Certified Consumer Behavior Analyst
Sample Material

V-Skills Certifications

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V-Skills

Skills for a secure future

1. INTRODUCTION TO CONSUMER BEHAVIOUR

As a consumer we are all unique and this uniqueness is reflected in the consumption pattern and process of purchase. The study of consumer behavior provides us with reasons why consumers differ from one another in buying using products and services. We receive stimuli from the environment and the specifics of the marketing strategies of different products and services, and responds to these stimuli in terms of either buying or not buying product. In between the stage of receiving the stimuli and responding to it, the consumer goes through the process of making his decision.

1.1. Marketing and Customer Orientation

Marketing on the one hand is a business philosophy and on the other an action oriented process. The philosophy - also termed as marketing concept - has its roots in market economy. There are four critical ideas that form the foundation of such an economy:

- ✓ Individuals pursue their self-interest to seek rewarding experience
- ✓ Their choices determine as to what would constitute such experience, the choices themselves being shaped by personal (taste) and external (cultural) influences.
- ✓ Consumers enjoy the freedom to choose; they are sovereign.
- ✓ This freedom ensures free and competitive exchange between "buyers and sellers".

Marketing in turn is based on these four principles. Thus Marketing can be defined as a

'Process that aims at satisfying individual and organizational needs by creating, offering and exchanging competitively made products that provide value to the buyers'

Today our focus is on customer. Objectives like revenue, profit, market share, etc. Re important, but they will flow only by acquiring customer competence. In our country particularly the customer, even as late as in 1980s, was bereft of alternatives; he would uncomplainingly buy whatever the seller dished out. Not any more. Today's choice empowered customer, supported by a competitive environment, global quality, and new economic realities, decides the fate of the marketer. So let's define Marketing once more: "It is a total business philosophy aimed at identifying the needs of each customer group, then designing and producing product / service package so as to serve the groups more effectively than the competitors".

This definition reveals three key dimensions of marketing:

- ✓ It seeks to identify customer needs: Many manufacturers would know all there is to know about relevant production technology, but nothing about their customers' wants. They may design products with fancy features without considering the perceived value of such features to their buyers. Then they wonder why their sales staff fails to push the product in the market.
- ✓ Marketing attempts to select customer groups for which it can develop a competitive edge: Companies taking a shotgun approach - meaning all things to all people - inevitably end up with sack full of unsold product inventories. Those companies which concentrate their limited resources on meeting specific needs of the customer have better chances of succeeding.

- ✓ It designs and produces the right product packages: when a company attempts to sell a Mercedes while the customer is demanding a Zen sized car, failure will greet it with open arms.

Needs and Wants: The satisfaction of buyers' needs is at the heart of a market economy, and is the core theme of Marketing. To put it more simply, a need is a feeling of being deprived of something desirable.

You may be in a state in which you are not feeling satisfied (say you are feeling hungry). So you visualize—a more desirable (but unattained, yet) state, that of having a full stomach. Hence there is a gap between your current state (hunger) and desirable state (satiated palate). This gap leads to a need being felt.

To take another example, if you had been happy with your already attained qualifications, you would not have enrolled for this course!

Wants are somewhat different. While needs are basic to human beings, (since nobody ever needs to tell us that we need to feel hungry, thirsty, etc.) wants are not. Later in our life when we become part of various informal and formal groups (family, friends, school, club, workplace, etc) we develop the concepts of friendship social approval, beauty, and so on. These are our acquired needs. The product concept that adequately satisfies our biogenic or acquired needs becomes successful. Infact, the job of the marketer is to identify unfulfilled / inadequately fulfilled / partially fulfilled need. But then today a need can be met in a number of alternative ways. A variety of products can satisfy the same need. Wants exist for those objects that can potentially satisfy a need. A visually impaired person can either wear spectacles, contact lenses, or now he can go in for corrective surgery.

At this point we must also note that a consumer's behavior is conditioned by the perception about a marketer's offering. This perception may or may not match reality. For example, in India a common perception is that ready to eat food items lack that home touch; they are cold and clinical. Home made foods in contrast are warm and live unless this perception is changed, acceptance of such products is likely to be limited.

