

CHAPTER 7: ORGANIZATIONAL BUYING BEHAVIOR

CHAPTER SYNOPSIS

This chapter will cover:

- The context for organizational buying
- Organizational buying centers or DMUs
- The buying process
- Factors influencing organizational buying
- Buyer–seller relationships

CHAPTER OBJECTIVES

By the end of this chapter, students will be able to:

- Understand the nature and various types of business products and markets
- Define the organizational buying decision process and the role of the Decision Making Unit (DMU)
- Explain the influences on organizational buying behavior
- Discuss the interdependence of the buyer–seller relationship
- Describe the major differences between organizational and consumer buying behavior

ISSUES FOR REVIEW AND DISCUSSION

1. Introduction

- Fundamental differences between consumer markets and business markets – leads to differences in buying behavior and requires different marketing approach
- Some parallels with household decision making – decisions made by more than one individual and each may have a different role – called Decision Making Unit (DMU) or buying centre
- Organizational buyers are generally known as customers rather than consumers – they are often converting the product and selling on to someone else who consumes it

2. Organizational Buying

- “A decision making process carried out by individuals, in interaction with other people, in the context of a formal organization” (Webster and Win, 1972)
- Influenced by company objectives, budget, cost and profit considerations
- Formal buying processes and buying policies

3. Characteristics of Business Markets

- Often geographically concentrated – similar companies grouped around the source of raw materials
- Often only a small number of potential buyers – personal selling more relevant
- The orders may be large – bulk buying for better prices and to secure supply for continuity of manufacture
- Demand linked to sales of end product (derived demand) so may be dependent on consumer markets

4. Types of Products

- Capital equipment
- Accessory equipment
- Component parts
- Process materials
- Maintenance, repair and operating supplies
- Raw materials
- Services

5. Organizational Buying 1

- Complex decision making process, especially for high value, strategically important purchases
- More than one person involved, the buying centre or DMU
- Lengthy, formal procedures
- Have a set of criteria on which decision is based – public sector may need to demonstrate fair procedures
- On the whole more rational than emotional factors involved – quality, price, accuracy, reliability of delivery, service and support

6. Organizational Buying 2

- Risks associated with purchasing often very high
 - Interruption of supply can interrupt production with major financial consequences
 - Safety considerations – e.g. brakes for cars, airplane components
 - Impact on consumer satisfaction of substandard components and possibility of a damaging product recall
- Buying process particularly complex and lengthy where there is a high degree of risk

- The higher the risk, the bigger the DMU, previous proven suppliers preferred, search will be wider, relationships and networks more important, increased levels of conflict within DMU (Johnston and Lewin, 1996)

7. The DMU

- Everyone who is involved in the decision making process
- Comprised of:
 - Users - may identify the need, have a view of what they want and may provide specification
 - Influencers - anyone who inputs information into the process, perhaps technical knowledge or information on potential suppliers
 - Deciders - responsible for final decision
 - Buyers - place the order and may negotiate price and terms
 - Gatekeepers - control access to other members of the team but not involved in the decision – can block a sales person
- Involved at different stages, may be more than one person in each role

8. Classes of Buying

- Different types of purchases may have different buying decision making processes
 - New task buying- buying a type of product or service for the first time. Requires extensive information search and evaluation of options- the most complex procedure
 - Modified re-buying – re-evaluation of alternatives, probably use existing criteria – operate in limited problem solving mode
 - Straight re-buying – a bit like grocery shopping – operate in routine problem solving mode with limited (or no) interaction with suppliers

9. Buying Phases (Robinson et al)

- **Stage 1:** Anticipation or recognition of problem
- **Stage 2:** Determination of characteristics and quantity of needed item
- **Stage 3:** Description of the characteristics and quantity of needed item
- **Stage 4:** Search for and qualification of potential sources
- **Stage 5:** Acquisition and analysis of proposals
- **Stage 6:** Evaluation of proposals and selection of suppliers
- **Stage 7:** Selection of order routine
- **Stage 8:** Performance feedback and evaluation

