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SUPPLIER SELECTION PROCESS

- Criteria and methods case study analysis in

ALMACO Group: An example of ship building industry

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SUPPLIER SELECTION PROCESS – CRITERIA AND METHODS CASE STUDY IN ALMACO GROUP: AN EXAMPLE OF SHIP BUILDING INDUSTRY

This study concentrates on organizational buying behaviour, and on determining what factors contribute to organizational buyer's decisions by providing an example from ship building industry.

Purchasing behaviour in ALMACO group is being investigated as a case study. Four ALMACO employees were interviewed in order to find out how purchasing decisions are made in ALMACO, and what elements the organizational buyers value in vendors. The interviews reveal there is no one unified organizational buying decision making process or supplier selection criteria, but as many different ones as there were interviewees.

For the readers to be able to better understand the study, a basic theory of organizational buying behaviour by Webster is presented. Also alternative models and theories are presented in order to provide different views. Organizational buying behaviour is affected by environmental, organizational, interpersonal and individual factors. These factors and their influences on organizational buying behaviour are discussed in this study.

KEYWORDS:

Organizational buying behaviour, ship building industry

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SUPPLIER SELECTION PROCESS – CRITERIA AND METHODS CASE STUDY IN ALMACO GROUP: AN EXAMPLE OF SHIP BUILDING INDUSTRY

Tämä tutkimus käsittelee ostokäyttäytymistä organisaatiossa tarjoamalla esimerkin laivanrakennusalalta. Tutkimuksessa tarkastellaan mitkä tekijät vaikuttavat ostokäyttäytymiseen.

Esimerkkitapauksena tarkastellaan ostokäyttäytymistä ALMACO Group:ssa. Neljää ALMACO:n työntekijää haastateltiin tutkimukseen. Tarkoituksena oli saada selville miten ostopäätöksiä ALMACO:ssa tehdään ja mitä tekijöitä ostajat arvostavat tavarantoimittajassa. Tutkimuksessa selvisi, ettei ALMACO:ssa ole yhtä ainutta päätöksentekomallia, eikä valintakriteeria, vaan malleja ja kriteereja on yhtä monta kuin haastateltaviakin.

Teoriaosassa käsitellään pääosin Websterin organisatorisista ostokäyttäytymisteoriaa. Muitakin teorioita ja malleja esitellään. Sisäänostajan ostokäyttäytymiseen vaikuttaa monet tekijät, kuten ympäristö, organisaatio, imistenväliset suhteet ja henkilökohtaiset tekijät. Tutkimuksessa tarkastellaan näitä tekijöitä ja niiden vaikutusta organisatoriseen ostokäyttäytymiseen.

HAKUSANAT:

Organisatorinen ostokäyttäytyminen, laivanrakennusteollisuus

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

APPENDICES

1 INTRODUCTION

1.1 Research background

The aim of this thesis is to identify the significant variables affecting the organizational buying decisions and to consider the factors that influence the organizational buying process. The research questions were approached through literature study and research. In addition, a questionnaire was conducted at ALMACO Group by interviewing four individuals working in purchasing. Organizational buying is not a single act, rather a decision process. The "organizational buyer" is influenced by four sets of factors; individual, interpersonal, organizational, and environmental. The ultimate purpose of this analysis is to provide better guidelines for future decisions making relating to the development of marketing strategies for ALMACO Group whose customers are business firms.

Traditionally purchasing has not been a top-level function in the organizational structure. Rather, purchasing activities have been subordinate to the manufacturing or operations function. Over time companies have moved toward the establishment of purchasing as a distinct functional area on the same level as production, marketing, finance and R&D. (Morris et al. 2001, 35)

Obviously selecting the right suppliers plays a key role in any organization because (in manufacturing companies) it significantly reduces the unit prices and improves corporate competitiveness. However, emphasis on quality and timely delivery, in addition to the cost consideration, in today's globally competitive marketplace adds new level of complexity to supplier selection decisions. Among the issues of supply chain management regarding purchasing decision, supplier selection is the most important activity of a firm's purchasing department. Thus the purchasing department should play a key role in the organization's efficiency and effectiveness because its purchasing decisions

have a direct effect on cost reduction, profitability and the flexibility of the company. In practice there could be several criteria used by a firm for its supplier selection decision, such as price offered, part quality, on-time delivery, after-sales services, response to order change, supplier location and supplier's financial status.

The description of a buying decision process provided in this paper is oversimplified and ignores the large number of decisions that may occur at each decision stage (i.e. deciding how to generate alternatives, how many to seek, etc.). Further complexity is derived from the fact that the buying decisions are being made and carried out by a number of organizational members who fulfill the roles of decision-makers, influencers, and gatekeepers with respect to the various usage and buying decisions.

1.2 Introduction to ALMACO Group

Founded	9.10.1998
Owners	The management
Own personnel	App. 80 persons
Supplier network	App. 500 companies
Market	Building of passenger ship accommodations, floating accommodations, offshore accommodations, and land-based accommodations worldwide
Customers	Owners and builders of passenger ships, floating accommodation units, offshore accommodation platforms, and modular land-based accommodations
Turnover	App. 60 Million Euro
Companies & Offices	ALMACO Group, Inc. United States ALMACO Group Oy, Finland ALMACO Group S.A.S. France ALMACO Group Pte Ltd, Singapore ALMACO Group Shanghai Office, China ALMACO Group Venice Office, Italy
ISO 9001:2008 Certificate	December 2006

Figure 1: ALMACO Group (ALMACO master presentation November 2010).

ALMACO Group was founded in 1998. Originally the business idea was to provide management services on cruise modernization projects in cabins and public spaces. Since the acquisition of the Catering Technology Unit from MacGregor in 2005, ALMACO has been providing food handling area products and services for both the refurbishing and newbuilding market for cruise ships. Nowadays the scope of business had expanded from serving only cruise lines but to serving living platforms, ferries and the land based business too. ALMACO provides services and products for accommodation areas and food handling areas on passenger ships; improving passenger comfort and safety, and enhancing hotel area performance.

In addition to cabins and public areas, the firm can deliver galleys, bars, pantries, provision stores and refrigeration plants as an integrated package. At the beginning of a project ALMACO provides a complete feasibility study tailored to each customer's individual needs. Starting point is always in aiming to minimize the length of time the vessel needs to be off-service, at a dry or wet dock.

ALMACO Group has a world-wide network of offices, suppliers and partners that allows a customized and cost-efficient delivery of projects to their customers all over the world. ALMACO's global reach brings together the accommodations design and engineering knowledge from offices in Finland and France, the material production and sourcing from partners in China and surrounding countries, and the efficient customer service from the offices in the U.S.A., Europe and also Singapore, establishing ALMACO's worldwide scale operations with local presence. ALMACO's organizational structure is defined by three divisions, accommodation systems, food handling division and service division.

ALMACO started with a strong presence in North America and although is expanding into newer markets, with increasingly strong presence in Asia, the

company still stays committed to their North American customers. In North America, ALMACO has a strong foothold with Royal Caribbean International, along with Carnival Cruise Lines, Norwegian Cruise Line, Celebrity Cruises, among other American customers.

2 INTRODUCTION TO CRUISE SHIP BUILDING INDUSTRY

2.1 Overview of the industry

Tourism is the largest industry in the world, and cruising is not only its fastest growing sector by far, but one of the few to see a genuine concentration of power. According to industry estimates, approximately one in seven American has been on a cruise and of those who have cruised, as many as 90% say they intend to do so again. (Garin 2005, 8). The industry has set new records for both passenger numbers and profits nearly every year since 1960's, so that today it is a $13 billion business, and growing faster than ever.

2.1.1 The past

Immigrant trade had defined the passenger shipping during the early part of the 20th century. Even the most modern ocean liner designs were built on a rigid stratification between an opulent first-class world abovedecks and the cramped spaces below, where the huddled masses had historically been quartered. Throughout the nineteenth century, emigrants had crossed the Atlantic in what was known as "steerage", spaces not unlike cargo hold with scarcely more amenities, and the business was very far from pleasure cruising.

Figure 2: First class cabin on Titanic reconstructed at the Titanic Exhibition at the O2 Arena in London (Source: Iltasanomat homapage/ picture by Reuters [online referred 10.11.2010]).

The race to build bigger and faster vessels began in earnest with the arrival of steamship technology in the latter half of the nineteenth century. Great coal-fired iron hulks replaced wooden sailing ships, and their scale and speed brought astonishing profitability. These new vessels shrank the world in their day as radically and as suddenly as the Internet has in the present time. Instead of a few hundred low-paying passengers, the liners could carry several thousand, still packed into tight, unventilated spaces, but under mildly better circumstances than before and for far shorter length of time. Transatlantic business and leisure travel picked up among the well-heeled as schedules became more reliable and crossings on the bigger ships grew safer and more comfortable. (Garin, 2005, 15).

