UNIT 14: BUSINESS BUYING BEHAVIOUR

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14.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of a business buyer
- know the characteristics of business markets
- distinguish between consumer and business buyer behaviour
- know buying situations in business market
- know buying roles in business market
- identify the various factors that influence business buyers
- describe the essential steps in business buying process.

14.2 INTRODUCTION

Business buyer behaviour refers to the buying behaviour of the business organizations that buy goods and services for use in the production of other products and services or to resell or rent them to others for a profit. Business buyer behaviour also refers to 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 suppliers from the business market. In this Unit, we shall discuss all these aspects of business markets and business buyer behaviour.

14.3 CHARACTERISTICS OF BUSINESS MARKETS

In the business market, the buyer has certain characteristics. They are:

- **Fewer, larger buyers:** The business marketer normally deals with far fewer but far larger buyers than the consumer marketer does. There are more transactions in business markets because business products are often costly and complex. There are also fewer buyers in business markets, but they spend much more than the typical consumer does and have more-rigid product standards.
- **Close supplier-customer relationships:** Many people within an organization can be part of the buying process and have a say in ultimately what gets purchased, how much of it, and from whom. Having different people involved makes business marketing much more complicated. And because of the quantities each business customer is capable of buying, the stakes are high. Hence, it requires professional purchasing.
- **Many buying influences:** Purchases of products like planes are risky for companies. The buyers are concerned about many factors, such as the safety, reliability, and efficiency of the planes. They also generally want the jets customized in some way. Consequently, a lot of time and effort is needed to close these deals.
- **Multiple sales calls:** The daily task of a company consists of multiple sales calls. Each of these activities requires a salesperson. And each of these companies has a marketing department. Another characteristic of business market is the level of personal selling that is required. Salespeople personally call on business customers to a far greater extent than they do to individual consumers.
- **Derived demand:** Derived demand is demand that springs from, or is derived from, a secondary source other than the primary buyer of a

product. For business markets, this source is consumers. Fluctuating demand is another characteristic of business markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it.



CHECK YOUR PROGRESS

Q.1: Why is purchase of products like helicopters risky?

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Q.2: What is derived demand?

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14.4 DIFFERENCES BETWEEN CONSUMER AND BUSINESS BUYER BEHAVIOUR

There are some distinct differences between Consumer and Business Buyer Behaviour. The source of these differences is the complex and interdependent relationships between business buyers and sellers and their relative positions in the supply chain. The differences between consumer and business buyer are.

- **Business Needs vs. Consumer Wants:** Most consumer goods are discretionary products people may want but do not necessarily need, for instance entertainment services, consumer electronics or vacation travel. Consumer buying behaviour is based on perceived characteristics such as style, fashion or peer acceptance. Emotional factors play a big part in consumers' purchase decisions. In contrast, businesses usually come prepared to buy a solution to a need i.e. products that are required

for daily operations or to solve a specific business problem. It is a matter of finding the supplier who can best fulfil that need.

- **Smaller & Highly Specialized Markets:** Business marketers generally sell to narrower vertical markets substantially smaller than most consumer markets. Business marketers may target only a few hundred prospects but consumer markets cater to millions. Due to the smaller size it is often possible to identify and profile all the prospects within a particular business market and approach each with customized marketing communications and in-person sales contact.
- **Individual Business Buyers Represent Higher Value:** Business marketers focus on fewer, more intimate and longer-term customer relationships. Sales involve significantly higher amounts to smaller groups of customers with exponentially greater lifetime values. A few large customers can easily account for the majority of a business company's revenue.
- **Closer Proximity & Higher Degree of Independence:** In consumer marketing, the relationship often ends with a remote transaction made through a retailer. The manufacturer rarely makes personal contact with the consumer. In business marketing, the buyer-seller proximity is reversed. In most cases the supplier visits the customer in person and establishes a true one-to-one relationship with the customer over an extended period of time.
- **Product Importance:** The physical product is of greatest importance in consumer markets. In business markets, the purchase extends beyond the product and includes an array of economic, technical and personal relationships between the buyer and the seller. While the product quality is important, this must be matched by quality and reliability of the relationship. The buyer depends on the supplier for many things beyond the product itself, including an assured supply of materials, service, efficient order handling, delivery and often extension of credit.
- **Stronger Customer-Centric Focus:** Marketing to business buyers requires that all marketing decisions are based on a complete and

accurate understanding of customers' needs. Business buyer's product companies are usually closer to their customers and more knowledgeable about their needs than the typical consumer company.

