

BUSINESS MARKETING / 02B

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Based on Dr. W.G. Biemans' Business marketing management, Prof. Ph. Kotler's Principles of marketing / Strategic marketing management and miscellaneous designer's lecturing materials



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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

- **Main influences on business buyers**
 - Although many businesses assume that the major influences on business buyers are mainly economic (in terms of price, service and quality), **business buyers actually respond to both economic and personal factors**. In short, they respond to both reason and emotion.
 - Some business and marketing managers believe that approx. 80% of a business purchase decision is based on emotions ('do I trust this brand?' 'does this company sound okay?' 'do I like this sales person?' etc.). The remaining 20% concerns the rational push to finalize the decision.

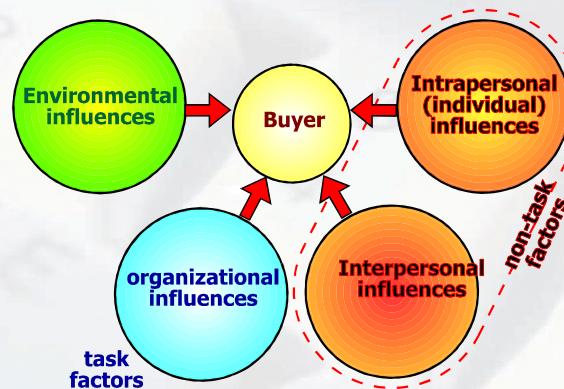
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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

● Influential factors



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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

- **Environmental influences**
 - **Economic**, such as:
 - **business outlook** (tendency of the market): economic uncertainty resulting in investment cut-backs and inventory reductions;
 - **cost of money**: exchange rates, degree of devaluation, revaluation, depreciation or appreciation.

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B-to-B purchasing: influential factors

- **Environmental influences**
 - **Economic (explanations)**:
 - **devaluation** (official reduction in the exchange value of a currency by lowering its gold equivalency or its value relative to another currency; ex.: Hfl / DM);
 - **revaluation** (official increase in the exchange value of a currency by linking to another currency which is higher in value; ex.: Mexican Peso / US\$);
 - **depreciation** (the lowering of a currency's value in response to supply and demand; ex.: less demand for the US\$);
 - **appreciation** (the increase of a currency's value in response to supply and demand; ex.: more demand for the €).

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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

- **Environmental influences**
 - **Customers / buyers**, for example:
 - **level of primary demand**: concerns the level of total demand for all brands of a certain product or service, such as the total demand for cars.
 - **Suppliers / supply chain**, such as:
 - **supply conditions**: for instance, shortages in key (raw) materials, resulting in companies holding larger inventories of scarce materials to ensure adequate supply.

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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

- Environmental influences

- Competition, for instance:

- competitive developments: not only regarding the immediate rivals in the branch of industry itself (such as within the airline industry), but also potential competitors operating in other branches of industry offering similar services (such as high-speed train companies) or offering different solutions (Learjet, Bell helicopters, aircraft time sharing, etc.).

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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

- Environmental influences

- technology, for example:

- rate of technological change: for example as being experienced in the ICT industry (cellular phones, computers, the Internet, etc.).

- political, such as:

- political and regulatory developments: for example, purchasing bans that exist in certain areas in the world (based on political, religious or fundamentalistic laws).

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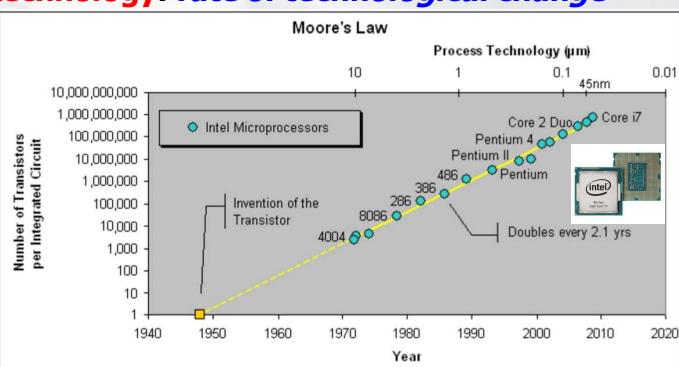
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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

- Environmental influences

- technology: rate of technological change



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B-to-B purchasing: influential factors

- **Organizational influences**

- **Organizational factors**, such as:

- *objectives, policies & procedures, organizational structures & systems*: what is the buyer's corporate objective? what is the significance of buying this product or service? how many people are involved -directly and indirectly- in the buying decision? who are the key figures? what are their evaluative criteria? what are the company's policies and limits to its buyers? etc.

