

Strategic Marketing-Contemporary Issues
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Lecture – 16

We are continuing with our discussion on understanding customers and segmentation targeting and positioning. But as I mentioned in the previous session, we will discuss now some particular applications and concepts with respect to STP in the context of business to business or industrial marketing.

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NATURE OF THE BUSINESS MARKET

- Some firms focus entirely on business markets.
- Example: L&T or Ingersoll-Rand, who make construction and mining equipment.

COMPONENTS OF THE BUSINESS MARKET

- **Commercial market** Individuals and firms that acquire products to support, directly or indirectly, production of other goods and services.
- **Trade industries** Retailers or wholesalers that purchase products for resale to others.
- Government.
- Public and private institutions.

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So, there are some companies quite... We discussed in case of the paint industry for example. So, when we take somebody like Asian paints or consider Nerolac; they are marketing to both consumers as well as to the industry. The industrial paint forming 30 percent of the market and the decorative paint forming 70 percent of the market.

But you will see that in the in case of decorative paint, the marketing activity will address or should address an individual buyer like you or me. For some re painting job at home, but a major business in the decorative paint will happen. Also, through contractors, builders and through influencers like architects. But today we are going to discuss not that mixed sort of marketing strategy where we have retail buyers as well as institutional or business buyers. We are looking at primarily business to business market.

So, companies like say Larsen and Toubro construction: machinery division or the heavy equipment division of Larsen and Toubro or Ingersoll Rand. They are primarily or all most entirely their marketing is to other businesses or to institutions. And we are going to focus in this session on the buyer behavior as well as the segmentation targeting and positioning issues for this type of market.

So, primarily one division is this commercial market, this commercial market and may relate to say for example, a builder will be buying paint for further usage in the final delivery of a of an apartment or a villa to a consumer. And paint will be used within that.

So, paint is a component we will discuss this in a little bit more detail just now. And there are of course, institutional buyers the government itself is a big buyer and then there are trade buyers meaning retailers or wholesalers. So would be buying some industrial products.

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B2B MARKETS: THE INTERNET CONNECTION

- More than 94 percent of all Internet sales are B2B transactions.
- Opens up foreign markets to sellers.
 - Largest segment of the business market.

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So, in this also there are distributors, wholesalers, retailers different categories. Also, interestingly even though we know about the E commerce whenever we talk about we think about Amazon, eBay or Flipkart. But 94 percent and today it maybe e higher because this is one business segment that has been highly that has created a barrier free environment. So, that people from all over the world can now trade.

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SEGMENTING B2B MARKETS

- Segmentation helps marketers develop the most appropriate strategy.

SEGMENTATION BY DEMOGRAPHIC CHARACTERISTICS

- Grouping by size based on sales revenues or number of employees.

SEGMENTATION BY CUSTOMER TYPE

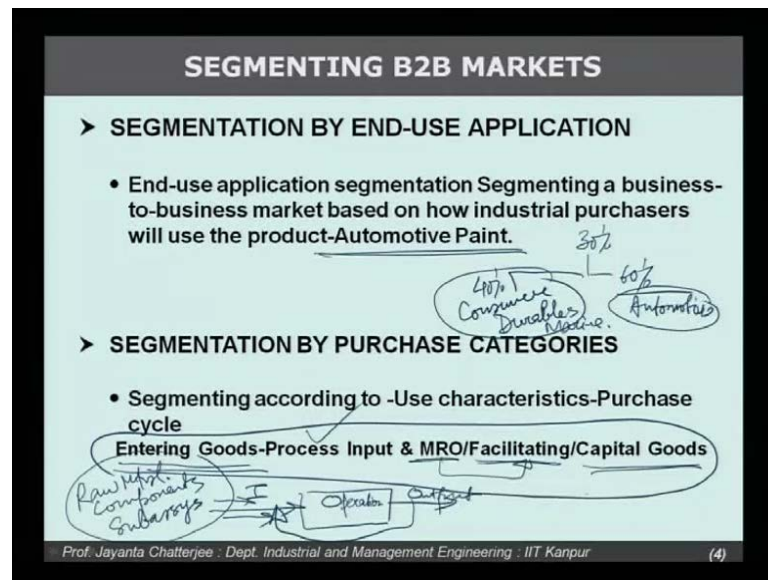
- Grouping in broad categories, such as by industry.
- **Customer-based segmentation** Dividing a business-to-business market into homogeneous groups based on buyers' product specifications.
- **Industry Classification System** Classification used to categorize the business marketplace into detailed market segments.

