

BUSINESS  
MARKETING

*Strategy*

CONCEPTS

*and*

APPLICATIONS

V. KASTURI RANGAN

BENSON P. SHAPIRO

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# Business Marketing Strategy

Concepts and Applications

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# Preface

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This book is based on the extremely successful industrial marketing course at the Harvard Business School. We three co-authors have taught the course for over a decade and a half, from the mid 70s to the early 90s, and almost every year it has been among the best rated of the second-year MBA electives.

In organizing the book, we mulled over the several frameworks used in the past years. The most obvious way to organize the material appeared to be by marketing mix topics, such as market segmentation, customer selection, product policy, pricing, channels of distribution, and so on. What we found, however, was that second-year MBA students, having studied the principles of marketing by the marketing mix framework in the core course, realize that it is highly interactive and are anxious and eager to jump ahead and take a holistic view of the marketing function. Moreover, we have seen from our various consulting experiences that marketing decisions made by managers in the real world are integrative and rarely can decisions be compartmentalized as solely relating to pricing or distribution or sales, and the like. So from both a pedagogical point of view and a practitioner point of view, the classic marketing mix organization did not appeal to us very much.

At the other extreme, we were also aware of business-to-business marketing books that have tended to specialize by distinctive topic areas. The notion of industrial buying behavior, for example, was quite important and widely researched and taught in the late 70s and early 80s. The topic of distribution channels rose in prominence in the mid-80s. Then in the late 80s high-tech marketing became the rage. We did not want to specialize this book by any such interest focus either, because its primary purpose is to serve students, professionals, and practitioners who practice industrial marketing across a wide range of industry settings. What we sought was a pedagogically wholesome and managerially motivating framework that would appeal to a broad cross section of industrial marketers. Our organization of the book, therefore, has a very simple logic: the product life cycle.

Business-to-business marketing concepts and challenges vary in importance over the life cycle of the product. While the process of new product development is critical early on, the task of managing the order fulfillment cycle is more important at the tail end of the life cycle. Similarly, while the task of selecting and building a sales-and-distribution channel is of paramount importance in the early stage, issues of channel management and distribution cost efficiency become more important in the later stage. The book, therefore, has three core modules—"Managing New Products," "Managing Mature Products," and "Managing Product Market Diversity"—to reflect the market maturation process. Within each of these core sections there are a variety of conceptual issues that cut across the entire spectrum of the marketing mix. The organizing framework is simple, it is holistic, and it treats the marketing mix as interactive and integrative, yet at the same time the special topics and issues facing industrial marketers are picked up at an appropriate point in the product life cycle. The challenges and scope of business-to-business marketing are set out and the basic concepts in customer segmentation and organization buying behavior are reviewed in the opening section.

While each of the four sections has been written to represent a cogent collection of challenging conceptual and practical material, the articles may be read as stand-alone pieces and are intended to be of value to graduate students as well as practicing managers who think and deal daily with issues and problems such as those portrayed in the book. The readings are almost evenly split between practical applications and thoughtful conceptual frameworks. We provide a brief overview of each of the readings in the book in Reading 1 (see Table 1 on page 13).

As is obvious from the table of contents, in a venture of this magnitude several people contribute to the product. We would like to thank Tom Bonoma for "Major Sales, Who Really Does the Buying?," and also his coauthored piece, "Industrial Market Segmentation." We are grateful to our colleagues Steven Wheelwright and Kim Clark for allowing us to use their article "Creating Project Plans to Focus Product Development"; to Dorothy Leonard-Barton, Edith Wilson, and John Doyle for releasing "Commercializing Technology: Understanding User Needs"; to Robert Dolan for his article "Industrial Marketing Research: Beta Test Site Management"; and to Frank Cespedes for our use of "Once More: How Do You Improve Customer Service?" We would like to thank our other colleagues who co-authored several of the articles that are contained in this book, namely, George Bowman, Bruce Isaacson, Barbara Jackson, Thomas Kosnik, Ernie Maier, Melvyn Menezes, Ursula Moran, Elliott Ross, John Sviokla, and Gordon Swartz. While many people contributed to it, the manuscript itself was put together by Susan Brumfield and Morgan McCurdy, our cheerful assistants. A special thanks to them, especially Susan Brumfield for painstakingly proofreading the manuscript and coordinating with the project editor at Richard D. Irwin.

Our gratitude in no small measure is due to Dean John McArthur for encouraging field research, the backbone of several of the articles we have written. We appreciate the Division of Research at the Harvard Business School for so generously funding our field research and for giving us permission to use the articles. We thank the *Harvard Business Review* for granting permission to use a number of articles

that were originally published in its pages. We thank the *Journal of Marketing* for allowing us to revise two articles: "New Product Channel Selection" and the "Segmenting Customers in Mature Industrial Markets". We thank *Industrial Marketing Management* for allowing us to revise "Beating the Commodity Magnet," and *Business Horizons* for letting us use "Once More: How Do You Improve Customer Service?" And last but not least we would like to thank our students over the various years who have helped us refine our thinking by their active class participation. This helped us work through the concepts carefully and helped in clarifying and enhancing our communication of them.

