

DYNAMICS AND DIMENSIONS PERTAINING TO PURCHASE OF CAPITAL GOODS

Anupam Kumar

Abstract:

This paper tries to explore the nuances of the purchase process of modular office equipments and tries to draw a distinction from all the other types of business to business sales/purchase processes. This is an exploratory study and the paper is based on the scientific observations been made by the author over his past 10 years of work experience with the modular office equipment industry in India. The detail gaps have been filled with the help of depth interviews with sales team members of modular office equipment manufacturers and architects from Delhi NCR. The paper explains that most businesses are largely dependent on their partner organizations, like the project management consultants, the architects and even to their vendors themselves, for adoption of a formal purchase process, citing the lack of knowledge and understanding as the basic reason for such a behavior. This paper tries to imply that all types of businesses, whether established or emerging, are adopting the use of partner organizations for their modular office equipment purchase decisions. It further likes to encourage researchers to explore a similar phenomenon in the human resource recruitment processes through campus placements or recruitment agencies. This paper tries to explain the increasing trend of outsourcing in the purchase processes by organizations to their partner organizations.

Key words: New Businesses, Emerging Businesses, Purchase Process, Decision Making, Modular Furniture, Office Furniture

Introduction

Purchase of capital goods by new emerging businesses is a unique type of purchase, which cannot be equated to any other kind of business to business (B2B) purchase. A majority of research studies concerning B2B and industrial purchase try to establish a detailed purchase process for a particular organization in question. On the contrary, this paper tries to establish the fact that there is literally no well-defined purchase process in the case of purchase of capital goods by corporate entities.

The objective of this paper is to ascertain whether there is a purchase process available for capital goods in the case of new emerging organizations.

Literature Review:

With reference to corporate purchase decision with reference to modular office equipments, there is a wide gap as far as the academic research is concerned. The available literature pertains to the typical business to business markets, which is heavily based on the experiences and experiments in the industrial purchase scenarios. However, the available details of the business to business transactions may be discussed as below.

As per Hutt and Speh (1998), business-to-business markets have fewer partners, closer buyer-seller relationships, better technology and better information exchange than business to consumer markets. With respect to business-to-business sales, buying process is not only complex, but also difficult to model. Additionally, it is different by product and industry. According to Brand (1972), the purchase process also varies with the situation.

As stated by Robinson and Faris (1967), there are three types of buying situations:

1. New task
2. Modified re-buy
3. Straight re-buy

However, as per the research conducted by Robinson and Faris, there is a well-defined purchase process, even in the case of new tasks. In fact, the buying process remains that same, the only thing that is new is the new task or the product involved.

A majority of research studies, conducted in the early part of the twentieth century, found the presence of a distinct purchase process in different organizations. The studies took into account a

wide range of business-to-business and industrial purchase scenarios. A comparison of the studies by various researchers is tabulated as Table No. 1.

Table No. 1

Sr. No	Wind (1978)	Bradley (1977)	Kelly (1974)	Webster & Wind (1972)	Ozanne & Churchill (1971)	Robinson & Faris (1967)
1	Identification of Need	Purchase initiation	Recognize need	Identify needs	Awareness	Problem (need) recognition
2	Establish Specifications			Establish specifications		Determine characteristics
3	Search for Alternatives	Survey alternatives	Information search	Identify alternatives		Describe characteristics
4	Establish Contact				Search for sources	
5	Set Purchase and usage criteria	Supplier short-listing	Evaluate alternatives	Evaluate alternatives	Interest	Acquire proposals
6	Evaluate alternatives					Evaluation
7	Negotiate				Approval of funds	
8	Buy	Award contract	Decision	Select supplier	Trial	Select order routine
9	Use				Adoption	Performance feedback
10	Post purchase evaluation					

The comparative analysis clearly demonstrates that research studies conducted between 1960s and 1980s establish the presence of a well-defined purchase process. In contrast, this paper proposes that in small emerging business there is practically no purchase process.

