BUSINESS-TO-BUSINESS MARKETING

WEEK 6
PRODUCT STRATEGY IN BUSINESS MARKETS

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WEEK SIX
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6.1 Introduction

Welcome to week six lecture! It is my joy to have you in this class! We are now halfway through the course. Congratulations for making it so far! It is my sincere hope that you have gained basic knowledge of business markets. In the next four lessons we want to delve into the application of four Ps of marketing in business. In this lesson we will examine the product strategy as developed in business markets

6.2 Intended Learning Outcomes

At the end of this lecture, you will be able to:

1. Define and classify business markets products.
2. Describe business products strategy.
3. Discuss new product development process.
4. Examine the product lifecycle in business markets context.

6.3 Definition and Classification of Business Markets Products

We begin this lecture by defining industrial products. A product is an offering of a firm which satisfies the needs of customers. It is a bundle of benefits that customers are seeking and willing to part with items of value (including money and time) in exchange for gaining these satisfactions (Blythe and Zimmerman, 2013). According to Corey (1976), business marketing products include not only the functional utility of the product but also technical assistance, the assurance of dependable supply, product service and a range of personal and technical relationship between the buyer and seller organizations.

Fill and McKee (2011) observe that business products have two main attributes namely tangible (core and augmented) and intangible. The core of a product represents basic features which describe the simple capabilities of the product and are generic to all product offerings in the market. They are the physical functional aspects of a product. Augmented products consist of features added to the core attributes, which either provide extra facilities and performance opportunities or provide marks to distinguish and differentiate the basic product from competitive offerings. These may include styling, performance capabilities, packaging, size, or weight as features that help distinguish a product or enable it to perform better than competitive products. Intangible products constitute additional elements that are provided to improve the atmosphere that surrounds a product. Technical service and support, financial services, warranties, and delivery serve to embellish products and assist differentiation. These often form the basis for market competition and differentiation of products. Different customers may have different requirements on these aspects. Hutt, et al. (2009) suggest that some attributes can be regarded as determinant, which means that they are perceived by buyers as both important and differentiating. Other attributes may be non-determinant, that is, either important or differentiating but not both.

6.4 Classification of Business Market Products

Business markets products may be classified based on how they are used but not on the buying behavior. According to Cherunilam (2007) the following are the major classification of industrial /business products.

1. **Major equipment:** It consists of products such as machinery, buildings, computers, generators, earth-moving equipment (caterpillar). The demand for major equipment is considered inelastic. Also, in view of price, and technical requirements, the purchase of major equipment usually requires close cooperation between the technical and sales staff of both the business buyer and seller. Instalments, payment schedules and leasing arrangements are common because of the large investment involved. The major equipment for one company may be a piece of accessory equipment for another. The seller's marketing strategies include strong personal selling efforts, exposure to multiple buying influences in most cases and a strong engineering service supported by the salesperson or sales team.
2. **Accessory equipment:** They are used to facilitate production, administrative, clerical, and marketing activities and examples include calculators, stationery, staples, fire extinguishers etc. They are mainly light and in general the equipment's tend to be standardized and less costly than major equipment. The demand for accessory equipment exhibits an elastic demand curve. Less technical service is required on the part of the seller. The purchase may be considered routine, usually longer distribution channels and fewer buying influences are involved in the purchase decisions.
3. **Fabricated and component part:** These are products that are purchased for inclusion into the final product e.g., stereo in vehicles, batteries and switches. Although they typically become part of another product, fabricated and component parts can often be easily identified and distinguished. Business buyers purchase such items according to their own predetermined prescription or by standards common within an industry. In purchasing component parts, buyers expect the part to consistently meet a specified quality level and to be delivered on time so that production is not slowed or stopped.
4. **Process materials:** They differ from fabricated and component part in that most of them cannot be identified or regrouped in the finished product. Examples include chemicals, plastics, cement and so on. Most processed materials are marketed to customers who are original equipment manufacturers or distributors who in turn sell to the original equipment manufacturer's market as very few have a replacement market. Process materials are generally bought per specification prepared by the users or bought according to standards developed by a particular trade or industry. Generally, price and service are important factors in the sales of the process materials.

