The Distinction between an Industrial Product and a Consumer Product

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Abstract

It becomes difficult to classify a product in to either an industrial product or a consumer product – more so when the same product is purchased by industrial as well as a consumer/ individual buyers. Researches carried out in this area are largely confined to detailed classification of consumer products and industrial products. American Marketing Association offers a definition of an industrial product covering two important dimensions - who buys the product and why do they buy. The definition, however, ends with a line saying that a product may be an industrial under one set of circumstances and a consumer under other conditions. This paper takes a review of literature available on product classification and offers a 3-Question model to classify a product in to either a purely consumer product or an industrial product or both under different conditions. An attempt has been made to assign a score and quantify the decision rule to make it more definite for this basic product classification.

Introduction

Product classification (consumer products, industrial products, etc.) largely provides guideline with respect to the decisions pertaining to marketing mix and marketing strategy. Marketers of industrial products face certain challenges in terms of its demand (derived demand), product design (specification and need for customisation), price (largely negotiated), distribution (skilled and knowledgeable distributors) and promotion (largely personal selling). The criteria to segment markets for industrial products are quite different from those used in segmenting markets for consumer products. This exceptionality of marketing industrial products is dictated by the nature of the industrial product. It is, therefore, worthwhile to determine first as to what is an industrial product. A detailed review of the literature available on product classification is carried out in search of a model /framework for the product classification.

Literature on Product Classification

Copeland (1923) identified goods in 3 categories such as convenience, shopping and specialty goods. Holten (1958) and Aspinwell (1968) proposed that products reflect shopping efforts more appropriately if they are placed along a continuum. Nelson (1970, 1974) classified goods in two categories based on its attributes such as search and experience. Nelson (1970, 1974) further classified experience goods as experience durable (low frequency of purchase) and experience non-durable (high frequency of purchase) goods. Later, Darby and Karni (1973) added "Credence" as third important product attribute to Nelson's classification.

Shapiro (1977) classified industrial products in to 4 types such as (i) proprietary or catalogue products, (ii) custom-built products, (iii) custom-designed products, and (iv) industrial services. Levitt (1982) included economic conditions, business strategies, customers' wishes, competitive conditions, and much more as determinant of a product. He further added that what might be "augmented" for one customer could be "expected" for another and what might be "augmented" under one circumstance might be "potential" in another. Citing the reference of Levitt (1982), Reeder et. al. (1991) described 3 properties of a product – basic, enhanced and augmented properties. They argued that an industrial buyer would be less likely to consider only the basic or enhanced properties. Rather, he would be laying more emphasis on "augmented" properties. Hutt and Speh (2004) proposed

a classification of goods for the business market which was adapted from Philip Kotler (1980). They classified industrial goods in to 3 categories such as entering goods (that eventually become part of the finished goods), foundation goods (capital items), and facilitating goods (that support organizational operations).

Henry Assael (1974) was of the opinion that product classifications have been used as a normative framework to generalize product characteristics and market responses. He proposed that classification schemes should incorporate the characteristics of the consumer's decision process in order to be more useful in guiding marketing strategy. Assael (1985) brought forward distinction between goods and services along 4 popular dimensions. Miracle (1965) offered a qualitative model that included 9 characteristics of a product for predicting or justifying a marketing mix. For every characteristics of a product, he developed a 5-point scale (From 'very low' to 'very high') thus classifying product in to five groups based on how it is rated on 5-point scale along its 9 characteristics. The model, however, is silent in indicating whether a product is classified as a consumer product or an industrial product.

What is an industrial Product

Literature review as carried out in the earlier section does not provide very explicit definition of an industrial product, though the American Marketing Association defines industrial product as[1]:

> Goods that are destined **to be sold primarily for use in producing other goods or rendering services** as contrasted with goods destined to be sold primarily to the ultimate consumer. They include accessory equipment; installations; component parts; maintenance, repair and operating items and supplies; raw materials; and fabricating materials. The distinguishing characteristics of industrial goods is the **purpose for which they are to be used**, **i.e. in carrying on business or industrial activities** rather than for consumption by individual

[1] Available on www.marketingpower.com/mg-dictionary-view1505.php accessed November 1, 2007

ultimate consumers or resale to them. The category also includes merchandise destined for use in carrying on various types of institutional enterprises. Relatively, few goods are exclusively industrial products. **The same article under one set of circumstances be an industrial good, and under other conditions, a consumer good.** (See also business services, installations, parts, semi-manufactured goods, and supplies).

Two important aspects emerge from the above definition.

1. to be sold primarily for use in producing other goods or rendering services
2. in carrying on business or industrial activities

It emphasises "the purpose for which a product is used" as a distinguishing characteristic. It, however, ends with a line saying that a product may be an industrial product under one set of circumstances and may be a consumer product under other conditions. The definition, thus, leaves behind an ambiguity as to how to draw a line of distinction between a consumer product and an industrial product. In order to judge whether the product is purely an industrial good or a consumer product or both, a 3-Question model is presented in the following section.

A 3-Question Model

There is a definite way in which one can systematically draw a line of difference between the two. The method suggested for identifying the difference between a consumer product and an industrial product is given below:

1. "Who buys the product?"	(Nature and type of buyer)
2. "How do they use it?"	(Method of use)
3. "Why do they use it"	(Purpose of use)

This framework when applied in the context of a given product can help one understand the exact nature of that product.

