Organisational Buying Behaviour

Understanding Industrial Markets

The industrial market is composed of commercial enterprises, governmental organisations, and institutions whose purchasing decisions vary with the type of industrial good or service under consideration. Effective marketing programs thus depend upon a thorough understanding of how marketing strategy should differ with the type of organisation being targeted and the products being sold.

1. The diversity of industrial customers and the types of goods and services they purchase.
2. The type of customer being served and the product or service being marketed influences marketing strategy.
3. The unique characteristics of organisational purchasing.

The industrial market is characterized by tremendous diversity both in customers served and products sold. General Motors, for instance, purchases $500 worth of electronic fuel injectors, microelectronic sensors, and electronic noses for each subcompact car it produces; the federal government purchases $2,900 Allen wrenches to keep its spare parts inventory up to date; universities purchase $100 surge suppressors to protect their investment in IBM computers; while Computer Land, the largest U.S. computer chain, sells maintenance

Component parts, spare parts, accessory equipment, and services are only a small example of the types of products purchased by the variety of customers in the industrial market. Industrial distributors or dealers who in turn sell to other industrial customers, commercial businesses, government, and institutions buy a variety of products that, in one way or another, are important to the functioning of their business endeavours. Knowing how this vast array of industrial customers purchase and use products and what criteria are important in their purchasing decision is an important aspect of industrial marketing strategy.

Organisational Customers

One way to understand the diversity of industrial customers and the products they purchase is to begin by examining the various types of customers. Industrial customers are normally classified into three groups: (1) commercial enterprises, (2) governmental agencies, and (3) institutions.

Commercial enterprises

Commercial enterprises such as Maruti Udyog Ltd. (MUL), Grasim Cement, Infosys, Tata Steel etc. regularly purchase industrial goods and/or services for purposes other than selling directly to ultimate consumers. However, since they purchase products for different uses, it is more useful from a marketing point of view to define them in such a way as to understand their purchasing needs and how marketing strategy can be developed to meet their needs. These commercial enterprises may be classified as industrial distributors or dealers, original equipment manufacturers (OEMs), and users. These categories; which at times tend to overlap, are useful to the industrial marketer because they point out how goods and services are used by buying firms.

Industrial Distributors and Dealers

When commercial enterprises purchase industrial goods and resell them in basically the same form to commercial, government, and institutional markets, they are termed as industrial distributors or dealers. Industrial distributors and dealers take title to goods and thus, they are the industrial marketer's intermediaries acting in a similar capacity to wholesalers or even retailers. Although a few of them serves the consumer market, but they generally serve other business enterprises, government agencies, or private and public institutions.

Original Equipment Manufacturers

When enterprises such as Maruti, Bajaj or Onida purchase industrial goods to incorporate into products that they produce, they are classified as original equipment manufacturers (OEM). For example, the producer who sells gears to Maruti would view Maruti as an OEM. The important point is that with this type of customer (in this case Maruti), the product of the industrial marketer (in this case, the gear manufacturer) becomes a part of the customer's product.

User

A commercial enterprise is referred as user when it purchases industrial goods or services to support its manufacturing process or facilitate the operation of its business. Such goods include the items such as lathes, drilling machines and grinding wheels, whereas services include security, building maintenance and catering service. In contrast to the products purchased by OEMs, products purchased by users are not incorporated into the final product.

Overlap of Categories

It should be obvious that the preceding classifications centre on how goods and services serve the customer. A manufacturer of forklifts can be a user while purchasing metal-cutting machine tools to support the manufacturing process, or an OEM while purchasing gear drives and transmissions to incorporate into the forklifts being manufactured. The important point is that OEM purchasers will be concerned with the impact that products have on the quality and dependability of the end products they produce. Since users buy products for use in the production process or to facilitate the operations of their businesses, their concerns will centre on prompt, predictable delivery and maintenance service. And industrial distributors or dealers will be more concerned with how products match the needs of their customers. On one point, however, all commercial customers agree that their purchases are expected to enhance the profit-making capability of the firm.

Governments, public and private institutions such as hospitals, colleges and commercial enterprises are the important industrial customers

Organizational Buying vs. Consumer Buying

Marketing theory traditionally splits analysis of buyer or customer behaviour into two road groups for analysis – Consumer Buyers and Organisational Buyers. Consumer buyers are those who purchase items for their personal consumption. Organisational buyers are those who purchase items on behalf of their business or organisation In contrast to consumers, organisational buyers represent those "buying goods and services on behalf of an organisation for the purpose of the furtherance of organisational objectives" (Lancaster, 1999).

The most obvious difference between consumer and organisational buying is that the underlying motivation is different; i.e. personal consumption versus business usage. There are other contrasts, however.

Setting for Buying: For consumers, the buying unit is within the household, whereas for the organisational buyer, the setting is within the firm. This means as an industrial marketer targeting the organisational buyer, you must take account of factors such as buying procedures, levels of authority, and so on, factors not relevant in consumer marketing.

Technical/Commercial Knowledge: You will see that usually, the organisational purchaser will be a trained professional, more knowledgeable than the average consumer purchaser. This can often necessitate a completely different sales approach.

