LESSON 4: ANALYZING CONSUMER MARKETS

4.1: WHAT INFLUENCE 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.

A consumer's buying behavior is influenced by cultural, social, and personal factors. Of these, cultural factors exert the broadest and deepest influence.

Cultural Factors

Culture, subculture, and social class are particularly important influences on consumer buying behavior. Culture is the fundamental determinant of a person's wants and behavior. Through family and other key institutions, a child growing up in the United States is exposed to values such as achievement and success, activity, efficiency and practicality, progress, material comfort, individualism, freedom, external comfort, humanitarianism, and youthfulness. A child growing up in another country might have a different view of self, relationship to others, and rituals. Marketers must closely attend to cultural values in every country to understand how to best market their existing products and find opportunities for new products.

Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, racial groups, and geographic regions. When subcultures grow large and affluent enough, companies often design specialized marketing programs to serve them.

Virtually all human societies exhibit social stratification, most often in the form of social classes, relatively homogeneous and enduring divisions in a society, hierarchically ordered and with members who share similar values, interests, and behavior. One classic depiction of social classes in the United States defined seven ascending levels: (1) lower lowers, (2) upper lowers, (3) working class, (4) middle class, (5) upper middles, (6) lower uppers, and (7) upper uppers.

Social class members show distinct product and brand preferences in many areas, including clothing, home furnishings, leisure activities, and automobiles. They also differ in media preferences; upper-class consumers often prefer magazines and books, and lower-class consumers often prefer television. Even within a category such as TV, upper-class consumers may show greater preference for news and drama, whereas lower-class consumers may lean toward reality shows and sports. There are also language differences—advertising copy and dialogue must ring true to the targeted social class.

Social Factor

In addition to cultural factors, social factors such as reference groups, family, and social roles and statuses affect our buying behavior.

Reference Groups – A person's reference groups are all the groups that have a direct (face to-face) or indirect influence on their attitudes or behavior. Groups having a direct influence are called membership groups. Some of these are primary groups with whom the person interacts fairly continuously and informally, such as family, friends, neighbors, and coworkers. People also belong to secondary groups, such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction.

Family – The family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group. There are two families in the buyer's life. The family of orientation consists of parents and siblings. From parents a person acquires an orientation toward religion, politics, and economics and a sense of personal ambition, self-worth, and love.8 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.

Roles and Status – We each participate in many groups—family, clubs, organizations. Groups often are an important source of information and help to define norms for behavior. We can define a person's position in each group in terms of role and status. A role consists of the activities a person is expected to perform. Each role in turn connotes a status. A senior vice president of marketing may be seen as having more status than a sales manager, and a sales manager may be seen as having more status than an office clerk. People choose products that reflect and communicate their role and their actual or desired status in society. Marketers must be aware of the status-symbol potential of products and brands

<u>Personal Factors</u>

Age and Stage in The Life Cycle – 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. 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. These should alert service providers—banks, lawyers, and marriage, employment, and bereavement counselors—to ways they can help. For example, the wedding industry attracts marketers of a whole host of products and services.

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.

Personality and Self-Concept – 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.

Lifestyle and Values – 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. A computer manufacturer might find that most computer buyers are achievement-oriented and then aim the brand more clearly at the achiever lifestyle.

