

PART



MANAGING RELATIONSHIPS IN BUSINESS MARKETING

Organizational Buying Behavior

A wide array of forces inside and outside the organization influence the organizational buyer. Knowledge of these forces provides the marketer with a foundation for responsive business marketing strategies. After reading this chapter, you will understand:

1. the decision process organizational buyers apply as they confront differing buying situations and the resulting strategy implications for the business marketer.
2. the individual, group, organizational, and environmental variables that influence organizational buying decisions.
3. a model of organizational buying behavior that integrates these important influences.
4. how a knowledge of organizational buying characteristics enables the marketer to make more informed decisions about product design, pricing, and promotion.

FIGURE 3.1 | WANT TO WIN THE SUPPORT OF BUYING INFLUENTIALS? ENHANCE THEIR CUSTOMERS' EXPERIENCE

As a leading supplier to foreign and domestic automakers, Johnson Controls centers marketing research and R&D investments on making the automotive experience safer and more pleasurable for drivers. As a result, design engineers are eager to enhance customer value by incorporating the firm's components in new models.

To spark innovation, Johnson Controls' R&D processes include:

- **Human Factor Studio**, where seating, electronics, and interior components are tested based on ease of reach, usability, and function, giving special attention to ergonomic positioning.
- **Comfort Lab**, which takes vehicle passengers on a road trip via simulator that generates the bumps, dips, and turns of an open-road drive. Here, automakers can even analyze prototype designs before production.
- **Wave Lab**, where the acoustic and vibration properties of automotive interior components can be tested to remove, by design, sounds that cause annoyance or displeasure. The ultimate goal: providing design engineers and their customers—auto buyers—quieter and more comfortable automobile interiors.

SOURCES: "JCI Labs Spark Innovation: Improving the Customer Experience through Research and Development," accessed at <http://www.johnsoncontrols.com> on December 4, 2008; and "Beyond Bunsen Burners: Science Takes New Forms at Johnson Controls' Innovative Testing Labs," accessed at <http://www.johnsoncontrols.com> on December 4, 2008.

Market-driven business firms continuously sense and act on trends in their markets. Consider Johnson Controls, Inc., a diverse, multi-industry company that is a leading supplier of auto interiors (including seats, electronics, headliners, and instrument panels) to manufacturers.¹ The striking success of the firm rests on the close relationships that its sales reps and marketing managers have formed with design engineers and purchasing executives in the auto industry. To illustrate, some of Johnson Controls' salespersons work on-site with design teams at Ford, GM, or Honda. To provide added value to the new-product-design process, the firm also invests annually in market research on the needs and preferences of auto buyers—the customer's customer! (Figure 3.1) For example, based on extensive research about how families spend their time in cars, Johnson Controls developed a unique rear seat entertainment system that allows passengers to play video games, watch DVDs, or listen to CDs through wireless headphones or the vehicle's speaker system. Moreover, to enhance the customer experience, technicians at Johnson Controls' research lab test seating and interior components for comfort, safety, ease-of-reach, usability, and function. Using a simulator that generates the bumps, dips, and turns of an open-road drive, scientists can record the passengers' experience and capture valuable information for developing components that improve comfort and safety as well as customer satisfaction. By staying close to the needs of auto buyers, Johnson Controls became the preferred supplier to design engineers who are continually seeking innovative ways to make auto interiors more distinctive and inviting.

¹"JCI Labs Spark Innovation," accessed at <http://www.johnsoncontrols.com> on June 3, 2008.

FIGURE 3.2 | MAJOR STAGES OF THE ORGANIZATIONAL BUYING PROCESS

Stage	Description
1. Problem Recognition	Managers at P&G need new high-speed packaging equipment to support a new product launch.
2. General Description of Need	Production managers work with a purchasing manager to determine the characteristics needed in the new packaging system.
3. Product Specifications	An experienced production manager assists a purchasing manager in developing a detailed and precise description of the needed equipment.
4. Supplier Search	After conferring with production managers, a purchasing manager identifies a set of alternative suppliers that could satisfy P&G's requirements.
5. Acquisition and Analysis of Proposals	Alternative proposals are evaluated by a purchasing manager and a number of members of the production department.
6. Supplier Selection	Negotiations with the two finalists are conducted, and a supplier is chosen.
7. Selection of Order Routine	A delivery date is established for the production equipment.
8. Performance Review	After equipment is installed, purchasing and production managers evaluate the performance of the equipment and the service support provided by the supplier.

Understanding the dynamics of organizational buying behavior is crucial for identifying profitable market segments, locating buying influences within these segments, and reaching organizational buyers efficiently and effectively with an offering that responds to their needs. Each decision the business marketer makes is based on organizational buyers' probable response. This chapter explores the key stages of the organizational buying process and isolates the salient characteristics of different purchasing situations. Next, attention turns to the myriad forces that influence organizational buying behavior. Knowledge of how organizational buying decisions are made provides the business marketer with a solid foundation for building responsive marketing strategies.

The Organizational Buying Process

Organizational buying behavior is a process, not an isolated act or event. Tracing the history of a procurement decision uncovers critical decision points and evolving information requirements. In fact, organizational buying involves several stages, each of which yields a decision. Figure 3.2 lists the major stages in the organizational buying process.²

² The discussion in this section is based on Patrick J. Robinson, Charles W. Faris, and Yoram Wind, *Industrial Buying and Creative Marketing* (Boston: Allyn and Bacon, 1967), pp. 12–18; see also Jeffrey E. Lewin and Naveen Donthu, “The Influence of Purchase Situations on buying Center Structure and Investment: A Select Meta-Analysis of Organizational Buying Behavior Research,” *Journal of Business Research* 58 (October 2005), pp. 1381–1390; and Morry Ghingold and David T. Wilson, “Buying Center Research and Business Marketing Practice: Meeting the Challenge of Dynamic Marketing,” *Journal of Business & Industrial Marketing*, 13 (2, 1998): pp. 96–108.

The purchasing process begins when someone in the organization recognizes a problem that can be solved or an opportunity that can be captured by acquiring a specific product. Problem recognition can be triggered by internal or external forces. Internally, a firm like P&G may need new high-speed production equipment to support a new product launch. Or a purchasing manager may be unhappy with the price or service of an equipment supplier. Externally, a salesperson can precipitate the need for a product by demonstrating opportunities for improving the organization's performance. Likewise, business marketers also use advertising to alert customers to problems and demonstrate how a particular product may solve them.

During the organizational buying process, many small or incremental decisions are made that ultimately translate into the final choice of a supplier. To illustrate, a production manager might unknowingly establish specifications for a new production system that only one supplier can meet (Stages 2 and 3). This type of decision early in the buying process dramatically influences the favorable evaluation and ultimate selection of that supplier.

The Search Process

Once the organization has defined the product that meets its requirements, attention turns to this question: Which of the many possible suppliers are promising candidates? The organization invests more time and energy in the supplier search when the proposed product has a strong bearing on organizational performance. When the information needs of the buying organization are low, Stages 4 and 5 occur simultaneously, especially for standardized items. In this case, a purchasing manager may merely check a catalog or secure an updated price from the Internet. Stage 5 emerges as a distinct category only when the information needs of the organization are high. Here, the process of acquiring and analyzing proposals may involve purchasing managers, engineers, users, and other organizational members.

Supplier Selection and Performance Review After being selected as a chosen supplier (Stage 6) and agreeing to purchasing guidelines (Stage 7), such as required quantities and expected time of delivery, a marketer faces further tests. A performance review is the final stage in the purchasing process. The performance review may lead the purchasing manager to continue, modify, or cancel the agreement. A review critical of the chosen supplier and supportive of rejected alternatives can lead members of the decision-making unit to reexamine their position. If the product fails to meet the needs of the using department, decision makers may give further consideration to vendors screened earlier in the procurement process. To keep a new customer, the marketer must ensure that the buying organization's needs have been completely satisfied. Failure to follow through at this critical stage leaves the marketer vulnerable.

The stages in this model of the procurement process may not progress sequentially and may vary with the complexity of the purchasing situation. For example, some of the stages are compressed or bypassed when organizations make routine buying decisions. However, the model provides important insights into the organizational buying process. Certain stages may be completed concurrently; the process may be discontinued by a change in the external environment or in upper-management thinking. The organizational buying process is shaped by a host of internal and external forces, such as changes in economic or competitive conditions or a basic shift in organizational priorities.

Organizations with significant experience in purchasing a particular product approach the decision quite differently from first-time buyers. Therefore, attention must center on buying situations rather than on products. Three types of buying situations have been delineated: (1) new task, (2) modified rebuy, and (3) straight rebuy.³

New Task

In the **new-task buying situation**, organization decisions makers perceive the problem or need as totally different from previous experiences; therefore, they need a significant amount of information to explore alternative ways of solving the problem and searching for alternative suppliers.

When confronting a new-task buying situation, organizational buyers operate in a stage of decision making referred to as **extensive problem solving**.⁴ The buying influentials and decision makers lack well-defined criteria for comparing alternative products and suppliers, but they also lack strong predispositions toward a particular solution. In the consumer market, this is the same type of problem solving an individual or household might follow when buying a first home.

Buying-Decision Approaches⁵ Two distinct buying-decision approaches are used: judgmental new task and strategic new task. The greatest level of uncertainty confronts firms in judgmental new-task situations because the product may be technically complex, evaluating alternatives is difficult, and dealing with a new suppliers has unpredictable aspects. Consider purchasers of a special type of production equipment who are uncertain about the model or brand to choose, the suitable level of quality, and the appropriate price to pay. For such purchases, buying activities include a moderate amount of information search and a moderate use of formal tools in evaluating key aspects of the buying decision.

