

3

Consumer and organisational buyer behaviour

OBJECTIVES

After studying this chapter, you should be able to:

1. Understand the different motivations of consumer and organisational buyers
2. Formulate strategies for approaching consumer and organisational buyers
3. Recognise the importance of relationship management

KEY CONCEPTS

- ACORN
- brand personality
- buy class
- buy phase
- buying centre
- centralised purchasing
- choice criteria
- consumer decision-making process
- creeping commitment
- decision-making unit (DMU)
- financial lease
- interaction approach
- just-in-time (JIT) delivery/purchasing
- life-cycle costs
- lockout criteria
- operating lease
- organisational buying behaviour
- reference group
- relationship management
- reverse marketing
- strategic partners
- total quality management (TQM)
- value analysis

3.1 DIFFERENCES BETWEEN CONSUMER AND ORGANISATIONAL BUYING

There are a number of important differences in emphasis between consumer and organisational buying that have important implications for the marketing of goods and services in general and the personal selling function in particular.

Fewer organisational buyers

Generally, a company marketing industrial products will have fewer potential buyers than one marketing in consumer markets. Often 80 per cent of output, in the former case, will be sold to perhaps 10–15 organisations, meaning that the importance of one customer to the business to business marketer is far in excess of that to the consumer marketing company. However, this situation is complicated in some consumer markets where the importance of trade intermediaries, for example, supermarkets, is so great that, although the products have an ultimate market of many millions of people, the companies' immediate customers rank alongside those of important organisational buyers.

Close, long-term relationships between organisational buyers and sellers

Because of the importance of large customers, it makes sense for suppliers to invest in long-term relationships with them. This is reflected in the growth of key account selling where dedicated sales and marketing teams are employed to service major customers. Customers also see the advantages of establishing close relationships with suppliers. Ford, for example, has reduced its number of suppliers from 30,000 to 3,000 and many now have single-supplier status. The nature of relationships in many consumer markets is different: customers and manufacturers rarely meet and for many supermarket products, brand switching is common.

Organisational buyers are more rational

Although organisational buyers, like all people, are affected by emotional factors, for example, like or dislike of a salesperson, the colour of office equipment, etc., it is probably true that on the whole organisational buying is more rational. Often decisions will be made on economic criteria. This is because organisational buyers have to justify their decisions to other members of their organisation. Caterpillar tractor salespeople based their sales presentation on the fact that, although the initial purchase price of their tractors was higher than the competition, over the life of the tractor costs were significantly lower. This rational economic appeal proved very successful for many years. Customers are increasingly using life-cycle cost and value-in-use analysis to evaluate products. Rail companies, for example, calculate the life-cycle costs including purchase price, running and maintenance costs when ordering a new locomotive.

Organisational buying may be to specific requirements

It is not uncommon in business to business marketing for buyers to determine product specifications and for sellers to tailor their product offerings to meet them. This is feasible because of the large potential revenue of such products, for example, railway engines. This is much less a feature of consumer marketing, where a product offering may be developed to meet the need of a market segment but, beyond that, meeting individual needs would prove uneconomic.

Reciprocal buying may be important in organisational buying

Because an organisational buyer may be in a powerful negotiating position with a seller, it may be possible to demand concessions in return for placing the order. In some situations the buyer may demand that the seller buys some of the buyer's products in return for securing the order. A buyer of tyres for a car manufacturer may demand that, in return for the contract, the tyre producer buys its company cars from the car manufacturer.

Organisational selling/buying may be more risky

Business to business markets are sometimes characterised by a contract being agreed before the product is made. Further, the product itself may be highly technical and the seller may be faced with unforeseen problems once work has started. For example, Scott-Lithgow won an order to build an oil rig for British Petroleum, but the price proved uneconomic given the nature of the problems associated with its construction. GEC won the contract to develop the Nimrod surveillance system for the Ministry of Defence but technical problems caused the project to be terminated with much adverse publicity. Another example was British Rail, which encountered technical problems with the commissioning of the Class 60 diesel locomotive built by Brush Traction, although these were eventually resolved.

Organisational buying is more complex

Many organisational purchases, notably those which involve large sums of money and are new to the company, involve many people at different levels of the organisation. The managing director, product engineers, production managers, purchasing manager and operatives may influence the decision of which expensive machine to purchase. The sales task may be to influence as many of these people as possible and may involve multi-level selling by means of a sales team, rather than an individual salesperson.¹

Negotiation is often important in organisational buying

Negotiation is often important in organisational buying because of the presence of professional buyers and sellers and the size and complexity of organisational buying. The supplier's list price may be regarded as the starting point for negotiation, but the price actually paid will depend on the negotiation skills and power bases of buyers and sellers.

3.2 CONSUMER BUYER BEHAVIOUR

Consumers are individuals who buy products and services for personal consumption. Sometimes it is difficult to classify a product as either a consumer or an organisational good. Cars, for example, sell to consumers for personal consumption and to organisations for use in carrying out their activities (e.g. to provide transport for a sales executive). For both types of buyer, an understanding of customers can only be obtained by answering the following five questions:

1. *Who* is important in the buying decision?
2. *How* do they buy?
3. *What* are their choice criteria?
4. *Where* do they buy?
5. *When* do they buy?

This chapter addresses the first three of these questions since they are often the most difficult to answer.

Who buys?

Many consumer purchases are individual. When purchasing a Mars bar a person may make an impulse purchase upon seeing an array of confectionery at a newsagent's counter. However, decision-making can also be made by a **buying centre**, such as a household. In this situation a number of individuals may interact to influence the purchase decision. Each person may assume a role in the decision-making process. Blackwell, Miniard and Engel describe five roles.² Each may be taken by husband, wife, children or other members of the household:

1. *Initiator*: the person who begins the process of considering a purchase. Information may be gathered by this person to help the decision.
2. *Influencer*: the person who attempts to persuade others in the group concerning the outcome of the decision. Influencers typically gather information and attempt to impose their choice criteria on the decision.
3. *Decider*: the individual with the power and/or financial authority to make the ultimate choice regarding which product to buy.
4. *Buyer*: the person who conducts the transaction: who calls the supplier, visits the store, makes the payment and effects delivery.
5. *User*: the actual consumer/user of the product.

One person may assume multiple roles in the buying centre. In a toy purchase, for example, a child may be the *initiator* and attempt to *influence* their parents who are the *deciders*. The child may be *influenced* by a sibling to buy a different brand. The *buyer* may be one of the parents, who visits the store to purchase the toy and brings it back to the home. Finally, both children may be *users* of the toy. Although the purchase was for one person, marketers have four opportunities – two children and two parents – to affect the outcome of the purchase decision.

The marketing implications of understanding who buys lie within the areas of marketing communications and segmentation. Identifying the roles played within the buying centre is a prerequisite for targeting persuasive communications. As the previous discussion has demonstrated, the person who actually uses or consumes the product may not be the most influential member of the buying centre, nor may they be the decision-maker. Even when they do play the predominant role, communication to other members of the buying centre can make sense when their knowledge and opinions may act as persuasive forces during the decision-making process. The second implication is that the changing role and influences within the family buying centre are providing new opportunities to creatively segment hitherto stable markets (e.g. cars).

The consumer decision-making process – how they buy

Behavioural scientists regard the **consumer decision-making process** as a problem-solving or need-satisfaction process. Thus, an electronic calculator may be bought in order to solve a problem – inaccuracy or slowness in arithmetic – which itself defines the need – fast and accurate calculations. In order to define which calculator to buy, a consumer may pass through a series of steps,³ as illustrated in Figure 3.1.

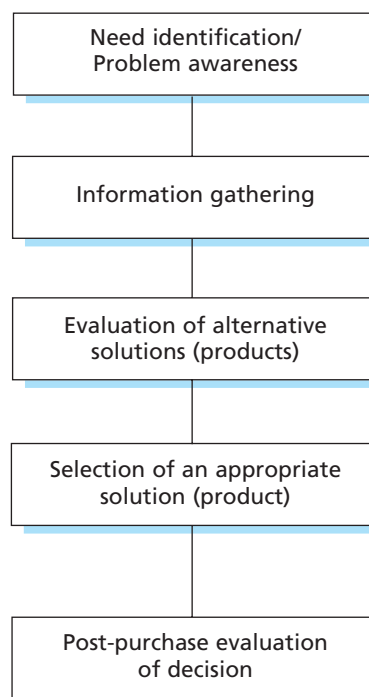


Figure 3.1 The consumer decision-making process

Source: Adapted from Blackwell, R.D., Miniard, P.W. and Engel, J.F. (2003) *Consumer Behaviour*, Orlando, FL: Dryden. Reprinted with permission of South-Western, a division of Thomson Learning: www.thomsonrights.com. Fax: 800-730-2215.