4.2: KEY PSYCHOLOGICAL PROCESSES

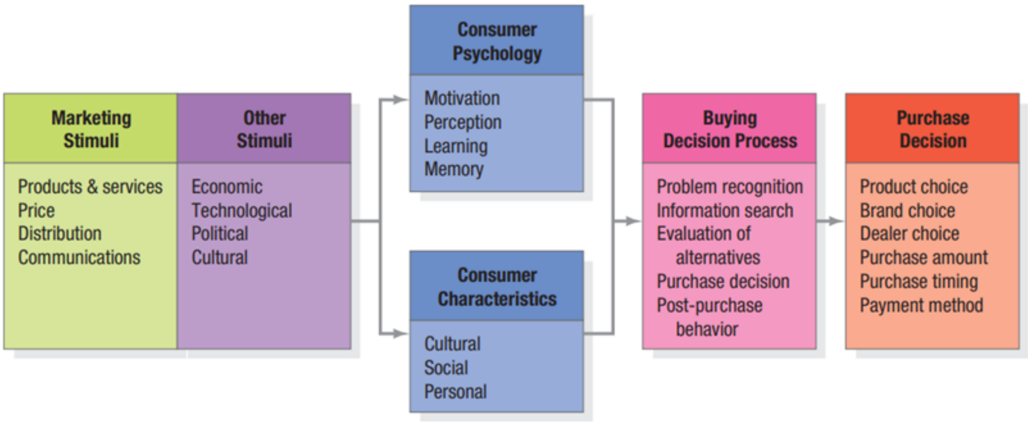

Figure 4.1: Model of Consumer Behavior

The starting point for understanding consumer behavior is the stimulus-response model shown in Figure 4.1. Marketing and environmental stimuli enter the consumer's consciousness, and a set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Four key psychological processes—motivation, perception, learning, and memory—fundamentally influence consumer responses

Motivation: Freud, Maslow, Herzberg

Three of the best-known theories of human motivation—those of Sigmund Freud, Abraham Maslow, and Frederick Herzberg—carry quite different implications for consumer analysis and marketing strategy.

Freud's Theory – Sigmund Freud assumed the psychological forces shaping people's behavior are largely unconscious, and that a person cannot fully understand his or her own motivations. Someone who examines specific brands will react not only to their stated capabilities, but also to other, less conscious cues such as shape, size, weight, material, color, and brand name. A technique called laddering lets us trace a person's motivations from the stated instrumental ones to the more terminal ones. Then the marketer can decide at what level to develop the message and appeal.

Maslow's Theory – Abraham Maslow sought to explain why people are driven by particular needs at particular times. His answer is that human needs are arranged in a hierarchy from most to least pressing—physiological needs, safety needs, social needs, esteem needs, and self-actualization needs (see Figure 4.2). People will try to satisfy their most important need first and then try to satisfy the next most important. For example, a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5), nor in how he is viewed by others (need 3 or 4), nor even in whether he is breathing clean air (need 2), but when he has enough food and water, the next most important need will become salient.

