**CHAPTER THREE: BUYING BEHAVIOR**

**Consumer Buying Behavior**

**Introduction**

Managers in an organization spend a great deal of time thinking about customers. They want to know who their customers are, what they think and how they feel, and why customers buy their product rather than competitors' owners themselves do not know exactly what motivates their buying. But management needs to put top priority on understanding customers and what makes them tick.

Thus, understanding buyer’s behavior is an essential but difficult task – the company must carefully produce its product and its image to match buyer needs and desires. But buyers are moved by a complex set of deep and subtle motivations. Buyer behavior springs from deeply held values and attitudes, from what they think of themselves and what they want others to think of them, from rationality and common sense, and from whimsy and impulse.

**Definition of Consumer Behavior**

Before we directly embark up on the discussion of consumer behavior, let’s discuss the meaning of consumer. A consumer is a person who purchases goods and services for his own personal needs. Consumer buying behavior refers to the buying behavior of final consumer- individuals and households who buy goods and services for personal consumption.

Consumer behavior can also be defined as those acts of 'individuals' which are directly involved in making decisions to spend their available resources (time, money, energy) in obtaining and using goods and services. It refers the behaviors that consumer’s exhibit when searching for information about product to buy, evaluate one brand against another, and when they are using and exposing the product after using it.

Consumer market is all individuals and households who buy or acquire goods and services for personal consumption. It is the ultimate market in the organization of economic activities. It is also defined as end user markets, Business to Consumer markets, or B2C markets, the product and service offering is bought by the consumer for his personal use. The decision making process in consumer markets is different from

the one that takes place in business or industrial markets.

A product or service should have a consumer to buy it. Thus, it is very necessary to make a study on the behavioral aspect of the consumer i.e., there must be reasonable answer to the following questions:

* What does a consumer buy?
* Where does he/she buy?
* When does he/she buy?
* How much does he/she buy? And;
* Why does he/she buy?

Though the first four questions can be answered by carrying out statistical data based market research known as 'retail audit', 'prescription audit', etc., the answer to the last question is indeed a very difficult one and can be answered by carrying out 'motivational research'. Nevertheless the answer to the 'Why' of consumer behavior is the most important factor to any organization while designing a successful product/service and its marketing strategy.

**General Characteristics of Consumer Behavior**

The reason for studying consumer behavior lies in its general characteristics, as it may affect present day business operation. These characteristics can be described as below:

* The consumer is the king
* The consumer behavior can be known
* The consumer's behavior can be influenced

**Why Study Consumer Behavior?**

* It will help to segment the market usefully
* It will aid in development of an effective marketing mix
* It will help to assess new market opportunities

**Model of Consumer Behavior**

Consumers or buyers behavior involves the activities of people engaged when selecting, purchasing and using products, so as to satisfy the need and desire. In general, there are two types of consumer behavior models: model of consumer buying and model of business buying. According to Kotler and Armstrong, the basic model of consumer decision making process comprises three major components, viz., marketing and other stimuli (these act as influences), the buyer’s black box (these are related to the consumer) and the buyer responses (these are the response part). The components/processes as well as the working dynamics are explained as follows:

1. **Marketing and other stimuli:** A consumer is confronted with a stimulus in the environment.

These stimuli could be of two kinds;

a) One that is presented by the marketer through the marketing mix or the 4Ps, product, price, place and promotion;

* Product: attributes, features, appearance, packaging etc.
* Price: cost, value, esteem (prestige)
* Place: location and convenience, accessibility
* Promotion: advertising, sales promotion, personal selling, publicity, direct marketing

b) The other that is presented by the environment, and could be economic, technological, political and cultural.

**2. Buyer’s black box:** The stimulus that is presented to the consumer by the marketer and the environment is then dealt with by the buyer’s black box. The buyer’s black box comprises two sub components, viz., the buyer’s characteristics and the buyer decision process. The buyers’ characteristics could be personal, psychological, cultural and social. The buyer’s decision process could be problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behavior.

**3. Buyer responses:** While in the black box, the buyer also takes a decision with respect to the product, brand, dealer, timing and amount.