5. **Maintenance, Repair, and Operating supplies (MRO):** MRO supplies do not become part of the finished product but are used up in the production process. Example of maintenance supplies include paint, nails, compound cleaning, light bulbs etc. while repair supplies will include bearing filers. Typing paper, ink, paper clips, pencils and lubrication oils are types of operating supplies. All these supplies facilitate the production process and have a relatively short life and are generally less expensive than most other business goods. MRO items are usually standardized, involve longer channels of distribution, expose the seller to fewer buying influences and they show a more elastic demand curve than accessory equipment. They are usually bought by the purchasing manager.
6. **Raw materials:** Raw materials are often considered as the basis life blood of industry. They are supplied primarily by the agriculture or forestry, mining, and fishing industry. Raw materials become part of a manufactured product, are generally bought in large quantities and exhibit an inelastic demand curve. They are usually purchased based on such recognized standards as grade designations or central specification. Channel of distribution can be either long or short and multiple buying influences are involved in the purchase at least in the initial stages of the procurement cycles.
7. **Business services:** Services are provided to the firms by commercial banks, insurance companies, advertising agencies, accounting firms, law firms, employment agencies and management consultants. Business services are expense items that do not become part of the final product. The buyer decides to buy the service from outside specialists if it is less costly than having company employees performing it. Multiple buying influences may be present when the cost of a service exceeds a pre-established amount.

6.5 Business Product Strategy

The product strategy of a firm relates to making decisions about the features, quality, and the entire offering. The strategy involves developing a rational relationship between and among product offerings. At the core of the product the strategy will consider features/functions/benefits and value to customers. At the product attributes level, the strategy will examine brand, design, country of origin, price, and packaging among others. At the support service level, the strategy development will consider delivery, installation, warranty and after sales service (Blythe and Zimmerman 2013).

Fill and McKee (2011) notes that product strategy considers the organization's portfolio of products. The portfolio will examine individual products and products lines. Portfolios are made up of individual product items, lines of products, product mixes and the depth within each line, as follows:

- Product item: each individual product.
- Product line: clusters of products and services that are offered, in combination, to a designated market segment(s).
- Product mix: the number of product lines.
- Depth of line: the number of products offered within each line.

Product portfolio decisions are meant to enhance long term profitability of the total set of products through tradeoffs between different lines. It is through the company's line of products that superior value and competitive advantage can be developed. Product lines can be classified based on the degree to which the content of product lines is standardized, mass produced, or customized to meet the individual/personal needs of each business customer. Shapiro (1977) suggested four main product line categories, each based on the level of customization or the level of 'content specificity'. These are catalogue products, custom-built products, custom-designed products, and business services.

a) **Proprietary or catalogue products**: These products are produced in anticipation of orders. Sellers speculate that there will be sufficient demand and stock will be produced in a standard format. Product line decisions in this category concern levels of stock to be made and held, the type of stock to be carried (adding and deleting lines) and the repositioning of products within the line.
b) **Custom-built products**: these are products which are assembled for customers using preformed parts, subassemblies, and components. They are then configured in particular ways so that they meet a specific customer's needs. product-line decisions revolve mainly around presenting different solutions to customer problems.
c) **Custom designed products**: These products are custom-designed and built to meet the specific needs of a particular customer or very small group of customers. These products are often of high capital value. Product-line decisions are based around identifying and understanding the very specific needs of customers and then being able to present proposals that provide a tight fit with those needs.
d) **Business services**: The main offering may be a product but there are services attached such as order processing, invoicing, delivery, and warranty-based support. Some organizations provide a specific service package to support their products. Support services are provided to augment product offerings and provide distinction between firms.