Contact with Buyers/Distribution Channels: You will find that organisational markets are usually more geographically concentrated than consumer markets. Factors such as proximity to available labour, raw materials, and transportation facilities often dictate an industry's location. In addition, compared to consumer markets, there can be far fewer potential customers. Taken together, these variables mean that you, as an industrial marketer must normally maintain far more direct and personal contact with his or her potential clients.

Number of Decision-Makers: Normally in consumer purchasing, the number of people involved in the decision-making process can be very small; i.e. an individual, a couple, a family, etc. In organisational buying, however, a great many people can be involved in the purchasing process. This can mean differences in both the number of people marketing communications must attempt to convince and that quite different decisions might emerge as a result of group dynamics than might initially be anticipated on the basis of individual discussions.

Derived Demand: Organisational buyers often continually adjust their buying decisions on the basis of projected sales figures, buying more units when forecast sales are higher. The result can be a sort of "pendulum effect", with a knock-on effect throughout the buying chain as each chain member adjusts its buying patterns accordingly.

Reciprocal Demand: Sometimes, a buyer can also be a seller at the same time. Software companies producing a package for an insurance company, for instance, might also purchase its insurance services from, what is effectively, one of its own customers. Both companies want to sell to each other, affecting each other's eventual buying decisions to a varying degree.

Unique Characteristics of Organisational Procurement

Selling in the industrial market is complicated by a broad spectrum of customers. Commercial enterprises (including resellers), governmental organisations, and institutions give buying responsibility to individuals who are quite knowledgeable in their particular markets. These individuals are often more realistic in assessing the competitive value of a vendor's product than is the vendor. Thus, they normally identify, evaluate, and select suppliers, domestic or foreign, who provide the greatest value. The foundation for formulating successful industrial marketing strategy, then, lies in knowing how the buying function is administered in a diversity of markets and situations.

Purchasing in Commercial Enterprises

How goods and services are purchased by commercial enterprises depends on the nature of the business, the size of the firm, and the volume, variety, and technical complexity of the products purchased.

Multiple Influencers

With the exception of very small organisations, several people usually share the purchasing decision. Multiple influencers in commercial purchasing can include production people, engineers, cost accountants, middle and upper management, and purchasing agents.

Technical Sophistication

Techniques such as materials requirement planning, supplier rating systems economic order quantity and value analysis are commonly used in the industrial market. Purchasing managers now make greater use of the firm's internal engineering capability to evaluate competitive products. They are more knowledgeable of price trends, and quite expert in the art of negotiation, and tend to be specialists capable of developing detailed knowledge with respect to manufacturing processing and design specifications of those products and materials for which they are responsible.

Knowledge of the buyer's needs, the products that can fulfill those needs, and the capabilities of existing and potential competition are essential prerequisites. Industrial marketers can develop a more realistic perception of customer needs by understanding a process called value analysis. While buyers use value analysis more frequently, suppliers who can predict or anticipate a customer's value judgments are in a better position to react in accordance with these judgments.

Value Analysis

Value analysis involves systematised techniques for reducing costs and improving the performance value of materials, components, and manufacturing processes. The first industrial application of value analysis, attributed to Larry Miles of the General Electric Purchasing Department, occurred in 1947. Value analysis sometimes referred to as value engineering is defined as an intensive appraisal of all the elements of the design, manufacture, or construction, procurement, inspection, installation, and maintenance of an item and its components, including the applicable specifications and operational requirements in order to achieve the necessary performance, maintainability, and reliability of the item at minimum cost.

Value analysis, as developed by General Electric, involves a step-by-step procedure:

1. <u>Selection</u>: A product that is ripe for improvement is selected for value analysis.

2. <u>Information gathering</u>: The team coordinator collects drawings, costs, scrap rates, usage forecasts, and operations sheets before the team first meets. Team members are asked to send in whatever information they have.

3. <u>Function definition</u>: This step stimulates thinking by requiring individuals to search and find out for the primary and secondary functions of items. A function is defined in two words, a verb and a noun (e.g., a flower pot contains soil). For example, possible definitions of a soft drink container could include "contains cola," "contains beverage," "contains liquid." By moving away from specifics (cola and beverage) toward a generality (contains liquid), mental restrictions regarding the product are removed. Thus, containers that customarily contain liquids other than soft drinks can be considered. Secondary function definitions are also listed, such as "maintains fizz," "provides access," "enables dispensing," "promotes selling," and "allows stacking," Secondary functions usually account for at least 80 percent of the cost of all items.

The values of the basic and secondary functions are analysed in terms of four definitions of value: use, esteem, cost, and exchange. The "use value" of an item refers to its ability to perform a specific function; "esteem value" deals with its ability to inspire people to want the item; "cost value" quantifies the money or labour cost of the product; and "exchange value" refers to the trade-in value of the product.

4. <u>Generation of alternatives</u>: Team members suggest ideas for new and different ways to accomplish the functions. This process is known as brainstorming, which involves asking questions such as:

- To what other uses can the product be put?
- What other products or substitutes might be used?

- How might this item be modified?
- How might this item be magnified or "minified"?
- How might the item be rearranged?
- How might the item be reversed?
- How might the item be combined with other items?

All ideas are recorded and later culled to a list of manageable size expenditure.

