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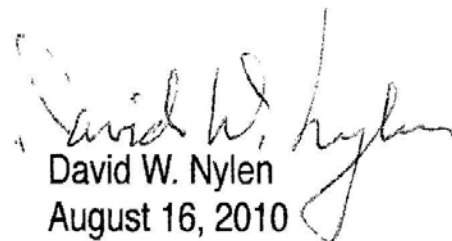
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David W. Nylen
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A.13 Organizational Buying Process

CHARACTERISTICS OF ORGANIZATIONAL BUYING

Organizational buying is a decision-making process carried out in the context of a formal organization. The organizational context is frequently that of the industrial firm because the industrial buying process has received the most study. Although the organizational buying process will vary somewhat by type of organization, it is applicable to a variety of organizations including governmental, non-profit, farm, and industrial.

Comparison to the Consumer Decision-Making Process. Is organizational buying sufficiently different from consumer buying to necessitate a separate buying process concept? The answer is that there are both similarities and differences between the two.¹ Because of the similarities, the **consumer decision-making process** presented in GLOSSARY entry A.2 can be helpful in understanding organizational buying, and most other

marketing decision-making concepts can also be applied in marketing to organizations. On the other hand, the differences between consumer and organizational buying decisions have encouraged development of separate organizational buying models to help marketers better understand organizational decision making.

What are the differences and the similarities between consumer and organizational buying behavior?

- *Marketing Characteristics.* Organizational markets tend to be different than consumer goods markets. This affects both buyer and seller behavior. Organizational markets tend to be concentrated; only a few firms may account for most of the sales potential in a product class, and the firms are often concentrated geographically as well. Consumer markets, by contrast, usually consist of millions of target consumers and tend to be geographically dispersed. Because organizational markets are concentrated, the average unit sale tends to be much larger than in consumer markets. Furthermore, the concentration of organizational markets means that target markets are smaller (sometimes a single firm will be a target market) and the marketing mix, particularly distribution and promotion, will be far more focused. Personal selling tends to be highly

¹The argument is well summarized in Edward F. Fern and James R. Brown, "The Industrial/Consumer Marketing Dichotomy: A Case of Insufficient Justification," *Journal of Marketing* 48 (Spring 1984), pp. 68-77.

important and affordable in organizational markets.

Organizational markets, unlike most consumer markets, are frequently subject to **derived demand**. This means that the demand for raw materials or component parts (like computer disk drives) is created by the sale of the finished product (computer systems). Therefore, demand for the component will fluctuate with sales of the finished product and will not be controllable by the raw material or component marketer. Industry demand will tend to be inelastic and cyclical.

- *Product Characteristics.* Products sold to organizations tend to be more technical and more complex than consumer products. The products are often not standardized and their design must be tailored to fit with other products. Because of their complexity, many products sold to organizations require service after the sale and more personal contact between buyer and seller. It also accounts for the tendency of sales negotiations to be complex and lengthy. Prices of products sold to organizations are likely to be subject to negotiation, although this is true of some consumer durables, such as automobiles, furniture, and homes.
- *Group Processes.* Although much consumer buying takes place in a family context, organizational buying is thought to be even more subject to group processes. In organizational buying, the persons who interact in the purchase decision are called the buying center.² As in the case of consumer decision making in the family, members of the organization's buying center play different roles in the decision. There are users (those who will use the product), influencers (those who provide information, opinion, or purchase criteria), buyers (frequently the purchasing agent), and decision makers (those who make the final selection). One other role that is distinctive in organizational buying is that of the **gatekeeper**, a person who controls the flow of information into the organization. Group purchasing processes are more likely for a first time purchase, for large purchases, and for complex purchases. The presence of group processes makes the selling process more com-

plex and requires an understanding of the different motives of the participants and an effort to reach them with information.

