

What Is Business And Industrial Marketing?

Ernest F Cooke

There is no single, clear, specific definition of business or industrial marketing. Existing definitions are inconsistent and there has been a claim that there is no difference between industrial marketing and consumer marketing.¹ It seems appropriate for the inaugural issue of a journal on business and industrial marketing to examine this problem and to attempt to clear up the confusion.

INTRODUCTION

It is hard to find a definition of business or industrial marketing, and those few that exist are not consistent with one another. In addition, it is claimed that there is no significant difference between consumer marketing and industrial marketing and that it is a mistake to differentiate between them. This article examines the issues.²

First let's examine the various definitions pertaining to industrial marketing and the nature of the problem of defining industrial marketing. Then we can attempt to present a simple, concise

definition of industrial marketing. We will also examine the differences between industrial and consumer marketing and present a rationale for the position that industrial marketing, despite some similarities, is significantly different from consumer marketing and therefore is properly treated as a separate subject.

DEFINITIONS

There are two points that need to be made about the term "industrial marketing":

1. It is a misnomer in that the word "industrial" implies industry only, whereas, industrial marketing actually has come to mean more than just marketing to industry.
2. Through common usage, consumer marketing and industrial marketing have come to cover the entire marketing universe and are considered mutually exclusive.

Ernest F. Cooke, Ph.D., Case Western Reserve University, is a Professor of Marketing and holds the Chair in Sales, endowed by Sales and Marketing Executives of Memphis, in the Fogelman College of Business and Economics at Memphis State University.

The author wishes to thank **James Richard Shannon** for his assistance in preparing this article.

This second point does not mean that there are not other types of marketing. For example, domestic and international marketing also cover the entire marketing universe and are also considered mutually exclusive, and agricultural marketing or nonprofit marketing can be consumer or industrial, international or domestic.

Defining industrial marketing usually starts with one of three approaches: (1)the product definition approach, (2)the market definition approach, or (3)the marketing activity approach.

It has been suggested that the most useful definition of industrial marketing should focus first on the industrial customer and then on the industrial product. The problem with this view is that the greatest disparity in defining industrial marketing comes in defining industrial markets (the industrial customer). One definition of industrial marketing is "the marketing of goods or services to commercial enterprises, governments, and other non-profit institutions for resale to other industrial consumers or for use in the goods and services that they, in turn, produce." This follows the suggestion of concentrating first on the customer.¹

Another definition says "industrial marketing is the marketing of goods and services to industrial customers for use in the production of goods, for use in the operations of businesses themselves, and for use by non-political institutions."⁵ This differs in two ways from the first definition. It concentrates on product rather than market and it excludes governments (nonpolitical) while the first specifically includes political institutions (governments).

Still another author defines industrial marketing as "human activities directed toward satisfying wants and needs of professional buyers and other individuals influencing purchases in commercial, institutional, and governmental organizations through the exchange process."³ This definition concentrates on the marketing aspect of industrial marketing, the third outlook.

Even more marketing oriented than the last definition is the definition by the authors of a basic textbook in marketing. They say "industrial marketing is a set of activities directed toward facilitating and expediting exchange involving customers in industrial markets and industrial products."⁴ This deals exclusively with marketing, depending on further definitions to explain industrial markets and industrial products.

These four examples show the discrepancies

and contradictions in existing definitions of industrial marketing. However, they do not show all of the problems. Some other discrepancies include the questions of inclusion or exclusion of agricultural markets and the middlemen in consumer markets. Before a single definition can be developed, guidelines distinguishing industrial marketing from consumer marketing must be established.

VARIOUS APPROACHES

The first view is the *product definition* approach. This focuses upon the industrial product and how to differentiate an industrial product from a consumer product. This is the easier of the three approaches; there is more agreement on what constitutes an industrial product. Industrial goods are defined in terms of the product characteristics or uses. The definition from the AMA is, "Industrial Goods—goods which are destined to be sold primarily for use in producing other goods or rendering services as contrasted with goods destined to be sold primarily to the ultimate consumer. They include equipment (installed and accessory), component parts, maintenance, repair, and operating supplies, raw materials, and fabricating materials." The complication inherent in this classification system is that many products can be either industrial or consumer, depending on how they are used. This is why the *market definition* comes into consideration.

