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Marie Gould

Business Forecasting

ABSTRACT

This article explores how businesses rely on sales forecasting to grow the business as well as develop strategic plans as to what direction the organization should move. Even though forecasting has many benefits, many believe there are factors that make the markets difficult to forecast. For example, forecasting is difficult in real markets because of the nature of these markets; the dominant characteristic of real-world markets is probably never the same twice. There are three broad schools of thought that have an influence on how forecasting is practiced. These three schools of thought are economic, statistical or operations research, and judgmental.

OVERVIEW

In order for a business to be successful, it must have the ability to make timely and accurate forecasts. One could assert that all businesses forecast in some way. Virtually every manufacturing or service company needs to generate forecasts of their short to medium term sales (Boulton, 2003, p. 1). However, while most business people recognize the need for effective forecasts, there is a tendency to view forecasting as either a black art or an impossible task (Crosby, 1997, p. 3).

This article explores how businesses rely on sales forecasting to grow the business as well as develop strategic plans as to what direction the organization should move. The objective of forecasting sales is to assist businesses (and other organizations) in planning their purchasing, personnel, production or service functions, and finances (Sartorius & Mohn, 1976, p. 2). Boulton (2003) believed that organizations would have commercial advantages if they could forecast demand more accurately, and the forecasts could be used to:

- Plan purchasing, production, and inventory
- Serve as the basis for marketing or sales planning
- Assist in financial planning and reporting or budgeting

According to Crosby (1997), there are tangible and intangible benefits when a successful forecasting system is in place. Some of these benefits include:

Tangible Benefits
- Increased profits from operations
- Decrease in nonproductive cash consumption
- Increased factory utilization
- Decrease in excess and obsolete inventories
- Increased inventory turns
- Decrease in negative manufacturing variances
- Increased performance to customer request date (CRD)
- Decrease in number of stock-out situations
- Decrease in cost of purchased items
- Decreased time-to-market for new products

Intangible Benefits

- Improved customer relations
- Reduced level of frustration (internally and externally)
- Reduced meeting time
- Critical resources freed up from expediting tasks
- More frequent and more accurate views of the marketplace
- Increased organizational flexibility (p. 4)

Even though there are many benefits when forecasting, many believe there are factors that make the markets difficult to forecast. For example, forecasting is difficult in real markets because of the nature of these markets; the superior trait of real-world markets is most likely never the same more than once. Most of the markets tend to share most of the characteristics listed below:

- Frequent promotional activity
- Fluctuating positioning at point of sale between value (i.e. low prices) and added value (i.e. quality)
- High level and variety of competitor activity
- Promotions are seldom at the same time each year
- The size of the distribution pipeline tends to vary
- Growing concentration in sales to biggest customers (Boulton, 2003, p. 2)

APPLICATION

Forecasting System Schools of Thought

There are three broad schools of thought that have an influence on how forecasting is practiced: economic, statistical or operations research, and judgmental.

- The economic school was a creation of the economics departments of the academic world and focuses on the use of causal or explanatory models that are developed from simple and complex regression analyses of key economic variables.
- The statistical and operations research school tends to go from the specific to the general by taking individual parts of the equation and summing them in order to produce an organizational or industry forecast.
- The judgmental school relies on practices such as the sales force estimates, the jury of executive opinion, and a group of forecasting approaches called the Delphi Technique.

Techniques for Forecasting

Chambers, Mullick, and Smith (1971) wrote an article that described 18 sales forecasting techniques that can be broken down into three categories.