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B-to-B purchasing: influential factors

- **Organizational influences**

- **Organizational factors**, cont'd:

- *upgraded purchasing*: in the past many purchasing departments were underrated within their organizations. This has changed in recent years, mainly because:
 - purchasing often involves managing **50%-80% of the total costs**;
 - keen purchasing can **earn major sums of money** for the organization;
 - purchasing plays a **key role in quality, innovation and safety processes**.

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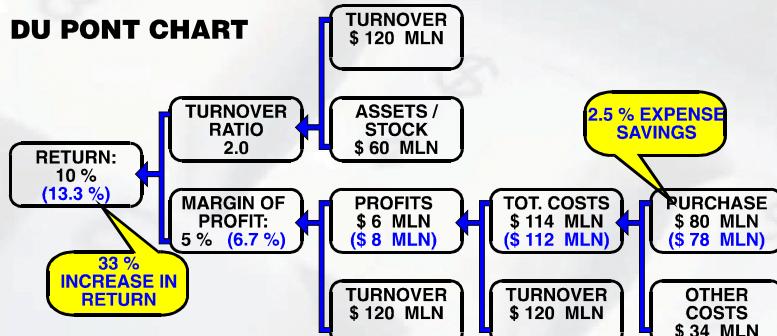
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B-to-B purchasing: influential factors

- **Organizational influences**

- **Organizational factors**, cont'd:

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B-to-B purchasing: influential factors

- **Organizational influences**
 - **Organizational factors**, cont'd:
 - **centralized purchasing**: in many companies that consist of several divisions, much of the purchasing takes place at the divisional level. Evidently, a certain degree of inefficiency occurs.
For this reason many companies have centralized their purchasing, thus offering them more purchasing power and substantial savings.
Consequently, this means dealing with fewer, though higher level buyers.

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B-to-B purchasing: influential factors

- **Organizational influences**
 - **Organizational factors**, cont'd:
 - **long-term contracts**: in imitation of the Japanese business / quality models, many companies -especially car manufacturers such as Ford and GM- set up long-term contracts with their suppliers.
Typically, many of these suppliers establish plants close to their buyers, and maintain direct communications through, for instance, **electronic data interchange (EDI)**.

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B-to-B purchasing: influential factors

- **Organizational influences**
 - **Organizational factors**, cont'd:
 - **Just-in-time (JIT) production systems**: also, following the Japanese business / quality models, many companies rely heavily on their Just-in-time operation.
This development has, of course, had a great impact on business purchasing policies.
The goal of JIT is **zero inventory with 100% quality**, which calls for close co-operation between buyer and supplier and their production departments.

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B-to-B purchasing: influential factors

- **Interpersonal influences**

- **Interpersonal factors**, such as:

- **group factors**: DMU's usually include many participants who influence each other in many ways.

- The highest ranking participant within the DMU won't always have the most influence. At the same time, the most powerful, influential participant might seem invisible to vendor representatives.

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BUSINESS MARKETING / PURCHASING

B-to-B purchasing: influential factors

- **Intrapersonal -individual- influences**

- **Individual factors**, such as:

- **personalities**: in many cases buying decisions depend to a large degree on the personalities of the individual vendor representatives and the DMU participants.

- As such, the buying process frequently depends on emotional factors such as liking each other and **granting businesses** for non-rational reasons.

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- **The decision process**

- ① **Orientation phase**

- Product specification phase

- { 1/ Problem recognition
2/ General need description:
functional / technical spec's,
amounts & ordering procedure

- Suppliers selection phase

- { 3/ Supplier search
4/ Proposal solicitation

- ② **Commercial phase**

- 5/ Negotiation process
6/ Supplier selection
7/ Contracting and order-routine specification

- ③ **Administrative finalization phase**

- 8/ Order monitoring
9/ Performance review

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- Problem recognition:

- *problem determination / identification*:

in this stage someone in the company recognizes a 'problem' (*a situation or an opportunity*) or -in many cases not yet defined- need that can be met by acquiring or creating a good or a service.

