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**DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT**

**M.B.A III SEMESTER**

**ELECTIVE : MARKETING**

**COURSE - 18B**

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**CONSUMER BEHAVIOUR AND MARKETING RESEARCH**

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**BLOCK**

**1**

**INTRODUCTION TO CONSUMER BEHAVIOUR**

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## **BLOCK-1 : INTRODUCTION TO CONSUMER BEHAVIOUR**

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Consumer behaviour reflects totality of consumer's decisions with respect to the acquisition, consumption and disposition of goods, services time and ideas by human decisions making over time.

The study of consumer behaviour helps the marketer to formulate marketing strategies. New products to be launched, price to be fixed, promotional methods to be employed, design of package, optimal way of distribution and so on. It is through the study of consumer behaviour only, the marketers could know the innovators (who prefer to buy new products) always search internet to know about new products. Hence few companies including Google launched particular brands of mobile exclusively through on line selling.

In the first module, let us try to understand who is consumer, why he behaves as he behaves and some other fundamental issues in consumer behaviour.

The first module consists of four units. They are

**UNIT – 1: INTRODUCTION TO CONSUMER BEHAVIOUR**

**UNIT – 2 INDIVIDUAL DETERMINANTS OF CONSUMER BEHAVIOUR**

**UNIT – 3 ENVIRONMENTAL INFLUENCES ON CONSUMER BEHAVIOUR**

**UNIT – 4 CONSUMER DECISION MAKING PROCESS**





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# **UNIT – 1: INTRODUCTION TO CONSUMER BEHAVIOUR**

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## **Structure**

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Definitions
- 1.3 Significance of consumer behaviour
- 1.4 Nature of consumer behaviour
- 1.5 Application of consumer behaviour in marketing
- 1.6 Notes
- 1.7 Summary
- 1.8 Keywords
- 1.9 Self Assessment Questions
- 1.10 References

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## 1.0 OBJECTIVES

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After studying this unit you should be able to:

- Explain consumer behaviour;
- Appreciate the significance and nature of consumer behaviour;
- Mention the terminologies in consumer behaviour;
- Analyze the application of consumer behaviour in marketing and
- Identify the differences between consumer and customer.

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## 1.1 INTRODUCTION TO CONSUMER BEHAVIOUR

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**Consumer behaviour** is the study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society. It blends elements from psychology, sociology, social anthropology, marketing and economics. It attempts to understand the decision-making processes of buyers, both individually and in groups such as how emotions affect buying behaviour. It studies characteristics of individual consumers such as demographics and behavioural variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, sports, reference groups, and society in general.

Before understanding consumer behaviour let us first go through few more terminologies:

Any individual who purchases goods and services from the market for his/her end-use is called a consumer.

In simpler words a consumer is one who consumes goods and services available in the market.

Example - Tom might purchase a tricycle for his son or Mike might buy a shirt for himself. In the above examples, both Tom and Mike are consumers.

According to the consumer protection act, 1986, "Consumer means any person who buys goods or hires any services for a consideration which has been paid, or promised, or partly paid and partly promised, or under any system of deferred payment, and includes any user of such goods other than the person who buys such goods for consideration".

The term customer is typically used to refer to someone who regularly purchases from a particular store or company.

A customer is the recipient of a good or a service, or a product, or an idea, obtained from a seller, vendor or supplier via a financial transaction or exchange for money or some other valuable consideration. Today customers are generally categorized into two types:

- An entrepreneur or trader who is a dealer that purchases goods for re-sale.
- An end user or ultimate customer who does not re-sell the things bought but is the actual consumer.

Every customer shows inclination towards particular products and services which is referred to as customer interest. Consumer interest is nothing but willingness of consumers to purchase products and services as per their taste, need and of course pocket.

Consumer Behaviour is a branch which deals with the various stages a consumer goes through before purchasing products or services for his end use. Consumer is the central point and all the marketing activities revolve around him.

**Why do you think an individual buys a product ?**

- Need
- Social Status
- Gifting Purpose

**Why do you think an individual does not buy a product ?**

- No requirement
- Income/Budget/Financial constraints
- Taste

**When do you think consumers purchase products ?**

- Festive season
- Birthday

- Anniversary
- Marriage or other special occasions

There are infact several factors which influence buying decision of a consumer ranging from psychological, social, economic and so on.