Even more effort is invested in **strategic new-task decisions**. These purchasing decisions are of extreme importance to the firm strategically and financially. If the buyer perceives that a rapid pace of technological change surrounds the decision, search effort is increased but concentrated in a shorter time period.⁶ Long-range planning drives the decision process. To illustrate, a large health insurance company placed a \$600,000 order for workstation furniture. The long-term effect on the work environment shaped the 6-month decision process and involved the active participation of personnel from several departments.

³ Robinson, Faris, and Wind, *Industrial Buying and Creative Marketing*, chap. 1; see also Erin Anderson, Wujin Chu, and Barton Weitz, "Industrial Purchasing: An Empirical Exploration of the Buyclass Framework," *Journal of Marketing* 51 (July 1987): pp. 71–86; and Morry Ghingold, "Testing the 'Buygrid' Buying Process Model," *Journal of Purchasing and Materials Management* 22 (Winter 1986): pp. 30–36.

⁴ The levels of decision making discussed in this section are drawn from John A. Howard and Jagdish N. Sheth, *The Theory of Buyer Behavior* (New York: John Wiley and Sons, 1969), chap. 2.

⁵ The discussion of buying decision approaches in this section is drawn from Michele D. Bunn, "Taxonomy of Buying Decision Approaches," *Journal of Marketing* 57 (January 1993): pp. 38–56; see also, Michele D. Bunn, Gul T. Butaney, and Nicole P. Huffman, "An Empirical Model of Professional Buyers' Search Effort," *Journal of Business-to-Business Marketing* 8 (4, 2001): pp. 55–81.

⁶ Allen M. Weiss and Jan B. Heide, "The Nature of Organizational Search in High Technology Markets," *Journal of Marketing Research* 30 (May 1993): pp. 230–233. See also, Christian Homburg and Sabine Kuester, "Towards an Improved Understanding of Industrial Buying Behavior: Determinants of the Number of Suppliers," *Journal of Business-to-Business Marketing* 8 (2, 2001): pp. 5–29.

Strategy Guidelines The business marketer confronting a new-task buying situation can gain a differential advantage by participating actively in the initial stages of the procurement process. The marketer should gather information on the problems facing the buying organization, isolate specific requirements, and offer proposals to meet the requirements. Ideas that lead to new products often originate not with the marketer but with the customer.

Marketers who are presently supplying other items to the organization (“in” suppliers) have an edge over other firms: They can see problems unfolding and are familiar with the “personality” and behavior patterns of the organization. The successful business marketer carefully monitors the changing needs of organizations and is prepared to assist new-task buyers.

Straight Rebuy

When there is a continuing or recurring requirement, buyers have substantial experience in dealing with the need and require little or no new information. Evaluation of new alternative solutions is unnecessary and unlikely to yield appreciable improvements. Thus, a **straight rebuy** approach is appropriate.

Routine problem solving is the decision process organizational buyers employ in the straight rebuy. Organizational buyers apply well-developed choice criteria to the purchase decision. The criteria have been refined over time as the buyers have developed predispositions toward the offerings of one or a few carefully screened suppliers. In the consumer market, this is the same type of problem solving that a shopper might use in selecting 30 items in 20 minutes during a weekly trip to the supermarket. Indeed, many organizational buying decisions made each day are routine. For example, organizations of all types are continually buying **operating resources**—the goods and services needed to run the business, such as computer and office supplies, maintenance and repair items, and travel services. Procter & Gamble alone spends more than \$5 billion annually on operating resources.⁷

Buying Decision Approaches Research suggests that organizational buyers employ two buying-decision approaches: causal and routine low priority. Causal purchases involve no information search or analysis and the product or service is of minor importance. The focus is simply on transmitting the order. In contrast, routine low-priority decisions are somewhat more important to the firm and involve a moderate amount of analysis. Describing the purchase of \$5,000 worth of cable to be used as component material, a buyer aptly describes this decision-process approach:

On repeat buys, we may look at other sources or alternate methods of manufacturing, etc. to make sure no new technical advancements are available in the marketplace. But, generally, a repeat buy is repurchased from the supplier originally selected, especially for low dollar items.

Strategy Guidelines The purchasing department handles straight rebuy situations by routinely selecting a supplier from a list of approved vendors and then placing an order. As organizations shift to e-procurement systems, purchasing managers retain control of the process for these routine purchases while allowing individual employees to directly

⁷ Doug Smock, “Strategic Sourcing: P&G Boosts Leverage,” *Purchasing* 133 (November 4, 2004): pp. 40–43.

buy online from approved suppliers.⁸ Employees use a simple point-and-click interface to navigate through a customized catalog detailing the offerings of approved suppliers, and then order required items. Individual employees like the self-service convenience, and purchasing managers can direct attention to more critical strategic issues. Marketing communications should be designed to reach not only purchasing managers but also individual employees who are now empowered to exercise their product preferences.

The marketing task appropriate for the straight rebuy situation depends on whether the marketer is an “in” supplier (on the list) or an “out” supplier (not among the chosen few). An “in” supplier must reinforce the buyer-seller relationship, meet the buying organization’s expectations, and be alert and responsive to the changing needs of the organization.

The “out” supplier faces a number of obstacles and must convince the organization that it can derive significant benefits from breaking the routine. This can be difficult because organizational buyers perceive risk in shifting from the known to the unknown. The organizational spotlight shines directly on them if an untested supplier falters. Buyers may view testing, evaluations, and approvals as costly, time-consuming, and unnecessary.

The marketing effort of the “out” supplier rests on an understanding of the basic buying needs of the organization: Information gathering is essential. The marketer must convince organizational buyers that their purchasing requirements have changed or that the requirements should be interpreted differently. The objective is to persuade decision makers to reexamine alternative solutions and revise the preferred list to include the new supplier.

Modified Rebuy

In the **modified rebuy** situation, organizational decision makers feel they can derive significant benefits by reevaluating alternatives. The buyers have experience in satisfying the continuing or recurring requirement, but they believe it worthwhile to seek additional information and perhaps to consider alternative solutions.

Several factors may trigger such a reassessment. Internal forces include the search for quality improvements or cost reductions. A marketer offering cost, quality, or service improvements can be an external precipitating force. The modified rebuy situation is most likely to occur when the firm is displeased with the performance of present suppliers (for example, poor delivery service).

Limited problem solving best describes the decision-making process for the modified rebuy. Decision makers have well-defined criteria but are uncertain about which suppliers can best fit their needs. In the consumer market, college students buying their *second* computer might follow a limited problem-solving approach.

Buying-Decision Approaches Two buying-decision approaches typify this buying-class category. Both strongly emphasize the firm’s strategic objectives and long-term needs. The simple modified rebuy involves a narrow set of choice alternatives and a moderate amount of both information search and analysis. Buyers concentrate on the long-term-relationship potential of suppliers.

⁸Talai Osmonbekov, Daniel C. Bello, and David I Gilliland, “Adoption of Electronic Commerce Tools in Business Procurement: Enhanced Buying Center Structure and Processes,” *Journal of Business & Industrial Marketing* 17 (2/3, 2002): pp. 151–166.

The **complex modified rebuy** involves a large set of choice alternatives and poses little uncertainty. The range of choice enhances the buyer's negotiating strength. The importance of the decision motivates buyers to actively search for information, apply sophisticated analysis techniques, and carefully consider long-term needs. This decision situation is particularly well suited to a competitive bidding process. For example, some firms are turning to online reverse auctions (one buyer, many sellers), where the buying organization allows multiple suppliers to bid on a contract, exerting downward price pressure throughout the process. To participate, suppliers must be prepared to meet defined product characteristics, as well as quality and service standards. "And while price will always be an issue, more buyers today use reverse auctions to determine the best value."⁹ Rather than being used for specialized products or services where a close working relationship with the supplier is needed, auctions tend to be used for commodities and standardized parts.

Strategy Guidelines In a modified rebuy, the direction of the marketing effort depends on whether the marketer is an "in" or an "out" supplier. An "in" supplier should make every effort to understand and satisfy the procurement need and to move decision makers into a straight rebuy. The buying organization perceives potential payoffs by reexamining alternatives. The "in" supplier should ask why and act immediately to remedy any customer problems. The marketer may be out of touch with the buying organization's requirements.

The goal of the "out" supplier should be to hold the organization in modified rebuy status long enough for the buyer to evaluate an alternative offering. Knowing the factors that led decision makers to reexamine alternatives could be pivotal. A particularly effective strategy for an "out" supplier is to offer performance guarantees as part of the proposal.¹⁰ To illustrate, the following guarantee prompted International Circuit Technology, a manufacturer of printed circuit boards, to change to a new supplier for plating chemicals: "Your plating costs will be no more than x cents per square foot or we will make up the difference."¹¹ Given the nature of the production process, plating costs can be easily monitored by comparing the square footage of circuit boards moving down the plating line with the cost of plating chemicals for the period. Pleased with the performance, International Circuit Technology now routinely reorders from this new supplier.

Strategy Implications Although past research provides some useful guidelines, marketers must exercise great care in forecasting the likely composition of the buying center for a particular purchasing situation.¹² The business marketer should attempt to identify purchasing patterns that apply to the firm. For example, the classes of industrial goods introduced in Chapter 1 (such as foundation goods versus facilitating goods) involve varying degrees of technical complexity and financial risk for the buying organization.

