UNIT 6
ORGANIZATIONAL MARKETS AND ORGANIZATIONAL BUYING BEHAVIOR

1. THE CONCEPT OF ORGANIZATIONAL BUYING

Organizational buying, also known as business-to-business (B2B) buying, is the process of purchasing goods and services for use in the production of other goods and services, for resale, or for use in the daily operations of an organization. This is a distinct process from individual consumer buying, with several key differences.

1. Differences between Organizational Markets and Consumer Markets

Feature	Organizational Markets	Consumer Markets
Time Spent	Longer and more complex buying cycles. Multiple meetings, proposals, and negotiations are common.	Shorter and often impulsive buying cycles, especially for low-cost goods.
Number of Buyers	Fewer buyers, but each buyer is larger. A single organizational buyer can purchase a huge quantity.	Many individual buyers, each purchasing a small quantity.
Number of Sellers	Fewer sellers, as the market is often specialized.	Numerous sellers, with a wider variety of products.
Quantity Purchased	Organizations purchase in large, bulk quantities.	Consumers purchase in small, individual quantities.
Segmentation	Markets are segmented by industry, company size, and specific needs.	Markets are segmented by demographics, psychographics, and behavior.

1.1 Types of Organizational Buying Situations and Situational Factors

The organizational buying situation largely depends on the complexity of the purchase and the amount of information the company already has.

- **1.1.1 New Task**: This is the most complex buying situation. The buyer is purchasing a product or service for the first time. The buying center (the group of people involved in the decision) must go through all stages of the buying process, including extensive information search and evaluation.
    - **Example**: A manufacturing company deciding to purchase a completely new type of robotic assembly line.
- **1.1.2 Straight Rebuy**: This is a routine purchase of an item the company has bought before. The buyer has a well-established relationship with a supplier and the process is highly routinized with little or no information search.

    - **Example**: An office manager reordering the same brand of printer paper they always use from the same supplier.
- **1.1.3 Modified Rebuy**: This is a situation where the buyer wants to modify product specifications, prices, terms, or suppliers. It falls between a new task and a straight rebuy, as some information search and evaluation are needed.
    - **Example**: A company decides to switch to a new software provider for its accounting needs due to dissatisfaction with the current one, but the core need remains the same.

1.2 System Buying and Selling

System buying and selling involves purchasing a complete solution to a problem from a single seller, rather than buying individual components from different sellers. This is a crucial strategy in the B2B world.

- **Example**: A company needs to set up an entire new data center. Instead of buying servers from one vendor, networking equipment from another, and software from a third, they may opt to purchase a complete "turnkey" solution from a single provider like Dell or Cisco. This simplifies the process for the buyer and offers a competitive advantage to the seller.

2. Organizational markets in India

India's organizational markets are characterized by a diverse range of industries, each with unique buying behaviors and requirements. These markets are a key driver of the country's economic growth.

- **Chemical and Pharmaceutical**: This sector is a major part of India's industrial landscape, driven by robust domestic demand and a growing export market. Companies in this sector are major buyers of raw materials, active pharmaceutical ingredients (APIs), research equipment, and specialized machinery. The buying process is often highly regulated and focused on supplier certifications, quality control, and long-term contracts.
- **Energy and Natural Resources**: This sector is undergoing a major transformation, with a strong focus on renewable energy sources like solar and wind power. This creates a significant market for new equipment, technology, and maintenance services. The natural resources sector, including mining, also contributes to a high demand for heavy machinery and industrial supplies. Public sector enterprises and large private corporations are the dominant buyers in this space.
- **Industrial and Automotive Sector**: As a global hub for manufacturing and a leading producer of automobiles, India's industrial and automotive sectors are key drivers of organizational buying. This includes the purchase of raw materials (steel, plastic), components (tires, engines), and advanced machinery for production lines. The buying decisions are often driven by cost, quality, and the ability of a supplier to meet just-in-time delivery schedules.