As early as the turn of the century, an occasional transatlantic ocean liner could divert from its regular run to wend its way through the Greek Isles or the West Indies carrying a complement of the idle rich. As the decades wore on, it grew more and more common for the management of a New York –based liner to augment a winter season's weal transatlantic bookings with a tropical cruise or

two. However, such ships would always be back on the New York – Southampton of the New York – Marseille run at the first sign of spring. From the perceptive of most ship-owners in those days, pleasure cruises tended to be a distraction from the more serious and profitable business of passenger shipping. However, cruises to the Caribbean became essential for keeping ships operational during the winter months, though with the class system a continued impediment to extended says in tourist class, they were more stopgaps than real money makers (Garin 2005, 19). Even without the class problem, the ships were simply not built for tropical climates; their small windows, their limited deck space, their recreational facilities (if any) deep in the ship had all been conceived with the wind and snow and waves of the North Atlantic in mind. Though the traditional liner owners depended on these seasonal cruises, they looked at the tourist cabins, the Dixieland bands, the egg-rolling competitions and costume balls as gimmicks, in place only to pad their primary function of transporting people from one place to another. Most of the strong lines survived in this way through the roaring twenties, the years of the Great Depression and up to the start of World War II, when the era of passenger shipping came to an abrupt end. Japan's surrender at the end of the war ushered in not only the nuclear age but the jet age as well; with the prospect of fast, safe and affordable air travel on the horizon, travelling by the sea soon became a quaint relic of a slower time. The surplus ships needed to be put into new use. The concept of leisure cruises originating in one port and returning to the very same port was developed in 1950's (Grain 2005, 19).

The conventional wisdom among ship designers had always been to make staterooms as big as possible, since that was where the people would be spending most of their time during the rough North Atlantic crossing. This changed after the war. The new ships had smaller cabins than built ever before which allowed the ships to be packed with a great number of passengers and to maximize the revenue creating public spaces like bars and gift shops.

In the mid 1970's the industry was at an exciting juncture. New ships specially designed for cruising were proving stunningly profitable – and remarkably cheap to build, thanks to heavy subsidies from European governments desperate to support their civilian shipbuilding sectors at a time of rampant unemployment but it really was the Love Boat that brought cruising to everyone's living room. The show ran for almost a decade and was syndicated in forty-seven countries and created a huge boost to the cruising industry (Garin 2005, 94).

2.1.2 The present

A total of nine new vessels were delivered in 2009. Most notable among these were a new "world's largest cruise ship", royal Caribbean's Oasis of the Seas and the first ships to be recently ordered by Seabourn and Silversea for the upscale luxury market. These ships represent a quantum increase in size for all three brands. Maybe continuing growth in ship size in all segments of the market is inevitable consequence of cruise shipping economics.

After the difficult year of 2009 when no orders for new cruise vessels came in, it looks like the industry was recovering. Cruise shipping was able to navigate the turbulent economic, social and pandemic challenges of 2009. Profits were battered by the global recession, high employment, sagging consumer confidence, H1N1 virus, piracy threats and declining global tourism. The cruise industry met these challenges with new vessel deliveries featuring exciting onboard amenities, pricing incentives to keep ships full, careful cost management, expanding global deployments, theme cruises and enticing shore excursions. (Marine log, February 2010, 12)

The yards are said to focus on the refurbishment market as the most likely source for new business. For example Lloyd Werft in Germany has announced plans to exit the shipbuilding and concentrate solely on repairs.

In terms of revenue, cruise ships account for 20% of the global shipbuilding market. (Marine Log, February 2010, 12). The big ships are changing the product in a positive sense for the larger market, becoming more like floating resorts and less like ships. They offer the necessary economies of scale, allowing the cruise lines to stay profitable without dramatically raising fares. But more traditional ships are sailing too, appealing to those who are looking for a less hectic and perhaps even a seagoing experience. The diversity and range of product will help drive future growth in existing markets and build new markets around the world. (Cruise Industry News Quarterly, Summer 2009, 14)

2.1.3 The future – What's over the horizon?

The January 1, 2010 new construction orderbook amounted to 28 ships for delivery through 2012. Half of them are scheduled for delivery in 2010, after which only shipyards in Italy and Germany will have new construction work.

European yards in Italy, France, Germany and Finland have dominated the world cruise ship construction business. Now we can see new players move in. Korea's third largest shipbuilder is aiming to get into the cruise ship construction business. (Marine Log, February 2010, 12). Chinese and Koreans are putting in place policies that will likely see their dominance of the newbuiliding market grow even stronger. (Marine Log, June 2009, 26). It was also reported in February 2009 that China's state council had adopted a stimulus plan for the shipbuilding industry.

With almost complete absence of new ship orders in the last two years, the shipbuilding industry's economic contribution in likely to decline significantly after 2010. (Marine Log, February 2010, 20). ALMACO sees this as an opportunity to receive new orders for refurbishment and modernization projects.

However, with continuing uncertainty over the strength of the economic recovery, and in light of the large amount of new tonnage that has been

delivered in 2010, the question is whether the upturn can be sustained. Based upon the cruise industry's response to the challenges of 2009, it can be assumed the response to new challenges will be creative and take full advantage of the new trends that will improve the value proposition of cruising. The cruise product is driven by the need to attract new and repeat passengers, but also to generate onboard revenue to compensate for relatively low ticket prices. Thus, the retail shops on cruise ships are getting larger, as are the spas, while new revenue creating facilities and activities are being added. (Cruise Industry News Quarterly 2009, 14).

2.2 Characteristics of products in cruise ship building industry and their effects on buying behaviour

Oceangoing ships have life cycles of about 25 years and in some cases – as in the U.S. flag fleet - beyond that. This is not to say that these ships are not well maintained but rather to point out that most of the technologies and design elements incorporated in newbuild ships today could be around 2035 and beyond. (Marine Log. 2010, 17).

Purchasers need to keep in mind the heavy usage of cabins and passengers bathrooms. It has been estimated that during a cruise, a couple occupying a cabin shower approximately eight times a day; in the morning before breakfast, then maybe before lunch after playing tennis or sunbathing, then it is time for a shore excursion and the passenger might want to shower before dinner and also after a night out in the ship's discos and nightclubs. (M. Harju 23.10.2010, personal information).

Products installed onboard have to fulfil the present U.S. public health (USPHS) regulations and comply with the relevant classification society requirements, such as International Maritime Organization (IMO, a UN body responsible for legislating safety on the high seas) and SOLAS (Safety of Life at Sea). There

was no greater stimulus to ship safety than the sinking of the Titanic in 1912. The subsequent Titanic Conference in 1914 led to the birth of the first SOLAS agreement. (The Maritime Executive, July/August 2010, 29). These regulations limit the number of suppliers available for an organizational buyer in the marine sector. A buyer buying a new bakery oven for a restaurant kitchen has many more brands and models to choose from than his/her counterpart buying a bakery oven for a ship's galley. Not all brands have models in their product range approved and certified for marine use.

The modernization of a ship differs in many respects from a new building project and requires special expertise and specific procedures. Existing structures and technical conditions pose many restrictions as when building a new ship more solutions and options are available.

3. ORGANIZATIONAL BUYING BEHAVIOUR

3.1 Characteristics of organizational buying

Organizations are continuously engaged in recurring cycles of problem-solving functions. The problem-solving function that has to be performed in organizational buying depends on the newness of the purchase task. In a new purchasing situation it is likely that the organization will go through all of the problem-solving stages whereas in straight rebuy some shortcut route will be undertaken (Webster and Wind, 1972, 6). There is no one generally accepted model of these functions. The complexity of organizational buying is illustrated by the following characteristics.

Most importantly, organizational buying decisions are made more complex by the fact that more people usually are involved in them and different people are likely to play different buying roles. The roles users, influencers, deciders, and buyers can be identified in most buying situations, and there are likely to be many people occupying each role – several influencers, decision-makers, users and so forth. Furthermore, the persons occupying each role in a given organization are likely to change from one purchase situation to the next. Operationally, therefore, when dealing with organizational buying one should not be concerned only with the buyer (a member of the purchasing department) but with a buying center – that is, all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risk arising from the decisions (Webster and Wind, 1972, 6). A critical task for the marketer selling to organizations is to identify the members of the buying center, to determine their respective roles in the decision making process, and to determine the criteria they will be using in their evaluations of alternative courses of buying action.

Secondly, organizational buying decisions often involve major technical complexities relating to the product or service being purchased. Technical evaluation of new equipment requires a great deal of factual information about the equipment as well as carefully studied opinions by those who can best predict the important new directions the technology is likely to take (Webster and Wind, 1972, 6). Technical complexity is an important characteristic of many organizational purchasing situations, not just for equipment but for materials and services as well.

Third, the greater time required for organizational buying decisions means that there are significant lags between the application of marketing effort and obtaining a buying response. It is hard to tell whether a particular sales call or an email or a specific service rendered for a potential organizational customer has produced any results.

Forth, organizational members participating in the buying function are neither purely "economic men" nor are their motives purely emotional and irrational. Rather they are human beings whose decisions and behaviour are being influenced by different variables. Organizational buying process is not only more complex than consumer buying behaviour but also more complex than the process that leads to many other organizational decisions. This added complexity is primarily due to following factors (Webster and Wind, 1972, 7):

1. The purchasing work flow is almost entirely crosswise in the organization rather than along the chain of command – i.e. most of the buyer's relations are horizontal relations with the users which are of about the same formal rank in overall organizational hierarchy.
2. Formal authority over buyer's can be in the hands of either a purchasing manager or an operating division manager (in the case of decentralization).
3. A major part of the buyer's work is with people outside of the organization (vendors, salesmen, etc.).

4. Purchasing is a service function and, especially in engineering-oriented organizations, the buyers have substantially lower status than the engineers in using departments.