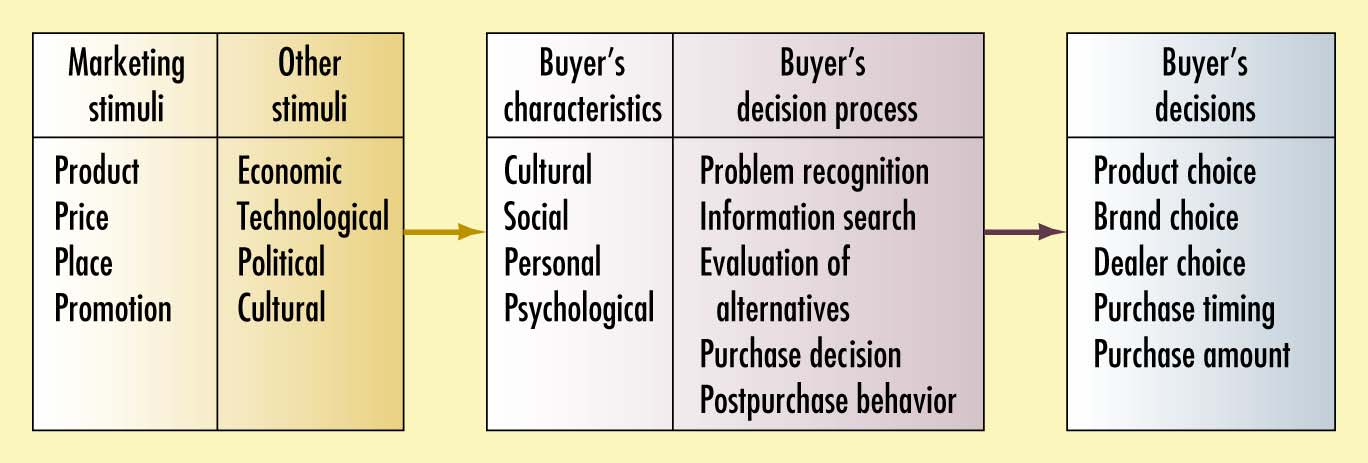


Figure 1: Model of Buyer Behavior

The figure shows that marketing and other stimuli enter the consumer's "black box" and produce certain responses that marketers must figure out what is in the buyer's black box.

Marketing stimuli consist of the 4 (four) Ps: Product, Price, Place and Promotion. Other stimuli include major forces and events in the buyer's environment: Political-legal, Socio-Cultural, Economic and Technological factors. All these inputs enter the buyer's black box, where they are turned into observable buyer responses: Product choice, Brand choice, Dealer choice, Purchase timing and Purchase amount. The marketer wants to understand how the stimuli are changed in to responses inside the consumer's black box, which has two parts. First, the buyer characteristics influence how he/she perceives and reacts to the stimuli. Second, the buyer's decision process itself affects the buyer behavior.

**Major Factors Affecting Consumer Behavior**

There are various factors affecting consumers buying behavior. Some of the main factors are listed below:

1. **Cultural Factors**

Cultural factors exert the broadest and deepest influence on consumer behavior. The marketer needs to understand the role played by the buyer's culture, subculture, and social class.

**Culture** is the most basic cause of a person’s wants and behavior. Human behavior is largely learned. Growing up children learn basic values, perception and wants from the family and other important groups. Marketers are always trying to spot “cultural shifts” which might point to new products that might be wanted by customers or to increased demand. For example, the cultural shift towards greater concern about health and fitness has created opportunities (and now industries) servicing customers who wish to buy:

* Low calorie foods
* Health club memberships
* Exercise equipment
* Activity or health-related holidays etc.

Similarly the increased desire for “leisure time” has resulted in increased demand for convenience

products and services such as microwave ovens, ready meals and direct marketing service businesses

such as telephone banking and insurance.

**Subculture**: Each culture consists of smaller subcultures that provide more specific identification and socialization for its members. Subcultures include nationalities, religions, racial groups, and geographical regions. Many cultures make up important market segments, and marketers often design products and marketing programs tailored to their needs. The buyer’s buying behavior will be influenced by his/ her sub-culture identifications. They will influence his/ her food preferences, clothing choices, and recreation and career aspirations.

**Social class:** Almost every society has some form of social class structure. Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors. Social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth, and other variables. In some social systems, members of different classes are reared for certain roles and cannot change their social positions. Marketers are interested in social class because people within a given social class tend to exhibit similar buying behavior. Social classes show distinct product and brand preferences in areas such as clothing, home furnishings, leisure activity, and automobiles. They also differ in media preferences; upper-class consumers often prefer magazines and books, and lower-class consumers often prefer television.

1. **Social Factors:**

A consumer’s buying behavior is also influenced by social factors, such as the groups to which the consumer’s belongs and social status. In a group, several individuals may interact to influence the purchase decision. The typical roles in such a group decision can be summarized as follows:

1. **Reference Groups** - As a consumer, your decision to purchase and use certain products and services is influenced not only by psychological factors, your personality and life-style, but also by the people around you with whom you interact and the various social groups to which you belong. The groups with whom you interact directly or indirectly influence your purchase decisions and thus their study is of great importance to marketer to understand well.
2. **Primary and secondary groups**: a primary group is one with which an individual interacts on a regular basis and whose opinion are of importance to him, family, neighbors, close friends, colleagues and coworkers are examples of primary groups. Secondary groups are those with which an individual interacts only occasionally and does not consider their opinion very important.
3. **Formal and informal groups:**  Labor unions, social clubs and societies are formal groups to which individuals may belong. A formal group has a highly defined structure, specific role sand authority positions and specific goals.

