

BUSINESS-TO-BUSINESS MARKETING

WEEK 2 BUSINESS BUYING PROCESS

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WEEK TWO

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2.1 Introduction

Welcome to week two lecture! It is my joy to have you in this class. In the last lecture we laid a foundation of business marketing by defining and showing its distinct characteristic from consumer markets. We went further and looked at reasons why we study business -to- business marketing and the future of this subject. We are now ready to delve further into various strategies and aspects of business marketing. This week we will focus on the buying behavior of businesses and other organizations.

The study of business buying is based on the understanding that businesses behave differently from individual consumers in many aspects. In this lecture we will examine the difference between the buying process by an individual and an organization. We will also examine factors that influence business buying process as well as various types of demands for goods and services in business-to-business marketing.

2.2 Intended Learning Outcomes

At the end of this lecture, you will be able to:

1. Define the business buying process.
2. Explain the key characteristics of organization buying behavior.
3. Describe the organizational buying decision making process.
4. Discuss the major influences on business buyers.

2.3 Definition of Organization Buying Process.

It's always important to start a lecture by defining the subject so that the learner and facilitator will be reading from the same script as far as the subject is concerned. For this reason, we examine various definition of business buying behavior or process. Webster and Wind (1972) define organizational buying as 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. Prior (2021) views organizational buying as the purchase of goods and/ or services, by one or more individuals acting on behalf of the buyer firm, after a formal or informal consideration of purchase alternatives, and the integration or use of those goods and/ or services to address one or more buyer firm problems or issues. From these definitions, we observe several characteristics of organizational buying:

- It is a multi-person activity. Involves more than one person.
- Formal in nature: official activity carried out by buying center.
- Rational but also emotional: Guided more by reasoning and involves less emotions.
- Longer time lag between efforts and results.
- The process reflects organization uniqueness.

We also note that there are many differences between the individual consumer buying process and the organization. These differences are outlined in table 2.1 as borrowed from Fill and McKee (2011).

Table 2.1 A comparison of buying characteristics in organizational and consumer markets:

| Item | Consumer buying | Organizational buying |
|---------------------------------|----------------------------------|------------------------------------|
| Number of buyers | Many | Few |
| Purchase intention | Self | Others |
| Evaluative criteria | Social, ego and level of utility | Price, value, and level of utility |
| Information search | Short | Long |
| Range of supplier | Small | Large |
| Importance of supplier choice | Limited | Critical |
| Size and value of an order | Small | Huge |
| Complexity of purchase decision | Low to medium | Medium to high |

Source: adapted from Fill, C., & McKee, S. (2011). Business marketing face to face

2.4 The Buying Center/Decision Making Unit

The buying action in business markets is usually done by a buying center or decision-making unit. Blythe and Zimmerman (2013) note that the decision-making process in business buying is often formalized, with specific areas of interest being expressed by members of the decision-making unit (DMU), and with roles and responsibilities being shared. Webster and Wind, (1972) were the first to identify the people involved in organizational buying decision process and called them the buying center. It is important to note that there are several reasons why organizations use a buying center. First is to reduce the risk of a wrong decision by either an individual employee or a group of them and secondly, the need to capitalize on the information, experiences, knowledge and capabilities of members of the organization in increasing chances of success in the process.

The buying center is not part of the formal organizational structure but draws members from different functional areas of the organization. Fill and McKee (2011) observe that the size and form of the buying center varies according to the complexity of the product being considered and the degree of risk each decision is perceived to carry for the organization. On their review of literature from various writers, they concluded the following about the size and composition of buying center. First, the larger the size of an organization, the bigger the buying center and that in nonprofit organizations more people participate in the buying decision process. Secondly, they observed that the buying center for investments is bigger than for nondurable goods and that the

greater the complexity of a purchase, the bigger the buying center. They further found out that new task purchase situations are characterized by a larger buying center, and where buying situations is characterized with a high degree of time pressure, the buying center is smaller and that the more important a purchase is, the larger the buying center.

It is Webster and Wind (1972) who identified six roles that individuals can play within a buying center. They include initiators, influencers, deciders, gatekeepers, users and decision makers. Their specific roles are summarized in Table 2.2.

