CHAPTER 6
Business Markets
and
Business Buyer Behavior

What is a Business Market?

- A business market comprises all the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.
- The business market is huge and involves many more dollars and goods than do consumer markets.
- Includes retailing and wholesaling firms.

Characteristics of Business Markets

There are some differences between business market and consumer market.

These differences are based on;

- Market structure and demand
- Types of decision
- The decision process

Marketing Structure and Demand

The business marketer normally deals with far fewer but far larger buyers than the consumer marketer does.

Business markets are more geographically concentrated.

Buyer demand is derived from final consumer demand

Marketing Structure and Demand

Derived Demand

Business demand that ultimately comes from (derives from) the demand for consumer goods.

buys steel because consumers buy automobiles.

Consumer demands to the cars decrease

Production of General Motors decrease

By the effect of these situations, demand for steel decrease

Marketing Structure and Demand

Business market connect with consumer market.

is a good example about this.

“Intel Inside” advertising campaign sells personal computer buyers on the virtues of Intel microprocessor.

The increased demand for INTEL chips boosts demand for the PCs containing them.

Both INTEL and its business partners win.
Marketing Structure and Demand

Many business marketers have inelastic demand. Total demand for many business products is not affected much by price changes especially in the short-run period.

Price of leather will not cause shoe manufacturers to buy much more leather. Unless it results in lower shoes prices that in turn will increase consumer demand for shoes.

Demand often fluctuates more, and more quickly than the consumer market. Change in consumer demand decreases in automobile sales. The production of automobiles decreases as 10%. (From 1000 automobiles to 900 automobiles.)

Change in business market demand. In order to produce automobile, 600-700 kg steel is used. Demand of the steel decreases. 100*650=65,000 kg decreases.

Business purchases involve more buyers.

Technical experts and top management are common in the buying a major goods.

Business buying involves a more professional purchasing effort.

Minimum COST and maximum QUALITY!

Nature of the Buying Unit

Types of Decision and Decision Process

Business buyers usually face more complex buying decisions.

• Large sums of money
• Complex technical & economical considerations
• Interactions among many people at many levels

Business buying process is more formalized.

• Detailed product specifications
• Written purchase orders
• Careful supplier search
• Formal approval

In business buying, buyers and sellers work more closely together.

• Business marketers help customers to define problems, to find solutions, and to support after sales operation.

What is a Business Buying Process?

The decision making process by which business buyers establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.
Model of Business Buyer Behavior

The buying decision do business buyers make?

Who participates in the buying process?

What are the major influences on buyers?

How do business buyers make their buying decision?

Major Types of Buying Situations

Straight Rebuy

- Reorder something without modifications
- Routine basis by purchasing department
- Based on past buying satisfactions
- In-suppliers: maintain the quality
- Out-suppliers: try to offer something new or exploit dissatisfactory situations.

Modified Rebuy

- Buyers modify product specifications, prices, terms or suppliers.
- More decision participants than straight rebuy situation
- In-suppliers: nervous-pressured
- Out-suppliers: opportunity to make better offers and gain new business

New Task Buying

- Buying a product or service for the first time
- The greater the cost risk
- The greater firm efforts to collect information
- For the marketers: great opportunity and challenge
### System Buying

- Buying a packaged solution to a problem from a single seller.
  - Convenience is a major benefit

### Participants in the Business Buying Process

<table>
<thead>
<tr>
<th>Decision-Making Unit of a Buying Organization is Called Its Buying Center.</th>
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<tbody>
<tr>
<td>Users</td>
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**USERS**
- Members of the organization who will use the product or service
- Initiate buying proposal
- Help define product specifications

**INFLUENCERS**
- Help define specifications and provide information for evaluating alternatives
- Technical personnel

**BUYERS**
- Have a formal authority to select suppliers
- Arrange terms of purchase
- Select vendors and negotiators

**DECIDERS**
- Have formal or informal power to select or approve the final suppliers.

**GATEKEEPERS**
- Control the flow of information to others
- For example, between sales person and deciders

### Major Influences on Business Buyer Behavior

#### Environmental
- Economic developments
- Supply conditions
- Technological change
- Political and regulatory developments
- Competitive developments
- Culture and customs

#### Organizational
- Objectives
- Policies
- Procedures
- Organizational structure
- Systems

#### Interpersonal
- Authority
- Status
- Empathy
- Persuasiveness

#### Individual
- Age
- Education
- Job position
- Personality
- Risk attitudes

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**Which of the major types of buying situations is represented by each of the following:**

a. In Turkey as a pilot plant in the world, Japan Tobacco Inc.’s purchase of SAP in order to provides system efficiency.

b. Volkswagen’s purchase of spark plugs for its line of minivans

c. Honda’s purchase of light bulbs for new Acura model

d. Eti decided to enter dairy product market. It’s purchase of milk.