Table 1: Sales Forecasting Techniques by Category (*adapted from Chambers, Mullick & Smith, 1971*)

CATEGORY	Technique	Description	Typical Application
Qualitative Methods	Delphi Methods	This technique eliminates the bandwagon effect of majority opinion.	Forecasts of long-range and new product sales, forecasts of margins.
	Market Research	The systematic, formal, and conscious procedure for evolving and testing hypotheses about real markets.	Forecasts of long-range and new product sales, forecasts of margins.
	Panel Consensus	Based on the assumption that several experts can arrive at a better forecast than one person.	Forecasts of long-range and new product sales, forecasts of margins.
	Visionary Forecast	A prophecy that uses personal insights, judgment and facts about different scenarios of the future.	Forecasts of long-range and new product sales, forecasts of margins.
	Historical Analogy	A comparative analysis of the introduction and growth of similar new products that bases the forecast on similarity patterns.	Forecasts of long-range and new product sales, forecasts of margins.
Time Series Analysis and Projection	Moving Average	Each point of a moving average of a time series is the arithmetic or weighted average of a number of consecutive points of the series, where the number of data points is chosen so that the effects of seasonals or irregularity or both are eliminated.	Inventory control for low volume items

(*continue*)

Viewpoints

B2B Marketing

When marketing is mentioned, many think of the function as it relates to consumers. However, there is another side that is expected to blossom during the next decade—business-to-business (B2B) marketing. According to the Business to Business' 2007

Table 1: Sales Forecasting Techniques by Category (*continue*)

CATEGORY	Technique	Description	Typical Application
	Exponential Smoothing	This technique is similar to the moving average, except that more recent data points are given more weight.	Production and inventory control, forecasts of margins and other financial data.
	Box-Jenkins	The time series is fitted with a mathematical model that is optimal in the sense that it assigns smaller errors to history than any other model.	Production and inventory control for large-volume items, forecasts of cash balances.
	X-11	This technique decomposes a time series into seasonal, trend cycles, and irregular elements.	Tracking and warning, forecasts of company, division, or department sales.
	Trend Projections	This technique fits a trend line to a mathematical equation and then projects it into the future by means of this equation.	New product forecasts (particularly intermediate and long term).
Causal Methods	Regression Model	This functionally relates sales to other economic, competitive, or internal variables and estimates an equation using the least squares technique.	Forecasts of sales by product classes, forecasts of margins.
	Econometric Model	A system of interdependent regression equations that describes some sector of economic sales or profit activity .	Forecasts of sales by product classes, forecasts of margins.
	Intention-to-buy & Anticipation Surveys	These approaches to forecasting are more useful for tracking and warning than forecasting.	Forecasts of sales by product classes.
	Input-output Model	A method of analysis concerned with the inter-industry or interdepartmental flow of goods or services in the economy or a company and its markets.	Forecasts of company sales and division sales for industrial sectors and sub-sectors.
	Economic Inputoutput Model	Model used to provide long-term trends for the econometric model.	Company sales for industrial sectors.
	Diffusion Index	The percentage of a group of economic indicators that are going up or down. This percentage then becomes the index.	Forecasts of sales by product classes.
	Leading Indicator	A time series of an economic activity whose movement in a given direction precedes the movement of some other time series in the same direction is a leading indicator.	Forecasts of sales by product classes.
	Life-cycle Analysis	This is an analysis and forecasting of new product growth rates based on S-curves.	Forecasts of sales by product classes.

Marketing Priorities and Plans survey, marketing efforts will grow as business-to-business marketers increase budgets, do more business online, and try new technologies (Maddox, 2006). Respondents shared some of their goals for 2007, and the top three goals were customer acquisition (62.3% of the respondents), brand awareness (19.5%), and customer retention (11%). New market growth, product penetration, research and positioning the company as a thought leader were other goals listed in the survey (Maddox, et. al., 2006, Marketing priorities). Although email, search, and Web casts were listed as still being important and worthy of some funding, website development was the clear leader in getting the largest share of the online marketing budget. The survey also found that 67.7% of advertisers plan to launch new ad campaigns in 2007 (Maddox, et. al., 2006, Marketing priorities).

