



Part Four
Target Markets and
Customer Behavior

10

Business Markets and
Buying Behavior

Objectives

1. To become familiar with the various types of business markets
2. To identify the major characteristics of business customers and transactions
3. To understand several attributes of demand for business products
4. To become familiar with the major components of a buying center

Objectives (cont'd)

5. To understand the stages of the business buying decision process and the factors that affect this process
6. To describe industrial classification systems and explain how they can be used to identify and analyze business markets

Chapter Outline

- Business Markets
- Dimensions of Marketing to Business Customers
- Business Buying Decisions
- Using Industrial Classification Systems

Business Markets

- Business Markets
 - Individuals or groups that purchase a specific kind of product for resale, direct use in producing other products, or use in daily operations
- Producer Markets
 - Individuals and business organizations that purchase products to make profits by using them to produce other products or using them in operations



Business Markets (cont'd)

- Reseller Markets

- Intermediaries who buy finished goods and resell them for profit
 - Wholesalers purchase products for resale to retailers.
 - Retailers purchase products and resell them to final customers.
- Factors affecting resellers' purchase decisions:
 - Level of demand
 - Profit potential (sales per square foot)
 - Supplier's ability to provide goods on demand
 - Ease of ordering and producer support
 - Competing or complementary product characteristics

Table 10.1**Number of Establishments in Industry Groups**

Industry	Number of Establishments
Agriculture, forestry, fishing	27,000
Mining	24,000
Construction	699,000
Manufacturing	360,000
Transportation, public utilities	187,000
Finance, insurance, real estate	418,000
Services	2,077,000

Source: Bureau of the Census, *Statistical Abstract of the United States* (Washington, DC: Government Printing Office, 2002), p. 544.

Business Markets (cont'd)

- Government Markets
 - Federal, state, county, and local governments
 - Purchase a broad variety of goods and services
 - Public accountability results in complex buying procedures requiring bids and negotiated contracts
- Institutional Markets
 - Organizations with charitable, educational, community, or other non-business goals
 - Churches, hospitals, fraternities and sororities, charities, and private colleges



Table 10.2**Annual Expenditures by Government Units for Selected Years (in billions of dollars)**

Year	Total Government Expenditures	Federal Government Expenditures	State and Local Expenditures
1975	560	292	268
1980	959	526	432
1985	1,581	1,032	658
1990	2,369	1,393	976
1995	2,820	1,704	1,116
2002	3,669	1,779	1,890

Source: Bureau of the Census, *Statistical Abstract of the United States* (Washington, D.C.: Government Printing Office, 2002), and Bureau of the Census, Governments Division, August 18, 2003.

Dimensions of Marketing to Business Customers

- Characteristics of Transactions with Business Customers
 - Orders are much larger and more costly/expensive.
 - Purchases are made more frequently.
 - Terms of sales contracts are longer.
 - Several people or a committee may be involved in the purchase decision.
 - A buyer and a seller purchase from each other (reciprocity).

Dimensions of Marketing to Business Customers (cont'd)

- Attributes of Business Customers
 - Better informed about products purchased
 - Demand more detailed product information
 - Personal goals (in support of organizational goals) may influence buying behavior



Dimensions of Marketing to Business Customers (cont'd)

- Primary Concerns of Business Customers
 - Price of goods affecting ability to compete
 - Return on investment in product
 - Price of product compared to the benefits it provides
 - Quality of the product in meeting specifications
 - Quality of services offered by suppliers in support of their products

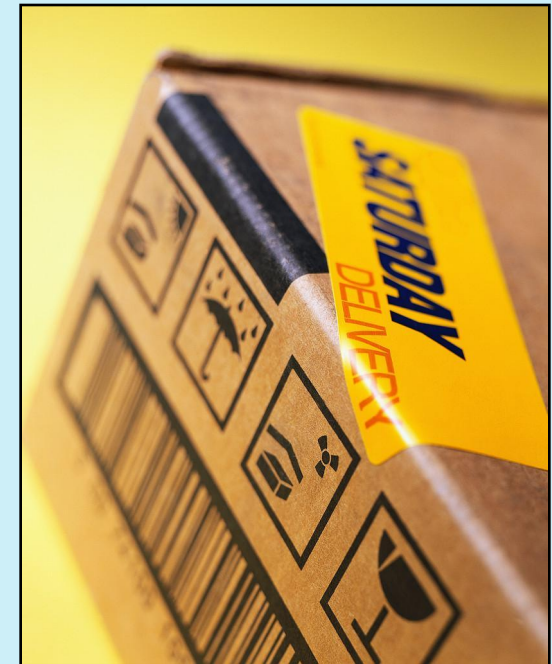


Dimensions of Marketing to Business Customers (cont'd)