2. DIMENSIONS OF ORGANIZATIONAL BUYING

Organizational buying is a complex process shaped by various dimensions, which are all interconnected. From the initial decision-making to managing supplier relationships, these factors work together to create an efficient and strategic procurement function. The goal is to ensure a steady supply of high-quality goods while minimizing costs and risk.

1. Decision-Making Process

The organizational buying process is a structured sequence of steps that a company follows to make a purchase. It is far more involved than a consumer's decision and is often guided by specific inventory and logistics strategies.

- **1.1 Material Requirements Planning (MRP)**: A production planning, scheduling, and inventory control system used to manage manufacturing processes. MRP ensures that materials are available when needed, which in turn influences the buying schedule. For a car manufacturer, for instance, the MRP system would trigger a purchase order for tires just in time for them to be mounted on the assembly line.
- **1.2 Just-in-Time (JIT)**: An inventory management strategy that companies use to receive goods only as they are needed for production, thereby reducing inventory costs and waste. A JIT system would require a very close and trusting relationship with a supplier, who must be able to deliver with great precision.
- **1.3 Just-in-Case (JIC)**: This is a strategy where companies hold a large stock of materials and finished goods in case of unexpected demand or supply chain disruptions. This approach requires a different buying strategy, focusing on long-term contracts and bulk purchasing to secure favorable prices.

2. Centralization of Purchasing Process

The centralization of purchasing is a strategic dimension that dictates where buying decisions are made within an organization. A centralized purchasing system means all buying decisions are made by a single department or location. This allows for bulk purchasing and standardization, which can lead to significant cost savings. However, it can make the process less responsive to the specific needs of individual departments. A company using a centralized purchasing process would likely use an MRP or JIC model to maximize the benefits of large-volume buying.

3. Reverse Marketing

Reverse marketing is when a buyer actively seeks out a supplier rather than the other way around. This happens when a buyer has a specific need that current suppliers can't meet, and they take the initiative to find or even develop a supplier who can provide the right product or service. This is a powerful dimension of organizational buying that gives the buyer more control. A company using reverse marketing might do so because its MRP system has identified a critical component that no current supplier can provide. The buyer then needs to find a way to source it.

4. Sample Checking

Sample checking is a quality control dimension of the buying process. It involves testing a small portion of a delivered batch of goods to ensure the entire shipment meets the required quality standards. This process is crucial for minimizing the risk of defects and ensuring that the received goods are usable for production. A company that practices sample checking is a buyer who is particularly concerned with quality and reliability, which may influence their choice of suppliers, making them more inclined to choose those with a proven track record.

5. Vendor and Supplier Analysis

This is a continuous, long-term dimension of organizational buying. It involves evaluating and managing the performance of vendors and suppliers based on criteria such as cost, quality, delivery time, and reliability. This analysis is critical for maintaining a strong supply chain and is directly influenced by the other dimensions. The results of vendor analysis can influence future buying decisions. For example, a supplier who consistently delivers late might be dropped from a JIT system. Similarly, a supplier who fails a sample check would receive a poor rating, influencing future purchasing decisions. The findings from this analysis can also lead to a reverse marketing effort to find a better supplier.

3. DIMENSIONS OF ORGANIZATIONAL DEMAND

Organizational demand, also known as business-to-business (B2B) demand, refers to the demand for goods and services by companies and institutions. It's fundamentally different from consumer demand and is characterized by several key dimensions.

1. Inelastic Demand

Inelastic demand means that the demand for a business's products is not significantly affected by a change in their price. This is because organizational buyers are more concerned with other factors, such as the total cost of the final product, than the cost of a single component. A rise in the price of one component won't typically cause a major change in the demand for the final product, as the cost of that component is a small fraction of the total cost.

