Notes of B2B Marketing Session 11- 20

Session 11

Concept of Industrial Marketing Research:

Industrial Marketing Research is conducting to recognize the industrial customer's opinion; it can be done pre-production, post-production or re-launch of the manufactured goods. Marketing research varies from scale to large level depends upon the business willingness to gather in-depth information.

It is also useful for studying and solving different marketing problems in a systematic and rational manner. It is a special branch of marketing management. It is comparatively recent in origin. This acts as an investigative arm of a marketing manager.

Industrial Marketing Research plays a very significant role in identifying the needs ofcustomers and meeting them in finest possible way. The main job is systematic gathering and analysis of information.
Industrial Marketing Research is systematic trouble analysis, model building and fact finding for the purpose of important decision making and control in the marketing of goods and services.

Scope of Industrial Marketing Research:

The scope of industrial marketing research can be summarized as follows:

1. Industrial Product Research:

Product means the goods and services which are sold to the consumers. It includes consumer products and industrial products. Product research studies the individual product. It studies the making and marketing of the product.

2. Consumer Research:

Consumer is the person who purchases the goods and services. The consumer is the king in the market. Consumer research studies consumer behaviour. It studies the consumer's needs, wants, likes, dislikes, attitude, age, sex, income, location, buying motives etc. This data is used to take decisions about the product, its price, place and promotion.

3. Packaging Research:

Packaging research is a part of product research. It studies the package of the product. It improves the quality of the package. It makes the package more attractive. It makes the package more convenient for the consumers. It reduces the cost of packaging. It selects a suitable method for packaging. It also selects suitable packaging material.

4. Pricing Research:

Pricing Research studies the pricing of the product. It selects a suitable method of pricing. It fixes the price for the product. It compares the company's price with the competitor's price. It also fixes the discount and commission which are given to middlemen. It studies the market price trends. It also studies the future price trends.

5. Advertising Research:

Advertising research studies the advertising of the product. It fixes the advertising objectives. It also fixes the advertising budget. It decides about the advertising message, layout, copy, slogan, headline etc. It selects a suitable media for advertising. It also evaluates the effectiveness of advertising and other sales promotion techniques.

6. Sales Research:

Sales research studies the selling activities of the company. It studies the sales outlets, sales territories, sales forecasting, sales trends, sales methods, effectiveness of the sales force etc.

7. Distribution Research:

Distribution research studies the channels of distribution. It selects a suitable channel for the product. It fixes the channel objectives. It identifies the channel functions like storage, grading, etc. It evaluates the competitor's channel.

8. Policy Research:

Policy research studies the company's policies. It evaluates the effectiveness of the marketing policies, sales policies, distribution policies, pricing policies, inventory policies etc. Necessary changes, if any, are made in these policies.

9. International Marketing Research:

International marketing research studies the foreign market. It collects data about consumers from foreign countries. It collects data about the economic and political situation of different countries. It also collects data about the foreign competitors. This data is very useful for the exporters.

10. Motivation Research:

Motivation research studies consumers' buying motives. It studies those factors that motivate consumers to buy a product. It mainly finds out, why the consumers buy the product? It also finds out the causes of consumer behaviour in the market.

11. Market Research:

Market research studies the markets, market competition, market trends etc. It also does sales forecasting. It estimates the demand for new products. It fixes the sales territories and salesquotas.

12. Media Research:

Media research studies various advertising media. The different advertising media are television (TV), radio, newspapers, magazines, the internet etc. Media research studies the merits and demerits of each media.

It selects a suitable media for advertising. It does media planning. It also studies media cost. It helps in sales promotion and to avoid wastage in advertising.

Following also helps in our understanding:

In consumer markets, the number of potential buyers of a product is often a significant proportion of a total population running into millions. So techniques used to research these markets include quantitative methods based on rigorous sampling as well as qualitative techniques that explore complex consumer perceptions and motivations.

Consumer markets can be further sub-divided between fast moving consumer goods, food and similar frequent purchases, and other markets, such as media, travel and leisure, financial, consumer durables.

Business-to-business market research employs the same techniques as consumer market research, but in different ways.

Many business-to-business markets are characterized by a much smaller population to survey, often measured in hundreds or thousands, unlike the consumer millions. B2b markets are also frequently variable and made up of companies in different industries and with huge differences in size.

Within businesses there are often complex groups involved in influencing the buying decision – known as the DMU or decision making unit. While the obvious groups, such as procurement, place the orders, technical and production departments may set a specification and financial departments impose budgets.

Business-to-business markets are complex, with smaller and more varied populations as well as tangled decision making units, all requiring different research methods. With sample sizes smaller in number, the researcher may be leaning as much on judgement and interpretation as on the rigor of the method.

Primary research involves collecting data from consumers and linked parties from the beginning.

1. **Customers, Partners, and Former employees**
   Sources: Case Studies, TrustRadius, G2 Crowd, customer references on sites, Linkedin
2. **Pricing details**
   Pricing details may require primary research and this will provide data points, but not full price lists.
   Sources: TrustRadius, G2 Crowd, Existing Customers, Websites, Email Communication
3. **Direct mail**

Short on point questions can be asked in direct mail questionnaire to different links involved in the business.
You can prepare these questionnaires on — SurveyMonkey, outsource2india, key survey

4. **Customer Level Analytics Platform**
   Sources: Mixpanel, Trak.io, Gainsight, Totango
5. **Face to face interviews with customers, partners or Employees**
   It gives you a better accuracy, depth knowledge of the responses received on the spot. And hence are least diluted than any other method of research.

