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How buyers buy

Here we look at how decisions are made within businesses today, and the various stages open to influence.

Buying has become a serious business

In the economic boom of the late-1990s, corporate purchases were designed to give 'competitive advantage'. It led to a huge surge in spending as companies trawled all those in their supplier chain for something, anything that would differentiate them from their competitors. The money was available to do this, from venture capital and from high share valuations. The dotcom boom as it became known was not restricted to Internet start-ups but impacted the entire technology and telecoms sectors, and those that either bought into the emergent innovations or funded them. With the beginning of this decade times changed, both politically and economically. The boom stopped, abruptly, in March 2000 and the IT industry didn't see positive growth again until 2004. For four years every company was forced to make sense of what it already owned, rather than buy anew. It's been a slow road back for the tech firms.

There are several long-term impacts of the dotcom boom and bust, that still persist today. The 'Year 2000 bug', which had cost businesses billions of dollars globally, proved to many that money spent on IT had been wasted. Those companies that spent fortunes on rewriting or replacing systems seems no better off than those that had ignored the problem.

CIOs (Chief Information Officers) that had campaigned hard for massive additional funding, often using scare tactics to achieve this, had had their bluff called. Never again would IT be allowed to wield such influence over business. The CFO would see to that.

In 2003, still in the midst of the recession, Nicholas Carr suggested, in the Harvard Business Review, that IT cannot provide competitive advantage but is a commodity, a utility to be switched on and off as required. While IT remains necessary it no longer matters as a strategic and differentiating component to businesses. The long term impact of Carr's '*IT Doesn't Matter*' paper is that end-user organisations now ask difficult questions of suppliers: 'Prove to me that your product gives me competitive advantage'.

Throughout the late 1990s, the largest organisations had embarked on a relentless upgrade cycle for their core business systems. In the new decade upgrades were deferred. When the finance directors refused funding for IT upgrades, they initially intended the action to tighten purse strings in the short term. 'Let's wait three months and see what happens'. Remarkably, the sky did not fall in. So they waited another three months. And another. It dawned on organisations that they had been paying for upgrades they didn't really need. And they still don't. Many major software vendors of the time saw their revenues dry up, resulting in a massive consolidation. There are now just three major business application vendors in the world.

Across the board, not just on tech purchasing, the outcome has been the rise of the purchasing committee. The recriminations over Enron, WorldCom and Parmalat caused a rise in regulations, and with it a heavy compliance burden. As a consequence, senior managers have less autonomy than ever before. Every major purchase now has to be justified and accounted for, and allocated to the right financial quarter, not offset over the longer-term. Shareholders now have greater rights of access and veto. This has created a climate where individuals find it harder to go 'out on a limb' in any one purchasing decision. The purchasing process has therefore become formalised, documented and inevitably longer.

How decisions are made in firms

It's worth considering the decision-making process in firms. In our personal lives we typically make decisions by ourselves or with the input of a significant other (spouse, partner, parent, close friend, etc.). Rarely do we make personal decisions that involve more than ourselves and one other person. In cases where we are forced to involve more than one person, such as who to invite to a wedding or whether to move grandma into a nursing home, they typically become fraught affairs. Differences of opinion can create rifts between family members, long arguments and even legal battles. Painful stuff.

On the other hand, in business, decisions are rarely made in isolation. Trivial purchases such as stationery can be delegated quickly, but most decisions above a certain value or importance involve some form of discussion. Why is this? Simply, the stakes in business decision-making are high, involving large sums of money and impacting on business success. Choosing the right commercial partner might be the difference between growth and demise. Few people are comfortable in making such a decision on their own.

This is not to say that one person isn't ultimately responsible for a decision. Clearly a nominated person must take final responsibility – the buck must stop somewhere. But in the decision *process* several people will be involved, so that the risk of making a bad decision is minimised. This is just good business sense and there are important drivers to encourage this type of behaviour in companies:

- In making decisions, data points are often asked for in justification of the proposal. These often come from third party sources, but they should be credible (= influential).
- Involving other parties, including outside influencers, means that the ultimate decision-maker has some protection (or someone to blame!) if the decision works out badly.

It's like being on trial. You call witnesses (influencers) to give supporting evidence. The more credible the witness the greater their credibility, and the more likely the verdict will be in your favour.

There is also another driving reason for involving several people – decisions usually affect more than one part of the business. A new sales strategy affects product distribution. A new telephony system affects customer service. A new accounting regime affects pricing and billing schedules. And so on.

