

## PRODUCER GOODS MARKETING WITH AN ACCENT TO RAW MATERIALS

**Dobrinka Veljković**

*MEGATREND univerzitet Beograd*

*Fakultet za menadžment Zaječar, Park šuma «Kraljevica», b.b. 19000 Zaječar, Serbia, E\_mail: fmz@ptt.yu.*

**ABSTRACT:** Produced goods marketing defining is mostly done in comparative relation with consumer goods marketing, as basic marketing area. Characteristics and specific qualities of producer goods marketing including mineral raw materials result from needs they satisfy, i.e. from purpose of use not character of product itself. Essence, significance and need for marketing concept is the same for all business areas, and it can be seen in adjustment to producers and buyers demands and strengthening of competition position. Premises included marketing researches and included consumers, competition, conjuncture, influence factor and marketing mix research, to reduce inevitable operational risk to level that will not be threat to operation. This paper deals with specific qualities of producer goods marketing including mineral raw materials.

**Key words:** Marketing, market, producer goods, mineral raw materials, competition

### МАРКЕТИНГ НА ПРОИЗВОДСТВЕНИ СТОКИ С АКЦЕНТ КЪМ МИНЕРАЛНИ СУРОВИНИ

**Добринка Великович**

*Белградски университет МЕГАТРЕНД, Факултет по мениджмънт - Зайчар, Парк сума «Кралевика», b.b. 19000 Зайчар, Сърбия, E\_mail: fmz@ptt.yu.*

**РЕЗЮМЕ:** Направен е сравнителен анализ на търговията на стоки на производител с търговията на стоки на потребителя, като основна маркетингова среда. Характеристиките и специфичните особености на търговията на стоки на производител, включващи материали от минералните суровини са резултат от необходимостта, която те задоволяват, т.е. от целите за ползване, а не от характеристиката на самия продукт. Всъщност, необходимостта от маркетингова стратегия и тук е същата както във всички области на бизнеса и това може да бъде забелязано при приспособяването на производителя към потребителя, стремежи се към конкурентната позиция. Предпоставките, включващи маркетингови проучвания, потребителско търсене, конкурентна среда, конюнктура, фактори оказващи влияние, комбинирани маркетингови проучвания са, за да се намалят неизбежни операционни рискове до ниво, което няма да навреди на производството. Докладът ни запознава със специфичните качества на търговията на стоки на производител, включително минерални суровини.

**Ключови думи:** Търговия, пазар, потребителски стоки, материали от минерални суровини, конкуренция

Mineral raw materials belong to a group of producer goods that from the standpoint of marketing, meets the needs in the productive consumption or business consumption area, in wider context. Raw materials are included into third category of producer goods, or, in business terms, in output products, that in production process become an integral part of final products. Supplying resources are mining i.e. mine deposits, and it is very important for industry and society at all, to consider the limitations of the resources. Products obtained in this area can be innovative products as well, that is of great significance for investors and supplying processes of resources required for investment plan realization. Supplying resources should be reliable for the raw material consumers, and consumers should be satisfied with adequate and even quality, as their productive and business process and effect depend on it.

In business sector, from the point of view of existing development, companies have become aware of marketing importance and need in different time. Researches have shown that those who deal with producer goods understood marketing significance for expected and desired business result later than consumer goods; so many companies in this field have many more things to do. From the aspect of

studying, producer goods marketing as well as mineral raw material marketing belong to special marketing areas in relation to consumer goods marketing that is considered to be the basic area.

Consumer goods marketing studying started in 1930.s, as theory and practice, and the article "What is the industrial marketing?", published in 1930., is considered the first text on this topic. A few years later, the first books were published, so they presented the basic for development of special marketing discipline, which becomes more and more required according to it place and role of producer good in economics and society development.