Product / Service: If we use marketing parlance a product is anything that can satisfy our needs and wants. That is, it could be a physical object, or a service, or an idea which can be offered to a potential user for adoption / practice / consumption. By studying consumer buying behavior companies can identify needs that can be met by offering a suitable product. Incidentally, a customized product is one, which is made according to individual customer's specifications.

Exchange: A marketer makes an offer because he hopes that the buyer will accept it. And in turn the buyer will give something of value to the marketer. Whether or not an exchange will take place would therefore depend on a match/ mismatch between the gain (the satisfaction receivable) and the sacrifice (the price payable) in customer perception.

Customer Focus

In India marketing as a discipline has evolved at a leisurely place, dictated of course by circumstantial factors. Most markets being seller's markets (i.e. where seller dominates over the customer) until recently, marketing philosophy was an alien concept for an Indian seller. In a broad sense all the markets can be divided into two categories: seller's market and buyer's market. A buyer's market is one where due to prevailing intense competition among the sellers, and consequent excess of supply over existing demand, the buyer rules over the seller. On the other hand, in a seller's market competition is restricted for any number of reasons. So the buyer is at the mercy of the seller.

Consumer Focused Marketing: Once a marketer identifies an unfulfilled need, or partially fulfilled one, he has an opportunity to exploit. To this end he has to determine the appropriate marketing mix. According to Stanton: "Marketing Mix is the term used to describe the combination of the four inputs that constitute the core of a company's marketing system: the product, the price structure the promotional activities, and the placement system". The marketer has to track the consumer behavior constantly and adjudge an optimal combination of this marketing mix factors so that best sales are generated. Any mistake or delay can cost a marketer dear.

PRODUCT	PRICE	PROMOTION	PLACEMENT
Basic product and its features. Design, quality, model, style, appearance, size Packaging and labeling Branding and trademark Service: Pre, during, post sale.	Basic price, discounts, rebates. Payment terms, installment facilities Price fixation; free or administered price	Personal selling; sales force characteristics Advertising, media, and message choices Sale promotion, displays, contests, etc. Publicity and public relations.	Channels of distribution: types of intermediaries. Physical distribution, warehousing, etc.

Product: We as customers view a product as a 'bundle of satisfaction' and not merely the physical object. We give importance to both the tangible and intangible attributes of a product. Intangibles provide psychological and social benefits for the buyer. If product attributes don't benefit a customer, they have no significance for him. That is why during 2000-2001 midsize cars had a better sales growth rate than smaller cars; Maruti-800 sales actually declined.

Branding: A firm brands its product to provide it a distinct identity. A brand carries brand equity, i.e., reputation. Losing brand equity means losing sales. For example, this happened to Limca at the time of the BVO controversy.

Packaging: For the customer packaging is both a protective and a promotional device: Package is the message, as it is called. Packaging facilitates brand identification and may even motivate a person to buy a product (like perfume). It serves as a critical reminder at that critical moment when the customer is choosing from among several competing brands. Infact whenever a customer visualizes about a product, its packaging is the first thing that he sees in his mental eyes.

As a test, just think about Pepsi or Coke right now. The first thing you will do is visualizing the distinctive shape of the bottle!

Product Life Cycle: Like us human beings, products also take birth through introduction, develop (grow), age (mature), and eventually decline (die). In the first phase, a newly developed product is introduced in the market, which finds relatively few customers. If it is an innovative product (say a perfumed fabric) then the marketer stimulates primary demand by educating the customer. In the growth stage, more and more customers start buying. But new brands also enter the market. Hence the marketer has to talk about differentiating features of his brand. In maturity the brand competes with other successful brands for selling in a stagnant market. So price cuts, exchange offers or add-ons are used to woo the customers.

Communication is image based attempting to perfect and reinforce the brand loyalty. Finally, many products face a phase of obsolescence. Some products may of course have a cyclical demand pattern. They bounce back after a gap. For example, in 2001 larger frame sunglasses have comeback. The marketer may even reformulate/reposition a product to begin a new life like Dabur Honey or Milkmaid. On the other hand some products have a 'stillborn' fate or may die an infantile death, like Real Value Vacuumizer.

