Notes Session 1&2 – Business To Business - Introduction

Introduction

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

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

Therefore, industrial marketers face many distinctive marketing situations not normally encountered in the consumer market. Further, the industrial market has been the backbone of the high standard of living enjoyed by consumers in past or since the industrial revolution at global level. It is dynamic and challenging in any nation's economic growth and development. As and when the knowledge enabled principles, and practices of marketing cut across all industries, to market effectively in the industrial market then it becomes compulsory for the policy makers to study the industrial marketing in depth so that one can understand the industrial marketing problems.

Definition of Industrial Marketing

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

In contrary, marketing of products and services to individuals, families, and households is made in consumer marketing. The consumers buy products and services for their own consumption.

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

The vendor or marketer that sell steel, machine tools, computers, courier services, and other goods and services to business firms/buying organizations need to understand the buyers' needs, purchasing power/ resources, policies, and buying procedures. They have to create value (benefit) for the buying organizations (customers) with products and services and focus on buying organizational needs and objectives. For example, a company manufacturing and marketing precision steel tubes for bicycles, a marketer involved in business marketing.

Industrial marketer of the Precision Steel Tube Company must understand the needs of bicycle manufacturers such as Hero Cycle and Atlas Cycle, and such alikes in terms of their quality requirements, applications of tubes, availability or delivery on daily or weekly basis, and terms of trade. Similarly, a small and proprietary firm, giving technical advice (or services) to paint-manufacturers is also doing business marketing.

The needs and objectives of industrial buyers are satisfied through the following exchange processes.

Product Exchange

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

If the exchange is good in terms of price, quality, quantity, and after sales services then it will give a positive symbol for the customer loyalty in terms of product/service loyalty.

Information Exchange

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

To achieve it, buyers and sellers tend to work together, exchanging product specific information over long periods of time.

Financial Exchange

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

Societal Exchange

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

Characteristics: Industrial and Consumer Marketing

The basics of marketing management:

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

These concepts apply to both consumer and industrial marketing.

The industrial markets are

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

Industrial marketing is more a responsibility of general management in comparison to consumer marketing. Sometimes, it is difficult to separate industrial marketing strategy from the corporate (company) strategy. But in case of consumer marketing, many times the changes in marketing strategy are carried out within the marketing department, through changes in advertising, sales promotion, and packaging strategies. However, the changes in industrial marketing strategy generally have company-wide implications.

Sr. No.	Bases	Industrial Markets	Consumer Markets
1.	**Market characteristics**	Geographically concentrated, Relatively fewer buyers	Geographically disbursed, Mass markets
2.	**Product characteristics**	Technical complexity, Customised	Standardised
3.	**Service Characteristics**	Service, timely delivery and availability very important	Service, delivery, and availability somewhat important
4.	**Buyer behavior**	Involvement of various functional areas in both buyer and supplier firms, Purchase decisions are mainly made on rational/ performance basis, Technical expertise important, Stable interpersonal relationship between buyers and sellers	Involvement of family members, Purchase decisions are mostly made on physiological/social/ psychological needs, Less technical expertise, Non-personal relationship
5.	**Decision-making**	Observable stages, Distinct	Unobservable, Mental stages

Sr. No.	Bases	Industrial Markets	Consumer Markets
6.	**Channel Characteristics.**	Shorter, More direct, Fewer intermediaries/ middlemen	Indirect, Multiple layers of intermediaries
7.	**Promotional Characteristics**	Emphasis on personal selling	Emphasis on advertising
8.	**Price Characteristics**	Competitive bidding and negotiated prices, List prices for standard products	List prices or maximum retail price (MRP)

Market Characteristics

Basically, the significant differences exist between industrial and consumer market characteristics that affect the nature of industrial marketing. These differences are:

➢ Size of market ➢ Geographic concentration; and ➢ Competitive nature of the markets.

Size of the Market

Compared to the great number of households that constitute the mass market for consumer goods and services, In the case of industrial markets, it is common to find less than 20 companies to represent the total market for an industrial product or service. In fact, only three or four customers may comprise the major portion of a total market. For example, for a consumer product like toothpaste or soap, a mass market, consisting of all the households in India, exist.

Further, in industrial arena, oligopolistic selling organization (very large firms) tend to dominate many markets such as, large power transformers or high-tension switchgears, there are limited numbers of customers-mainly State Electricity Boards, large private and public sector organisations. There are situations of relatively few industrial sellers and few customers, and all of them (vendors as well as the purchasers) having larger size, the sales will follow a pattern of purchasing larger quantities, or engaging in volume purchases on a repeat basis.

Geographical Concentration

Industrial customers also tend to be concentrated in specific areas of India such as Andaman Nicobar, the Leh Hills. Such concentration occurs mainly because of natural resources and manufacturing processes. For example, the geographic location of natural resources explains the

concentration patterns of most energy-producing firms. Only a handful of counties in California, Oklahoma,. Texas, and Louisiana produce the bulk of our gas and oil.

Manufacturers whose production processes add weight to their products tend to locate near customers, while those whose processes subtract weight tend to locate near sources of input. Manufacturers of computers and other advanced electronic products present an interesting case of plant location. They tend to concentrate in areas that have advanced teaching and research facilities and desirable living locales such as the Silicon Valley in Bangalore. Such locations are chosen to facilitate the attraction of intelligent, educated employees, who seek both intellectual challenges and physical pleasures.

Competitive Nature

An additional difference between the two markets is the nature of oligopsonistic buying. In the industrial arena, oligopsonistic buying organizations, organizations that are very large firms, tend to dominate many markets. For instance, the small number of large automobile producers in the United States purchase 60 percent of all synthetic rubber, 60 percent of all lead, and 72 percent of all plate glass produced in the United States. These oligopsonists' reactions to changes in one another's buying practices affect industrial marketing strategy decisions.

Due to the fact that technological or cost-effective advantages override geo¬graphical considerations, industrial organizations are more directly involved in in¬ternational purchasing. Therefore, the major finished goods exports of industrialized nations tend to be industrial rather than consumer goods manufacturers.

