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## UNIT 2 THE PROCESS OF BUYING

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## 2.0 OBJECTIVES

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After studying this unit, you should be able to:

- discuss the objectives of the buying process;
- describe the role of the buying function;
- discuss the organizational buying;
- explain the buying behaviour of the retailers;
- discuss the buying behaviour model;
- explain the responsibilities of a buyer;
- describe the characteristics of a buyer.

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## 2.1 INTRODUCTION

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Buying is a process which is in existence since the trading activities got evolved over the ages. Hence for every organization, this is one of the most basic and universal process. It plays significant role to survive in a competing situation. In case of a retailer, the main function of the Buying Department is to obtain the best value for the money spent on purchase of the required merchandise. The retailer's buying department has to ensure that the material procured is as per the requirement and more particularly in tune with its strategic needs for a given product or category. While performing its buying function, the Buying department has to balance all the factors like material quality, cost of material, sources of supply, supplier's strengths and weaknesses, and customers expectations vis-à-vis product price. In this unit, you will learn about the importance and objectives of the buying process, the organizational buying and the buying behaviour of the retailers. You will also learn about the buying behaviour model and functions and responsibilities of a buyer.

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## 2.2 OBJECTIVES OF BUYING PROCESS

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The objectives of the buying process at an operational level are as follows:

- i) To help identify the right source of supply among the alternatives available based on the criteria predefined for a given product or category;
- ii) To ensure that there is a constant flow of supplies of the given material or services at the right frequency and quantities;
- iii) To identify the right price or cost of material or services, i.e. it must buy the material or services at the most competitive price;
- iv) To ensure that the investment in inventory is at an optimum level, neither less nor more than the required levels;
- v) To make sure that the quality of goods and services received is of the required standard, and match with the pre-decided specifications and levels;
- vi) To be constantly on watch of performance of suppliers with regard to the pre-defined supply parameters;
- vii) To identify the good performers in terms of reliability of supplies with respect to quality and regularity, and develop and maintain good relationship with such suppliers;
- viii) To work closely with the reliable suppliers for undertaking necessary research and developmental work for introduction of any new norms or specifications of materials – by providing know-how or through collaboration of the concerned personnel of the two companies;
- ix) To guide suppliers by introducing new work norms that will help both the companies in streamlining their internal operations and save on cost;
- x) To achieve an effective integration with all the departments of the company by providing the best and smooth service to all concerned;
- xi) To be proactive in the matters of procurement and operational issues, so as to achieve cost effectiveness in its operation.

At an overall perspective or from the perspective of a General Manager, the Buying or Purchase department has to satisfy the following objectives:

- 1) **To Procure the Right Quality:** The buyer must be aware of the needs of the consumer in terms of the content of the item, and the quality parameters that would satisfy the consumer need. For example, in summer the consumer will need garment with light fabric, preferably with cotton content, that will maintain coolness in hot weather.
- 2) **From the Right Supplier:** The supplier is selected on certain criteria, which will ensure that the right quality and quantities are supplied regularly at the right time and location. The supplier must satisfy the requirement on the preset parameters of the company.
- 3) **At a Right Price:** The buyer has to ensure that products are purchased at a right price from the supplier, so as to provide the same at selling prices to consumer. This will give them satisfaction as well as bring profitability to the retailer. For example, if the need is to supply Shirts at a starting selling price point of Rs 300, then the buyer must be able to procure the shirts from a right vendor at a right price. He/she should keep in mind that at selling price of Rs 300, the required profit is earned.

- 4) **In Right Quantity:** The buyer must buy the product in right quantity, so as to ensure that there are no shortages felt at the store level. For this the buyer must have proper understanding on various factors like consumer demand, transport time for delivery of goods, replenishment frequency, stocking facility at each store level; for working out the minimum quantity to be ordered for each of the store.
- 5) **At a Right Time:** The quantity against each of the items in a category must be delivered in time to avoid stock out situations, thereby leading to dissatisfaction of consumers.
- 6) **Send it to a Right Place or Department:** The goods need to be sent to the right location and the store. For this the buyer will have to work out the right logistics of supply including transport to ensure there is not only timely supply but also at the right location and the department concerned.

