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# Topic 8 ► Understanding Organisational Consumers' Behaviour

## LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Differentiate between organisational, reseller and government market;
2. Discuss products and services classification for the organisational consumers;
3. Identify the differences between the criteria of organisational market purchases and the individual consumer purchases; and
4. Describe the types of buying situation that exist in an organisational market.

## ► INTRODUCTION

Organisational market is different from the end consumer market as the purpose of buying the product types as well as the purchase volume are vastly different. The purpose of buying products by an organisation is to further process the product to make it as a ready-made, half-ready product or to resell. The products were not bought for their own use. The products purchase includes raw material or half-ready products that require further processing. Ready-made products are also purchased for the purpose of reselling and are usually bought in huge quantities.

## 8.1 ORGANISATIONAL MARKET PRODUCT AND SERVICES CATEGORIES



### SELF-CHECK 8.1

Why do companies buy in huge quantity? What is the purpose of the purchase?

Since the organisational market uses products that are raw materials up to ready-made products, then the product classification is needed in order to facilitate the process of understanding how it affects marketers. The classification may aid marketers in their effort to approach their customers.

### 8.1.1 Organisational Market Products

The product classifications for the use of organisational market are:

- Raw and processed materials;
  - Components and spare parts;
  - Maintenance, repairing and operational support;
  - Capital goods; and
  - Equipments and accessories.
- (a) **Raw and Processed Materials**  
Raw and processed materials refer to natural resources or materials that go through minor modification. For example, latex milk for natural raw material or latex sheet for minor modification process.
  - (b) **Components and Spare Parts**  
These refer to the parts that are used to assemble or make other products. For example, tyres for car assembling.
  - (c) **Maintenance, Repairing and Operational Support**  
These refer to goods that support the process of manufacturing. For example, coolant liquid for steel drilling process.

**(d) Capital Goods**

Capital goods refer to the important material to manufacturing process. For example, baking oven to make cookies. Capital goods also include building and factories.

**(e) Equipment and Accessories**

These refer to light equipment that are cheaper than the main materials and usually are purchased in a huge quantity. For example, chairs or cabinet file in the office.

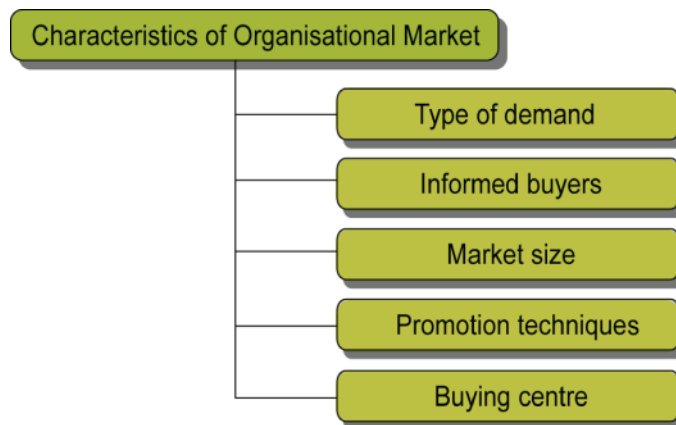
### 8.1.2 Organisational Market Services

The services used by organisational market are various. For example, the cleaning/washing services, maintenance up to the professional services such as legal or accounting services.

The system can also be categorised as a service used by the organisational market. Systems that are related with products are the training of product or machine usage, and training about handling the computer. Meanwhile, the services systems are scheduled business audit and data processing.

## 8.2 CHARACTERISTICS OF ORGANISATIONAL MARKET

When making a comparison between the character of an organisational market and an end consumer market, the organisational market has its own characteristics. These characteristics are shown in the Figure 8.1.



**Figure 8.1:** The characteristics of organisational market

### 8.2.1 Type of Demand

The type of demand in an organisational market can be divided into three, which are:

- Derived demand;
- Inelastic demand; and
- Fluctuating demand.

Explanations are given as follows:

(a) **Derived Demand**

Derived demand means a demand for an organisational market is derived from the demands of ready-made products from the end consumers market. For example, the company that produces roofing sheet for houses. The roofing sheet demand is actually derived from the demand for houses in the end consumers market. In short, the demand is derived from the demand of a ready-made end product in the end consumers market.

