

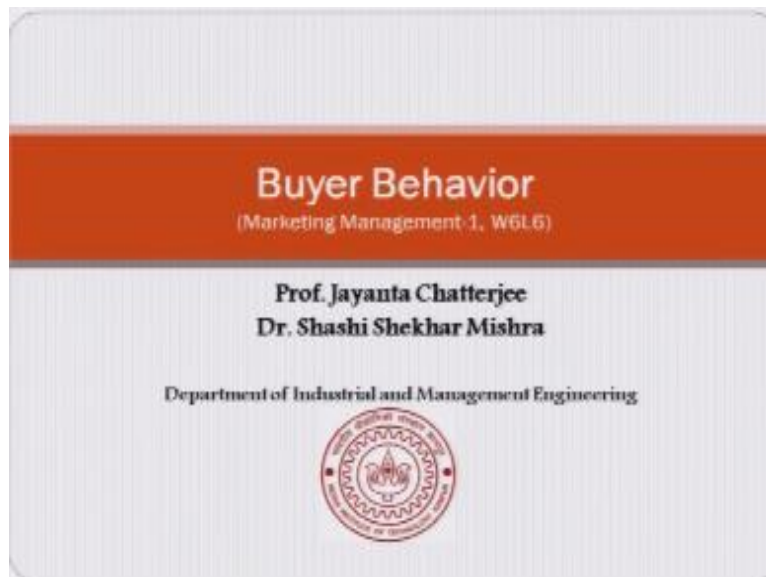
Indian Institute of Technology Kanpur
National Programme on Technology Enhanced Learning (NPTEL)
Course Title
Marketing Management – 1

Lecture: W6-L6
Analyzing the Buyer Behavior

by
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Dr. Shashi Shekhar Mishra: Hello and welcome to our course marketing management part 1, this is last session of this module buyer behavior.

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Dr. Shashi Shekhar Mishra: We are discussing about buyer behavior and we have looked into the consumer buyer behavior and in a couple of previous session we were looking into the specifics of buyer behavior in business markets. So we have discussed about the different type of products which get sold into the business market, and we have also looked into the key differences in business to business market characteristics with respect to business to consumer market

characteristics through that framework of internal and external linkages that help us to understand that some of the key differences from B2B market with respect to B2C markets are, that these markets are –

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Dr. Shashi Shekhar Mishra: The buying process is far more complex than consumer markets, there are fewer buyers, derive demand, and geographical concentration of customers. On the internal interface side we have looked into this technology, we have understood that the sales is driven by the technical criteria's, then the solutions are basically customized, the B2B requirements are inflexible in nature.

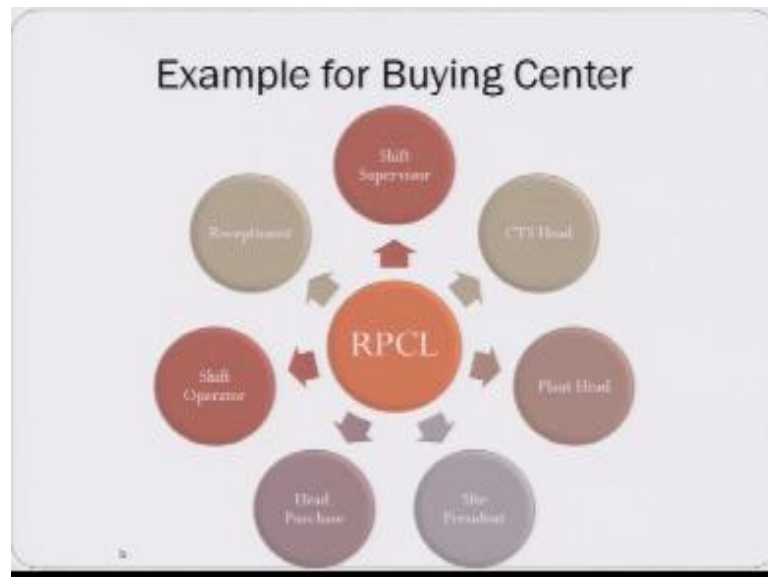
And then the order processing is in the form of make to order, so you as a customer first order, and then seller depending on his inventory and then probably his production schedules will probably supply you according to these different parameters. Then we have looked into the concept of buying center where we have understood the different roles within the organization that are played by the different functional areas or the different people in the procurement process.