Hypothesis:

- As compared to well-established organizations, the purchase criteria in emerging enterprises are entirely different.
- With respect to upcoming organizations there is no well-defined purchase process.

- To manage their purchase process, such organizations may take the help of specialist organizations.

Research Methodology:

Scope of the study:

The present paper is primarily an exploratory research of purchase process in new upcoming enterprises. The study mainly includes growing organizations, which are either of Indian or foreign origin. Government and semi-government organizations have been excluded from this study because as per the government policies, they have to adhere to some sort of purchase processes.

In this study, data pertaining to large organizations dealing with modular office furniture has been used. Smaller and local players have been purposely left out because of two reasons. Firstly, these enterprises are typically dependent on a handful of clients, who are also their repeat customers. As such the universe of our study would be violated, this includes small emerging organizations. Secondly, these organizations operate on existing clients, who have a well-defined purchase process or have matured to the level of straight re-buy, which is beyond the purview of this paper.

Data:

The data chiefly comprises of in-depth interviews conducted by the author with the members of the sales team engaged in corporate sales, and a few selected architects and interior designers from Delhi. The sampling is based on non-probabilistic sample design, which is purposive or judgment sampling technique. Another source of data is secondary information available with different organizations engaged in purchase of different commodities as office furniture, carpets, chairs, switches, lighting, etc. Furthermore, the paper is based on the scientific observation made by the author in the last 10 years, while working with some of the biggest organizations in India. The paper tries to explore the current situation with special reference to the purchase process that new upcoming organizations endorse. Such pieces of information rarely appear in academic researches basically due to sheer dearth of scholars, who may have first-hand experience of the process. The only other option is to rely upon industrial researches. However, purchase process pertaining to a particular customer is usually confidential priority information that is fiercely guarded by the industrial organizations. The chief sources of the information are the persons

involved in the process, but they are also compelled to maintain confidentiality due to industrial norms.

The paper is based on first-hand information provided by the members of sales team, project and design team. Architects, interior designers and project management consultants have also provided important inputs. All these people are directly involved in the purchase process of modular office equipment.

Different organizations whose process have been taken into account while formulating this paper include large modular office equipment suppliers, who deal in office furniture, carpets, switches, chairs and lighting. The organizations in consideration are Wipro (furniture, chair, lighting and switches), Godrej (furniture and chairs), Haworth (furniture and chairs), Steelcase (furniture and chairs), Herman Miller (furniture and chairs), BP Ergo, now a part of HNI Group (furniture and chairs), Featherlite (furniture and chairs), V-3 Engineers (furniture), Amardeep Seating (chairs), Geeken Seatings (chairs), Philips (lighting fixtures), GE Lighting (lighting fixtures), Bajaj Lighting (lighting fixtures), Havells (switches), Honeywell (switches), Interface (carpets), Shaw (carpets), Milliken (carpets), Mohawk (carpets).

Findings:

It was found that most of the organizations had a separate team for tackling large organizations and small emerging businesses. Moreover, in many enterprises, there is a separate team for handling existing business and new businesses. Thus, it can be deduced that organizations, in general, believe that a separate purchase process exists for large and new emerging businesses. It also reiterates that the purchase process in small upcoming organizations is different from large and established enterprises. It can however also be deduced that since the existing businesses may have some pre-existing relationship with the supplier firms, the organizations involved in the supply of modular office equipments maintain a separate team to service the requirements of their clients in anticipation of future orders.