In contrast, an informal group is loosely defined and may have no specified roles and goals. Meeting your neighbors over lunch once a month for friendly exchange of news are at instance of an informal group.

1. **Membership and symbolic groups:**  A membership group is one to which a person belongs or qualifies for membership. All workers in a factory qualify for membership to the labor union. A symbolic group is one, which an individual aspires to belong to, but is not likely to be received as a member. Symbolic groups influence consumer behaviors but membership groups have a more direct influence. Primary, informal and small groups exert the maximum influence on consumers and are of great interest for marketers. Any of these groups can serve as a reference group for a consumer if it serves as a point of reference or comparison the formation of the values, attitudes and behavior.

Where reference group influence is strong, marketers must determine how to reach and influence the group’s opinion leaders. An **opinion leader** is the person who offers informal advice or  
information about a specific product or product category, such as which of several brands is best or how a particular product may be used. Opinion leaders are often highly confident, socially active, and frequent users of the category. Marketers try to reach them by identifying their demographic and psychographic characteristics, identifying the media they read, and directing messages to them.

Note: Reference groups influence members in at least three ways.

* They expose an individual to new behaviors and lifestyles
* They influence attitudes and self-concept
* They create pressures for conformity that may affect product of brand choices

1. **Family**: The family is the most important consumer-buying organization in society and family members constitute the most influential primary reference group. We can distinguish b/n two families in the buyer’s life: the family of orientation and the family of procreation.
2. **The family of orientation** consists of one’s parents and siblings (brothers and sisters). From parents a person acquires an orientation toward religion, politics and economics, a sense of personal ambition, self –worth and love. Even if a grown person is interacting with his parents, the parents influence the buyer’s behavior. In countries like India where parents live with their grown up children, their influence can be substantial.
3. **The family of procreation**: Consists of one’s spouse and children. The family of procreation can insert a more direct influence on everyday buying behavior. Marketers are interested in the roles and relative influence of the husband, wife and children in the purchase of products and services, and place targeted advertisement to attract an influential person from the family.
4. **Roles:** An individual may participate in many groups. His position within each group can be defined in terms of the activities he is expected to perform. You are probably a manager, and when in your work situation you play that role. However, at home you play the role of spouse and parent. Thus in different social positions you play different roles. Each of these roles influences your purchase decisions.
5. **Status**: Status is often measured by the degree of influence an individual exerts in the behavior and attitude of others. People buy and use products that reflect their status. The managing director of a company may drive a Mercedes to communicate his status in society.
6. **Personal Factors**

**I. Age and life cycle stage**: People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture and recreation are often age related. Buying is also shaped by the **family life-cycle-** an orderly series of stages in which consumer attitude and behavioral tendencies evolve and occur because of developing maturity, experiences, income, and status. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

**II. Occupation and Income**: Today people are very concerned about their image and the status in the society, which is a direct outcome of their material prosperity. The profession or the occupation a person is in again has an impact on the products they consume. The status of a person is projected through various symbols like the dress, accessories and possessions.

III. **Economic Situation:** A person's economic situation will affect product choice. Marketers of income-sensitive goods watch trends in personal income, savings, and interest rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products closely.

**IV. Life Style**: Our life styles are reflected in our personalities and self-concepts, same is the case with any consumer. We need to know what a life-style is made of. It is a person’s mode of living as identified by his or her activities, interest and opinions. There is a method of measuring a consumer’s lifestyle. This method is called as the psychographics-which is the analysis technique used to measure consumer lifestyles-people activities, interest and opinions. Then based upon the combinations of these dimensions, consumers are classified. Unlike personality typologies, which are difficult to describe measure lifestyle analysis has proven valuable in segmenting and targeting consumers according to their lifestyle classification.

**V. Personality and self-concept:** Each person has a distinct personality that influences his/ her buying behavior. Personality is a person’s distinguishing psychological characteristics that lead to relatively consistent and enduring responses to his/her environment. Related to personality is a person’s self-concept. Self-concept (self-image) may be classified as actual self-concept (how one views oneself, an ideal self -concept (how one would like to see himself, and others self-concept (how one thinks others see him).