Pricing: Price has to be fixed in such a manner as on one hand it is lower or equal to the value delivered by the product, and on the other hand it should cover at least all manufacturing and post manufacturing (transportation, warehousing, promotional) costs plus the targeted level of profit margin. Actual price fixing of course depends on the functional features of the product and the image of the brand. Then there is the degree of competition that dictates the price of a brand vis-à-vis its competing brands-. That is why you would find Pepsi and Coke priced at same level.
Price can also act as a communication tool. For example price package may give the message of affordability, exclusiveness, etc. Cartier watches, for example.

Placement: Physical distribution is the third dimension of marketing activity. Place convenience is needed to make purchase. A marketer has to decide about two things: Keeping in mind customer's requirements, first, what will be the channel of distribution; and, second, how will the goods be actually distributed.

Physical distribution activities are related to the movement of products from the production site to purchase point. While the buyer must get it in right shape and at right time, the sender should be able to ensure availability at minimum cost to him.

The marketer can either sell directly to the customers or through middlemen. A typical distribution chain could include movement of product from manufacturer to wholesaler to retailer to customer.

Promotion: Promotion is also called marketing communication. It aims at informing and persuading the customer to buy whatever the marketer is offering. Since a customer can be reached through a number of channels, companies undertake integrated communication, which is a combination of personal selling, advertising, public relations, and sales promotion.

Emerging Imperatives
Customer of today is the arbiter of corporate destiny. He is unrelenting, demanding, and finicky. He wishes to fulfill his needs in the most cost effective manner. Consumer spending is rising rapidly, while savings rate in India is falling. Alyque Padamsee says: "This is the land of Karma,

where everything is worked out for you, your destiny your kismet. But the Generation Now feels 'The hell with waiting for reincarnation!' They are breaking the Karma handcuffs. They are deciding that what they want is a better life now. If they have money they want to spend it now. But they are spending, intelligently, not indiscriminately. What are the today's realities?

- ✓ Today's customer is exposed to international quality, thanks to the entry of more players - from within India and abroad - in the market in post liberalized India.
- ✓ So he dictates specifications, quality standards, and even chargeable price.
- ✓ He wants everything here and now.
- ✓ Both budget shoppers and high spenders are demanding better return for the money they spend.

1.2. Diversity in Market Place

We as consumers differ in age, gender, education, occupation, marital status, activities & interests, preferences, opinions, foods they eat and products we buy.

There is diversity among marketers; not only among producers but also sellers. Traditional retailers, mass merchandisers, discount stores, and off-price stores But there has been a shift from mass marketing to niche marketing to direct marketing, from custom catalogs to television shopping to cyber shopping.

There is a great diversity in advertising media. In addition to the traditional broadcast and print media, we have ethnic media within a great variety of alternative media.

Recognizing the high degree of diversity among us, consumer research seeks to identify the constants that exist among the people of the world.

Figure 1.3 below shows us how consumers have changed over three decades. In fact, you can see in your own family, if you take your parents as buyers and yourself as a buyer and then see the difference in your behavior.

Changes in Consumer Behavior

1980s	1990s	2003
Conspicuous consumer	Frugal consumer, becoming more well-off	Suspicious but generally well-of consumer
Image-driven	Value- and quality-driven	Highly eclectic
Trusting	Skeptical and cynical	A "prove it" attitude
Brand loyal	Does not exhibit loyalty	Believe that there is always something better
Emotional buyer	Informed buyer	Highly informed and specialized buyer
Dreamers	Escapists	Focused on personal needs
Overindulgent	Health- and wellness- conscious	Health, wellness, and some overindulgence, without expectation of costs or consequences

1980s	1990s	2003
Overworked	Burned out, stressed out, and placing tremendous values on convenience and time	Reliant on technology and telecommunications to save time in making purchasing decisions
Industrious baby boomers	Responsible baby boomer	Unconvinced generation Xer

Fig 1.3 Changes in consumer Behavior

The commonality of need constitute a market segment, enabling the marketer to design specific products or promotional appeals to satisfy the needs of that segment To match the varying consumer tastes and behavior, marketers have also adopted strategies like stressing on value pricing i.e., high quality at a reasonable lower price and relationship marketing which in simple words would mean servicing to add to customer delight which can in the long run result in brand or store loyalty).

They have also taken steps by moving away from the traditional distribution channels, to customized designed channels and now to direct marketing or to selling directly to the customers.

Some changes in the major segments of life we can identify are as follows:
- ✓ Primary needs- health, hygiene, basic foods and clothing.

