Dept. of Business Administration
MBA IV Semester
(Marketing Specialization Elective)
Industrial Marketing - SE412
Unit III.

Course Objectives and Course Learning Outcomes

- ***Course Objectives:-****The purpose of this course is to familiarize the student with the concepts of B2B marketing and develop an insight into the finer aspects of business markets and acquaint the student in managing the business markets.*
- ***Course Learning Outcomes: -*** *After completion of the course students will able to take up career options in the domain of B2B / Industrial marketing of various companies*.

Course Contents

- **UNIT I:** A Business Marketing Perspective: Basic concepts and Perspective on B2B – Customer Types, Derived Demand, Characteristics of B2B and B2C markets; Classification of Goods; Understanding Organizational Buying Behaviour:- Buying Process, Forces determining behaviour – Buying Situations, TCO, KAM, Buying Centre & Risk Management Strategies; Segmenting Business Markets-Requirements, Bases for Segmenting – Macro and Micro, Segmentation Process, Implementation.
- **UNIT II:** Managing Products for Business Markets:-Product Quality & Customer Value, Product Value, Product Policy, Planning Industrial Product Strategy, Technology Adoption Life Cycle; Pricing Strategy for B2B Markets- Pricing Process, Value Based Pricing, Cost Determinants, Pricing across PLC, Competitive Bidding; Channel Management, Supply Chain & E-Commerce:- Direct & Indirect channels, Entities, Design & Administration; Role of E Commerce; Supply Chain Design and Planning.
- **UNIT III**: Branding of B2B products :-B2B branding concepts, B2B Brand Architecture; Managing Relationships in Business Markets:-Relationship Spectrum; Managing Buyer – Seller Relationship; Customer Profitability Analysis; CRM Strategy; Relationship Marketing Effectiveness; Sales Force Management in B2B :-Personal Selling Organization; Key Account Management; Business Marketing Communication-B2B Social Media, Customer decision journey,B2B Top performers.
- **UNIT IV**: Types of Bids & Tenders, Public Private Partnership, Project Marketing Vs Product Marketing, Management of Services in Business Markets, Buying outside services, Evaluation & Control of Marketing Efforts; Emerging trends in B2B Marketing: E-commerce and effects of Digital Technology, Green practices for sustainability.

Recommended Reference Books & Websites

- Recommended Reference Books:

1. Business to Business Marketing -A South Asian Perspective:-Michael D. Hutt, Dheeraj Sharma & Thomas W. Speh (11th edition).Cengage Publication
2. Business Marketing Concepts and cases: - Sharad Sarin, Mc Graw Hill Publication
3. Business-To-Business Marketing -Analysis and Practices:-By Robert P. Vitale, Waldemar Pfoertsch, Joseph Giglierano.

- Recommended Websites :
- Websites of Asian Paints, Godrej, MRF Tyres, Tata Steel, Boeing, ABB Group, 3M , Bosch , Diversey , and other company websites dealing in Industrial / B2B Sector.

Topics covered

1. Managing Relationships in Business Markets
2. Types of Business Relationships
3. The B2B Relationship Spectrum
4. Managing Buyer Seller Relationships
5. Customer Profitability Analysis
6. CRM Strategy
7. Relationship Marketing Effectiveness
8. Relationship Marketing Programs

Relationship Marketing

Relationship Marketing focuses mainly on

- a) Establishing
- b) Developing
- c) Maintaining

successful exchanges with customers.

Exchange Process

- In marketing vertical every relationship is an exchange process where each one gives something in return for a payoff perceived to be or of greater value.
- The seller side of the transaction should offer a payoff of greater value to the buying side for the transaction .

Collaborative Advantage

- The contemporary scenario of business marketing is dependent mainly on managing the relationships.
- Collaborative advantage is:
  - Demonstrating focused skills with "key" customers
  - Developing innovative strategies with alliance partners

Types of Relationships

- Transactional Exchanges
- Value Added Exchanges
- Collaborative Exchanges

Transactional Exchange

- Centers on timely exchange of basic products at highly competitive market prices .
- These types of transactions are autonomous in nature i.e. there is little or no concern as to the needs of buyer or seller.
- Example: A person goes in a shop and buys a toothpaste. The buyer wants a toothpaste and the seller sells him one. That's all .

Transactional Exchanges

The business market includes items like:

- Packaging machines and products,
- Cleaning and sanitizing technology and products
- Commodity type products
- Service activity where bidding is applied .

Transactional exchanges employ a type of arms - length relationship.

Collaborative Exchange

- Exists when alternatives are few , market is dynamic, the purchase is complex and the prices are high.
- Main features include close information, social, and operational linkages and mutual commitments.
- Switching costs are highly esssential to collaborative customers
- Trust is the main factor and it there when one party has complete confidence in their partner's ability and integrity

Value-Added Exchanges

- Value-Added Exchanges are between Transactional & Collaborative Exchanges
- Value-Added Exchanges are those where the selling firms shifts from just attracting customers to retaining them by:
  1. Developing additional services.
  2. Providing services that are customized to meet the buyer's needs.
  3. Adding continuing incentives that promote repeat business.

