

22

Organisational Buying Behaviour

Men may come and men may go, but the organisation goes on forever. If your costs are going up, try lowering your prices by selling more.

Organisational buying behaviour is important as it is done for the organisation by a group of human beings constituting the power centre. One should understand the:

- *Difference between consumer and organisational buying*
- *Characteristics of organisational buying*
- *Factors affecting organisational buying*
- *Risk factors and their reduction*
- *Buying situations*
- *Selection of a supplier*

Organisational Buying Behaviour

■ 22.1 Introduction

Organisational buying is a complex process of decision-making and communication. It takes time, involves several members and considerations. Robinson, Faris and Wind have identified eight steps in organisational behaviour.

1. Need recognition
2. Definition of characteristic and quantity needed
3. Development of specification to guide the procurement
4. Search for and qualification of potential sources
5. Acquisition and analysis of proposals
6. Evaluation of proposals and selection of suppliers
7. Selection of an order routine
8. Performance feedback and evaluation.

Example Illustrating the Eight Steps in Organisational Buying Behaviour:

Need recognition is the first step while making a purchase decision. The need may be for a machine which could bring efficiency in production or packing. It can be to provide a cool and comfortable working climate in the office. It may be a transportation need or, any requirement which is essential to carry on with the day to day work. The need can be fulfilled by various alternatives. A transportation need can be fulfilled by a scooter, a car, a mini truck or a van or any other way. Working cool climate can be provided by an air cooler or an air conditioner. A packing machine can be manual, semi-automatic or automatic.

Once the need is identified by a purchase committee, which may consist of the purchase officer, general manager, production manager and others, the type and quantity of the item needed are specified, *i.e.*, the number of pieces to be bought. While specifying these, economic consideration are also important depending upon the work and economy of the company or/ firm.

Once these things have been decided, quotations are asked for or, tenders are floated and the offers given by various interested parties which are then scrutinised and analysed on a number of criterion. These may be:

1. Past reputation of the manufacturer.
2. The efficiency of the machine, the durability, economies of working, the design, etc. are considered.
3. Delivery period.
4. Terms of payment.
5. Guarantees given by the company.
6. Price.
7. After sales service, etc.

On the basis of the above a few firms are short listed and then again reviewed.

In certain cases there are recommendation by very high authorities which cannot be ignored. Although the order may have been decided in favour of a supplier, but recommendations and other factors may change the decision in favour of another supplier. If supplies are to be spread over the whole year or an extended period of time, an *order schedule* is prepared, instructing the suppliers to make supplies at required intervals of time. From the above example it is clear that organisational buying differs from consumer buying in many ways. Organisation buying has its own characteristics, as given below:

■ 22.2 Characteristics of ORG Buying (O.B.B.)

1. *O.B. is a multi-person activity*: it is done by a team consisting of some important people in the organisation. These people come from many backgrounds and have different view points and notions which have to be integrated. They have different qualifications and hold different positions in the organisational hierarchy. They can be referred to as the buying centre, and play different roles.

User

The person who actually uses the product, like the person using the typewriter, computer, or the production department.

Influencer

The people who influence the buying like the purchase officer, the production manager, the design engineer, etc.

Decider

The committee appointed for purchases who decides what product and what quantity is to be purchased.

Gate Keeper

Those who control the flow of information within the organisation.

Specifiers

These are the consultants or design people who develop the specifications of the product, or of the services required.

It is a formal activity: Unlike consumer behaviour, organisational buying is a formal activity, where rules and procedures are laid down. There is also a formal contract between a

buyer and a seller. The terms and conditions of payment are also laid down. The time of supplies are also specified.

There is a larger time lag as compared to consumer buying:

As all procedures are to be followed, it takes much longer. The deciding of the purchase, quality, quantity and adherence to rules and regulations, the delivery of product, etc. may take quite some time.

2. *It is a formal activity:* The purchases are made according to certain procedures, rules and regulations. Sometimes quotations are asked for, and for higher amounts of purchases, tenders may be floated. These have to be given proper importance by advertising in news papers or by proper publicity. These are formally opened before a committee constituted for the purpose. Many aspects are looked into, but an important consideration is also the money or, the cost that is quoted for the product. All the activities are carried out in a judicial manner and with the consent of the committee.

3. *It is a rational but emotional activity:* By this we mean that we are dealing with people who are human beings and those who are dealing are also human beings. This gives rise to emotions and no matter how rational we tend to become, it is the human element that also comes into play, and many a time the order goes not to the most deserving candidate, but could tilt in the favour of somebody who may have connections, which may be political, or on the basis of friendships and relationships.