Secondary Research in Business Markets

Secondary market research is used in all areas of marketing but particularly important in B2B markets
Costs ○Relatively less expensive
Derived markets ○Necessary to study markets beyond immediate customer market
Availability of excellent information sources
Using the Internet in B2B research many of the sources are of potential value to the B2B marketer.
Internet contains also a lot of information with dubious quality
Using market research agencies B2B marketing managers collect, analyze and act upon marketing information all of the time

The client agency relationship in business markets

Market research agencies are B2B professional services organizations.
Client-agency relationship in business markets
Have a clear understanding of the problem prior to contacting the research supplier
Get closely involved
Check past clients of the suppliers and evaluate their prior experience and industry familiarity

B2B Marketing Session 12 , 13 and 14 B2B

Marketing Strategy Process:

1. Start with customer research
2. Conduct qualitative and quantitative analysis
3. Establish key objectives and metrics
4. Develop your B2B customer journey map
5. Identify executional marketing tactics

For B2B companies, the potential buyer pool is typically smaller and less urgently looking to buy. Everyone needs toilet paper and (almost) everyone wants new shoes, but far fewer people will rush out to buy surface drills, ultrasound machines or a brand new customer support software on a whim.

A B2B marketing strategy dictates how an organization will be proactive in attracting customers, closing sales and remaining on the road to continued financial success.

Having a marketing strategy also allows organizations to iterate on their marketing efforts over time. Experimenting to learn what works and what doesn't for your customer segment can be valuable, but only if you're able to capture data you can learn from in the future.

Very few companies have gone completely under from a single bad marketing decision. It's happened, but it typically happens after the cumulation of several bad decisions, and you want to give yourself every advantage to avoid those pitfalls.

So if you're sold the **why** of a B2B marketing strategy, keep reading—it's time for the **how**.

How to create a B2B marketing strategy:

Alright, so now that we've touched on the *why* behind a documented & research-backed strategy—it's time to talk about *how* you can do it.

1. Start with customer research

There's something that many marketers agree is incredibly important, and yet many companies don't do it anywhere near as much as they should:

Customer research.

If you don't know what your customers' pain points *actually* are beyond just a wild guess, your marketing decisions aren't going to be based on research and your chances of flopping are much higher.

Don't be fooled, either—customer research goes beyond anecdotal evidence that your audience is on a specific channel or is purchasing a certain way.

We have a full post that tells you everything you need to know aboutho w to find your target audience. It touches on identifying what your core offering to your customers is & building customer personas.

Here's the high level view of the 4-step persona process, but the full post is worth a read if you're still at the persona-building stage.

The big takeaway that we'll repeat here is this:

Actually talk to your customers. And if you don't have any, talk to the customers of your competition."Instead of trying to guess what your customers were thinking, you can actually ask them what they were thinking." —JoshGallant,Digital & SEO Strategist with Foundation

Before you start planning your marketing strategy, you need to figure out if you're on the right track—will your efforts create value, or are you trying to fish with dynamite?

"If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle." — Sun Tzu in The Art of War

But talking to your customers is only the first step in the research process. It's not enough to just send a survey, book a few calls, take some notes and call it a day. Your research needs to go deeper than that. And that's where the qualitative and quantitative analysis comes into play.

2. Conduct qualitative & quantitative analysis Collecting answers to interview or survey questions from your customers is only the first step. What you have at this point is **data**—not insights. The same goes for having Google Analytics installed on your website (if you don't, you should). Just because it's collecting data doesn't mean you have insights in a bottle.

Next—you need to **analyze that data.** Look at the customer research you've collected.

- Look at common behaviours and actions that are happening on your website
- If you have a sales team, ask them what questions come up the most
- If you have active social media pages, look at what people are messaging you
- If you have a support team, ask them what problems are the most common

B2B Marketing Strategy Process:

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B2B Brand Strategies:

1. Transparency
2. Cause & Purpose Association
3. Being The Underdog
4. Employee Empowerment
5. Launch Free Tools
6. Own Your Position Of Strength
7. Being Customer-Focused

B2B Lead Generation Tactics:

1. Downloadable Assets
2. Host Webinars
3. B2B Review Sites
4. Paid Search Advertising
5. Paid Social Advertising

Applying the STP Model

Follow the steps below to apply the STP Model in your organization.

Step 1: Segment Your Market

Your organization, product or brand can't be all things to all people. This is why you need to usemarket segmentation to divide your customers into groups of people with common characteristics and needs. This allows you to tailor your approach to meet each group's needs cost-effectively, and thisgives you a huge advantage over competitors who use a "one size fits all" approach. There are many different ways to segment your target markets. For example, you can use the following approaches:

PEST AND SWOT ANALYSIS

PEST analysis: variables that may be considered in the environmental scan

Strategic planning typically begins with a scan of the business environment, both internal and external, this includes understanding strategic constraints. An understanding of the external operating environment, including political, economic, social and technological which includes demographic and cultural aspects, is necessary for the identification of business opportunities and threats. This analysis is calledPEST; an acronym for **P**olitical, **E**conomic, **S**ocial and **T**echnological. A number of variants of the PEST analysis can be identified in literature, including: PESTLE analysis (Political, Economic, Social, Technological, Legal and Environmental); STEEPLE (adds ethics); STEEPLE.

The aim of the PEST analysis is to identify opportunities and threats in the wider operating environment. Firms try to leverage opportunities while trying to buffer themselves against potential threats. Basically, the PEST analysis guides strategic decisionmaking. The main elements of the PEST analysis are:

- **P**olitical: political interventions with the potential to disrupt or enhance trading conditions e.g. government statutes, policies, funding or subsidies, support for specific industries, trade agreements, tax rates and fiscal policy.

- **E**conomic: economic factors with the potential to affect profitability and the prices that can be charged, such as, economic trends, inflation, exchange rates, seasonality and economic cycles, consumer confidence, consumer purchasing power and discretionary incomes.

- **S**ocial: social factors that affect demand for products and services, consumer attitudes, tastes and preferences like demographics, social influencers, role models, shopping habits.

- **T**echnological: Innovation, technological developments or breakthroughs that create opportunities for new products, improved production processes or new ways of transacting business e.g. new materials, new ingredients, new machinery, new packaging solutions, new software and new intermediaries.