5. <u>Evaluation of Alternatives</u>: Alternatives are evaluated on various factors, including feasibility and cost. The costs are considered from several perspectives: the costs of elements (labour, material, etc.), the cost of increments (how costs are built up through various assembly stages), cost changes over time, cost per unit of dimension (length, area, weight, etc.), and cost per function. This further reduces the list to one or two good ideas.

6. <u>Presentation:</u> The final alternatives are refined and presented to a management committee as value analysis change proposals

7. <u>Implementation:</u> The approved value analysis change proposal is translated into an analysis change order and implemented

Purchasing in Government Units

As stated earlier, the largest purchaser of goods and services in the United States is government. To compete in this market, industrial marketers must develop a thorough understanding of the complexities involved in selling to the government. While the scope of this text does not allow a detailed coverage of government purchasing practices, perhaps a few comments will provide an idea of just how specialised and complex governmental purchasing really is.

Widely Dispersed Markets

There are many functional areas within both federal and state government organisations. In addition to the various agencies of the federal government (e.g., defence, space, interior, transportation, and the postal service), there is a broader range of government units at the state, county, and municipal levels. Thus, the industrial marketer is faced with a widely dispersed market. There are more than 70,000 buying centres at the federal, state, and local levels. Compounding this fact is the large number of influencers in the purchasing process. Government buyers are responsible to and/or influenced by numerous interest groups who specify, legislate, evaluate, and use the goods and services purchased.

Complicated Procurement Laws

Government purchasing, regardless of the level, is also based on legal requirements that establish the guidelines for contractual arrangements.12 Government contracts often contain provisions that have little to do with the product or service under consideration. Rather, they are more concerned with broader, social goals. They may require the contractor to give preference to small subcontractors, to employ a certain proportion of minorities, or pay the minimum wage. Where the federal government is concerned, all contractors must meet general contract provisions that are set forth by law and are published as part of the federal procurement regulations. These provisions include product inspection requirements, payment methods, and actions to be taken as a result of default and disputes, and many other provisions relative to the supplier's performance.

Understanding Government Contracts

Besides the need to understand procurement laws, marketing to the government also requires an understanding of the types of contracts that might be employed. Basically, there are two types: fixed-price contracts and cost-reimbursement contracts. In the fixed-price contract, a firm price is agreed upon before the contract is awarded, and full payment is made when the good or service is delivered in the condition agreed upon in the contract. Under cost reimbursement contracts, the supplier is reimbursed for allowable costs incurred in performing the contract. A provision is made for profit, either a specified dollar amount above cost (cost plus fixed fee) or a predetermined percentage of total contract prices. In most cases, the fixed-price contract permits the greatest profit potential; however, greater risks are involved if unforeseen expenses are incurred. But if the supplier can effect unforeseen cost reductions during the contract period, profits may be earned beyond those originally estimated. Because of the low incentives for contractor efficiency contained in cost-reimbursement contracts, the government carefully administers them. They are usually employed for developmental work where is difficult to forecast efforts and expenses.

When non-standardised products are involved, or when there are very few suppliers capable of providing a product, negotiated contract buying is employed. This type of purchasing strategy is much more flexible, since the government purchasing office has a wide range of personal judgment it can exercise. However, in its attempts to provide some uniformity to the negotiation process, the military has set up a uniform negotiation procedure that specifies the manner in which purchase needs are to be established, potential suppliers identified, proposals evaluated, and contracts negotiated and awarded.

Institutional Purchasing

Purchasing in the institutional market involves practices lying somewhere between commercial enterprises and government. For instance, a multi-campus university with centralised buying for all its campuses may purchase products much like a government customer; while another multi-campus university with decentralised purchasing authority may purchase products in the same manner as commercial customers. Institutional buyers are a mixture of government and private organisations and the industrial marketer must consider them on an individual basis to respond successfully to their unique needs and characteristics on one hand, public institutional buyers are. Quite similar to government buyers due to the constraints of political considerations and dictates of law; on the other hand private institutions are managed very many like commercial enterprises. Thus, institutional marketers may have to develop separate strategies to meet the needs of a purchasing agent who buys for an entire school system through formal bidding as opposed to a purchasing agent for a private health care institution.

Purchasing in the Reseller's Market

Buyers in the reseller's market select vendors by evaluating them primarily on the expected contribution toward increased sales volume and profits. Thus, buyers in the reseller's market are not only interested in the products of potential suppliers but in their marketing policies as well (e.g., their choice among intensive, selective. or exclusive distribution, and their attitude toward cooperative advertising and the provision of point-of-purchase displays).

Both products and policies affect resellers' ability to match, beat, or avoid competition. Suppliers who can assist resellers in their selling effort, counsel them on inventory management and procurement, and provide prices, terms, and financing policies that enable the reseller to function competitively and with reasonable risk, are virtually assured a share of the business. However, some manufacturers of well-known consumer brands have chosen to depend upon consumer acceptance rather than supportive policies to maintain reseller allegiance. But resellers say, "I buy from XYZ Corp. because I have to, not because I want to. When the day comes that I no longer have to buy from them, watch how fast I change suppliers.

Industrial Purchase

The elements of industrial purchase are usage for the purchased item, reasons for purchase, and the purchase complexity.