The book itself, however, would not have been possible without the help of the practitioners and managers who kept us challenged by directing us to topical issues and problems. We are forever indebted to them for their time and their willingness to share a slice of their professional lives with us.

This book is dedicated with affection to our spouses and our children.

Jayanthi Rangan and our kids Vikram and Mallika

V. Kasturi Rangan

Norma L. Shapiro

Benson P. Shapiro

Jenny Moriarty and our kids Anna, Thomas, and Caroline

Rowland T. Moriarty





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## SECTION I Introduction



READING

1

# Scope and Challenge of Business-to-Business Marketing



*This reading identifies six key linkages that distinguish business-to-business marketing: three with respect to the external environment (i.e., derived demand, complex buying process, and concentrated customer base) and three with respect to the internal organization (emphasis on technology, high level of customization, and order fulfillment mechanism). These linkages give rise to unique challenges in the analysis and execution of marketing decisions. After these challenges are discussed, the organization of the book is explained. The three core sections, following this introductory section, reflect the product life cycle theme: managing new products, managing mature products, and managing product market diversity.*

Industrial or business-to-business marketing is the marketing of goods and services to commercial enterprises, governments, and other nonprofit institutions for use in the goods and services that they, in turn, produce for resale to other industrial customers.<sup>1</sup> Implicit in this definition is the type of customer in business-to-business markets as well as the use of the goods purchased. In industrial markets, goods are usually bought for enhancement and subsequent resale, whereas in consumer markets, goods are bought for their final consumption or use.

Because most economic activity is directly or indirectly geared to serving consumers' needs, it is hard to estimate the size of the economy for industrial products and services. Certain activities, however, do predominate in the industrial sector, for example, chemicals, primary metals, and machinery manufacturing. One estimate suggests that business-to-business activity represents about one-third of the U.S. 1989 GNP of \$5,200 billion.<sup>2</sup> In less-developed economies, the percentage can be

V. Kasturi Rangan and Bruce Isaacson prepared this note.

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Harvard Business School note 594-125.

<sup>1</sup>E. Raymond Corey, *Industrial Marketing Cases and Concepts*, 4th ed. (Englewood Cliffs, N.J.: Prentice Hall, 1991), p. xi.

<sup>2</sup>V. Kasturi Rangan and Bruce Isaacson, "What Is Industrial Marketing?" Harvard Business School note No. 592-012.

even higher, because a thriving industrial sector, be it manufacturing or trading, is needed first, so consumers will get products of acceptable quality and value.

Products sold in industrial markets are usually classified as:<sup>3</sup>

- *Heavy equipment* such as radiology instrumentation or diesel engines.
- *Light equipment* such as hand tools or personal computers.
- *Systems* such as database networks, where the equipment is of secondary importance to the solution being delivered.
- *Raw materials* such as crude oil or cotton fiber.
- *Processed materials* such as rolled steel or plastic polymer that have undergone further processing from raw materials.
- *Consumable supplies* such as coolants, abrasives, or medical syringes.
- *Components* such as electrical motors or disk drives.
- *Services* such as management consulting and contract maintenance.

The above categories are neither exhaustive nor mutually exclusive. They are listed merely to suggest the scope and range of industrial products.

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## Aspects Distinguishing Industrial Marketing

The industrial marketing system can be considered in terms of two key linkages. The first is the external interface between the seller's marketing/sales function and the end user. The second is the internal interface between the seller's marketing/sales function and its manufacturing operations (see Figure 1).

While each of these linkages is highly complex (e.g., the role of research and development [R&D] in the internal interface and the role of distribution channels in the external interface), the two sets of linkages serve as convenient handles to explore the major challenges of business-to-business marketing.

