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Marketing management in the minerals sector

Key words

Marketing management, marketing strategy, competition, mining company

Abstract

The concept of marketing management in the minerals sectors is understood as defining the marketing goals of a mining company, its available resources, market operations, further opportunities as well as planning necessary to achieve those goals. Marketing management in the minerals sector involves:

- 1) active response of a mining company to the market conditions,
- 2) acknowledgement of the key importance of marketing for a company to effectively integrate marketing with other management functions,
- 3) development of an integrated marketing methodology on the company's level.

Consequently, the marketing management in a mining company is a sequence of decisions based on market observations, analysis and research, involving planning, management and coordination of production and sales operations to ensure the effective market policy. The underlying principle of marketing management is that all decisions should be based on market information, both in the area of production and sales.

Introduction

The management of the minerals sector involves a host of complex activities and problems, starting from identification and extraction of a natural component from the natural environment, right through to the delivering of thus produced mineral or metal or a ready-

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-made product to be sold on the market. Accordingly, the economic considerations ought to cover both the natural conditions, engineering potentials of mine production and mechanical processing required to produce minerals or metals having the required specifications. The actual technology and manufacturing procedure to be adopted depends on the natural conditions. According to A. Bolewski (1990) there are six stages on the path starting from the extraction of the mineral and metals to their sales on the market:

- 1) exploring and prospecting,
- 2) mining activities (mined material),
- 3) mechanical processing, yielding first-generation minerals and metals,
- 4) processing technologies to produce first-generation derivative products,
- 5) deep processing associated with the manufacturing of the second-generation minerals, made from the primary products, to be utilised by the industrial sector, particularly the power industry, construction sector and farming,
- 6) processing technologies to produce second-generation derivative products.

Mechanical processing proves to be the key stage as it decides about the product quality. Inferior quality of minerals and metals is often associated with inadequacies of the processing plants, low level of engineering operations and the policy of some mining companies who do not choose more expensive solutions in the field of mechanical processing just to keep the production costs on the low level.

The question arises what stage products supplied by the extractive industry can be still regarded as raw materials. The term is time-dependent and varies from one mineral to another. Without going into detail, it appears that in the case of internationally traded minerals and metals there is tendency to reduce the unprocessed minerals trading, though this tendency must not be overgeneralised. On the other hand, the trade in mass-processed minerals of the *sensu largo* is growing. A certain paradox can be observed: on one hand the quality of deposits to be mined is becoming worse and worse whilst on the international market we have more and more enriched minerals and high-quality half-finished products as highly processed products. Such situation brings much profits to countries rich in mineral resources.

A term “mineral or a mineral and metal” does not only refer to natural minerals and metals, but also to the final products of the extractive industry and processed products. The extent of the processing differs from one mineral to another. This category covers both natural minerals and metals and hardly processed minerals (Podobiński 1993).

The economic life of each country, considered in the context of internal and external conditions requires that the growing demand for mineral and metals be met fully and regularly in all the branches of industry as without the minerals and metals there will be no production whatsoever. This growing demand for minerals and metals can be evaluated quantitatively using the statistical or econometric methods and taking into account the relationships and regularities determined on the basis of inter-branch trading flow charts. The demand for specific minerals is shown as trends, defined mathematically. It might be assumed that in the conditions of economic collaboration governed by international contracts the production and consumption on one hand and the demand for the given mineral on the

other should follow a roughly linear pattern. When the market conditions are favourable and the demand for minerals and metals is rising, the production and demand tendencies might not be straightforward as they might be disturbed by the occurrence of military or economic crisis, pricing policy, the actions of competitors and others. Therefore, the need arises to control minerals and metals sector, particularly in the light of its key importance for the national economy. The fundamental aspect in the control of the minerals and metals management is the “balance of the minerals management”, provided it is complete and based on geological forecasts derived from the evaluation of the current status of the mineral resources and statistical data having relevance to the economic aspects of utilisation of minerals and metals: production and supplies, available resources, demand, price levels, pricing tendencies, export and import potentials. However, even a most carefully prepared balance might prove unsatisfactory when the country is shifting its economic system towards the market economy, particularly in the light of the fact that the demand for minerals might be met through the use of substitutes: recycled materials, synthetic products and by substituting scarce minerals by those in a greater profusion. Employment of marketing techniques might prove most useful in the new economic conditions involving institutional changes.

