

Consumer Behaviour

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CONSUMER BEHAVIOUR

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CONSUMER BEHAVIOUR

Preface

Every human being consumes from the day he is born till the time he leaves this world. No matter how austere a man leads his life, consumption exists. This element of 'consumption' is the force that runs the economy at the macro level and a business venture at the micro level. Thus, the study of consumption behaviour of consumer has become a subject of strategic importance. Consumer Behaviour as an academic discipline is a culmination of a number of subjects, viz., economics, marketing, anthropology, sociology and psychology. Globally, there are a number of researches carried out on consumer behaviour. Every company dedicates time in trying to analyze the needs of the consumer and to derive opportunities out of these. Marketing practices in any organization rest on the understanding about consumers. The new consumer is well informed and has choices in abundance. This makes the study of consumer behaviour even more significant.

The growing significance of consumer behaviour has been well accepted in the academic fraternity and the subject is taught in the postgraduate programmes of Business Administration in the various universities. The present book has been designed by keeping in mind all the topics incorporated in the consumer behaviour subject in various universities.

The book is unique in its presentation, as it lucidly explain various marketing insights from contemporary business world. The keywords, cases and the various exercises at the end of the chapters propose to be helpful for the students.

No academic work can be single-handedly created. I would like to thank my family and my parents for their continuous encouragement in the process of preparation of this book and in all my academic endeavours. I would also like to thank Mr Nagendra Singh Librarian of Institute of Innovation in Technology and Management (Affiliated to Guru Gobind Singh Indraprastha University, Delhi, India) for helping in designing the diagrams in all the chapters. I would like to dedicate my work to my son Dhritiman Sarma who keeps my spirit of enquiry alive with his innumerable questions and to my mother-in-law Ms Devmaya Devi without whose support any of my academic projects would not be possible.

Sarmistha Sarma

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Introduction

Learning Objectives

- To define the subject of 'Consumer Behaviour'
- To understand the evolution of marketing concept
- To define customer value, customer satisfaction and retention
- To understand the ethical issues in marketing.

This chapter gives a detailed introduction to the concept of "Consumer Behaviour". The study of consumer behaviour is born out of the study of marketing. Today, with the growth of global market, customization of the products and services, as per consumer's needs has become a must. Customization has brought about increased relationship between the marketer and the customer. The overall business environment has undergone a change with the customer emerging as the king of the marketing activity. In fact, the customer today is the pivot of all marketing endeavours.

Customer's needs are identified and analyzed before finally placing the product before them. The satisfaction and further delight of the customer is the primary concern of every marketer. The chapter describes the evolution of the marketing concept and the need for the study of consumer behaviour as a separate school of research.

1.1 INTRODUCTION

The concept of marketing begins with the identification of customer needs and ends with consumer behaviour by meeting the needs of the customers. All the activities of a consumer are directed towards satisfaction of those needs. The marketers are specifically concerned about trying to understand what a consumer looks at while choosing a specific brand. This study, called the consumer behaviour study tries to understand the consumer, on the whole.

By some, it is also believed that consumer behaviour is the subset of human behaviour as the consumer is ultimately an individual. The modern marketing concept has put the consumer at the centre of all the marketing activities. The success of a

marketing programme rests on the extent to which it is able to focus on the needs of the consumer. In trying to understand the consumer's psychology the marketer identifies the target group of people called the potential customers. Then there are efforts made to understand if the prospects would buy the offered products. It is indeed a difficult task to fit the offered product to the needs of the customer. Therefore, the customers' need recognition, their level of involvement with specific products and ultimately the factors leading to purchase of the product are to be studied carefully to have a successful marketing programme. Every customer is a unique entity with exclusive set of purchasing and consuming behaviours. Therefore, the marketers must properly understand the behaviour of the consumers.

The term 'consumer' is used to describe an individual consumer or an organizational consumer. An individual consumer also called an ultimate or the end user is the one who purchases for self or household consumption. Organizational or industrial consumers are the ones who purchase for the use of the product in an organization. These can be non-profit organizations, schools, hospitals, etc. Another term that is very often used is that of a 'customer'.

A customer is one who purchases a product or service for self consumption or otherwise. Consumers are also part of the definition of customer. The only difference between the two is when the service or the product is provided free and when the customer is not the actual user of the product or is only one of the many users.

Many a times the actual customer may be making purchase, not for himself but for someone else. For example, a mother buying chocolates for her child, here the mother is the customer and the child is the consumer. In another situation a lady buying a handbag for herself is the customer as well as the consumer.

The term behaviour is the way of functioning. With respect to consumer, behaviour is defined by the needs, motives, perception, learning involvement, attitude culture reference group and family that have an impact on the way a consumer reacts/interacts with the environment.

Walters (1974) defines consumer as an individual who purchases, has the capacity to purchase, goods and services offered for sale by marketing institutions in order to satisfy personal or household needs, wants or desires. From Walter's definition we find that consumer is an individual first. Therefore, it can be said that consumer behaviour is the subset of human behaviour. Belch & Belch (1990) also provide a link between human behaviour and consumer behaviour by saying that consumer behaviour has been defined as the study of human behaviour in a consumer role.