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Dr. Shashi Shekhar Mishra: There were seven important roles, initiator, influencer, decider, approver, buyer, user, and gatekeeper. We have looked into the definition of each one of them, and I have tried to explain this concept to you through an example.

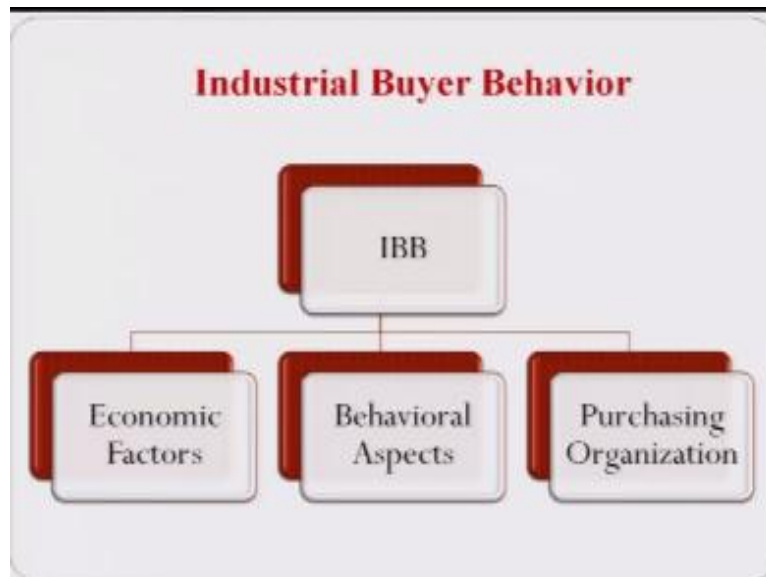
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Dr. Shashi Shekhar Mishra: And also explained to you, that the role of these different influences changes with the different stages of the buying process, you will also see that not in all buying types, all the seven roles will come into the picture. So you can see the -- all the seven influences probably in the case of new task buying when we—however when we talk about modified re-buyer, absolutely a strict re-buy.

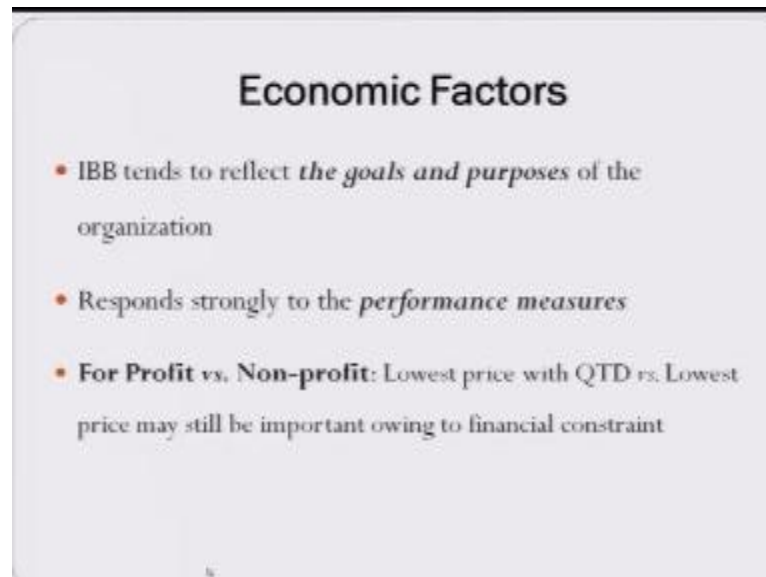
And then probably some of these roles will not come into the picture, just probably the procurement had, and probably the approver or the decider will tell you what to do. Then we have looked into the different stages of business buying process and we have understood that business buying process is far more complex and probably also a time intensive growth thing. Then I am going to talk about some of the specific dimensions about industrial buyer behavior, like what drives the industrial buyer behavior.

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Dr. Shashi Shekhar Mishra: So I am going to talk about this thing and in terms of the three dimensions that economic factors, behavioral aspects, purchasing organization, under which I will try to explain the driving forces of industrial buyer behavior. So first I will talk about the economic factors.