In order to ensure smooth and efficient working of the department it is utmost necessary for the senior management to formulate policies with respect to the objectives specified above.

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## 2.3 ROLE OF BUYING FUNCTION

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In the retailing context, the Buying function has assumed tremendous importance as it represents not only the Retailer but also the consumers who will be the final purchaser of the concerned products. Therefore, buyers are often referred to as the customers' advocates. In the words of Ettenson and Wagner 'Retail buying is the decision making process through which the retail buyer identifies, evaluates and selects merchandise for resale to the consumer'.

The role of buying function include:

- To understand the consumer segment for whom the merchandise is being created, in all its aspect;
- To identify the products or merchandise that will best suit the taste and requirement of the selected consumer segment;
- To evaluate the selected merchandise for its quality specifications that will best fit into the cost factor. This will give utmost satisfaction to the selected consumer segment;
- To work out an assortment of different product types that will make a complete basket of offering to the selected consumer segment;
- To identify the best suited vendors and suppliers, through the process of extensive search and interaction at various levels. They will be able to supply the said products or merchandise;
- To negotiate with the select suppliers and vendors for favorable terms of supplies, so as to attain the best pricing for its consumer segment. This will help to achieve profitable working for the company.

According to Hirschman and Stampfl, a retail buyer has to perform three major functions:

- i) **As a Change Agent:** The buyer influences the buying behaviour of consumers by offering them new range of products and services. The products or services may be either as a totally new experience or with new ingredients or attributes.
- ii) **As a Gatekeeper:** The buyer is responsible for ensuring right quality of products from suppliers to the final end consumers.

- iii) **Opinion Leader:** The buyer plays the role of an opinion leader, in conjunction with its role as a change agent, by influencing consumer opinion through various means and medium.

In large format retail store chains, generally, a Senior Buyer is assisted by an Associate Buyer who will be responsible for the purchase of specific items in a product category. An Assistant Buyer is responsible for other routine type of work.

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## 2.4 ORGANIZATIONAL BUYING

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*Organizational buying* is defined by Webster and Wind as the decision making process by which formal organizations establish the need for the purchased products and services and identify, evaluate, and choose among alternative brands and suppliers. According to Swapna Pradhan, Organizational buying is part of the *business market*, which consists of all organizations that acquire goods and services used in the production of other goods or services that are sold, rented, or supplied to others. Compared to consumer markets, business markets generally have fewer and larger buyers, a close customer relationship, and more geographically concentrated buyers. Demand in the business market is naturally derived from the consumer market.

For example, for Dell Computers, purchase of the Intel Chips will be part of organizational buying process, and the demand for Intel Chips is dependent on the demand from the business market, which in turn is dependent on the demand from consumers for laptop and desktop computer systems.

Thus the demand in the business market for a particular product-part will always operate with a lag effect. This will vary as per the business cycles and fluctuations experienced in the consumer market. The consumer market uses the final product with the said product part as its component.

The decisions of the buying organization are made by a buying centre. The buying centre comprises of all those individuals and groups that share common goals and risks arising from the decisions made.

The buying decisions made by a buying centre are affected by environmental, organizational, interpersonal and individual factors. The buying centre does have to take into account environmental factors like demand for the product, economic trends, technological changes, political and regulatory environment, competition, and social responsibility. The buying centre has to keep in mind the organizational goals, policies & procedures, its structure and systems while arriving at a decision. At the inter-personal level, the buying centre has to deal with interests, authority status, and inter-departmental issues of its participants. It is always the endeavour of the buying centers to deal with few reliable vendors/suppliers who are attuned with its decision making process and are able to satisfy its terms and conditions while satisfying overall objectives of the organization.

### Check Your Progress A

1. Enumerate any four objectives of the buying process.

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2. What is retail buying?

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3. What are the roles of the buyer?

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4. Define organizational buying.

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5. Enumerate the factors affecting the buying decisions of a buying centre.

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## 2.5 BUYING BEHAVIOUR OF RETAILERS

You have already learnt about the objectives of buying process, role of buying function and organisational buying. Let us now learn about the buying behaviour of retailers, buying behaviour model, functions and responsibilities of a buyer and important characteristics of a buyer. It is interesting to note that with the evolution of Mall culture and Large Format Retail Chains, the earlier elements of the supply chain are undergoing a substantial change. Traditionally, as shown in Figure 2.1, the retail stores were dependent on the wholesale channel or agents for procuring their requirements.