Industrial demand as well as industrial supply, therefore, is more apt to cross international boundaries than are demand and supply in the consumer market. However, because of increasing improvements in foreign technology and marketing skills, subsidized by government policies, worldwide competition makes it more difficult for Indian suppliers of industrial goods to compete not only in foreign markets, but domestically as well. Industrial marketers, then, are more subject to world political, economic, and competitive changes than are their consumer counterparts.

Product Characteristics

In industrial marketing, the products or services are generally technically complex and not purchased for personal use. They are purchased as components parts of the products and services to be produced or serve the operations of the organisations. Because of the impor-tance given to the technical aspects of products, the purchases are made based on the specifications evolved by the buyers.

The real risk in falling in love with the technical aspects of a product in industrial marketing is to ignore the flexibility in responding to customer's needs in a competitive market. Some companies, as a result, commit the serious mistake of trying to change the customer to fit the product. For example, the quality control manager of a "cold rolled (C.R.) steel strip" manufacturing company informed an important customer (who used C.R. steel strip for the manufacture of luggage bags) that the customer was not justified in rejecting his company product, as it was as per the relevant Indian standard specifications and that the customer's product specifications were more rigorous than the Indian standard specifications.

However, the customer refused to accept the product, as it was failing at the shop floor operations. The customer, therefore, not only returned the entire rejections but also cancelled the balance orders. Subsequently, other competitors supplied the product as per the needs and specifications of

the customer, who placed orders with them. As compared to consumer marketing, industrial customers place a greater importance on service, that is, timeliness, certainly delivery or availability of product, because any delay in supply will have a significant impact on the production or operations.

Buyer Behaviour

In industrial marketing, the buying process is more difficult as compared to consumer marketing. The purchase decisions in industrial marketing are based on many factors, such as compliance with product specifications product qual¬ity, availability, timely supply, acceptable payment and other commercial terms cost effectiveness, after-sales service, and so on rather than on social and psychological needs.

The buying decisions generally take a longer time and involve many individuals from technical, commercial/materials, and finance departments. After the initial offer made by a seller, there are negotiations and exchange of information between both the prospective buyer and the seller's organisation.

Therefore, inter-organisational contacts take place and interpersonal relationships are developed. The relationships between the sellers and buyers are highly valued and they become stable in the long run because of a high degree of interdependence. Changes are few and occur relatively slowly. Buyers charge problems in searching out and qualifying suppliers. The cost of selecting a supplier who cannot meet delivery requirements or who delivers an unsatisfactory product can be high.

Thus, the purchasing firm must be certain of a potential sup¬plier's technical, administrative, and financial capabilities.

In contrary, in consumer marketing the relationship between a buyer and a seller is non-personal. Consumers change their purchasing habits frequently and the buying decisions are always based on physiological, social and psychological needs of the members of a family household.

Channel Characteristics

Inventory or stock control is very much important factor in the business organisations therefore the distribution channels are needed more direct from the manufacturer to the customer in industrial marketing. There are a few channel alternatives, which are feasible in the industrial market than the consumer market as shown in Figure.

Channel distribution in Industrial and Consumer market

Often, the manufacturers use their own sales/marketing personnels to sell the products directly to major customers. But, in case of selling to small-scale customers or geographically scattered markets, many manufacturers use either distributors/dealers, or agents/representatives, which also helps in minimising the cost of marketing. In case of consumer marketing, the channel of distribution is longer with multiple levels of intermediaries/middlemen, since the household consumers are geographically dispersed all over the country.

Promotional Characteristics

In consumer marketing, the emphasis is given on advertising whereas, in industrial (or busi-ness) marketing, the importance is given to the personal selling through the company's sales force. As a result, a much larger expenditure budget is provided for advertising in consumer marketing in comparison to industrial marketing. Advertising is used to lay a foundation for the sales call rather than serve as the primary communication tool. Sales people act more as consultants and technical problem solvers, utilizing in-depth product knowledge and technical understanding of the buyers' needs, whereas industrial advertising normally stresses more factual and technical data. Some industrial advertisers use mainly the internet and lesser of television to reach potential consumers, the primary means of reaching the market is through business magazines, traditional trade journals, and direct mail. Sales promotion activities tend to center on trade shows, trade fairs, catalogs and conducting technical seminars.

Price Characteristics

The products are sold through the intermediaries/middlemen to the consumers based on the "Price List" of the manufacturer or the maximum retail price (MRP) for the packaged products in consumer marketing. Sometimes, the retailer reduces the price by passing on to the consumer a part of his discount due to different degrees of intensity of the competition.

In industrial marketing, price is less critical factors for purchase decisions. Competitive bidding and price negotiations are very common in industrial marketing and financing arrangements are often considered part of pricing package. When there are no price negotiations in certain Government tenders, the competitive bidding (i.e. quoting a competitive price against a tender enquiry) becomes very important, as only the lowest bidders are considered for placement of orders. Almost private sector and some Government organisations, price negotiations are held to decide the prices and the volume of orders to be placed on various supplier firms. The payment and other commercial terms are also negoti-ated at the time of price negotiation. Dealer discounts, and volume discounts on the price list of standard industrial products are widely used in industrial marketing.

The above discussion clarifies that there are many basic differences exist between consumer and industrial marketing. But, these differences in terms characteristics do not make a complete analysis. Therefore, it is necessary to understand the concept of industrial demand in the market to analyse completely.

Classifying business products and markets

- Classification system that is quite separate from the usual consumer product classifications.
- Based on the use to *which the products are put & the extent to which they are incorporated into the final product.*

Entering Goods

- **Raw Materials**
  - ✔ Farm products & natural products
  - ✔ Only processed as necessary for handling & transport
  - ✔ Require extensive processing
- **Manufactured Materials & Parts**
  - ✔ Any product that has undergone extensive processing prior to purchase
  - ✔ ***Component Materials*** require additional processing
  - ✔ ***Component Parts*** generally do not require additional processing

Foundation Goods

- **Installations**
  - ✔ Major long-term investment items
  - ✔ Buildings, land, fixed equipment, etc.
  - ✔ **Accessory Equipment**
  - ✔ Less expensive & short-lived
  - ✔ Not considered part of fixed plant
  - ✔ Portable tools, PC's, etc.

