Business Marketing Management: B2B 11e

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Chapter 2:

Organizational Buying Behavior

Chapter Topics

Inside and outside forces influence organizational buying. In this chapter you'll learn about:

1. The organizational buying process
2. The four main factors that impact organizational buying decisions
3. A model of organizational buying behavior
4. How knowledge of organizational buying enables marketers to make more informed decisions on product design, pricing and promotion

Understanding the Dynamics of Organizational Buying

Market-driven firms sense market trends and work closely with their customers and vendors. This is crucial to:

- Identify profitable market segments
- Locate buying influences within segments
- Reach organizational buyers efficiently and effectively with an offer

Each decision goes through various steps. Skipping a step can be essential to the decision-making process.

Buying as a Process

- Buying is a process, not an event
- There are various points in the process that are referred to as "Critical Decision Points" and "Evolving Information Requirements"
- It starts with "Problem Recognition"

Organizational Buying Process

1. Problem Recognition

2. General Description of Need

3. Product Specifications

4. Supplier Search

Organizational Buying Process

5. Acquisition and Analysis of Proposals

6. Supplier Selection

7. Selection of Order Routine

8. Performance Review

8. Performance Review

After receipt of the product or service, a performance review asks:

1. Did the supplier meet delivery time?
2. Did the product meet the specs?
3. Does the contract have to be modified?
4. Did the vendor live up to expectations?

Buying Process

- Stages in the buying process are not as sequential as suggested by the model.
- Sometimes steps are skipped. For example, on straight rebuys, buyers choose to purchase almost immediately.
- However, the model represents important aspects of how companies buy and evaluate business purchases.

Organizational Buying Process

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Organizational Buying Process

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Buying Process

There other events that influence the buying process, most notably:

1. Economic conditions
2. Competition
3. Basic shifts in the organizational objectives
4. **The buying situation**

Three Buying Situations

1. New task
2. Straight rebuy
3. Modified rebuy

Three Buying Situations
1. New Task

- **New task –** a perceived problem or need that is totally different from previous experiences.
- To solve it, buyers need a significant amount of information.
- Buyers & Influentials operate in a stage of decision-making known as “extensive problem solving” because they lack:
    - Well-defined criteria
    - A strong predisposition toward a particular solution

1. New Task

There are 2 approaches to New Task purchasing:

1. Judgmental Situations
2. Strategic Decisions

New Task - Judgmental Situations

- This is the greatest amount of uncertainty because there is little information or experience to support a decision.
- To overcome this, decision-makers conduct outside research to analyze key aspects of the buying decision.
- An example of key questions might include:
  - What kind and model of production equipment should we purchase?
  - Who are the available suppliers?
  - Will they provide the services we need?

New Task - Strategic Decisions

- This level of New Task purchasing is the most important because it concerns long-range planning, larger investments and increased risk if they are wrong.

- An example of strategic questioning might include:
  - Should we develop a new product line which demands us to buy new machinery, retool what we have, and maybe even hire a different type of employee?
  - What should we do?

Marketing Consideration for New Task Buys

Marketers can gain an edge if they:

1. Initiate problem recognition
2. Get involved very early in the decision-making process
3. Get involved early in the procurement process
4. Understand the buying organization's behavior patterns

New Task Marketer’s Edge

- If a marketer is already established with an account, often he or she can leverage that situation into further business.
- This is why present suppliers continue to develop further business with their customers—they understand their prospects’ buying philosophy, developing situations and contacts.
- They can also create need since the prospect trusts them.

Three Buying Situations – A Review

1. New task
2. Straight rebuy
3. Modified rebuy

Three Buying Situations

2. Straight Rebuy

- **Straight rebuy –** a problem or need that is recurring or a continuing requirement.
  - Buyers have experience in the area
  - Require little or no new information
  - Buyers operate in routine problem-solving stage

Straight Rebuy

- Routine problem solving situations requiring routine solutions.
- This is the repeat business situation that every major supplier desires.
- MOR: Maintenance, Operation and Repair items fall into this category as do various services such as travel.

