# 4

Understand Business to Consumer Markets

Chapter Questions

- How do consumer characteristics influence buying behavior?
- What major psychological processes influence consumer responses to the marketing program?
- How do consumers make purchasing decisions?
- How do marketers analyze consumer decision making?

What Influences Consumer Behavior?

Consumer behavior is the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants. Marketers must fully understand both the theory and reality of consumer behavior.

Cultural Factors

Social Factors

Personal Factors
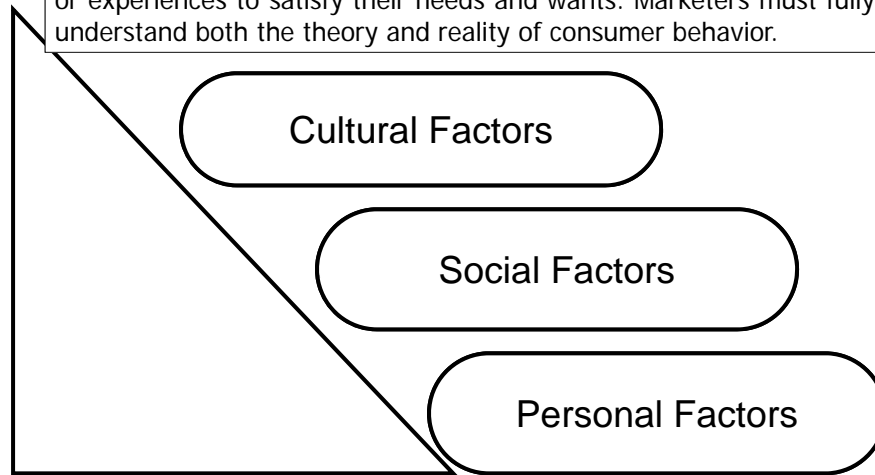
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Culture

The fundamental determinant of
a person's wants and behaviors
acquired through socialization
processes with family
and other key institutions.

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Subculture refers to a group of people with shared value systems based on common life experiences and situations. In other words, it refers to groups with shared value systems/

