Dumlupınar Üniversitesi Sosyal Bilimler Dergisi
Sayı: 3 Kasım 1999

THE NATURE OF INDUSTRIAL MARKETING

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ÖZET

Bu çalışmanın amacı endüstriyel pazarlamanın doğasını incelemektir. Endüstriyel ve tüketim pazarlaması arasında kabul edilen farklılık endüstriyel ve tüketim ürünlerinin farklılığı ayırımına dayanmaktadır. Bununla birlikte, bu ayırımı işlem süreci üzerine kurmak da mümkündür. Bu ayırım, araştırmacıları kurumsal satınalma süreci ve davranışının incelenmesine yönlendirdiği gibi endüstriyel pazarlamayı tüketim pazarlamasından ayıran satınalma süreci ve davranışlarındaki gerçek farklılıklar olarak da ortaya çıkmaktadır.

SUMMARY

The aim of this study is to examine the nature of industrial marketing. The postulated division between industrial and consumer marketing is premised primarily of the corresponding division between industrial and consumer products although it is possible to proxy this division on the notion of transaction. The latter leads scholars to examine the organisational nature of the purchasing process and behaviour that really distinguishes industrial marketing from consumer marketing.

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1. INTRODUCTION

Industrial (alternatively *business to business*) marketing constitutes the focus of this study and the study would attempt to lay the foundations for a probe into it. The initial concern is to establish its separate entity, as not everyone agrees on such a differentiation. There are many powerful arguments in favour of such a division between industrial and consumer marketing however, premised for instance on the division between consumer and industrial customers. This division implies a corresponding one between goods and services intended for these respective user groups. Establishing such sets of divisions would conclusively allow for differentiated industrial and consumer markets. Having validated the rationale for the existence of industrial markets therefore, this study will provide for forward links to investigate industrial buying behaviour and ultimately, industrial marketing in general.

2. DEFINITIONS

An extensive discussion on the fundamentals of marketing does not constitute the aim or scope of this study. However, it may be useful to recall that at its most simple, marketing can be conceptualised as a set of activities between production and consumption. The nature of these activities would ultimately be to "provide greater utility or value to customers than do competing products" (Gross et al; 1993: p.5). Turning now to the term *utility* in the above definition, household consumers would normally buy a good or service for their own self gratification or convenience. The purchase of a chocolate bar, a household appliance, a haircut or a holiday would constitute such examples, extending to the case where the purchase is intended as a gift.

However, it is obvious that there is another class of consumers whose purchases are certainly not intended for direct self gratification. Such an example could be conceptualised when, a car manufacturer (or perhaps more accurately, its purchasing representative) buys a large quantity of tyres. Herein therefore lie the seeds of an important division in marketing, that between *consumer* marketing and *industrial* marketing.

In total, there exist many powerful arguments in favour of the existence of the division between industrial and consumer marketing. Just to illustrate, a powerful proxy advocated by Sashi (1990; p.2) is *transaction*. He identifies consumer markets to be those that sellers and buyers are engaged into final transactions. By contrast, in business markets, buyers and sellers engage in intermediate transactions in that another transaction always follows. In fact, in industrial marketing, the purchase is made not by ultimate customers -that in most instances are expected to be the end users of the product- who are private individuals acting usually of their own free will. Expert individuals or groups of individuals usually handle purchases on behalf of organisations, for purposes such as resale, direct use in producing other products, or use in general daily operations.

As a result therefore, one would expect differentiated industrial markets because of encountering firstly a different class of buyers with perhaps an altogether distinct set of characteristics than household consumers. Secondly, given the varied uses of industrial purchases mentioned above, a group of products -that could be called *industrial* products- can be conceptualised, products that are intended either exclusively for industrial purposes or having industrial applications as well.

It is essential at this stage to stress on the importance of industrial marketing, if only because as Mahin (1991; p.1) states, business marketing transactions have twice the dollar value of total consumer purchases. Kotler (1991; p.197) in fact cites that not only more dollars but more items as well are involved in sales to industrial buyers. The postulated differences between industrial and consumer marketing and the critics will be examined shortly. For clarification purposes however it is important to mention that in the literature, industrial marketing is also called business marketing, business-to-business marketing, commercial marketing, organisational marketing, government marketing, institutional marketing or producer marketing. In turning to examine industrial marketing in greater detail, the next section will commence by a closer look at industrial products.