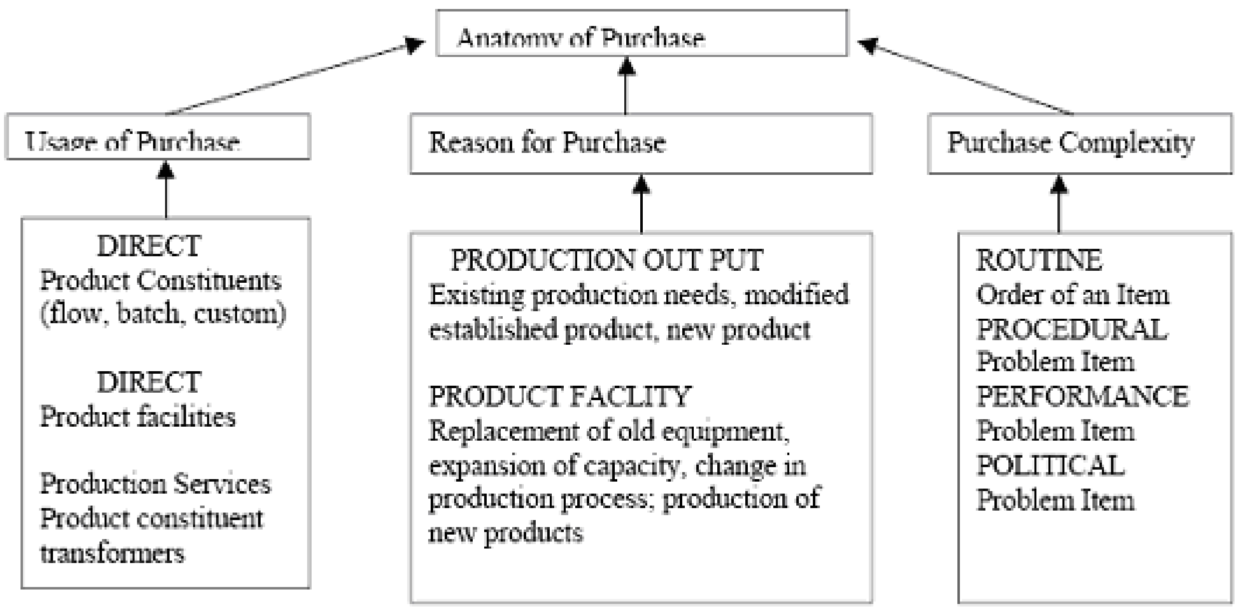
Necessity to the Purchased Item

The purchased industrial goods may be used for incorporation in production output, for utilization during the production process (but not incorporated in the output), providing a production facility, either in manufacture, service or resale, use in maintenance operations, and for use in development and/or engineering works. The criteria used in the purchasing decision process by various people involved will vary according to the usages for which the items are purchased.

Reason for Purchase

There are a variety of reasons for industrial purchase. For Production Output-existing production needs, production needs for modified/established product, and production needs for a new product. For improving production facility, replacement of old equipments, capacity expansion, de-bottlenecking or changes in production process are required.

The constituent element of purchase



Purchase Complexity

If products could be classified on the basis of problems inherent in their adoption, such a classification might be both predictive of the relative importance of product/supplier attributes and buyer's preferences with regard to vendors.

(a) Routine: Order Products No significant usage problems because of familiarity.

(b) Procedural: Problem Products Problems may arise unless the personal are taught how to use them

(c) Performance: Problem Products Concerns with the technical outcome of using the products.

(d) Political: Problem Products Problems arise when large capital outlays are involved and more frequently when the products are inputs to several departments whose needs may not be competitive.

If the supplying company finds that most of its customers experience problems (b), (c) and (d) mentioned above, then there is a high degree of purchase complexity. A procedural-problem products in one firm may give rise to performance and political- problems elsewhere.

Perpetual Factors

Where goods and services are more and more objectively identical, the buying decisions are increasingly influenced by subjective or perceptual factors. It is, therefore, not surprising to discover that behavioral variables such as working relationship with the suppliers have been shown to be twice as important to the industrial buyer as the price. When it comes down to the final choice of one vendor over another, the key variables are the buyers' attitudes and image of suppliers' quality, salesmen, delivery, service, etc. Most of the vendor selection studies deal with traditional variables of price, quality, delivery and service. The human role in this selection process was largely ignored. The industrial buyer has been recognized as an important element because more than the traditional set of vendor selection variables influences his purchase decisions. Each buyer views the buying process with a unique perceptual bias reflecting his own psychological map and the specific characteristics of the particular purchase under consideration.

Vendor Performance

Most of the theoretical approaches have actual performance data as their basis. This approach has considerable appeal in that industrial firms prefer to select vendors with whom they have some experience. In situations where no experience is available for the selected supplier, the buying firm may place a low risk order such as a small quantity until actual performance data is generated. Selected performance data such as quality, price and delivery are combined in some manner to produce a composite score, which becomes the basis for action. There are four approaches.

Total Cost Approach

Ideally a finite cost should be affixed to every action relating to the product purchase. This would include much more than the simple sum of the purchase price and delivery charges. This method has great theoretical appeal but little utility.