Needs

In the case of the calculator, the needs (stimulated by problem identification) are essentially *functional*. In this situation the salesperson would be advised, after identifying the buyer's needs, to demonstrate the speed and accuracy of the calculators they are selling. Successful selling may involve identifying needs in more detail; for example, are special features required or does the buyer only have to perform a standard, basic set of calculations, implying a less elaborate and cheaper calculator? For other products need satisfaction may be *emotional* or *psychological*. For example, a Sheaffer pen is bought largely for its status rather than any marginal functional superiority over other pens. An accurate assessment of the kinds of needs that a product is satisfying will enable a salesperson to plan the sales presentation correctly, presenting the product as a means of satisfying the buyer's needs or solving the buyer's problems.

How do needs arise? They may occur as a natural process of life; for example, the birth of children in a family may mean that a larger car is required. They may also arise because of stimulation. An advertisement for video-recorders or a salesperson's talk may create the need for extra in-house entertainment and, at the same time, provide a means of satisfying that need.

Salespeople should also seek to understand *need inhibitors*. These prevent a need being activated and, therefore, they prevent the decision-making process from starting. For example, someone may want to buy an item on eBay but may be inhibited by fear of paying for but not receiving the good. eBay has recognised this problem as the boxed case discussion explains.

Need Inhibitors and Buying on eBay

A consumer may be tempted to buy products on eBay but be concerned about such issues as trust (will they receive the goods) and the security of financial information. Such worries can act as need inhibitors preventing consumers buying despite attractive prices and benefits. While financial security issues have largely been addressed by systems developed by eBay and Amazon, on eBay where sellers are independent individuals or organisations the fear of not receiving goods remains. eBay has introduced its PayPal system to overcome this need inhibitor. The PayPal icon is assigned to sellers who have a reliable history of selling goods on eBay and provides some financial protection against fraud. The company has also developed a feedback system that allows buyers to post information on their transactions and their experiences with sellers. This is available to potential buyers when the seller next places an item for sale. Although the system is not infallible (some unscrupulous eBay members have in the past auctioned feedback for vendors enabling them to create a false impression of positive trade), the steps eBay has taken have proven effective in encouraging buyers to overcome their inhibitions regarding online purchasing.

Source: Based on George, J.F. (2004) 'The theory of planned behaviour and internet purchasing', *Internet Research*, 14 (3), pp. 198–212; and Zwick, D. and Dholakia, N. (2004) 'Consumer subjectivity in the age of the internet', *Information and Organization*, 14 (3), pp. 211–36.

Information gathering

Many needs can only be satisfied after a period of information search. Thus a prospective car purchaser who requires a small, economical car may carry out a considerable search before deciding on the model that best satisfies these needs. This search may involve visiting car showrooms, watching car programmes on television, reading car magazines and *Which?* reports and talking to friends. Clearly, many sources of information are sought besides that provided by the salesperson in the showroom. Indeed, in some situations the search may omit the salesperson until the end of this process. The buyer may reduce the number of alternatives to a manageable few and contact the salesperson only to determine the kind of deal available on the competing models.

Information search by consumers is helped by the growth of internet usage and companies that provide search facilities, such as Google and Yahoo! Many consumers now gather information on products and prices before entering a store. For example, over 80 per cent of Ford buyers in the USA have researched their intended purchase on the internet before entering a dealership and over 75 per cent of mobile phone buyers in America research on the web before buying.⁴

Evaluation of alternatives and selection of the best solution

Evaluation may be thought of as a system, as depicted in Figure 3.2.

1. *Evaluative (choice) criteria*: these are the dimensions used by consumers to compare or evaluate products or brands. In the car example, the relevant evaluative criteria may be fuel economy, purchase price and reliability.
2. *Beliefs*: these are the degrees to which, in the consumer's mind, a product possesses various characteristics, e.g. roominess.
3. *Attitudes*: these are the degrees of liking or disliking a product and are in turn dependent on the evaluative criteria used to judge the products and the beliefs about the product measured by those criteria. Thus beliefs imply knowledge,

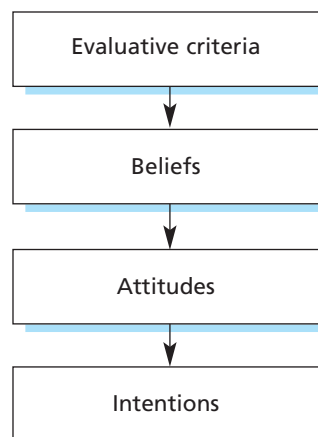


Figure 3.2 The evaluation system

e.g. model X does 36 miles per gallon at a steady 56 miles per hour, whereas attitudes imply liking or disliking, e.g. model X is poor with regard to fuel economy.

4. *Intentions*: these measure the probability that attitudes will be acted upon. The assumption is that favourable attitudes will increase purchase intentions, i.e. the probability that the consumer will buy.

Given this system, it makes sense for a salesperson to find out from a prospect the evaluative criteria being used to judge alternative products. For example, a stereo system salesperson will attempt to find out whether a potential buyer is evaluating alternative stereo units primarily in terms of external design or sound quality. Further, it can be effective to try to change evaluative criteria. For example, if the stereo system salesperson believes that the competitive advantage of the product range lies in its sound quality, but the buyer's criterion is primarily external design, the salesperson can emphasise the sound quality of the product and minimise the importance of external design. Alternatively, if the primary consideration of the buyer is sound quality but a competitor's system is preferred, the sales task is to change attitudes in favour of their own system. Tools at their disposal include the use of performance comparisons from hi-fi magazines and in-shop demonstrations.

Post-purchase evaluation of decision

The art of effective marketing is to create customer satisfaction. Most businesses rely on repeat purchasing, which implies that customers must gain satisfaction from their purchases (otherwise this will not occur). Festinger⁵ introduced the notion of 'cognitive dissonance' partly to explain the anxiety felt by many buyers of expensive items shortly after purchase. The classic case of this is the car buyer who assiduously reads car advertisements after having bought the car in an effort to dispel the anxiety caused by not being sure that they have made the correct purchase.

Salespeople often try to reassure buyers, after the order has been placed, that they have made the right decision, but the outcome of the post-purchase evaluation is dependent on many factors besides the salesperson's reassurance. The quality of the product and the level of after-sales service play an obvious part in creating customer goodwill, and it is the salesperson who can help buyers in ensuring that the product they buy best matches their needs in the first place. This implies that it may not be in the salesperson's long-term interest to pressure buyers into buying higher priced items which possess features not really wanted – although this may increase short-term profit margins (and commission), it may lead to a long-term fall in sales as consumers go elsewhere to replace the item.

Choice criteria

Choice criteria are the various features (and benefits) a customer uses when evaluating products and services. They provide the grounds for deciding to purchase one brand or another. Different members of the buying centre may use different choice criteria. For example, a child may use the criterion of self-image when choosing shoes whereas a parent may use price. The same criterion may be used differently.

For example, a child may want the most expensive video-game while the parent may want a less expensive alternative. Choice criteria can change over time due to changes in income through the family life-cycle. As disposable income rises, price may no longer be a key choice criterion but may be replaced by considerations of status or social belonging.

Choice criteria can be economic, social or personal. *Economic criteria* include performance, reliability and price. *Social criteria* include status and the need for social belonging. For example, Nike, Reebok and Adidas trainers need 'street cred' to be acceptable to large numbers of the youth market. Social norms such as convention and fashion can also be important choice criteria, with some brands being rejected as too unconventional (e.g. fluorescent spectacles) or out of fashion (Mackeson stout).

Personal criteria concern how the product or service relates to the individual psychologically. An important issue here is self-image, which is the personal view we hold of ourselves. For example, one person might view herself as a young, upwardly mobile, successful executive and wish to buy products that reflect that image. Audi tried to appeal to such a person when they ran an advertising campaign that suggested Audi drivers 'arrived' more quickly than other drivers. Many purchase decisions are 'experimental' in that they evoke feelings of fun, pride, pleasure, boredom or sadness. Such feelings need to be taken into account when marketing products or services. For example, in retail marketing, stores such as Next and Principles recognise the importance of creating the right atmosphere through the correct choice of in-store colour and design.

Salespeople and marketing managers need to understand the choice criteria being used by consumers when they evaluate their products or services. Such knowledge allows the salesperson to tailor the correct appeal to each customer they talk to and provides marketing managers with the basis for product or service design and the correct messages to use in advertising.

3.3 FACTORS AFFECTING THE CONSUMER DECISION-MAKING PROCESS

There are a number of factors that affect the consumer decision-making process and its outcome. These can be classified under three headings:

1. The buying situation.
2. Personal influences.
3. Social influences.

The buying situation

Howard and Sheth identified three types of buying situation:⁶

- (a) extensive problem-solving;
- (b) limited problem-solving; and
- (c) automatic response.

When a problem or need is new, the means of solving that problem is expensive and uncertainty is high, a consumer is likely to conduct extensive problem-solving. This involves a high degree of information search and close examination of alternative solutions. Faced with this kind of buyer, the salesperson can create immense goodwill by providing information and assessing alternatives from the product range in terms of how well their benefits conform to the buyer's needs. The goodwill generated with this type of buyer in such a situation may be rewarded by a repeat purchase when the buying situation changes to one of limited problem-solving. Thus successful car salespeople often find themselves with a group of highly loyal buyers who purchase from them, even if the dealership changes, because of the trust built up during this stage.

