Chapter Objectives

To introduce the concept of industrial marketing
To differentiate between organizational consumers and final consumers and look at organizational consumers from a global perspective
To describe the different types of organizational consumers and their buying objectives, buying structure, and purchase constraints
To explain the organizational consumer’s decision process
To consider the marketing implications of appealing to organizational consumers

Introduction

- When dealing with organizational consumers, companies engage in industrial marketing.
- Organizational consumers
  - Buy for use in operation, further production, and for resale
  - Buy in teams and employ buying specialists
  - Often do B2B transactions

Types of Organizational Consumers (1)

- Manufacturers
- Nonprofit Institutions
- Organizational Consumers
- Wholesalers
- Retailers
- Government

Types of Organizational Consumers (2)

- Manufacturers make items for resale to others.
- Wholesalers buy or handle merchandise for eventual resale to organizational users, retailers, and other wholesalers.
- Retailers buy or handle goods and services for sale (resale) to the final consumer.
- Government purchases and uses a variety of routine and complex goods and services in performing its duties and responsibilities.
- Nonprofit Institutions act in the public interest or to foster a cause and do not seek financial profit.

Characteristics of Organizational Consumers

- Geographically centralized
- Use v & v analysis
- Use exact specifications
- Often lease
- Use competitive bidding & negotiations
- Use capital equipment & raw materials
- The U.S. has a sophisticated infrastructure.
Derived Demand

The success and purchases of organizational consumers are ultimately based on Final Consumer Demand.

Derived Demand for Major Appliances

1. Expected consumer demand for appliances
2. Retailers order appliances from manufacturers
3. Manufacturers order raw materials for production from suppliers
4. Raw materials suppliers extract and refine quantity demanded by manufacturer

All intermediate levels of demand are derived from final consumer demand.

Key Terms and Differences (1)

Organizational consumers operate differently in the marketplace than final consumers. They

- Are fewer in number & geographically concentrated
- Derive demand from final consumers
- Have shorter distribution channels
- Employ buying specialists
- Have cyclical demand

Key Terms and Differences (2)

Organizational consumers have different purchasing methods than final consumers. They

- Use formal vendor & value analysis
- Commonly lease equipment
- Use competitive bidding
- Use buying teams
- Buy based on specs

Accelerator Principle

Final consumer demand affects several layers of organizational consumers.

Understanding the Accelerator Principle

Just a 1% change in demand at the final consumer level, may cause several percentage points change in demand for organizational goods and services.

Example:
1% decline in auto purchases by final consumers reduces dealers' demand for cars. This results in reduced demand by auto makers for steel, paint, glass, labor, equipment/plants, as well as reduced demand from steel plants for ore and transportation carriers.
Goals of Organizational Consumers

- Product Availability
- Customer Service
- Good Price Level and Terms
- Seller Reliability
- Consistent Quality
- Prompt Delivery
- General Goals

Systems Selling & Reciprocity

- In systems selling, a combination of goods & services is provided to a buyer by one vendor.
- Reciprocity: a procedure by which organizational consumers select suppliers that agree to purchase goods and services, as well as sell them.
- The FTC & the Justice Department monitor this closely for potential of lessening of competition.

North American Industry Classification System (NAICS)

- This system was introduced in 1997 to classify North American businesses.
- It provides a common industry classification system for NAFTA.
- It was developed jointly by U.S., Canada, and Mexico.
- Goods and services firms that use identical or similar production processes are grouped together.
- The number, size, and dispersion of firms can be identified from data bases.

End-Use Analysis

- It allows a seller to study sales made in different industries.
- Data bases using NAICS are available from government and commercial sources for marketing research.

Organizational Decision Making Process

1. Expectations of Purchasing Agents, Engineers, Users, Others
2. Buying Process
   - Autonomous
   - Joint
3. Conflict Resolution
4. Situational Factors
   - Supplier or Parent Influence

Chapter Summary

- The chapter introduces the concept of industrial marketing.
- It shows the differences between organizational consumers and final consumers and looks at organizational consumers from a global perspective.
- It describes the different types of organizational consumers and their buying objectives, buying structure, and purchase constraints.
- It explains the organizational consumer’s decision process.
- It describes the marketing implications of appealing to organizational consumers.