Components of the business market

Business

The commercial market is the largest segment of the business market. It includes all individuals and firms that acquire goods and services to support, directly or indirectly, production of other goods and services. When Lufthansa buys aircraft built by European consortium Airbus Industrie, when Sara Lee purchases wheat to mill into flour for an ingredient in its cakes, when a plant manger orders light bulbs and cleaning supplies for a factory-these transactions all take place in the commercial market. Some products aid in producing another good or service (the new airplane). Others are physically used up in the production of a good or service (the wheat). Still others contribute to the firm's day-to-day operations (the maintenance supplies). The commercial market includes manufacturers, farmers, and other members of resource-producing industries; construction contractors; and providers of such services as transportation, public utilities, financing, insurance, and real estate brokerage.

The second segment of the organizational market, trade industries, includes retailers and wholesalers that purchase goods for resale to others. Most of these resale products, such as clothing, appliances, sports equipment, and automobile parts, are finished goods that the buyers market to final consumers in their market areas. In other cases, the buyers may complete some processing or repackaging before reselling the products.

For example, retail meat marketers may carry out bulk purchases of sides of beef and then cut individual pieces for their customers. Lumber dealers and carpet retailers may purchase in bulk and then provide quantities and sizes to meet customers' specifications. In addition to resale products, trade industries but computers, display shelves, and other products they need to operate their businesses. These goods and specialized services such as marketing research, accounting, and management consulting all represent organizational purchases.

Government organizations represent the third category of the business market. These include domestic units of government-federal, state, and local-as well as foreign governments. This important market segment purchases a wide variety of products, ranging from highways to social services. The primarymotivationof government purchasing is to provide some form of public benefit, such as national defense orpollutioncontrol.

Institutions, both public and private, are the fourth component of the business market. This category includes a wide range of organizations, such as hospitals, churches, nursinghomes, colleges and universities, museums, and non-for-profit agencies. Some institutions-state universities, for instance-must rigidly follow standardized purchasing procedures, while others may employ less formal buying practices. Business-to-business marketers often benefit by setting up separate divisions to sell to institutional buyers.

Segmenting Business-to-Business Markets Like consumer markets, business-to-business markets include wide varieties of customers. By applying market segmentation concepts to groups of business customers, a firm's marketers can develop a strategy that best suits a particular segment's need. The overall process of segmenting business markets resembles consumer market segmentation, but it divides markets based on different criteria, usually organizational characteristics and product applications. Among the major ways to segment business markets are demographics, customer type, end-use application, and purchasing situation.

Demographic Segmentation As customer markets, demographic characteristics define useful segmentation criteria for business markets. For example, firms can be grouped by size, based on sales revenues or number of employees. Marketers may develop one strategy to reach small firms and another for Fortune 1, 000 corporations with complex purchasing procedures. Recently, small businesses-especially companies with under 100 employees-have caught the eye of business-to-business marketers. This fast growing segment of about 20 million firms offers tremendous potential. Many former corporate executives are starting their own companies. These new entrepreneurs spendmoneymore willingly ontechnologyand equipment than other entrepreneurs. As a result, IBM's fastest-growing market segment is companies of 50 employees or less, who need sophisticated technology to compete against bigger firms.

Service companies, too, may segment their organizational customers by size. Wells Fargo Bank adapted credit scoring, a computerized system to evaluate individual consumer loans, for small-business customers. It then used direct mail to offer lines of credit to small businesses that " pre-qualified" based on the bank's lending criteria. Not only does it allow customers to avoid filling out lengthy applications-they had to submit only a one page form to Wells-but approval comes quickly, as well. People were willing to pay a higher interest rate than they might have found elsewhere for convenience and flexibility of the loan arrangement. Other small businesses agree; in a recent year, Wells reported a 61 percent increase in earnings from small-business loans.

Segmentation by Customer Type Another useful segmentation approach groups prospects by type of customer. Marketers can apply this principle in several ways. They can group customers by broad categories-manufacturer, service provider, government agency, nonprofit organization, wholesaler, or retailer-and also by industry. SIC codes provide a useful tool for segmenting business-to-business markets by customer type.

Customer-based segmentation is a related approach often used in the business-to-business marketplace. Organizational buyers tend to detail much more precise product specifications than ultimate consumers do. As a result, business products often fit narrow market segments as compared to consumer products. This fact leads some firms to design business goods and services to meet specific buyer requirements, creating a form of market segmentation. Standard Industrial Classification (SIC) codes The federal government's SIC system greatly simplifies the process of focusing on a particular type of business customer. This numbering system subdivides the business marketplace into detailed market segments. In this way, it standardizes efforts to collect and report information on U. S. industrial activity.