

CHAPTER II

LITERATURE REVIEW

Organizational Markets and Organizational Buyer Behaviour

Organizations make up a vast market. In many instances industrial market is worth more than consumer markets. In many ways organizational markets differ from consumer markets. The main difference being the market structure and demand, the nature of the buying unit and the types of decision and the decision process.

In organizational buyer behaviour it is important to recognize the rational and objective factors in buying decision. A company making a purchase will evaluate on quality, performance, prices, operating costs and service. Although at times these may appear to be the only factors that drive the buying decision, many sellers have found out to their cost that they must also consider the more subtle human factors that affect the buying decision.

The involvement of many people in the purchase decision will also create a group decision making process that the selling company must consider in its sales planning.

Organizational markets can be segmented into the industrial market, the reseller market and the government market.

The industrial market consists of all the individuals and organizations acquiring goods and services that enter into the production of other products and services that are sold, rented or supplied to others. The industrial market is huge and the largest and most diverse of organizational market.

The reseller market consists of all individuals and organizations that acquire goods for the purpose of reselling or renting them to others at a profit. The reseller market consists of wholesalers and retailing firms and almost everything produced passes through some type of reselling.

The government market consists of federal, state and district units that purchase or rent goods and services for carrying out their functions. The Malaysian government is the largest single purchaser of health care products.

The organizational marketer usually deals with far fewer but far larger buyers than consumer marketer. Many organizational markets have inelastic demand, ie the total demand for many industrial products is not much affected by price changes especially in the short run. Hence demand for syringes and hypodermic needles of government hospitals in Malaysia remains at 27 million pieces syringes and 34 million needles although prices of syringes and needles to government hospitals are among the lowest in the world due to the tender system of purchasing.

Organizational markets are also characterized by having more "fluctuation demand". The demand for industrial goods and services tends to change faster than demand for consumer goods and services.

An organizational purchase will also involve buyers and more professional purchasing. Many people will be involved in the decision making process and frequently there will be buying committees consisting of technical experts and top management especially when purchasing major goods. Thus it is advisable for organizational marketers to have well trained sales personnel to deal with well trained buyers.

Organizational buyers normally face more complex buying decisions than final consumers. Thus organizational buyers may take longer to make their decisions and involve many

people ranging from top level management to end-users. A tender purchase decision process for the MOH purchase usually takes 3 - 6 months and involves medical specialists all over the country.

The organizational buying process tends to be more formalized than consumer buying process. There will be detailed product specifications, written purchase orders, supplier searches and formal approval. Finally, the buyer and seller will usually be much more dependent on each other, while consumer marketers are distanced from their customers. *Organizational marketers work closely with customers during all stages of the buying process and organizational buyers are often dependent on suppliers for after sales support.*

In the short run, sales usually go to suppliers who meet buyers immediate product and service needs. However, in the long run sales will be made by companies that build lasting relationship by meeting current needs and plan ahead to meet customers future needs.

Other characteristics of organizational markets will be direct purchasing. Organizational buyers often buy direct from producers rather than through middleman, especially for technically complex and capital expenditure items.

Reciprocity is another characteristic of organizational buyers who often select suppliers who also buy from them.

Industrial Buyer Behaviour

The industrial buyer needs to make a whole set of decision before making a purchase. The number of decisions depends on the type of buying decision.

Major Types Of Buying Situations

There are 3 major types of buying situations as proposed by Robinson, Farris and Wind, (1987). they are: straight rebuy, modified rebuy and new task. In a straight rebuy, the buyer reorders something without modifications. This is usually for maintenance and routine, usually handled by the purchasing department based on past buying experience. Often suppliers try to maintain product and service quality by proposing a contract or automatic reordering systems. "Out" suppliers try to offer something new or exploit dissatisfaction so that the buyer will consider them. "Out" suppliers will try to get in with samples or a small order and then enlarge purchase share over time.

In a modified rebuy, the buyer wants to modify product specifications, prices, terms or suppliers. The modified rebuy usually involves more decision participants. The "in" suppliers try to protect their account. The "out" suppliers see the modified rebuy as an opportunity to revise and make a better offer to gain new business.