- *Buyer Motives.* It was once thought that organizational buyer behavior was highly rational in contrast to the emotional purchase behavior of consumers. However, that view has been largely refuted and today it is believed that both organizational buyers and consumers are motivated by a combination of utilitarian, social, and psychological needs. While organizational buyers are motivated to get the best price and the best product fit, they also seek to gain personal esteem from appearing to do a good job and they seek to build personal acceptance with suppliers and with others in the buying center. The presence of a wide variety of motives complicates the task of marketing to organizational buyers.
- *Buying Process.* Both organizational and consumer buyers are thought to go through a decision-making process in selecting products. Both decision-making processes are influenced by a number of internal and external variables, although the specific variables differ between the two processes. Organizational decision making is influenced by organizational constraints and objectives. As a result the organizational procedure tends to be more formalized than in the family. As a result of organizational procedures information may be channeled toward certain members and away from others. There also seems to be less word-of-mouth influence in organizational buying.³ As a result of the technical complexity of products and the multiple buying influences, much organizational buying is based on detailed product specifications developed by the buyer. The organizational buying process outlined below takes these differences into account.

The Buyclasses. The situations that lead to organizational buying decisions can be divided into three classes that are termed buyclasses.⁴ They are summarized in Figure A.13-1.

²Frederick E. Webster, Jr., "Informal Communications in Industrial Markets," *Journal of Marketing* 7 (May 1970), pp. 186-89.

³This description is based on Patrick J. Robinson, Charles W. Faris, and Yoram Wind, *Industrial Buying and Creative Marketing* (Boston: Allyn & Bacon, 1967), pp. 22-38.

²Frederick E. Webster, Jr., and Yoram Wind, *Organizational Buying Behavior* (Englewood Cliffs, N.J.: Prentice Hall, 1972), pp. 77-80.

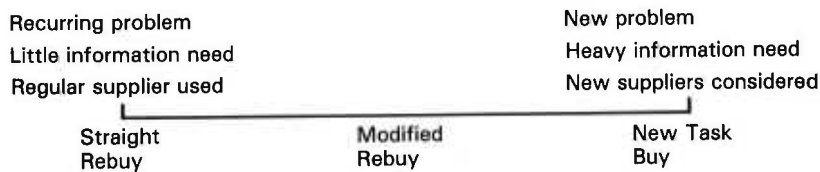


FIGURE A.13-1

Characteristics of the Buyclasses

- **New Task Buying.** As the new task buying situation seeks to solve a new problem, there is little experience to draw upon. There is a need for extensive information gathering to explore alternative solutions. Many alternatives would be considered. Although new task buying occurs infrequently, it is important to the marketer because the decision reached here may set the pattern for future purchases.
- **Straight Rebuy.** With frequently recurring problems, the buyer's tendency is to make the purchase based on past experience, going back to vendors used in the past. Little or no new information is gathered and new solutions are not considered. The vast majority of organizational purchases falls under the straight rebuy category. For the firm that is a regular supplier, straight rebuys require little marketing effort except to provide reliable service. For a nonsupplier, breaking into the purchase routine in a straight rebuy is difficult unless the buyer becomes disenchanted with current suppliers and considers new alternatives.
- **Modified Rebuy.** The intermediate buying situation is modified rebuy. Here the buyer, although experienced in the situation, will acquire some new information and is willing to consider new alternatives and new suppliers. Modified rebuys may occur after the initial experience of a new task buy or they may occur from straight rebuy situations if the firm's needs change somewhat or if the prior purchase experience was unsatisfactory. Nonsuppliers attempt to convert straight rebuy situations into modified rebuys in order to gain consideration as regular suppliers.

The Organizational Purchase Process. As in consumer buying behavior, organizational buyers go through a decision-making process in selecting a supplier and a product. There have been various formulations of the steps in the organizational decision process. Robinson, Faris, and Wind, who established the buyclasses discussed above, suggested eight decision stages, listed in Figure A.13-2, which they called **buyphases**.⁵

- **Phase 1: Problem Recognition.** Problem recognition may be triggered internally, usually by the using department, perhaps by low inventory,

