

Chapter five

Understanding consumer and business markets

Meet the marketer



From librarian to tourism researcher

Jill Whitehouse trained originally as a librarian, before a change of interests led her to Tourism New South Wales and, soon after, a Graduate Diploma in Tourism Management.

'My current role involves commissioning research into the motives, expectations and travel patterns of local and overseas visitors,' Jill explains. 'These studies enable us to understand better the behaviour of our "customers", and our competitive environment, and this in turn guides the organisation's marketing strategies.'

Managing the changes in the tourism market

'Domestic travellers are still the bread and butter of the tourism market. The growth rate is a lot less than in some of the international markets, but the local market is big and stable,' Jill says. 'The growth rate in visitation from overseas is high, but can be volatile. It's more difficult to predict *changes in behaviour* in overseas markets. The economic crisis in South-East Asia, for example, significantly reduced the numbers of visitors from those countries, at least for a while. At the same time, however, visitors from our traditional markets such as the United Kingdom and the United States increased. Of course, each visitor makes a decision to travel,

or not to, based on their *individual situation and motives*. Our constant task is to try to understand these factors.

'We track the trends in tourism through *nationally syndicated quantitative research* such as the National and International Visitor Surveys, and we commission one-off research into the needs of particular consumer groups such as, say, the touring-by-car market or potential repeat visitors from New Zealand. Each group has different expectations and will respond to different appeals.' The potential of the Internet as a distribution channel for increasing consumer awareness of destinations, for communicating with customers in a highly targeted way, and its use as a booking option is a current area of investigation for the Research team.

Jill explained the behaviour patterns of domestic tourists.

'Well, firstly, less perceived risk leads to a very different set of *attitudes and behaviours* in the travel decision-making process. There tends to be, for example, less "lead-up time" between the decision to take a holiday and the departure. The time away is shorter, and because people feel more confident of booking the various components of their domestic travel directly from the suppliers,

there is less use of travel agents than there is for international travel. People travelling locally rely heavily on their previous experiences and word-of-mouth to inform their decision making. Our marketing strategies, especially advertising and promotion, need to take account of these behaviour patterns.'

International visitors are a different group of consumers

'For international visitors, however, we know from our research that Australia is a very "aspirational" destination. That is, it often ranks in the top three countries that people "most want to visit". Understanding that motivation, the tourism industry's task is then to provide specific stimuli, or reasons to visit. The next challenge is to convert that awareness and motivation into a booking. Tourism New South Wales' consumer web site will allow us to communicate with and influence our overseas markets in ways previously not possible.

'Unfortunately, we can't control directly barriers to long-haul travel such as time, cost, safety concerns, the value of the Australian dollar, language, and so on. But, by understanding these barriers, at least we can address particular concerns or clarify specific issues in our advertising.'

Learning objectives

In Chapter 4 we looked at market segmentation—the process of dividing a total market into smaller segments to enable an organisation to better satisfy the wants of particular customers, and achieve its own objectives.

The total market can be divided into two broad segments, consumers and businesses. We are now ready to study these two major market segments in closer detail. After studying this chapter, you should be able to:

- 1 explain why marketers need to be aware of the distribution and composition of the Australian population and consumer spending patterns in Australia
- 2 describe the decision-making process in consumer purchasing
- 3 list and explain the psychological forces that influence buyer behaviour
- 4 evaluate the influences on **consumer behaviour** of **culture**, social class and **small reference groups**
- 5 explain the nature and importance of the business market
- 6 explain the main determinants and characteristics of business-market demand
- 7 consider buying motives and buying process in the business market.

Outline of important topics

These topic outlines are useful for reviewing exam material.

Australian population aspects that influence marketing decisions (p. ##)

- 1 The total population in 2002 is just over nineteen million.
- 2 Australia's population is highly concentrated in a few urban and suburban centres—thirteen cities account for nearly three-quarters of the total population.
- 3 The main growth trend in Australian cities continues to be out rather than up—fringe suburban areas and satellite centres. For more information on this or other aspects of the Australian population, visit the Australian Bureau of Statistics web site at <www.abs.gov.au>.
- 4 Over the last twenty years, the percentage of income spent on categories such as food, clothing and alcohol has declined, while spending on appliances, housing and a wide variety of services has increased.
- 5 The types of products consumers buy are influenced by their stage in the family lifecycle; that is, the age and employment status of the adult(s) in the family and the ages of the children.

Consumer buying-decision processes (p. ##)

- 1 It is useful to consider the individual steps in a process people go through when making purchase decisions:
 - a recognising an unsatisfied need
 - b identifying alternative ways of achieving satisfaction
 - c evaluating alternatives
 - d making the purchase decision, and
 - e feeling post-purchase doubts.

Social influences on purchasing (p. ##)

- 1 **Culture:** The complex set of behavioural guidelines created by and handed down in a society from generation to generation. Cultural influences appear in attitudes, beliefs, languages, work practices and religions, as well as in tangible aspects such as housing, food and clothing.
- 2 **Social class:** This is the categorisation of people in society according to characteristics such as education, occupation and the type and neighbourhood of residence.

- 3 *Small reference groups*: These are groups of people who influence a person's attitudes, values and behaviour. An individual's buying behaviour is influenced by friends, church, and sporting or social groups. Marketers address their messages to the innovators and opinion leaders within those groups.
- 4 *Families*: Who does the buying is relevant in cases where various members of a family make buying decisions and carry out buying activities. Marketers are aware of the various roles that are adopted by family members—the initiator/influencer, the **decider**, the purchaser and the user. These roles might vary for different products and for different types of families.

Psychological factors in purchasing (p. ##)

- 1 **Motivation**: A stimulated or aroused need that an individual seeks to satisfy. For marketers, the important—and difficult—task is to determine which specific wants are really motivating a consumer's buying behaviour. A marketing mix that accurately mirrors the driving want(s) can then be developed.
- 2 **Perception**: The meaning or interpretation given by an individual to information received (stimuli). Perceptions are shaped by the individual's socio-cultural environment and by psychological influences. Perception, in turn, shapes behaviour. A process of selectivity acts to limit the influence of stimuli.
- 3 **Learning**: Changes in behaviour resulting from observations and previous experiences. Using the learning process as a guide to predicting consumer behaviour is difficult. Learning models used by marketers include stimulus–response theories.
- 4 **Personality**: An individual's pattern of traits that helps to determine how that individual will behave. Personality traits include self-confidence, shyness, flexibility and stubbornness.
- 5 **Attitudes and beliefs**: Reflected in people's enduring thoughts and feelings about, and their actions relating to, objects or ideas. Attitudes and beliefs have a considerable influence on choices of products and brands.

Consumer attitudes do change, although usually only slowly. With some exceptions, marketers have usually found it easier to change the product to conform to consumers' attitudes than to try to change attitudes.

Situational influences on purchasing (p. #)

- 1 The situations in which consumers find themselves play a large part in determining how they behave.
- 2 Marketers need to consider when, where and how consumers buy.

The nature and importance of the business market (p. ##)

The business market in Australia is large and complex, consisting of almost one million organisations in manufacturing and service industries, and including some often overlooked markets—farms, resellers, governments and non-business markets.