Facilitating Products

- **Supplies**
  - ✔ Any supplies necessary to maintain the organization's operations
  - ✔ **Services**
  - ✔ Maintenance & Repair support
  - ✔ Advisory support
  - ✔ Logistical support

Session 3&4 – Demand Issues

Demand in Industrial Market

The demand for industrial products and services does not survive by itself. It is derived from the ultimate demand for consumer goods and services. Therefore, industrial demand is called derived demand. Sometimes, the demand for industrial product is called joint demand, when the demand for a product depends upon its use along with the existence of other product or products. Cross elasticity of demand exists for some substitute products in industrial market. These concepts are detailed as follows:

Derived Demand

The single most important force in marketing of industrial products and services is derived demand. Industrial customers buy goods and services for making the use in producing other goods and services and finally produced product/service sold to the consumers. In industrial marketing, the demand for industrial goods and services is derived from consumer goods and services. For example, the demand for precision steel tubes does not exist in market. It is demanded for the production of bicycles, motorcycles, scooters, and furniture (steel tables and chairs), which are consumed by the consumers.

Thus, the demand for precision steel tubes is derived from the forecast of consumer demand for bicycles, motorcycles, scooters, and furniture. In case of capital goods, such as machinery and equipment (e.g. machine tools, textile machinery, leather machinery, etc.) that are used to produce other goods, the purchases are made not from the current accounts, but from capital accounts with the assumption of profit flow in the usage of such capital goods over a certain period of time.

If businessmen feel that there may be a recession in near future, their purchases will be drastically curtailed. On the other hand, if the attitude of businessmen is favourable (i.e. they feel the business is on the upswing) their investment in capital goods and other industrial products will increase. Thus,

the atti¬tude of businessmen is very important, as it reflects the optimism or pessimism about the future. During the periods of recession, or reduced consumer demand, industrial firms reduce their inventories/stocks, or reduce the production, or do both. On the other hand, during the period of prosperity, there is an increased production and sales of consumer goods, which results in an increased demand for industrial goods. This may be the right time for price increases and building stocks as ready availability and shorter delivery period becomes very important. An industrial marketing firm should be in close touch of information regarding customer's purchase, finance, quality, R&D and marketing departments, so as to get information on changes in customer's sales, new product development, financial condition, and the quality of its products.

Joint Demand

Joint demand is common in the industrial market, because it occurs when one specific industrial product is required along with usage of another product. In other words its demand positively is linked to usage of another product. For example, a pumpsets cannot be used for pumping water, if the electric motor or diesel engine is not availab1e. Similarly, the department of telecommunication (DoT), which requires a complete kit, consisting of different items, for joining the underground telecom cables, cannot buy only some of the items from a supplier as all of them are to be bought to make the product effective. Thus, some industrial products do not have industrial demand, but are demanded only if the other products are available from the industrial supplier.

Cross-Elasticity of Demand

Simply, elasticity is the change in demand from a change in price. The demand for most of the industrial goods can be inelastic (i.e. insensitive to changes in prices) for a particular industry, but at the same time, highly elastic (i.e. sensitive to changes in prices) for individual suppliers. This is because, the total industry demand comes from the united needs of all the customers rather than price, and hence it is relatively inelastic. Though, between the various suppliers, a slight change in the price by one firm may create a major change in the quantity of another and thereby, be highly elastic for any other firm. Cross-elasticity of demand is the reaction of the sales of one product to a price change in another product. This fact is true for both consumer and industrial marketing, but it is more profound in industrial marketing as it can have a dramatic impact on the marketing strategy of an industrial firm. For example, the demand for aluminum is related to the prices of wood and steel for the doors and window frames, as they are close substitutes. Apart from other advantages of aluminum doors and windows, the cost comparison with steel and wooden door and window frames play an important role in the purchase decisions in the construction of houses, commercial offices, factories, hotels, hospitals, and so on. Aluminum extrusion companies regularly collect the information on cost of steel and wood, and advertise the advantages of use of aluminum in terms of negligible maintenance cost, elegant looks, environment, friendly in comparison to wood, and so on. Whenever there is a change in the price of aluminum due to changes in excise duty or other input costs, there is an impact on the sales of doors and windows made out of wood or steel. The reverse is applicable for changes in the prices of steel or wood. Thus, the marketing persons working in the aluminum extrusion companies should recognize that the cross-elasticity of demand exists for their products. If the cross-elasticity of substitute products is high, it indicates that these products compete in the same market.

An industrial marketer must know how the demand for his products is likely to be affected by the changes in the prices of substitute products. Because of the unique characteristics of derived demand, the industrial marketing persons would anticipate any increase or decrease in the demand for their products, based on the changes in the demand for their customers' products. They must

know that existence of cross-elasticity of demand for their products so as to recognise both direct and indirect competition.

It ought to be clear after going through this lesson that industrial marketing is more multifarious than consumer marketing and the marketing success depends on understanding the intricacies involved in it.

Industrial marketing strategy has company-wide implications and is, therefore, more of a general management function, affecting the various departments or functions in an organisation.