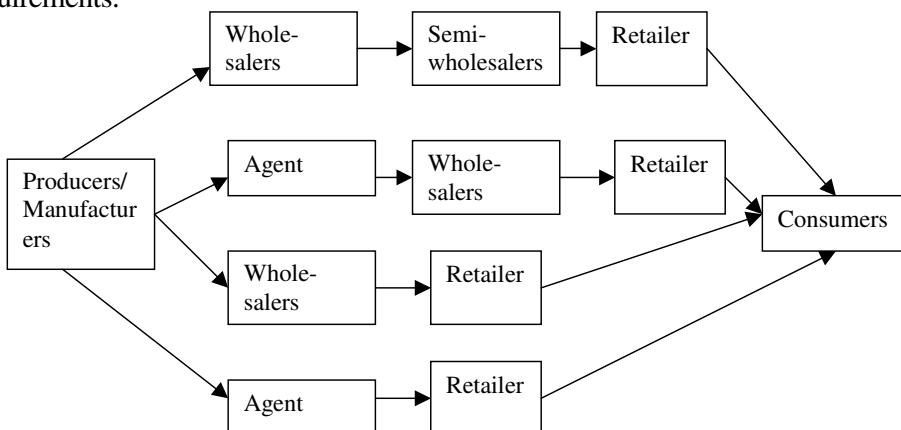


Figure 2.1: Traditional Supply Channel

In the past decade, this traditional channel has undergone substantial change. Many Large Format Retail chains like Shoppers Stop, Life-style, Pantaloon, Westside, and Globus deal with the manufacturers directly for the procurement of supplies for their departmental stores. In fact, most of these have further gone one step ahead and instead of making outright purchases, they have started procuring goods on SOR (Sale or Return) basis. Thus, shifting the earlier risk of wrong decision making, on purchases of products/brands, from retailers to manufacturers. In case of Hyper stores like Big-Bazaar and Reliance Fresh, for many of the items like grains, cereals, pulses, fruits, vegetables, etc., the stores make direct purchases from the farmers and mandis. Thus, we can see that a large part of the middle-men margins are avoided/saved by retailers and are passed on to consumers either in the form of lower prices as compared to kirana stores prices for similar items, or in the form of better ambience, facilities, and comforts.

You should also notice that some manufacturers also have started focusing their efforts on retail channels. As a part of their marketing strategy, they have started forward integration by opening their own branded exclusive outlets or gone for franchising arrangement. For example, we have brands like Zodiac, Park-Avenue, Van Heusen, Louise Philippe. Raymonds have both their own branded and franchisee outlets, which exclusively sell their own branded products.

In the present situation, you may see emergence of new formats, namely Cash & Carry, whereby, certain large format chain stores like Metro Cash & Carry, and Bharati-Walmart, act as wholesalers of multi-products and brands. They sell only to retailers and bulk buyers against cash payment.