3.1.1 Differences in consumer and organizational buying

The purpose of business is to create a satisfied customer, and for many businesses the customer is a large organization rather than an individual. Responsibility for organizational buying is often delegated to specialists within the organization. Buyers are usually assigned responsibility for only a limited part of the total organizational buying process – namely, the actual purchasing activity consisting of the identification and evaluation of alternative sources of supply and the administrative details involved in establishing working relationships with vendors. Other aspects of the organizational buying process, such as determination of the kind of materials or items to be purchased and the standards to be used in evaluating potential suppliers, are often the responsibility of other members of the organization, although there is considerable variation among organizations in the division of labor between purchasing personnel and the other members of the organization.

Table 1 Comparison of organizational and consumer buying characteristics. (Fill and Fill 2005)

	Consumer buying	Organizational buying
Numbers of buyers	Many	Few
Purchase initiation	Self	Other
Evaluation criteria	Social, ego and level of utility	Price, value and level of utility
Range of suppliers used	Normally short	Normally long
Importance of supplier choice	Normally limited	Normally long
Size of orders	Small	Large
Frequency of orders	High	Low
Value of orders placed	Low	High

Complexity of decision-making	Low to medium	Medium
Range of information inputs	Limited	Moderate to endless

Organizational buying decisions typically take longer to make than consumer (individual) buying decisions because of the technical complexity involved in organizational buying (Davies, 1998, 135). Decisions require more information, undergo longer evaluations, and involve more uncertainty about product performance. Evaluations are likely to be more complete because of the large amount of money involved, the complexity of the formal organization, and the fact that, once a relationship is worked out with a supplier, the organization becomes dependent upon that supplier for the day-to-day conduct of its affairs. Purchased products and services are expected to contribute dependably to the organization's performance over long periods of time; as a result, the original decision is likely to be made in a cautious and thorough manner.

Each buying organization is likely to be significantly different from every other buying organization in the potential market in ways that may require viewing each organization as a separate market segment. This is less true in consumer markets where a market segment may consist of a substantial number of individual units (Davies, 1998, 135). Organizations are likely to vary significantly in the nature of the buying problems they face because their objectives, resources, people, and abilities are different. From the viewpoint of the marketing strategist whose customers are organizations, these differences must be taken into account in developing the marketing strategy to be used with each account. Few consumer goods companies must be so concerned about tailoring their marketing strategies to each individual consumer of household.

Another distinction between consumer and organizational markets rests on how suppliers are being evaluated (Davies, 1998, 150). Professional buyers systematically evaluate alternatives based on an objective process called vendor rating. Whilst evaluation in the consumer market might simply be based on consumer's feelings, attitudes and past experience, it tends to be more

subjective. One can consider a case of buying coal from alternative suppliers for an organization. Different suppliers might be evaluated on the basis of reliability, ability to meet delivery dates, quality and value. Value is associated with the overall costs, not price, which would include set-up costs in usage (if relevant), storage costs and transportation costs. Price is concerned with the total cost of the production arising from using the product, including waste/scrap, processing costs and power used. Quality is then the lowest cost of supplies to fulfil the needs of the organization. Coal might be a low cost per tonne but might be high in ash or volatile material, so a thorough analysis needs preparing before a purchasing decision is made. If quality is sub-standard, buyers can threaten to change suppliers, tighten supply specifications, demand test certificates and request test data in advance (Davies, 1998, 150).

3.2 The buying unit

The buying unit is a dynamic system. The buying center is defined as consisting of those individuals who interact for the specific purpose of accomplishing a buying task. The composition and structure of a buying unit differs between buying situations. The unit can be a temporary organization for a single purchase or it can be a more durable arrangement for continuous buying. Or the unit can be formulated during the buying process. It is also important to note the more complex the buying situation, the greater the buying unit (Webster, 1984, 45). Usually both selling and purchasing units consist of several individuals from different organizational levels equipped with different knowledge and behaving in different roles. The buying unit is made of those organizational members who are involved in the buying decision process.

A seller has to define the buying center and systematically analyse the forces of its actions. This can be a difficult job because of the complexity of the organizational buying process. The buying unit can be viewed as a set of organizational actors motivated by a complex interaction of personal and

organizational objectives, operating within the limits of technology, resources, and formal structure of the organization (including subsystems of authority, status, communication, rewards and work flow.) It should never be forgotten that these organizational actors are individuals who could be motivated by personal goals for gain and achievement, it is likewise important to determine the host of interpersonal, organizational, and environmental influences on their decision-making behaviour. The buying center may consist of individuals occupying any of the following roles – deciders, influencers, buyers, users and gatekeepers (Webster, 1984, 40). Understanding these roles will help one understand the nature of interpersonal influence in the buying decision process. It is quite likely that several individuals will occupy the same role within the buying center (e.g. there may be several users) and that one individual may occupy two roles or more (e.g. buyer and gatekeeper) (Webster, 1984, 41). All members of the buying center can be seen as influencers, but not all influencers occupy other roles.

3.3 Roles of members of the decision making unit

Table 2 Purchasing activities and decision-makers for different stages in organizational markets. (Davies 1998, 151)

Stage	Explanation of activity	Possible decision-maker
Problem recognition	An organizational need requires filling	Initiators, e.g. marketers
*Develop specification	Decide what will solve problem/fill need at acceptable cost	A decision-making unit may include discussion with: Influencers (e.g. Marketing / Design Engineers
Search	Identify supplier list	Buyers, but Finance may authorise budget
Evaluation (*complex vendor ratings)	Screen alternative suppliers based on specifications. Select on basis of a desirable quality	Buyers and possibly others

	and low cost	
Purchase	Includes terms of purchase (credit, maintenance agreements)	Deciders, e.g. Purchasing director
Post-purchase	Compare performance to expectations in specifications. Users offer feedback to revise future specifications. Availability of spare parts may also be influential.	Users/shop floor workers

*Stages additional to consumer market

3.3.1 Initiators

Initiators are the ones who make the request of a purchase and propel decision-making process. At ALMACO, the Account Specialists identified the customer as the initiator but Vendor Managers in Accommodation System divisions see themselves as the initiators. "When ALAMCO gets a project contract, I start designing the purchase strategy for that project. Purchases start after project meeting where strategy is confirmed." (Vieno 25.10.2010)

3.3.2 Users

Users can initiate the purchase process and are sometimes involved in the specification process (Lancaster and Reynolds, 2002, 65). Users evaluate the performance of the goods/service bought. Users are those who actually use the purchased products and services but who may have little or no buying authority and varying amounts of buying influence.

3.3.3 Influencers

Influencers help to set the technical specifications and help in evaluating alternative offerings. They add information or decision criteria to the decision process. Influencers may have more status and power than deciders or buyers. Technology based organizations often assign high status to individuals who have been trained in the physical sciences and engineering and therefore give these individuals a great deal of power in decision making in general, including purchasing. (Webster and Wind 1972, 35). Influencers do not necessarily have buying authority but can influence the outcome through the application of constraints. At ALMACO, both Account Specialists and Vendor Managers identified the customer as the main influencer. Engineers, architects and even the suppliers were mentioned as relevant influencers.

3.3.4 Deciders

Deciders make the purchasing decisions. Deciders have formal authority and responsibility for deciding among alternative brands and vendors. Very often the decider and the buyer are the same person.

3.3.5 Buyers

Buyers may also have formal authority for selecting vendors and consummating the buying decision. This formal authority may be constrained by the influence of organizational members who occupy other, more powerful roles in the buying group. Buyers who are ambitious and wish to extend the scope of their influence will adopt certain tactics and engage in bargaining activities in an attempt to become more influential at earlier stages of the buying process. These tactics or bargaining strategies define the nature of the buyer's relationships with others of equal organizational status and structure the social situation that the potential supplier must face in dealing with the buying group. Buyers execute the contractual arrangements (Webster, 1984, 41). They have

the authority to sign the orders and make purchases. Their main role is supplier negotiation and selection (Lancaster and Reynolds, 2002, 65).

3.3.6 Gatekeepers

Gatekeepers control the flow of information into the buying group (Webster 1984, 41). This function is often performed by secretaries who screen mail or telephone calls, or by purchasing agent who has formal authority to control the activities of a salesman who call upon other in organization; he/she can deny permission to a salesman to call upon an influencers or a user and thus, through his/her "gatekeeping" activities, can exert a subtle, indirect influence on the buying process (Webster and Wing, 1972, 36).

3.4 The buying decision making process

The organizational decision-making process, which is the core of the organizational buying process, is a complex process that takes place over time and involves several members of the given organization and relationships with other organizations. Whereas it is easy to describe the decision process as the whole process leading to the various buying decisions, there are different views of the number, nature, and sequence of the various stages comprising it. There have been attempts to form a model for organizational decision-making process (Webster and Wind 1972, 31) but there is still no way of identifying the one "true" decision-making process that would exist in all organizational buying decision processes. It is most likely that such a universal decision-making process does not exist – primarily because of differences in organizational characteristics, the people who are involved in the various stages, the given buying situation and the importance of the given task. Webster and Wind attempt to identify a basic model that includes a decision process without an attempt to identify the specific stages of the process. (Webster and Wind 1972, 31).

The organizational buying decision process can be described in terms of a general model of organizational decision processes composed of five basic stages (Webster and Wind, 1972, 31).