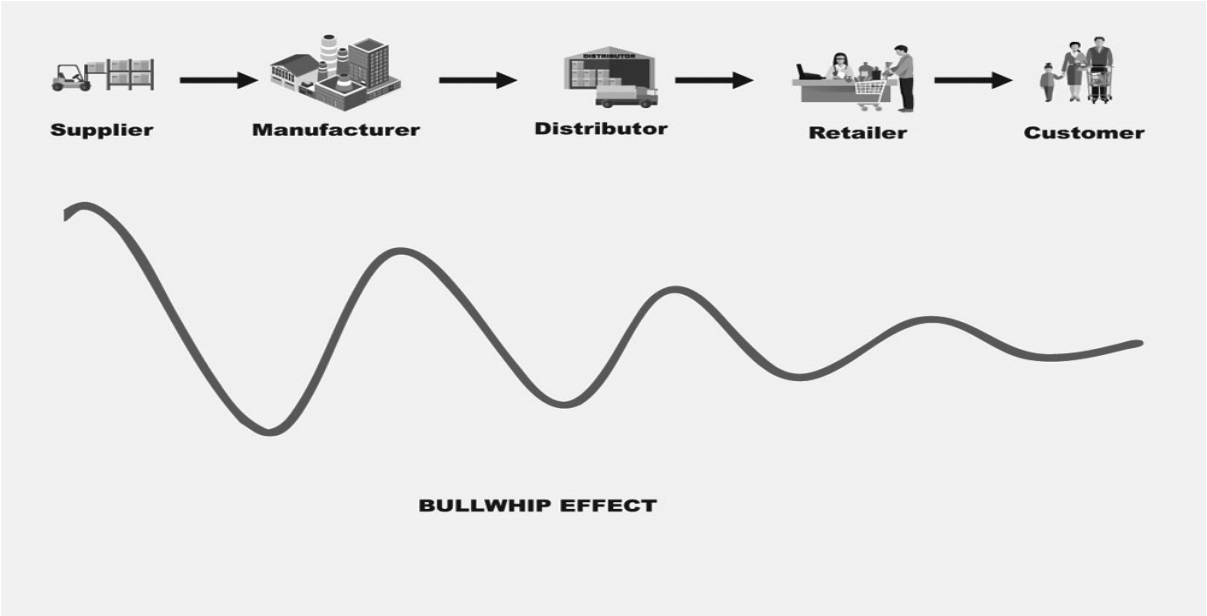
Stimulating Demand

For companies to successfully stimulate consumer demand to understand consumer needs and motives. Factoring consumer wants and needs is an essential component to successful marketing communications strategy. In 19th and early 20th centuries companies focused on production of products and services and little emphasis was given to customer needs and wants. Much of the attention was given to the product/service instead of understanding consumer behavior. With globalization and IT a new markets and increased competition forced marketers to modify the traditional approach to marketing communications.

- Now focus is on how to stimulate consumer demand and compete for:
    - *Customer loyalty*
    - *Customer Retention*
    - *From Customer Loyalty to Delight to Ecstasy*
    - *Brand awareness*
    - *Brand Loyalty*
    - *Positioning*
    - *Differentiation*
    - *Creating power brands*

What is Bullwhip effect?

- The **Bullwhip effect** is an observed phenomenon in forecast driven distribution channels.
- It refers to larger and larger swing in inventory in response to changes in customer demand, as one looks at firms further back in the supply chain of the product.
- Since the oscillating demand magnification upstream of a supply chain is reminiscent of a cracking whip, it became known as the bullwhip effect.



In all, the concept of industrial marketing may be referred as market¬ing of goods and services to business organizations namely, manufacturing companies, service organisations, institutions and middlemen in private and public sector organisations, and Government undertakings. The differences between industrial and consumer marketing, conceptually in the type of demand itself. While industrial marketing is based on derived demand the consumer marketing is based on primary demand. Again based on certain characteristics such as market, product, buyer behavior, channel, promotional, and price both are different. The demand for industrial products is derived from the ultimate demand for consumer goods and services. It is, therefore, called as derived demand. This derived demand are of two types, namely, 'Joint Demand' and 'CrossElasticity of Demand'. Joint demand occurs when one industrial product is required, if other product also exists. Cross-elasticity of demand is the reaction of the sales of one product to a price change in another product.

Session 5&6 – Organisation Buying Behaviour

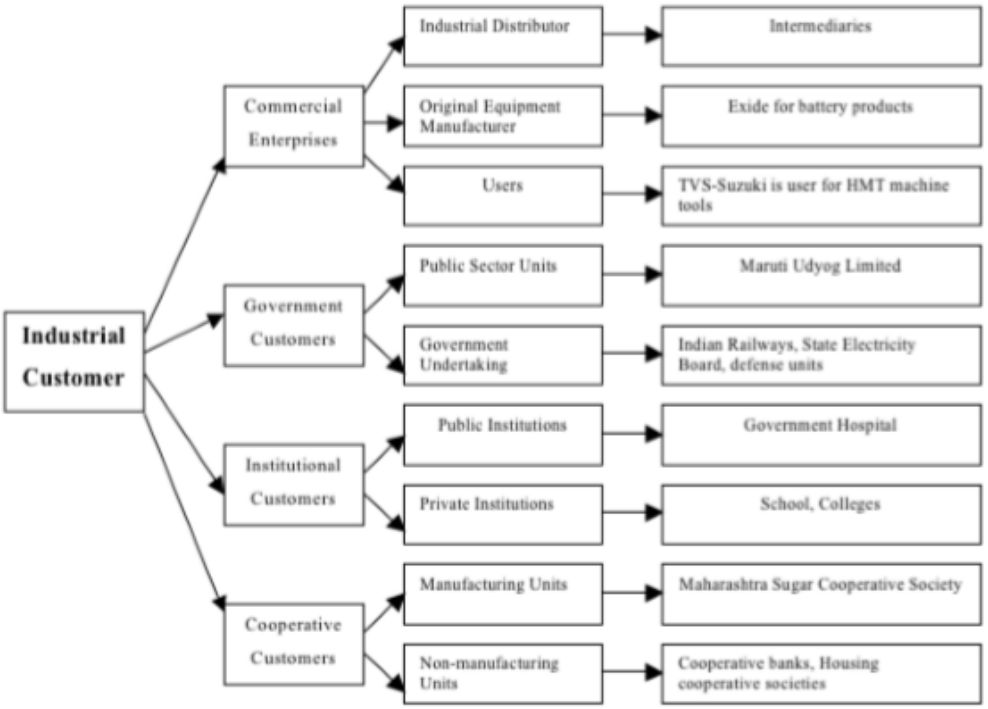
To develop an effective marketing plan, an industrial marketer needs to understand industrial markets. The industrial market is composed of commercial enterprises, governmental organisations, public or private institutions and cooperative societies, whose purchasing decisions vary with the type of industrial good or service under consideration. Effective marketing programs thus depend upon a thorough understanding of how marketing strategy should differ with the type of organisation being targeted and the products being sold.