**VI. Buying Roles:** We can distinguish five roles people might play in a buying decision:

* Initiator: A person who first suggests the idea of buying the product or service.
* Influencer: A person whose view or advice influences the decision.
* Decider: A person who decides on any component of a buying decision- whether to buy, what to buy, how to buy, and where to buy.
* Buyer: The person who makes the actual purchase of the product or service.
* User: A person who consumes or uses the product or service.

1. **Psychological Factors**

A person’s buying choices are further influenced by *four major psychological factors*: *motivation, perception, learning, and beliefs and attitudes.*

**I. Motivation:** A person has many needs at any given time. Some are *biological*, arising from *states of tension* such as hunger, thirst, or discomfort. And others are *psychological*, arising from *the need for recognition, esteem, or belonging*.

A need becomes *a motive* when it is aroused to a sufficient level of intensity. *A motive (or drive)* is *a need* that is *sufficiently pressing to direct the person to seek satisfaction*.

Psychologists have developed theories of human motivation. Two of the most popular are the theories of Sigmund *Freud* and *Abraham Maslow*. They have *quite different meanings* for consumer analysis and marketing.

***Sigmund Freud*** assumed that people are largely unconscious about the real psychological forces shaping their behavior. He saw the person as growing up and repressing (containing) many *urges.* These urges are never eliminated or under perfect control; they emerge in dreams, in neurotic and obsessive behavior, or ultimately in psychoses.

Freud’s theory suggests that a person’s buying decisions are affected by subconscious motives that even the buyer may not fully understand.

***Abraham Maslow*** sought to explain

* + *Why people are drive by particular needs at particular times*?
  + *Why does one person spend much time and energy on personal safety and another on gaining the esteem of others?*

*Maslow’s answer* is that *human needs are arranged in a hierarchy*, from the *most pressing at the bottom* to the *least pressing at the top*. They include *physiological needs, safety needs, social needs, esteem needs, and self-actualization needs.*

A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator and the person will then try to satisfy the next most important need, i.e. as each important need is satisfied, the next most important need will come into play. *For example:* A *starving/ hungry people* *(physiological need)* *will not take an interest* in the *latest happenings* *in the art world* (self-actualization) nor in how *they are seen or esteemed by others* (social or esteem need) nor in the whether they are *breathing clean air* (safety need).

*Self- actualization needs* (Self-development and realization)

*Esteem needs* (self-esteem, recognition, status)

*Social needs* (sense of belonging, love)

*Safety needs* (Security, protection)

*Physiological needs* (hunger, thirst)

***Fig., Maslow’s hierarchy of needs***

**ii. Perception:** A motivated person is ready to act. *How the person’s act is influenced by his own perception of the situation?*

All of us learn by the flow of information through our *five senses*: sight, hearing, smell, touch and taste. However, each of us receives, organizes, and interprets this sensory information in an individual way.

*Perception* is the process by which people select, organize, and interpret information to form a meaningful picture of the world. People can form different perceptions of the same stimulus because of *three perceptual processes*:

* *Selective attention,*
* *Selective distortion, and*
* *Selective retention.*

People are exposed to about 5,000 advertisings every day. It is impossible for a person to pay attention to all these stimuli.

***Selective attention***is the tendency for people to screen out most of the information to which they are

exposed. It means that marketers have to work especially hard to attract the consumer’s attention. Even noticed stimuli do not always come across in the intended way. Each person fits incoming information into an existing mind-set.

***Selective distortion***describes the tendency of people to interpret information in a way that will support what they already believe. It means that marketers must try to understand the mind-sets of consumers and how these will affect interpretations of advertising and sales information. For example, if you distrust a company, you might perceive even honest ads from the company as questionable.

People also will forget much that they learn. They tend to retain information that supports their attitudes and beliefs.

***Selective retention*** describes the tendency that consumers are likely to remember good points made about a brand they favor and to forget good points made about competing brands.

Because of selective exposure, distortion, and retention, marketers have to work hard to get their messages through.

**iii. Learning:** When people act, they learn. *Learning* describes changes in an individual’s behavior arising from experience. Learning theorists say that most human behavior is learned. Learning occurs through the interplay of *drives, stimuli, cues, responses, and reinforcement.*

The practical significance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement.

**iv. Beliefs and Attitudes:** Through doing and learning, people acquire beliefs and attitudes. These, in turn, influence their buying behavior.

*Belief(s)* is a descriptive *thought (thinking) that a person has about something*. It may be based on real knowledge, opinion, or faith, and may or may not carry an emotional charge. Marketers are interested in the beliefs that people formulate about specific products and services, because the beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them. People have attitudes regarding religion, politics, cloths, music, food, and almost everything else.

*Attitude* describes a person’s relatively consistent/ consistently favorable or unfavorable *evaluations,*

*feelings, and tendencies toward an object or idea.* It put people into a frame of mind of liking or disliking things, of moving toward or away from them.