The study of consumer behaviour explains as to:

- Why and why not a consumer buys a product?
- When a consumer buys a product?
- How a consumer buys a product?

In a layman's language consumer behaviour deals with the buying behaviour of individuals. The main catalyst which triggers the buying decision of an individual is need for a particular product/service. Consumers purchase products and services as and when need arises. According to Belch and Belch, whenever need arises; a consumer searches for several information which would help him in his purchase.

Following are the sources of information:

- Personal Sources
- Commercial Sources
- Public Sources
- Personal Experience

Consumer behaviour study is based on consumer buying behaviour, with the customer playing the three distinct roles of user, payer and buyer. Research has shown that consumer behaviour is difficult to predict, even for experts in the field. Relationship marketing is an influential asset for customer behaviour analysis as it has a keen interest in the re-discovery of the true meaning of marketing through the re-affirmation of the importance of the customer or buyer. A greater importance is also placed on consumer retention, customer relationship management, personalization, customization and one-to-one marketing. Social functions can be categorized into social choice and welfare functions

Consumer behaviour is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions.

Marketers expect that by understanding what causes the consumers to buy particular goods and services, they will be able to determine—which products are needed in the marketplace, which are obsolete, and how best to present the goods to the consumers.

The study of consumer behaviour assumes that the consumers are actors in the marketplace. The per-spective of role theory assumes that consumers play various roles in the marketplace. Starting from the information provider, from the user to the payer and to the disposer, consumers play these roles in the decision process.

The roles also vary in different consumption situations; for example, a mother plays the role of an influencer in a child’s purchase process, whereas she plays the role of a disposer for the products consumed by the family.

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## **1.2 DEFINITIONS**

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The term consumer behaviour is defined as the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. Consumer behaviour focuses on how individuals make decisions to spend their available resources (time, money, effort) on consumption related items.

The term consumer behaviour describes two different kinds of consuming entities: the personal consumer and the organizational consumers. The personal consumer buys goods and services for his or her own use, for the use of the household or as a gift for a friend. In each of these contexts, individuals, who are referred to as end users or ultimate consumers, buy the products for fine use.

The second kind of consumer the organizational consumer includes profit and non-profit businesses, government agencies (local, state and national) and institutions (e.g. schools, hospitals, and prisons), all of which must buy products, equipments and services in order to run their organization.

### **Some of the definitions are:**

1. According to Engel, Blackwell, and Mansard, “Consumer behaviour refers to the actions and decision processes of people who purchase goods and services for personal consumption”.
2. According to Louden and Bitta, “Consumer behaviour is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services”.

3. According to Bearden et al. “The mental and emotional processes and the physical activities of people who purchase and use goods and services to satisfy particular needs and wants”.

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### **1.3 SIGNIFICANCE OF CONSUMER BEHAVIOUR**

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Consumer behaviour is a significant theory for marketers who intend to improve their marketing strategies. For understanding the consumer behaviour marketer try to know how consumer feels, how they think. Consumer behaviour plays a vital role in the success of a product. Marketers largely depend upon consumer behaviour. There are several dynamics of consumer behaviour, some cultural issues, family values, decision making process of consumer the factors which affected consumer behaviour.

Consumer also have special consideration on cultural and special occasions where marketers seems to highlight their product in special manner along with they offer free gifts and limited time scheme so consumer prefer to buy them.

Consumer behaviour can change in different periods of time, for example if they like to take tea or fresh juices in the evening so marketers feel better to show such type of advertisement in this specific period. However the opt time for purchase has to be considered.

For example, you may like to have tea or coffee in the early morning. But may not prefer to go out and buy tea or coffee powder.

Media has been playing specific role for changing the consumer behaviour but some time immature marketing for some diet products or some time marketers seems to provide easy way to obtained credit at flexible terms for consumers without having any precautions.

For understanding the consumer behaviour we need to understand the reason where consumer prefer to buy comfortably and which factors are attractive for consumer for buying a product.

**Significance of study of consumer behaviour can be explained with reference to the following points:**

#### **1.3.1. Modern Philosophy**

It concerns with modern marketing philosophy – identify consumers’ needs and satisfy them more effectively than competitors. It makes marketing consumer-oriented. It is the key to succeed.

### **1.3.2. Achievement of Goals**

The key to a company's survival, profitability, and growth in a highly competitive marketing environment is its ability to identify and satisfy unfulfilled consumer needs better and sooner than the competitors. Thus, consumer behaviour helps in achieving marketing goals.