Table 2.2 Roles in Business Center /Decision Making Unit.

| Roles | Explanation | Individuals |
|--------------|---|--|
| Initiators | These are the individuals who first recognize the problem and request the purchase of an item | Could be any member of organization |
| Influencers | These are trusted advisors of those who make final decision. They set the technical specifications for the proposed purchase and assist the evaluation of alternative offerings | May be hired consultant, employees, or trusted friends |
| Deciders | Make the final decisions, relying on advice from decision making unit | Senior managers or specialist |
| Gate keepers | Control the flow of knowledge, either by being proactive in collecting information, or by filtering it | Junior staff, messengers, secretaries etc. |
| Users | People who will be using the products which are supplied. Involved in making specifications and evaluate the product performance | Engineers, marketers, or any department |
| Buyers | Sourcing suppliers and negotiating the final deal. They are the purchasing agents | Procurement officers |

Source: Adopted from Webster and Wind (1972) Organizational Buying Behavior

The use of a group to make a buying decision in business markets has its merits and demerits which are summarized in table 2.3.

Table 2.3 Merits and Demerits of Buying Centre

| Merits | Demerits |
|--|---|
| More information available to inform the decision, reducing chances of failure | Time consuming exercise |
| Diversity of views from different players make the decision more attractive | No one takes responsibility for the decision |
| Greater acceptability as more people are involved | Compromised decision may be made |
| Experts view and opinion incorporated in the decision | The exercise is often expensive to the organization |
| Greater involvement and participation | One member may dominate the group |

2.5 The Business Buying Decision Making Process

Several models have been developed to explain the organizational buying decision process. These include integrated model of organizational buying behavior by Johnston & Lewin of (1996), the industrial buyer behavior model by Sheth (1973), the organizational-buying behavior model by Webster & Wind (1972) and the BUYGRID model by Robinson, Faris, and Wind in (1967). The BUYGRID model is the most foundational and forms the basis of these other models. We will therefore consider this model in this class discussion.

The BUYGRID model of organizational buying is founded on two pillars: The first one considers buying situations while the second one considers stages the organization goes through in the buying process. According to this model an organization could find itself in either of the three buying situations: new task, modified rebuy and rebuy (Fill, Chris, McKee (2011)).

New task: This involves the purchase of something that has not been purchased before. In this case, the problem is new to the organization and great deal of information is required. The purchase decision goes through all stages of the buying decisions process. In these complex decisions, the earlier stages of the buying process take on relatively greater importance whereas the later stages receive more emphasis in straight and modified re-buy situations. The task can be very demanding if the item being bought is of strategic importance to the business. For instance, if the firm want to buy a new processing plant or even a new payroll software, then the process could be very complex and involving if the firm has not dealt with such items before.

Modified rebuy: This is the purchase of something purchased before, but whose requirement is different and will include search of information about alternative sources of supply and terms. The past information is useful in this case as the firm may only have to change specifications. Thus, a company purchasing raw materials may systematically ask for bids from several vendors or the buyer may telephone several potential vendors to seek information about their product offerings. This process, however, may affect the relationship with suppliers who have always supplied to the firm. Modified rebuy may be triggered by environment scanning, availability of cheaper alternatives and demands by internal customers among others.

Straight rebuy: This is the purchase of something purchased before from the same supplier as before although purchase terms may vary slightly. The need is identical to the previous one and therefore no need for information search or comparison of alternatives. Such purchases can be computerized and handled in completely routine fashion with the triggering mechanism set at a specified inventory level or a certain day of the month. The situation is common with raw materials and other items used on daily basis. The price of the items is usually low, and the purchasing officer often reorders without constitution of buying centers. However, for some institutions even routine buying requires the bidding process to be followed and this can easily hamper service and goods delivery to clients.

The three buying situations are comparable with Sheth (1973) buying situations for individual customers that include routine buying (straight rebuy), limited problem solving (modified rebuy) and extensive problem solving (new task).

Stages in business buying process (GRID model): This model as envisioned by Robinson, Faris and Wind (1967) incorporates eight steps in organizational buying decision making process:

1. Problem recognition.
2. General need description.
3. Product specification.
4. Supplier search.
5. Proposal solicitation.
6. Supplier selection.
7. Order routine specification.
8. Performance review.

Each of these steps is described below.

1) Need/Problem recognition: The industrial buying process is triggered by recognition of a need problem or opportunity. The need could originate from within (internal stimuli) because of a problem that needs to be addressed within the organization. The problem may necessitate buying of new equipment and materials. Internally, needs could also be triggered by realization that the current suppliers are not meeting quality, service or prices demanded. Some purchased materials may turn out to be unsatisfactory thus the company requires new suppliers, opportunity for lower prices or better quality etc. On the other hand, the business may realize a new opportunity from the environment, and this may trigger a need to be met so as to be able to exploit the opportunity identified. Salespeople may see opportunities, change of government policies, development of new products by competitors and these may all point to new opportunities to the business marketer. Once the need is identified the marketer moves to the next step, general need description.