Attitude is difficult to change. A person’s attitudes fit into a pattern, and to change one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitudes rather than attempt to change attitudes.

**Types Buying Behaviors**

Based on the degree of buyer involvement and the degree of differences among brands, we can distinguish four types of consumer buying behavior. They are:

* **Complex buying behavior:** Consumers engage in complex buying behavior when they purchase complex and expensive products in order to learn significant differences among brands. This is the case when the product is expensive, bought infrequently, risky, and highly self-expressive. Complex buying behavior involves a three-step process, namely:
* The buyer develops beliefs about the product
* The buyer develops attitude about the product
* The buyer makes a thoughtful purchase choice.

The marketer of a high involvement product must understand high-involvement consumers’ information gathering and evaluation behavior. Then the marketer needs to develop strategies that assist the buyer about the product’s attributes and the relative importance of the company’s brands. The marketer needs to differentiate the brand’s features, use print media to describe the brand’s benefits, and motivate store sales personnel and the buyer’s acquaintances to influence the final brand choice.

* **Dissonance-reducing buyer behavior:** Sometimes the consumer is highly involved in a purchase but sees little difference in the brands. The high involvement is based on the fact that the purchase is expensive, infrequent, and risky. In this case, the buyer will shop around to learn that what is available but will buy fairly quickly, perhaps responding primarily to a good price or purchase convenience. After purchase, the consumer might experience post-purchase dissonance that stems from noticing certain disquieting features of the product, hearing favorable things about other product of same category. Here the marketer should furnish sufficient information to consumers before they made purchase decision and be involved in purchase of certain product in order to eliminate or minimize post-purchase dissonance/dissatisfaction in the purchased product.
* **Habitual Buying Behavior:** When the product is of low cost, frequently purchased, less risky and when there is no significant brand differences, the involvement of consumers will be low. They will go to the store and reach for the brand without making hard effort. If they keep reaching for the same brand, there will not be a strong brand loyalty. In this case, consumers do not search extensively for information about brands, evaluate their characteristics, and make a weighty decision on which brand to buy. Instead, they are passive recipients of information as they watch TV or see print ads. Ad repetition creates brand familiarity rather than brand conviction. Consumers do not form a strong attitude toward a brand; rather, they select it because it is familiar. After purchase, they may not even evaluate the choice because they are not highly involved with the product. Marketers of low-involvement products with few brand differences find it effective to use price and sales promotion to stimulate product trial, since buyers are not committed to any brand.
* **Variety-seeking Buying Behavior:** Some buying situations are characterized by low-consumer involvement but significant brand differences. In this case, consumers often do a lot of brand switching. Here consumers have some beliefs about the product. Chooses a product without much evaluation, and evaluate the product during consumption. But next time, the consumer may reach for another brand out of boredom or a wish for a different taste. Brand switching occurs for the sake of variety rather than dissatisfaction.

**The Buying Decision Process of Consumers**

The buying decision process is a problem solving approach consisting of five stages. But consumers do not always pass through all five stages.

**Stage 1: Recognition of Unsatisfied Need**

The buying process stars when the buyers recognize a problem or need. The need can be aroused internally (hunger, thirst) or externally (TV advertisement or sight of the product). Marketers need to identify the circumstances that trigger a particular need.

**Stage 2: Identification of Alternatives**

Once a need has been recognized, both product and brand alternatives must be identified. Different products amount satisfy a certain need. For example, a person may choose between red wine, Beer, Whiskey, draft or Champagne to have a drink. If he/she chose a beer, he/she still has to choose among several brands such as St.George, Habesha, Dashen or Meta.

**Preconditions to the search for alternatives:**

***a. Resource, time, priority, approval by family and reference group***

***b. The information the customer has acquired***

**Major information sources:**

* **Personal :-** (family, friends, neighbours, acquaintances) they perform a legitimizing or evaluation function.
* **Commercial :-** (advertising, web-sites, salesperson, dealers, packaging displays) normally perform an information function. The consumer receives the most information about the product from commercial sources.
* **Public:** - (mass media, consumer-rating organization) they are independent authorities.
* **Experiential: -** handling, examining, using the product.

The most effective information often comes from personal sources or public sources. Each source performs a different function in influencing the buying decision.