Limited problem-solving occurs when the consumer has some experience with the product in question and may be inclined to stay loyal to the brand previously purchased. However, a certain amount of information search and evaluation of a few alternatives occurs as a rudimentary check that the right decision is being made. This process provides a limited opportunity for salespeople of competing products to persuade consumers that they should switch model or brand by providing relevant comparative information and, perhaps, by providing risk-reducing guarantees, for example, free replacement of any defective parts.

Companies who have built up a large brand franchise will wish to move their customers to the state of automatic response. Advertising may be effective in keeping the brand in the forefront of the consumer's mind and in reinforcing already favourable attitudes towards the brand. In this situation, personal selling to the ultimate consumer may be superfluous. Companies selling consumer durables may offer generous trade-in terms for their old models. Black and Decker have used this technique whereby an old, unusable lawnmower could be traded in as part payment on a new model.

A key influence on whether a consumer conducts extensive or limited problem-solving or automatic response is their level of involvement with the purchase. High involvement is associated with important purchases that are of high personal relevance. When a purchase affects one's self-image, has a high degree of perceived risk, has social (e.g. status) implications, and the capacity to give a lot of pleasure, it is likely to be high involvement. When the opposite is the case, the consumer is likely to experience low involvement with the purchase. Figure 3.3 shows the relationship between involvement and the buying situation.

In high involvement situations (e.g. car or house purchase), the customer is looking for lots of information upon which to make a decision. A salesperson must be able to provide that information and answer in-depth queries. In low involvement situations, the customer is not likely to be an active searcher for information. Repetitive advertising is often used for these kinds of purchases.

Personal influences

A second group of factors that influences the consumer decision-making process concerns the psychology of the individuals concerned. Relevant concepts include personality, motivation, perception and learning.

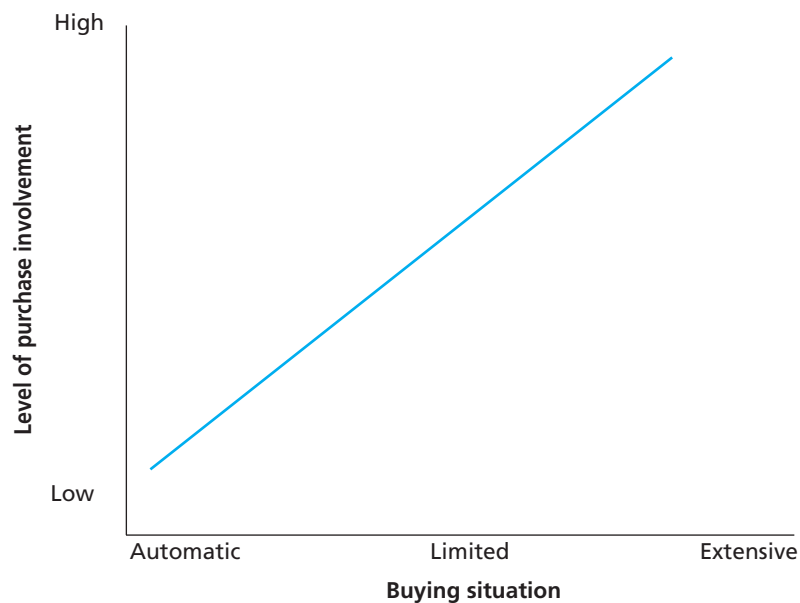


Figure 3.3 Level of purchase involvement and the buying situation

Although personality may explain differences in consumer purchasing, it is extremely difficult for salespeople to judge accurately how extrovert or introvert, conventional or unconventional, a customer is. Indeed, reliable personality measurement has proved difficult, even for qualified psychologists. **Brand personality** is the characterisation of brands as perceived by consumers. Brands may be characterised as 'for young people' (Levis), 'brash' (Castlemaine XXXX) or 'intelligent' (Guinness). This is a dimension over and above the physical (e.g. colour) or functional (e.g. task) attributes of a brand. By creating a brand personality, a marketer may create appeal to people who value that characterisation. Research by Ackoff and Emsott into brand personalities of beers showed that most consumers preferred the brand of beer that matched their own personality.⁷

Sellers need to be aware of different buyer personality types. Buzzotta, Lefton and Sherberg proposed a two-dimensional approach to understanding buyer psychology.⁸ They suggest that everyone tends to be warm or hostile, dominant or submissive. Although there are degrees of each of these behaviours, they believe it is meaningful to place individuals in one cell of a two-by-two matrix. Each behaviour is defined as follows:

1. *Dominant*: in face-to-face situations, dominance is the drive to take control of others. It implies a need to lead in personal encounters, to have control of situations and to have a strong desire to be independent.
2. *Submissive*: submission is the disposition to let others take the lead. It implies a willingness to be controlled, a need to comply with the wishes of others and an avoidance of confrontation.
3. *Warm*: warmth is having a regard for others. A warm person is described as one who is outgoing, good humoured, optimistic and willing to place trust in others.

Dominant	Q1	Q4
Submissive	Q2	Q3
	Hostile	Warm

Figure 3.4 Dimensional model of buyer behaviour

4. *Hostile*: hostility is lacking regard for others. It suggests a person who is cold, distrustful and disdainful of others. Hostile people like to be in a position to say, 'I told you so'.

Figure 3.4 shows this dimensional model of buyer behaviour.

Buzzotta, Lefton and Sherberg claim that, although there are as many distinctions as people, in general each person primarily falls into one of the four groups.⁹ To help identify each type, the salesperson must look for their hallmarks:

- Q1: *Dominant-hostile*: these people are loud, talkative, demanding and forceful in their actions. They are hard-nosed, aggressive and assertive. They are usually difficult to get along with and can be offensive. They tend to distrust salespeople.
- Q2: *Submissive-hostile*: these people are cold, aloof and uncommunicative. They tend to be loners and work in jobs that demand concentration rather than socialisation, for example, research, accountancy and computer programming. When responding to questions, they tend to be short and terse: 'maybe', 'all right', 'possibly'. Q2s prefer to avoid sales interviews, but if they cannot avoid them they take on a passive, almost detached role.
- Q3: *Submissive-warm*: these people are extrovert, friendly, understanding, talkative and positive-minded people who are not natural leaders. They prefer to buy from someone they like and view a sales interview as a social occasion. Generally they accept most of what the salesperson tells them, but if they feel any doubt they will postpone the decision to buy – possibly to seek advice from friends.
- Q4: *Dominant-warm*: These people are adaptable and open minded but not afraid to express their ideas and opinions. They tend to want proof of sales arguments and become impatient of woolly answers. They are not hesitant to buy from anyone who can prove to their satisfaction that there is a benefit to be gained. They like to negotiate in a business-like manner and can be demanding and challenging in a sales interview.

Implications for selling

What are the implications for selling? Decormier and Jobber argue that salespeople should modify their behaviour accordingly.¹⁰

- Q1: To win the respect of *dominant-hostile* people, the appropriate salesperson behaviour is to adjust their dominance level upward to meet that of the buyer. This

would involve sitting upright, maintaining eye contact, listening respectfully (but passively) and answering directly. Once Q1 buyers realise that the salesperson is their psychological equal, a meaningful discussion can take place.

- Q2: When first meeting with a *submissive-hostile* Q2 buyer, a salesperson should not attempt to dominate, but gradually try to gain their trust. The salesperson should match the buyer's dominance level and ask open-ended questions in a slow, soft manner. The salesperson should lower their stature, keeping eyes and head at the same level as the buyer.
- Q3: *Submissive-warm* people like and trust people. The salesperson should satisfy their social needs by being warm and friendly. They should not attempt to dominate, but should instead share the social experience. Once liking and trust have been established, the salesperson should guide the interview towards the goal of decision-making.
- Q4: *Dominant-warm* people consider respect more important than being liked. To gain respect, the salesperson should match the Q4's dominance level while maintaining a warm (empathetic) manner. Sales arguments need to be backed up whenever possible by evidence.

Sellers also need to probe for the buyer's motivations. The true reason or motive for purchase may be obscure. However, by careful probing a salesperson is likely to find out some of the real motives for purchase some of the time. Motivation is clearly linked to needs; the more strongly a need is perceived by a consumer, the more likely they are to be moved towards its satisfaction. Thus, a salesperson can increase buyer motivation by stimulating need recognition, by showing the ways in which needs can be fulfilled and by attempting to understand the various motives which may be at work in the decision-making process. These may be functional, e.g. time saved by a convenience food, or psychological, e.g. the status imparted by the ownership of a Jaguar or BMW car.

Not everyone with the same motivations will buy the same products, however. One of the reasons for this is that how someone decides to act depends upon their *perception* of the situation. One buyer may perceive a salesperson as being honest and truthful while another may not. Three selective processes may be at work on consumers.

