

# CHAPTER 6: ANALYZING BUSINESS MARKETS

Organizational buying refers to the decision making process by which formal organisations establish the need for purchased products and services, and identify, evaluate and choose among alternative brands and suppliers.

Organizational buying happens typically when

- A business is sourcing materials for their production process
- A business needs the services of another for operational reasons
- A business re-sells the goods and services produced by others

## **Characteristics of business markets**

- 1) Fewer, but larger buyers
- 2) Close supplier-customer relationships
- 3) Professional purchasing
- 4) Multiple buying influences – More people influence buying decisions. Buying committee can include technical experts and even senior management for major purchases.
- 5) Multiple sales calls
- 6) Derived demand – Demand for business goods is ultimately derived from demand for consumer goods.
- 7) Inelastic demand – Most of the times not much affected by price changes
- 8) Fluctuating demand – Demand for business products tends to be more volatile than demand for consumer goods and services.
- 9) Geographically concentrated buyers
- 10) Direct purchasing

## **Buying situations**

### 1) Straight rebuy

A buying situation where buyer routinely order things without any changes or modification. It's mainly on past buying satisfaction and on the constant requirements. It is the easiest buying situation for the purchaser.

### 2) Modified rebuy

Here the buyer wants to modify product specifications, prices, delivery requirements or other terms. This usually needs additional participants on both sides.

### 3) New task

A situation requiring the purchase of a product or service for the first time. The greater the cost or risk, the larger number of participants, greater their information gathering and longer time to take a decision. The process passes through several stages: awareness, interest, evaluation, trial and adoption.

# Participants in the business buying process

## The buying center

Includes all individuals and groups who participate in the purchasing decision-making process.

- 1) Initiators – Those who request that something be purchased.
- 2) Users – Those who will use the product or service. Users are the initiators many of the times and they help to define specifications.
- 3) Influencers – Those who influence buying decisions, often by helping specifications and providing information for evaluating alternatives.
- 4) Deciders – People who decide on product requirements or on suppliers.
- 5) Approvers – People who authorize the proposed actions of deciders or buyers.
- 6) Buyers – People who have formal authority to select the supplier, arrange the purchase terms and negotiate.
- 7) Gatekeepers – People who have power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, telephone operators, etc.

## Stages in buying process



### 1) Problem Recognition

First stage of the business buying process whereby, someone in the company recognizes a problem or need which can be fulfilled by acquiring a good or service

### 2) General need description

Here it will be described about the general characteristics and quantity of a need item

### 3) Product specification

Here the features, qualities, functional aspects of a product is determined. Adding to this purchase quantity, cost estimation, mode of payment, delivery date, etc are also determined

### 4) Supplier search

- The buyer searches or identifies possible potential suppliers who can supply goods and services as per the product specifications that have been developed
- The list of supplier are prepared by looking at trade directory, searching in internet, buying alliances, asking other companies for suggestions, etc.

### 5) Proposal solicitation

At this stage buyer invite the qualified suppliers to submit proposals. After evaluating proposals, the buyer will invite a few suppliers to make formal presentations.

## 6) Supplier selection

At this stage the proposals and presentations are evaluated and then the most reliable and capable supplier is selected.

Several evaluation criteria can be past performance of suppliers, punctuality, product reliability, goodwill, quantity they are ready to sell, price, supplier flexibility, supplier flexibility, terms and conditions, etc are considered.

## 7) Order-routine specifications

Final negotiations happen at this stage. If the negotiation looks feasible then the final order is placed with the list of all the specifications, terms and conditions of purchase.

## 8) Performance Review

Buyer periodically reviews the performance of the chosen supplier(s). The review may lead the buyer to continue, modify or end a supplier relationship. Three methods for performance review

- Buyer may contact the end users and ask for their evaluations
- Rating the supplier on the basis of several criteria using a weighted score method.
- The buyer might aggregate the cost of poor performance to come up with adjusted costs of purchase including the price.



Buyphases	Buyclasses		
	New task	Modified rebuy	Straight rebuy
1. Problem recognition	Yes	Maybe	No
2. General need description	Yes	Maybe	No
3. Product specification	Yes	Yes	Yes
4. Supplier search	Yes	Maybe	No
5. Proposal solicitation	Yes	Maybe	No
6. Supplier selection	Yes	Maybe	No
7. Order-routine specification	Yes	Maybe	No
8. Performance review	Yes	Yes	Yes

### Factors of buyer-supplier relationships

- Availability of alternatives
- Importance of supply
- Complexity of supply
- Supply market dynamism

### Institutional and Government markets

- Institutional market consists of schools, hospitals, colleges, etc that provide goods and services to people in their care.
- Government organisations tend to require a higher level of paperworks from their suppliers as their spending decisions are subject to public review
- Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government organisation needs

THANK YOU