

Factors Influencing Buying process in Commercial Vehicle Industry

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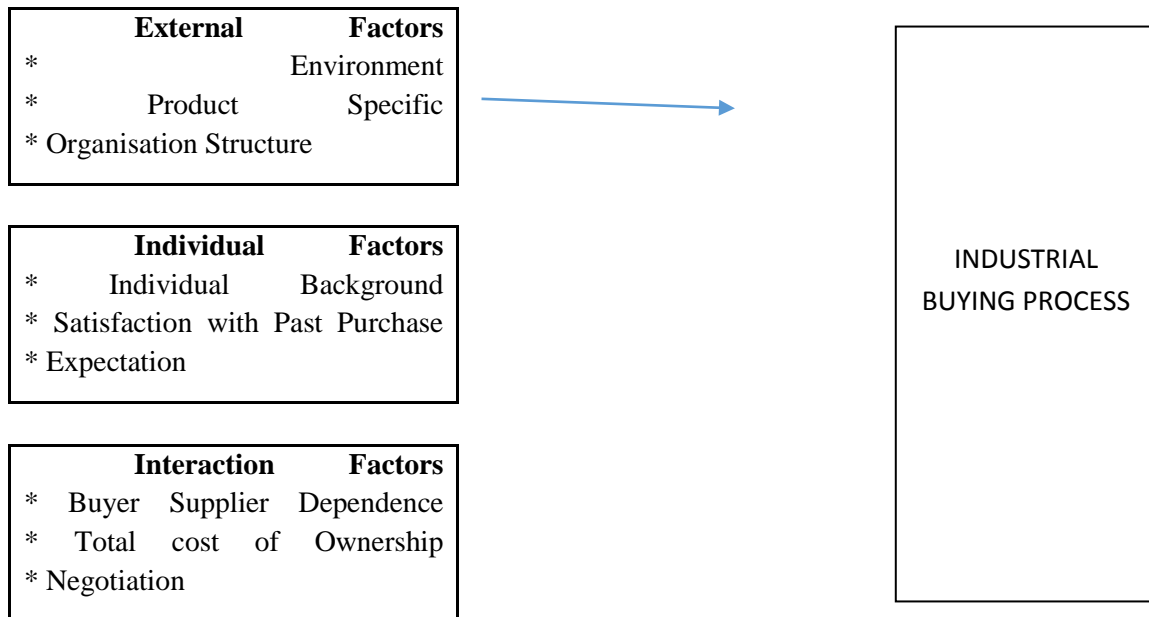
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ABSTRACT

Commercial vehicle Industry is a competitive one. Original Equipment Manufacturers evaluate their suppliers before deciding on procurement of various components needed for their vehicle. In this paper Literature review is done on various factors that influence the Buying process. These factors can be categorised as External, Individual and Interaction factors. External factors are Environment, Product specific and Organisation structure. Similarly the individual factors are Individual background, satisfaction with past purchase and expectations which influence the Buying process. Apart from this interaction based on Buyer- seller dependence, Total cost of ownership and Negotiation with supplier are the interaction factors that influence the Industrial Buying process. Study of various factors help both Buyer and Sellers in commercial vehicle industry to understand their significance in Industrial buying process.

INTRODUCTION:

Commercial vehicle industry is one of the most important industry for the growth of Economy. Every commercial vehicle manufacturer (OEM) in India procure components needed for vehicle from suppliers in India and Abroad. They follow industrial buying process for sourcing all of their components. Hence it is very important to study on various factors that influence the Industrial Buying process. Industrial Buying process is multi-a dimensional one. Apart from other departments, mostly Purchase, Quality and manufacturing department members are fully involved in purchasing decision. Though decision making is influenced by various members, buyer in procurement department plays vital role in decision making.



EXTERNAL FACTORS

External factors are factors that are external to the Buyer which are influencing the Buying process.

