Business buying behavior

Business

Business buyer Behavior| | | | In last Lesson we discussed the Consumer Buying behavior. Today We will discuss business buyer behaviour, types of buying situations, participants in the business buying process, and major influences on business buyers so our today's topic is: BUSINESS MARKETS AND BUYING BEHAVIORThe business market includes firms that buy goods and services in order to produce products and services to sell to others. It also includes retailing and wholesaling firms that buy goods in order toects resell them at a profit.

Because asp of business-to-business marketing apply
to institutional markets and government markets, we group these together. The business marketer needs to know the following: Who are the major participants? In what decisions do they exercise influence? What is their relative degree of influence? What evaluation criteria does each decision participant use? The business marketer also needs to understand the major environmental, interpersonal, and individual influences on the buying process. A. What is a Business Market?

The business market comprises all the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit. In the business buying process business buyers determine which products and services their organizations need to purchase, and then find, evaluate, and choose among alternative suppliers and brands. Companies that sell to other business organizations must do their best to understand business markets and business buyer behavior.

B. Characteristics of Business MarketsIn some ways, business markets are similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from consumer markets. The main differences, are in the market structure and demand, the nature of the buying unit, and the types of decisions and the decision process involved. Business markets also have their own characteristics. In some ways, they are similar to consumer markets, but in other ways they are very different. The main differences include: 1.

Market structure and demand. Business markets typically deal with far fewer but far larger buyers. They are more geographically concentrated. Business markets have derived demand (business demand that ultimately comes from or derives from the demand for consumer goods). Many business markets have inelastic demand; that is, total demand for many business products is not affected much by price changes, especially in the short run. A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices that, in turn, will increase consumer demand for shoes.

Finally, business markets have morefluctuating demand. The demand for many business goods and services tends to change more—and more quickly—than the demand for consumer goods and services does. A small percentage increase in consumer demand can cause large increases in business demand. Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand during the next period. 2. Nature of the Buying Unit: Compared with consumer purchases, a business purchase usually involves more decision participants and a more professional purchasing effort.

Often, business buying is done by trained purchasing agents who spend their working lives learning how to make better buying decisions. Buying committees made up of technical experts and top management are common in the buying of major goods. Companies are putting their best and brightest people on procurement patrol. Therefore, business marketers must have well-trained salespeople to deal with well-trained buyers. 3. Types of Decisions and the Decision ProcessBusiness buyers usually face more complex buying decisions than do consumer buyers.

Purchases often involve large sums ofmoney, complex technical and economic considerations, and interactions among many people at many levels of the buyer's organization. Because the purchases are more complex, business buyers may take longer to make their decisions. The business buying process tends to be more formalized than the consumer buying process. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches, and formal approval. The buying firm might even prepare policy manuals that detail the purchase process.

Finally, in the business buying process, buyer and seller are often much more dependent on each other. Consumer marketers are often at a distance from their customers. In contrast, business marketers may roll up their sleeves and work closely with their customers during all stages of the buying process—from helping customers define problems, to finding solutions, to supporting after-sale operation. They often customize their offerings to individual customer needs. In the short run, sales go to suppliers who meet buyers' immediate product and service needs. C.

Business Buyer BehaviorThe model in Figure suggests four questions about business buyer behavior: What buying decisions do business buyers make? Who participates in the buying process? What are the major influences on buyers? How do business buyers make their buying decisions? a. A Model of Business Buyer BehaviorAt the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. Figure shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses.

As with consumer buying, the marketing stimuli for business buying consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces in theenvironment: economic, technological, political, cultural, and competitive. These stimuli enter the organization and are turned into buyer responses: product or service choice; supplier choice; order quantities; and delivery, service, and payment terms. In order to design good marketing mix strategies, the marketer must understand what happens within the organization to turn stimuli into purchase responses.

Within the organization, buying activity consists of two major parts: the buying center, made up of all the people involved in the buying decision, and the buying decision process. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as by external environmental factors. b. Major Types of Buying SituationsThere are three major types of buying situations. At one extreme is the straight rebuy, which is a fairly routine decision.