- ✓ Living styles- expressed in products such as jeans, fun foods, CD's.
- ✓ Imitation of the affluent and ego based life styles expressed in expensive watches, luxury cars.
- ✓ High technology to match global competitiveness- faxes, e-mail, Internet, photocopying machines along with CAD, CAM and imaging
  - ✓ The challenge before the marketer is to determine the appropriate marketing channels and consumer psychographics to have a better understanding of the behavior aspects of target market.
  - ✓ In spite of being surrounded by diverse goods and services, and the freedom to choose the desired product or service, there are also many similarities found among consumers.

Caselet #1: During 1996-1999 Ford Escort sold only 13,000 units since customers perceived in it real and imaginary problems. It earned the ill reputation of being a stogy car. Through it was a failed model, and has been withdrawn now, the company used it as a learning experience for developing a car exclusively for the Indian market, the IKON. First of all it decided to understand the customer, abandoning the conventional demographic route and decided to focus on psychographics. It asked the all-important question about Indian attitude towards life and role of car in it. It identified six distinctive customer clusters out of which it decided to address two: the affluent 'puppy' (young upwardly mobile professional Punjabi), and the 'full of life'. The former and the latter perhaps own a popular car already, are party animals, and enjoy fast and flashy lifestyle. Further, this company decided to focus more on second i.e., 'full of life' segment since this category partly subsumes the first one. The car was named the 'josh' machine. It turned out to be a great success. So we learn the lesson.

If we look at consumer Behavior as a discipline, we can say that:
- ✓ We as consumers did not always act or react as marketing theory suggested they would.

- ✓ Accelerated rate of new product development
- ✓ The consumer movement
- ✓ Public policy concerns
- ✓ Environmental concerns
- ✓ The opening of national markets throughout the world.

1.3. Buyer Behavior

Effective marketing must begin with "a thorough understanding of how and why customers behave as they do" (Merenski, 1998). Specifically, in order to tailor solutions to customers' particular needs and desires, the marketer requires a grounded knowledge of buyer motivations and decision-making processes, together with all those environmental factors which may exert influence upon them. Put another way, the marketer is seeking to address three basic questions: -

- ✓ Why does the customer want to buy a particular product or service?
- ✓ How will he or she decide which option to purchase?
- ✓ What factors may influence this decision?

To get a preliminary idea about the study and applications of consumer behavior complete the following table in terms of your own purchase behavior.

- ✓ What are your reasons for purchasing the products and services?
- ✓ Which brand do you normally purchase?
- ✓ How often/how much do you buy at a time?
- ✓ From where (retail outlet) do you usually purchase?

Conduct a similar exercise for one of your close friends and compare his/her purchase behavior with your own. Are there any differences? Identify the reasons for these differences.

Let us try to define Consumer behavior
Mental and physical activities undertaken by household and business customers that result in decisions and actions to pay for, purchase and use products and services

An important part of the marketing process is to understand why a customer or buyer makes a purchase. Without such an understanding, businesses find it hard to respond to the customer's needs and wants.

For a marketing manager, the challenge is to understand how customers might respond to the different elements of the marketing mix that are presented to them. If management can understand these customer responses better than the competition, then it is a potentially significant source of competitive advantage.

Consumer Buying Behavior refers to the buying behavior of the ultimate consumer. A firm needs to analyze buying behavior for

- ✓ Buyers' reactions to a firms marketing strategy has a great impact on the firm's success.

- ✓ The marketing concept stresses that a firm should create a marketing mix (MM) that satisfies (gives utility to) customers, therefore need to analyze the what, where, when and how consumers buy.

All this time we have been carrying out our discussion about consumer behavior without properly defining what or who is a consumer So who is a consumer? Let us now define a consumer.

A customer is a person in either a household or an organizational unit who plays a role in the completion of a transaction with a marketer or an entity

1.4. Customer Roles

A customer plays different roles

- ✓ **User –** the person who actually consumes or uses the product and receives the benefits –E.g. in the example of burger, the person who actually eats the burger
- ✓ **Payer –** the person who finances the purchase –E.g. the person who provides the money to pay for the burger
- ✓ **Buyer -** the person who participates in acquiring the product –E.g. the person who orders and/or actually hands over the money for the hamburger

In certain cases one and the same person could play all these three roles or it could be other way around also; i.e., different people could play different roles.