Straight Rebuy

- Many companies review this area of business every now and then, but the edge usually goes to the supplying company.
- Relationships become very important.

Marketing Challenges to Straight Rebuy

- Purchasing departments handle this situation in most cases; the determinant is who is "IN" and who is "OUT"?
- "IN" seller needs to constantly reinforce their services, meet buying expectations, continue developing relationships and be responsive to changing needs.
- **"OUT"** sellers have a much more difficult task.

Buying Companies Risk to Change Vendors – Straight Rebuys

- The buying company is usually reluctant to change because “OUT” sellers are unknown, they are a big risk, and change is expensive.

- The old adage is: “If it ain’t broke, don’t fix it.”

Out Sellers in Straight Rebuy

To get <u>in</u>, OUT sellers need to convince the buying organization that:

1. Their current supplier is not doing their job.
2. They are experiencing problems that they were not aware of earlier.
3. Their purchasing requirements have changed.
4. They should consider other alternatives.

Three Buying Situations

3. Modified Rebuy

- **Modified rebuy**—Decision makers feel there is a benefits to reevaluating alternatives.

- Internal Forces:
  - Search for quality improvement
  - Cost reductions

Modified Rebuy

- Buyers feel they can make significant advances if they review their buying situations on a regular basis.
- Often, changes in styles, materials or even alternative solutions facilitate this review.
- Another reason for Modified Rebuy is dissatisfaction with present supplier.
- New supplier was able to find the present supplier's weaknesses and offered buyers new alternatives to "fix" their problem(s).

Modified Rebuy:

Limited Problem Solving

- When a company has to replace a broken part, they may bypass the manufacturer and go to a supplier of comparable upgrades.
- Example: Your IBM printer breaks so you consider an HP printer instead.

IN verses OUT Suppliers

- **IN** suppliers need to understand developments within the buying organization so they can be a part of the modified rebuy situation. They generally have an edge unless they are "out of touch" with the buyer.

IN verses OUT Suppliers

- **OUT** suppliers need to create the need and influence the buying organization to consider other alternatives. This demands superior salespersonship.
- Selling company needs to offer performance guarantees, warranties and often additional services and training.

Vested Interest

Developing a vested interest on the part of both the buyer and seller is important to perpetuating the business.

- Questions:

1. Did the selling organization put in enough effort to show serious involvement?
2. Is the buying organization trapped in a buying decision, making it difficult to get out?

Business Strategy Considerations

The business marketer must always try to understand the sale from the buyer's perspective and do everything to make it easier for the buyer to buy.

Business Strategy Considerations

Marketers needs to understand:

1. Who are the decision makers?
2. What are their problem(s)?
3. What are their purchasing patterns?
4. What is the importance of their purchase?
5. What is the timing of the purchase?

Forces Influencing Organizational Buying Behavior

A projected change in business conditions can alter buying plans drastically.

Organizational Buying Behavior

- **Environmental Forces**
  - Economic outlook: domestic & global
  - Pace of technological change
  - Global trade relations
- **Organizational Forces**
  - Goals, objectives and strategies
  - Organizational position of purchasing
- **Group Forces**
  - Roles, relative influence and patterns of interaction of buying decision participants
- **Individual Forces**
  - Job function, past experience, and buying motives of individual decision participants

Environmental Forces - Economic Influences

- Changes in the environment such as business conditions, technological advances or new legislation can affect buying plans.

- Since much of business is driven by derived demand, business marketers must be sensitive to changes in the consumer market.

- Also, the economy can determine a company's ability or willingness to buy. If the economy is bad, companies often put off purchasing until they see a change.

Technological Influences

- Technology is changing so quickly that yesterday's technological advancement is today's electronic commodity.
  Example: Computers
- However, all companies need to stay alert to these changes. For example, Blockbuster is feeling the pinch of Netflix, Internet and satellite movies-on-demand.
- Technological change—especially from the Internet—is drastically changing the way companies do business.

