

Relationship between industrial buyer behavior and supplier selection



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Consumer behavior is the study of the processes involved when individuals or groups select, purchase, use or dispose of products, services, ideas or experiences to satisfy needs and desires. Market segmentation is an important aspect of consumer behavior. Consumers can be categorized using many criteria, including product usage, demographics (the objective aspects of a population, such as age and sex) and psychographics (psychological and lifestyle characteristics).

Emerging developments, such as the new emphasis on relationship marketing and the practice of database marketing, mean that marketers are much more attuned to the wants and needs of different consumer groups.

Consumer and Industrial Buyer Behavior A term found in economic psychology implying the income available for discretionary spending among segments in the population. It is a measure of the ability and willingness to buy goods or services. 2. (industrial definition) Refers to the relative influence an individual or a job function (engineering, purchasing, production) has in a purchase decision.

Power may be based on reward abilities (granting monetary or perceptual benefits), coercion (imposing punishment), legitimacy (formal authority), personality (based on individual characteristics or status), or expertise (special knowledge or expertise). The management theory and practice relating to how and why people behave as they do within organization structures and how managers can bring about improvements in individual and group performance.

The buying decision-making process of an organization rather than by an individual customer. Organizational buying behavior differs from consumer buying behavior in that (a) normally, multiple individuals are involved, (b) buying decision rules or standards may be applicable, and (c) purchases occur as a result of derived demand. What motives are involved on both sides of the sales/purchasing relationship? Where do these motives align and where do they diverge? Marketers try to satisfy consumer needs, but the reasons any product is purchased can vary widely. The identification of consumer motives is an important step towards ensuring that the appropriate needs will be met by a product.

Traditional approaches to consumer behavior have focused on the abilities of products to satisfy rational needs (utilitarian motives), but hedonic motives (such as the needs for exploration or fun) also play a role in many purchase decisions. As demonstrated by Maslow's hierarchy of needs, the same product can satisfy different needs, depending upon the consumer's state at the time (i. e., whether basic physiological needs have already been satisfied). In addition to his or her objective situation, the consumer's degree of involvement with the product must be considered.

What influence does organization culture, values, and shared values have on the buyer/supplier relationship? A society's culture includes its values, its ethics and the material objects produced by its people. It is the accumulation of shared meanings and traditions among members of a society. A culture can be described in terms of its ecology (the way people adapt to their habitat), its social structure and its ideology (including people's moral and aesthetic principles). Myths are stories containing symbolic elements that <https://assignbuster.com/relationship-between-industrial-buyer-behavior-and-supplier-selection/>

express the shared ideals of a culture. Many myths involve some binary opposition, whereby values are defined in terms of what they are and what they are not (e. g., nature versus technology).

Modern myths are transmitted through advertising, movies and other media. A ritual is a set of symbolic behaviors that occur in a fixed sequence and that tend to be repeated periodically. Rituals are related to many consumption activities that occur in popular culture. These include holiday observances, gift giving and grooming. A rite of passage is a special kind of ritual that involves the transition from one role to another. These passages typically entail the need to acquire products and services, called ritual artifacts, to facilitate the transition. Modern rites of passage include graduations, initiations, weddings, debutante balls and funerals. C

Consumer activities can be divided into sacred and profane domains. Sacred phenomena are set apart from everyday activities or products. People, events or objects can become sacralized. Sacralization occurs when sacred qualities are ascribed to products or items owned by sacred people.

Objectification occurs when formerly sacred objects or activities become part of the everyday, as when one-of-a-kind works of art are reproduced in large quantities. Desacralization occurs when objects that previously were considered sacred become commercialized and integrated into popular culture. Purchasing and Supplier Selection Strategies How might lead users help or hinder supplier selection? A 'rational' consumer is expected to follow more or less closely the various steps identified in comprehensive decision-making process models, depending on the focus of the decision, importance

and complexity of the task and related experience and knowledge (see Schiffman et al. 1997, as one major text dealing with these models).

The present focus is on services because consumers are argued to distinguish between consumer items on the basis of the characteristics of goods and services. Market segmentation in consumer markets involves some level of critical mass that is unlikely to be met by any individual ethnic consumer but is at the reach of the ethnic group. An individual becomes important as a consumer only when associated with other similar individuals, creating an identifiable, measurable, stable and actionable group that is homogeneous (in consumption) within itself and heterogeneous in relation to other groups. In a nutshell, an ethnic group depends on, and is a reference for, individuals whose importance as consumers depends on their association with the group. A marketer's difficulty in telling an ethnic consumer about a product is illustrative of that consumer's difficulty in learning about and appraising that product.

Time and budgetary scarcities may limit available sources and communication difficulties and limited knowledge of the marketplace may limit the ability to search for, and evaluate, information about goods and services. What are the opinions regarding single sourcing and multiple sourcing (single supplier vs. many suppliers? A firm's sourcing strategy is characterized by three key interrelated decisions (Burke and Vakharia, 2003): (a) criteria for establishing a supplier base; (b) criteria for selecting suppliers (a subset of the base) who will receive an order from the firm; and (c) the quantity of goods to order from each supplier selected.

To start with, criteria for developing a supplier base are typically derived from the firm's perception of the supplier's ability to fulfill the objectives of quality, quantity, delivery and price. While the supplier's price may be the most critical criterion for profit maximization, other dimensions can equally impact the overall profitability of the firm. Scoring models are typically used to evaluate suppliers for inclusion in the base. In general, this approach ranks each supplier in terms of objectives and then based on a relative weighting of each of the objectives, a total score for each potential supplier is derived. Next, by specifying a threshold score, all suppliers who achieve this threshold are included in the base.

Objectives used in developing rankings vary across firms. For example, Sun Microsystems ranks its suppliers with a "scorecard" based on quality, delivery, technology, and supplier support (Holloway et al, 1996). From the approved supply base, the specific subset of suppliers which will actually receive an order to fill demand for a specific product must be determined. Since all suppliers in the base meet the quality, delivery, and other objectives of the firm, dominant industry practice appears to base this decision primarily on cost considerations. While the supplier's price quote is important, buying firms also emphasize criteria related to robust delivery reliability capabilities. Once the selected set of suppliers (a subset of the base) is determined, the firm must allocate product(s) requirements among them.

For the allocation decision, supplier yields (in terms of percentage of "good" units), order quantity policies, lead times, and transportation costs are typically considered. Why are purchasing people beginning to focus on their <https://assignbuster.com/relationship-between-industrial-buyer-behavior-and-supplier-selection/>

supplier's management as part of the evaluation process? How might this evaluation be conducted? Procurement activities in large part support a firm's inbound logistics and are vital to value creation (Porter, 1985). The strategic importance of sourcing is inherent in the positioning of the purchasing function in a supply chain. Purchasing activities link the firm to the greater upstream value system and allow a buying firm to obtain appropriate inputs from external suppliers.

A firm's sourcing strategy is therefore a key driver of an effective supply chain. Innovations in technology and increased global competition provide opportunities and challenges that drive firms to continuously evaluate and modify their sourcing strategies. Moreover, recent studies reveal that the long-term implications of poor supply chain management are far reaching, ultimately impacting both firm performance and market value. Since a typical manufacturing firm spends 55% of earned revenue on purchased materials, (Leenders and Fearon, 1998), disruptions due to supply inadequacies could have a major impact on profitability.