Concepts	User	Payer	Buyer
Role specialization	Users focus on performance value evaluation	Payer focus on budget allocations.	Buyers, often separate from users and payers, specialize in buying task.
Formalized process	Users submit a formal requisition and technical specifications.	Payer use sound budgeting practices.	Buyers follow well-laid-out policies and processes.
Accountability	Users accountable for correct specifications.		Buyers accountable for professional buying.
Internal capabilities	User capabilities may lead to in-house production .	Strong financial position can gain favorable terms for suppliers.	Buyers with low skills may draw on external advice.
Complexity	Need identification may be an extended process.		Buyers may need to coordinate with multiple suppliers.
Buy class	Users may automate the requisition for re-buys.	For new task buys, payers may have to juggle money.	Rebuys may be reutilized and automated. New task buys would require

Concepts	User	Payer	Buyer
			professional talents of buyers.
Buying center	Buying centre brings all roles together.	Payers often are the deciders in the buying centre.	Buyers bring vendors and users together
Decision process	Users most active at the specification and vendor screening stage.	Payers most active at the decision stage.	Buyers active throughout the decision process
Conflict resolution	Three roles often in conflict.	Payers often overly concerned with cost minimization.	

Pause for Thought #: What was the last item you purchased in a store? Did you go shopping specifically to look for it? Why did you buy it? Who was involved in you purchasing decision? Were you happy with the decision you made? Exercise: Make a list of all the things you noticed last time you went shopping. Include anything at all that crosses your mind, from things you actually saw or did to things you felt. Save the list for later!

Businesses now spend considerable sums trying to learn about what makes "customers tick". The questions they try to understand are:

- ✓ Why consumers make the purchases that they make?
- ✓ What factors influence consumer purchases?
- ✓ The changing factors in our society

The purchase of the same product does not always elicit the same Buying Behavior. Product can shift from one category to the next.

For example; Going out for dinner for you may be extensive decision making (for someone that does not go out often at all), but limited decision making for someone else. The reason for the dinner, whether it is a birthday celebration, or a meal with a couple of friends will also determine the extent of the decision-making.

1.5. Organisational and Consumer Buying

We often use the term Consumer to describe two different kinds of consuming entities: the personal consumer and the organizational consumer. The personal consumer is one who buys goods and services for his or her own use, for the use of the household, or as a gift for a friend. The organizational consumers include profit and not-for-profit business, government agencies, and institutions, all of which must buy products, equipment, and services in order to run their organizations.

Before going into the details of organizational buying, let us try to understand the basics of buyer behavior, i.e., why study consumers? And who is our customer (consumer)?

Organizational Buying vs. Consumer Buying

Marketing theory traditionally splits analysis of buyer or customer behavior into two broad groups for analysis Consumer Buyers and Organizational Buyers Consumer buyers are those who purchase items for their personal consumption Organizational buyers are those who purchase items on behalf of their business or organization

In contrast to consumers, organizational buyers represent those "buying goods and services on behalf of an organization for the purpose of the furtherance of organizational objectives" (Lancaster, 1999). Before highlighting some of the differences between the two, however, it is important to caution you against over stressing the differences. For instance, you may come across some authors who argue that buying goods on behalf of one's employers makes buyers more caution and rational than when purchasing consumer goods privately. However, on closer examination of the evidence, we see that the differences are almost exclusively related to price and very small anyway. So, please be aware that there can be differences, but they are by no means always universal – a single employee feeling poorly motivated towards his/her job on one day, for example, may well be far less cautious than on other days when all is well in the workplace!

The most obvious difference between consumer and organizational buying is that the underlying motivation is different; i.e. personal consumption versus business usage. There are other contrasts, however. Let us now identify these!

Setting for Buying: For consumers, the buying unit is within the household, whereas for the organizational buyer, the setting is within the firm. This means as an industrial marketer targeting the organizational buyer, you must take account of factors such as buying procedures, levels of authority, and so on, factors not relevant in consumer marketing.

Technical/Commercial Knowledge: You will see that usually, the organizational purchaser will be a trained professional, more knowledgeable than the average consumer purchaser. This can often necessitate a completely different sales approach.