Identification of need

Establishing objectives and specifications

Identifying buying alternatives

Evaluating alternative buying actions

Selecting the supplier
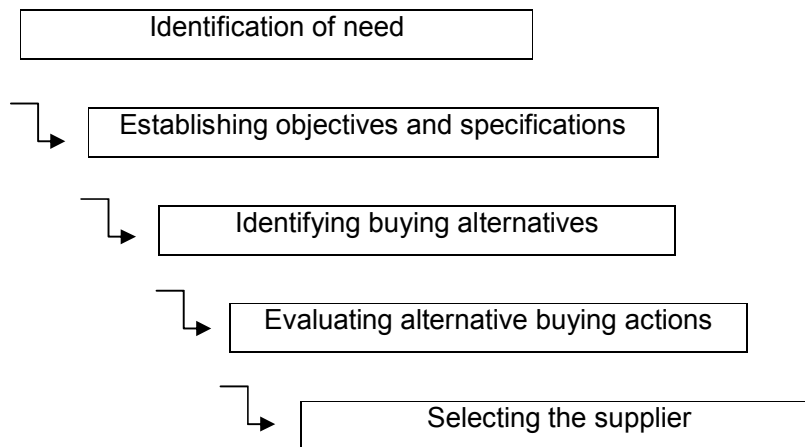
Figure 2: General model of organizational decision process.

The specific nature, importance of, and interrelations among these stages vary across organizations and buying situations.

3.4.1 Identification of need

Buying situation is created when some member of the organization perceives a problem that can be solved through the purchase of a product or a service (Webster, 1984, 28). The perception of a buying problem can occur at any place in the organization and at almost any stage in the work.

3.4.2 Establishing objectives and specifications

The need for purchased goods and services will be defined with sufficient clarity to permit the drawing up of specifications for the purchase. Those who originally defined the buying need may or may not be involved in the establishment of

specifications. Specifications grow directly out of the definition of the buying problem, which identifies certain objectives that the purchase must meet.

3.4.3 Identifying buying alternatives

When the specifications and schedules for the purchase have been defined, at least in preliminary fashion, the market is searched for available alternatives. Usually previously used sources of information and sources of supply are consulted first. Identifying potential suppliers is a process limited only by buyer's imagination and initiative (Webster and Wind, 1972, 32). The ways to identify potential suppliers can be characterized as passive or proactive. Passive identification is the most important type of identification, as it identifies the suppliers you want the prospects business the most. The vendor is active in approaching the buying party. In proactive identification, the buyer takes the initiative to search and look for different vendors.

3.4.4 Evaluating buying actions

Evaluation of alternatives consists of comparing the characteristics of the available alternatives against the criteria established when specifications and schedules were set. To resolve these ambiguous decision situations, it is necessary to weight some criteria (i.e. specifications) more heavily than others. It must be decided, for example, whether price or product quality is a more important variable and the appropriate tradeoffs among product quality features must be established.

3.4.5 Selecting the supplier

In situations where single criteria cannot be applied and where there is disagreement about the ability of various potential suppliers to meet the specifications, the final decision about suppliers may reflect the relative power and influence of the various members of the buying group. Formal authority for

the purchase decision may belong to the purchasing agent but his or her actual authority may be limited.

3.5 Supplier selection criteria

This chapter introduces an extensive list of potential selection criteria that organizational buyers may base their selection upon. Selecting a supplier is a quantitative and qualitative process. In today's competitive world, a supplier should offer more than just "parts that meet the spec." (Gabay 22.10.2010)

Table 3: Potential selection criteria (Stimson, 1998, 78).

• Specifications	• Geographic location	• Quality history
• Environmental programs	• Facilities & equipment	• Education & training
• Process and quality control	• Competitive pricing	• Prior and post sales support
• Knowledgeable sales force	• Organization	• Preventive maintenance
• Policies & procedures	• Subcontractor policy	• Research & development
• Self assessment	• Market involvement	• Capability
• Capacity	• Financial condition	• Quantity
• Labour conditions	• Cost control	• Customer base
• On-time delivery	• Tool tracking	• Smoking policy
• Ethics	• Housekeeping	• Percent of business
• Multiple plants	• Mgmt.	• ISO 9000/9002

Commitment	certificate

After the criteria are defined, the factors need to be weighted. The criteria can be grouped in order to ease the selection process. Grouping can help the organizational buyer to identify more easily the factors he/she values the most.

Table 4 Criteria grouping (Stimson, 1998, 80).

Factors	Priority criteria
Price	Net delivered, payment terms, currency valuations, usage and processing costs
Quality	Conformance to specifications, consistency within control limits, results of quality audits
Service	Lead times, on-time delivery performance, inventory, responsiveness
Technology	Performance, responsiveness to request for specification changes
Partnership	Long-term viability of supplier alignment with value proposition (mission and objectives), business case (cost/benefit, risk analysis), length of relationship (history)
Globalization/ localization	Monopoly risk, proximity to using facilities, availability to third party (e.g. government) funding

While it is possible to select different criteria to use for every sourcing decision, that approach is not recommended for several reasons. First, it is difficult to align the criteria with the mission and objective if the criteria are constantly changing. Second, the criteria can become individual or group dependent, i.e. the criteria that is selected determined by other factors such as hidden agenda, personality and dominative style. Third, it is a very time consuming and laborious process to repeat over and over again from scratch. Fourth, changing the criteria results in sending mixed signals to suppliers and internal customers (Stimson, 1998, 79).

3.6 Factors influencing organizational buying behaviour

Major determinates of organizational buying behaviour to be recognized are environmental/external factors (including marketing inputs of various suppliers), the organizational/internal characteristics, the interpersonal relationships among members in the buying center, and the individual characteristics of these members. When one recognizes the complexity of organizational buying behaviour, the large number of behavioural science and management findings and theories which can be utilized in explaining this form of behaviour, and the multiplicity of the possible determinants of organizational buying behaviour that include a complex interaction of individual, social, organizational, and environmental factors, it becomes obvious that no one theory and no one area of behavioural science is likely to provide adequate insight into the nature of that process. It is virtually impossible to borrow a single conceptual framework, such as learning theory or role theory or organization theory, to analyze the organizational buying process. For this reason, the study of organizational buying behaviour must have an interdisciplinary focus and must be eclectic in borrowing from whatever fields of behavioural and policy science are likely to help in understanding the relationship between particular inputs and specific responses or buying actions.

Members of the organization buying center and especially the buyers are subject to an increasing influx of input from various sources. These inputs aimed at the buying organization are the final outcome of the carefully designed marketing strategies of competing sources of supply. The strategies, which include product and service, promotion and distribution, are aimed at influencing the buyers and decision-makers to purchase goods and services preferably from a given source of supply.

3.6.1 Environmental factors

The organization itself, its members, and the patterns of interaction among them are all subject to certain environmental influences. Of utmost importance among these relationships are the marketing stimuli presented by prospective suppliers.

Environmental influences on the organizational buying process come from many institutions within society and can be classified into six categories: physical, technological, economic, political, legal and cultural. These factors can affect organizational buying behaviour in two ways. (Webster and wind 1972, 52).

1. The environmental factors can be perceived, reacted to, and taken into account by the organizational members in making their buying decisions. In this context the environmental factor affect the decision-makers' values and preferences, choices and actions.

2. The environmental factors may be conceived of as constraints on the execution of strategies designed to achieve the envisaged buying goals. Such limitations on performance and outcomes do not depend on the decision-making unit's perception of the environment – that is to say, being ignorant of certain elements of the environment or not taking them into account in reaching a decision does not prevent these environmental factors from affecting, sometimes in a decisive way, the operational outcome of the buying decisions.

The environmental factors are likely to vary from one country to another and the ability of selling firms to understand these basic differences is a major determinant of their ability to compete at multinational level.

3.6.2 Organizational factors

A formal organization itself has many dimensions which significantly influence the buying decision-making process. Objectives, policies, procedures, structure, and systems of rewards, authority, status, and communication define the formal organization as an entity and significantly influence the buying process at all stages (Webster and Wind 1972, 73).

Objectives define the existence of a buying situation. Products and services are purchased to facilitate goal accomplishment. Organizational factors include organizational policies providing specific criteria as to the kind of material to be purchased and the specifications for product quality that must be met. For example in the marine sector it is crucial the material and products onboard the ship to comply with IMO's (International Maritime Organization) and USPH (United Sates Public Health) rules and regulations.

Other factors include the technical requirements created by the nature of the organization's operations and time-related variables such as delivery requirements and the number of days' worth of inventories that must be maintained.

Organizations also have a set of policies that relate to purchasing activity. For example a buyer at Prestige Cruise Holdings is not allowed to submit a purchase order that exceeds 5000 USD without superior's approval (M. Harju 11.4.2010 personal information). In some organizational settings some policies may favour local businesses and prefer dealing with suppliers who are also customers. Also the structure for the transfer of information among organizational members can exert a direct and significant influence on the outcome of the purchasing decision.

3.6.3 Interpersonal factors

The buying process in a formal organization usually involves several persons. These persons interact on the basis of their particular roles in the buying process as well as on the basis of the history of the group's previous interactions and social experiences. The buying group is characterized by both a pattern of communication (interaction) and a set of shared values (norms) which direct and constrain the behaviour of the individual within it. Interpersonal influences reflect the many different viewpoints of those organizational members who perceive that buying decisions are important to their performance within the organization. Users, influencers, deciders, buyers and gatekeepers interact to determine the outcome of the buying decision (Webster and Wind, 1972, 87).