Characteristics of market demand (p. ##)

- 1 The demand for business goods and services is derived from the demand for the consumer products in which the business goods or services are used.
- 2 The demand for business goods is relatively inelastic. Total market demand for a business product tends to be unresponsive to changes in price. This inelasticity of demand applies to the total market rather than to individual firms.
- 3 The demand for business goods and services tends to fluctuate widely, especially demand for major capital equipment.
- 4 Business buyers are well informed about the relative merits of the products they purchase.
- 5 These characteristics have implications for the marketing of business goods and services, especially in terms of demand forecasting, pricing strategy development, and customer-relations practices.

Buyer behaviour in business markets (p. ##)

- 1 Business buying motives are usually rational, motivated by the desire to maximise profits. Often, however, the self-interest motives of the individual buyer must also be taken into account by business marketers.
- 2 Business buying is influenced by:
 - a the classes of buying situations, and
 - b the sequential steps in the buying process.
- 3 A major aspect of **business marketing** is the identification of the buying decision maker. Often there is multiple buying influence, with several people involved in the purchase decision.
- 4 The buying patterns of business users are often different from behaviour patterns of consumer markets:
 - a direct marketing from producer to user is more common
 - b products are generally purchased less frequently
 - c the average order size is larger
 - d negotiation is often longer and more complex
 - e customer service, before and after the sale, is often a main requirement
 - f reliability of quality and supply is a further major requirement
 - g alternative financing arrangements are often negotiated.

Understanding consumers

Ultimate consumers are those customers who buy goods and services for their own personal or household use.

Marketers aim to satisfy customers' wants. To do that they must first understand their customers; who they are, how many of them there are, what goods and services they buy, and most importantly, what influences their purchases. In the consumer market, we need to understand:

- the Australian population and its purchasing power—that is, the market's ability to buy, and
- the various social, psychological and situational factors that influence consumers' actual purchasing behaviour—that is, the market's willingness to buy.

The Australian consumer market

Here are some facts (see also Tables 5.1, 5.2, 5.3 and Fig. 5.1):

- The total population of Australia in the year 2002 is just over nineteen million people living in seven million households. By international standards, of course, this is a very small marketplace.

- Based on certain assumptions about fertility rates and levels of immigration, it is likely that the total population will number around twenty-five million by the year 2021.
- The biggest markets are New South Wales and Victoria, which together house over 60 per cent of Australia's population.
- The greatest percentage increases in population are occurring in south-east Queensland, Western Australia and the Northern Territory: in less than thirty years, Queensland will overtake Victoria as the second most populated state.
- Australia is one of the most urbanised countries in the world: over 70 per cent of the population lives in the thirteen major cities (seven capital cities, plus six other cities of 100 000 or more residents). Only Queensland and Tasmania vary from this trend.
- The percentage of people living in rural areas declined over a period of many years; however, in the last few years the figure has remained at around 12 to 15 per cent.
- In metropolitan areas the central cities have tended to grow slowly, and in some cases the older, established parts lost population, while

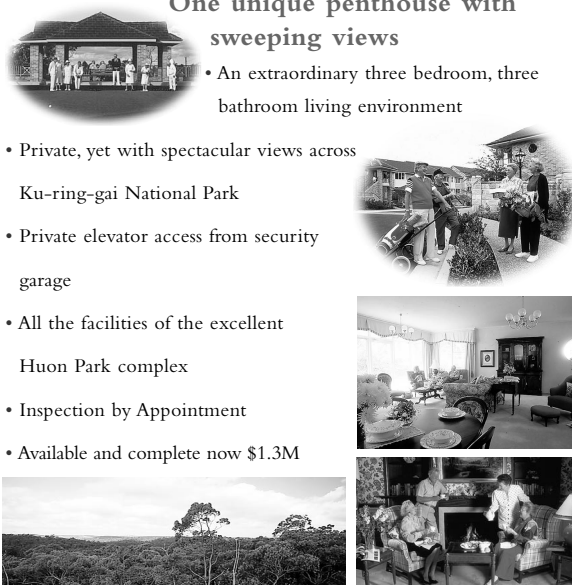
significant growth is occurring in the fringe areas or suburbs outside these cities.

- Marketers can obtain census data about suburban populations online from a number of specialist companies. Population data can be retrieved by census collection district (CCD)—typically containing around 200 to 300 dwellings—or by post code or local government area (LGA—a municipality, shire or district council). See the Australian Bureau of Statistics web site at <www.abs.gov.au>.
- The population is ageing, the numbers of single households is growing, ethnic diversity is significant.
- Family spending patterns have changed in recent years—spending on services such as health, leisure, and household services has grown significantly. See Table 5.3.
- **Expenditure patterns** are not the same, however, for all Australians; family income, lifecycle stage and other factors have an impact. Lower income families, for example, spend a greater proportion of their income on food and clothing.
- The impact of the GST is still being watched very closely by marketers.

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Residential developments like Huon Park are targeting the cashed-up over-55s market. What other goods and services are aimed at this group?

Courtesy of Huon Park

TABLE 5.1 ■ Estimated resident population in Australian capital cities and other major cities as at 30 June 1999, 000s

	1986	1991	1996	1999*
Sydney ^(a)	3471.6	3672.9	3821.4	4041.1
Melbourne ^(a)	2996.9	3155.7	3248.8	3417.2
Brisbane ^(a)	1217.3	1358.0	1525.5	1601.4
Adelaide ^(a)	1003.5	1057.2	1086.5	1092.9
Perth ^(a)	1050.1	1188.8	1282.8	1364.2
Hobart ^(a)	182.1	191.0	195.0	194.0
Darwin ^(a)	75.4	76.7	80.9	88.1
Canberra ^(a)	257.9	288.2	307.1	309.9
Newcastle ^(b)	417.0	444.9	471.0	479.3
Wollongong ^(b)	233.0	244.9	255.7	262.6
Gold Coast ^(b)	215.6	279.4	339.6	391.3
Geelong ^(b)	146.4	151.9	154.0	156.1
Townsville ^(b)	105.0	114.1	126.7	127.1
Sunshine Coast ^(b)	87.5	119.6	157.4	172.9

Note: *Projection; (a) Capital city statistical division; (b) statistical district.

Source: Australian Bureau of Statistics, *Australian Demographic Statistics, June Quarter*, Cat. no. 3101.0, ABS, Canberra, 1999.

TABLE 5.2 ■ The changing age mix, 1995—2031

Age group	Percentage of Australian population	
	1998	2051
0–14	21%	16%
15–24	14%	11%
25–44	31%	24%
45–64	22%	25%
65+	12%	24%

Source: Australian Bureau of Statistics, *Projections of the Populations of Australia, States and Territories, 1998–2051*, Commonwealth of Australia, Canberra, 1998, Cat. no. 3222.0.

TABLE 5.3 ■ Shifts in private consumption as a percentage of total expenditure

Goods or services	Proportion of total household expenditure
Rent and housing expenses	18.4%
Electricity, gas, fuel	1.8%
Food	11.9%
Alcoholic beverages	1.3%
Tobacco	1.7%
Clothing and footwear	4.1%
Household equipment, appliances and furnishing	5.7%
Purchase of vehicles	3.7%
Operation of vehicles	5.9%
Transport services	2.5%
Communications	2.2%
Recreation and culture	11.7%
Medical care and health	3.8%
Education services	2.2%
Hotels, cafes and restaurants	8.1%
Insurance and financial services	6.2%
Other goods and services	8.6%

Source: Australian Bureau of Statistics, National Income, Expenditure and Product, *Australian National Accounts*, ABS, Canberra, Cat. no. 5206.0, Dec. 1999.