10. Influences On Organizational Buying Behavior

- Environmental factors- economic trends, supply conditions, technological changes, political stability, social/cultural issues
- Organizational factors- business objectives, purchasing policies, resources, size of DMU, organizational structure
- Interpersonal/social factors- DMU members are human! Influenced by how well they get on, interpersonal skills, differences of opinions, different needs, office politics

- Individual factors – individual members have different personalities, different cognitive styles, (innovators/adaptors), individual goals

11. How Rational?

- Formal processes and supplier selection criteria suggests a very rational approach
- But the DMUs are made up of people
- Some steps of the process may be missed, members may be swayed by financial incentives offered by suppliers, personal preferences may exist for rational and non-rational reasons
- Final decision often a compromise between individual preferences, so not always entirely rational
- Where offers from suppliers are very similar, non-rational factors may become more evident

12. Buyer- Seller Relationships 1

- Interdependence can develop:
 - buyer dependent on the supplier's product (short supply, particular specification, high switching costs)
 - supplier dependent on sales to buyer (limited number of potential customers, customer accounts for large proportion of sales)
- Requires formation of relationship
- Buyer – seller partnership – a type of strategic alliance where they enter into a high-involvement relationship for mutual benefit

13. Buyer- Seller Relationships 2

- Organizational buyers often exhibit strong loyalty to suppliers because it may not be easy to switch (costly, time consuming)- difficult for new suppliers to break in
- Some buyers can have strong powers – dictate to their suppliers

14. Relational Selling Strategy

- A strategic approach adopted with a view to developing a long-term, mutually beneficial relationship with some customers (Guenzi et al. 2007)
- Major customers managed as key accounts (KAM – Key Account Management)
- Approach may come from the buyer who has identified a supplier as key to their success
- Working more closely together may enable value creation for both – reduction in transactions costs, joint product development

15. Role of Sales People in KAM

- Customer Partner
- Buyer Behavior Expert
- Buyer – Seller Team Coordinator
- Customer Service Provider

- Information Gatherer
- Sales Forecaster
- Market Analyzer and Planner
- Market Cost Analyzer
- Technologist

16. Summary

- Organizational buying differs from consumer buying because the context in which the decisions are made are very different although aspects may be similar to household buying with more than one person involved in the decision making – the DMU.
- Organizational buying may vary according to the type of purchase being made
- The buying process is more formal and can be lengthy
- Generally, the decision making involves more rational factors than emotional factors, but as the decision makers are human, not every decision is as rational as it seems
- Buyers and sellers are often interdependent and KAM plays an important role. Long term relationships can develop which are strategically important and beneficial to both parties

CHAPTER 8: CONSUMER RESPONSE TO MARKETING – ATTENTION, EXPOSURE AND PERCEPTIONS

CHAPTER SYNOPSIS

This chapter will cover:

- Consumer responses to marketing activities
- The hierarchy of communication effects model
- The pre-purchase elements of the model-exposure, attention and perception

CHAPTER OBJECTIVES

By the end of this chapter, students will be able to:

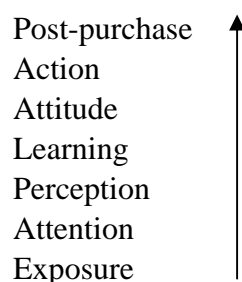
- Describe the hierarchy of communication effects model and its relevance to marketing activities
- Suggest appropriate ways for gaining exposure and attention for marketing activities
- Understand the importance of consumer perceptions

ISSUES FOR REVIEW AND DISCUSSION

1. Consumer Response to Marketing

- Most consumers go through a sequence of responses to marketing activity leading to purchase
- Models have been developed to use as a framework for understanding consumers' response
- One model is the hierarchy of communication effects
- Other Models include AIDA (attention – interest – desire – action)

2. Hierarchy of Communication Effects



3. Exposure 1

- Consumers need to be exposed to a marketing activity to progress through the sequence – if we don't see the ad, we can't respond
- Exposure happens when the consumer comes into contact with a marketing message
- The message may come from any marketing activity – advertisement, packaging, point-of sale materials etc.
- But consumers are selective (channel hopping, ignoring mail outs etc.)

