



**THE BUYING BEHAVIOR OF
ORGANIZATIONAL MARKETS**

CONTRASTING CHARACTERISTICS OF ORGANIZATIONAL AND CONSUMER MARKETS

Characteristics	Organizational Market	Consumer Market
1. Few buyers	Yes	No
2. Close supplier / customer relationship	Yes	No
3. Geographical concentration of market	Yes	No
4. Derived demand	Yes	No
5. Large buyers	Yes	No
6. Inelastic demand	Yes	No
7. Fluctuating demand	Yes	No
8. Professional purchasing	Yes	No
9. More buying influences	Yes	No

WHAT ARE ORGANIZATIONAL MARKETS?

- Organizational markets are those that buy goods for production purposes or for reselling.
 1. Industrial Markets;
 2. Reseller Markets;
 3. Government Markets; and
 4. Nonprofit Organizations.

INDUSTRIAL MARKETS

- Organizations that require goods and services for the purpose of producing goods or services.
- For example, textile firms that needs chemical for dyeing may be referred to as part of the industrial market for chemicals.

RESELLER MARKETS

- Reseller markets are organizations that buy goods and services which they later sell at a profit.
- For example, wholesalers and retailers of drugs will qualify as the reseller market of drug manufacturing.

GOVERNMENT MARKETS

- Government agencies that buy products and services for use in the production of public goods and services.
- These include the national, regional, provincial, and municipal governments.
- Examples are the National Food Authority (NFA), state universities and colleges and the Armed Forces.

NONPROFIT ORGANIZATIONS

- These are nongovernmental organizations that serve their customers but do not have profits as organizational goal.
- Examples are the Girl Scout, Red Cross and the Knights of Columbus.

ORGANIZATIONAL MARKETS

Industrial Markets

Manufacturers

Farms, Fisheries,
Forestry, Mining
Operations,
Construction
Firms

Financial
Institutions

Other service
providers –
transport, firms,
utilities, hotels,
lawyers, doctors

Reseller Markets

Wholesaler

Retailers

Government Markets

National

Local

Nonprofit Organizations

National groups
like Boy Scouts,
Red Cross,
Knights of
Columbus

Local groups like
churches,
colleges,
museums

ORGANIZATIONAL BUYING AND ITS CHARACTERISTICS

1. Demand
2. Potential buyers
3. Buying objectives
4. Buying criteria
5. Size of order or purchase
6. Buyer – seller interaction
7. The buying center

DEMAND

- The demand for products and services as required by organizations are derived from the demand for consumer products and services.

POTENTIAL BUYERS

- Business firms that sell to individual consumers and families are confronted by thousands of potential buyers.
- Firms that sell to organizations have to deal with only few customers.

BUYING OBJECTIVES

- Organizations, buy for the purpose of making profits and this is done through increasing sales or reducing costs.
- For instance, resellers anticipate the needs of their customers, and they fill up their stockrooms with products for resale.

BUYING CRITERIA

1. Price;
2. Ability of the seller to meet the quality specifications required for the item;
3. Ability of the seller to meet required delivery schedules;
4. Technical capability of the seller;
5. Warranties and claim policies in the event of performance;
6. Past performance of the seller on previous contacts; and
7. Production facilities and capacity of the seller.

SIZE OF ORDER OR PURCHASE

- The organizations sets certain requirements concerning the size of the order.
- For instance, when orders are small, the purchase request of the unit head needing the goods will suffice.

BUYER – SELLER INTERACTION

- The complexity of organizational buying makes it necessary for buyer and seller interaction to be more time consuming.
- For instance, building contractor will take many months to negotiate a construction contract with the government.

THE BUYING CENTER

- It is a group consisting of several people from different departments who participate in the decision process of buying. The members share knowledge of information relevant to the purchase of a product or service

KINDS OF BUYING PROCESSES

1. New – task buying
2. Straight Rebuy
3. Modified Rebuy

NEW – TASK BUYING

- This happens when the organization has a new need and buyer wants a great deal of information.
- This process takes more time and it involves the following:
 - a. Setting product specifications;
 - b. Identifying sources of supply; and
 - c. Establishing an order routine for possible future purchases.