1. *Selective exposure*: only certain information sources may be sought and read.
2. *Selective perception*: only certain ideas, messages and information from those sources may be perceived.
3. *Selective retention*: only some of them may be remembered.

In general, people tend to forget more quickly and to distort or avoid messages that are substantially at variance with existing attitudes.

Learning is also important in consumer decision-making. Learning refers to the changes in a person's behaviour as a result of their experiences. A consumer will learn which brand names imply quality and which salespeople to trust.

Lifestyle

Lifestyle patterns have attracted much attention from marketing research practitioners. *Lifestyle* refers to the patterns of living as expressed in a person's activities, interests and opinions. Lifestyle analysis, or *psychographics*, groups the consumers according to

their beliefs, activities, values and demographic characteristics such as education and income. For example, Research Bureau Ltd, a UK marketing research agency, investigated lifestyle patterns among housewives and found eight distinct groups:

1. *Young sophisticates*: extravagant, experimental, non-traditional; young, ABC1 social class, well-educated, affluent, owner-occupiers, full-time employed; interested in new products; sociable with cultural interests.
2. *Home-centred*: conservative, less quality conscious, demographically average, middle-class, average income and education; lowest interest in new products; very home-centred; little entertaining.
3. *Traditional working-class*: traditional, quality conscious, unexperimental in food, enjoy cooking; middle-aged, DE social group, less education, lower income, council house tenants; sociable; husband and wife share activities, like betting.
4. *Middle-aged sophisticates*: experimental, not traditional; middle-aged, ABC1 social class, well-educated, affluent, owner-occupiers, full-time housewives, interested in new products; sociable with cultural interests.
5. *Coronation Street housewives*: quality conscious, conservative, traditional; DE social class, tend to live in Lancashire and Yorkshire TV areas, less educated, lower incomes, part-time employment; low level of interest in new products; not sociable.
6. *Self-confident*: self-confident, quality conscious, not extravagant; young, well-educated, owner-occupier, average income.
7. *Homely*: bargain seekers, not self-confident, houseproud, C1C2 social class, tend to live in Tyne Tees and Scottish TV areas; left school at an early age; part-time employed; average level of entertaining.
8. *Penny-pinchers*: self-confident, houseproud, traditional, not quality conscious; 25–34 years, C2DE social class, part-time employment, less education, average income; enjoy betting, enjoy saving, husband and wife share activities, sociable.

Lifestyle analysis has implications for marketing since lifestyles have been found to correlate with purchasing behaviour. A company may choose to target a particular lifestyle group (e.g. the middle-aged sophisticates) with a product offering, and use advertising which is in line with the values and beliefs of this group. As information on readership/viewing habits of lifestyle groups becomes more widely known, so media selection may be influenced by lifestyle research.

Social influences

Major social influences on consumer decision-making include social class, reference groups, culture and the family. The first of these factors, social class, has been regarded as an important determinant of consumer behaviour for many years. Social class in marketing is based upon the occupation of the head of the household or main income earner. The practical importance of social class is reflected in the fact that respondents in market research surveys are usually classified by their social class, and most advertising media give readership figures broken down by social class groupings. These are shown in Table 3.1. However, the use of this variable to explain differences in purchasing has been criticised. It is often the case that people within the same social class may have different consumption patterns. Within the C2 group, i.e. skilled manual workers, it has been found that some people spend a high proportion

Table 3.1 Social class categories

Social grade	All adults 15+ (%)
A	4.0
B	22.3
C1	29.2
C2	20.6
D	15.7
E	8.2

KEY:

Social grade	Social status	Occupation
A	Upper middle-class	Higher managerial, administrative or professional
B	Middle-class	Intermediate managerial, administrative or professional
C1	Lower middle-class	Supervisory or clerical and junior managerial, administrative or professional
C2	Skilled working-class	Skilled manual workers
D	Working-class	Semi- and unskilled manual workers
E	Those at the lowest level of subsistence	State pensioners or widows (no other earner), casual or lowest grade workers

Source: Adapted from *National Readership Survey*, January–December 2007, with permission.

of their income on buying their own houses, furniture, carpets and in-home entertainment, while others prefer to spend their money on more transitory pleasures such as drinking, smoking and playing bingo.

Such findings have led to a new classificatory system, A Classification of Residential Neighbourhoods (**ACORN**), which classifies people according to the type of area they live in. This has proved to be a powerful discriminator between different lifestyles, purchasing patterns and media exposure.¹¹

The term **reference group** is used to indicate a group of people that influences a person's attitude or behaviour. Where a product is conspicuous, for example, clothing or cars, the brand or model chosen may have been strongly influenced by what the buyer perceives as acceptable to their reference group (e.g. a group of friends, the family, or work colleagues). Reference group acceptability should not be confused with popularity. The salesperson who attempts to sell a car using the theme that 'it's very popular' may conflict with the buyer's desire to aspire to an 'exclusive' reference group, for which a less popular, more individual model may be appropriate.

Culture refers to the traditions, taboos, values and basic attitudes of the whole society within which an individual lives. It is of particular relevance to international marketing since different countries have different cultures, affecting the conduct of business and how products are used. In Arab countries, for example, salespeople may find themselves conducting a sales presentation in the presence of a competitor's salesperson. In France chocolate is sometimes eaten between slices of bread.

The family is sometimes called a primary reference group and may play a significant part in consumer buyer behaviour. The decision as to which product or brand to purchase may be a group decision, with each family member playing a distinct part.

Thus, in the purchase of motor cars, traditionally the husband decided upon the model, while his wife chose the colour.¹² The purchase of cereals may be strongly influenced by children. The cleaning properties of a carpet fibre may be relatively unimportant to the principal breadwinner but of greater significance to the partner who performs the housework tasks. When a purchase is a group decision, a salesperson will be wise to view the benefits of their products in terms of each of the decision-makers or influencers.

3.4 ORGANISATIONAL BUYER BEHAVIOUR

Organisational buyer behaviour has usefully been broken down into three elements by Fisher.¹³

1. *Structure*: the 'who' factor – who participates in the decision-making process and their particular roles.
2. *Process*: the 'how' factor – the pattern of information getting, analysis, evaluation and decision-making which takes place as the purchasing organisation moves towards a decision.
3. *Content*: the 'what' factor – the choice criteria used at different stages of the process and by different members of the decision-making unit.

Structure

An essential point to understand in organisational buying is that the buyer or purchasing officer is often not the only person who influences the decision, or who actually has the authority to make the ultimate decision. Rather, the decision is in the hands of a **decision-making unit (DMU)**, or buying centre as it is sometimes called. This is not necessarily a fixed entity. The people in the DMU may change as the decision-making process continues. Thus a managing director may be involved in the decision that new equipment should be purchased, but not in the decision as to which manufacturer to buy it from. Bonoma and Webster have identified six roles in the structure of the DMU.^{14,15}

1. *Initiators*: those who begin the purchase process.
2. *Users*: those who actually use the product.
3. *Deciders*: those who have the authority to select the supplier/model.
4. *Influencers*: those who provide information and add decision criteria throughout the process.
5. *Buyers*: those who have authority to execute the contractual arrangements.
6. *Gatekeepers*: those who control the flow of information, e.g. secretaries who may allow or prevent access to a DMU member, or a buyer whose agreement must be sought before a supplier can contact other members of the DMU.

The factors which influence the nature of the DMU will be examined later. Obviously, for different types of purchase the exact formation will vary. For very important decisions the structure of the DMU will be complex, involving numerous people

within the buying organisation. The salesperson's task is to identify and reach the key members in order to convince them of the product's worth. Often, talking only to the purchasing officer will be insufficient, since this may be only a minor influence on which supplier is chosen. Salespeople need to avoid two deadly sins:

1. *Working within their 'comfort zone'*. This is where they spend too much time with people they like and feel comfortable with, but who are unimportant with regard to which product to buy or which supplier to use.
2. *Spending too much time with 'nay sayers'*. These are people who can say 'no' (the power of veto) but who do not have the authority to say 'yes'. It is the latter group, i.e. the decision-makers, to whom most communicational effort should be channelled.

When the problem to be solved is highly technical, suppliers may work with engineers in the buying organisation in order to solve problems and secure the order. An example where this approach was highly successful involved a small US company that secured a large order from a major car company owing to its ability to work with the company in solving the technical problems associated with the development of an exhaust gas recirculation valve.¹⁶ In this case, its policy was to work with company engineers and to keep the purchasing department out of the decision until the last possible moment, by which time it was the only company qualified to supply the part.

Where DMU members are inaccessible to salespeople, advertising may be used as an alternative. Also, where users are an important influence and the product is relatively inexpensive and consumable, free samples given by the salespeople may be effective in generating preference.

Process

Figure 3.5 describes the decision-making process for an industrial product.¹⁷ The exact nature of the process will depend on the buying situation. In certain situations some stages will be omitted; for example, in a routine re-buy situation the purchasing officer is unlikely to pass through stages 3, 4 and 5 (search for suppliers and an analysis and evaluation of their proposals). These stages will be bypassed, as the buyer, recognising a need – perhaps shortage of stationery – routinely reorders from the existing supplier.