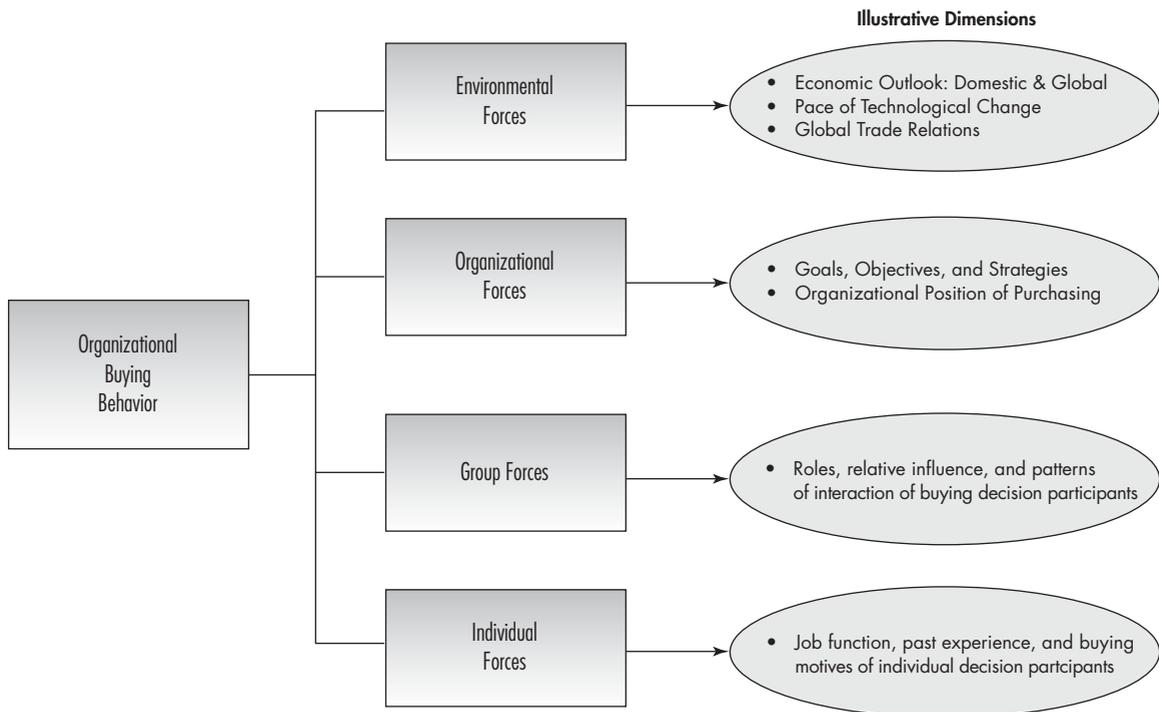
⁹ James Carbone, "Not Just a Cost Reduction Tool," *Purchasing* 134 (February 17, 2005): p. 43.

¹⁰ Mary Siegfried Dozbaba, "Critical Supplier Relationships: Converting Higher Performance," *Purchasing Today* (February 1999): pp. 22–29.

¹¹ Somerby Dowst, "CEO Report: Wanted: Suppliers Adept at Turning Corners," *Purchasing* 101 (January 29, 1987): pp. 71–72.

¹² Donald W. Jackson Jr., Janet E. Keith, and Richard K. Burdick, "Purchasing Agents' Perceptions of Industrial Buying Center Influence," *Journal of Marketing* 48 (fall 1984): pp. 75–83.

FIGURE 3.3 | FORCES INFLUENCING ORGANIZATIONAL BUYING BEHAVIOR



The business marketer must therefore view the procurement problem or need from the buying organization's perspective. How far has the organization progressed with the specific purchasing problem? How does the organization define the task at hand? How important is the purchase? The answers direct and form the business marketer's response and also provide insight into the composition of the decision-making unit.

Forces Shaping Organizational Buying Behavior

The eight-stage model of the organizational buying process provides the foundation for exploring the myriad forces that influence a buying decision by an organization. Observe in Figure 3.3 how organizational buying behavior is influenced by environmental forces (for example, the growth rate of the economy); organizational forces (for example, the size of the buying organization); group forces (for example, patterns of influence in buying decisions); and individual forces (for example, personal preferences).

Environmental Forces

A projected change in business conditions, a technological development, or a new piece of legislation can drastically alter organizational buying plans. Among the environmental forces that shape organizational buying behavior are economic, political,

legal, and technological influences. Collectively, such environmental influences define the boundaries within which buyer-seller relationships develop. Particular attention is given to selected economic and technological forces that influence buying decisions.

Economic Influences Because of the derived nature of industrial demand, the marketer must be sensitive to the strength of demand in the ultimate consumer market. The demand for many industrial products fluctuates more widely than the general economy. Firms that operate on a global scale must be sensitive to the economic conditions that prevail across regions. For example, while the United States, western Europe, and Japan may experience modest increases (for example, 2 or 3 percent) in gross domestic product (GDP) in the years ahead, rapidly developing economies (RDEs) are projected to grow three or four times as fast. In addition to China and India, key RDEs include Mexico, Brazil, central and eastern Europe, and southeast Asia.¹³ A wealth of political and economic forces dictate the vitality and growth of an economy. A recent study found that the number of North American companies purchasing goods and services from China, eastern Europe, and India has increased sharply in recent years and will continue to rise.¹⁴ Best-in-class procurement organizations are twice as likely as their competitors to emphasize low-cost-country sourcing strategies.¹⁵ Demonstrating this trend, IBM recently moved its procurement headquarters to Shenzhen, China!

The economic environment influences an organization's ability and, to a degree, its willingness to buy. However, shifts in general economic conditions do not affect all sectors of the market evenly. For example, a rise in interest rates may damage the housing industry (including lumber, cement, and insulation) but may have minimal effects on industries such as paper, hospital supplies, office products, and soft drinks. Marketers that serve broad sectors of the organizational market must be particularly sensitive to the differential effect of selective economic shifts on buying behavior.

Technological Influences Rapidly changing technology can restructure an industry and dramatically alter organizational buying plans. Notably, the World Wide Web "has forever changed the way companies and customers (whether they be consumers or other businesses) buy and sell to each other, learn about each other, and communicate."¹⁶

The rate of technological change in an industry influences the composition of the decision-making unit in the buying organization. As the pace of technological change increases, the importance of the purchasing manager in the buying process declines. Technical and engineering personnel tend to be more important when the rate of technological change is great. Recent research also suggests that buyers who perceive the pace of technological change to be more rapid (1) conduct more intense search efforts and (2) spend less time on their overall search processes.¹⁷ Allen Weiss and

¹³ Satish Shankar, Charles Ormiston, Nicholas Bloch, Robert Schaus, and Vijay Vishwanath, "How to Win in Emerging Markets," *MIT Sloan Management Review* 49 (Spring 2008): pp. 19–23.

¹⁴ "Global Procurement Study Finds Companies Unprepared to Manage Increased Sourcing from China and India Effectively," accessed at <http://www.atkearney.com> on May 18, 2005.

¹⁵ Andrew Bartolini, "CPO Rising: The CPO's Agenda for 2008," February 2008, research report by the Aberdeen Group, accessed at <http://www.aberdeen.com> on May 25, 2008.

¹⁶ Stewart Alsop, "e or Be Eaten," *Fortune*, November 8, 1999, p. 87.

¹⁷ Weiss and Heide, "The Nature of Organizational Search," pp. 220–233; see also Jan B. Heide and Allen M. Weiss, "Vendor Consideration and Switching Behavior for Buyers in High-Technology Markets," *Journal of Marketing* 59 (July 1995): pp. 30–43.

Jan Heide suggest that “in cost-benefit terms, a fast pace of change implies that distinct benefits are associated with search effort, yet costs are associated with prolonging the process” because the acquired information is “time sensitive.”¹⁸

The marketer must also actively monitor signs of technological change and be prepared to adapt marketing strategy to deal with new technological environments. For example, Hewlett-Packard has embraced the Internet in its products, services, practices, and marketing. With search engines, spam filters, iPods, and other technologies, customers now have more control of the information they receive than ever before, notes Scott Anderson, director of enterprise brand communication at Hewlett-Packard. In this dynamic environment, “our strategy is to engage our customers with online interactions and content,” he says, pointing to the Web, e-mail, broadband, and blogs as just some of the many electronic tools H-P uses.¹⁹ Similarly, Dell, Inc., now has an entire team dedicated to finding and responding to comments about Dell on the Internet and to creating buzz among bloggers concerning forthcoming product releases.²⁰ Because the most recent wave of technological change is as dramatic as any in history, the implications for marketing strategists are profound. They involve changing definitions of industries, new sources of competition, changing product life cycles, and the increased globalization of markets.²¹

Organizational Forces

An understanding of the buying organization is based on its strategic priorities, the role of purchasing in the executive hierarchy, and the firm’s competitive challenges.

Growing Influence of Purchasing As a rule, the influence of the procurement function is growing. Why? Globalization is upsetting traditional patterns of competition, and companies are feeling the squeeze from rising material costs and stiff customer resistance to price increases. Meanwhile, to enhance efficiency and effectiveness, many firms are outsourcing some functions that were traditionally performed within the organization. As a result, at companies around the world, CEOs are counting on the procurement function to keep their businesses strongly positioned in today’s intensely competitive marketplace.²²

Strategic Priorities in Purchasing

As the influence of purchasing grows, chief procurement officers feel the heat of the spotlight, so they are pursuing an ambitious set of strategic priorities (Table 3.1). They seek cost savings but realize that such savings are only part of what procurement can contribute to the bottom line. More importantly, however, procurement executives are turning to a more strategic question: How can procurement become a stronger competitive weapon? Here attention centers on corporate goals and how procurement can

¹⁸ Weiss and Heide, “The Nature of Organizational Search,” p. 221.