STRAIGHT REBUY

- This is a routine repeat purchase.

MODIFIED REBUY

- This process is undertaken when the items purchased remain the same, but the members of the buying center are not satisfied with the products quality, the price, or the service provided by the supplier.

ORGANIZATIONAL BUYING PROCESS

Time required	Much	Not so much	Little
Multiple influence	Much	Not so much	Little
Review of supplier	Much	Not so much	Little
Information needed	much	Not so much	Little

PARTICIPANTS IN ORGANIZATIONAL BUYING PROCESS

1. Users
2. Influences
3. Deciders
4. Approvers
5. Buyers
6. Gatekeepers

USERS

- They are the ones who will use the product or service that is subject of purchase.

INFLUENCERS

- They are the persons who influence the buying decision

DECIDERS

- They are the persons who make decisions on product requirements and suppliers.

APPROVERS

- They are the persons who authorize the purposed of actions of deciders or buyers.

BUYERS

- They are the persons who are authorized to select the supplier, and arrange the terms of purchase.

GATEKEEPERS

- They are the persons who have the power to prevent sellers or information from reaching members of the buying center.

PURCHASE DECISION-MAKING PROCESS IN ORGANIZATIONS

1. Recognition of a problem or Need;
2. Search for Information about Products and Suppliers;
3. Evaluation and Selection of Suppliers;
4. The Purchase; and
5. Performance Evaluation and Feedback.

RECOGNITION OF A PROBLEM OR NEED

1. Organizational purchasing is a result of product and operational needs.
2. An organization's need can be identified by different employees of the firm.
3. Progressive firms are engaged in requirements planning.
4. The firm needs to determine product specifications.

SEARCH FOR INFORMATION ABOUT PRODUCTS AND SUPPLIERS

1. A listing of products or services that will solve the problem.
2. Make or buy analysis.
 - a. It is more economical; and
 - b. The firm wants to minimize the risk of a single suppliers vulnerability to strike, or to avoid the possibility of future price increases, or poor services.
3. Information must be gathered about potential suppliers.

EVALUATION AND SELECTION OF SUPPLIERS

1. The quality of goods or services being considered for purchase;
2. The characteristics and needs of the buyer;
3. The suppliers ability to meet the quality standards.
4. The suppliers ability to meet delivery schedules;
5. The price; and
6. The technical capability of the supplier.

THE PURCHASE

- In support of the efficiency objective, organizations prefer to routinize their purchase.
- Blanket purchase order – an agreement where the supplier promises to resupply the buyer as needed on agreed price terms over a specified period of time.

Performance Evaluation and

PERFORMANCE EVALUATION AND FEEDBACK

- The following steps are undertaken:
 1. The buyer inspects the delivered products to determine whether it meets the required specifications;
 2. The user will determine if the purchased product performs according to expectations; and
 3. The buyer evaluates the suppliers performance on:
 - a. Promptness of delivery;
 - b. Product quality; and
 - c. After sales service.

What Influences

WHAT INFLUENCES ORGANIZATIONAL BUYERS?

- They are influenced by two general factors:
 1. Economic – such as price, product quality, and service.
 2. Personal – such as favors, attention, and risk avoidance.

- Specifically, influences on organizational buyers may be classified as follows:
 1. Environmental factors
 2. Organizational factors
 3. Interpersonal factors
 4. Individual factors

ENVIRONMENTAL FACTORS

- This is the economic situation, as well as developments in technology, politics and competition.

ORGANIZATIONAL FACTORS

- Organization are different in terms of policies, organizational structure, procedures, systems and past experiences.
- Factors like policies and procedures may still hinder progress in the buying process.

INTERPERSONAL FACTORS

- Members of the organization's buying center will have different interests, authority, and persuasiveness.
- It will be an advantage for the marketer to have an information about the different personalities that is involved in the purchasing process.

INDIVIDUAL FACTORS

- Each buying center has his own personal motivations, preferences, and perceptions.