IDC, the technology analyst firm, has detected this trend as far as IT spending is concerned. It says that 'managers from outside the traditional IT department are exerting an increasing influence, direct and indirect, on the IT decision-making process'.[1] We think the same is true in all major decisions.

When to influence a decision

The truth is that in order to influence a decision you must do it at the beginning of the process – when the firm decides to do something – or at

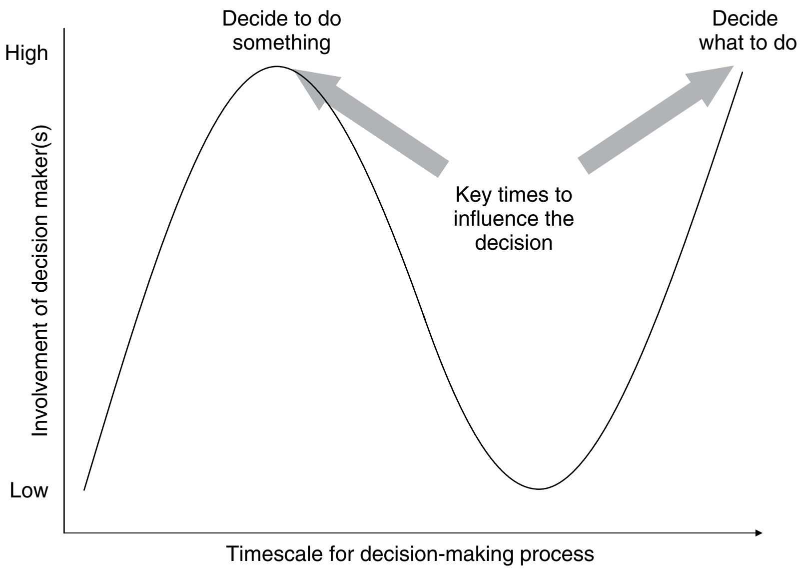

Figure 3.1 The key times to influence a decision

the end (Figure 3.1). The phase in between is just detail – someone else's job. This should tell you two things:

- If I'm talking to the decision-maker the decision process is either just beginning or just ending. Find out which. Then find out which influencers are relevant to this part of the process.
- If I'm talking to someone else, for example a junior information gatherer or technical specialist, then either there's no decision to be made (I'm too early) or the decision process has already started (I'm probably too late).

It's a common misconception that a decision process is a linear activity with a discrete and evenly spaced set of hurdles to clear. This is a very seller-orientated view of the world. Decision-makers make only two types of decision:

- Decide to do something
- Decide what to do

Decision 1 – decide to do something

Let's examine these decisions in turn. A company has an uneasy feeling that something is not quite right. This feeling could be driven by negative forces such as a poor sales quarter or bad customer service reports.

Or perhaps just driven by the desire to do even better, to maintain market leadership, to sustain competitive advantage. Or maybe that the industry is changing due to new regulations.

Where is the first point that influencers can influence? It is in creating this uneasy feeling in the first place. Influencers can make decision-makers aware of some latent pain that they were previously unaware of. Influencers can uncover operational inefficiencies, or spot an opportunity to create competitive advantage, or some other imbalance. Whatever, the uneasy feeling needs corroboration, and so more opinions are solicited, data are crunched and the problem (or opportunity) is scoped. The firm reaches a decision that it needs to do something.

There are two important elements in this first decision that relate to influencers. Firstly, in the corroboration of the uneasy feeling influencers have an impact. In some cases the problem and action is clear. (Problem: we missed our first quarter sales. Action: sell more stuff next quarter.) But usually the problem is softer. It may not even be clear whether there really is a problem or, if there is, whether they need to do something about it. So the firm seeks out people it trusts to inform and confirm the decision to do something.

The other important aspect of the decision to do something is that once a firm decides to do something it also commits itself to deciding what to do. To make this a manageable task, it sets out a number of options, decides on a decision-making process and allocates responsibilities. Influencers typically help firms in the first two of these, by using their knowledge and expertise in mapping out the choices available and the process to follow. It is no surprise that professional procurement experts have risen in their individual influence over the past decade, as complex decisions require expertise to guide firms through the process. The decision to do something is absolutely the most important part in any decision-making process. Influence that and you influence the whole deal.

