##### Unit 6: Analyzing business markets & Business buying behavior

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**6.0 Aims and Objectives**

After you look at this unit, institutional and government markets, you have to be able to:

* explain what the business market and hoe does it differ from the consumer market
* define what buying situations do organizational buyers face
* identify the participants in the business buying process
* know the major influences on organizational buyers
* discuss how business buyers make their decisions, and
* explain how institutions and government agencies do their buying.

**6.1 Introduction**

Business organizations do not only sell. They also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies and business services. There are large numbers of buying organizations in Ethiopia. Sellers need to understand these organizations' needs, resources, policies and buying procedures.

# 6.2 meaning of organizational buying behavior

Webster and Wind defined organizational buying as follows: ***Organizational buying*** is the decision making process by which formal organizations establish the need for purchased products and services and identify, evaluate and choose among alternative brands and supplies.

Although no two companies buy in the same way, the seller hopes to identify clusters of business firms that buy in similar ways to permit marketing strategy targeting.

# 6.3 The Business Market Versus the Consumer Market

The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented or supplied to others. The major industries making up the business market are agricultural, forestry and fisheries, mining, manufacturing, construction, transportation, communication, public utilities, banking, finance and insurance distribution and services.

More birr and items are involved in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes. Hide dealers must sell hides to tanners, who sell leather to shoe manufactures, who sell shoes to wholesalers, who sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also has to buy many other goods and services.

Business markets have several characteristics that contrast sharply with consumer markets.

* + ***Fewer buyers:*** the business marketer normally deals with far fewer buyers than the consumer marketer does. For example Addis Tyre Share Company sales largely depends on getting an order from very few and large government transportation companies like 'Anbessa' City Bus service and Walya intercity bus service enterprise.
  + ***Large buyers:*** a few large buyers do most of the purchasing in such industries as aircraft engines and defense weapons.
  + ***Class supplier - Customer relationship:*** because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. Sometimes the buyers require the sellers to change their practices and performance. Nowadays in modern business, relationships between customers and suppliers have been changing from downright adversarial to close and chummy. (Good Friendship).
  + ***Geographically concentrated buyers:*** a very large group of business buyers in Ethiopia are concentrated in major cities: Addis Ababa, Nazareth, Bahirdar, Dire Dawa, Awassa, and Mekele. The geographical concentration of producers helps to reduce selling costs. At the same time, business marketers need to monitor regional shifts of certain industries.
  + ***Derived demand:*** the demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of ultimate consumers.
  + ***Inelastic demand:*** the total demand for many business goods and services is inelastic that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if price of leather falls. Nor are they going to buy much less leather if the price rises unless they can find satisfactory substitutes. Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item's total cost.
  + ***Fluctuating demand:*** the demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment necessary to produce the additional output. Researches indicate that sometimes a rise of about 10 percent in consumer demand can cause as much as a 20 percent rise in business demand for products in the next period.
  + ***Professional Purchasing:*** business goods are purchased by trained purchasing agents, who must follow the organization's purchasing policies, constraints, and requirements. many of the buying instruments – for example – requests for quotations, proposals and purchase contracts – are not typically found in consumer buying.
  + ***Several buying influence:*** more people typically influence business-buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods. Business marketers have to send well-trained sales – representatives and often sales teams to deal with the well – trained buyers.
  + ***Multiple sales calls:*** because more people are involved in the selling process it takes multiple sales calls to win most business orders and the sales cycle can take years. A study showed that it takes more than four calls to close an average industrial sale. In the case of capital equipment sales for large projects, it may take multiple attempts to fund a project, and the sales cycle-between quoting a job and delivering the product – is often measured in a number of days.
  + ***Direct purchasing:*** business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive (such as large computers or aircraft).
  + ***Reciprocity:*** business buyers often select suppliers who also buy from them. An example would be a paper manufacturer that buys chemicals from a chemical company that buys a considerable amount of its paper.
  + ***Leasing:*** many industrial buyers lease instead of buy heavy equipment like machinery and trucks. The lessee gains a number of advantages: conserving capital, getting the latest product, receiving better service and gaining some tax advantages. The lessor often ends up with a larger net income and the chance to sell customers who could not afford outright purchase.