At the other extreme is the new task, which may call for thorough research. In the middle is themodified rebuy, which requires some research. In a straight rebuy the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list. " In" suppliers try to maintain product and service quality. In a modified rebuy, the buyer wants to modify product specifications, prices, terms, or suppliers.

The modified rebuy usually involves more decision participants than the straight rebuy. The in suppliers may become nervous and feel pressured to put their best foot forward to protect an account. Out suppliers may see the modified rebuy situation as an opportunity to make a better offer and gain new business. A company buying a product or service for the first time faces a new-task situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater their efforts to collect information will be.

The new-task situation is the marketer's greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible but also provides help and information. The buyer makes the fewest decisions in the straight rebuy and the most in the new-task decision. In the new-task situation, the buyer must decide on product specifications, suppliers, price limits, payment terms, order quantities, delivery times, and service terms. The order of these decisions varies with each situation, and different decision participants influence each choice. c.

Participants in the Business Buying ProcessThe decision-making unit of a buying organization is called its buying center: all the individuals and units that participate in the business decision-making process. The buying center includes all members of the organization who play any of five roles in the purchase decision process. • Users are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications. • Influencers often help define specifications and also provide information for evaluating alternatives.

Technical personnel are particularly important influencers. • Buyers have formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but their major role is in selecting vendors and negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations. • Deciders have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders, or at least the approvers.
• Gatekeepers control the flow of information to others.

For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and even personal secretaries. The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and makeup of the buying center will vary for different products and for different buying situations. Business marketers working in global markets may face even greater levels of buying center influence.

The buying center concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence, and what evaluation criteria each decision participant uses. The buying center usually includes some obvious participants who are involved formally in the buying decision. d. Major Influences on Business BuyersBusiness buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favor the supplier who offers the lowest price or the best product or the most service.

They concentrate on offering strong economic benefits to buyers. However, business buyers actually respond to both economic and personal factors. Far from being cold, calculating, and impersonal, business buyers are human and social as well. They react to both reason and emotion. Today, most business-to-business marketers recognize that emotion plays an important role in business buying decisions. When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organizationalgoalswith any supplier, buyers can allow personal factors to play a larger role in their decisions.

However, when competing products differ greatly, business buyers are more accountable for their choice and tend to pay more attention to economic factors. Figure lists various groups of influences on business buyers—environmental, organizational, interpersonal, and individual. Major Influences on Business Buyers• Environmental FactorsBusiness buyers are influenced heavily by factors in the current and expected economic environment, such as the level of primary demand, the economic outlook, and the cost of money. As economic uncertainty rises, business buyers cut back on new investments and attempt to reduce their inventories.

An increasingly important environmental factor is shortages in key materials. Many companies now are more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers also are affected by technological, political, and competitive developments in the environment. Cultureand customs can strongly influence business buyer reactions to the marketer's behavior and strategies, especially in the international marketing environment. The business marketer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities. Organizational FactorsEach buying organization has its own objectives, policies, procedures, structure, and systems. The business marketer must know these organizational factors as thoroughly as possible. Questions such as these arise: How many people are involved in the buying decision? Who are they? What are their evaluative criteria? What are the company's policies and limits on its buyers? Interpersonal FactorsThe buying center usually includes many participants who influence each other. The business marketer often finds it difficult to determine what kinds of interpersonal factors and group dynamics enter into the buying process.

Participants may have influence in the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account. Individual FactorsEach participant in the business buying decision process brings in personal motives, perceptions, and preferences.

These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal. D. The Business Buying ProcessThere are eight stages of the business buying process. Buyers who face a new-task buying situation usually go through all stages of the buying process.

Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new-task buying situation. a. Problem RecognitionThe buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. Problem recognition can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts.

Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price. In fact, in their advertising, business marketers often alert customers to potential problems and then show how their products provide solutions. b. General Need DescriptionHaving recognized a need, the buyer next prepares a general need description that describes the characteristics and quantity of the needed item.