Nationalities

Religions

Racial groups

Geographic regions
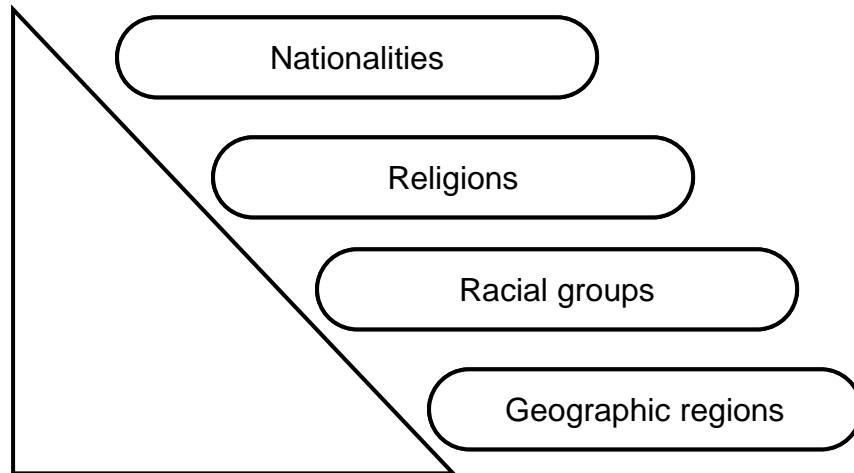
5   **MAR601**

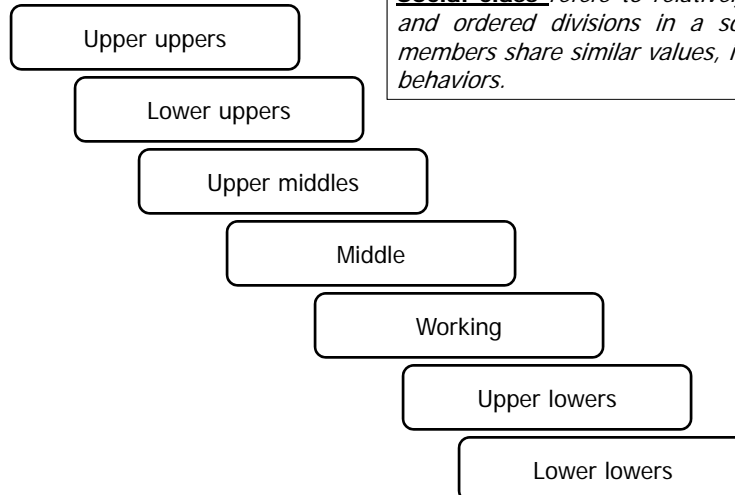# Fast Facts About American Culture

- The average American
  - ➢ chews 300 sticks of gum a year
  - ➢ goes to the movies 9 times a year
  - ➢ takes 4 trips per year
  - ➢ attends a sporting event 7 times each year

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Social Classes

Upper uppers

Lower uppers

Upper middles

Middle

Working

Upper lowers

Lower lowers

Social class *refers to relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviors.*
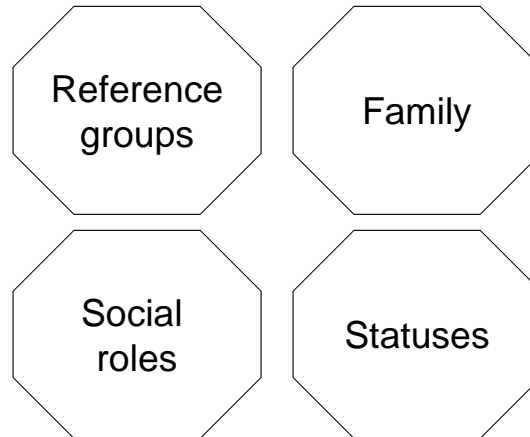
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Characteristics of Social Classes

- Within a class, people tend to behave alike.
- Social class conveys perceptions of inferior or superior position.
- Class may be indicated by a cluster of variables (occupation, income, wealth).
- Class designation is mobile over time.

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Social Factors

Reference groups

Family

Social roles

Statuses

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Reference Groups

- **Reference groups** are all the groups that have a direct (face-to-face) or indirect influence on their attitudes or behavior.
i. **Membership groups**: groups having a direct influence (primary and secondary).
ii. **Primary groups** with whom the person interacts fairly continuously and informally, such as family, friends, neighbors, and coworkers.
iii. **Secondary groups**, such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction.
- Reference groups influence members in at least three ways. They expose an individual to new behaviors and lifestyles, they influence attitudes and self-concept, and they create pressures for conformity that may affect product and brand choices.
- People are also influenced by groups to which they do not belong.
iv. **Aspirational groups** are those a person hopes to join.
v. **Disassociative groups** are those whose values or behavior an individual rejects.
- Where reference group influence is strong, marketers must determine how to reach and influence the group's opinion leaders. An opinion leader is the person who offers informal advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used. Opinion leaders are often highly confident, socially active, and frequent users of the category.
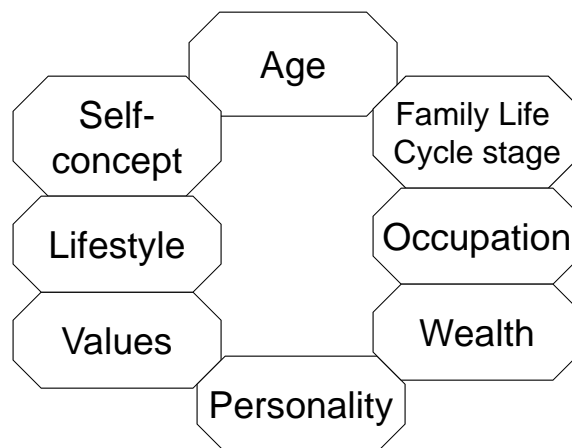
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Family