3. INDUSTRIAL PRODUCTS

Having accepted industrial marketing as a separate entity to consumer marketing, it would become clear later on that its most important aspects arise predominantly from the characteristics of buyers and their behaviour. To a much lesser extend the features of the industrial products as such constitute a factor. It is nevertheless useful to consider the main types of products which are involved in industrial marketing.

Over the years, a variety of classifications of industrial products have evolved. For the purposes of this study, perhaps one of the most appropriate groupings is Mahin's (1991, p.14.), according to product characteristics and end use. Seven such categories are conceptualised by Mahin on this basis; raw materials, processed materials, supplies, components, equipment, systems and services. Mahin's classification is reproduced in table 1.

4. PREMISING THE DIFFERENCES BETWEEN INDUSTRIAL AND CONSUMER MARKETING

Some marketers believe that " marketing is marketing " no matter what the product is and where products and services are bought and sold (Fern & Brown, 1984 ; Kastiel, 1986). As Eckles (1990, p.6.) has noted, there is a view

> "***that there are basic concepts and methods that vary little depending on the individual situation. Business marketers disagree with this assessment. They believe consumer goods marketing adheres more easily to generic theory than does business marketing***."

However Eckles (1990) also points out however, while it is true that the basic principles of marketing can be applied in both the consumer and the industrial market, industrial markets have certain characteristics that contrast sharply with consumer markets. Irrespective of whether marketing managers can handle both classes of markets just as well, broadly speaking there are two main differences between industrial and consumer

Raw materials	Products that are sold in their natural state	Coal, timber, metallic ores	Cycli cal markets, regional supply sources, high transportation costs, bulky products
Processed materials	Products that have been partially processed before reaching an ultimate producer	Plastics, glass, chemicals, steel lumber	Commodity products, lose their identity, incorporated into other products
Supplies	Products that are used up during the manufacturing process or during the daily operation of a business	Lubricants, office supplies, welding rods	Stock items, off the shelf, availability is important
Components	Products that either are ready for direct assembly into the finished product or require only minor processing	Pumps, electric motors, diesel engines, lamps, microchips	Require no further processing, perform a vital function
Equipment	Capital goods that support a user's manufacturing or other business needs	Machine tools, aircraft, computers	High-cost capital goods, asset, reliability is important, so too are first cost and operating costs
Systems	Capital goods that support a user's manufacturing or other business needs	Process equipment, paper mills, steel mills	Perform two or more functions, high financial risk, to seller but also offer high financial rewards
Services	Activities, benefits, or satisfactions that are offered for sale	Advertising, legal services, marketing research, transportation services	Intangible services

Table 1. Types of Industrial Products

SOURCE: Philip W. MAHIN, Business-to-Business Marketing. p.15.
marketing. The first set of differences relates to characteristics emerging from structural and demand factors, while the second set relates to differences in the type of the buying unit and their decision processes.

The general set of differences postulated between industrial and consumer markets includes the degree of market heterogeneity, concentration of buying power, the complexity and sophistication of industrial products and purchasing motives and process -which includes organisational interaction- (Mahin; 1991, p.28). Detailing, Gross et al (1993) emphasise on differing market structures and as a result, on the need for a distinct marketing philosophy, product / service mix, promotion and distribution mix as well as price. This is in broad accord with Kotler (1991) who emphasises the distinct demand patterns and the differing organisational buying behaviour. Structural and demand factors will form part of the concern of this study.

4.1. INDUSTRIAL CUSTOMERS ARE DISTINCT

Industrial marketing addresses a different set of customers than consumer marketing. As a result -and given that many industrial products have commercial applications as well- it becomes fundamentally distinguished from consumer marketing more by the nature of its typical customer than by the nature of the product. Most industrial customers are organisations. Buying behaviour, in terms of buying motive, structures and processes of decision making is significantly different between the two groups (Webster, 1979).