6.6 New Product Development Process

New products are the lifeblood of any business in either industrial or consumer markets. The business marketer must consciously and deliberately keep on developing new products to ensure growth and sustainability of his business. New product development for business markets requires a project team to be constituted. Project teams are the heart and soul of success for B2B new products and are made up of engineers, pure scientists, finance experts, marketing people, product managers, members of the market research team and sometimes outside consultants and suppliers. In business markets the team might also include customers and other stakeholders and also the cross-functional team may be global or locally constituted. The use of internet has helped teams to be constituted globally and work more effectively to achieve the objective of the firm.

Team management is required especially for these global teams to work. McDonough (2000) suggest three considerations for such teams to work effectively:

- Stage setting: Developing appropriate project goals, empowering the team with needed decision-making power, assigning the required human resources, and creating a climate which will be productive. Appropriate project goals are the most important of these factors.
- Teamwork enablers. These are team leaders, senior managers, and product champions. Team leadership is the most important of these factors.
- Team behaviors: They include cooperation, commitment to the project, ownership of the project while respect and trust among team members are also significant.
- Control systems: A control system must be put in place to enable the business marketer to monitor the project and ensure it is on course.
- Reward system: The system must be put in place to act as a motivator for the team.
- Conflict resolution: Team management requires the project leader to manage conflicts especially when the cross-functional team is global. The most important factors for resolving conflicts are communication management, trust and commitment to collaboration (Lam and Chin, 2005).

Product development is defined succinctly as "the transformation of market opportunity and a set of assumptions about product technology into a product available for sale" (Krishnan and Ulrich, 2001). According to Crawford et al (2003) new products can be categorized into the following:

- New-to-the-world products – These are inventions such as the first automobile or computer. They are very rare and most new products are in fact simply improvements on existing products.
- New category entries – Products introduced by firms into a product category where the firm had not been doing business up to this time.
- Additions to product lines – These are line extensions in the firm's current markets such as tablet computer introduced by Apple.
- Product improvements – Current products made better in some way.
- Repositioning – Taking a current product and attempting to find a new use for it.

Various writers such as Crawford et al (2003), Fill and Mckee (2011) and Webster (1995) agree on various stages of new product in business marketing. There are a few differences compared with the consumer products development process as outlined in the steps below.

1. *New Product strategy development*: The effect of having this step in the new product development process has been to link idea generation, screening, and evaluation and business analysis more closely together in the context of an overall strategic direction. It identifies the strategy requirements that new product ideas should satisfy such as defending a market share position or maintaining a market position as a technical leader etc. The effect of integrating an initial strategic planning step into the new product development process has been a dramatic improvement in mortality of new product ideas (Webster, 1995).

2. *Idea generation*: New product ideas are everywhere; in the minds of sales representatives, customers, distributors and managers as well as investors, shareholders, suppliers and so on. Industrial firms usually organize scientists and engineers into departments with specific purpose of generating, developing, and exploiting new products ideas. It is equally important to have well defined and well publicized procedures for collecting new products ideas. Potential sources of new product ideas can only introduce them into the new product development process if these sources are familiar with that process. The availability of such collection systems can stimulate the development of new product ideas. A new product idea collection system includes an informed sales force on the lookout for new product ideas from customers and distributors and a well-defined procedure for communicating these ideas to the appropriate collection point in the firm. Such procedures should include provision for feedback to the sources of new product ideas to thank them for their suggestions, to acknowledge their receipt, to encourage the continued flow of ideas and to inform the source if the idea is judged to have merit warranting further development.
3. *Screening:* An effective idea generation and collection system will deliver many new product ideas that the firm can use. The organization is required to devise criteria and procedure for screening the flow of new ideas. The basic question in screening a new product idea is. "Does this new product idea have enough feasibility and desirability to warrant more careful analysis?". The purpose of the screening stage is not to offset or reject the idea as a project for development but to determine if the idea has enough merit to warrant the expense of business analysis. New product idea screening requires a statement of company strategy and marketing objectives relating to the business the firm wants to be in and markets it wants to serve. The first check on any new product idea should concern its consistency with the strategy. The industrial marketer should also answer questions on criteria relating to the availability of resources necessary to develop and exploit the idea. In this regard the following questions should be answered:

a) Do we have or can we develop access to the necessary raw materials?
b) Is the project or scope feasible within our existing financial capability?
c) Is there some synergy with our existing product line?
d) Is it likely that our present customers represent a potential market, or must we develop an entirely new market?
e) Could the product be marketed through our existing sales force and distributor organization?
f) Does the idea appear to be within the capability of our product development organization?
g) What impact would successful development of this project have on our existing product, market, and marketing organization?