Environment: All buyers of commercial vehicle industry are influenced by various Environmental factors like government regulations, uncertainty in global supply chain, economic condition of various countries and competition. They always strive to be competitive compared to others. In order to have sustained competitive advantage, firms should be valuable and it should be able to exploit opportunities and neutralise threats, it must be rare among the firms current and future competitors, it must have resources which are very rare, not imitable and not substitutable (Barney, 1991). Andersen et al, 2001 examines association between asset specificity and inter-firm co-ordination in domestic and international buyer–seller relationships. While comparing the impact of environmental uncertainty on inter-firm co-ordination across domestic and international relationships, results indicate that environmental uncertainty is stronger related to inter-firm co-ordination in international buyer–seller relationships compared to domestic buyer–seller relationships.

Product specific: The nature of product like new product development, Modified Rebuy or routine purchases influence the buying decision. Time pressure also influence their buying decisions. In case of commercial vehicle Industry, these buying conditions exists in various components sourced. Leonidou, Leonidas 2004 revealed that the atmosphere governing their relationships with organizational buyers differs by buying situation. It was found that, as opposed to new buying situations, those of a routine nature are characterized by greater dependence, trust, and understanding, but lower distance and uncertainty. More unchanged the buying situation is, the higher the level of adaptation, commitment, communication, and cooperation in the working relationship, while conflict is higher under conditions of modified rebuy. The level of both social and financial satisfaction derived from the working relationship tends to be higher in the case of straight rebuy than in modified rebuy or new-task buying situations.

Organisation Structure: Industrial Buying process is affected by Organisational structure. Organisation orientation, the size of the organisation and degree of centralisation affect the Buying process. Sheth J.N(1973). Narayandas et al, 2004 state that it is important to pick and empower the right people at the interface as it is to support a relationship with appropriate institutional commitment. At times of organizational change, firms should convert trust into institutional commitment before effecting sensitive personnel changes. In case of Commercial vehicle industry, OEMs try to align their organisation in such a way that routine and straight re-buy is carried out automatically by well laid down procedure while High risk purchasing is done with high level cross functional team.

INDIVIDUAL FACTORS

Individual Background: In Industrial buying the background of individual includes his demographic profile. Demography have influence on the individual when he make industrial buying decisions. The different educational backgrounds of purchasing agents, Engineers and plant managers often generate substantially different professional goals and values, Sheth J.N(1973). These individual background create different perception to the individual making purchase decision. These perception influence Industrial buying process

Satisfaction with Past Purchase: In case of commercial vehicle industry, satisfaction with past purchase plays a vital role in buying decisions. Supplier's past performance is always studied carefully by every commercial vehicle manufacturer before awarding any new contracts. Past performance is checked in terms of delivery, quality, Price, ability to meet urgent requirements, New product development, capacity availability. Anderson Eugene et al 2004, portrays how expectation, quality and price affect customer satisfaction and how customer satisfaction affect profitability and demonstrate the economic benefits of increasing customer satisfaction using both an empirical forecast and a new economic model. Economic return of customer satisfaction is not realised immediately. Efforts to improve customer satisfaction will affect future buying behaviour. Economic return will be realised in subsequent period. Ellram, lisa1995 states that it is not necessary that supplier with lowest product price cost has lowest total cost, when other factors like delivery performance, quality and inventory are considered. Primo et al, 2007 analyse the impact of a supply failure and recovery on manufacturing firm dissatisfaction with the supplier. They found that Manufacturing firm dissatisfaction increases relative to the accumulated impact of the supply failure, and is reduced when the manufacturer has slack to absorb the failure or shares blame for it. The supplier's failure recovery reduces dissatisfaction to the extent that it demonstrates the supplier's long-term commitment to the relationship. The findings indicate that attributes of the failure, the failure recovery, and context must be taken into account when considering how a supplier's recovery may ameliorate the negative impact of a supply failure. Fred Selnes, 1998 states that a satisfied customers are more motivated to continue the relationship with the focal supplier; and enhance the scope of the relationship. Trust is a strong antecedent of motivation to enhance the scope of the relationship; and trust is not necessary when the decision is relationship continuity.