¹⁹ Kate Maddox, Sean Callahan, and Carol Krol, “Top Trends: B-to-B Marketers Have Proven Remarkably Adaptable in the Last Five Years,” *B to B*, June 13, 2005, p. 3, accessed at <http://www.BtoBOnline.com> on July 7, 2005.

²⁰ Ken Worthen, “Dell, by Going Click for Click with Web Posters, Ensured Bloggers Saw Its New Red Mini Laptop,” *Wall Street Journal*, June 3, 2008, p. B6.

²¹ Rashi Glazer, “Winning in Smart Markets,” *Sloan Management Review* 40 (Summer 1999): pp. 56–69.

²² Marc Bourde, Charlie Hawker, and Theo Theocharides, “Taking Center Stage: The 2005 Chief Procurement Officer Survey” (Somers, NY: IBM Global Services, May 2005), pp. 1–14, accessed at <http://www.ibm.com/bcs> on July 1, 2005.

TABLE 3.1 | STRATEGIC PRIORITIES IN PURCHASING

Aligning Purchasing with Strategy: <i>Not Just Buyers</i>	Shift from an administrative role to a value-creating function that serves internal stakeholders and provides a competitive edge in the market.
Exploring New Value Frontiers: <i>It's Not Just about Price</i>	Focus on the capabilities of suppliers emphasizing business outcomes, total cost of ownership, and the potential for long-term value creation.
Putting Suppliers Inside: <i>The Best Value Chain Wins</i>	Develop fewer and deeper relationships with strategic suppliers and involve them in decision-making processes, ranging from new product development to cost-reduction initiatives.
Pursuing Low-Cost Sources: <i>A World Worth Exploring</i>	Overcome hurdles imposed by geographical differences and seek out cost-effective suppliers around the globe.

SOURCE: Adapted from Marc Bourde, Charlie Hawker, and Theo Theocharides, "Taking Center Stage: The 2005 Chief Procurement Officer Survey," (Somers, N.Y.: IBM Global Services, May 2005), pp. 1–14. Accessed at <http://www.ibm.com/bcs> on July 1, 2005; and Chip W. Hardt, Nicholas Reinecke, and Peter Spiller, "Inventing the 21st-Century Purchasing Organization," *The McKinsey Quarterly* 2007, No. 4, pp. 115–124.

help their internal customers (that is, other business functions) achieve these goals. As a direct participant in the strategy process, procurement managers are giving increased emphasis to suppliers' *capabilities*, exploring new areas where a strategic supplier can add value to the firm's product or service offerings. Robert K. Harlan, director of e-procurement at Motorola, captures the idea: For new product development, "we bring many suppliers in early to design, simplify, and implement new technologies."²³

Leading-edge purchasing organizations have also learned that the "best value chain wins," so they are building closer relationships with a carefully chosen set of strategic suppliers and aligning the activities of the supply chain with customers' needs.²⁴ For example, Honda of America reduced the cost of the Accord's purchased content by setting cost targets for each component—engine, chassis, and so on.²⁵ Then, purchasing managers worked with global suppliers to understand the cost structure of each component, observe how it is manufactured, and identify ways to reduce costs, add value, or do both.

Offer Strategic Solutions As purchasing assumes a more strategic role, the business marketer must understand the competitive realities of the customer's business and develop a value proposition—products, services, ideas—that advance its performance goals. For example, IBM centers attention on customer solutions—how its information technology and assorted services can improve the efficiency of a retailer's operations or advance the customer service levels of a hotel chain. Alternatively, a supplier to Hewlett-Packard will strike a responsive chord with executives by offering a new component that will increase the performance or lower the cost of its inkjet printers. To provide such customer solutions, the business marketer needs an intimate understanding of the opportunities and threats that the customer confronts.

²³Jason Seigel, "Professional Profile: Robert K. Harlan," *Purchasing* 13 (October 7, 2004): p. 32.

²⁴Mark Gottfredson, Rudy Puryear, and Stephen Phillips, "Strategic Sourcing: From Periphery to the Core," *Harvard Business Review* 83 (February 2005): pp. 132–139.

²⁵Timothy M. Laseter, *Balanced Sourcing: Cooperation and Competition in Supplier Relationships* (San Francisco: Jossey-Bass, 1998), pp. 5–18.

Organizational Positioning of Purchasing

As purchasing moves from a transaction-based support role and assumes a more prominent strategic spot at the executive level, many leading firms are centralizing the procurement function. An organization that centralizes procurement decisions approaches purchasing differently than a company in which purchasing decisions are made at individual user locations. When purchasing is centralized, a separate organizational unit has authority for purchases at a regional, divisional, or headquarters level. For example, by centralizing procurement, American Express realized nearly \$600 million in purchasing savings in the first three years.²⁶ IBM, Sara Lee, 3M, Hewlett-Packard, Wendy's International, and Citicorp are among other corporations that emphasize centralized procurement. A marketer who is sensitive to organizational influences can more accurately map the decision-making process, isolate buying influentials, identify salient buying criteria, and target marketing strategy for both centralized, as well as decentralized, organizations.²⁷

Centralization of Procurement: Contributing Factors Several factors contribute to the trend toward centralizing purchasing. First, centralization can better integrate purchasing strategy with corporate strategy, and e-procurement software tools now enable managers to monitor and analyze corporate spending data in minute detail.²⁸ Importantly, e-procurement software from firms such as Ariba, Inc. (<http://www.ariba.com>) now provides buyers with a rich set of new tools to track and manage spending across the entire enterprise. For example, the corporate procurement group at Walt Disney Company manages spending on all items common to the entertainment firm's four business units: media networks, parks and resorts, studio entertainment, and consumer products. These items include such categories as information technology, telecommunications, construction services, and insurance.²⁹

Second, an organization with multiple plant or office locations can often cut costs by pooling common requirements. Before Motorola centralized its procurement function, it had 65 different software agreements globally with one supplier for the same software license.³⁰ By negotiating a global agreement that covers all Motorola operations around the world, the centralized procurement staff saved more than \$40 million, or about 50 percent of what the firm had been paying for the 65 different agreements.

Third, the nature of the supply environment also can determine whether purchasing is centralized. If a few large sellers dominate the supply environment, centralized buying may be particularly useful in securing favorable terms and proper service. If the supply industry consists of many small firms, each covering limited geographical areas, decentralized purchasing may achieve better support.

Finally, the location of purchasing in the organization often hinges on the location of key buying influences. If engineering plays an active role in the process, the purchasing function must be in close organizational and physical proximity.

²⁶ Susan Avery, "American Express Changes Ahead," *Purchasing* 133 (November 4, 2004): pp. 34–38.

²⁷ E. Raymond Corey, *The Organizational Context of Industrial Buyer Behavior* (Cambridge, MA: Marketing Science Institute, 1978), pp. 99–112.

²⁸ Tim A. Minahan, "Best Practices in E-Sourcing: Optimizing and Sustaining Supply Savings," September 2004, research report by Aberdeen Group, Inc., Boston, Massachusetts; accessed at <http://www.ariba.com> on June 15, 2005.

²⁹ Anne Millen Porter, "Spend a Little, Save a Lot," *Purchasing* 130 (April 4, 2002): pp. 23–34.

³⁰ James Carbone, "Motorola Leverages Its Way to Lower Cost," *Purchasing* 133 (September 16, 2004): p. 32.

Centralization versus Decentralization Centralized and decentralized procurement differ substantially.³¹ Centralization leads to specialization. Purchasing specialists for selected items develop comprehensive knowledge of supply and demand conditions, vendor options, supplier cost factors, and other relevant information. This knowledge, and the significant volume of business that specialists control, enhances their buying strength and supplier options.

The priority given to selected buying criteria is also influenced by centralization or decentralization. By identifying the buyer's organizational domain, the marketer can generally identify the purchasing manager's objectives. **Centralized purchasing** units place more weight on strategic considerations such as long-term supply availability and the development of a healthy supplier complex. Decentralized buyers may emphasize more tactical concerns such as short-term cost efficiency and profit considerations. Organizational buying behavior is greatly influenced by the monitoring system that measures the performance of the unit.

Personal selling skills and the brand preferences of users influence purchasing decisions more at user locations than at centralized buying locations. At user locations, E. Raymond Corey points out that "engineers and other technical personnel, in particular, are prone to be specific in their preferences, while nonspecialized, nontechnical buyers have neither the technical expertise nor the status to challenge them,"³² as can purchasing specialists at central locations. Differing priorities between central buyers and local users often lead to conflict. In stimulating demand at the user level, the marketer should assess the potential for conflict and attempt to develop a strategy to resolve any differences between the two organizational units.