Contact with Buyers/Distribution Channels: You will find that organizational markets are usually more geographically concentrated than consumer markets. Factors such as proximity to available labour, raw materials, and transportation facilities often dictate an industry's location. In addition, compared to consumer markets, there can be far fewer potential customers. Taken together, these variables mean that you, as an industrial marketer must normally maintain far more direct and personal contact with his or her potential clients.

Number of Decision-Makers: Normally in consumer purchasing, the number of people involved in the decision- making process can be very small; i.e. an individual, a couple, a family, etc. In organizational buying, however, a great many people can be involved in the purchasing process. This can mean differences in both the number of people marketing communications must attempt to convince and that quite different decisions might emerge as a result of group dynamics than might initially be anticipated on the basis of individual discussions.

Derived Demand: Organizational buyers often continually adjust their buying decisions on the basis of projected sales figures, buying more units when forecast sales are higher. The result can be a sort of “pendulum effect”, with a knock-on effect throughout the buying chain as each chain member adjusts it’s buying patterns accordingly.

Reciprocal Demand: Sometimes, a buyer can also be a seller at the same time. A software company producing a package for an insurance company, for instance, might also purchases its insurance services from what is effectively one of its own customers. Both companies want to sell to each other, affecting each other’s eventual buying decisions to a varying degree.
As we can see, there are subtle differences between consumer and organizational forms of buying.

Purchase Objectives

What do organizations purchase for? Organizational consumers purchase for:
- ✓ Further production,
- ✓ Usage in operating the organization, and/or
- ✓ Resale to other consumers
- ✓ Whereas,

Final (or ultimate) consumers normally purchase for:
- ✓ Personal,
- ✓ Family, or
- ✓ Household use

Industrial/organizational markets

Let us now look at the various participants and types of players in the Industrial markets:

Producer
- ✓ Manufacturers
- ✓ Service producers

Reseller
- ✓ Wholesalers
- ✓ Retailers

Government
- ✓ Federal
- ✓ State
- ✓ County
- ✓ Local

Institutional
- ✓ Charitable
- ✓ Educational
- ✓ Community
- ✓ Other non-business

Lets take the example of a telephone; think about the hundreds of components that are used in producing it. Each one of those component parts had to be sold to the telephone manufacturer. The part had to be designed such that it met the needs of the buyer, it had to be promoted in a way to make the buyer aware that it was available, it had to be distributed at the times and in the quantities that the buyer needed, and all of this had to be done in such a way that the part could be produced and delivered at a competitive price. There are hundreds of parts, wires, screws, glues, paints, and such that are marketed before the telephone is itself finally produced, marketed, and sold to a final household consumer.

This manufacturer must also purchase supplies that are not part of the product but are used in running the manufacturing operation. It must purchase computers, printer and photo- copier paper, desks and chairs, services to mow the lawn, etc. How is it that this manufacturer makes buying decisions that are similar in nature to household buyers? How is it that this manufacturer makes buying decisions that are different in nature from those of household buyers?

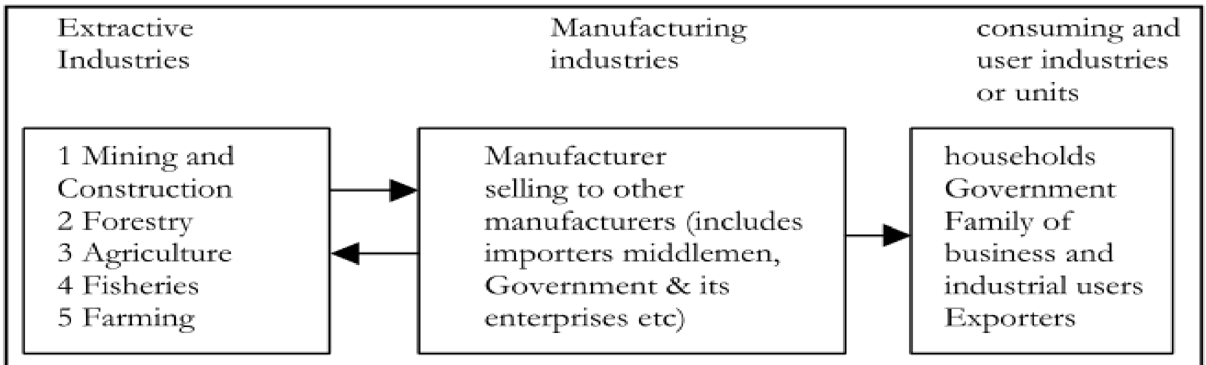

Fig 1.4 Participants in Industrial Marketing

Differences In Organizational Markets

We know that Organizational markets are different in nature from household consumer markets. Let us see how they are different!