4. *There is a longer time lag between efforts and results:* In individual buying, the sales and the purchase may not last more than a few minutes, but in industrial buying, a lot of procedures have to be followed. These procedures lead to time delays. It takes long to ask for quotations and tenders—once all the tenders have been submitted, a date is fixed for opening the tenders, which is intimated to the parties concerned. Later the order is placed. The order takes a long time to complete as it is mostly a bulk order. Once the order is supplied, many times in instalments, the payment also takes time, and may get held up for many reasons. Thus, there is a time lag between the effort and the results.

5. *Uniqueness of the organisation:* Every organisation is unique in some way or the other. Some are partnership firms, others could be private limited and public limited companies. They have their own structure and their distinct culture. Their objectives, resources and nature of buying is different.

Some firms like to pay cash, some always ask for credit. Others also pay in advance, some have limited resources, some have abundant resources. These influence the nature of buying as well. The objectives of a company could be to keep in tune with the modern times. Others may stick to traditional methods, some are willing to change and welcome it, others resist change. These and other differences of the company influence organisational buying in a big way.

6. *There are fewer industrial buyers than individual buyers:* For example, a firm produces medicine which is bought by many individuals, or a firm making cosmetics is used by thousands of individuals.

7. The industries buy in bulk in huge amounts, whereas, individual consumers buy in lesser and in smaller quantities.

8. Most industrial buyers are geographically concentrated in an area. We have industrial estates of industrial houses, where most industries are concentrated.

9. *Reciprocal buying:* In this we follow the principle of “you buy from me, I buy from you”.

The manufacturer buys raw material from the suppliers who sell his products as well.

10. *Middlemen role is reduced:* In organisational buying, the manufacturer mostly sells directly to the user or, the channel path is very small as compared to consumer buying.

11. *Demand of industrial goods is dependent on the demand of the consumer.* It could be called derived demand. When there is a baby boon (more children are born) the demand for baby products increases.

12. *Inelastic demand:* Price changes do not make much difference in the demand. If the cost of cigarettes increase, smokers will buy cigarettes any way. Similarly, people need to fulfil their genuine requirements irrespective of the change of price.

■ 22.3 Organisational Customers

We need to understand the organisational market. For making a car, many components are required, to market help of a distribution channel is required. It is a chain.

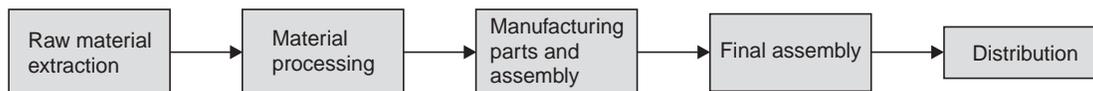


Fig. 22.1

The area is very vast and heterogeneous. Organisational marketing or “ghost” organisational customer, as the customer is huge and unlimited. There are many types of organisations with different classifications. These require different types of raw materials. In manufacturing a car one needs all types of material. Iron sheets to wires, to screws, bolts, iron strips. Electrical gadgets, battery, glass windows and screens, rubber goods, aluminium goods and, hundred of other materials. The suppliers of these materials also require raw materials for their use. Hence, there is an endless chain of suppliers of raw materials. What is a finished product for an industry, can become raw material for the other industry.

Organisation can be classified as *Industrial*—industries are scattered all over the country, and they constitute all organisations involved in manufacturing, assembling, fabrication, etc.

Institutional

These organisers cover universities, hospitals, distribution firms, advertising firms.

Government organisation

Like the PWD, the DGS and D organisations several collecting organisations, several boards and government administrative organisations.

Public organisation

Post, telegraph, and telecommunication, water works, health organisations.

Private organisation

There are many other firms in which the organisation exists. These are:

Mining and extractive industries: These include Coal India ONGC, Hindustan Copper Limited, industries involved in extraction from ore.

Material processing industries: Tata Steel, Steel Authority of India, Bharat Aluminum Company (BALCO), Hindalco, etc.

Manufacturing of parts and assembly: General Electric Company, Larsen Turbo, Kirloskar, MICO, Bharat Forge and many other industries involved in making parts and assembly.

Final assembly: Local brands of cooler manufacturers, shelves, cupboards, trays, tables, chairs, TV manufacturers, truck manufacturers, computer manufacturers.

Distributors

These firms undertake the distribution of various goods, and many products are marketed by them. These include consumable goods, office goods, food products, bearings, tubes, electrical appliances. They may be in the form of marketeers, distributors, agents, middleman or agents.

■ 22.4 Factors Influencing Organisational Buying

There are a number of external and internal environmental factors that directly or indirectly affect organisational buying behaviour. Economic factors are considered very important for organisational buying. Strong personal relationships also play a very important role in organisational buying. Other factors are political influences that are dominant. Organisational buying is also situational and situations play an important role. Most thinkers feel that these influences can be grouped under four major headings.