For new task, it means a company is buying a product or service for the first time. The greater the cost and the perceived risk, the larger will be the number of decision participants and also the greater their information seeking. In a new task situation, the buyer usually obtain more information about alternative products and suppliers. The buyer will determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers before selecting the supplier.

The new task buying situation is infrequent but may lead to straight or modified rebuys.

The new task situation is a good opportunity and the marketer usually source to reach as

many key influences as possible with product information and other factors to influence buying decisions.

Participants In The Industrial Buying Process

The decision making unit (DMU) of a buying organisation is called the "buying center" and defined as: all those individuals and groups who participate in the purchasing decision making process, who share some common goods and the risks arising from the decision (Webster and Wind, 1972).

Webster and Wind (1972) had defined the buying center to include all members of the organization who play any five roles in the purchase decision process. The roles are: user, influencer, buyer, decider and gatekeeper.

Users: Members of the organization who will use the product or service. In many cases users initiate the buying proposal and help define the product specifications.

Influencers: are people who influence the buying decision. They often define product specifications and provide information for evaluating alternatives. Technical personnel are important influences.

Buyers: are people with formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In complex purchases buyers might include high level officers participating in the negotiations.

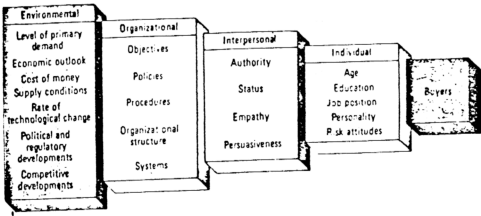
Deciders: are people who have formal or informal power to select the final supplier. Buyers are often deciders in routine buying.

Gatekeepers: are people who control the flow of information to others. Gatekeepers may be technical personnel, secretaries or purchasing agents.

The Major Influences On Industrial Buyers

Industrial buyers are subject to many influences when they make their buying decisions. It is common for marketers to ensure that the major influences are economic. That buyers favour suppliers who offer the lowest price, the best product or the most service and they concentrate on offering the best economic benefits to buyers. However there are industrial buyers who respond to personal factors especially when the offers are similar. In such situations, industrial buyers have little basis in their choice of supplier.

Figure 7.4 shows the major influences on industrial buying behaviour (Kotler, 1991).



There is a vast amount of research and knowledge about organizational - industrial buyer behaviour (Hillier 1972, Robinson and Faris 1967, Sheth 1973 Webster & Wind 1972).

In reviewing the literature, Sheth (1977) located more than a thousand references in the form of books, articles, commentaries and trade publications. Actually there are more journals specializing in industrial buying behaviour than in consumer behaviour.

Most of the research in organizational buying behaviour can be classified in one or more of the following areas:-

1. Types of buying decision
2. Evaluation of the buying task
3. Decision making process underlying buying process
4. Marketing communications and their influence on the decision making process
5. Impact of individual decision makers' characteristics on the decision making process
6. Impact of organizational characteristics on the decision making process
7. Impact of specific purchase situation characteristics on the decision making process

1)Types Of Buying Decisions

Two distinct categories of research can be found in the type of organizational buying decision. Some is focused on the ultimate choice or outcome of a decision while the second category emphasizes on steps involved in buying products or services either within a given decision or dynamic changes in the process that often occur in repetitive buying behaviour.

Behavioural Acts Or Ultimate Choices

- a) Product choices - includes factors such as size, type, design and product specifications (Parket 1971; Webster 1965; Wind & Cardozo 1974).
- b) Supplier choices - includes choosing between a middleman or a distributor and the manufacturer as well as choices among manufacturers in direct buying. (Edgar 1968; Kellog 1959).
- c) Buying from a sole source (Dillon 1968) and the related question of reciprocity relationships (Ammer 1962, Bird and Sheppard 1973; Moyer1970).
- d) The decision to buy or lease, (Charrin1969), the decision to make the product internally or buy it from out side sources (Gros 1966).

Many of these researches concentrated on the supplier choice and reciprocity relationships comparable to the emphasis on brand choice, brand loyalty and store patronage in consumer behaviour. A general assumption is that reciprocity is widely practiced among organizational buyers.