4. Exposure 2

- Targeting important – message needs to be in the right place for the target audience – media selection is based on profiling target to “reach” higher proportion of target and maximize use of budget
- TGI profiles readership of publications, TV stations profile audience for different programmes
- Need also to consider frequency – once may not be enough – balance frequency with wearout (over exposure)
- Problems caused by fragmentation of media – mass media has lower reach than before, but opportunities to use new media for better targeting

5. Attention

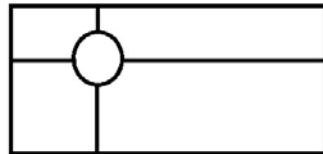
- UK consumers exposed to 2000 promotional messages per day – advertising clutter – consumer avoidance
- Exposure does not guarantee response – need to capture attention
- Consumers pay selective attention to marketing messages – marketers want focal attention – to gain and hold attention and guide consumer to the message

6. Gaining and Holding Attention 1

- Color – better than black and white, can make it easier for consumer selection at point of sale, primary colors attract children
- Movement – TV ads more effective than static press ads, rolling ads at sports grounds and on outdoor posters, use of graphics and video in Internet ads and multi media messaging
- Sound – helps gain attention when consumer distracted and not watching image, classic pop tracks effective

7. Gaining and Holding Attention 2

- Position
 - certain positions in mages/newspapers gain higher attention – back cover, right hand page.
 - Positioning of products on shop shelves – eye level
 - “Golden section” – more prominent than rest of ad/picture – used to lead attention

**8. Gaining and Holding Attention 2**

- Size – attention increases with size (but double size doesn’t double attention)
- Conditioned response – e.g. ringing phone in radio ads
- Novelty – use of “schema discrepancy” – the unexpected. Use of surprise gains attention and may encourage higher spend – but consumers also like the familiar

9. Gaining and Holding Attention 3

- Humor – used especially on TV and radio and for low involvement products e.g. snacks, beer, laundry detergents. Not used for high risk products (cars, insurance)
- Participation – used to hold attention – use incomplete messages (Law of Closure), consumer has to work it out
- Personalization – of mailouts

10. Perception and Interpretation

- Engel et al (1986) – “perception is the process whereby stimuli are received and interpreted by the individual and translated into a response”
- Perception involves all the senses not just vision and sound – smell, touch, taste e.g. store atmospherics, multisensory brands scratch and sniff ads

11. Perception Organization 1

- Perception affected by all aspects of ad – logo etc.
- Law of similarity – interpret a new message in a similar way to something we already know
- Interpretation based on expectation
- Law of closure – means people try and solve a puzzle
- Law of continuity – people will continue an element of a stimulus in a particular direction
- The whole is greater than the sum of the parts

12. Perception Organization 2

- Color – different colors can transmit different meanings and emotions. Meanings are culture specific and can follow fashions
- Sensory thresholds – senses may not be capable of picking up all sensory inputs or may not always be able to discriminate between similar inputs – own brands often mimic established brands

13. Perception Organization 3

- Noticeable difference – consumers may not notice small changes in product, design, packaging or pricing etc. – marketers make incremental changes
- Selective attention and perception – not all messages get through – those closest to values, motivations etc. more likely to succeed
 - Perceptual vigilance – consumer open to hear a message they are interested in
 - Perceptual defense – consumers avoid messages that do not share their world view

14. Product Perception

- Important to understand how consumers perceive products and brands – brand positioning is in the mind of the consumer
- Perceptual maps – how consumers perceive products and brands compared to competitors (Ries and Trout, 1986)
- Marketing communications used to try and create the right kind of brand association as perceived by the consumer
- For services, the tangibles (physical surroundings, the building, staff, vehicles etc.) are important in creating perceptions of service quality – ads may make use of these physical elements