- ✓ Use goods for further production, operations, or resale. Household, or final, consumers purchase products for personal consumption.
- ✓ Purchase equipment, raw materials, and semi-finished goods. Household purchasers almost always purchase finished goods for personal consumption.
- ✓ Demand is derived from that of final consumers. If you own a machine shop that makes bushings that are used in washing machine motors, then the demand for your products (bushings) is derived from final consumer demand for washing machines. If the economy is poor, and demand for washing machines is down, then so too will be the demand for washing machine motors and for the bearings that are used in them.
- ✓ Multiplier effect / accelerator principle: However, there will probably not be a one to one correspondence between these. If retailers find that demand for washing machines is declining, they might be conservative in placing new orders with wholesalers, perhaps ordering slightly less than what they actually believe demand to be. Wholesalers, in seeing their orders decline, might also be conservative in placing orders to manufacturers, ordering slightly less than what they actually believe demand to be. Manufacturers, seeing their orders decline, might order slightly fewer motors, and the motor manufacturers might conservatively order slightly fewer bushings than they actually expect to need. Demand for your bushings might experience wider swings, either up or down, than the changes in demand at the final consumer end of the supply chain. This makes organizational markets, especially if you produce some of the small parts at the beginning of the supply chain, very volatile.
- ✓ Can make items themselves. Competition in organizational markets comes not only from suppliers of similar goods and services, but can come from buying organization itself. If it is not happy with the supplier's goods, services, or delivery, then it can choose to make those products itself.

Differences in Organizational Transactions

- ✓ **Buying specialists are often used:** It is usually seen that organizations often employ people who are professional purchasing agents. Just as sales agents are professional specialists at finding organizations that need the products that their employer produces, purchasing agents are specialists are professional specialists at finding what their employer needs. Whatever stereotypes you might have from experiences with salespeople in consumer sales, any negative stereotypes of salesperson behavior probably would not be appropriate in dealing with professional buyers.
- ✓ **Often use multiple buying responsibilities:** A household purchaser is often the sole decision maker. Making a sale to an organization, however, often requires selling to several entities within the buying center. For example, you might be using a desktop computer at work, but the decision as to what specifications were needed might have been set by someone in the computer department, the decision to buy might have been made by your department manager, bids taken by someone in the purchasing department, and the final authorization made by the company president.
- ✓ **Often use multiple suppliers:** It is often desirable to have a long-term relationship with more than one supplier, even if a second supplier has higher prices for otherwise similar terms and conditions. If problems in quality or delivery are experienced with a supplier, production can still be maintained if the second supplier can be used to replace the first. The ideals of a cozy, trusting relationship that has been promised with strategic alliances in the popular business literature does not always work if it leaves one party vulnerable as a sole supplier or buyer.
- ✓ **More likely to require exact specifications:** A household purchaser might select a particular model of desktop computer for no other reason than it has a pleasing color. An organizational purchaser is more likely to set specifications regarding processor speed, memory, hard drive size, and such before taking bids on price.
- ✓ **Often lease equipment and space**. As a household consumer, you would probably prefer to own your own car, furniture, and home. These are things that represent personal expression, status, and wealth. Your objectives as a business manager, however, are very different. You might prefer to lease public warehouse space to provide the flexibility to change locations when the market demands, to lease trucks so that you can leave the problems of maintenance and disposition to someone else, etc.
- ✓ **More frequently employ:** competitive bidding and negotiation. Household consumers (especially those of us in urban settings) are more likely to accept as final a price that is placed on a product in a retail setting or to accept a price that is given to us by a service provider. As a business manager, your employer is more likely to require that you accept, say, three bids for a service or to negotiate various terms and conditions associated with product specifications, delivery, and price.