CHARACTERISTICS OF INDUSTRIAL MARKETING

A discussion of industrial markets must begin with a look at some of the characteristics that distinguish them from consumer markets. First, and most important, the demand in industrial markets is derived. No industrial purchase would be made if it weren't for some consumer demand. All industrial sales are made to companies or institutions that sell to other companies or institutions who will, somewhere down the line, provide a product or service to ultimate consumers. This is especially apparent with companies that sell goods that become part of the final consumer product (raw material, component parts) or that are used in producing the consumer product (equipment, machine maintenance, and repair parts and services). It is beyond the scope of this paper to discuss the significance of derived demand to economic analysis, forecasting, and marketing strategy.

Derived demand is an important and unique aspect of the difference between industrial markets

and consumer markets. However, there are five other characteristics which help differentiate between the two markets:

Concentrated Markets. The consumer market consists of somewhere over 200 million people. The industrial market, on the other hand, is limited to slightly over 10 million (including 2 million farmers). Also the 80/20 principal applies to industrial markets. In 1972 the top 500 of the 300,000 manufacturers (1/6 of 1%) accounted for 67% of all industrial output. In farming, less than 10% of the farmers produce over 50% of the output.

Industrial markets are also concentrated geographically. Four of the top five tire manufacturers are headquartered in Akron, Ohio. The big three auto makers are all based in Detroit, and Milwaukee and St. Louis are major beer producers. Steel and coal are concentrated in the northeast, particularly Ohio, Pennsylvania, and West Virginia.

Rational Buying Motives. Factors that influence an industrial purchase are, in general, more rational than those affecting consumer purchases. This does not mean that industrial marketing is totally rational, only more rational. Part of this is due to organizational constraints. Profit maximization or cost minimization are usually a major part of organizational goals when products and services are purchased. This can lead to restrictions as to whom to buy from, maximum prices, and terms required before a purchase is made. Purchase usually requires some level of organizational consensus. Decision makers develop areas of expertise, and some purchasing people are certified by their professional organization.

Many organizations even require bids when making a major purchase, with the low bid (meeting set specifications) automatically getting the order. Also, in organizational (industrial) purchases the decision maker may be subject to an audit at a later date. If improprieties are discovered, they could lead to termination and even legal action.

Reciprocity. This is the practice of buying goods and services from those who buy from you. Although it has been successfully attacked by the government, the practice does, and will, continue to exist. Although reciprocity cannot be required in an agreement, it is still an important issue in an industrial purchase decision. Reciprocity is rational only as long as it does not result in inferior purchases. All other things being equal (or even

similar), a customer of the buyer will generally get the order.

Stable Buying Relations (Long-Term Relationships). Once a buying relationship is established in industrial purchasing, it is very difficult for outside sources to break into the purchase chain. A buyer usually establishes more than one supplier for a frequently used product, helping to ensure a smooth, adequate supply, maintain price competition (to prevent a drastic price increase), and prevent overdependence, but once two or three sources have been established it is difficult for a new supplier to establish a relationship. In some situations sellers and buyers set up joint ventures.

The two-way flow of information, engineering, and innovation is very pronounced in industrial marketing, where there are frequently long chains of buyer-seller relationships with many branches. A simplified example would be steel manufacturer to turbine blade manufacturer to jet engine manufacturer to airframe manufacturer to commercial airline. One of the numerous branches would be electric motor and control manufacturer to forging press manufacturer to turbine blade manufacturer. In these long chains the individual firm, when acting as a buyer, frequently is an instigator rather than a reactor (most ultimate consumers are reactors). A steel manufacturer might develop a new steel that could end up in the engine of a commercial airliner. Just as likely, though, an airline engineer might have a specification and/or an idea that leads eventually back through the chain to a new steel and also a new electric motor control to deal with the forging characteristics of the new steel. Again this two-way flow is very common and very pronounced in industrial marketing and is another reason for stable buying relationships and long-term commitments.

Sometimes, maintaining these stable relationships can be irrational. A new vendor may provide better service, improved quality, and lower prices. However, the vendor may never get a chance to make the initial sale. This may be because of inertia, reciprocity, fear of the unknown, or just lack of desire to try a new supplier.