- Family of Orientation (consists of parents and siblings)
  - Religion
  - Politics
  - Economics
  - ❖ Even if the buyer no longer interacts very much with his or her parents, parental influence on behavior can be significant. Almost 40 percent of families have auto insurance with the same company as the husband's parents.
- Family of Procreation (the person's spouse and children)
  - Everyday buying behavior
  - ❖ *In the United States, husband–wife engagement in purchases has traditionally varied widely by product category. The wife has usually acted as the family's main purchasing agent, especially for food, sundries, and staple clothing items. Now traditional purchasing roles are changing, and marketers would be wise to see both men and women as possible targets.*

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Personal Factors

Age

Self-concept

Family Life Cycle stage

Lifestyle

Occupation

Values

Wealth

Personality

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Age and Stage of Lifecycle

- Our taste in food, clothes, furniture, and recreation is often related to our **age**.
- Consumption is also shaped by the **family life cycle** and the number, age, and gender of people in the household at any point in time.
  - U.S. households are increasingly fragmented—the traditional family of four with a husband, wife, and two kids makes up a much smaller percentage of total households than it once did. The average U.S. household size in 2008 was 2.6 persons.
  - In addition, *psychological life-cycle stages* may matter. Adults experience certain "passages" or "transformations" as they go through life. Their behavior as they go through these passages, such as becoming a parent, is not necessarily fixed but changes with the times. Marketers should also consider *critical life events* or transitions—marriage, childbirth, illness, relocation, divorce, first job, career change, retirement, death of a spouse—as giving rise to new needs.

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Occupation and Economic Circumstances

- **Occupation** also influences consumption patterns. Marketers try to identify the occupational groups that have above-average interest in their products and services and even tailor products for certain occupational groups: Computer software companies, for example, design different products for brand managers, engineers, lawyers, and physicians.
- As the recent recession clearly indicated, both product and brand choice are greatly affected by **economic circumstances**: spendable income (level, stability, and time pattern), savings and assets (including the percentage that is liquid), debts, borrowing power, and attitudes toward spending and saving.
  - Luxury-goods makers such as Gucci, Prada, and Burberry are vulnerable to an economic downturn.
  - If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products or introduce or increase the emphasis on discount brands so they can continue to offer value to target customers.
  - Some firms—such as Snap Fitness—are well-positioned to take advantage of good and bad economic times to begin with. twice—24 hour Snap Fitness actually expanded the number of its clubs, and its revenue doubled. The franchise chain did all this despite charging members only $35 per month with easy cancellation fees. Its secret? A no-frills approach reinforced by the motto, "Fast, Convenient, Affordable."

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Personality

- Each person has personality characteristics that influence his or her buying behavior. By **personality**, we mean a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli (including buying behavior).
  - ➢ We often describe personality in terms of such traits as self-confidence dominance, autonomy, deference, sociability, defensiveness, and adaptability.
  - ➢ Personality can be a useful variable in analyzing consumer brand choices. People from the same subculture, social class, and occupation may lead quite different lifestyles.
- A **lifestyle** is a person's pattern of living in the world as expressed in activities, interests, and opinions. It portrays the "whole person" interacting with his or her environment. Marketers search for relationships between their products and lifestyle groups.

Brand Personality

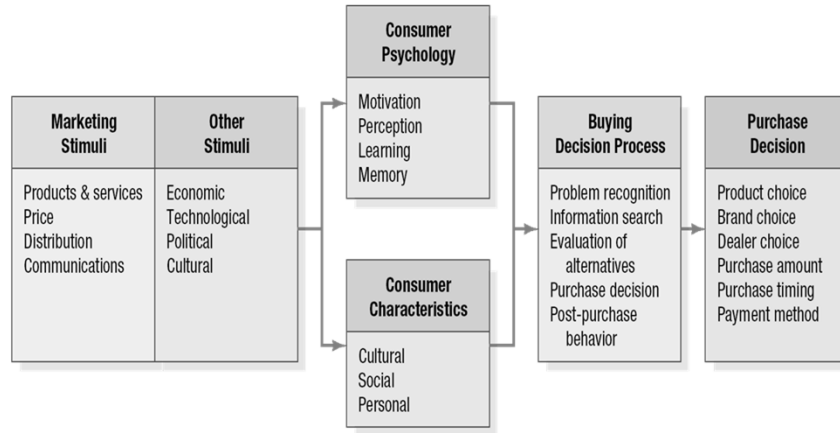- The idea is that brands also have personalities, and that consumers are likely to choose brands whose personalities match their own. A *brand personality* is the specific mix of human traits that may be attributed to a particular brand.
- ❖ **Brand Personality Dimensions**
- Sincerity - down-to-earth, honest, wholesome, and cheerful
- Excitement – daring, spirited, imaginative, and up-to-date
- Competence – reliable, intelligent, and successful
- Sophistication – upper class and charming
- Ruggedness – outdoorsy and tough
- ❖ *Brands tend to be strong on one particular trait. For instance, Levi's on "ruggedness"; MTV on "excitement"; CNN on "competence"; and Campbell's on "sincerity." These brands will, in theory, attract users high on the same traits.*