**6.4 Buying Situations**

The business buyer faces many decisions in making a purchase. The number of decisions depends on the type of buying situation. Robinson and others distinguish three types of buying situations: the straight re-buy, modified re-buy, and new task.

**6.4.1 Straight Re-buy**

The straight re-buy is a buying situation in which the purchasing department re-orders on a routing basis (e.g. office supplies, bulk chemicals). The buyer chooses from suppliers on an "approved list". These suppliers make an effort to maintain product and service quality. They often propose automatic reordering systems so that the purchasing agent will save reordering time. The out-suppliers attempt to offer something new or to exploit dissatisfaction with a current supplier. Out-suppliers try to get a small order and then enlarge their purchase share over time.

**6.4.2 Modified Re-buy**

The modified re-buy is a situation in which the buyer wants to modify product specifications, prices, delivery requirements or other related items. The modified re-buy usually involves additional decision participant on both sides. The in-suppliers become nervous and have to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business.

**6.4.3 New Task Buying**

it is a buying situation in which a purchaser buys a product or service for the first time (example could be office building, new security system). The greater the risk or the cost, the larger the number of decision participants and the greater their information gathering and therefore the longer the time to decision completion.

New-task buying passes through several stages; awareness, interest, evaluation, trial and adoption. Communication tools effectiveness varies at each stage; sales people have their greatest impact at the interest stage; and technical sources are the most important during the evaluation stage.

The business buyer makes the fewest decisions in the straight re-buy situation and the most in the new task situation. In the modified re-buy, the buyer has to determine product specification, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers and the selected suppliers. Different decision participants influence each decision and the order varies in which these decisions are made. The new task situation is the marketers greatest opportunity and challenge the marketer tries to reach as many key buying influencers as possible and provide helpful information and assistance. Because of the complicated selling involved in the new task, many companies use a missionary sales force consisting of their best sales people.

# 6.5 System Buying And Selling

Many business buyers prefer to buy a total solution to their problem from one seller called ***systems buying***, this practice originated with government purchases of major weapons and communication systems. The government would solicit bids from prime contractors, who would assemble the package or system. The contractor who was awarded the contract would be responsible for bidding out and assembling the system's subcomponents from second-tier contractors. The prime contractor would thus provide a "tunkey solution", so called because the buyer simply had to turn one key to get the job done.

Sellers have increasingly recognized that buyers like to purchase in this way, and many have adopted systems selling as a marketing tool. System selling can take different forms. For example, many auto parts manufacturers now sell whole systems, such as the seating system, the baking system, or the door system. A variant on systems selling is systems contracting, where a single supply source provides the buyer with his/her entire requirement of maintenance, repair, and operating supplies. The customer benefits from reduced costs because the seller maintains the inventory. Savings also result from reduced time spent on supplier selection and from price-protection over the term of the contract. The seller benefits from lower operating costs because of a steady demand an reduced paperwork.

# 6.6 Participants in the Business Buying Process

Who does the buying of thousands of birr worth of goods and services needed by business organizations? Purchasing agents are influential in straight re-buy and modified re-buy situations, whereas other department personnel are more influential in new-buy situations. Engineering personnel usually have major influence in selecting product components and purchasing agents dominate in selecting suppliers.

# 6.7 The Buying Center

Webster and Wind call the decision-making unit of a buying organization the buying center. The buying center is composed of all those individuals and groups who participate in the purchasing decision making process, who share some common goals and the risks arising from the decisions. The buying center includes all members of the organization who play any of seven roles in the purchase decision process.

* ***Initiators:*** those who request that something be purchased the may be users or others in the organization.
* ***Users:*** those who will use the product or service. In many cases the users initiate the buying proposal and help define the product requirements.
* ***Deciders:*** people who decide on product requirements or on suppliers.
* ***Approvers:*** people who authorize the proposed actions of deciders or buyers.
* ***Buyers:*** people who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, the buyer might include high level managers participating in the negotiations.
* ***Gate keepers:*** people who have the power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, and telephone operators may prevent sales persons from contacting users or deciders.