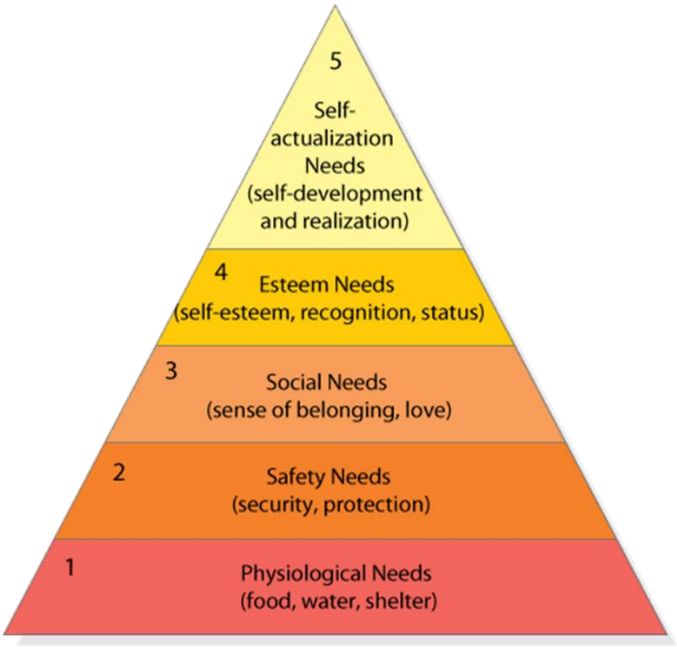

Figure 4.2: Maslow's Hierarchy of Needs

Herzberg's Theory – Frederick Herzberg developed a two-factor theory that distinguishes dissatisfiers (factors that cause dissatisfaction) from satisfiers (factors that cause satisfaction). The absence of dissatisfiers is not enough to motivate a purchase; satisfiers must be present. For example, a computer that does not come with a warranty would be a dissatisfier. Yet the presence of a product warranty would not act as a satisfier or motivator of a purchase, because it is not a source of intrinsic satisfaction. Ease of use would be a satisfier. Herzberg's theory has two implications. First, sellers should do their best to avoid dissatisfiers (for example, a poor training manual or a poor service policy). Although these things will not sell a product, they might easily unsell it. Second, the seller should identify the major satisfiers or motivators of purchase in the market and then supply them.

Perception

A motivated person is ready to act—how is influenced by his or her perception of the situation. In marketing, perceptions are more important than reality, because perceptions affect consumers' actual behavior. Perception is the process by which we select, organize, and interpret information inputs to create a meaningful picture of the world. It depends not only on physical stimuli, but also on the stimuli's relationship to the surrounding environment and on conditions within each of us. One person might perceive a fast-talking salesperson as aggressive and insincere; another, as intelligent and helpful. Each will respond to the salesperson differently.

People emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion, and selective retention.

Selective Attention – Attention is the allocation of processing capacity to some stimulus. Voluntary attention is something purposeful; involuntary attention is grabbed by someone or something.

1. **People are more likely to notice stimuli that relate to a current need.** A person who is motivated to buy a computer will notice computer ads and be less likely to notice DVD ads.

2. **People are more likely to notice stimuli they anticipate**. You are more likely to notice computers than radios in a computer store because you don't expect the store to carry radios.
3. **People are more likely to notice stimuli whose deviations are large in relationship to the normal size of the stimuli**. You are more likely to notice an ad offering $100 off the list price of a computer than one offering $5 off.

Selective Distortion – Even noticed stimuli don't always come across in the way the senders intended. Selective distortion is the tendency to interpret information in a way that fits our preconceptions. Consumers will often distort information to be consistent with prior brand and product beliefs and expectations.

Selective Retention – Most of us don't remember much of the information to which we're exposed, but we do retain information that supports our attitudes and beliefs. Because of selective retention, we're likely to remember good points about a product we like and forget good points about competing products. Selective retention again works to the advantage of strong brands. It also explains why marketers need to use repetition—to make sure their message is not overlooked.

Subliminal Perception – The selective perception mechanisms require consumers' active engagement and thought. A topic that has fascinated armchair marketers for ages is subliminal perception. They argue that marketers embed covert, subliminal messages in ads or packaging. Consumers are not consciously aware of them, yet they affect behavior. Although it's clear that mental processes include many subtle subconscious effects, no evidence supports the notion that marketers can systematically control consumers at that level, especially enough to change moderately important or strongly held beliefs.

Learning

Consumers learn through action. Learning describes changes in an individual's behavior arising from experience. Learning is a process that creates changes in behavior, immediate or expected, through experiences when it comes to choosing the right brand for their laptops.

Learning occurs faster and is retained longer. The more reinforcement that is received during learning, the more important the material to be learned.

Repetition in which advertising messages are spread over time, rather than clustered at one time in order to increase learning, is the key strategy in promotional campaigns.

Emotions

Consumer response is not all cognitive and rational; much may be emotional and invoke different kinds of feelings. A brand or product may make a consumer feel proud, excited, or confident. An ad may create feelings of amusement, disgust, or wonder.

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.

We can think of marketing as a way of making sure consumers have product and service experiences to create the right brand knowledge structures and maintain them in memory. Companies such as Procter & Gamble like to create mental maps of consumers that depict their knowledge of a particular brand in terms of the key associations likely to be triggered in a marketing setting, and their relative strength, favorability, and uniqueness to consumers. Figure 4.3 displays a very simple mental map highlighting brand beliefs for a hypothetical consumer for State Farm insurance.

