CHAPTER I
INTRODUCTION

This introductory chapter gives an overview of the study projecting the need and scope of research in vendor characteristics and buyer information sources. This introductory chapter is presented in four sections.

Section 1.1 presents the objective of industrial buying and emphasises the need for a scientific approach towards the study of industrial buying problems.

Section 1.2 briefly traces the state of purchasing decision theory.

Section 1.3 gives an outline about vendor selection in the context of the relative importance of vendor characteristics and buyer information sources.

Section 1.4 presents the overview of the project briefly dealing with data base, data analysis and organization of the thesis.

1.1 IMPORTANCE OF ORGANIZATIONAL BUYING

Industrial buying decisions have been described as the result of objective, rational evaluations of the
available alternatives by well trained, professional buyers where the primary goal is to make optimally favourable buying arrangements for the firm (Hill, Alexander and Cross, 1975; Puto, Patton and King, 1985). A small increase in overall purchasing efficiency would result in substantial profit increase and greater purchasing power for the organizations.

The size of these expenditures to business and industrial organizations serves to emphasize the overall or macro importance of organizational purchasing in a country's economy. Hence it is important to understand organizational buying.

Purchasing is performed by all organizations whether they are profit making or non profit making, manufacturing or service. It is difficult to imagine organizations that do not invest in raw materials, goods to be traded, parts and supplies, and machinery and equipment. Since these purchases may account for a large portion of the firm's expenditures, the efficiency and effectiveness with which the firm does its buying will determine the margin of profit which the business firm produces (Keith and Gubellini, 1971). It is for these reasons that marketers must improve their understanding of the choice criteria considered by the purchasing executives for evaluating their suppliers (Mehta and Bhatia, 1971). Thus, it can be seen that the effectiveness of an
organisation's purchasing function is directly related to selection of vendors. Therefore, the prime purpose of this study is to investigate aspects of vendor selection process.

1.2 THE STATE OF PURCHASING DECISION THEORY

The review of organisational buying literature have been nearly unanimous in their criticism of the scattered and fragmented nature of research in this field (Anderson and Chambers, 1985; Johnston, 1981; Johnston and Spekman, 1982; Moriarty and Calper, 1978; Wind and Thomas, 1980). For example, Wind and Thomas (1980) state that "there appears to be no general direction of implicit research programme guiding much of the organisational buying research" (p. 250). Kotler (1972) writes, "Inspite of the importance of the producer market, its characteristics and marketing systems have tended to be relatively neglected by marketing writers" (p. 139). Lotshaw (1969) in his editorial in JMR states, "Lack of articles on industrial marketing cannot be taken as conclusive evidence of little work being done to develop new methods and techniques but it certainly points in that direction" (p. 109). Webster (1971) states: "If one attempts to systematically review the available knowledge on industrial buying behaviour, he finds few published sources of a scholarly nature, most of them are of case studies with little or no opportunity to generalise to other classes of
industrial buying" (p. 206). Johnston and Spekman (1982) urge the need for development of 'integrative research paradigms' and new methodologies to cope with the complexity of organisational buying decisions. Furthermore there are some shortcomings that prevent the current available knowledge from being considered in the status of theory or as a generalized model. Some of the shortcomings as stated by Webster (1971) and reinforced by Dempsey (1973) are:

1. "Virtually none of the published studies have been replicated nor could they be replicated because of the subjective nature of the data that has been collected.

2. Most studies do not have consistent model which integrates and inter-relates the findings of one study with another and leads to a consistent and developing body of knowledge.

3. In comparison with consumer behaviour, the number of studies is quite small".

A likely explanation is the extreme difficulty of gathering a sample of data that has to justify statistical analysis that represents a broad range of industrial purchases (Anderson, Chu, Weitz, 1987).
It is clear therefore that there exists a need for greater structure and direction in organizational buying research. It is also seen that there is agreement that programmatic research guided by new conceptualisations is necessary for greater scientific progress in this area.

1.3 VENDOR SELECTION

It is widely recognized that the vendor selection process will involve the consideration of a number of vendor characteristics that the buying decision maker will use in gauging each potential vendor's expected performance. Since buyers can and do articulate the reasons for making a choice, it can be inferred that choice criteria do exist (Lehmann and O'Overeem, 1974). The criteria not only varies from purchase to purchase but so does their relative importance. Also information sources will be utilized in the vendor selection process in order to aid the decision maker in identifying alternative vendors and in assessing the performance capabilities of alternative vendors.

