LEARNING OUTCOMES

After reading this chapter you will:

- know how the nature of a company’s activities and its business strategy affect its dealings with supply markets;
- understand differing purchasing orientations and their contribution to a customer’s acquisition of supplier resources and capabilities;
- be able to explain the buying process and reasons why this process can vary;
- be able to describe the membership and characteristics of the decision-making unit;
- be able to explain how and why individual needs can sometimes override rational decision-making;
- know about the job of the purchasing professional;
- understand how buying has evolved in the digital era; and
- understand the implications of these factors for the business marketer.
INTRODUCTION

Few customers, private or organizational, are self-sufficient, able to maintain their existence by satisfying their needs without drawing on the capabilities of suppliers, and without purchasing products marketed by those companies. To function and to achieve objectives require that an organization has access to supply markets from which it can obtain products to support its own activities. Behaviour associated with gaining access to necessary supply markets and products is affected by a variety of factors. Some of these are external to an organization, such as general macro-environmental forces, as well as influences that are more peculiar to the sector and market in which the organization operates. In addition to these external dynamics, purchasing is affected by what goes on inside a firm. So consideration has to be given to how organizational characteristics, as well as group and individual factors, affect purchasing behaviour and decisions (Webster and Wind, 1972). The central themes in this chapter lie in understanding what goes on inside a business and how organizational, group and individual forces influence the purchasing behaviour of business customers, and the implications for the business marketer of the way in which organizational customers deal with supply markets as a result of these forces.

ORGANIZATIONAL FACTORS AFFECTING PURCHASING DECISIONS

Organizations are not faceless and monolithic; rather they consist of human beings who repeatedly make decisions and take particular courses of action regarding purchasing. So the organizational factors discussed here inform the purchasing behaviour of managers in customer companies.

The nature of company business

We can think about our customers in terms of the industry sector or market in which they operate and how the dynamics in these industries influence their purchasing behaviour. However, it is possible to operate at a more general level by thinking about the ‘technology’ associated with our customers’ businesses. By this we mean the way that a customer organizes their own activities in order to perform transformation processes that represent the essential components of their value-adding activities (Woodward, 1965). A company can be categorized according to whether its activities are essentially based on unit, mass or process production technology. This classification system could be criticized because it is derived from the manufacturing and engineering industries, while in the previous chapter we saw the huge importance of the service sector. Nevertheless the categories can be used – irrespective of whether a customer organization might be viewed as essentially a manufacturing, engineering or service business – to generate some understanding both of the nature of the key product capabilities that customer companies might purchase, and of the expectations that might be placed on suppliers.
Unit production involves the design and supply of products that are tailored to specific customer requirements. The bespoke products are typically associated with major capital investment projects, with a company’s production activity being triggered by, and adapted to meet, the requirements of the individual customer. The technological complexity and scale of such projects affect the supply needs and purchasing behaviour of organizations whose business activities essentially revolve around competing for and supplying such major investment projects. A company will have the technical competence and operational capabilities both to design and produce some components/parts that are an essential piece of the final product and to assemble/configure and install the finished product.

However, the company also has to draw heavily on the design and production capabilities of suppliers that provide the materials, components or equipment that are central to the finished project as well. The unit production company typically requires the involvement of such suppliers in its design and production/assembly phases and requires coordination among its various key suppliers to ensure the completion and financing of these major projects. Companies whose business is geared around unit production include organizations such as Mitsubishi Heavy Industries Ltd. The company’s Energy Division competes for multi-million dollar projects worldwide to provide power generation installations and distribution systems, requiring it to work with a variety of subcontractors in order to assemble the finished systems. Other businesses, such as those supplying organizations with bespoke and complex information and communications technology (ICT) systems, again work in a similar way. British Telecommunications plc (BT), for example, installs and manages ICT systems such as that which will be used by the Fiona Stanley Hospital in Perth, Western Australia. The system draws on BT’s information communications expertise, but to assemble and operate this bespoke system it has to draw from the technological capabilities of other parties. The complexity, scale and bespoke nature of such products mean that purchasing lies within the remit of the team assembled to oversee the project, with managers that are responsible principally for the technical content of the final product assuming a key role in dealing with suppliers. (Visit www.globalservice.bt.com to learn about other complex, bespoke solutions.)

In contrast to unit production businesses, a mass production company is involved in the design and supply of high-volume, standard products. Operational efficiency and a low cost base are central to the ability of mass production companies to compete. This efficiency is in part determined by the equipment used and the integration of the various sections that make up the company’s primary production activities. The materials and components used to make up a finished product also contribute to the company’s cost base. To maximize the efficient use of its resources, a company’s production activities will be characterized by a high degree of inflexibility, requiring that the supply of materials and components used in primary operational activities be precise, regular and consistent. To this end the company would expect key suppliers to adjust logistical and administrative procedures to suit its requirements, to link these procedures with its own operations and to invest in systems such as just-in-time (JIT) delivery and extranets. The importance attached to the stable and secure flow of materials and components to support the buying organization’s primary production activities often results in the company seeking to have some
influence over the behaviour and activities of businesses that are not immediate suppliers but are nevertheless part of its supply chain.

A mass production company’s ability to compete is determined not only by its low cost base but also by the regular introduction of new products into its target market. The company’s key material and components suppliers would be expected to contribute to the buying organization’s new product development activities. When new products are being developed, a supplier will have regular contact with the buying organization’s design and technical managers. However, once a supplier’s material or component proposal is accepted and becomes part of the customer’s product specification, then the principal point of contact is with the purchasing function. Companies that operate in this way with their supply markets are quite diverse, ranging from high-volume car manufacturers to food processors such as Heinz and Nestlé. For food processors, efficient operations are central to the company’s ability to remain cost competitive. A key contributor to a food processor’s product costs lies not in the food that it provides to consumers but in the packaging that contains and preserves that food. In addition to this, the packaging acts as an important marketing tool for the food company. So the packaging supplier makes a significant contribution to the food processor’s finished product, with companies simultaneously trying to reduce packaging costs and develop innovative designs. For example, if you think about olive oil, you might picture it in tin cans or bottles. Oil is particularly vulnerable to light and air, such that the oil’s properties quickly deteriorate. So glass bottles are not ideal for olive oil. Packaging supplier Tetra Pak has worked with one of its customers, the Spanish oil producer ArteOliva, to eliminate this problem by developing a carton package for the customer’s oil products. Having developed a packaging product that worked, all that remained was to convince retailers and consumers of the added value offered by the new packaging form; that is, an oil with a longer shelf life but one which retains its health-giving properties. (Visit www.tetrapak.com for other case study examples of packaging solutions provided by the company.)

While the ideas of mass production have obvious resonance when we think about companies producing tangible consumer goods, they can be extended to service businesses. If we take the retail sector, for example, and think about large chains such as Aldi, Carrefour, Ikea, Mercadona, Sainsbury and Wal-Mart then these firms operate on the same principles, where the key to business success is the ability to keep costs per square metre to a minimum. Supply continuity is important and retailers will, for example, work with key suppliers to maximize the efficiency of retail operations.

As with mass production, the process production company is involved in the manufacture of high-volume products, with low cost, operational efficiency and therefore supply continuity being central to the organization’s performance. A key distinction is that the process producing firm does not assemble finished products; rather its business centres on the processing of raw materials for use in other supply chains. The company will typically consume high volumes of necessary materials, with those that have a standard specification being sourced via commodity markets. Others, which may be unique to the buying organization’s requirements, will be purchased from specialized suppliers. Consumption volume, the importance of supply continuity and the effect of raw material prices on the
processor’s business performance mean that although a company might have buyers responsible for purchasing specific commodity materials, corporate management will also have some involvement in purchasing activities. The equipment used as part of the organization’s primary processing activities is central to the business’s performance. Equipment purchases are infrequent, but they represent complex capital investment projects, with suppliers becoming involved with the buying company’s project team at the early stages of an investment project. Businesses involved in process production include steel manufacturers such as Baosteel and utilities companies such as E.ON.