The average number of people involved in a buying decision ranges from about three (for services and items used in day-to-day operations) to almost five (for such high-ticket purchases as construction work and machinery). There is also a trend toward team based buying.

To target their efforts properly, business marketers have to figure out: who are the major decision participants? What decisions do they influence? What their level of influence? What evaluation criteria do they use?

When a buying center includes many participants, the business marketer will not have the time or resources to reach all of them. Small sellers concentrate on reaching the key buying influencers. Large sellers go for multilevel in-depth selling to reach as many participants as possible. Their salespeople virtually live with their high volume customers. Companies will have to rely more heavily on their communications programme to reach hidden buying influences and keep their current customers sold.

# 6.8 Major Influences in business markets

Business buyers respond to many influences when they make their decisions. When suppliers' offerings are similar, business buyers can satisfy the purchasing requirements with any supplier, and they place more weight in the personal treatment they receive. Where supplier offerings differ substantially, business buyers are more accountable for their choices and pay more attention to economic factors.

Business buyers respond to four main influences, environmental, organizational, interpersonal and individual factors.

# 6.8.1 Environmental Factors

Business buyers pay close attention to current and expected economic factors, such as the level of production investment, consumer spending and the interest rate. In a recession, business buyers reduce their investment in plant equipment and inventories. Business marketers can do little to stimulate total demand in this environment. They can only fight harder to increase or maintain their share of demand.

Companies that fear a shortage of key materials are willing to buy and hold large inventories. They will sign long-term contracts with suppliers to ensure a steady flow of materials.

Business buyers actively monitor technological, political regulatory and competitive developments. For example, environmental concerns cause changes in business buyer behavior. A printing firm might favor paper suppliers that carry a wide selection of recycled papers or ink vendors who use environmentally safe ink.

### 6.8.2 Organizational Factors

Every organization has specific purchasing objectives, policies, procedures, organizational structures and systems. Business marketers need to be aware of the following organizational trends in the purchasing area.

Purchasing department upgrading: purchasing departments in the past occupied in a low position in the management hierarchy, in spite of managing often more than half of the company’s costs. A typical firm spends about 60 percent of its net sales on purchased goods and services. However, recent competitive pressures have led many companies to upgrade their purchasing departments and elevate their administrators to vice presidential level.

*Cross – functional roles:* in recent survey, most purchasing professionals described their job as less clerical, more strategic, technical, team oriented and involving more responsibility than before. Purchasing is doing more cross functional work than it did in the past.

*Centralized purchasing:* in multidivisional companies, most purchasing is carried out by separate divisions because of their differing needs. Some companies, however have started to recentralize their purchasing. Headquarters identifies materials purchased by several divisions and buys them centrally, thereby gaining more purchasing clout.

The individual divisions can buy from another source if they can get better deal, but in general centralized purchasing produces substantial savings. For the business marketer, this development means dealing with fewer and higher – level buyers. The company uses a national account sales group to deal with large corporate buyers.

*Decentralized purchasing of small* – ticket items: at the same time, companies are decentralizing some purchasing operations by empowering employees to purchase small – ticket items. This has come about through different systems such as credit – card systems

*Internet purchasing:* - though is not developed well in Ethiopia in more advanced nations by the millennium, business to business buying on the web is increasing tremendously. The move to internet purchasing has far – reached implications of suppliers and will, no doubt, change the shape of purchasing for years to come.

*Long – Term Contracts:* Business buyers are increasingly initiation or accepting long-term contracts with reliable suppliers, that are close to their plants and provide high quality items.

*Purchasing – Performance Evaluation and Buyers’ Professional Development:* Many companies have set up incentive systems to reward purchasing mangers for good buying performance, in much the same way that sales personnel receive bonuses for good selling performance. These systems are leading purchasing mangers to increase their pressure on sellers for the best terms

*Lean Production:* Many manufacturers have moved toward a new way of manufacturing called lean production, which enables them to produce a greater variety of high quality products at lower cost, in less time, using less labor. Among the elements of this new system are just – in – time (JIT) production, strict quality control, frequent and reliable delivery from suppliers, suppliers locating closer to major customer, computerized purchasing systems, stable production schedules made available to suppliers, and single sourcing with early supplier involvement.