Note: Negative answers to several such questions or the recognition that significant new financial, managerial, marketing, production, or supplier resources would be required, would obviously reduce the attractiveness of the idea. Research has shown that it takes seven new products ideas to yield one successful new product in the marketplace (Webster,

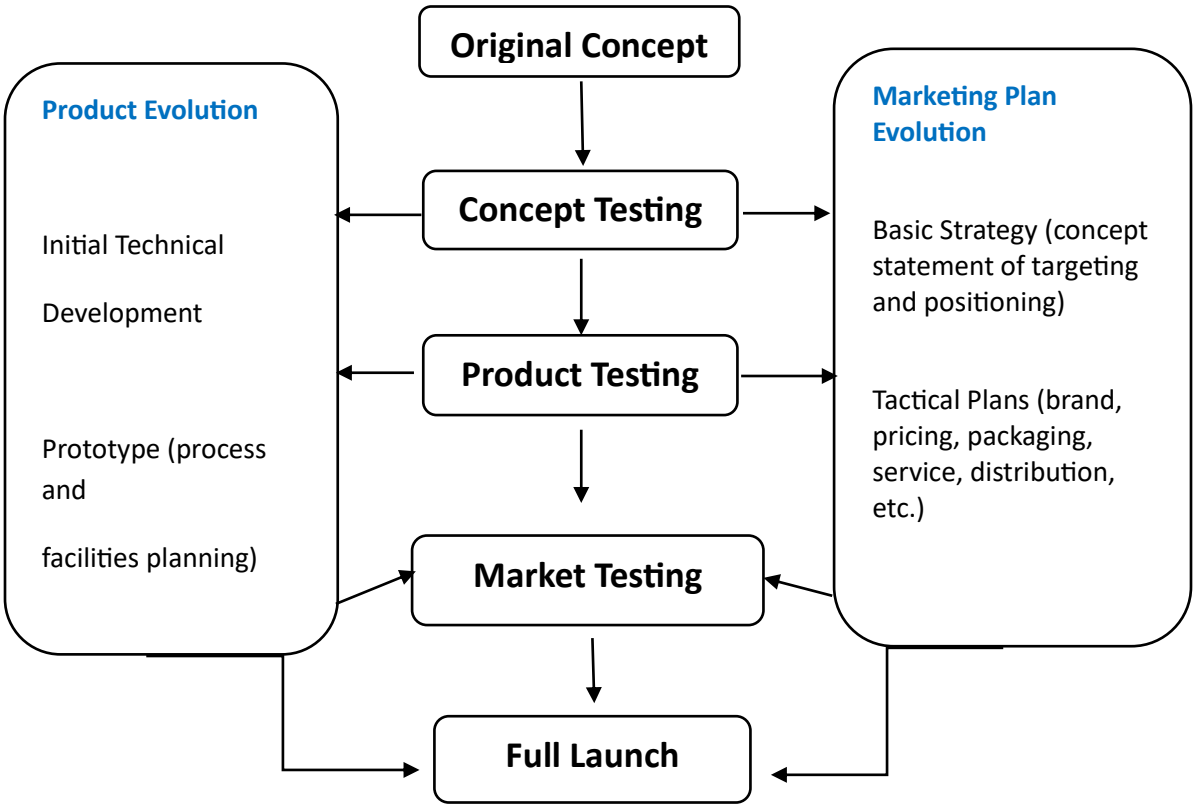
1995). According to Hansiota et al., (1985.), a product idea must score highly in determinant attributes which constitute attribute importance and attribute differentiation.