- **Example**: The demand for spark plugs by a car manufacturer is relatively inelastic. Even if the price of spark plugs increases by 10%, it will have a negligible impact on the final cost of the car, so the manufacturer's demand for spark plugs will not change.

2. Derived Demand

Derived demand is the most significant characteristic of organizational demand. It means that the demand for organizational goods and services is directly derived from the demand for consumer goods. If consumer demand for a product increases, the demand for the raw materials, components, and machinery to produce that product will also increase. Conversely, a decrease in consumer demand will lead to a decrease in organizational demand.

- **Example**: The demand for steel by a car manufacturer is derived from the consumer demand for new cars. If more people want to buy cars, the demand for steel will rise.

3. Joint Demand

Joint demand occurs when the demand for one product is directly linked to the demand for another. This is common in organizational buying, as a buyer often needs to purchase multiple items together to create a single final product. The purchase of one item is contingent on the availability and price of the other.

- **Example**: The demand for tires is joint with the demand for wheels. A tire manufacturer needs both tires and wheels to sell a complete set to a car company. A shortage of wheels would hurt the demand for tires, even if tire prices are low.

4. Fluctuating Demand

Fluctuating demand is a characteristic where the demand for organizational goods can be highly volatile and change dramatically over time. A small change in consumer demand can lead to a much larger change in organizational demand, a phenomenon known as the accelerator effect. This makes forecasting for B2B marketers challenging.

- **Example**: A 10% increase in consumer demand for cars might lead to a 50% increase in demand for new factory equipment to expand production. This is because manufacturers need to invest in large-scale, long-term capital goods to meet the new, but possibly temporary, increase in demand.

4. CLASSIFICATION OF ORGANIZATIONAL MARKETS

Organizational markets, also known as business-to-business (B2B) markets, are classified based on the purpose for which the buyers purchase goods and services. Unlike consumer markets, where individuals buy for personal use, organizational buyers purchase for business purposes. The main types of organizational markets are:

1. Producer Markets

Producer markets consist of individuals and organizations that buy products and services to use in the production of other goods and services. These buyers are the manufacturers, farmers, and other producers who convert raw materials and components into finished products. The demand in this market is directly tied to the demand for the final consumer goods they produce.

- **Example**: A car manufacturer buying steel, tires, and glass to assemble new vehicles.

2. Reseller Markets

Reseller markets include intermediaries like wholesalers and retailers that buy finished goods and resell them for a profit. They do not change the form of the products they buy. Their primary goal is to purchase goods at a lower price and sell them to customers for a higher price. Key factors for resellers are location, supplier reliability, and the ability to offer a good assortment of products.

- **Example**: A large supermarket chain buying packaged food and beverages from manufacturers to sell directly to consumers.

3. Government Markets

Government markets consist of federal, state, and local government units that purchase or rent goods and services to carry out their main functions. This is one of the largest buying groups in any country. The buying process is often highly complex and regulated by strict rules, public bidding, and contract laws to ensure transparency and accountability.

- **Example**: The Ministry of Defense buying military equipment or a state government purchasing vehicles for its police force.

4. Institutional Markets

Institutional markets are made up of non-profit organizations that buy goods and services to support their operations. This group includes schools, hospitals, churches, universities, and other charities. These organizations often have limited budgets and specific needs, which influences their buying decisions.

- **Example**: A hospital purchasing medical equipment, a university buying a large number of computers for its laboratories, or a non-profit organization buying office supplies for its staff.

5. FACTORS INFLUENCING ORGANIZATIONAL BUYING

Organizational buying is a complex process influenced by a variety of factors that can be categorized into four main groups. Unlike consumer buying, which is often driven by individual needs and emotions, organizational buying is more rational and systematic, involving multiple people and departments.

1. Environmental Factors

These are broad, external forces that affect all companies within an industry. They are often analyzed using the PESTLE framework.