3.6.4 Individual factors

Although organizational buying is the result of organizational decision making, individual behaviour defines this decision-making system. Organizational behaviour is individual behaviour. The individual may be acting on behalf of others, may be influenced by purposes beyond his/her own, and may interact with others, but organizational behaviour is the behaviour of individuals in an organizational context (Webster and Wind, 1972, 107). Each person involved in the buying process brings to it a set of needs, goals, habits, past experiences, information, attitudes which he or she applies in each specific situation, also to the extent that different persons are involved in the buying decision process and are likely to employ different criteria in their evaluations, conflict among members of the buying group can occur.

Individual factors of importance in organizational buying include the individual's age, income, education, professional identification, personality, and other psycho-socioeconomic characteristics. Another set of individual factors is represented by the individual's predispositions, including awareness, attitudes

and preferences, toward specific suppliers and their brands. As indicated by Mr. Nurmi, personal preference may make him choose a certain supplier over another one (Nurmi 18.10.2010). Other important variables relate to the individual's characteristic methods of searching for information and of processing the information available to him or her concerning alternative sources of supply. Related to information processing are such individual characteristics of self-confidence and ability to tolerate uncertainty and risk.

3.7 Buying decision making risks

There are several risks related to the buying process. The buyer's ability to avoid these depends on the individual factors listed in previous chapter.

Technical risk

The purchased product may not meet the buyer's or user's expectations (i.e. wrong coloured wall panels), and can even be dangerous to the user.

Financial risk

The prices might escalate unexpectedly e.g. if the prices are tied to a Produce Price Index, or due to changes in the exchange rates. Financial risk also exists if purchases are tied to long term volumes which do not materialize. Unexpected costs may arise if goods need to be shipped via air freight instead of budgeted truck or ocean freight. In shipbuilding industry a good example of financial risk is the late delivery penalties that a yard needs to pay to the customer if an expected delivery of a ship is delayed (M. Harju 14.11.2010, personal information).

Delivery risk

Late deliveries may cause extra costs to the buyer. For example, if a certain component is missing from production, the whole production stays still costing the manufacturer a lot of money. In cruise shipbuilding industry, a delayed delivery of material may lead to a longer time the cruise ship needs to stay off sailing i.e. not creating revenue from paying cruisers.

Relationship risk

Vendor – buyer relationship might be endangered when a delivery or order is not fulfilled in an acceptable and agreed manner. A strategic alliance between a vendor and a buyer can also be risky due to the increased dependency the buyer has in regards to his/her source (Webster, 1984, 81).

Professional risk

If the buyer does not hold sufficient skills to perform his/her tasks, there is a risk of him/her losing the job. There might be a wrong mix of skills, some buyers may hold more strategic purchasing skills, some may be more of a "purchase-order-writer" type.

4   VENDOR RELATIONSHIPS

Several scholar-authors have developed conceptual models of the buying decision process in complex economic organizations. These models offer valuable insights into the buying decision process, and are useful to the industrial marketing strategist by describing that process in analytical and conceptual terms. Like all models, those describing the organizational buying decision process are simplifications of the true process but gain their strength and relevance by focussing on the most important variables and relationships among them. In this text some of these models and social psychological behaviour theories are being considered.

4.1 Perceived risk model

The perceived risk model emphasizes the buyer's uncertainty as he/she evaluates alternative courses of action. According to the model, buyers are motivated by a desire to reduce the amount of perceived risk in the buying situation to some acceptable level, which is not necessarily zero. Perceived risk is a function of the uncertainty which an individual has about the outcome of a given course of action and the consequences associated with alternative outcomes. The individual may be uncertain either about the goals that are relevant in the buying situation or about the extent to which a particular course of buying action will meet those goals.

Two types of consequences will be of importance as determinants of the amount of risk perceived by the organizational buyer in a given buying situation. First, uncertainty about the performance of certain products and vendors will be significant determinants of perceived risk. Second, the individual may be concerned about the reactions of other people to his/her decisions, the psychosocial consequences of his/her actions. One of the factors determining the amount of perceived risk in a given buying situation is the organizational

buyer's self-confidence in the specific decision he/she is required to make, as well as his/her general self-confidence.

The importance of the consequences resulting from a given buying action will increase as a function of the importance of the goals being pursued and as a function of the amount of time, money, effort, and "psychosocial" investment involved in the buying decision.

The formal definition of perceived risk identifies the major strategies available to the organizational buyer for reducing perceived risk. Given that perceived risk is a product of uncertainty and its consequences, it follows that perceived risk can be reduced either by reducing the uncertainty or by reducing the importance of the consequences. It further follows that the importance of the consequences can be reduced either by lowering the goals or by reducing the amount of investment (financial and/or psychosocial) in the buying decision. (Webster and Wind 1972, 100).

4.1.1 Approaches to risk reduction

Buyers may also adopt several strategies for reducing the amount of perceived risk.

One alternative is to gather and evaluate additional information. Information collection and processing strategies, which reduce uncertainty, are a major class of risk-reducing behaviour. In general, information about products and vendors reduces the amount of perceived risk by narrowing the range of expected outcomes. Information can also be gathered to evaluate and reduce psychosocial risk. Inquiries may reveal more clearly the expectations of other decision influencers within the organization. Superiors may be induced to be more explicit concerning goals and reward structures. The criteria used to evaluate the buyer may be made clearer. Information search and analysis are common strategies for reducing both performance and psychosocial risk

because they help to clarify goals and to assess the ability of alternative courses of action to achieve those goals.

Another set of strategies for reducing perceived risk are goal reduction strategies. Goal level is a determinant of the amount of perceived risk. If organizational buyer sets very tight product specifications, the chances are increased that a particular offering will not meet them. Both product performance risk and vendor selection risk increase as specifications become tighter. Also the higher the level of personal goals the harder they are to meet, and frustration in goal attainment will lead eventually to goal reduction. Over time, the buyer whose desire for advancement and promotion is not satisfied will reduce his/her desire for these rewards and will emphasize other needs, such as those for security and self-esteem. Every organization has those who want to "play it safe" and who avoid taking normal risks in pursuit of organizational objectives. Instead, they place greater emphasis on a higher probability of attaining a less desired but still acceptable outcome. They are risk-avoiders and have reduced their goals. Goal reduction is also a strategy for reducing perceived risk where initial search fails to identify sufficient numbers of product/vendor offerings within the feasible set. A loosening of specifications and selection criteria can be seen as a goal-reducing strategy.

Another one is to remain loyal to existing suppliers and to do business with well-known, reputable, established suppliers. Loyalty to particular brands, vendors and products is a risk-reducing strategy that maintains goals at an acceptable level. Instead of striving to do better, thereby increasing the risk of doing more poorly, the loyal buyer chooses the greater certainty afforded by a merely acceptable outcome. He/she implicitly says that the present level of goal attainment is adequate and routine reorder procedures are established. Loyalty also reduces perceived risk by reducing the amount of time and money invested in the search for new alternatives. Loyalty to a vendor or brand may also reflect a perception (based on previous experience) that there are few alternative

sources offering better quality and service, so that the expected value of additional search is small.

A final set of strategies for reducing perceived risk are those that reduce the amount of investment. The organizational buyer may reduce either the amount of time and effort involved in search, the financial investment involved, or his/her own personal commitment to the buying situation. A decision to buy on a low-bid basis or to lease rather than the buy is a form of investment-reducing strategy.

4.2 Buyer – Sales representative interaction model

The basic unit of analysis in buyer-seller relationships is the interaction between a representative of the buying organization (a buyer) and a representative of the selling organization (a salesman). Naturally there may be several persons on either side of the relationship, but the two-person dyad remains the building block of more complex social interactions. (Webster 1991, 68).

When buyer and sales representative (or "rep") meet, the nature of their interaction can be understood as a form of role-playing. The roles of buyer and sales rep are distinct and definable social roles, each having certain behaviours and expectations associated with it. The social role of buyer or sales rep is very important source of predispositions (opinions, attitudes, beliefs, values, goals, etc.) influencing the perceptions of persons in those roles. The dyadic interaction model emphasizes the influence of role expectations.

There are two particularly important sources of buyers' role expectations for sales reps. First is the stereotype of a sales rep. A stereotype can be defined as a consensus of role expectations shared by a large segment of population. It is a well-known fact that there is a stereotype of the sales rep, describing him/her as "talkative", "easy going", competitive", "optimistic" and "excitable". Perception

is subjective, and it is not important whether or not the stereotype is an objectively accurate one. The buyer who does not have previous experience with a particular sales rep will respond to that rep in terms of the stereotype that he/she has of sales reps in general, based on the sum total of his/her experience with sales reps. "Inaccurate" perception of the rep by the prospect may lead to a lack of communication.

A second important source of "role expectations" held by a prospect for a rep is the reputation of the selling company. This is a special case of the generalized concept of "source credibility". Levitt (1965, 31) found that industrial purchasing agents' and chemists' responses to sales presentations were influenced strongly by the reputation of the company that the sales rep represented. In general, the rep for the company with the better reputation (created through advertising, for example) always obtained more favourable response to his/her presentation. On the other hand, Levitt also found that the respondents tented to rank the rep as lower in "trustworthiness" than they rankest eh company the rep represented. While this finding probably reflects, in part, the low occupational prestige of sales reps, Levitt suggested there was more involved. He concluded that the prospect's perception of the trustworthiness of the rep was not as closely related to the rep's product knowledge as it was to the overall quality of the sales presentation. Furthermore, a poor sales presentation resulted in a reduction in the perceived trustworthiness of the company. Finally, Levitt's research suggested that for a company with an excellent reputation, the prospect has very high expectations for the kind of sales reps that will represent that company – so high that reps may not be able to meet these expectations.

