

# Demand for Industrial Goods

- It is necessary to understand the nature of demand for industrial goods

And

- The factors influencing the demand for industrial goods

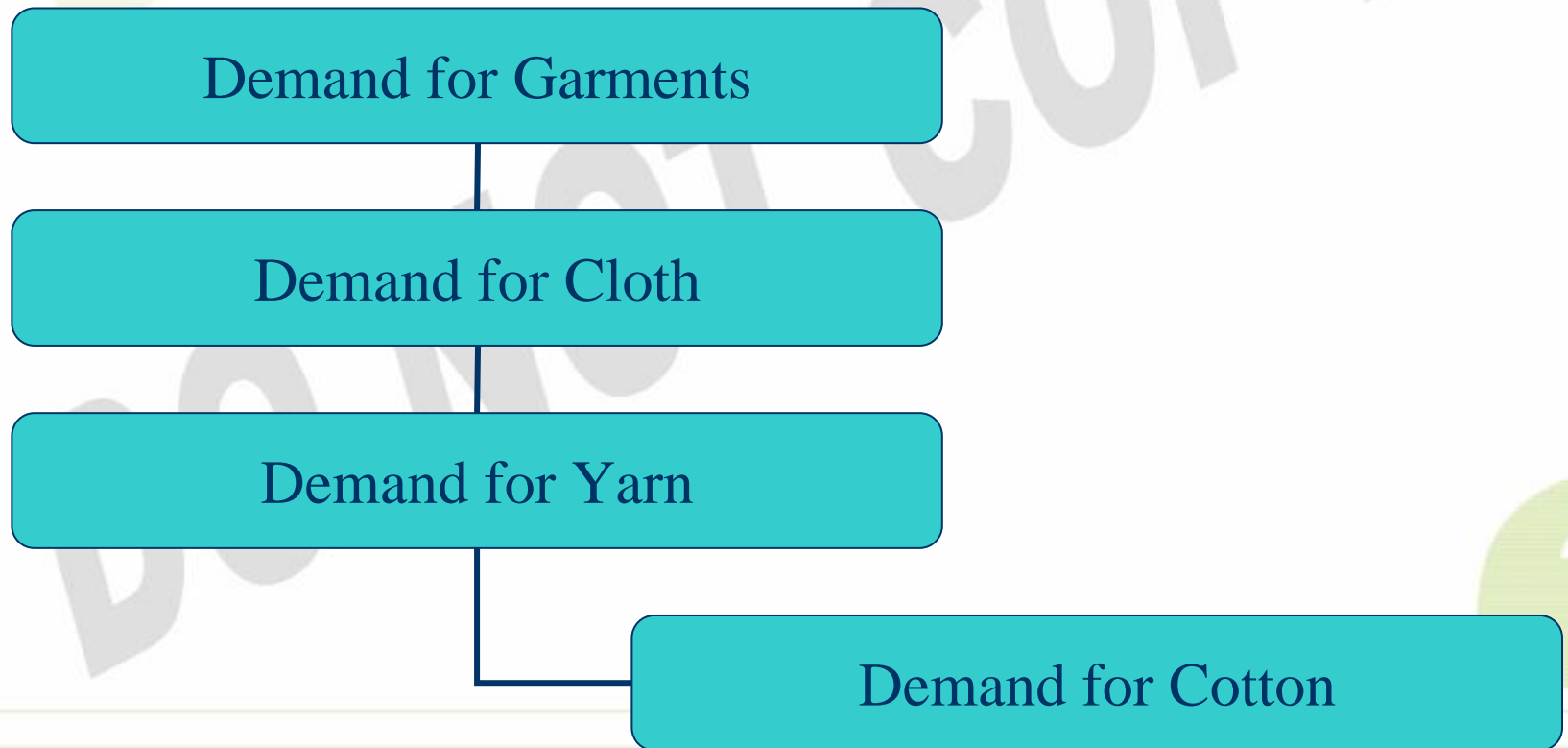
Because

- The demand for business goods has some distinctive features vis-à-vis that for consumer goods

# Types of Demands

- Direct Demand
  - When a product is bought for the final consumption of the consumer ( and not for any business purpose) , it is direct demand
- Derived Demand
  - The demand for industrial goods is derived demand in contrast to the direct demand that is characteristic of consumer goods
  - When the product is derived from the demand for some other product, it is known as derived demand

# Chain of Derived Demand-1



## Chain of Derived Demand-2

- Slide 3 shows only one chain of derived demand that leads to cotton
- Demand for garments generates a host of other demand chains, like demand for sewing machines, needles, buttons/hooks, zips etc.
- The demand for capital goods is derived from consumer goods or other goods produced by these capital goods

## Chain of Derived Demand-3

- Derived nature of demand sometimes results in very violent fluctuations in the demand of capital goods.
- Changes in the demand for the final product do not form straight line approach of demand for capital goods.
- Life of capital goods, productivity, capacity utilization are some of the factors which directly affect the derived demand equation

# Marketing Implications-1

- The principle of derived demand clearly indicates that the demand for industrial products depend on the demand for final product
- This implies that the industrial marketer has to strive to promote the demand for products made from his own product
- Such a marketing strategy which promotes demand for the product embodying or made of the firm's product is called *Telescopic Marketing Strategy*.

## Marketing Implications-2

- Telescopic marketing would be more rewarding when the firm has dominant share of the market and is well equipped to seize the expanding demand.
- When a firm does telescopic marketing, other competitors can reasonably presume that the market will grow.
- Telescopic marketing some times runs the risk of substitute products taking advantage of the market created. (e.g. aluminium cans have displaced tin plate cans in beverage market)

# Joint Demand

- Many industrial products are characterised by joint demand because manufacture of finished product requires many raw materials, sub-assemblies, intermediaries etc.
- Marketing implication of joint demand is the buyer preference for supplier who can supply a set of goods rather than a single one.
- The use of technology some times causes joint demand of particular peripheral equipment, raw materials or other compatible items
- Thus joint demand is very common in industrial marketing and one has to take cognizance of the same



# Price Sensitivity-1

- Most industrial goods are price inelastic in demand since most of the raw materials and intermediaries account for only a small portion of the cost
- Even a significant change in the price of capital goods may not affect its demand because demand for them is derived demand based on products made from them
- Sometimes a significant reduction in price of domestic capital goods may help increase their demand at the expense of second hand imported capital goods

## Price Sensitivity-2

- While the demand for an industrial good may be price inelastic, the demand for the product of a particular firm may be price elastic.
- In many instances, reverse price elasticity is also observed in respect of demand for industrial products. This reverse price elasticity is however a short run phenomenon.
- Several industrial products are characterised by cross elasticity of demand which implies that the demand of a product is affected by the price of its substitutes.

# Summary

- Demand for industrial goods is derived demand
- Telescopic Marketing Strategy is that which aims at promoting demand for product embodying.
- Price sensitivity, reverse price elasticity and cross elasticity of demand are very often observed to apply for industrial goods
- Industrial marketer should hence be well aware of the threats and opportunities and be innovative to protect his market and eat into others.