(b) **Inelastic Demand**

Any price change, whether an increase or a decrease of an organisational product does not produce a short-term effect for the demand of the product. The effect is more long termed. For example, the increase of price in a material will not cause the manufacturer to buy the product in huge volume. However in the long term, the increase of the price for the raw material will also cause the product to experiences an increase in its price in the market.

(c) **Fluctuating Demand**

The demand for organisational product is more prone to experience fluctuating demand or irregularity compared to the demand for the product in the end consumers market. This is because the manufacturer is more inclined to increase the inventory while the economic situation is booming, and reduce the inventory when the economy experiences recession. For example, built-in products and fittings such as office furniture.

### 8.2.2 Informed Buyers

Generally, organisational purchase involves high cost and high volume purchase. Therefore, the risk is high and it is important for the organisational buyers to avoid from making any mistake in the purchase. In relation to that, the buyers will determine the product specification. The organisational buyers are very knowledgeable and experienced about the products that they wish to buy. In other words, they are professional buyers who know what they want. If they require more information, they will search the information before making any purchase.

### 8.2.3 Market Size

The organisational market size is smaller when compared to the end consumer market size. This is because the size is measured in terms of the existing consumers. Meanwhile for the organisational market, the size is measured based on the number of organisational customers. Even though the organisational customer might have a thousand employees as their customers, the organisation still represents a unit of organisational customer.

However, the total money involved is much higher than the end consumer market. This is because the organisational buyers often buy products in bulk.

### 8.2.4 Promotion Techniques

The most effective promotion technique for the organisational market is through personal sales followed by advertisements in a business magazine or a journal. These types of promotion are more professional and more suitable with the organisational business consisting of buyers who know what they are looking for.

Personal sales allow the salesperson to explain in detail about the product, while the question and answer session will help potential buyers to make their buying decision. Besides, the relationship that needs to be established between buyers and sellers are easier done through the approach of personal sales. The advertisement in business magazines and journals are also brought into application as professional buyers will refer to these magazines or journals for the latest development in their field or expertise. This makes the business magazines or journals suitable as the advertisement of products and services.

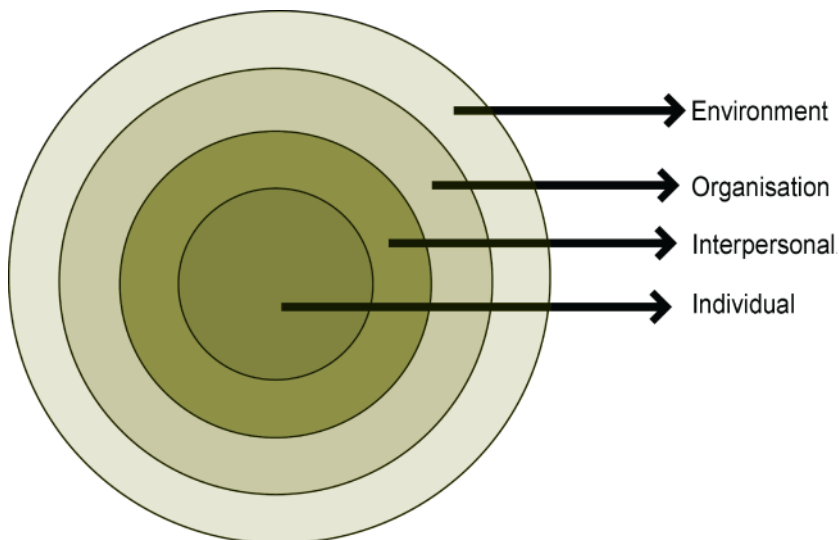
### 8.2.5 Buying Centre

A buying centre refers to the committee that is made for the purpose of product purchase. The membership is represented by a representative from the related department of the product that will be bought. If the product incurs high cost for first time purchase, usually the number of members in the committee will be higher. This is because the risk involved is higher. For purchases that incur medium or low cost, or frequent purchases, the number of members involved will be lower.

Every member in the buying centre plays their roles as nominator, consumer, influencer, buyer, decision maker and information controller.

## 8.3 MAIN INFLUENCERS OF ORGANISATIONAL CONSUMERS' BEHAVIOUR

The main influencers of the organisational consumers' behaviour are the environment, organisation, interpersonal and individuals (refer to Figure 8.2). The organisational buying activity is an official activity. It is not conducted the way an individual conducts it. Every organisational purchase has its justifications as it relates closely to the organisation's operation.



