

# Organization buying behavior and purchasing process commerce essay



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In this an understanding of the organizational buying process is essential for the development of industrial marketing strategy. In making decisions, purchasing managers must coordinate with numerous people with diverse organizational responsibility who applies different criteria to purchasing decision. To be effective and efficient, one must address a number of key questions.

How does an organisation buy?

Who are the key participants that take the buying decisions in an organisation?

What factors influence the buying behavior of an organisation?

The paper intends to address that the question must be considered and answered. The purpose of the study is identify the key factors that influences the buying decision of the raw material and to gather useful managerial data on raw material buying practice of an manufacturing organisation, For this research we took the case of Siemens company to identify the Decision Making Unit of an organizations buying decision process. In order to achieve the set objective of this study, the researcher has collected primary data from the company Siemens and hypothesis was subjected to investigation.

Ho: Raw material purchasing decisions by manufacturing organizations are not determined by policy makers, deciders, technologists, users, buyer (purchaser), influencers and gate keepers & are not affected by internal (organizational, buying center, personal variable) & external factors (environmental variables).

H1: Raw material purchasing decisions by manufacturing organizations are determined by policy makers, deciders, technologists, users, buyer (purchasers), influencers and gate keepers & are affected by internal (organizational, buying center, personal variable) & external factors (environmental variables).

This study is significant because the researcher, dealers, experts, individual, organization and professionals have indicated that a lot of benefit can be gained from proper understanding the organization buying behavior. These benefits include increase in income; sales volume and profitability of the organization also increase in production and improving the standard of living of the individual.

### **Purpose of the study:**

The purpose of the study is to identify Organization Buying Behavior and how internal and external factors affects the purchasing of raw material and to identify the decision making unit that influences the buying decision of the manufacturing organization.

### **Significance of the study:**

This research introduces the basic theory of organization buying, an understanding of how the organization makes effective decision in purchasing, and selecting the best supplier it also investigates risk and uncertainty (external factors) associated in purchasing and the key participants that influence the buying process. This study is significant because researchers, experts, merchants, individuals, organizations and professional bodies have demonstrated that a lot of benefit can be gained

from proper understanding of buying behavior of the organisation. These benefits include increase in revenues, sales volume and profitability to the organisation, increase in output to the country as well as improved standard of living to the individual.

### Research Design

A Hypothetical Model is proposed for Organizational Buying Behavior:

#### Purchasing raw material by Organizations

Using Webster and Wind's of organizational buying behavior as well as the knowledge and data gained from the review existing literature, a hypothetical model of organization buying behavior is proposed for this research.

The following assumptions are made in designing the model as follows.

It is presumed that the organizational buying process is a joint decision making carried by individuals, by interacting with other people in the organisation. The organization, in turn, is influenced by a variety of forces in its environment. Therefore, there are three classes of variables determining organizational buying behavior.

The model assumed that the organizational buying behavior is a complex process, rather than a single, instantaneous act, and involves many persons both inside and outside the buying organization, multiple goals as well as potentially conflicting criteria. The process often takes place over an extended period of time, and it requires information from many sources. It also involves many inter-organizational relationships.

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### Literature review:

A lot has been written on organizational buying behavior particularly in the 1960's and 1970's when research in this area was very intense. This part of the thesis is devoted to a review of this literature. The aim here is not to include a complete list of all that has been written but rather includes mainly those sources that have been useful for this study.

A decision making unit (DMU) is an individual – a group of individuals who are participants in a decision making process, who share a common goal or goals which the decision will hopefully help them to achieve and who share the risk arising from the decision. Hill and Hillier (1977) say “ The DMU consists of the individuals who actively participate in the decision when it is in the negative and zero states”. Buckner (1967), in his study found that in Britain, the DMU for the purpose of plant equipment companies of the board, operating management and production engineers while the DMU for the purchase of materials and components consists of the buying department, design and development engineers and operating management.

As referred by Kauffman (1966) all those model shares the acknowledgment of the same relevant conceptual stages as Problem recognition, information research, evaluation and formulation of decision phase. Those phase appear either merged or individualized, to different level of detail implied in characterizing each one.

The first model mention by Kauffman is the Webster model 1965. Despite this conceptual simplicity, its importance lays on the fact that it settled the

foundation towards a rationalization of the organization buying process. This fact justified its selection for more elaborate description on the review.