Organizational Forces & Growing Influence of Purchasing

- As manufacturing has become less important, purchasing and procurement have become more important.

- Companies are outsourcing many activities such as manufacturing, marketing, accounting, etc., yet procurement remains a strong influence resulting in a shift to more professional procurement positions.

Strategic Priorities in Purchasing

- As the purchasing profession grows, so do its goals and priorities.
- Purchasers are more ambitious, resulting in a more competitive environment. An effective marketing strategy develops stronger and deeper relationships with purchasers.
- This is the impetus for Relationship Marketing.

Strategic Priorities in Purchasing

Aligning Purchasing with Strategy, *Not Just Buyers*

Shift from administrative role to value-creating function that serves internal stakeholders and provides competitive edge in market.

Exploring New Value Frontiers: *It's Not Just About Price*

Focus on suppliers' capabilities, emphasizing business outcomes, total ownership costs, and potential for long-term value creation.

Strategic Priorities in Purchasing

- **Putting Suppliers Inside:** *The Best Value Chain Wins*
- Develop fewer and deeper relationships with strategic suppliers and involve them in decision- making processes, ranging from new product development to cost-reduction initiatives.

- **Pursuing Low-Cost Sources:** *A World Worth Exploring*

Overcome hurdles imposed by geographical differences and seek out cost-effective suppliers around globe.

Marketing Strategic Considerations

- As Purchasers develop their strategic roles, Marketers respond by developing strategic alliances to become a part of their business.
- Buyers and Sellers know that "the best value supply chain wins" the customer…and the profits.
- The result is closer relationships with carefully chosen suppliers who can align their activities with customer needs.
- Example: At this time in history, Walmart is one of the best at accomplishing this activity!

Total Cost of Ownership

TCO considers the full range of costs associated with the purchase and use of a product or service over its complete life cycle.

TCO

1. **Acquisition costs:** selling price and transportation costs & administrative costs of evaluating suppliers, expediting orders, and correcting errors in shipments or delivery.
2. **Possession costs:** include financing, storage, inspection, taxes, insurance, and other internal handling costs.
3. **Usage costs:** are those associated with ongoing use of the purchased product such as installation, employee training, user labor, and field repair, as well as product replacement and disposal costs.

SEGMENTING THE BUY

- Various categories of purchases are segmented on the basis of procurement complexity and the nature of the effect on corporate performance
- Use a segmentation approach to isolate those purchase categories that have the greatest effect on corporate revenues

E-Procurement

- Purchasing managers use the Internet to find new suppliers, communicate with current suppliers, or place an order.
- E-procurement cut purchasing cycle time in half, reduced material costs by 14 percent and purchasing administrative costs by 60 percent, and enhanced the ability of procurement units to identify new suppliers on a global scale.

Reverse Auctions

- Involves one buyer who invites bids from several prequalified suppliers who face off in a dynamic, real-time, competitive bidding process.
- Reverse auctions are best suited for commodity-type items such as purchasing materials, diesel fuel, metal parts, chemicals, and many raw materials

A Strategic Approach to Reverse Auctions

- “Preempt the auction: convince the buyer not to go forward with the auction because you have a unique value proposition and are not inclined to participate.
- Manage the process: influence bid specifications and vendor qualification criteria.
- Walk away: simply refuse to participate

Centralized vs. Decentralized Purchasing

- Purchasing is moving away from a transaction-based support role to a more strategic, executive level role
- One result of this is to centralize purchasing
- Centralized purchasing operates differently than decentralized purchasing

Decentralized Purchasing

- Decentralized purchasing allows local branches to purchase what they need. This results in local control, and for many kinds of services this makes sense.
- Example: Stop and Shop buys products from local farmers.