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So, when it comes to segmentation in the consumer market; we look at segmentation techniques like demographic or psychographic. Demographic means based on age and other factors. And we looked at psychographic and other segmentation. But here we actually do the segmentation based on the nature of the customer. One of the ways of understanding that nature is to look at this industry classification.

Every country has and in some cases if an internationally, we have various industry classifications like petro chemical or automotive or chemical or pulp and paper. These are very well accepted descriptions for certain types of industries accepted all over the world. So, this is obviously. So, pulp and paper by its self becomes a market segment. So, if you are making machineries for coating of paper, for creating writing printing paper or if you're actually making machines, for what we call cutters. Then your primary market segment will be pulp and paper.

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So, this is the way we segment. Segmentation can also be done by end-use application. And so, for example, the end-use is for automotive. So, we are discussing about paint and we found that the industrial paint which forms about 30 percent of the total market. Within that 60 percent is for automotive industry and we said 40 percent is for consumer durables like washing machines or refrigerators or dish washers and so on, and marine applications.

So, you see this is by end-use we are doing segmentation. And segmentation is also done by purchase category. We will discuss that in a little bit a more depth. The purchase, the cycle now here I must introduce to you another very important segmentation technique and that is called the classification of the goods.

So, first category is what we call entering goods. Entering goods means that if we take a business one can develop this famous IOO model. That means there are various inputs. So, if you are and this is the operations and this is the output. And there are often look at a feedback loop. So, the entering goods. So, if you can take say for example, automotive factory. The entering good paint will be the entering good. The automotive factory that might be buying the complete steering assemble or the tiers or maybe the crank chaff from other manufacturers.

So, paint is like a almost a raw material. If they are buying seat belts or a complete seat then they are buying the components or sub assemblies. The steering set is a sub

assembly. And all of these that means, raw material and components sub assemblies all these are they come under entering goods. Meaning these are stuff that come into the plant for further processing for incorporating into the final product. So, the paint, the seat, the seat belt, the steering assembly; all of these get incorporated into the final delivery item which is the car.

So, entering goods can be process input into the form of raw material component or sub system or sub assembly. The entering goods are also of another type what we called MRO or maintenance repair. And operational spars or accessories in the MRO category will be items like say cooling fluids which will be used on machines that will be used to manufacture various automotive parts in the automotive plant m r o. May even include items like electric bulb or CFL lamps or conveyor belt which are all used for replacement in the existing setup as machines weren't here. And then there are replacement. So, these are called and generally classified as MRO.

Even buying printer paper will come under MRO. But they are also often actually classified; classified under another category called facilitating. So, buying of a printer or a printer cartridge or printer paper in an automotive plant will be something that is a mix of MRO or facilitating goods. Facilitating goods are those which do not directly participate in the production process do not get incorporated in the final delivery item or equipment. But they are need to for proper functioning of the production process.

So, like chairs tables printers computers printers which are office computers not the computers installed on production machine. So, these are facilitating goods. As I said they facilitate the production process, but do not directly participate as raw material or component or sub assembly in the production process. And the third category are what we call capital goods. These are the machines or other infrastructural equipment needed for the production process.