### **1.3.3. Useful for Dealers and Salesmen**

The study of consumer behaviour is not useful for the company alone. Knowledge of consumer behaviour is equally useful for middlemen and salesmen to perform their tasks effectively in meeting consumers needs and wants successfully. Consumer behaviour, thus, improves performance of the entire distribution system.

### **1.3.4. More Relevant Marketing Programme**

Marketing programme, consisting of product, price, promotion, and distribution decisions, can be prepared more objectively. The programme can be more relevant if it is based on the study of consumer behaviour. Meaningful marketing programme is instrumental in realizing marketing goals.

### **1.3.5. Adjusting Marketing Programme over Time**

Consumer behaviour studies the consumer response pattern on a continuous basis. So, a marketer can easily come to know the changes taking place in the market. Based on the current market trend, the marketer can make necessary changes in marketing programme to adjust with the market.

### **1.3.6. Predicting Market Trend**

Consumer behaviour can also aid in projecting the future market trends. Marketer finds enough time to prepare for exploiting the emerging opportunities, and/or facing challenges and threats.

### **1.3.7. Consumer Differentiation:**

Market exhibits considerable differentiations. Each segment needs and wants different products. For every segment, a separate marketing programme is needed. Knowledge of consumer

differentiation is a key to fit marketing offers with different groups of buyers. Consumer behaviour study supplies the details about consumer differentiations.

### **1.3.8. Creation and Retention of Consumers**

Marketers who base their offerings on a recognition of consumer needs find a ready market for their products. Company finds it easy to sell its products. In the same way, the company, due to continuous study of consumer behaviour and attempts to meet changing expectations of the buyers, can retain its consumers for a long period.

### **1.3.9. Competition**

Consumer behaviour study assists in facing competition, too. Based on consumers' expectations, more competitive advantages can be offered. It is useful in improving competitive strengths of the company.

### **1.3.10. Developing New Products**

New product is developed in respect of needs and wants of the target market. In order to develop the best-fit product, a marketer must know adequately about the market. Thus, the study of consumer behaviour is the base for developing a new product successfully.

### **1.3.11. Dynamic Nature of Market**

Consumer behaviour focuses on dynamic nature of the market. It helps the manager to be dynamic, alert, and active in satisfying consumers better and sooner than competitors. Consumer behaviour is indispensable to watch movements of the markets.

### **1.3.12. Effective Use of Productive Resources**

The study of consumer behaviour assists the manager to make the organisational efforts consumer-oriented. It ensures an exact use of resources for achieving maximum efficiency. Each unit of resources can contribute maximum to objectives.

It is to be mentioned that the study of consumer behaviour is not only important for the current sales, but also helps in capturing the future market. Consumer behaviour assumes: Take care of consumer needs, the consumers, in return, will take care of your needs. Most of



problems can be reasonably solved by the study of consumer behaviour. Modern marketing practice is almost impossible without the study of consumer behaviour.

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## **1.4 NATURE OF CONSUMER BEHAVIOUR**

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The individual, the product category and the present scenario is involved in consumer behaviour. The field of consumer behaviour is the study of individuals, groups or organizations and the processes they use to select, secure, use and dispose of products, services, experience or ideas to satisfy the needs of the consumer and society.

### **1.4.1 Influenced by various factors**

**The various factors that influence the consumer behaviour are as follows:**

- a. Marketing factors such as product design, price, promotion, packaging, positioning and dis-tribution.
- b. Personal factors such as age, gender, education and income level.
- c. Psychological factors such as buying motives, perception of the product and attitudes towards the product.
- d. Situational factors such as physical surroundings at the time of purchase, social surroundings and time factor.
- e. Social factors such as social status, reference groups and family.
- f. Cultural factors, such as religion, social class—caste and sub-castes.

### **1.4.2 Undergoes a constant change**

Consumer behaviour is not static. It undergoes a change over a period of time depending on the nature of products. For example, kids prefer colourful and fancy footwear, but as they grow up as teenagers and young adults, they prefer trendy footwear, and as middle-aged and senior citizens they prefer more sober footwear. The change in buying behaviour may take place due to several other factors such as increase in income level, education level and marketing factors.

### **1.4.3 Varies from consumer to consumer**

All consumers do not behave in the same manner. Different consumers behave differently. The differences in consumer behaviour are due to individual factors such as the nature of the consumers, lifestyle and culture. For example, some consumers are technoholics. They go on a shopping and spend beyond their means.