The industrial market is characterised by diversity both in customers served and products sold. Component parts, spare parts, accessory equipment, and services are example of the types of products purchased by the variety of customers in the industrial market. Industrial distributors or dealers who in turn sell to other industrial customers, commercial businesses, government, and institutions buy a variety of products that, in one way or another, are important to the functioning of their own business endeavours. Knowing how this immense array of industrial customers' purchase and use products and what criteria are important in their purchasing decision is an important aspect of industrial marketing strategy. For the purpose, industrial sellers understand the types of industrial buyers.

Types Of Industrial Customers

Industrial customers are normally classified into four groups:

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



Commercial Enterprises

Commercial enterprises are private sector, profit-seeking organisations such as IBM, General Motors, Computer Land, and Raven Company, purchase industrial goods and/or services for purposes other than selling directly to ultimate consumers. However, since they purchase products for different uses, it is more useful from a marketing point of view to define them in such a way as to understand their purchasing needs at the time of examination of the varieties of products they purchase and how marketing strategy can be developed to meet their needs.

Thus, it is more logical to look at commercial enterprises:

➢ Industrial distributors or dealers, ➢ Original equipment manufacturers (OEMs), and ➢ Users.

Sometimes, these categories tend to overlap. However, it is useful for the industrial marketer because one is able to understand the ways of uses of products and services in buying firms.

Industrial Distributors and Dealers

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

Original Equipment Manufacturers (OEMs)

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

Users

An industrial customer, who purchases industrial products or services, to support its manufacturing process or to facilitate the business operations is referred as a user. For example, drilling machines, press, winding machines, and so on are the products which support manufacturing process, again the products such as computers, fax machines, telephones, and others facilitate the operations of business. A manufacturer can be a user or an OEM. For example, a car manufacturer buys a drilling machine to support the manufacturing operation and is referred to as a user. The same car manufacturer also buys batteries which is incorporated into cars and hence, it can be also referred to as an OEM.

Government Customers

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

Institutions

Public and private institutions such as hospitals, schools, colleges, and universities are termed as institutional customers. Some of these institutions have rigid purchasing rules and others have more flexible rules.

An industrial marketing person needs to understand the purchasing practice of each institute so as to be effective in marketing the products or services.

Cooperative Societies

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

Industrial Products And Services

The industrial products and services are classified into three broad groups:

➢ Materials and parts, ➢ Capital items, ➢ Supplies and services discussed as follows:

Materials and Parts

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

Raw Materials

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

Manufactured Materials

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

Component Parts

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

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

Installations/Heavy Equipment

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

Accessories/Light Equipment

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

Plant and Buildings

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

Supplies and Services

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

Supplies

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

Services

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

Marketing Implicationsfor Different Customer and Product Types

For large OEMs or users selling is done directly from a seller to a buyer organisation for materials and parts products. Though, for smaller volume OEMs and users, the standard raw materials or components are sold through industrial dealers or distributors, as it is cost effective. In case the components are custom-made, considerable interaction takes place between technical and commercial persons from both buyer and seller organisations, and obviously selling is done directly. It is therefore, important for an industrial salesman to remains in close touch with purchase or materials department persons as well as with quality, production, R&D, marketing, and accounts/finance persons of buyer organisations as they influence buying or payment releasing decisions. Apart from personal contacts, product leaflets/brochures help industrial marketer in communicating product and other information.

In case of standard products, the factors, which influence buying decisions, with differing share of business for various suppliers, are product quality and performance, delivery dependability, price, payment terms, customer service, and customer rapport. When component parts such as batteries and tyres are sold in the consumer replacement market, marketers either create a product differentiation through consumer advertising or sell on a competitive price basis. For this, advertising and distribution through multiple channels all over the country becomes an important part of marketing strategy. For example, Crompton Greaves Ltd manufactures and markets a wide range of electrical motors ranging from fractional horse power (FHP) to large high tension (HT) motors. The company adopted a marketing strategy to sell its standard motors through a network of industrial dealers to small-scale manufacturers, all over India.

However, the special purpose motors to the original equipment manufacturers (OEMs) such as pump manufacturers and compressor manufacturers, are sold directly through its sales persons located at various branches. The field sales persons are trained in both technical and commercial aspects of selling and are required to establish a close rapport with various departments such as purchase/materials, quality, R&D, marketing, and finance/accounts in the customers' organizations. The company could, therefore, maintain a leadership position in the competitive market due to its strategy of customer satisfaction through superior product quality and performance, delivery dependability, competitive prices and excellent customer service.

For capital items like heavy machinery and construction of factories and office buildings, direct selling with extensive interactions, involving top executives in both buying and selling organisations are very common. Negotiations take considerable time on key factors such as price; return on

investment, credit facilities, delivery period, installation time, third party certificate for previous jobs done, and so on.

Personal selling is the primary promotional method used in industrial marketing. For example, let us consider the marketing strategy of a large furnace manufacturer intending to directly sell its furnaces to the industrial buyers. As the value of each furnace run into millions of rupees, the buyers treat it as a capital item. Senior executives from marketing, engineering, and finance from the selling organization not only decide the technical and commercial aspects at the time of submission of quotations/ offers, but also visit as a team, for negotiations, with the senior technical and commercial persons from the buyers' organizations. Apart from price, payment terms, delivery and installation time, meeting the technical parameters required by the customers and the performance of similar furnaces supplied earlier to other industrial customers play important role in securing high value orders. Direct selling, is used for marketing supplies for large-volume buying firms. Distributors or dealers are used to diverse markets consisting of small and medium size companies. The purchase or materials department persons generally make buying decisions based on dependable delivery, price, and locational convenience. Advertising in magazines, trade journals, local newspapers, and yellow pages are used to generate awareness of the company and its products to the latent users and distributors/dealers.

In the strategy of marketing of service, buying firms contact the selling firms to know their reputation by way of word of mouth. The selling firm's efforts are on consultative or advisory nature, and continuation of the service depends upon the quality, price, and timeliness of service to meet the customer's needs.

Purchasing Practices of Industrial Customers

The industrial marketers market industrial goods or services at different types of customers such as commercial enterprises, governmental customers, and institutional customers. For effective marketing of industrial products, it is significant to know the purchasing practices generally customized by the various types of industrial customers.