4. *Business Analysis*: It is a much more detailed and substantial evaluation of a new product idea in terms of required investment, expected sales volume, prices, costs, profit margins and projected return on investment. It includes a market analysis with sales forecast. The analysis must access present and potential competition beginning with a study of present competitive conditions and evaluation of the strength and weaknesses of key competitors. The stronger the positions held by established firms, the less attractive the possibilities for market entry with a new product idea. Business analysis requires investment in time and money in the form of qualified analysts whose experience and skills should include finance, marketing, engineering, and production as well as overall strategic planning expertise. Also, the ultimate purpose of the business analysis is to develop a reasonable, thorough and defensible estimate of the profitability of the proposed new product.
5. *Product Development:* This is part of a new product development process in which scientists, engineers and technicians create the desired product. This process involves many issues related to the management of research and development, the nature of creativity in scientific work, technological forecasting etc. Information from marketplace about customers' needs and reaction of customers, sales representatives, and distributors to product concept (idea) in the various steps of development is essential to the effectiveness and efficiency of development process.
6. *Testing:* It is the information gathering part of the new product development process. This begins with testing of new product ideas or concepts then moves to evaluation of various forms of the product in the laboratory and in the field. When the product is finally in its expected market form, it must be manufactured in a pilot production test and the results carefully tested for quality, costs, and other considerations. Finally, the product will be presented to the market under test conditions including limited market scope, careful control of the elements of marketing mix and objective evaluation of the results. The following problems are encountered during this stage:
    - Measurement errors in testing.
    - There is a long time required to go from product concept testing to commercialization. The market conditions may change- especially customers' needs and preferences and competition. This process of dynamic change in the marketplace can make initially accurate information erroneous for future decision making.
    - Risk of tipping the firm's hand to competition in field test. Extensive research on the product concept, their testing and product testing might expose the company's activities to the competitors who may react.
7. *Commercialization and Product positioning*: In this stage, the company makes a full commitment to marketing a new product. It becomes part of the company's product-promotion line and takes its place alongside other products in catalogues, price lists, and

dealer inventories. The new product marketing program requires careful definition of market segments, developing marketing objectives, short-term and long-term and training of the sales force and distributor organizations. Other decisions include the creation of advertising, catalogues sales aids etc. Positioning is a central strategic issue in the marketing of a new industrial product. It means carving out a niche in the market by stressing certain product features vis-à-vis competition. Also in consumer marketing, positioning may be achieved principally through advertising and sales promotion strategy. In industrial marketing, positioning may involve primarily the tailoring of the bundle of services to accompany the actual product, although advertising and sales promotion decision requires very careful segmentation analysis. Among the consideration of major importance are the presence or absence of established competitors, the technical ability of the segment members to do the required engineering and manufacturing or manufacturers desire to maintain product quality through the various level of the market to the end use application.

The new product development should be done alongside the marketing plan. This ensures there is no delay and that the returns are realized on time. Figure 6.2 is a representation of this twin stream process as suggested by Crawford et al (2003).

Figure 6.2 Simultaneous development of new product and its marketing plan



Source: adapted from Crawford and DiBenedetto, 2003.