"Business-to-Business Marketing is a complex discipline that has become integral to selling products or services to business, industrial, institutional or government buyers (Oliva, n.d., p. 1). Many forecasters have predicted that this market can expect purchases to net several trillion dollars a year, which is why many are predicting that the growth will outpace business-to-consumer (B2C) marketing. However, the marketing industry will respond accordingly by providing both markets with sufficient attention even though both have different focuses.

Business Marketing Versus Consumer Marketing
There are many differences between the two forms of marketing such as business marketing using shorter and more direct channels of distribution (Dwyer & Tanner, 2006), and consumer marketing aiming at larger demographic groups by way of mass media and business owners. In addition, negotiating is more personal when it is done directly through the purchaser and seller in corporate marketing. Business marketers tend to use direct mail and trade journals as the preferred method of advertising, and they only commit a small portion of their budgets to do so (Hutt & Speh, 2001).

According to Oliva (n.d.), some of the unique features between the two methods are:

Business-to-Business (B2B) Marketing
- Transactions among and within value chains
- Value primarily determined by business economic use

- Small numbers of customers, many requiring personalized marketing, including customized products and prices
- Large customers with strong market power (a business's customers tend to be its competitors)
- Diverse and varied customer types and customer needs
- Large unit transactions
- Complex and lengthy selling processes involving many players creating a demand decision chain
- Deeper partnerships with members of the value chain, including customers
- Channel management oriented up and down the supply chain
- Sales focused on key account management, and multiple purchasing influencers

Business-to-Consumer (B2C) Marketing

- Transactions through the dealer to the end consumer
- Value determined by end-consumer perception
- Focus on brand management
- Large number of generally similar consumers
- Small transactions
- Linear selling process, usually of short duration
- Channel management oriented toward retail
- Sales activity focused on the end user (Olica, n.d.)

Business marketing's foundation is based on creating advantageous, valuable relationships between two institutions and the workforces involved. Business marketers focus on a small number of customers by using sales processes that are large, complex, and technical. Due to newer and more advanced marketing and communication electronics, B2B and B2C marketing efforts cross several corporations. Business marketers must learn how the two methods work together to create and deliver value.

Importance of Value

Value is central to all marketing practices, especially business marketing. In business markets, the real value of a product or service can be understood by assessing the product's role in the industry and contrasting the product or service with the next best alternative for the customer. For example, Microsoft has introduced Office 2016. However, many companies are still using Office 2007. Many organizations tend not to update to the newer version until the bugs are worked out. The value concepts for both of these products can be determined in monetary terms. In consumer markets, value is based on perception. For example, the value of coffee is based on brand symbolism, loyalty, experience, and taste preference.

Some business marketers have made the mistake of pricing their products and services too low. Many believe that price and costs are directly related. However, pricing based on cost may create pricing errors, which may lead to missed profit opportunities with B2B efforts. In order to avoid this costly mistake, value based pricing should be used by companies. Value-based pricing occurs when a company creates a marketing and sales program geared toward educating potential customers on the value of the product or service they are receiving. If this goal is successful, potential customers tend to be willing to pay more for the product or service. Oliva (n.d.) believes that studying the impact of value on profitability is one of the most important analyses a business marketer can conduct. Value in business markets can be examined on many levels such as (Oliva, n.d.):

- The actual economic value of the offering delivered to the typical customer
- The value of the supplier to the customer, the brand strength, and relationship value of the supplier
- How value differs among actual and prospective customers, and among the individuals who collectively make a buying decision
- How specific marketing activities influence customer recognition of value
- How value builds through the industry supply chain and how much of that value is actually captured in the prices charged by supply chain members (Oliva, n.d.)

Once the importance of value in business marketing has been established, value-based strategies should be developed. The main intent of value-based pricing is to match price with the actual received value. Some value-based pricing strategies consider the break-even point and tend to be subjective. Three of these types of strategies are:

- **Price the same as competitor.** This strategy is useful when offering a commodity product, when prices are well established, or when there are no other means to set prices. Organizations will be challenged to develop a plan that will lower their costs so they can receive a higher profit than their competitors.