- **Expert Buyers & Multiple Decision Makers:** Consumer purchases typically involve an individual decision maker in a single-step transaction. Compared with consumer decision making, business buying behaviour is characterized by a formal multi-step process conducted professionally over a period of time, involving many people interacting within a formal organization.
- **Customers' Product Knowledge:** Business buyers are comparatively more sophisticated and educated than consumers. The business customer has years of training in his or her field and often knows more about the product and its application than the individual consumer.



CHECK YOUR PROGRESS

Q.3: What are the expectations of business buyers from their suppliers?

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14.5 BUYING SITUATIONS IN INDUSTRIAL/BUSINESS MARKET

In Industrial or business market, the stages an organization goes through and the number of people involved depend on the buying situation. There are three types of buying situations. They are (i) Straight Re-purchase (ii) Modified Re-purchase (iii) New Task

- **Straight Re-purchase:** It is a business buying situation where a buyer orders things without any changes or modification. A straight rebuy is a situation in which a purchaser buys the same product in the same quantities from the same vendor. Nothing changes, in other words. Post purchase evaluations are often skipped, unless the buyer notices

an unexpected change in the offering such as a deterioration of its quality or delivery time.

- **Modified Re-purchase:** It is a business buying situation when the buyer really desires to change product requirements, costs, terms, or perhaps dealer. A modified rebuy occurs when a company wants to buy the same type of product it has in the past but make some modifications to it. Maybe the buyer wants different quantities, packaging, or delivery, or the product customized slightly differently. A modified rebuy does not necessarily have to be made with the same seller, however.
- **New Task (new-buy):** A new-buy selling situation occurs when a firm purchases a product for the first time. Generally speaking, all the buying stages we described in the last section occur. New buys are the most time consuming for both the purchasing firm and the firms selling to them. If the product is complex, many vendors and products will be considered and many Requests for Proposals (RFPs) will be solicited.



CHECK YOUR PROGRESS

Q.4: Give an example each of straight and modified repurchase.

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14.6 BUYING ROLES IN INDUSTRIAL/BUSINESS MARKETING

In a business organization, there are different situations of purchase and different personnel are involved in the process of taking decisions. Before identifying the individuals and groups involved in the buying decision process, a marketer must understand the roles of buying centre members. Understanding the buying centre roles helps industrial marketers to develop an effective promotion strategy. Within any organisation, the buying centre will vary in the number and type of participants for different classes of products.

But on an average a buying center of an organisation has the following seven members or a group of members who play these roles:

- **Initiators:** Usually the need for a product/item and in turn a supplier arises from the users. But there can be occasions when the top management, maintenance or the engineering department may also recognise or feel such need. These people who "initiate" or start the buying process are called initiators.
- **Users:** Under this category come users of various products. If they are technically sound like the Research & Development, engineering who can also communicate well. They play a vital role in the buying process. They also act as initiators.
- **Buyers:** They are people who have formal authority to select the supplier and arrange the purchase terms. They play a very important role in selecting vendors and negotiating and sometimes help to shape the product specifications. The major roles or responsibilities of buyers are obtaining proposals or quotes, evaluating them and selecting the supplier, negotiating the terms and conditions, issuing of purchase orders, follow up and keeping track of deliveries.
- **Influencers:** Technical personnel, experts and consultants and qualified engineers play the role of influencers by drawing specifications of products. It can also be the top management when the cost involved is high and benefits in the long term. Influencers provide information for strategically evaluating alternatives.
- **Deciders:** Among the members, the marketing person must be aware of the deciders in the organisation and try to reach them and maintain contacts with them. The organisational formal structure might be deceptive and the decision might not even be taken in the purchasing department. Generally, for routine purchases, the purchase executive may be the decider. But for high value and technically complex products, senior executives are the deciders. People who decide on product requirements/specifications and the suppliers are deciders.
- **Approvers:** People who authorise the proposed actions of deciders or buyers are approvers. They could also be personnel from top

management or finance department or the users.

