

VENDOR CAPABILITY AND ITS INFLUENCE ON BUYING DECISIONS IN B2B PURCHASE ENGAGEMENTS

Kunal R Joshi

University of Mysore

Dr. D Anand

University of Mysore

ABSTRACT

Executive summary: B2B purchase decisions are evolving as more scientific in nature. Purchase processes have become more process oriented over time. This has led to various engagement models between B2B buyers and sellers. This paper tries to study some of these engagement models and understands the implications of Vendor's capability and its influence on B2B buying decisions. This study is has referenced papers from 1970 to 2019.

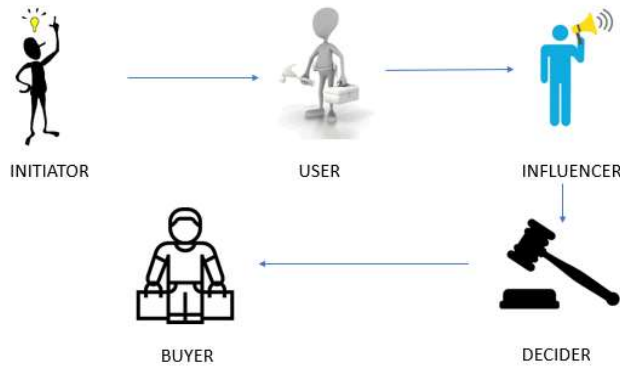
Relevance of the study: this Study is very relevant in the current scenario. B2B purchase scenarios are getting more and more complex and evolutionary. With the advent of technology and MIS, the purchase process is becoming scientific in nature. This paper tries to study the relevance of Vendor's capability and its influence on the business buying decisions. We reference various literatures and also conduct a pilot study to understand the priorities of the buying center.

1. Introduction

Business to Business Buying (Also referred to as Organizational Buying): In this process one organization buys goods and services from other organization. It is formally defined as a problem solving and decision making process where in one organization creates a buying situation when it perceives a business problem and understands that the problem could be solved by creating a buying decision. Organizations engage with each other for transactional needs or for Strategic purchases. For Strategic purchases, Companies engage closely work with vendors at a senior management level. In such circumstances the entire organization has to align its functions to the purchase process so that the potential business advantages could be realized. Organizational buying includes all the activities where organizational members defined the buying situation and then executes the buying decision by critically evaluating goods and services out of selected brands and suppliers Webster, et al, (1972).

Organizational purchase process would consist of the following steps.

- Need Identification.
- Stating the requirement specification.
- Identifying potential vendors.
- Evaluating the vendors.
- And finally selecting a vendor.



Buying Center as defined by (Webster, et al, 1972): As discussed above, when many people are involved in organizational decision making, the sales person is required to study the buying center of such an organization. Buying centers constitute a team or employees who organize to address a particular Purchase situation. The members of such a team are normally classified as following.

- Initiator: The one who identifies the problem.
- User: User of the solution to the problem identified.
- Influencer: The person who's competent opinion is vital for decision making.
- Decider: Person of authority who evaluates and selects supplier during buy decision.
- Buyer: Authorized person to award contract to supplier.
- Gate keeper: person responsible for flow of information in buying centre.

In this paper we will try to review the works of different authors who focused on Vendor capability aspect of B2B Sales. Some of the major papers referenced were as follows:

1.1 Purchasing a competitive weapon (Reck, et al, 1988):

This is one of the first works towards recognizing purchasing as one of the strategic functions that constitutes to competitive advantage to a firm. The authors start the paper by quoting a report from Annual survey of manufacturers (US bureau of census) which cites that around 60% of the sales dollars are spent on purchase of materials, services and capital expenditures. The authors stress the fact that purchasing department should be looked upon as a strategic and competitive function for any organization as it significantly contributes to the profitability of the company (Hobbs, et al, 1977).

[John M. Hobbs and Donald F. Heany, "Coupling Strategy to Operating Plans," Harvard Business Review, May-June 1977, pp. 119-26.]