4.2.1 Buyer playing the role

Interaction theory explains that the needs of actors are important determinants of their predispositions and that these predispositions influence their perceptions of the situation. As previously addressed in this report, analysis of organizational buying behaviour indicated that both personal needs and

organizational goals, as well as social dimensions of interaction in the buying center, are important determinants of buyer response to selling effort. Every prospective buyer has at least two kinds of needs: personal needs, which motivate behaviour, and social needs, which define the kinds of need fulfilment activity acceptable to relevant other persons in the social situation. For example, the industrial buyer may be motivated by a personal need for recognition and advancement and by the social need to satisfy the using department. The buyer's need for the sales rep's product will not exist unless he/she can see how a buying decision will allow him/her to satisfy both sets of needs. Those particular personal and social needs will determine: (1) whether the prospect grants an interview to the sales rep: (2) which parts of the presentations he/she really listens to; (3) the information he/she will remember: and (4) the influence of the sales presentation on his/her decision to buy.

Another set of factors determining how the buyer plays his/her role in a specific sales interaction is other sources of information to which he/she has been exposed concerning the rep's product. These can be grouped into two categories – impersonal, commercial sources of information, such as media advertising and direct mail, and personal, non-commercial sources such as colleagues, friends, and neighbours. The rep can be characterized as personal, commercial source of information. Generally speaking, personal sources of information are known to be more effective in producing an attitude change than impersonal sources. On the other hand, commercial tend to be less effective than non-commercial sources. These general research findings suggest that industrial sales reps would be more effective than advertising but less effective than buyer's peers in developing favourable attitudes toward products.

4.2.2 Seller playing the role

Many of the observations made about he buyer apply to the sales re as well. The sales rep's behaviour is determined by his personal needs (for example, his/her desire to earn a commission on the sale) and his social needs. The

sales rep's behaviour will be influenced by his/her desire to meet the expectations of relevant other persons including his/her manager, peers and the prospect himself/herself.

The sales rep's confidence in his/her own ability to "play the role" of sales rep is important in determining his/her behaviour and is influenced by his/her knowledge, training, personality and previous experience. Because of the importance of the buyer's behaviour in determining the success of the sales call, the sales rep's ability to infer the buyer's role expectations of him/her is a vitally important factor. This ability has been defined as "empathy" or "empathic ability" – the ability to put oneself into the position of another person, a feeling of oneness with the other person. The ability to sense how the prospect is reacting to what the sales rep says is an important determinant of how successfully the sales rep plays his/her role.

The sales rep's behaviour will also reflect his/her perception of how his/her manager expects him/her to play the role of sales rep. If expectations have not been stated clearly by the manager, the sales rep's behaviour may not be consistent with managements' expectations. Furthermore, management must be sure that its expectations about rep's behaviour are consistent with buyer's expectations. Otherwise, the rep is in the difficult position of having to resolve conflicting role expectations. This can lead to some frustration and anxiety, as well as reduction in effectiveness.

4.3 Social exchange theory

Many forms of social interaction can be conceptualized as an exchange of benefits. People depend on one another for much of what they need and value in social life, and they provide these benefits to each other through the process of social exchange. For example, neighbours exchange favours, children exchange toys, colleagues exchange assistance.

The social exchange perspective takes as its analytical focus this aspect of social life: the benefits that people obtain from, and contribute to, social interaction and the opportunity structures and interdependencies that govern those exchanges (Molm 2006, 24). While classical theories of economic exchange typically assumed that exchanges were independent, one-shot transactions between strangers, social exchange theorists are primarily interested in relations of some length and endurance. The social psychological approach to social exchange did not emerge until the late 1950's. The following decade saw the publication of three major statements of social exchange, by George Homans (1961), John Thibaut and Harold Kelly (1959), and Peter Blau (1964).

While various theories of social exchange differ from one another in numerous respects, they share a common set of analytic concepts and certain assumptions. These comprise the basic elements of social exchange: the actors who exchange, the resources exchanged, the structures within which exchange relations develop, and the dynamic process of exchange.

4.3.1 Actors

The actors who exchange can be either individual persons of corporate groups acting as a single unit (e.g. business corporation, neighborhood associations). In addition, they can be specific entities (e.g. a friend or a special interest club) or interchangeable occupants of structural positions (e.g. a neighbor or a club president). This flexibility allows exchange theorists to span levels of analysis ranging from microlevel interpersonal exchanges to macrolevel networks of organizations.

Individuals and groups can be combined as actors partly because social exchange theories make few assumptions about characteristics of actors. Virtually all exchange theories assume that actors are self-interested; seeking to

increase outcomes they value positively and decrease those that they value negatively. The perspective is strongly associated with a view of actors as egotistical entities whose behavior is motivated by the need or desire to obtain valued benefits.

4.3.2 Resources

When an actor has possessions or behavioral capabilities that are values by other actors, they are resources in that actor's relations with those others. Social exchange resources include not only the tangible goods and services of economic exchange but capacities to provide socially valued outcomes such as approval or status. Because resources depend on their value to others, they are attributes of relations, not actors. I.e. what constitutes a resource for an actor in one relation may not do so in another.

Exchanges of tangible resources involve the transfer of a physical good from one actor to another, for example a purchase of goods. Many social exchanges, however, involve no actual transfer of resources. Instead, one actor performs a behavior that produces value for another. Such exchanges occur, for example, when a person comments on a colleague's task or does a favor for a friend. In either case, an exchange action incurs some form of cost for the actor who performs it and produces some kind of valued outcome for the partner. All exchange behaviors entail opportunity cost (the rewards forgone from alternatives not chosen), but some also involve other costs, such as investment costs, the loss of material resource, or costs natural to the behavior itself, e.g. fatigue. Exchange outcomes can have positive value (gain, reward, utility) or negative value (loss, punishment). For economists, utility refers to the satisfaction or benefit received.

4.3.3 Exchange structures

The most important distinction between classical and contemporary exchange theories is the contemporary emphasis on structure; i.e. on the form of relations between actors rather than on the actors themselves and the content of their interaction.

At basic level, all exchange relations, whether dyadic or embedded in larger networks, develop within structures of mutual dependence; i.e. between actors who are dependent on one another for valued resources. Structures of dependence can take several forms: direct exchange, generalized exchange, and productive exchange.

In relations of direct exchange between two actors, each actor's outcomes depend directly on another actor's behaviors; i.e. Mr. A provides value to Mr. B, and Mr. B to Mr. A. In relations generalized exchange among three or more actors, the mutual dependence is indirect: Mr. A's giving to Mr. B is not reciprocated directly by Mr. B's giving to Mr. A but indirectly by Mr. B's giving to another actor in the network (for example giving wedding gifts). Eventually, Mr. A may receive a return on his/her exchange from some actor in the system, but not from B. Finally, in productive exchange, two (or more) actors contribute their individual efforts to produce a joint good that benefits both (or all) of them (for example coauthoring a book).

4.3.4 The process of exchange

The process of exchange describes how interaction takes place within exchange structures. Exchange opportunities provide actors with the occasion to initiate exchange; when an initiation is reciprocated (or an offer accepted), the mutual exchange of benefits is called a transaction. A series of repeated transactions by the same actors constitutes an exchange relation (e.g. systematic re-buy from a certain vendor). One of the core assumptions of any

exchange theory is that benefits received from exchange are contingent upon benefits provided in exchange. This assumption is necessary to explain both the initiation of exchange and its continuation. (Molm 2006, 28)

In direct exchange relations, transaction can be divided to two; to negotiated transactions and reciprocal transactions.

In negotiated transactions (buying a car, dividing household tasks), actors engage in a joint-decision process, such as explicit bargaining, in which they reach an agreement, typically a binding one, and about the terms of exchange. Both sides of the exchange are agreed upon at the same time and constitute a discrete transaction. Most economic exchanges other than fixed-price trades fit in this category, as do some social exchanges.

In reciprocal transactions, actors individually initiate exchanges by performing a beneficial act for another (e.g. doing a favor or giving advice), without negotiation and without knowing whether, when, or to what extent the other will respond. Exchange relations that develop under these conditions take the form of a series of consecutively contingent individual acts, rather than discrete two-part transactions, with the equality on inequality of exchange merging over time. Reciprocal transactions are uncharacteristic of most economic exchanges but typical of many social exchanges between friends and family members.

4.4 Social penetration theory

Relationships that people have with one another vary considerably – a class mate, gold partner, husband or wife, colleague etc. Such relationships involve different levels of intimacy of exchange or degree of social penetration, and all develop through time in a systematic and predictable fashion. Social bonds do not grow and then stabilize forever. Some reach a steady level and then grow further; other become undesirable and either break up or revert to an earlier level of intimacy of exchange.

Social penetration refers to overt interpersonal behaviours which take place in social interaction, and internal subjective processes which precede, accompany, and follow overt exchange. The term "social penetration" includes verbal, nonverbal, and environmentally oriented (i.e. use of physical objects and personal distance between people) behaviours. As these behaviours occur, they are preceded, accompanied, and followed by a series of subjective internal processes that occur within each individual (Altman & Taylor, 1973, 5).