Mowen (1993) has given another definition to consumer behaviour. He calls it "the study of buying units and the exchange processes involved in acquiring, consuming and disposing of goods, services, experiences and ideas". This definition includes the term 'buying units' which specifies not only individuals but also groups that purchase a product or a service.

Schiffman and Kanuk (1997) define consumer behaviour as “the behaviour that the consumers display while searching for, purchasing, using, evaluating, and disposing of products, services and ideas”. They elaborate on the definition by explaining that consumer behaviour is the study of how individuals make decisions to spend their available resources (time, money and effort) on consumption related items. It includes what, why, when and how often they purchase and how they use the purchased product.

Another widely accepted definition of consumer behaviour has been given by Engel, Blackwell and Miniard (1990) which states that “those actions directly involved in obtaining, consuming and disposing of products and services including the decision processes that precede and follow these actions” are part of consumer behaviour.

We may therefore define consumer behaviour as the study of interplay between activities encompassing individual (psychological processes) and the group (social processes) in making a purchase, consumption and disposition decision.

Consumer Behaviour is an act of individuals and therefore encompasses also those activities like travel from shop to shop, evaluation of goods prior to purchase, act of actual purchase of the products. Therefore, within the scope of consumer behaviour study, we can include all the peripheral activities including those concerned with the purchase consumption and the disposition of the goods and the services.

So, in simple terms the focus of the field of consumer behaviour study is the consumer. It is concentrated on understanding the behaviour of the consumer (individual) who purchases goods and services for personal consumption by himself or for family and friends. In the latter case the homemaker can be the purchase agent for the family or someone buying a gift for his friend. Although the definitions of consumer behaviour do not categorically include an individual purchasing for the company, yet the study of consumer behaviour contains many issues equally relevant for an industrial purchase function.

1.2 ORIGIN AND SIGNIFICANCE OF CONSUMER BEHAVIOUR

According to Engel et al. (1990) and Schiffman and Kanuk (1997), consumer behaviour is a relatively new field of study with no significant historical body of research of its own. The concepts of consumer behaviour have been borrowed from other social science disciplines like psychology (the study of individuals), sociology (the study of groups), social psychology (the study of how individuals operate in groups), and anthropology (the study of society's influence on individuals).

The study of consumer behaviour gained importance after the development of the marketing concept. Marketing concept has been briefly explained in Fig. 1.1. The underlying principle of the marketing concept of understanding the needs of the consumers defines the idea behind the study of consumer behaviour. The marketing concept was formulated sometime in the 1950s, prior to that the philosophy of marketing

was not considered. Assael (1995) has given two reasons as to why the marketers did not use the concept prior to 1950s.

The first one being the fact that the marketing organizations were not sufficiently equipped to accept the concept of marketing.. The implementation of the marketing concept requires many diverse facilities of promotion of the products and the distribution of the same. Prior to 1950s the focuses of the business houses were primarily on economies of scale.

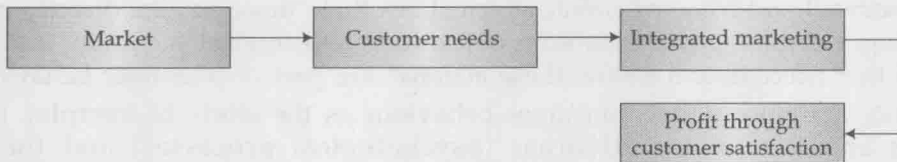


Fig. 1.1 Marketing concept.

Another reason for not following the marketing concept was because there was no need to do so. The effects of depression brought about low purchasing power among the customers therefore there was low interest in consumer behaviour. The marketing approach of this era was oriented towards production where the consumers purchased what was available. This was called the production concept. The production concept was succeeded by the selling concept (See Fig. 1.2) where the marketers attempted to sell all the products that they decided to produce. The philosophy behind this approach was that the consumers were not willing to purchase products unless they were actively persuaded to so. This concept did not consider the satisfaction aspect of consumer's psychology.

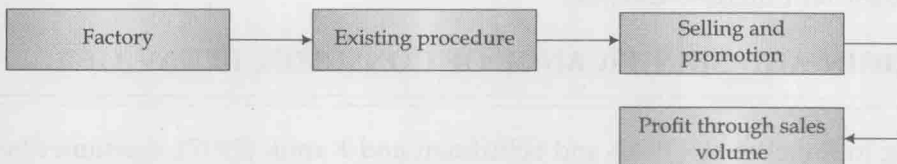


Fig. 1.2 Selling concept.

It was sometime during the 1950s that the marketers realized that they could increase sales by understanding the needs of the consumer. Based on this understanding the business houses started considering the consumer needs and wants, ultimately leading to the establishment of the marketing concept (discussed in detail in the following paragraphs).

Based on the historical perspective, it is significant on the part of the organization to accept the consumer needs as the key to success of an organization. Following

statement of Assael (1995) summarizes the importance of Consumer Behaviour study: "Consumers determine the sales and the profit of a firm by their purchasing decisions. As such, their motives and actions determine the economic viability of the firm".