- **Establish a low price on a product in order to capture a large number of customers in that market.** This strategy is useful if the organization's goal is to achieve non-financial objectives such as creating product awareness, meeting the competition, or establishing an image of having a low cost. This strategy will work if the organization can maintain profitability at the low price or if it is able to maintain an acceptable level of sales in the event that it wants to raise prices at a later date.
- **Charge a high price relative to cost if the product has a uniqueness that is valuable to the customers.** This strategy is useful when the target market is affluent and the product is positioned as being upscale. In this type of situation, the organization may be able to mark up the price because there will be a demand. The organization charges what it believes potential customers are willing to pay.

CONCLUSION

In order for a business to be successful, it must have the ability to make timely and accurate forecasts. One could assert that all businesses forecast in some way. However, while most businesspeople recognize the need for effective forecasts, there is a tendency to view forecasting as either a black art or an impossible task (Crosby, 1997, p. 3). This article explores how businesses rely on sales forecasting to grow the business as well as develop strategic plans as to what direction the organization should move.

Marketing and sales professionals are expected to look at the future and determine how an organization will get there. Crosby (1997) provided a list of suggestions to marketing and sales professionals as they strive to develop a strategic marketing forecast as well as some questions that may assist in developing a tactical marketing forecast.

Suggestions for Developing a Strategic Marketing/ Sales Forecast

- Develop a solid data-based approach for the plans and projections.
- Place the plan in context by presenting recent history as a bridge to the future.
- Illustrate and explain how the marketing plan ties in or does not tie in with the major trends in the market.
- Briefly show how the research data were gathered and analyzed.
- List assumptions, and describe how specific conclusions were reached.
- State the criteria for selecting key customers and major accounts.
- Describe the broad application categories envisioned for each market segment.
- Identify major competitors by market segment, and briefly describe their expected response to the plans and projections.
- Define the general pricing and cost strategies considered.
- Describe the size and growth rates for each segment, together with the share-of market assumptions.
- Generate a revenue forecast (units and dollars) for each segment that supports the previous assumptions.
- Build a strong dialogue with tactical marketing through the entire process.

Questions to Ask When Developing A Strategic Marketing / Sales Forecast

- What are the product development assumptions?
- Is there sufficient capacity installed to support revenue forecasts?
- What is the current status of the organization's major competitors?
- Are the company's products performing as planned? Can secondary development activities be exploited?
- Are the organization's product prices and cost targets still valid?
- What is the organization's share of market for each product line? How do they compare with the plan?
- Are selling cycles defined for each product line, and are they accurate?
- What is the feedback from account reviews? Are the engagement strategies working? Are the sales kits working? Is the organization winning and penetrating accounts as planned?
- What is the price elasticity for each product line?
- Are the product applications and sales opportunities developing as planned? (p. 38-39)

Business-to-Business Marketing is a complex discipline that has become integral to selling products or services to business, industrial, institutional or government buyers (Oliva, n.d., p. 1). Many forecasters have predicted that this market can expect purchases to net several trillion dollars a year, which is why many are predicting that the growth will outpace Business-to-Consumer (B2C) marketing. However, the marketing industry will respond accordingly by providing both markets with sufficient attention even though both have different focuses.

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Marie Gould

BUSINESS PLANNING & ENTREPRENEURSHIP

ABSTRACT

This article looks at the multifaceted relationships between entrepreneurship and business planning and considers the causes and effects of entrepreneurship in new and preexisting businesses. As a strategic management tool, business planning is seen as one of the activities undertaken in the entrepreneurial process. Types of plans and aspects of business planning are also discussed, along with several contradictory schools of thought on the factors that determine entrepreneurship, the outcomes of planning, and information analysis.

OVERVIEW

Business ventures fuel the economic growth and prosperity of nations and regions (Yusuf, 2002), and

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Ruth A. Wienclaw, Ph.D.