Business strategy

In addition to thinking about a customer’s operational ‘technology’, vendors could also consider the customer’s business strategy as this can give some indication of the way in which the customer will deal with supply markets. A firm’s generic strategy defines the organization’s competitive domain and how it will position itself against competitors. Decisions made at the business level regarding a firm’s competitive strategy are guided by and also inform actions and decisions at the functional level, including purchasing. So, for example, a firm that adopts a product leadership strategy relentlessly pursues innovation in order to offer customers leading-edge products that consistently enhance the value derived by its customers in their use of the company’s products (Treacy and Wiersema, 1993). Product leadership requires that a company has excellent technical and creative abilities and that it is able to use its own experience and learning capability to drive a rapid rate of product innovation and obsolescence. As well as managing its own internal product development processes, the involvement of suppliers in those processes is also key to the firm’s ability to pursue a product leadership strategy. Business marketers striving to supply companies such as Intel or Mercedes will need an intimate knowledge of these companies, the ability to offer design and product expertise to contribute to their development activities, and sufficient responsiveness to support Intel and Mercedes’ pursuit of innovation.

An alternative strategy is that of operational excellence, where a company competes by providing reliable products with minimal inconvenience to customers and at competitive prices (Treacy and Wiersema, 1993). Clearly, businesses adopting this strategy must contain costs to enable them to satisfy customer requirements at the lowest possible cost. A company might rethink the design and implementation of business processes, eliminating activities that are redundant and reconfiguring others, such that the use of resources is more efficient. Business marketers dealing with such companies would expect procurement of products to be organized around keeping costs to a minimum. Cost containment and ways to improve it would be an ongoing and central feature of dealings with suppliers. For example, efficient ground services such as aircraft refuelling and luggage handling are important for any airline. However, these airport services are essential for low-cost companies such as EasyJet and IndiGo to enable fast turnaround and maximize the flying time of aircraft.

Customer intimacy represents the third strategy identified by Treacy and Wiersema (1993), in which a company competes by developing adapted market offerings that are based on
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a detailed understanding of and ability to predict changes in customer requirements. To satisfy requirements, such that customers value these offerings more than competing alternatives, necessitates that a company has the internal flexibility to respond quickly to shifts in demand and is able to draw from the expertise of suppliers who are equally responsive to changing customer needs.

For an example of how one company’s competitive strategy underpins its strong business performance, see B2B Snapshot 2.1.

B2B Snapshot 2.1  Clothes maketh the man ...

Zara is a leading international fashion company, with stores retailing the 18,000 garments created each year by its Spanish design team. The company responds directly to customers’ tastes for specific trends, using information harvested from the shop-floor to adjust design and garment supply. So, for example, if sales figures from store electronic point of sale (EPOS) systems around the world show that a three-quarter sleeve cardigan is selling better than a full length one, then the most successful is produced in quantity and the information is fed back to the design team who create further variations of this design. Besides trying to be ‘in the skin of the customer’, Zara’s success results from its short supply chain: the company sources items with the broadest and least-transient appeal as finished goods from countries such as Morocco and China, with the majority of its garments being produced in Spain. Although Zara undertakes high-volume activities in-house (dying, cutting, labelling and packaging), labour-intensive finishing is carried out in Spain by a network of 300 small companies, who in return for supply exclusivity receive technological, financial and logistical support from the fashion company. And does it work? Well the system is flexible enough to cope with sudden changes in demand, and in 2012 Zara posted profits of £1.3bn.


To realize corporate goals, organizations increasingly seek to undertake activities in a way that might be considered socially responsible, i.e. taking account of the social, economic and environmental impact of their actions and considering human rights. Environmental protection and sustainability are a central aspect of corporate social responsibility (CSR), not least because of legislative requirements that organizations must satisfy (the nature of which will vary by industry) and its use by some firms as a central part of their business strategy. Its importance relative to an organization’s overall strategy guides the behaviour of managers and also affects dealings with suppliers (Giunipero et al., 2012). For example, the business of the small German brewer Neumarkter Lammsbräu is built around
the production and marketing of ecological beer. This has required the company to work closely over a number of years with, for example, raw materials suppliers to ensure the suppliers’ material production complies with its own ecological policies. The central thing for the business marketer is to understand the nature and priority placed on sustainable purchasing and supply by customers.

**Purchasing orientation**

A company’s approach to acquiring resources and capabilities from external supply markets, its purchasing orientation, is guided by the expected contribution of purchasing to that organization’s performance. Purchasing orientations will differ between industries and between firms within the same sector. In fact, a single organization will vary its orientation depending on the product to be sourced. Anderson and Katz (1998) identify four different orientations, while Dobler and Burt (1996) propose three. The basic principles that underpin these two different taxonomies are essentially the same. For simplicity and clarity, the discussion that follows uses Dobler and Burt’s (1996) classification of purchasing orientations: namely buying, procurement and supply management.

The **buying orientation** uses purchasing practices whose principal purpose is to achieve reductions in the monetary value spent by a company on bought-in goods and services. Decisions are driven by attempts to get the best deal for the buying organization and to maximize power over suppliers in order to do this. Suppliers are selected based on their ability to meet quality and availability requirements and to offer the lowest purchase price or to meet target prices set by the purchaser. The buying organization sets target prices for its suppliers by determining the price at which it can sell its own products to its target market. The company then works back from this, calculating what proportion should come from items that it obtains from suppliers and which ones go into its finished product. The supplier is then presented with a maximum price that it cannot exceed if it wants to win the customer’s business.

Having and being able to use a powerful negotiating position to broker deals that serve mainly the interests of the customer company is an important factor in the buying orientation. The customer might centralize purchasing decisions, thereby consolidating volume requirements and enhancing its negotiating position. As well as consolidating company supply needs, a customer can enhance their negotiating power by using multiple sources of supply for the same product category and by playing suppliers off against each other. The buying decisions have a short-term focus with orders being awarded to suppliers that offer the best prices, quality and availability. As we will see in our subsequent discussions, web-based search and purchasing activities make it that much easier to identify and transact with sources of lowest cost supply across the globe.

For many companies, the cost of bought-in goods and services can account for up to 70 per cent of net sales. A saving of €10 in purchasing costs has the same effect on company profitability as an increase in sales revenue of €60. The recognition that purchased items and therefore the purchasing function can have such a dramatic effect on an organization’s financial performance has led to many firms trying to ‘buy better’. The emphasis
shifts from getting the ‘best deal’, to optimizing the purchase resource, to increasing productivity. This is the procurement orientation and use of this approach changes the way that purchasing managers deal with suppliers and with other functions inside their own company.

In striving to increase productivity a firm will not select and review suppliers according to specification conformance and lowest-priced offer, but will base the evaluation and decision on total cost of ownership (TCO). TCO looks at the true cost of obtaining a product from a given supplier, and involves a company measuring costs that are most significant for that product in terms of its acquisition, possession, use and subsequent disposal. TCO varies depending on the category, value and volume of product purchases. Obvious targets for using a TCO approach are products that are used over an extended time period, such as capital equipment and purchases of raw materials, manufactured parts and MRO items that involve large financial sums and/or ongoing, repetitive buying activities (Ferrin and Plank, 2002). Being able to identify the main cost drivers of different product categories requires that purchasing managers work with and have access to information both from other functions inside the company that handle and use the different products and from product suppliers. For an example of how one company used TCO in a purchase decision, see B2B Snapshot 2.2.