Marketing Strategy Response

- The organization of the marketer’s selling strategy should parallel the organization of the purchasing function of key accounts.
- To avoid disjointed selling activities and internal conflict in the sales organization, and to serve the special needs of important customers, many business marketers have developed key account management programs.
- Develop strategic relationships with a limited number of customers in order to achieve long-term, sustained, significant, and measurable business value for both the customer and the provider

Industrial Sales: How to Assess Group Forces

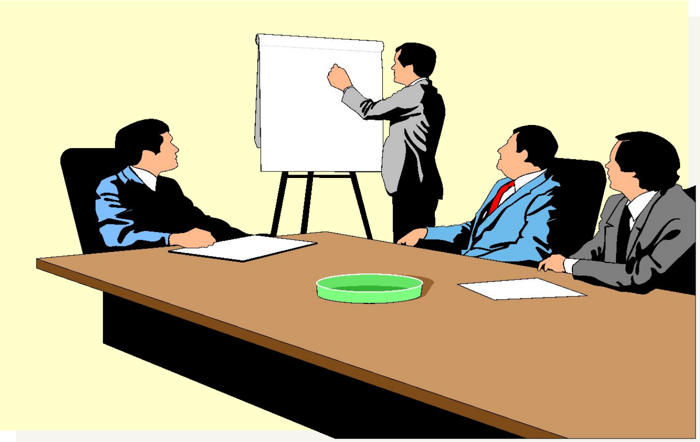
There are three questions that need to be addressed:

1. Who takes part in the buying process?
2. What is each member's relative influence in decision?
3. What criteria is important to each member in evaluating the supplier?

Answering these questions puts the salesperson in a better position to become the chosen supplier.

Roles in the Buying Center

Initiator	**Influencers**	**Gatekeepers**
Decider	**Purchaser**	**Users**



Buying Center Roles

Initiator	**Initially perceives a problem and initiates the buying process to solve it.**
Influencer	**Affects the purchasing decision by providing technical information or other relevant (internal or external) information.**
Gatekeeper	**Controls the information to be reviewed by members of the buying group. (For example, buyer may screen advertising material and even salespeople.)**
Decider	**Actually makes the buying decision, whether or not they have formal authority to do so. Could be the owner, an engineer or even the buyer.**
Buyer	**Has formal authority to select and purchase products or services and the responsibility to implement and follow all procurement procedures.**
User	**Actually use the product in question. Can be inconsequential or major players in the process.**

TABLE 3.2 | THE INVOLVEMENT OF BUYING CENTER PARTICIPANTS AT DIFFERENT STAGES OF THE PROCUREMENT PROCESS

	Stages of Procurement Process for a Medical Supplier			
Buying Center Participants	**Identification of Need**	**Establishment of Objectives**	**Identification and Evaluation of Buying Alternatives**	**Selection of Suppliers**
Physicians	High	High	High	High
Nursing	Low	High	High	Low
Administration	Moderate	Moderate	Moderate	High
Engineering	Low	Moderate	Moderate	Low
Purchasing	Low	Low	Low	Moderate

SOURCE: Adapted by permission of the publisher from Gene R. Laczniak, "An Empirical Study of Hospital Buying," *Industrial Marketing Management* 8 (January 1979): p. 61. Copyright © 1979 by Elsevier Science.

Buying Center Members

Members of the buying center assume different roles throughout the procurement process.

Clues to help identify powerful buying center members:

1. Isolate the personal stakeholders
2. Follow the information flow
3. Identify the experts
4. Trace the connections to the top
5. Understand purchasing's role

SOURCE: Adapted from John R. Ronchetto, Michael D. Hutt, and Peter H. Reingen, "Embedded Influence Patterns in Organizational Buying Systems,' *Journal of Marketing* 53 (October 1989), pp. 51-62.

