

BA Mannheim
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Marketing and Sales

Joachim Kabamba
jkabamba@dallasairmotive.de

created by: Christiane Schmidt

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1 Sales Structure in B2B Markets

1.1 Direct Distribution Schemes in B2B

1.1.1 Direct Selling

Description:

- products or services are sold directly from manufacturer to customer
- opposite: non direct selling via distributor
- company needs to have a sales department
- higher cost compared to non-department
- sales team is responsible for face-to face contact with customers
- inside sales organization

Loyalty: Imposed by contract, main reason why a direct sales structure is used
customer contact

(Advantages)

- all information stays within the company
- advantages due to availability of information for the sales team
- customer specific requirements
 - terms of payment
 - terms of shipment (s. glossary)
 - product specs
 - special requirements
- complexity of product/service -> more complex -> tendency of direct selling
- quality of sales -> details should be the same e.g. ISO 9000
- flexibility in pricing and discounts
higher flexibility in direct selling
- After Sales Marketing:
only get the high-margin after sales business in direct selling because of the contract
with the customer

Disadvantages:

- cost of sales travel, salaries for the sales team
- higher risks of sales
- long term revenue

- capacity:
inflexible to short-term variations in sales volume (up—down); training of sales team is time-consuming and expensive
- product range is narrow, due to the complexity of the product
- missing neutrality:
distributor appearing as neutrals may have more possibilities to sell product
- credit risk:
higher credit risk, especially in international sales

When to use direct selling?

- high concentration of costumers
- large volumes per costumer
- intensive support for complex products and services
- constant business

Total cost per year

| visits per day | salary | per | year per | salesman | |
|----------------|--------|-------|----------|----------|-------|
| | 30000 | 40000 | 50000 | 60000 | 80000 |
| 1 | 150 | 200 | 250 | 300 | 400 |
| 2 | 75 | 100 | 125 | 150 | 200 |
| 3 | 50 | 67 | 82.5 | 100 | 133 |
| 4 | 37.5 | 50 | | 75 | 100 |

1.1.2 Direct Marketing

Description:

- intention to reduce cost of sales by transferring some services from outside sales to inside sales
- extensive use it
- customer or potential customers are contracted directly, but at lowest possible cost (mailings, etc)
- flexibility :
high flexibility, because of ease of outsourcing or decreasing capacity. Easier to react to changes in the marketplace
- focus, direct actions focussed specifically on people and/or companies
- acquisition of new costumers:
 - gathering of addresses
 - make phone calls to gather contacts

- mailings
- invitations to events / presentations
- establish contact to companies who don't reply to mailings
- standard quotations/price lists
- transfer of interesting contacts to outside sales

Reality Mix between direct selling, direct marketing and distribution

1.2 Non Direct Distribution Schemes

1.2.1 Objective of Distribution

- constant volume sales
- minimize cost of sales
- minimize cost of warehouse
- maximize reach and marketshare coverage
- customer satisfaction (product description, availability, adjustments, after sales service)
- first hand information on news breaking

1.2.2 Relationship between Manufacturer and Distributor

- Manufacturer has to insure that the products are represented effectively by distributor
- Manufacturer had to ensure customer/distributor satisfaction (products and service)
example: manufacturer's warehouse (200 products A) and distributor's warehouse (P.O. of 250) – it will takes about 4 weeks to get the 250 units
- prevention of price clashes (Preisunterschiede) between distributor and other sales channels
- manufacturer has to ensure that competitors don't have easy access to the marketplace

1.2.3 Open or Closed Distributorship Schemes

- open distribution
 - Manufacturer sells to every customer which can be identified as a wholesaler (*METRO*)
 - little or no possibility to influence marketing
 - manufacturer can not prevent from grouping up
 - very difficult to control quality of sales – simple products
- Closed distributorship
 - manufacturer chooses distributor individually based on specific criteria and closes a contract with each distributor
 - wholesalers which do not fit into the manufacturer strategy are prevented from becoming distributor

2 Sales Categories in B2B Markets

2.1 Raw Material Business

What is a raw material?

- Base material which undergoes initial economical or industrial use (e.g. copper, silicon, oil)
- Raw materials are standardized and because of that interchangeable, little differences in pricing.