B2B Snapshot 2.2  Life-cycle costing pays dividends for logistics business

For a logistics firm, its fleet of trucks represents a major capital investment. One company used life-cycle costing (another term for TCO) in its decision to switch to a new vehicle supplier. As well as the purchase price of vehicles, it estimated operating cost per mile, productivity and the resale value of different manufacturers’ vehicles. It switched supplier when it estimated that it could save up to $7,000 per lorry with an alternative vehicle. The new fleet of trucks is costing the company less to run. Fuel spend is down by 30 per cent, and as its mechanics get used to the new vehicles, the company expects servicing costs to fall too (even the windscreens on the new trucks are easier to replace). In addition to such measurable costs, the company has seen other improvements that it hadn’t included in its calculation. Drivers have reported a better ride and a quieter cab. Since the firm uses teams to run its vehicles, being able to sleep while your driving buddy is at the wheel is important. The firm believes that the better cab has contributed to lower driver turnover, which is important when you rely on a core group of drivers to help to run your business.

Rather than providing suppliers with target prices as a condition for awarding contracts, companies adopting a procurement orientation are more likely to use **target costing**. The principle is the same as that already described, in that the company will work back from the price at which it can sell its own products to target customers. However, by setting a target cost instead of a target price the company gives a supplier considerable scope to determine how this might be realized. Instead of meeting prescribed quality, availability and price specifications, the supplier can look at the customer’s acquisition, possession, use and disposal (TCO) of the product that it is being asked to supply, and look at ways in which these might be rethought in order to meet the buyer’s cost target.

Reducing total ownership costs requires a willingness and a capacity to share information and more closely align activities between supplier and buyer organizations. The purchase-and-supply process and the handling of goods can be improved by the use of e-business tools and JIT delivery systems such that administrative and material flow costs are reduced. The investment and coordination needed to achieve such improvements mean that when dealing with suppliers and making purchase decisions the buyer has to take a longer-term perspective, and negotiations might be informed by efforts to satisfy the needs of both parties rather than just those of the buying organization.

Some firms broaden the scope of their dealings beyond immediate suppliers and customers in the knowledge that their own performance is linked to the activities of other companies in the same value chain. A **supply management orientation** is driven by efforts to **maximize value** along that chain. This typically results in:

- companies assessing core competencies and key capabilities to determine what activities they will perform themselves;
- the outsourcing of activities to which companies do not add value;
- the purchase of ‘product systems’ that are central to the buying organization’s own operations or finished product;
- larger organizations driving change along a supply chain; and
- the restructuring of supply markets such that a company will rely on a small number of direct suppliers and a larger network of second- and third-tier suppliers.

The purchasing function and how it handles a company’s supply chain become key strategic contributors to the firm’s performance. The firm might be involved with fewer direct suppliers but their contribution will be much more important in terms of product expertise, involvement in the company’s development activities, and in the case of systems suppliers, coordination of activities with second- and third-tier suppliers. The purchasing task is obviously more complex with this approach, and those with supply management responsibilities have to work closely with other managers across a variety of functions in their own company and in other firms in the supply chain. The importance of key suppliers means that manager behaviour in dealing with those suppliers is guided by the need to ensure the long-term viability of both parties.
Segmenting purchase categories

All organizations buy a range of products. These products vary in their importance to the company, so the purchasing orientation adopted is likely to vary too. To determine what approach to take in dealing with supply markets, a company might segment its purchases by product category so supply risk can be kept to a minimum and purchasing power can be exploited (Kraljic, 1983). Profit impact can be explained as the extent to which items add significant value to the organization’s output either because they account for a large proportion of that output (for example, hotels for a package holiday company) or because they have a significant impact on quality (for example, packaging used for consumer foods and drinks). Supply risk refers to the vulnerability of product availability, either because of scarcity of the item itself or supply chain instability, or because there are simply a limited number of suppliers. Figure 2.1 shows how these criteria result in four purchase categories and possible strategies for the buyer (Gelderman and van Weele, 2003). The interpretation of profit impact and supply risk will of course vary depending on the industry in which a company operates, the firm’s own activities, as well as the approach of both supplier and customer companies to exchange relationships. Although the latter is something that we discuss further in Chapters 3 and 9, what needs to be borne in mind is that the buying organization’s handling of a supplier can contribute to that organization being attributed preferred customer status by the business marketer (Ellis et al., 2012).

Figure 2.1  Segmenting purchase categories (Gelderman and van Weele, 2003)
Marketing implications of a customer’s purchasing orientation

Knowing the purchasing orientations of customers and the way in which suppliers and their products might be categorized by them can help business market managers decide which customers to target and how to formulate solutions for the supply needs of those customers. If a customer adopts a supply management orientation and a supplier’s product is classed as strategically important (high profit impact and high supply risk), then the supplier has the scope to become a key contributor to the customer organization’s strategy. Obviously this requires that the supplier has the technical, financial and human resources to operate with the customer in this way.

For less important products such as MRO items, efficiency is the key priority so a customer might adopt a buying orientation. This means that a company supplying such items has little scope to do much other than concentrate on internal efficiency, and deliver according to the buyer’s price and contract specification. However, this does not stop some companies from trying and succeeding to add value and changing the way in which the buyer might deal with them. See B2B Snapshot 2.3 to learn how one company has successfully done this.

**B2B Snapshot 2.3  Not just a spare part**

Beverage can manufacturers produce several millions of cans each day and have to maximize plant availability 24/7. One MRO supplier worked with its beverage can customer to see how parts supply and equipment maintenance could be made more efficient. The supplier assisted the customer’s improvement initiatives by providing product substitution on some items (including buy-back of obsolete stock) and identifying duplicate inventory (as part of the customer’s product standardization and consolidation measures). For larger items, such as the motors used to run the beverage can production equipment, the supplier even took over responsibility for managing the customer’s stock of motors. The MRO company’s motor expertise and experience of dealing with motor suppliers meant that it was able to predict what the beverage company needed before it knew itself, and it succeeded in reducing the customer’s motor inventory cost by 70 per cent. The MRO supplier is considered a strategic partner by the customer, to the extent that senior executives from both companies communicate with each other on a regular basis.

Source: adapted from Avery, 2003.

**THE PURCHASE PROCESS**

**Decision-making**

When a customer buys a product, the purchase is not necessarily a single act or isolated event; rather it consists of a number of linked activities, namely the decision-making process. In business markets, buying consists of the following activities:
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- **Need/problem recognition.** Purchases are triggered by two factors. One is the need to solve specific supply ‘problems’ such as the identification of under-capacity. This would trigger the purchase of extra ‘production’ capability in the form of operations equipment, temporary staff or the subcontracting of the production activity. Others might relate to ways in which the organization can improve its operational performance or pursue new market opportunities. If the company has to develop new products to realize those opportunities, then it will look to its supply markets for help in doing this. At this stage the organization might explore ways in which ‘need/problem’ might be addressed by investigating similar solutions, practices or products. E-business systems enable managers to start with online research and engage with other users before contacting potential vendors (Needles, 2010). This could be within their own, related or quite diverse sectors, but the key point is that managers likely to contribute to the purchase process explore possibilities by examining information and engaging in discussion forums within industry sectors or user groups, scrutinizing technical content such as that contained in white papers (published online by suppliers), or scanning professional publications. This initial exploration can help the customer company to further refine the precise nature of its requirement.

- **Determining product specification.** Based on the satisfaction of supply need, the company then draws up a specification for the item. The specification could include any or all of the following:
  - what the product will be required to do (functional);
  - its physical properties (technical or material);
  - how the product should be produced (process); and
  - outputs that the customer expects from using the product (performance).

Depending on what is being purchased the specification will obviously vary, as will the range of functional managers from across an organization that contribute to determining the specification parameters. For vendors, this stage in the buying process can be critical. If the company has contact with managers involved in agreeing the specification then it has some scope to influence that specification and potentially lock out competing suppliers.