- **Gate Keepers:** A gatekeeper is like a filter of information. He is the one the marketer has to pass through before he reaches the decision makers. They allow only that information favourable to their opinion to flow to the decision makers. By being closest to the action, purchasing managers or those persons involved in a buying centre may act as gatekeepers. Information is usually routed through them. They have the power to prevent the sellers or information from reaching members of the buying centre. They could be at any level and even be the receptionists and telephone operators.

14.7 FACTORS THAT INFLUENCE BUSINESS BUYERS

There are a lot of factors that influence organizational buyers and their buying behaviour. The factors may be divided into the following categories i.e. external environmental, internal organizational factors, interpersonal and individual Factors in addition to the situational factors. The factors are shown in the Exhibit.

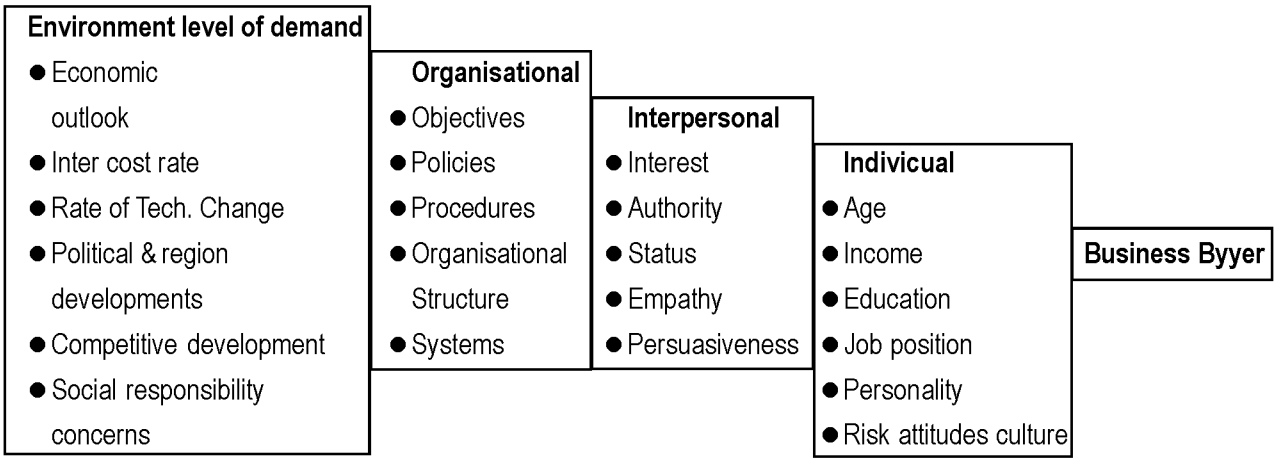


Fig. 4.1: Factors influencing Business Buyers

- **External Environmental Factors:** As a major constraint under which a business operates, the external environment impacts nearly every aspect of a business, including its buying decisions. Here's a list of the external elements that affect organizational buying.
  - **Economic Conditions:** The fluctuations in the money markets and the interest rates have a major impact on the buying strategies.

The interest rates and organizational buying have an inverse relation; in most cases, an increase in the interest rates may bring about a drop in the buying.