When carrying out a PEST analysis, planners and analysts may consider the operating environment at three levels, namely *the supranational*; *the national* and *subnational* or local

level. As businesses become more globalized, they may need to pay greater attention to the supranational level.

Chapter 14

How to use Segmentation, Targeting and Positioning (STP) to develop marketing strategies

Today, Segmentation, Targeting and Positioning (STP) is a familiar strategic approach in Modern Marketing. It is one of the most commonly applied marketing models in practice. In our poll asking about themost popular marketing modelit is the second most popular, only beaten by the venerable SWOT / TOWs matrix. This popularity is relatively recent since previously, marketing approaches were based more around products rather than customers. In the 1950s, for example, the main marketing strategy was 'product differentiation'.

The STP model is useful when creating marketing communications plans since it helps marketers to prioritise propositions and then develop and deliver personalised and relevant messages to engage with different audiences.

This is an audience rather than product focused approach to communications which helps deliver more relevant messages to commercially appealing audiences.

In addition, STP focuses on commercial effectiveness, selecting the most valuable segments for a business and then developing a marketingmix and product positioning strategy for each segment.

How to use STP?

Through segmentation, you can identify niches with specific needs, mature markets to find new customers, deliver more focused and effective marketing messages.

The needs of each segment are the same, so marketing messages should be designed for each segment to emphasise relevant benefits and features required rather than one size fits all for all customer types. This approach is more efficient, delivering the right mix to the same group of people, rather than a scattergun approach.

You can segment your existing markets based on nearly any variable, as long as it's effective as the examples below show:

Market targeting

The list below refers to what's needed to evaluate the potential and commercial attractiveness of each segment.

Criteria Size: The market must be large enough to justify segmenting. If the market is small, it may make it smaller.

Difference: Measurable differences must exist between segments.

Money: Anticipated profits must exceed the costs of additional marketing plans and other changes.

Accessible: Each segment must be accessible to your team and the segment must be able to receive your marketing messages

Focus on different benefits: Different segments must need different benefits.

Product positioning

Positioning maps are the last element of the STP process. For this to work, you need two variables to illustrate the market overview.

In the example here, I've taken some cars available in the UK. This isn't a detailed product position map, more of an illustration. If there were no cars in one segment it could indicate a market opportunity.

Expanding on the extremely basic example above, you can unpack the market by mapping your competitors onto a matrix based on key factors that determine purchase.

This chart is not meant to be any kind of accurate representation of the car market, but rather just illustrate how you could use a product positioning map to analyze your own businesses current position in the market, and identify opportunities. For example, as you can see in the gap below, we've identified in a possible opportunity in the market for low-priced family cars.

We're not saying this gap actually exists, I'm sure you could think of cars that fit this category, as the car market is an extremely developed and competitive market.

However, it does show how you can use the tool to identify gaps in your own market.

Incremental measurement – advantage and opportunities

The scientific method of measuring marketing effectiveness As seasoned marketers, I'm sure you'll be familiar with the quote (often attributed to John Wanamaker): "Half the money I spend on advertising is wasted; the trouble is I don't know which half" …..

Session 15 ,16 &17 B2B Marketing – Topics – How to use Marketing to Grow B2B Sales, Product Strategy, Development, Life Cycle, Bundling, & Product Decisions

To use Marketing to Grow B2B Sales

Companies are often faced with problems related to reduction in Market Share, Drop in Sales, Reduction in Gross/Net Margins, Drop in EBITDA, which take management time and effort to resolve. It is imperative that the reasons for the above be analysed to come to proper "actions to be taken" in terms of deployment of resources and capabilities.

Most of the above problems need a common action to increase Sales, among others, with qualifications like improving price realizations, countering competitive offerings effectively, reducing cost, etc.

If we focus on Marketing efforts required to Increasing Sales, in a B2B environment, one can look at the following actions to be taken :

1. **Make Industry Specific Case Studies –**
   The buyer organization always looks for "success examples" in similar organizations to be convinced about the Sales offer. This will help them to effectively analyse the offer, check for the benefits, and also make a strong proposal to the management for the purchase/ investment. Also, it can be a substitute to the product / sample testing, product Demo, getting a strong

testimonial and to get convinced on the sales proposal. The case can also make them to ask relevant questions and clear doubts related to the product and its performance. Pricing is another important factor that can be benchmarked and discussed in detail.

This can be achieved by documenting a "success Case" of a similar industry / organization by the selling organization. Hence it is required for the B2B Sales Team to have a proper MIS on the particular Sales process, especially in terms of Price negotiations, Closing, Product installation, Product performance, evaluation feedback and after sales service.

Examples to discuss – Special Purpose Machines in Engineering Industry – this is an important investment decision and all plant activities are affected, so a proper "case" would help in the analysis ; Plant investments in Steel Industry are again a high investment activity and thorough studies are done on how the equipment was installed in other steel plants in India / Abroad ; Software Package in BFSI Industry – being a service industry investment decision the buying organization always would like to see where the software was put to use and what was the performance ; Equipments in Healthcare Sector – this sector is competitive and also needs to be updated on various new developments and improvements in treatments that can help them to serve patients better.

2. **Emphasize how your Product / Service can help them –**

   Buying organizations would like to know how a product / service can help their organization in terms of increasing productivity, reducing wastage, reducing cost, optimizing overheads, creating better environment, making them more sustainable, having a better resale / reuse value, etc. The factors and their importance levels vary from organization to organization and are also dependent on the management policies and the company's standing in the market. Nowadays organizations have multiple objectives to be achieved on investment decisions on product purchases. Also the process of taking management approval for the funding would depend on how these factors are presented and documented.

   The Selling team should recognize this and make it a part of their prospecting activity while engaging in discussions with the buying organization. They should spend time and efforts in finding out which are the factors that are important to the buying organization and prioritize them, based on their discussions during the pre-sales process and information gathering activities.