Strategy Response The organization of the marketer's selling strategy should parallel the organization of the purchasing function of key accounts. To avoid disjointed selling activities and internal conflict in the sales organization, and to serve the special needs of important customers, many business marketers have developed key account management programs to establish a close working relationship that, according to Benson Shapiro and Rowland Moriarty, "cuts across multiple levels, functions, and operating units in both the buying and selling organizations."³³ For example, IBM assigns a dedicated account executive to work with large customers, like Boeing or State Farm Insurance. Thus, the trend toward the centralization of procurement by buyers has been matched by the development of key account management programs by sellers. For large, multinational organizations that have the structure, processes, and information systems to centrally coordinate purchases on a global scale, the customer might be considered for global account management status. A **global account management program** treats a customer's worldwide operations as one integrated account, with coherent terms for pricing, service, and product specifications.³⁴

³¹ Joseph A. Bellizzi and Joseph J. Belonax, "Centralized and Decentralized Buying Influences," *Industrial Marketing Management* 11 (April 1982): pp. 111–115; Arch G. Woodside and David M. Samuel, "Observation of Centralized Corporate Procurement," *Industrial Marketing Management* 10 (July 1981): pp. 191–205; and Corey, *The Organizational Context*, pp. 6–12.

³² Corey, *The Organizational Context*, p. 13.

³³ Benson P. Shapiro and Rowland T. Moriarty, *National Account Management: Emerging Insights* (Cambridge, MA: Marketing Science Institute, 1982), p. 8; see also James Boles, Wesley Johnston, and Alston Gardner, "The Selection and Organization of National Accounts: A North American Perspective," *Journal of Business & Industrial Marketing* 14 (4, 1999): pp. 264–275.

³⁴ George S. Yip and Audrey J. M. Bink, "Managing Global Accounts," *Harvard Business Review* 85 (September 2007): pp. 103–111.

INSIDE BUSINESS MARKETING

Go Digital to Target Buying Influentials

Which firms are gaining an advantage in the customer-empowered, competitive markets that are being reshaped by the Internet? Those who already excel at managing customer relationships are best equipped to capitalize on the opportunities of the Internet. Those relationship leaders are able to anticipate earlier how to use the Internet to connect with their customers, exploit it faster, and implement strategy initiatives better. Best-of-breed relationship builders, like Dell, FedEx, GE Medical, and Singapore Airlines, relish the new possibilities the Internet presents.

Consider the effective and low-cost strategy that GE Medical uses in selling expensive,

mission-critical software through the digital channel. Radiologists using GE's diagnostic imaging machines can go to the Internet and try out new GE software that increases the efficiency of spinal examinations. If they like what they see, they can order the \$65,000 software. About 65 percent of the time, radiologists elect to make the purchase, without ever talking to a salesperson.

SOURCE: George S. Day and Katrina J. Hubbard, "Customer Relationships Go Digital," *Business Strategy Review* 14 (1, 2003): pp. 17–26.

For example, Xerox and Hewlett-Packard each have over 100 corporate clients who are given global account status.

Group Forces

Multiple buying influences and group forces are critical in organizational buying decisions. The organizational buying process typically involves a complex set of smaller decisions made or influenced by several individuals. The degree of involvement of group members varies from routine rebuys, in which the purchasing agent simply takes into account the preferences of others, to complex new-task buying situations, in which a group plays an active role.

The industrial salesperson must address three questions.

- Which organizational members take part in the buying process?
- What is each member's relative influence in the decision?
- What criteria are important to each member in evaluating prospective suppliers?

The salesperson who can correctly answer these questions is ideally prepared to meet the needs of a buying organization and has a high probability of becoming the chosen supplier.

The Buying Center The concept of the buying center provides rich insights into the role of group forces in organizational buying behavior.³⁵ The buying center

³⁵ For a comprehensive review of buying center research, see Wesley J. Johnston and Jeffrey E. Lewin, "Organizational Buying Behavior: Toward an Integrative Framework," *Journal of Business Research* 35 (January 1996): pp. 1–15; and J. David Lichtenthal, "Group Decision Making in Organizational Buying: A Role Structure Approach," in *Advances in Business Marketing*, vol. 3, ed. Arch G. Woodside (Greenwich, CT: JAI Press, 1988), pp. 119–157.

consists of individuals who participate in the purchasing decision and share the goals and risks arising from the decision. The size of the buying center varies, but an average buying center includes more than 4 persons per purchase; the number of people involved in all stages of one purchase may be as many as 20.³⁶

The composition of the buying center may change from one purchasing situation to another and is not prescribed by the organizational chart. A buying group evolves during the purchasing process in response to the information requirements of the specific situation. Because organizational buying is a *process* rather than an isolated act, different individuals are important to the process at different times.³⁷ A design engineer may exert significant influence early in the process when product specifications are being established; others may assume a more dominant role in later phases. A salesperson must define the buying situation and the information requirements from the organization's perspective in order to anticipate the size and composition of the buying center. Again, the composition of the buying center evolves during the purchasing process, varies from firm to firm, and varies from one purchasing situation to another.

Isolating the Buying Situation Defining the buying situation and determining whether the firm is in the early or later stages of the procurement decision-making process are important first steps in defining the buying center. The buying center for a new-task buying situation in the not-for-profit market is presented in Table 3.2. The product, intensive-care monitoring systems, is complex and costly. Buying center members are drawn from five functional areas, each participating to varying degrees in the process. A marketer who concentrated exclusively on the purchasing function would be overlooking key buying influentials.

Erin Anderson and her colleagues queried a large sample of sales managers about the patterns of organizational buying behavior their salespeople confront daily. Sales forces that frequently encounter new-task buying situations generally observe that:

The buying center is large, slow to decide, uncertain about its needs and the appropriateness of the possible solutions, more concerned about finding a good solution than getting a low price or assured supply, more willing to entertain proposals from “out” suppliers and less willing to favor “in” suppliers, more influenced by technical personnel, [and] less influenced by purchasing agents.³⁸

By contrast, Anderson and her colleagues found that sales forces facing more routine purchase situations (that is, straight and modified rebuys) frequently observe buying centers that are “small, quick to decide, confident in their appraisals of the problem and possible solutions, concerned about price and supply, satisfied with ‘in’ suppliers, and more influenced by purchasing agents.”³⁹

³⁶ For example, see Robert D. McWilliams, Earl Naumann, and Stan Scott, “Determining Buying Center Size,” *Industrial Marketing Management* 21 (February 1992): pp. 43–49.

³⁷ Ghingold and Wilson, “Buying Center Research and Business Marketing Practice,” pp. 96–108; see also Gary L. Lilien and M. Anthony Wong, “Exploratory Investigation of the Structure of the Buying Center in the Metalworking Industry,” *Journal of Marketing Research* 21 (February 1984): pp. 1–11.

³⁸ Anderson, Chu, and Weitz, “Industrial Purchasing,” p. 82.

³⁹ *Ibid.*

TABLE 3.2 THE INVOLVEMENT OF BUYING CENTER PARTICIPANTS AT DIFFERENT STAGES OF THE PROCUREMENT PROCESS

Stages of Procurement Process for a Medical Supplier				
Buying Center Participants	Identification of Need	Establishment of Objectives	Identification and Evaluation of Buying Alternatives	Selection of Suppliers
Physicians	High	High	High	High
Nursing	Low	High	High	Low
Administration	Moderate	Moderate	Moderate	High
Engineering	Low	Moderate	Moderate	Low
Purchasing	Low	Low	Low	Moderate

SOURCE: Adapted by permission of the publisher from Gene R. Laczniak, "An Empirical Study of Hospital Buying," *Industrial Marketing Management* 8 (January 1979): p. 61. Copyright © 1979 by Elsevier Science.

Predicting Composition A marketer can also predict the composition of the buying center by projecting the effect of the industrial product on various functional areas in the organization. If the procurement decision will affect the marketability of a firm's product (for example, product design, price), the marketing department will be active in the process. Engineering will be influential in decisions about new capital equipment, materials, and components; setting specifications; defining product performance requirements; and qualifying potential vendors. Manufacturing executives will be included for procurement decisions that affect the production mechanism (for example, materials or parts used in production). When procurement decisions involve a substantial economic commitment or impinge on strategic or policy matters, top management will have considerable influence.

Buying Center Influence Members of the buying center assume different roles throughout the procurement process. Frederick Webster Jr. and Yoram Wind have given the following labels to each of these roles: users, influencers, buyers, deciders, and gatekeepers.⁴⁰

As the role name implies, **users** are the personnel who use the product in question. Users may have anywhere from inconsequential to extremely important influence on the purchase decision. In some cases, the users initiate the purchase action by requesting the product. They may even develop the product specifications.

Gatekeepers control information to be reviewed by other members of the buying center. They may do so by disseminating printed information, such as advertisements, or by controlling which salesperson speaks to which individuals in the buying center. To illustrate, the purchasing agent might perform this screening role by opening the gate to the buying center for some sales personnel and closing it to others.

Influencers affect the purchasing decision by supplying information for the evaluation of alternatives or by setting buying specifications. Typically, those in technical departments, such as engineering, quality control, and R&D, have significant influence on the purchase decision. Sometimes, outside individuals can assume this role.

⁴⁰ Frederick E. Webster Jr. and Yoram Wind, *Organizational Buying Behavior* (Englewood Cliffs, NJ: Prentice-Hall, 1972), p. 77. For a review of buying role research, see Lichtenthal, "Group Decision Making in Organizational Buying," pp. 119-157.

INSIDE BUSINESS MARKETING

Innovate and Win with BMW

Leading procurement organizations expect their suppliers to innovate, and they reward them when they do. At firms such as P&G, Coca-Cola, and BMW, purchasing executives use “potential to innovate” as a key criterion for selecting suppliers and evaluate contributions to innovation as part of the supplier development process.