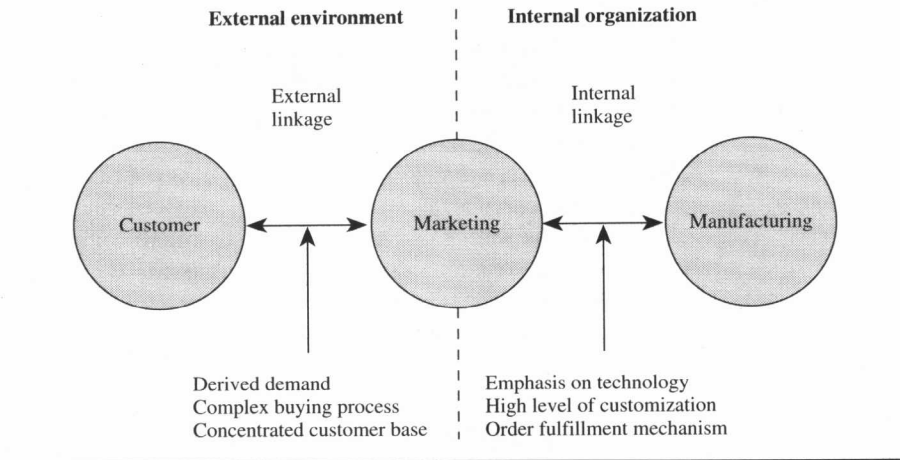
### *The External Linkages*

The three important considerations with respect to external linkages are derived demand, complex buying/selling process, and concentrated customer base.

**Derived Demand.** The demand for industrial products tends to be driven by the primary demand for consumer goods. For example, an automobile is built from hundreds of components—engines, wheels, the exterior body, the dashboard, and so forth. Each of these in turn is the end result of a supply chain consisting of many other components and raw materials. The dashboard, for

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<sup>3</sup>This classification scheme is based on one offered by Robert W. Haas, *Industrial Marketing Management* (Boston: Kent Publishing Company, 1982), chap. 1.

**FIGURE 1***Key linkages*

instance, is usually molded from a plastic called ABS. ABS is made from three chemicals, one of which is styrene. The styrene is made from ethylene, and ethylene from petroleum. Thus, the demand for each of these intermediate goods is influenced by the consumer demand for automobiles. When the demand for automobiles slumps (or peaks), so does the demand for ABS. Although consumer preferences, economic cycles, and social trends all affect industrial products demand, given its derived nature, it is possible to estimate demand for industrial products with a greater degree of rationality. Industrial firms must purchase in anticipation of the economic and market conditions; industrial buying, therefore, has a longer-range orientation.<sup>4</sup>

**Complex Buying/Selling Process.** In consumer markets, the decision-making unit purchasing any particular item is often the individual and is rarely larger than the household. In industrial markets, the decision-making unit is usually much more complex. The purchase of one piece of industrial equipment might involve a host of departments, such as purchasing, engineering, finance, and manufacturing, and might also require top-management approval. Generally, the complexity of the buying process is increased by the following factors:

- The influence of the formal organization.
- The strategic importance of the item being purchased.
- The cost of the item being purchased.
- The complexity of the need being serviced.

<sup>4</sup>Fred E. Webster, *Industrial Marketing Management*, 2nd ed. (New York: John Wiley & Sons, 1984), chap. 1, pp. 5–19.



The complexity of the buying decision increases the time, expense, and skills required of companies selling to industrial customers. Also, industrial customers, unlike consumers, often buy for multiple operations from multiple locations. Each individual unit may use the same basic product, but unique requirements may necessitate service at the buying headquarters as well as at the individual plant locations. Needless to say, aggregating of the selling tasks at two or more levels only makes selling more complicated.

While the selling and buying process is more complex, several aspects of the industrial sale make it easier to establish close customer relationships. Industrial purchases tend to be relatively rational and based on specific performance characteristics or benefits sought by the customer:

Industrial or business customers have economic requirements, not wants. Unlike consumer products, industrial products do not make anyone look or feel better, and they generally do not have any significant aesthetic value. Industrial products are bought only to help the user manufacture, distribute, or sell more effectively.<sup>5</sup>

**Concentrated Customer Base.** Since consumer marketers often reach millions of consumers, any individual consumer may not dominate the selling process. By contrast, industrial marketers generally have a much smaller base of potential customers, and in many industrial markets a small number of customers represent a large percentage of the industry's buying potential. Industrial marketers selling big-ticket items like power generation equipment can literally count their customers on their fingers. Also, given the special infrastructural support often required, many industrial product manufacturers may be concentrated in geographical areas, such as California's Silicon Valley, for high-technology electronics. The targeted and concentrated nature of the industrial customer base makes direct marketing and face-to-face selling an effective and economically viable proposition. By contrast, many consumer marketers use mass-media communication techniques to reach a broad and dispersed consumer base.

### ***The Internal Linkages***

The following considerations are important to internal linkages.

**Emphasis on Technology.** Technology and performance superiority can give the industrial product competitive advantages in its marketplace, and product improvements in successive generations of industrial products are strongly emphasized. Manufacturers of semiconductors and disk drives, for instance, are constantly improving the performance-to-price ratio of their components over successive generations so that their end users can make better products for subsequent sale. While many consumer product manufacturers may also be constantly offering innovations

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<sup>5</sup>B. Charles Ames and James D. Hlavacek, *Managerial Marketing for Industrial Firms* (New York: Random House, 1984), p. 22.