They borrow money from friends, relatives, banks, and at times even adopt unethical means to spend on shopping of advance technologies. But there are other consumers who, despite having surplus money, do not go even for the regular purchases and avoid use and purchase of advance technologies.

### **1.4.4 Varies from region to region and country to country**

The consumer behaviour varies across states, regions and countries. For example, the behaviour of the urban consumers is different from that of the rural consumers. A good number of rural consumers are conservative in their buying behaviours.

The rich rural consumers may think twice to spend on luxuries despite having sufficient funds, whereas the urban consumers may even take bank loans to buy luxury items such as cars and household appliances. The consumer behaviour may also vary across the states, regions and countries. It may differ depending on the upbringing, lifestyles and level of development.

### **1.4.5 Information on consumer behaviour is important to the marketers**

Marketers need to have a good knowledge of the consumer behaviour. They need to study the various factors that influence the consumer behaviour of their target customers.

**The knowledge of consumer behaviour enables them to take appropriate marketing decisions in respect of the following factors:**

- a. Product design/model
- b. Pricing of the product
- c. Promotion of the product
- d. Packaging

e. Positioning

f. Place of distribution

#### **1.4.6. Leads to purchase decision**

A positive consumer behaviour leads to a purchase decision. A consumer may take the decision of buying a product on the basis of different buying motives. The purchase decision leads to higher demand, and the sales of the marketers increase. Therefore, marketers need to influence consumer behaviour to increase their purchases.

#### **1.4.7. Varies from product to product**

Consumer behaviour is different for different products. There are some consumers who may buy more quantity of certain items and very low or no quantity of other items. For example, teenagers may spend heavily on products such as cell phones and branded wears for snob appeal, but may not spend on general and academic reading. A middle- aged person may spend less on clothing, but may invest money in savings, insurance schemes, pension schemes, and so on.

#### **1.4.8. Improves standard of living**

The buying behaviour of the consumers may lead to higher standard of living. The more a person buys the goods and services, the higher is the standard of living. But if a person spends less on goods and services, despite having a good income, they deprives themselves of higher standard of living.

#### **1.4.9. Reflects status**

The consumer behaviour is not only influenced by the status of a consumer, but it also reflects it. The consumers who own luxury cars, watches and other items are considered belonging to a higher status. The luxury items also give a sense of pride to the owners.

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### **1.5 APPLICATION OF CONSUMER BEHAVIOUR IN MARKETING**

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Consumer behaviour principles are applied in many areas of marketing as discussed below:

**1.5.1 Analyzing market opportunity:** Consumer behaviour study helps in identifying the unfulfilled needs and wants of consumers. This requires examining the trends and

conditions operating in the marketplace, consumers' lifestyles, income levels and emerging influences. This may reveal unsatisfied needs and wants. The trend towards increasing number of dual income households and greater emphasis on convenience and leisure have led to emerging needs for household gadgets such as washing machine, mixer grinder, vacuum cleaner and childcare centers etc. Mosquito repellents have been marketed in response to a genuine and unfulfilled consumer need.

**1.5.2 Selecting target market:** A review of market opportunities often helps in identifying distinct consumer segments with very distinct and unique wants and need. Identifying these groups, learning how they behave and how they make purchase decisions enables the marketer to design and market products or services particularly suited to their wants and needs. For example, consumer studies revealed that many existing and potential shampoo users did not want to buy shampoo packs priced at Rs. 60 or more and would rather prefer a low priced sachet containing enough quantity for one or two washes. The finding led companies to introduce the shampoo sachet which became a good seller.

**1.5.3 Marketing-mix decisions:** Once unsatisfied needs and wants are identified, the marketer has to determine the right mix of product, price, distribution and promotion. Here too, consumer behaviour study is very helpful in finding answers to many perplexing questions.

- **Product:** The marketer designs the product or services that would satisfy unfulfilled needs or wants. Further decisions regarding the product concern to size, shape and features. The marketer has also to decide about packaging important aspects of service, warranties and accessories etc. Nestle first introduced Maggie noodles in masala and capsicum flavors. Subsequently, keeping in view the consumer preferences in some regions, the company introduced garlic, Shabhar and other flavors.
- **Price:** The second important component of marketing mix is price. Marketers must decide what price to charge for the product or service. These decisions will influence the flow of revenue to the company.
  - o Should the marketer consumer price sensitive and would a lower price stimulate sales?
  - o Should there be any price discounts?