So, three major distinctions classifications: The entering goods which can be raw material components and sub assemblies. Second will be the facilitating goods and an in between class of MRO which can be part of the almost part of the processing system or facilitating system. And lastly the capital purchase of machines and infrastructure.

As you can see here; that this automatically leads to one kind of segmentation based on frequency of purchase. Because entering goods are needed daily in a production plan

daily in a production plant. So, if you are producing everyday x number of cars then you will need x number of steering assemblies. So, these are therefore, the frequency of purchases daily.

But as we will see that does not mean everyday there is a negotiation. These are contracts that are placed maybe for a year. Or it might be contracted that a particular model of a car will have the steering assembly is coming from supplier X and supplier Y in 50 proportion and so on. And so, it may be a long term contract as will, but the purchase the acquisition process and utilization process maybe happening daily.

Whereas these MRO which can be replacement CFL or can be replacement for printer a cartridge or replacement for broken chairs and tables. These happen periodically they do not happen every day they happen either triggered by a need. That means, something that is not functioning or they may happen on a regular basis very month very quarter and so on.

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SEGMENTING B2B MARKETS

- **THE PURCHASE DECISION PROCESS**
 - Often involves multiple decision makers, is more formal, and may require bidding and negotiations.
- **BUYER-SELLER RELATIONSHIPS**
 - Often more complex than in consumer market with a greater reliance on relationship marketing.

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Based on consumption and capital purchase are happens maybe once in 2 years once in 5 years, once in one year end so on whatever maybe the purchase frequency whether daily or once in three years industrial buying or a purchase decision process. Even though it may involve the same sequence that maybe a need recognition information, search evaluation of alternatives and purchase; it will often involve a group decision making

process and a formal decision making process and a documented decision making process.

So, when a need is recognized that we need to replace two hundred chairs which are not functional in an organization like say IIT Kanpur, its an institutional buying situation. So, the need is recognized. But whether we will buy those chairs from supplier A or supplier B or supplier C or we will get it made by our workshop which these days do not happen used to happen once. This decision whether we will go to supplier A B or C may involve the intender.

That means, the departments concern may involve our stores and purchase department depending on the volume of purchase. It may even involve some of our top administrative like the deputy director or some dean and so on. So, it involves multiple decision makers when we are doing both the information search and evaluation search. So, multiple decision makers and it is a formal process which will be documented and we often may invite quotations.

So, there will be bidding and negotiations, so three important things in a basic manner. It happens even in consumer purchase of high value. So, if you are buying a car for your family or a new washing machine there will be multiple decision makers. Even in that case you may be involved or your spouse will be involved. Sometimes your children may be involved it may not be documented. But this information search may involve getting quotations from various shops may involve some search on the internet and so on.

But in case of a purchase in an organization like last and turbo or an organization like IIT Kanpur; the purchase decision will have to have some formal records involving opinions from multiple decision makers and will involve bidding and negotiation. The buyer seller relationship here has a much higher emphasis on this relationship marketing.

If you are buying soap then once the purchase is taken place in the past even in soap today, this post purchase assessment of customer satisfaction assessment of customer delight in consumer goods. We did not pay much attention to this before. But as I discussed in an earlier section one of the key component of marketing strategy today as become relationship marketing because of the huge expansion of market dimensions in terms of competitor, global competitor fragmentation of customer attention.

Multiple media clamoring for customers attention all that has made the acquisition of a new customer very expensive. So, even when you're actually today in a consumer goods business like soap or toothpaste or definitely if you're in the business of consumer durables like refrigerators or washing machines. You do pay a lot of attention these days to post purchase and what we call relationship buildings based on post sales processes in industrial marketing.

However, this is a paramount importance because in industrial markets bad performance with one customer will not only put in jeopardy a long cycle that you would have followed involving discussions with multiple decision makers bidding and negotiations. All that may be nullified by a bad post purchase customer support process.

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BUSINESS MARKET DEMAND

- Demand characteristics vary from market to market.