The survey of literature reveals that very little research has been conducted to date on the relative importance of vendor characteristics and buyer information sources. This contention is supported by Dempsey (1973), Ghosh (1977), Lehmann and O'Shaughnessy (1974), Mehta, Khurana, Chhabra, Rao and Kiser (1981), Smith (1985), Wind,
Green and Robinson (1968). Knowledge of existence of a multiplicity of variables without a consideration of their relative importance provides little direction for the industrial marketers' effort. There is little agreement upon what factors should be considered when selecting a vendor. Further, there has been lack of attention on the way in which the nature of the purchase affects the decision. Also, no system has been developed to show in any particular instance, how the pertinent factors should be weighed relative to one another. Since the effectiveness of a purchasing decision is a direct function of selecting proper vendor, the above questions are important. The literature on the procedure followed in the search of information sources and their empirical investigation during the industrial buying process is limited, (Dempsey, 1973; Moriarty and Spekman, 1984).

Thus it can be concluded that a continued research either in the general area of industrial buying process or the particular area of the vendor selection process is essential. More specifically, there is a lack of research concerning the influence of the type of buying problem on the vendor characteristics and buyer information sources.
1.4 OVERVIEW OF THE RESEARCH STUDY

1.4.1 Research questions

The following questions provide the thrust of the inquiry in this study.

1. For a given, generally described buying situation:
   a) What are the relative importance of typical vendor characteristics in the vendor selection process?
   b) What are the relative importance of typical information sources in the vendor selection process?

2. What effect, if any, does a change in the buying situation have upon the importance of:
   (i) vendor characteristics?
   (ii) buyer information sources?

3. In the minds of the purchasing decision makers, for a given purchasing decision:
   a) Which vendor characteristics are related to one another? and
   b) Which information sources are related to one another?

These research questions are stated in the form of hypotheses in chapter III.
1.4.2 Data base

The research data were collected with the help of a questionnaire in Tamil Nadu. The chief purchasing executives of auto and auto component manufacturing organisations of medium and large scale industries were the respondents. The questionnaire contained three buying problem situations, namely a new task, modified rebuy and a straight rebuy as described by the 'Buyclass Framework'. They were asked to rate the importance of twenty typical vendor characteristics and fifteen typical buyer information sources in relation to their assigned buying problem. In addition, a number of organisational characteristics were measured for classification purposes.

1.4.3 Data analyses

The organisational buyer considers a number of complex variables while making a vendor selection decision. Thus, it is proper to utilise multivariate research tools which provide the researcher with a great ability to analyse complex data in a more scientific and less superficial manner (Sheth, 1971). Therefore most of the data analyses in this study were conducted via multivariate statistical techniques which are discussed in Chapter III.
1.4.4 Limitations

Some of the important limitations possibly associated with this research project should be mentioned. First, the scope of the project was limited to one buying industry. Nonetheless the buy situations covered all classes of buy. The research results provided need further empirical verifications for future use in the development of theories of vendor selection process.

Since parametric statistical techniques were largely used in the data analysis, some experts would be concerned about the possible non-normality of the rating distribution for the vendor characteristics and information sources. Since similar studies had already used several of these types of analyses, it was deemed reasonable to use these techniques under the assumptions that the rating scale closely approximates to normality. Hence the data analyses were not seriously distorted.

1.4.5 Organization of thesis

The general intent, nature and scope of this study is presented in this chapter. Review of more recent literature, presenting the necessity for a study of this type and the developments that had taken place in the field of organizational buying are dealt in chapter II. This chapter
also describes the vendor selection process with emphasis on the relative importance of vendor characteristics and buyer information sources, citing the various studies done in this area.

Chapter III describes the population from where the data were collected, and the construction of the questionnaire for this study both in terms of realistic and theoretical viability. Attention is also given to the group homogeneity in their response. Thus it can be concluded that the methods used in this study provided a reliable data base for subsequent use in testing hypotheses. Further, the specific hypotheses of this study are presented. The multivariate statistical models that were used to test the hypotheses are presented.

Chapter IV and V deal with the presentation of the results with detailed discussions pertaining to them. A commentary is provided with the results associated with each of the hypothesis. In chapter VI, the overall summary of this study is presented. The implications stemming from the results obtained are also presented. Finally suggestions concerning future research are provided.