   The Sales / Product presentation should highlight this and also should be able to quantify how the product / service can effectively address the issue and benefit the organization. The presentation should have details of the factors and how it can benefit the company on revenues, cost, recurring costs, initial investments, etc.

   Examples to discuss – Same as above in (1) in the context of listing out factors that can benefit the buying organization. Specific factors to be discussed related to labour productivity, waste reduction, environment friendliness, overheads, etc.

3. **Have a Clear Website**

   Today buying organizations like to study and research the selling organizations even before they are invited to make an offer. And the first thing that they look for is company information, published data, existing clients, management quality/background/expertise, product range / literature and details, company history and development, tie-ups and joint ventures, financial

information and performance, etc. Organizations are also short listed based on this pre study and only selected organizations are invited.

In today's times and situation, a website is the ideal vehicle / medium that provides all this information in one source / location / url. The selling organization should recognize this and have / develop a good website providing all relevant informations' as listed above. There are professional service providers that can help companies develop this in a short time and also make it attractive and presentable. This has become a MUST for all organizations today and is also used as an effective Marketing tool. Even videos of product usage and performance can be uploaded to give maximum information to the prospective user.

Examples – websites of Godrej Industries (SPM manufacturers) ; SMS Demag(Blast Furnace suppliers for the Steel Industry) ; Infosys / Wipro (for software products for the Banking Industry) ; Siemens Ltd (hospital equipment manufactures) ……can be discussed to highlight the point. The buyers viz. Auto manufacturers in India (Tata Motors, Mahindra), Steel producers (Tata Steel, JSW Steel), Nationalised Banks in India, Hospital chains.

4. **Answer Leads Quickly –**

Leads are enquiries, prospects, possible future orders, ……and are to be treated with the utmost respect and import, as they can be our future revenues. Hence it is essential to made a lead feel important and respond to his/her query as early as possible. The Sales department and persons should be adequately empowered and sensitized to give leads priority and ensure quick and serious responses. This way the lead would also feel that his enquiry is being given due importance in the organization. This kind of prompt response makes the lead to be loyal to the company that responds and also be attached to the Sales Organization.

The above points are Marketing actions and not direct Sales interventions, and help enable the sales, through the Sales Organisation.

Product Decision – Product Strategy and Development.

- Learning Objectives – Product Strategy, Definition,Product Life Cycle, Product Revival, New product development, Product Bundling

INTRODUCTION TO PRODUCT STRATEGY

- Markets are always *dynamic and change is a given.* Dynamic markets result in phasing out of products as customer tastes change, Disruption as products become obsolete and are replaced with better and more efficient options….eg EVs in Auto, ECommerce Market Place, Digital Cameras, Renewable energy, etc.

- Marketing managers are always looking for *new and better ways* of doing things to generate satisfaction for their customers and increase return to their shareholders. Product concept undergo changes in the process in terms of upgradations, improvements, features additions, change in technology, etc. The aim to is give the customer a value added, value for money, more efficient/effective, more satisfying option…eg to discuss….changes in music industry(records to cassettes to DVDs to sticks) , film industry(theatres to multiplexes to home videos), Communication (phones to video calls to zoom), hospitality (hotels to time shares), etc.

- Competitors lurk in every market, trying to think of *more attractive* products and services. They are always trying to improve offers and give better deals to the customers in terms of product, price, placements so that the customers think they are getting better value for money. Eg. Buses normal to coaches to luxury); Airlines (normal to low cost); special purpose machines(normal to CNC to software controlled to robotic)

- Firm must engage in a formal *new product development* (NPD) process. There is a product development cycle in any company / industry ; a product life cycle analysis ; a product phase out program…..eg. Auto (cars and 2 wheelers) ; Electronic products ; consumer durable (washing machines, TVs, etc.)

- The firm needs to *develop an overall product strategy* and then manage a process which will keep its offering as attractive as possible to customers. This is essential to counter technology changes, competitive pressures, changing customers tastes, and so on.

- Hence essential to look at Product Management as a whole to take all decisions related to products from Design, to Prototyping, to Development, to Manufacturing, to Testing, to Go To Market.

- These Decisions are at Management levels as all Departments are involved, is a matter of the company's future, and all Stakeholders are affected.

- There can be options and trade-offs to Product development and launches depending on market conditions and competitors strategies ….eg…Furniture branding and outsourcing.

New Product Development Process

- Product development is defined as "the *transformation* of market opportunity and a set of assumptions about *product technology* into a product available for sale" (Krishnan and Ulrich, 2001).
- Crawford (2003) has been a pioneer researcher in the new product development process. He first poses the question *"what is a new product?"* and provides these categories given below:

- New to the World of Products – eg. Commercial Renewable energy in energy sector for commercial and residential use
- New Category Entries –eg. Solar, Wind,……as categories within Renewable Energy
- Addition to Product lines – eg. within Solar…..farms, roof top, street light packages,
- Product Improvement – eg. increased efficiency of panels, structures,…to improve on the conversion from solar to electrical energy
- Repositioning – eg. from a marginal player in the industry and the total energy sector….to a major player and contributor.

Phases in the New Product Process :

Opportunity Identification and selection – Policy, Framework, Incentives,….

Concept Generation – Designs, Documentation, Materials, Technology,….

Concept Evaluation – Simulation, Discussions with experts across sectors, improve on designs, optimize, ….

Development of Product, Prototyping, Trials, Sample Testing,…..

Launch to market, GTM, Commercialize.

Session 18 - 20 Pricing Strategies:

Understanding how customers define value is the essence of the pricing process. Pricing decisions complement the firm's overall marketing strategy. The diverse nature of the business market presents unique problems and opportunities for the price strategist.

After reading this chapter, you will understand:

1. a value-based approach for pricing.
2. the central elements of the pricing process.
3. how effective new-product prices are established and the need to periodically adjust the prices of existing products.
4. how to respond to a price attack by an aggressive competitor.
5. strategic approaches to competitive bidding.

