# Ways to Target on Basis of Buying Strategy

IOAN ENESCU
Department of Mechanical Engineering
Transylvania University of Brasov
500036 Bvd. Eroilor nr.29, Brasov,
ROMANIA
enescu@unitbv.ro

*Abstract:* - The heart of future segmentation system for industrial markets lies in the ability to distinguish between buying strategies in customer and prospect firms. The author's observation that customers' markets and marketing strategies provide a surrogate for buying approaches gives us the foundation for a usable system. Not one that applies to every industrial sales situation but one that will apply where demand is derived from demand for the customer's products. Since this represents the majority of industrial sales situation we are able to segment with more effect that with the limited tools available up till now. We can observe how marketing channel strategies and promotions differ across these market types. And, since marketing strategy relates closely to buying, we can segment accordingly. Looking to the future development of industrial segmentation strategies we might add other information of value in targeting. These include: financial information and creditworthiness, ownership information, sector growth and regional growth. The paper provides us with the mean to target on basis of buying strategy as well as firm demographics. Much remains to be done and the authors note limitations to their research, but here is a method for segmentation that will improve industrial marketing planning and targeting.

*Keywords:* strategic segmentation, industrial marketing.

## 1 Introduction

Segmentation is an important element of market planning. It's in fact at the very crux of developing a through competitive advantage achieving strategic plan for a plan for a product and a business unit. Industrial marketing serves derived demand. This, coupled with the adoption of strategic thinking and strategic planning as central to business operations today, leads to a key direction for segmenting industrial markets: the formal grouping of customers/potential customers based on similarities in their strategies.

In the literature to date on industrial market segmentation, two streams of writing appear to have emerged. One suggests that industrial markets be segmented based on the characteristics of the buying organization. The other suggests that segmentation be done based on the decision-making process and its participants in buying organizations. In the following, we present some of the more salient developments along these two directions.

## 2 Global variables and their impact on industrial purchasing

These variables are called macro variables. The advance concept of macro segments is formed on the basis of broad-brush variables of probable buyer reaction. The macro segments can be divided into micro segments based on additional measures that relate to purchasing behavior. More recently [1, 2, 4], there were made some successful reports of using the firm demographic data for segmenting industrial markets. Also, there were proposed that industries can be classified based on their respective concentration ratio and product customization requirements. It is suggested that the classification thus arrived at be used as the basis for segment selection decision.

## 3 Individual decision maker characteristics

The specific variables that are suggested at the level of microanalysis vary from author to author [1, 2, 4]. Some of them recommend industrial buyers' purchasing strategies, buyers' risk tolerances, purchases requisitions and environmental forces. Recently was adding buyers' decision-making styles. Some authors [5] have formed micro segments using cluster analysis based on similarities in the functional areas involved in different phases of the decision process for air conditioning products. Other researcher consider a form of benefit segmentation and then attempt to identify segments based on such factors as number of deliveries, number of alternate suppliers, dissatisfaction with distribution, average order cycle or the type of product – varying from routine to those likely to invoke political considerations.

The most known study approach to segmentation approaches the recognition of the importance of including additional variables that relate to the organization. Potential variable types recommended include characteristics of the buying organization, characteristics of the buying center and characteristics of individual participants.

Some years ago there were proposed a multi-level nested approach [4]. Five levels are suggested. They range from the easily observable to those difficult to observe. The levels are organizational demographics, operating variables, purchasing approaches, situational factors and personal characteristics of decision makers.

While micro-level variables may be interesting in studying industrial buyer behavior, the potential for their application to strategy development in industrial marketing is likely to be limited. Limitations in the implementation of segmentation schemes based on micro-level variables are highlighted since 1994. [4]

There are serious concerns in practice regarding the cost and difficulty of collecting measurements of these micro segmentation characteristics and using them. These difficulties are exemplified by the following two reasons. One, for the most part these variables are not observable prior to the allocation of a sales call that averages in cost. Second, it is reasonable to expect that any good salesperson in a face - to – face situation could read the customer with far greater accuracy and reliability than that offered by impersonal research results.