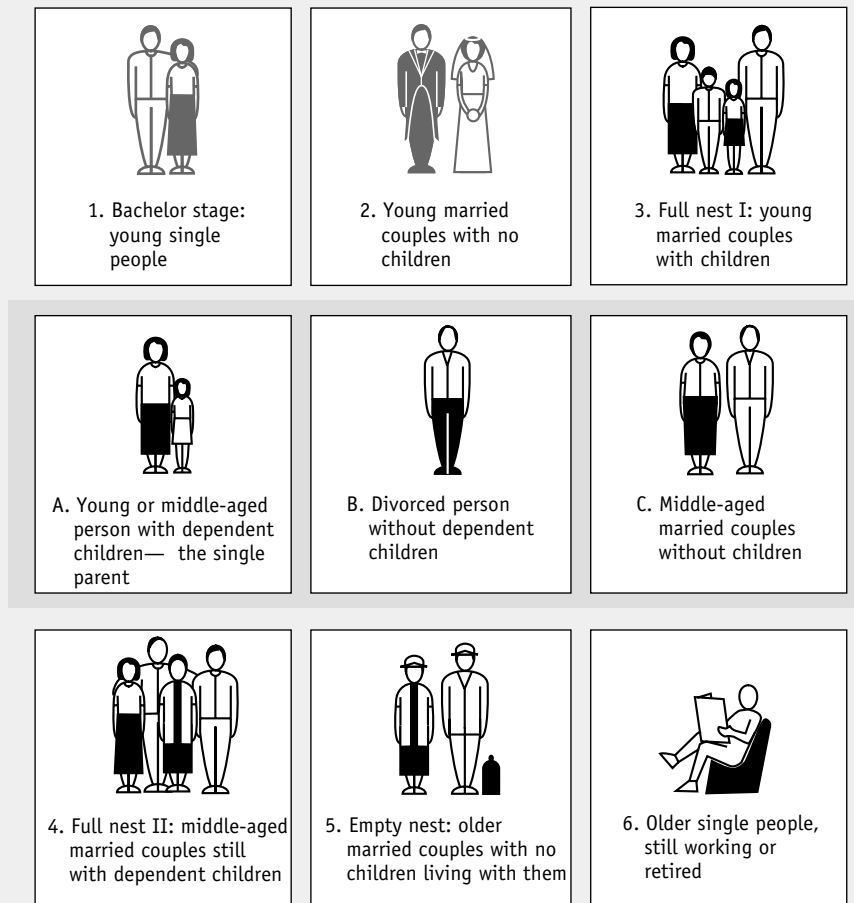
Family lifecycle

Family lifecycle stages—the various forms that families can take over time—are major determinants of purchase behaviour:

- A single-parent family with dependent children can face different social and economic problems from those of a two-parent family.
- Young married couples with no children typically devote large shares of their income to clothing, cars and recreation.
- When children start arriving, expenditure patterns shift as many young families buy and furnish a home.
- Families with teenagers find larger portions of their income going on food, education and clothing.

Researchers originally identified nine distinct lifecycle stages, as shown in Figure 5.1. People show different buying behaviours in different stages of the cycle.

FIG. 5.1 ■ The family lifecycle



Increasingly important markets—reflecting our changing lifestyles—are singles, de factos, and the gay market.

- One out of every four Australian households consists of just one person—a 'single'.
- The number of singles households is increasing at a faster rate than that of larger family units.
- Among the reasons for this increase in one-person households are the growing number of working women, the trend towards marrying at a later age, and increased longevity.

The impact of single people of both sexes on the market is evident in the emergence of social clubs for singles, and special tours, cruises and eating places for singles.

Singles in the 25–39 age bracket are especially attractive to marketers because they constitute such a large group. Also, compared with the population as a whole, this singles group is:

- more affluent
- more mobile
- more experimental and less conventional
- more fashion and appearance conscious
- more active in leisure pursuits
- more sensitive to social status.

Understanding consumer buying

Why is consumer marketing difficult? The reason is simple: consumers are complex, and

constantly changing. Not only is it difficult to anticipate which marketing program will work, but also, what worked today may not work tomorrow.

To deal with the marketing environment and make purchases, consumers engage in a decision-making process. One way to look at this process is to view it as problem solving. When faced with a problem that can be resolved through a purchase (I'm bored—how do I solve my need for entertainment? or, It's Dad's birthday next week—what should I buy him?), the consumer goes through a series of logical stages to arrive at a decision.

Figure 5.2 depicts this decision-making process, as well as the four main forces that influence consumers as they go through the process.

The buying-decision process

As shown in Figure 5.2, this process consists of the following five stages:

- 1 *Recognition* of an unsatisfied need—for example, a woman sees an ad for cars and realises she needs/wants to update her car.
- 2 *Identification* of alternate ways of achieving satisfaction—she considers sports models and station wagons (for different reasons).
- 3 *Evaluation* of alternatives—she gathers information from brochures and from her husband and considers various makes of the two alternative vehicle types; price, convenience, prestige and personal style.
- 4 *Purchase decision*—finally she decides on a sports car and makes choices on brand, price, dealer, colour.
- 5 *Post-purchase behaviour*—she wonders if she has made the right decision. This is called **post-purchase dissonance** or **cognitive dissonance** and it occurs because the chosen path has some negatives and the non-chosen ones have some benefits. Dissonance usually increases as:
 - the dollar value of the purchase increases
 - the relative attractiveness of the unselected alternatives increases
 - the relative importance of the decision increases (buying a house or car creates more dissonance than buying an ice-cream).

Information and purchase decisions

As shown in Figure 5.2, there are two sources of buying information—the *commercial environment* and the *social environment*.

The commercial information environment comprises:

- all marketing organisations and individuals that communicate with consumers
- manufacturers, retailers, advertisers, and salespeople.

The social information environment comprises:

- family, friends, and acquaintances
- an environment where the consumer gets information about products either directly or indirectly—by word of mouth or simply by observation.

Marketers recognise the power of social information, and often try to stimulate it through their commercial messages—for example, by using advertisements that show mothers influencing the brand choices of their daughters.