Business marketers who contribute innovative ideas to the new-product-development process at such firms win the support of purchasing managers, marketing executives, design engineers, and other members of the buying center. For example, a salesperson for a top supplier to BMW proposed adding optic-fiber-enabled light rings to headlights to add a distinguishing feature to

the brand. “Drivers on the German autobahn or elsewhere would see the distinctive lights of a high-performance BMW approaching from behind and know to move aside and let it pass. BMW and the supplier jointly developed the idea—and the contract ensures exclusive rights for the automaker.” As a result of this collaboration, BMW gained access to new technology that adds value to its brand and the supplier won a lucrative, long-term contract.

SOURCE: A. T. Kearney, “Creating Value through Strategic Supply Management: 2004 Assessment of Excellence in Procurement,” (February 2005). Accessed at <http://www.atkearney.com> on June 25, 2005.

For high-tech purchases, technical consultants often assume an influential role in the decision process and broaden the set of alternatives being considered.⁴¹

Deciders actually make the buying decision, whether or not they have the formal authority to do so. The identity of the decider is the most difficult role to determine: *Buyers* may have formal authority to buy, but the president of the firm may actually make the decision. A decider could be a design engineer who develops a set of specifications that only one vendor can meet.

The **buyer** has formal authority to select a supplier and implement all procedures connected with securing the product. More powerful members of the organization often usurp the power of the buyer. The buyer’s role is often assumed by the purchasing agent, who executes the administrative functions associated with a purchase order.

One person could assume all roles, or separate individuals could assume different buying roles. To illustrate, as users, personnel from marketing, accounting, purchasing, and production may all have a stake in which information technology system is selected. Thus, the buying center can be a very complex organizational phenomenon.

Identifying Patterns of Influence Key influencers are frequently located outside the purchasing department. To illustrate, the typical capital equipment purchase involves an average of four departments, three levels of the management hierarchy (for example, manager, regional manager, vice president), and seven different individuals.⁴²

⁴¹ Paul G. Patterson and Phillip L. Dawes, “The Determinants of Choice Set Structure in High-Technology Markets,” *Industrial Marketing Management* 28 (July 1999): pp. 395–411; and Philip L. Dawes, Don Y. Lee, and David Midgley, “Organizational Learning in High-Technology Purchase Situations: The Antecedents and Consequences of the Participation of External IT Consultants,” *Industrial Marketing Management* 36 (April 2007): pp. 285–299.

⁴² Wesley J. Johnston and Thomas V. Bonoma, “The Buying Center: Structure and Interaction Patterns,” *Journal of Marketing* 45 (Summer 1981): pp. 143–156; see also Gary L. Lilien and M. Anthony Wong, “An Exploratory Investigation of the Structure of the Buying Center in the Metalworking Industry,” *Journal of Marketing Research* 21 (February 1984): pp. 1–11; and Arch G. Woodside, Timo Liakko, and Risto Vuori, “Organizational Buying of Capital Equipment Involving Persons across Several Authority Levels,” *Journal of Business & Industrial Marketing* 14 (1, 1999): pp. 30–48.

TABLE 3.3 | CLUES FOR IDENTIFYING POWERFUL BUYING CENTER MEMBERS

- *Isolate the personal stakeholders.* Those individuals who have an important personal stake in the decision will exert more influence than other members of the buying center. For example, the selection of production equipment for a new plant will spawn the active involvement of manufacturing executives.
- *Follow the information flow.* Influential members of the buying center are central to the information flow that surrounds the buying decision. Other organizational members will direct information to them.
- *Identify the experts.* Expert power is an important determinant of influence in the buying center. Those buying center members who possess the most knowledge—and ask the most probing questions of the salesperson—are often influential.
- *Trace the connections to the top.* Powerful buying center members often have direct access to the top-management team. This direct link to valuable information and resources enhances the status and influence of the buying center members.
- *Understand purchasing's role.* Purchasing is dominant in repetitive buying situations by virtue of technical expertise, knowledge of the dynamics of the supplying industry, and close working relationships with individual suppliers.

SOURCE: Adapted from John R. Ronchetto, Michael D. Hutt, and Peter H. Reingen, "Embedded Influence Patterns in Organizational Buying Systems," *Journal of Marketing* 53 (October 1989): pp. 51–62.

In purchasing component parts, personnel from production and engineering are often most influential in the decision. It is interesting to note that a comparative study of organizational buying behavior found striking similarities across four countries (the United States, the United Kingdom, Australia, and Canada) in the involvement of various departments in the procurement process.⁴³

Past research provides some valuable clues for identifying powerful buying center members (Table 3.3).⁴⁴ To illustrate, individuals who have an important personal stake in the decision possess, expert knowledge concerning the choice, and/or are central to the flow of decision-related information tend to assume an active and influential role in the buying center. Purchasing managers assume a dominant role in repetitive buying situations.

Based on their buying center research, Donald W. Jackson Jr. and his colleagues provide these strategy recommendations:

Marketing efforts will depend upon which individuals of the buying center are more influential for a given decision. Because engineering and manufacturing are more influential in product selection decisions, they may have to be sold on product characteristics. On the other hand, because purchasing is most influential in supplier selection decisions, they may have to be sold on company characteristics.⁴⁵

⁴³ Peter Banting, David Ford, Andrew Gross, and George Holmes, "Similarities in Industrial Procurement across Four Countries," *Industrial Marketing Management* 14 (May 1985): pp. 133–144.

⁴⁴ John R. Ronchetto, Michael D. Hutt, and Peter H. Reingen, "Embedded Influence Patterns in Organizational Buying Systems," *Journal of Marketing* 53 (October 1989): pp. 51–62; see also Ajay Kohli, "Determinants of Influence in Organizational Buying: A Contingency Approach," *Journal of Marketing* 53 (July 1989): pp. 50–65; Daniel H. McQuiston and Peter R. Dickson, "The Effect of Perceived Personal Consequences on Participation and Influence in Organizational Buying," *Journal of Business Research* 23 (September 1991): pp. 159–177; and Jerome M. Katrichis, "Exploring Departmental Level Interaction Patterns in Organizational Purchasing Decisions," *Industrial Marketing Management* 27 (March 1998): pp. 135–146.

⁴⁵ Jackson, Keith, and Burdick, "Purchasing Agents' Perceptions of Industrial Buying Center Influence," pp. 75–83.

Individual Forces

Individuals, not organizations, make buying decisions. Each member of the buying center has a unique personality, a particular set of learned experiences, a specified organizational function, and a perception of how best to achieve both personal and organizational goals. Importantly, research confirms that organizational members who perceive that they have an important personal stake in the buying decision participate more forcefully in the decision process than their colleagues.⁴⁶ To understand the organizational buyer, the marketer should be aware of individual perceptions of the buying situation.

Differing Evaluative Criteria **Evaluative criteria** are specifications that organizational buyers use to compare alternative industrial products and services; however, these may conflict. Industrial product users generally value prompt delivery and efficient servicing; engineering values product quality, standardization, and testing; and purchasing assigns the most importance to maximum price advantage and economy in shipping and forwarding.⁴⁷

Product perceptions and evaluative criteria differ among organizational decision makers as a result of differences in their educational backgrounds, their exposure to different types of information from different sources, the way they interpret and retain relevant information (perceptual distortion), and their level of satisfaction with past purchases.⁴⁸ Engineers have an educational background different from that of plant managers or purchasing agents: They are exposed to different journals, attend different conferences, and possess different professional goals and values. A sales presentation that is effective with purchasing may be entirely off the mark with engineering.

Responsive Marketing Strategy A marketer who is sensitive to differences in the product perceptions and evaluative criteria of individual buying center members is well equipped to prepare a responsive marketing strategy. To illustrate, a research study examined the industrial adoption of solar air-conditioning systems and identified the criteria important to key decision makers.⁴⁹ Buying center participants for this purchase typically include production engineers, heating and air-conditioning (HVAC) consultants, and top managers. The study revealed that marketing communications directed at production engineers should center on operating costs and energy savings; HVAC consultants should be addressed concerning noise level and initial cost of the system; and top managers are most interested in whether the technology is state-of-the-art. Knowing the criteria of key buying center participants has significant operational value to the marketer when designing new products and when developing and targeting advertising and personal selling presentations.

⁴⁶ McQuiston and Dickson, "The Effect of Perceived Personal Consequences on Participation and Influence in Organizational Buying," pp. 159–177.

⁴⁷ Jagdish N. Sheth, "A Model of Industrial Buyer Behavior," *Journal of Marketing* 37 (October 1973): p. 51; see also Sheth, "Organizational Buying Behavior: Past Performance and Future Expectations," *Journal of Business & Industrial Marketing* 11 (3/4, 1996): pp. 7–24.

⁴⁸ Sheth, "A Model of Industrial Buyer Behavior," pp. 52–54.

⁴⁹ Jean-Marie Choffray and Gary L. Lilien, "Assessing Response to Industrial Marketing Strategy," *Journal of Marketing* 42 (April 1978): pp. 20–31. For related research, see R. Venkatesh, Ajay K. Kohli, and Gerald Zaltman, "Influence Strategies in Buying Centers," *Journal of Marketing* 59 (October 1995): pp. 71–82; and Mark A. Farrell and Bill Schroder, "Influence Strategies in Organizational Buying Decisions," *Industrial Marketing Management* 25 (July 1996): pp. 293–303.

Information Processing Volumes of information flow into every organization through direct-mail advertising, the Internet, journal advertising, trade news, word of mouth, and personal sales presentations. What an individual organizational buyer chooses to pay attention to, comprehend, and retain has an important bearing on procurement decisions.