In general, the more complex the decision and the more expensive the item, the more likely it is that each stage will be passed through and that the process will take more time.

1. *Need or problem of recognition*. Needs and problems may be recognised through either internal or external factors. An example of an internal factor would be the realisation of undercapacity leading to the decision to purchase plant or equipment. Thus, internal recognition leads to active behaviour (*internal/active*). Some problems which are recognised internally may not be acted upon. This condition may be termed *internal/passive*. A production manager may realise that there is a problem with a machine but, given more pressing problems, decides to live with it. Other potential problems may not be recognised internally and only become problems because of

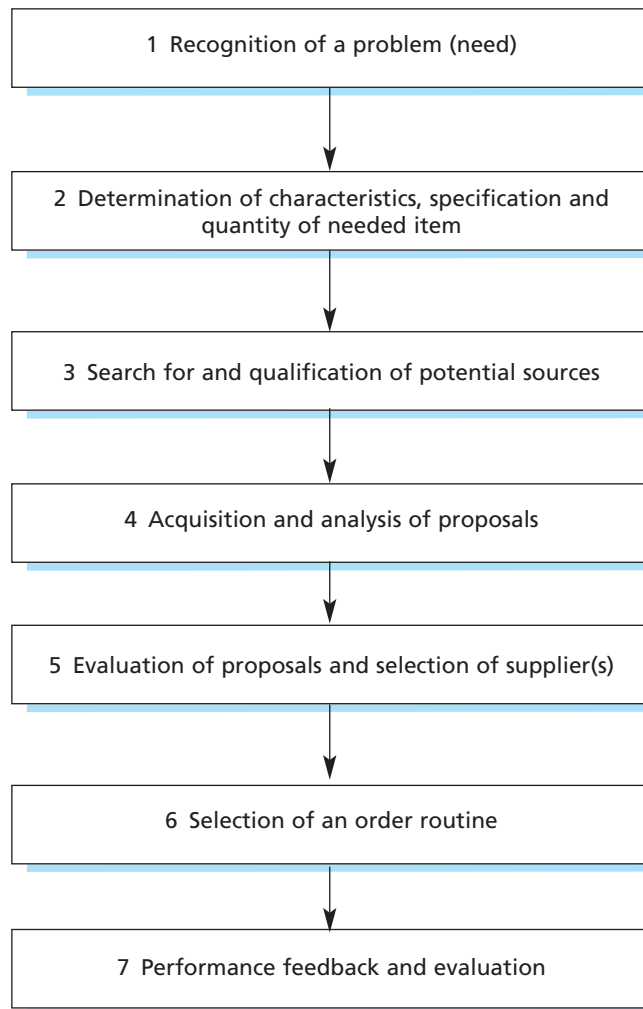


Figure 3.5 The organisational decision-making process (buy phases)

external cues. A production manager may be quite satisfied with the production process until being made aware of another more efficient method. Clearly these different problems have important implications for the salesperson. The internal/passive condition implies that there is an opportunity for the salesperson, having identified the condition, to highlight the problem by careful analysis of cost inefficiencies and other symptoms, so that the problem is perceived to be more pressing and in need of solution (internal/active). The internal/active situation requires salespeople to demonstrate a differential advantage of one of their products over the competition. In this situation, problem stimulation is unnecessary, but where internal recognition is absent, the salesperson can provide the necessary external cues. A forklift truck sales representative might stimulate problem recognition by showing how their trucks can save the customer money, due to lower maintenance costs, and lead to more efficient use of warehouse space through higher lifting capabilities.

2. *Determination of characteristics, specification and quantity of needed item.* At this stage of the decision-making process the DMU will draw up a description of what is required. For example, it might decide that five lathes are required to meet certain specifications. The ability of a salesperson to influence the specifications can give their company an advantage at later stages of the process. By persuading the buying company to specify features that only their product possesses (**lockout criteria**), the salesperson may virtually have closed the sale at this stage.
3. *Search for and qualification of potential sources.* A great deal of variation in the degree of search takes place in organisational buying. Generally speaking, the cheaper, less important the item and the more information the buyer possesses, the less search takes place.
4. *Acquisition and analysis of proposals.* Having found a number of companies which, perhaps through their technical expertise and general reputation, are considered to be qualified to supply the product, proposals will be called for and analysis of them undertaken.
5. *Evaluation of proposals and selection of suppliers.* Each proposal will be evaluated in the light of the criteria deemed to be important to each DMU member. It is important to realise that various members may use different criteria when judging proposals. Although this may cause problems, the outcome of this procedure is the selection of a supplier or suppliers.
6. *Selection of an order routine.* Next the details of payment and delivery are drawn up. Usually this is conducted by the purchasing officer. In some buying decisions this stage is merged into stages 4 and 5 when delivery is an important consideration in selecting a supplier.
7. *Performance feedback and evaluation.* This may be formal, where a purchasing department draws up an evaluation form for user departments to complete, or informal through everyday conversation.

The implications of all this are that a salesperson can affect a sale through influencing need recognition, through the design of product specifications and by clearly presenting the advantages of the product over competition in terms that are relevant to DMU members. By early involvement, a salesperson can benefit through the process of **creeping commitment**, whereby the buying organisation becomes increasingly committed to one supplier through its involvement in the process and the technical assistance it provides.

Content

This aspect of organisational buyer behaviour refers to the **choice criteria** used by members of the DMU to evaluate supplier proposals. These criteria are likely to be determined by the performance criteria used to evaluate the members themselves. Thus a purchasing manager who is judged by the extent to which they reduce purchase expenditure is likely to be more cost-conscious than a production engineer who is evaluated in terms of the technical efficiency of the production processes they design.

As with consumers, organisational buying is characterised by both functional (economic) and psychological (emotive) criteria (see Table 3.2). Key functional considerations for plant and equipment may be return on investment, while for

Table 3.2 Choice criteria

Economic	Emotional
Price	Prestige
Delivery	Personal risk reduction
Productivity – cost versus revenues	Office politics
Life-cycle costs	Quiet life
Reliability	Pleasure
Durability	Reciprocity
Upgradability	Confidence
Technical assistance	Convenience
Commercial assistance	
Safety	

materials and component parts they might be cost savings, together with delivery reliability, quality and technical assistance. Because of the high costs associated with production down-time, a key concern of many purchasing departments is the long-term development of the organisation's supply system. Psychological factors may also be important, particularly when suppliers' product offerings are essentially similar. In this situation the final decision may rest upon the relative liking for the suppliers' salesperson. A number of important criteria are examined above.

Quality

The emergence of **total quality management (TQM)** as a key aspect of organisational life reflects the importance of quality in evaluating a supplier's products and services. Many buying organisations are unwilling to trade quality for price. In particular, buyers are looking for consistency of product or service quality so that end products (e.g. motor cars) are reliable, inspection costs reduced and production processes run smoothly. They are installing **just-in-time (JIT)** delivery systems which rely upon incoming supplies being quality guaranteed. Jaguar cars under Sir John Egan moved from a price orientated purchasing system to one where quality was central and purchasing departments were instructed to pay more, provided the price could be justified in terms of improved quality of components.

Price and life-cycle costs

For materials and components of similar specification and quality, price becomes a key consideration. For standard items, such as ball-bearings, price may be critical to making a sale given that a number of suppliers can meet delivery and specification requirements. However, it should not be forgotten that price is only one component of cost for many buying organisations. Increasingly buyers take into account **life-cycle costs**, which may include productivity savings, maintenance costs and residual values, as well as initial purchase price, when evaluating products. Marketers can use life-cycle costs analysis to break into an account. By calculating life-cycle costs with a buyer, new perceptions of value may be achieved.

Continuity of supply

One of the major costs to a company is a disruption of a production run. Delays of this kind can mean costly machine down-time and even lost sales. Continuity of supply is therefore a prime consideration in many purchase situations. Companies which perform badly on this criterion lose out, even if the price is competitive, because a small percentage price edge does not compare with the costs of unreliable delivery. Supplier companies who can guarantee deliveries and realise their promises can achieve a significant differential advantage in the marketplace. Organisational customers are demanding close relationships with 'accredited suppliers' who can guarantee reliable supply, perhaps on a just-in-time basis.

Perceived risk

Perceived risk can come in two forms: functional risk, such as uncertainty with respect to product or supplier performance, and psychological risk, such as criticism from work colleagues. This latter risk – fear of upsetting the boss, losing status, being ridiculed by others in the department, or indeed losing one's job – can play a determining role in purchase decisions. Buyers often reduce uncertainty by gathering information about competing suppliers, checking the opinions of important others in the buying company, only buying from familiar and/or reputable suppliers and by spreading risk through multiple sourcing.

