

A stylized world map in a light purple/pink color is centered in the upper half of the slide. To the left of the map, there are several concentric, semi-transparent blue arcs that sweep across the frame, creating a sense of motion or a globe's rotation. The background is a light blue gradient.

HOW BUSINESS ORGANIZATIONS BUY

CHAPTER 2

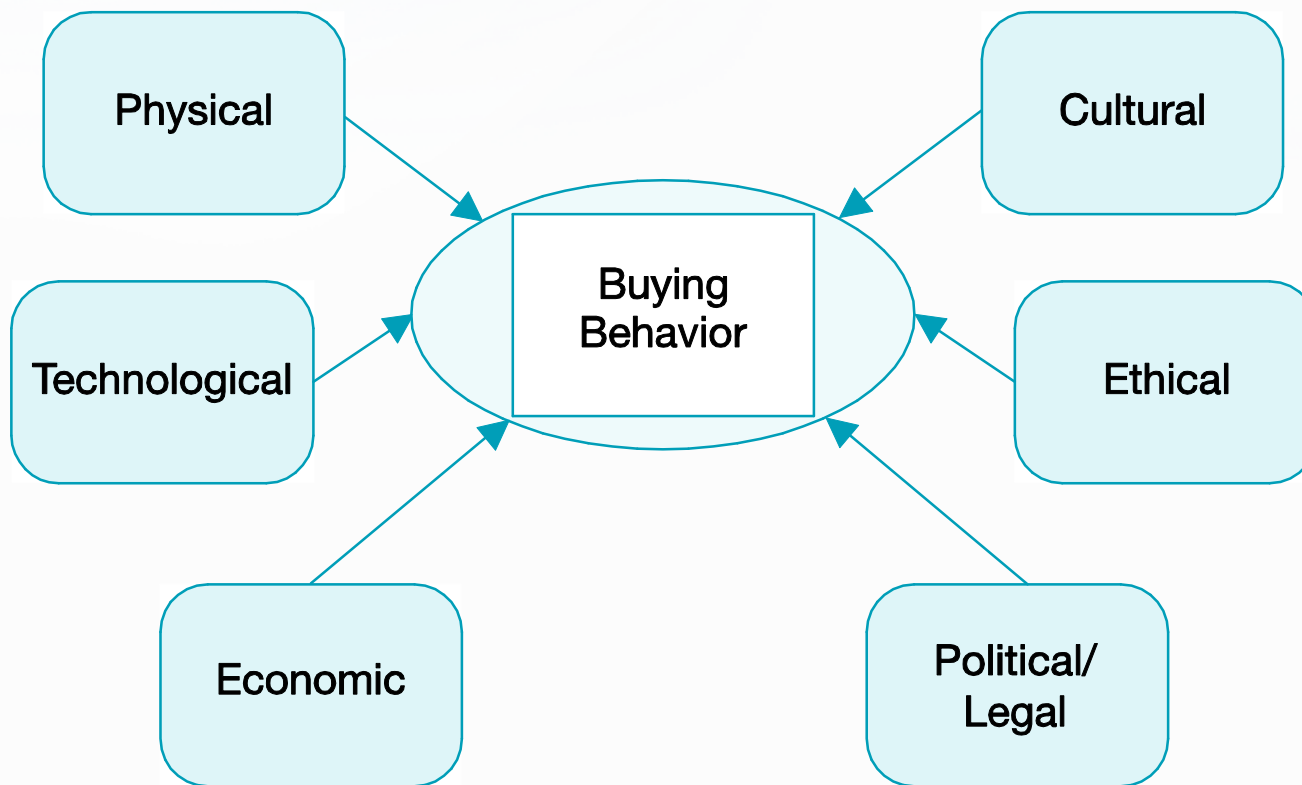
The Decision-Making Unit

- Initiators: Individuals who first recognize the problem.
- Gatekeepers: Individuals who control the flow of knowledge.
- Buyers: Individuals who source suppliers and negotiate terms.
- Deciders: People who make final decisions to buy.
- Users: People who will use the products which have been purchased.
- Influencers: People who advise the deciders.