Process Decisions

Early researchers such as Faris, (1967), Wind and Robinson (1968) have identified fundamental decision process differences between new tasks, modified rebuy and straight rebuy. These three buying situations currently are widely referred to in most publications regarding industrial buying. (Kotler & Armstrong 1991).

2) Evaluation Of The Buying Situation

Probably the dissatisfaction of existing qualitative and subjective personal methods of evaluating the purchasing agents and the task they perform in the organisation have lead to research on quantitative analyzing techniques. The best known quantitative techniques applied is value analysis (Bullen 1963; Miles 1961). It refers to accounting and finance decision theory that relates procedures of quantifying the economic value of a purchase to the organization and equaling the price to be paid to this economic value.

Value analysis is a normative tool that attempts to quantify the decision outcome in monetary terms and provide a set of decision rules to improve the efficiency of the buying task. Two other techniques with the same basic objectives are cost reduction (Ammer 1959, Pooler 1966) and economic order quantity analysis (Alexander 1964; Collings 1966).

System analysis has also been identified as a very useful normative technique for evaluating the buying task. This includes PERT-CPM procedures (Rago 1968) and EDP systems (Lewis 1966).

3) Decision Making Process In Organizational Buying

How and why an organization makes the various choices in a purchasing decision have been widely researched. Much literature have concentrated on several common questions in order to understand better the purchasing function in an organization (Sheath 1973).

a) Is the organizational buyer rational or emotional in its decision process?

- b) Is the purchase function decided by an individual or by a committee?
- c) Is the decision making process different for innovation adoptions as opposed to existing alternatives?
- d) What is the extent of conflict in organizational buying and how is it resolved?
- e) What factors influences the organizational decision making process?

The decision making process has been classified into three categories: i) Economic ii) Organizational and iii) Behavioural (interpersonal & individual) approaches to the purchase decision making process (Kotler & Armstrong 1991).

Several approaches have been suggested within the economic view points of the organizational buying decision process.

One approach by Hirsch (1960) attempted to explore the feasibility of applying decision theory principles by taking a probabilistic view of the decision making process and quantifies the economic consequences of each supplier choice and the expected payoffs.

Another approach is to examine the financial ratios of the supplier organization as indicators of reliability, reputation and even quality of service that a selling company may provide to the buying organizations (Sloanee 1963). While financial ratios of supplier organizations may be useful in narrowing down the list of suppliers, it is unable to help purchasing agents to make choices with regard to quantity, delivery time and mixture of products to buy from a supplier.

A third approach is related to learning curves of organizations (Canova 1965, Smith 1965). It was postulated that organizations become more efficient with repetitive economic activity, therefore there are economics that are not just attributed to scale factors but to learning factors for a given scale of operation.

A fourth approach is marketing oriented whereby the product life cycle of the buying organization becomes the focal point for developing strategic purchasing plans (Berenson 1967). As the product grows in a product life cycle, it is postulated that organization requirements in terms of volume, variety and type of raw materials and maintenance items also change. However it is now possible to plan the future requirements of the organization because the product life cycle has its own characteristic pattern from one industry to another.

From the different view points discussed above, all these approaches have one commonality in that they tend to concentrate on the economic aspect of purchasing functions without contemplating the behavioural and organizational aspects inherent in many purchasing decisions.

Organizational View Points Of Decision Making

Some of the view points put forward to understand and explain how purchasing agents choose products and suppliers, include:

- 1) Fisher 1969, proposed the purchasing agents as rational economic men motivated by well defined and economic objectives of the organization and behave in a manner typical of the rational decision making process.
- 2) Darling 1962, utilizes time and motion study approach to define the worthiness of the purchasing function.
- 3) Sheth 1973, attempted to model the purchasing function in terms of an organizational decision making process with stages of identifying and operationalising the organizational

goals and objectives, searching for feasible alternatives of suppliers and products using rational decision rule which will optionally match the organization objectives.

The organizational decision making approach differs from the classical rational organizational in terms of legitimacy of goals. Whatever the organization objectives, whether rational or otherwise, economic or non-economic, the organizational decision making approach does not question its legitimacy but attempts to achieve its satisfaction by means of an efficient decision making process.