Hambagda (1985) in his study titled buying: the decision-making process in Nigeria's public service found that the needing department or division has the autonomous authority to decide to purchase items of value not exceeding one thousand naira at a time. He added that such an autonomous discretionary buying power can be exercised only to the extent that the head of department obtains a minimum of three quotations, out of which he selects the one most advantageous to the government. Any purchase in excess of one thousand naira must be presented to the Ministerial Tenders Committee whose membership cuts across ministerial barriers. Typically the ministerial tenders committee comprises the Commissioner for the Ministry sponsoring the project or Chairman, the Director General of the Ministry, an officer of the ministry acts as tenders secretary as part of his schedule; all heads of divisions in the Ministry; the Director General of works or his representative, a representative of the Ministry of Justice and the Director of Budget. In the case of Statutory Corporations the committee comprises the whole council/board; a representative of the Ministry of Finance; a representative of the Ministry of Works; the head of the corporation and some departmental heads, depending on the nature of corporation.

A large number of buying situations in organizations would involve many persons. These persons may be from different functions (production, purchase, design, maintenance), may have different backgrounds

(engineers, MBA, graduates etc.) may have different hierarchical levels

within the organisation (Managing Director, General Manager, Material  
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Manager). Further, persons in a buying situation may appear to play different roles over the entire buying decision exercise. A grand conceptualization of various roles of the different members is the concept of the Buying Centre.

Many researchers have studied the various roles played by individuals comprising the Decision making unit (DMU) or the buying centre. Webster and Wind found that within the buying centre, five roles of actors were involved. He also found that several individuals may occupy the same role or one individual may occupy more than one role. These roles at the buying centre are:

- a. Users – those members of the organization who use the purchase products or services.
- b. Buyers – those with formal responsibility and authority to contract with suppliers.
- c. Influencers – those who influence the decision making process directly or indirectly by providing information and criteria for evaluating alternative buying actions.
- d. Deciders – those who choose among alternative buying actions, and,  
Gatekeepers – those who control the flow of information (and materials) into the buying centre.

On the other hand Klass (1961) classified the roles played by individuals in the buying centre into four classes. These are contributors, participants, responsible and directors.

Finally ' Sales Management' classified these roles into five classes, namely, those who make the major buying decisions, those who make recommendations, those who must approve purchases, those who affect the conditions of use and those who conduct the buying negotiations.

However, it is only on very rare occasions that one person within the organization will make all the buying decisions for in most cases, a large number of individuals who fulfill a variety of roles are involved. It follows that as the nature of the decisions change, so will the participants. Therefore it is apparent that the individuals involved in decision making in the industrial buying process will vary considerably from one occasion to another.

The next task is to locate the position, in the organizational structure, of the individuals involved in each of the major decision areas. According to Hill and Hillier (1977), this position can be considered in terms of two coordinates, the lateral and vertical locations, and represent the managerial hierarchy of the individuals concerned. Various studies have indicated occasions on which some functions become more important in the buying process than others.

Buckner (1967) found that in the purchase of plants, design and development engineers tend to have dominant influences. He also found out that there is a tendency for groups of specialists to be involved at each stage in industrial buying process and that in the purchase of capital equipment, the buying department is usually not involved until later stages. Alexander, Cross and Hill (1961) found that it is the purchasing agent who invariably selects the suppliers as well as negotiates the terms of the contract. Finally, Weigard (1968) in his study found that there are some conflicts in the way in which management and engineering perceived each other's roles.

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However, it is not sufficient to identify the positions and roles played by individuals likely to be involved in the buying process but it is also necessary to obtain some indication of the behavioral characteristics of the participants, as all these things are likely to have an effect on the decisions made by the individuals concerned. Researchers have studied the characteristics of the individuals participating in the buying process. Two prominent characteristics of individuals are: rationality and personality.

Methodology

## **Data Collection**

I have visited Siemens for studying the buying process of the organization. Mr. Suhas Parab (senior executive Purchasing) helped me in collection of the data to understand buying process of Siemens. The data collected was primary data. The Buying situation and key members of buying situation are been elaborated below in relation with Siemens.

In 2008, Siemens had launched a Supply Chain Management initiative with the objective of working with their suppliers to establish a leading global procurement network, promote the development of technologies, and accelerate innovation cycles. Supply chain management at Siemens aims to ensure the availability & quality of the materials they require to serve their customers. This is now achieved by means of a globally balanced localized & close-knit network with their supply base & a very close link and strategic alignment with their businesses. Centralized approach for all indirect materials & direct materials is one of the key objectives, to significantly

increase the share of Siemens-wide managed materials, in order to leverage bundling effects across Siemens more effectively.