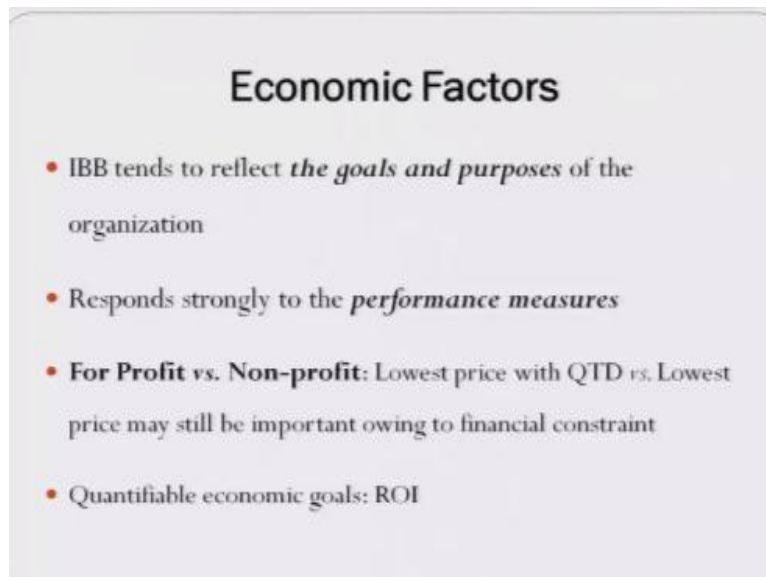
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Dr. Shashi Shekhar Mishra: In the economic factors you will see that industrial buyer behavior tends to reflect the goals and the purposes of the organization. So the organizational policies for the procurement organizations are designed in a way that they cater to the objectives or the organization. And when these policies are aligned with the, are aligned with the objectives or the organization you will understand the industrial buyers behavior will get aligned with the organizational goals and the purposes, so that is why you will also see that they will exhibit a behavior which strongly reflects the performance criteria of the organizations because they will be evaluated on that.

So the industrial buyer basically responds strongly to performance measures because the performance measure will also be linked with the goals and objectives of the organization and as a buyer basically when you are evaluated on those objectives your performance has to be based on those criteria's. Now one thing which you will see that a key difference between type of organization in terms of for profit versus nonprofit organization is that the buyers in for profit organization will focus on lowest price with quality.

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Dr. Shashi Shekhar Mishra: Technical services and delivery schedules because they will look into the holistic picture or they will look into the overall value delivered by a product or overall value delivered through supply, so probably along with the price there will be other things that will also come into the picture. However probably when we talk about nonprofit organizations you will see that by for the prices the most important criteria since these organizations depend on their funding through external sources, they do not generate their own funds.

So resource constrained in terms of the funding is always there and that is why you see the basically this price being the most important thing there, so when we talk about quantifiable economic goals you will see that the most important thing that comes into our mind is that return on investment, so when you go up and purchase a machinery you will be asked you have to justify on papers that what is the ROI of that equipment, machine, component, whatever it is so this is probably some of the, this is probably one of the key criteria in the purchasing process.

I will give you an example, if you have to purchase a basically compressor or if you have to purchase a reactor for a chemical plant you will see that there will be a cost to that equipment and then you will see that you will be asked a question like if I purchase this new reactor or if I

purchase this the next generation of compressor what will be the saving, so saving could be in terms of the lesser energy consumed by the compressor, saving could be in the form of less labor required with that equipment, the savings could be in terms of less maintenance and the service costs.

So you as a basically a person who is involved in the purchasing generally this kind of job generally performed by the engineers in a manufacturing sector, so they will come out with the quantifiable measures to understand what are the savings from this new equipment, so suppose you say that machine was of 10 lakhs and then you find out that the annual saving because of the replacement of this new equipment is two lakh fifty thousand, so you have ROI of a payback period of four years from that machine and you will again measure whether this four years how it fares with respect to the internal criteria of organization.

So there generally criteria's like if you purchase an equipment it should payback in 18 months obviously in that case you will find out your new purchase which is a 4 years does not fulfill that thing, so that further deliberation deliberations may be required in that case . Along with this.

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Dr. Shashi Shekhar Mishra: Economic criteria's like return on investment, payback, you also have some other non-economic thing which comes into the picture is like long run development and nurturing of supply chain. You will also focus on these some of these other criteria's like the supplier whom you are awarding the contract, how basically it is affecting your long-run objectives if you are trying to build supplier base around yourself then probably in that case sometimes you will not look into the short-term.