Another view point is the classification of purchasing decision into 3 categories:

- 1) Those requiring a consensus of all individuals in the organization.
- 2) Those in which a superior in the hierarchy has the power to veto or modify lower level decision
- 3) Those that entail a bargaining process of give and take among decision makers (Wind 1973). However if decision making is rest solely on one individual in the organization, this view point is not relevant. In reality most decisions in organizations are seldom autonomous except maybe top level decisions.

Generally, organizational view points tend to be more realistic than economic ones and have a greater non-economic and behavioural emphasis in thinking. The focal point in the organizational view point is the organization task as opposed to the individuals performing those tasks in the organization. Thus, it is more task oriented rather than individual.

Behavioural View Points Of Decision Making

The behavioural view point is a focus on individuals and small groups working in the organisation. The behavioural theory of the firms as proposed by Cyert and March (1963), consisted of four aspects of organizational decision making:

- 1) Conflict among decision makers and its partial resolution by satisficing (satisfying and sacrificing) and means end analysis.
- 2) Avoidance of uncertainty by establishing decision rules which minimize uncertainty.
- 3) Problematic search that is highly selective and narrow.
- 4) Organizational learning due to repetitive experiences.

Another behavioural approach to understanding organizational buying is the group dynamics approach (Sheth 1973, Webster 1965). This approach emphasized on the understanding of interaction process among small group of individuals working together in the same organization but probably having very different buying objectives and expectations about alternatives or suppliers.

One of the forms of the group dynamics approach is on the process of conflict resolution in the organization among various decision makers and assessment of specific tactics such as persuasion bargaining etc by which the conflict is resolved.

4) Influence Of Marketing Communication

Several studies attempted to measure the impact of a specific marketing communication effort such as direct mail, trade exhibitions, press releases or direct sales effort. There is very little scientific basis for reaching any general conclusion about the relationship

between marketing communication and the organizational buyers decision making process (Christian 1970, Khera & Benson 1970, Levett 1966, Lilian Et al 1976, McAllan 1974, Mormill 1970, Sheth 1977, Thompson 1966, Walgh 1961).

This is unfortunate and will be most frustrating to marketing managers because in essence, one of the most important reasons for studying organizational buyer behaviour is to provide insight into the direction and magnitude of impact of marketing communication efforts either as a single variable or as a marketing mix variables.

Although the impact of marketing communication effort has long been taken for granted among marketers, it is commonly accepted that some marketing communication activities such as trade exhibitions are not expected to have much impact and is conducted purely as a reciprocity action to support the organizers of the medical associations. It is also noted that marketing communication activities will create varying degrees of impact to the target group. However it will be most interesting to conduct a study of marketing communication activities impact.

However according to Sheth 1977, there are 2 areas of marketing communication where some cumulative body of knowledge is substantive enough to be discussed in more detail.

1) The buyer-seller interaction process at both the individual and organizational level . Capon, Holbrook & Hulbert 1975 attempted to measure the process of interaction in this aspect of organizational marketing.

Sheth (1975) suggested that that the ideal buyer-seller interaction which may result in buyer loyalty towards the seller and vice-versa is likely to arise only if both the content and style of communication are compatible or matching between the two parties.

Related research was conducted on the process of negotiation and bargaining between buyer and seller by Kennedy 1967 and Newman 1966.

2) The influence of word of mouth communication (Martillar 1971, Schittman & Graccone 1974, Webster 1970).

It has been found that word of mouth communication is extremely powerful and as prevalent among organizational buyers as among household consumers. Furthermore the industrial marketer exploits this channel of communication in the successful diffusion of new products more often than the consumer goods marketer.

5) Impact Of Individual Characteristic On The Decision Making Process

Research has been done on the individual differences among organizational buyers. The basic assumption is that certain characteristic of the individual decision makers can explain differences in both the content and style of the decision making process in organizational buying. Some of the research on individual characteristics in organizational buying can be categorized as follows:

- a) Demographic correlates, such as age, education, length of service and position in the organization (Khera & Benson 1970, Wind & Carnozo 1974). Homan (1958) proposed that the more similar the background of the 2 individuals, the greater the likelihood of continued interaction, affiliation and cohesiveness between them.
- b) Personality and life style profiles of the organisational buyers (Hahn & Vana 1973, Peter & Venkatesan 1975)
- c) Perceptual differences among buyers, with respect to a set of choice criteria (Berenson 1967, Etzel & Allen 1972)
- d) Research to determine if industrial buyers utilize primarily rational or emotional criteria in selecting suppliers (Branville & Doroff 1973, Boone & Stevens 1970).