Application of marketing concept in marketing oriented economy developed as acceptance of its principles, so that we can say that marketing principles first started appearing in consumer good field, non-permanent ones, and then permanent consumer good, to be accepted later in industrial equipment manufacturing and other sectors of producer goods. In contemporary conditions, we can talk about marketing development in two parallel directions: marketing expanding and deepening. Marketing expanding is marketing applying in

non-profitable sectors and institutions such as hospitals, universities, churches, theater and so on. Deepening marks the obvious need that marketing oriented companies should meet not only economical and profitable requirements and responsibilities, but the others as well; just to mention insisting on ecology and so called sustainable development, crucial for producer goods area, specifically for raw materials.

Marketing theory and practice were in one period a privilege of developed marketing economy countries or Western countries, and in the second half of XX century they started extending to other parts of the world. Great companies, searching for customers and suppliers, spread their operation to other countries, acting globally and transferring marketing principles and business concepts. In such competitive environment, local companies were forced to defend their own marketing positions, starting applying marketing concepts and activities themselves. Companies saw their future in the abilities to recognize and better satisfy consumers' needs than their competition.

Wider and faster acceptance of marketing concepts in companies producing raw material, depended on some existing prejudice and dogmas and wrong premises. People usually think that these products "sell themselves", that the technology sells them and company marketing efforts are not necessary. Second, the offer competitiveness is not important all markets can accept the same element combination. Third, significant impact of emotional motives is often neglected, and dominance of rational motives and decisive impact of low prices are often overestimated. Unfortunately, these prejudices are still present in contemporary conditions and cannot be forgiven in marketing game, but they are punished by consumer loss or declining of marketing position, i.e. bad business results finally.

The common thing for consumer goods and producer goods marketing, as well as for raw materials, is objective or goal of marketing concept applying reflected in company ability to prepare more superior offer to protect its consumers and buyers and provide profitable operation effects. Increasing complexity of business relations and competition imposes as imperative necessity of development and effective communication with environment, primary with demand subjects.

Specific quality of producer goods marketing including mineral raw materials derives from product application purpose and the assignments and need it satisfies. Therefore, this marketing are is being studied and researched from the point of marketing and demand, because it is the right way to notice organization characteristics as consumer and their behavior in supplying process. Hence, the need and significance of marketing research is obvious, for providing realistic information for marketing program planning and realization, i.e. for preparing offers and protect the customers.

What are the basic characteristics of mineral raw material marketing and its offer and demand?

For this occasion we will mention the following:

- Homogeneous, non-defined products intended for homogeneous demand, global market,

- Product life span is longer, of significant quality and reliability, important package protective function and selling services, especially credit and support in sale financing,
- Individual selling and purchasing, great in quantities and in value,
- Great reliability, quality and timely delivery,
- Purchasing motive is mostly rational,
- Great financial power of consumers,
- Close seller-buyer relationship, partnership; important marketing relationships,
- Location of sellers and consumers with dominant elements of geographical concentration,
- Competition advantage is realizing by economic range and economic expenditure,
- Selling channels are mostly direct, if there are some agents they are industrial distributors or producer agents i.e. short channels,
- The most efficient promotion mode is personal selling as immediate communication way with possibility of sales contract concluding, but the other modes are economic exhibitions, fairs, public relations and propaganda, mostly as institutional for company promotions,
- Demand is derived and dependable and price non-elastic,
- Important role of exchange in products turnover, with its specific rules and regulation, and participation of authorized representatives.

For more detailed explanation of the mentioned characteristics, we have used some copper world marketing research results, which is a sphere of interest of the author of this paper.

Central problems in competition strengthening and operation efficiency in copper production and similar metals are production costs and great difference in cost level that are not present in such range in other economic branches. In this field, 25%-30% of world production cannot be covered with relatively low market price that has been dominating for a longer period. It has led to necessary production reduction with high costs that cannot be reimbursed completely by production increasing with lower costs. Just to mention some figures to illustrate this: about 20% of production with costs higher than 25% in relation to average costs, cannot reimburse complete costs by copper price, except in periods of high market conditions (Cvetanović N., *Copper in the world*, IP "Nauka", Beograd 2005). Copper production costs are in reversed proportion with copper grade and other useful components in ore, so the higher copper grade conditions proportionally lower production costs and vice versa. High capital investments per tone of copper production annual capacity with absence of raw material as operation subject in classical sense, stipulates copper production cost structure where fixed and relative fixed costs have high share. Direct operational costs, presenting variable costs, in total copper production costs share 54,3%, while fixed and relative fixed costs share 45,7%. Direct operational costs include about 40% of energy product costs in all forms (electrical energy, masut, coal, natural gas), and labor costs are 35%. High share of fixed and relative fixed costs in group cost structure influences on low coefficients of copper production cost