Service is important!

2.2 System Business

What is a system?

A unit, a plant or a bundle of services, offered by one or more suppliers, which are limited due to their capability. (only understands his part / a computer system is limited – "Systemgrenze")

- system components: goods, which can not be used as stand alone products
- partial systems may be used separately (e.g. stand alone PC)
- **marketing criteria**
 - system binding:
 - initial purchase determines subsequent purchases.
 - e.g. backup system – start with one, end with one (ZIP Drives); buy A320 first, expand with B747 or A340 – choose A340
 - A tie to one supplier may bear a substantial risk
 - e.g. IOMEGA stopped production of ZIP Medias for 3 Years
 - Information deficit:
 - availability of future components isn't known at the time of purchase
 - Complexity:
 - Integration of different products from different manufactures may be problematic.
 - System quickly gets intransparent =, Service
 - Trust:
 - System binding happens because of perception of competence by the customer
 - Toolz: Samples, publications, availability of information (WEB), detail knowledge of sales personal, references
 - cost for a system change
- **Base Necessities**
 - Compatibility
 - Know-how of Customer
 - Known use:
 - The use of system has to be specified
 - e.g. WT (water treatment) Unit with specified input water temperature
 - Acceptance to take risks: danger of misinvestments

2.3 Plant Business

Plant: Assembly of units/ products/ systems to create an industrial/ economical product. Typically offered by a consortium of companies. It's a single or low quantity manufacturing. Mostly assembled onsite at the customers location.

A complete unit to produce something e.g. a power plant

marketing criteria

- Manufactured on demand.
Properties are determined at the beginning of the sales process
- Sales volume.
High volume per unit = high financial risk = references and warranties important
- international business, due to the low number of suppliers and costumers - international marketing
- discontinuous orders due to low numbers
- consortium of supplier partners, subcontractors
- Financing, through government, banks subsidies
- services: training offered in initial proposal
- changes in specifications due to duration of manufacturing and technical progress

Phases of Plant Business:

- RFQ Phase
 - potential customer develops interest in your product
 - tender
 - customer specifies quality, integration restrictions, details of delivery , warranties, performance, penalties, customer supplied products/ systems financing, general terms and conditions of sale, deadline
- Proposal phase:
 - early recognitions of risks and integration into proposal
 - choice of partners and subcontractors
 - pricing policy: changes based on price index
costumer specific pricing
- Negotiation Phase:
 - technical modifications
 - negotiations on all hierarchy levels
 - LOI (Absichtserklärung) as a result of negotiations
 - specification of warranties, penalties, case of losing a subcomponent or partner

- Proceeding Phase:
 - Preparation of P.O.
 - Submitting of P.O.
 - Terms of Delivery
 - Production planning
 - Allocation of capacities
 - Shipping Documents
 - Commissioning and start-up of the plant
 - Choice of shipping
 - invoicing
- After Sales
 - training
 - troubleshooting

General: Due to low quantities produced, *every* plant has a reference character

2.4 Product Sales

Product: Merchandize or service to satisfy a customers demand. Uncomplicated merchandize or service. E.g. steel for a car manufacturer.

Marketing Criteria:

- Service (you can differentiate your product by (better) service)
- Sales on a anonymous market
- distribution
- similarities with raw material sales
- wide use of technical standards
- sales of services

Sales of Services: Work supplied on a customer's property to retain a condition (e.g. cleaning a building) or change the property (pure service e.g. pit stop).

Marketing Criteria:

- difficult to characterize due to variety
- intangible (e.g. service at EBAY)

3 Industrial Pricing Policy

3.1 Definition

Price: Number of monetary units which a buyer/ purchaser has to pay for one unit of a product or service.