Social penetration process is orderly and proceeds through stages over time. Interpersonal exchange gradually progresses from superficial, non-intimate areas to more intimate. That is, people are generally believed to let others know them gradually, first revealing less intimate information and only later making more personal aspects of their life accessible. People also assess interpersonal rewards and costs, satisfaction and dissatisfaction, gained from interaction with others. The advancement of the relationship is heavily dependent on the amount and nature of the rewards and costs. According to social penetration theory, people assess reward – cost balance of an ongoing interaction, and also forecast of predict implications of future interactions at the same and at deeper layers of exchange (Altman & Taylor, 1973, 7). They weigh up the future contacts with the other person. Assuming such predictions to be favourable, it is likely the pair then gradually moves to successively more intimate levels of encounter, from superficial biographical features to emotions and attitudes. In organizational buying the buyer weights up the pros and cons of developing a relationship with a vendor and vice versa, the vendor evaluates whether or not it would be beneficial to develop the relationship.

Another aspect of the theory concerns the deterioration of interpersonal relationships. The penetration and depenetration (deterioration) follow the same principles with regard to orderliness of progress and the movement from superficial to intimate areas of communication. A relationship undergoing a process of deterioration should move from more to less intimate and from

greater to lesser amounts of interaction – contrary to the forward penetration process.

The theory also considers how the social penetration process is affected by the personal characteristics of people; e.g. those with predispositions to reveal themselves should show different history of social penetration than those that are more reluctant to enter into relationships with others.
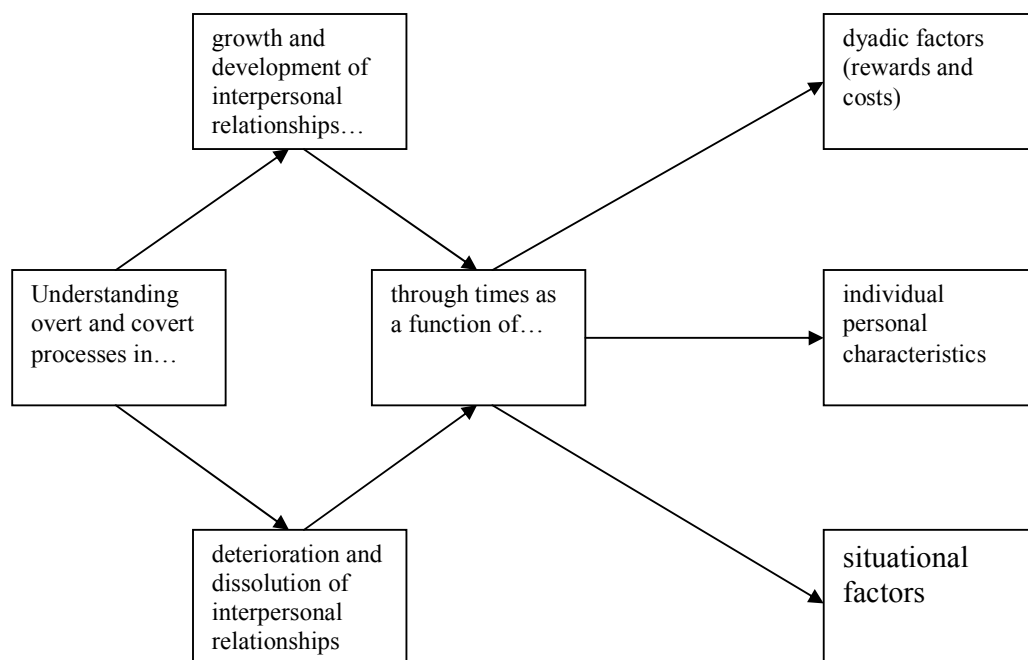
Figure 4: Areas of interest to social penetration theory (Altman and Taylor, 1973).

5 METHODOLOGY AND THE DATA

The stages in a research process include problem identification (i.e. to identify the information needed), drawing up research questions or developing hypothesis, data collection, analysis and interpretation, and report writing. Problem identification involves clarifying the nature of the problem to make it easier to ask appropriate research questions or to develop hypotheses. Hypotheses are informed guesses about some particular aspect of the problem. These can subsequently be supported or rejected by statistical analysis of data.

5.1 Primary data and qualitative research

Primary data has to be collected. Primary data is the new information generated by a research to address a particular problem. In comparison, secondary data is the information already available e.g. through government reports, trade association studies or internal company data files.

Qualitative responses often provide insight and explanation into why the quantitative data arise, such as the nature of purchase behaviour, and attitudes to and feelings about a product.

5.1.1 An overview of the study questionnaire

The questionnaire was made of 20 open questions. Open-ended questions were chosen because they allow each respondent to reply individually rather than according to pre-determined responses. The author created the questions based on her knowledge of ALMACO and her working experience in the company, and the study objectives. The purpose of the questionnaire was to find out how purchasers in ALMACO make decisions to buy. No specific layout or font was chosen to attract more responses as it was expected that all participants would revert.

5.2 The plan

The plan of the author was to interview four people in ALMACO whose job description involves purchasing. Two of them work in the Accommodation Systems division buying material for turnkey projects, of all scale, used in cabins and public spaces. They buy products and material for ALMACO's use. These materials typically include carpets, wall panels, insulation materials and furniture. The two other ones work in the Service division which in ALMACO covers after sales needs of their customers. This can be anything from a single spare part, for example a switch for a dishwasher, to a complete new oven, or to faucets. The Service division supplies any type of material that can be found in cabins, public spaces, galleys and refrigeration areas when no installation is involved. The customer initiates the process by sending a request for quotation; all the products are sold to the end user.

The interview was chosen to be conducted via email due to lack of time and budget as the author and respondents reside in different countries. Face-to-face interviews would have been more appropriate, since that would have allowed more interaction between the interviewee and the interviewer. This is because misunderstandings by the respondents could have been identified and handled through interaction. This flexibility was not available through email.

5.3 The execution

The interview was first conducted on one person, Michael Lindblom of Service division, as it is very important to test the questionnaire before the actual execution. After evaluating his answers (Questions 1 – 17), questions about the vendor-buyer relationship were added (Questions 18 – 20).

The interview was then sent out by email individually to four pre-defined people; two persons from Service division and two from Accommodation Systems

division. The author believes this sampling represents well the different types of purchasers and their roles in ALMACO. The interviewees were given one week to complete the questionnaire. All interviewees responded in a timely manner.

5.4 Presenting the collected data

The questionnaire was divided in six parts. Questions 1 and 2 focused on the interviewees. Questions 3, 4 and 5 were about the buying process. Questions from 6 to 9 studied the vendor and quotation evaluation. The buying risk was discussed in questions 10, 11, 12 and 13. Questions from 14 to 17 were dedicated to supplier selection, and questions 18, 19 and 20 inquired about vendor relationships.

5.4.1 The interviewees and their role at ALMACO

Questions 1 and 2 were designed to illustrate the interviewee's profile and roles. Question 1 asked for interviewee's name, education and position. Question 2 ask the interviewee to describe his/her role and responsibilities with his/her own words.

Terhi Vieno
Position: Vendor Manager, Accommodation systems
Education: MSc (Eng.)

As per Ms. Vieno her main roles and responsibilities are to manage project purchases and to calculate project sales quotations.

Tero Nurmi
Position: Vendor Manager, Accommodation systems
Education: BBA

Mr. Nurmi told his tasks to consist of cost and item follow up, supplier performance and delivery monitoring and sourcing. Sometimes he gets involved with shipping as well.

Julie Gabay

Position: Account Specialist, Service Division

Education: M.S: International Business

She defines her roles in the company as "Daily trade of spare parts and equipment" (Gabay 22.10.2010). According to Mrs. Gabay her responsibilities include the following phases; quoting and developing new opportunities, ordering, logistics, and invoicing.

Michael Lindblom

Position: Account Specialist, Service Division

Education: Msc. Econ

According to Mr. Lindblom, his roles and responsibilities include trading spares and equipment for cruise line owners, and buying and selling, reviewing sources and suppliers.

The author noticed the Account Specialists from Service division see their role and responsibilities the same way. However, the Vendor Managers from Accommodation Systems division described their roles differently as indicated above. Ms. Vieno mentioned calculating project quotations and managing purchases as her responsibilities whereas Mr. Nurmi focused on vendor follow up and delivery monitoring. The difference might be result from seniority and education.

5.4.2 The buying process (Q3-Q4-Q5)

In question 3 the respondents were required to describe the buying process in their work. The Account Specialists described the whole process from receiving

a request for quotation from the customer, quoting, receiving the order and delivering the goods, rather than the buying process itself. There seemed to be some confusion of what was wanted by this question.

According to the Vendor Managers a purchasing strategy is set for each project. This includes the involvement of engineers who formulate the shopping list for specified items. Then items and vendors are identified and negotiations follow. Then the strategy is being executed with suitable suppliers.

Question 4 inquired about the initiator of the buying process. Both Account Specialists were unanimous in answering it is the customer who initiates the buying process by placing the order to ALMACO. Both Vendor Managers replied that they themselves are the initiators. In ALMACO, Vendor Managers act as buyers as well.

Question 5 was designed to see who the buying decision making influencers are in ALMACO; at you work, who specifies the product to be bought? The question was who specifies the product to be bought. Both Vendor Managers identified architects and engineers, but some recognition was given to the buyer himself/herself as well. Account Specialists agreed on customer being the one to provide specification for the item(s) to be purchased.

5.4.3. Buying action evaluation (Q6-Q7-Q8-Q9)

Question 6 asked if the respondents compare suppliers and their offers. All replied "yes" but Mr. Lindblom also pointed out that when certain items are purchased directly from the manufacturer with good, established terms, and better deals are hard to come by. Hence comparison is not always needed (Lindblom, 11.10.2010). He admitted that he does to not "shop around" every time if he has found a reliable source for particular items or material.