Relatively higher prices because you understand that over of over the period of time through the learning and by working in a cooperative manner you and the supplier can work together and probably bring down the cost to the level which is in, which is basically the market price and that will also give you a reliable source of supply, so some of these things also come into the picture. Another aspect that comes into the picture is welfare of the community, sometimes.

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Dr. Shashi Shekhar Mishra: You have in fact the clauses where when you go into the different markets that the government of the host country will put this kind of thing that this much percent of the supply has to come from the local market and that is focused on the welfare of the community, sometimes organization as a part of CSR or maybe because of the different reasons, also the different kind of motivations they will provide the contractor which may not be lowest in terms of the price that they are purchasing.

However it would be more on the side of the welfare of the community, and then you also have issues like risk avoidance and low detection rate.

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Dr. Shashi Shekhar Mishra: So that this is what I have talked about in the previous slide also that you look into the overall costs or the life cycle of the cost of the product, and supposedly you purchase a product from a supplier which provides you an equipment compared to a good compared to a repetitive vendor at a cost of 75% of the cost of the vendor, so you save on 25% from that non branded and non reputed vendor. However it may happen this, this component might be so critical that you may lose much more than what you have saved and that is not a condition which is very desirable for you.

One more factor that that is becoming extremely important these days is that supplies technical contributions, so companies are, as the competition is increasing companies are focusing on this aspect that how much a supplier can contribute to their product development process they how much they can contribute to the supply chain and some of these dimensions, so that helps the organization in probably gaining more competitive edge compared to its competitors, and that makes some of the supplies they are more preferred suppliers because they might be supplying at higher prices but their technical contribution provides a competitive edge to the company.

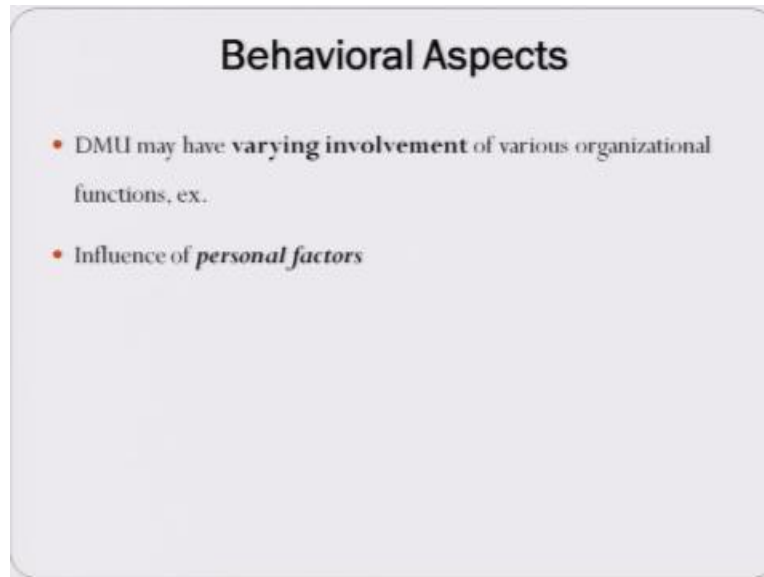
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Dr. Shashi Shekhar Mishra: One more thing that comes into the economic factors is that the cost of critical material and product price, so the cases where the critical components are involved are something which constitute to the major part of the cost of your final product. You are generally sensitive to the cost of those products. If the cost of bread or probably the ingredients in a vada pav increases in Mumbai then probably the supplier or the seller of those products will be concerned because they understand that as the cost of input material increases the their margins will go down if they remain at the same price level.