3.1.1 Types of Prices

- List price – discounts included (Katalogpreis)
- invoiced price – list price minus discounts (Rechnungspreis)
- transaction price – invoiced price minus skonti (reeller Verkaufspreis minus Skonti)

3.1.2 Price as a marketing tool

- increased importance of pricing, due to
 - overcapacities
 - globalization
 - internet
- has to be an important criteria for the customer
- the price has to be identified by the customer
 - 1000 or 1005 – 5 are not identified
 - 50 or 55 – 5 are identified (10 percent)
- the competition has no possibilities to counteract pricing activities

3.1.3 influence factors on pricing

- company specific cost -> cost management
- competition
- economical situation -> demand
- legal conditions (*example: books fixed prices*)
- company image (e.g. Mercedes)
- company goals (e.g. Sales figure has to be reached)

3.2 Price Calculation

3.2.1 Cost-Determined Pricing

Cost plus pricing:

| costs | example 1 | example 2 (without taxes) |
|---|-------------------------------|---------------------------|
| direct material cost (Rohstoffe) | 1.000.000 | 200 |
| + material overhead (Fixkosten) | 80.000 | 16 |
| = material cost | 1.080.000 | 216 |
| + direct labour (Arbeitslohn) | 500.000 | 60 |
| + labour overhead (human resources) (<i>Lohngemeinkostenzuschlag</i>) | 55.000 | 6,60 |
| = manufacturing cost | 1.635.000 | 282,60 |
| + administration and sales cost (<i>2-12percent</i>) | 81.750 (<i>5percent</i>) | 14,30 |
| + direct cost for sales events (<i>3 of percent of yearly turn-over(jhrl. umsatz)</i>) | 50.000 | |
| = BASE COST | 1.766.750 | 296,73 |
| + profit margin (<i>10percent</i>) | | 29,60 |
| = PRICE | 1.943.425 | 336,33 |

target pricing:

| Goal oriented pricing , steps | example |
|---|---|
| 1. estimation of quantity to be sold | 500 units |
| 2. establish profit to be achieved | 20.000 profit |
| 3. determination of fixed and variable cost | 100 variable cost per unit 5.000 fixed cost |
| 4. price = (cost+profit)div.quantity | (50.000+5.000+20.000)div. 500 150 (Price per Unit) |

marginal cost pricing(Deckungsbeitragsrechnung)**example:**

- product which has a total cost of 100 (per unit)
- fixed costs of the product: 30
- variable cost: 70
- projected price : 90 per unit
- solution:

| | |
|---------------|---------------|
| Total company | fixed cost |
| | variable cost |

- selling of 100.000 units will cost 10.000.000
3 Million fixed cost
7 Million variable cost

- 100.000 units at 120 per unit
profit: 2.000.000
- revenue: $12.000.000 + 450.000 = 12.450.000$
cost: $10.000.000 + 350.000 = 10.350.000$
=> PROFIT: 2.1Million Euro
- Fixed cost is everytime there!!! (Either you produce 1 or 100.000 units)
- Price based on the contribution to the fixed cost
Price is calculated on the base of variable cost plus a contribution margin to the fixed cost, *but* on long term a company has to assure full cost coverage.

3.2.2 Demand Oriented Pricing

All business/ pricing decisions are focused on the customer.

Queries/ Test:

- price estimation -> How much would the customer be ready to pay? (you don't go of the highest price)
- price reaction -> Which price would be too low, correct or too high? (watch the customers reaction about the price you told him)
- Price category -> Which would be the highest price a customer is ready to pay?
- one of those 3 strategies to step into

3.2.3 Competition Oriented Pricing

Determination of price by orienting on the competition.

- orientation on an established price in a market segment

4 Market Research

5 Strategic Marketing

6 Planning Decisions

7 glossary and abbreviations

Terms of Shipment:

- EXW – EX Works – Customer pays everything in the shipment (ab Werk)
- FOB – Free on Board – lift on shipping companies truck – risk of damage (Bsp. Turbine von 2 Meter Stapler gefallen)
- FOB S – responsible for transport to ship
- Free to Boarder – not used today – country boarder
- DDU – Delivered Duties Unpaid – customer pays duties
- DDP – Delivered Duties Paid – best for customer

cold calling - establish first contacts when no one knows you or the product

LOI- Level of Intent (Absicht)

P.O. - purchase order (eine Bestellung machen)

quotation - offering (Angebot)

RFQ - request for quotations (Anfrage)

tender - Ausschreibung

undertables - (Geld unterm Tisch)

U.S. Foreign Corrupt Practises Act

contracts most times only get important when no longer working with each other!! e.g. divorce; no longer cooperation

tender - Ausschreibung