15. Summary

- The response of consumers to marketing activities has been considered within the framework of the hierarchy of communications effects
- Consumers will move through the hierarchy as they respond to marketing activities – the ultimate aim is to persuade consumers to take action
- Consumers cannot respond to marketing activities if they don't notice them – exposure requires targeting using appropriate media and design of ads, using a range of techniques such as color, novelty and humor will help to gain attention
- Perception of the marketing activity is in the mind of the consumer – all elements of a product and brand contribute to how it is perceived and marketers need to check that the perceptions match their intentions

CHAPTER 9: CONSUMER RESPONSE TO MARKETING – ATTITUDE, LEARNING AND ACTION

CHAPTER SYNOPSIS

This chapter will cover:

- Further stages in the hierarchy of effects model – learning, attitude and action
- Concepts on learning and attitude formation
- The causes of impulse buying

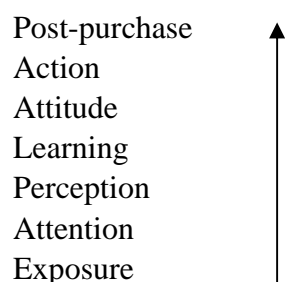
CHAPTER OBJECTIVES

By the end of this chapter, students will be able to:

- Describe different concepts in learning and attitude formation
- Explain how attitude formation affects behavior
- Explain how these concepts can be used to develop more effective marketing activities
- Discuss the relevance of the hierarchy of effects to impulse buying

ISSUES FOR REVIEW AND DISCUSSION

1. Hierarchy of Communication Effects



2. Learning 1

- Behavioral learning
 - Associationist learning (classical conditioning) – stimulus response (Pavlov, 1928) – used to associate a brand with particular appeal/benefit by repetition of

- message (but wearout can occur)
- Instrumental learning (operant conditioning) – actions that are enjoyed or satisfying are repeated (Law of effect). Learning can be encouraged by the use of positive and negative reinforcers.

3. Learning 2

- Cognitive learning
 - learning as a process of relating new information to previously learned information – reasoning and conclusion – assessment of brand comparing attributes with suitability – may be low involvement (passive learning)
 - Learning by observation – vicarious learning

4. Learning 3

- Gestalt – when consumers need to devote a significant amount of mental processes to learning a marketing message, the learning is more effective and enduring e.g. use of law of closure (completing the puzzle)
- Stimulus generalization – once learnt, a consumer will extend their response to other similar stimuli. Companies extend brand names to new products – brand families – and own label brands mimic major brands

5. Knowledge 1

- What we know and have stored in memory as a result of learning
 - Objective knowledge – actual information about a stimulus that is stored in memory
 - Subjective knowledge – own perceptions of what we know or think we know about the stimulus
- Information stored in memory can be influenced and modified by experience of a brand and by other influences such as word of mouth

6. Knowledge 2

- Consumers use cues to recall stored information and help with product evaluation
 - Intrinsic cues – physical attributes – shape, design, ingredients
 - Extrinsic cues – price, brand name – become more important over time

7. Attitudes

- A complex mental state involving what we know, our feelings, our values and dispositions to act in a certain way
- Attitude formation is the major outcome of learning – development of a liking or disliking of the product or brand itself or to the advertisement
- Attitude has three components – cognitive (beliefs), affective (emotions) and conative (behavioral intention) – marketing messages can be developed by understanding the three elements in the target audience

8. Balance Theory

- Balance theory – Heider (1958) argued that consumers try to keep a balance between cognitive and affective components.
- If there is an imbalance between components, we shift our attitude to create harmony
- Marketers try to shift a slightly negative attitude towards a brand by using a well liked celebrity endorsement
- However, some question the relationship between consumer attitudes and behavior (Calder & Ross, 1973) – studies show that attitudes do not always predict behavior