Buyer Behavior

ABSTRACT

Buyer behavior is based on a complex process by which consumers choose, acquire, use, and dispose of goods and services in order to fulfill their needs and desires. To understand why a buyer makes a purchase, it is important to understand his or her needs and motivations. This knowledge enables the seller to better develop a strategy for convincing the potential buyer that the product or service will meet his or her needs. In addition, in order to better target one's marketing strategy, it is important to understand the buying situation, including the routineness with which the particular purchasing decision is made as well as the importance of the decision to the buyer. When the buyer is an organization, it is also important to recognize that although there may be one decision maker, there are typically many parties who can influence the final buying decision.

OVERVIEW

No matter how good the product or service, no matter how satisfied the employees, no matter how well the communications within an organization, if the customer does not buy what the business is selling, these factors are irrelevant. Although people may band together for all sorts of reasons—the need to feel a part of a group, the need to contribute to the welfare of society, the need to connect with friends—businesses are by definition commercial, industrial, or professional enterprises that seek to make profit. Even nonprofit organizations need to make money in order to continue to provide the service that they are offering to their market. The question, of course, is how is this best done?

Interest in understanding buyer behavior has been going on since there first were buyers and sellers. Philosophers have long wondered why consumers buy things. Aristotle, for example, wondered about consumption and its effects on both the individual and society. Eighteenth-century philosopher Adam Smith pondered the same and concluded that in the end, resources would be optimally allocated.

However, business organizations are interested in more than philosophical musings about buyer behavior: They need to know what makes a consumer purchase a product or service and how to reach the consumer and convince him or her to buy. Toward this end, the study of buyer behavior has become more systematic in the past few decades; applying insights from the social sciences in an attempt to help businesses better understand the consumers in the marketplace and determine ways to best reach them.

One area of study that has been applied to the prediction of buyer behavior is motivation. There are several approaches to explaining this important determinant of human behavior. Instinct theories emphasize the innate biological impulses that motivate behavior (e.g., a bird flies south for the winter; a human automatically tries to protect his or her children). Drive-reduction theories are based on the assumption that behavior is a response to biological needs for the organism's physiological system to remain stable and organisms learn to reduce the drives or motivating tendencies that arise from those needs (e.g., if thirsty, one looks for something to drink). Arousal theories posit that organisms are motivated to seek and maintain an optimal level of arousal in various physiological systems (e.g., a cat enjoys playing with a catnip mouse; a human enjoys the adrenaline rush of wind surfing). Incentive theories of motivation are based on the assumption that behavior is performed in response to the possibility of rewards or punishments (e.g., the dog learns to sit up to get a treat; the child learns to do homework assignments after school in order to watch TV in the evening).

Maslow's hierarchy of needs. In this theory, Maslow hypothesizes that people have different motivations at different times in their lives depending on what needs have been met or not met. This theory also hypothesizes that needs lower on the hierarchy (such as physiological needs for food, shelter, and warmth) must be satisfied before higher-level needs (such as love and self-actualization) can be satisfied.

As shown in Figure 1, the most basic level of needs is physiological needs. This category includes the needs to satisfy hunger and thirst, sleep, and sex. From a buyer behavior point of view, this means that a salesperson would most likely be unsuccessful in selling a new luxury car to someone who is living from paycheck to paycheck and struggling to put food on the table: The need to eat is more important than the need to impress one's friends. Once the physiological level of needs has been met, people become more concerned with safety needs. These needs include the need to feel safe, secure, and stable in life (e.g., having a job so that one not only has food for today but can also buy food for the foreseeable future). At this level of need, people want to feel that their world is organized and predictable. From a buyer behavior point of view, this could mean that someone is unlikely to buy a house if he or she is working a temporary job with no future prospects. In this situation, there is no way to predict whether or not one will be able to continue to make mortgage payments. Once the security and safety needs of the individual are satisfied, the next level of needs is for belongingness. This level includes such factors as the need to feel accepted and part of a group, to love or

