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David W. Nylén  
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## A.7 Industrial Goods Classification System

### DESCRIPTION OF THE INDUSTRIAL GOODS CLASSES

Industrial goods are products and services purchased by business organizations for use in manufacturing other products or for operating their own businesses. As in the case of the **consumer goods classification system** (see GLOSSARY entry A.3), a classification system has been developed to group together products whose marketing strategy requirements are similar. Once a product has been classified, the system serves as a guide to forming a marketing strategy for that product.

*Why a Separate Industrial Goods System Is Needed.* Some marketers believe that the similarities between consumer marketing and industrial marketing are greater than the differences.<sup>1</sup> However, there appear to be sufficient differences between the two to make application of the consumer goods classification system to industrial goods difficult.

Industrial markets tend to be different from consumer markets. They are frequently highly concentrated, both geographically and in the number of major buyers. Average order size can be very large. As a result, marketing strategies are much more focused and more tailored to small target markets or even individual customers. Demand is derived and tends to be more cyclical than for consumer products. While industry demand tends to be relatively inelastic, firm demand is often highly elastic, reflecting strong competition among marketers of nearly identi-

cal products. (See GLOSSARY entry A.14 on **price elasticity**.) Because of these market factors, industrial marketing strategies tend to be highly focused in **target market selection**, use more **direct distribution**, stress personal selling in the **promotional mix**, and offer highly competitive pricing.

The **organizational buying process**, presented in GLOSSARY entry A.13, has both similarities and differences from the **consumer decision-making process**. Organizational buying is thought to be more formalized, more knowledgeable, and perhaps more analytical. More important to goods classification, industrial buyers do not shop as consumers do, but expect sellers to come to them. Thus the shopping behavior basis of the consumer goods classification system does not fit industrial products.

Despite these differences between consumer and industrial goods, it should not be inferred that the marketing decision-making tools by which marketing strategy decisions are made will not work in industrial markets. Indeed, the evidence is that although industrial markets have some unique conditions, the traditional marketing concepts work well in industrial marketing decision making.<sup>2</sup>

*Basis for the Industrial Goods Classification.* Since industrial buyers do not usually shop for products, this basis cannot be used for classifying industrial goods as it is for consumer goods. Instead, industrial goods classification is based on the way that the product will be used by the purchaser which, in turn, suggests how the product will be purchased. This knowledge allows the marketer to develop a **marketing mix** that meets the buyer's needs.

<sup>1</sup>Edward F. Fern and James R. Brown, "The Industrial/Consumer Marketing Dichotomy: A Case of Insufficient Justification," *Journal of Marketing* 48 (Spring 1984), pp. 68-77.

<sup>2</sup>Ibid.

*The Industrial Goods Classes.* The industrial goods classification system divides products into six classes: (1) installations, (2) accessory equipment, (3) raw materials, (4) component parts and materials, (5) operating supplies, and (6) business services. Some of the classes contain several subclasses.

- *Installations.* Buildings and their land make up one subclass of installations and major installed equipment, such as an automated production line, a paper machine, or a mainframe computer, is the second subclass. **Installations** provide facilities and equipment for production of the buyer's product or service. Installation purchases represent a major capital investment with the decision involving many executives at the highest levels. Purchasing usually involves long-term negotiations, custom design, and bid pricing. Servicing after the sale is often an important requirement of the buyer as, for example, in the case of mainframe computers or production robots.
- *Accessory Equipment.* Smaller capital items used in production or business operation are classified as **accessory equipment**. Typewriters, desktop computers, and forklift trucks would be examples. These items are purchased more frequently, at a lower level, and with fewer people involved. Purchasing agents frequently direct and implement the purchase of accessory equipment. Accessories are less likely than installations to be custom designed, and service after the sale is also less critical. Price is less of an issue in purchasing accessories and is often negotiated rather than being subject to bid.
- *Raw Materials.* Unlike accessories or installations, **raw materials** enter into the production process with little or no prior processing to become a part of the finished product. They are expense rather than capital items. Two rather different subclasses of raw materials—**farm products**, such as wheat or cotton, and **natural products**, such as fish or iron ore—occur in nature rather than being cultivated. Supply of raw materials, especially farm products, tends to be inelastic (supply is difficult to increase) within a growing season. The supply of many natural products, such as oil and some metals, is limited even in the long run. As a result, buyers are concerned with assuring a reliable supply and often negotiate long-term supply contracts or integrate vertically to own the source of supply. Raw materials tend to vary in grade or quality. Buyers often integrate or use middlemen to grade the product and assure appropriate quality. As there tend to be many suppliers of farm products, the markets approach the highly competitive conditions of pure competition. Since there are substantially fewer suppliers of many natural products, these markets tend to oligopoly. Transportation is often a large part of the cost of raw materials and is a matter of concern to the buyer.
- *Component Parts and Materials.* Products that have been processed or manufactured before entering into the finished product are termed **component parts and materials**. A gasoline engine for a lawn mower would be a component part and fabric for dresses would be component material. In buying components, product specifications must be carefully drawn to assure that the item fits into the finished product and the production process. The seller is expected to contribute to this process by bringing expertise and suggestions for improvement to the negotiation. Long-term contracts are frequently negotiated to assure stable supply. Multiple sources of supply are often used for the same reason. These markets tend to be highly competitive with substantial buyer pressure for lower prices often backed by the threat to integrate and manufacture their own components.
- *Operating Supplies.* Low-cost, expense items used in the operation of a business are termed **operating supplies**. These items are often called **MRO items** after the three subclasses: maintenance supplies (paint, brooms), operating supplies (heating oil, pencils), and repair items (engine parts). Operating supplies are usually routinely purchased and stocked by lower-level purchasing personnel through established supply sources. Availability of the item is more important than price, and, with individual items being low in cost, demand may be somewhat inelastic. Purchase is usually from a middleman who maintains a broad inventory of items.
- *Business Services.* Legal, consulting, advertising, and janitorial services are examples of **business services** that serve to support the management and operation of a business. Retention of business services is often negotiated and decided at the highest levels of the firm. Personal relationships and personalized attention are often more important than price. De-

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mand can be rather inelastic, particularly for special skills not readily available.