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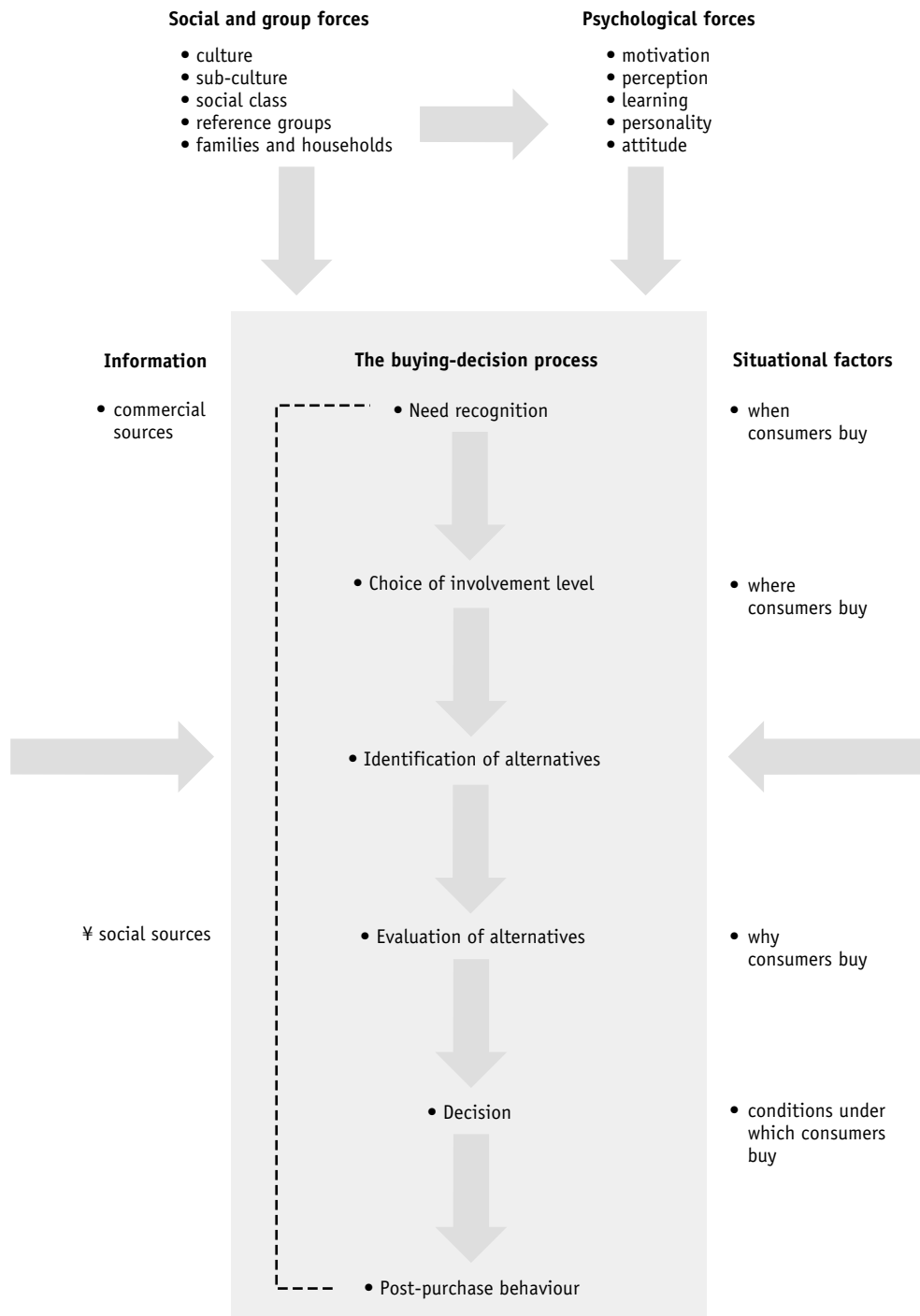
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Consumer expenditure patterns are changing the demand for many types of services is increasing. Some of these service firms would not have found viable markets a few years ago. Why are some consumers now willing to pay to have their houses washed?

Courtesy of Softwash House Washing Pty Ltd

FIG. 5.2 ■ Consumers buying-decision process, and the factors that influence it



Social influences

Our purchases are influenced by the groups we identify with. Figure 5.3 lists a number of these.

Culture

- The complex set of tangible and intangible symbols handed down from generation to generation; attitudes, beliefs, values, languages, religions, tools, housing, works of art.

- Much of our behaviour is culturally determined. Our socio-cultural institutions (family, schools, churches and languages) provide behavioural guidelines.

Sub-culture

Includes groups or movements individuals might identify with; surfing culture, environmental movement.



People belonging to the surfing culture have their own language, clothes, and behaviour norms. What other sub-cultures can you name that constitute such strong reference groups for the people within them?

Courtesy of Sarge Design
<michaelpitt.com.au>

Social class

- Do we have a class system—upper, middle, lower—in egalitarian Australia? If so, what determines our classes—income, wealth, the type and location of our home?
- Our purchases are influenced by the class we are in, or the class we aspire to be in.

Reference groups

- Work colleagues, club members, a circle of friends, any small group who influences our behaviour, ethics, lifestyle, dress, and many of our purchases.
- Information and advice from our reference groups is often more powerful as a behavioural determinant than advertising in newspapers, television or other mass media.

Families and households

- The most powerful social influencer of all.
- Our birth family (the family we are born into) largely determines our core values and attitudes, whereas our marriage family has a more direct influence on purchases.
- Families have an impact on the purchasing of their members, but they also act as purchasing units themselves. Marketers often target fam-

ilies, showing the influence of various members:

- Who influences the buying decision? (Who is the initiator/influencer?)
- Who makes the decision? (Who is the decider?)
- Who makes the actual purchase? (Who is the purchaser?)
- Who uses the product? (Who is the user?)

Different family members may assume various roles, or one individual may play several roles in the making of a particular decision. Teenagers and young children have become decision makers in family buying, as well as actual purchasers. Young married people are much more likely to make buying decisions on a joint basis than older couples.

An entire advertising campaign—media, the appeals made to attract customers' interest, advertising copy, radio and television programming and so forth—will be affected by whether the target consists of the men, women or children in a family.

Psychological influences

The reality is that we know very little about what goes on in a buyer's mind before, during and after a purchase. We do know that each of the following factors influence buying behaviour, but the exact nature of the influence is subject to much speculation.

Motivation

- A motive (or drive) is a stimulated need that an individual seeks to satisfy. Hunger, a need for security and a desire for prestige are all examples of motives.
- Buying motives may be grouped on three different levels, according to the consumer's awareness of these motives, and his or her willingness to divulge them:
 - At the first level, buyers recognise and are quite willing to talk about their motives for purchasing certain products.
 - At the second level, buyers are aware of their reasons but will not admit them to others. A man may buy a swimming pool because he feels it adds to his social position in the neighbourhood. Or someone may buy a designer coat to keep up with his/her peer group. But, when such purchasers are questioned about their motives, they may offer other reasons, ones that they consider less likely to reveal the way they feel.
 - The most difficult motives to uncover are those at the third level; at this level, the buyers themselves do not know the real factors motivating their actions.

The psychologist A. H. Maslow formulated a useful theory of **motivation**—a **hierarchy of needs**. Maslow identified a hierarchy of five levels of needs, arranged in the order in which a person seeks to gratify them; this hierarchy is shown in Figure 5.3.

Perception

Motives are aroused needs that activate behaviour intended to satisfy those needs.

Perception influences and shapes this behaviour.