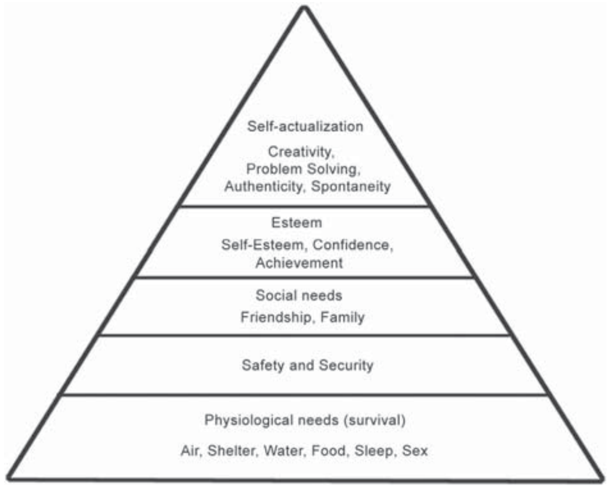

Figure 1: Maslow's Hierarchy of Needs

feel affection and be loved in return, and to avoid loneliness and alienation. From a consumer behavior point of view, if someone is at the level of belongingness needs, he or she is less likely to invest in the purchase of a status item than if these needs have been met because of the lack of a group to affirm the item's status. The next level of needs in Maslow's hierarchy is esteem needs. These include the needs to achieve and to be competent and independent. In addition, the needs at this level of the hierarchy include the needs for self-respect and a sense of self-worth as well as the need for recognition and respect from others. From a buyer behavior point of view, someone at this level in the needs hierarchy would be likely to buy the aforementioned luxury item as a symbol of his or her status because the lower level needs have been met.

The final level on Maslow's hierarchy of needs is self-actualization. This is a complex concept that basically means the need to live up to one's full and unique potential. Associated with self-actualization are such concepts as wholeness, perfection, or completion; a divestiture of things in preference of simplicity, aliveness, goodness, and beauty; and a search for meaning in life. People at this level in the hierarchy would be less interested in the acquisition of things but would more likely be interested in acquiring things that enable them to reach other goals such as learning, spiritual development, or enjoying the wonders of nature.

One of the implications of Maslow's hierarchy of needs for understanding buyer behavior is that one has to approach selling the same thing in different ways depending on where the buyer is on the hierarchy. For example, one would be unlikely to sell a world cruise to someone who was at the physiological or safety levels of motivation. However, at the belongingness level of the hierarchy, the trip could be marketed as a group venture to be enjoyed with friends or fellow college alumni. At the esteem level, the trip could be marketed as a luxury item that will make one the envy of one's friends. Neither approach, however, would work well at the level of self-actualization. At this level, the trip would more successfully be sold as a way to broaden one's horizons, learn new things, or experience the beauty of foreign lands. The trip in all three cases could be the same. However, the way it is marketed would differ depending on the needs of the individual.

Several other concepts can be learned from Maslow's hierarchy of needs that have direct application to understanding buyer behavior. First, one can move not only up the hierarchy, but down as well. For example, although most adults are not worried about safety and security needs (i.e., they have a regular paycheck and live in a safe neighborhood), the situation can change. Over time, a once safe neighborhood may start having a problem with crime. Therefore, someone who once felt secure at home in a quiet, middle-class neighborhood and felt no need for protection, might now feel less secure and would be interested in purchasing an alarm system. In addition to moving up and down the hierarchy, people can experience multiple needs at once. For example, the person in the gourmet store buying food for a dinner party may have several simultaneous motivators: hunger (e.g., if he or she has not eaten before going shopping or is on a diet that will be broken for the dinner party), esteem (e.g., the need to impress the people who are coming over to the party), or safety (e.g., the need to buy fresh, untainted food) might come into play.