2. General need description: This is the stage in the business buying process in which the company describes the general characteristics of the needed item. For instance, if the firm requires a track to move its product from manufacturing point to the market or warehouse, the marketer will describe the different types of tracks and their capacity. For standard items this process presents few problems. For complex items however, the buyer must work with others such as engineers, users, and consultants to define the item. The team may go further and rank the item in general characteristics such as reliability, durability, price and other attributes desired in the item. In this phase, the business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

3. Product specification: this is the third stage in the buying process where specifications of the product are discussed and agreed. According to Weele (2002), the main specifications include:

quality specifications statement concerning the technical standards the product meets and whether there should be a quality certificate; logistics specification statement concerning the quantity of products required and delivery details; maintenance specifications statement about how the supplier will service and maintain the product; legal and environmental statement detailing how the product and associated requirements processes should meet health; safety and environmental legislation and target budget which describes the financial constraints within which the product is to be produced, delivered, and supported. These specifications will be particularly important as the firm is dealing with new task buying situations.

4. Supplier search: In most buying situations hundreds of suppliers are available for the business. The business has therefore to identify the most appropriate and qualify them. The firm is concerned about suppliers' ability to meet set product standards and specifications as well as any other organizational requirement. A firm may set specific standards of products and also demand that the potential supplier is ISO certified which means that if the firm does meet the product standards, it might as well be disqualified because of this other criterion. The firm will try to reduce risk by seeking to work with businesses it has worked with in the past. Qualifying the potential supplier requires the firm to determine their capabilities, in terms of finances, technical skills and the ability to deliver as required.

5. Proposal solicitation/acquisitions and analysis of proposal: Once the firm has qualified several potential suppliers, the firm has to make an offer to them to bid to supply what it requires. The firm floats the tender to suppliers asking them to send bids to supply within a certain duration. This stage is critical if the item is complex and may take along time. The bids document should not just be technical but should also be marketing documents. Sometimes the potential supplier might be required to make an oral presentation and the marketer uses the opportunity to demonstrate his firm capability and resources as well as how it stands out from competition. The issue of relationship with the potential supplier also stands out and is used to evaluate the potential supplier apart from meeting the product or service criterion set.

6. Supplier selection: This is the sixth step in the process from where the members of the buying center review the proposal and select a supplier or suppliers. During suppliers' selection, the buyer center often will draw up a list of the desired supplier attributes and their relative importance. Anderson et al (2011) concluded that the criterion for supply selection will mainly focus on: reliable performance, delivery speed, customer service, track and trace, customer service recovery, supply chain flexibility, professionalism, proactive innovation, supply chain capacity and relationship orientation. Other studies highlight important attributes to include quality products and services, on time delivery, ethical corporate behavior, honest communications and competitive prices among others. The members of the buying centers will rate suppliers against these attributes and identify the best suppliers.

7. Order routine specification: This is the stage of the buying process in which the buyer writes the final order with the chosen supplier, listing the technical specifications, quantity needed, expected time of delivery, return policies and warranties. In case of maintenance, repair and

operating items, buyers may use blanket contracts rather than periodic purchase order. A blanket contract creates a long-term relationship in which the supplier promises to re-supply the buyer as needed at agreed prices for a set period. A blanket order eliminates the expensive process of renegotiating a purchase each time stock is required. It also allows buyers to write more but smaller purchase orders resulting in lower inventory levels and carrying costs. Blanket contracting leads to more single source buying and to buying more items from that source. This practice locks the supplier tightly with the buyer and makes it difficult for other suppliers to break in unless the buyer becomes dissatisfied with prices or service (Can't et al, 2009).

8. Performance review/evaluation: The final step in the organizational buying process is the review of the performance of selected supplier. The evaluation is based on the set criteria in product specification step. Kanaan and Tan (2022) identify strategic commitment of supplier to buyer, ability to meet buyer needs, capability, buyer-supplier fit, honesty and integrity, delivery and service quality, responsiveness and information sharing as some of the criterion used in evaluation of supplier. If the supplier meets the expectation, he will continue to offer the services but if they fall short, the business marketer will review either the terms or cancel the contract.