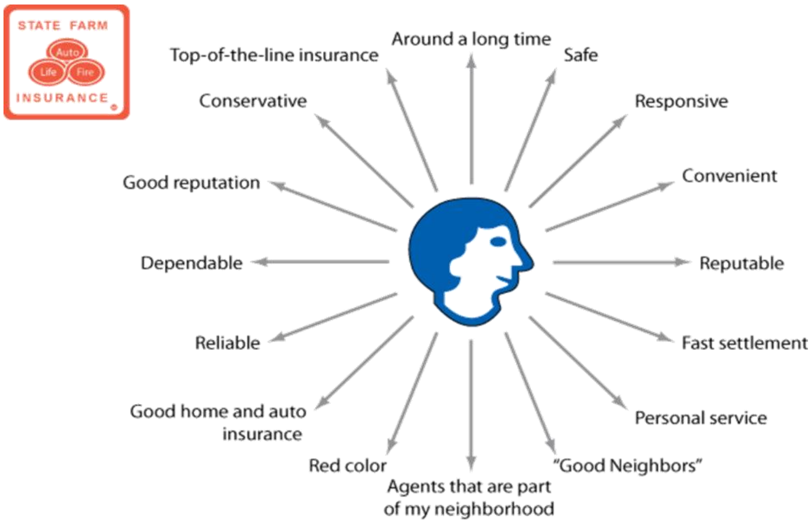

Figure 4.3: Hypothetical State Farm Mental Map

Memory Processes – Memory is a very constructive process, because we don't remember information and events completely and accurately. Often, we remember bits and pieces and fill in the rest based on whatever else we know. "Marketing Insight: Made to Stick" offers some practical tips for how marketers can ensure their ideas—inside or outside the company—are remembered and have impact.

Memory encoding describes how and where information gets into memory. The strength of the resulting association depends on how much we process the information at encoding (how much we think about it, for instance) and in what way. In general, the more attention we pay to the meaning of information during encoding, the stronger the resulting associations in memory will be.48 Advertising research in a field setting suggests that high levels of repetition for an uninvolving, unpersuasive ad, for example, are unlikely to have as much sales impact as lower levels of repetition for an involving, persuasive ad.

Memory retrieval is the way information gets out of memory. Three facts are important about memory retrieval.

1. The presence of other product information in memory can produce interference effects and cause us to either overlook or confuse new data. One marketing challenge in a category crowded with many competitors—for example, airlines, financial services, and insurance companies—is that consumers may mix up brands.
2. The time between exposure to information and encoding has been shown generally to produce only gradual decay. Cognitive psychologists believe memory is extremely durable, so once information becomes stored in memory, its strength of association decays very slowly.
3. Information may be available in memory but not be accessible for recall without the proper retrieval cues or reminders. The effectiveness of retrieval cues is one reason marketing inside a supermarket or any retail store is so critical—the actual product packaging, the use of in-store mini-billboard displays, and so on. The information they contain and the reminders they provide of advertising or other information already conveyed outside the store will be prime determinants of consumer decision making.

4.3: THE BUYING DECISION PROCESS – THE FIVE STAGE MODEL

Figure 4.4: The Buying Decision Process

Smart companies try to fully understand customers' buying decision process—all the experiences in learning, choosing, using, and even disposing of a product. Marketing scholars have developed a "stage model" of the process (see Figure 4.4). The consumer typically passes through five stages: problem recognition, information search, evaluation of alternatives, purchase decision, and post-purchase behavior. Clearly, the buying process starts long before the actual purchase and has consequences long afterward.

Consumers don't always pass through all five stages—they may skip or reverse some. When you buy your regular brand of toothpaste, you go directly from the need to the purchase decision, skipping information search and evaluation. The model in Figure 4.4 provides a good frame of reference, however, because it captures the full range of considerations that arise when a consumer faces a highly involving new purchase.