From a marketing point of view, understanding the needs of the potential buyer can help focus the marketing effort to better demonstrate how the product or service will meet his or her particular needs. As discussed above, marketing to a potential buyer by targeting needs above where he or she currently is on the hierarchy (e.g., the luxury car to the unemployed person) is unlikely to meet with success. In addition, Maslow's hierarchy provides a method of identifying needs of classes of potential buyers so that successful marketing programs can be crafted to target these needs.

APPLICATIONS

Buying Situations

Although a number of models are available for predicting consumer buying behavior, most theorists believe that buyers' behavior changes depending on the buying situation. This term is most frequently used to refer to factors that cannot be predicted from knowledge of either the buyer or the situation alone. For example, buying a widget as a present for someone else might entail an additional level of decision-making factors than if the widget were being purchased for oneself (e.g., I like the widget, but will my friend, who has different tastes, like it?). Similarly, the purchase of a dessert from a bakery might differ depending on whether it was being purchased for the family, a formal dinner party, or a child's birthday party. Although some decisions can be made spontaneously (e.g., I want chocolate cake for dessert), others cannot (e.g., I need to hire a new accountant). Therefore, people frequently use different problem-solving processes for the different types of situations.

Some models of buyer behavior theorize that consumers may change their behavior depending on the reason for the purchase. Any one of three levels of problem solving may apply to the purchasing decision depending on how routine or important the purchase is. At the lowest level is routine problem solving, used when the buyer knows the product well, needs little information, the price is low, or the risk from making a wrong buying decision is low. For example, when grocery shopping, I am most likely to grab a quart of skim milk and put it in my shopping cart without much thought: I know that I want skim milk and not whole milk; I have been quite happy with the store brand in the past and see no need to change; and the cost of a quart of milk is negligible compared to my total food budget. On the other hand, if the manufacturer of my favorite breakfast cereal discontinues that variety, I may have to employ limited problem solving to the situation. These skills are important when buying a new or an unfamiliar brand or considering a more expensive item. For example, I may want to compare the fiber, sodium, sugar, and carbohydrate contents of the various cereals under consideration. I may prefer cereal that has both crunchy nuggets and flakes rather than either one alone. I will probably also compare prices to see which is the better bargain. Although I may not walk out of the grocery store ecstatic because of my decision to buy a new cereal, buying the wrong one will not be an earth-shattering event, and the decision can be made in a matter of several minutes by comparing labels while standing in the grocery store aisle. Other decisions, however, require extensive problem-solving processes, particularly when the price is high, the item is rare, or the purchase requires a significant investment of time. For example, the decision to buy a new television set probably cannot be made in a few minutes' time in the aisle of a big-box store. This is not a minor purchase, and I need to consider a number of factors. Do I want a high-definition set or is a digital set sufficient? Are there size limitations for fitting the television into an existing space or for being able to see the screen from a distance? Is an investment in a plasma screen worth the cost at this time? The more information that is needed, the more complicated the decision-making process becomes.

Similarly, buyer behavior can change depending on the type of buying situation. For example, a routine purchase such as buying another ream of copy paper or instructing one's accountant to prepare this year's tax return does not require much decision making on the part of the buyer or marketing on the part of the seller. The office supply salesperson may just ask if I want to place the same order as last time or the accountant may ask if anything has changed since last year. Other than that, the decision has been made. Other buying situations, however, are more complicated. If the usual brand of copy paper is no longer available or if an equivalent brand goes on sale, the office supply salesperson will have to be more proactive in trying to get me to buy the product. If my former accountant retires and I hire a new one, we may need to sit down together and discuss the situation and the nature of my business before we mutually agree to proceed with the process. If this situation is exacerbated and if the purchase is for a product or service that I have not purchased before—a will, a new piece of office equipment—the seller will have to use considerably more skill than for the other two types of purchases.