For example:

- *Internal*: production improvement, or replacement of machinery or materials

- *External*: competition-driven or technological impulses.

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- General need description:

- *functional specifications*: determination of what the product or solution should *do*.

- *technical specifications*: determination of what (technical) *requirements* the product or solution must meet, for instance: dimensions, capacities, quality standards, etc.

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- General need description:

- *amounts needed*: this depends on what is needed, for instance:

- *machinery*: amount will depend on the (consumers-)demand for a certain product. For instance: a machine to manufacture shoes.

- *materials & components*: amounts will depend on expected numbers or series of sales or production.

For example: the leather needed to manufacture shoes.

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- General need description:

- ordering procedure:** in this stage authorities (who will be in charge) will be determined concerning this order or assignment.

- Furthermore, **budgets** will have to be determined, as well as procurement (the right to act on behalf of the company / management), lines of communication and procedures (who-what-how-when).

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- Supplier search:

- short listing** : in this stage, where the buyer tries to find the best vendor(s), usually a so called **short list** will be drawn up, involving possible, qualified suppliers, based on good experiences (his own or those of other organizations), reputations and impressions. Eventually this will result in a so called **approved vendors list**, involving actually preferred suppliers.

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Business purchasing process

- The decision process

- Proposal solicitation:

- proposals, quotations:** in this stage, the buyer invites qualified suppliers to submit proposals. More often, these proposals will be based on a well specified briefing (intake).

- In some cases, such as with relatively less complicated products, a written specification (for instance by fax or through the Internet) will be quite sufficient, instead.

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- Negotiation process:

- *negotiating details*: in this stage, the assigned members of the DMU start negotiations with the remaining possible suppliers.

- Negotiations concerning the proposals usually involve special conditions to be taken into consideration, delivery details, after sales service aspects, etc.

- Also, as far as possible, potential problem areas will be discussed, such as additional labour.

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Business purchasing process

- The decision process

- Supplier selection:

- *evaluation of proposals, selection of supplier(s)*:

- in this stage, the members of the DMU will review the proposals and select one or more suppliers (perhaps for further explanation).

- Comparison of the proposals and the suppliers is usually based on **technical, commercial and financial criteria**.

- Technical, ex.: will this product meet our technical (quality) requirements?; commercial, ex.: can we make a profit on it?; financial, ex.: what will this product cost us?

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Business purchasing process

- The decision process

- Vendor rating (*subjective method*):

Supplier:	Purchasing factors:	Vendor rating
Supplier A	a: delivers good quality b: sticks to deadlines c: has qualified sales eng's d: available for help / Q&A e: etc.	always 5 mostly 3 mostly 3 seldom 1
Supplier B	a: delivers good quality b: sticks to deadlines c: has qualified sales eng's d: available for help / Q&A e: etc.	mostly 3 always 5 mostly 3 mostly 3

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- Contracting and order-routine specification:
 - **contracting**: in this stage of the business buying process, the assigned members of the DMU will set up contracts with the appointed supplier(s).
In many cases this will involve only 1 supplier (**single sourcing**), however, contracting more than 1 supplier also occurs (**dual, multiple sourcing**).

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BUSINESS MARKETING / PURCHASING

Business purchasing process

- The decision process

- Contracting and order-routine specification:
 - **order routine specification** : in this stage the buyer will write the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies and guarantees.
In case of maintenance, repairs, etc., a **blanket contract** might be used, arranging several conditions of possible re-supply orders in the future.

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Business purchasing process

- The decision process

- Order monitoring:
 - **monitoring details** : in this stage the purchasing officer or department will monitor the delivery / deliveries of the ordered products or components, especially regarding **timeliness** (being on time), **quantities** and **quality**.
Note that in JIT-environments, monitoring will occasionally take place, usually based on **random tests**.

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Business purchasing process

- The decision process

- Performance review :

- *reviewing details* : in this stage the buyer, purchasing officer or purchasing department will rate the organization's satisfaction with the supplier(s), in order to decide whether or not to continue doing business with them, or to modify the order.