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CHAPTER 6

ANALYSING BUSINESS MARKETS

What is Organizational Buying?

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- Webster and Wind define organizational buying as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers

The Business Market

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- The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others.
- More dollars and items are involved in sales to business buyers than to consumers

Characteristics of Business Markets

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- Fewer, larger buyers
 - Close supplier-customer relationship
 - Professional purchasing
 - Several buying influences
 - Multiple sales call
- Derived demand
 - Inelastic demand
 - Fluctuation demand
 - Geographically concentrated buyers
 - Direct purchasing

Buying Situations

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1. **Straight rebuy** is when the purchasing department reorders on a routine basis and chooses from suppliers on an “approved lists.”
2. **Modified rebuy** is when the buyer wants to modify product specifications, prices, delivery requirements, or other items.
3. **New task** is when the purchaser buys a product or service for the first time.

Marketing Implications of different buying situations

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1. The business buyer makes the fewest decisions in the straight rebuy situation and the most in the new-task situation.
2. In the new-task situation, the buyer has to determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. This situation is the marketer's greatest opportunity and challenge.
3. Because of the complicated selling involved, many companies use a missionary sales force consisting of their most effective salespeople for new-task situations.

Systems Buying and Selling

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- **Systems buying**

Buy total solution from 1 seller

- **Systems selling**

Key industrial marketing strategy -
large-scale industrial projects

eg dams, utilities



Systems Contracting

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ONE supplier for entire MRO

(maintenance, repair, operating) supplies

- Supplier manages inventory
- **Benefits arising:**
 - ✦ Customer - reduce cost & protect price
 - ✦ Seller - low operating costs - steady demand

Systems Buying and Selling

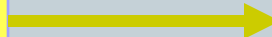
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Turnkey solution
desired;
Bids solicited

System
subcomponents
assembled

Prime
Contractors

Second-tier
Contractors



Participants in the Business Buying Process

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There are seven roles in the purchase decision process:

1. **Initiators**—requests the product
2. **Users**—will use the product
3. **Influencers**—influence the buying decision
4. **Deciders**—makes the decision of what to purchase
5. **Approvers**—authorize the proposal
6. **Buyers**—have the formal authority to purchase
7. **Gatekeepers**—have the power to prevent seller information from reaching members of the buying center

STAGES IN BUYING PROCESS IN RELATION TO BUYING SITUATIONS

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	NEW TASK	MODIFIED REBUY	STRAIGHT REBUY
Problem recognition	YES	MAYBE	NO
General need description	YES	MAYBE	NO
Product specification	YES	YES	YES
Supplier search	YES	MAYBE	NO
Proposal solicitation	YES	MAYBE	NO
Supplier selection	YES	MAYBE	NO
Order routine specification	YES	MAYBE	NO
Performance review	YES	YES	YES

Institutional & Government Markets

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- **Institutional market** - provide for people in their care (*schools, hospitals*)
- Low budgets & captive clienteles
- **Government** -Major buyer goods & services
 - Suppliers – take lowest bid
 - Negotiated contract basis – complex projects

Institutional & Government Markets

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- Government spending - public review
 - Considerable paperwork
 - Justify cost - major consideration
 - Show bottom-line of offerings
- Suppliers - ways to cut through red tape

Institutional & Government Markets

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- In Asia - some governments favor local companies
 - award contracts
- Government purchase – kickback, bribery
- Tie up with influential local business - effective way to penetrate government market