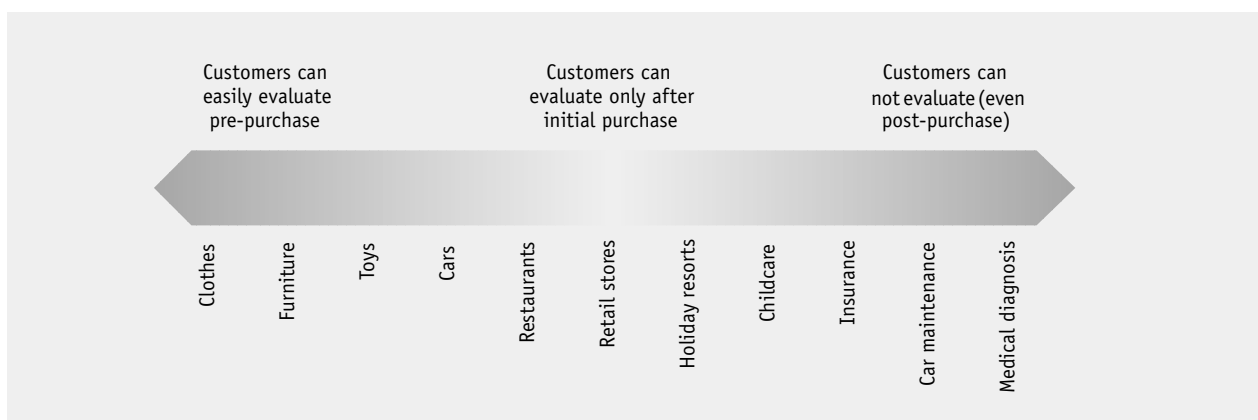
- Perception is the process whereby we receive stimuli (information) through our five senses; we recognise this information, and then we assign a meaning to it. In other words, perception is the meaning we give to stimuli, or the way we interpret stimuli.
- We are exposed to only a portion of all marketing stimuli (products, advertisements, shops): we cannot read every magazine or visit every shop.
- Perception is selective—we perceive only part of what we are exposed to: we can read a newspaper without noticing an advertisement printed in it. And we respond to only a portion of the stimuli we perceive.
- If a marketing stimulus—a product or a store—falls outside a customer's range of selective perception, then for that customer that product or store does not exist. Marketers try to ensure that their product is within the evoked set for consumers in their market segment; the range of brands they will consider for purchase.

Learning

Learning is changes in behaviour resulting from observation and previous experiences. If it were possible to interpret and predict the consumer's learning process, this would be a real key to understanding buying behaviour.

The principal learning theory with marketing applications is the **stimulus–response (SR) theory**.

FIG. 5.3 ■ Continuum of ease of evaluation of goods and services



This model holds that learning occurs as a person:

- 1 responds to some stimulus by behaving in a particular way, and
- 2 is rewarded for a correct response or penalised for an incorrect one, then
- 3 repeats the same correct response in reaction to a given stimulus, so that a behaviour pattern (or learning) is established, and
- 4 once a habitual behaviour pattern is established, replaces conscious, wilful behaviour with this pattern.

Marketers have 'taught' consumers to develop habitual behaviour patterns—that is, to respond to certain cues: for example, end-of-aisle displays suggest the item is on sale, although often it is not! Also, large type in newspaper ads suggest to the consumer that the item advertised is very good value.

Personality

Personality is an individual's pattern of traits that influence behavioural response. Examples of personality traits are self-confidence, aggressiveness, shyness, a domineering nature, dynamism, security/insecurity, extroversion/introversion, an easygoing nature, friendliness, flexibility and stubbornness.

People's personalities are often reflected in the clothes they wear, the brands and types of car they drive (or their choice of a bicycle or motorcycle instead of a car), the restaurants at which they eat, and so on. We don't know however, how to measure their personality traits in relation to their forms of behaviour.

Attitudes and beliefs

Attitudes are a person's enduring tendency to evaluate, feel about or act in relation to some object or idea. Attitudes involve thought processes as well as emotional feelings, and they vary in intensity.

- Attitudes can significantly influence people's perceptions by selectively screening out any stimuli that conflict with them; they can also distort the perception of messages, and affect the degree of their retention.
- There is a close relationship between attitudes and buying decisions.

- It is extremely difficult to change consumers' attitudes.
- If change is necessary to get consumers to buy a product, a seller has two choices. The first is to change consumers' attitudes so that they approve of that product; the second is to determine what consumers' attitudes are, and then change the product to match those attitudes. It is usually much easier to change the product than it is to change consumers' attitudes.

Situational influences

Often the situations in which we find ourselves play a large part in determining how we behave. Students act differently in a classroom to the way they act at a rock concert. The same holds true for buying behaviour.

Marketers need to be aware of how situational influences, the temporary forces associated with the immediate purchasing environment, could affect their products. In particular, they need to be aware of when, where and how consumers buy.

- The purchasing pattern for supermarkets is weighted towards the end of the week; food advertisers concentrate their messages on these days, telemarketers monitor success rates at various times during the day and evening; there appear to be certain times when consumers are more willing to consider making a purchase.
- Consumers today face many pressures on their time. Many marketers are helping consumers to conserve time—fast-food restaurants, catalogue retailers, extended shopping hours and telephone banking are good examples of marketing-assisted time saving.
- For many goods and services, the decision to buy is made at home; for others, it is often made in whole or in part at the point of purchase. A man shopping in a sporting goods shop for golf clubs may see some tennis balls on sale: knowing he needs some, he decides on the spot to buy them. A girl may decide at home to buy a birthday gift for her father, but will wait until she gets to the shop before deciding whether the gift will be a shirt or a book.
- The trend towards one-stop shopping has encouraged retailers to add related and even

unrelated items of merchandise to their basic groups of products.

- In many service markets, functions or activities have been transferred to consumers in return for lower prices. Consumers have demonstrated that they are prepared to fill their own petrol tanks, serve their own salads, and conduct their own banking transactions; they are happy to buy goods and services in this way if they are offered some off-setting benefit.

Understanding the business market

Business marketing is the marketing of goods and services to business users, rather than to consumers. The business market buys goods and services in order to:

- make other goods and services (e.g. Heinz buys fresh vegetables to make soup and NAB buys ATMs to offer a better banking system)
- resell to other business users or to consumers (e.g. Woolworths buys canned tuna to sell to consumers and ACNielsen buys data from retailers to re-sell to marketing firms)
- conduct the organisation's operations (e.g. the University of Melbourne buys office supplies and electronic office equipment for use in the registrar's office and the Sydney Children's Hospital buys supplies to use in its surgical operating rooms).

Compared to the more visible consumer market, the business market is huge and complex. Thousands of **business products** and business-marketing activities come into play before almost any product—consumer good or business good—reaches its final destination.

The scope of the business market looms even larger when we consider all of the many business services: transport and storage, power and water, telecommunications, accounting, legal, advertising, financial services. The government itself is also a major purchaser in the business market.

There are around one million business users in Australia and while this is far short of the more than nineteen million consumers, the total sales volume in the business market far exceeds total sales to consumers.

The characteristics of business-market demand

Four general demand characteristics help to differentiate the business market from the consumer market.

Derived demand

The concept of **derived demand** is critical for marketers in the business market; they know that the sales they can achieve for their products are ultimately dependent on the sales levels achieved by the organisations to which they sell.

The demand for each business product is derived from the demand for the ultimate consumer products in which the business product is finally used.

