

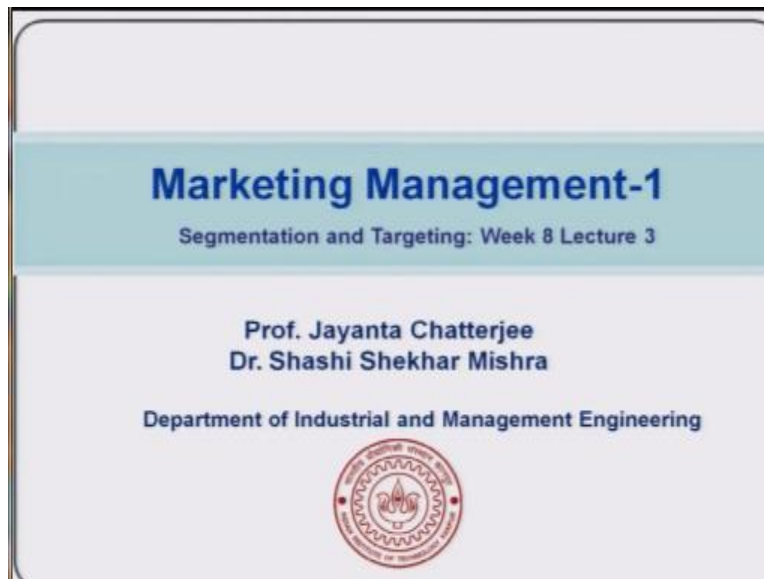
Indian Institute of Technology Kanpur
National Programme on Technology Enhanced Learning (NPTEL)
Course Title
Marketing Management – 1

Lecture: W8 – L3
Generic Modeling Strategy

by
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Prof. Jayanta Chatterjee: Hello, welcome to the third session of this week of marketing management part 1, we are discussing segmentation, targeting, and positioning.

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Prof. Jayanta Chatterjee: We have discussed different approaches to segmentation, we have discussed what characterizes a valid segment in terms of measurability, growth potential, current size and so on. We have discussed that positioning is in the minds of the consumers and therefore what you do must be tested against what has happened in the marketplace in the mind of the consumer with respect to your competitors, how they perceive your value propositions with

respect to your competitors value propositions, to what extent you have been able to achieve the distinctiveness and so on

Today I want to take up a particular set of issues relating to segmentation and targeting in the B2B market as you will see earlier when we were discussing about different types of buying consumer buying processes versus business buying process, some of these points have already been raised but today let us try to consolidate segmentation aspects and targeting acts aspects for B2B markets and in and put them in comparison to the same activities in the B2C markets.

So as we know business markets or B2B operators are people like Ingersoll Rand or Larsen and Toubro primarily in all their businesses focus on the requirements of other businesses, they do not reach the end consumer in terms of the marketing process even though customers come in contact or customers get the benefits of the offerings of these companies through various interfaces but the buyer for these companies are other businesses, so if you take a company like Larsen and Toubro you can immediately see that.

(Refer Slide Time: 03:36)



SEGMENTING 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.

Prof. Javanta Chatterjee - Dept. Industrial and Management Engineering - IIT Kanpur (41)

Prof. Jayanta Chatterjee: They primarily address different type self segments within the overall ambit of business market, they address commercial markets that for example goes for pump control or goes for electrical appliances, goes for different types of products used in construction or earth moving and so on, they serve governments as well as public private institutes.

(Refer Slide Time: 04:27)

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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Prof. Jayanta Chatterjee: So when it comes to segmentation these sort of companies can do it by demographic characteristics in this case demography will be defined in terms of various kinds of balance sheet, items like size of sales revenue, number of employees, location, geography, or the grouping of the target customer within an overall industry classification, say like petrochemical industry or pharmaceutical industry or power industry and so on.

So segmentation in terms of size, number of employees etcetera, democratically related segmentation in terms of nature of customers activities, segmentation can be based on homogeneous groups of customers, for example all pharmaceutical companies or all power industries and we can use the different kinds of classification systems normally recommended by the government agencies, so there are you know Indian Standard publication segmentation

according to government notification of different types of industries also obeying the sets of Customs and Excise rules.

Which therefore will distinguish say the leather industry from petrochemical industry, so this is a kind of segmentation approach based on the nature of activities, the size and structure of your target.