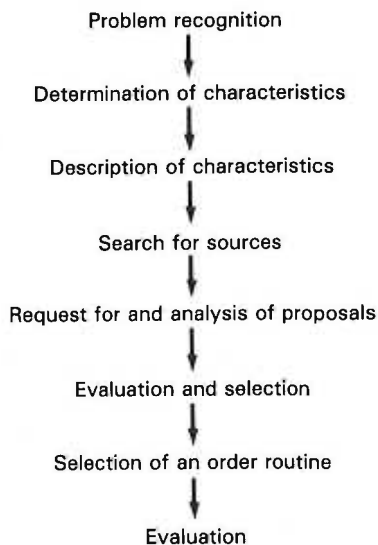


FIGURE A.13-2

Steps in the Organizational Decision Process

Understanding the customer's buyclass is important because the buyer's needs vary according to the buyclass. Knowing the buyclass allows the marketer to tailor the **marketing mix** to the buyer's needs.

⁵Ibid., pp. 13-18 and 183-194.

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breakdown of equipment, or a requirement derived from a new product. Alternatively, it may be triggered externally by a suggested new solution from a supplier.

- *Phase 2: Determination of Characteristics.* Here the using department defines the problem and defines the solution that is desired.
- *Phase 3: Description of Characteristics.* In this phase, the needed characteristics are written in more formal fashion so that they can be communicated to the buyer and to prospective suppliers. The formal need description is called a product specification and becomes the basis for buying action by the purchasing agent and for product proposals by suppliers.
- *Phase 4: Search for Sources.* With the need specified, the organization begins search for suppliers who can fill the need. Potential sources must then be qualified by screening them for such characteristics as reliability, ability to perform, and financial strength.
- *Phase 5: Request for and Analysis of Proposals.* The specifications are communicated to the qualified suppliers with a request that they respond with a proposal detailing how they would meet the organization's requirements. The response would include a price. The formality of this step varies widely by buyclass.
- *Phase 6: Evaluation and Selection.* The proposals received are evaluated to determine which one best meets the specifications, terms, and cost targets of the organization. This step may involve some negotiation between the parties.
- *Phase 7: Selection of an Order Routine.* Once the supplier is selected, the organization must follow its procedures for ordering. This usually means issuing a purchase order with the necessary approvals and forwarding it to the supplier to confirm the order. The same document may serve as a receiving, inspection, and inventory record.
- *Phase 8: Evaluation.* After purchase and use of the product, the performance of the supplier and the product are evaluated. This feedback is used in subsequent purchase decisions.

Although the sequence of activities in organizational buying usually proceeds as outlined, it is clear that the steps frequently overlap or take place concurrently. There is also variation depending upon the buying situation or buyclass. In straight rebuys, some of the steps are very brief or even omit-

ted, while in new task buying, the process is extended in time and conducted with greater formality.

Variables Influencing Organizational Buying Behavior. As in consumer behavior, organizational buying behavior is influenced by a variety of external and internal variables. Webster and Wind identify four classes of these influencing variables.⁶

- *Environmental Influences.* Organizational buying behavior is influenced by the full range of environmental forces considered in consumer buying behavior. Economic conditions influence the level of economic activity, technological developments influence the availability of products, culture influences the values of both buyers and sellers, and political forces determine the regulatory environment in which the organization operates. Environmental variables are factors that underlie the growth of markets.
- *Organizational Influences.* Organizational buying behavior is influenced by the organization itself. The organization establishes buying procedures and purchasing policies; it provides computers and other problem-solving technology; it establishes an organization structure with rewards and responsibilities, and within that structure, it designates the buying center and the roles that each of the people in it will play. Each of these factors influences the buying process, how it is implemented, and who carries it out.
- *Interpersonal Influences.* The members of the buying center were previously described as serving as users, influencers, buyers, deciders, and gatekeepers. These members interact as a social group influencing one another as they attempt to realize both personal and organizational goals. As in any social group, members look to the group for information, acceptance, and ego enhancement.
- *Individual Influence.* Although the individuals in the buying center are constrained and directed by the organization, the environment,

⁶See Frederick E. Webster, Jr., and Yoram Wind, "A General Model for Understanding Organizational Buying Behavior," *Journal of Marketing* 36 (April 1972), pp. 12-19, or Frederick E. Webster, Jr., and Yoram Wind, *Organizational Buying Behavior*.

and the social group, they are still influenced by their own motives and goals, their self-concept, their learned abilities, and, perhaps, their personalities. As they attempt to meet organizational or task goals, they try at the same time to meet personal needs and this, in turn, influences their buying behavior within the organization.