In industrial marketing segmentation, the complexity of the purchase process has added to the complexity of market segmentation, perhaps unnecessarily. It would appear that many approaches to industrial market segmentation are really attempt to better understand micro industrial buyer behavior (simply because buyers are aggregated to test empirical hypotheses does not mean that these aggregation are suitable bases for segmentation). Consumer marketing research had managed to separate these two issues. The same should be done in industrial marketing.

In industrial marketing both the buyers and the suppliers are realizing that "buying partnership" from the basis for attaining sustainable competitive advantages in the marketplace. Such long – run orientation in the face of the current industrial environment of tremendous global competition and a general slowing down of growth behooves a strategic approach to choosing partners and serving them wisely. This dual process of choice and service requires more than the conventional segmentation factors discussed earlier. It becomes critical to consider the strategy chosen by the buyer in its pursuit of competitive advantage. In fact, now the buyer strategy is considered a segmentation factor. [4]

Since derived demand is of such significance to industrial marketing, it should dramatically influence the way in which much of industrial marketing is practiced. As an example the buying strategies and requirements of a firm are clearly dependent on whether it pursues a strategy of cost leadership, differentiation or focus. If the marketer has as its major customers firms that pursue a differentiation strategy, or even more narrowly a differentiation focus strategy, it might need to adopt a flexible manufacturing system as opposed to mass manufacturing, fixed from systems. The strategies pursued by a firm's customers should therefore be a critical consideration in its own strategy determination or the customer segments targeted by the firm.

## 4 A strategic framework for industrial market segmentation

The existing literature on strategic market planning posits that a firm would develop the strategy for a product based on:

- The product's strategic environment;
- Its strategic position (strengths / weaknesses);
- The corporate strategy/portofolio requirement of the firm.

Figure 1 is a pictorial representation of this model.

Given first that the strategy is a long run, fundamental direction of pursuing competitive advantage and second that such a direction behooves integration of various sub strategies including purchasing strategy, we feel that a company's strategy of purchasing may be based on the strategy that it has formulated for its own product. If this link does not hold then it indicates a strong lack of will in implementing strategy; the timely availability of supplies, the cost of the supplies, the quality of supplies etc., are clearly critical to the implementation of product strategy.

The fundamental direction of a firm's strategy provides a unifying coherence to its functional strategies. Some recent studies provide evidence, albeit in the context of a single industry, that firm coherence bears a monotonic relationship to firm performance.