Therefore it is very important for marketers to understand the needs of the consumers and design their marketing strategies accordingly for being successful. Organizations round the world are trying to understand the behaviour of consumers to succeed in this cut-throat competition. See Exhibit 1.1 for an example of consumer behaviour study. These kinds of studies are used to plan and design products according to the needs of the customers.

Exhibit 1.1 Ericsson Consumer Lab unveils study on mobile broadband usage in India

With the growing relevance of Mobile Broadband since the launch of 3G in India, Ericsson Consumer Lab has identified key consumer behaviour trends in the usage of mobile broadband and how it is changing the lives of people. Some of the highlights from the report include: Consumers' dependency on Smartphones has increased like never before, Teens are the major consumers of 3G, and the uptake of 3G is impacting the usage of mobile broadband in a big way.

Once the consumers get the taste of Smartphone, the gadget becomes inseparable. And with the advent of technologies like 3G, they prefer accessing internet on their Smartphones powered by Mobile Broadband despite having multiple other devices to access internet at home, simply because of the ease of use, reveals Ericsson Consumer Lab's new study 'The Promise of Mobile Broadband'. The report also indicates among other things that for most of the users, mobile broadband is emerging as a gateway to their first internet experience on Smartphones.

The study was conducted between November 2011 and January 2012, to gauge the early impact of the roll-out of 3G in India. 5000 Smartphone users across India between the age group of 15-45 were interviewed. The study aims to understand how 3G especially on Smartphones has impacted usage pattern, end users' experience on 3G network, and also what are the various drivers and barriers for further mobile broadband adoption. It also investigates the roles that different devices play in accessing the internet and, in particular, focuses on how Smartphones are affecting user behaviour and network choices in India.

Ajay Gupta, Head of Marketing & Strategy, Ericsson India, says: "Consumers across the world have taken to Smartphone and Mobile Broadband with great enthusiasm. Mobile Broadband and 3G provide them the flexibility to access internet anywhere and everywhere. We just concluded a study on Smartphone users in India and see that Mobile Broadband is reshaping consumer behaviour with 3G users browsing more frequently and using services for a longer period of time. 3G users seem to have also accelerated the usage of social media and mobile video (YouTube)".

Despite the entire shift in behaviour, consumers still have to deal with teething issues around network coverage, quality and lack of a mechanism to monitor their usage. Around one third of 3G users faced network related issue at least once daily. In addition to network quality issues, handset battery have seen to be draining faster and data connection reliability were major concerns highlighted by consumers.

Most of the users today are early adopters and all they care about is technology sophistication; however the more pragmatic wave of adopters sitting on the sidelines, who have the money to spend on 3G services, will demand that the technology proves its promise before they jump onto it.

Source: <http://www.business-standard.com/india/news/ericsson-consumerlab-unveils-study-mobile-broadband-usage-in-india/469623/> retrieved on 12th July 2012.

1.3 MARKETING CONCEPT

The Marketing concept was formally espoused by General Electric in 1950s. Its then CEO John McKitterick announced that the GE's philosophy of conducting business would be to fulfil the identified needs of the consumers rather than bending the desires of the consumer to fit to the needs of the company (See Exhibit 1.2). The marketing concept primarily consists of three kinds of orientations:

1. **Consumers' Wants and Needs:** As already discussed, the focus of firms under the marketing concept is satisfaction of the needs and the wants of the consumers. The objective of marketing is not only to provide goods and services to the target consumers but primarily also to satisfy their needs and requirements.

The difference between the two terms *selling* and *marketing* lies in the fact that the selling concept focuses on the needs of the seller while the marketing concept focuses on the needs of the buyer. Selling concept revolves around the seller's desire to convert his product into profit while the marketing concept covers the satisfaction of the needs of the customer along with all the peripheral activities associated with the process of delivery of the product to the consumer.

2. **Company Objectives:** Consumers have numerous wants and needs. A company tries to fit in to those consumer needs or wants for which it has got a competitive advantage. The resource of the company is another determinant in the decision on which the needs of the consumer is to be satisfied by the company. A company's objectives remain dynamic and are changed and modified to adjust to the changing business situations. In changing the objectives many factors come into picture. The company firstly studies the changing needs and preferences of the people and then locates a target market whose needs can be satisfied by the products and services it can deliver.

Marketers use a number of sophisticated techniques of consumer research to understand the needs and the wants of the target market. They believe that it is important to keep a satisfied customer because customer retention (discussed in detail later) takes lesser effort than making new customers. The business activities require an integrated approach to maintain a satisfied customer. Therefore, the third kind of orientation that of an integrated approach emerges under the marketing concept.

3. **Integrated Marketing:** Integration must start from the marketing department that should ideally integrate all the other marketing functions like the research and development, marketing research, advertisement and promotion along with customer service. The culture of marketing must be adopted by all the departments in the organization. The target of a business is to earn profit. The modern approach defines the method ideology of earning profit by benchmarking the cost and then deciding the effort required to earn the profit. The company then endeavours to earn profit by efficient marketing practices. Marketing concept has defined profit as the output of superior customer value created by correct interpretation of customer need.