The reasons mentioned for comparison (Question 7: If you compare, why? If not, why not?) were price and lead time. According to Ms. Vieno comparison is a must in gaining better understanding of what different suppliers include in their quotations, e.g. Incoterms, warranty, installation; in order to see whose quotation really is the best one.

With question 8 the author wanted to find out if the buyers ever choose an alternative product over the originally specified product. All admitted doing so if the alternative is approved by the customer. When asked why they chose to do so (Question 9) the interviewees gave several reasons as listed below:

- Significant cost savings
- The alternative product suits the project need better than original
- Better lead time
- Original product is discontinued or obsolete and an alternative product is the only option
- If the customer is requesting a product that does not meet the industry requirements, Account Specialist Julie Gabay would propose an approved and certified alternative (Gabay 22.10.2010)

5.4.4 Buying risk (Q10-Q11-Q12-Q13)

When asked if they ever place orders based only on one single quote, all interviewees replied "yes" (Question 10). With the following question the author wanted to find reasons for it (Question 11: If yes, why you didn't ask for another one?). Following reason were identified: lack of time, only one available supplier for a specific product, personal preference of a vendor, only one vendor quoted, and a proven reliable vendor.

Question 12 asked if the buyers see a risk in not "shopping around". Both Account Specialists agreed there is a risk of missing a potentially more competitive vendor. Ms. Vieno agreed but she also emphasized that there is a

risk of maybe paying a higher a price but if the vendor is reliable and secure, the risk is actually minimized (Vieno 25.10.2010). Only Vendor Manager Nurmi said he does not see a risk in not asking for competing quotations.

According to Account Specialist Lindblom the risk could be reduced by shopping around (Lindblom 11.10.2010). His colleague Mrs. Gabay reminded that vendors should be re-evaluated periodically and purchase conditions checked. Ms. Vieno pointed out that having clear product specification is important to risk reduction.

5.4.5 Selecting the vendor (Q14-Q15-Q16-Q17)

With question 14 the author wanted to find out who makes the decision to choose one suppler over another. The project purchasers Vieno and Nurmi agreed that it depends on the case. Sometimes it can be the purchasing manager, the project manager, the project engineer or the whole team all together. The Account Specialists saw the question differently. Mrs. Gabay considered the question from her customer's point of view when she answered the buyer makes the decision. In comparison, Mr. Lindblom stated himself as the decision maker.

Several factors were given when the interviews were asked what factors sway the decision to buy from supplier X instead of supplier Y (Question 15). Most important ones (and shared by everyone) were price, lead time and vendor reliability. Mr. Nurmi mentioned also that personal preference might influence too (Nurmi 18.10.2010). Other identified factors were service level, expertise, stability of the selling company, proven track of quality and staying in schedule.

The author asked the interviewees to name the most important factor (Question 16). Ms. Vieno and Mr. Lindblom agreed on price being the most important one. Tero Nurmi named reliability, and Mrs. Gabay responded "combination of price and reliability of the supplier" (Gabay 22.10.2010).

Regardless of their rather unified answer about the most important factor, the buyers had different reasons for choosing that factor. While Vendor Manager Vieno believes tight budget is the reason for price being the most important factor, Account Specialist Lindblom claims one cannot sell reliability and good service to the customer, and that price is the only factor the customer is looking at when they choose the vendor (Lindblom 11.10.2010). Mr. Nurmi gave an example of supplier unreliability. If an agreed lead time cannot be met and a delivery is late, the goods need to be flown to the project destination instead of budgeted ocean freight, and there will be no cost savings. Account Specialist Gabay deemed that the combination of price and reliability can guarantee consistent future orders.

5.4.6 Vendor relationships (Q18-Q19-Q20)

The last set of questions was answered by the Vendor Managers and Account Specialist Julie Gabay.

The Vendor Managers disagreed on how long it takes for a supplier to become a routine supplier (Question 18). Terhi Vieno believes one good project delivery is enough, while Mr. Nurmi would require at least two to three good usages. Mrs. Gabay did not give a specific number of usages but answered "it would depend on the supplier".

All interviewees were unanimous about the buyer having more power than the supplier. However, Mr. Nurmi reminded that the vendor might have more power over the buyer if he/she is the only available source, sole supplier.

In question 20 the author asked what kind of reasons would make the buyer return to one supplier over and over again. Following reasons were given:

- Vendor expertise

- Variety of supply
- Trusty player
- Fair pricing
- Easiness of business
- Reliability
- Good service

Mrs. Gabay requests for consistency. The vendor should be reactive to RFQs, give good pricing, be reliable, and be able to offer short lead times.

6 CONCLUSIONS

6.1 Findings

The author found out there is no one model for purchasing decision making process in ALMACO. People acting in roles that involve purchasing are trusted to make decisions themselves with a method they choose to use. The author found this surprising as ALMACO holds the ISO 9001 quality certificate for processes. The company has a process for "Order to Delivery" for projects but no detailed consideration has been provided to purchasing decision making process itself. The author would not recommend the company to define one either as it seems to work fine that the buyers rather independently define the process project by project.

Some differences and inconsistencies could be found between the responses from the Vendor Managers and the Account Specialists but this can be explained by the different objectives and scopes of their work as the Vendor Managers buy material for ALMACO's use on projects, and the Account Specialists buy material in order to sell them further. No significant discrepancies could be derived from respondent's age, sex or education.

The interviews confirmed author's hypothesis about price being the most important criteria for choosing a vendor. Keeping the cost low is crucial for running a profitable business. Revenue has to exceed the cost in order to create a positive result.

A lot of recognition was also given to reliability. Reliability is obtained from positive past experiences and successful deliveries. The relationship deepens as more successful experiences are gathered. If a vendor delivers what he/she promised, the buyer is likely to choose the same vendor again. If a supplier

didn't deliver what he/she promised, it is very likely the vendor – buyer relationship will break as a result of mistrust.

One respondent mentioned "personal preference" as a reason to choose a vendor. But none of the respondents stated that they would look at the big picture, assess the vendor as "a package" considering the vendor's financial status, working conditions, clean facilities, or the overall value.

The biggest buying risk the buyers identified was a financial risk which, according to the respondents, could be avoided if there was more time to look for alternative bids. Prerequisite for a non-risky purchase is a clear specification. None of the respondents brought up the professional risk which can be a sign of all of them being confident and professional enough to perform the work. Or it can be a sign of them not wanting to admit the existence any other type of risk than financial to a colleague. Maybe different results could have been obtained if the interviews were done anonymously and assessed by a stranger. The author would recommend the buyers to consider, identify and evaluate other risks too, as she believes the buyers could learn to avoid them if they admitted they existed. If the buyers identified the psychosocial investment involved in purchasing decision making, they could learn to be even more certain of their purchasing actions as per the perceived risk model higher self-confidence lowers the perceived risk.

6.2 Summary

All formal institutions, such as firms, governmental agencies, hospitals, educational institutions, and religious and political organizations must purchase goods and services to be used in the conduct of their affairs. Industrial concerns, for example, buy raw materials, components, equipment, and supplies to be used in manufacturing, maintenance, transportation, and other aspects of the firms' activities. Intermediate marketing organizations (retailers,

wholesalers and so forth) buy products for resale and equipment and supplies to be used in conducting the firms' activities. Institutions such as hospitals and universities must purchase equipment, supplies, fuel, and building materials as well as wide variety of services necessary for the accomplishment of their purposes. Buying is a basic activity for all formal organizations.

Buying is a complex process, not an instantaneous act. Buying involves the determination of the need to purchase products or services, communications among those members of the organization who are involved in the purchase or will use the product or service, information-seeking activities, the evaluation of alternative purchasing actions, and the working out of necessary arrangements with supplying organizations. Organizational buying is therefore a complex process of decision making and communication, which takes place over time, involving several organizational members and relationships with other firms and institutions. It is much more than the simple act of placing an order with a supplier.

However, organizational buying behavior is individual behavior. Organizations do not make decisions, individuals do. Individuals acting in their organizational roles, commit the organization to buy. Organizations do not act. People act on behalf of the organization, motivated by the desire for rewards of income, status, and ego-satisfaction provided by the organization.

Organizational buying behavior is defined as the decision-making process by which formal organizations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and suppliers. "Decision making" is used here to include information-acquisition and processing activities, as well as choice processes and the development of goals and other criteria to be used in choosing among alternatives.

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APPENDIX 1

Interview questions

1. Name, education and position in ALMACO Group
2. Describe your roles and responsibilities with your own words.
3. Describe shortly the buying process in your work.
4. At your work, who initiates the buying process?
5. At your work, who specifies the product to be bought?
6. Do you compare suppliers and their offers?
7. If you compare, why? If not, why not?
8. Do you sometimes choose an alternative product over the original product?
9. If yes, why do you choose to do so?
10. Do you ever place orders based on one quote?
11. If yes, why you didn't ask for another one?
12. Do you see a risk in not "shopping around"? If yes, what risks?
13. What could be done to reduce the risks?
14. Who makes the decision to choose supplier X over supplier Y?
15. What factors sway the decision to buy from supplier X instead of supplier Y?
16. In your opinion, what is the most important factor in choosing a supplier?
17. Why you chose the above factor as the most important one?
18. How long does it take for the supplier to become routine supplier?
19. In your opinion, which party, supplier or buyer, has more power?
20. What kind reasons make you to go to one supplier over and over again?