Although industrial customers have been classified in varying ways, the following classification has gained general acceptance: Commercial enterprises, Governments and Institutions. Table 2 gives a summary indicative of market segments to be found organisational missions and buying behaviour within classification.

One has to bear in mind however that this classification has originated in a developed country environment. It is true that the procurement interplay in developed countries is fully and unconditionally subjected to market forces. As Mahin (1991; p. 32) duly acknowledges, "the mission of government is to protect and maintain the welfare of its citizens". The generally less marketised environment of LDCs however may allow for the assertion that behaviours and orientations in industrial marketing (as well as procurement) are expected to vary, often considerably, in the LDCs from Mahin's framework in table 2.

Industrial Customers Type	Market Segments	Organisational Missions	Buying Behaviour
1. Commercial enterprises	Raw material producers Construction Manufacturers Services and professions Wholesalers and retailers Transportation Communication and other public utilities	Serve a customer needs at a profit	Multiple influencers Multiple buying motives Complex purchasing process
2. Government	Federal State Local	Provide for the welfare, defence, education, crime, prevention, transportation, infrastructure, etc. needs of its citizens	Negotiated buying Precise specifications Bid buying
3. Institutions	Hospitals Nursing homes Schools College and universities Religious organisations Non-profit foundations	Social concerns Charitable concerns	Professional influencers

Table 2. Industrial Customer Types

SOURCE: Philip W. MAHIN, Business-to-Business Marketing, 1991, p.32.

4.2. STRUCTURAL, DEMAND AND OTHER DIFFERENCES

In the preceding sections, the identities of the major industrial customers were established and aspects effecting an altogether distinct buying behaviour were introduced. In this section the other important features of industrial markets will be examined. One observes first that industrial buyers are far fewer in number than household consumers. Given the value of the industrial market -which is a good deal larger than the consumer market- and the high concentration ratios that a large number of industries display, one confronts the reality that industrial customers usually can afford an often substantial degree of leverage over their suppliers. Top-four concentration ratios of 70% in sectors like motor vehicles, telecommunications, tobacco, aircraft engines and organic fibres are not uncommon (Kotler; 1991; p.197). In addition, business markets usually exhibit a high degree of geographical concentration. This is to be expected as a large number of industries tend to be clustered due to considerations regarding the availability of natural resources and skilled work force, distribution advantages or the desire to be close to customers. The automobile, oil, high technology and mining sectors are such characteristic examples.

There are important implications as a result of the geographical as well as the economic concentration prevalent in industrial markets. Since it would be not unusual for 20% of the customer base to often account for over 80% of a vendor's total sales (Mahin; 1991, p 23), one could expect "a negotiation process in which prices, terms and conditions are specified account by account" (ibid). As a result, a considerable amount of organisational interaction can be expected, manifested in often protracted and complex negotiations. Reciprocal purchases, joint sales and distribution channels etc could be the outcome of such negotiations. Another important source of organisational interaction is product complexity. Given the technical complexity as well as the high cost of developing items such as computers and aircraft, usually built on specifications dictated by one customer only, one can expect a pooling of resources, for instance in the area of product development. It would not be uncommon therefore for industrial purchasing committees to be comprised of a great number of personnel from a number of disciplines in each organisation.

A third broad set of differences between customer and industrial marketing arises as a result of primary and secondary demand characteristics. A key determinant here is that industrial demand is often *joint* or *derived* in its nature. Whereas consumers initiate a direct demand with each purchase, the demand for industrial goods is often derived from the demand for consumer goods (Haas, 1982, p.37). The demand for housing instigates derived (or joint) demand for a number of related sectors, not only in bricks, concrete and timber but also in areas such as durable and gardening services. Likewise, the demand for tyres and steel is to a large extend derived from the demand for automobiles. An associate issue here is greater demand volatility, especially upstream: An increase in consumer demand can lead to larger increase in the demand for industrial products and conversely, a consumer demand reduction could induce larger declines (Bishop et al, 1984).