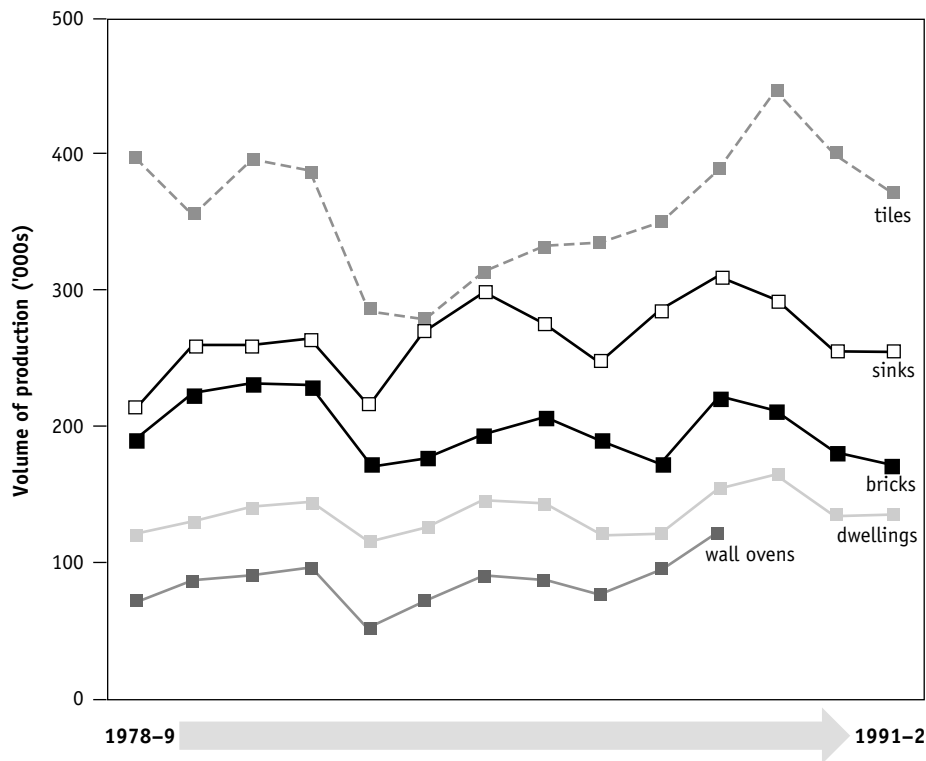
The demand for steel, for example, depends partially on consumer demand for cars and refrigerators. But, it also depends on the demand for butter and cricket gloves, because the tools, machines and other equipment needed to make these items are made of steel. Consequently, as the demand for cricket gloves increases, glove manufacturers might buy more steel sewing machines or filing cabinets.

Figure 5.4 illustrates another example of derived demand: the relationship between housing completions and the derived demand for some of the components of houses (bricks, baths and so on).

There is an important marketing implication here. Consider these examples:

- The producer of a business product might run an advertising campaign promoting consumer goods or services using the firm's product. For example, DuPont ran an advertising campaign aimed at Australian consumers, urging them when buying carpeting to ask specifically for products made with DuPont's stain-resistant Stainmaster fibre.
- The manufacturer of NutraSweet ran a consumer advertising campaign designed to build consumer loyalty to products sweetened with NutraSweet. The idea was that this consumer demand would, in turn, trigger a derived demand for NutraSweet on the part of food and softdrink processors.

FIG. 5.4 ■ Demand for selected building materials with dwellings completed, Australia



Inelastic demand

Another significant characteristic of the business market is related to the derived-demand feature. The demand for many business products is relatively inelastic—that is, the demand for a product responds very little to changes in price. If the price of buttons for men’s jackets suddenly rises or falls considerably, there would probably be no appreciable change in the demand for buttons.

The demand for business products is inelastic because usually the cost of a single part or material is a small portion of the total cost of the finished product. The cost of the chemicals in paint is a small part of the price that a consumer pays for paint. The cost of the legal services in writing the warranty for a refrigerator is a small part of its retail price. Even the cost of expensive capital equipment, when distributed over thousands of units of a product, becomes a very small part of the unit cost.

As a result, when the price of the business product changes, there is very little shift in the demand for the related consumer products, and if

there is no appreciable shift in the demand for the consumer goods, then, by virtue of the derived-demand feature, there is no change in the demand for the business product.

Note that this principle applies to an entire industry rather than to an individual firm. An industry-wide cut in the price of steel belts used in tyres will have little effect on the demand for car tyres. Consequently, it will cause little change in the total demand for steel belts. The pricing policy of an individual firm, however, can substantially alter the demand for that firm’s products—if one supplier significantly cuts the price of its steel belts, the drop in price could draw a great deal of business away from competitors, at least until other firms respond.

Widely fluctuating demand

Although the demand for business goods does not change much in response to price changes, it is far from steady. In fact, market demand for most classes of business goods fluctuates considerably more frequently than the demand for consumer products:

- The demand for installations—major plant equipment, factories and so on—is especially subject to change.
- Substantial fluctuations also exist in the market for accessory equipment—office furniture and machinery, delivery trucks and similar products. These fluctuations tend to accentuate the swings in the demand for business raw materials and fabricating parts.
- Downturns in the construction and motor vehicle industries affect suppliers of timber, steel and other materials and parts.

Fluctuations in the demand for business products can influence all aspects of a marketing program:

- In product planning, the fluctuations might stimulate a firm to diversify into other products in order to ease production and marketing problems.
- Distribution strategies might be affected.
- Consider, too, a firm's sales team. When demand declines, the sales team must either be trimmed back, or maintained at full strength at a loss. Rather than trying to cope with this problem, a seller might decide to make greater use of wholesalers for reaching its market.

A well-informed market

Unlike ultimate consumers, business buyers are usually well informed about what they are buying. They know the relative merits of alternative sources of supply, and of competitive products. There are several reasons for this:

- There are relatively fewer alternatives for business buyers to consider, compared to the alternatives available for consumer goods.
- Unlike consumers, who purchase items across a wide spectrum to meet all of their needs, business buyers usually have responsibility for a limited range—their role is to be knowledgeable about a narrowly defined set of products.
- The cost of a mistake in business buying can be thousands of dollars (or the purchasing

person's job!); whereas for consumers, it is usually only a minor inconvenience. Business buyers therefore have great incentive to know and understand the products they are buying.

- The position of purchasing officer/manager has been upgraded in many firms, and purchasing managers are using sophisticated tools to improve their performances.

These improvements in purchasing skills carry significant marketing implications for the sellers of business products. For example, producers of business goods place greater emphasis on personal selling than do firms marketing consumer products. Business sales people must be carefully selected, properly trained and adequately compensated. They must give effective sales presentations, and furnish satisfactory service both before and after each sale is made. Sales managers are devoting much effort to the assignment of sales people to key accounts, to ensure that these employees are compatible with business buyers.



Well-informed buyers in business markets call for a high level of customer service from sellers. What kinds of services might this business marketer be expected to provide?

Courtesy of T. I. Group Automotive Systems

Influences on business-market demand

Business buying behaviour

Business buying motives are for the most part presumed to be rational, and a business purchase is normally a methodical, objective undertaking.

Business buyers are motivated primarily by a desire to maximise their firm's profits. More specifically, their buying goal is to achieve the optimal combination of price, quality and service in the products they buy.

This is not to say that personal motives such as friendship or ego don't play a role in business buying. Personal motives might well sway a deal to one supplier or another, especially if there is little to choose between competing offers on rational bases.

The buying-decision process in business markets

The **buying-decision process** in business markets involves a sequence of five stages, similar to those in consumer markets. However, not every case involves all five steps. Routine purchases are usually low-involvement situations for the buyer, and typically some stages are skipped. But the first-time purchase of an expensive good or service is likely to be a high-involvement, all-stages buying decision.

Let's consider a situation where a company wants to buy ten video cassette recorders (VCRs) for use in its branch-office sales training programs.

Problem recognition

The sales managers of the purchasing company are dissatisfied with the audiovisual equipment currently being used in their sales training programs. They have decided to buy VCRs so that they can tape the buyer-seller role-playing exercises. The opportunity for instant replay will enable management to review trainees' performances.

Gathering information

The sales managers draw up a list of product-performance specifications for the VCRs. The purchasing department then identifies the

various brands, models and sources of supply that meet these specifications. Possibilities include Sony, NEC and several other brands.

