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Title – Business Buying Behavior and Buying Process.

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Business Buying Behavior and Buying Process.

Buyer behavior can be defined as the activities and decision processes that involves in choosing between alternatives, procuring and using products or services.

The behavior of buyers is influenced by various factors, we can broadly categorize them in two categories of influence (Philip Kotler and Gary Armstrong, 2005)

1. Endogenous factors (i.e. factors that are internal to the individual). These influencers are needs and motives, learning, attitudes, personality and self concept.
2. Exogenous factors (i.e. factors that are external to the individual). These factors are Culture, reference groups, family, social status etc.

So how these factors influence the buying behavior of individuals and organizations.

Buying decision Process

Buying decisions are made by individuals or group such as a family or a committee in a commercial or industrial organization. If we analyze closely there is a vast difference in consumer buying behavior and institutional or corporate buying process.

Consumer buying process involves need recognition, information search, evaluation of the alternatives and deciding upon one of the alternatives and making the purchase decision (Philip Kotler and Gary Armstrong, 2005). If we further explain the process between evaluation of alternatives and purchase decision we will find that once the customer evaluates the alternatives, he makes a purchase intention, this intention can influenced by the attitudes of others like family, peers and reference groups or from unanticipated events like lower income than expected, illness etc. taking all these aspects in consideration the consumer takes his decision. Once the product is

purchased the consumer will form his opinion regarding the product and services provided by the company in the post purchase period.

Organizational buying behavior

Organizational buying behavior is the buying behavior of organizations that buy goods and services for use in the production of other products and services, for using the products in operational non core operation like photocopier for office management or for the purpose of reselling or renting them to others at a profit. (*Purchasing in the Industrial, Institutional, Governmental, and Retail Sectors: A Comparative Study*)

Organizational Decision Making Units

Organizational buying decisions are most likely to be made by a committee or group of people than wholly by an individual. In an organization purchase 'decision making unit' there are various center of powers which influences and finally guides the decision making. According to Webster and Wind (there are five units in an organizational buying unit -:

1. Users – the individuals most likely to be the final user of the products. They are the one who initiate the buying process; in fact they are the need recognizers.
2. Influencers – As most of the decision in an organization is made by committee or purchase department, some people acts as influencers in the group for example if for the atomization of office communication the company have to install the latest devices the user may place the need for voice recorders or some other device but the IT department will influence which one to buy as they have the responsibility to decide in broader view of overall organization technology policy. once the IT department gives the product specification and process, the Purchase department will evaluate the sellers.

3. Decision Makers – the decision makers are the one who took the final decision of what should be purchased and from where it should be purchased.
4. Approvers – once the decision makers took their decision it goes to the approving authority. For example if the purchase department finalized what is purchased and from whom it purchased, the order will go to finance department for approval.
5. Buyers – As the finance department approves the decision the purchase department can go ahead and purchase the communication device.
6. Gate-keepers – these members control the access to persons in DMU for example secretaries manage the work flow of purchase department head so how successful a company is at selling can sometimes depend how fast the secretary process your file for perusal.

The above decision making units not necessarily have to be separate units' in fact they can very well overlap too. For example the IT department can be user and influencer while purchasing a information technology product.

Case Study – A Garment Manufacturing Unit for a Retail Chain

Background

The company is a small 100 worker company manufacturing garments and clothing for retailers in the area. They are high value added clothing makers as the basic clothing is sourced from the factories in Far East (Cross-cultural industrial organizational buying behavior in china). The company has six departments –

1. Operations department – the operations department looks after the manufacturing of the garments. It maintains the production schedule, finishing and packaging of the goods.

Under the operations department comes the design studio, which is responsible for the creation of innovative designs.