Expectation: Each individual in Purchase decision making in a commercial vehicle industry have individual expectation from supplier. He will have the expectation based on his departmental goals. He will try to influence decision making trying to fulfil his expectation. On average, With more than 50 percent of cost attributed to suppliers, manufacturers must

involve suppliers in a manner to maximise their contribution to the manufacturers competitive advantage, while responding to manufacturers cost reduction pressures.(Henke et al 2008).

INTERACTION FACTORS:

Buyer supplier dependence: In case of Commercial vehicle industry since the purchase involve high investment by supplier, Buyer supplier dependence plays a major role in purchasing decisions. Buyer-Supplier dependence is based of capacity utilisation, cost and technology. Ram Mudambi et al, 1995 introduces a model of the buyer's switching decision that integrates tenets of both transaction cost economics and relationship marketing. The model analyses how the switching decision is affected by parameters such as transaction-specific assets, information quality and the time dimension. The results generally support the argument for closer relationships between buyers and suppliers. The power of the results are seen from the fact that an unambiguous improvement in the performance of both the buyer and the supplier is gained without requiring either to do anything other than to selfishly pursue their own objectives. Buvik Arnt et al, 2000 analyse the effects of inter-firm dependence and environmental uncertainty on vertical coordination in industrial purchasing relationships. When asset specificity is modest, the safeguarding problem is trivial and substantial environmental uncertainty induces higher inter-firm co-ordination in order to handle the need for environmental adaptation. This pattern of inter-firm organisation is significantly modified as asset specificity increases and imposes trading hazards. Under conditions with substantial asset specificity, increased environmental uncertainty actually undermines inter- firm co-ordination.

Total cost of ownership: In case of Commercial vehicle, end customers look forward to total cost of ownership as it will repay the investment in long run rather than thinking of initial investment alone. Hence the buyers in commercial vehicle industry look for suppliers who help them to offer Total cost of ownership to their customers. They also look towards supplier who can provide them components which incur lesser total cost of ownership. Ellram Lisa, 1995 states that Total cost of ownership is excellent means to improve supplier selection and evaluation. It provides valuable data for improving supplier performance, focussing on and negotiating performance and cost issues that are important for any firm and helps in monitoring supplier performance.

Negotiation: The nature of Negotiation between Buyer and seller influences the Buying decision. Rami Zwick et al, 2000 , in his research explores the degree to which self-regarding and other-regarding behaviour direct bargaining conduct in a controlled bargaining experiment. They state that when bargaining costs and outside options are common knowledge, price posting (take-it-or-leave-it offers) and less bargaining can be expected when the cost-based weak bargainer has an attractive outside option. Lumineau F et al, 2012 define relational experience as either cooperative or competitive; distinguish between control and coordination functions of contractual governance; and assess their interplay on the negotiation strategy used in disputes. Using a unique data set of buyer-supplier disputes, they observed that increasing contractual control governance weakens the positive effect of cooperative relational experience on cooperative negotiation strategy. However, increasing contractual control governance for a buyer-supplier dyad with competitive relational experience will increase cooperative negotiation strategy. Contractual coordination

governance reinforces the positive effect of cooperative relational experience. Alma Mintu et al, 2000 explore the effect of high and low cultural contexts have on the relationship between international sales representative's demographic characteristics and their negotiating styles. Results indicated problem solving levels between high and low context sample groups were significantly different. Cultural context moderates the relationship between the negotiators experience and negotiation style. Negotiator experience had a greater positive effect on the cooperative style when negotiators were from the low context culture country.

LIMITATIONS:

The study is done based on literary review only and the level of influence of various factors on Industrial buying is not examined with questionnaire and analysed. Though major factors which are influencing Buying process is studied there are other minor factors which might affect the Buying process.

MANAGERIAL IMPLICATIONS:

This study helps both Buyer in Commercial vehicle industry and the sellers to identify the importance of various factors that influence the industrial Buying process. It will help them to identify and improve the factors they have not given much importance and thought.

SCOPE FOR FURTHER RESEARCH:

There are enough scope for further research in this study. Detailed study can be done identifying the level of influence each of these factors have on Industrial buying. This study will help both Buyer and supplier to identify and strengthen the area of maximum influence.

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