Figure 1
Model of Consumer Behavior

Marketing Stimuli	Other Stimuli
Products & services	Economic
Price	Technological
Distribution	Political
Communications	Cultural

Consumer Psychology

Motivation
Perception
Learning
Memory

Consumer Characteristics

Cultural
Social
Personal

Buying Decision Process

Problem recognition
Information search
Evaluation of alternatives
Purchase decision
Post-purchase behavior

Purchase Decision

Product choice
Brand choice
Dealer choice
Purchase amount
Purchase timing
Payment method

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Key Psychological Processes

Motivation   Perception

Learning   Memory

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Motivation

Freud's Theory

Behavior is guided by subconscious motivations

Maslow's Hierarchy of Needs

Behavior is driven by lowest, unmet need

Herzberg's Two-Factor Theory

Behavior is guided by motivating and hygiene factors.

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Maslow's Hierarchy of Needs

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Self-actualization Needs
(self-development and realization)

4 Esteem Needs
(self-esteem, recognition, status)

3 Social Needs
(sense of belonging, love)

2 Safety Needs
(security, protection)

1 Physiological Needs
(food, water, shelter)

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Herzberg's Two-Factor Theory

| Dissatisfaction and Demotivation | Employees not dissatisfied, but not motivated | Positive satisfaction and motivation |

Hygiene Factors   **Motivator Factors**
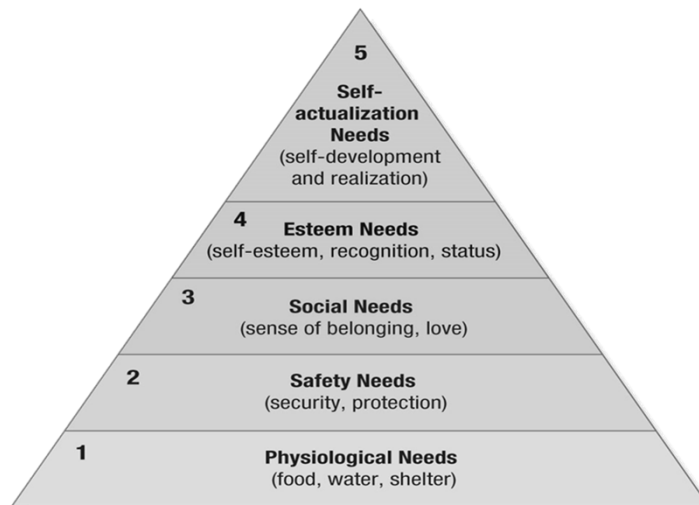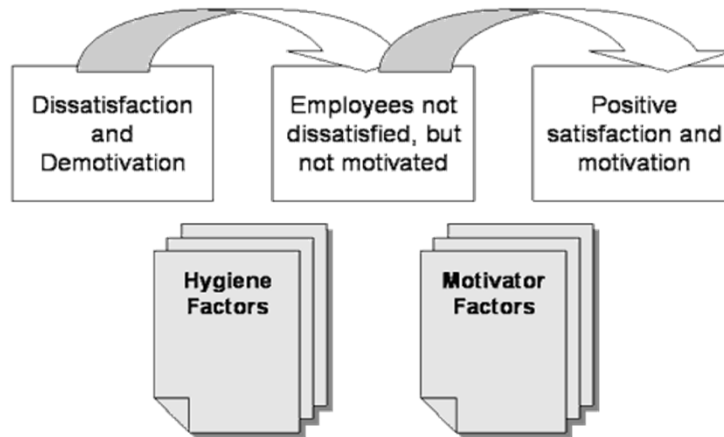
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Perception