# 6.8.3 Interpersonal Factors

Buying centers usually include several participants with differing interests, authority, status, empathy and persuasiveness. The business marketer is not likely to k\now what kind of group dynamics take place during the buying decision process, although what ever information he or she can discover about personalities and interpersonal factors would be useful.

# 6.8.4 Individual Factors

Each buyer carries personal motivations, perceptions and preferences as influenced by the buyer’s age, income, education, job position, personality, attitudes towards risk, and culture. Buyers definitely exhibit different buying styles. There are “keep – it – simple” buyers, “own – experts” buyers, “want – the – best” buyers, and “want – everything – done” buyers. Some younger, highly educated buyers are computer experts who conduct rigorous analyses of competitive proposals before choosing a supplier. Other buyers are “toughies” from the old school and pit the competing sellers against one another.

**6.8.5 Cultural Factors**

Buying factors vary form one country to another. Here are some rules of social and business etiquette that marketers should understand when doing business in other countries:

***France:*** if you don't speak French, apologize for your lack of knowledge. The French are quite proud of their language.

***Germany:*** Germans are also sticklers for titles. Try to introduce people using their full, correct title, no matter how long it is. Also, Germans shake hands at both the beginning and the end of business meetings.

***Japan:*** Most Japanese business people know what will be discussed at a meeting, how everyone feels about it, and how it will affect their business before they even get there. The purpose of a meeting is to reach consensus. A flexible agenda is necessary so that discussions flow more freely. Foreigners should not try to adhere religiously to a set agenda.

***Korea:*** While doing business with Koreans, Americans need to be sensitive to Korea's historical relationship with Japan, which made a vertical colony of the Korean Peninsula.

Koreans do not like foreigners to assume that their culture is the same as Japan's. However, Koreans do have great respect for Japanese business acumen, and like the Japanese, they still observe Confucian ethics based on respect for authority and the primary of the group over the individual.

***Latin America:*** Although individual Latin America countries may vary in terms of business protocol, there are some common activities. In Latin America, it is **derequeur** to make initial face-to-face contact through an outside liaison who knows the customer's company well. The liaison, or **enchufe**, introduces the salespeople or business representatives to key players.

# 6.9 The purchasing / Procurement process

Business buyers buy goods and services to make money or to reduce operating costs or to satisfy a social or legal obligations. A steel company will add another finance if it sees a chance to make more money. It will computerize its accounting system to reduce the cost of doing business. It will add pollution – control equipment to meet legal requirements.

In principle, business buyers seek to obtain the benefit package (economic, technical, service and social) in relation to a market offering’s costs. A business buyer’s incentive to purchase will be greater; the greater the ratio of perceived benefits to costs – i.e. the greater the perceived value. The marketers’ task is to set an offering that delivers superior customer value to the target buyers.

We can distinguish between three company purchasing orientations – buying, procurement and supply management. Buying means executing discrete transactions with suppliers where the relationships are usually arms – length and at times adversarial. The buyer's focus is short term and heavily tactical. The buyer is rewarded for ability to obtain the lowest price from suppliers for the given level of quality and availability. Buyers operate on the assumption that the “value pie” is fixed, and they must bargain hard to achieve the largest share of the pie. Buyers use two tactics: commoditization, where they imply that the product is a commodity are care only about price, and multisourcing, where they use several sources and make them compete for share of the company’s purchases. To reduce risk, these buyers follow established procedures and rely on proven vendors.

Many firms have moved to a procurement orientation, in which they simultaneously seek quality improvements and cost reductions.

