Learning Outcomes

LO 1 Describe business marketing
LO 2 Describe the role of the Internet in business marketing
LO 3 Discuss the role of relationship marketing and strategic alliances in business marketing
LO 4 Identify the four major categories of business market customers

LO 5 Explain the North American Industry Classification System
LO 6 Explain the major differences between business and consumer markets
LO 7 Describe the seven types of business goods and services
LO 8 Discuss the unique aspects of business buying behavior
What Is Business Marketing?

Describe business marketing

What Is Business Marketing?

Business Marketing

The marketing of goods and services to individuals and organizations for purposes other than personal consumption.

Business Products

The key is intended use.

Business Products:
- Are used to manufacture other products
- Become part of another product
- Aid the normal operations of an organization
- Are acquired for resale without change in form
Describe the role of the Internet in business marketing.

Measuring Online Success

Stickiness = Frequency x Duration x Site Reach
Internet Sites for Small Businesses

- **http://www.allbusiness.com** - AllBusiness provides entrepreneurs with the knowledge and tools to start, manage, and grow their business. The site links to hundreds of how-to articles and provides expert answers to questions.

- **http://www.bcentral.com** - Microsoft bCentral offers small business solutions such as assistance in establishing an online business presence, enhancing sales or services, or managing business operations. The site also contains practical tips, advice, and links to how-to articles.

- **http://office.com** - Office.com offers practical information on how to start or run a business and how to transform an existing company into an e-business. Users access over 500 databases for news that affects their companies or industries. Office.com is one of the ten most visited business Web sites on the Internet.

- **http://www.quicken.com/small_business** - This site offers information on starting, running, and growing a small business. It also provides links to a variety of other Quicken sites that are useful to small-business owners and managers.

Evolution of E-Business Initiatives

- Revenue generation
- Aggressive disintermediation initiatives
- Basic marketing communication strategies
- Reduce costs
- Build channel partnerships and trust
- Customer-focused technology and systems
- Brand building and development
- Integrate online and traditional media

Relationship Marketing and Strategic Alliances

Discuss the role of relationship marketing and strategic alliances in business marketing
Chapter 6 Business Marketing

Relationship Marketing

• Loyal customers are more profitable than price-sensitive customers with little brand loyalty
• Long-term relationships build competitive advantage

LO3

Strategic Alliances

• Licensing or distribution agreements
• Joint ventures
• Research and development consortia
• Partnerships

Alliances succeed with commitment and trust.

LO3

Subway and Seattle’s Best

Seattle’s Best doubles locations where its coffee is sold by signing a deal with Subway

• Subway adds coffee to its menu, drawing customers to the shops for their new breakfast menu
• Seattle’s Best has higher profile being sold in 9,000 Subway shops
  – Can Subway move away from its pervasive “Five-Dollar Foot-Long” campaign?


LO
Relationships in Other Cultures

Keiretsu relationships are highly integrated:
- Companies sit on each others’ boards
- Maintain dedicated trade efforts
- Joint development, finance, and marketing

Major Categories of Business Customers

Identify the four major categories of business market customers

Major Categories of Business Customers

- Producers
  - OEMs
- Resellers
  - Wholesalers
  - Retailers
- Governments
  - Federal
  - Municipal
  - Local
- Institutions
  - Schools
  - Churches
  - Civic Clubs
  - Hospitals
  - Unions
  - Foundations
  - Colleges
  - Fraternal groups
  - Nonbusiness organizations
**Business Market Customers**

- Producers
- Resellers
- Governments
- Institutions
- OEMs
- Wholesalers
- Retailers
- Federal
- State
- Municipal
- County
- Unions
- Churches
- Civic Clubs
- Foundations
- Other
- Nonprofits
- Governments
- Producers
- Resellers
- Institutions
- wholesalers
- Retailers
- Federal
- State
- Municipal
- County
- Unions
- Churches
- Civic Clubs
- Foundations
- Other
- Nonprofits

**North American Industry Classification System**

**NAICS**

- A detailed numbering system developed by the U.S., Canada, and Mexico to classify North American business establishments by their main production processes.
### Example of NAICS Hierarchy

<table>
<thead>
<tr>
<th>NAICS Level</th>
<th>Sector</th>
<th>Subsector</th>
<th>Industry Group</th>
<th>U.S. Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAICS Code</td>
<td>31-33</td>
<td>334</td>
<td>3346</td>
<td>334611</td>
</tr>
<tr>
<td>Description</td>
<td>Manufacturing</td>
<td>Computer electronic product manufacturing</td>
<td>Mfg. and reproduction of magnetic/ optical media</td>
<td>Reproduction of software</td>
</tr>
</tbody>
</table>