- In marketing, perceptions are more important than reality, because perceptions affect consumers' actual behavior.
- Perception is the process by which people select, organize, and interpret information. Perception includes:
  - ➢ **Selective attention**
    - ▪ The tendency for people to screen out most of the information to which they are exposed. *(marketers must work hard to attract consumers' notice)*
  - ➢ **Selective distortion**
    - ▪ Describes the tendency of people to interpret information in a way that will support what they already believe. (*Consumers will often distort information to be consistent with prior brand and product beliefs and expectations*)
  - ➢ **Selective retention**
    - ▪ The tendency of people to retain information that supports their attitudes and beliefs. Because of selective retention, consumers are likely to remember good points made about a brand they favor and to forget good points made about competing brands.
  - ➢ **Subliminal Perception**
    - ▪ Psychology perception of or reaction to a stimulus that occurs without awareness or consciousness.

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Learning

- **Learning** induces changes in our behavior arising from experience. Most human behavior is learned, although much learning is incidental.
  - ➤ Learning theorists believe learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement.
- Two popular approaches to learning are *classical conditioning* and *operant (instrumental) conditioning*.
- A *drive* is a strong internal stimulus impelling action.
- *Cues* are minor stimuli that determine when, where, and how a person responds.
  - ➤ Suppose you buy an HP computer. If your experience is rewarding, your response to computers and HP will be positively reinforced. Later, when you want to buy a printer, you may assume that because it makes good computers, HP also makes good printers. In other words, you generalize your response to similar stimuli.
- A countertendency to generalization is discrimination. *Discrimination* means we have learned to recognize differences in sets of similar stimuli and can adjust our responses accordingly.

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Memory

- Cognitive psychologists distinguish between **short-term memory** (STM)—a temporary and limited repository of information—and **long-term memory** (LTM)—a more permanent, essentially unlimited repository.
  - ➤ All the information and experiences we encounter as we go through life can end up in our long-term memory. Most widely accepted views of long-term memory structure assume we form some kind of associative model.
  - ➤ For example, the associative network memory model views LTM as a set of nodes and links. *Nodes* are stored information connected by *links* that vary in strength. Any type of information can be stored in the memory network, including verbal, visual, abstract, and contextual.
- A spreading activation process from node to node determines how much we retrieve and what information we can actually recall in any given situation. When a node becomes activated because we're encoding external information (when we read or hear a word or phrase) or retrieving internal information from LTM (when we think about some concept), other nodes are also activated if they're strongly enough associated with that node.
  - ➤ In this model, we can think of consumer brand knowledge as a node in memory with a variety of linked associations. The strength and organization of these associations will be important determinants of the information we can recall about the brand.
- **Brand associations** consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand node.

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Fig 2: Consumer Buying Process

Problem Recognition: *the first stage of the buyer decision process, in which the consumer recognizes a problem or need.*

Information Search: *the consumer is aroused to search for more information; the consumer may simply have heightened attention or may go into active information search.*

Evaluation: *the consumer uses information to evaluate alternative brands in the choice set.*

Purchase Decision: *the buyer's decision about which brand to purchase.*

Postpurchase Behavior: *consumers take further action after purchase, based on their satisfaction or dissatisfaction.*

Sources of Information

- Major information sources to which consumers will turn fall into four groups:
  - The **personal sources** include family, friends, neighbors, acquaintances.
  - **Commercial sources** include advertising, Web sites, salespersons, dealers, packaging, and displays.
  - **Public sources** refer to mass media and consumer-rating organizations.
  - **Experiential sources** refer to the consumers' experiences handling, examining, and using the product.
- The relative amount and influence of these sources vary with the product category and the buyer's characteristics. Generally speaking, although consumers receive the greatest amount of information about a product from commercial—that is, marketer-dominated—sources, the most effective information often comes from personal or experiential sources, or public sources that are independent authorities.