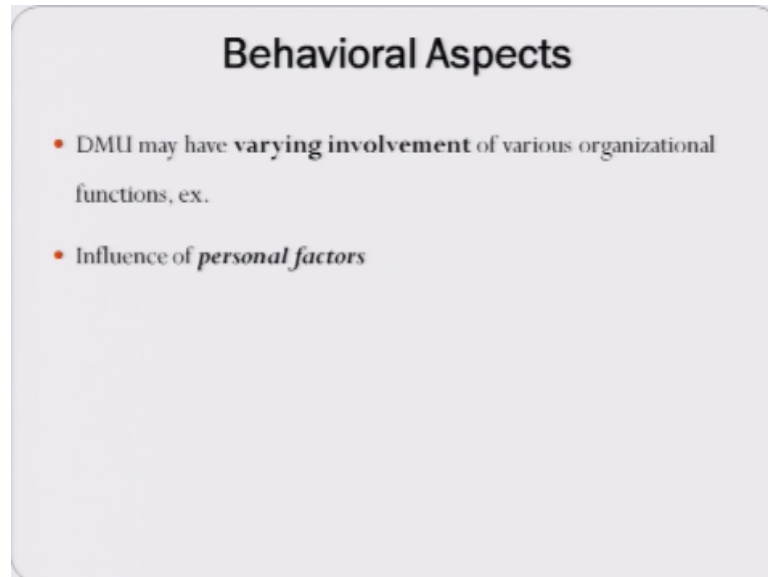
On the other side if they increase the price consumers may shift to the other substitute product or they could change the, the, the places from where they purchase, so understanding some of those things the cost of critical material is another important aspect in terms of the economic factors. Then we will look into this behavioral aspect.

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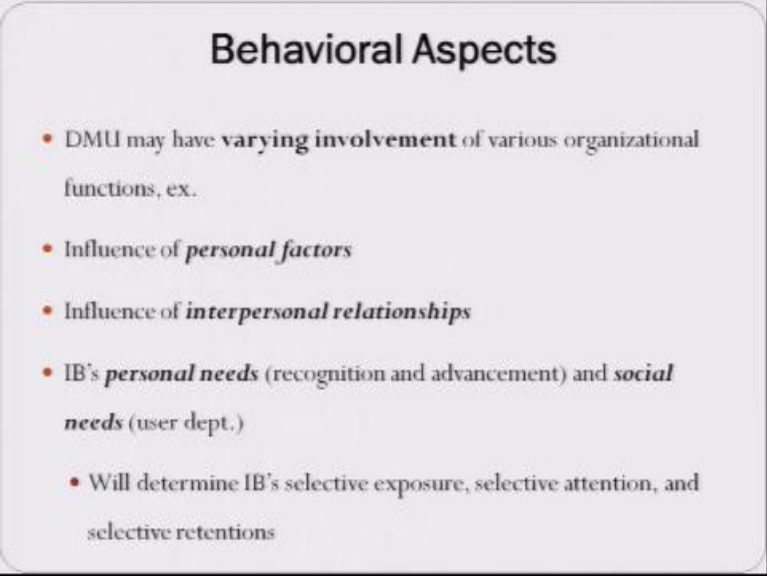
Dr. Shashi Shekhar Mishra: And you will understand that industrial buyer behavior, the decision making unit may have varying involvement of various organizational functions. So you will see that technical team will have a influence at the time of when you are deciding for the first time to purchase a product they have a critical role, for different functions have a different role and at different point of time, their influences changes, changes with respect to time. Then there is an influence of personal factors.

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Dr. Shashi Shekhar Mishra: That a buyer industrial buyer has to maintain good relationship within the organization, so he has to maintain a good relationship with the user department, he has to cater the needs of the user department and he has to also maintain a good relationship with the external organization. The suppliers to whom he deals with so that he maintains the supply for the, his or her organization.

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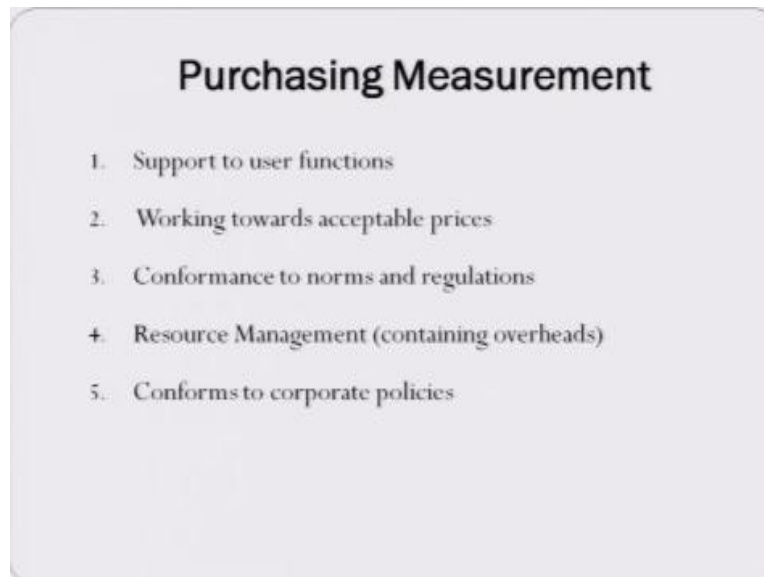
Behavioral Aspects