**Figure 8.2:** Main influencers of the business purchase

### 8.3.1 Environment

Organisational purchase is very much influenced by environmental factors such as:

- (a) Product demand level;
- (b) Current economy situation;
- (c) Loan rates;
- (d) Technology development level;
- (e) The country's political development and the government's regulation;
- (f) Competition; and
- (g) Social responsibility issue.

The awareness against the environmental factors is important because any changes, whether positive or negative will have a direct impact to the business. The monitoring is also important because the organisation does not have direct authority against the changes in the environmental factors, but stills need to act proactively towards any changes.

### 8.3.2 Organisation

Every organisation has objectives, policies, procedures, organisational structures and systems. These factors are known as the organisational factors and they influence an organisation buying behaviour through a centralised buying policy or its opposite, contract offering, purchase through the Internet, buying technology, the roles played by other departments in the buying function, the increasingly important and more strategic buying function as well as specialised production.

All these factors influence the buying process ambience that includes decision making process and the purchase itself. Organisational purchases take a considerably longer time as discussions after discussions are conducted to reach a buying decision. The organisation's guideline will always be taken into consideration in each step of the process.

### 8.3.3 Interpersonal

A buying centre usually consists of several committee members who exhibit interest, authority level, empathy and persuasion at different levels.

It is hard for marketers to identify the inter-personal factors and a dynamic group involved in a buying process. Every committee member has his own influence in deciding the products to be purchased in the buying centre. Inter-personal influence may be a dominant factor in deciding the list of products to be bought at the buying centre.

### 8.3.4 Individual

The individual factor refers to the organisation officers who have different motivation level, perception and priority that differ because of the influences of age, income level, position, personality, attitude towards risk and their culture. For example, a company with officers from several different countries and the companies that deal with foreign market have to be aware of the country's culture if it happens to affect the organisational purchase.



#### EXERCISE 8.1

1. List and explain the organisational market characteristics that you have learnt about.
2. List the influencing factors of the organisational consumers' behaviour. Describe how the influencing factors influence the individuals.

## 8.4 BUYING SITUATIONS

The most common buying situations that occur can be categorised into three:

- (a) New task buying;
- (b) Modified rebuy; and
- (c) Straight rebuy.



The categorisation is based on whether the purchase has been done before or otherwise. It involves the information searching if the product has never been purchased before and modification must be done to the product specifications.

### 8.4.1 New Task Buying

A new task buying situation involves first time purchase for an organisation. If it involves a high cost or risk, more detailed decision have to be made by the buying centre.

Generally, organisational purchase does not have sufficient information to make this kind of decision. The decision made will include type of product, product brand, technical and general specification, quantity, supplier, purchase or assembly routine and the purchase evaluation.

In order to obtain sufficient information, a better effort will have to be made. Every member at the purchasing centre will be involved in every step until the decision is made.

### 8.4.2 Modified Rebuy

Modified rebuy refers to a situation where a same product category requires minor modification to be made to the product specification. Specification modification is made based on the organisation's experience in using the product. This is done at the end of the usage period when the organisation feels that they require products with slightly different specification.

An example is office furniture. From the organisation's experience of using the product, they feel that a few criteria such as the product durability, a different colour, and a combination of steel and wood are better. These criteria are then outlined in the rebuying of the office furniture and they are known as the product specification. The different criteria searched of the specification modification lead to the situation of modified rebuy.

The situation requires medium information collection. The information has to be collected focusing on the product specification which needed to be modified. Perhaps the existing supplier is not able to supply the new required product causing the information for new suppliers to also be required.

### 8.4.3 Straight Rebuy

This situation is the most frequent to occur, especially in ready-to-use product buying. If a product stock reaches a minimum level, a straight rebuy will be conducted. It is called straight rebuy as there is no need for any modification to the product. Perhaps the organisation is satisfied with the previous purchase causing no specification modification to be done.

In this situation, the extra information required is very minimal and sometimes not required at all. Generally, the purchasing officer will immediately order the product when he needs new stocks.



#### ACTIVITY 8.1

List all the major differences between a modified rebuy and a straight rebuy.