Problem Recognition

The buying process starts when the buyer recognizes a problem or need triggered by internal or external stimuli. With an internal stimulus, one of the person's normal needs—hunger, thirst, sex—rises to a threshold level and becomes a drive. A need can also be aroused by an external stimulus. A person may admire a friend's new car or see a television ad for a Hawaiian vacation, which inspires thoughts about the possibility of making a purchase.

Marketers need to identify the circumstances that trigger a particular need by gathering information from a number of consumers. They can then develop marketing strategies that spark consumer interest. Particularly for discretionary purchases such as luxury goods, vacation packages, and entertainment options, marketers may need to increase consumer motivation so a potential purchase gets serious consideration.

Information Search

Surprisingly, consumers often search for limited amounts of information. Surveys have shown that for durables, half of all consumers look at only one store, and only 30 percent look at more than one brand of appliances. We can distinguish between two levels of engagement in the search. The milder search state is called heightened attention. At this level a person simply becomes more receptive to information about a product. At the next level, the person may enter an active *information search*: looking for reading material, phoning friends, going online, and visiting stores to learn about the product.

Information Sources – Major information sources to which consumers will turn fall into four groups:

1. Personal: Family, friends, neighbors, acquaintances
2. Commercial: Advertising, Web sites, salespersons, dealers, packaging, displays
3. Public: Mass media, consumer-rating organizations
4. Experiential: Handling, examining, 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.

Each source performs a different function in influencing the buying decision. Commercial sources normally perform an information function, whereas personal sources perform a legitimizing or evaluation function. For example, physicians often learn of new drugs from commercial sources but turn to other doctors for evaluations.

Search Dynamics – By gathering information, the consumer learns about competing brands and their features. The first box in Figure 4.5 shows the total set of brands available. The individual consumer will come to know a subset of these, the awareness set. Only some, the consideration set, will meet initial buying criteria. As the consumer gathers more information, just a few, the choice set, will remain strong contenders. The consumer makes a final choice from these.

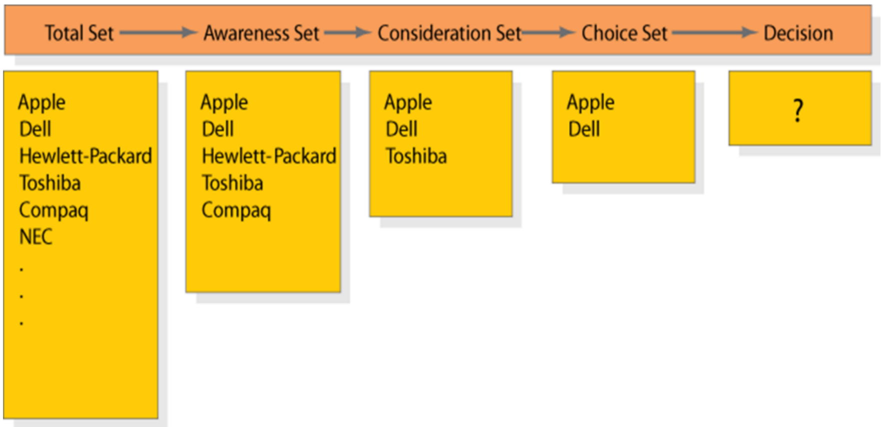

Figure 4.5: Successive Sets Involved in Consumer Decision Making

<u>Evaluation of Alternatives</u>

How does the consumer process competitive brand information and make a final value judgment? No single process is used by all consumers, or by one consumer in all buying situations. There are several processes, and the most current models see the consumer forming judgments largely on a conscious and rational basis.

Some basic concepts will help us understand consumer evaluation processes: First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product solution. Third, the consumer sees each product as a bundle of attributes with varying abilities to deliver the benefits. The attributes of interest to buyers vary by product—for example:

1. **Hotels**—Location, cleanliness, atmosphere, price
2. **Mouthwash**—Color, effectiveness, germ-killing capacity, taste/flavor, price
3. **Tires**—Safety, tread life, ride quality, price

Consumers will pay the most attention to attributes that deliver the sought-after benefits. We can often segment the market for a product according to attributes and benefits important to different consumer groups.