Spectrum of Buyer-Seller Relationships

	Transactional Exchange ←→	Collaborative Exchange
Availability of Alternatives	Many Alterations	Few Alternatives
Supply Market Dynamism	Stable	Volatile
Importance of Purchase	Low	High
Complexity of Purchase	Low	High
Information Exchange	Low	High
Operational Linkages	Limited	Extensive

Managing Buyer Seller Relationships

- The following factors are to be managed:

a) Switching Costs
b) Value Drivers in Collaborative Relationships
c) Increasing Collaborative Relationships
d) Improving Transactional Customer Loyalty

Switching Costs

- A major consideration before changing from one supplier to another is the *switching costs*.
- Organizational buyers invest heavily in their relationships with suppliers.

Investments include:

1. Money
2. People
3. Training Costs
4. Equipment
5. Procedures and processes

Switching Costs

- Buyers hesitate to switch because it can cause costly disruptions.
- Risk of making a wrong choice of less-established suppliers can be costly.
- From a marketing perspective, the prospect's problems must exceed the benefits that they are presently experiencing with their current supplier before they will consider switching.

Value Drivers in Collaborative Relationships

Suppliers of routinely purchased products offer three sources of value:

1. Value creation through core offerings
2. Value creation within the sourcing process
3. Value creation at the customers level of operations

Increasing Collaborative Relationships

To develop 'key supplier' status, sellers should :

- Target the right customer.
- Match with their purchasing situation.
- Develop strategies that are appropriate for each type of buyer . Collaborative buyers seek long, strong and lasting relationships.
- Buyers perceive significant risks with suppliers, so competence and commitment are vital when starting the relationship.

Improving Transactional Customer Loyalty

- To improve customer loyalty and satisfaction, many companies have developed specialized services and customized products.

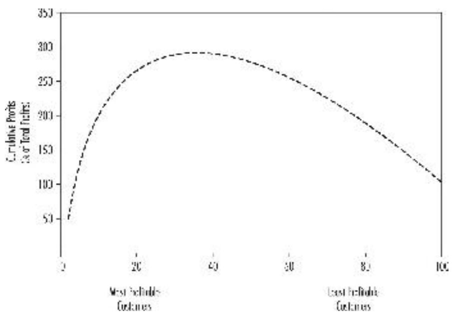
Customer Profitability Analysis

- Activity-based costing (ABC) is a technique that allocates the cost of performing various services to each customer (customer-specific costing).
- Through Customer Relations Management (CRM) programs, one can relate revenues and costs to each and every activity.

Activity-Based Costing

- Employing an activity-based costing (ABC) process, one can accurately assess the cost and profitability of each customer.
- By linking financial information with transactional data created in CRM programs, companies are able to accurately calculate "cost-to-service" components to yield customer profitability.

Figure 3.3 The Whale Curve of Cumulative Profitability



Whale Curve & Profitability

- 20/80 Rule says "20% of customer provide 80% of sales
- Whale Curve reveals:
  - 20% of customers generate 150–300% of total profits
  - 70% of customers break even
  - 10% of customers lose from 50-200% of total profits
  - Leaving company with **100%** of total profits

High- vs. Low-Cost-to-Serve Customers

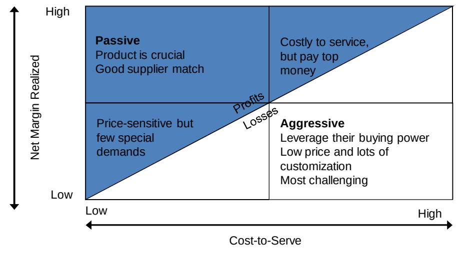
High-Cost-to-Serve Customers	***Low-Cost-to-Serve Customers***
Order custom products	Order standard products
Order small quantities	Order large quantities
Unpredictable order arrivals	Predictable order arrivals
Customized delivery	Standard delivery
Frequent changes in delivery requirements	No changes in delivery requirements
Manual processing	Electronic processing (EDI) *(i.e., zero defects)*
Large amounts of presales support *(i.e., marketing, technical, and sales resources)*	Little to no presales support *(i.e., standard pricing and ordering)*
Large amounts of post-sales support *(i.e., installation, training, warranty, field service)*	No post-sales support
Require company to hold inventory	Replenish as produced
Pay slowly (*i.e., high accounts receivable*)	Pay on time

Customer Profitably

As mentioned previously, some customers are profitable and some aren't . To determine this, we look at the cost/profitability structure with the plan to:

1. Keep profitable customers
2. Convert unprofitable ones to profitability
3. Remove those who are not profitable

Figure 3.4 **Customer Profitability**



Managing Unprofitable Customers

Low margin / high cost customers offer the most challenge for marketing mangers.

- Start with ways to reduce costs
- Next, work with customers to possibly change their actions resulting in lowering costs or increasing profitability

Removing the Customer

- We must try everything to make a customer profitable before removing them.
- If after trying, and the customer continues to be reluctant to change, and the relationship remains unprofitable, we can remove the customer as under :
- We can let customers 'remove themselves' by raising our prices, reducing or charging more for services, eliminating discounts, etc., until they become profitable or find another distributor.