6.7 Causes of Business Markets Products Failure

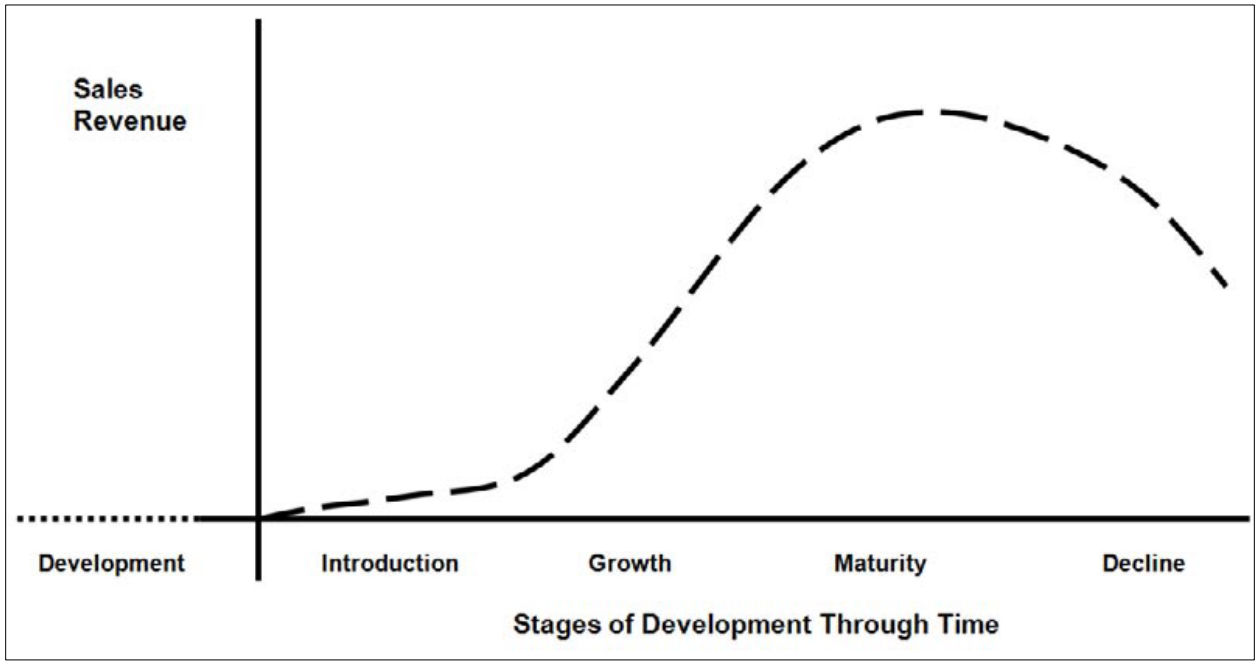
Cooper (1975) and others have outlined the following as some of the causes for business markets new product failure.

a) Failure of the product to perform as expected or intended.
b) Introduction of an incomplete product in the market. Very often, the physical product itself is good but the necessary supporting services have not been developed such as after sales service, maintenance, service, operator training, also ensuring the supply of necessary raw materials etc. Sometimes these service responsibilities are left to the distributors, but no steps are taken to prepare them to accept their responsibilities.
c) Inadequate preparation of customers and the marketing organization. Unless the new product is fully accepted by sales representatives and distributors it will not be presented enthusiastically to customers. Furthermore, if the product represents a substantial change for the customers, it cannot just be introduced to them. They must be prepared for its introduction with a careful program of communication and instruction.
d) There is lack of cooperation in making the product successful from departments in the organization. This is due to functional interdependence which is one of the unique distinguishing features between industrial and consumer marketing. Examples: - Inability of manufacturing department to deliver reliable and quality product after customer begin to order. There may also be a problem of failure to provide adequate credit arrangement by the finance department.
e) Poor definition of target market and inadequate market segmentation.
f) Failure to reach all the relevant buying decision influences. This may lead to failure to provide the necessary information to identify buying influences.

6.8 Product Lifecyle

Dean (1950) is accredited for being the pioneer of the PLC model. The PLC model demonstrates how products evolve and implies that products are born, grow, become mature and eventually decline and die (Meenaghan and Turnbull, 1981; Rickard and Jackson, 2000). The model depicts the functional relationship between sales, the dependent variable and time, the independent variable (Brockhoff, 1967). Figure 6.3 represents the stages in product lifecycle and their description as discussed by Fill, & McKee, (2011).

Figure 6.3 Product lifecycle



Source: adopted from Fill, C., & McKee, S. (2011).