Types of Purchases

Straight Rebuy
- ✓ Routine purchase
- ✓ Associated with frequently purchased items

Modified Rebuy
- ✓ Routine purchase
- ✓ Frequent purchase, but buyer does review product specifications or supplier

New T ask

- ✓ Not routine
- ✓ Product needs and specifications researched, vendors evaluated

Straight/routine rebuy	Modified rebuy	Completely new task with negotiation
✓ Electricity, water, gas ✓ Office Supplies ✓ Gum Cigarettes ✓ Bulk Chemicals	✓ New cars/trucks ✓ Electrical components ✓ Computer terminal ✓ Consultancy services	✓ Complex buildings bridges, dams ✓ Installation (machinery etc) ✓ Custom built office or house

If we have to take an example of a straight rebuy situation, it could be the purchase of photocopy paper for a large organization. Once a relationship is established with a supplier who appears to be providing good products at good terms and prices, there is no need to re-negotiate the terms and conditions every time more supplies of paper are needed. The purchase of a large, expensive crane, however, would require more than a good relationship between a purchasing agent and a salesperson.

In a straight rebuy situation, the buyer is likely to periodically apply value analysis and vendor analysis.

- ✓ **Value analysis:** a periodic review of the qualities of the product for the price
- ✓ **Vendor analysis:** a periodic review of the services of the vendor (seller)

An annual value analysis of the paper in the above example might show that the product performs well, but a vendor analysis might show that the vendor is often late in deliveries and often delivers the wrong assortment of products. In this situation, the purchasing agent might search for a new supplier of the same brand of paper.

Buying Center

Recall that there are often multiple decision makers involved in organizational purchases. This requires that the marketer is aware of the needs of the various constituencies involved in making decisions. Additionally, there can be constituencies in an organization who do not have decision-making authority, but who nonetheless might have some influence over the purchase and consumption process.

- ✓ **Users:** If you are a secretary, you might have had the experience of arriving to work one day to find a new typewriter on your desk, whether or not you even wanted it. A salesperson would not call on you if you had no influence over what product was purchased. However, if you and your co-workers submit numerous complaints about missing or problematic features of the new replacements, the salesperson might be faced with a very expensive customer service problem to solve. A user is the end consumer of a product.
- ✓ **Influencers:** Perhaps in this case, the office manager was consulted with regard to features or specifications to set in the purchase of new typewriters. Although the office manager might have no decision-making authority with regard to the purchase, whatever specifications s/he requests could be used without change in making the purchase. A salesperson might need to be aware of

these influencers - a special trick is to get the influencer to write a specification list that happens to match the seller's product features! An influence is someone who has influence over what is purchased.

- ✓ **Deciders:** In this case, some middle manager, ignorant of the needs of secretaries, might have made the decision as to when and what to purchase. The point of this statement is that the marketer or seller must be aware of how it is that decisions are made and often must focus some or all efforts at whomever it is that makes decisions in the organization. Note, however, that decision-making authority does not necessarily mean that this person exerts any influence on what is purchased. The company president might be the only person who signs all purchase requisitions, and therefore has ultimate decision authority, but might otherwise merely sign some requisitions without question or involvement. A decider is someone who ultimately has authority if or what to purchase.
- ✓ **Buyers:** The final purchase transaction might be left to a purchasing agent who otherwise has no involvement in decision-making. A sales agent for an office equipment supply house might help an organization to decide what brand of typewriters would be best, but that organization could then allow the purchasing agent to find the best deal on that brand, and the best deal with regard to price might come from a competing office supply house. A responsibility of salespeople, then, is often to maintain good, trusting, and long-term relationships with the purchasing agents in prospective buying organizations, whether or not they have purchased in the past. A buyer is someone who arranges the transaction.
- ✓ **Gatekeepers:** Why do salespeople often give secretaries little gifts of chocolates or flowers or an occasional free lunch? A secretary can be nice or nasty in passing information in either direction. The prospective buyer's secretaries can be helpful in providing names, telephone numbers, and office hours of key members of a buying center in an organization. They can also be helpful in passing messages from the salesperson to members of the organization. A gatekeeper could include anyone in the organization who can control the flow of information. Some books use the term Decision Making Unit to describe the notion of the buying center, and some additionally include the entity of initiator. An initiator would be a person who initiates the idea or a purchase. Note that the idea of the Buying Center is conceptual - there is no such department in any organization!