Purchasing in Commercial Enterprises

The purchasing practices depend upon the nature of business and the size of the commercial enterprise as well as the volume, variety, and technical complexity of the products purchased. In large and medium size organizations, the purchase decision makers hail from different departments viz. production, materials, quality, finance/cost accounting, engineering and this also includes senior management executives.

Thus, there are many persons who influence the purchase decisions in such organizations. Industrial buyers use the techniques viz. material planning, supplier rating system, economic order quantity, value analysis and so on. Materials/purchase managers are professionals they must be well informed about price trends, commercial matters, and negotiating skills. They make use of in-house technical expertise when required. Further, an industrial marketer must understand a set of formal purchasing procedure and documentation motioned in a commercial enterprise. An industrial marketer must understand a set of formal purchasing procedure and documentation motioned in a commercial enterprise.

Purchasing in Government Units

The Government units are the largest purchasers of industrial goods and services. To compete successfully and to get more business, an industrial marketer must understand the complexities

involved in selling to Government units. There are many centers where State and Central Government units buy a variety of products required by railways, department of telecommunications, state electricity boards, state transport undertakings, defence units, and so on. DGS&D is an agency, which finalises running contracts for various standard products on behalf of the Central Government. Though, other large Central and State Government units have their own procurement departments with a set of standard from and conditions to be fulfilled by suppliers.

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

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

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

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

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

Institutional Purchasing

Institutional buyers are either the Government or the private organisations. If it is a Government hospital or college then it normally follows the Government purchase procedures. However, in cases of privately owned educational or other type of institutions, the purchase procedures are similar to those followed by commercial enterprises. An industrial marketer should study the purchasing

practices of each institutional buyer so as to be effective in marketing the company's goods or services.

Purchasing in the Reseller's Market

Reseller market or replacement market consists of industrial dealers or distributors whose main goals are profits and sales volume. Therefore, the intermediaries select a supplier based on product, quality and also based on the policies of the supplier's product. An industrial dealer/distributor could deal either exclusively with a supplier or manufacturer's product or may deal with many competing firms of a product. Yet, the supplier related policies which affect competitiveness of traders in the market are: sharing of local advertising cost by the supplier, providing product leaflets or display materials, competitive prices and trade discounts, flexible payment terms with credit facility, and so on.

Acceptance of some of these terms by a dealer would depend upon the relative strengths of the dealer and the supplier and also on the consumer's acceptance level of the supplier's products. The reseller or the dealer/distributor has to ultimately abide by the policies of the supplier/ manufacturer. In a competitive market, both the reseller and the supplier have to work harmoniously as a team so as to face the competition, increase the market share, and make sound profits. If a reseller or a trader does not make a profit over a period of time from the products or services of a manufacturer/supplier, he would most probably change the supplier because he does not achieve the main goal of profitability.

Purchasing in Cooperative Societies

Industrial marketers should study the purchasing practices of each cooperative society in order to become effective in marketing their goods and services. For example, the cooperative sugar factories in Maharashtra and U.P. may adopt different buying practices while purchasing sugar machinery, pumpsets, compressors, etc. While making purchase decisions, their emphasis on the factors viz. quality, delivery, price, payment terms, service and long-term relationship with suppliers, also affect the purchase decision under consideration.

Session 7&8 – Buying Center

The decision-making unit is thought to contain the following categories of member (Webster and Wind, 1972):

Initiators. These are the individuals who first recognize the problem.

Gatekeepers. These individuals control the flow of knowledge, either by being proactive in collecting information, or by filtering it. They could be junior staff who are told to visit a trade fair and collect brochures, or a personal assistant who sees his or her role as being to prevent salespeople from "wasting" the decision-maker's time.

Buyers. The individuals given the task of sourcing suppliers and negotiating the final deal. Often these are purchasing agents who complete the administrative tasks necessary for buying. These people often work to a specific brief, and may have very little autonomy, even though they may be the only contact a supplier's salespeople have at the purchasing organization.

Deciders. These are the people who make the final decisions, and may be senior managers or specialists. They may never meet any representatives of the supplying companies. Deciders generally rely heavily on advice from other members of the DMU.

Users. These are the people who will be using the products which are supplied: they may be

engineers or technicians, or even the cleaning staff who use cleaning products. Their opinions may well be sought by the deciders, and in many cases the users are also the initiators.

Influencers. These people "have the ear of" the deciders. They are trusted advisers, but from the supplying company's viewpoint they are extremely difficult to identify. Influencers may be employed by the purchasing firm (for example, engineers, information systems managers or research managers) or they may be consultants (for example, architects, acoustics and safety consultants). An influencer might even be the decider's golf partner, old college friend, or teenage son.

These categories are not, of course, mutually exclusive. A User might also be an Influencer, or a Gatekeeper might also be an Initiator. The categories were originally developed to explain purchasing within families – which may be an example of the apparent similarities between business to business marketing and consumer marketing. In fact, the members of the decision-making unit are affected both by rational and emotional motivations. Salespeople are well aware that buyers are affected by their liking or dislike for the suppliers' representatives, and buyers will often be working to their own agendas: for example, a buyer might be seeking a promotion, or might feel threatened in terms of job security, or may be conducting a vendetta with a colleague. Any of these influences might affect the buyer's behavior, but all of them would be difficult or impossible for a supplier's salesperson to identify correctly and act upon. In general, members of a decision-making unit tend to be more risk-averse than do consumers. This is because the buying center (DMU) members have more to lose in the event of a wrong decision: for a consumer, the main risk is financial, and even that is limited since most retailers will replace or refund goods purchased in error. For the industrial purchaser, however, a serious purchasing mistake can result in major negative consequences for the business as well as loss of face at work, shattered promotion dreams, or even dismissal in serious cases. The professional persona of the industrial buyer is liable to be compromised by purchasing errors, which in turn means that the buyer will feel a loss of self-esteem. Determining the relative power of each member of the buying center (DMU) for each purchasing situation is a difficult task. Ronchetto et al. (1989) identify these characteristics of individuals who may be most influential in a DMU:

important in the corporate and departmental hierarchy;
close to the organizational boundary;
central to the workflow;
active in cross-departmental communications;
directly linked to senior management.