Cost of Quality

This plan considers the cost of quality assurance for the purchased items. One cost is to prevent purchasing from improper sources. Another cost is to detect lots of unacceptable quality. Other costs are for inspection of manufactured goods and rejected production.

Categorical Plan

Buyers keep continuous notes on their dealings with the vendor. Then, at a group meeting, these cumulative records on each supplier are perused for the purpose of assigning a rank to each vendor. Effective results depend heavily upon the competence of the individuals using it. The advantage of this procedure includes minimum amount of data collection and simple analytical technique.

Weighted Plan

The Weighted Plan explicitly recognises that the relative importance of variables such as price, quality, and service vary with purchase situation. Weights are established for each of the factors deemed significant. Then, these weights are multiplied by the respective performance data of a firm. The overall performance rating for that vendor is the sum of the products of weights time's factors.

Conceptualisation of Organisational Buying Behaviour

Industrial marketing is concerned with selling to other organisations, rather than to consumers. Webster and Wind defined organisational buying as 'the decision-making process by which formal organisations establish the need for the purchased goods and services and identify, evaluate and choose among alternative brands and suppliers.' Turnbull highlighted the impact of professional procurement on profitability of the companies. It is also called business-to-business marketing, which gives a broader flavour, but its application is wider than that, covering marketing to institutions (hospitals, schools, etc.) and governments as well. The range of products involved is also wide, embracing the extractive industries, raw materials of all sorts, heavy machinery and equipment, lighter equipment and tools, consumable supplies and services. For business-to-business purposes, there are 3 main types of market:

- Commercial consumer markets: These comprise organisations requiring goods and services as an incidental part of other activities. For example, all the organisations require office stationery like paper, pen or gum for the purposes of internal and external communication.
- Reseller markets: These comprise organisations, which re-sell products to others. For example, the stockists sell to commercial consumers or end-user markets, whereas the wholesalers sell on to retailers.
- End-user markets: These comprise organisations, which require products or services as an integral part of producing their own. For example, a car manufacturer requires components for other manufacturers. This type of demand is known as derived demand as the components demanded is entirely dependent upon the number of cars being sold.

So, a paper manufacturer may sell both to general office suppliers (in the reseller market), who in turn sell to the organisations whose need for paper is relatively small and also directly in bulk to end-users such as printing houses.

There are some overlaps with consumer markets, both in actual products (organisations and households both buy air conditioners), and in the type of product (copying paper and other supplies are similar to frequently-bought, low involvement consumer products). Traditionally, however, and especially from the industrial side of the fence, industrial marketing has been seen to be different. Many of those differences have been alluded to throughout this book; here we will pull together those scattered references and discuss what essentially separates the two. Webster stated that there are four major differentiating factors:

1. Functional interdependence: There is a greater need for communication and co-operation between functions, and marketing depends more heavily on other departments for its success.

2. Product complexity: Industrial products are more complicated than their consumer equivalents, and this complexity extends to other elements of the relationship between manufacturer and buyer.

3. Buyer-seller interdependence: The two are more closely engaged in a relationship, which extends beyond the transaction itself.

4. Complexity of the buying process: The buying process is not simple as it involves a lot of people and relatively higher amount of money.

To these could be added a number of other characteristics, such as

- Purchases are usually less frequent
- The average price paid per transaction is likely to be much higher
- An industrial product may be much more crucial to the buyer's business, which may depend on it for successful performance
- Reciprocity of buying is often a feature of the buyer-seller relationship

- Sellers may service a wide range of very different markets, each with different needs and buying processes
- These different markets may react differently to the elements of the marketing mix
- Manufacturers may need to understand not just their immediate market, but several levels, perhaps as far as end-users.

Organisational buyers' rational requirements are similar to those of consumer buyers, so in their purchasing buyers are likely to be looking for:

- Value of money
- Good credit terms
- A reliable, secure supply
- Good quality
- Technical support
- Sympathetic support towards complaints
- Compliance with legal requirements

Industrial buying behaviour can best be conceptualised as decision-making in which both organisational and individual variables are paramount. Several people are involved including users, influencers, the members of the buying decision. These decision makers are motivated by a combination of individual and organisational needs.

Decision Making Unit

The Decision Making Unit (DMU) consists of individuals who actively participate in the purchase decision-making process. All these decisions are influenced by economic (task) factors and emotional (non-task) factors. Some examples are given below:

Task and Non-Task Buyer Behaviour

Economic (Task)	Emotional (Non-Task)
Source Searching	Ego Enhancement
Vendor Evaluation	Personal Risk Reduction
Product cost management	Previous Experience
Purchase Price Analysis	Interpersonal relationship

Characteristics of DMU

(a) DMUs may differ with respect to the composition and position within the firm and with respect to their decision-making behaviour. If a DMU is composed of relatively newcomers, none of whom occupies a top-level position in the department, it is likely to have little power to press it recommendations

(b) DMUs may differ with respect to the importance they attach to the purchase of a particular item, the relative weight they attach to such purchase variables as price, quality and service, their attitudes towards particular type of vendors and the specific rules they employ to seek and evaluate alternative offerings.