- DMU may have **varying involvement** of various organizational functions, ex.
- Influence of *personal factors*
- Influence of *interpersonal relationships*
- IB's *personal needs* (recognition and advancement) and *social needs* (user dept.)
- Will determine IB's selective exposure, selective attention, and selective retentions

Dr. Shashi Shekhar Mishra: You will also understand that industrial buyers personal needs like recognition and advancement and social needs like probably how his relationship with the user department, that also influences the industrial buyer behavior and these buyers needs and the social needs, this industrial buyers personal needs and the social needs actually influences will determine industrial buyers selective exposure, selective attention and selective retention. These are the concept we have already discussed in the case of consumer behavior.

So you will see that industrial buyer will also probably provide more importance to a sales team which is coming from a reputed vendor, they may not be so willing to listen to a startup company because that, they may not get the support from the user department for such kind of initiatives.

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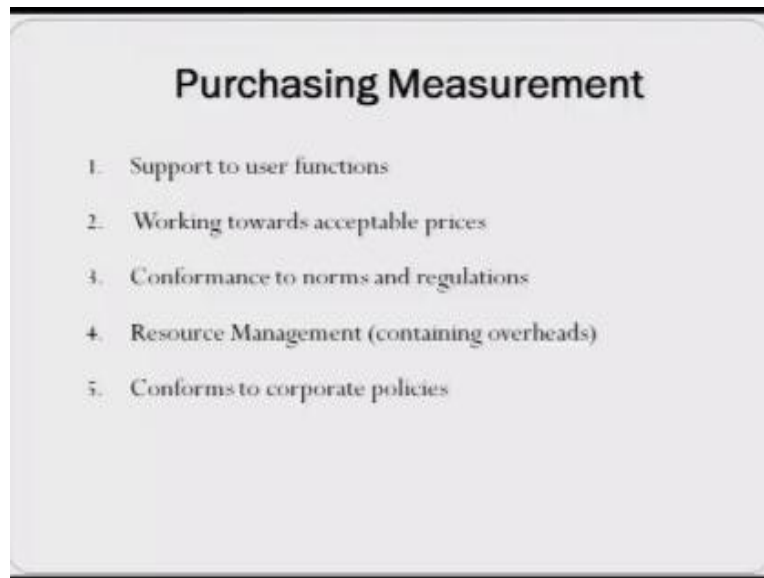
Dr. Shashi Shekhar Mishra: Then there are third type of criteria which influences industrial buyer behavior is support to user function, working towards acceptable prices, conformance to norms in the regulations, resources management how you manage your resource as industrial buyer, conformance to corporate policies, so by for I think the most important criteria for the purchasing manager is that they should support the user location to user functions.

So in all cases in manufacturing sector you will find out that purchasing manager's job is that the plant should continue working and they should, should be in a stage of continuous operation and their performance of managers, purchasing managers will be evaluated on this criteria rather than just purchasing at the cost, at the lowest price.

Instead of basically price the, the main thing is that how you are able to cater to the needs of the user function. The second thing is that while you are able to serve the user function in the best possible manner, are you able to purchase at the lowest possible price or at least to acceptable or competitive prices.

So buyers are also basically measured on the prices at their purchase, sometimes buyers are seen as a good buyer if you are able to defer your supplier for any increment in the prices, if you are able to build new sources of supplies which can provide you a product as a lesser price. Some of these criteria's help in getting a better rating for the purchasing managers.

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Dr. Shashi Shekhar Mishra: Then conformance to norms in the regulation of the organization and you will also see that resource management is something which is very critical to this purchasing managers because sometimes they work in conditions which are not normal and how they manage those conditions in this such conditions which are not normal and how they manage their resources, so that still they are able to serve the needs of the users is basically something which is considered in their purchase, in their evaluation process and then finally the conformance to corporate policies.