With these ideas, the authors try to define the stages in purchase process over time. They also refer to the taxonomy proposed by Wheelright and Hayes for manufacturing companies (Wheelright, et al, 1985) to explain the significance of Purchase function as a strategic function. [Steven C. Wheelwright and Robert H. Hayes, "Competing Through Manufacturing," Harvard Business Review, January-February 1985, pp. 99-109]

The following stages of the Purchase process have been defined by the authors.

Stage 1: The passive stage: In this stage, Purchase function only responds to the requests coming from other departments and has no strategic participation. In this stage, the purchasing

personnel look to address spot and quick requests at the earliest. Inter functional communications between the teams are limited as purchase teams are treated on stand-alone basis. In such scenarios, Purchase team selects suppliers based on the price and availability of the products / services.

Stage 2: The Independent stage: In this stage, the purchase department operates with best practices and latest techniques. However, the purchase department operations are not aligned to the strategy of the firm. In this stage, the purchase departments are measured on cost advantages it can provide to the company. The Purchase department is encouraged to develop professionally and it is expected to contribute to the profitability of the firm. The purchase function is aligned to the technical team for effective coordination.

Stage 3: The Supportive stage: In this stage, the Purchase department's strategies are aligned to the company's competitive strategy, and Purchase function aligns its operations, practices and techniques as per the goals of company. People in the purchase teams and suppliers are considered critical by the company. The Purchase teams are engaged during sales proposals. The purchase departments, proactively monitor the markets and supplier development ecosystems.

Stage 4: The Integrative stage: In this stage, the purchase functions are fully integrated in the firm's competitive strategy and the teams proactively work hand in hand with other functions in formulating firm's strategy. The Purchase department participates proactively in achieving organizational goals and its success. Cross functional trainings are provided to the purchase functions to be prepared to address the firm's goals. The communications between the teams are also integrated as per the organizational requirements.

1.2 Selling Value in Business Markets: Individual and Organizational Factors for Turning the Idea into Action (Terho, et al, 2017): The author tries to explain value based selling and its importance in B2B selling. Customer values are widely discussed in Sales and Marketing. The practice of value based selling enables the companies to align their sales teams to work towards value delivery to customers. It builds a culture, where sales people work towards helping their customers achieve their profitability. Value based selling is a very challenging practice. Some of the key components of value based selling include:

Motivation: As long as sales person is keen on learning and is aligned to the business and customer's goals, value based selling could be successfully practiced by such a sales person (Silver, et al, 2006).

Ability: according to this paper the author refers to networking skills of sales person. Networking is critical to the success of business engagement. Sales person should be able effectively network within his organization, client organization, and supplier organizations to practice value based selling effectively (Bradford, et al, 2010).

Opportunity: Scholars study the impact of organization's value assessment tools and reference marketing to understand the impact of value based selling in identifying opportunities for vendors and customers ((Anderson, et al, 2009) (Storbacka, et al, 2011)).

This paper summarizes that Value based approach help companies prepare their sales force enhance their sales performance in business markets. Value based selling is a challenging

concept and it requires a conscious change management effort which should be driven by the senior management of the organization and would be transitioned across the organization.

1.3 Value co creation practices and capabilities: Sustained purposeful engagement across B2B System (Marcos-Cuevas, et al, 2010):

This paper focuses on concept of value co creation. The concept of value co creation is developed to understand the deeper relational orientation and interaction of vendor with his customer (Ballantype & Varney, 2006). According to the author, value creation can be done in three segments – the provider, customer, customer, and a joint segment (Sphere) which is an outcome of the collaboration of Supplier and client. Author classifies the co creation practice into three parts:

- I. Linking: where parties collect and organize information for collaborative use.
- II. Materializing: developing concepts, knowledge for constructing prototypes.
- III. Institutionalizing: to engage at advanced levels by formulating roles, norms and standards.

This paper further explores industry case studies by citing examples of SAP which created co innovation labs with its partner eco system for long term engagement to bring out innovative practices. The paper also discusses the case of Rolls Royce and American airlines which together brought out the concept of Rolls Royce total care program for airline industry.