1. External environment factors

Under this heading we have social, political, legal, cultural, economic factors that interact with each other, for example they could be power shortages, credit squeezes, political and economic changes, which govern many of the rules regulations. The shortage of raw materials, excessive tariffs and taxes on a particular item. These affect the buyer behaviour and the industry has to adapt itself to these changes. Competition in the market has to be studied, and strategies designed to outdo or fight the competition in a proper manner.

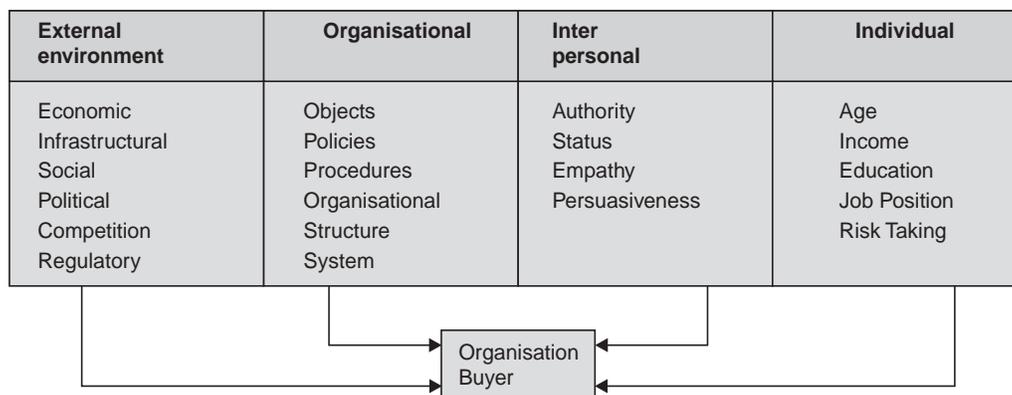


Fig. 22.2

2. Organisational factors

An organisation is purposefully created and deliberately structured to attain specific objectives. These objectives and policies differ in every organisation. Every organisation had a climate

and culture of its own. The organisation is interested in selling its products to the industries who have a “buying centre” or, a group of people who have the authority to buy. The marketer of industrial products thus wants to know who constitutes this “power centre”. “How many people are involved in it. What are their specific requirements. What is their bent of mind or attitude towards the products. What are their likes and dislikes and, what is their criteria of evaluation and, what are the company’s policies and procedures, for placing bulk orders.

3. *Interpersonal factors*

The buying centre consists of a number of persons who are involved in buying. It is an interpersonal activity. Those people come from various levels of the organisation. They have different backgrounds, different expertise, different values and considerations. They play different roles and make the buying more complex. In some cases this leads to a conflict, which has to be solved, and a uniformity and harmony is made to prevail between different members involved in buying. This can be done by

(a) *Problem solving* approach where various alternatives are considered and discussions and deliberations takes place. This should be done in a rational manner and, them conflicts can be resolved.

(b) *Persuasive*: In this method of conflict resolution, the parties are persuaded to take a different view by reducing the importance of a criteria over the other. The objectives of the organisation are given more importance than the objectives of the departments. It is the overall objectives, that must be considered, and the objectives of the various departments and members be unidirectional.

(c) *Bargaining*: This is another method of resolving conflict amongst members. In bargaining, a little give and take is required *i.e.*, in new buying situations there arises a lot of difference in goals and objectives. In this method, the decision of a party is agreed upon with the promise of reciprocity in the future.

(d) *Politicking*: This is a negative approach of resolving the conflict. Here parties spread false charges, or cast aspersions on others. They resort to unhealthy tactics. This is considered as a non-rational method to resolve a conflicting situation.

(e) Each member has a unique personality and experience. His own perception depends upon his age, income, expertise, job position and his attitude towards risk. With more experience, one takes more distinguished and mature decisions. Organisational buying is big buying, which involves risk and the perception of risk is very important.

■ 22.5 Factors that Affect Risk

(a) *Characteristics of the purchase problem*

- Size of the expenditure (rupees)
- Degree of novelty contained in buying
- Degree of product essentiality
- Factors provoking purchase

(b) *Characteristics of the buyer (general and specific)*

Buyer’s self-confidence and experience, degree of technical and professional affiliation.

(c) *Organisational environment*

- Size and financial standing of customer

- Degree of decision centralisation
- Degree of decision reutilisation

(d) *Management of perceived risk:* There are two types of risks involved:

Performance risk: When the products fail to perform. A rolling machine not able to perform on the specified thickness of metals. A life pump not performing upto expectations. An aerosol spray not functioning satisfactorily.

Psychological risk: This risk arises when a person is held responsible and accountable for the decision taken by him. Performance and Psychological risk are associated with the wrong choice.