(c) DMUs that consider a specific product important require prompt delivery and perhaps technical assistance, wish to deal with well-known vendors and seek a bid first from a supplier with whom they have-dealt previously.

Buy Phases

The business buyer faces many decisions in making a purchase. The number of decisions depends on the type of buying situation. There are mainly three types of buying situations termed as Buyclasses:

- Straight Rebuy
- Modified Rebuy and
- New task

Straight Rebuy

The straight rebuy describes a buying situation where the purchasing department reorders on a routine basis (e.g., office supplies, bulk chemicals) as the problem arises on a regular or recurring basis, the information requirements are minimal and there is no consideration of alternatives. The buyer simply chooses suppliers from the "approved list," giving weight to its post-buying satisfaction with the various suppliers. Current and future decisions depend on how current suppliers and products have performed in the past. This situation is the most prevalent one in industrial marketing and is also called “automatic recording” and is usually decided at the lower base management level.

The chosen suppliers or "in-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 suppliers not chosen termed as "out-suppliers" attempt to offer something new or to exploit dissatisfaction so that the business buyer will consider buying some amount from them. Out-suppliers try to get a small order and then enlarge their "purchase share" over time.

Modified Rebuy

The modified rebuy describes a situation where the buyer wants to modify product specifications, prices, delivery requirements or other terms. This buying situation is essentially characterised as learning problem, which has certain new aspects, but limited importance of considering alternatives. The modified rebuy usually involves additional decision participants on both the buyer and seller 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.

Modified rebuy situations are located in the continuum between straight rebuy (habitual behaviour and automatic recording) and new task (complex decisions involving significant change from previous experience). Typically the modified rebuy situation involves the consideration of new suppliers, item of marketing services of buyers who have considerable relevant buying experience. A modified rebuy situation does not necessarily infer that new source or new products will be purchased. The requirement is the serious consideration of alternative solutions. This may require intervention/ approval at high management level.

New Task

New Task describes buying situation in which the problem uncounted is a new one, information requirements are high and consideration of alternatives is very important. The buying group is presented with a problem, which it has not dealt with previously. Consequently, the buying decision makers have little, if any, relevant experience. As information needs are the maximum and the consideration of alternatives is important, this type of problem has a large probability of being solved at a high management level.

The new task involves in buying a product or service for the first time (e.g., office building, new network structure). The greater the cost and/or risk, the larger the number of decision participants and the greater their information gathering, therefore the longer the time to decision completion. In this regards, Chisnall commented that a buyer's professional activities may be tempered by the fundamental instinct of survival and enhancement of career. McClelland also argued that a great part of the efforts of business executives is directed towards minimising uncertainties. Hence, the new-task situation is the marketer's greatest opportunity and challenge. The marketer tries to reach as many key buying influences as possible and provide helpful information and assistance. Because the complicated selling involved in the new task, many companies use a missionary sales force consisting of their best sales people.

New-task buying passes through several stages. Ozanne and Churchill identified the stages as:

a. Awareness
b. Interest
c. Evaluation
d. Trial and
e. Adoption

They found that communication tools varied in effectiveness at each stage. Mass media were most important during the initial awareness stage; sales people had their greatest impact at the interest stage and technical sources were the most important during the evaluation stage. Marketers needed to employ different tools at each stage of the new task buying process.

Stages in Organizational Buying

Business buyers do not buy goods and services for personal consumption or utility. They buy goods and services to make money or to reduce operating costs or to satisfy a social or legal obligation. A steel company will add another furnace if it sees a chance to make more money. It will computerise its accounting system to reduce the costs of doing business. It will add pollution-control equipment to meet legal requirements. To buy the needed goods, business buyers move through a purchasing or procurement process. Although the companies may not follow the same purchasing procedure, but still Patrick Robinson, Charles Faris and Yoram Wind have identified eight stages of the industrial buying process and called them ***Buyphases***. These stages are shown in following table. All eight phases apply to a new-task buying situation and some of them to the other two types of buying situations. This model is called the **Buy Grid Framework**. The following figure shows the major stages (i.e. Buyphases) of the industrial Buying process in relation to major buying situations (Buyclasses).

Buy-grid analytic framework for industrial buying situation

Buyphases	***New Task***	***Modified Rebuy***	***Straight Rebuy***
Problem Recognition	Yes	Maybe	No
General Need Description	Yes	Maybe	No
Product Specification	Yes	Yes	Yes
Suppliers Search	Yes	Maybe	No
Proposal Solicitation	Yes	Maybe	No
Supplier Selection	Yes	Maybe	No
Order-routine Specification	Yes	Maybe	No
Performance Review	Yes	Yes	Yes

Let us consider the eight steps for the typical new-task buying situation.

1. Problem Recognition

The buying process begins when someone in the company recognises a problem or need that can be met by acquiring a good or a service. Problem recognition can occur as a result of internal or external stimuli. Internally, the most common events leading to problem recognition are:

- The Company decides to develop a new product and needs new equip and materials to produce this product.
- A machine breaks down and requires replacement or new parts.
- Purchased material turns out to be unsatisfactory and the 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, or see an ad, or receive a call from a sales representative who offers a better product or a lower price.