Multiple Buying Influences. There are more buying influencers in industrial purchases than in consumer buying. Family and a few friends are about the only buying influencers in consumer purchases (usually not more than four or five

Table 1
A Comprehensive Product/Market Classification System

Characteristic	From Consumer to Industrial		Industrial
	Consumer	Industrial	
	Column One		Column Two
Price:			
Unit Price	Lowest	Increases	Highest
Typical Order	Lowest	Increases	Highest
Time:			
Planning	Shortest	Increases	Longest
Negotiation	Shortest	Increases	Longest
Delivery and Installation	Shortest	Increases	Longest
Consumption	Shortest	Increases	Longest
Product Characteristics	Simple Standard	Increasing Complexities Standardization Decreases	Complex Special
Post-shipment Services	Few/Occasional	Increases	Many/Frequent
Market Characteristics:			
Size	Largest	Decreases	Small
Risk	Lowest	Increases	Highest
Dissonance	Low	Increases	High
Number of Buying Influencers	Few	Increases	Many
Decision Level	Low	Increases	High
Examples:	Gum, candy bar soda pop, cigarettes		Nuclear power plant, large hydroelectric dam

maximum for most purchases) while in industrial purchase decisions everyone from the receiving clerk to the board of directors can influence the final decision. Most common of these would be the user(s), purchasing agents, warehouse personnel (if storage is required), budget directors, managers (in the areas involved), and company officers. In addition there are influencers external to the firm, such as customers and unions. As a result there can be an infinite number of influencers for any single decision.

PRODUCT CLASSIFICATION SYSTEM

Another way of looking at the differences between industrial and consumer marketing is to construct a single product classification system that examines both industrial and consumer products. Such a system is shown in Table 1.

Price. Generally speaking, industrial products are more expensive than are consumer products. The highest priced industrial products are much more expensive than are the highest priced consumer products. About the highest priced consumer product is a house, whereas many industri-

al products exceed the price of an average home by a wide margin.

Size of Purchase. The typical industrial purchase exceeds the typical consumer purchase. The average housewife would rarely buy more than one or two 5 pound bags of flour whereas the average small bakery would buy several 100 pound bags and a national baker would buy flour by the train-load (hedged on the commodity market).

Planning Time. The amount of time and effort put into making the decision to make a purchase, even before a supplier is contacted, is much longer in an industrial market than with consumer purchases.

Negotiation Time. The time spent between initial contact and a final purchase decision is also much longer in an industrial purchase than in a consumer purchase. Price, delivery time, quantity discounts, quality, and so on are much more important in an industrial purchase and must often be

negotiated with several suppliers before the best combination is found.

Delivery Time. Once a purchase is made, delivery time is usually delayed in industrial purchases. Whereas the ultimate consumer usually expects to take purchases home immediately, industrial buyers rarely expect the salesperson to carry stock with them.

Installation. Few consumer products require installation (other than as a matter of convenience for the purchaser). A TV or radio, a stove or a refrigerator may require delivery, but installation simply requires a plug. On the other hand, a meat freezer, pizza oven, office telephone system, heavy production machinery, central computer system, and so on can rarely be installed by anyone other than a professional with special training and tools.

Consumption Rate and Frequency of Purchase. As a general rule, consumer products are purchased more often (partly because they are purchased in smaller quantities) and used up faster than industrial products.

Product Complexity. Although many consumer products (radios, TV's, home computers) seem complex to the average consumer, they are very simple when compared with the complexities of an IBM mainframe computer, assembly line machinery, a 20-line telephone switchboard, a diesel locomotive, a nuclear power plant, and so on. Also, industrial products are often found in many varying qualities or grades (flour, for example) while the consumer usually does not make such choices.

Standardization. On the whole, there tends to be far more standardization in consumer products than in industrial products. Rarely do consumers have something specifically designed and especially made just for them. Even consumer products that are often referred to as "special orders" are usually just combinations of pre-established options. In industrial purchases, however, it is not uncommon to ask to have a product redesigned to fit a special need of the buyer. This is especially true in production machinery and tools and in major installations.

Post-shipment Services. The level, technical complexity, frequency, and urgency of manufacturer-supplied service is far greater in industrial applications than in consumer uses. These services include installation, maintenance (which may be required by law—fire sprinkler system, elevators,

meat-packing processes), repair, and even technical assistance and education. Breakdown of a home computer or stove is rarely a critical emergency to a consumer, but for a corporation (computers) or a baker (stove), business may cease until repairs are made.

Size of Market. Some consumer products are for every single ultimate consumer. Some industrial products are sold only to one customer (aircraft carriers are sold exclusively to the Navy).

Risk to Purchaser. Because industrial purchases generally involve larger sums of money, longer term commitments, and greater effect on future profits, industrial decision makers generally face greater risk than do consumers.