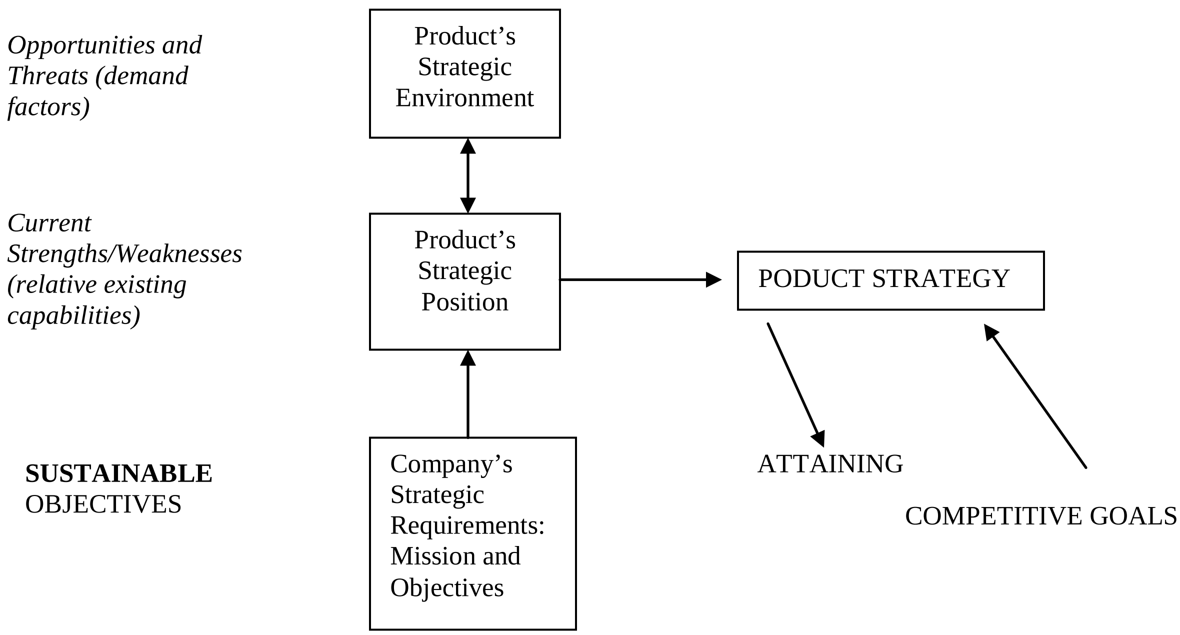


Fig.1 A pictorial representation of the model

For example, a low cost strategy has obvious implications for the price that can be paid for supplies, the order size, the timing of orders etc. A company that follows a differentiation strategy and develops a product variation for each of its target segments may require such variations to be reflected in its subcomponents. This could lead its supplier to develop a manufacturing strategy based on flexible manufacturing systems. Further, these segments may exhibit different seasonalities. This would be expected to be reflected in that company's purchasing strategies. Another example is that of a company whose customers require both an extremely reliable delivery schedule and employ just – in –time inventory principles. These would necessarily have to be reflected in the purchasing strategy and product strategy has to fall into line, otherwise a cogent strategy will not exist and the best-laid product strategy will go awry.

For a vendor engaged in strategically visualizing and segmenting its market, then the process of segmentation is the grouping of customer firms with like product strategies. This process is shown in figure 2. Since the buyers/potential buyers are grouped based on their product strategies that imply the likely buying strategies, this process is sound. The segments are thus expected to be strategically homogeneous with respect to purchasing.

If the cost of doing so permits and client firms can be easily accessed to obtain information about their product strategy, then the procedure shown in figure 2 is straightforward. In the course of establishing long-term partnership relationship, as well as where direct personal contact is maintained, this might be possible. On the other hand, where client contact is through an intermediary, and/or the costs of such personal assaying are prohibitive and/or where such information sharing is not forthcoming, an alternative operationalization is necessary. Figure 1 provides a basis for developing this alternative operationalization. Given these depicted relationship, estimating the strategic environment and the strategic position of the clients'/potential clients' products would then be surrogates for the product strategy. This will provide the vendor with long-term and consequential (strategic) description of its clients and potential clients. The market definition for the vendor would thus be given by sets of pairing of its potential customers and their markets. Segmentation on this basis would thus be valuable for mapping out the marketing strategy. Knowledge of other characteristics of buying organizations as well as knowledge of individual buying center decision processes would aid in further fine tuning the vendor's strategy and implementation.

| | |
|---|---|
| **Company 1** Product strategy Type A (e.g. their customers are price sensitive)<br><br>**Company 2** | Strategic Segment 1 |
| **Company 3** Product strategy Type B (e.g. their customers are delivery sensitive)<br><br>**Company 4**<br><br>**Company 5** | Strategic Segment 2 |

Fig.2 The procedure to obtain information about the product strategy.

To test our ideas we studied an industry in which we had a company sponsor. The sponsor guided us in the selection of specific factors affecting that industry. The sponsor provided logistical support for the study. The methodology followed for the empirical study is next described.