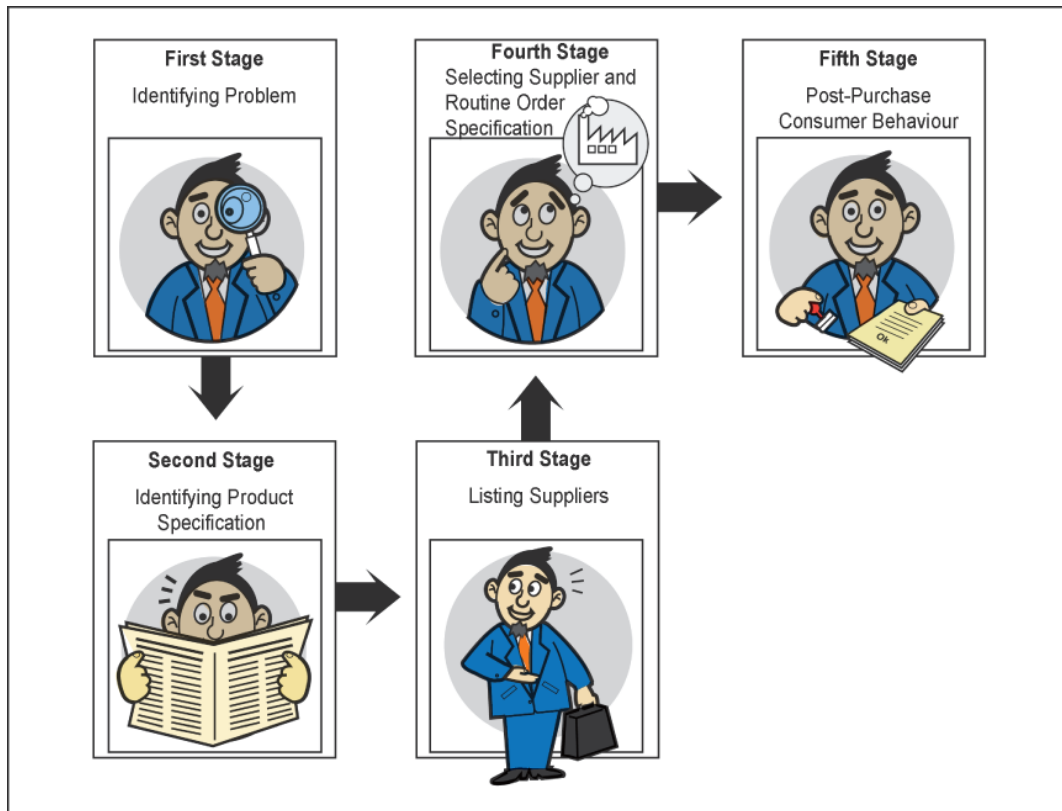
## 8.5

## THE BUYING PROCESS OF ORGANISATIONAL MARKET

Organisational market buying process can be divided into five stages, which are:

- (a) First stage: identifying problem;
- (b) Second stage: identifying product specification;
- (c) Third stage: listing suppliers and making offer to suppliers;
- (d) Fourth stage: selecting supplier and routine order specifications; and
- (e) Fifth stage: post-purchase consumer behaviour.

Figure 8.3 illustrates all the stages involved in the organisational market buying process.



**Figure 8.3:** Organisational market buying process

### 8.5.1 First Stage: Identifying Problem

A problem can be caused by internal or external stimulation. An example of an internal stimulation is a situation when the machine needed to be used broke down and hindered the organisation's operation. The machine's malfunction caused the organisation a problem. While examples of an external stimulation are technology development and salesperson persuasion that caused the organisation to feel that it needs to replace the existing machine even though it is not experiencing any malfunction.

### 8.5.2 Second Stage: Identifying Product Specification

After the problem and issue have been identified, the next step is to list all the specifications of the product needed. If the product is frequently used, maybe some feedback from the product user may help the organisation to identify the specification of the product to be bought. However, in a situation where the

product has never been used, the information will be collected intensively to help identify the specification of the product to be purchased.

### **8.5.3 Third Stage: Listing Suppliers and Making Offer to Suppliers**

Organisational product market does not have many suppliers as the final consumer product market as most of the products are sold according to the customer's order. Therefore, indirectly the number of the suppliers for the organisational product is limited but they are the supplier who can prepare products according to the organisational buyer's specification. After the product specification has been identified, this stage will identify the suppliers who can supply the product according to the expected specification.

Organisational consumer usually gives much emphasis on factors like technical expertise, reputation, after-sales services, location of the supplier, guaranteed return and price offered by supplier.