Customer value represents the cornerstone of business-to-business (B2B) marketing in the 21st century.[1]

Thus, business marketers must pursue this unifying strategic goal: Be better than your very best competitors in providing customer value.[2]

According to Richard D'Aveni: While the average competitor fights for niches along a common ratio of price and value ("You get what you pay for"), innovative firms can enter the market by providing better value to thecustomer("You can get more than what you pay for"). These companies offer lower cost and higher quality. This shift in value is like lowering the stick while dancing the limbo. All the competitors have to do the same dance with tighter constraints on both cost and quality.[3]

The business marketing manager must blend the various components of the marketing mix into a value proposition that responds to the customer's requirements and provides a return consistent with the firm's objectives. Price must be carefully meshed with the firm's product, distribution, and communication strategies. Thomas Nagle points out,"If effective product development, promotion, and distribution sow the seeds of business success, effective pricing is the harvest. Although effective pricing can never compensate for poor execution of the first three elements, ineffective pricing can surelyprevent these efforts from resulting in financial success. Regrettably, this is a common occurrence."[4]

The Pricing Process in Business Markets : There is no easy formula for pricing an industrial product or service. The decision is multidimensional: The interactivevariables of demand, cost, competition, profit relationships, and customer usage patterns each assumes significance as the marketer formulates the role of price in the fi rm's marketing strategy. Pertinent considerations, illustrated in Figure 18.2, include (1) pricing objectives, (2) demand determinants, (3) cost determinants, and (4) competition.

Price Objectives The pricing decision must be based on objectives congruent with marketing and overall corporate objectives. The marketer starts with principal objectives and adds collateral pricing goals: (1) achieving a target return on investment, (2) achieving a market-share goal, or (3) meeting competition. Many other potential pricing objectives extend beyond profit and market-share goals, taking into account competition, channel relationships, and product-line considerations. Because of their far-reaching effects, pricing objectives must be established with care. Each firm faces unique internal and external environmental forces. Contrasting the strategies of DuPont and Dow Chemical illustrates the importance of a unified corporate direction. Dow's strategy focuses first on pricing low-margin commodity.

Assessing Value:How organizational buyers evaluate the economic value of the total offering determines the appropriateness of a pricing strategy. Two competitors with similar products may ask different prices because buyers perceive their total offerings as unique. In the eyes of the organizational buyer, one firm may provide more value than another. Economic value

represents the cost savings and/or revenue gains that customers realize by purchasing the firm's product instead of the next-best alternative.

Some product or service features are quite similar across competitive offerings in a category (that is, points of parity) whereas others might be unique to a particular firm's brand (that is points of differentiation). Commodity value, then, is the value that a customer assigns to product features that resemble those of competitors' offerings. By contrast, differentiation value is the value associated with product features that are unique and different from competitors'. Importantly, the price-per-unit of value that organizational buyers are willing to pay a firm for differentiating features is greater than the price-per-unit of value that they would pay for commodity features. "That's because refusal to pay a supplier's price for differentiating features means that the buyer must forgo those features. Refusal to pay a supplier's price for commodity features means simply that the customer must buy them elsewhere," says Gerald E. Smith and Thomas T. Nagle.[14] Recall that best-practice business-to-business firms create distinctive value propositions that isolate those product and service features that matter the most to customers, demonstrate the value of their unique elements, and communicate that value in a manner that clearly conveys a deep understanding of the customer's business priorities.

Isolating Value Drivers in Key Customer Segments : Exploratory methods such as depth interviews are required for identifying and measuring value. For example, depth interviews can be used to probe customer needs and problems and for learning how your products or services could address these problems. The goal here is to first identify the most significant drivers of value for customers in each market segment (see Figure 18.3). Economic value embodies both cost and revenue drivers. Cost drivers create value by providing economic savings while revenue drivers add incremental value by facilitating revenue or margin expansion.[16] For example, consider the value that Sonoco, a packaging supplier,provided for Lance, the snack food maker. One improvement involved the use of flexographic painted packaging film on some of Lance's key brands.[17] These efforts drastically reduced Lance's packaging costs (cost driver) and, by enhancing the appeal of the products, spawned a growth in sales (revenue driver).

Second, once the business marketing strategist has identified the most important value drivers for customers, attention then turns to quantifying the impact of the firm's product or service on the customer's business model. To illustrate, a medical equipment company developed a new surgical product. Based on depthinterviews with surgical teams at key hospitals, value research found that this product could reduce the length of a particular surgical procedure from 55 minutes to 40 minutes, freeing up precious time in capacity-constrained operating rooms.[18] In addition to estimating the value of the product, the study also revealed ways in which surgical procedures could be more tightly scheduled to capture the full value potential of the new product.

Third, the strategist should compare the firm's product or service to the nextbest alternative, isolating those features that are unique and different from competitors.

Elasticity Varies by Market Segment Price : elasticity of demand measures the degree to which customers are sensitive to price changes. Specifically, price elasticity of demand refers to the rate of percentage change in quantity demanded attributable to a percentage change in price. Price elasticity of demand is not the same at all prices. A business marketer contemplating a change in price must understand the elasticity of demand. For example, total revenue (price times quantity) increases if price is decreased and demand is price elastic, whereas revenue falls if the price is decreased and demand is price inelastic. Many factors influence the price elasticity of demand—the ease with which customers can compare alternatives and switch suppliers, the importance of the product in the cost structure of the customer's product, and the value that the product represents to a customer. Satisfied Customers Are Less Price Sensitive Recent research demonstrates that highly satisfied customers are less sensitive to prices, compared with those who have a moderate level of customer satisfaction.[22] This relationship is particularly strongfor purchase decisions that involve a high level of product/service complexity and a high degree of customization. Thus, reduced customer price sensitivity represents an important payoff to a business marketer for developing a customized solution for the customer.