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Assume you are selling cars to a company for use as fleet cars by the company’s sales force. The sales people would like bigger, more comfortable cars, which would be more profitable for you. However, the company’s fleet buyer prefers smaller and more economical cars. **Who might be in the buying center for this purchase? How could you meet the varying needs of these participants?**
Major Influences on Business Buyer Behavior

Environmental
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- Supply conditions
- Technological change
- Political and regulatory developments
- Competitive developments
- Culture and customs

Business marketer must watch these factors, determine how they will affect the buyer and try to turn these challenges into opportunities.

Economic uncertainty
Business buyers cut back on new investments

Organization

The business marketers must know:
- How many people are involved in the buying decision?
- Who are they?
- What are their evaluative criteria?
- What are the company’s policies and limits on its buyers?

Interpersonal

The buying center usually includes many participants who influence each other.

These interpersonal factors and group dynamics enter into the buying process.

Interpersonal factors are often very subtle.

Powerful invisible to vendor representatives.

Individual

Each participant in the business buying decision process brings in personal motives, perceptions and preferences.

These are affected by individual factors.

So, all of the buyers have a different buying styles.

Stages of the Business Buying Process

Stage 1. Problem Recognition
Someone in the company recognizes a problem or need that can be met by acquiring a good or service.

Problem recognition can result from internal or external stimuli.

- Company may decide to launch a new product that require new production equipment and materials
- Machine may break down and need new parts
- Purchasing managers is unhappy with a current supplier’s product quality, service, price
- The buyer may get some new ideas at a trade show
- See an advertisement
- Receive a call from a salesperson
Stage 2. General Need Description

The stage in the business buying process in which the company describes the general characteristics and quantity of a needed item.

The purchasing team may want to rank the importance of:
- Reliability
- Durability
- Price
- Other attributes

Stage 3. Product Specification

The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item.

It is a technical job

Need the help of value analysis engineering team

- Cost reduction approach
- It is used in redesign, standardization or less costly production methods

Stage 4. Supplier Search

Buyers try to find best vendor.

Today more companies use internet in order to find suppliers.

For the new task buying:
- Supplier search is more complex and costly
- Item need greater amount of time

Stage 5. Proposal Solicitation

The stage of the business buying process in which the buyer invites qualified suppliers to submit proposal.

Simple situation → Supplier send → Only a catalog or sales person

Complex situation → Usually require a detailed written proposals or formal presentation

“Proposal should be marketing documents not just technical documents.”

Stage 6. Supplier Selection

Buyer reviews the proposals and selects a supplier or suppliers.

“Desired supplier attribute and relative importance”

Purchasing executives listed the following attributes:

- Quality products and services
- On time delivery
- Ethical corporate behavior
- Technical aid and advice

- Honest communication
- Competitive Price
- Repair or servicing capabilities
- Geographic location

Stage 7. Order Routine Specification

The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s).

- Listing the technical specifications, quantity needed, expected time of delivery, return policies, and warranties

In the case of maintenance, repair and operating items, Buyers may use BLANKET CONTRACTS rather than periodic purchase orders.
The Business Buying Process

Stage 8. Performance Review

The stage of the business buying process in which the buyer rates its satisfaction with suppliers, deciding whether to continue, modify or drop them.

Business Buying on The Internet

Business buyers may purchase electronically by:
- Electronic data interchange links (EDI)
- The Internet

Connecting to customers to:
- Share marketing information,
- Sell products & services,
- Provide customer support, and
- Maintain on-going relationships.

Benefits and Problems Created by Buying on The Internet

Benefits:
- Save transaction costs
- Reduce time between order and delivery
- Create more efficient purchasing systems
- Forge more intimate relationships
- Level the playing field

Problems:
- Cut purchasing jobs
- Erode supplier-buyer loyalty
- Create potential security disasters

Institutional and Government Markets

Institutional Markets
- Consist of schools, prisons, hospitals, nursing homes and other institutions that provide goods and services to people in their care.
Discussion Question

Name some examples of goods or services that a supplier could target to your university. *Think beyond the obvious.*

Institutional and Government Markets

- Government Markets
  - Governmental units – federal, state, and local – that purchase or rent goods and services for carrying out the main functions of government.