Office politics

Political factions within the buying company may also influence the outcome of a purchase decision. Interdepartmental conflict may manifest itself in the formation of competing 'camps' over the purchase of a product or service. Because department X favours supplier A, department Y automatically favours supplier B. The outcome not only has purchasing implications but also political implications for the departments and individuals concerned.

Personal liking/disliking

A buyer may personally like one salesperson more than another and this may influence supplier choice, particularly when competing products are very similar. Even when supplier selection is on the basis of competitive bidding, it is known for purchasers to help salespeople they like to 'be competitive'. Obviously, perception is important in all organisational purchases, as how someone behaves depends upon the perception of the situation. One buyer may perceive a salesperson as being honest, truthful and likeable while another may not. As with consumer behaviour, three selective processes may be at work on buyers:

- *selective exposure*: only certain information sources may be sought;
- *selective perception*: only certain information may be perceived;
- *selective retention*: only some information may be remembered.

The implications of understanding the content of the decision are that, first, a salesperson may need to change the sales presentation when talking to different DMU members. Discussion with a production engineer may centre on the technical

superiority of the product offering, while much more emphasis on cost factors may prove beneficial when talking to the purchasing officer. Second, the choice criteria used by buying organisations change over time as circumstances change. Price may be relatively unimportant to a company when trying to solve a highly visible technical problem, and the order will be placed with the supplier who provides the necessary technical assistance. Later, after the problem has been solved and other suppliers become qualified, price may be of crucial significance.

3.5 FACTORS AFFECTING ORGANISATIONAL BUYER BEHAVIOUR

Cardozo identified three factors that influence the composition of the DMU, the nature of the decision-making process and the criteria used to evaluate product offerings:¹⁸

- the buy class;
- the product type;
- the importance of the purchase to the buying organisation.

These three factors are illustrated in Figure 3.6.

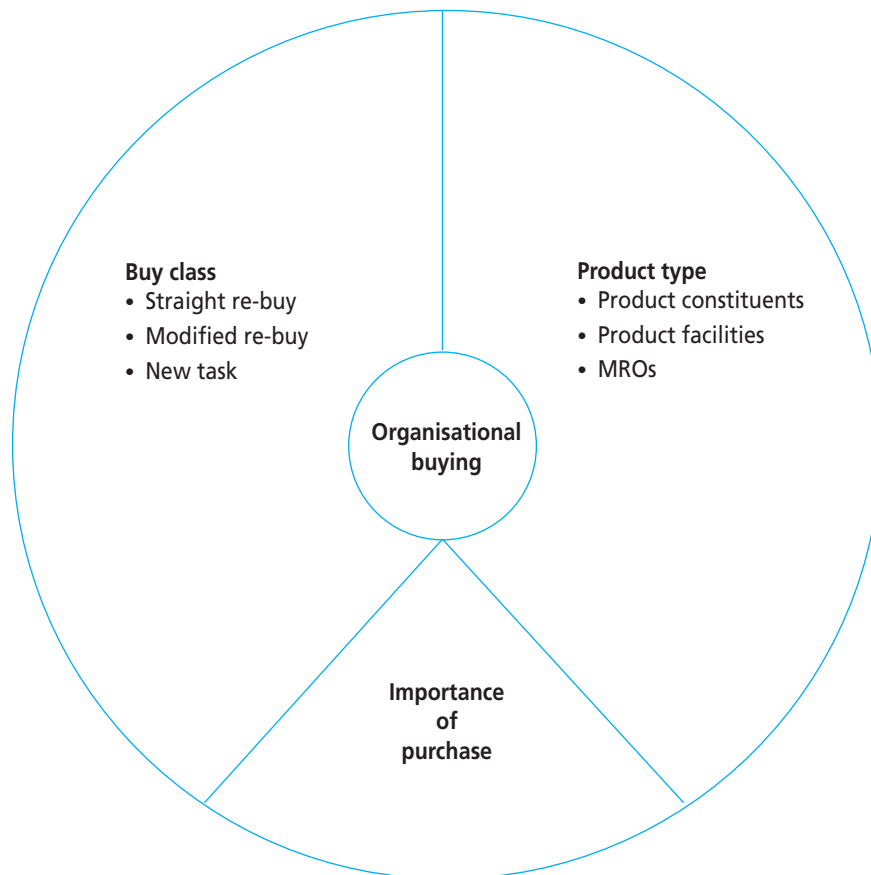


Figure 3.6 Influences on organisational purchasing behaviour

The buy class

Industrial purchasing decisions were studied by Robinson, Faris and Wind, who concluded that buyer behaviour was influenced by the nature of the **buy class**.¹⁹ They distinguished between a new task, a modified re-buy and a straight re-buy.

A *new task* occurs when the need for the product has not arisen previously so that there is little or no relevant experience in the company, and a great deal of information is required. A *straight re-buy*, on the other hand, occurs where an organisation buys previously purchased items from suppliers already judged acceptable. Routine purchasing procedures are set up to facilitate straight re-buys. The *modified re-buy* lies between the two extremes. A regular requirement for the type of product exists and the buying alternatives are known, but sufficient change has occurred to require some alteration of the normal supply procedure.

The buy classes affect organisational buying in the following ways. First, the structure of the DMU changes. For a straight re-buy, possibly only the purchasing officer is involved, whereas for a new buy, senior management, engineers, production managers and purchasing officers are likely to be involved. Modified re-buys often involve engineers, production managers and purchasing officers, but senior management, except when the purchase is critical to the company, are unlikely to be involved. Second, the decision-making process is likely to be much longer as the buy class changes from a straight re-buy to a modified re-buy and then, a new task. Third, in terms of influencing DMU members, they are likely to be much more receptive in new task and modified re-buy situations than for straight re-buys. In the latter case the purchasing manager has already solved the purchasing problems and has other problems to deal with. So why make it a problem again?

The first implication of this buy class analysis is that there are considerable gains to be made if the salesperson can enter the new task at the start of the decision-making process. By providing information and helping with any technical problems that can arise, the salesperson may be able to create goodwill and creeping commitment, which secures the order when the final decision is made. The second implication is that since the decision process is likely to be long, and many people are involved in the new task, supplier companies need to invest heavily in sales human resources for a considerable period of time. Some firms employ missionary sales teams comprising their best salespeople to help secure big new-task orders.

Salespeople in straight re-buy situations must ensure that no change occurs when they are in the position of the supplier. Regular contact to ensure that the customer has no complaints may be necessary, and the buyer may be encouraged to use automatic recording systems. For the non-supplier, the salesperson has a difficult task unless poor service or some other factor has caused the buyer to become dissatisfied with the present supplier. The obvious objective of the salesperson in this situation is to change the buy class from a straight re-buy to a modified re-buy. Price alone may not be enough since changing supplier represents a large personal risk to the purchasing officer. The new supplier's products might be less reliable and delivery might be unpredictable. In order to reduce this risk, the salesperson may offer delivery guarantees with penalty clauses and be very willing to accept a small (perhaps uneconomic) order at first in order to gain a foothold. Supplier acquisition of a total quality management standard such as BS5750 may also have the effect of reducing

perceived buyer risk, or it may be necessary to agree to undertake a buyer's supplier quality assurance programme. Many straight re-buys are organised on a contract basis and buyers may be more receptive to listening to non-supplier salespeople prior to contract renewal.

Value analysis and life-cycle cost calculations are other methods of moving purchases from a straight re-buy to a modified re-buy situation. **Value analysis**, which can be conducted by either supplier or buyer, is a method of cost reduction in which components are examined to see if they can be made more cheaply. The items are studied to identify unnecessary costs that do not add to the reliability or functionality of the product. By redesigning, standardising or manufacturing by less expensive means, a supplier may be able to offer a product of comparable quality at lower cost. Simple redesigns such as changing a curved edge to a straight one may have dramatic cost implications.

Life-cycle cost analysis seeks to move the cost focus from the initial purchase price to the total cost of owning and using a product. There are three types of life-cycle costs:

- purchase price;
- start-up costs;
- post-purchase costs.

Start-up costs include installation, lost production and training costs. Post-purchase costs include operating (e.g. fuel, operator wages), maintenance, repair and inventory costs. Against these costs would be placed residual values (e.g. trade-in values of cars). Life-cycle cost appeals can be powerful motivators. For example, if the out-supplier can convince the customer organisation that its product has significantly lower post-purchase costs than the in-supplier, despite a slightly higher purchase price, it may win the order. This is because it will be delivering a *higher economic value* to the customer. This can be a powerful competitive advantage and at the same time justify the premium price.