### **8.5.4 Fourth Stage: Selecting Supplier and Routine Order Specifications**

In this stage, the supplier selection will be done based on the suppliers' suggestions. Organisational consumer can engage only one or a few suppliers for its order. In this stage, organisational consumer will negotiate with supplier regarding the final order, technical specification, required quality, expected delivery date, return policy, warranty and so on. After a consensus has been reached, the organisational consumer will generate the routine order specifications.

### **8.5.5 Fifth Stage: Post-Purchase Consumer Behaviour**

At this final stage, organisational buyer will experience post-purchase behaviour such as those experienced by the final consumers. At this stage, the buyers can make their evaluation of the product through the experience of using it.

Generally, the buyers can evaluate whether they have made the best purchase or not.

Output from this stage will influence the next purchase process. For example, if the buyer is satisfied, the buyer will normally purchase the same product in the following purchase process. If the buyer is not satisfied, the specification modification, product class or brand will be changed in order to ensure that the purchase can give them a satisfactory output.

## 8.6

## MEMBERSHIP IN ORGANISATIONAL PURCHASING PROCESS

The decision to make organisational purchase is made formally by a group of staff that have been appointed to be a member in the buying centre. Depending on the buying situation, the membership of the buying centre may consist of two staff up to the maximum of 12 staff. However, on the average, it consists of four to five staff. Every member in the buying centre plays his own role as **nominator**, **consumer**, **influencer**, **decision maker**, **approver** or **information keeper**.

The **nominator** is the party who voices out the opinion to buy the product, who may be other consumer or other parties in the organisation. The consumer is the party that will use the product. He may or may not be on the same side as the nominator. The consumers may be the lower ranked staff, while the nominators are their head of departments. The consumers help in defining or describing the needs of the product to be purchased.

The **influencers** are the people who have influence on the buying decision. They too help define the product specification and provide relevant information to consider product alternatives. The technical and engineering staff are usually the influencers.

The **decision maker** is the officer who makes the real decision on the need or the supplier selection. The **approver** on the other hand, is the person who gives authority to take action on the suggestion made by the decision maker or the buyer. The **information keeper** is the officer that has the power to prohibit or allow information to reach the buying centre.

**EXERCISE 8.2**

1. List the stages in the organisational market buying process.
2. Name the organisation buying situations.
3. Since the demand for rubber sheets are caused by the demand for transport tyres, then it can be said that the demand for rubber is derived.
  - A. True
  - B. False
4. General Hospital, RTM and MARDI are examples of organisational consumers.
  - A. True
  - B. False
5. Sellers who sell to the organisational consumer do not emphasise on direct selling compared to the sellers who sell to individual consumers.
  - A. True
  - B. False
6. Straight rebuy usually does not require much involvement from the organisation.
  - A. True
  - B. False
7. The purchase done by the organisational consumer usually is smaller in quantity compared to the purchase done by the individual consumers.
  - A. True
  - B. False

## SUMMARY

- In this topic, we have learnt the product and services categories for the organisational market.
- Since the products and services are used in the organisations include raw materials up to ready-made products, the product and services classification may help the comprehension of the product roles to the organisational consumers.
- Organisational market is similar to consumer's market in several ways. Both involve buying decision making process to fulfil needs.
- The organisational market and the consumer market, however, do have differences.
- Organisational market has its own traits, which are derived demand, inelastic demand, fluctuating demand, informed buyers, a smaller market size but a large purchase volume, personal sales promotion technique for a more effective approach and the presence of buying centre.
- A buying centre allows purchases to be done in a group in order to reduce risks that have to be borne if it is decided by only one officer.
- There are three buying situations that occur in the organisational market, which are the new task buying, modified rebuy and straight rebuy.
- New task buying involves first time purchase, modified rebuy refers to purchases that require additional information and straight rebuy refers to purchases without any changes.
- Organisational market buying process which goes through certain stages has also been discussed.
- The identified stages are identifying problems, identifying product specification, listing the suppliers and making offer to suppliers, selecting potential suppliers and post-purchase behaviour.
- Finally, the membership in the organisational buying centre consists of the nominator, consumer, influencer, decision maker, approver and information keeper who also influence the buying process.

## KEY TERMS

Demand

Derived demand

Fluctuating demand

Informed buyers

Inelastic demand

Organisational market

Straight rebuy