### NAICS

- Provides a common industry classification system
- Valuable tool for marketers in analyzing, segmenting, and targeting markets
- Data can be used to determine:
  - Number, size, and geographic dispersion of firms
  - Market potential / market share estimates
  - Sales forecasts
  - New customer identification

### Business versus Consumer Markets

Explain the major differences between business and consumer markets
### Business versus Consumer Markets

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Business Market</th>
<th>Consumer Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>Organizational</td>
<td>Individual</td>
</tr>
<tr>
<td>Volume</td>
<td>Larger</td>
<td>Smaller</td>
</tr>
<tr>
<td># of Customers</td>
<td>Fewer</td>
<td>Many</td>
</tr>
<tr>
<td>Location</td>
<td>Concentrated</td>
<td>Dispersed</td>
</tr>
<tr>
<td>Distribution</td>
<td>More Direct</td>
<td>More Indirect</td>
</tr>
<tr>
<td>Nature of Buy</td>
<td>More Professional</td>
<td>More Personal</td>
</tr>
<tr>
<td>Buy Influence</td>
<td>Multiple</td>
<td>Single</td>
</tr>
<tr>
<td>Negotiations</td>
<td>More Complex</td>
<td>Simpler</td>
</tr>
<tr>
<td>Reciprocity</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Leasing</td>
<td>Greater</td>
<td>Lesser</td>
</tr>
<tr>
<td>Promotion</td>
<td>Personal Selling</td>
<td>Advertising</td>
</tr>
</tbody>
</table>

### Demand in Business Markets

<table>
<thead>
<tr>
<th>Demand is...</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derived</td>
<td>Demand for business products results from demand for consumer products.</td>
</tr>
<tr>
<td>Inelastic</td>
<td>A change in price will not significantly affect the demand for product.</td>
</tr>
<tr>
<td>Joint</td>
<td>Multiple items are used together in final product. Demand for one item affects all.</td>
</tr>
<tr>
<td>Fluctuating</td>
<td>Demand for business products is more volatile than for consumer products.</td>
</tr>
</tbody>
</table>

### Fluctuating Demand

- **Multiplier Effect**
  - Phenomenon in which a small increase or decrease in consumer demand can produce a much larger change in demand for the facilities and equipment needed to make the consumer product.
Chapter 6 Business Marketing

Types of Business Products

Describe the seven types of business goods and services

Types of Business Goods and Services

Types of Business Products

- Major Equipment
- Accessory Equipment
- Raw Materials
- Component Parts
- Processed Materials
- Supplies
- Business Services

Online

http://www.sysco.com

LO 7
Business Buying Behavior

Discuss the unique aspects of business buying behavior

LO 8

Business Buying Behavior

Aspects of Business Buying Behavior

- Buying Centers
- Evaluative Criteria
- Buying Situations
- Business Ethics
- Customer Service

LO 8

Buying Centers

Buying Center

All those persons in an organization who become involved in the purchase decision.

LO 8

• Number of people involved varies with each purchase decision
• Buying centers do not appear on formal organization charts
Roles in Buying Centers

- Initiator
- Influencers
- Gatekeepers
- Decider
- Purchaser
- Users

Evaluative Criteria

- Quality
- Service
- Price

Buying Situations

- New Buy: A situation requiring the purchase of a product for the first time.
- Modified Rebuy: A situation where the purchaser wants some change in the original good or service.
- Straight Rebuy: A situation in which the purchaser reorders the same goods or services without looking for new information or investigating other suppliers.

http://www.loctite.com
Customer Service

- Divide customers into groups based on their value
- Create policies that govern how service will be allocated among groups

Business Buying Behavior

Buying Center

- Initiator
- Influencer
- Decider
- Purchaser
- User

Gatekeeper

Evaluative Criteria

- Quality
- Service
- Price

Buying Situations

- New buy
- Straight rebuy
- Modified rebuy

Customer service

CHAPTER 8

Segmenting and Targeting Markets
Chapter 6 Business Marketing

Learning Outcomes

LO 1 Describe the characteristics of markets and market segments
LO 2 Explain the importance of market segmentation
LO 3 Discuss criteria for successful market segmentation
LO 4 Describe the bases commonly used to segment consumer markets
LO 5 Describe the bases for segmenting business markets

Learning Outcomes

LO 6 List the steps involved in segmenting markets
LO 7 Discuss alternative strategies for selecting target markets
LO 8 Explain one-to-one marketing
LO 9 Explain how and why firms implement positioning strategies and how product differentiation plays a role

Market Segmentation

Describe the characteristics of markets and market segments
A Market Is...

1) people or organizations with needs or wants, and with the ability and willingness to buy.
2) A group of people that lacks any one of these characteristics is not a market.
3) Segmentation
4) Market
5) Market Segmentation

Market Segmentation

- Market: People or organizations with needs or wants and the ability and willingness to buy.
- Market Segment: A subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs.
- Market Segmentation: The process of dividing a market into meaningful, relatively similar, identifiable segments or groups.