2. Marketing department – the marketing department looks after the marketing of the garments, it focuses on meeting new retail stores and creating new avenues where the products could be sold.
3. Finance department – the finance department looks after all the financial aspects of the business starting from paying salaries to purchase of fabrics.
4. Human resource – Human resource department took care of need of work force in the organization, it develops appraisal programs and executive development schemes.
5. Technology department – As the technology keep changing in the clothing business, the technology department took care that the company employs the most cost efficient machines in operation. The technology department is also responsible for successful implementation of information technology for tracking order, customer relationship management and brings transparency in the organization.
6. Purchase department – The purchase department is responsible for sourcing fabric, accessories and all the equipment requires for processing order in the factory. It is the role of purchase department to procure all the business requirements of operations department.

I personally talked to all the head of the department and talked about the general direction of the decision making process in the organization. The general feedback is that in organization purchase consensus is crucial to reach any decision. Any point that stands out is that organizational need is more important then technological excellence. Based on these choices I

made a broad list of factors the most influence a decision making process in organizational buying.

Environmental Factors - these factors are influenced by industry standards, company future outlook, financial policy and competitive developments.

Organizational influences – the factors are based on objectives of the organization, organizational structure and decision making systems.

Interpersonal factors which influences the buying process in an organization is authority, status, empathy and persuasiveness.

Buying process in a Garment Manufacturing Unit for a Retail Chain

Demand Analysis

Most demand in the organization buying is derived demand so the company's most purchase depends upon orders procured by the organization. To fulfill the orders the company purchase raw materials, semi-finished goods, components, and services as input to the production of other goods and services (fashion.net).

Demand from the operation department

As the marketing department brings new order and does the demand forecasting it process the information to the operations department. The operations department makes the design and process the buying requirement to the purchase department.

The purchase department categorizes the purchases into three categories –

1. Order Specific Purchases – As the order is received the purchase department looks for the particular design related fabric. In accordance with the design apart from the fabric the operations department requires accessories and other add ons.

2. Re-orders – In the operations department the designers make rough design for making patterns and samples on pattern making papers. So apart from the order related purchases the department requires stationary items used in the designing and design development process.
3. Operational machinery purchase – As the operations keep going there is machine depreciation and mechanical faults. So the operation department has to refer those to the technological department. The technology department will analyze the problem with the machinery and purchases goods like oil and spare parts to maintain smooth functioning of the processes.

These are the three basic purchase needs in the company related to the core of the business operation. But the business involves lots of other aspects like unhindered and fluent information flow between departments. To enable such flow the company has to invest in office stationary and communication system. Office stationary is used by all departments so the purchase department purchase stationary for the whole organization from one supplier and keep on reordering it as per the need arises.

Stages of business buying process in the organization

The business buying process is very similar to the consumer buying process, with a few exceptions. Business buying is not generally need-driven but it is instead problem-driven (*Business markets and business Buying Behavior*).

Stage One : Need Recognition - the need is recognized for the product , as we saw in our example above the demand for the fabric is a derived demand, the company wouldn't have that need if it has not received any orders to manufacture the new design.

Stage Two : General Need Description – As the operation department analyzed the fabric and accessories requirement according to the specification of the design, it orders the procurement bill to the purchase department which is responsible for the purchases in the organization. In its procurement letter it will specify what it will require and how much it will require.

Stage Three: Product specifications – the operations department is specialist in the fabric area it will specify each and every detail to purchase department. What sort of fabric to be purchased how much to be purchases. What are the accessories requirements of the design and in what quantity they will be required.

Stage Four: Supplier Search – once the order is approved, the purchase department will search for the suitable supplier in the market. The purchase department will keep in considerations the key points highlighted in the product specifications so that when it buys the fabric it can get the best bargains on the order. The question here arises is if the operations department knows so much why not it go ahead and buy itself. The answer to it that as the organization has to deal and negotiate with different buyers and suppliers at various times, it is better that the company presents a uniform face as it will help in building long term relationship with the suppliers. Few people dealing again and again will also leads to familiar negotiation. Apart from that the question of specialization comes in picture – specialization in building supplier development opportunities. It will help the organization in securing long term suppliers with mutual trust and confidence.

Stage Five: Proposal Solicitation - As a few number of competent suppliers are selected, a bid request is sent to them so that they can apply for the order.