The concept of marketing is not new. In the United States, the country where the conditions for marketing are most favourable, it dates back to 1901—1905. At the University of Pennsylvania W.F. Kreusi delivered a lecture “Marketing of products” as early as 1905 whilst at the University of Wisconsin B.S. Butler taught about the marketing methods already in 1910. Yet the development of marketing, particularly in the developed countries’ came in the post-war period. At first the term “marketing” would mean the actions needed to sell products or services. Up till the 1950s the marketing of minerals and metals was understood as all activities on the market aimed to sell produced minerals and metals, in some cases the term “marketing” was synonymous to “sales”. “Marketing” comes from an English word “market”, and as such is present in nearly all languages worldwide. There are no direct counterparts in other languages. The attempts to find a good Polish equivalent failed so far and the term “active sale” did not seem adequate as it distorts and narrows down the meaning of the term “marketing”. Even the French, so unwilling to adopt English terminology, have appropriated this term and used it widely both in the literature on the subject and in business activities. The moot problem, however, is not the nomenclature, but the contents. The concept of marketing in the mineral and metal sector in the present day conditions implies several tendencies:

- 1) mining companies need to obtain and use information about the potential markets, market conditions, determinants, requirements, preferences of customers (present and future),
- 2) creating economic, organisational and technical conditions to support the data acquisition as the basis for the decision-making in the minerals management both in the micro and macro scale,
- 3) active interactions with the minerals market to adjust the customers’ demand to the policy and objectives of the mining company in the area of production and sales,

- 4) allocation of adequate resources to guarantee full control and efficiency of activities decreed by the decision-makers,
- 5) implementation of an effective sales policy aimed at market expansion at the same time assuring the minimal operating costs.

Accordingly, the concept of marketing management of the minerals sector ought to be understood in the context of marketing goals to be achieved by the mining company, taking into account its available resources and market opportunities, supported by planning and strategic actions. The principles of marketing management of the minerals sector can be formulated as follows:

- 1) active response of a mining company to the market conditions,
- 2) acknowledgement of the key importance of marketing for a company to effectively integrate marketing with other management functions,
- 3) development of an integrated marketing methodology on the company's level.

The active response of a company to the market condition (implied in the first principle of marketing-based management) means that a company does not just wait for a consumer of already produced mineral or metal to sell it at a profit, instead it ought to conduct a market research to make the decisions about the production levels. At the same time the company ought to appeal to potential consumers to persuade them to buy the product and to organise an efficient distribution network. The second principle means that the marketing has the same status as administration, production, finance, and its functions are considered to be as important as those of all the remaining company divisions. Thus understood marketing should be regarded as one of the major determinants of economic development of a company and should be given priority over other company's operations. The third principle of marketing management, also referred to as integrated marketing function, is aimed to integrate the whole decision-making process in a company from the point of view of customers' preferences. This rule should be given priority over the financial and distribution policy and other company's operations. Understanding and adoption of this principle by the unit managers on all levels and the support given by the manager of the marketing unit are the key conditions for the company's successful operations. In large mining companies a manager is chosen responsible for one mineral or metal group of products. The main task of this product manager is to supply the types and kinds of raw materials, semi-finished products and ready-made processed goods to follow up demand tendencies, at the same time he or she is responsible for the product advertising, distribution and pricing policy to guarantee smooth sales (Kotler 1980).