The Concept of Market Segmentation
The Importance of Market Segmentation

Explain the importance of market segmentation

LO 2

The Importance of Market Segmentation

- Markets have a variety of product needs and preferences
- Marketers can better define customer needs
- Government decision makers can define objectives and allocate resources more accurately

LO 2

Criteria for Successful Segmentation

Discuss criteria for successful market segmentation

LO 3
## Criteria for Segmentation

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantiality</td>
<td>Segment must be large enough to warrant a special marketing mix.</td>
</tr>
<tr>
<td>Identifiability and Measurability</td>
<td>Segments must be identifiable and their size measurable.</td>
</tr>
<tr>
<td>Accessibility</td>
<td>Members of targeted segments must be reachable with marketing mix.</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Unless segment responds to a marketing mix differently, no separate treatment is needed.</td>
</tr>
</tbody>
</table>

## LO 3
Describe the bases commonly used to segment consumer markets

## Bases for Segmenting Consumer Markets

- Usage Rate
- Benefits Sought
- Psychographics
- Demographics
- Geography
- Usage Rate

## LO 4

- Geography
- Demographics
- Psychographics
- Benefits Sought
- Usage Rate
Geographic Segmentation

- Region of the country or world
- Market size
- Market density
- Climate

Benefits of Regional Segmentation

- New ways to generate sales in sluggish and competitive markets
- Scanner data allow assessment of best selling brands in region
- Regional brands appeal to local preferences
- Quicker reaction to competition

Demographic Segmentation

- Age
- Gender
- Income
- Ethnic background
- Family life cycle
Ethnic Segmentation

Largest ethnic markets are:
- Hispanic Americans
- African Americans
- Asian Americans

Will comprise 1/3 of U.S. population by 2010 with buying power of $1 trillion annually.

Family Life Cycle

- Age
- Marital Status
- Children

Family Life Cycle

- Young single
- Young married without children
- Middle-aged married without children
- Divorced
- Multi-aged divorced without children
- Multi-aged divorced with children
- Elderly

LO 3
Psychographic Segmentation

Market segmentation on the basis of personality, motives, lifestyles, and geodemographics.

Bases for Psychographic Segmentation

- Personality
- Motives
- Lifestyles
- Geodemographics

Lifestyle Segmentation

- How time is spent
- Importance of things around them
- Beliefs
- Socioeconomic characteristics
Geodemographic Segmentation

Segmenting potential customers into neighborhood lifestyle categories.
Combines geographic, demographic, and lifestyle segmentation.

Benefit Segmentation

The process of grouping customers into market segments according to the benefits they seek from the product.

Benefit Segmentation

Usage-Rate Segmentation
Dividing a market by the amount of product bought or consumed.

80/20 Principle
A principle holding that 20 percent of all customers generate 80 percent of the demand.
Economic Crisis and Shifting Targets

The high spending rates of the baby boom generation have made them a sought-after and profitable customer segment in the U.S., Japan, and Western Europe. But boomers were often borrowing against the “wealth effect” of real estate appreciation and the equity gains from retirement accounts.

In an economy with a depressed housing market and equity losses, many boomers now face an uncertain retirement income and must reprioritize their spending.

A recent survey revealed that boomers are likely to cut spending on clothing, personal care, home furnishings, and travel, so companies in those sectors may need to shift their focus to a target demographic segment with better growth prospects.


Describe the bases for segmenting business markets
Bases for Segmenting Business Markets

Producers
Resellers
Government
Institutions

Company Characteristics
- Geographic location
- Type of company
- Company size
- Volume of purchase
- Product use

Bases for Segmenting Business Markets

Company Characteristics

Buyer Characteristics

Satisficers
Business customers who place an order with the first familiar supplier to satisfy product and delivery requirements.

Optimizers
Business customers who consider numerous suppliers, both familiar and unfamiliar, solicit bids, and study all proposals carefully before selecting one.
Buyer Characteristics

- Demographic characteristics
  - Decision style
  - Tolerance for risk
  - Confidence level
  - Job responsibilities

_steps in Segmenting a Market

List the steps involved in segmenting markets

- Select a market for study
- Choose bases for segmentation
- Select descriptors
- Profile and analyze segments
- Select target markets
- Design, implement, maintain marketing mix

Note that steps 5 and 6 are actually marketing activities that follow market segmentation (steps 1 through 4).
Discuss alternative strategies for selecting target markets

**Target Market**
A group of people or organizations for which an organization designs, implements, and maintains a marketing mix intended to meet the needs of that group, resulting in mutually satisfying exchanges.