***c. The amount of the perceived risk***

A consumer’s purchase decision is heavily influenced by perceived risks. Some risks include:

* **Functional risk:** the product does not perform up to expectations
* **Physical risk:** the product threats the physical well- being of the consumer.
* **Financial risk:** the products are not worth the price paid.
* **Social risk:** the product embarrasses the consumer.
* **Psychological risk:** the product affects the mental well- being of the consumer.
* **Time risk:** a failed product alternative results in an opportunity cost of finding another alternative

**Stage 3: Evaluation of Alternatives**

After reasonable alternatives have been identified, the consumer has to evaluate each alternative with respect to certain attributes such as shape, color, effectiveness, comfort, cost, size, operation system, etc. Consumers vary in the importance they attach to each product attributes.

**Stage 4: Purchase Decision**

Once the alternatives are evaluated, the consumer form preferences among the alternatives and an intention to buy the most preferred brand alternative. In making a purchase decision, the consumer decides about; brand (what), dealer (from whom), quantity (how much), timing (when) and payment method (how). However, there are two general factors that can intervene between the purchase intension and purchase decisions.

1. **The first factor** is the attitudes of others. The extent to which another person’s attitude reduces one’s preferred alternative.
2. **The second factor** is unanticipated situational factor that may erupt to change the purchase intention. If somebody loses his job accidentally, all purchase intentions may be avoided or dropped. A consumer’s purchase decision will be modified, postponed, or avoided if there is serious perceived risk.

**Stage 5: Post-Purchase Behaviour**

After purchasing the product, the consumer will experience some level of satisfaction or dissatisfaction. If the consumer is satisfied, he will show a higher probability of purchasing the product again. And he will also tend to say good things about the brand to others. Dissatisfied customers may abandon or return the product, may complain to the company, a lawyer or other group, and warn others not to buy the product. The marketer’s job therefore does not end with the purchase. Marketers must monitor post-purchase behaviour of consumers.

**Business (Organizational) Buying Behavior**

Business/industrial market is the collection of buyers who are buying products and services for resale purpose, or for using it in day to day operation or to use it to make another product.

The business market consists of all the organizations, that buy goods and services for further use in the production and supply of other goods and services that are sold to others. Also called Business to Business markets, or B2B markets, the product and service offering is bought by one business organization and further processed/transformed/assembled for further sale either to another business consumer or a personal consumer.

**Model of Industrial Buying**

According to Kotler and Armstrong, the basic model of business consumer decision making process comprises three major components, viz., the environment (these act as influences), the buying organization (these are related to the buying center, the decision process and the influences) and the buyer responses (this is the response part) as described in the following diagram.

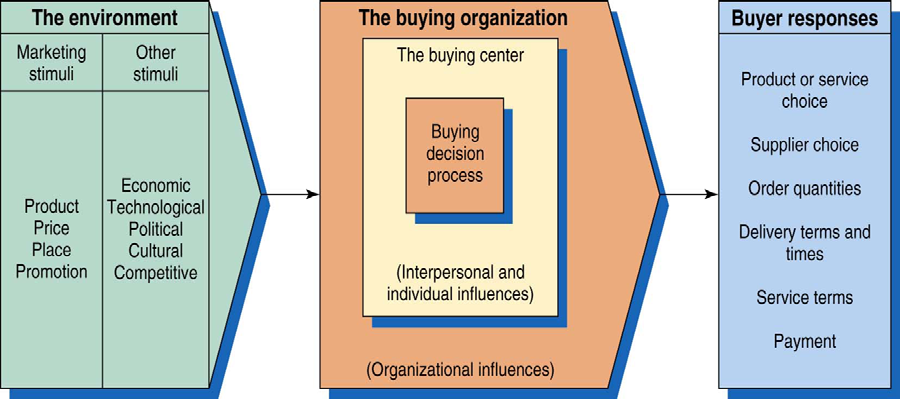


Figure 2: Model of Business Buyer Behavior

The components/processes as well as the working dynamics are explained as follows:

**1.** **The Environment:** The environment surrounding the business organization comprises the marketing stimuli in terms of the marketing mix or the 4Ps, product, price, place and promotion; it also comprises the other stimuli in terms of economic, technological, political, cultural and competitive environment. The environment acts as a stimulus to act; it provides strengths and opportunities and also helps identify weaknesses and threats.

**2.** **The Buying Organization:** The buying organization comprises the buying center which goes through

the entire buying process. The buying center is the decision making unit of the buying organization; it is a

formally defined unit and comprises people from various departments and functional areas; the various members of the unit, vary in personal background, interest and preferences as also their buying motives, habits and orientations. Membership, power balance and dynamics vary for different products and buying situations. In case of a new-task, when the product/service is being purchased for the first time, the engineering and the R&D personnel have a major role to play and act powerful; In cases of the straight-rebuy (routine purchases; repeat orders) and modified- rebuy situations (where product specifications are modified), purchase department acts powerful.