Dissonance. Since there is little perceived risk in the purchase of a simple consumer product, there is also little post-purchase thought (dissonance) involved. A poor purchase of a simple consumer product has little or no lasting effect on the purchaser. It is quickly forgotten and the monetary loss is small. Of course, as consumer products become more expensive, complex, and so on, there is the possibility of more dissonance. With most industrial purchases there are serious consequences when poor decisions are made. Therefore, there is much greater concern about the wisdom of the choice. The dollar amounts are greater and the consequences more serious for a longer period of time.

Number of Buying Influencers. As was discussed earlier, there are many more influencers in industrial purchases than there are in consumer purchases.

Level of Purchase Decision. In consumer purchases, the decision is usually made by one person (maybe two) at a low level. Anyone can decide to buy a candy bar, and even in purchasing something more complicated (home computer, auto) it is usually the user who makes the final purchase decision. In industry, however, the decision may be made by anyone from the user to the purchasing agent to the board of directors. The more complicated and more complex (and generally more expensive) the product, the higher up the chain of command the final purchase decision is made.

In this product classification system it is seen that as the various characteristics change from minimum to maximum (or vice versa for a couple

of characteristics) there is a shift from consumer products to industrial products. There is a continuum which starts with very simple consumer products only, then moving along the continuum, includes products that are both consumer and industrial, with a shift from consumer to industrial, until at the end there are only very complex industrial products.

MARKETING STRATEGIES

Some of the differences between industrial and consumer marketing have been examined. Considering these differences, it is not realistic to assume the same marketing strategies can be used for consumer and industrial products. Thus, the distinction between industrial marketing and consumer marketing is both real and relevant, and well worth investigation and study.

It has been argued that the industrial/consumer marketing dichotomy is not justifiable and that the general rules should be set for marketing as a whole.² A great deal of this argument is based on the contention that many products can serve as both industrial and consumer products.

There is no disagreement with the contention of product cross-classification but this multiple use of products is further evidence of the need for industrial and consumer strategies. Those products that are totally industrial or totally consumer pose no great problem. They are marketed with separate basic marketing philosophies: for consumer products the seller tends to use mass selling, intensive distribution, product uniformity, long channels, and standardized prices (gum, cigarettes, soda pop). Sellers of purely industrial products, on the other hand, tend to use personal selling, no middlemen, exclusive distribution, customized products, and price differentiation.

It is precisely those products that can fit into either industrial or consumer classifications which need clarification and which complicate the problem of defining industrial marketing. Using some of these products that are either industrial or consumer, it is interesting to examine the marketing strategies for the consumer market and the industrial market. The automobile is an example of a product that is equally consumer and industrial. Who would claim that marketing automobiles to the individual consumer and marketing a fleet of automobiles to a utility company, a government bureau, or a car rental firm require the same marketing strategy? Would IBM use the same strategy

in marketing one PC to an individual versus large numbers of PC's to General Motors for their accounts receivables offices? Would the same marketing strategy work in selling flour to a housewife and to Nabisco? Would any seller dare to use the same approach and selling strategies in selling to these various groups?

The list of characteristics shown in Table 1 help illustrate differences between the industrial and consumer products. Within these characteristics, one can identify the different attitudes and philosophies toward marketing various products to industrial and consumer purchasers, and, by examining these characteristics, can formulate proper marketing strategies. These strategies *will not* be the same for consumers as for industrial purchasers, so the key is not just what is being purchased but who is purchasing it.

This point can be further illustrated if we look at promotional strategy. Promotion can be divided into three parts: (1) mass selling, (2) personal selling, and (3) sales promotion. Since sales promotion is used to support both mass selling and personal selling, it is irrelevant to the comparison of industrial and consumer marketing. Mass selling and personal selling are, however, very important to this discussion.

Mass selling, which is advertising in the mass media (print, electronic, and outdoor) is used to reach large audiences for standardized products. These products are mass produced, purchased frequently, and usually involve relatively small expenditures. If we look back at the market and product characteristics, we see that these characteristics fit consumer products.

Personal selling, on the other hand, is used when purchases are not standardized, larger in volume, less frequent, and more technical, and require more services, instruction, installation, and so on. These characteristics match those of industrial products.

Although the generalization could be made that mass selling is used to sell consumer products and personal selling is used to sell industrial products, this is just that, a generalization. All promotional efforts are, in fact, a combination of mass selling and personal selling. The question is, how much of each type of selling is involved in various purchases.

