

Chapter 6: Understanding Organizations as Customers

I) The Nature and Size of Organizational Markets

- a) Business Marketing (B2B marketing) involves the marketing of goods and services to companies, governments, or not-for-profit organizations for use in the creation of goods and services that they can produce and market to others.
- b) Business Markets include individuals and organizations that buy goods and services to:
 - i) Make OTHER goods and services (e.g., manufacturing)
 - ii) RESELL that product to others (e.g., wholesalers and distributors)
 - iii) Conduct the organization's operations
 - iv) In the past, business markets were calling Industrial Markets
- c) Six Components of the Business Market
 - i) Agriculture- The Challenge: Increase efficiency through "Precision Agriculture"
 - ii) Resellers who buy and sell products in essentially the same form. However, they create various utilities for other businesses, including:
 - (1) Time
 - (2) Place
 - (3) Information
 - (4) Possession utility
 - iii) Services, which are GROWING rapidly
 - iv) The Government- a HUGE component; it makes up 35% of the GNP
 - (1) Unique: competitive bidding system and bureaucratic obstacles!
 - v) International Trade - a \$1 trillion plus business opportunity. The gov. has many programs to help.
<http://www.census.gov/foreign-trade/statistics/highlights/top/top0912yr.html>
Canada, China, Mexico, Japan are top 4 trade partners in 2009.
 - vi) "Non-business" (Charities; Not-for-profit Organizations) These firms do everything a "for-profit" does, and so requires professional management!

- d) Video: Muller on the Industries Timken serves
 - i) Growth for Timken
 - ii) Focused on Heavy Industries
 - (1) Steel
 - (2) Power Generation
 - (3) Cement Production
 - (4) Aggregate
 - (5) Wind Energy
 - iii) Where they can deliver value...and which are growing.
 - (1) Iron Ore
 - (2) Coal
 - (3) Oil
 - iv) Compared to Automotive, which may NOT be a good industry for them in the future.

II) Type and Number of Organization Establishments in the U.S.

- a) Industrial (business) markets
- b) Reseller markets
- c) Government markets

III) Measuring Domestic And Global Industrial, Reseller, And Government Markets

- a) North American Industry Classification System (NAICS)

<http://www.census.gov/epcd/www/naics.html>

Provides common industry definitions for Canada, Mexico, and the US, which makes it easier to measure economic activity.

- b) North American Product Classification System (NAPCS)

<http://www.census.gov/eos/www/napcs/napcs.htm>

Provides classification system for products and services that is consistent across Canada, Mexico and US and international classification systems.

IV) Characteristics Of Organizational Buying

- a) Demand Characteristics
 - i) Derived Demand -- the demand for industrial products and services is driven by, or "derived from," demand for consumer products and services.

Example: What influences the demand for steel? --> the demand for cars!

(1) The Implications of Derived Demand:

- (a) Business Marketers must understand final consumer demand, and
- (b) Often they need to find ways to encourage sales of their buyer's products!

Intel Example:

Your Rock Stars—Our Rock Stars

ii) Elasticity of Demand

(1) Inelastic Demand for many Industries

(2) Demand does not change much if price changes (so the price does not affect how much is sold.)

(a) Occurs when Cost is a small percent of the finished product, and

(b) When there are no close substitutes

Example: Airplanes (engine vs. small rivets)

Paper- catalogs and internet

(3) Demand can be more elastic

(a) For a single firm, which changes price

(i) The demand curve for a single firm may be quite elastic!

(b) When demand is viewed from a Long-term Perspective

(i) E.g. cost of cloth

(c) If the cost of the business product is a SIGNIFICANT portion of the cost of the finished good.

b) Size of the Order or Purchase and the Number of Buying Units