Selective Processes Information processing is generally encompassed in the broader term cognition, which U. Neisser defines as “all the processes by which the sensory input is transformed, reduced, elaborated, stored, recovered, and used.”⁵⁰ Important to an individual’s cognitive structure are the processes of selective exposure, attention, perception, and retention.

1. *Selective exposure.* Individuals tend to accept communication messages consistent with their existing attitudes and beliefs. For this reason, a purchasing agent chooses to talk to some salespersons and not to others.
2. *Selective attention.* Individuals filter or screen incoming stimuli to admit only certain ones to cognition. Thus, an organizational buyer is more likely to notice a trade advertisement that is consistent with his or her needs and values.
3. *Selective perception.* Individuals tend to interpret stimuli in terms of their existing attitudes and beliefs. This explains why organizational buyers may modify or distort a salesperson’s message in order to make it more consistent with their predispositions toward the company.
4. *Selective retention.* Individuals tend to recall only information pertinent to their own needs and dispositions. An organizational buyer may retain information concerning a particular brand because it matches his or her criteria.

Each of these selective processes influences the way an individual decision maker responds to marketing stimuli. Because the procurement process often spans several months and because the marketer’s contact with the buying organization is infrequent, marketing communications must be carefully designed and targeted.⁵¹ Key decision makers “tune out” or immediately forget poorly conceived messages. They retain messages they deem important to achieving goals.

Risk-Reduction Strategies Individuals are motivated by a strong desire to reduce risk in purchase decisions. Perceived risk includes two components: (1) uncertainty about the outcome of a decision and (2) the magnitude of consequences from making the wrong choice. Research highlights the importance of perceived risk and the purchase type in shaping the structure of the decision-making unit.⁵² Individual decision making is likely to occur in organizational buying for straight rebuys and for modified rebuys when the perceived risk is low. In these situations, the purchasing agent may initiate action.⁵³ Modified rebuys of higher risk and new tasks seem to spawn a group structure.

⁵⁰ U. Neisser, *Cognitive Psychology* (New York: Appleton, 1966), p. 4.

⁵¹ See, for example, Brent M. Wren and James T. Simpson, “A Dyadic Model of Relationships in Organizational Buying: A Synthesis of Research Results,” *Journal of Business & Industrial Marketing* 11 (3/4, 1996): pp. 68–79.

⁵² Elizabeth J. Wilson, Gary L. Lilien, and David T. Wilson, “Developing and Testing a Contingency Paradigm of Group Choice in Organizational Buying,” *Journal of Marketing Research* 28 (November 1991): pp. 452–466.

⁵³ Sheth, “A Model of Industrial Buyer Behavior,” p. 54; see also W. E. Patton III, Charles P. Puto, and Ronald H. King, “Which Buying Decisions Are Made by Individuals and Not by Groups?” *Industrial Marketing Management* 15 (May 1986): pp. 129–138.

B2B TOP PERFORMERS

Delivering Customer Solutions

If you review the performance of salespersons at most business marketing firms, large or small, you will observe some who consistently perform at a level that sets them apart from their peers. A recent study explores how exceptional performers acquire and use information to manage customer relationships. In-depth interviews were conducted with 60 salespersons at a *Fortune* 500 firm: 20 high-performing, 20 average-performing, and 20 low-performing salespersons.

Sharp differences emerged when the salespersons were asked to categorize their customers into groups based on characteristics they found most useful in managing customer relationships. Here high performers emphasize customer goals, whereas low performers emphasize customer demographics (for example, large versus small firms). In turn,

the study reveals that high performers develop a more extensive network of relationships within the customer organization compared with their colleagues. Importantly, high performers are better able to establish and maintain profitable customer relationships because they align their organization's special capabilities to the customer's primary goals. In other words, top-performing sales specialists provide a solution that advances the performance of the customer organization.

SOURCE: Gabriel R. Gonzalez, Beth A. Walker, Dimitrios Kapelianis, and Michael D. Hutt, "The Role of Information Acquisition and Knowledge Use in Managing Customer Relationships," working paper, Arizona State University, Tempe, Ariz., 2008.

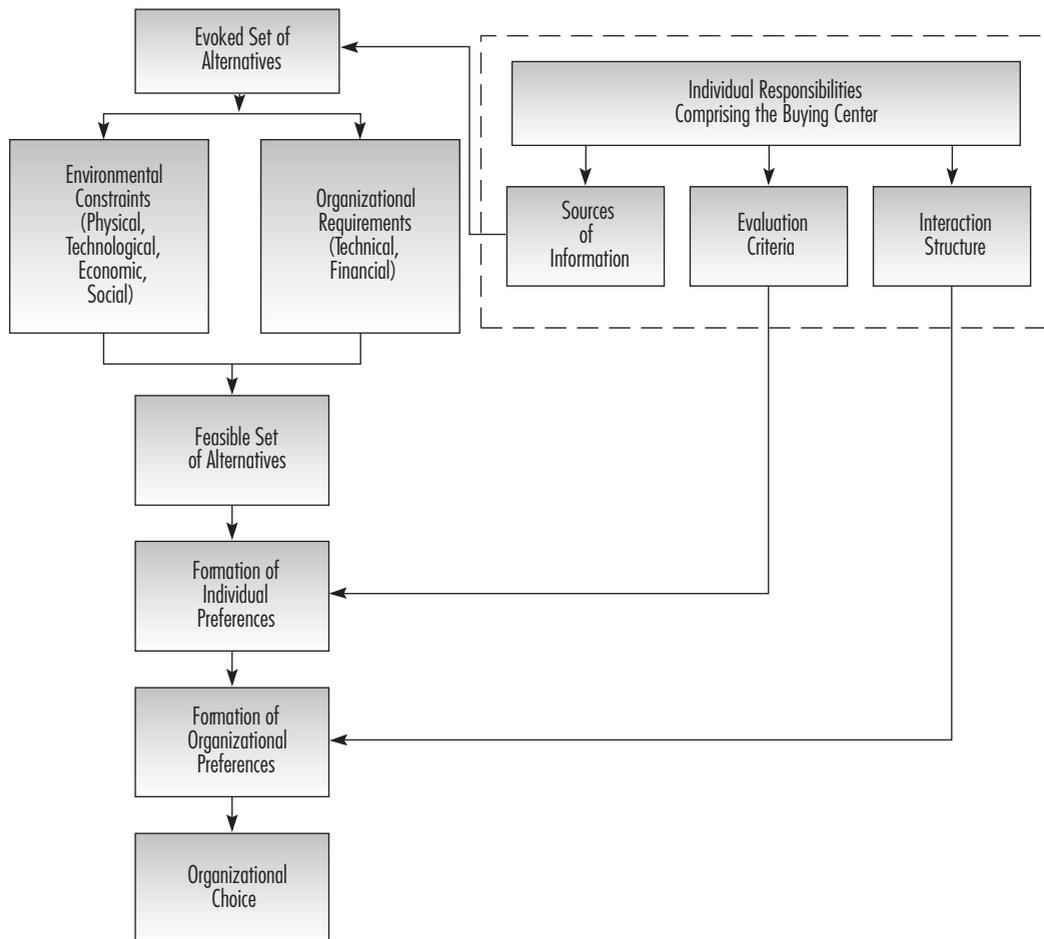
In confronting "risky" purchase decisions, how do organizational buyers behave? As the risk associated with an organizational purchase decision increases, the following occur⁵⁴:

- The buying center becomes larger and comprises members with high levels of organizational status and authority.
- The information search is active and a wide variety of information sources are consulted. As the decision process unfolds, personal information sources (for example, discussions with managers at other organizations that have made similar purchases) become more important.
- Buying center participants invest greater effort and deliberate more carefully throughout the purchase process.
- Sellers who have a proven track record with the firm are favored—the choice of a familiar supplier helps reduce perceived risk.

Rather than price, product quality and after-sale service are typically most important to organizational buyers when they confront risky decisions. When introducing new products, entering new markets, or approaching new customers, the marketing strategist should evaluate the effect of alternative strategies on perceived risk.

⁵⁴Johnston and Lewin, "Organizational Buying Behavior: Toward an Integrative Framework," pp. 8–10. See also Puto, Patton, and King, "Risk Handling Strategies in Industrial Vendor Selection Decisions," pp. 89–95.

FIGURE 3.4 | MAJOR ELEMENTS OF ORGANIZATIONAL BUYING BEHAVIOR



SOURCE: Jean-Marie Choffray and Gary L. Lilien, "Assessing Response to Industrial Marketing Strategy," *Journal of Marketing* 42 (April 1978): p. 22. Reprinted by permission of the American Marketing Association.

The Organizational Buying Process: Major Elements

The behavior of organizational buyers is influenced by environmental, organizational, group, and individual factors. Each of these spheres of influence has been discussed in an organizational buying context, with particular attention to how the industrial marketer should interpret these forces and, more important, factor them directly into marketing strategy planning. A model of the organizational buying process is presented in Figure 3.4, which serves to reinforce and integrate the key areas discussed so far in this chapter.⁵⁵

⁵⁵ Choffray and Lilien, "Assessing the Response to Industrial Marketing Strategy," pp. 20–31. Other models of organizational buying behavior include Webster and Wind, *Organizational Buying Behavior*, pp. 28–37; and Sheth, "A Model of Industrial Buyer Behavior," pp. 50–56. For a comprehensive review, see Sheth, "Organizational Buying Behavior," pp. 7–24; and Johnston and Lewin, "Organizational Buying Behavior," pp. 1–15.

This framework focuses on the relationship between an organization's buying center and the three major stages in the individual purchase decision process:

1. the screening of alternatives that do not meet organizational requirements;
2. the formation of decision participants' preferences;
3. the formation of organizational preferences.