As was noted above, a product classifications

system has been developed which indicates, on a continuous basis, the degree of each type of selling necessary in marketing various products. At the two extremes are purely consumer products (consumer products of the simplest form: a can of soda pop, a pack of cigarettes, a pack of gum) and purely industrial products (the most technical, expensive specialized industrial goods: a nuclear power plant, a large hydroelectric dam).

Note that with a consumer product almost all promotion is mass selling. These products are widely distributed, inexpensive, highly standardized products which are purchased repeatedly with little or no thought involved. At the other extreme are purely industrial products. There is a very small market, slow consumption, infrequent purchases, high risk, top-level decision making with many influencers, frequent post-shipment services required, multiple installations required, no product standardization, highly complex, and very large, expensive purchases. With these products, personal selling is by far the dominant form of promotion. It is important to note, however, that whether mass selling or personal selling dominates the promotional mix, the other is used to support it. Between these extremes are a myriad of products. An automobile is a complex consumer product which requires about equal amounts of mass selling (to persuade the consumers what make to buy and which dealer to shop at) and personal selling (to convince them of the quality and value of the specific car and what options are desirable). Above this on the model are primarily industrial products and below it are primarily consumer products. With movement from consumer toward industrial products, personal selling replaces mass selling in both frequency and importance.

Five generalizations describe the role of personal selling and mass selling. It is important to emphasize again that this model represents a continuum of products from strictly consumer, to mostly consumer and some industrial, to consumer and industrial, to mostly industrial and some consumer, to strictly industrial. Flour in 5-pound bags sold in supermarkets is consumer (see column 1, Table 1), in 100-pound bags sold to a baker is further along the continuum, and in trainloads sold to a large bread manufacturer is almost all the way to purely industrial on the continuum (not quite to column 2, Table 1). As is shown in Figure 1, this is how mass selling and personal selling are used with movement from one ex-

treme to the other along this continuum.

These five generalizations are:

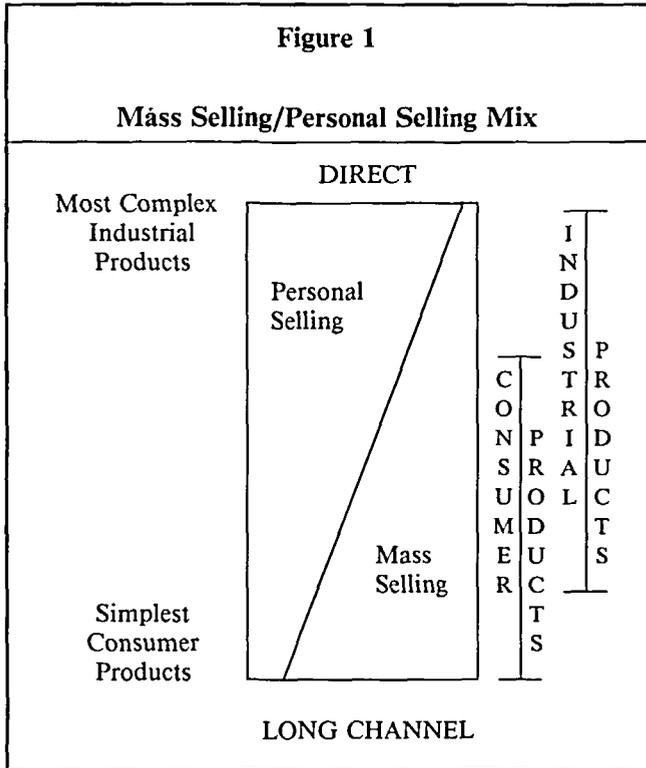
1. The major method of promoting the simplest consumer products is mass selling.
2. The major method of promoting the most complex industrial products is personal selling.
3. A combination of mass selling and personal selling is used for most products.
4. With movement along the continuum from simple consumer products to the other extreme, the most complex industrial products, mass selling becomes less important and personal selling becomes more important and more predominant (and vice versa).
5. Whatever is the major method of promoting the product, the other is used to support it.

