

CHAPTER 2

LITERATURE REVIEW

The study covers identification of some of the features that could influence the manufacturing industry's buying centre in selecting the right products or services. This study is therefore, in the industrial marketing category, which is according to Webster (1984), is defined as "the marketing of goods and services to industrial customers and institutional customers".

Meanwhile a buying centre normally consists of individuals who gather information, deliberate on it and engage in conflict-resolving joint decision making (Webster, 1984).

According to Webster and Wind Model (1972), the buying centre consists of five buying roles: users, deciders, influencers, buyers and gatekeepers.

2.1 Introduction

The industrial buying decision process is a complex activity that involves many levels of management hierarchies in an organisation. Sometimes, the decision could be made by only one person who is at the interfacing level with the supplier, such as a clerk. However, there are decisions that need a large group of many management level participants, such as a decision team led by a senior executive in the company to decide on the purchase of certain products or services that require a relatively high investment of company's capital and may risk to company's business operations. These parts have been identified by Howard-Sheth (1969) for specifically a model for individual decision, and the Sheth model (1973) that is specifically concerned with joint decisions that involve two or more individuals (Webster, 1984).

2.2 Buying Decision Process

According to Webster (1984), buying is not an event. It is an organisational decision making process, the result of which is a contractual obligation. The buying decision process in the industries can be summarized into eight phases as follows:

- 1) Need recognition.
- 2) Definition of the characteristics and quantity of item needed.
- 3) Development of the specifications to guide the procurement.
- 4) Search for and qualification of potential sources.
- 5) Acquisition and analysis of proposals.
- 6) Evaluation of proposals and selection of suppliers.
- 7) Selection of an order routine.
- 8) Performance feedback and evaluation.

In this study, the focus is on the 6th phase; the evaluation of proposals and selection of suppliers. At this stage, the decision by the company to select the best supplier would probably be made by individuals or a group of staff responsible for the selection. As mentioned by Sheth in his model (1984), autonomous decision is delegated to a single individual for low risk decisions and higher risk decisions are made collectively by a team of staff.

In arriving at a good decision for the selection of suppliers, much will also depend on some features that may influence the individuals or the staff involved in the decision process.

2.3 Buying Process Models

Several researchers have also developed conceptual models of the buying decision process. This includes The Sheth Model (1973), which has a psychological emphasis, focusing on the mental states and decision processes of individual participants in the buying process. The key concepts

in this model are buyers' expectations, perceptions, role orientations, lifestyles and perceived risk. The Sheth Model is specifically concerned with joint decision-making involving two or more individuals. The Webster and Wind Model (1972), on other hand, is a more comprehensive model of the organisation's decision making process that considers four sets of variables – environmental, organizational, interpersonal (the buying centre), and individual.

Anderson and Chambers (1985), developed a model of buying centre participants' motivation and decision involvement. The model is called The Anderson and Chambers Reward/Measurement Model. In this model, the key role is played by the organizational performance measurement system, in which specific performance indices identify specific behaviours and outcomes that the organisation will attend to when evaluating performance.

2.4 Influential Features in the Buying Decision Process

2.4.1 The Price

Researchers have done a series of research on some of the features that could also influence the buying decision of the buying centre. These features include price. Corey (1983), described three procurement strategies, which might be thought of best as end and midpoints on a continuum, with particular emphasis placed on the role of price in the strategy. In the current economic situation, we need to reaffirm that this pricing strategy has become the most prominent in the business decision.

According to Webster (1984), prices could be obtained through three types of procurement situations such as cost-based, market-based and competitive bidding.

- ❖ Cost-based procurement is normally used for purchasing new equipment, construction, or, less frequently, services. It requires close working relationships with the suppliers or contractors in negotiating the deals.
- ❖ Market-based procurements are used for repetitive buying of raw materials, equipment, components and assemblies, where there are multiple suppliers and products available that are more or less substitutable and able to perform the required function. This would result in sufficient competition among suppliers to establish a narrow range of market prices for similar quality products.
- ❖ Competitive bidding is used when tight product and performance specifications can be developed and there is a stable base of qualified suppliers. Potential bidders are invited to submit their quotations based on the description provided, which includes specifications, required delivery date, quantities and terms of sale.