### APPLICATION OF THE INDUSTRIAL GOODS CLASSIFICATION SYSTEM TO MARKETING DECISION MAKING

The industrial goods classification system is an across-the-variables concept applying to multiple variables in marketing strategy decisions. The classification of a product should be determined as part of the **situation analysis** in marketing planning or as part of the analysis before a marketing problem is solved.

*Industrial Goods Marketing Strategies.* The first classification should determine if the product is an industrial rather than consumer good. The test is straightforward. Is the product purchased by a business and is it used by the business in their operations or in production of more finished products? If so, it is an industrial good. Some products, typewriter ribbons, for example, are sold both as an industrial good (in this case, an operating supply) and as a consumer good (probably a staple) to individual end users. However, such products would ordinarily have two marketing strategies: one as an industrial good and a second as a consumer good; thus both classifications would be used.

Even though the classification is broad, knowing that a product is an industrial rather than consumer good provides guidance in formulating or modifying the product's marketing strategy. **Target markets** selected for industrial goods are usually highly focused and multiple target markets are often approached. Single large customers are sometimes treated as target markets and the marketing mix is tailored to their needs to gain some competitive edge (see GLOSSARY entry B.4).

Marketing mixes for industrial products vary, but there are some consistent tendencies that provide useful guidance. The **promotional mix** for industrial goods tends to use a large proportion of personal selling

which, because of the concentrated markets, is economically feasible (see GLOSSARY entry C.29). **Push** rather than **pull** strategies dominate, with advertising playing a supporting role to personal selling (see GLOSSARY entry C.30). Distribution channels for industrial goods tend to be short, with **direct distribution** common (see GLOSSARY entry C.10). In **product design**, customizing products to the needs of individual large customers is common, and service after the sale is frequently important to the sale (see GLOSSARY entries C.25 and C.9). Because of the competitive nature of industrial markets, there is often downward pressure on product price (see GLOSSARY entry C.21).

*Industrial Marketing Mixes by Product Class.* Further guidance in forming the marketing mix for an industrial good can be gained through knowledge of the product's industrial goods classification.

- *Installations.* Buildings and major equipment are usually marketed direct to the buyer with personal sales contacts at high levels in the firm. Negotiation of the sale is likely to be extended over a long period. Innovative product design and product quality are important with customization of the product common. Service support for the product is usually very important in the case of machinery and equipment. Competitive pricing is necessary with bid pricing common.
- *Accessory Equipment.* Personal selling is the dominant promotional element for accessory equipment. However, product branding and advertising are probably more important for accessories than for any other industrial goods class. Copying machines, for example, are heavily advertised to help build brand acceptance and make the task of the sales representative easier. Accessory equipment may be marketed direct, but middlemen (dealers) are frequently a more economical alternative, particularly for short-line manufacturers. Price competition in accessories is less intense, particularly for those products that have achieved differentiation. Thus design of innovative product features is an important element in the marketing mix. Postsale service is normally a requirement.
- *Raw Materials.* With the exception of some

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large farms, farm products tend to be assembled from small producers by middlemen who also sort and grade the product before sale to food processing businesses. Because of their commodity-like nature, few farm products sold to businesses are branded and there is limited promotion beyond negotiation of the sale. Prices are largely market determined. Natural products, because there are fewer and larger sellers, are more likely sold direct or, at least, drop shipped after sale by an agent. There is little promotion involved except for negotiation of supply contracts that tend to be long term to provide assurance of supply. Prices tend to be competitive, but vary by grade. Transportation costs make up a large portion of total cost.

■ **Component Parts and Materials.** The essential element in the marketing of component parts and materials is assuring that the product is designed to meet the requirements of the buyer's product and production process. This requires direct, often long-term, contact that often involves technical personnel. Continued customer service and technical counsel after the sale are often required. Channels tend to be direct and promotion, other than personal selling and technical service, tends to play a minor supporting role. Because of the affect of component cost on the buyer's product cost, there is continuing downward pressure on price as well as constant pressure for product improvement. Retention of customers often depends upon the supplier's ability to regularly deliver these two benefits.

■ **Operating Supplies.** Indirect distribution through a wholesaler is normally required for

operating supplies. Buyers rely on an intermediary to maintain a varied stock of these items with the result that a key element in the marketing mix of sellers is convincing the wholesaler to stock the product. This is generally done through personal selling. Other forms of promotion play only a minor role. Providing a competitive discount to the wholesaler is important, but price pressure is otherwise not severe. Product design tends to focus on completeness of the line offered rather than on innovative design.

■ **Business Services.** The marketing mix for business services is dominated by direct personal selling between top executives of the seller and buyer. The sale is often highly personalized, with assurances of the personal attention of top executives in the service firm. Mass promotion plays little role. Demand tends to be inelastic with price comparison frequently not a critical element in the sale.

### SUGGESTIONS FOR FURTHER READING

- FERN, EDWARD F., and JAMES R. BROWN. "The Industrial/Consumer Marketing Dichotomy: A Case of Insufficient Justification." *Journal of Marketing* 48 (Spring 1984), pp. 68-77.
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