- **Supplier and product search.** Here the buyer will look for organizations that can meet its product need. This search centres on two basic issues: finding a product that will match the buying firm’s specification, and organizations that can satisfy the company’s supply requirements. The amount of effort invested in this stage will depend on the cost and importance of the purchase as well as how familiar the buyer already is with the supply market. However, electronic searches, access to product or industry specific directories and the ability to place requests for tender online can accelerate and simplify this search process.

- **Evaluation of proposals and selection of suppliers.** Evaluation of proposals will vary depending on the complexity and risk attached to the purchase decision. The importance attributed to the various choice criteria among members of the decision-making unit will also vary. Evaluation will normally consider the compatibility of a supplier’s proposal against the buying company’s product specification and an assessment of the supplier organization itself. The weighting attached to and the nature of the assessment of the supplier organization will be determined in part by the customer’s purchasing orientation and therefore the expected contribution of suppliers to the buying company’s own business. So evaluation can relate to the product specification as well as how a customer wants to engage with potential suppliers. See Table 2.1 for a list of possible criteria and what product and supplier evaluation might look like, and B2B Snapshot 2.4 for observations on green buying.

- **Selection of order routine.** Once a supplier has been chosen then the purchasing manager will normally be responsible for negotiating and agreeing processes for order delivery and payment.

- **Performance feedback and evaluation.** This can be a formal process in which user departments regularly complete evaluation sheets designed by the purchasing team. The results will typically
feature as an agenda item at meetings between the supplier and customer organizations. Alternatively, evaluation might be more informal, featuring as part of the daily exchanges between the companies.

Table 2.1 Supplier selection and evaluation

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Source: adapted from Bevilacqua and Petroni, 2002; Ho et al., 2010.

B2B Snapshot 2.4 Business buying: shades of green

In the twenty-first century, sustainability has once again gained prominence around the world, and reduced environmental impact is frequently articulated as a corporate priority. But this importance is not always translated into requirements placed on suppliers other than legislative compliance and minimum levels of performance expected by customer companies. Where sustainability is not a fundamental organizational value then its importance can depend on the industry in which a business operates, stakeholder expectations of organizations in that sector (Ho et al., 2010; Tate et al., 2012), and in some instances it becomes part of health and safety measures in supplier evaluation (Ho et al., 2010). The key thing for the business marketer is to understand the criteria that customer companies use in relation to environmental performance when evaluating suppliers, and the relative importance of these.
Variations in the purchase process

The stages in the decision-making process might not be followed sequentially; some of the stages might be omitted altogether; and the time and effort invested in completing the various stages will vary. A key cause of variation in the process is the degree of risk associated with the purchase decision. Risk is an inherent feature of exchange in business markets, where managers have to deal with uncertainty and possible negative consequences surrounding purchase and supply decisions (Mitchell, 1995). For the business customer the decision-making process can vary depending on the buying organization’s familiarity with and experience of the product to be purchased, such that it is faced with three different buying situations: new task, modified re-buy and straight re-buy (Robinson et al., 1967). These different situations are derived from the ‘newness’ of the task that the buyer has to deal with, and will affect the extent to which current or alternative suppliers are considered in order to solve the purchasing problem, as well as the amount of information sought and used to guide the decision at hand. Robinson et al.’s (1967) buygrid framework links different buying situations with the use of information and choice of suppliers and is used by managers and researchers alike because of its simplicity and intuitive appeal. The buygrid does, however, consider only one factor likely to affect the buying process (task newness) while ignoring others, such as the importance of purchasing to the organization, and market conditions, such as the range of suppliers from which the company can choose and the purchasing power held by the customer organization relative to its supply market (Bunn, 1993). By extending the range of factors likely to affect the decision process, further variations in it become apparent, such that the customer’s approach to solving the supply problem can mean that:

- in a new-task buying situation, a judgemental or strategic buying approach might be used;
- a modified re-buy might consist of either a simple or complex buying approach; and
- for straight re-buys, the company might use casual or routine low-priority purchasing approaches. (Bunn, 1993)

New task

In a new-task situation the organization is faced with a purchasing decision that is completely different from previous experiences. This means that the organizational customer needs large amounts of information so that those involved in making the purchase decision can consider alternative ways of solving the supply problem. The uniqueness of the task can also lead to the company considering a number of potential suppliers. Such new-task buying situations can be split into those in which a judgemental buying approach is used, while in others a strategic buying approach is more likely (Bunn, 1993).
The judgemental buying approach is typically associated with the highest degree of uncertainty. The product might not be of major strategic importance to the firm, but the buying company is in a position where it has difficulty in articulating a precise product or performance specification for its purchasing problem. This difficulty can be the result of the company’s lack of prior experience in solving similar supply needs. It can also be because the sought-after solution is technologically complex, with the products available from various suppliers being difficult to evaluate. Such a situation will trigger a moderate degree of search effort both in terms of the breadth and depth of information sought from suppliers as well as the number of suppliers considered to solve the purchasing problem. The fact that the firm has difficulty in clarifying the necessary product/performance specification means that analytical tools normally used to evaluate supplier proposals are not likely to be used, and neither are the formal procedures normally followed for higher-risk purchasing decisions. Instead, the purchase decision will be based on the personal judgement of a small group of managers.

The strategic buying approach, as it suggests, is associated with buying decisions that are strategically important to the business customer. This could be because the purchase represents a key contribution to the customer company’s operational activities or to their own products, and/or because the purchase involves significant financial outlay for the company. The potential effect of such purchase decisions on the company’s performance means that they can feature as part of corporate planning activities and require a long-term perspective with regard to the management of the business’s supply needs. It also means that considerable effort is invested in obtaining and evaluating information regarding suppliers and their proposed solutions, and in negotiating with those suppliers.

**Guidelines for the business marketer in new-task buying situations**

Suppliers that encounter customers dealing with new-task buying situations can try to build a strong position by becoming involved in the decision-making process at an early stage. This involvement can include obtaining information on the nature of the purchasing problem the customer is seeking to address, identifying specific product/supply requirements and formulating proposals to match those requirements.

Companies that already deal with the buying organization (‘in-suppliers’) have an advantage over other firms during their dealings with the customer, since they are likely to encounter the new purchasing problems that it is trying to address as a consequence of regular, ongoing exchanges. Alternatively managers from the customer company may approach an in-supplier because of their familiarity with that supplier and its capabilities. The key for the in-supplier is to monitor the changing needs of the customer and to be able to support the company in such new-purchase situations. Although the ‘out-supplier’ does not have the advantage of dealing direct with an existing customer, digital search and communication technology does nevertheless mean that the business marketer can identify potential opportunities in the early stages of the buying process (which we discuss further in Chapter 7).
Modified re-buy

Situations involving repeat purchases in which the customer deviates in some way from previous purchase decisions to satisfy essentially the same supply need are classed as modified re-buys. Various factors can trigger this deviation, but the principal cause is normally the company’s dissatisfaction with its existing supplier. Such repurchase situations can be either simple or complex.

A simple modified re-buy involves the purchase of a product and involvement with a supply market with which the customer is already familiar, so the information search can be quite limited. Previous experience and product sourcing also mean that the purchase lends itself to the use of standard buying procedures. The product may be of some strategic importance to the buying organization with only a limited set of choice alternatives open to the company. This results in the sourcing of the product featuring as part of the firm’s long-term planning of supply needs and management of relationships with vendors.

A complex modified re-buy is characterized by purchase situations in which the customer is faced with little uncertainty and a large choice of possible suppliers, which in turn enhances the negotiating position of the buying organization. This type of purchase situation is the one most likely to exhibit all stages of the decision-making process. A key feature of this is the search for large amounts of information, the use of sophisticated analysis techniques to evaluate proposals, and the adherence to established purchase procedures. A significant proportion of complex modified re-buys involve the purchase of products that originate from previously negotiated contracts. The clarity of the product specification and the choice of possible suppliers mean that the buying organization can readily evaluate costs and prices on a repeated basis. The clarity of the decision is arguably suited to competitive bids, and therefore offers potential scope for the use of online auctions.