## 5 Methodology

A questionnaire was administered to a customer list of purchasing decision makers of a company sponsor. Titles of the respondents ranged from presidents to purchasing agents. Some of the respondents were marketers or new product/R&D personnel. The number of returns were 226 from an initial questionnaires of 1,164 (19%). Of those that were returned there were three refusals because of confidentiality and 72 which said the questionnaire was not applicable to their business. Thus we might conservatively estimate the response rate to be 20%. Quite possibly the rate is really much higher (40% or more) because those who did not buy the product would be less likely to respond.

The survey questions relevant for this paper were:

1. Data about the respondent (title level, years with company etc.);
2. Weights or importance placed on different factors in vendor selection;
3. Marketing data:

❑ Performance results for entire company (sales, growth, profitability);

❑ Data for the product line which used the ingredient/component being studied: perception of their customers' needs.

❑

## 6 Results

The overall tone of our examination is to scrutinize relationship between the strategic environment and strategic position of clients' products and their respective buying strategies. In trying to understand the data collection we were impressed by the variation in respondent titles and tenure. Further, we felt that the perspectives of, for example a product manager versus that of a R&D manager may lead to differences in their assessment of the strategic environment of their products. We felt this likely if

for no other reason than their having differential information. Thus, we felt that the data reported were distorted by the lenses, if you will, of the respondents actually filling out the survey. So, in our analysis we sought to control for these lenses by filtering out their effects using step-wise regression.
Respondents were asked to provide, using a scale ranging from “not a factor in selection” to “extremely important”, the importance they attached to various factors in vendor selection. Table 1 provides some summary statistics of the responses.
It is clear from the mean and median values that these are indeed salient characteristics, the median is not lower that 4 for any of them. The three most important factors are product consistency, delivery reliability and price, in that order. We studied the impact of these three factors in great detail. Product consistency was very highly rated by all the different types of customers. This low variation resulted in extremely weak relationships. We thus chose to focus on and discuss our results for price and delivery reliability.

Table 1 Some summary statistics of the responses.

| | Mean | Median | Deviation | Min - max |
|---|---|---|---|---|
| Product consistency over time | 4.6 | 5 | 0.55 | 1 – 5 |
| Delivery reliability | 4.1 | 4 | 0.92 | 1 – 5 |
| Price | 3.74 | 4 | 0.95 | 1 – 5 |
| Technical assistance | 3.58 | 4 | 0.98 | 1 – 5 |
| Manufacturer reputation | 3.57 | 4 | 1.06 | 1 – 5 |
| Delivery lead time | 3.55 | 4 | 0.93 | 1 – 5 |
| Product customization | 3.29 | 4 | 1.37 | 1 – 5 |
| Manufacturer’s financial stability | 3.19 | 4 | 1.17 | 1 – 5 |
| Guaranteed price contracts | 3.01 | 4 | 1.19 | 1 – 5 |
| Early payment discounts | 2.725 | 4 | 1.21 | 1 - 5 |

Note: 5 – extremely important; 4 – very important; 3 – important; 2 – somewhat important; 1 – not a factor in manufacture selection

Figure 3 depicts the differences in the perceived importance of price by identity of respondent. As is perhaps to be expected, purchasing managers attach the highest importance to price and upper level technicians, with perhaps less of a market/strategic orientation, attach the least importance to it.
The key question is whether the perceived importance of price in choosing a vendor is somehow related to the importance placed by the responding firm’s customers on price. In figure 4 we plot the relationship between these two perceived importances. As in obvious from this graph, a strong positive relationship is to be observed. This adds one price of confirming evidence that a company’s purchasing strategy is dependent on its strategic environment.
Another major element of a product’s strategic environment is reflected in the expected change in the competitive intensity that it faces. From figure 5 we can observe the strong positive relationship between increasing competitive intensity and the perceived importance of price to the intermediate companies. This adds another confirming piece of evidence to the notion of the relationship between strategic environment facing a firm and its purchasing strategy.
In figure 6 we present the differences in the perceived importance of delivery reliability by respondent types. In assessing the relationship between the perceived importance that a company has for delivery reliability and that which its customers are perceived to place on it, we thus need to filter out the differential lenses of the respondents shown in figure 6. The resultant figure 7, shows the strong positive relationship between the importance of delivery reliability to a customer and that for the customer’s customer.