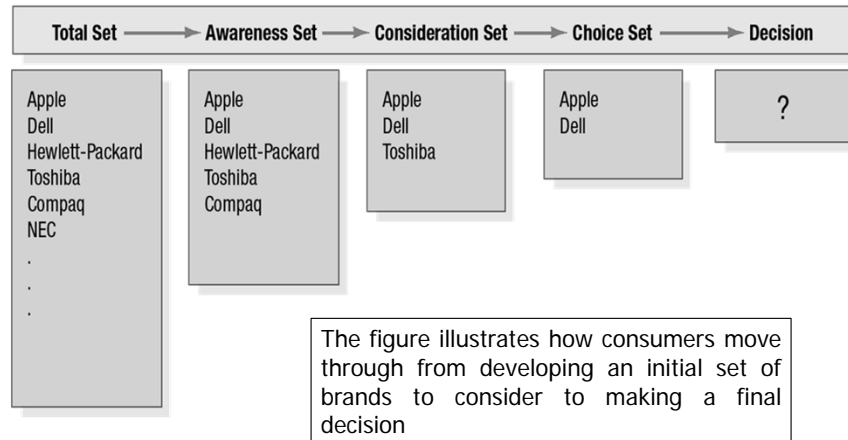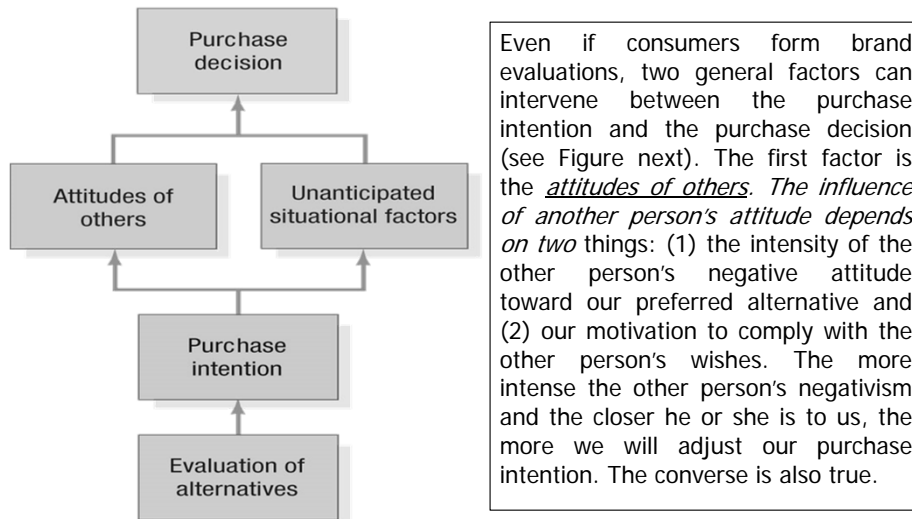## Fig 3: Successive Sets Involved in Consumer Decision Making

Total Set	→	Awareness Set	→	Consideration Set	→	Choice Set	→	Decision

Total Set	Awareness Set	Consideration Set	Choice Set	Decision
Apple Dell Hewlett-Packard Toshiba Compaq NEC . . .	Apple Dell Hewlett-Packard Toshiba Compaq	Apple Dell Toshiba	Apple Dell	?

The figure illustrates how consumers move through from developing an initial set of brands to consider to making a final decision

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Figure 4: Stages between Evaluation of Alternatives and Purchase

Purchase decision

↑

Attitudes of others | Unanticipated situational factors

↑

Purchase intention

↑

Evaluation of alternatives

Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision (see Figure next). The first factor is the _attitudes of others_. *The influence of another person's attitude depends on two* things: (1) the intensity of the other person's negative attitude toward our preferred alternative and (2) our motivation to comply with the other person's wishes. The more intense the other person's negativism and the closer he or she is to us, the more we will adjust our purchase intention. The converse is also true.