Recognition of a problem triggers the purchasing process. The problems could occur due to many reasons like the firm's product became outdated, equipments have broken down, or existing materials are unsatisfactory. A marketer can precipitate the need for a product by demonstrating opportunities for improving the organisation's performance, there by achieving a greater probability of success in securing the account .It is important to not that purchasing managers and design engineers actively encourage early supplier involvement, especially when confronting unfamiliar technology.

2. General Need Description

Having recognised a need, the buyer proceeds to determine the general characteristics and quantity of the needed item. The analysis of needs and subsequent decisions are generally made within the user department, where the needs invariably emerge. For standard items, this is not much of a problem. But for complex items, the buyers need to work with others like engineers, users and so on to define the general characteristics. They will want to establish the importance of reliability, durability, price and other attributes desired in the item. The business marketer can render assistance to the buyer in this phase by describing the various criteria to consider in meeting this need.

For technical products, the user department prepares performance specifications. The development of performance specifications has a critical impact on the final choice of a product and a supplier. The decisions made in the early stages of the process inevitably limit and shape the decision-making in the later stages of the process. The industrial salesperson is a vital source of information to organisational buyers throughout the purchasing process.

3. Product Specifications

The buying organisation next develops the item's technical specifications. This involves a detailed and precise description of the needed item, which can be readily communicated to others. This can be a critical stage for the marketer because key buying influences emerge here. Recognising these buying influences and their relative roles and importance can give the marketer a distinct advantage. A marketer who triggers the initial need has the benefit of a close working relationship with key organisational members throughout these formative stages in the procurement process.

In order to facilitate the process, a product-value-analysis engineering team may be assigned 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 standardised or made by cheaper methods of production. The team will examine the high-cost components in a given product-usually 20% of the parts account for 80% of the costs. The team will also identify designed product components that last longer than the product itself. The team will decide on the optimal product characteristics. Tightly written specifications will allow the buyer to refuse merchandise that fails to meet the specified standards.

Suppliers, too, can use product-value analysis as a tool for positioning themselves to win an account. By getting in early and influencing buyer specifications, the supplier has a good chance of being chosen in the supplier selection stage.

4. Supplier Search

Once the organisation has defined the accurate needs that will satisfy its requirements, the next step is to search for the sources of supply, in order to determine which of the many possible suppliers can be considered as potential vendors. The buyer can examine trade directories, do a computer search, phone other companies for recommendations, watch trade advertisements, and attend trade shows. The supplier's task is to get listed in major directories, develop a strong advertising and promotion program, and build a good reputation in the marketplace. Suppliers who lack the required production capacity or suffer from a poor reputation will be rejected. The buyers may visit potential suppliers to examine their manufacturing facilities and meet their personnel. Thus the buyer will end up with a short list of qualified suppliers. The intensity of search and evaluation varies by organisation and by the particular buying situation. The organisation invests more time and energy in the evaluation process when the proposed product or service has a strong bearing on organisational performance.

A common and important aspect in the process of deciding between suppliers is the reduction, containment and management of risk. Chinsall suggested that the element of risk in buying decisions could be considered along a continuum ranging from routine low risk purchases (i.e. routine purchases) at one extreme to novel high risk purchases (i.e. new purchases involving high absolute or opportunity costs) at the other end of the scale. In the centre would fall occasional purchases where the hazards could reasonably be calculated sufficiently to allow tolerable (or reasonable) risk to be minimised or avoided.

Buyers typically cope with these risks in several ways, including:

- Exchanging technical and other information with their customers and prospects;
- Dealing only with those suppliers with which the company has previously had favourable experiences
- Applying strict (risk reducing) decision rules
- Dealing only with suppliers who have a long-established and favourable reputation

- The introduction of penalty clauses for, for example, late delivery; 6 multiple sourcing to reduce the degree of dependence upon a single supplier.

Although for many buyers the pursuit of a risk-reducing strategy has a series of attractions, it needs to be recognized that such a strategy can also possess drawbacks. The most obvious of these stems from the way in which it is likely to lead to the company becoming and remaining a follower rather than becoming a leader. Developments both in product and process technology on the part of a supplier often provide significant opportunities for the development of a competitive edge, and unless this is recognized by the company it runs the risk of adopting new ideas only when they have been well tried by others. In commenting on this, Chisnall has commented that the industrial buyer is, to some extent, in a dilemma regarding innovating products. He will not wish to retard the development of his own organisation but, at the same time, he will be reluctant to accept unduly heavy risk. Yet he will be conscious of his status within the management hierarchy and of the opportunities, which he should use to enhance his career. It has been seen that progressive buyers deliberately involved technical managers in discussions and decisions regarding supplies, and were skilled in using formal and informal approaches. In this way the corporate or organisation man aims to steer a careful course between satisfying his personal need for status and security and the development of his company as a progressive organisation. Hence suppliers should obviously try to reduce the element of risk as perceived by buyers, through imaginative marketing strategies, particularly where new products are being introduced.

Real Life Case Scenario

IBM and its Development of the Total Sales Programme

IBM says that it sells solutions, not products. In doing this, the company concentrates upon gaining and retaining the customer's confidence from the moment of contact through until well after the sale has been made. One result of this is that long-term relationships are established, repeat purchases are guaranteed, and the likelihood of post-purchase dissonance reduced so that it is to all intents meaningless. Some of the ways in which this is done are listed below:

- Inviting the customer contact and other members of the company to conferences and seminars that may be useful to them. Often these seminars feature major international figures.