Evaluation of alternatives

The sales and purchasing staff jointly evaluate both the alternative products and the alternative sources of supply. The buyer considers such factors as product quality, features, performance and price, as well as the suppliers' ability to meet commitments. Suppliers are contacted to establish the benefits of their offerings.

Purchase decision

The buyer decides on a specific brand, model and supplier. The purchasing department negotiates the final deal with the supplier. This can include the particular models, prices, quantity, payment terms, delivery, servicing and so on.

Post-purchase behaviour

The buyer continues to evaluate the performance of the product and the supplier, in order to ensure that both are as advertised or promised. Future dealings with the supplier will depend on this performance evaluation, and on how well the supplier handles any problems with the product that might arise at a later stage.

Types of buying situations

Earlier we described how decisions relating to consumer purchases range from routine to complex buying decisions. Buying situations in business organisations also vary widely in terms of their complexity, the number of people involved and the time required.

Research on organisational buying behaviour has identified three classes of business-buying situations:

- 1 new-task buying
- 2 the straight rebuy, and
- 3 the modified rebuy.

New-task buying

New-task buying occurs where the buying organisation has not previously purchased this

Marketing in a small business

How well would your small business perform on a supplier evaluation?

Many purchasing organisations today are demanding high standards from their suppliers. The chart below allows you to assess how well you might be regarded by your customers.

Performance self-rating chart

Evaluation criteria	1 (excellent performance)	2 (average performance)	3 (poor performance)
<i>Supply</i>			
Deliveries on time			
Orders in full			
Flexibility in emergencies			
<i>Quality</i>			
Defect rates			
Quality program in place			
<i>Service</i>			
Understanding of the business			
Technical support			
Responsiveness to problems			
Capacity to solve problems			
<i>Finance</i>			
Price competitiveness			
Payment terms			
Willingness to negotiate			
Notice given of price changes			

Business buyers need to gather detailed and often technical information as they make purchasing decisions. Apart from field days like this one, what other means could business marketers use to satisfy this need?

Courtesy of Rural Press Limited



category of good or service. Accordingly, this is the most difficult and complex of the three buying situations:

- more people are involved in new-task buying than in the other two situations
- a lot of new information is collected, and the evaluation of alternatives is critical
- sellers have a great opportunity to display their creative selling abilities in satisfying the buyer's needs.

A hospital's first-time purchase of computer technology for laser surgical equipment, or a company's purchase of robots from a factory (or its purchase of the factory itself), are examples of a new buy.

Straight rebuy

This is a routine, low-involvement purchase:

- information needs are minimal
- there is no great consideration of alternatives
- buying decisions are made in the purchasing department, usually from a predetermined list of acceptable suppliers
- suppliers who are not on this predetermined list might have access difficulties to make a sales presentation to the buyer.

Examples are repeat purchases of office supplies, cleaning services or lubricating oils.

Modified rebuy

This buying situation is somewhere between the other two in terms of time and people involved, information needed, and alternatives considered. In the hospital surgical equipment example, above, a modified rebuy could be the purchase of upgraded software, or a new brand. In this case, the purchasing organisation will have some knowledge and experience in the product category.

Multiple buying influences—the buying centre

One of the biggest challenges in business-to-business marketing is to determine which indi-

viduals in the organisation play the various buying roles. That is:

- who influences the buying decision
- who determines product specification, and
- who makes the buying decision.

In the business market, these activities often involve several people:

- The **users**—the people who actually use the good or service, perhaps a secretary, a production-line worker or a truck driver.
- The **influencers**—the people who set the specifications of, and help to determine, aspects of buying decisions because of their technical expertise, their financial position or even their political power in the organisation.
- The **deciders**—the people who make the actual buying decision regarding the product and the supplier. A purchasing officer might be the decider in a straight rebuy situation, but someone in top management might make the decision about whether or not to buy an expensive information technology system.
- The **gatekeepers**—the people who control the flow of purchasing information within the organisation, as well as between the firm and its potential vendors. These people might be purchasing officers, secretaries, receptionists or technical personnel.
- The **buyers**—the people who select the suppliers, arrange the terms of sale and process the actual purchase orders. This is typically the purchasing department's role; but again, if the purchase is an expensive, complex new buy, the buyer might be someone in top management.

Several people in an organisation might play the same role; for instance, there might be several users of the product. Alternatively, one person might occupy more than one role—a secretary might be a user, an influencer and a gatekeeper in the purchase of an office machine.

Business marketers need to identify who is playing what role: this will give them the greatest chance of success.

Buying patterns of business users

Buying behaviour in business markets differs significantly from **consumer behaviour**, in several ways.

Direct purchase

Unlike in consumer markets, in the business market direct sale from the producer to the business user is quite common; this is especially true when the order is large and the buyer needs a great deal of technical assistance.

Frequency of purchase

Businesses tend to buy less frequently than consumer markets. Large equipment is bought to last for years, and even small items are often bought on long-term contracts. This means that business marketers must know when buyers are considering a purchase: the next opportunity may be years away!

Size of order

The average business order is considerably larger than its counterpart in the consumer market. This fact, coupled with infrequency of purchase, spotlights the importance of each sale. Losing the sale of a pair of shoes to a consumer is not nearly as devastating as losing the sale of 300 desktop computers.

Length of negotiation period

The period of negotiation for a business sale is usually much longer than that for a consumer-market sale. For example, Cable and Wireless Optus negotiated for three years before completing the purchase of a one billion dollar contract for telecommunications and computer support over a ten-year period.

Service expectations

The desire for excellent service is a strong business-buying motive that may determine buying patterns. Consequently, many sellers emphasise their service as much as their products. A selling firm's only differentiating feature may be its service, because the product

itself is so standardised that it can be purchased from any number of companies. Service provision may include training, maintenance, troubleshooting, equipment loans and so on.

Dependability of supply

Another business-buying pattern is the user's insistence on a dependable supply. Business buyers want:

- *Uniform-quality products.* Variations in the quality of materials going into finished products can cause considerable trouble for manufacturers; they may be faced with costly disruptions in their production processes if the imperfections exceed quality-control limits.
- *Adequate quantities.* This is as important as good quality; a work stoppage that is caused by an insufficient supply of material is just as costly as one that is caused by inferior quality of material.
- *Dependable delivery.* In one study of problems faced by buyers for smaller manufacturers, the problem most often reported was the failure of sellers to deliver on schedule.
- *Adequacy of supply.* This is a problem especially for sellers and users of raw materials such as agricultural products, metal ores and forest products. Climatic conditions may disrupt the normal flow of goods—logging or mining operations may become flooded, and agricultural products may fluctuate in quality and quantity from one growing season to the next.

Leasing instead of buying

A growing tendency among firms in the business market is to lease (or commercially hire-purchase) business products instead of buying them outright.

Leasing allows users to retain their investment capital for other purposes. There may be significant tax advantages. Rental payments are generally totally tax deductible, and are usually larger than corresponding depreciation charges on owned products.

New firms can enter a business with less capital outlay than would be necessary if they had to buy equipment outright.

Test your learning

A question of ethics

The owners of a country guesthouse and conference centre are working on a strategy to attract organisations to their facility for conferences and training seminars. They have realised that the decision-makers in the targeted firms may want to see and sample the guesthouse and its conference facilities before making a booking. They are considering discreetly offering these prospects a free weekend at the guesthouse.

Are there any ethical issues here, or is this simply a matter of a business marketer providing a sample to a potential customer?