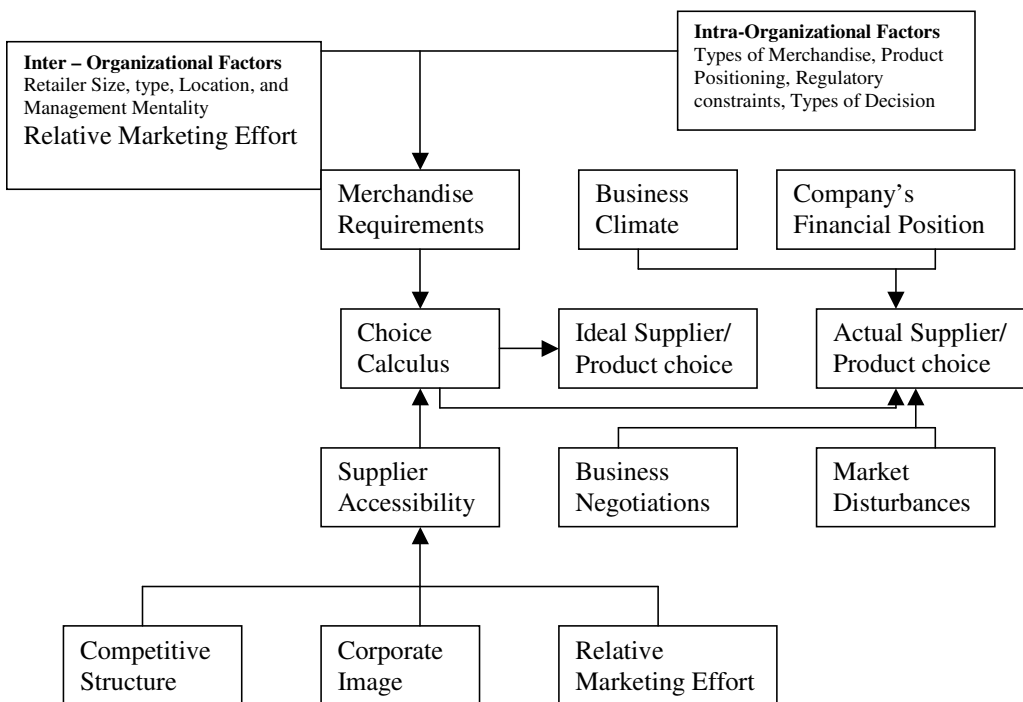
Let us try to summarize the buying behaviours of retailers, which can help manufacturers/ bulk suppliers to better understand the concerns of such bulk buyers. This facilitates working out marketing strategies that can effectively help in building up sales growth of their brands/products.

- In Industrial buying, the decision is influenced by the buying committee, Buyers or final users of the finished products. In the case of retailers, the buying decision is influenced by the consumers' buying trends or preferences, and the marketing strategy.
- Retailers do not only buy the finished products and then sell to final consumers. They are also responsible to offer certain guarantees on after sales service and quality to its final consumers;
- The retailer is not just selling the finished products to its consumers. He/she is also offering a value added experience to consumers by providing better shopping experience;
- The retailer is not just concerned about buying products at best prices. He/she also needs to generate revenues and profits, in order to ensure its survival and longevity;
- The recent trend among large format stores to develop their own private labels have further pushed such stores into several activities. These activities may involve: nurturing these labels, understand the consumer buying behavior with respect to these products, and seriously get into product development activities;
- Retailers need to deploy their own buying and merchandising teams to do consumer research. The research may involve: existing and new trends in buying by consumers, understand the competitive positions of various brands and suppliers, understand the issues in category management, study new offerings, and evolve a buying policy that will help the retailer to optimize on its investments in stocks and fixed assets;

- The retailers have to keep a constant watch on the market trends and competition to work on promotion schemes. These schemes may be below the line and top of the line activities, as well as joint promotions and activities with vendors/suppliers and manufacturers. These activities can help generate additional sales, as well as prevent their sales from sudden downturns;
- Sometimes retailers may form cartels to control the prices of the supplies, thereby leveraging their buying strengths. For example in case of bulk buying of grains, cereals and pulses, or in textiles trade, one can see such cartel formation;
- Retailers may also form associations to formulate certain policies and norms in their dealings with manufacturers and suppliers. You may find such associations in the case of pharmaceutical retailers;
- The evolution of information technology has helped the retail channel tremendously in knowing more about the latest trends in different product categories in the international markets. This facilitates the retail channel decide on their strategy and policy on importing competitive and new found products. The retailer may procure them from different sources and may offer these products at the best prices.

## 2.6 BUYING BEHAVIOUR MODEL

It will definitely be useful to understand and conceptualize the buying behaviours of retailers. Jagdish N Sheth has been one of the pioneers in the conceptualization of the buying behaviour for Industrial Buyers. This is well-known as Sheth’s Model. This model can be used for understanding both the Retail and Industrial buyer buying behaviour or for that matter, any bulk buying behaviour. Look at Figure 2.2 which shows Sheth’s model of retailer’s buying behaviour.



**Figure 2.2 Sheth’s Model of Retailer Buyer Behaviour**

(Source: Jagdish N. Sheth, faculty working paper, college of commerce and business administration, University of Illinois at Urbana-Champaign, Aug, 29, 1980.)