flexibility. The researches have shown that (Veljković D., Basic factors of influence on offer, demand and price direction at world copper market, doctoral dissertation, Management Faculty Zaječar, 2003) for each percent of copper production increasing within existing capacities, total costs are also increasing for 0,54%, while average costs per tone are decreasing for 0,46%. Reversely, for each percent of copper production decreasing, total costs are decreasing for 0,54%, and average costs are increasing for 0,46%. Hence, copper producers are very interested in maximal recovery of their capacities and rarely make decisions on production reduction because of copper low market prices, as in those occasions their costs significantly increase and they are in completely very inconvenient economical position. Copper supply slowly adjusts to copper demand in case of significant prices fall that prolongs their maintenance at low level. That causes often and relative long recessions in world copper production.

To strengthen the competition advantage or defend and protect achieved position, companies dealing with copper production cannot utilize improving of product quality or changing and improving some of outer, visible product attribute, like those producing producer goods, but they have to concentrate on production and selling cost increasing. That is not only a condition for more perspective market position that is also condition to survive at market for those producers exploiting poor deposits. As it is not possible to influence the raw material resource quality and content of useful components by measures, the companies in this field find solution for their competitiveness in technical – technological development and raise of labor productivity. Technical development has great significance for copper and copper market, especially evident in compensation and elimination of negative consequences of exploitation natural condition deterioration, including copper grade decreasing in the ore, then in strengthening of competition ability for copper production fighting with substitutes for the same field consumption and same markets, as well as in increasing possibilities for copper utilizing by entering the new fields or potential copper application areas that can provide increasing of existing consumption level.

Copper production operation and market position are made complex by exchange impact, as a specific marketing institution, that has a significant role related to copper and other raw materials. London metal exchange has a special role in non-ferrous metal trade in international exchange, taking into account that price formed on this exchange is considered basic price for sale contract concluding in the world. Exchange prices greatly restrict company freedom of choice in copper production area. They provide only a few options such as: to produce and sell at given prices; to produce, but not to sell, and to wait better opportunity or completely stop or reduce

production, which is not profitable in concrete conditions, and to restart it later when the price is better. In the long copper production industry we can notice numerous examples of the mentioned possibilities related to price decisions.

The other characteristic of exchange prices is their outstanding oscillation and unexpected shifting, with no objective reasons and recognizable causes. That makes companies more difficult predicting prices and to plan current and future business steps. Mechanisms of London metal exchange enable protection of fluctuation price risks, so called Hedging operations. The basic reason for taking hedging operations is risk reducing or eliminating because of price change, although they are also use for undertaking useful speculative operations. The essence of hedging is in prompt (cash) and term operation combination, so that the one uses hedging transaction is in the role of buyer and seller at the same time, creating conditions to compensate loss at one place by gain at the other. Hedging is used in all kinds of exchange operations, especially at raw materials or products having a longer reproduction period in the presence of some uncertain elements for final result. Interest in hedging operations is present at all participants in exchange chain, starting from raw material producers to processing companies and traders.

For this paper, we commented some mineral raw material market characteristic, such as costs in function of gaining and maintaining of competition advantage and exchange role in product turnover in this field. That is sufficient to in which degree these companies are external oriented and how much they need marketing concept. Purpose of the concept application is to help companies to realize their business goals on the most effective and efficient way, and market research is the first step and quality base for decision making in the function of solving business and marketing problems. Making decisions without information from exchange means losing time and money and long-term threatening of business process.

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