DERIVED DEMAND

- The linkage between demand for a company's output and its purchases of resources such as machinery, components, supplies, and raw materials.

VOLATILE DEMAND

- Derived demand creates volatility; for example, demand for gasoline pumps may be reduced if demand for gasoline slows.

JOINT DEMAND

- Demand for two products used in combination with each other.

INELASTIC DEMAND

- Demand not significantly influenced by price changes.

INVENTORY ADJUSTMENTS

- Just-in-time (JIT) inventory policies boost efficiency by cutting inventory and requiring vendors to deliver inputs as they are needed.

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So, relationship marketing is a key component where again STP or segmentation targeting positing are important objectives. As well as inputs the other STP issues in indusial marketing is that the demand in indusial market business to business market is often called derived demand. So, if the automotive business is going up, then the steering column business or steering assembly business will be going up. Break lining or auto motive tire companies will do better when the automotive industry.

That means, the what we call the OEM, the original equipment manufacturer where these companies are suppliers when the OEM business is going up. So, that is derived demand and as you can see as it is derived demand. We often say that the success in the B2B

market depends on your attention to your customer success because only if your customer is successful, if your customer's business is growing then only your business will grow. Obviously, if the automotive business is flat; then if you're manufacturing body parts for cars or if you're buying a manufacturing window closers or door locks for trucks. And the truck business is flat then your business will be flat.

So, we often say therefore, one part of the relationship marketing is a keen focus on making your customer successful. Customer's business with their customers more successful by making your products better in both at the time of assembly. And in the post purchase operation because it is derived demand sometimes in certain industries it can lead to volatility.

So, demand for petrol pumps or gasoline. Of course, it seldom happens will be going down if the demand for (()), automotive equipment goes down to some extent. There is a against this volatility, there is a mitigating factor that the demand is often because the demand is always there when the customer business is growing. So, the strategy here may be less sensitive to the pricing because prices are often pre negotiated and the risks are shared between the OEM and the supplier. And some of the other issues like inventory management etcetera, etcetera are different in this case. And therefore, because many times, your ultimate buyers.

So, a company like Maruti and a company like Tata motors or a company like Ashok Leyland; there will be insisting with their main suppliers that to maintain the floor. They must get the right part at the right time. So, many cases actually the information systems of the OEM and tier one suppliers are intergraded. So, what Maruti will produce fifteen days later. That production schedule will be shared by Maruti tier one suppliers. So, Sona co steering will know in advance what are the models will be coming up fifteen days later on Maruti assembly line and there will prepare their system accordingly. So, that those steering assemblies are available at Maruti door step. Just a day before or just on the day of the start of that production schedule and this just in time inventory capability to deliver it all these are interesting issues.

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THE MAKE, BUY, OR LEASE DECISION

- **Firms can get products in many combinations:**
 - Make the good or provide the service in-house.
 - Purchase it from another organization.
 - Lease it from another organization.
- **Producing the item may be low variable cost route, but may involve high fixed cost and firms cannot make all of the products they need.**
- **Many companies purchase all of the goods they need B2B and market B2C.**
- **Companies can spread out costs through leasing.**

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When you look at your STP and your marketing strategy in this market; a part of the negotiation this bidding and negotiation process, we talked about happens sometime internally. That means, when this need is recognized and option are evaluated, some of these may be make versus buy decision like there was a time in Tata motors. Almost 80 percent of the stuff that they used in the trucks were made internally within their own plants.

But as the markets matures more good suppliers become available. And due to various other reasons many of the components today are purchased sub assemblies are purchased by Tata motors from outside. But at every stage there make their shifted from making their own to buy from outside. They would have done sufficient evaluation the economics the convenience all of those factors have come in an formal process would have.