- o Do consumers perceive lower price as being indicative of poor quality?

To answer such questions, the marketer must understand the way the company's product is perceived by consumers, the importance of price as a purchase decision variable and how different price levels would affect sales. It is only through consumer behaviour study in actual buying situations that the marketer can hope to find answers to these important issues.

- **Distribution:** The next decision relates to the distribution channel, that is,
  - o where and how to offer products and services for sale.
  - o Should the products be sold through all the retail outlets or only through selected ones?
  - o Should the marketer use only the existing outlets, which also sell competing brands, or
  - o Should new exclusive outlets selling only the marketer's brands are created?
  - o Is the location of retail outlets important from consumers' point of view?
  - o Should the company think of direct marketing?

The answers to these questions are furnished by consumer behaviour research.

- **Promotion:** Promotion is concerned with marketing communications to consumers, the more important methods are advertising, personal selling, sales promotion, publicity and direct marketing. The marketer has to decide
  - o Which method would be most suitable to effectively reach the consumers.
  - o Should it be advertising alone or should it be combined with sales promotion?
  - o Where the target consumers are located,
  - o What media do they have access to and what are their media preferences, etc.

In most cases of industrial products there is very little or no advertising. Brochures containing technical specifications are often posted to the clients and the salespeople make follow-up visits. Consumer products get the maximum share of advertising.









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## **1.9 SELF ASSESSMENT QUESTIONS**

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- 1) Define consumer behaviour.
- 2) Differentiate between consumer and customer
- 3) Explain the significance of consumer behaviour.
- 4) Briefly explain the nature of consumer behaviour.
- 5) Discuss in detail the application of consumer behaviour in marketing.
- 6) Do a critical analysis of the concept of consumer behaviour.
- 7) Explain the challenges and difficulties in understanding the consumers.

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## **UNIT – 2 INDIVIDUAL DETERMINANTS OF CONSUMER BEHAVIOUR**

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### **Structure**

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Consumer Motivation
- 2.3 Personality
- 2.4 Self Concept
- 2.5 Consumer Perception
- 2.6 Consumer Learning
- 2.7 Consumer Attitude
- 2.8 Notes
- 2.9 Summary
- 2.10 Key Words
- 2.11 Self Assessment Questions
- 2.12 References

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## **2.0 OBJECTIVES**

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After studying this unit you should be able to:

- Assess the individual influences on consumer behaviour;
- Identify the elements of motivation;
- Analyze the personality perspectives;
- Explain the self concept development;
- Describe the elements of perception;
- Discuss about the consumer learning and
- Narrate the models of attitude.

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## **2.1 INTRODUCTION**

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The impact of external environment on individual determinants demonstrates that environmental stimuli do not directly influence consumers. Instead, the stimuli are modified by internal influences such as learning, personality, attitudes, information processing, and motives.

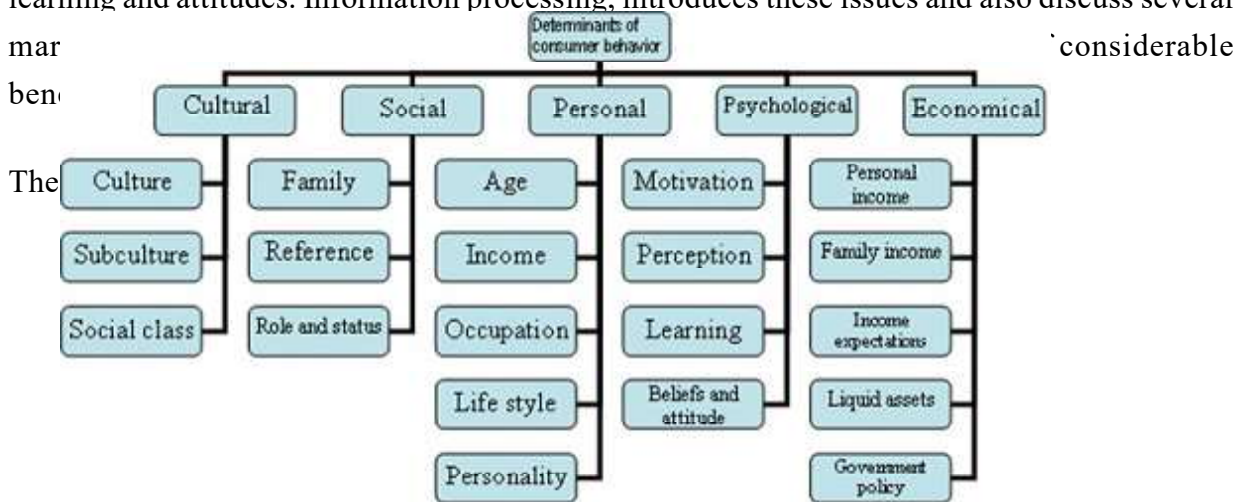
There are five major groups of individual determinants: personality and self concept, motivation and involvement, information processing, learning and memory, and attitudes.