As shown in the Figure, for deciding on merchandise requirement of a retailer, the retail buyer needs to consider inter-organizational factors for deciding its choice of merchandise vis-à-vis other competing organizations. First of all, the retail buyer has to take into account retailer's size in terms of the level of business or its business goals. Whether it is a large format store run by a family or partners or corporate house - or a family-run small to medium sized retail outlets like convenience stores or specialty stores or multi-branded outlets, etc. Retailer's type of business – whether it is a departmental or super market or hyper market or single product or multi-product type. Management's mentality in terms of its objectives. Whether it wants to be a leader in any particular product type or to be a niche retailer or a market leader in any category. Retailer's location; whether it is based in Metro or semi-metro or in a town as it will also influence the type of merchandise it needs to carry.

It can be seen from the above model diagram that the retailer's buying behavior is determined by his merchandise requirements, choice and supplier's accessibility. Although ideally he should try to select the best supplier, the actual choice may be different from the best supplier due to various reasons. These reasons may be business climate, company's financial position, business negotiations and market disturbances. Sheth grouped these factors as adhoc situational factors. The influence of the situational factors on the business decisions cannot be anticipated.

The Intra-organizational factors like type of merchandise; whether food products, or clothing or footwear or pharmaceuticals will decide on type of merchandise the retailer needs to carry. Furthermore, product positioning (the major factors or attributes of the product or brands the retailer wants to be focused on). The niche in which the retailer wants to operate; whether in high, medium or lower priced products, will decide on the class of merchandise, including the price factor. Regulatory constraints like the government's ban on carrying certain products or drugs may also influence the merchandise type in a retail store. Supplier accessibility is decided by the supplier's corporate image or position, the level of competition in the supplier's product category and its relative marketing effort. The choice calculus is majorly influenced by the merchandise requirement and the supplier accessibility. The choice calculus determines the number of items and quantity to be stored against each product type for selling to consumers. It also comprises the trade terms and profit margins for each product type. The choice calculus guides the retailer in the final selection of merchandise and the attribute of an ideal supplier for each product type. The selection of actual supplier and products is dependent on the business climate. Whether recessionary or inflationary trends, market disturbances – whether shortage or surplus of supplies – economic trends, etc. These have impact on actual selection process; besides the business negotiations. Whether the retailer is in the buyer's or seller's market situation, and retailer's financial position, etc. These will influence the final choice of products and their supplies.

A revised model was introduced by Hansen and Skyte in 1998 to take into account the effect of the factors like electronic data interface, buyer's characteristics, Information Technology and Buying Associations. These factors have great influence on the final choice of the merchandise and suppliers, besides deciding on the marketing and buying strategies of the retailer.

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## **2.7 RESPONSIBILITIES OF A BUYER**

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With the evolution of the organized retail industry, the role of the buyer has come into quite a prominence. Buying has come to occupy an important role in the organized retail industry as the customers are always on the lookout for the increased value



from their purchases. Certain large retailing formats have centralized buying systems. This makes the role of the buyers in these organizations very prominent. The centralized buying also provides a stronger bargaining strength to the buyer, thereby providing better price advantage to the final consumers. In store chain formats, the buyer is stationed at the main office, and hence, he/she is not in direct touch with the day-to-day happenings at the store level. He/she has to depend greatly on the information technology for receiving vital information on sale-through sales to stock ratios, and stock covers, etc. The buyer is an important link between the supplier and the final consumers. Hence, any lapse on the buyer’s part in understanding the correct product sales trends and consumers’ preferences will result into unwanted excess stocks or low sales or value loss in a given product or category. According to Clodfelter Richard, the buyer has to deal with many departments, particularly in large format stores; he/she will be dealing with merchandising, marketing, product management, physical distribution, retail store operations, inventory management, packaging/design, technologists, market research/analysis, finance/accounts, advertising, space allocation/planning, promotions/publicity, board/top management, corporate planning, and personnel training. The buyer also takes care of the private labels procurement for the store and has to keep in mind such issues like pricing, product positioning, packaging, finalizing best terms with the suppliers. inventory levels, etc. In case of retailers who have to source the merchandise globally, the buyer has to keep in mind the environmental and social compliance issues by the vendors/suppliers.