So, this negotiation and economic evaluation happens inside the organization and later on with their suppliers many companies actually purchase all of the goods. They need in the B2B mode, but they go to market in the B to C mode. So, for example, Nike one of the top shoe brands across the world hardly own any manufacturing facility. They almost entirely outsource their products from (()) suppliers and from manufactures who brand the product for them. Nikes just so with that therefore Nikes supply system is based on B to B. But they go to market in the B to C.

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THE BUSINESS BUYING PROCESS

- More complex than the consumer decision process.
- Takes place within formal organization's budget, cost, and profit considerations.

INFLUENCES ON PURCHASE DECISIONS

- Environmental factors—economic, political, regulatory, competitive, and technological considerations influence business buying decisions.
- Organizational factors—structures, policies, and purchasing systems, which may be centralized in one office or delegated to units throughout the organization.
- Interpersonal Influences of all organizational members involved in the buying decision.
- Concerns and procedures of professional buyers who implement systematic buying procedures.

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And then of course, there is another market of leasing often used for capital goods. We will discuss it just now, but depending on what kind of goods; you are looking at whether it is entering goods whether it is facilitating goods. Or whether it is you are marketing capital goods; there will be various levels of influences. A number of influences in the purchase process those interpersonal issues psychographic issues that we discussed in consumer behavior to an extent will apply here. But understanding of group behavior will be important here and those behavior patterns will change according to these different buying situations.

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THE BUSINESS BUYING PROCESS

CLASSIFYING BUSINESS BUYING SITUATIONS

- Business buying behavior involves degree of effort involved in the decision and the levels within the organization in which these decisions are made.
- Straight rebuy—recurring purchase decision in which a customer reorders a product that has satisfied needs in the past.
- Modified rebuy—purchaser willing to reevaluate available options.
- New Capex Buy—first-time or unique purchase situations that require considerable effort by the decision makers.
- Reciprocity—practice of buying from suppliers that are also customers and even competitors.

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We have here three major situations. One is called the straight rebuy. Straight rebuy means that it is you continue to buy everyday, every week, every month almost in an automatic process based on long term contracts or based on standards without every time going through to a set of negotiation or going through this process. So, this is done once.

So, if TATA motors you will be now buying paint, the new metallic shiny paint for their new models. Then they will have an initial information such evaluation such alternative, but if they have decided to purchase. Now, 70 percent of their requirement from consider Nerolac. All I am taking hypothetical examples and 30 percent from another supplier both committing to supply to the same standard. Both committing to supplier to just in time basis as we discussed.

That means, everyday there will be supping a certain mix of paints based on the production schedule or maybe supplying every week and this is a situation where it is a straight Re buy. The straight Re buy also refers to the MRO situation maintains repair or operational items. So, if you're buying printer cartridge, then it is prudent that if it is printer manufacturing by company x. Then you will be buying cartilage from that company or they are nominated component suppliers.

So, this it this are the two types of situations of straight re buy. So, straight re buy recurring purchases in which a customer reorders a product. That has satisfied the needs in the past or that has been agreed to and even this re order process may be almost automatic. In fact, it may not involve these days. So, one ERP system can order it on a another ERP system.

Almost automatically machine to machine based some pre determined frequency again rate negotiation as supposed to straight re buy. The modified re buy is not an entirely new purchase process, but it may involve periodic reassessment. So, today for the next 12 months TATA motors or Maruti buying their paint requirements from supplier a and supplier B in certain profession will operate in a straight re buy process.

But after twelve months particularly if it is an industry in where technology is changing new suppliers are coming in price levels are subject to more captivate pressure. There may be periodic renegotiation. And therefore, purchases are re evaluate available options time to time.

It also happens in some very standardized products like for examples you are doing some MRO type of purchase of say contactors or electrical relays or your buying electrical motors. Then because of the high standardized in such industries, it is possible to replace product from company A with the product from company B, because all the fixing dimensions and installation parameters are highly standardized.