Beliefs and Attitudes – Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behavior. A belief is a descriptive thought that a person holds about something. Just as important are attitudes, a person's enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies toward some object or idea. People have attitudes toward almost everything: religion, politics, clothes, music, food.

Attitudes put us into a frame of mind: liking or disliking an object, moving toward or away from it. They lead us to behave in a fairly consistent way toward similar objects. Because attitudes economize on energy and thought, they can be very difficult to change. As a general rule, a company is well advised to fit its product into existing attitudes rather than try to change attitudes. If beliefs and attitudes become too negative, however, more serious steps may be necessary.

Expectancy-Value Model – The consumer arrives at attitudes toward various brands through an attribute evaluation procedure, developing a set of beliefs about where each brand stands on each attribute. The expectancy-value model of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—the positives and negatives—according to importance.

Purchase Decision

In the evaluation stage, the consumer forms preferences among the brands in the choice set and may also form an intention to buy the most preferred brand. In executing a purchase intention, the consumer may make up to five sub-decisions: brand (brand A), dealer (dealer 2), quantity (one computer), timing (weekend), and payment method (credit card).

Non-compensatory Models of Consumer Choice – The expectancy-value model is a compensatory model, in that perceived good things about a product can help to overcome perceived bad things. But consumers often take "mental shortcuts" called heuristics or rules of thumb in the decision process.

With non-compensatory models of consumer choice, positive and negative attribute considerations don't necessarily net out. Evaluating attributes in isolation makes decision making easier for a consumer, but it also increases the likelihood that she would have made a different choice if she had deliberated in greater detail. We highlight three choice heuristics here:

1. Using the conjunctive heuristic, the consumer sets a minimum acceptable cutoff level for each attribute and chooses the first alternative that meets the minimum standard for all attributes.
2. With the lexicographic heuristic, the consumer chooses the best brand on the basis of its perceived most important attribute.
3. Using the elimination-by-aspects heuristic, the consumer compares brands on an attribute selected probabilistically—where the probability of choosing an attribute is positively related to its importance—and eliminates brands that do not meet minimum acceptable cutoffs.

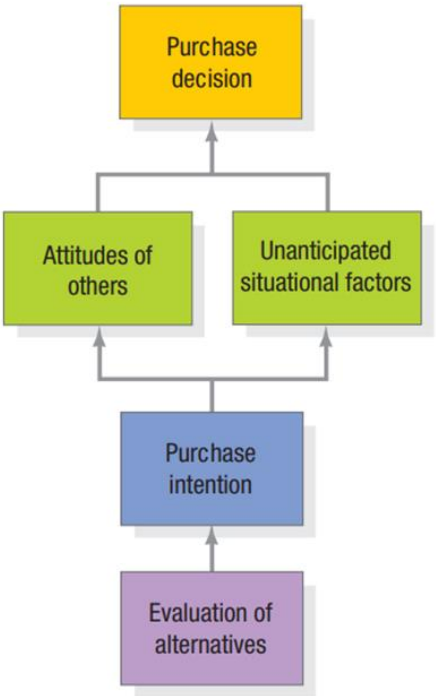

Figure 4.6: Steps between Evaluation of Alternatives and a Purchase Decision

Intervening Factors – Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision (see Figure 6.6). 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.65 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.

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by one or more 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. Financial risk—The product is not worth the price paid.
3. Social risk—The product results in embarrassment in front of others.
4. Psychological risk—The product affects the mental well-being of the user.
5. Time risk—The failure of the product results in an opportunity cost of finding another satisfactory product.

The degree of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty, and the level of consumer self-confidence. Consumers develop routines for reducing the uncertainty and negative consequences of risk, such as avoiding decisions, gathering information from friends, and developing preferences for national brand names and warranties. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce it.