It should be obvious that purchasing managers are most important in repetitive purchases while the CEO will become heavily involved in unique, costly and risky buying decisions. As a result of this increased risk, industrial buyers use a variety of risk-reducing tactics (Hawes and Barnhouse, 1987). These are as follows, and are presented in order of importance:

1 Visit the operations of the potential vendor to observe its viability. 2 Question present customers of the vendor concerning their experience with the vendor's performance. 3 Multisource the order to ensure a backup source of supply. 4 Obtain contract penalty clause provisions from the potential vendor. 5 Obtain the opinion of colleagues concerning the potential vendor. 6 Favor firms that your company has done business with in the past. 7 Confirm that members of your upper management are in favor of using the vendor as a supplier. 8 Limit the search for, and ultimate choice of, a potential vendor only to well-known vendors. 9 Obtain the opinion of a majority of your co-workers that the chosen vendor is satisfactory.

Buyers are affected by individual, personal factors as well as environmental and organizational factors. Personally they exhibit many of the same influences on the buying decision that consumers have: the desire to play a role, for example, may cause a buyer to be difficult to negotiate with as he or she tries to drive a hard bargain. The desire for respect and liking may cause a buyer to want to give the order to a salesperson who is exceptionally pleasant or helpful, and to deny the order to a salesperson who is regarded as being unpleasant or pushy. Business buyers are likely to be affected

by some or all of the environmental influences in Figure 2.1 (Loudon and Della Bitta, 1993):

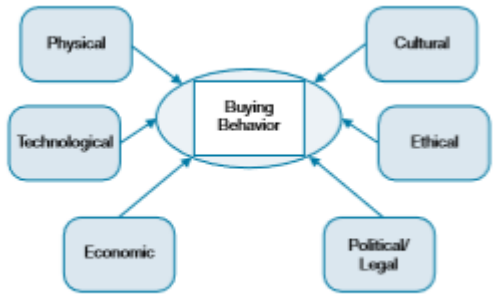


FIGURE 2.1 Environmental influences on buyer behavior

Physical influences. The location of the purchasing firm relative to its suppliers may be decisive, since many firms prefer to source supplies locally. This is especially true in the global marketplace, where a purchasing company may wish to support local suppliers, or may prefer to deal with people from the same cultural background. In many cases, buyers seem almost afraid to source from outside their own national boundaries, even when rational considerations of cost and quality would make the foreign supplier the better bet.

Technological influences. The level of technological development available among local suppliers will affect what the buyer can obtain. The technology of the buyer and the seller must also be compatible: in global markets this often presents a problem, since international technical standards remain very different for most products. Despite efforts within the European Union to harmonize technical standards, Europe still does not have standardized electrical fittings, plumbing fittings or even computer keyboards. Many European firms find it easier to trade with former colonies thousands of miles away than deal with countries within the EU, simply because the technical standards of the former colonies are identical with their own.

Economic influences. The macroeconomic environment is concerned with the level of demand in the economy, and with the current taxation regime within the buyer's country. These conditions affect buyers' ability to buy goods as well as their need to buy in raw materials: if demand for their products is low, the demand for raw materials to manufacture them will also be low. On a more subtle level, the macroeconomic climate affects the buyer's confidence in the same way as it affects consumer confidence. For example, a widespread belief that the national economy is about to go into a decline will almost certainly make buyers reluctant to commit to major investments in stock, equipment and machinery. In a global context, the fact that countries enter and leave recessions at different times will affect the timing of marketing efforts on the part of vendors. At the microeconomic level, a firm experiencing a boom in business will have greater ability to pay for goods and a greater level of confidence.

Political and legal influences. Governments frequently pass laws affecting the way businesses operate, and this is nowhere more true than in international trade. Trade sanctions, trade barriers, specifically non-tariff barriers, preferred-nation status and so forth all affect the ways in which buyers are permitted or encouraged to buy. In some cases, governments specifically help certain domestic businesses as part of an economic growth package. The political stability of countries is also a factor that vendors need to take account of. Laws often lay down specific technical standards, which affect buyer decisions. Buyers may be compelled to incorporate safety features into products, or may be subject to legal restrictions in terms of raw materials. Often, vendors can obtain competitive advantage by anticipating changes in the law.

Ethical influences. In general, buyers are expected to act at all times for the benefit of the organization, not for personal gain. This means that, in most cultures, the buyers are expected not to accept bribes, for example. However, in some cultures bribery is the normal way of doing business, which leaves the vendor with a major ethical problem – refusing to give a bribe is likely to lose the business, but giving a bribe is probably unethical or illegal in the company's home country, especially

now that the OECD Anti-Bribery Convention has been widely adopted. As a general rule, buyers are likely to be highly suspicious of doing business with a salesperson who they perceive as acting unethically – after all, if the salesperson is prepared to cheat on his or her employer, he or she cannot be trusted not to cheat on the buyer.

Cultural influences. Culture establishes the values, attitudes, customary behavior, language, religion, and art of a given group of people. When dealing internationally, cultural influences come to the forefront: in the UK it might be customary to offer a visitor a cup of tea or coffee, whereas in China it might be customary to offer food. Dim Sum originated as a way for Chinese businessmen to offer their visitors a symbolic meal, as a way of establishing rapport. Beyond the national culture is the corporate culture, sometimes defined as "the way we do things round here." Corporate culture encompasses the strategic vision of the organization, its ethical stance, and its attitudes toward suppliers among other things. In addition, many businesspeople act in accordance with their professional culture as well (Terpstra and David, 1991). Each of these will affect the way business is done.

Organizational factors derive from the corporate culture, as well as from the strategic decisions made by senior management within the firm. Organizational policies, procedures, structure, systems of rewards, authority, status, and communication systems will all affect the ways buyers relate to salespeople. Figure 2.2 shows the main categories of organizational influences on buyers' behavior. Buying tasks differ greatly between firms, but may also differ significantly within firms. For example, the buying task for a supermarket clearly differs from that for a manufacturing company, since the supermarket intends to sell on the vast majority of its purchases unchanged whereas the manufacturer is largely concerned with sourcing components and raw materials. Within this generalized structure the supermarket has other variations in the buying task: the buyer's approach to buying canned goods will be totally different from the approach used to buy fresh produce such as vegetables or fresh fish. Equally, the manufacturer will have a different approach when buying basic raw materials vs. buying components, and a different approach again when buying lubricating oil or business services or new factory premises. The purchasing tasks will affect the buyer's thinking and negotiating approach, usually so seriously that firms will have separate buyers for each type of buying task.