1.4 How buyer seller relationship orientation affects adaption of sales processes to the buying process (Viio and Gronroos, 2016):

In this paper, the author explores the idea of sales process getting aligned to the buying process of the client. For long term sustained relationships, vendors would make changes in their sales processes to align with the process of the buyers.

The author focuses on three aspects – Buyer-seller relationship, Purchase management, and sales management and the dynamics between the three aspects that leads to relationship orientation. According to the author the concept of relationship orientation is a process of engaging and maintaining a mutually profitable and rewarding business relationship with a buyer through adaption of key business processes.

The author builds a framework on parameters such as relationship orientation and knowledge of customer process and deduces that in a scenario where both relationship orientation and knowledge of customer process are high Value based business engagement occurs. In case of low relationship orientation between buyers and sellers, product based engagement would be driven which would be transactional in nature.

1.5 Value based differentiation in Business relationship; gaining and sustaining Key supplier status (Uluga, et al, 2006):

This is a very interesting study that focuses on the concept of key supplier status. According to this paper if vendor reserves the key supplier status, the vendor usually gets the maximum business share. Key supplier relationship: Large corporations streamline their vendor base classified. The Vendor gets elite / key vendor status if he can create value in relationship. According to the author, value creation occurs when supplier creates value through the following source.

Core offering: Supplier ensures that he provides best quality product and delivery performance.
Sourcing process: supplier ensures excellent service support and ensures personalized support

to the client to create value and maintain special supplier status.

Customer operations: Supplier is well aware of the customer’s purchase process and align their teams accordingly.

According to the authors, “Supplier Know how” emerged as theme during his study

Extant of knowledge that supplier provided, helps customer with multiple sourcing options.

Supplier’s understanding on the customer’s operations as a result of their experience helps customers with faster time to market and reduce their operational expenses.

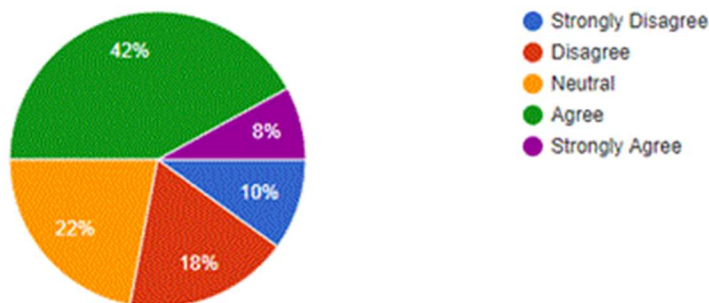
The study concludes with the findings that cost of supplier offerings form key component of supplier on boarding. Also supplier’s know how of customer’s business and his ability to reduce the customer’s time to market helps in long term supplier – client relationships.

The above literature outlines dynamics of B2B Purchase and helps us understand that B2B purchases have evolved with time and has become sophisticated in the recent times. With the advancement in technology and MIS, Sourcing and purchasing in B2B have become more advanced and is following process orientation. Vendor selections and empanelment have become more disciplined. We tried to understand the influence of capability of vendor in B2B purchase scenario by doing a pilot survey.

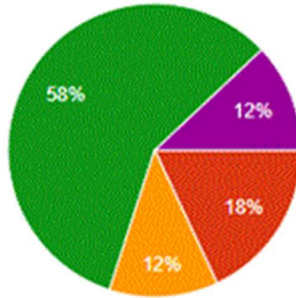
2. Pilot Investigation.