9. Fishbein and Ajzen (1975)

- Theory of reasoned action – extends the three component model of attitude to include the consideration of what we perceive others think about the topic
- Theory of planned behavior
 - Influence of partner or parents will play an important part in decision
 - Amount of knowledge and experience you have will also affect the decision
 - Reflects the ease or difficulty in performing the behavior (behavioral control)

10. Function Approach to Attitudes 1

- Katz (1960) – identified four functions to attitudes:
 - Instrumental function – assessment of usefulness of an object in attaining goals – if a purchasing experience is satisfying we will develop a favorable attitude and repeat it
 - Ego-defensive function – use of attitude to protect self image by emphasizing your place in the world – e.g. by developing a negative attitude to a product you can't afford

11. Functional Approach to Attitudes 2

- Value-expressive function – expression of central values and self to others – having a favorable attitude to brands that reflect our own values
- Knowledge function – construction of meaning in your world – positive attitude to marketing activities for products that interest us (but filter out information for products that don't)

12. Changing Attitudes and Behavior 1

- Marketing activities aim to change attitudes and behavior
- But attitudes are not easily modified
- Credibility of the marketing information source is key (expertise and trustworthiness)
- Celebrity and “expert” endorsement of products

13. Changing Attitudes and Behavior 2

- Use of fear in changing attitudes and behavior (if the source is credible) – effective if the consequences are made clear e.g. drink-driving campaigns, anti-smoking campaigns
- Repetition can effect changes in attitude – but can also lead to boredom with the message
- Reinforcement of existing positive attitudes can also be effective

14. Action

- The action of buying a product is at the end of a complex decision making process
- Marketing communications play a role at each stage and aim to create a better chance of converting the positive attitude developed towards the product into an actual purchase
- Even apparent impulse buying may be dependent on some prior level of understanding and involvement by the consumer

15. Impulse Buying 1

- Also known as unplanned purchasing
- Consumers experience a sudden powerful urge to buy a product immediately without regard to the consequences (Rook, 1987)
- Not only associated with low-value, low-involvement purchases (e.g. chocolate, soft drinks) – sometimes people make major purchases on apparent impulse
- Emotional rather than rational
- Younger consumers and wealthy consumers more likely to impulse buy

16. Impulse Buying 2

- Four categories of impulse buying (Bayley and Nancarrow, 1998)
 - Accelerator impulse buying – desire to stock up for future needs
 - Compensator impulse buying – to boost mood or to reward themselves
 - Breakthrough impulse buying – resolving emotional conflict by a step change – often high value goods (cars, houses)
 - Blind impulse buying – buying with no underlying purpose – not fulfilling any need – true impulse buying

17. Impulse Buying 3

- Only blind impulse buying involves no pre-purchase stages – others will have had some consideration prior to purchase
- Impulse buying can be an act of freedom in postmodern society (Thompson et al, 1990)
- Some consumers more likely to impulse buy - impulsiveness personality trait
- Some retail environments encourage impulse buying – e.g. airports

18. Impulse Buying 4

- Marketers encourage impulse buying:
 - Products at supermarket checkouts, point of purchase display material, position of products on shelves (eye level)
 - Price offers, multi-packs, buy one get one free (BOGOF)
 - TV shopping channels
 - In store atmospherics (color, lighting, aromas, music) to create buying mood

19. Summary

- Consumer behavior results from learning – it is affected by past experience and goals. Repetition, puzzle solving and other techniques can improve learning about a product
- Learning leads to attitude formation and attitudes impact on behavior
- Attitudes can be difficult to change
- Marketers aim to create positive attitudes towards products and may use credible, trustworthy sources (celebs), fear and repetition to help change attitudes. Some question the link between attitudes and behavior
- The hierarchy of communication effects drives consumers to take action. Impulse buying may appear to be unrelated to the hierarchy model, but many apparent impulse purchases have involved some pre-purchase thought. Marketers can encourage impulse buying