As an additional implication of its joint or derived nature, industrial demand differs from consumer demand with respect to its elasticity. As a group, industrial products are likely to have a less elastic and price sensitive demand compared to consumer products although there is significant variation within both groups.

"Since business firms purchase... to satisfy the demand of their downstream customers, demand for an upstream industry's product is usually inelastic... not [expanding] dramatically for the industry's product (perhaps steel) even if prices are reduced dramatically. This is contrary to consumer pricing theory... Auto manufacturers do not dramatically increase their purchases of steel even when steel prices drop by 10% 20%." (Mahin; 1991; p.10).

Clearly here the demand for cars would be the key determinant. This however has the secondary implication that in the short run industry demand could demonstrate even a reverse elasticity. By contrast to the general inelastic demand for the industry as a whole however, at least in the near term Mahin (1991) stipulates that demand for a specific supplier's product is elastic. In fact, he envisages competition not only between manufacturers offering similar products but also between those offering *cross-functional substitutes*. Drawing again from the car industry, when a manufacturer redesigns a car in order to make it lighter, smaller and more fuel-efficient, the steel supplier faces competition from aluminium, fibre glass and powdered materials manufacturers as well (ibid; p.13). Table 3. below gives a more complete list of the differences between industrial and consumer marketing.

4. 3. IS INDUSTRIAL MARKETING REALLY ALL THAT DIFFERENT?

Whist no one could conceivably disregard the distinct characteristics of industrial markets, a number of dissenting voices have emerged questioning not exactly the wisdom of the division but rather its limits. Typical of this group of critics could be the work of Smallbone (1969). The key element in his thinking is the human element in the buying decision making process, which qualifies the notion of the 'informed' nature of the industrial buyer. This transforms the question to one of *degrees* rather than absolute differences: "That industrial buyers have feelings is undeniable. That these feelings would modify their purchasing behaviour is equally true" (Smallbone; 1969, p.121).

If one accepts that subjectivity takes place to such a large extend as Smallbone (1969) seems to argue, then the study of industrial marketing makes little sense. The study of industrial buying behaviour would appear empirically reasonable only when some general principles can be gathered which would allow future events to be predicted. In dismissing the "shallowness of any approach which attempts to show that industrial marketing is wholly different from any other form of marketing" (ibid; p.120),

	Characteristics	Industrial Marketing	Consumer Marketing
Market Structure	Competition	Oligopolistic	Monopolistic
	Demand	Derived	Direct
	Demand Levels	More volatile	Less volatile
	Reserve Elasticity	Frequent	Infrequent
	Total Market Size	Larger	Smaller
	Size of Buying Unit	Group	Individual
	Market Geography	Concentrated	Diffuse
Marketing Philosophy	Market segmentation	Emporographics	Demographics
	Investment requirement	Strategic	Tactical
	Market perspective	Global	Regional/national
	Tactical marketing	Profit performance	Market share
	emphasis	Technology-push	Demand-pull
	Innovation	Relationship	Transactional
	Buyer/Seller interaction	Frequent	Rare
	Reciprocity	Important	Nonexistent
	Key accounts	Strong	Weak
	Customer education		
Buyer Behaviour	Customer/prospect mix	Small	Large
	Order size and frequency	Large, infrequent	Small, frequent
	Purchasing motives and skills	Rational, professional	Emotional, self-gratifying
	Contractual penalties	Common	Never
	Buying power	Strong	Weak
	Vendor loyalty	Strong	Weak
	Purchase involvement	Greater	Smaller
Purchasing Decisions	Decision-making process	Complex, lengthy	Simple, short
	Accounting/tax	Important	Unimportant
	considerations	Very high	Low
	Purchase risk		
Marketing Research	Orientation	Strategic	Tactical
	Research approach	Empirical	Inferential
	Questionnaire terminology	Technical	Nontechnical
	Precision of data	Rough estimates	Statistical precision
	Cost of projects	Low	High
Product/ Service Mix	Product life cycle	Shorter	Longer
	Product specification	Customized	Standardized
	Branding	Corporate family	Individual product
	Purchase timing	Requirement	Immediate use
	Degree of fabrication	planning	Mostly finished