(Refer Slide Time: 06:50)

SEGMENTING B2B MARKETS

- **SEGMENTATION BY END-USE APPLICATION**
 - End-use application segmentation Segmenting a business-to-business market based on how industrial purchasers will use the product-Automotive Paint.
- **SEGMENTATION BY PURCHASE CATEGORIES**
 - Segmenting according to -Use characteristics-Purchase cycle
Entering Goods-Process Input & MRO/Facilitating/Capital Goods

Prof. Jayanta Chatterjee - Dept. Industrial and Management Engineering - IIT Kanpur

Prof. Jayanta Chatterjee: Customer's, segmentation can also be done by end-use application like for example you can segment your market as conveyor belt so conveyor belts.

(Refer Slide Time: 07:00)

SEGMENTING B2B MARKETS

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Prof. Jayanta Chatterjee: May be used in automotive industries, conveyor belts maybe used in some consumer product industries at various places but you can define your market as conveyor belt related, so this is kind of one segmentation which we say by end-use application, or segmentation can be also in terms of purchase characteristics. To illustrate for example the purchase processor characteristics of printers will be similar to the purchase process of say electrical motor, these are equipment.

These are capital assets or goods, these are infrequently purchased often during the setup of industry or for replacement. On the other hand the printer paper will be something which will be almost like a consumable and it will be required for regular operations, so taking this kind of differences one way of segmenting business arena for B2B will be to say that we have entering goods, entering goods can be raw materials or components or sub systems, entering goods are those which participate in the production process of your customer.

Or you can have facilitating goods like tables, chairs, air conditioners, these do not directly participate in the value flow of your production process, they do not get ingrained in the ultimate production from your factory but these are required for proper working conditions or increasing the efficiency or effectiveness of your employees, and then of course we have capital goods as we discussed, motors, transformers, or machines, CNC machine tools and so on. So these are three types and sometimes you can also define your market segment with respect to this kind of distinctive purchase processes.

(Refer Slide Time: 10:06)

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.

Prof. Jayanta Chatterjee : Dept. Industrial and Management Engineering : IIT Kanpur

Prof. Jayanta Chatterjee: For MR rows or for capital goods or for entering goods and so on. One thing that is at the base of this type of segmentation, this we have discussed earlier is this concept of buying center or multiple participants in the buying process as opposed to an individual decision maker, so what happens is that when it comes to as we see here.

(Refer Slide Time: 10:46)

SEGMENTING B2B MARKETS

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Prof. Jayanta Chatterjee - Dept. Industrial and Management Engineering - IIT Kanpur /41

Prof. Jayanta Chatterjee: When it comes to capital goods there will be many people involved in the buying process, the buying center will be operative in its truest sense whereas in certain types of regular consumption items what we call maintenance or operations or replenishing items like printer paper may be based on some initial screening and rate contracts negotiated, one single person one purchase clerk.

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SEGMENTING B2B MARKETS

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Prof. Jayanta Chatterjee : Dept. Industrial and Management Engineering : IIT Kanpur

Prof. Jayanta Chatterjee: Stores superintendent may be making all the decisions, so this group decision-making or the business center activity is usual in B2B but there are also individual decision-making instances and accordingly you may segment your market because your distribution strategy, your sales contact strategy, your promotion strategy will differ so for a high-value capital goods advertising is of not much use but direct sales is of high importance. On the other hand for something like office supplies advertising may play a role, postal campaigns.

Type of direct markets may play a role, proper catalogs or web based purchase facilities may play a role and so on. So you see therefore if you do a segmentation based on the buying process it will give you guidance with respect to organizing your different activities for marketing as well as for the supporting activities, the segmentation can also tell us about the types of buyer-seller relationships, segmentation in B2B should also look at.

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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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Prof. Jayanta Chatterjee: The nature of the demand, generally in B2B demand is always derived demand. I mean if you are in the business of serving the automotive segment then the demand for automobiles will determine the production level, will determine the expansion objectives of your customer and your marketing activities will be guided by those requirements or growth patterns of your customer.

So segmentation therefore is based on the type of industries served, is very important for frequently purchased entering goods whereas in case of capital goods say like electric motor or printers there may be multiple types of businesses forming your total customer universe. So certain aspect of your marketing strategy will be determined by what kind of business you are in.

Whether you are in a entering goods type of business or you are in the capital goods type of business and then that universe of course will also have to be looked at in terms of individual industries. So in a steel plant the annual purchase of motors even after the initial setup phase, the annual purchase of motors will be pretty high, in a textile industry high speed spinning industry the annual purchase of motors as replacement.