Stage Six: Supplier selection – once the proposal solicitation is over the supplier or set of suppliers are chosen to fulfill the requirement of the company. The company can go for different

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fabric supplier for different fabrics required in making of the new garment. Similarly it can decide upon the accessories suppliers.

Stage Seven: Order Routine specifications – this stage is involved in machinery maintenance other continuous purchases like stationary etc. Often Blanket contracts are the way to go ahead for maintenance, repair and other operating items.

Stage Eight: Performance review – this is more important in business buying decision making than consumer buying decision as the organization has to keep on needing the same products time and time again. In fact positive performance reviews leads to successful re-ordering and building strong business relations.

Role play by various departments in the buying process

Order Specific Purchases

As the operations department requires the fabric they are the user of the product. Operations department also specializes in fabric details so within the organization they act as influencer in the whole decision making process (Business buying behavior).

Secondly the purchase department received order from the operations department and analyzes the order and sends it for approval to the finance department (*integrated marketing communication*). Here even though the purchase department will take the final decision regarding from where to purchase the product it still need to take permission from the approver. So the purchase department is the decision maker and buyer while the finance department is approver.

Re-Orders

The decision making process in the re-orders is comparatively simpler to the Order-Specific purchases. In fact for the first time the process remain the same simultaneously it will require less decision making units with in the organization. For example for purchasing stationary in the organization, the purchase department for the first time will take account of specific stationary required by each department along with the general stationary. But from the next time onwards as long as there is no new need and only the re-fill is required the purchase department will be both a decision maker as well as a buyer.

Operational Machinery Purchase

These decisions are related to long term future needs of the company so they are comparatively more critical to Order specific purchases and Re-orders. These decisions define the operational and technological infrastructure of the organization. Once taken these decisions will pave way for doing business in the future (*Purchasing in the Industrial, Institutional, Governmental, and Retail Sectors: A Comparative Study*). The situation I discussed with the company is suppose if we have to replace the sewing machines with the latest automatic machines from Japan.

To purchase the latest machinery from Japan, the company will do a comprehensive production comparative research. The research will analyze how much it will affect the productivity in the company and how much time it will take to make the present work force compatible with the new technology. In this case the need recognition comes not from the user but the top management which understands the need of looking ahead. The Operations department will study how much productivity enhancement will be attained by the workers in the factory over the present system. The Human Resource department will analyze how much time and cost will be required to train the present workforce to work with new machines. The marketing department

will analyze how much more market share it can achieve with this increase in quality standards.

The finance department will analyze how much the depreciation account will be so that the new machinery is not a burden on company's top line and bottom line. Above all the technology department will look after the future of this technology and how the repairs and maintenance will cost .

After considering all these aspects a purchase decision will be taken, As it is a strategic purchase the Human Resource, Technology, Operations and Finance departments will be the influencer in decision making process. The operations department will be the user of the purchase. All the departments as mentioned earlier will play key role in decision making. Once the decision is made the Purchase department will look a suitable supplier and it will act as buyer in the whole process. The finance department will be the approver of the deal.

Conclusion

Business buying department is a lot different then consumer buying decision as it is a demand driven market with less price inelasticity. The market structure and duration of decision is also different. Business purchases involves more buyers in the decision making process and the purchasing efforts are undertaken by professional buyers which makes the whole process complex. While as mostly consumer buying behavior is one time deal business buying is a continuous endeavor to build long term relationships.

As we found out while researching out business buying with garment manufacturer that it is more often than not taken by a committee in an organization rather than an individual. The whole decision making process starting from recognition of need to general need description to product specification to supplier search to proposal solicitation to supplier selection to order routine specification and finally to performance review in influenced by various decision making units.

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The Decision making units are categorized into six categories – the User, Influence, Decision Maker, Approver, Buyer and Gate keepers. One or more person can play these roles and these roles can overlapping as in the case of buying computer for finance department. In the decision the technology department will be, influencer, accountant is user, Purchase and technology department could be the decision maker while Finance department could be a approver and purchase department can be a buyer. Here Purchase department played role in both decision making and buying.

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