For standard items, this process presents few problems. For complex items, however, the buyer may have to work with others—engineers, users, consultants—to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics. c. Product SpecificationThe buying organization next develops the item's technical product specifications, often with the help of a value analysis engineering team.

Value analysis is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new-task situations that give them a chance to obtain new business. d. Supplier SearchThe buyer now conducts a supplier search to find the best vendors.

The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search, or phoning other companies for recommendations. Today, more and more companies are turning to the Internet to find suppliers. For marketers, this has leveled the playing field—smaller suppliers have the same advantages as larger ones and can be listed in the same online catalogs for a nominal fee: The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers.

The supplier's task is to get listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered. e. Proposal SolicitationIn the proposal solicitation stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition. f. Supplier SelectionThe members of the buying center now review the proposals and select a supplier or suppliers. During supplier selection, the buying center often will draw up a list of the desired supplier attributes and their relative importance.

In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behavior, honestcommunication, and competitive prices. Other important factors include repair and servicing capabilities, technical aid and advice, geographic location, performance history, and reputation. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.

As part of the buyer selection process, buying centers must decide how many suppliers to use. In the past, many companies preferred a large supplier base to ensure adequate supplies and to obtain price concessions. These companies would insist on annual negotiations for contract renewal and would often shift the amount of business they gave to each supplier from year to year. Increasingly, however, companies are reducing the number of suppliers. There is even a trend toward single sourcing, using one supplier. With single sourcing there is only one supplier to handle and it is easier to control newsprint inventories.

Using one source not only can translate into more consistent product performance, but it also allows press rooms to configure themselves for one particular kind of newsprint rather than changing presses for papers with different attributes. Many companies, however, are still reluctant to use single sourcing. They fear that they may become too dependent on the single supplier or that the single-source supplier may become too comfortable in the relationship and lose its competitive edge. Some marketers have developed programs that address these concerns. g.

Order-Routine SpecificationThe buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies, and warranties. In the case of maintenance, repair, and operating items. h. Performance ReviewIn this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The performance review may lead the buyer to continue, modify, or drop the arrangement.

The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction. We have described the stages that typically would occur in a new-task buying situation. The eightstage model provides a simple view of the business buying decision process. The actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way, and each buying situation has unique requirements.

Different buying center participants may be involved at different stages of the process. Although certain buying process steps usually do occur, buyers do not always follow them in the same order, and they may add other steps. Often, buyers will repeat certain stages of the process. E. Institutional and

Government MarketsSo far, our discussion of organizational buying has focused largely on the buying behavior of business buyers. Much of this discussion also applies to the buying practices of institutional and government organizations.

However, these two nonbusiness markets have additional characteristics and needs. In this final section, we address the special features of institutional and government markets. a. Institutional MarketsThe institutional market consists of schools, hospitals, nursinghomes, prisons, and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and in their objectives. Many institutional markets are characterized by low budgets and captive patrons. For example, hospital patients have little choice but to eat whateverfoodthe hospital supplies.

A hospital-purchasing agent has to decide on the quality of food to buy for patients. Because the food is provided as a part of a total service package, the buying objective is not profit. Nor is strict cost minimization the goal—patients receiving poorquality food will complain to others and damage the hospital's reputation. Thus, the hospitalpurchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers. . Government MarketsThe government market offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process.

Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, the government unit will make allowance for the supplier's superior quality or reputation for completing contracts on time. Many companies that sell to the government have not been marketing oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasized price, making suppliers invest their effort intechnologyto bring costs down.

When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter much in winning bids on an open-bid basis. Key TermsBusiness Markets: The business market includes firms that buy goods and services in order to produce products and services to sell to others. Straight Re-buythe buyer reorders something without any modifications. Modified Re-buy the buyer wants to modify product specifications, prices, terms, or suppliers. New Task Buying A company buying a product or service.

Users are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications. Influencers Often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers. Buyershave formal authority to select the supplier and arrange terms of purchase. Decidershave formal or informal power to select or approve the final suppliers. Gatekeeperscontrol the flow of information to others. |