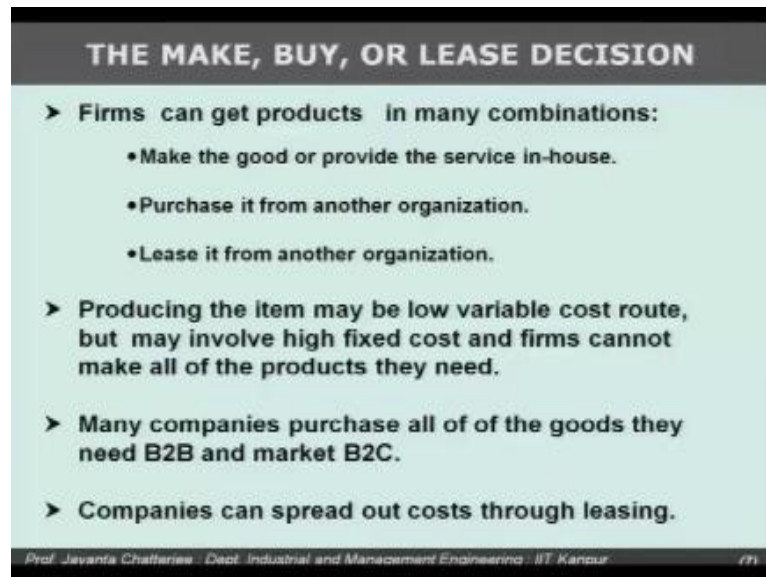
Against wear and tear etcetera will be pretty high compared to that of say a pharmaceutical industry which is a light engineering sort of industry. So the nature of the demand, the volatility of the demand, the elasticity of the demand will determine your marketing strategy, will determine your segmentation and positioning because if you are in the inelastic demand type of situation.

Where change of price will not change the demand drastically because I mean the requirement for say printer paper will be inconsonance with activities of your target customer. So if you change the price by 10% obviously your demand from the market will not go up there, will be maybe some people will buy and store but there will not be very significant impact. So as you can see here your marketing activity and your positioning.

Or will depend on the type of product and when we say the type of product it means looking at all the patterns of demand, the volatility, the elasticity and so on. So in short what this particular slide says is that one kind of segmentation or positioning in B2B market is based on demand pattern. Then this concept of make, buy, or lease.

So in some cases this is not a deliberation, in an automobile company in all probability there will be certain critical parts like the engine or like the transmission system that will be made by that company or will be sourced from the parent company of that company. So for example the engine will be made in Maruti zone plant but or will be sourced from Suzuki or the transmission system but the body parts, the window regulator, the steering system will be bought.

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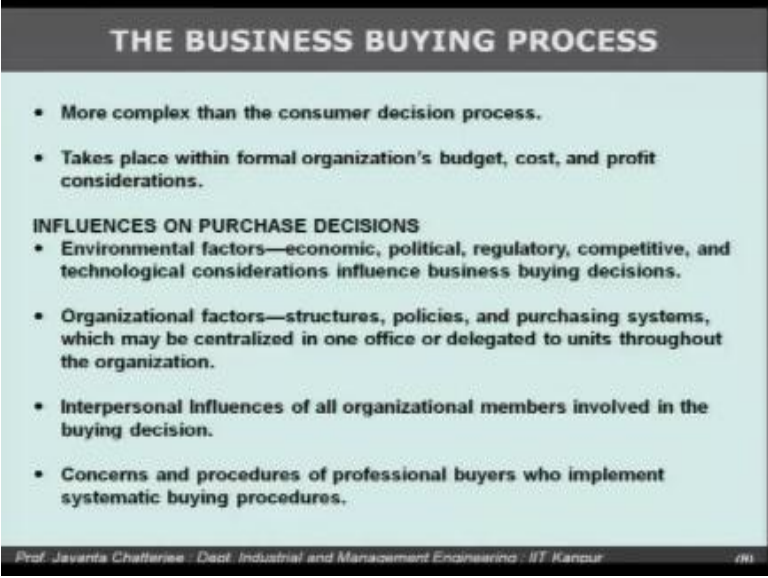
THE MAKE, BUY, OR LEASE DECISION

- **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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Prof. Jayanta Chatterjee: Whereas when a new plant is being set up by Maruti, the earth moving machinery may be taken on lease or maybe taken on rent or may be taken on use and return basis. So these will influence the marketing strategies of people who are serving Maruti for supplying components, for supplying facilitating goods or production machines, and the marketing strategy targeting positioning issues will therefore depend on the ultimate target segments make by lease decisions.