Observe that individual members of the buying center use various evaluative criteria and are exposed to various sources of information, which influence the industrial brands included in the buyer's **evoked set of alternatives**—the alternative brands a buyer calls to mind when a need arises and that represent only a few of the many brands available.⁵⁶

Environmental constraints and organizational requirements influence the procurement process by limiting the number of product alternatives that satisfy organizational needs. For example, capital equipment alternatives that exceed a particular cost (initial or operating) may be eliminated from further consideration. The remaining brands become the **feasible set of alternatives** for the organization, from which individual preferences are defined. The **interaction structure** of the members of the buying center, who have differing criteria and responsibilities, leads to the formation of organizational preferences and ultimately to organizational choice.

Understanding the organizational buying process enables the marketer to play an active rather than a passive role in stimulating market response. The marketer who identifies organizational screening requirements and the salient evaluative criteria of individual buying center members can make more informed product design, pricing, and promotional decisions.

Summary

Knowledge of the process that organizational buyers follow in making purchasing decisions is fundamental to responsive marketing strategy. As a buying organization moves from the problem-recognition phase, in which a procurement need is defined, to later phases, in which suppliers are screened and ultimately chosen, the marketer can play an active role. In fact, the astute marketer often triggers initial awareness of the problem and helps the organization effectively solve that problem. Incremental decisions made throughout the buying process narrow the field of acceptable suppliers and dramatically influence the ultimate outcome.

The nature of the buying process depends on the organization's level of experience with similar procurement problems. It is thus crucial to know how the organization defines the buying situation: as a new task, a modified rebuy, or a straight rebuy. Each buying situation requires a unique problem-solving approach, involves unique buying influentials, and demands a unique marketing response.

⁵⁶ Howard and Sheth, *The Theory of Buyer Behavior*, p. 26; see also Ronald P. LeBlanc, "Environmental Impact on Purchase Decision Structure," *Journal of Purchasing and Materials Management* 17 (Spring 1981): pp. 30–36; and Lowell E. Crow, Richard W. Olshavsky, and John O. Summers, "Industrial Buyers' Choice Strategies: A Protocol Analysis," *Journal of Marketing Research* 17 (February 1980): pp. 34–44.

Myriad forces—environmental, organizational, group, and individual—influence organizational buying behavior. First, environmental forces define the boundaries within which industrial buyers and sellers interact, such as general business conditions or the rate of technological change. Second, organizational forces dictate the link between buying activities and the strategic priorities of the firm and the position that the purchasing function occupies in the organizational structure. Third, the relevant unit of analysis for the marketing strategist is the buying center. The composition of this group evolves during the buying process, varies from firm to firm, and changes from one purchasing situation to another. Fourth, the marketer must ultimately concentrate attention on individual members of the buying center. Each brings a particular set of experiences and a unique personal and organizational frame of reference to the buying decision. The marketer who is sensitive to individual differences is best equipped to develop responsive marketing communications that the organizational buyer will remember.

Unraveling the complex forces that encircle the organizational buying process is indeed difficult. This chapter offers a framework that enables the marketing manager to begin this task by asking the right questions. The answers provide the basis for effective and efficient business marketing strategy.

Discussion Questions

1. Ford revamped the way it purchases operating resources such as office, computer, and maintenance supplies. Instead of having employees fill out purchase orders that must be cleared by the boss days later, employees simply log on to an Internet system. They browse through the electronics catalogs of manufacturers, order from a preapproved group of suppliers, and get purchase approval in minutes. What new challenges and opportunities does the e-procurement system present for business marketers who serve Ford?
2. Jim Jackson, an industrial salesperson for Pittsburgh Machine Tool, will call on two accounts this afternoon. The first will be a buying organization Jim has been servicing for the past 3 years. The second call, however, poses more of a challenge. This buying organization has been dealing with a prime competitor of Pittsburgh Machine Tool for 5 years. Jim, who has good rapport with the purchasing and engineering departments, feels that the time may be right to penetrate this account. Recently, Jim learned that the purchasing manager was extremely unhappy with the existing supplier's poor delivery service. Define the buying situations confronting Jim and outline the appropriate strategy he should follow in each case.
3. Karen Weber, the purchasing agent for Smith Manufacturing, views the purchase of widgets as a routine buying decision. What factors might lead her to alter this position? More important, what factors determine whether Karen considers a particular supplier, such as Albany Widget?
4. Harley-Davidson, the U.S. motorcycle producer, recently purchased some sophisticated manufacturing equipment to enhance its position in a very competitive market. First, what environmental forces might have been important in spawning this capital investment? Second, which functional units were likely to have been represented in the buying center?

5. Brunswick Corporation centralizes its procurement decisions at the headquarters level. Discuss how it would approach purchasing differently than a competitor that decentralizes purchasing across various plant locations.
6. The Kraus Toy Company recently decided to develop a new electronic game. Can an electrical parts supplier predict the likely composition of the buying center at Kraus Toy? What steps could an industrial salesperson take to influence the composition of the buying center?
7. Explain how the composition of the buying center evolves during the purchasing process and how it varies from one firm to another, as well as from one purchasing situation to another. What steps can a salesperson take to identify the influential members of the buying center?
8. Carol Brooks, purchasing manager for Apex Manufacturing Co., read the Wall Street Journal this morning and carefully studied, clipped, and saved a full-page ad by the Allen-Bradley Company. Ralph Thornton, the production manager at Apex, read several articles from the same paper but could not recall seeing this particular ad or, for that matter, any ads. How could this occur?
9. Organizations purchase millions of notebook computers each year. Identify several evaluative criteria that purchasing managers might use in choosing a particular brand. In your view, which criteria would be most decisive in the buying decision?
10. The levels of risk associated with organizational purchases range from low to high. Discuss how the buying process for a risky purchase differs from the process for a routine purchase.

Internet Exercises

1. Dell, Inc., has been wildly successful in selling its products over the Internet to customers of all types, including every category of customers in the business market: commercial enterprises, institutions, and government. Assume your university library is planning to purchase 25 new desktop computers. Go to <http://www.dell.com> and to the Dell Online Store for Higher Education and:
 - a. identify the price and product dimensions of two desktop systems that might meet your university's needs, and
 - b. provide a critique of the Web site and consider how well it provided access to the information that a potential buyer might want.

The Tablet PC for Nurses: A Mobile Clinical Assistant⁵⁷

Intel Corporation and Motion Computing, Inc., are demonstrating the result of a joint effort to increase the productivity of nurses—the Motion C5 Mobile Clinical Assistant—a tablet-style personal computer designed for use in hospitals and clinics.

The idea for the product emerged from ethnographic studies that Intel conducted in the health-care setting. Here researchers observed the round-the-clock flow of activities in a hospital and meticulously recorded the key tasks performed by the nurses and professional staff, tracing their every movement. The C5 benefited from the rich insights uncovered by Intel's study as well as from similar research that Motion Computing had completed in prior years. The companies believe that the device will help nurses handle chores such as remotely calling up medical records and doctors' orders, charting vital signs, and exchanging information with other professionals.

The Motion C5, which is priced at \$2,199, provides a sure-grip handle, a sealed case for easy cleaning and disinfecting, a lightweight design for portability, a 10-inch screen for easily viewing clinical information, rugged construction, and a pen and stylus input so clinicians can enter text and navigate the software without being tied to a keyboard. The innovative device also incorporates such features as integrated bar code and radio frequency identification (RFID) readers for patient identification and/or electronic medication administration, an integrated camera, and built-in wireless connectivity.

When the Motion C5 was released in 2007, about 16 percent of U.S. hospitals were using tablet PCs, and 24 percent had smaller handheld computers. Some hospitals prefer what they call COWs—computers on wheels—that can be rolled into patients' rooms.

One of the first U.S. adopters of the Motion C5 was Island Hospital, located in Anacortes, Washington. Rick Kiser, assistant director of information systems for Island Hospital, was centrally involved in the buying decision. Though Island's buying team had initially recommended adding COWs for every patient room, the nursing staff had concerns about COWs' limitations. Kiser noted: "The single biggest issue was the COWs are impossible to clean. The sanitary aspect was a nightmare."

Holly Hoskinson, RN and clinical informatics specialist, also noted the COWs were difficult to maneuver from room to room. "We tried a variety of cart styles but they are all still big and heavy." Another Island RN, Chris Storm, agreed: "We wanted a device in each room and based on our budget we would have to move COWs from room to room. That option was not acceptable."

While other brands of PC tablets were evaluated, the buying team determined that the Motion C5 best met Island's needs. Concerning the decision, Rick Kiser observed: "The thing that cinched it was that this tablet was designed for the medical environment. They are drop resistant and easy to clean and other tablets didn't offer anything near what we needed."

⁵⁷ "The Three M's: Mobility, MEDITECH, and Motion C5," White paper, February 2008, Motion Computing, Inc., accessed at <http://www.motioncomputing.com> on June 5, 2008; and Don Clark, "Intel, Motion Develop Tablet PC for Nurses," *Wall Street Journal*, February 21, 2007, p. D7.

Discussion Questions

1. Suggest strategies that Motion Computing might follow to speed the adoption of the Motion C5 device by hospitals.
2. Potential members of the buying center for a tablet PC purchasing decision might include hospital administrators, nurses, doctors, information technology (IT) specialists, and purchasing managers. Describe how the buying criteria emphasized by hospital administrators or purchasing managers might differ from those embraced by IT specialists or members of the medical staff.