Webster and Wind, who have done some pioneering work in this area, define organizational buying as a complex process of decision making and communication, which takes place over time, involving several organizational members and relationship with other firms and institutions. According to them, it is much more than a simple act of placing an order with the suppliers. In this sense, they define organizational buying behavior as the decision making process by which formal organizations establish the need for purchased resources and identify, evaluate and choose among alternative suppliers. Webster and wind model has identified process comprising of eight steps as follows:

Potential Stages of (Siemens) purchasing process: (Appendix A)

**Problem Recognition:** The recognition of a problem or need may originate within the buying firm or may also be recognized by the smart marketers. In the case of Siemens Alkon was the existing supplier of the company. It supplies the outer frame of plastic for holding the contactor body. Since there has been significant changes in the shape & higher quality of resistance was expected from it. For the same Alkon charged a higher rate than its competitors. So company had to search for alternative supplier.

**Specification:** Once the problem is recognized within or outside the buying organization, the next phase is how to resolve the problem. In first stage the problem was of supplier. Company is buying the item for the first time in this situation. Company has limited knowledge and lack of previous experience.  
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Therefore, they have to obtain a variety of information about the product, the suppliers, and the prices and so on. The risks are more, decisions take longer time, and so more people are involved in decision making in the new purchase decisions.

Supplier search: Production experts say that about 80% of products total cost is decided before the commercial production. Once the commercial production starts, any change in design or specification would be very costly. It is therefore important that supplier are involved in the design stage to develop specification.

Proposal submission: in this phase the buying organization searches for the acceptable suppliers and vendors which can provide them with best deal. The Buying center in this step gathers all information about the available supplier and then prioritizing them according to the best one.

Supplier Selection: Once the qualified supplier is decided, the buying organization obtains the proposal by selecting enquire to the supplier. The supplier then sends the offer , quotation, or formal bid etc. accordingly the organization selects the best supplier in case of Siemens Ajay Plastic was selected, which provides Siemens with their specifications, quality at a price lower than other supplier.

Evaluation of proposal and selection of supplier: Here the company evaluates the supplier proposal and select one or more. In case of Siemens Ajay Plastic Ltd. is selected which will provide them with their demanded specifications, quality at a price lower than other supplier (Alkon). Ajay plastics also gave a safety credit period in comparison to other supplier Alkon. Product was pre-  
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checked for quality so company was assured about its performance and saved time.

Selection of order routine: This activity involve a) Placement of Order (purchase order) with the selected supplier, b) the quantity to be purchased from supplier (Siemens needs almost 3000 coils every month), c) Frequency of order placement by buyer and delivery schedule to be adhered to by the supplier, d) levels of inventory needed, e) follow up of actual delivery to ensure to be as per deliver schedule, and, f) the payment terms

Performance review: In this phase, a formal or informal review regarding the performance of each supplier takes place. The user dept gives the feedback on whether the purchased item solved the problem or not. One of the suppliers of Marshalls Corporation is supplying Siemens since last 9yrs. Company is satisfied with its product and places order continuously. In this situation the product, the price, the delivery period, and the payment terms remain the same in the reorder, as per the original purchase order. This is a routine decision with low risk and less information needs.

## **Buying Situations at Siemens**

New Task buying situation:

Siemens is planning to launch a new product called Sirius (contactor).

Product is under design stage and a list of materials is being prepared which will be required for manufacturing it. Product development team gives this list with proper specification to head of purchase department. The

specifications are now discussed with a committee of 6 people which

includes tooling engineer, materials engineer, purchase head, senior  
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executive, shop floor head & head of finance department. Generally company conducts just a single meeting to finalize supplier. But in case of Sirius it took them almost 3 months (85 days). Company is buying the item for the first time in this situation. Company has limited knowledge and lack of previous experience. Therefore, they have to obtain a variety of information about the product, the suppliers, and the prices and so on. The risks are more, decisions take longer time, and so more people are involved in decision making in the new purchase decisions.

#### Modified Rebuy:

Alkon is the existing supplier of Siemens. It supplies the outer frame of plastic for holding the contactor body. Since there has been significant changes in the shape & higher quality of resistance was expected from it. For the same Alkon charged a higher rate than its competitors. So company had to search for alternative supplier. Finally Ajay Plastic Ltd. Provided Siemens with their specifications, quality at a price lower than Alkon. Ajay plastics also gave a safety credit period in comparison to Alkon. Product was pre-checked for quality so company was assured about its performance and saved time. Modified rebuy situation occurs when the organisation is not satisfied with the performance of the existing suppliers, or the need arises for cost reduction or quality improvement. Even though, certain attributes or factors can be used to evaluate the suppliers. There may be uncertainty regarding the supplier who can best meet the needs of the buying firm. Therefore, the modified rebuy situation occurs mostly when the buying firms are not satisfied with the performance of the existing suppliers.