Similar generalizations can be made concerning the channel of distribution:

1. The simplest consumer products are distributed through a long channel of distribution (many middlemen in series).
2. Moving from the simplest consumer products toward the other extreme, the channel of distribution gets shorter (fewer middlemen).
3. The most complex industrial products are sold direct, with no middlemen, because the basic middleman functions (reducing the number of contacts between sellers and buyers) is not necessary or even desirable.
4. Distribution for simple consumer products is very close to intensive (all retail outlets of all types).
5. Moving from simple consumer products toward the other extreme, distribution at the retail and/or wholesaler-distributor level goes from almost intensive to intensive/selective (all outlets of one type or a few types) to selective (a few outlets in an area) to exclusive (only one outlet in an area).
6. Since the most complex industrial prod-

ucts are sold direct, there are no middlemen.

As seen in Figure 1, these changes in marketing strategy are also on a continuum, from a high ratio of mass selling to personal selling at one extreme, to fifty fifty in the middle, to a high ratio of personal selling to mass selling at the other extreme, from the longest channel of distribution to direct, from almost intensive to exclusive.



It is important to reemphasize that the same product may occupy different positions in Figure 1 when purchased for different purposes. The 5-pound sack of flour the housewife buys would rate very low, while the trainload the national bakery purchases would rate much higher. The trainload purchase rates much higher on the size of the purchase, planning and decision time, negotiation time, product complexity (grades), delivery time, risk, buying influences, and decision level, and lower on market size and frequency of purchase. All of these factors help determine where a product falls on this scale.

This multiplicity of scale locations is one reason the distinction between industrial and consumer marketing is so important. Different marketing strategies are necessary with movement up and down this scale. Product, place, promotion, and price strategies vary with movement from consumer toward industrial products. Thus, since industrial products rate higher than the same prod-

uct sold to consumers, the marketing of these products must be handled differently. The emphasis in this system is more on the buyer than on the product being sold.

WHAT IS INDUSTRIAL MARKETING?

Probably the biggest stumbling block in existing definitions of industrial markets is the question of manufacturer/agent/wholesaler/retailer sales in the consumer channel of distribution. An equal number of authors feel that the manufacturer through agents to wholesaler to retailer (or any shorter channel) trade is part of the industrial market as those who feel it is not. Using a definition of industrial marketing which says that any marketing other than to the ultimate consumer is industrial, manufacturer through agent to wholesaler to retailer sales would be considered industrial marketing. However, the AMA's definition of industrial goods excludes from the industrial markets finished products destined to be sold to the ultimate consumer without further processing, which is one of the problems with that definition.

The differences in industrial products and industrial markets and the various industrial marketing techniques have been examined. Now it is time to answer the question posed at the beginning of this article: What is industrial marketing?

Industrial marketing is marketing to the organizational buyer as contrasted to consumer marketing, which is marketing to the ultimate consumer.

CONCLUSION

Industrial marketing is not the same as consumer marketing. Different strategies must be developed for different types of products (or for the same products at different levels on the consumer-industrial continuum shown in Table 1 and Figure 1).

There are six areas where there are significant differences between industrial marketing and consumer marketing: derived demand, reciprocity, multiple buying influencers, stable buying relationships (long-term relationships), rational buying motives, and concentrated markets (both number of customers and location).

There is a significant difference in promotion and distribution strategies between consumer and industrial marketing. Industrial marketing is

dominated by personal selling and supported by mass selling and sales promotion. Most sales in industrial marketing involve personal selling as the dominant form of promotion. Channels are shorter and distribution is selective. In consumer marketing, however, it is common for an individual to shop self-service, basing purchase decisions strictly on mass selling messages and personal experience. Consumer marketing usually features mass selling, supported by personal selling and sales

promotion. Channels are long and distribution tends to be almost intensive.

With these distinctions in mind, it is not feasible to say that industrial marketing and consumer marketing are the same. A company needs to develop different strategies for dealing with industrial and consumer segments. The key to these differences is the buyer. In industrial and business marketing it is the organizational buyer, in consumer marketing it is the ultimate consumer.

END NOTES

1. Corey, E. Raymond (1983), *Industrial Marketing: Cases and Concepts*. Englewood Cliffs, NJ: Prentice-Hall.
2. Fern, Edward F., and James R. Brown (1984), "The Industrial/Consumer Dichotomy: A Case of Insufficient Justification," *Journal of Marketing*, 48 (Spring), pp. 68-77.
3. Haas, Robert W., DBA (1982), *Industrial Marketing Management*. Boston: Kent Publishing Company.
4. Pride, William M., and O. C. Ferrell (1980), *Marketing: Basic Concepts and Decisions*. Boston: Houghton Mifflin Company.
5. Risley, George (1972), *Modern Industrial Marketing*. New York: McGraw-Hill.