Search Behavior and Switching Costs: The price sensitivity of buyers increases— and a firm's pricing latitude decreases—to the degree that

- Organizational buyers can easily shop around and assess the relative performance and price of alternatives. Purchasing managers in many firms use information technology to track supplier prices on a global basis.

- The product is one for which it is easy to make price comparisons. For example, it is easier to compare alternative photocopiers than it is to compare specialized manufacturing equipment options.

- Buyers can switch from one supplier to another without incurring additional costs. As an earlier Chapter highlights, low switching costs allow a buyer to focus on minimizing the cost of a particular transaction.[23]

End Use: Important insights can be secured by answering this question: How important is the business marketer's product as an input into the total cost of the end product? If the business marketer's product has an insignificant effect on cost, demand is likely inelastic.

Of course, the marketer must temper this estimate by analyzing the costs, availability, and suitability of substitutes. Generally, when the industrial product is an important but low-cost input into the end product, price is less important than quality and delivery reliability. When, however, the product input represents a larger part of the final product's total cost, changes in

price may have an important effect on the demand for both the final product and the input. When demand in the final consumer market is price elastic, a reduction in the price of the end item (for example, a personal computer) that is caused by a price reduction of a component (for example, a microprocessor) generates an increase in demand for the fi nal product (personal computer) and, in turn, for the industrial product (microprocessor).

End-Market Focus : Because the demand for many industrial products is derived from the demand for the product of which they are a part, a strong end-user focusis needed. The marketer can benefit by examining the trends and changing fortunes of important final consumer markets. Different sectors of the market grow at different rates, confront different levels of competition, and face different short-run and long-run challenges. A downturn in the economy does not fall equally on all sectors. Pricing decisions demand a two-tiered market focus— on organizational customers and on final-product customers. Thus, business marketers will have more success in raising prices to customers who are prospering than to customers who are hard pressed.

Value-Based Segmentation:The value customers assign to a firm's offering can vary by market segment because the same industrial product may serve different purposes for different customers. This underscores the important role of market segmentation in pricing strategies. Take Sealed Air Corporation, the innovative supplier of protective packaging, including coated air bubbles.25 The company recognized that for some applications, substitutes were readily available. But for other applications, Sealed Air had an enormous advantage—for example, its packaging materials offered superior cushioning for heavy items with long shipping cycles. By identifying those applications where the firm had a clear advantage and understanding the unique value differential in each setting, marketing managers were ideally equipped to tackle product-line expansion and pricing decisions and to ignite Sealed Air's remarkable revenue growth for nearly two decades.

Cost Determinants Business marketers: often pursue a strong internal orientation; they base prices on their own costs, reaching the selling price by calculating unit costs and adding a percentage profit. A strict cost-plus pricing philosophy overlooks customer perceptions of value, competition, and the interaction of volume and profit. Many progressive firms, such as Canon, Toyota, and Hewlett-Packard (H-P), use target costing to capture a significant competitive advantage.

Target Costing: Target costing features a design-to-cost philosophy that begins by examining market conditions: The firm identifies and targets the most attractive market segments. It then determines what level of quality and types of product attributes are required to succeed in each segment, given a predetermined target price and volume level. According to Robin Cooper and Regine Slagmulder, to set the target price, the business marketer has to understand the customer's perception of value: "A company can raise selling prices only if the perceived value

of the new product exceeds not only that of the product's predecessor, but also that of competing products."27 Once the target selling price and target profit margins have been established, the firm calculates the allowable cost. The strategic cost-reduction challenge isolates the profit shortfall that occurs if the product designers are unable to achieve the allowable cost. The value of distinguishing the allowable cost from the target cost lies in the pressure that this exercise exerts on the product-development team and the company's suppliers. To transmit the competitive cost pressure it faces to its suppliers, the firm then breaks down the target price of a new product into a cascade of target costs for each component or function. For example, the major functions of an automobile include the engine, transmission, cooling system, and audio system. **A Profit-Management Tool**: Toyota used target costing to reduce the price of its recently modified Camry model and did so while offering as standard equipment certain features that were expensive options on the model it replaced. Similarly, Canon used target costing to develop its breakthrough personal copier that transformed the photocopier industry.[28] Rather than a cost-control technique, Japanese managers who pioneered the approach view target costing as a profit-management tool. As Robin Cooper and W. Bruce Chew assert, "The task is to compute the costs that must not be exceeded if acceptable margins from specific products at specific price points are to be guaranteed."

Classifying Costs:The target costing approach stresses why the marketer must know which costs are relevant to the pricing decision and how these costs fluctuate with volume and over time; they must be considered in relation to demand, competition, and pricing objectives. Product costs are crucial in projecting the profitability of individual products as well as of the entire productline. Proper classification of costs is essential. The goals of a cost classification system are to (1) properly classify cost data into their fixed andvariable components and (2) properly link them to the activity causing them. The manager can then analyze the effects of volume and, more important, identify sources of profit. The following cost concepts are instrumental in the analysis:

1. **Direct traceable or attributable costs:** Costs, fixed or variable, are incurred by and solely for a particular product, customer, or sales territory (for example, raw materials).

2. **Indirect traceable costs**: Costs, fixed or variable, can be traced to a product, customer, or sales territory (for example, general plant overhead may be indirectly assigned to a product).

3. **General costs**: Costs support a number of activities that cannot be objectively assigned to a product on the basis of a direct physical relationship (for example, the administrative costs of a sales district). General costs rarely change because an item is added or deleted from the product line. Marketing, production, and distribution costs must all be classified. When

developing a new line or when deleting or adding an item to an existing line, the marketer must grasp the cost implications:

- What proportion of the product cost is accounted for by purchases of raw materials and components from suppliers?
  - How do costs vary at differing levels of production?
- Based on the forecasted level of demand, can economies of scale be expected?
- Does our firm enjoy cost advantages over competitors?
- How does the "experience effect" impact our cost projections?