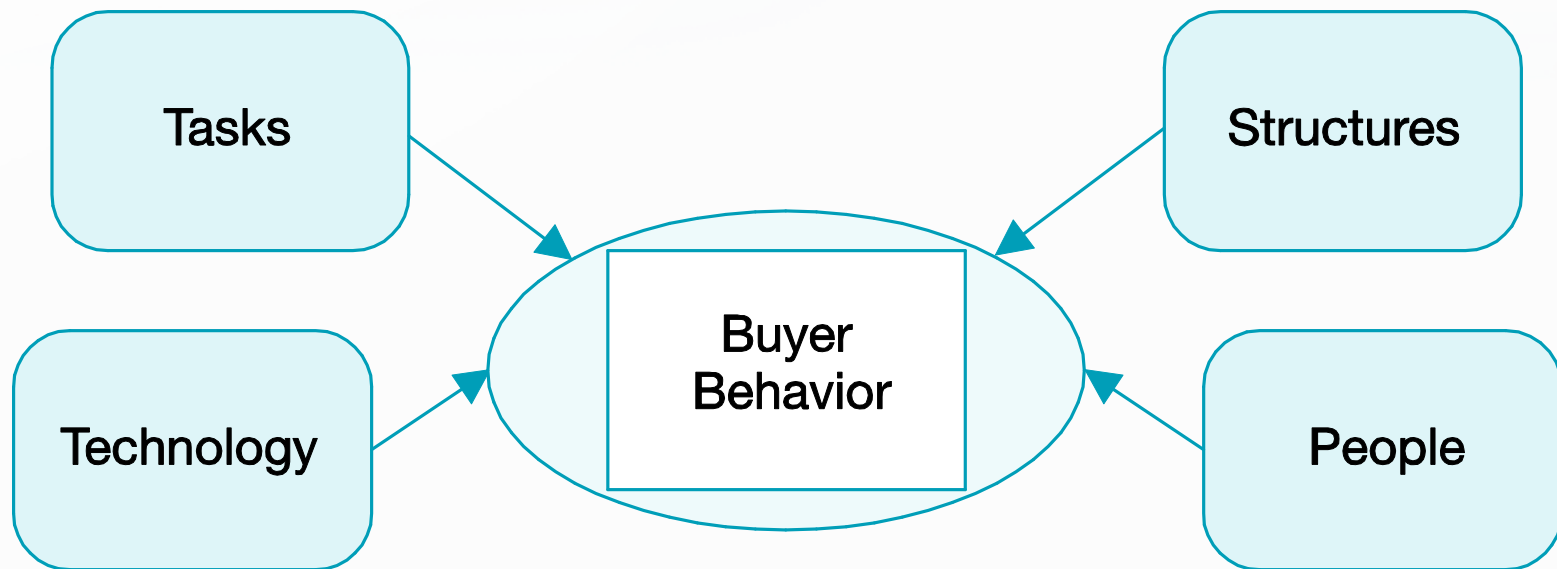
Influences on Buyer Behavior

Fig. 2.1 Environmental influences on buyer behavior



Influences on Buyer Behavior

Fig. 2.2
Organizational
influences on buyer
behavior



Classifying Business Customers

TABLE 2.1 Classification of buying organizations

<i>Type of organization</i>	<i>Description</i>
Business and commercial organizations	These organizations buy goods, which are used to make other goods and those that are consumed in the course of running the organization's business. These organizations buy foundation goods and services used to make other products, facilitating goods and services, which help an organization achieve its objectives, and entering goods and services, which become part of another product.
Reseller organizations	Resellers buy goods in order to sell them on to other organizations or to final consumers. Typically, resellers will be wholesalers or retailers, but they may also be agents for services, for example travel agents or webmasters who act as facilitators for other firms.
Governmental organizations	Governments buy everything from paperclips to aircraft carriers through their various departments. Because national and local government departments operate under specific rules, a different approach from that for businesses is usually required.
Institutional organizations	Institutional organizations include charities, educational establishments, hospitals and other organizations that do not fit into the business, reseller or government categories. These organizations may buy any of the products but they are used to achieve institutional goals, usually to provide services.

Buyers' Techniques

- Straight re-buy – buying same product in same quantities from same suppliers.
- Modified re-buy – the buyer re-evaluates buying patterns, i.e. looks for better alternative.
- New task – a complex decision process. The buyer faces technical complexities of the product, complex evaluation of alternatives, negotiation with new suppliers.



The Buygrid Framework

Stage	Buying Situations		
	New task	Modified Rebuy	Straight Rebuy
Anticipation or recognition of a problem (need) and a general solution			
Determination of characteristics and quantity of needed item			
Description of characteristics and quantity of needed item			
Search for and qualification of potential sources			
Acquisition and analysis of proposals			
Evaluation of proposals and selection of supplier(s)			
Selection of an order routine			
Performance feedback and evaluation			

Fig. 2.3 The buygrid framework

Value Analysis

TABLE 2.2 Long-life bulb vs. tungsten-filament bulb

1. Annual cost of existing product:

250 replacement light bulbs x 45p	£112.50
Cost of electricity: @ 6.7p per kilowatt x 60 watts x 150 bulbs x 2,400 hours:	£1,447.20
Cost of replacing bulbs assuming 10 minutes per bulb @ £10 per hour:	£416.00
TOTAL COST PER ANNUM:	£1,975.70

2. Cost of using long-life bulbs:

50 replacement bulbs per annum x £5 =	£250.00
Cost of electricity: @ 6.7p per kilowatt x 11 watts x 150 bulbs x 2,400 hours:	£ 265.32
Cost of replacing bulbs assuming 10 minutes per bulb @ £10 per hour =	£83.20
TOTAL COST PER ANNUM:	£598.52

Value Analysis

TABLE 2.3 Assessing suppliers

<i>Attribute</i>	<i>Assessment method</i>
Technical capability	Visit the supplier to examine production equipment, inspect quality control procedures, and meet the engineering staff.
Managerial capability	Discuss systems for controlling processes, meet the managerial staff, and become involved in planning and scheduling supplies.
Financial stability	Check the accounts filed at Companies House or the SEC, or other public record office, run a credit check, examine annual reports if any.
Capacity to deliver	Ascertain the status of other customers of the supplier – would any of these take priority? Assess the production capacity of the supplier, warehouse stocks of the product, reputation in the industry.