So, in this case if there is a requirement or if there is a requirement of chairs and tables then periodically for a particular year what we call a rate contract. But these rate contracts are renegotiated time to time depending on changes in technology changes, in price levels changes, in number of suppliers changes, in approaches made by new suppliers changes in the conditions of the existing suppliers. Because some of them may be going through a merger acquisition. Some of them may be going out of business or may be deciding to get out of a particular type of business. And for all these situations therefore, there will be reevaluate available options. And this is what we call a modified rebuy situation.

So, this happens more regularly once the process is set then further buying decisions may be taken at a lower level, a routine decision taken by the materials department the purchase manager. But when it comes to modified rebuy, this reevaluate available options because it involves new information search and new set of evaluations of alternatives again the number of people involved in making the decision will go up in case of capital goods purchase, new capital expenditure.

We are looking at a first time purchase or a unique purchase. So, you are buying a new milling machine or a new set of paints Robos for your paint shop or your setting up a new assembly line for the new plant of Maruti in Manaser. In all of these cases it is a major investment and will definitely involve a longer set of process in this information gathering, as well as in evaluation of alternatives, bidding, rebidding, negotiations, discussion on technical features.

There will be tradeoffs because a company A may offer one feature which is significantly better. Another company may have another set of feature which are better placed. So, this is a process. This new capital expenditure where the marketers are usually focusing on a differentiation based marketing strategy and the buyer maybe actually a promoting to locate such differentials which will give them ultimately some advantage. In their

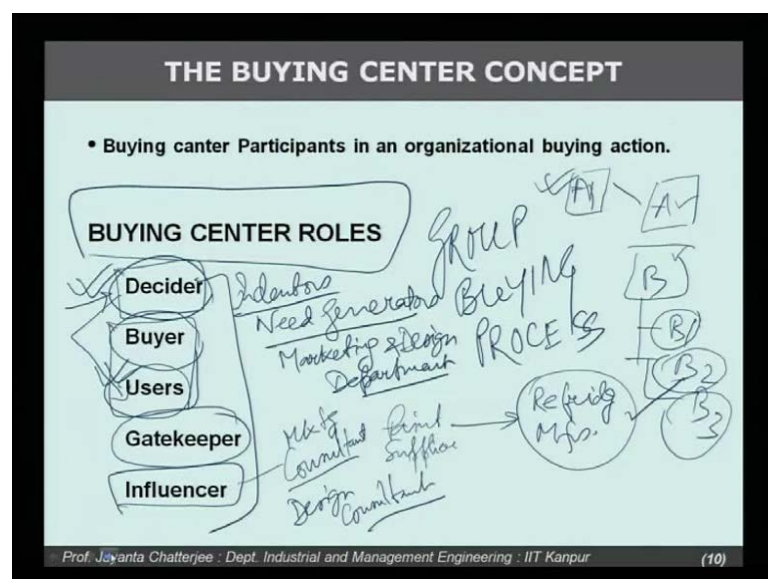
production process because capital expenditure usually means these are production machines and systems.

So, that buyer is also looking for additional benefits and therefore, may actually widen their search and go beyond the current supplier base. The process that is involved in such buying decision; that is a new buy as we call it or modified re buy involves a higher degree of group decision making. And we will just now look at the roles played by different people. In that group buying process on which again in your strategy you will have to consider the segmentation targeting positioning taking those inputs into your scheme of things.

But one interesting situation that is emerging more and more is called reciprocity. This is actually a process of buying from suppliers who are also your customers and sometimes even competitors. For example, we know that Apple and Samsung fight furiously compete furiously in the market place for smart phone offerings. But Samsung may also be a supplier for certain components to Apple.

In fact, in the semi conductor industry or the electronic industry it often becomes very difficult to identify a company who is only a competitor or only a supplier the roles are often very over lapping. It happens due to technology convergence. But however, the group buying process as we were talking about applicable to this both modified re buy and the new capital expenditure process.