In order that these principles should be adequately implemented, certain difficulties have to be first overcome. A major difficulty in marketing management, both on the domestic and foreign markets, is the definition of the term "management". In literature on the subject and in business practice we find a number of definitions and explanations. Attempts are made to distinguish between "management" and "directing". Leaving aside the nomenclature, we can assume that "directing" means formal or less formal actions taken with respect to people whilst management is the system of methods and functions giving those responsible the

command of the company's resources (natural, financial and human) to achieve the specified goals in a rational and cost-effective manner. There is no doubt that management involves decision-making by those holding the manager's positions (Krzymiński 1988).

When we have a glance at domestic and international trading from the standpoint of management of market operations, it seems justified to distinguish marketing management as an individual branch, to enable more effective incorporation of marketing-oriented way of thinking and acting to the practice of domestic and international commerce (Podobiński 1991).

The philosophy of marketing assumes that on domestic and international markets the supply tends to grow faster than demand and hence the creation of new demand is restricted by certain barriers and the producers have to face the major challenge and their products must be specifically tailored to meet the customer's requirements. Accordingly, a mining company has to ensure for constant and systematic catering for the needs of the selected group of regular customers. That means that market information should be the basis for all decisions made in a mining company. The success of a company depends on whether it has at its disposal extensive, exhaustive and updated information about the customers' behaviours and whether the information can be effectively processed and used as the basis for the decision-making. Transparency of the internal and external situation of the company is the necessary condition for effective market policy in the given conditions, to adapt the internal elements to external conditions and to respond to the external causes to choose the optimal directions for the company's operations.

In theory, marketing instruments belong to the category of variable internal factors, dependent on the company and an exporter who arranges them in a strategic combination. When the right combination is used of the product's specific features, price, sale location, distribution channel, sale network, market communication between the producers, the producer and exporter has a chance to adapt to external conditions which change the situation on the market and in the company's environment. The degree of adaptation determines the company's performance on the market and its flexibility in product control.

Marketing managers have to control internal variable factors and those dependent on the producer or exporter, in other words they have to plan, organise and control their actions to adapt well to the market conditions. That depends, however, on the actual configuration of external conditions which have to be interpreted correctly and harmonised with the internal conditions, to guarantee the best performance at minimal costs.

Marketing management of the minerals sector might be expressed by assuming the functional standpoint as the analysis, planning, execution and control of programs for trading with the selected groups of company's customers so that the company or the both the company and the customer gain the maximum profits. In order to ensure the optimal results, management will focus on mutual adaptation and coordination of particular elements of marketing, such as product control, pricing, promotion, distribution. The analysis of company's opportunities and potentials and the risk assessment is the fundamental management function and the starting point for all remaining functions, including the

TABLE 1

TABELA 1

Marketing management cycle in a mining company

Cykl zarządzania marketingowego w przedsiębiorstwie przemysłu wydobywczego

Market identification	Analysis of operating conditions	Goals and strategy	Tactics and operations	Effective market operations	Control, evaluation of results, conclusions, future recommendations
<p>Market segments</p> <p>Purchasers' needs</p> <p>Market processes</p> <p>Access to the market and conditions for Marketing</p> <p>Competitors</p> <p>Forecasting the trends of competitors' activities</p> <p>Leaders, connections, Pressure groups</p> <p>Forecasting the Changes of the market conditions</p>	<p>Internal conditions</p> <p>Deposit Identification</p> <p>Mining conditions</p> <p>Human resources</p> <ul style="list-style-type: none"> — number of employees — -qualifications <p>Material resources</p> <ul style="list-style-type: none"> — -raw materials — -fixed assets — -technologies <p>Capital</p> <p>Potentials of minerals processing</p> <p>Cost levels and trends</p> <p>Development of marketing in the company</p> <p>External conditions</p> <p>Market position and trends of changes</p> <p>Company's surroundings</p> <p>Distribution conditions</p> <p>Mechanical processing outside the company</p> <p>Interrelations</p> <ul style="list-style-type: none"> — product-market — company-/- cooperating companies, suppliers 	<p>Long-term goals</p> <p>Short-term goals</p> <p>Company's strategy relating to:</p> <ul style="list-style-type: none"> — product — strategy of market operations, promotion — distribution strategy — methods of entering new markets — increasing the sales levels on the existing markets — strategy to act against competitors — extending the company's potentials — improving the company's image 	<p>Defining the tactic plans and conditions for their implementation</p> <p>Defining the methodology of market research</p> <p>Defining the methods of entering new markets and retaining the market position</p> <p>Defining the sources of finance for marketing activities</p> <p>Methods of supplies and distribution</p> <p>Techniques of sales and market penetration</p> <p>Organisation of the company to guarantee effective operations on the market</p>	<p>Activities aimed to:</p> <ul style="list-style-type: none"> — create new needs — creating and increasing the group of loyal customers — making constant contacts on the market — expansion on the new markets — development of new products and product differentiation <p>Introduction of new sales techniques</p> <p>Searching for effective intermediaries</p>	<p>Evaluation of the market changes due to the marketing activities</p> <p>Changing the amounts and structure of sales, costs and profits</p> <p>Changing the customers' opinion about the company's performance</p> <p>Changing the market share in relation to the competitors</p> <p>Drawing conclusions as to the marketing activities in the next cycles of production and sales</p>

