Consumer Markets and Consumer Buying Behavior

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Consumer Buying Behavior

- Consumer behavior is the actions a person takes in purchasing and using products and services, including the mental and social processes that precede and follow these actions.
  - Consumer Buying Behavior refers to the buying behavior of final consumers.
  - Individuals & households who buy goods and services for personal consumption.
- All these consumers make up the consumer market.
- The central question for marketers is: “How do consumers respond to various marketing efforts the company might use?”

Value of Customers

1. Transaction basis
   - Views each individual interaction as unique
   - Calculate value of transaction
     - Determine margin on goods sold
     - Assess costs involved with customer acquisition
     - Margin – Acquisition costs
2. Lifetime Customer Value
   - Views each customer as an asset or a series of interactions
   - Calculate value of customer
     - Determine acquisition and response rates
     - Compute relevant costs
     - Use acquisition and retention rates to compute lifetime customer value

Lifetime Customer Value

1. Focuses firms’ efforts on retaining most valuable asset (Customers)
2. Increases efforts towards long-term goals
3. Primary risk is overestimation of retention rates
4. Four things are needed to successfully utilize LCV
   - Unique customer identification
   - Customer purchase history
   - Customer communication data
   - Accurate cost information

Model of Buyer Behavior

Factors Influencing Consumer Behavior

Marketing and Other Stimuli

- Marketing
  - Product
  - Price
  - Place
  - Promotion
- Other
  - Economic
  - Technological
  - Political
  - Cultural

Buyer’s Black Box

- Buyer Characteristics
- Buyer Decision Process

Buyer Responses

- Product Choice
- Brand Choice
- Dealer Choice
- Purchase Timing
- Purchase Amount

Factors Influencing Consumer Behavior

- Cultural
  - Culture
  - Sub-culture
- Social
  - Reference groups
  - Family
  - Roles and status
- Personal
  - Age and life-cycle
  - Occupation
  - Economic situation
  - Lifestyle
  - Personality
  - Self-concept
- Psychological
  - Motivation
  - Perception
  - Learning
  - Beliefs and attitudes

Buyer
Factors Affecting Consumer Behavior:
Culture

Culture is the Most Basic Cause of a Person's Wants and Behavior.

Subculture
Group of people with shared value systems based on common life experiences.
Hispanic Consumers
African American Consumers
Asian American Consumers
Mature Consumers

Factors Affecting Consumer Behavior:
Social

Social Class
• Society's relatively permanent & ordered divisions whose members share similar values, interests, and behaviors.
• Measured by: Occupation, Income, Education, Wealth and Other Variables.

Factors Affecting Consumer Behavior:
Personal

Personal Influences
- Age and Life Cycle Stage
- Occupation
- Economic Situation
- Personality & Self-Concept

Lifestyle Identification
- Activities
- Interests
- Opinions

SRI Values and Lifestyles (VALS)

High Resources
- Innovators
- Thinkers
- High Innovation

High Innovation
- Achievers
- Makers

Low Resources
- Survivors
- Low Innovation

Lifestyle
Lifestyle is a mode of living that is identified by how people spend their time and resources, what they consider important in their environment, and what they think of themselves and the world around them.
Factors Affecting Consumer Behavior: Psychological

Psychological Factors Affecting Buyers Choices

Beliefs and Attitudes

Learning

Motivation

Perception

Maslow’s Hierarchy of Needs

Physiological Needs (hunger, thirst)

Safety Needs (security, protection)

Social Needs (sense of belonging, love)

Esteem Needs (self-esteem)

Self Actualization (Self-development)

Beliefs are a consumer’s subjective perception of how well a product or brand performs on different attributes.

Characteristics of Attitudes and Preference

- Valence
  - Favorable / Neutral / Unfavorable
  - Positive / Indifferent / Negative

- Intensity
  - Strongly held versus weakly held
  - Very important to not at all important

- Confidence
  - Level of certainty

Attitudes: Multi-attribute Model

\[ A_o = \sum b_i e_i + SN \]
How important is each of the following attributes associated with ISPs?

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Very Important</th>
<th>Not at all Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment Value</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Educational Value</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Ease of Site Navigation</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

Evaluate AOL on each of the following attributes?

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Excellent</th>
<th>Poor</th>
</tr>
</thead>
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</tbody>
</table>

Evaluate Roadrunner on each of the following attributes?

