stable because of a high degree of interdependence.

In contrast, in consumer marketing, the relationship between a buyer and a seller is non-personal. The consumers change their purchasing habits frequently and the buying decisions are often based on physiological or psychological needs of the members of a family/household.

While as consumer marketing the emphasis s one advertising in industrial marketing, the importance is given to the personal selling through the company’s sales force. As a result, a much large expenditure budget is provided for advertising in consumer marketing in comparison to industrial marketing.

In industrial marketing, apart from personal selling, the primary means of reaching the potential customers is through advertisements in trade journals and business magazines, as well as direct and business as direct mailing of company leaflets to potential customers. The sales promotional activities include participation in exhibitions or trade shows and conduction technical seminars.

In consumer marketing, the products are sold through the retailers to the consumers based on the “price list” of the manufacturer or the maximum retail for the packaged products. Sometimes, depending on the intensity of the competition, the retailer reduces the price by passing on to the consumer a part of his discount.

However, in industrial marketing, price is one of the factors considered in purchase decisions. Competitive bidding and price negotiations are very common in industrial marketing. When there are no price negotiations in certain government tenders, the competitive bidding becomes very important, as only the lowest bidders are considered for placement of orders. However, in almost all of the private sector and some government organization, price negotiations are held to decide the prices and the volume of orders to be placed on various supplier firms. The payment and other commercial terms are also negotiated at the time of price negotiation.

Dealer discounts, and volume discounts on the price list of standard industrial products are widely used in industrial marketing.

An example on price negotiation marketing firm is as follows. An industrial organization in the private sector had short listed two products for diversification. The corporate planning manager of the company sent the enquires for carrying out market research on “coil winding machines” and “switch mode power supply” to the three marketing research agencies. The objectives and the information required from the market surveys were explained to the market research agencies, who were asked to submit their offers. After the receipt of the offers, the corporate planning manager called the three agencies for discussions as he found that while the delivery period and payment terms were similar, the fees for market survey varied considerably between the three offers. After carrying out price negotiations separately with the three agencies, orders were released for carrying out market surveys to two agencies for one product each, based on their market reputation, experience, methodology of research, and the negotiated prices.

From the above discussions, one can appreciate that many basic difference exist between consumer and industrial marketing. These differences in characteristics do not make a complete analysis. To understand better the differences between consumer and industrial markets, it is necessary to understand the economics of industrial demand.

The demand for industrial products and services does not exist by itself. It is derived from the ultimate demand for consumer goods and services. Industrial demand is, therefore, called derived demand. Sometimes the demand for industrial product is called joint demand, when the demand for a product upon its use along with the existence of other product or products. Cross elasticity of demand exists for some substitute products.

Industrial customers buy goods and services for use in producing other goods and services. Ultimate, whatever is finally produced will be sold to the consumers. Hence, the demand for industrial goods and services is derived from consumer goods and services.

For example, the demand for “precision steel tubes” does not exist in itself. It is demanded for the production of bicycles, motorcycle scooters, and furniture which are consumed by the consumers. Thus, the demand for precision steel tubes is derived from the forecast of consumer demand for bicycles, motorcycles, scooters, and furniture.

In case of capital goods, such as machinery and equipment that are used to produce other goods, the purchases are made not only for the current requirements, but also in anticipation of profits from the future usage. If businessmen feel that there may be a recession in near future, their purchases will be drastically curtailed. On the other hand, if the attitude of businessmen is favorable their investment in capital goods and other industrial products will increase. Thus, the attitude of businessmen is very important as it reflects the optimism or pessimism about the future.

During the period of recession or reduced consumer demand, industrial firms reduce their inventories or reduce the production or do both. On the other hand during the period of prosperity, there is an increased production and sales of consumer goods, which results in an increased demand for industrial goods. This may be right time for price and building stocks as ready availability and shorter delivery period becomes very important.

CUSTOMER SERVICE

In industrial marketing, the customer service is sometimes more important than the physical product. The customer service supplements the sales of physical product and creates a total value for a customer.

The nature of customer service varies based on the type of product and the stage of “product life cycle”.

In case of mature markets and similar industrial products the major part of customer service, is timely delivery, and a minor part is the technical support service to the customer. When an industrial product is available from several competitors at competitive prices, then delivery, product quality, and technical service are important differences for deciding major share of business among various suppliers.

MARKET SEGMENTATION

One of the most important decisions an industrial organization makes is to select its customers (or markets) which it can serve effectively. A firm should decide whether it can effectively serve the entire market (against tough competitors). If it does not have the adequate resources, it can best serve parts (or segments) of the market much better than its competitors.

Market segmentation is the process of dividing the total market for a product (or service). In several segments or distinct group of buyers, each group of buyers (or segments) is heterogeneous and may require separate benefits from the product.

Some of the multivariate analysis used in marketing research are briefly described as follows.

1. **Multiple Regression Analysis:** This analysis is done when the researcher has one dependent variable which is a function to two or more independent variables. The objective is to predict the dependant variable (e.g. demand for precision steel tubes) based on its correlation with the concerned independent variables (e.g. demand for two-wheelers, three-wheelers, four-wheelers, bicycles, low-pressure boilers, furniture, replacement demand, and price).
2. **Multi-discriminant Analysis:** This is done when the researcher has a single dependent variable that can be classified into two or more groups on the basis of certain attribute. For example, the researcher wants to find out if any significant buying behavior exists among buying committee members for different suppliers.
3. **Inferential Analysis:** This analysis is concerned with the various tests of significance for testing hypothesis. This will determine the extent of validity of data based on which conclusions are drawn.