- Inviting the contact to visit prestigious customers who have successful IBM installations.
- Inviting the contact and others in the company to visit IBM's factories to look at projects that may be of interest.
- Sending out articles, newsletters and house magazines.
- Ensuring that IBM's service engineers and systems specialists channel back information gained when working at the customer's plant so that as full a picture as possible is built up of the client's needs.
- The development of 'account planning sessions' in which IBM, together with the customer, draws up an action plan for the next few years covering the systems and products that the customer may need.
- Ensuring a regular and worry-free relationship is developed and maintained.

Source: Duro, R. (1989), Winning *the Marketing War*, John Wiley & Son

5. Proposal Solicitation

The buyer will now invite qualified suppliers to submit proposals. Some suppliers will send only a catalogue whereas some could send sales representative. Where the item is complex or expensive, the buyer will require a detailed written proposal from each qualified supplier. The buyer will eliminate some and invite the remaining suppliers to make formal presentations. This process may take several months for exchange of proposals and counter proposals.

The business marketers must be skilled in researching, writing and presenting proposals. Their proposals should be marketing documents, not just technical documents. Their oral presentations should inspire confidence. They should position their company's capabilities and resources so that they stand out of the competition.

6. Supplier selection

Marketers will have to understand and manage this process if they are to succeed in becoming suppliers to major business customers. The buying centre will specify desired supplier attributes and indicate their relative importance. The buying centre will rate suppliers against these attributes and identify the most attractive suppliers.

The buying centre may attempt to negotiate with the preferred suppliers for better prices and terms before making the final selection. The marketer can counter the request for a lower price in a number of ways. The marketer can cite the value of the services the buyer now receives, especially where these services are superior to those offered by competitors. The marketer may be able to show that the "life-cycle cost" of using its product is lower than that of competitors, even if its purchase price is higher. Other more innovative ways may also be used to counter intense price pressure.

Buying centres must also decide how many suppliers to use. Many businesses prefer multiple suppliers so that they will not be totally dependent on one supplier and also to be able to compare the prices and performances of competing Suppliers. The buyer will normally place most of the order with a prime supplier. For example, a buyer may buy 60% from the prime supplier and 30% and 10% respectively, from two other suppliers. The prime supplier will make an effort to protect his prime position, while the secondary suppliers will try to expand their supplier share. In the meantime, out-suppliers will seek to get their foot in the door by offering an especially low price and then work hard to increase their share of the customer's business.

7. Order Routine Specification

The buyer now negotiates the final order with the chosen supplier(s), listing the technical specifications the quantity needed, the expected time of delivery, return policies, warranties and so on. In the case of MRO (maintenance, repair and operating items) items, buyers are increasingly moving toward blanket contracts rather than periodic purchase orders. Writing a new purchase order each time stock is needed is expensive. Nor does the buyer want to write fewer and larger purchase orders because that means Carrying more inventory A blanket contract establishes a long-term relationship where the supplier promises to resupply the buyer as needed on agreed price terms over a specified period of time. The stock is held by the seller, hence the name stockless purchase plan. 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 locks the supplier 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 prices, quality or service.

8. Performance Review

This is the final stage in the procurement process. In this stage, the buyer reviews the performance of the particular supplier(s). Three methods are used.

- The buyer may contact the end users and ask for their evaluations.
- The buyer may rate the supplier on several criteria using a weighted score method.
- The buyer might aggregate the cost of poor performance to come up with adjusted costs of purchase, including price)

The performance review may lead the buyer to take any one of three options:

- Continue
- Modify or
- Drop the supplier

The Feedback may flow through formal or informal channels. The feedbacks, which are critical of the chosen supplier or supportive of rejected alternatives, can lead members of the decision-making unit to re-examine their position. If the product fails to meet the needs of the buyers, vendors screened earlier in the procurement process may be given further consideration. The supplier should also monitor the same variables that are used by the buyers and end users of the product. To retain a new account, the marketer must ensure that the needs of the buying organisation have been completely satisfied. Failure to follow through at this critical stage leaves the marketer vulnerable.

The Buyphases may vary for various buying situations as explained in TABLE 3. In the modified-rebuy or straight-rebuy situation, some of the stages would be compressed or bypassed. For example, in a straight-rebuy situation, the buyer normally has a favourite supplier or a ranked list of suppliers.

In order to establish a long-term relationship between buying and selling organisations, buying organisations sometimes take a stake holding in supplying companies, which result in 'relationship marketing'. In such situations, it is quite common for members of the purchasing team to visit their suppliers and these visits can involve design, financial, production and quality control personnel as well as purchasing staff. The traditionally held view is that sellers generally take the commercial initiative and visit buyers to conduct transactions. The new notion is that buyers take the initiative in sourcing new suppliers, who must measure up to their commercial and quality criteria. They also visit their long-term suppliers on a regular basis and contracts tend be open-ended (i.e. for no specified amount, but with a 'wind-down clause in case of termination). This is termed as 'reverse marketing' and is illustrated in the following figure:

Reverse marketing