Isolating the Buying Situation

- **Since buying is a process and not an event, one needs to understand <u>who</u> affects the potential sale and <u>how</u> they affect it.**

- **One method is to isolate the sale. That means to define the buying situation and to understand what stage it is in. Effective salespeople create a need, whereas less effective salespeople become involved later in the buying process.**

Strategy to Isolate the Sale

- Depending upon the product, selling companies that have new-buy products must:
  - Create a need
  - Get involved in the early stages of the buying process

Strategy to Isolate the Sale

- For more established type products (MRO), the strategy should be to:
  - Get a foothold
  - Start small
  - Learn the company
  - Offer better deals
  - Be ready to offer more as buying/selling opportunities occur

Clues for Identifying Powerful Buying Center Members

1. Isolate personal stakeholders. Who has the most to gain and/or lose?
2. Follow the information flow. Influencers are usually the ones who actually facilitate the exchange.
3. Identify the experts. Experts ask the most questions, exhibit the most knowledge, and are often the most influential.

Clues for Identifying Powerful Buying Center Members

4. Trace the communication to the top. Who are the decision makers?

5. Make sure you understand purchasing's role. Often purchasers are not decision makers, but they may be the bargainers. In repeat buying situations, they are usually dominant players because of their specialization.

Who Makes the Decision?

- Individuals make the decision, not organizations!
- Each member has a unique personality, experience and motive, and are subject to risk and rewards.
- Professional marketers understand this and make sure that they learn to recognize and match to it.

Evaluative Criteria

Industrial product users value:

1. Prompt delivery
2. Efficient and effective service

Engineering values:

1. Product quality
2. Standardization
3. Testing

Purchasing values:

1. Price advantage and economy
2. Shipping and forwarding

Evaluative Differences

- Education: Engineers have a different educational background than purchasing agents.
- Also, various occupations have different dispositions. For example:

1. Engineers are usually cold, analytical and suspecting.
2. Salespeople are usually warm, open and optimistic.

Marketing Response

By understanding the buying process and the various roles that link the buying group together, the marketer is in a better position to match with them by working with the right people and the appropriate sales process.

Selective Processes in Information Processing

- Selective exposure.
- Selective attention.
- Selective perception.
- Selective retention.

Selective Exposure

- Individuals accept communication messages consistent with their attitudes and beliefs.

- This is why buyers will choose to talk to some salespeople and not to others.

Selective Attention

People filter out stimuli only to allow certain ones to cognition. For example, buyers will notice certain ads that can solve a perceived need.

Selective Perception

- People interpret stimuli in terms of their attitudes and beliefs.
- This explains why buyers may modify or change their disposition to a salesperson in order to make it more consistent with their predisposition towards the company.
- They like the company so they may like the salesperson.

Selective Retention

- People recall information that pertains to their own needs and dispositions.

- For example, a buyer may remember information about a certain brand because it elicits a reaction that is consistent with his/her criteria.

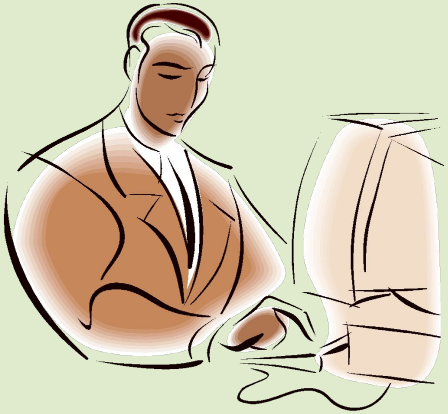
Selective Process

- Each of those selective exposures elicits a reaction that influences the buyers' actions.
- Since procurement activities often span a great deal of time, it is imperative for marketers to carefully design and target their marketing communications.
- Salespeople who understand and adjust to buyer psychological needs are usually more successful than those who are not cognizant or considerate of those needs.

Risk-Reduction

- Most people are adverse to risk, especially buyers. Great risk can mean great loss and buyers can get fired for that.
- There are two components to perceived risk. They are…

Perceived Risk Components



1. Uncertainty about decision outcomes.

2. Magnitude of consequences associated with making a wrong selection.

Confronting Risk

- **The larger the purchase, the more influential the buying center becomes and can often include higher ranking members.**
- **There is an extensive outside search to see what others are doing in similar situations.**
- **Sellers who have a proven track record are favored.**