- **Political**: Government policies, stability, and regulations (e.g., trade tariffs, government contracts).
- **Economic**: The state of the economy (e.g., inflation, interest rates, GDP growth).
- **Socio-cultural**: Societal values and attitudes (e.g., corporate social responsibility, green initiatives).
- **Technological**: Advancements in technology (e.g., new machinery, software, e-commerce platforms).
- **Legal**: Laws and regulations that govern business (e.g., consumer protection laws, labor laws).
- **Environmental**: Concerns about sustainability and climate change.

Example: An economic recession might cause a company to cut its purchasing budget, while a new government policy promoting green technology might lead a company to invest in new, sustainable equipment.

2. Organizational Factors

These are internal factors specific to the buying organization, including its structure, goals, and internal policies.

- **Objectives**: The company's goals, whether they focus on cost reduction, quality improvement, or innovation, will guide its purchasing decisions.
- **Structure**: The number of people involved in the buying decision and their level of authority (e.g., centralized vs. decentralized purchasing).
- **Systems**: The purchasing procedures and policies in place (e.g., automated ordering systems, vendor analysis protocols).
- **Interpersonal Factors**: The relationships and communication among the members of the **buying center**—the group of individuals who participate in the buying decision.

Example: A company with a decentralized purchasing structure might allow each regional office to choose its own suppliers, while a company focused on cost reduction will have a strict protocol for getting multiple bids.

3. Social Factors

These are the relationships and interactions among the people involved in the buying process.

- **Roles and Status**: The roles of different people in the buying center (e.g., initiator, user, decider, influencer, buyer).
- **Expertise**: The specialized knowledge and experience of individuals involved (e.g., an engineer will influence a technical purchase).
- **Interpersonal Relationships**: The personal relationships between buyers and sellers, which can often be as important as the product's features.

Example: A team of engineers, a finance manager, and the CEO might all be part of a buying decision for a new piece of factory equipment. Each person's expertise and role will influence the final decision.

4. Personal Factors

These are the individual characteristics of the people making the buying decision.

- **Age and Income**: An individual's age, professional experience, and salary can influence their risk tolerance and decision-making style.
- **Education and Job Position**: A person's educational background and job title can influence their expertise and authority in a purchase.
- **Personality and Risk Attitude**: Some individuals are more risk-averse than others, which can influence their willingness to try a new supplier or product.

Example: A veteran purchasing manager might stick with a known, reliable supplier to minimize risk, while a new, ambitious manager might be more willing to try a new vendor to get a better price.

6. PARTICIPANTS IN ORGANIZATIONAL BUYING

In organizational buying, multiple individuals and groups, known collectively as the buying center, participate in the decision-making process. Each member plays a distinct role, and marketers must identify and understand these roles to effectively target their efforts.

1. Initiators: Initiators are the people who first recognize a problem or a need that can be solved by purchasing a product or service. They start the buying process.

- **Example**: An engineer notices that a machine is outdated and suggests buying a new one to improve efficiency.

2. Influencers: Influencers are individuals who affect the buying decision. They often provide advice, information, and criteria for evaluating potential products and suppliers. Influencers can be technical personnel, consultants, or even salespeople from the selling company.

- **Example**: The IT department's manager recommends a specific brand of software due to its security features and ease of integration.

3. Users: Users are the people who will actually use the product or service. They are often the ones who initiate the buying proposal and help define product specifications.

- **Example**: The factory workers who will operate a new machine and provide feedback on its functionality.

4. Deciders: Deciders are the people with the authority to make the final choice on which product to buy or which supplier to choose. In some cases, the decider and the buyer are the same person, but often they are not. The decider is often a senior manager or executive.

- **Example**: The CEO of a company who has the final say on a major capital investment, such as purchasing a new factory.

5. Approvers: Approvers are people who authorize the proposed actions of deciders or buyers. They are typically part of a formal approval process. They ensure the purchase aligns with the company's budget, policies, and strategic goals.

- **Example**: A finance director who must approve a purchase order that exceeds a certain budget threshold.