  Competition : Competition establishes an upper limit on price. An individual industrial firm's degree of latitude in pricing depends heavily on how organizational buyers perceive the product's level of differentiation. Price is only one component of the cost/benefit equation; the marketer can gain a differential advantage over competitors on many dimensions other than physical product characteristics—reputation, technical expertise, delivery reliability, and related factors. Regis McKenna contends, "Even if a company manufactures commodity-like products, it can differentiate the products through the service and support it offers, or by target marketing. It can leave its commodity mentality in the factory, and bring a mentality of diversity to the marketplace."[31] In addition to assessing the product's degree of differentiation in various market segments, one must ask how competitors will respond to particular pricing decisions.

Hypercompetitive Rivalries: Some strategy experts emphasize that traditional patterns of competition in stable environments is being replaced by hypercompetitive rivalries in a rapidly changing environment.[iii]In a stable environment, a company could create a fairly rigid strategy designed to accommodate long-term conditions. The firm's strategy focused on sustaining its own strategic advantage and establishing equilibrium where less-dominant firms accepted a secondary status. In hypercompetitive environments, successful companies pursue strategies that create temporary advantage and destroy the advantages of rivals by constantly disrupting the market's equilibrium. For example, Intel continually disrupts the equilibrium of the microprocessor industry sector, and Hewlett-Packard stirs up the computer printer business by its consistent drives to lower price points. Moreover, the Internet provides customers with real-time access to a wealth of information that drives the prices of many products lower. Leading firms in hypercompetitive environments constantly seek out new sources of advantage, further escalating competition and contributing to hypercompetition. Consider the hypercompetitive rivalries in hightechnology markets. Firms that sustain quality and that are the first to hit the next-lower strategic price point enjoy a burst of volume and an expansion of market share. For

example, Hewlett-Packard has ruthlessly pursued the nextlower price point in its printer business, even as it cannibalized its own sales and margins.

Gauging Competitive Response: To predict the response of competitors, the marketer can first benefit by examining the cost structure and strategy of both direct competitors and producers of potential substitutes. The marketer can draw on public statements and records (for example, annual reports) to form rough estimates.

Pricing Across the Product Life Cycle

What price should be assigned to a distinctly new industrial product or service? When an item is added to an existing product line, how should it be priced in relation to products already in the line?

Pricing New Products : The strategic decision of pricing new products can be best understood by examining the policies at the boundaries of the continuum—from skimming (high initial price) to penetration (low initial price). Consider again the pricing strategies of DuPont and Dow Chemical. Whereas DuPont assigns an initial high price to new products to generate immediate profits or to recover R&D expenditures, Dow follows a low-price strategy with the objective of gaining market share.

In evaluating the merits of skimming versus penetration, the marketer must again examine price from the buyer's perspective. This approach, asserts Joel Dean,"recognizes that theupper limit is the price that will produce the minimum acceptable rate of return on the investment of a sufficiently large number of prospects."[35] This is especially important in pricing new products because the potential profits to buyers of a new machine tool, for example, will vary by market segment, and these market segments may differ in the minimum rate of return that will induce them to invest in the machine tool.

Skimming: A skimming approach, appropriate for a distinctly new product, provides an opportunity to profitably reach market segments that are not sensitive to the high initial price. As a product ages, as competitors enter the market, and as organizational buyers become accustomed to evaluating and purchasing the product, demand becomes more price elastic. Joel Dean refers to the policy of skimming at the outset, followed by penetration pricing as the product matures, as time segmentation. [36] Skimming enables the marketer to capture early profits, then reduce the price to reach more pricesensitive segments. It also enables the innovator to recover high developmental costs more quickly.

Robert Dolan and Abel Jeuland demonstrate that during the innovative firm's monopoly period, skimming is optimal if the demand curve is stable over time (no diffusion) and if production costs decline with accumulated volume. A penetration policy is optimal if there is a relatively

high repeat purchase rate for nondurable goods or if a durable good's demand is characterized by diffusion.[37]

Penetration :A penetration policy is appropriate when there is (1) high price elasticity of demand, (2) strong threat of imminent competition, and (3) opportunity for a substantial reduction in production costs as volume expands. Drawing on the experience effect, a firm that can quickly gain substantial market share and experience can gain a strategic advantage over competitors. The feasibility of this strategy increases with the potential size of the future market. By taking a large share of new sales, a firm can gain experience when the growth rate of the market is large. Of course, the value of additional market share differs markedly between industries and often among products, markets, and competitors in an industry.[38] Factors to be assessed in determining the value of additional market share include the investment requirements, potential benefits of experience, expected market trends, likely competitive reaction, and short- and long-term profit implications.

Product Line Considerations: The contemporary industrial firm with a long product line faces the complex problem of balancing prices in the product mix. Firms extend their product lines because the demands for various products are interdependent, because the costs of producing and marketing those items are interdependent, or both.[39] A firm may add to its product line—or even develop a new product line—to fit more precisely the needs of a particular market segment. If both the demand and the costs of individual product-line items are interrelated, production and marketing decisions about one item inevitably influence both the revenues and costs of the others.

Are specific product-line items substitutes or complements? Will changing the price of one item enhance or retard the usage rate of this or other products in key market segments? Should a new product be priced high at the outset to protect other product-line items (for example, potential substitutes) and to give the firm time to revamp other items in the line? Such decisions require knowledge of demand, costs, competition, and strategic marketing objectives.

Responding to Price Attacks by Competitors :

Rather than emphasizing the lowest price, most business marketers prefer to compete by providing superior value. However, across industries, marketing managers face constant pressure from competitors who are willing to use price concessions to gain market share or entry into a profitable market segment. When challenged by an aggressive competitor, many managers immediately want to fight back and match the price cut. However, because price wars can be quite costly, experts suggest a more systematic process that considers the long-run strategic consequences versus the short-term benefits of the pricing decision. Managers should never set the price simply to meet some immediate sales goal, but, instead, to enhance long-term project goals. George E. Cressman Jr. and Thomas T. Nagle, consultants from the Strategic

Pricing Group, Inc., observe: "Pricing is like playing chess; players who fail to envision a few moves ahead will almost always be beaten by those who do."