According to P.K. Sinha and D.P. Uniyal, these tasks can be broadly classified into three groups: i) selection, feasibility, and monitoring of merchandise; ii) selection and appraisal of the suppliers and negotiations with them; and iii) pricing-related decisions of the merchandise.

Look at Table 2.1 which shows the responsibilities of a retail buyer, and the extent to which these responsibilities are shared with other departments, as expressed by the buyers.

**Table 2.1: Responsibilities of Retail Buyers**

<b>Responsibilities</b>	<b>Level of importance</b>
Proposing which product categories to be carried	High
Selecting products/brands within a product category	High
Monitoring product performance	High
Selecting suppliers	High
Negotiating with suppliers	High
Supplier appraisal	High
Pricing	High
Product Design	Low
Specifying product formulations	Low
Specifying product packaging	Low
Quality Control	Low
Monitoring stock availability	Low
Allocating stock to stores	Low
Physical distribution	Low
Liaising with stores	Low
Space allocation and planning	Low
In-store display	Low
Replenishment buying/ repeat orders	Low
Market monitoring	Low

Implementing sales promotional activity	Low
Initiating advertising activity	Low
Implementing advertising activity	Low
Strategic planning	Low
Deciding which product categories to be carried	Medium
Assessing the feasibility of products	Medium
New Product Launches	Medium
Direct product profitability	Medium
Progress chasing with suppliers	Medium
Identifying market gaps	Medium
Sales forecasting	Medium
Initiating sales promotional activity	Medium
Authorizing markdowns	Medium
Budgeting for market purchasing	Medium
Training junior buyers	Medium

(Source: Donofrio, Terry J, Retail Systems and Services)

The above table is based on a study of buyers by Donofrio, Terry J in ‘Retail Systems and Services’. The level of importance of the responsibility is decided based on the percentage of buyers specifying it to be their sole responsibility. Thus, the responsibility which is identified by more than 60% of the buyers as sole responsibility is identified as ‘High’. The responsibility which is identified by 40% to less than 60% of buyers as sole responsibility is rated as Medium. The responsibilities identified by less than 40% of buyers as sole responsibilities are rated as ‘Low’.

Thus we can see that of the 34 responsibilities listed above only seven are classified as the ‘high’ level of responsibilities, but these are the most vital for the buyer to perform his/her role very effectively.

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## **2.8 CHARACTERISTICS OF A BUYER**

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The important characteristics a good buyer should have are as below:

**Negotiating Skill:** A retail buyer needs to be a master of negotiating skills. This will determine his level of success in his given profession. He also needs to be sensitive to demands of both the suppliers and his merchandising department as well as store managers. He must be able to balance between demands from both the sides. For doing this he must have very good analytical abilities. He must be able to evaluate offerings of various suppliers besides understanding their strengths and weaknesses. He should match the best offer with the requirements of the merchandisers and store managers for achieving the best overall profit percentage on the given deal.

**Communication Skill:** He must have good communication skills. He/she has to discuss/interact with host of suppliers on a variety of issues. He needs to listen to the demands of his merchandisers, consumers, store managers, as well as to the suppliers. He/she has to understand the true needs that needs to be satisfied while keeping in mind the perspectives of different stake-holders.

**Market Awareness:** The buyer must have very good understanding of customers buying patterns and behaviours in order to identify the merchandise that will meet their requirements. He/she has to also understand how the competition is meeting the buyers’ needs, including the price offers, services, features and quality being offered to customers.

**Commercial Tastes:** The buyer must be able to balance between the needs of customers and the profitability needs of the retailer. For this the buyer must know at what quality and at what price the given product will meet the needs of both the customer and the retailer. Buyers are mainly evaluated on the basis achievement of sales turnover, profits, and meeting budgeted targets for purchasing.

Besides these other important criteria on which the buyer is assessed are percentage Margin, Gross profit, Increasing profit, Managing/motivating staff, Successful new product development, Training staff, Quality control, and No waste/unnecessary markdowns, etc.