6. Buyers: Buyers are the individuals who have the formal authority to select the supplier and arrange the terms of the purchase. They negotiate contracts, handle paperwork, and manage the relationship with the supplier.

- **Example**: A purchasing agent who negotiates the price and delivery terms for a bulk order of raw materials.

7. Gatekeepers: Gatekeepers control the flow of information to other members of the buying center. They can prevent salespeople from reaching decision-makers or other influencers. They are often a receptionist, an assistant, or even a technical expert who filters information.

- **Example**: A receptionist who screens phone calls and determines whether a salesperson can speak to a specific manager.

7. PROCUREMENT PROCESS

Organizations employ individuals who have an extensive knowledge about the supplier markets as their product managers. Such individuals facilitate efficiency in the procurement process by identifying the right suppliers who can offer tailor-made solutions to the organization's requirements.

1. Buying

Buying, in the context of organizational procurement, is the fundamental activity of acquiring goods, services, or works from an external source. This is a core part of the procurement process, which is a broader term encompassing all the activities involved in getting what a business needs. The buying function involves several key steps:

- **Need Recognition**: The process starts when a need for a specific product or service is identified within the organization. This could be triggered by a shortage, a new project, or a regular reorder point.
- **Supplier Selection**: After the need is identified, the buyer searches for suitable suppliers. This involves researching potential vendors, requesting proposals (RFPs) or bids, and evaluating them based on criteria like price, quality, reliability, and delivery time.
- **Negotiation**: The buyer negotiates with the chosen supplier to finalize the price, terms, and conditions of the purchase.
- **Order and Payment**: Once an agreement is reached, a purchase order is issued, and the buyer arranges for payment upon delivery.

In many organizations, the buying function is a tactical task focused on getting the best price for a specific transaction. However, modern procurement has evolved beyond this simple transactional view.

2. Supply Management Orientation

Supply management orientation is a strategic and holistic approach to procurement that views suppliers as long-term partners rather than just vendors. It goes beyond the simple act of buying to encompass a broader range of activities aimed at optimizing the entire supply chain. This orientation is a shift from a short-term, price-focused "buying" mentality to a long-term, value-driven "supply management" approach.

This approach includes:

- **Strategic Sourcing**: This involves analyzing the entire spending of the organization to identify opportunities for cost savings and better value. It's about finding the "right" suppliers, not just the cheapest.
- **Supplier Relationship Management (SRM)**: This is a key component of supply management. It focuses on building and maintaining strong, collaborative relationships with key suppliers. The goal is to create a win-win partnership that fosters innovation, improves quality, and reduces risks for both parties.
- **Integration**: Supply management seeks to integrate the supply function with other departments within the organization, such as production, marketing, and finance. This ensures that procurement decisions are aligned with the overall business strategy.

In essence, while buying is a singular event, supply management is a continuous process that aims to secure a competitive advantage through the entire supply chain. It's the difference between finding the best deal on a single component and building a robust network of partners who will help the business succeed in the long run.

8. STAGES OF BUYING

1. Problem Recognition

The buying process begins when a person within the organization recognizes a problem or need that can be met by acquiring a specific good or service. This can be triggered by internal factors, like a machine breaking down, or external factors, like a competitor introducing a new product.

- **Example**: An engineer on a factory floor notices that an old machine is slowing down production and creating bottlenecks.

2. General Need Recognition

After a problem is identified, the organization defines the general characteristics and quantity of the needed item. This is a high-level description of the need, without getting into the specifics of a particular product.

- **Example**: The production manager determines that the company needs a new, faster machine to replace the old one, but they don't yet know what specific brand or model they'll get.

3. Product Specification

At this stage, the buying organization develops a detailed technical specification for the product. This often involves a team of engineers and other experts who define the required features, performance, reliability, and other technical criteria.