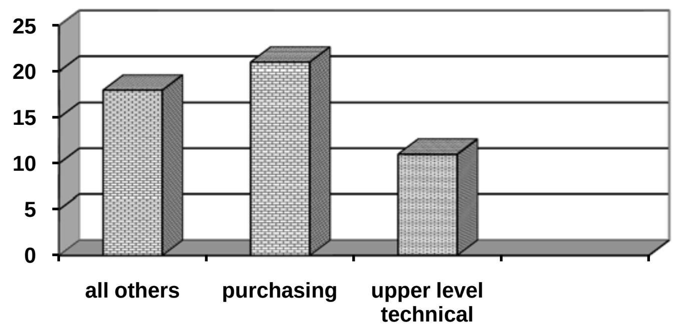


Fig. 3 The differences in the perceived importance of price by identity of respondent.

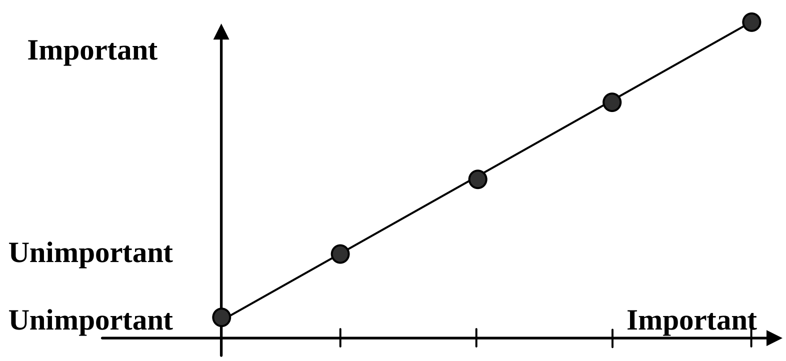


Fig. 4 The relationship between two perceived importance.

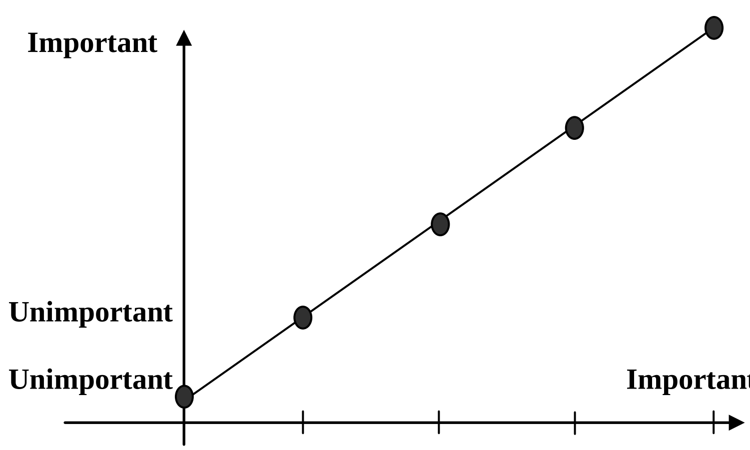


Fig. 5 Relationship between increasing competitive intensity and perceived importance of price to the intermediate companies.