- **Regulatory Changes:** Any changes in the corporate laws, rules and regulations will also influence how, when and what the organizations buy. There are also regulatory changes that may affect only a particular industry and accordingly the related organizations will change their buying patterns to stay in-line with the new regulations.
- **Political Environment:** A change of the government or policy has a direct impact on the economic scenario, and this ultimately translates into a shift in the organizational buying patterns as well.
- **Social Environment:** Societies and cultures are ever evolving, and every business has to change its practices and procedures to meet up with the societal changes. For instance with the rise in the number of animal lovers, pure leather suppliers have seen a slump in their business. The clothing and footwear manufacturers have shifted to artificial leather suppliers. This points out how the social environment can affect the buying patterns of organizations.
- **Competition:** Today's business is all about beating competition and staying ahead. So when an organization's competitors move on to a newer product or service, or if they get to enjoy a competitive edge because of their suppliers, it's very likely for the organization to change its trends too and thus its buying pattern will change accordingly.

The external environment is the first of the four major factors that influence organizational behaviour as shown in the Exhibit.

- **Internal Organizational Factors:** More than the external factors, it's the internal organizational factors that influence organizational buying. These internal factors are the:
  - **Organization's Goals and Objectives:** The goals and objectives of an organization are major determinants as to how and what the organization will purchase. An organization that wants to capture a

bigger chunk of the market by selling cheaper stuff is more likely to look for suppliers who can supply larger quantities at a low price. However, a company whose goal is to deliver quality products may have a very contrasting buying pattern, and they will focus more on the quality issues than on the price advantage.

- **Organizational Structure:** Hierarchical and management structures vary from one organization to another. While some organizations have a well-established purchase department, others may assign this job to the HR or Administration department. There are also organizations where the purchase decisions must be taken collectively by all concerned departments.
- **Policies and Procedures:** How the purchase order is routed, depends on the organization's policies. How does the buying procedure begin, who will participate and who has the ultimate authority to decide on the purchase are all dependent on the policies and procedures of the organization. Some organizations prefer to invite public bids, while others may contact only the few suppliers on their list.
- **Technological Levels:** Whenever making new purchases, organizations take into consideration their current technology. Some purchases are meant to replace the current technology with a newer version, so their buying decision will be influenced by what level of technology they currently own.
- **Manpower Skills:** Whether the organization has the skilled manpower to make proper and optimum use of the new purchases being made, especially equipment and machinery, is another issue that influences organizational buying.

- **Interpersonal and Individual Factors:** Since organizational buying decisions are never a one person affair, interpersonal relationships among the decision makers plays a vital role in this type of buying.
  - **Participation and Authority:** In organizational buying situations, there are always re-defined rules as to who can participate in the purchase decision and who the ultimate deciding authority is.

- **Interpersonal Conflict:** Interpersonal conflicts and conflicts of interest amongst the decision makers often results in delays and changes. Thus, the kind of thinking and the kind of relationship the decision makers share have a major role to play in corporate buying.
- **Education and Awareness:** The educational background of the decision makers and their level of awareness have a major bearing on what type of purchases they will make.
- **Risk Taking Ability:** If the buying committee constitutes high risk takers, they will not be averse to the idea of choosing the latest technology or new suppliers. While on the other hand, decision makers with a low risk taking tolerance are more likely to stick to proven and tested technology or to well-known and well established suppliers.
- **Individual Factors:** Individual factors such as age, cultural background and social status, of the members on the buying team, also influence the buying decisions.

- **Situational Factors:** In this final section we'll take a look at some of the situational factors that can influence organizational buyers.
  - **Time Factor:** Sometimes, organizations don't have all the time to follow the detailed buying procedure. If the organization needs a replacement for equipment that broke down suddenly, it may decide to place its order with some existing supplier or a supplier that is at close proximity.
  - **Current Financial Situation:** If the organization is crunched for cash, it may decide to place its order with one of its existing supplier who offers extended credit. Also, if the organization cannot spare out enough money for a certain purchase, it may opt for a readily available cheaper version that fits into its budget.
  - **Availability:** Some buying decisions can wait while others cannot, thus if the supplier cannot make available the exact product by the desired date, the organizational buyers may shift to a new supplier or to a more readily available alternative.

- **Special Offers:** Special offers being given by a supplier may also be one of the situational factors affecting the buying decision.

14.8 STEPS IN BUSINESS BUYING PROCESS

Stages in the Business Buying Process are similar to the stages in the consumer's buying process.