Understanding the Rules of Competitive Strategy :Dealing effectively with an aggressive competitor requires more than a willingness to fight—it requires a competitive strategy and an understanding of when the appropriate response to a competitor's price cut is to ignore it, accommodate it, or retaliate. George E. Cressman and Thomas T. Nagle offer these guidelines for competitive strategy development:

Never participate in a competitive engagement you cannot win. Fight those battles where youhave competitive strength, and avoid those where you are clearly at a disadvantage. . .

Always participate in competitive engagements from a position of advantage. Don't fight by competitors' rules (which they select for their advantage); use what is advantageous for you.[44]

Competitive bidding :

A significant volume of business commerce is transacted through competitive bidding. Rather than relying on a specific list price, the business marketer must develop a price, or a bid, to meet a customer's particular product or service requirements. Government and other public agencies buy almost exclusively through competitive bidding. Competitive bidding in private industry centers on two types of purchases. One is nonstandard materials, complex fabricated products where design and manufacturing methods vary, and products made to the buyer's specifications. These types of items have no generally established market level. Competitive bids enable the purchaser to evaluate the appropriateness of the prices.[45] Second, many firms are using reverse auctions, where many sellers bid for an order from a single buyer (see Chapter 2). GE, for example, uses reverse auctions to buy both direct (for example, standard component parts) and indirect materials (for example, maintenance items, office supplies), making roughly a third of its total purchasing expenditures in this fashion. Typically, reverse auctions are best suited for product categories that buyers view as commodities.46 Competitive bidding may be either closed or open.

Closed Bidding:Closed bidding, often used by business and governmental buyers, involves a formal invitation to potential suppliers to submit written, sealed bids. All bids are opened and reviewed at the same time, and the contract is generally awarded to the lowest bidder who meets desired specifications. The low bidder is not guaranteed the contract— buyers often make awards to the lowest responsible bidder; the ability of alternative suppliers to perform remains part of the bidding process.

Online Sealed Bid Format: There is also a sealed bid format used for online auctions. The term sealed means that only one supplier and the buyer have access to the details of the bid. According to Sandy Jap:

The bid process is asynchronous in the sense that the buyer and supplier take turns viewing the bid.The buyer posts the RFP (request for purchase) electronically, the supplier submits a bid, and the buyer views the submitted bid. The buyer then either makes a decision after viewing all bids or, if multiple rounds of bidding are involved, may respond to the supplier, who then resubmits a new bid.[47]

Open Bidding:Open bidding is more informal and allows suppliers to make offers (oral and written) up to a certain date. The buyer may deliberate with several suppliers throughout the bidding process. Open bidding may be particularly appropriate when specific requirements are hard to define rigidly or when the products and services of competing suppliers vary substantially.

In some buying situations, prices may be negotiated. Complex technical requirements or uncertain product specifications may lead buying organizations first to evaluate the capabilities of competing firms and then to negotiate the price and the form of the product-service offering. Negotiated pricing is appropriate for procurement in both the commercial and the governmental sectors of the business market .

Online Open Bid Format: When conducted online, open bidding takes a different form. Here suppliers are invited to bid simultaneously during a designated time period for the contract. In contrast to the sealed-bid format, all suppliers and the buyer view the bids at the same time. The goal, of course, is to push the price down. Sandy Jap, who has conducted extensive research on reverse auctions, argues that the open-bid format, when used regularly, can damage buyer-supplier relationships:

This harm occurs because open-bid formats reveal pricing information to competition, which erodes the supplier's bargaining power. Open-bid formats also place a more explicit focus on price, a short-term variable that is usually the focus of transaction-oriented exchanges rather than relational exchanges. When buyers use an open-bid format amid a context in which relational exchanges are emphasized, they send an inconsistent message to suppliers and may foster distrust.

[iii] Recent research on the use of online reverse auctions suggests that the larger the number of bidders, the larger the economic stakes, and the less visible the price in an auction, the more positive is the impact on the buyer-seller relationship.[ivv]However, large price drops over the course of the event have a detrimental effect on the buyerseller relationship.

Strategies for Competitive Bidding: Because making bids is costly and timeconsuming, firms should choose potential bid opportunities with care. Contracts offer differing levels of profitability according to the bidding firm's related technical expertise, past experience, and objectives. Therefore, careful screening is required to isolate contracts that offer the most promise.50 Having isolated a project opportunity, the marketer must now estimate the probabilities of winning the contract at various prices. Assuming that the contract is awarded to

the lowest bidder, the chances of the firm winning the contract decline as the bid price increases. How will competitors bid?

A Strategic Approach to Reverse Auctions[51:] Pricing experts suggest that customers use reverse auctions for two purposes: (1) to purchase commodity products at the lowest possible price and (2) to tempt suppliers of differentiated products to sacrifice their profit margins in the heat of bidding. If a firm's offering is not highly differentiated from competition, participating in an auction may represent the only choice. However, to minimize the risk of winning an unprofitable bid, a careful estimate should be made of the true incremental cost of supplying the customer, including the costs associated with special terms and conditions as well as unique technical, marketing, and sales support. This analysis will provide the business marketing strategist with a "walk-away" price.

In contrast, if a firm's offering provides significant value to customers relative to competition, John Bloomer, Joe Zale, and John Hogan, consultants at the Strategic Pricing Group, recommend the following decisive tactics:[52]

1. "Preempt the auction: convince the buyer not to go forward with the auction because

you have a unique value proposition and are not inclined to participate.

2. Manage the process: influence bid specifications and vendor qualification criteria.

3. Walk away: simply refuse to participate. . . ." A strategic approach to reverse auctions, then, defines success as winning only those bids that are profitable and that do not undermine pricing for other products or for other customers.