3. **Buyer responses:** While in the black box, the buyer also takes a decision with respect to the product/service choice, supplier choice, order quantity, delivery terms and times, service terms and payment.

**Differences of business markets and consumer markets**

**Activity**

What are the differences of business markets and consumer markets in terms of the nature of purchases, nature of the market and global perspectives?

**Factors influencing organizational buying Decision**

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favor the supplier who offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. However, business buyers actually respond to both economic and personal factors. Far from being cold, calculating, and impersonal, business buyers are human and social as well. They react to both reason and emotion.

Today, most business-to-business marketers recognize that emotion plays an important role in business buying decisions. When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organizational goals with any supplier, buyers can allow personal factors to play a larger role in their decisions. However, when competing products differ greatly, business buyers are more accountable for their choice and tend to pay more attention to economic factors.

1. **Environmental Factors**

Business buyers are influenced heavily by factors in the current and expected economic environment, such as the level of primary demand, the economic outlook, and the cost of money. As economic uncertainty rises, business buyers cut back on new investments and attempt to reduce their inventories.

An increasingly important environmental factor is shortages in key materials. Many companies now are more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers also are affected by technological, political, and competitive developments in the environment. Culture and customs can strongly influence business buyer reactions to the marketer’s behavior and strategies, especially in the international marketing environment. The business marketer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

1. **Organizational Factors**

Each buying organization has its own objectives, policies, procedures, structure, and systems, and the business marketer must understand these factors well. Questions such as these arise: How many people are involved in the buying decision? Who are they? What are their evaluative criteria? What are the company’s policies and limits on its buyers?

1. **Interpersonal Factors**

The buying center usually includes many participants who influence each other, so interpersonal factors also influence the business buying process. However, it is often difficult to assess such interpersonal factors and group dynamics. Managers do not wear labels that identify them as important or unimportant buying center participants, and powerful influencers are often buried behind the scenes. Nor does the highest-ranking buying center participant always have the most influence. Participants may influence the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

1. **Individual Factors**

Each participant in the business buying-decision process brings in personal motives, perceptions, and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

**Organizational Buying Situations**

There are three major types of buying situations. At one extreme is the straight re-buy, which is a fairly routine decision. At the other extreme is the new task, which may call for thorough research. In the middle is the modified re-buy, which requires some research.

In a **straight re-buy**, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based past buying satisfaction, the buyer simply chooses from the various suppliers on its list. "In" suppliers try to maintain product and service quality.

In a **modified re-buy,** the buyer wants to modify product specifications, prices, terms, or suppliers. The modified re-buy usually involves more decision participants than does the straight re-buy. The in suppliers may become nervous and feel pressured to put their best foot forward to protect an account. ‘Out’ suppliers may see the modified re-buy situation as an opportunity to make a better offer and gain new business.

A company buying a product or service for the first time faces a **new-task** situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater their efforts to collect information will be. The new -task situation is the marketer’s greatest opportunity and challenge. The marketer not only tires to reach as many key buying influences as possible but also provides help and information.

The buyer makes the fewest decisions in the straight re-buy and the most in the new-task decision. In the new-task situation, the buyer must decide on product specifications, suppliers, price limits, payment terms, order quantities, delivery times, and service terms. The order of this decision varies with each

situation, and different decision participants influence each choice.

**Decision Making Process in Organizational Buying**

The following figure lists eight stages of the business buying process. Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight re-buys may skip some of the stages. We will examine these steps for the typical new-task buying situation.

Problem recognition

General need description

Product Specification

Supplier search

Proposal solicitation

Supplier selection

Order-routine specification

Performance review

**Fig., 3. Decision process in organizational buying**

**1st. Problems Recognition:** The buying process beings when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. Problem recognition can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier’s product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price. In fact, in their advertising, business marketers often alert customers to potential problems and then show how their products provide solutions.

**2nd. General Need Description:** Having recognized a need, the buyer next prepares a **general need description** that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may have to work with others – engineers, users, consultants – to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

**3rd. Product Specification:** The buying organization next develops the item’s technical **product specifications**, often with the help of a value analysis engineering team. **Value analysis** is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight re-buy situations into new-task situations that give them a chance to obtain new business.

**4th. Supplier Search:** The buyer now conducts a supplier search to find the best vendors. The buyers can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search, or phoning other companies for recommendations. Today, more and more companies are turning to the internet to find suppliers. For marketers, this has leveled the playing field – the Internet gives smaller suppliers many of the same advantages as larger competitors.

The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier’s task is to get listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

**5th. Proposal Solicitation:** In the **proposal solicitation** stages of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will spend only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer’s company stand out from the competition.

