



Business Markets and Business Buyer Behavior

Chapter 6



Learning Goals

1. Define the business market and how it differs from consumer markets
2. Identify the major factors that influence business buyer behavior
3. List and define the steps in the business buying decision process
4. Compare the institutional and government markets and explain how they make their buying decisions



Definition

- **Business Buyer Behavior:**
 - The buying behavior of organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.
 - Also included are retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit.
- **Business Buying Process:**
 - The decision process by which business buyers determine which products and services their organizations need to purchase, and then find, evaluate, and choose among alternative suppliers and brands.

MGT-604

Goal 1: Define the ² business market

Yiannos Rossides



Characteristics of Business Markets

- Sales in the business market far exceed sales in consumer markets.
- Business markets differ from consumer markets in many ways.
 - **Marketing structure and demand**
 - Business markets contain *fewer but larger buyers*
 - Business customers are *more geographically concentrated*
 - Business buyer demand is *derived* from final consumer demand
 - Demand in many business markets is *more inelastic* – not affected as much in the short run by price changes
 - Demand in business markets *fluctuates more, and more quickly*
 - **Nature of the buying unit**
 - Business purchases involve *more buyers*
 - Business buying involves a *more professional purchasing effort*
 - **Types of decisions and the decision process**
 - Business buyers usually face *more complex buying decisions*
 - The business buying process is *more formalized*
 - In business buying, buyers and sellers work more closely together and build close *long-run relationships*

MGT-604

Goal 1: Define the ³ business market

Yiannos Rossides



Business Markets

Characteristics

- **Marketing Structure and Demand**
- Nature of the Buying Unit
- Types of Decisions and the Decision Process

- Compared to consumer markets:

- Business markets
 - have fewer but larger customers
- Business customers
 - are more geographically concentrated
- Demand is different
 - *Demand is derived*: business demand that ultimately comes from (derives from) the demand for consumer goods.
 - Demand is price *inelastic*: total demand for many business products is not affected much by price changes, especially in the short run.
 - Demand *fluctuates more*: the demand for many business goods tends to change more-and more quickly-than the demand for consumer goods.

MGT-604

Goal 1: Define the business market

Yiannos Rossides



Business Markets

Characteristics

- Marketing Structure and Demand
- **Nature of the Buying Unit**
- Types of Decisions and the Decision Process

- Compared to consumer purchases:

- Involve more buyers in the decision process
- More professional purchasing effort

MGT-604

Goal 1: Define the business market

Yiannos Rossides



Business Markets

Characteristics

- Marketing Structure and Demand
- Nature of the Buying Unit
- ***Types of Decisions and the Decision Process***

- Compared to consumer purchases
 - More complex buying decisions
 - The buying process is more formalized
 - Buyers and sellers work more closely together and build long-term relationships
 - Nowadays, many customer companies are practicing **supplier development** which refers to the systematic development of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials that they will use in making their own products or resell to others.

MGT-604

Goal 1: Define the business market

Yiannos Rossides



Business Buyer Behavior

- There are three major types of Buying Situations
 - Straight rebuy
 - A business buying situation in which the buyer routinely reorders something without any modification.
 - Modified rebuy
 - A business buying situation in which the buyer wants to modify product specifications, prices, terms or suppliers (requires modification prior to purchase).
 - New task
 - A business buying situation in which the buyer purchases a product or service for the first time.
- Systems Selling: Many business buyers prefer to buy a packaged solution to a problem from a single seller. The sale often goes to the firm that provides the most complete system meeting the customer's needs. Thus, systems selling is often a key business marketing strategy for winning and holding accounts.
 - It refers to buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.
 - Often a key marketing strategy for businesses seeking to win and hold accounts.

MGT-604

Goal 1: Define the business market

Yiannos Rossides



Business Buyer Behavior

- Who does the buying of the trillions of dollars' worth of goods and services needed by business organizations?
- Buying Center
 - The decision-making unit of a buying organization
 - Includes all individuals and units that participate in the buying-decision making process.
 - Members of the buying center are:
 - Users: members of the buying organization who will actually use the purchased product or service.
 - Influencers: people in an organization's buying center who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives, i.e. technical personnel.
 - Buyers: the people who make an actual purchase.
 - Deciders: people in the organization's buying center who have formal or informal power to select or approve the final suppliers.
 - Gatekeepers: people in the organization's buying center who control the flow of information to others, i.e. purchasing agents.