### Straight Rebuy:

Siemens needs almost 3000 coils every month, to meet its need of manufacturing contactors. Marshalls Corporation is supplying Siemens since last 9yrs. Company is satisfied with its product and places order continuously. In this situation the product, the price, the delivery period, and the payment terms remain the same in the reorder, as per the original purchase order. This is a routine decision with low risk and less information needs. This decision is taken by a junior executive in the purchase department, who also performs various other functions. Generally, Siemens do not change the existing suppliers if their performance is satisfactory.

### **Key members of the buying center at Siemens:**

#### Top Management Persons:

The top management at Siemens consists of managing director, director, president, vice-president & general manager. They are generally involved in

(a) purchase policy decisions.

(b) Approval of purchase department annual budgets.

(c) Guidelines for purchase decisions. Help in purchases of high value capital equipment/material.

#### Technical Persons :

The technical persons are design engineers, production manager, quality control manager, R&D manager, and industrial engineers. They are generally

involved in product specification or description, technical evaluation of offers received from suppliers. They visit the factories of potential suppliers to gain more information and assurance of manufacturing capability.

#### Buyers/Purchasers:

Buyers are the persons in the purchase or materials department. At Siemens purchase manager is the person who decides. They coordinate with technical persons, top management, accounts or finance persons within an organization, as well as, with suppliers is considerable.

#### Accounts/Finance Person:

The contribution of finance head is seen while finalizing commercial terms such as modes of payment, issuance of bank guarantees, financial approval of capital purchases, issuing payments to suppliers and so on.

#### Marketing Function

When a purchase decision has an impact on the marketability of a firm's product, marketing people become influencers in the buying decision process.

There are six roles of actors involved in decision making. It was also found that several individuals may occupy the same role or one individual may occupy more than one role. These roles at the buying centre are: (Appendix B)

## **Buying Center Roles at Siemens**

### **Initiators:**

Initiator can be any buying centre member who is the first to determine that a need exist. At Siemens for Sirius their production manager, Mr. Anand Gokhale was the initiator. While at the shop floor he actually realized the need for high capacity contactor at lower price.

### **Influencers:**

When a purchase decision has an impact on the marketability of a firm's product, marketing people become influencers in the buying decision process. Siemens switchgear had to change its packing due to damages caused to the product in transportation. This in turn affected the satisfaction level of the customer. The marketing manger insisted that suppliers should use good quality and thicker wood for packing the motors to minimize damage in transit.

### **Buyers:**

At Siemens purchase executive Mr. Suhas Parab plays a major role of obtaining quotations from suppliers, evaluating & selecting the best quotation, negotiating & speed up deliveries. Implementation of purchase policies & negotiation is done with the support of 2 purchase officers of same division or other.

### **Users:**



While using contactor personally R&D engineer Mr. Prabhodh Rane realized that use of silver in place of aluminum chips can enhance the performance, also add value to the product. Since the use of silver increased the price of product, shop floor head & R&D head came up with an alternative, which reduce cost & not compromise the quality. The influence of the users in purchasing decisions may vary from minor to major.

Decider:

The deciders make the actual buying decisions. At Siemens switchgear division President & general manager takes the decision. Generally, for routine purchases the buyer (or purchase executive) may be the decider. But, for high value product like chip & coil framework president & general manager takes the final decision.

Gatekeeper:

At Siemens assistant of purchase manager plays the role of gatekeeper. He controls the flow of the information regarding products and services to the members of the buying center. He also controls sales people's meetings with the members of the buying center.

## **Webster & Wind Model**

Environment Variables:

These factors include economical, political, technical, legal or regulatory, technological, infrastructural and cultural factors. Environmental factors interact with each other to produce information, values, norms and general

business conditions. The influence of environmental factors can be pervasive. Competitive practices & pressures are continuous. To keep in touch with market growth the organization (Siemens) have to be updated. To come up with new task always, company needs to have supplier's information completely, in order to save time. Customer demands keep changing. To meet customer demand at lowest possible cost, also changing taste of customers affect the new task. Labor issues are always a matter of concern, while introducing the new task labor union needs to be taken into consideration. Laws & regulation have to be followed, in order to avoid future problems. In case of Sirius contactor, it was the customer demand of having high capacity coils at cheapest cost. Company had to introduce new technology & meet environment norms.