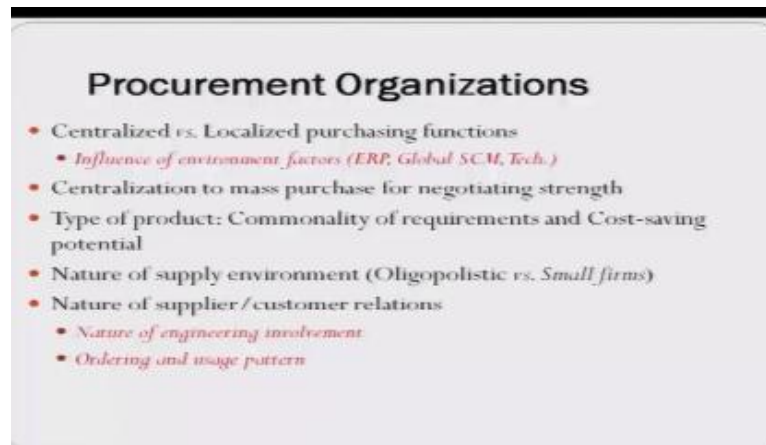
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Dr. Shashi Shekhar Mishra: That third thing that affects basically this industrial buyer behaviour is this procurement organizations like there are at two key things on the demand side on the buying side also, so can the different locations needs be assimilated together, so is there a basically sort of commonality across the user needs in the different departments or the different units of an organization, or probably the needs are basically cannot be standardized and that basically leads to the design of the procurement organization.

Like whether it is a centralized or non centralized, so a centralized procurement department is better place when probably the condition is where the user needs can be standardized, so you can gather the user needs you can build on the quantity and when you have larger quantity you can procure at a lesser cost, and the design of the procurement organization also depends on the kind of the supplier that exists in the market, so whether it is a basically oligopolistic market or the small forms that also determines what kind of purchasing organization you will form. One thing you have to understand

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Dr. Shashi Shekhar Mishra This has a far reaching influence for the industrial marketers because depending on the procurement organization design will depend the kind of sales efforts which will be required, so compared to organizations which are your potential bar, one organization has a decentralized structure though it might be purchasing the quantities higher than a centralized organization which has a once a centralized procurement purchase department.

Now your sales team has to only work with one department or one location in the case of a centralized user or the centralized purchasing department based organization. On the other side an organization which has a dozen 20 or 30 user locations.

And they basically procure localized purchasing manner your sales team has to put their efforts across those different user locations, so you can understand because of the scattering of this purchasing the sales team's efforts will increase by multi-fold and in that case it will, the sales process will be, the selling process will be more time consuming, it will require probably the unit cost of the sales will also be higher and then probably you also need larger sales force to satisfy, so that is something which is also used as a segmentation criteria in the industrial market.

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Dr. Shashi Shekhar Mishra: To what kind of buyers purchasing organization is whether it is a centralized or decentralized? Based on that you decide which kind of organizations to target obviously you are to also look into your internal resources, if you have a larger sales force and you find out that there is a potential across all different, large potential across all this localized purchasing units of organization you can go for it, but many cases you will find out that because of the resource-constrained you will prefer to go for a centralized purchasing department kind of organization.

So procurement organizations designer the structure is also an important criteria that influences the industrial buyer behaviors industrial buyers behavior or the way they purchase, they go into the purchase process and this also becomes something important for you as a supplier organization to understand that which kind of customers you want to supply, because if it is a centralized purchasing process your sales efforts are restricted just to a one organization or to one location. On the other side of it is a diffused purchasing or localized purchasing function then you will see that purchasing efforts or the selling efforts also increases in terms of the time, also probably the unit cost of sales will increase and it will be a probably an organization wise also scattered efforts which one has to manage.

So based on this the industrial buyers can also be segmented and I have discussed till now the three important criteria's that different, that differentiate the industrial buyers from the consumer market, the three dimensions three important dimensions of industrial buying that is economic factors, behavior, last part in the procurement organization, these are some of the key features of industrial buying that one has to understand.

And that goes an important input into the marketing strategy design for the industrial market so with this I conclude the this buyer behavior module of this course marketing management 1, and when we will meet in the next week we will discuss about the generic marketing strategies, that is segmentation positioning and differentiation, thank you very much.

Acknowledgement
Ministry of Human Resource & Development

Prof. Satyaki Roy
Co-ordinator, NPTEL IIT Kanpur

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Ashish Singh
Badal Pradhan
Tapobrata Das
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Dilip Tripathi
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Aradhana Singh
Sweta
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Dilip Katiyar
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