- **A need is recognized:** Someone recognizes that the organization has a need that can be solved by purchasing a good or service. Users often drive this stage, although others can serve the role of initiator. In the case of the electronic textbook, it could be, for example, the professor assigned to teach the online course. However, it could be the dean or chairman of the department in which the course is taught.
- **The need is described and quantified:** Next, the buying center, or group of people brought together to help make the buying decision, work to put some parameters around what needs to be purchased. In other words, they describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or must it be customized?
- **Potential suppliers are searched for:** At this stage, the people involved in the buying process seek out information about the products they are looking for and the vendors that can supply them. Most buyers look online first to find vendors and products, then attend industry trade shows and conventions and telephone or e-mail the suppliers with whom they have relationships. Purchasing agents often play a key role when it comes to deciding which vendors are the most qualified.
- **Qualified suppliers are asked to complete responses to requests for proposal (RFPs):** Each vendor that makes the cut is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product– its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the

product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.

- **The proposals are evaluated and supplier(s) selected:** During this stage, the RFPs are reviewed and the vendor or vendors are selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services and cost the firm its customers and reputation.
- **An order routine is established:** This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, and the expected time of delivery, return policies, warranties, and any other terms of negotiation.
- **A post purchase evaluation is conducted and the feedback provided to the vendor:** Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it.



14.9 LET US SUM UP

In this unit, we have discussed the following aspects:

- Business buyer behaviour refers to the buying behaviour of the business organizations that buy goods and services for use in the production of other products and services or to resell or rent them to others for a profit.
- The various Characteristics of Business Markets: (i) Fewer, larger buyers, (ii) Close supplier-customer relationship, (iii) Many buying influences, (iv) Multiple sales calls, (v) Derived demand:

- There are some differences between consumer and business buyer behaviour. The source of these differences is the complex and interdependent relationships between business buyers and sellers and their relative positions in the supply chain. We have also discussed about the buying situations. There are three types of buying situations. They are: (i) Straight Re-purchase, (ii) Modified Re-purchase, (iii) New Task
- In a business organization, there are different situations of purchase and different personnel are involved in the process of taking decisions. Within any organisation, the buying centre will vary in the number and type of participants for different classes of products. But on an average a buying center of an organisation has the following seven members or a group of members who play the roles: they are: (1) Initiators, (2) Users, (3) Buyers, (4) Influencers, (5) Deciders, (6) Approvers, (7) Gate Keepers.
- There are a lot of factors that influence organizational buyers and their buying behaviour. They are basically two broad categories i.e. External and Internal factors, Interpersonal and Individual Factors and Situational Factors. We have also discussed that business buying takes place through some steps.



14.10 FURTHER READING

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3) Schiffman, Leon G. and Kanuk, Laslie Lazar. (1997). *Consumer Behaviour*. (Ninth Edition) Prentice Hall International Edition.



14.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Purchases of products like helicopters are risky for companies. The buyers are concerned about many factors, such as

the safety, reliability, and efficiency of the planes. They also generally want the helicopters to be customized. Consequently, a lot of time and effort is needed to close these deals.

Ans to Q No 2: Derived demand is demand that springs from, or is derived from, a secondary source other than the primary buyer of a product. For business markets, this source is consumers. For example demand for paints for Maruti Udyog will depend on demand for cars in the consumer market.

Ans to Q No 3: The business buyer expects from the supplier many things beyond the product itself, including an assured supply of materials, service, efficient order handling, delivery and often extension of credit.

Ans to Q No 4: Straight repurchase may be purchase of office stationaries on a routine basis with no change. Modified purchase may be purchase of new packaging materials to launch a product variant of a higher dimension.



14.12 MODEL QUESTIONS

Q 1: Define a business market.

Q 2: Compare between consumer and business buyer behaviour.

Q 3: Describe the various buying situations in business market.

Q 4: Explain the buying roles in business marketing.

Q 5: Describe the factors that influence business buying.

Q 6: Explain the steps in business buying process.



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