Discussion

Let us apply this framework in an iterative manner with respect to various products. The first question - **"Who buys the product?"** when asked in the context

of marketing of hair oil, the obvious reply is, **"Individual Consumer, or Household".** Similarly, when you ask the question with respect to toothpaste, toothbrush, t-shirts, refrigerator, television, pizza, and soft drinks, the obvious answer would be individual consumer or household. However, confusion starts when you repeat the question in case of cement, salt, cotton, scanner, movie camera, etc. There will be always two different types of buyers, individual customer and also firms that may use it as input to its production process. For instance, salt in its raw form, is used quite extensively by firms producing chlorine gas, detergent and other such related products. The same salt, when purified, can be used as table salt. Similarly, cotton is purchased in huge quantity by cotton textile mills for producing cotton yarn out of it. Even, individual buyers would also buy it for personal use. So, do we consider the product a consumer one or an industrial one?

In order to resolve this conflict, we now move on to second question. The second question is, **"How do they use it?"** which describes the method of use. The reply to this question will let us know the method and the manner in which the product is used by the buyer – whether individual buyer or organizational buyer. As we go ahead with the earlier example and ask the second question, we may get two answers in each case. Cotton textile mills use cotton to produce cotton yarn and subsequently cotton fabric to sell it in the market, whereas an individual shall use cotton for personal care. In former case, the use of product is intermediate, whereas in later case, it is meant for end use. Therefore, when the product is used as an intermediate or as raw material to be very specific, it is considered as industrial product. When the method of use is end-use, the product is considered as consumer product.

Sometimes, both these questions may not be sufficient to get an exact distinction between a consumer product and an industrial product. For instance, industries and individuals both use air conditioning or air-cooling equipments. Moreover, the method or the manner in which they use is also quite similar. So, we now seek the help of the third question - **"Why do they use it"** that tells us the purpose of use. When we seek an answer to this question in the context of air conditioning and air-cooling equipments, one may find that individuals use it for personal comfort and luxury. However, organizational buyer may be compelled to use it as several processes may require specific temperature or may be their objective is to enhance the productivity of the staff. Thus, the organizations may use such equipment to

facilitate their production process or to improve employee productivity – both of them ultimately meant for improving the profitability of the firm. This may not be the case for individual buyers when they install such equipments in their houses.

In order to make the framework more user-friendly, it has been presented in Table - 1 with specific guidelines for assigning the rating points.

Table – 1: Framework with Rating Points

Sr.	Criteria	Rating Points	Score
1	Nature and Type of Buyer(s)	1 if individual or family 2 if organization or business house 3 if both	
2	Methods of Use	1 if end use 2 if intermediate use 3 if both	
3	Purpose of Use	1 if personal need gratification 2 if business goal fulfilment 3 if both	

Using Table – 1 above, score is to be assigned for all three criteria. For example, if buyers of a product are only individuals or families, then assign the score 1. Similarly, if the use is intermediate, assign the score 2. Accordingly, a 3-digit score combination is generated. Mathematically, there could be 27 combinations. Several combinations, however, are not possible such as 112, 113, 121, 122, 123,131,132, 133 and similarly others. Accordingly, a list of possible combinations has been identified and is presented in Table – 2 along with the decision rule to determine the product category (industrial, consumer or both).

Table – 2: Guidelines for Interpretation of Score

Individual Score of 3 Criteria	Multiplication of Score obtained from each Criteria	Interpretation of Score
111	1 (e.g. 1x1x1=1)	Consumer
211	2	Consumer

311 312	3 6	Consumer Consumer
222 223 232 233 322 323	8 12 12 18 12 18	Industrial Industrial Industrial Industrial Industrial Industrial
333	27	Industrial-cum-consumer

Decision Rule:

Up to 6 => Definitely Consumer Product

>6 but <18 => Definitely industrial Product

>18 but <27 => An industrial Product now also a Consumer Product

It has been observed that several industrial products have eventually become consumer products. Due to diffusion of knowledge and innovation, several industrial products find domestic application in due course of time. Oven is the best example that describes how an industrial product was later sold to the consumer market as a consumer durable on the strength of microwave heating technology. Similar is the case with refrigerator, mixer & grinder, ice-cream maker, soda maker, artificial sweeteners, and others.

Hence, there is no wonder why the line distinguishing a distinction between consumer durables and industrial products is quite blurred. However, the framework suggested above can help a great deal in distinguishing an industrial product from the whole host of products available in the industrial spectrum.

Conclusion

The products that score low (up to 6) as per the model above can be categorised as **consumer product**s. Even though the products in this category are purchased by the organizational buyers, it remains a consumer product and all the concepts

applicable to consumer marketing are also applicable in this case. At best, one may devise a customised marketing mix and/or strategy for such organizational buyers.

Products that score between 8and 18 can definitely be included in the category of **industrial products.** One may, then, go in to deeper classification of the same and choose an appropriate strategy with suitable marketing mix.

Products with a score higher than 18 (usually one combination falls in this category with a score of 27) can be classified as an industrial product that has eventually become a consumer product. As discussed in the earlier section, some industrial products eventually can be upgraded and hence can find an end use and therefore can be promoted as a consumer product. Technological advancements and new applications move industrial product more and more towards the end users. Alternately, this means that a good number of industrial products have an inherent potential to become consumer goods. The classification model presented here can be more helpful in identifying and understanding such hidden potential and can be best used for crafting a suitable marketing strategy.

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