The most important knowledge that any emerging business requires is the knowledge of its core business processes. Non-core business processes are somewhat irrelevant and purchase belongs to this category. When occur at a rapid pace, it is often difficult for owners and employees of small upcoming business enterprises to get acquainted with the nuances of the purchase process

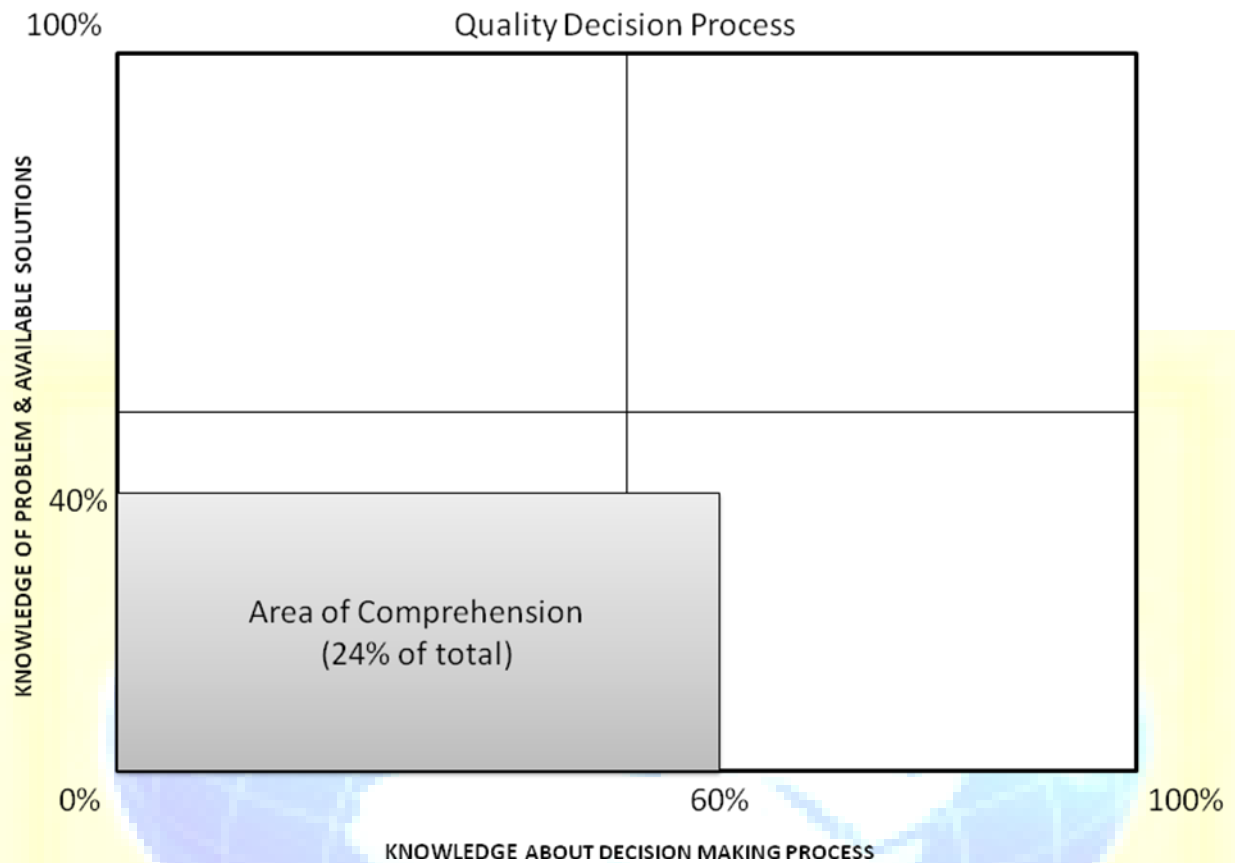
of most equipment, particularly equipment that do not lie within the purview of their immediate expertise.

For the members of the buying organization, purchase process is actually a challenge because they have neither the knowledge nor the aptitude to make quality purchase decisions. As the result, they tend to rely upon their business partners, equipment suppliers, architects and interior designers, who are experts in their respective fields. At times, new emerging business enterprises also hire project management consultants. These consultants may either outsource the complete purchase process for their clients or help them select the right experts.

In a majority of cases, based on the interviews conducted with the members of the sales team engaged in the corporate sales of modular office equipment, the architects or project management consultants take on the purchase process. To hire such professionals, the upcoming business enterprises spend a considerable amount of money. Due to paucity of funds, a large number of new emerging business enterprises may also rely on the comparative information furnished by the members of the sales team of different organizations to make their purchase decisions.