Management consultants have perfected this pattern of influence. They are called in to validate and qualify the uneasy feeling – ‘Yes, there is a problem and you need to do something about it’. The consultants then help to define the process, perhaps drafting a set of requirements to be sent to potential suppliers. They then have two options: to oversee the assessment and selection of the supplier, or to extract themselves from the decision-making process so that they can bid for the supply. In this latter case they are bidding for a contract that they have already influenced, and thus stand a better than even chance of winning it.

Is this unethical? Not as long as the consultants extract themselves early enough in order to avoid conflicts of interest. That in itself is a skill. But their inside knowledge of the client firm and the requirement gives the consultants a huge advantage. In fact, if they are good at their job there may be no competitive selection process and they get the follow-on work automatically.

Decision 2 – decide what to do

Most suppliers hear about a deal at this stage. They are sent a tender document to which they respond. They then get shortlisted, give a final presentation and, if they are lucky, they get the work. Lucky? Of course, since they've had no input to, or impact on, the people that are influencing the decision. There is a huge amount of luck involved in winning tendered work without help from influencers. It is near-impossible to affect the decision process once it is set in motion. The only option you have is to influence the outcome.

Critically, a key element in deciding what to do is also deciding what not to do. Decisions are as much about prioritisation as taking action, and influencers are just as capable of giving negative advice as they are giving positive recommendations. For example, whittling a high number of suppliers into a shortlist of three can be done in the most rudimentary and ruthless manner.

You need to identify the influencers that impact the final decision. Sometimes there is an influencer that runs throughout the process – like consultants. But often there are different influencers that appear and disappear, injecting their expertise and opinion at appropriate moments. Find out who the influencers are and when they apply their influence. If you do your homework well, and you know the influencers that are impacting on the deal, then luck starts to transform into certainty. You need to be able to fulfil the spirit of the project brief. But if you can influence the decision-makers you change the *details* of the brief and win the work.

Every supplier tendering for work wants to position themselves as innovative and competent. Those that win offer something else of value. By identifying the influencers you will know what that something else is, the influencers will know that you know, and they will communicate to the client your ability to fulfil it. Let's be in no doubt – there is an order of magnitude in difference of difficulty between influencing a decision at the start of the process and influencing it at the end. If you can, influence early.

How to detect deals at the start of the process

All of this begs the question: how do I know when a decision process is about to start? Because you can't influence a deal at the start if you don't know when it starts. The problem is that decision processes can start at any time in multiple organisations. How can you keep your finger on the pulse of all your prospects and their likelihood of deciding to do something?

We are often asked if it's possible to identify the influencers on a specific deal, such as a big outsourcing contract. The truth is that it's extraordinarily hard to identify the specific influencers on any one deal. Even if you could identify them, it's likely that the key influencing has already been done.

That fact that you know there's an outsourcing contract being tendered means that the client firm is well down the decision process road.

One approach might be to identify the influencers inside a client organisation, and watch to see if they are about to decide to do something. Either you have an insider source of information, or you place someone close to the organisation. Some salespeople can perform this role, or perhaps consultants that are working on-site inside the client firm. If you have a retainer with a client then you stand a better chance of uncovering a new deal. This is why the top consulting firms are successful – once inside a client organisation they constantly scout around for the next project, and the next and so on. Consultants often talk about *seams* of consulting within a client that need to be mined. They just keep digging until the opportunities are exhausted.

Even if you know the influencers inside one client prospect, this approach is not scalable to all of your prospects. The scalable approach is to identify the external influencers and use them to detect decision processes that are starting up. You can't guarantee you'll find all deals but you will gain a good coverage.

Importantly, if you are influencing the relevant influencers in a constant and consistent manner, then your messages should be being carried to prospects possibly without you knowing it. The first you may hear of it is being invited to submit a tender. It's vital that you then understand why you've been invited, who recommended you, and what their role is in the decision process going forward.

Key points in this chapter

1. Decision-making is a complex and strategic process. This means nowadays that although there is an ultimate decision-maker there are numerous other parties involved, to inform, support and validate the decision.
2. There are two critical points to influence a decision: at the beginning of the process and at the end. In order to affect a decision you need to know where in the process the decision-maker is.
3. Those people that influence a decision early on have a greater impact on the outcome. Some influencers initiate the decision process by pointing out a latent pain in the firm. These influencers are in the best position to define the problem scope and thus to provide the solution.

Notes and references

1 Stephen Minton (2007). Evolution of the IT buyer. IDC, May.