Guidelines for the business marketer in modified re-buy situations

A modified re-buy occurs because the customer sees potential benefits from re-scrutinizing alternative supply solutions. An in-supplier’s principal objective is to move decision-makers from a modified to a straight re-buy, reducing or eliminating these perceived benefits. To do this the in-supplier should invest significant effort in understanding and satisfying the customer’s purchase requirement, and in the event of problems occurring, should act to resolve these immediately. Conversely, the out-supplier has to try to keep the customer in the modified re-buy situation as long as possible to enable the customer to evaluate alternative supply solutions. Having some idea of the factors that led the customer to re-scrutinize alternatives can be helpful, particularly if the out-supplier can offer performance guarantees in relation to these factors.

Straight re-buy

As the term suggests, this type of situation involves purchases in which the customer sources products in order to satisfy a recurring need. Purchases are normally of minor
importance and are typically associated with products used to facilitate the customer’s operational activities. The company’s familiarity with the supply market and required product specification means that little effort is invested in searching for new information or alternative sources of supply. Prior buying experience means that the customer will have clearly developed purchase criteria and might also draw from a narrow range of suppliers to satisfy supply needs. In straight re-buy situations a customer might adopt two different approaches, namely casual and routine low priority.

A casual re-buy can be used for a range of low-value and low-importance items that are purchased incidentally. Little effort is invested in the decision process, with the emphasis being to process the order rather than search for and evaluate information, consider alternative suppliers and reach a purchase decision using formal purchasing procedures.

A routine, low-priority re-buy might involve the sourcing of products that are of some importance to the buying organization, and compared to the casual purchase it represents more of a repetitive buying decision. Customers perceive little distinction between the products available from various sources, and for low-value items they are likely to continue using their usual supplier. However, to ensure that technical improvements are not overlooked, a customer may periodically consider alternative supply sources. The automatic and habitual buying procedure adopted lends itself to e-procurement.

Guidelines for the business marketer in straight re-buy situations

In-suppliers have to ensure that there is no reason for the customer to switch to alternative suppliers. Regular contact might be necessary to ensure that the customer has no complaints or to identify and quickly resolve any problem areas. A company could also look at ways of reducing the customer’s buying effort, such as automated re-ordering. For the out-supplier, this type of buying situation is particularly challenging. Without any causes of dissatisfaction, the customer will be reluctant to switch. Offering a lower price will not necessarily tempt the buyer. One approach that the supplier could adopt to move the purchase to a re-buy situation is to use TCO and the ways in which it could reduce this cost for the customer company. See Table 2.2 for a summary of how the business marketer might handle these different buying situations.

BUYING TEAMS

Few purchase decisions are made by individual managers. The decision-making process involves a range of managers that represent the buying team or decision-making unit (DMU). Members of the buying team assume six different roles, as follows:

- *initiators*, requesting the purchase item and therefore triggering the decision-making process;
- *deciders*, making the actual purchase decision. These members might not have formal authority but they have sufficient influence such that their decision carries considerable weight within the buying...
The fact that they do not have formal authority can make it difficult for the business marketer to identify such members of the team; buyers (purchasing managers), selecting suppliers and managing the buying process such that the necessary products are acquired. A buyer might not select the actual product to be purchased, but can greatly influence the parameters of that decision; influencers, contributing to the formulation of product and supply specifications, and recommending which vendors to consider or which products best satisfy the organization’s needs. Influencers will also contribute to the evaluation of offerings from potential suppliers; users, frequently initiating the purchase as well as actually using the product. They may be involved in the specification process prior to purchase and once the product has been supplied will evaluate its performance; and gatekeepers, controlling the type and flow of information in to and out of the company and members of the buying team. (Webster and Wind, 1972)

As Figure 2.2 illustrates, members of the DMU can be drawn from a wide variety of departments in the firm. Managers with different functional responsibilities may be involved in the buying process and decisions so that the purchasing manager liaises with representatives of these different functional areas to understand and integrate their requirements into specifications communicated to and negotiated with suppliers. A key point is the growing importance of collaboration and communication between functional areas so that an organization’s supply needs are secured at minimum cost and enable it to realize its own objectives. Collaboration with other stakeholder groups such as product development, design or engineering has been a priority for purchasing managers for some
time but such coordination is extending to other functional areas too. For example, when it comes to buying, efforts of managers with marketing responsibilities might normally be directed at supporting operational issues such as JIT systems, forecasting and inventory management, or alternatively securing external services such as market research, advertising or PR material independently of the purchasing function. Nevertheless, this is changing as purchasing professionals continue to target a firm’s indirect costs, including marketing services (Bals et al., 2009; Marshall, 2012), and the continued shift towards demand-driven solutions requires closer internal alignment between an organization’s marketing and purchasing teams to ensure delivery of these solutions to its own customers (Sheth et al., 2009).

To influence purchase decisions successfully the business marketer needs to know who the key members of the DMU are and what their specific concerns or requirements are in relation to the decision at hand. This enables the marketer to formulate solutions to satisfy these individual needs and minimize the perceived risk of DMU members. If the decision involves new purchases or modified re-buys, the marketer has to have contact with members of the DMU at an early stage of the decision process. By doing this the supplier might be able to influence key decisions (such as product specification) that could subsequently determine supplier selection decisions.

Depending on the product to be bought and the buying situation, the DMU will be more or less formal and will draw from the expertise and authority of various functions and levels of responsibility within an organization. Business marketers can use these two factors in order to determine which managers across a range of departments might assume the different roles in the DMU and the type of information likely to be used to guide decisions. Trying to determine influential DMU members can be challenging for the business marketer. As well as assuming that those in senior management positions might exert considerable influence, the business marketer can try to identify employees who:

- work in boundary-spanning roles;
- have close involvement with the buying centre in terms of flow of activities;
- are heavily involved in communication across functional areas in the buying organization, and/or
- have direct links with senior management. (Ronchetto et al., 1989)

![Figure 2.2 Decision-making unit (DMU) (buying centre)]
Understanding of the DMU has to be linked to the dynamic nature of the decision-making process and not just the product category and buying situation. We already know that buying is a dynamic process and that, depending on what is being purchased, it can take some time before a product finally satisfies the needs of the buying organization. This affects what happens inside the DMU in terms of composition and behaviour, such that the involvement of managers and their degree of influence in the DMU is unlikely to be continuous throughout the decision-making process. The dynamic nature of the decision-making process and buying team means that the business marketer has to determine:

- what happens to the structure of the DMU during different phases of the buying process;
- the effect that the change in structure will have on the communication and influence patterns inside the unit, and
- the information needs of DMU members at any given point in time. (Ghingold and Wilson, 1998)

The effect of risk on buying teams

Few purchases are likely to be made by a single individual in an organization, and we have already noted growing inter-functional coordination of business buying, although the extent to which procurement is a ‘team effort’ will vary. In some cases, organizational policy might dictate that purchases must be handled by committees. This is frequently what happens in the public sector when procurement of particular products or those above a certain monetary value must be reviewed and approved by committees before the purchase can go ahead. In many instances, however, the use of buying teams is determined by the complexity and degree of risk attached to the purchase decision. Risk is an inherent feature of business markets, where managers have to deal with uncertainty and possible negative consequences (Mitchell, 1995) surrounding purchase decisions. The risk that managers may perceive in relation to purchase decisions takes a variety of forms. It could be linked to financial or performance issues. For example, managers in the buying organization will experience heightened levels of risk if the purchase involves a significant monetary sum or the organization stands to incur costs should the item bought fail to perform as promised. Social risk can become an issue if the approval of significant reference groups such as co-workers or immediate superiors is important to the purchasing manager.