Rather than forcing lower supplier prices to achieve cost reductions, procurement – oriented buyers develop more collaborative relationships with a smaller number of suppliers and seek saving through better management of acquisition, conversion, and disposal costs. They work closely with their suppliers in early supplier involvement programmes on materials handling, inventory levels, just – in – time management, and even product co design. Procurement buyers focus their efforts on negotiating long-term contracts with major suppliers to ensure the timely flow of materials. Their goal is to establish win – win relationships with suppliers and to share any savings equitably. Within the firm, the procurement people work closely with the manufacturing group on materials requirement planning to make sure that supplies arrive on time.

A supply management orientation involves a further broadening of purchasing role where purchasing is less of a department and more of strategic value – adding operation. The firm focuses on how to improve the whole value chain from raw materials to end-users.

# *Stages in The Process*

Here we will describe the stages in the normal buying process. Robinson and associates have identified eight stages of the industrial buying process and called them buy phases. The eight steps for the typical new task-buying situation are as follows:

# 6.9.1 Problem Recognition

The buying process beings when someone in the company recognizes a problem or need that can be met by acquiring a good or service. The recognition can be triggered by internal or external stimuli. Internally, the most common events leading to problem recognition are the following:

* The company decides to develop a new product and needs new equipment and materials
* A machine breaks down and requires new parts
* Purchased material turns out to be unsatisfactory, and the company searches for another supplier.
* A purchasing manager senses an opportunity to obtain lower prices or better quality.

Externally, the buyer may get new ideas at a trade show, see an advertising or receive a call from a sales representatives who offers a better product or a lower price. Business marketers can stimulate problem recognition by direct mail; telemarketing and calling on prospects.

**6.9.2 General Need Description**

Here the buyer determines the needed item’s general characteristics and required quantity. For standard items, this is not very involved process. For complex items, the buyer will work with others-engineers, users and so on-to define the needed characteristics. These may include reliability, durability, price or other attributes. Business marketers can assist buyers by describing how their products would meet the buyers needs.

**6.9.3 Product Specification**

The buying organization now develops the items technical specifications. Often, the company will assign a product value-analysis (PVA) engineering team to the project.

* Product value analysis is an approach to cost reduction in which components are carefully studied to determine if they can be redesigned or standardized or made by cheaper methods of production.

### 6.9.4 Supplier Search

The buyer now tries to identify the most appropriate suppliers. The buyer can examine trade directories, do a computer search, phone order companies for recommendations, watch trade advertisements, and attend trade shows. However, these days the most likely place to look is on the internet. For suppliers, this means that the playing field is leveled. Smaller suppliers have the same advantages as larger ones and are listed in the same on-line catalogs for a nominal fee.

The supplier's task is to get listed in major on-line catalogs or services, develop a strong advertising and promotion program, and build a good reputation in the market place. Suppliers who lack the required production capacity or suffer from a poor reputation will be rejected. Those who qualify may be visited by the buyer’s agents, who will examine the suppliers manufacturing facilities and meet their personnel. After evaluating each company, the buyer will end up with a short list of qualified suppliers.

# 6.9.5 Proposal Solicitation

The buyer will now invite qualified suppliers to submit proposals. Where the item is complex or expensive the buyer will require a defiled written proposal from each qualified supplier. After evaluating the proposals, the buyer will invite a few suppliers to make formal presentations.

Business marketers must thus be skilled in researching writing and presenting proposals. Their written proposals should be marketing documents, not just technical documents. Their oral presentations should inspire confidence, positioning their company’s capabilities and resources so that they stand out from the competition.

**6.9.6 Supplier Selection**

Before selecting a supplier, the buying center will specify desired supplier attributes and indicate their relative importance. It will then rate suppliers on these attributes and identify the most active suppliers. Buying centers often use a supplier evaluation models such as the one shown in the table below.