1. *Development stage:* Resources are allocated to testing and analyzing materials and prototypes. Investment of resources is high as is collaboration with partners.
2. *Introduction:* Sales are building slowly as customers are attracted to and want to try the product. Organizations in the supply chain adapt to the new processes and procedures and profits remain low or even negative, reflecting the heavy development costs and initial promotional investment. Customers learn how to adapt their own systems and to incorporate or use the product within their own operations to their best advantage.
3. *Growth:* Increased demand boosts sales, which together with profits start to increase quickly and the overall market expands rapidly. Competitors enter the market because demand is proven, and their risk is lowered. The impact is to increase supply and the rate of market growth starts to subside. Organizations attempt to differentiate their products. Growth results from the product being specified by B2B customers as an integral or significant part of their own product offerings.
4. *Maturity:* Most potential buyers have adopted the product and soon sales reach their highest point before starting to slow. Very often competitors' resort to discounting and price-based strategies. Due to increased competition, an increasingly stagnant market and suppliers who have achieved high volumes of production, some even experiencing economies of scale, strategy becomes orientated to protecting the volume of production.
5. *Decline:* The product eventually loses customer appeal as new products and new technologies enter the market. As a result, the market consolidates as products (or organizations) are withdrawn. The focus of those that remain reverts to maintaining an efficient production capacity.

Implications of product lifecycle to a business marketer are as follows:

- Products have a limited life, and their sales history follows an S-shaped path, at industry and product levels.
- Products move through the different stages, within an overall cycle at different. speeds (development, introduction, growth, maturity, and decline).
- The life of the product can be extended by many ways, such as introducing. new ways of using the product, finding new users, developing new attributes (for example, service enhancements).
- The average profitability per unit rises and then falls as products move through the later stages.

6.9 Adoption Process for Business Markets Products

This is the intra-firm process in which the firm builds an increasing commitment to use a product or process. Its stages include:

1) Awareness – firm becomes aware of the new product but does not have information about it.
2) Interest – the firm seek information about the new product.
3) Evaluation – tries whether the new product makes sense.
4) Trial – the firm tries a new product on a small scale.
5) Adoption – the firm decides to make full and regular use of the product.

These decision stages are best viewed as *conceptual* definitions not empirical facts describing an individual's decision-making process in the purchase of the new product. When applied to a firm the stages in adoption process can be regarded as characterising individuals in the buying centre who may be in different stages.

Factors that influence intra firm rate of adoption: Intra-firm rate of adoption is the speed with which the firm moves from awareness to full scale adoption. Some industrial firms (or more precisely buying centres) go through the stages of the adoption process more rapidly than others. The factors that explain this include:

1. *Size of the firm:* The larger the firm, the longer it takes to move through adoption decision process.

2. *Number of people involved in decision process:* The more people involved in decision process the more time required.

3. *The size of the market share:* Firm with larger market share tend to take longer to move from awareness to adoption.

Characteristics of earlier adopters of industrial product:

- *They tend to be the largest firm in the industry*. The underlying reasons seem to be that their greater financial resources make them better able to afford the required investment and to absorb the risk inherent in being an innovator or early adopter. In addition, large firms because of their size may have greater replacement needs as well as broader range of product usage.
- *Potential applications.* They tend to be those firms for which innovation offer the high potential on return on investment or profitability. This is understandable result that suggests

the importance of marketers to be carefully analysing the needs and economic structure of the potential adopters before selecting target industries and companies for marketing effort.

- *Fast growing firm.* That is, firm with high predicted growth in revenue.
- *Firms with more borrowing powers* i.e., they can finance the required investment.
- *Firms with managerial and technical progressiveness.*
- *Firms that spend more on research and development.* Firm spending heavily on R & D may be more comfortable evaluating new technologies as well as being better informed about them and more generally receptive to change.
- *Firms with CEO who are younger and better educated* are likely to be early adopters/innovators.
- *Firms with fewer people involved in buying centre* and are more open, less formalized and has a structured decision process.
- *Firm whose buying centre people have wider job experience.*

6.10 Review questions

1. Define a business product

2. Explain the various types of new products that a business marketer can develop

3. Discuss the implication of product lifecycle to a business marketer

4. expound on major differences between business and consumer new product development process

5. Explain how a business marketer can increase speed of adoption of business product

6. Discuss the main consideration for developing product portfolio for business marketer

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