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Decision Heuristics

- Several heuristics ("*mental shortcuts*" or rules of thumb in the decision process) come into play in everyday decision making when consumers forecast the likelihood of future outcomes or events.

1. The **availability heuristic**—Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind. If an example comes to mind too easily, consumers might overestimate the likelihood of its happening.

2. The **representativeness heuristic**—Consumers base their predictions on how representative or similar the outcome is to other examples. One reason package appearances may be so similar for different brands in the same product category is that marketers want their products to be seen as representative of the category as a whole.

3. The **anchoring and adjustment heuristic**—Consumers arrive at an initial judgment and then adjust it based on additional information. For services marketers, a strong first impression is critical to establish a favorable anchor so subsequent experiences will be interpreted in a more favorable light.

Postpurchase Behavior

- After the purchase, the consumer might experience dissonance from noticing certain disquieting features or hearing favorable things about other brands and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help him or her feel good about the brand. The marketer's job therefore doesn't end with the purchase. Marketers must monitor postpurchase satisfaction, postpurchase actions, and postpurchase product uses and disposal.

- **POSTPURCHASE SATISFACTION**

- Satisfaction is a function of the closeness between expectations and the product's perceived performance. If performance falls short of expectations, the consumer is *disappointed;* if it meets expectations, the consumer is *satisfied;* if it exceeds expectations, the consumer is *delighted.* Some consumers magnify the gap when the product isn't perfect and are highly dissatisfied; others minimize it and are less dissatisfied.

- **POSTPURCHASE ACTIONS**

- A satisfied consumer is more likely to purchase the product again and will also tend to say good things about the brand to others. Dissatisfied consumers may abandon or return the product. They may seek information that confirms its high value. They may

- take public action by complaining to the company, going to a lawyer, or complaining to other groups (such as business, private, or government agencies). Private actions include deciding to stop buying the product (*exit option*) or warning friends (*voice option*).

Perceived Risk

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by one or more types of perceived risk. There are six types of perceived risk:

1. *Functional risk* —The product does not perform to expectations.
2. *Physical risk* —The product poses a threat to the physical well-being or health of the user or others.
3. *Financial risk* —The product is not worth the price paid.
4. *Social risk* —The product results in embarrassment in front of others.
5. *Psychological risk* —The product affects the mental well-being of the user.
6. *Time risk* —The failure of the product results in an opportunity cost of finding another satisfactory product.

Figure 5: How Customers Use and Dispose of Products
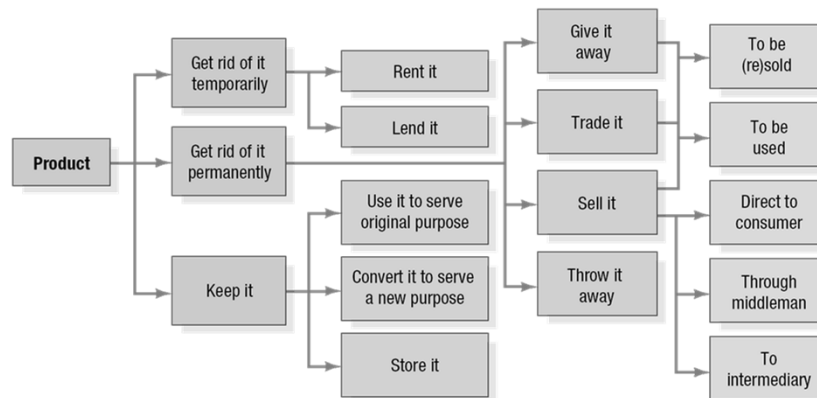
Marketers should also monitor how buyers use and dispose of the product (see Figure). A key driver of sales frequency is product consumption rate—the more quickly buyers consume a product, the sooner they may be back in the market to repurchase it.

- **<u>Review Question</u>**

1. Define reference groups. List and briefly explain their types.

2. List and briefly describe the five stages of the consumer buying process