This phenomenon can be easily explained by Jeff Thull's (2006) theory of decision challenge. As per the theory, the customer may have requisite knowledge to solve the problem, but it may still be difficult for him to take the right decision due to anticipation of the results of probable solutions. All this makes purchase decision-making a complex process.

On an average, a customer may have about 60 percent understanding about the decision-making process and nearly 40 percent knowledge of the problem and the available solutions in the market. Still they would have only 24 percent area of comprehension as far as the decision-making process is concerned.



Adapted from: Thull, J., *Mastering the Complex Sale: How to Compete and Win When the Stakes are High*, New Jersey: Wiley & Sons, 2003

Another trend that clearly indicates that new upcoming organizations do not have a clearly defined purchase process is the case where these enterprises take up furnished offices on rent or lease from the builder. Although these organizations together with the builder choose the vendor who can fulfill their office requirements, but by and large, they tend to rely solely upon the builder. While using his own purchase process, the builder outsources the services to the purchasing organizations. Such kinds of decision considerations are extensively utilized by the enterprises that take up space from larger builders as DLF.

Conclusion:

From the discussions above, it can be concluded that small emerging organizations do not have a well-defined purchase process. The purchase process, if any, is that of the architect, interior designer, project management consultant or builder, who rent or lease out office space to these organizations.

Such a situation can prove to be quite useful to supplier and vendors of new emerging organizations. If these suppliers or vendors succeed in making in-road to the decision-makers of upcoming businesses, they can get an opportunity to mould the purchase-decision process in their favour. Most Indian and multinational vendors involved in corporate sales of modular office equipment are always on the lookout of such opportunities. These organizations have separate teams that aggressively seek out such opportunities. In different organizations these teams are known as different names as B2B teams, dealer teams or hunter teams. However, these terms are within strict purview of the concerned organizations.

Future Projections

With the passage of time, more and more organizations will move towards a leaner structure. Even larger organizations, with full-fledged procurement teams, have started following the path, which has been charted out by new emerging business enterprises. The advantages to the larger organizations being that they would get the latest expertise of the purchase processes and also the latest technological know-how from their partner firms while they would also be able to keep their expenses of maintaining large purchase teams at bay. It has also been seen that the smaller organization are able to take decisions at a faster pace, which is fast becoming the need of the hour even for the large organizations.

This is also a good sign for the enterprises which are working closely with large organizations, as their future is bright. All they need to do is to forge even closer ties with their client organizations so that the latter can rely upon them for their purchase decision processes.

Avenues of Further Research

The current paper deals with the purchase process with respect to new emerging businesses that are trying to extrapolate the available information in future scenarios with reference to the progression towards leaner organizations. Similar phenomenon may have caught up in the case of HR practices and recruitments. Much more than the capital investments and capital procurement, is the human resource procurement, which is a complex purchase issue. Evaluation of the human resource procurement process in line with the above study is likely to give a more comprehensive insight into the aspect of purchase process of the small upcoming businesses.

References:

1. Brand, G.T., The Industrial Buying Decision, New York, John Wiley & Sons, 1972
2. Hutt M, and Speh, T., Business Marketing Management: A Strategic View of Industrial and Organizational Markets, Sydney: Dryden Press, 1998
3. Ozanne, U.B. and Churchill, G.A., "Five Dimensions of Industrial Adoption Process," Journal of Marketing Research, Vol. 8, Aug. 1971, pp. 322-8
4. Robinson, P.J. and Faris, C.W. (eds.), Industrial Buying and Creative Marketing, Boston, Allyn & Bacon, 1967
5. Thull, J., Mastering the Complex Sale: How to Compete and Win When the Stakes are High, New Jersey: Wiley & Sons, 2003.
6. Wind, Y., "Issues and Advances in Segmentation Research," Journal of Marketing Research, Vol. 15, Aug. 1978, pp. 317-37