In practice, business buyers use a variety of methods to assess supplier value. Business marketers need to do a better job of understanding how business buyers arrive at their valuations. Three researchers who conduct a study of the main methods that business marketers use to assess customer value found eight different customer value assessment methods. Companies tend to use the simpler methods although the more sophisticated ones promise to produce a more accurate picture of customer perceived value.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Rating Scale | | | |
| **Attributes** | **Importance Weights** | **Poor (1)** | **Fair (2)** | **Good (3)** | **Excellent (4**) |
| Price | 0.30 |  |  |  | X |
| Supplier reputation | 0.20 |  |  | X |  |
| Product reliability | 0.30 |  |  |  | X |
| Service reliability | 0.10 | X |  |  |  |
| Supplier flexibility | 0.10 |  | X |  |  |
| Total Score: 0.30(4) + 0.2(3) + 0.3(4) + 0.10(2) + 0.10(3) = 3.5 | | | | | |

## Methods of assessing customer value

1. *Internal engineering assessment:* Company’s engineers use laboratory tests to estimate the products performance characteristics. If the performance is one and half times better than the closest competitors performance, the company feels that it can charge up to one and a half times more. Weakness: Ignores the fact that in different applications, the product will have different economic value.
2. *Field value-in-use assessment:* customers are interviewed about cost elements associated with using the new product offering compared to an incumbent product. Customers assign money values to these cost elements.
3. *Focus-group value assessment:* customers in a focus group are asked what value they would put on potential market offerings.
4. *Direct survey questions:* customers are asked to place a direct dollar value on one or more changes in the market offering.
5. *Conjoint analysis:* customers are asked to rank their preference for alternative market offerings or concepts. Statistical analysis is used to estimate the implicit value placed on each attribute making up the offering.
6. *Benchmarks:* customers are shown a benchmark offering and then a new market offering. They are asked how much more they would pay for the new offering. They can also be asked how much less they would pay if certain features were removed form the benchmark offering.
7. *Compositional approach:* customers are asked to attach a monetary value to each of three alternative levels of a given attribute. This is repeated for other attributes. The values are then added together for any offer configuration.
8. *Importance ratings:* customers are asked to rate the importance of different attributes. They are also asked to rate the supplier firms with respect to their performance on these attributes. The company can then estimate the relative value of each competitor’s offer.

The choice and importance of different attributes varies with the type of buying situation. Delivery reliability, price, and supplier reputation are highly important for routine order products. For procedural-problem products, such as a copying machine, the three most important attributes are technical service, supplier flexibility, and product reliability. For political problem products that rivalries in the organization (such as the choice of a computer system), the most important attributes are price, supplier reputation, product reliability, service reliability and supplier flexibility.

The buying center may attempt to negotiate with its preferred suppliers for better prices and terms before making the final selection. Despite moves toward strategic sourcing, partnering and participation in cross-functional teams buyers still spend a large chunk of their time hangging with suppliers on price.

# 6.9.7 Order-Routine Specification

After selecting the suppliers, the buyer negotiates the final order, listing the technical specifications, the quality needed, the expected time of delivery, return policies, warranties and so on. In the case of maintenance, repair and operating items, buyers are moving toward blanket contracts rather than periodic purchase orders. A blanket contract establishes a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed-upon prices over a specified period of time. Because the stock is held by the seller, blanket contracts are sometimes called stock-less purchase plans. The buyer’s computer automatically sends an order to the seller when stock is needed.

Blanket contracting leads to more single source buying and ordering of more items from that single source. This system locks suppliers in tighter with the buyer and makes it difficult for out-suppliers to break in unless the buyer becomes dissatisfied with the in-supplier’s price, quality, or service.

**6.9.8 Performance Review**

The buyer periodically reviews the performance of the chosen supplier(s). Three methods are commonly used. The buyer may contact the end users and ask for their evaluations or the buyer may rate the supplier on several criteria using a weighted score method. Or the buyer might aggregate the cost of poor supplier performance to come up with adjusted costs of purchase, including price. The performance review may lead the buyer to continue, modify or end the relationship with the supplier. The supplier should monitor the same variables that are monitored by the product buyers and end users.

We have described the buying stages involved in a new task buying situation. In modified-re buy or straight rebuy situations, some stages would be compressed or by passed. For example, in a straight rebuy situation, the buyer normally has a favorite supplier or a ranked list of suppliers. Thus the supplier search and proposal solicitation stages would be skipped.