- Methods of Business Buying
 - Description
 - Products standardized by certain characteristics
 - Inspection
 - Products with particular characteristics
 - Sampling
 - Product is homogenous and a single specimen can be evaluated as representative of the entire product
 - Negotiation
 - Sellers are asked to bid on specified product characteristics and purchasers negotiate with successful bidders

Dimensions of Marketing to Business Customers (cont'd)

- Types of Business Purchases
 - New-task purchase
 - An initial item purchase to be used to perform a new job or solve a new problem
 - Straight rebuy purchase
 - The routine purchase of the same products by a business buyer
 - Modified rebuy purchase
 - A new-task purchase that is changed on subsequent orders or when requirements of a straight rebuy are modified



Dimensions of Marketing to Business Customers (cont'd)

- Demand for Business Products
 - Derived demand
 - Demand for industrial products that stems from demand for consumer products
 - Inelastic demand
 - Demand that is not significantly altered by a price increase or decrease
 - Joint demand
 - Demand involving the use of two or more items in combination to produce a product
 - Fluctuating demand
 - Demand that varies directly as consumer demand varies

Business Buying Decisions

- Business (Organizational) Buying Behavior
 - The purchase behavior of producers, government units, institutions, and resellers
- Buying Center
 - The people within an organization who make business purchase decisions
 - Users—actually use the products
 - Influencers—help develop the specifications and evaluate alternative products
 - Buyers—select suppliers and negotiate terms of purchase
 - Deciders—actually choose the products
 - Gatekeepers—control the flow of information to others in the buying center

The Buying Process: Key Terms

- Value Analysis
 - An evaluation of each component of a potential purchase.
- Vendor Analysis
 - A formal systematic evaluation of current and potential vendors
- Multiple Sourcing
 - An organization's decision to use several suppliers
- Sole Sourcing
 - An organization's decision to use only one source

Business (Organizational) Buying Decision Process and Factors That May Influence It

Possible influences on the decision process

Environmental

- ▶ Competitive factors
- ▶ Economic factors
- ▶ Political forces
- ▶ Legal and regulatory forces
- ▶ Technological changes
- ▶ Sociocultural issues

Organizational

- ▶ Objectives
- ▶ Purchasing policies
- ▶ Resources
- ▶ Buying center structure

Interpersonal

- ▶ Cooperation
- ▶ Conflict
- ▶ Power relationships

Individual

- ▶ Age
- ▶ Education level
- ▶ Personality
- ▶ Tenure
- ▶ Position in organization

Business (organizational) buying decision process



FIGURE 10.1

Using Industrial Classification Systems

- Identifying Potential Business Customers
 - Systems for classifying industrial, commercial, financial, and service organizations
 - Standard Industrial Classification (SIC)
 - United States standard system
 - North American Industry Classification System (NAICS)
 - NAFTA (United States, Canada, Mexico) standard system
 - Input-output data
 - Information that tells what types of industries purchase the products of a particular industry



Using Industrial Classification Systems (cont'd)

- Identifying Potential Business Customers
(cont'd)
 - Sources of information
 - Census of Business, Census of Manufacturers, County Business Patterns, Standard & Poor's Register, Dun & Bradstreet's Million Dollar Directory
- Estimating Purchase Potential
 - The size of the purchase potential of business customers may be estimated using a variable in the business classification data that is correlated with size of customer purchases.

Table 10.3**Comparison of the SIC System and NAICS for Manufacturers of Magnetic and Optical Media****SIC Hierarchy**

Division D	Manufacturing
Major Group 36	Manufacturers of electronic and other electrical equipment, except computer equipment
Industry Subgroup 369	Manufacturers of miscellaneous electrical machinery, equipment, and supplies
Detailed Industry 3695	Manufacturers of magnetic and optical recording media

NAICS Hierarchy

Sector 31–33	Manufacturing
Subsector 334	Computer and electronic manufacturing
Industry Group 3346	Manufacturing and reproduction of magnetic and optical media
Industry 33461	Manufacturing and reproduction of magnetic and optical media
U.S. Industry 334611	U.S. specific—reproduction of software

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After reviewing this chapter you should:

- Be familiar with the various types of business markets.
- Be able to identify the major characteristics of business customers and transactions.
- Understand several attributes of demand for business products.
- Be familiar with the major components of a buying center.
- Understand the stages of the business buying decision process and the factors that affect this process.
- Be able to describe industrial classification systems and explain how they can be used to identify and analyze business markets.