- **Example**: The engineering team writes a document that specifies the new machine must have a certain speed, be compatible with existing software, and have specific safety features.

4. Searching for Potential Suppliers

The buying center then searches for qualified suppliers who can meet the product's specifications. The search can be done through various sources, including trade directories, online search engines, and professional contacts.

- **Example**: The purchasing manager uses a professional directory to find a list of all machine manufacturers that produce the type of equipment the company needs.

5. Value Analysis

Value analysis is a systematic approach to cost reduction. It involves studying the components of a product to determine if they can be redesigned, standardized, or replaced with less expensive materials to lower costs without sacrificing performance. This is done before a final purchase decision is made.

- **Example**: Before finalizing the purchase, the company's team analyzes the different components of the machine and decides that a cheaper type of steel can be used for a non-critical part, reducing the overall cost.

6. Vendor Analysis

Vendor analysis is the process of evaluating potential suppliers. The buying center assesses each vendor based on criteria like price, product quality, service reputation, and delivery reliability. This analysis helps the company choose the best supplier.

- **Example**: The purchasing team compares the quotes from three different manufacturers, considering not just the price, but also each company's reputation for customer service and on-time delivery.

7. Order Routine Specification

After the supplier is selected, the buyer prepares the final order. This document includes the exact quantity, technical specifications, expected time of arrival, and return policies. It essentially formalizes the purchase agreement.

- **Example**: The purchasing manager sends a detailed purchase order to the chosen manufacturer, specifying the exact model number, quantity, and delivery date.

8. Multiple Sourcing

Multiple sourcing is a buying strategy where a company buys a single item from two or more suppliers. This is done to reduce risk and ensure a continuous supply. If one supplier faces a problem (e.g., a strike or a natural disaster), the company can still get its supplies from another.

- **Example**: To avoid production disruptions, a car manufacturer buys its supply of a critical engine component from two different companies in two different countries.

9. Performance Review

The final stage is to review the performance of the chosen supplier. This involves feedback from the users, a quality check on the delivered goods, and an overall assessment of the supplier's reliability. This review will influence future purchase decisions from that supplier.

- **Example**: Three months after the new machine is installed, the production manager submits a report on its performance and the service provided by the manufacturer. This report will be used to decide if the company will buy from that manufacturer again.

9. USING STANDARD INDUSTRIAL CLASSIFICATION CODES

Standard Industrial Classification (SIC) codes are used to categorize businesses by their primary type of activity. These codes were developed in the United States to make it easier for government agencies and researchers to classify and analyze economic data. While they have been largely replaced in the U.S. by the North American Industry Classification System (NAICS), SIC codes are still widely used in many parts of the world, including India, for business analysis and marketing.

How SIC Codes Work

SIC codes are a hierarchical, four-digit system. The more digits in the code, the more specific the business classification.

- **First Two Digits (Major Group)**: These identify the general industry. For example, 20 represents "Food and Kindred Products."
- **Third Digit (Industry Group)**: This narrows down the category. For example, 203 represents "Canned and Preserved Fruits and Vegetables."
- **Fourth Digit (Specific Industry)**: This pinpoints a specific type of business. For example, 2032 represents "Canned Specialties."

Uses of SIC Codes

SIC codes are a powerful tool for marketers and business analysts. They allow you to:

- **Identify Target Markets**: By using SIC codes, you can create a list of all businesses in a specific industry. For example, if you sell specialized software for legal firms, you can use the code for "Legal Services" (8111) to find and target potential clients.

- **Analyze Competitors**: You can analyze the number and size of competitors within your industry by using your own SIC code. This helps you understand the competitive landscape.
- **Segment Markets**: SIC codes are a fundamental tool for segmenting organizational markets. They help you group similar businesses together, which makes it easier to tailor your marketing message to their specific needs.
- **Conduct Research**: Researchers and government agencies use SIC codes to collect and analyze data on economic trends, employment, and business growth by industry.