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The new buy, modified re buy involves a group buying process and these are the different roles that are played by different departments individuals who constitute this buying center. Take for example, the case of paint buying for say refrigerator manufacturer refrigerators used to always have white paint.

In fact, they were classified under what we used to call white goods. But now a day's refrigerators are available in multiple colors people are looking at new color alternatives for better corrosion resistance. Or sometimes for better decorative placement within a room people are looking for refrigerators whose colors match the color of the wall and so on.

So, what used be a straight re buy; a white paint has now become a modified re buy decision because depending on season changing customer preferences, depending on the consumer market changes. The paint suppliers marketing to a refrigerator manufacturer will be going through a process where all of these people may be involved. So, the decider in this case sometimes also called indenter or need generator. Maybe the marketing department of the refrigerator, manufacturer working with the designed department finally, whether the supplier a finally, whether supplier A or supplier B or an offering of A 1 from A and B 1 B2 B 3 3 verities from b.

So, this may be the traditional white paint with new metallic shine and this maybe a new red and maroon option or a green option or a blue option coming from these two suppliers. Finally, this decision will be taken by the decider and the user. So, the decider as I said maybe the marketing department of the refrigerator company and the design department, the user in this case will be the manufacturing department.

So, the paint maybe looking very good, but if it is not suitable of the in the current manufacturing process; if it is viscosity, is not amenable to the production machinery of the refrigerator manufacturer. Then the manufacturing department will object. So, the decision will meet support from the decider as well as from the user.

In the initial face the role of the decider will be more important once a decision has been made the role of the user becomes more dominant, at that stage the buyer which maybe the just the purchase department. So, the buyer and the user they become the dominant player in the once the decision has been made. But before the decision has been made

when it is in this information search and evaluation phase there may be a bigger role being played by the decider and the influencer.

The influencer maybe a consultant a marketing consultant or a design consultant it could even be the somebody from the top management of the refrigerator company. And of course, there is always another role the role of the gate keeper this role is often played by the finance department, this role could also be played by some key mangers in the top team.

So, as you see here there are different roles like decider, buyer, user, gate keeper, influencer all constitute what we call the buying center the importance of this roles. In the buying process change over time, in the early face of a new buy situation new capital expenditure buying. In the early face the deciders and the users possibly the buyers will play the key part at a later stage. The gate keepers will come into play and influencers may have a big role as a consultant or specification framer or technology adviser.

The influencer may have a very big role in the initial phase and could be even in the later phase. So, this number of roles, their changing importance that constitute the buying center creates new challenges for institutional markets. And the segmentation targeting and positioning. So, in your targeting you are targeting the refrigerator manufacturer to market your new metallic shine paint. But your positioning or your value bundling for the gate keeper will have dimensions which may not be exactly same as the value bundle that you will project to the decider or to the user.

So, praise will become an important issue the terms of payment will become an important issue. The delivery schedule logistic matching all this will become important issues. At the later stage of the purchase cycle where as technical specification the current performance record will become important issues in your positioning.

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THE BUYING CENTER CONCEPT

CHALLENGES OF INSTITUTIONAL MARKETS

- Include schools, hospitals, libraries, foundations, others.
- Multiple buying influences can affect buying decisions, such as conflicts between professional staff and purchasing departments.

CHALLENGES OF INTERNATIONAL MARKETS

- Marketers must consider buyers' attitudes and cultural patterns.
- Local industries, economic conditions, geographic characteristics, and legal restrictions must all be considered.

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In the early face of the purchase of course, these when it comes to international markets will involves other issues like cultural issues buyers attitude issues and so on. So, to conclude industrial buyers to a large extend follow the same sort of purchase process.

But because of the many other issues that we discussed today like straight re buy, modified re buy, new buy or because of the involvement of the purchase center or buying center, multiple decision makers. Your STB strategy should take into consideration group behavior and frequency aspects to create success of your marketing strategies.

Thanks.