<table>
<thead>
<tr>
<th>Attribute</th>
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<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment Value</td>
<td>2</td>
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<tr>
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<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

Overall Rating
- Easy of Site Navigation
- Educational Value
- Entertainment Value

Factors Influencing Attitude-Behavior Relationship

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of</td>
<td></td>
</tr>
<tr>
<td>Brand Attributes</td>
<td></td>
</tr>
<tr>
<td>Overall Brand</td>
<td></td>
</tr>
<tr>
<td>Evaluation</td>
<td></td>
</tr>
<tr>
<td>Intention</td>
<td></td>
</tr>
<tr>
<td>to Buy</td>
<td></td>
</tr>
<tr>
<td>Social Norm</td>
<td></td>
</tr>
<tr>
<td>Attitudes</td>
<td></td>
</tr>
<tr>
<td>Intentions</td>
<td></td>
</tr>
<tr>
<td>Behavior</td>
<td></td>
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AOL = Roadrunner
Strategies

\[ A_0 = \sum b_i e_i + SN \]

- Strategies to stimulate interest:
  - Redesign the product
  - Alter beliefs about the brand
  - Alter beliefs about competitors' brands
  - Alter the importance weights
  - Call attention to neglected attributes

Simultaneous Attribute Importance-Performance Grid

<table>
<thead>
<tr>
<th>Attribute Importance</th>
<th>Our Performance</th>
<th>Competitor's Performance</th>
<th>Simultaneous Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Poor</td>
<td>Poor</td>
<td>Neglected Opportunity</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>Poor</td>
<td>Competitive Disadvantage</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>Good</td>
<td>Competitive Advantage</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>Good</td>
<td>Head-to-Head Competition</td>
</tr>
<tr>
<td>Low</td>
<td>Poor</td>
<td>Poor</td>
<td>Null Opportunity</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>Poor</td>
<td>False Alarm</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>Good</td>
<td>False Advantage</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>Good</td>
<td>False Competition</td>
</tr>
</tbody>
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Types of Buying Decision Behavior

<table>
<thead>
<tr>
<th>High Involvement</th>
<th>Low Involvement</th>
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Buyer Decision Process

Step 1. Need Recognition

An evoked set is the group of brands that a consumer would consider acceptable from among all the brands of the product class of which he or she is aware.

Buyer Decision Process

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Evoked Set

An evoked set is the group of brands that a consumer would consider acceptable from among all the brands of the product class of which he or she is aware.
The Buyer Decision Process

Step 2. Information Search

- **Personal Sources**
  - Family, friends, neighbors
  - Most effective source of information
- **Commercial Sources**
  - Advertising, salespeople
  - Receives most information from these sources
- **Public Sources**
  - Mass Media
  - Consumer-rating groups
- **Experiential Sources**
  - Handling the product
  - Examining the product
  - Using the product

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Step 3. Evaluation of Alternatives

- Consumer May Use Careful Calculations & Logical Thinking
- Consumers May Buy on Impulse and Rely on Intuition
- Consumers May Make Buying Decisions on Their Own
- Consumers May Make Buying Decisions Only After Consulting Others

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Step 4. Purchase Decision

- **Purchase Intention**
  - Desire to buy the most preferred brand
  - Attitudes of Others
  - Unexpected Situational Factors

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Step 5. Postpurchase Behavior

- Satisfied Customer
  - Consumer’s Expectations of Product’s Performance
  - Product’s Perceived Performance
- Dissatisfied Customer

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Complaint Response Behavior

- 63% of customers with a loss between $1 and $5 did not complain
  - Not buy again.
- 54% Problem unresolved
  - Not buy again.
- 30% Problem resolved
  - Not buy again.
- DON’T LET IT ARISE!
Loyalty: Retaining Customers

Customer retention = higher profits
- 5% retention rate increases profit by 25-95%
- In e-apparel, repeat customers spend twice as much in months 24-30
- Loyal Customers provide valuable referrals
  - Referred customers cost less to acquire
    - eBay spends less than $10 to get each new customer
  - Referred customers use less support

A Conceptual Model Of Service Quality

Five Critical Gaps
1. Service provider does not know what the customer expects;
2. Wrong service-quality standards are set;
3. Service quality standards are not met;
4. What is delivered does not equal what was promised;
5. Gaps 1-4 leads to service that does not equal expectations.

Stages in the Adoption Process

Awareness: Consumer is aware of product, but lacks information.
Interest: Consumer seeks information about new product.
Evaluation: Consumer considers trying new product.
Trial: Consumer tries new product on a small scale.
Adoption: Consumer decides to make regular use of product.

Satisfaction – Loyalty Link

Adopter Categories
Everett Rogers (1950s) surveyed a large sample of people to find out their adoption process for new products. Based on this survey, he came up with the classification:

- 2.5% Innovators
- 13.5% Early Adopters
- 34% Early Majority
- 34% Late Majority
- 16% Laggards

**Review of Concepts**

- Define the consumer market and construct a simple model of consumer buyer behavior.
- Name the four major factors that influence consumer buyer behavior.
- List and understand the stages in the buyer decision process.
- Describe the adoption and diffusion process for new products.