MGT-604

Goal 1: Define the business market

Yiannos Rossides



Major Influences on Business Buyers

Business buyers are subject to many influences when they make their buying decisions:

Key Factors

- Environmental
- Organizational
- Interpersonal
- Individual

- *Economic trends*: level of demand, economic outlook, cost of money.
- *Supply conditions*: shortages in key materials.
- *Technological, political and competitive changes*
- *Culture and customs*: especially in the international marketing environment.

MGT-604

Goal 2: Identify the major factors that influence business buyer behavior

Yiannos Rossides



Major Influences on Business Buyers

Key Factors

- Environmental
 - **Organizational**
 - Interpersonal
 - Individual
- Objectives
 - Policies
 - Procedures
 - Organizational structure
 - Systems

MGT-604

10

Yiannos Rossides

Goal 2: Identify the major factors that influence business buyer behavior



Major Influences on Business Buyers

Key Factors

- Environmental
 - Organizational
 - **Interpersonal**
 - Individual
- The buying center usually includes many participants who influence each other, so interpersonal factors also influence the business buying process.
 - Authority
 - Status
 - Empathy
 - Persuasiveness

MGT-604

11

Yiannos Rossides

Goal 2: Identify the major factors that influence business buyer behavior



Major Influences on Business Buyers

Key Factors

- Environmental
- Organizational
- Interpersonal
- Individual

- 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 and income
 - Education
 - Job position
 - Personality
 - Risk attitudes
 - Buying styles

MGT-604

12

Yiannos Rossides

Goal 2: Identify the major factors that influence business buyer behavior



Stages in the Business Buying Process

- Stage 1: Problem Recognition
 - Someone in the company recognizes a problem or need that can be met by acquiring a good or a service.
- Stage 2: General Need Description
 - The company describes the general characteristics and quantity of a needed item.
- Stage 3: Product Specification
 - The buying organization decides on and specifies the best technical product characteristics for a needed item.
 - *Value analysis* is an approach to reduce costs in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production.
- Stage 4: Supplier Search
 - The buyer tries to find the best vendors.

MGT-604

13

Yiannos Rossides

Goal 3: List and define the steps in the business buying decision process



Stages in the Business Buying Process

- Stage 5: Proposal Solicitation
 - The buyer invites qualified suppliers to submit proposals.
- Stage 6: Supplier Selection
 - The buyer reviews proposals and selects a supplier or suppliers.
- Stage 7: Order-Routine Specification
 - The buyer writes the final order with the chosen supplier(s).
 - In the case of maintenance, repair, and operating items, buyers may use *blanket contracts* rather than periodic purchase orders. A ***blanket contract*** creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period.
- Stage 8: Performance Review
 - The buyer assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

MGT-604

14

Yiannos Rossides

Goal 3: List and define the steps in the business buying decision process



Business Buying on the Internet

- Online purchasing, often called *e-procurement* is growing rapidly
- Online auctions and online trading exchanges (e-marketplaces) account for much of the online purchasing activity
- E-procurement offers many benefits:
 - Access to new suppliers
 - Lower purchasing costs
 - Quicker order processing and delivery

MGT-604

15

Yiannos Rossides

Goal 3: List and define the steps in the business buying decision process



Institutional and Government Markets

- Institutional Markets
 - Consist of churches, schools, prisons, hospitals, nursing homes and other institutions that provide goods and services to people in their care.
 - Often characterized by low budgets and captive patrons.
 - Marketers may develop separate divisions and marketing mixes to service institutional markets.
- The government market consists of governmental units – federal, state, and local – that purchase or rent goods and services for carrying out the main functions of government.
 - More than 82,000 buying units in the U.S.
 - Require suppliers to submit bids and often give job to lowest bidder
 - Favor domestic suppliers
 - Much "red tape" can exist

❖ **REVIEW QUESTION:**

- List and briefly explain the stages in the business buying process .

MGT-604

16

Yiannos Rossides

Goal 4: Compare the institutional and government markets