We tried to do a pilot study, by asking some Purchase related questions to the Buying teams of organization. Target audience that we approached was mostly IT managers / IT heads who, actively participate in technical buying process. 50 responses were collected from the study. The respondents represented – IT/ITES , Manufacturing, and Government organizations. The prospecting questions asked during the study and their corresponding responses were as follows:

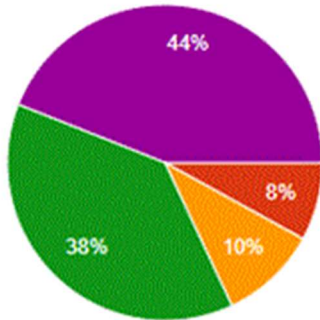
Q1. Does your Vendor and Vendor relationship manager, help you in identifying your organization’s unmet needs and pain points. Do they also help you in documenting the needs and preparing the requirement documents?



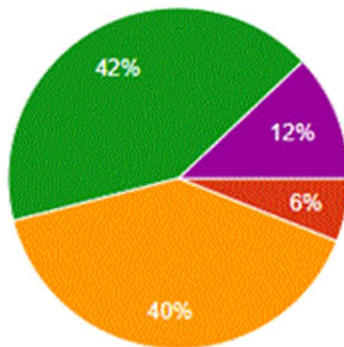
Q2: Does your vendor and their representatives’ offer your consultative knowledge updates which helps your technical team firming up the requirements?



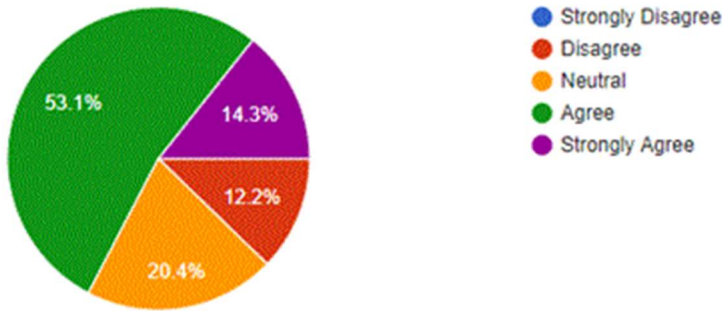
Q3: Is it advisable to consider financial information of Vendors when they participate in RFPs?



Q4: Does your existing vendor always suggest best techno – commercial proposal that could confirm all the requirements of your RFP?



Q5: Are you open to award contract to new vendor / Brand in case their proposals are more favorable to the contract?



3. Discussion and Practical implications:

From the responses obtained above, the following inferences can be drawn as shown in Table – 1 below.

SI No.	Question	Remark
1	Q1. Does your Vendor and Vendor relationship manager, help you in identifying your organization’s unmet needs and pain points. Do they also help you in documenting the needs and preparing the requirement documents?	Around 50% of the respondents agreed their Vendors are capable of identifying their pain areas.
2	Q2: Does your vendor and their representatives’ offer your consultative knowledge updates which helps your technical team firming up the requirements?	Around 70% of the respondents of the vendors agree that their Vendors are capable of providing consultative knowledge that add value to the purchase process.
3	Q3: Is it advisable to consider financial information of Vendors when they participate in RFPs?	Around 82% of the respondents feel that it is important to consider the financial capabilities of the vendor before engaging them for long term contracts.
4	Q4: Does your existing vendor always suggest best techno – commercial proposal that could confirm all the requirements of your RFP?	Around 54% of the respondents agree that their existing set of vendors continue to engage as they are capable of providing best techno commercial proposals that best match the client requirements.
5	Q5: Are your open to award contract to new vendor / Brand in case their proposals are more favorable to the contract?	Over 67% of the respondents are willing to work with new vendors if their proposals better fulfill their requirements as compared to the existing vendors.

From the above responses it becomes clear that the Vendor capability is critical for

Organizations. Vendors are selected based on their Technical skill sets, their Proactive approach to the client, and their financial strengths. For long term association with any client – vendor relationships, Vendor capabilities are evaluated meticulously by organization.

4. **Limitations and future work.** The study of B2B Purchase is very widespread with lots of dynamics involved in the process. The process and methods vary from company to company and industry to industry. Our study is taking small steps to understand these dynamics and the study is in its nascent stage. Therefore more future research needs to be conducted and also there would be requirement to be conduct further studies in stratified process across different verticals to understand the dynamics across different industries.

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