Value Analysis

TABLE 2.4 Evaluation approaches

<i>Approach</i>	<i>Explanation</i>
Categorical plan	Each department having contact with the supplier is asked to provide a regular rating of suppliers against a list of salient performance factors. This method is extremely subjective, but is easy to administer.
Weighted-point plan	Performance factors are graded according to their importance to the organization: for example, delivery reliability might be more important for some organizations than for others. The supplier's total rating can be calculated and the supplier's offering can be adjusted if necessary to meet the purchasing organization's needs.
Cost-ratio plan	Here the buying organization evaluates quality, delivery and service in terms of what each one costs. Good performance is assigned a negative score, i.e. the costs of purchase are reduced by good performance: poor performance is assigned a positive score, meaning that the costs are deemed to be greater when dealing with a poor performer.

University Organization Chart

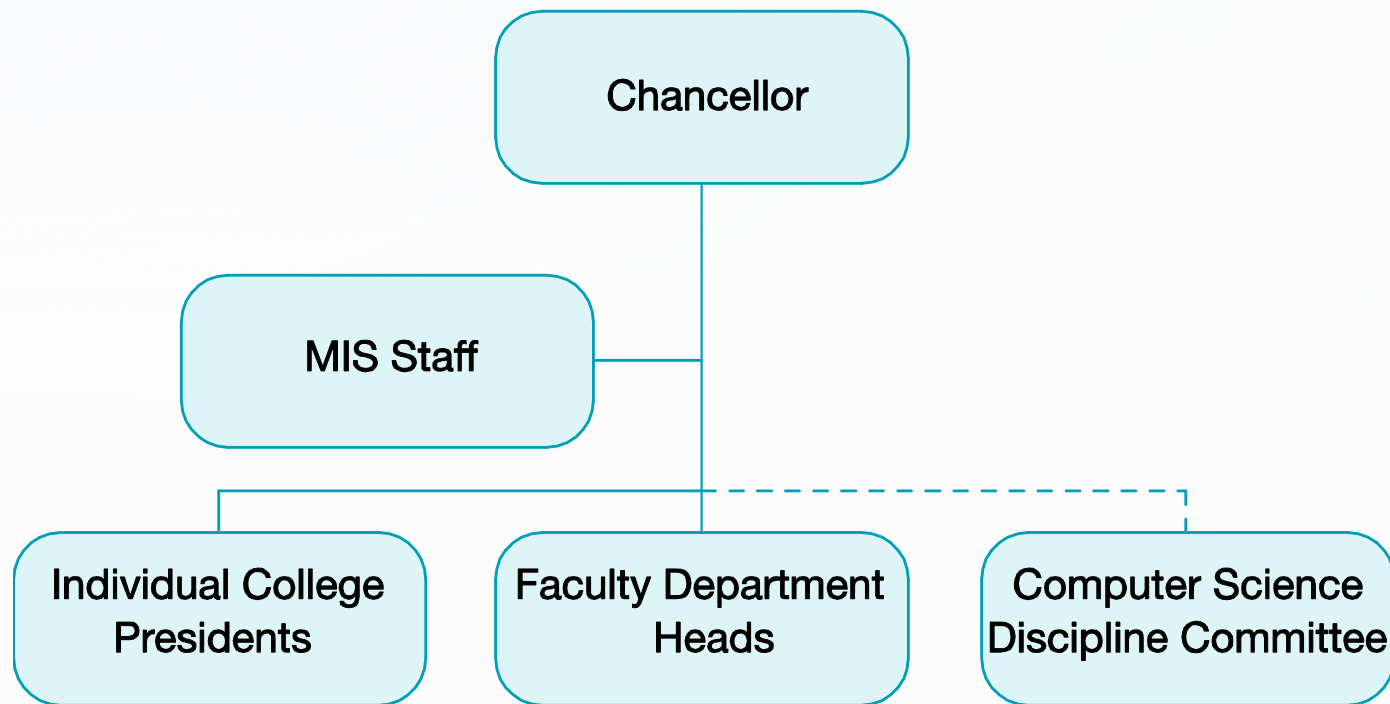


Fig. 2.4 University organization chart

Summary



- Buyers are subject to many pressures, including emotional, organizational, political and internal influences.
- The decision-making unit (DMU) or buying center makes the buying decision.
- Buying organizations are most likely to be swayed by past experience with the vendor.
- Resellers are driven by their customers.
- Government markets are large, and almost always use a tendering system.
- Institutional markets may need help in raising the funds to buy.
- Buyers can be divided into OEMs, users, and aftermarketers.
- Purchases may be straight re-buy, modified re-buy, or new task.
- A team approach to buying dictates a team approach to selling.