2.6 Factors that Influence Business Buying Decision Process

The business buying process is influenced by a variety of factors that include environmental factors, organizational factors, interpersonal factors and individual factors. The business marketer must be conversant with these factors and how to mitigate against their effect on the business. Each of these factors are described briefly as discussed by Fill, Chris, McKee (2011).

- a) **External influences:** These are the political, economic, social and technological forces. The political forces will affect regulatory aspects of business buying. Government may enact laws on packaging and labelling, adjustments to the safety requirements concerning the use of products and even changes to taxation regulations each of which can influence the choice of supplier and the frequency of purchase. The economic forces are of particular importance as business marketer deals with large volume purchases. The interest rates, levels of inflation, primary demands for goods and services will impact heavily on business markets. Social changes will have limited impact on B-to-B markets in short run but in the long run will affect what business marketer can market. Technological changes have the greatest impact on business markets as they affect communication, and the way products are made.
- b) **Internal influences:** Each buying organization has its own objectives, policies, procedures, structures and systems which must be understood by the business marketer. The business marketer is particularly affected by purchasing structure (centralized or decentralized, purchasing systems and technology, levels of authority and organizational politics). The marketer has to be aware of the organization buying criteria which is mainly rational, leasing and bidding practices all of which affect business buying tremendously.

- c) **Interpersonal factors:** The buying center usually includes many participants who influence each other. The business marketer often finds it difficult to determine what kinds of interpersonal factors and group dynamics enter the buying process. According to Bonoma (2006), managers do not wear tags that say “decision maker” or “unimportant” person. Also, the powerful are often invisible at least to suppliers’ representatives. Nor do the buying centre participants with highest rank always have the most influence. Participants may have influence in the buying decision because they control rewards and punishments, are well liked, have a special expertise or have special relationship with other important participants. Interpersonal factors are often very subtle (not noticeable). Whenever, possible, business marketers must try to understand these factors and design strategies that take them into account.

- d) **Individual factors:** each participant in the business buying decision process brings in personal motives, perceptions, and preferences. These individual factors are affected by personal characteristics such as: age, income, education, professional identification, personality and attitude towards risks. Also, buyers have different buying styles; some may be technical types who make in-depth analysis of competitive proposals before choosing a supplier. Fill, Chris, McKee (2011) notes that individuals may develop personal friendships with suppliers and buyers which may overlie interorganizational relationships and work perfectly smoothly but they can also give rise to conflict.

- e) **Relationship influences** relationships develop between the focus organization and other stakeholders in the network which influences buying decisions. If the relationship between organizations is trusting, mutually supportive and based upon a longer-term perspective (a relational structure) then the behavior of the buying center may be seen to be cooperative and constructive. If the relationship is formal, regular, unsupportive, and based upon short-term convenience (a market structure-based relationship) then the purchase behavior may be observed as courteous yet distant. Switching cost are also significant in influencing purchase behavior. The use of social media in business-to-business marketing is also gaining preeminence as marketers turn more and more to it.

2.7 Risk in Organizational Buying Behavior and Mitigation Strategies

Business buyers perceive a number of risks in making purchase decision. Valla (1982) suggested that there are five categories of organizational risk which must be addressed by buyers and suppliers. From these it is possible to identify seven types of risks that are relevant to organizational buyers as summarized in table 2.4 (Fill, Chris, McKee (2011)).

Table 2.4 Types of perceived risks in business buying.

| | |
|-----------------|--|
| Technical | Will the parts, equipment or product/service perform as expected? |
| Financial | Does this represent value for money, could we have bought cheaper? |
| Delivery | Will delivery be on time, complete and in good order? Will our production schedule be disrupted? |
| Service | Will the equipment be supported properly and within agreed time parameters? |
| Personal | Am I comfortable dealing with this organization, are my own social and ego needs threatened? |
| Relationship | To what extent is the long-term relationship with this organization likely to be jeopardized by this decision |
| Professionalism | How will this decision affect my professional standing in the eyes of others and how might my career and personal development be impacted? |

Source: Adopted from: Fill, C., & McKee, S. (2011), Business marketing face to face.

Johnston and Lewin (1996) found that increases in risk are countered by:

- An increase in the size of the DMU and populated with members with higher authority and status.
- An intensifying information searches.
- DMU participants becoming more involved throughout the whole process.
- Organizations who are known to and preferred by the DMU becoming more likely to win the contract.

2.8 Review Questions

1. Define organizational buying?
2. Discuss compositions of a buying center
3. Discuss the role of social media in business marketing
4. Critically evaluate perceived risks in business buying and propose mitigation strategies
5. Citing relevant examples outline the business buying stages

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