This leads to four types of risks as shown in Fig. 22.3

External uncertainty	External consequence
Internal uncertainty	Internal consequence

Fig. 22.3

These risks can be reduced by purchasing from familiar suppliers. Risk can also be reduced by placing orders on high credibility suppliers in new buying situations. It is necessary that industrial marketeers must understand the perceived risk, and methods to minimise them. This is necessary to formulate effective sales strategies.

■ 22.6 Organisational Buying Situations

An organisation buys a variety of products and services. These may include a variety of items, some of these are mentioned:

Raw material: Steel, aluminium, iron ore, etc.

Major capital items: Machinery, plant, etc.

Minor capital items: Pumps, valves.

Fabricated components and parts, and auto-assemblies: Castings, forgings, small parts of iron, rubber, plastic, etc.

Processed chemicals: Fluxes for melting, powders, chemicals.

Consumables: Lubricating oils, electrodes, fuel, gas, etc.

Office equipment: Paper, copier, typewriters.

Services: Transport, travel, touring, etc.

Basically there are three types of buying situations, according to Robinson, Fari's and Wind.

Straight rebuy situations

In this routine, orders are placed for office supplies, raw materials, other items of daily use, where the supplier is known and a procedure is already laid down, which is followed in a routine manner.

Modified rebuy situations

Buyers may change or modify the product according to the situation, *e.g.*, nylon rope for ordinary rope. Plastic washers in place of steel or brass washers, aluminium instead of copper, hydraulic

in place of mechanical. This may be done for economic consideration, or for the ease of procurement, or to modify or change the product. The change may also be due to external or internal environmental changes.

New task

When a task is performed, items may be bought without previous experience and for the first time. These could be new machines like computer or Fax machines. The need for such a product may not have occurred previously. For a new task, a new set up and new items are necessary, which may not have been purchased before.

Fisher gave a model and identified two factors for buying decisions. These are product complexity and, commercial uncertainty. This gives a combination of four situations as shown:

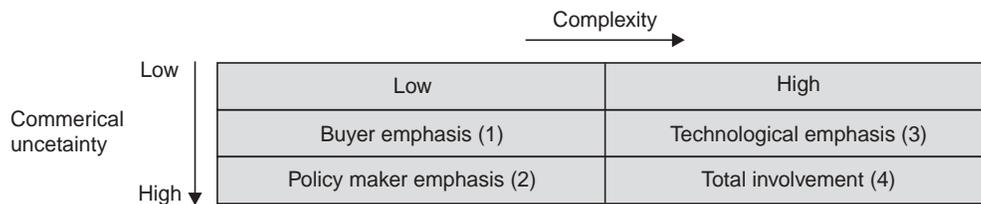


Fig. 22.4 Fisher's model

Table 22.1 Product complexity and commercial uncertainty can further be shown as under:

<i>Product complexity low</i>	<i>High product complexity</i>	<i>Low commercial uncertainty</i>	<i>High commercial uncertainty</i>
Standard product Technically simple Established product Previously purchased Easy to install No after sales service	Different product Technically complicated New product Not purchased previously Difficult to install After sales service required frequently	Low investment Small order Short term commitment Small effect on profitability Easy to forecast	High investment Large order Long term commitment Consequential adjustments required Large effect on profitability Hard to forecast

The four quadrants shown above require different emphasis as shown:

In quadrant (No.1): There is low complexity and low uncertainty, in such a situation Buyer emphasis must be given.

In quadrant (No. 2): There is high uncertainty and low complexity, in such a situation policy makers emphasis is required.

In quadrant (No. 3): There is low uncertainty and high complexity, in such a situation there should be technological emphasis.

In quadrant (No. 4): When both uncertainty and complexity is high, there should be emphasis on total involvement with the product.

Selection of a supplier

In industrial buying, there are many considerations for selecting a supplier. Some suppliers are old suppliers and already listed and registered with the establishment. Other suppliers are also considered. They are considered on a number of criteria.

These are:

1. Price.
2. Reliability of delivery dates.
3. Quality of the product and maintenance of quality.
4. Suppliers reputation in the market.
5. Quick response to the needs of the customer.
6. Capability of the supplier to supply regularly on increase on demand.
7. Supplier's flexibility.
8. Consistency in dealing with supplies.
9. Rejection rates.

All these attributes are considered and the supplier is very carefully chosen. If the supplies are delayed the business fails, which is not tolerated by any organisation.

Questions

1. Outline the steps in the organisational buying behaviour. How do these differ from customer buying?
2. Illustrate with an example the organisational buying highlighting the characteristics of organisational buying.
3. Discuss the main characteristics of organisational buying.
4. What do you understand by an organisational customer? Why is it called a Ghost?
5. Describe the factors affecting organisational buying.
6. What is meant by risk in organisational buying? How can you reduce these risks?
7. Describes the various organisational buying situations.
8. Describe Fisher's model of product complexity and uncertainty in organisational buying.
9. What are the considerations for selecting an organisational supplier?