Customer Retention

- Retention of profitable customers is crucial to business. However, due to competition and internal / external environmental factors, achieving this goal is difficult.
- One method that is proving successful for customer retention is the use of CRM programs.

Customer Relationship Management

Customer Relationship Management (CRM) is a cross-functional process for achieving:

a.Continuing dialog with customers across all contact and access points

b.Personalized service to the most valuable customers

c.Increased customer retention

d.Continued marketing effectiveness

CRM Strategy

- CRM programs are software systems that capture information and integrate sales, marketing and customer service information.
- CRM programs can gather information from many sources including email, call centers, service and sales reps.
- The information is available to the right people in the organization in real time.

CRM Software Programs

There are many types of CRM programs:

1. Some companies develop their own proprietary programs.
2. Some companies purchase off-the-shelf programs.

Responsive Strategies

- A CRM program cannot help unless a company employs the proper strategy to secure and retain profitable customers.
- Special attention must be given to following five areas.

CRM Strategy - Priorities

1. Acquire the right customer.
2. Develop the right value proposition.
3. Follow the best processes.
4. Motivate the employees.
5. Retain the customers.

1) Acquire the Right Customer

Account selection demands a clear understanding of:

1. Seller’s resources
2. Customer’s needs
3. Cost of serving various groups of customers
4. Potential profit opportunities
5. How customers define value and how to meet those expectations

2) Develop the Right Value Proposition

- A value proposition encompasses the products, services, ideas and solutions that a business marketer presents to the prospect/customer that is designed to solve the customers' problems.
- They can be generic or customized.

3) Follow the Best Practices

- The sales force plays a key role in establishing and growing a customer from a transactional account to a collaborative partnership.
- They can do this by aligning and deploying technical and service support units to match with their customers' units.
- Technical groups can consist of research, logistics and customer service units.
- Through careful management and screening, transactional accounts can progress to partnerships.

4) Motivate the Employees

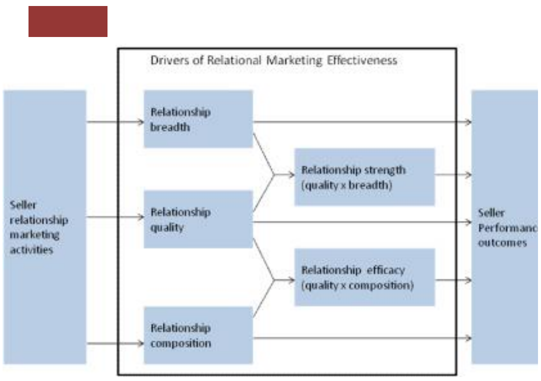
Dedicated employees are the key to a successful customer relationship strategy.
The best approach is to:
1.Hire good people.
2.Invest in them to increase their value to the company and its customers.
3.Develop challenging careers and align incentives to performance measures.

5) Retain the customers

Customer can be retained by:
- Providing superior value (more than expected) to ensure high satisfaction.
- Developing trust.
- Developing mutual commitment.
- Help customers grow their business.

Measures of Relationship Marketing Effectiveness

- Relationship Quality: High-caliber relational bond characterized by commitment and trust
- Relationship Breadth: Number of interpersonal ties that connect the relationship
- Relationship Composition: Portfolio of contacts ranging from low-level influencers to high-level decision makers
- Relationship Strength: The ability of the buyer-seller relationship to withstand stress and/or conflict
- Relationship Efficacy: The ability of an inter-firm relationship to achieve desired objectives



Relationship Marketing Programs

- Social Relationship Marketing Programs
- Structural Relationship Marketing Programs
- Financial Relationship Marketing Programs

Social Relationship Marketing

- Social RM programs:
  - Social engagements
  - Frequent and personalized communications that develop bonds
  - Make the relationship special
- Results:
  - Customers reciprocate with repeat business and referrals
  - Difficult for rivals to duplicate
- Affect:
  - Has a direct affect on profits & is long lasting

Structural Relationship Marketing

- Structural RM Programs:
  - Provide a service/product to increase productivity and/or efficiency for customers through targeted investment that customers would not make for themselves.

    For example they provide:
    - Order-processing interfaces
    - Free analysis of operations
- Advantages :
  - Creating a strong bond and then it is difficult for companies to switch to competitors.

Financial Relationship Marketing

- Financial RM programs provide economic benefits such as:
  - Discounts
  - Free shipping
  - Extended payment terms

Assignment

Q1) Explain the 'Switching Costs' Indigo might incur if it plans to replace its fleet of Airbus with Boeing airplanes. What strategies would Airbus follow to counter such move from Indigo ? Discuss in detail.

Q2)'For a company dealing in B2B or industrial segment , big /large customers are either the most profitable or least profitable for them' . Justify the statement . Give example of a company to support your answer.

Q3)'The Acquisition Costs of a new customer are much higher than serving an existing loyal customer in B2B/industrial markets' . Evaluate the statement .