The product type

Products can be classified according to four types:

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. <i>Materials</i> to be used in the production process, e.g. steel; 2. <i>Components</i> to be incorporated in the finished product, e.g. alternator; 3. <i>Plant and equipment</i>; 4. Products and services for <i>maintenance, repair and operation</i> (MROs), e.g. spanners, welding equipment and lubricants. | } Product constituents

} Productions facilities |
|--|--|

This classification is based upon a customer's perspective – how the product is used – and may be applied to identify differences in organisational buyer behaviour. First, the people who take part in the decision-making process tend to differ according to product type. For example, it has been found that senior management tend to get involved in the purchase of plant and equipment or, occasionally, when new materials are purchased, if the change is of fundamental importance to company operations; for example, if a move from aluminium to plastic is being contemplated. Rarely do they involve themselves in component or MRO supply. Similarly, design engineers tend to

be involved in buying components and materials but not normally MRO and plant and equipment. Second, the decision-making process tends to be slower and more complex as product type moves from:

MRO → Components → Materials → Plant and equipment

For MRO items, 'blanket contracts' rather than periodic purchase orders are increasingly being used. The supplier agrees to resupply the buyer on agreed price terms over a period of time. Stock is held by the seller and orders are automatically printed out by the buyer's computer when stock falls below a minimum level. This has the advantage to the supplying company of effectively blocking the efforts of the competitors' salesforces for long periods of time.

Classification of suppliers' offerings by product type gives the salesforce clues about who is likely to be influential in the purchase decision. The sales task is then to confirm this in particular situations and attempt to reach those people involved. A salesperson selling MROs is likely to be wasting effort attempting to talk to design engineers, whereas attempts to reach operating management are likely to prove fruitful.

Importance of purchase to buying organisation

A purchase is likely to be perceived as important to the buying organisation when it involves large sums of money, when the cost of making the wrong decision, for example in lost production, is high and when there is considerable uncertainty about the outcome of alternative offerings. In such situations, many people at different organisational levels are likely to be involved in the decision and the process is likely to be long, with extensive search and analysis of information. Thus extensive marketing effort is likely to be required, but great opportunities present themselves to sales teams who work with buying organisations to convince them that their offering has the best payoff; this may involve acceptance trials (e.g. private diesel manufacturers supplying rail companies with prototypes for testing, engineering support and testimonials from other users). In addition, guarantees of delivery dates and after-sales service may be necessary when buyer uncertainty regarding these factors is high.

3.6 DEVELOPMENTS IN PURCHASING PRACTICE

A number of trends have taken place within the purchasing function that have marketing implications for supplier firms. The advent of just-in-time purchasing and the increased tendency towards central purchasing, reverse marketing and leasing have all changed the nature of purchasing and altered the way in which suppliers compete.

Just-in-time purchasing

The **just-in-time (JIT)** purchasing concept aims to minimise stocks by organising a supply system which provides materials and components as they are required. As

such, stockholding costs are significantly reduced or eliminated and thus profits are increased. Furthermore, since the holding of stocks is a hedge against machine breakdowns, faulty parts and human error, they may be seen as a cushion which acts as a disincentive to management to eliminate such inefficiencies.

A number of JIT practices are also associated with improved quality. Suppliers are evaluated on their ability to provide high-quality products. The effect of this is that suppliers may place more emphasis on product quality. Buyers are encouraged to specify only essential product characteristics, which means that suppliers have more discretion in product design and manufacturing methods. Also the supplier is expected to certify quality, which means that quality inspection at the buyer company is reduced and overall costs are minimised, since quality control at source is more effective than further down the supply chain.

The total effects of JIT can be enormous. Purchasing inventory and inspection costs can be reduced, product design can be improved, delivery streamlined, production down-time reduced and the quality of the finished item enhanced.

However, the implementation of JIT requires integration into both purchasing and production operations. Since the system requires the delivery of the exact amount of materials or components to the production line as they are required, delivery schedules must be very reliable and suppliers must be prepared to make deliveries on a regular basis – perhaps even daily. Lead times for ordering must be short and the number of defects very low. An attraction for suppliers is that it is usual for long-term purchasing agreements to be drawn up. The marketing implications of the JIT concept are that to be competitive in many industrial markets (e.g. motor cars), suppliers must be able to meet the requirements of this fast-growing system.

An example of a company that employs JIT is the Nissan car assembly plant at Sunderland in north-east England. The importance of JIT to its operations has meant that the number of component suppliers in the area has increased from 3 when Nissan arrived in 1986 to 27 in 1992. Nissan has adopted what they term 'synchronous supply' – parts are delivered only minutes before they are needed. For example, carpets are delivered by Sommer Allibert, a French supplier, from its nearby facility to the Nissan assembly line in sequence for fitting to the correct model. Only 42 minutes elapse between the carpet being ordered and fitted to the car. The stockholding of carpets for the Nissan Micra is now only ten minutes. Just-in-time practices do carry risks, however, if labour stability cannot be guaranteed. Renault discovered this to their cost when a strike at its engine and gearbox plant caused its entire French and Belgian car production lines to close in only ten days.

Centralised purchasing

Where several operating units within a company have common requirements and there is an opportunity to strengthen a negotiating position by bulk buying, **centralised purchasing** is an attractive option. Centralisation encourages purchasing specialists to concentrate their energies on a small group of products, thus enabling them to develop an extensive knowledge of cost factors and the operation of suppliers. The move from local to centralised buying has important marketing implications. Localised buying tends to focus on short-term cost and profit considerations whereas

centralised purchasing places more emphasis on long-term supply relationships. Outside influences, for example, engineers, play a greater role in supplier choice in local purchasing organisations since less specialised buyers often lack the expertise and status to question the recommendations of technical people. The type of purchasing organisation can therefore provide clues to suppliers regarding the important people in the decision-making unit and their respective power positions.

Systems purchasing

Systems purchasing is the desire by buyers to acquire complete systems rather than individual components. As noted in Chapter 1, this means, for example, that to sell door handles to a car company, a supplier must not only be able to sell a door system which includes door handles as well as locking and opening devices but also have an expert knowledge of door technology and the ability to solve future problems. Some systems purchasing is based on the expectations of benefits a system can provide for a buyer over time such as an operating chemical plant or telecommunications system.²⁰

Systems sellers may take over responsibility for systems provision previously operated by customers such as inventory control, production control systems, IT and telecommunications networks. Each system sold comprises product and service components. Hardware, or product components, are physical or tangible products that perform a specific function within the system. Software, or service components, are the knowledge or intangible human efforts to solve customers' problems and perform activities needed to design, build, operate and maintain a system (e.g. telecommunications).²¹

System selling requires sellers to create value for customers by cutting costs, and/or improving performance by developing innovative solutions that address the needs of business customers. It is widespread in capital goods industries such as IT, telecommunications and trains. For example, Alstom Transport, the train manufacturer, offers solutions for 'train availability' and Thales Training and Simulation, the flight simulator manufacturer, provides military customers with 'flight training solutions'. Such companies offer to design and integrate components into a system and provide services to operate and maintain the system during its life.²²

Reverse marketing

The traditional view of marketing is that supplier firms will actively seek the requirements of customers and attempt to meet those needs better than the competition. This model places the initiative with the supplier. Purchasers could assume a passive dimension, relying on their suppliers' sensitivity to their needs and technological capabilities to provide them with solutions to their problems. However, this trusting relationship is at odds with a new corporate purchasing situation that developed during the 1980s and is gaining momentum. Purchasing is taking on a more proactive, aggressive stance in acquiring the products and services needed to compete. This process whereby the buyer attempts to persuade the supplier to provide exactly what the organisation wants is called **reverse marketing**.²³ Figure 3.7 shows the difference between the traditional model and this new concept.

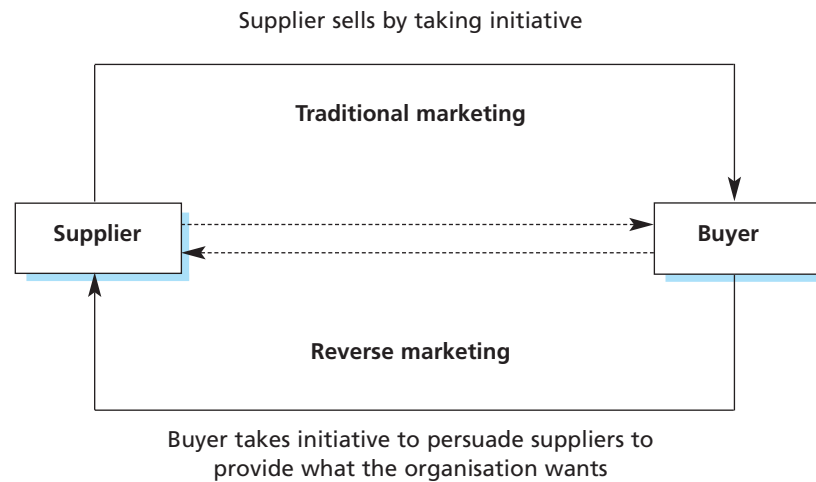


Figure 3.7 Reverse marketing

The essence of reverse marketing is that the purchaser takes the initiative in approaching new or existing suppliers and persuading them to meet their supply requirements. The implications of reverse marketing are that it may pose serious threats to unco-operative in-suppliers but major opportunities to responsive in-suppliers and out-suppliers. The growth of reverse marketing presents two key benefits to suppliers who are willing to listen to the buyer's proposition and carefully consider its merits. First, it provides the opportunity to develop a stronger and longer-lasting relationship with the customer. Second, it could be a source of new product opportunities that may be developed to a broader customer base later on.