Would your answer to this be different if the offer extended to the prospect's partners or families? Why?

Questions and problems

- 1 Give three examples of products whose market demand would be particularly affected by each of the following population factors:
 - a regional distribution
 - b marital status
 - c gender
 - d age
 - e urban/rural/suburban distribution.
- 2 What causes cognitive dissonance to increase in a buying situation? What can a seller do to decrease the level of dissonance in a given purchase of the seller's product say, a new car?
- 3 Consider a significant purchase you have made recently. Using the outline of the consumer buying process in Figure 5.2, explain the possible influences on your buying decision. Could your decision have been influenced by your cultural or family background, social class, personality, and attitudes, or by the small reference groups with which you are associated?
- 4 What are some marketing implications in the fact that the demand for business goods:
 - a fluctuates widely?
 - b is inelastic?
 - c is derived?

- 5 Select three advertisements for business goods or services, and identify the buying motives they appeal to.
- 6 What suggestions do you have to help sellers determine which staff of the business users influence the buying decision? Discuss briefly the role of each of the following in the buying centre in a business organisation:
 - a influencers
 - b buyers
 - c gatekeepers.

In the workplace

Consider the organisations for which members of your class (or, say, their parents) work.

- 1 Divide them into those that are solely involved in either the consumer market or the business market, and those that operate in both markets.
- 2 Discuss ways in which marketing in these firms is influenced by the characteristics of the particular markets for example, the number, type and functions of sales representatives; creative messages and media used in advertising; promotion techniques employed, and methods of distributing products.
- 3 Do the companies involved primarily in business markets appear to be more or less marketing oriented than those involved in consumer markets? Discuss possible reasons for your conclusions.

Internet exercises

- 1 Visit the Australian Bureau of Statistics site at www.statistics.gov.au.

Locate the table for Household Expenditure. Consider the proportions of household income spent on the various categories of goods and services. What changes do you think might occur in this table over the next decade?
- 2 Visit the site in which your state government lists its various current and upcoming tenders, for example, www.dpws.nsw.gov.au/tenders.

Which business marketers might use this site, and how?

Case study 3 | Welcome to Wangabilly

Tap tap tap went the pen on the glass. 'Ahem,' Ted Thoroughgood cleared his throat as he called the Wangabilly Shire Progress Association meeting to order. 'Ladies and Gentlemen ...'

With the room now quiet, Ted, clutching the microphone commenced reading. 'I have pleasure in presenting to the meeting the report of our marketing consultant Beverley Cross, headed "International Tourism in Australia: Prospects for Wangabilly Shire, an examination of consumer behaviour determinants".'

'If that's the title,' someone interrupted from the floor, 'how long is the report?' 'Er, yes, well, I suppose it is quite long,' stammered Ted. 'Perhaps I could just read out the main recommendations.'

'I think that'd be a very good idea,' said the interjector.

'Let's see then,' Ted went on. 'Of course, I'm not an expert in these matters but it appears that Beverley's report makes a number of specific findings. First, it seems that different tourists will have different views on what they are going to find here. When tourists spend their money coming to Australia they are looking to have satisfied a variety of different wants and needs. Different groups or even individual tourists will have different wants which might vary according to their nationality, their up-bringing, what they've learnt about Australia, and even their own personalities and attitudes.

'Next, it seems we have to also think about the way that foreigners actually make their decisions

to come on a holiday to Australia, or anywhere else for that matter. Things like the time of the year they want to come, how long they want to stay for, what they want to do, and even who actually makes the decision where to go for a holiday. Finally, the report says that unless we come to grips with all these things we are unlikely to get our fair share of the millions of visitors coming to Australia from Japan, Europe and the States. I think that just about sums it up,' Ted concluded.

'Well done Ted, a nice and quick report,' someone called out from the floor.

'Yes, but where do we go from here?' thought Ted.

Questions

- 1 What types of holidays in Australia might appeal to families (both Australian and from overseas) in the various stages of the family life cycle; think about destinations, activities, budgets, length of stay and so on.
- 2 Use Maslow's hierarchy of needs model to suggest specific consumer appeals that might attract visitors (domestic and overseas) to a rural area like Wangabilly Shire.
- 3 Prepare a list of all the factors the Wangabilly group should take into account to assess relevant consumer buying habits, under the headings of where, when, how, and who.

Key terms and concepts

attitudes and beliefs
business marketing
business products
buying centre
buying-decision process
cognitive dissonance
consumer behaviour

culture
decider
derived demand
direct purchase
expenditure patterns
gatekeepers
hierarchy of needs

inelastic demand
influencers
learning
motivation
multiple buying influences
perception

personality
post-purchase dissonance
small reference group
stimulus—response theory
users

Marketing plan workbook

Here, you need to identify aspects of your potential customers buying influences or patterns. What motivates their purchases for this type of product? How involved do they become in the buying process? How do they gather information, compare alternatives, make the purchase itself?

The insights you record here will be very useful when you come to develop your marketing mix your choice of brand and packaging, pricing strategies, location and type of distribution outlets, promotional messages and media.

Remember, the reason we are attempting to better understand our chosen customer groups is so that a marketing mix can be developed that more exactly meets their needs and buying situation.

Consumer products

If your product is a consumer good or service, complete this section.

Consider again the specific groups of consumers you are targeting (see Chapter 4). Reflect on their purchases of your type of product.

- What social or group influences are likely to be present in their buying?
- Perhaps they belong to a particular sub-culture or social class. Do they take their lead from a reference group such as work colleagues or club members? Or, perhaps their purchasing is influenced by particular family members.

- What psychological forces might influence their buying?
- What motivates their purchases of your type of product value, a need for indulgence, the opportunity to have a good time with friends?
- What are their perceptions about the product category some consumers for example, see imported products as superior to locally made, others buy Australian to be patriotic.

- What information would consumers normally want to make an informed choice about your product category, and where would they expect to find that information?
- Would they first look in the Yellow Pages, Internet, or local paper? Will they discuss the purchase with family and friends?

- How do consumers actually make and carry out a purchase decision for your type of product?
- Do they make the decision at home or at the point of sale? Will they be prepared to buy sight unseen, that is from a catalogue, brochure or web site, or will they want to touch and test before making a purchase commitment?
- Are there particular times of day, days of the week, or seasons, when they are more likely to buy?

Business products

If your product is sold to other organisations, complete this section.

■ Nature of demand:

- 1 Think about the typical organisation who might buy your product. Why do they need it? What is the demand for your product derived from? Perhaps it comes directly from the demand for their own product(s), or maybe it simply assists the smooth running of their business, or perhaps helps them to maintain staff morale.
- 2 Is the demand for your type of product stable, or does it fluctuate widely from period to period, and if so, in response to what influences?

■ Type of buying situation:

- 1 Is the purchase of your type of product typically a straight rebuy, modified rebuy, or new task purchase?

■ Buying centre:

- 1 Who would normally place orders for your type of product a Purchasing Manager, junior assistant, technical staff?
- 2 Who else might exert influence on the choice of product or supplier?
- 3 What factors will motivate each person in the buying centre?

■ Buying process:

- 1 How is the purchasing of your type of product normally carried out is it a quick decision made by one individual, or a lengthy, group process?
- 2 What are the typical purchase frequencies and quantities for your product category?
- 3 What expectations do buying firms have for pre- and post-sale service? Do they expect to buy on credit or receive other financial incentives?