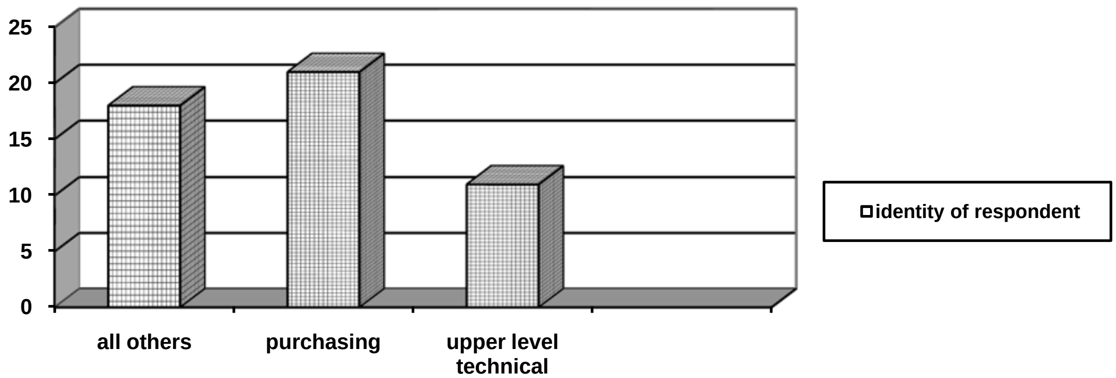


Fig.6 The differences in the perceived importance of delivery reliability by respondent types.

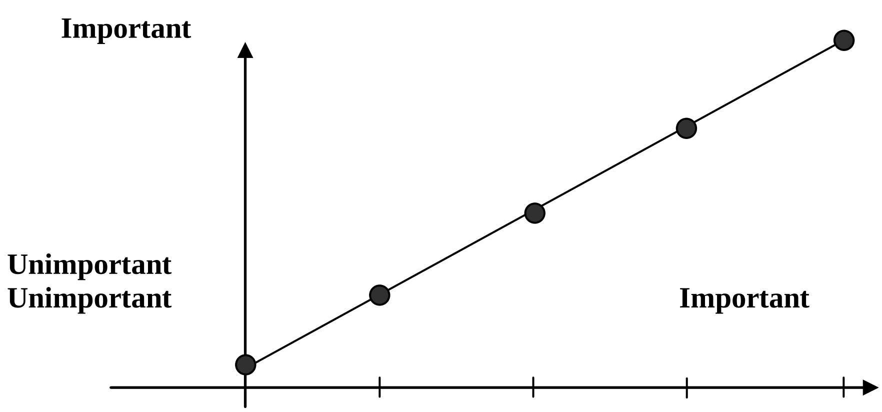


Fig. 7 The strong positive relationship between the importance of delivery reliability to a customer and that for the customer's customer.

Thus, on price and delivery reliability we have obtained a *conduit effect*. That is a product's strategic market environment is reflected in the purchasing strategies that would be used in obtaining the supplies to manufacture it.

Respondents were also asked to rate, on the same scale as above, the importance of price and delivery reliability, respectively, for the marketing success of their product.

# 7 Conclusions

From our earlier arguments and the empirical study presented, we feel that the marketing conduit is an important dimension in industrial market planning. Further, in developing strategic segments, to form a basis for mapping strategy we find that even broad indicators of a potential customer's product market are useful surrogate for their purchasing strategies. With the tremendous changes in the manufacturing environment and calls for a greater role for purchasing in strategy development, the need to consider clients'/potential clients' strategies in their respective markets is important for mapping vendor marketing strategies. Both the constitution of the buying centers as well as importance placed on the various criteria seem to be dependent on the strategic environment and/or strategic position of the clients'/potential clients' products. Thus, we feel that strategic segmentation based on the notions of a marketing conduit offers a substantial advantage to industrial marketers.

Why derived demand type variables have not received previous attention in the industrial marketing research effort is not clear. However, two firms may produce the same kinds of goods but be vastly different in terms of likely purchase behavior.

This marketing conduit suggests that the ultimate consumer does in some way pull through the channels or manufacturing processes his/her needs and wants.

Since the customers' dictate purchasing behavior, we should select ultimate markets that fit our strategic growth strengths.

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