Leasing

A *lease* is a contract by which the owner of an asset (e.g. a car) grants the right to use the asset for a period of time to another party in exchange for payment of rent. The benefits to the customer are that a leasing arrangement avoids the need to pay the cash purchase price of the product or service, is a hedge against fast product obsolescence, may have tax advantages, avoids the problem of equipment disposal, and with certain types of leasing contracts avoids some maintenance costs. These benefits need to be weighed against the costs of leasing, which may be higher than outright buying.

There are two main types of lease: financial (or full payment) leases and operating leases (sometimes called rental agreements). A **financial lease** is a longer-term arrangement that is fully amortised over the term of the contract. Lease payments, in total, usually exceed the purchase price of the item. The terms and conditions of the lease vary according to convention and competitive conditions. Sometimes the supplier will agree to pay maintenance costs over the leasing period. This is common when leasing photocopiers, for example. The lessee may also be given the option of buying the equipment at the end of the period. An **operating lease** is for a shorter period of time, is cancellable and not completely amortised. Operating lease rates are usually higher than financial lease rates since they are shorter-term. When equipment

is required intermittently this form of acquisition can be attractive since it avoids the need to let plant lie idle. Many types of equipment such as diggers, bulldozers and skips may be available on short-term hire as may storage facilities.

Leasing may be advantageous to suppliers because it provides customer benefits that may differentiate product and service offerings. As such it may attract customers who otherwise may find the product unaffordable or uneconomic. The importance of leasing in such industries as cars, photocopying and data processing has led an increasing number of companies to employ leasing consultants to work with customers on leasing arrangements and benefits. A crucial marketing decision is the setting of leasing rates, which should be set with the following in mind:

- (a) the desired relative attractiveness of leasing versus buying (the supplier may wish to promote/discourage buying compared with leasing);
- (b) the net present value of lease payments versus outright purchase;
- (c) the tax advantages of leasing versus buying to the customer;
- (d) the rates being charged by competition;
- (e) the perceived advantages of spreading payments to customers;
- (f) any other perceived customer benefits, e.g. maintenance and insurance costs being assumed by the supplier.

3.7 RELATIONSHIP MANAGEMENT

The discussion of reverse marketing gave examples of buyers adopting a proactive stance in their dealings with suppliers and introduced the importance of buyer–seller relationships in marketing between organisations. The Industrial Marketing and Purchasing Group developed the **interaction approach** to explain the complexity of **relationship management**.²⁴ This approach views these relationships as taking place between two active parties. Thus reverse marketing is one manifestation of the interaction perspective. Both parties may be involved in adaptations to their own process or product technologies to accommodate each other, and changes in the activities of one party are unlikely without consideration of, or consultation with, the other party. In such circumstances a key objective of industrial markets will be to manage customer relationships. Not only should formal organisational arrangements such as the use of distributors, salespeople and sales subsidiaries be considered, but also the informal network consisting of the personal contacts and relationships between supplier and customer staff. Marks & Spencer's senior directors meet the boards of each of its major suppliers twice a year for frank discussions. When Marks & Spencer personnel visit a supplier, it is referred to as a 'royal visit'. Factories may be repainted, new uniforms issued and machinery cleaned. This reflects the exacting standards that the company demands from its suppliers and the power it wields in its relationship with them.

The reality of organisational marketing is that many suppliers and buying organisations have been conducting business between themselves for many years. For example, Marks & Spencer has trading relationships with suppliers that stretch back almost 100 years. Such long-term relationships can have significant advantages to both buyer and seller. Risk is reduced for buyers since they get to know people in the

supplier organisation and know who to contact when problems arise. Communication is thus improved and joint problem-solving and design management can take place. Sellers benefit from closer knowledge of buyer requirements, and by gaining the trust of the buyer an effective barrier to entry for competing firms may be established. New product development can benefit from such close relationships. The development of machine-washable lambswool fabrics and easy-to-iron cotton shirts came about because of Marks & Spencer's close relationships with UK manufacturers. Sellers can also benefit from information that buyers provide. Buyers often gather and pass on information about market developments that is relevant to the seller's business.²⁵

Close relationships in organisational markets are inevitable as changing technology, shorter product life-cycles and increased foreign competition place marketing and purchasing departments in key strategic roles. Buyers are increasingly treating trusted suppliers as **strategic partners**, sharing information and drawing on their expertise when developing cost-efficient, quality-based new products. Such partnerships can form a strong barrier to entry for competitors wishing to do business with a buying organisation. For example, when an outside supplier's offer involves lower costs, higher quality, or even more advanced technology, buying organisations such as Honda, Toyota and Daimler Chrysler will work with their present strategic partners, giving them the opportunity to match or exceed the offer within a given time frame, which can be as long as 18–24 months.²⁶ The marketing implication is that successful organisational marketing is more than the traditional manipulation of the four Ps – product, place, promotion and price. Its foundation rests upon the skilful handling of customer relationships. This has led some companies to appoint customer relationship managers to oversee the partnership and act in a communicational and co-ordinated role to ensure customer satisfaction. Still more companies have reorganised their salesforces to reflect the importance of managing key customer relationships effectively. This process is called 'key' or major account management. It should be noted, however, that strategic partnerships and key account management may not be suitable for all companies. For example, small companies may not be able to afford the resources needed to make such processes work.²⁷

3.8 CONCLUSIONS

Understanding buyer behaviour has important implications for salespeople and sales management. Recognition that buyers purchase products in order to overcome problems and satisfy needs implies that an effective sales approach will involve the discovery of these needs on the part of the salesperson. Only then can they sell from the range of products marketed by the company the offering that best meets these needs.

When the decision-making unit is complex, as in many organisational buying situations, the salesperson must attempt to identify and reach key members of the DMU in order to persuade them of the product's benefits. They must also realise that different members may use different criteria to evaluate the product and thus may need to modify their sales presentation accordingly.

Chapter 4 is concerned with the development of sales strategies that reflect the buyer behaviour patterns of the marketplace.

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PRACTICAL EXERCISE

The lost computer sale

Jim Appleton, managing director of Industrial Cleaning Services, had decided that a personal computer could help solve his cash flow problems. What he wanted was a machine which would store his receipts and outgoings so that at a touch of a button he could see the cash flow at any point in time. A year ago he got into serious cash flow difficulties simply because he did not realise that, for various reasons, his short-term outflow greatly exceeded his receipts.

He decided to visit a newly opened personal computer outlet in town on Saturday afternoon. His wife, Mary, was with him. They approached a salesperson seated behind a desk.

Jim: Good afternoon. I'm interested in buying a personal computer for my business. Can you help me?

Salesperson: Yes, indeed, sir. This is the fastest growing network of personal computer centres in the country. I have to see a colleague for a moment but I shall be back in a few minutes. Would you like to have a look at this brochure and at the models we have in the showroom? [*Salesperson gives them the brochures, and leaves them in the showroom.*]

Mary: I don't understand computers. Why are some bigger than others?

Jim: I don't know. What baffles me are all these buttons you have to press. I wonder if you have to do a typing course to use one? [*Jim and Mary look round the showroom asking each other questions and getting a little confused. The salesperson returns after five minutes.*]

Salesperson: Sorry to take so long but at least it's given you a chance to see what we have in stock. You tell me you want a computer for work. I think I have just the one for you. [*Salesperson takes Jim and Mary to a model.*] This could be just up your street. Not only will this model act as a word processor, it will do your accounts, financial plans and stock control as well. It has full graphic facilities so that you can see trend lines on the screen at the touch of the button. You can also send emails and access the internet.

Mary: It looks very expensive. How much will it cost?

Salesperson: A lot less than you think. This one costs £1,000, which is quite cheap.

Mary: I've seen advertisements in newspapers for computers which are a lot less expensive.

Salesperson: Yes, but do they have a Core 2 Quad processor with 3GB of memory and a 640GB hard drive? And do they contain ATI's best selling Radeon graphics card and the latest media card reader?

Mary: I don't know, but they looked quite good to me.

Jim: It looks very complicated to use.

Salesperson: No more complicated than any of the other models. The computer comes with a full set of instructions. My 12-year-old son could operate it.

Jim: What's this button for?

Salesperson: That moves the cursor. It allows you to delete or amend any character you wish.

Jim: I see.

Salesperson: I've left the best till last. Included in the price are three software programs which allow the machine to be used for spreadsheet analysis, stock control and word-processing. I'm sure your business will benefit from this computer.

Jim: My business is very small. I only employ five people. I'm not sure it's ready for a computer yet. Still, thank you for your time.

Discussion questions

- 1 What choice criteria did Jim and Mary use when deciding whether to buy a computer and which model to buy?
- 2 Did the salesperson understand the motives behind the purchase? If not, why not? Did they make any other mistakes?
- 3 Imagine that you were the salesperson. How would you have conducted the sales interview?