**Strategies for Selecting Target Markets**

- Undifferentiated Strategy
- Concentrated Strategy
- Multisegment Strategy
Undifferentiated Targeting Strategy

A marketing approach that views the market as one big market with no individual segments and thus requires a single marketing mix.

Advantages:
- Potential savings on production and marketing costs

Disadvantages:
- Unimaginative product offerings
- Company more susceptible to competition

Concentrated Targeting Strategy

A strategy used to select one segment of a market for targeting marketing efforts.
Concentrated Targeting Strategy:
- Concentration of resources
- Meets narrowly defined segment
- Small firms can compete
- Strong positioning

Disadvantages:
- Segments too small, or changing
- Large competitors may market to niche segment

Multisegment Targeting Strategy:
A strategy that chooses two or more well-defined market segments and develops a distinct marketing mix for each.

Beyond the Book:
You might think a firm producing a standard product like toilet tissue would adopt an undifferentiated strategy. However, this market has industrial segments and consumer segments.

- **Industrial buyers** –
  - Economical, single-ply product
  - Large boxes
- **Consumer market** –
  - Versatile product
  - Cushioned or not
  - Soft or tough
  - Scented or unscented
  - Economy or luxury price
  - Variable roll sizes

Small packages, even single rolls
- Charmin built a campaign based on their many options (www.charmin.com)
- Fort Howard Corporation only participates in the industrial market
Multisegment Targeting Strategy:
- Greater financial success
- Economies of scale

Disadvantages:
- High costs
- Cannibalization

Costs of Multisegment Targeting Strategy:
- Product design costs
- Production costs
- Promotion costs
- Inventory costs
- Marketing research costs
- Management costs
- Cannibalization

One-to-One Marketing:
Explain one-to-one marketing
One-to-One Marketing

- One-to-One Marketing is...
  - Individualized
  - Information-Intensive
  - Long-Term
  - Personalized

- Has a Goal of...
  - Cost Reduction
  - Customer Retention
  - Increased Revenue
  - Customer Loyalty

One-to-One Marketing

- Trends
  - One-size-fits-all marketing no longer effective
  - Direct and personal marketing will grow to meet needs of busy consumers.
  - Consumers will be loyal to companies that have earned—and reinforced—their loyalty.
  - Mass-media approaches will decline as technology allows better customer tracking.

Positioning

- Explain how and why firms implement positioning strategies and how product differentiation plays a role.
Developing a specific marketing mix to influence potential customers’ overall perception of a brand, product line, or organization in general.

**Positioning of Procter & Gamble Detergents**

<table>
<thead>
<tr>
<th>Brand</th>
<th>Positioning</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tide</td>
<td>Tough, powerful cleaning</td>
<td>31.1%</td>
</tr>
<tr>
<td>Cheer</td>
<td>Tough cleaning, color protection</td>
<td>8.2%</td>
</tr>
<tr>
<td>Bold</td>
<td>Detergent plus fabric softener</td>
<td>2.9%</td>
</tr>
<tr>
<td>Gain</td>
<td>Sunshine scent and odor-removing formula</td>
<td>2.6%</td>
</tr>
<tr>
<td>Era</td>
<td>Stain treatment and stain removal</td>
<td>2.2%</td>
</tr>
<tr>
<td>Dash</td>
<td>Value brand</td>
<td>1.8%</td>
</tr>
<tr>
<td>Oxydol</td>
<td>Bleach-boosted formula, whitening</td>
<td>1.4%</td>
</tr>
<tr>
<td>Solo</td>
<td>Detergent and fabric softener in liquid form</td>
<td>1.2%</td>
</tr>
<tr>
<td>Dreft</td>
<td>Outstanding cleaning for baby clothes, safe</td>
<td>1.0%</td>
</tr>
<tr>
<td>Ivory</td>
<td>Fabric &amp; skin safety on baby clothes</td>
<td>0.7%</td>
</tr>
<tr>
<td>Ariel</td>
<td>Tough cleaner, aimed at Hispanic market</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

**Effective Positioning**

1. Assess the positions occupied by competing products
2. Determine the dimensions underlying these positions
3. Choose a market position where marketing efforts will have the greatest impact
Product Differentiation

A positioning strategy that some firms use to distinguish their products from those of competitors.

Distinctions can be real or perceived.

Perceptual Mapping

A means of displaying or graphing, in two or more dimensions, the location of products, brands, or groups of products in customers’ minds.

Positioning Bases

- Attribute
- Price and Quality
- Use or Application
- Product User
- Product Class
- Competitor
- Emotion
Chapter 6 Business Marketing

Repositioning

Changing consumers’ perceptions of a brand in relation to competing brands.

Positioning and Product Differentiation

Each car represents a position to consumers' minds. Each car can be associated with quality, price, style, performance, and so on. Cadillac has repositioned itself as a car for younger drivers with edgier ads.