	Type of packaging Services Equipment compatibility Consistency of quality Industrial design System selling	Value-adding stages required Protective Much more, pre- and post-transactional Good Critical Less frequent More frequent	goods Promotional Less, point-of- purchase Poor Not vital More frequent Less frequent
Promotion	Promotional emphasis Promotional objectives Promotional themes Role of salesperson Sales promotion tools	Personal selling Preparing for sales call Rational, factual Problem solving Specifications sheets, catalogs direct mail, trade show	Mass advertising Positioning product and firm Fanciful, imaginative Persuasion Coupons, samples, point-of- purchase display
Distribution Mix	Channel length Channel complexity Product knowledge Channel coverage Delivery reliability	Short direct Complex Strong Direct, exclusive Crucial	Long, indirect Simple Weak Intensive, selective Not critical
Price	Competitive bidding Price negotiation Leasing Product life cycle costs and benefits Discount structures Promotional pricing	Common Common Common Important Complex Seldom used	 Rare Rare Rare Usually ignored Straightforward Frequently used

Table 3. Differences Between Industrial Marketing and Consumer Marketing.

SOURCE: Gross et al (1993) p.18.

Smallbone (1969) repositions the argument as one of misdirected empirical and practical efforts on the subject. His rationale draws from an earlier empirical piece classifying marketing organisations in:

Rapid Turnover Consumer Goods

Durable Consumer Goods

Rapid Turnover Industrial Goods

Semi-Manufactures

Durable Industrial Goods

As one moves from Rapid Turnover Consumer Goods to Durable Industrials, the following statements are inferred:

Costs increase; so does purchase risk.
More people are involved in the purchasing decision
The greater the informed nature of the buyer
The greater the adjustment needed between buyer and seller

Therefore, as one moves along this classification, the need for persuasiveness -a function of feedback- increases. With it, the need for a greater and more complex marketing effort -as well as budget- rises. He observes that "the precise make up of the decision makers for one purchase may be different to the group involved in a subsequent purchase decision for the same goods" (ibid; p. 122). On the basis of this framework therefore, Smallbone transforms the question of any actual differences in industrial marketing to differences in degrees.

Additionally, Smallbone (1969) argues that hitherto the prescriptions of industrial marketing theory have been fundamentally weak -if not misconceived. He points to misguided statistical techniques employed: "Often with a heavy skew in the purchasing population [as a result of] perhaps only a handful of buyers accounting for the majority of purchases, any form of random sampling would be inappropriate" (ibid; p.122). His prescription, on the basis of his findings, is clear. Marketing executives in the field should think more in terms of continuums and relative positions in their continuums.

5. CONCLUSION

This study has dealt briefly with what can be regarded as the key features of industrial markets, from a marketing point of view. Distinguishing features of industrial marketing must be premised on the existence of significant disparities in the buying behaviour of the typical buyers in these markets. Important sets of differences originate in the *organisational* nature of buying decisions so far as industrial marketing is concerned.

In summary, industrial buyers are more professional and better informed than consumers. While the typical consumer has little technical knowledge regarding most products purchased, buyers in industrial markets are professionally trained and technically qualified. The purchasing decision process is more complex than the purchasing process for consumer products. This stems directly from two factors: product complexity, requiring a greater degree of organisational interaction, and because of the high buyer concentration nature of industrial markets. Finally an important set of differences between consumer and industrial marketing is premised on the joint (derived) demand for industrial products.

Critics here do not question directly the existence of a distinct industrial market, meriting a different marketing effort. Their objections rest on the diffused and overlapping boundaries between industrial and consumer marketing, transforming the whole issue to one of degrees. The key issue then becomes not whether there are differences between industrial and consumer marketing. The issue is whether such differences are significant enough to require a different set of managerial and organisational skills and capabilities. This study proceeds on the assumption that the answer to this question is affirmative. To be exact, this study concurs with Eckles who point out that:

"given enough time an astute consumer marketing manager may adapt to and be able to cope with the various industrial products and markets, but the real world environment seldom gives an individual that much time to learn the differences." (Eckles, 1990, p.6.)

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