Organisational buyers tend to utilise a substantial number of non-rational criteria in selecting products or services.

e) Application of perceived risk theory to organisational buying behaviour. The basic postulate of this theory is that buyers do not tend to maximise the expected payoff as postulated in normative decision theories, but are inclined to minimise the risk that they perceive a given buying situation entails.

Risk is defined as the combination of perceived magnitude of aversion consequences and the degree of uncertainty faced by the buyer (Brown 1971, Peters & Venkatesin 1973, Rootman 1966).

The risk aversion hypothesis seems to be true among organisational buyers, especially if the buying task is in the hands of a professional who has no ownership.

Some of the tactics organisational buyers tend to adopt in order to minimise the risk include relying on supplier reputation, developing strong source loyalty, searching for information, relying on credible sources such as personal friends and experts, greater deliberation, thinking and planning in high risk situations.

However over time with repetitive purchase decisions, it becomes a routinised activity.

Thus buyers' uncertainty can be reduced and perception of risk is minimised.

6) Impact Of Organisational Characteristics On Decision Making Process

Sheth (1973) has postulated, based on empirical findings that the organisational characteristics tend to be more significantly related to the determination of autonomous versus joint decision making powers in the organisation than to the decision making process itself. For example, the greater the size the greater the degree of formalisation which in turn

tends to result in fewer autonomous and more committee decisions. Similarly, in engineering related organisations, purchasing agents are often merely order takers with less autonomy.

7) Impact Of Purchasing Situations On The Decision making Process

Research has been done to isolate situationed influences on organisational buying behaviour. Four types of purchase situations seem to impart the buying making process of organisational buyers.

a) Type of purchase involved, there are substantial differences between purchase of capital expenditure goods such as machines, buildings, raw materials versus maintenance goods (Sheth 1973, Metaxas 1962).

b) Business climate with relation to business cycle. Decision to make or buy, to replace or repair, to buy new or second hand, are often influenced by the economic outlook and its impact on the liquidity of the buying organisation (Mathews 1962, Owens 1972).

c) Interpersonal relationships between specific individuals on the buying and selling sides. The purchase decision, usually by the purchasing department can be supported by top management in favour of a particular supplier because of interpersonal relationship (Wind & Webster 1972). This category includes phenomena such as bribery, patronage, sponsorship which are hidden but wide spread.

d) Legal, political considerations. In Malaysia, we have our "look east policies", "buy British Last policies" and Bumiputra tendering agents systems.

8) Structural Role Of Organisational Buying

Webster & Wind (1972) conceptualised the “buying centre” construct which includes all members of the organisation involved in any way with the buying process. The interaction between these individuals may not be prescribed by formal authority relationships. The buying centre concept is sometimes ambiguous because it is not clear operationally who should be included. It is useful in suggesting that buying be approached as a sub-system of the formal organisation (Calder 1977). In elaborating the buying centre construct, a functional role analysis has been put forward. Five roles have been identified by the purpose people who serve in the buying centre. The possibility exists that a person may perform 2 or more functions. The five functional roles are as follows:

- 1) Buyers, who have formal authority for contracting suppliers.
- 2) Influencers, who affect decisions by providing information and evaluating criteria.
- 3) Deciders, who choose among alternatives.
- 4) Users, who work with purchased products and services.
- 5) Gatekeepers, who control the flow of information to and from the buying centre.

These role descriptions refer to common patterns of behaviour and to how these behaviours contribute to the buying decision. Instead of focusing on individuals, the functional role analysis points to certain patterns of behaviour crucial to group functioning. Others less widely recognised are many lists of members roles conceived by Benne & Sheats (1948) such as:

- the initiator - contributor
- the information seeker
- the information giver

- the opinion seeker
- the opinion giver
- the elaborator
- etc.

This list can be endless. The point is that the value of functional role analysis is its descriptive power (Calder 1977).