Source: Author's own sources

marketing operations of a mining company covering such aspects as: market planning, market research, production planning for individual minerals and metals (Podobiński 2004).

Marketing management in the minerals sector implies a sequence of decisions having relevance to market observations, analysis, planning, management, coordination, control of activities taken up in the field of production and circulation of minerals and metals to ensure the effective market policy. All major decisions in the mining company, particularly those concerning the production and sales, are based on market information. The main criterion for the marketing decisions is the market orientation whereby all categories of the consumer market: demand, supply, price, customers' requirements, needs, preferences and expectations inspire and at the same time verify all company's activities. That is why companies employing the marketing approach pay a major attention to market research, analysis and forecasts to cover all aspects of company's market activities. The elements of business management and organisation theory are utilised, too to formulate the concepts of marketing management on the domestic and international minerals and metals markets.

Table 1 shows a diagram of the typical cycle of marketing management in a mining company. It contains the key marketing elements, forming a repeatable cycle. The starting point is the market identification followed by the analysis of company's resources shown in the table and by definition of company's goals, both in the short- term and long-term range, and company's strategy. Further on are the elements of company's tactics and operations and the methods of active marketing. The marketing management cycle ends with control and evaluation of company's performance. Then come conclusions which later become the basis for decisions in the field of production and sales.

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ZARZĄDZANIE MARKETINGOWE GOSPODARKĄ SUROWCAMI MINERALNYMI

Słowa kluczowe

Zarządzanie marketingowe, strategia marketingowa, konkurencja, przedsiębiorstwo przemysłu wydobywczego

Streszczenie

Pojęcie zarządzania marketingowego w gospodarce surowcami mineralnymi rozumiane jest jako definiowanie celów marketingowych przedsiębiorstwa przemysłu wydobywczego, jego zasobów, działalności rynkowej, możliwości rozwoju oraz jako planowanie i realizacja działań niezbędnych dla osiągnięcia tych celów. Zarządzanie marketingowe w gospodarce surowcami mineralnymi to:

- 1) aktywna postawa przedsiębiorstwa przemysłu wydobywczego wobec rynku,
- 2) uznawanie istotnego znaczenia marketingu dla tego przedsiębiorstwa i traktowanie go w sposób zintegrowany z innymi funkcjami zarządzania,
- 3) opracowanie na szczeblu przedsiębiorstwa zintegrowanego sposobu działania marketingowego.

Zarządzanie marketingowe w przedsiębiorstwie przemysłu wydobywczego stanowi więc ciąg decyzji oparty na badaniach i analizach rynkowych, obejmujących planowanie, zarządzanie, koordynację produkcji i sprzedaży w celu zapewnienia skutecznej polityki rynkowej. Podstawową zasadą zarządzania marketingowego jest to, iż wszystkie podejmowane decyzje winny być oparte na informacjach rynkowych, zarówno w zakresie produkcji jak i sprzedaży.