Good Buyers need to be very clear about achievement of store profitability and turnover. An effective buyer will need to have right mix of different characteristics. As per the study undertaken by P.K.Sinha and D.P.Uniyal , it was observed that negotiation skills (42%), market awareness (35%), communication skills (26%), and commercial taste (24%) are the four most important characteristics a successful buyer would possess. The other important characteristics are Financial Awareness, Numeracy, Product-knowledge, Good Planning, Determination/tenacity, Innovation/creativity, and Common sense.

**Check Your Progress B**

1. How do the Hyper Stores manage to offer the goods to their customers at lower prices?

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2. List the factors that affect the behaviour of the retailers.

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3. Enumerate any four buyer's characteristics.

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4. Enumerate the factors that are taken into account in the Hansen and Skyte Model.

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5. Which of the following statements are true or false?
- i) It is not necessary to remain proactive in the matters of procurement.
  - ii) The buyer must understand the consumer segment for whom the merchandise is being created.
  - iii) Demand in the consumer market is derived from the consumer market.
  - iv) Hyper stores do not purchase their goods directly from the producers.
  - v) Retailer's location influences the type of merchandise it needs to carry.

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## 2.9 LET US SUM UP

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Buying Process is an important constituent of the retail business. The main function of the buying department in an organization is to obtain the best value for the money spent on purchase of the required merchandise.

The important objectives of the buying process are: identifying the right source of supply, ensuring constant flow of the supplies, buying material or services at the most competitive price, ensuring investment in the inventory at an optimum level, procuring goods and services of the required standard, working closely with the suppliers for undertaking necessary research and development, etc. Buying process has assumed tremendous importance as it represents not only the retailer but also the consumers. It involves identification, evaluation and selection of merchandise.

Organisational buying is part of the business market, which consists of all organizations that acquire goods and services used in the production of other goods or services that are sold, rented, or supplied to others.

Demand in the business market is derived from the consumer market. With the evolution of Mall culture and large Format Retail Chains, the earlier elements of the supply chain have undergone a substantial change. Many Large Format Retail Chains have started procuring goods on SOR (Sale or Return) basis. This may shift the risk of wrong decision making on purchases of products/brands from retailers to the manufacturers. Hyper Stores have started making purchases directly from the farmers and mandis. This may help in passing on the savings to the consumers in the form of lower prices and better ambience. A number of factors such as the retailer's type of business, its objective, location, etc. influence the buying behaviour model.

With the evolution of the organized retail industry, buyer has important functions and responsibilities. The buyer is an important link between the supplier and the final consumers. Therefore, any lapse on the buyer's part will have serious detrimental consequences. Thus, good buyers need to be very clear about achieving store profitability and turnover. An effective buyer will need to have right mix of different characteristics. The major good buyer's characteristics are: negotiating skill, communication skill, market awareness and commercial tastes.

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## 2.10 KEY WORDS

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- Brands** : An identifying symbol, words or mark that distinguishes a product or company from its competitors.
- Buying** : To acquire in exchange for money or its equivalent; purchase
- Cost Effectiveness** : Economical in terms of the goods or services received for the money spent.

- Inventory** : The merchandise that a shop has on hand; stock
- Large Format Retail** : Typically referred to as big box stores.
- Mall** : A large, often enclosed shopping complex containing various stores, businesses and restaurants.
- Merchandise** : Goods bought and sold in business.
- Procurement** : Purchase, buy and acquire.

## 2.11 ANSWERS TO CHECK YOUR PROGRESS

B5. i) False ii) True iii) True iv) False v) True

## 2.12 TERMINAL QUESTIONS

1. What is meant by buying process? Enumerate its important objectives.
2. 'Buyers are often referred to as customers' advocates'. Elaborate.
3. Define organisational buying. Explain the factors that affect organisational buying.
4. What do you mean by buying behaviour of retailers? How has it undergone changed during the last few years?
5. Giving a suitable example, explain the concept of the 'Buying Behaviour Model'.

### Activities

1. Visit the buying department of a Hyper store and study their buying pattern, particularly directly from the farmers. Then compare their prices with those of a small retail store.
2. Interview the buyers of 4-5 retail stores and make a chart of their preferences while making purchases for their respective stores.