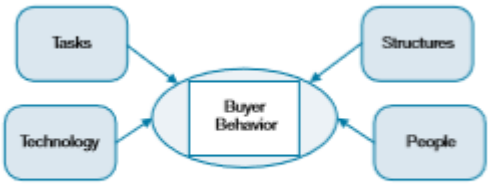


FIGURE 2.2 Organizational influences on buyer behavior

The structure of the organization falls into two categories: the formal structure, which is what shows on the organization chart, and the informal structure, which is actually what dictates staff behavior in most cases. The informal structure is the network of social obligations, friendships, and internal liaisons which influence day-to-day behavior. The formal organization structure determines such issues as the degree of centralization in purchasing decision-making, the degree to which buying decisions follow a formal procedure (i.e. how constrained by the rules the buyers are), and the degree of specialization in buying for different purposes or different departments in the organization. The informal structure dictates such issues as rivalry between buyers, "brownie points" (recognition by management for jobs done well), cooperation between buyers in maintaining each other's status in the eyes of the boss, and so forth. The maze of informal relationships can be extremely complex, especially for a salesperson observing it from the outside, but often forms a key element in the success or failure of key-account selling. In the global context, the informal structure is subject to many cultural influences – the Oriental concern with gaining or losing face, for example, can be a crucial factor in doing business. The informal structure is also important in determining who will be

the influencers in the decision-making unit; some colleagues' opinions may be regarded as more trustworthy than others, for example. The technology within the organization may act to control or circumvent much of the buyer's role. For example, computer-controlled stock purchasing, particularly in a just-in-time purchasing environment, will prevent buyers from being able to negotiate deals and in many cases removes the buyer from the process altogether. Models for inventory control and price forecasting are also widely used by buyers, so that in many cases the negotiating process is virtually automated with little room for maneuver on the part of the buyer. In these circumstances the selling organization needs to go beyond the buyer to the other members of the DMU in order to work around the rules. The characteristics of the people involved in the organization will, in part, determine the organization culture, but will in any event control the interpretation of the rules under which the purchasing department operates. At senior management level, the character of the organization is likely to be a function of the senior management, and in many cases the organization's founder will have set his or her personality firmly on the organization's culture. Virgin is clearly an offshoot of Richard Branson's personality, as Bodyshop is an offshoot of Anita Roddick's.

Session 9-11: Market Intelligence

Market research is critical to developing an effective business marketing program. Research used properly helps marketers identify and solve problems. While consumer research focuses most on advertising and packaging, business research is more often focused on developing market potential. Consumer research deals with a large number of consumers, each of whom is generally looked upon as equal, while business research generally deals with very small populations where a few respondents control the largest portion of sales volume. Understanding the make-up of the DMU or buying center is a critical task of market research and once this understanding is developed, market research can be far more effective. The Internet has made developing secondary data far easier since virtually all published information is available somewhere on the web. However one must be careful in using Internet information without confirmation from many sources.

Most sophisticated firms attempt to develop a complete marketing information system, including a decision support system to help managers use the information to make decisions. Developing both an effective marketing information system and a decision support system is a difficult project requiring consistent effort.

When developing market research, the most important step is to define exactly what information is needed. To do this, a firm must decide what use the information will be put to and who will be making decisions based on the information developed. Clear research objectives are critical if a research project is to be successful. After reviewing all secondary research, the firm then decides whether to move ahead with primary research. The Internet allows focus groups and interviews to be completed far less expensively. However it may be impossible to draw a representative sample through the Internet. Since there are far fewer members of any particular population in a market segment, it may be possible to interview a small number of individuals to develop realistic and projectable results using focus groups, desk-side or telephone interviews. The advantage of the personal approach is that products can be demonstrated and more in-depth questions can be used. Firms must be careful that instruments such as questionnaires or focus group moderation guides can be used in various markets across the world. While all qualitative market research techniques have been used successfully in various countries, pre-testing of these instruments is necessary to be sure of the validity of the responses. When analyzing quantitative data, cross-tabulated tables are used to show the differences between various sub-segments of the respondent pool. Qualitative research is

analyzed using software which can identify words or groups of words used frequently or by old-fashioned reading and discussion methods.

Market research is used often by business marketers to develop market potential. Once a market segment is developed, research is often used to develop critical ratios, such as the percentage of individuals who may decide to buy a new software product within the next year. These ratios are then applied to known data to develop a market potential. Once the market potential is developed, sales forecasts and sales quotas are usually determined. Since in business marketing the sales force is so critical, developing attainable sales quotas is important. Some firms use the Delphi technique to forecast the future, requiring a group of experts to give their opinions in several rounds. Firms also use the sales force composite method, using a bottom-up approach from the sales force. However, this approach tends to give very optimistic forecasts. Scenario analysis is also useful, especially in international research where unpredictable events happen quickly.

While a few firms hold all market information functions within the firm, most outsource at least data collection, hiring focus group moderators or telephone or Internet researchers when required. Keeping all research within the firm obviously protects sensitive data. However, the extremely high cost of keeping specialists on staff who may not be fully employed deters most firms from doing this. Many firms have a combined centralized and decentralized approach to research, the centralized function developing projects affecting the entire firm and the decentral ized function completing research which focuses only on a particular division or product line. When hiring an outside research vendor, specific proposals must be obtained. A firm must qualify the vendor’s expertise in market, product and method. When commissioning a research project, a firm must be careful not to underfund the project. To be successful, a project must have the support of top management. Where management understands the role of market research and the costs involved, the most successful projects are completed.

Benchmarking is the process of identifying best practices in organizations and then attempting to emulate these to improve the way things are done within a firm. The benchmarking process resembles the market research process in many ways and care must be taken to select the proper candidates and to develop the correct research instruments. Once best practices are identified, the firm must have an action plan to make sure these practices are implemented. The most successful firms try to exceed these best practices to establish real competitive advantage.