APPLICATION OF THE ORGANIZATIONAL BUYING PROCESS TO MARKETING DECISION MAKING

As suggested by the **marketing concept**, the marketing decision maker must understand the behavior of the organizational buyer so that marketing programs and marketing decisions can be made responsive to the needs of the buyer.

Information Needed about the Organizational Decision Maker. The description of organizational buying given above suggests four things that the marketer needs to know about the organizational buyer.⁷

- **Buying Center Identity.** The marketer needs to know who the participants are in the buying center and the role that each one plays in the decision-making process. Although difficult to determine, knowing the motives, both organizational and personal, of each participant is important.
- **Decision Process.** Although a general decision-making process has been proposed, practice varies by organization. It is important to know the process the target organization follows, its stage in the process, the information sources upon which they rely in decision making, and the organization's criteria for the selection of suppliers.
- **Buyclass.** It is important to establish in what buyclass the organizational decision is classified by the purchaser because the decision process and the purchaser's needs vary by buyclass. As a result, the supplier's marketing program and the supplier's access to the customer will vary by buyclass.

- **Influencing Variables.** Organizational needs and buying processes are influenced by environmental, organizational, interpersonal, and individual factors. Understanding these variables helps the marketer understand the customer's needs and how the customer will respond to the marketer's programs.

Marketing Decisions and Organizational Buying Behavior. Knowledge of the buying situation permits the marketer to adjust marketing programs to better meet customer needs. Marketing programs, for example, must change with the phase of the decision-making process and with the buyclass.⁸

- **Marketing by Buyphase.** During the problem recognition phase, the marketer should bring potential problems to the attention of prospective customers and make them aware of the supplier firm's capability to solve them. As the process moves toward description of the needed product, the supplier must offer technical information to the specifications writer (probably the user) and, where possible, participate in the writing of product specifications.

When the search for sources begins, the supplier must persuade the buyer that the firm is capable, reliable, and ready to propose. If a proposal is received, all efforts must focus on developing a proposal that meets the buyers needs. The supplier should maintain frequent contact and encourage negotiation as a means of gaining early feedback on the proposal. If the proposal is accepted, the marketer must carefully follow up to see that the terms of the purchase are fulfilled. Satisfactory performance can lead to the supplier's becoming a regular source.

- **Marketing by Buyclass.** In new task buying, suppliers tend to have nearly equal access to the buyer. The marketing program should initially focus on discovering what need exists, then shift to delivering useful information to the buyer and developing a marketing program to meet the need.

In straight rebuys, the situation differs between the regular supplier and a nonsupplier. The regular supplier attempts to reliably deliver a full line of product to reinforce the rou-

⁷Suggested by Webster and Wind, *Organizational Buying Behavior*, p. 110.

⁸See Robinson, Faris, and Wind, *Industrial Buying*, pp. 183-210.

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tine rebuy. The nonsupplier attempts to convert the situation to a modified rebuy situation so that the firm might be reconsidered as a supplier. This might be accomplished with new or improved products or helpful information on a problem. However, access to the buyer is difficult for the nonsupplier. The modified rebuy situation is dangerous for the regular supplier who must attempt to demonstrate that the purchase should again be considered routine. The nonsupplier uses the modified rebuy situation to introduce the firm as a potential supplier. In this situation, the purchaser is more accessible and more open to information. The supplier firm should take advantage of this with strong promotional programs. A frequently used strategy to gain a foothold is to ask to be a second supplier; this enables the firm to demonstrate its

capability and affords the purchaser the security of a second source of supply.

SUGGESTIONS FOR FURTHER READING

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