Normally perceived risk will be heightened in new-task buying or more complex modified re-buy situations. As the level of risk increases:

- the buying centre composition changes, both in terms of the number of members and the authority of those members;
- the buying team actively searches for information and uses a wide range of sources, including personal contacts (possibly from other companies that have made similar purchases), to guide the decision process;
- members of the buying team invest effort in the process and consider each stage of it more deliberately; and/or
- suppliers with a proven track record tend to be preferred by the buying team.
BUSINESS BUYING AND THE INDIVIDUAL MANAGER

Personal factors

It should be clear from much of the discussion in this chapter that buying activities are performed and decisions are made by people, not the organizations that they represent. As human beings, we have different personalities and learned experiences and we are not necessarily wholly rational or objective in our decisions. The business marketer needs to understand what makes managers tick, to try to influence the behaviour of key players in the buying company.

As we have just discussed, risk can influence business buying and this is indeed an important influence on the various managers that contribute in some way to buying decisions. Experience goes some way to reducing the level of perceived risk in purchase decisions, and some managers who are risk tolerant are more able to deal with the uncertainty of some buying situations. Others, however, are inherently risk averse and will deal with this perceived uncertainty by sticking to known and trusted sources of supply, or by amassing vast quantities of information and involving numerous other people in the purchase decision. As well as being affected by perceived risk and the ability to handle this, an employee’s behaviour in purchase situations is influenced by the rewards that they accrue from buying decisions. All employees are rewarded for the roles that they perform in organizations. Some of these rewards are intrinsic, such as feelings of satisfaction and friendship, and others are extrinsic, such as the bonuses and promotions given by organizations. Rewards are not of equal value to individuals, and the importance that a manager attaches to various intrinsic and extrinsic rewards will shape that manager’s behaviour with regards to buying activities.

We know that employees involved in buying activities can represent different functions and levels of responsibility in the customer company. They will have varying educational backgrounds, qualifications and employment histories, and their contribution to the organization will differ. These factors will influence both the criteria that a manager holds as important when evaluating products and suppliers, and the mental processes that a manager uses to handle information related to this. By mental processes we mean the type of information that a manager looks for, selects and then recalls when assessing products and suppliers.

The purchasing professional

Many organizations will have a department that is responsible for overseeing the sourcing of the company’s supply needs. From what we have discussed in this chapter it should be clear that the scope of the purchasing manager’s responsibilities will vary and that organizational factors contribute significantly to this variation. Generally speaking, however, purchasing managers have to be familiar with a firm’s specific needs and must be able to use negotiating techniques and pricing methods so that purchase costs can be minimized. They have to try to build good relationships with suppliers while ensuring that a firm gets the best value for its money.

Depending on the size of an organization, the purchasing department might have a senior buyer. Their job would be to oversee the work of individual buyers, direct all purchasing operations, negotiate large contracts and assume ultimate responsibility for the
performance of the buying team. Where there are numerous buyers in a company they will typically specialize in dealing with certain product categories. By doing this the managers can get to know the supply market intimately. Whether the buyers are senior or junior managers, whether they work as part of a purchasing team or have sole responsibility for acquiring their organization’s supply needs, there are generic tasks that they have to perform and skills that they need to enable them to do this.

**Buyer tasks:**

- consulting with colleagues in other functional areas;
- determining the necessary parts, materials, services and supplies;
- calculating supply capacity required;
- searching for suppliers and requesting quotations;
- negotiating contracts; and
- monitoring the performance of the organization’s various suppliers.

**Buyer skills:**

- communication and collaboration with suppliers and colleagues;
- negotiating and bargaining;
- managing and supervising people;
- working under pressure;
- selection and use of purchasing metrics and analytics;
- database interrogation; and
- using experience and personal judgement.

As with many functional areas, buyer tasks and skills are increasingly shaped by digital technology, which we touch on below.

**BUYING IN A DIGITAL WORLD**

Securing supplies incurs significant cost to the buying company, in relation to not only the price paid for those supplies but also the time spent by employees and management in handling the buying process (de Boer et al., 2002). This includes searching for and selecting potential suppliers, negotiating and agreeing contracts, and raising and processing orders, as well as overseeing the handling and paying for items received. Digital technology assists this process in two critical ways. First of all, as we noted earlier, it facilitates search and information exchange with organizations and individuals outside of the customer company independently of any formal purchase process. This means that managers are familiar with and might form views of supply markets, solutions and specific suppliers ahead of the buying process (see B2B Snapshot 2.5 for recent trends in online behaviour among the
B2B buying community). Second, as part of a company’s formal purchasing processes and buying activities, electronic procurement enables costs (and therefore reduced employee/management effort) to be greatly reduced by improving communication with external markets and coordination of activities in the buying organization itself, as well as linking specific supply chains with the company’s internal systems. Electronic procurement typically consists of connections to electronic marketplaces, the operation of reverse auctions, catalogue management, order fulfilment and payment systems. We focus specifically on the first three (marketplaces, auctions and catalogues) and touch on how IT systems enable coordination of buying activities.

**B2B Snapshot 2.5  Business buyer: connected but not yet wireless**

A recent report on changing B2B buying behaviour noted that before making any purchase decisions, most buyers start with online searches, scrutinize supplier websites and want content more than ever. The most useful content at the initial stage of the buying process are whitepapers, when managers want issue-based content. Word of mouth is important at the search and supplier evaluation phase (including direct conversations with peers via LinkedIn and Facebook) while Twitter and supplier emails are more useful at the final supplier selection stage. Despite the growth in smartphone and tablet technology, most B2B buyers still access purchase-related information via their PC/laptop. Food for thought for the B2B marketer!

*Source: Buyersphere, 2012.*

**Communicating with external markets**

Electronic marketplaces represent an important method of transacting, enabling companies to exchange information, do business and collaborate with each other. Buyers and sellers might want simply to find new exchange partners by conducting searches via a web portal, and use the portal in order to be networked with other companies in similar geographic areas or related industries so that the order process between the buyer and seller becomes more efficient.

Electronic marketplaces can be grouped according to their main stakeholders and operators. Many are run by independent third parties and can be accessed by buyers and sellers in a particular industry or region. Others operate as industry consortiums, in which a limited number of companies either combine their supply capabilities in order to deal with a large customer base and make the sales process more efficient, or combine their product requirements in order to deal with known suppliers and so improve the efficiency of the purchasing process.
Purchase-oriented electronic markets are a popular form of industry consortium in which large companies combine purchase processes and common product requirements, and build a business system to handle these. Electronic markets can be either horizontal or vertical. *Horizontal marketplaces* (such as www.alibaba.com) are used by buyers for items that do not contribute directly to the company’s own products; rather they are used indirectly and would normally be classed as MRO items. Companies participate in *vertical marketplaces* in order to buy and sell items that contribute directly to a product chain, so for example, firms that supply and buy components for use in the electronics industry could use www.converge.com, which has a network of over 6,500 trading partners, including companies such as Apple, Cisco, Intel, IBM, Packard Bell and Philips. Such marketplaces typically offer a range of exchange facilities to participants, including auctions, reverse auctions, bulletin boards, exchange, catalogues, catalogues with online ordering, and commodity exchanges. Two of the principal forms of transactions that can be facilitated by electronic marketplaces are auctions and catalogue purchasing.

**Auctions**

Any auction is based on the common principle that it represents a form of exchange in which competitive bidding drives a sale or purchase. An *English auction* is normally used for the sale of unwanted items, whereby the seller offers an item for sale to a range of interested buyers, with the sale going to the buyer who makes the highest bid. A *Dutch auction* on the other hand is the reverse; the buyer offers the opportunity to satisfy a product requirement to a range of interested suppliers, with the order going to the company that makes the lowest priced bid. Auctions have long been a feature of business markets and have normally been used for the sourcing of commodity items by business customers. Auctions conducted via electronic marketplaces operate under the same principles. However, the fact that the bidding process operates in real time (even though buyers and sellers do not need to meet face to face), along with the fact that the auctions can be conducted on a global scale and can offer participants significant reductions in transaction costs, means that use of this market mechanism has become standard practice for most business buyers.