Personality and self concept provide the consumer with a central theme. That is, they provide structure for the individual so that a consistent pattern of behaviour can be developed. Several major personality theories are examined for their usefulness in understanding consumers. How the self concept develops, its role in influencing purchase decisions and the practical relevance of the subject to the marketer are reviewed in this unit.

Motives are internal factors that energize behaviour and provide guidance to direct the activated behaviour. Involvement describes the personal relevance or importance that the consumers perceives in a given purchase situation. High involvement will lead to a motivated

state. Various types of involvement and motive situation factors that influence them, and their influence on the behaviour of consumer are also discussed in this unit.

The term information processing refers to the activities that consumers engage in when acquiring integrating and evaluating information. These activities involve actively seeking information or passively receiving it, attending to only certain parts of the information, integrating that which has been attended to with information from other sources, and evaluating the information for the purposes of making decisions. Such activities are varied and occur at all stages of the decision process. They also strongly involve some individual factors, including motivation, learning and attitudes. Information processing, introduces these issues and also discuss several mar



**FIG 2.1 Determents of Buyer Behaviour**

What consumers learn, how they learn, and what factors govern the retention of learned material in memory are all issues of considerable importance for understanding consumers. Not only do consumers acquire and remember product names and characteristics, but they also learn standards for judging products, places to shop, and problem solving abilities, behaviour patterns, and tastes. Such learned material stored in memory significantly influences how consumers react to each situation that they confront.

Attitudes guide our basic orientation toward objects, people, events, and our activities. As such, attitudes strongly influence how consumers will act and react to products and services, and how they will respond to communications that marketers develop to convince them to purchase their products. After a review of the nature and function of attitudes, attention is turned to how attitudes are formed and how they are related to purchase behaviour.

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## **2.2 CONSUMER MOTIVATION**

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Motivation is an inner drive that reflects goal-directed arousal. In a consumer behaviour context, the result is a desire for a product, service, or experience. It is the drive to satisfy needs and wants, both physiological and psychological, through the purchase and use of products and services.

### **2.2.1 Basics of Motivation:**

People are motivated by many things, some positive others not. Some motivating factors can move people only a short time, like hunger which will last only until you are fed. Others can drive a person onward for years.

Motivation is the driving force within individuals that impels them to action. Motivation is the activation or energization of goal-oriented behaviour. Motivation may be intrinsic or extrinsic. The term is generally used for humans but, theoretically, it can also be used to describe the causes for animal behaviour as well. According to various theories, motivation may be rooted in the basic need to minimize physical pain and maximize pleasure, or it may include specific needs such as eating and resting, or a desired object, hobby, goal, state of being, ideal, or it may be attributed to less-apparent reasons such as altruism, morality, or avoiding mortality.

### **Needs:**

Needs are the essence of the marketing concept. Marketers do not create needs but can make consumers aware of needs. A need is something that is necessary for humans to live a healthy life. Needs are distinguished from wants because a deficiency would cause a clear negative outcome, such as dysfunction or death. Needs can be objective and physical, such

as food and water, or they can be subjective and psychological, such as the need for self-esteem. On a societal level, needs are sometimes controversial, such as the need for a nationalized health care system. Understanding needs and wants is an issue in the fields of politics, social science, and philosophy.

### **Types of Needs**

- **Innate Needs:** Physiological (or biogenic) needs that are considered primary needs or motives
- **Acquired Needs:** Learned in response to our culture or environment. They are generally psychological and considered secondary needs

### **Goals:**

A goal or objective is a projected state of affairs that a person or a system plans or intends to achieve—a personal or organizational desired end-point in some sort of assumed development. It is the sought-after results of motivated behaviour.