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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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Prof. Jayanta Chatterjee: And the buying process, we have discussed this, just now we were talking the complexities change from entering goods to capital goods, the number of people involved changes will change from, means the size of the buying center or the number of members belonging to the buying centre will change as we go up from frequently bought relatively lower value high volume entering goods as supposed to infrequently purchased, high value, critical choice, complex decision based capital goods purchases.

So obviously the positioning must be based on efficiency of delivery chain, must be based on reliability and quality of each batch of supply on a continuing basis, must be based on information system coupling between the supplier and the buyer in case of entering goods in a certain way that will suit the end customers objectives.

So the entering goods marketers, to Tata motors will be following almost similar strategies, because the dominant frame will be entering goods purchase process of Tata Motors, whether they use rate contracts, how many what is the frequency of negotiation of the rate contract. What is the frequency of delivery required for your products in the chain? So the steering system or the breaks or the window regulators will be required for every vehicle in multiple numbers and

therefore the delivery sequence to be just in time must be synchronized with the production rate and pattern of Tata Motors.

So the whole market positioning here for a vendor will have to depend on will have to be based on reliability, quality, dependability and such issues, besides of course competitive price and brand image and so on. But in case of say a high-value, multi access robotic machine for painting or for welding the positioning in many cases will not only be dependent on previous experience of Tata Motors or reference from other similar large automotive companies. But may also depend on that robotic machines suppliers image with respect to technical competence, sophistication of their R&D, the frame of certain type of machine and control and so on.

So as you can see that therefore the positioning targeting is highly dominated by the customers served in case of the entering goods, whereas when it comes to the capital goods the canvas is much bigger, the segmentation will be usually multi-segment, multiple types of industries served by different types of customized machines coming from the same basic building block of robots and construction or production machines. And will also depend on many, various other attributes like technology competence, R&D reputation with respect to support and so on.

So I hope you get this thing that business market, positioning and targeting, segmentation of business markets are somewhat similar but vastly different from the methods that we use in the B2C market. So here the emphasis is much more on the nature of the buyer, the activity of the buyer and where in the value flow you fit in, the nature of the buyer, the buying process of the buyer will be also very important for segmentation targeting in the consumer market B2C market.

But it will be important in the B2B market from different dimensions, not exactly same as what determines the B2C segmentation, so classifying business 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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Prof. Jayanta Chatterjee: In a way can help us to consolidate these different aspects of segmentation targeting and positioning. We have actually created this three classes that sort of encompass all types of B2B market, B2B buying situation, so one which we call straight re-buy this is the entering goods related, components, consumables, subsystems that we buy without negotiation each stage based on rate contracts, based on maybe vendor evaluation, based on vendor rating so here as I was discussing a little while back the segmentation, targeting positioning rules immediately merge in terms of reliability, in terms of dependability, in terms of quality and so on. So here customer is reordering on a regular basis to fit in his production flow to rise and fall with respect to a just-in-time approach and he what is for segmentation targeting positioning will be those reliability, quality, etcetera which I discussed.

The next buying process we call modified lee-buy, here it is regularly purchased like say electrical products like maybe circuit breakers or starters or contactors, or relays and so on or say tools, use the machine tools, cutting appliances, welding setups. So these are not purchased daily, the requirements may not be exactly in concerns with the production value of the target customer but here again because there is customer does not involve too many steps, may not go for open tendering, the issues of reputation related, reliability, quality etcetera

Attributes remain very strong because customer wants to take the right decision without spending too much time on it and so the track record becomes very important and your targeting and positioning must enhance that track record, must augment, must build that image related to track record in customer's mind, but new capital expenditure new buy as we call it that is first time or unique purchase situation