<u>Post-purchase Behavior</u>

Post-purchase 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. These feelings make a difference in whether the customer buys the product again and talks favorably or unfavorably about it to others.

The larger the gap between expectations and performance, the greater the dissatisfaction. Here the consumer's coping style comes into play. Some consumers magnify the gap when the product isn't perfect and are highly dissatisfied; others minimize it and are less dissatisfied.

Post-purchase 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).

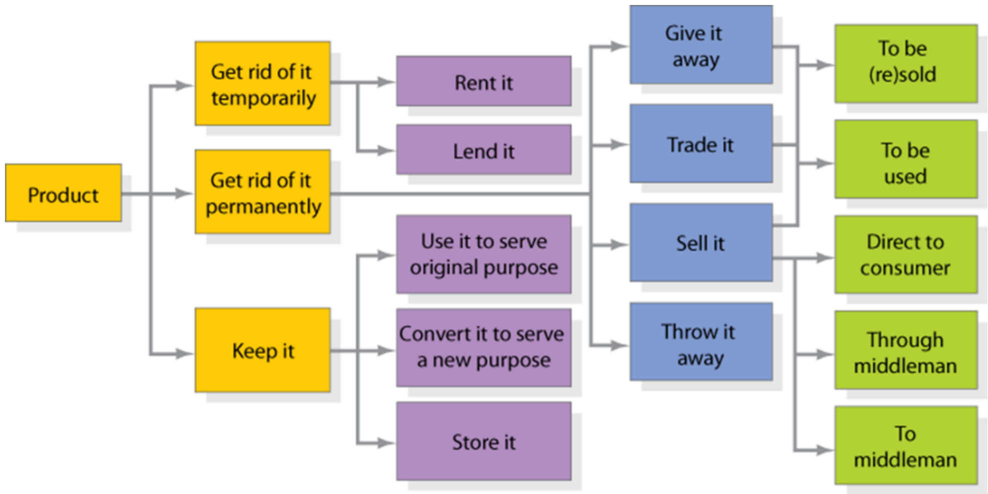

Figure 4.7: How Customers Use or Dispose of Products

Post-purchase Uses and Disposal – Marketers should also monitor how buyers use and dispose of the product (Figure 4.7). 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. Consumers may fail to replace some products soon enough because they overestimate product life. One strategy to speed replacement is to tie the act of replacing the product to a certain holiday, event, or time of year.

For example, Oral B has tied toothbrush promotions to the springtime switch to daylight savings time. Another strategy is to provide consumers with better information about either (1) the time they first used the product or need to replace it or (2) its current level of performance. Batteries have built-in gauges that show how much power they have left; toothbrushes have color indicators to indicate when the bristles are worn; and so on. Perhaps the simplest way to increase usage is to learn when actual usage is lower than recommended and persuade customers that more regular usage has benefits, overcoming potential hurdles.

If consumers throw the product away, the marketer needs to know how they dispose of it, especially if—like batteries, beverage containers, electronic equipment, and disposable diapers—it can damage the environment.

POINTS TO PONDER

1. Consumer behavior is influenced by three factors: cultural (culture, subculture, and social class), social (reference groups, family, and social roles and statuses), and personal (age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality, and self-concept). Research into these factors can provide clues to reach and serve consumers more effectively.
2. Four main psychological processes that affect consumer behavior are motivation, perception, learning, and memory.
3. To understand how consumers actually make buying decisions, marketers must identify who makes and has input into the buying decision; people can be initiators, influencers, deciders, buyers, or users. Different marketing campaigns might be targeted to each type of person.
4. The typical buying process consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision, and post-purchase behavior. The marketers' job is to understand the behavior at each stage. The attitudes of others, unanticipated situational factors, and perceived risk may all affect the

decision to buy, as will consumers' levels of post-purchase product satisfaction, use and disposal, and the company's actions.

5. Consumers are constructive decision makers and subject to many contextual influences. They often exhibit low involvement in their decisions, using many heuristics as a result.

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