

CHAPTER 7

ORGANIZATIONAL BUYING BEHAVIOUR

CHAPTER OBJECTIVES

1. To describe the organizational buying process and some models of this process.
2. To identify the main influences on organizational buying behaviour.
3. To distinguish the factors influencing organizational buying behaviour.
4. To consider the role of the purchasing functions in modern organizations.

CHAPTER SUMMARY

This chapter introduces the basic theory of organizational buying, an understanding of which is fundamental to business-to-business marketing. It begins by looking at the organizational buying process and a number of models of the process. It then investigates the theory of risk and uncertainty and identifies the key factors that influence behaviour. It concludes with a discussion of the role of purchasing which is seen as a key area in the competitiveness of the modern industrial firm.

ANNOTATED LECTURE OUTLINE

Point 1 - Introduction.

The need for an understanding of the organizational buying process has grown in recent years due to the many competitive challenges presented in business-to-business markets. Since 1980 there have been a number of key changes in this area, including the growth of outsourcing, the increasing power enjoyed by purchasing departments and the importance given to developing partnerships with suppliers.

Point 2 - The organizational buying behaviour process.

The organizational buying behaviour process is well documented with many models depicting the various phases, the members involved, and the decisions made in each phase. The basic five phase model can be extended to eight; purchase initiation; evaluations criteria formation; information search; supplier definition for RFQ; evaluation of quotations; negotiations; suppliers choice; and choice implementation (Matbuy, 1986).

Point 3 - The buying centre.

The buying centre consists of those people in the organizational who are involved directly or indirectly in the buying process, i.e. the user, buyer influencer, decider and gatekeeper to who the role of 'initiator' has also been added. The buyers in the process are subject to a wide variety and complexity of buying motives and rules of selection. The Matbuy model encourages marketers to focus their efforts on *who* is making *what decisions* based on *which criteria*.

Point 4 - Risk and uncertainty - the driving forces of organizational buying behaviour.

This is concerned with the role of risk or uncertainty on buying behaviour. The level of risk depends upon the characteristics of the buying situation faced. The supplier can influence the degree of perceived uncertainty by the buyer and cause certain desired behavioural reactions by the use of information and the implementation of certain actions. The risks perceived by the customer can result from a combination of the characteristics of various factors: the transaction involved, the relationship with the supplier, and his position vis-a-vis the supply market.

Point 5 - Factors influencing organizational buying behaviour.

Three key factors are shown to influence organizational buying behaviour, these are, types of buying situations and situational factors, geographical and cultural factors and time factors.

Point 6 - Purchasing Strategy.

The purchasing function is of great importance because its actions will impact directly on the organization's profitability. Purchasing strategy aims to evaluate and classify the various items purchased in order to be able to choose and manage suppliers accordingly. Classification is along two dimensions: importance of items purchased and characteristics of the supply market. Actions can be taken to influence the supply market. Based on the type of items purchased and on its position in the buying matrix (Fig. 7.3), a company will develop different relationships with suppliers depending upon the number of suppliers, the supplier's share, characteristics of selected suppliers, and the nature of customer-supplier relationships. The degree of centralization of buying activities and the missions and status of the buying function can help support purchasing strategy. The company will adapt its procedures to the type of items purchased which in turn will influence relationships with suppliers.

Point 7 - The future.

Two activities which will be crucial to the future development of organizational buying behaviour will be information technology and production technologies.

Point 8 - Conclusion.

Organizational buying behaviour is a very complex area, however, an understanding of the key factors are fundamental to marketing strategy and thus an organization's ability to compete effectively in the market place.

Answers to the discussion questions:-

1. Yes it is a fair criticism, as buying decisions can be influenced by a number of individuals all of who have to be identified in order to influence their buying decision. Only in this way can promotional activity be directed at the key influencers. A discussion of the elements of the Matbuy Model (pp135) will help here.

2. Here the discussion revolves around the modified rebuy and the straight rebuy (pp138-139) and whether the type of product bought is more important than the frequency of purchase in determining buyer behaviour.
3. It is essential that the perceived risks associated with any purchase are understood by suppliers if they are to be overcome. The nature of the perceived risk will directly influence the behaviour of the supplier in overcoming the risk, in terms of the information supplied and the actions taken.
4. To some extent this may depend upon the nature and complexity of the product being bought. It may also depend upon whether the buying group is the same or whether members within it have change and also whether contact has been retained in the intervening period.
5. This discussion revolves around the nature of the buying group and the influences they exert on the buying decision as well as the development of the relationship itself. In addition, once the product has been developed on-going purchase may rely upon people other than the technical staff. It is always important to maintain relationships with current customers, including all members of the buying decision, with a view to moving towards a partnership approach especially with highly technical products.

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The advantages and disadvantages of each approach need to be discussed. The first approach is better from the Purchasing Departments point of view as they can exercise more control over the purchases made but IT will not have access to products that may satisfy their needs.

With the second approach, from Fred's point of view, this may open up opportunities to extend the product range bought as the customer needs change. However, it may lead to dissatisfaction and conflict within the organizations of his customers if there are items that are available on the market but not available to them.

The focus needs to be on identifying the buying group within each organization and managing that relationship.