### **Types of goals:**

- **Generic goals:** Are general categories of goals that consumers see as a way to fulfill their needs
- **Product-specific goals:** Are specifically branded products or services that consumers select as their goals.

#### **2.2.2 Rational versus Emotional Motives**

- **Rationality** implies that consumers select goals based on totally objective criteria such as size, weight, price, or miles per gallon. It is a conscious, logical reason for a purchase. It is a motive that can be defended by reasoning or logical argument.
- **Emotional** motives imply the selection of goals according to personal or subjective criteria. It is a feeling experienced by a customer through association with a product.

#### **2.2.3 The Dynamic Nature of Motivation**

- Needs are never fully satisfied.
- New needs emerge as old needs are satisfied.
- People who achieve their goals set new and higher goals for themselves.

#### **2.2.4 Arousal of Motives:**

The arousal of any particular set of needs at a specific moment in time may be caused by internal stimuli found in the individual's physiological condition, by emotional or cognitive processes or by stimuli in outside environment.

- Physiological arousal
  - Emotional arousal
  - Cognitive arousal
  - Environmental arousal
- 1. Physiological Arousal** Bodily needs at any one specific moment in time are based on the individual physiological condition at the moment. E.g. A drop in blood sugar level or stomach contractions will trigger awareness of a hunger need. E.g. A decrease in body temperature will induce shivering, which makes individual aware of the need for warmth
  - 2. Emotional Arousal** Sometime daydreaming results in the arousal (autistic thinking) or stimulation of latent needs. People who are bored or who are frustrated in trying to achieve their goals or often engage in daydreaming, in which they imagine themselves in all sorts of desirable situations. E.g. A young woman who may spend her free time in internet single chat room.
  - 3. Cognitive arousal** Sometime random thoughts can lead to a cognitive awareness of needs. An advertisement that provides reminders of home might trigger instant yearning to speak with ones parents.
  - 4. Environment arousal** The set of needs an individual experiences at particular time are often activated by specific cues in the environment. Without these cues the needs might remain dormant, e.g. The 8'o clock news, the sight or smell of bakery goods,

fast food commercials on television, all these may arouse the need for food Ex..New cell phone model display in the store window.

### **2.2.5 Frustration:**

Failure to achieve a goal often result in feeling of frustration (inability to attain goal-frustration comes) Limited physical or Financial resources, obstacle in the physical or social environment. In such frustration people are likely to adopt a defense mechanism to protect their egos from feelings of inadequacy.

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## **2.3 PERSONALITY**

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To understand a buyer needs and convert them into customers is the main purpose of the consumer behaviour study. To understand the buyer habits and his priorities, it is required to understand and know the personality of the buyer.

Personality signifies the inner psychological characteristics that reflect how a person reacts to his environment. Personality shows the individual choices for various products and brands. It helps the marketers in deciding when and how to promote the product. Personality can be categorized on the basis of individual traits, likes, dislikes etc.

Though personality is static, it can change due to major events such as death, birth or marriage and can also change gradually with time. By connecting with the personality characteristics of an individual, a marketer can conveniently formulate marketing strategies. You must have read various persoanlity theories in your first semester.

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## **2.4 SELF CONCEPT**

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Self concept is defined as the way, in which we think, our preferences, our beliefs, our attitudes, our opinions arranged in a systematic manner and also how we should behave and react in various roles of life. Self concept is a complex subject as we know the understanding of someone's psychology, traits, abilities sometimes are really difficult. Consumers buy and use products and services and patronize retailers whose personalities or images relate in some way or other to their own self-images.

Traditionally, individuals are considered to be having a single self-image which they normally exhibit. Such type of consumers are interested in those products and services which match or satisfy these singleselves. However, as the world became more and more complex, it has become more appropriate to think of consumers as having multipleselves.



### **2.4.1 What is Self-Concept?**

Self-concept can be viewed as a person's perception of himself which includes his physical being, other characteristics such as strength and good humor in relation to others, and even extending to include certain possessions and his creations. Although the self-concept is highly complex, it is well organized and works in a consistent way. To the outside observer, a person may appear irrational and inconsistent in his/her behaviour, but the individual taking such action is behaving in the only way he/she knows, given his/her frame of reference. When this individual's point of view is known, it usually becomes clear that she is not acting in an inconsistent way.