# 6.10 Institutional and government markets

Our discussion has concentrated largely on the buying behavior of profit seeking companies. Much of what we said also applies to the buying practice of institutional and government organizations. However, we want to highlight certain special features found in these markets.

The institutional market consists of schools, hospitals, nursing homes, prisons and other institutions that must provide goods and services to people in their care. Many of these organizations are characterized by low budgets and captive clienteles. For example, hospitals have to decide what quality of food to buy for the patients. The buying objective here is not profit, because the food is provided to the patients as part of the total service package. Nor is cost minimization the sole objective because poor food will cause patients to complain and hurt the hospital’s reputation. The hospital purchasing agent has to search for institutional food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors setup a separate division to sell to institutional buyers because of these buyers’ special needs and characteristics. Thus, organizations will produce, package, and price their products (their foods) differently to meet the different requirements of hospitals, colleges, and prisons.

In most countries, government organizations are a major buyer of goods and services. 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. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R & D costs and risks and in cases where there is little competition.

Government organizations tend to favor domestic supplies over foreign suppliers. A major complaint of multinationals operating in Europe was that each country should favoritism toward its nationals in spite of superior offers that were available from foreign firms. The European Economic Commission is removing this bias.

Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel.

The Government purchases billions of dollars’ worth of technology each year, but government decision makers often think than technology vendors haven’t done their homework. One common mistake is assuming product applications are obvious to government officials. In addition, vendors don’t pay enough attention to cost justification, which is a major activity for government procurement professionals. Companies gunning to be government contractors need to help government agencies.

###### Check Your Progress Exercise

1. Explain business markets and business buying behavior.

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1. Compare and contrast business market with consumer markets.

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1. Identify and discuss the different organizational buying situations.

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1. Define the buying center and identify the participants in the business buying process.

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1. How does the organizational forces influence the business markets.

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1. Briefly explain the stages in the organizational procurement process.

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1. Relate the concept of business marketers with institutional and government markets.

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## 6.11 Summary

Organizational buying is the decision making process by which formal organizations establish the need for purchased products and services, then identify, evaluate, and choose among alternative brands and suppliers. The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented or supplied to others.

Compared to consumer markets, business markets generally have fewer and larger buyers, a closer customer supplier relationship, and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluctuates with the business cycle. Nevertheless, the total demand for many business goods and services is quite price-inelastic. Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls, and the importance of direct purchasing, reciprocity, and leasing.

The buying center is the decision-making unit of a buying organization. It consists of initiators, users, influencers, deciders, approvers, buyers and gatekeepers. To influence these parties, marketers must be aware of environmental, organizational, interpersonal and individual factors. Environmental factors include the level of demand for the product, the economic outlook, interest rate, rate of technological change, political and regulatory developments, competitive developments and social responsibility concerns. At the organizational level, marketers must be aware of their clients’ objectives, policies, procedures, organizational structures and systems as well as trends toward purchasing department upgrading, cross-functional roles, centralized purchasing in multidivisional companies, decentralized purchasing of small-ticket items, internet purchasing, long term contracts, and increasing incentives for purchasing agents. At the interpersonal level, the buying center includes participants with different interest, authority, status, empathy and persuasiveness. An individual’s approach to the buying process is affected by his or her age, income, education, job position, personality, attitudes toward risk and culture.

The buying process consists of eight stages called buy phases:

(1) problem recognition, (2) general need description, (3) product identification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order-routine specification, and (8) performance review. As business buyers become more sophisticated, business-to-business marketers must upgrade their marketing capabilities.

The institutional market consists of schools, hospitals nursing homes, prisons and other institutions that must provide goods and services to people in their care. Institutional buyers are now becoming more concerned with profit or cost minimization. Buyers for government organizations tend to require a great deal of paperwork from their vendors and tend to favor open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets.

6.12 Answer key To Check Your Progress Exercises

1. Refer to section 6.1
2. Refer to section 6.2
3. Refer to section 6.3
4. Refer to sections 6.5 and 6.6
5. Refer to section 6.7.2
6. Refer to section 6.8
7. Refer to section 6.9