#### Organizational Variables:

While discussing the characteristics of organizational buying behavior, it was mentioned that organizations may differ from each other due to objectives, procedures, organizational structure, systems and technology: It is important to recognize the influence of such organizational factors ' on the buying behavior. It includes purchasing policies & procedure, goals, objectives, organization structure, degree of centralization in purchasing, and evaluation & reward system. The buying center is highly influenced by these variables. Siemens has a centralized system of buying, to avoid bundling effect. Also goals & objectives are always kept in mind while performing new task. Continuous innovation is the objective of Siemens.

#### Buying center variables & organizational buying decisions:

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Organizational buying is a multi-person activity. The concept of buying centre highlights the roles which different members of the buying organisation may play in the entire buying decision making exercise. The situation becomes more complex due to different statuses, authority, empathy and persuasiveness of the members of the buying centre. These may lead to conflicts. Though difficult, but an organizational marketer may make, attempts to become familiar with the internal dynamics of the buying process within a customer organisation. At buying center a group of assigned people are responsible for taking decisions for the new task. Top management, technical analyst, finance head, marketing head look out for the need of new task. They are initiators & users of the new product. To get best resources, they work out with various suppliers. Also their past relation with the supplier is viewed. Continuous communication of right information helps to better understand the purchase process. The hatch watts machine was too expensive for assembly of main unit to coil. Siemens had to take a strategic decision whether to buy or lease it. Company worked out costing for about a month & decided to completely outsource it, to reduce cost.

#### Personal Variables:

In spite of the environmental, organizational and interpersonal factors, it must be recognized that ultimately individuals, and not organizations, take buying decisions. Each member of the buying centre has a unique personality, a particular set of learned experience, a specified organizational function to perform, and perceptions of how best to achieve both personal and organizational goals. An industrial marketer should be aware of the differing buying perceptions and their influences on the ultimate buying

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decision. Perhaps, an understanding of the 'perceived risk and its management' at the individual level holds the key to identifying the individual influences on organizational buying behavior in specific situation. Education & expertise play a vital role of the person at buying center. His personal goals also affect the new task. While market didn't see the need of Sirius, Mr. Ashtaputre convinced the entire management the need to meet company's objectives. It is his personal satisfaction that motivates him to work for company.

### **Strengths of Webster & Wind Model:**

Comprehensive generally applicable

Analytical

Identifies Key variables

Helpful in developing industrial marketing strategies.

### **Weakness of Webster & Wind Model:**

Model is weak in explaining the specific influence of key variables.

Results and Findings

Therefore here we reject the null hypothesis and accepts the Alternate hypothesis. The raw material buying decisions by organizations (Siemens) determined by the following participants: Policy makers (initiator), deciders, buyer, users, technologists, influencers, & gatekeepers, these are the key member that influences the purchasing decision of an organization and macro-economic factors like environmental variable which includes (political,

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economic, legal, technical, infrastructural etc) & internal factors like organizational, buying center, personal variables also influences the buying center of the organization.

Summary:

Organizational buying behavior is a complex process in decision making. A variety of influences and factors add to this complexity. The buying behavior of a firm would vary for `new buy' situations to `repeat buy' situations. In order to comprehend various dimensions it may help to seek answers to some basic questions like

How does an organisation buy?

Who takes the buying decisions in an organisation?

What factors influence the buying behavior of an organisation?

Industrial marketers must thoroughly understand the influence of industrial purchasing practices on organization buying behavior. Where the purchasing function is centralized, buyer tends to become specialist in repetitive buying situation, are long term rather than short term oriented, and have more influence on the purchasing decision than those at the decentralized locations.

Industrial purchase decision are often the outcome of interaction that take place between various member of the buying center, thus, it is important for marketers to understand the interaction, the leadership pattern, and the formal and informal network of communication among buying center

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depends on the characteristics of the firm, the type of purchasing situation, the perceived importance of the resources available for handling the purchase.

Competitive practices & pressures are continuous; to keep in touch with market growth the organization has to be updated. For this every organization should introduce new product in the market to be competitive. The company should scan its external (macro-economic) factors like environment variables and also its internal factors like organizational, buying center, personal variables etc, so that they can understand the changing demand of the market which can become their opportunity.

## Conclusion

This research has identified the decision making unit that influence the purchase decision of organizations. The following groups were identified by the study: policy makers (initiator), deciders, buyer, users, technologists, influencers and gate keepers. This research has also identified that macro-economic factors like environmental variable (political, economical, legal, technical, infrastructural, & cultural) & also internal factors like organizational, buying center, personal variables also influences the buying decision of organization. Here it is believed that the proper participation and effective decisions making will help this groups to greatly influence the marketing strategies and achieve competitive advantage. Further the research study could be carried out to ascertain the levels of involvement of each of theses