The range of specialized auction sites through which buyers and sellers can transact is extensive, with online auctions operating across a wide variety of industries and product categories. Companies operating in the European food industry (as a processor, retailer or restaurant, for example) could participate in fish auctions via www.pefa.com. The UK supermarket chain Tesco uses online auctions for direct and indirect purchases, but is selective in their use, specifically targeting high-value purchase items (Cushing, 2002).

In reverse auctions a buying organization hosts the online auction and invites suppliers to bid on announced request for quotations (RFQ). In many ways the reverse auction is simply an electronic form of the competitive tendering process that has long been used to award contracts in numerous business buying situations. Before the bidding can start:
The buyer must clearly articulate the product specification, quality requirements, delivery lead time, location and transportation needs, order quantity and service issues.

Some communication may take place between the buyer and interested suppliers in order to further clarify details of the RFQ. And

Potential suppliers have to go through a qualification process to ensure that they have the capability to meet the tender conditions should they be awarded the contract.

The buying organization might use an intermediary to manage the entire reverse auction process or it could use the facilities available in vertical marketplaces related to its own industry. For example, companies involved in the aerospace sector might handle reverse auctions via the service available on www.aeroxchange.com. Irrespective of whether a buying organization handles the process itself or delegates this to an intermediary, the fact that reverse auctions require high-value orders for the mechanism to work effectively (by offering suppliers the opportunity to win major contracts) means that purchasing professionals who are experts in the particular supply market and the auction process must control and be closely involved in this purchasing method. The high value of transactions typically conducted via reverse auctions means that they frequently form part of a company’s strategic procurement activity. Many large multinational organizations have streamlined purchasing activities across disparate locations and have combined common supply needs across their businesses in order to get the best possible price and cost for items bought. The pharmaceuticals giant GlaxoSmithKline makes strategic use of such reverse auctions to purchase items ranging from hotel rooms to laboratory furniture. See B2B Snapshot 2.6 for more detail.

B2B Snapshot 2.6  GSK cuts better deals for accommodation and furniture

GlaxoSmithKline has a massive purchasing operation – 800 buyers worldwide and an annual spend of $12 billion. The company is driven by best-value purchasing strategies, that is, ensuring that GSK gets the best possible price and cost for everything that it buys. The company has used reverse auctions to help it realize cost savings on items ranging from hotel rooms to laboratory furniture.

Hotel rooms – GSK spends $80 million each year on 420,000 hotel room nights in 39 different countries using 1,226 different hotels. Over a period of two-and-a-half weeks GSK held 95 auctions and 113 electronic sealed bids with three people working on the project. The company believes that it has made savings of between 5 and 35 per cent as a result.

Lab furniture – Four suppliers participated in a bid to satisfy GSK supply needs and to hit a cost target of $500,000. Auction results produced 32 bids (equivalent to eight sourcing cycles with four suppliers) and the price dropped to $250,000 in 48 minutes.

Table 2.3 Reasons for reverse auctions and the risks involved

<table>
<thead>
<tr>
<th>Suppliers’ reasons</th>
<th>Buyers’ reasons</th>
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<tbody>
<tr>
<td>new business</td>
<td>reduced purchase price</td>
</tr>
<tr>
<td>market penetration</td>
<td>lower administrative costs</td>
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<tr>
<td>cycle time reduction</td>
<td>shorter contract cycle</td>
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<tr>
<td>inventory management</td>
<td>reduced inventory levels</td>
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<table>
<thead>
<tr>
<th>Suppliers’ risks</th>
<th>Buyers’ risks</th>
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<tr>
<td>low price focus threatens long-term relationships</td>
<td>undermine relationship trust</td>
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<tr>
<td>competitive bargaining tool for buyer</td>
<td>reduced buyer commitment makes supplier less willing to make relationship investments</td>
</tr>
<tr>
<td>offering unrealistic prices</td>
<td>insufficient suppliers can cause non-competitive auction scenario</td>
</tr>
</tbody>
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Source: adapted from Smeltzer and Carr, 2003: 487.

Reverse auctions are used by companies to source supplies across the range of product categories, from commodity and indirect products, to items that contribute directly to their own products as well as equipment and major capital investment projects. For example, Sun Microsystems uses this dynamic bidding process to purchase both indirect/MRO items as well as custom cables and printed circuit boards. Another company, Bechtel Telecommunications, has used reverse auctions to source services and equipment that it needs in order to handle major capital investment projects such as the expansion and upgrading of a telecoms operator’s network.

This form of trading offers opportunities and risks to both buyers and sellers (see Table 2.3 for a summary of these). For the moment, we will move on from online auctions to discuss other approaches to organizational buying. However, in Chapter 12 the theme of online auctions will be discussed further, from the point of view of business-to-business pricing decisions.

Catalogue purchasing

The catalogue idea is pretty straightforward – it involves an organization that is effectively acting as an intermediary, collating a wide range of items within a particular product category from a range of suppliers. The catalogue lists the items and provides detailed product specifications as well as current market prices. Buying organizations will normally use catalogue purchasing to handle a wide range of casual and routine re-buys of direct and indirect product/MRO items. For larger organizations that operate online purchasing systems, using electronic catalogues means that the companies can reduce the time (and therefore cost) needed to handle such purchasing and devolve responsibility for initiating the catalogue purchase to users of those items. The purchasing manager retains control of the range of products available from any one catalogue and negotiates the terms and
conditions of supply. However, once these have been determined, the routine purchasing activities associated with sourcing catalogue items is transferred to employees. The employee can log on to the company’s online procurement system and, depending on their job title and expenditure limits, will be able to browse certain supplier catalogues, view and compare items and prices from those catalogues that have already been negotiated by the purchasing manager, trigger an order, and track the fulfilment/receipt process. For smaller companies, purchasing might be limited to browsing and purchasing items from a range of catalogues available via horizontal or industry-specific electronic marketplaces.

Coordination of buying activities

The range of products bought, the different functional areas that have some purchasing authority, and the geographical dispersion of decision-makers present many large organizations with a major challenge in trying to operate a more efficient purchasing process, in which the business has a clear idea of product and volume requirements and the costs associated with satisfying those needs. In recent years there has been a growth in investments in electronic procurement systems to enable large organizations to coordinate and integrate purchasing across their full spectrum of product requirements. Two examples:

Texas Instruments (TI) has to deal with large fluctuations in demand for its products. To cope with the consequent adjustments in production capacity, the company draws heavily on temporary workers. TI has centralized its sourcing of contract labour and now uses an electronic system to purchase labour, streamlining the process and developing an online repository for contractor data. The firm expects to save 5–8 per cent on its annual contract labour and consulting services as a result of the online system (Hannon, 2002).

Latin American hotel operator Grupo Posadas uses software service provider Ariba (www.ariba.com) to enable it to gain insight into spend and spend metrics, as well as to centrally control pricing and consolidate purchasing across the group’s 117 hotels in Mexico, Brazil, Argentina and Chile. This has resulted in 18 per cent savings in categories sourced via Ariba’s on-demand software, and Grupo Posadas has reduced its supply base from 8000 down to 3000 strategic suppliers (www.ariba.com).

Clearly, digital technology provides considerable scope for buying teams to improve the efficiency of their operations both internally and as part of a particular value chain. To enable companies to do this, many procurement teams are increasingly turning to software companies for integrated purchasing systems via B2B managed services or on-demand software (cloud computing).