However, in this study we are analysing the impact of low prices regardless of these types of procurement situations. The prices of the products or services will have some influence on the buying decision of the buying centre.

2.4.2 Recommendations by End Users

In the process of buying the products or services, several mini decisions could have been made along the flow of decision process. These decisions could have been made probably as early as at the end user stage. Recommendations by end users of previous products or services used will provide feedback to the buying centre whether or not to proceed with the contractual commitment with the supplier.

Besides the product usage, end users will give some feedback on the positive response of the suppliers on product or service matters. These

include the responses on returned products for replacement or rework done without any cost effects. Positive responses provided by suppliers to the end users will definitely have some influence on members or individuals in the buying centre. The supplier who wants to remain in business should promote positive responses – that is, “seeking assistance from the vendor” (Hansen, Swan and Powers , 1996).

Schmittlein and Peterson (1994) developed a model that applies customer-based analysis where past purchasing behaviour of customers are observed to understand the current and likely future purchase patterns. The results indicate that customer-based analysis can be both effective in predicting purchase patterns and in generating insights into how key customer groups differ.

2.4.3 Buyers Loyalty

The buying centre may also obtain some information across the organisation as referrals. Past proven products or services supplied by the supplier will definitely increase the evaluation weightage point. A study conducted on consumer loyalty by Yim and Kanan (1999), proposes a model framework that distinguishes between hard-core loyalty and reinforcing loyalty. The hard-core loyal consumers are those who have been won over by the product alternative through the value it provides them. Reinforced loyal consumers are potential switchers that could buy more than one product alternative. Their study could also be applied to customers in the industry. Here, the word ‘consumer’ and ‘buyer’ are said to be synonymous, since both imply for the product usage by obtaining from suppliers via the buying decision process.

2.4.4 Transaction Value

The buying centre may also look into transaction values that are provided with the package or values on purchased product in terms of

discounts, promotions and offers, that provides the "best buy" alternative. A study by Lothia and Krapfel (1994), has indicated that there are some relationships between buyer and seller in the transaction specific investment (TSI), which includes the buyers who deal with more powerful sellers may perceive higher risk owing to the opportunism of the sellers.

From an economic point of view, the buyers will be interested in the type of dealings, such as price promotion, extra product promotion and a mix of these two promotions (Sinha and Smith, 2002).

2.4.5 Customer – Supplier Relationship

Another feature of the buying behaviour situation is the nature of relationship between the customer and the supplier (Webster, 1984) with time as an important dimension, from an extremely short-term to a very long-term orientation. There are three things to observe in the buying relationship continuum between the above terms. First, the movement is from complete reliance on market forces in pure transactions to achieve lower prices and minimize cost, to virtual absence of market forces in strategic alliances. Second, the buyer is incurring additional administrative costs and increased dependency in return for a set of benefits relating to quality, reliability and services. Third, the movement from pure "buys" toward the decision to "make" the product or service within the customer organisation. However, in this study the customer-supplier relationship will focus on features of the buyers' willingness to stay, provide referrals and recommend to other businesses. A study was also conducted by Boles, Barksdale and Johnson (1997) on the quality of this relationship.

2.4.6 Market Orientation

The market orientation could also have some influence on the decision of the buying centre, as indicated by Webb, Webster and Kreppa

(2000). Since market orientation is an organisational value provision system, influencing behavioural norms that shape the organisation's attributes and delivery behaviour, the considerable impact of market orientation on both service quality and customer satisfaction is logical.

Based on the above brief, there are highly possibilities that these features will influence the decision process of the individuals or a group of individuals in the buying centre.