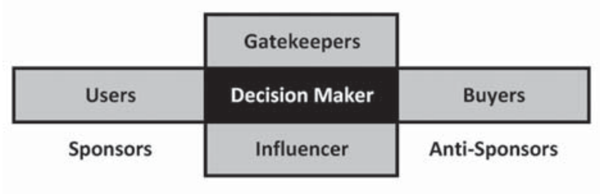

Figure 2: The Decision-Making Unit

Organizational Buying Behavior

It is not only individuals who are consumers: Businesses, too, purchase both goods and services. In a small business, this may be done by the founder of the organization. However, in many businesses, the sales transaction may involve the formal and informal inputs and many different parties. To successfully market to organizations, one must understand not only the individual behaviors of each of these parties, but also their interactions in order to convince them to buy. This means that there is not a single best approach to selling to an organization. Sometimes, in fact, different selling approaches must be tailored to different departments or executives within a single organization.

One model that attempts to explain the complexity of this situation examines the roles of different parties in the decision-making process so that the seller's market strategy can be appropriately focused. As shown in Figure 2, this model recognizes that the organizational buying process may include the inputs of several types of people: gatekeepers, users, buyers, influencers, decision makers, and sponsors and anti-sponsors.

The obvious person to target in a sales pitch is the decision maker. For major purchases, this is often a senior-level executive (e.g., the chief executive officer, chief financial officer, chief operating officer) or a person high up in the functional chain who has the final authority for deciding whether a product or service will be procured (e.g., the head of the department in which the product or service will be used). Decision makers at these levels tend to take a high-level view of the decision-making process rather than get mired down in the technical details. In addition, persons at these levels are typically influenced by various other parties within the organization who help shape the final decision. These parties may include gatekeepers, users, buyers, influencers, and sponsors or anti-sponsors.

Gatekeepers are the people within the organization who control access to the decision makers. These may be people like administrative assistants, receptionists, or mid-level managers on the organization management or functional hierarchies. Although these individuals do not make the purchasing decisions, they can keep the prospective seller from reaching the people who do. Therefore, it is important to develop a rapport with the gatekeepers so that one will be granted access to the decision makers. In addition to gatekeepers, there are other people in the decision-making process who, although technically without power, are important players in the decision. These are the users; the actual people who will be using the product or service. For example, although the decision to replace the current printers, copiers, and scanners with multifunctional units that provide all three capabilities may be attractive to decision makers because they require less financial investment in equipment, the proposition may not be as attractive to the actual users. They may not want to give up the equipment with which they are familiar or know that if a multifunction machine breaks down, they will lose the equivalent capabilities of three of their current machines. Although these individuals may not have a direct say in the decision-making process, they may influence the purchase. On the other end of the spectrum are the buyers: those individuals who actually purchase the product or service but do not use it. Their goal is to maximize the benefit of the purchase to the organization by making sure that it meets technical standards and is done at an acceptable price according to their criteria. Although they may not make the final decision per se, they can be quite influential on the decision maker.

In addition, decisions can be influenced by other advisors not directly affected by the decision. Influencers are individuals in whom the decision maker places trust. These may be a trusted peer at another organization, a spouse or other family member, or other advisor. These individuals do not appear on the organizational chart and may be hard to identify. However, their influence in the decision-making process is nonetheless real. Another set of parties that influence the buying behavior of organizations are sponsors and anti-sponsors of the firm attempting to sell the product or service. Sponsors are those who have dealt with the selling organization before or have successfully used this particular product or service. They demonstrate brand loyalty and encourage the decision maker to purchase the product not necessarily on its comparative merits, but because they are familiar with it or with the company that provides it. Anti-sponsors are sponsors for another company or product with which they are familiar. In the same way, they will attempt to influence the decision maker based not on comparative merits, but on past experience.

All these parties are important in the decision-making process for organizational buyers. The savvy seller understands these levels of organizational buyer behavior and takes them into account when developing an effective marketing strategy.

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Ruth A. Wienclaw, Ph.D.