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THE BUSINESS BUYING PROCESS

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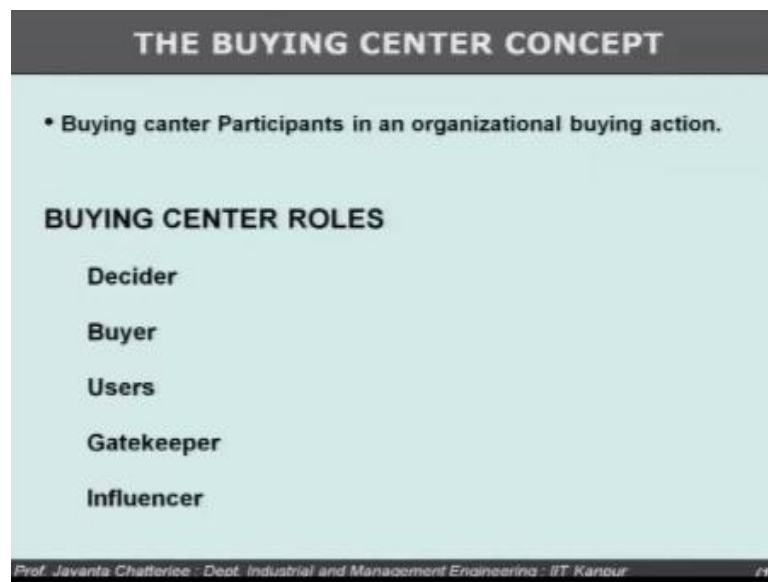
Prof. Jayanta Chatterjee: Usually involve lot of efforts, information seeking, comparing, analyzing, getting references, seeing demonstration, testing trial runs, so in this cases there are opportunities maybe for the first time competitor entering into the frame with some latest cutting-edge technology, so the targeting positioning here will change with respect to the nature of the industry in the information and communication technology industry when they approach buyers like say automotive or petrochemical because of the volatility of the ICT industry every time and established competitor may have to face a new upcoming competitor.

And face serious threat, so if you are in the ICT market to successfully target your object your customers in the petrochemical industry or in the power industry or in the automotive industry or

in the chemical industry you will have to blend your track record with your latest R&D with the relevancy and recent phase of technology, and you may use the same sort of packaging for a power industry capics buying situation, or a cement industry capics buying situation, so as you can see here that in the straight re buy situation.

You will have to tailor it, customize it for one single targeted buyer, in a way this is like comparable to a very precise segmentation in B2C market, whereas in case of the capics buying you are managing STP activities which are precise as well as in some ways like the multi-segment instances in B2C. So this gives us some

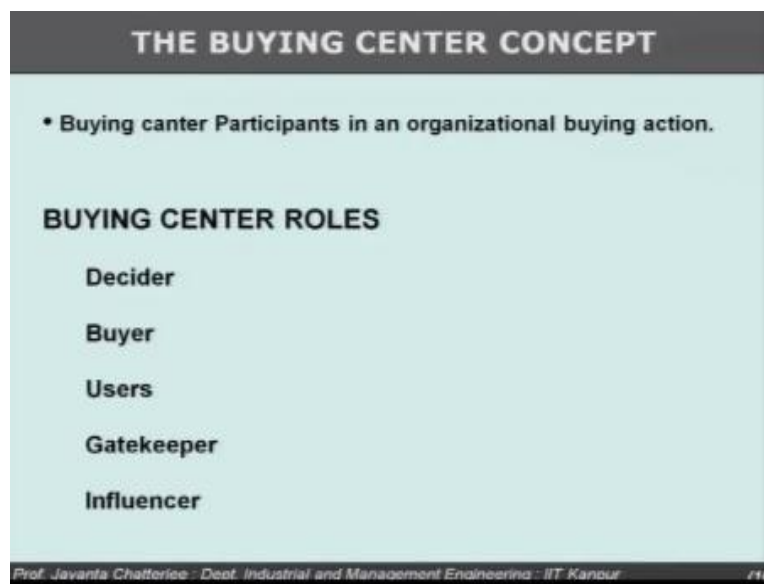
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Prof. Jayanta Chatterjee: Basic approach to STP in B2B, of course always we have to remember that in B2B there is a buying center, there are multiple player, there are what we call gatekeepers like the purchase department, there are influencers like the consultant, and your segmentation targeting positioning may sometimes change from the usual pattern depending on the relative strength of the people playing different roles in the buying center.

This we will have to judge case to case so in a particular buying center where the influencer is very strong the consultant's recommendation or the land contractors recommendation is very important, your marketing activities and segmentation positioning even for straight or modified re buy situation can almost become like a new buy situation. There can be a lot of information giving and knowledge sharing and high involvement marketing so in short the caviar for the pattern that we discussed with respect to this buying situation

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Prof. Jayanta Chatterjee: Will also be this buying

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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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Prof. Jayanta Chatterjee: Center roles and there are of course certain international B2B buying situation where the customs, cultural issues, local rules, regulations etcetera will also influence that targeting and position. So we have discussed therefore segmentation, targeting, and positioning from different perspectives in different market situations over the last three sessions. In the next session we will also look at the nature of marketing management and changes that are required to be understood in terms of the evolving product or technology lifecycle, so we take that up tomorrow, thank you.

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