CHAPTER SUMMARY

- Organizational buying is affected by a number of factors. The successful vendor understands these and tailors its marketing activities accordingly.
- Key areas that have attracted much attention are the buying process and the decision-making unit and how these vary depending on the purchase situation.
The buygrid (new task, modified re-buy, straight re-buy) is a useful tool for classifying organizational buying decisions, although an important limitation of the buygrid is that it focuses only on the newness of the buying decision.

The buying process and DMU, while clearly important, have to be placed in the broader context of the company’s purchase orientation and overall business strategy. Being familiar with purchase orientation and business strategy allows the vendor to accurately meet the supply expectations of the buying organization.

What should be clear from this chapter, and is further elaborated in the next, is that the supply expectations of the buying organization do not necessarily centre on product exchange. Rather, depending on the importance of the product and supplier to the company, the buying organization might also have certain relationship expectations of suppliers. This too must be taken into consideration by the vendor when formulating marketing strategies to influence the buying decisions of its customers.

Questions for Discussion

1. How do the buying and procurement orientations differ? How will this affect the way in which an organizational customer might deal with suppliers?
2. How will total cost of ownership affect the way in which a business marketer prices its products?
3. Describe the decision-making process enacted by organizational customers, identifying how and why this process might vary.
4. How has digital technology facilitated the tasks of organizational buying and what are the consequences of this for the B2B marketer?

Case Study  Healthy Business!

Healthcare systems around the world vary in terms of the mix of public sector and commercial operators and the way in which medical care is structured. This structure and mix will continue to evolve as service providers rethink their systems to achieve cost improvements, implement leaner operational processes and use quality of medical care and patient experience as their point of differentiation. The expectation is that resource intensive, high-capital facilities such as large hospitals will function as centres of excellence concentrated in geographic locations, supported by a network

(Continued)
of smaller hospital and clinic facilities operating a mixture of specialist, primary care and ancillary services (KPMG, 2013). Speciality care offers advanced treatment of conditions such as cancer or heart disease, primary care is more general (covering a broad range of physical, psychological and social conditions); while ancillary treatment includes services such as outpatient surgery, diagnostic imaging and physiotherapy.

Whatever the scale and nature of medical provision within a healthcare system, organizations whose central purpose is to provide medical treatment direct their attention at exactly that, i.e. their core expertise, and (as with other sectors) outsource those activities to which they are unable to add value. In the healthcare sector, outsourced activities can be split into clinical and non-clinical services and may include, for example:

- clinical services: radiology, pathology, dialysis, dentistry, physiotherapy and rehabilitation, pharmacy;
- non-clinical services: cleaning, laundry, catering, patient transport, car-parking, on-site retailing, facilities management, information and communications systems, purchasing. (Guimarães and de Carvalho, 2010)

The scope and value of contracts that a medical facility awards to a specific supplier and the breadth of services that providers might seek to supply to the healthcare sector can be quite varied. So for example, in the UK, healthcare trusts that are part of the NHS might use Medirest (www.medirest.co.uk), a subsidiary of the Compass Group, for onsite retail and catering as well as support services such as logistics, security and cleaning. In providing cleaning services, Medirest needs to comply with NHS contract and performance requirements. This is vital given that patient experience is strongly influenced by the general aspect of a medical facility and that cleanliness is a critical element of that experience and most importantly patient wellbeing. For cleaning purposes, areas within medical facilities are typically grouped according to risk to healthcare users:

- very high: operating theatres, critical care areas, accident and emergency departments;
- high: general wards, sterile supplies, public thoroughfares and toilets;
- significant: pathology, out-patient departments, laboratories, mortuaries;
- low: administrative areas, non-sterile supply areas. (NHS Estates, 2004)

Cleaning contracts specify the levels of cleanliness for these areas, frequency of cleaning and auditing of this, as well as the timeframe within which non-compliance is expected to be rectified. Online systems enable Medirest’s performance to be monitored by area in a specific facility, within an entire site, and it could also be assimilated centrally to review Medirest service provision across multiple sites (NHS Estates, 2004).

Meanwhile, companies such as Johnson Controls (www.johnsoncontrols.com) use their expertise in the management of physical buildings and related technologies to target the healthcare sector in North America. The company is present in over 3,500 healthcare facilities and manages more than 12,000 beds – this last figure is important given that building occupancy costs make up more than 6 per cent of annual operating expenses for the average large hospital. Johnson Controls combines facilities management, real estate services, project management and energy efficiency solutions to help hospitals reduce costs by up to 25 per cent. To learn how Johnson Controls has satisfied one American hospital, visit www.johnsoncontrols.com and view the video endorsement of the company by Phoenix Children’s Hospital.
While the Compass Group and Johnson Controls focus on specific non-clinical services, companies such as Sodexo (www.sodexo.com) and Serco (www.serco.com) supply a wider range of integrated solutions to medical centres. For example, Sodexo operates as solutions provider to the specialist medical centre, the German Heart Institute of Berlin. On a bigger and more complex scale, in 2011 the Department of Health in Western Australia awarded the contract for non-clinical facilities management and support services at the newly commissioned Fiona Stanley Hospital to Serco. The contract consists of 28 different services, including engineering and building maintenance, security, ground maintenance, linen, cleaning, catering, waste services, managed equipment services, transport, procurement, sterilization, reception and clerical services. The Department of Health followed an extensive specification development and procurement process before awarding the contract to Serco, including key performance indicators for each of the services to be supplied. The contract is worth up to $4.3 billion (over 20 years) and is initially for 10 years with the option of it being extended for two further five-year periods if the Department of Health in Western Australia decides that Serco is doing a good job. The range of services that Serco is contracted to deliver means that it will have to rely quite considerably on subcontractors, of which critical supply partners are:

- BT: deployment of local area network, systems integration services, unified communications, mobility and conferencing technologies;
- Siemens: procurement, installation, maintenance and replacement of medical diagnostic and treatment equipment.

Delivery of the various outsourced services presents Serco with a complex operation to set up and oversee, while for the Department of Health in Western Australia, awarding the contract to a single outsource supplier might be risky, but it means that the new hospital can concentrate on its core business, medical treatment.

Case study questions

1. Choose one of the service examples featured in this case study and:
   - describe what you think should be the decision-making process;
   - outline what evaluation criteria you think might be used for initial selection and ongoing supplier performance;
   - explain how you would classify the buying situation;
   - specify what functional areas and levels of seniority are likely to contribute to the decision process.

2. For your chosen service, assume that you are part of a buying team who are trying to identify a new supplier:
   - visit the website of one of the featured companies who supply the service that your team want to procure;
   - evaluate the usefulness of the company website in providing you with information as part of your initial exploratory search.

The discussion in this section is based on material from Gadde and Håkansson, 2001.

Further Reading


This article analyses sustainability literature and data from interviews with senior purchasing and supply management executives. The authors conclude that top management initiatives and government legislation drive purchasing and supply management sustainability efforts, while investment costs and economic uncertainty hinder initiatives. The results are consistent with common drivers and barriers identified in previous decades, and might partially explain why environmental purchasing and supply management is not yet extensively developed (in theory and practice). For further insight into this, take a look at other articles that feature in this special issue of the journal.


In this chapter we explained buying as if it were a rational, planned, linear process. Such a representation does not necessarily reflect management activity and human behaviour. This article draws on the concepts of muddling through and disjointed incrementalism to describe one specific buying process. While some of the generic issues associated with buying decisions are evident, the article gives a good insight into what it might be like to live through or experience a complex purchase process.


This article provides further insight into one of the points made in this chapter, namely the integration of marketing and purchasing. The authors base their argument on the fact that many organizations have shifted from being product- to solutions-orientated, rely increasingly on third-party vendors and need to ensure that all functional areas, including purchasing, are aligned so that customer solutions are delivered.