**6th. Supplier Selection:** The members of the buying center now review the proposals and select a supplier or suppliers. During **supplier selection**, the buying center often will draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer; quality products and services, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. Other important factors include repair and servicing capabilities, technical aid and advice, geographic location, performance history, and reputation. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. In the end, they may select a single supplier or a few suppliers. Many buyers prefer multiple sources of supplies to avoid being totally dependent on one supplier and to allow comparisons of prices and performance of several suppliers over time. Today’s supplier developments managers want to develop a full network of supplier partners that can help the company bring more value to its customers

**7th. Order-Routine Specification:** The buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies, and warranties. In the case of maintenance, repair, and operating items, buyers may use blanket contracts rather than periodic purchase orders.

**8th. Performance Review:** In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The **performance review** may lead the buyer to continue, modify, or drop the arrangement. The seller’s job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

We have described the stages that typically would occur in a new-task buying situation. The eight-stage model provides a simple view of the business buying-decision process. The actual process is usually much more complex. In the modified re-buy or straight re-buy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way, and each buying situation has unique requirements.

Different buying center participants may be involved at different stages of the process. Although certain buying-process steps usually do occur, buyers do not always follow them in the same order, and they may add other steps. Often, buyers will repeat certain stages of the process. Finally, a customer relationship might involve many different types of purchases ongoing at a given time, all in different stages of the buying process. The seller must manage the total customer relationship, not just individual purchases.

**Participants in the business buying process**

Many organizations rely on purchasing managers- buying specialists – to ensure that purchases are handled properly. However, other people can take part in the purchasing process. The buying center is composed of all individual and groups who participate in the purchasing-decision-making process. Some of the participants in the purchasing process include the production manager and staff, new product committee, company laboratory, marketing department and the department for marketing development.

**Members of the buying center may play any of the following roles:**

* **Initiators** :- those who suggest that something be purchased
* **Users**: - those who will use the product or service.
* **Influencers**:- especially technical personnel, who provide specifications and information for evaluating alternatives
* **Deciders**: - people who decide on product requirements or on supplier.
* **Approvers**: - authorize the proposed purchase.
* **Buyers**: - are responsible for selecting vendors and negotiating.
* **Gatekeepers:** - group members who regulate the flow of information. Frequently, the purchasing agent views the gatekeeping role as a source of his or her power. A secretary may also act as a gatekeeper by determining which vendors get an appointment with a buyer.

Several individuals can occupy a given role and an individual may occupy multiple roles. The typical buying center has a minimum of five to six members and often has many.

**Institutional and Government Markets**

Our discussion has concentrated largely on the buying behavior of profit-seeking companies. Much of what we have said also applies to the buying practices of institutional and government organizations. However, we want to highlight certain special features of these markets.

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care. Many of these organizations are characterized by low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The buying objective here is not profit, because the food is provided as part of the total service package; nor is cost minimization the sole objective, because poor food will cause patients to complain and hurt the hospital’s reputation. The hospital purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate sales division to cater to institutional buyers’ special needs and characteristics.

**Government market:** In most countries, government organizations are a major buyer of goods and services. They typically require suppliers to submit bids and often award the contract to the lowest bidder. In some cases, they will make allowance for superior quality or a reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in complex projects with major R&D costs and risks and those where there is little competition.

Government decision makers often think vendors have not done their homework. Different  
types of agencies—defense, civilian, intelligence—have different needs, priorities, purchasing  
styles, and time frames. In addition, vendors do not pay enough attention to cost justification, a  
major activity for government procurement professionals. Companies hoping to be government  
contractors need to help government agencies see the bottom-line impact of products. Demonstrating useful experience and successful past performance through case studies, especially with other government organizations, can be influential.

Just as companies provide government agencies with guidelines about how best to purchase and  
use their products, governments provide would-be suppliers with detailed guidelines describing  
how to sell to the government. Failure to follow the guidelines or to fill out forms and contracts  
correctly can create a legal nightmare.

Fortunately for businesses of all sizes, the federal government has been trying to simplify the  
contracting procedure and make bidding more attractive. Reforms place more emphasis on buying off-the-shelf items instead of items built to the government’s specs, communicating with  
vendors online to eliminate the massive paperwork, and giving vendors who lose a bid a “debriefing” from the appropriate government agency to increase their chances of winning the next time around.

More purchasing is being done online via Web-based forms, digital signatures, and electronic procurement cards (P-cards). Several federal agencies that act as purchasing agents for the rest of the government have launched Web-based catalogs that allow authorized defense and civilian agencies to buy everything from medical and office supplies to clothing online. In spite of these reforms, for a number of reasons many companies that sell to the government have not used a marketing orientation. Some, though, have pursued government business by establishing separate government marketing departments.

**THE END!**