### **2.4.2 Self-Concept is Organized**

We all have various views about ourselves. We all may think we are kind, calm, patient, selfish, rude and what not. It doesn't matter what perception you have about yourself, but the one perception that facilitates all these insights is organized self concept. When a person believes in something that matches his self concept he sticks to his view and does not agree to change the same and even if does, it takes a lot of time.

### **2.4.3 Self Concept is Learned**

It is believed that self concept is learned and no person is born with a self concept. It develops as and when we grow old. Our self concept is built when we meet people socially and interact with them. We are the ones who shape or alter our self concept and its quite natural that we may have a self concept different for ourselves as compared to what people think about us.

**For example** " If an individual thinks, he is very generous and helpful, it may not necessarily be the case with others. Others may see him as a selfish person.

### **2.4.4 Self Concept is Dynamic**

Our self concept in life is not constant and it may change with instances that take place in our lives. When we face different situations and new challenges in life, our insight towards things may change. We see and behave according to the things and situations.

Thus, it is observed that self concept is a continuous development where we let go things that don't match our self concept and hold on those things that we think are helpful in building our favorable perception.

Self concept is the composite of ideas, feelings, emotions and attitudes that a person has about their identity and capabilities.

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## 2.5 CONSUMER PERCEPTION

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Our human brain attempts to make sense out of the stimuli to which we are exposed and our perception is an approximation of reality.

### 2.5.1 Perception Influencers

The following are the factors/theories, which can influence our perception:

**Exposure:** Exposure is the extent to which it encounters stimulus. Exposure is not enough to significantly impact the individual.

For example, in our daily life, we come across a number of hoardings, advertisements, banners etc. However, we don't pay much attention to them or tend to seek it out, but, if we want to purchase something, say, a motorbike, we may deliberately take effort and seek out such advertisements. Attention is a matter of degree. Our attention may be quite high when we read the directions mentioned on a road map and quite low when a commercial comes on the T.V.

**Weber's Law:** Weber's law gives a theory concerning the perceived differences between similar stimuli of varying intensities. The stronger is the initial stimulus, the greater is the additional intensity needed for the second stimulus to be perceived as different.

For example, If there is a one and half inch reduction in the size of a five inch candy bar, it won't get noticed a bit but if the two inch long chewing gum gets reduced, then it would be noticed.

**Subliminal Stimuli:** Subliminal Stimuli represent the words or pictures so as to be unidentifiable to the viewer's conscious perception. Images may be flashed before the eye too quickly for the conscious mind to apprehend.

### 2.5.2 Elements of Perception

#### Sensation

Sensation is the immediate and direct response of the sensory organs to stimuli. A stimulus may be any unit of input to any of these senses.

Examples of stimuli include products, packages, brand names, advertisements and commercials. Sensory receptors are the human organs that receive sensory inputs. Their

sensory functions are to see, hear, smell, taste and feel. All of these functions are called into play, either singly or in combinations, in the evaluation and use of most consumer products.

### **Attention**

Attention always precedes perception. Attention is the central process and perception is not at all possible without attention. The process of attention serves the various functions in the organization of our perception and other cognitive functions.

### **Functions of Attention**

The following are some of the key functions relating to Attention, which are listed below “

#### **Alerting Function**

Attention here refers to a state of focused awareness with the readiness to respond. Distraction in such a case occurs with some interference which prevents the individual to continue with the task.

#### **Selective Function**

The most important function of attention is selectivity. The selective function acts as a filter that allows information in and the unwanted information out. Here, the attention is focused on stimulus of ongoing interest, others being ignored.

For example, when you are in a tea party organized by your friend, you take a plate of snacks and cup of tea and stand chatting in your group of friends. While you are chatting, if you suddenly hear your name from some other group, your attention is diverted and you might start paying attention towards the group where you heard your name. This example shows that we can selectively attend to one task at a time and the ongoing task in this case is ignored.

#### **Limited Capacity Channel**

It has been observed that we have quite limited capacity to process information that is available in the outside world. It means, we can process one task at a time. The task that requires multi-tasking cannot be carried out simultaneously because we have limited capacity to process the information.

For example, it is difficult to study or learn something from your book while you are listening to music. It is difficult as the task requires a lot of attention, so it is difficult to perform both simultaneously unless one task is highly practiced and done in routine to carry out these functions.

### **Vigilance Function**

Maintaining attention on a continuous task for a long time leads to vigilance. It has been observed that, attending to a task for long, particularly if the task is monotonous leads to poor performance.

**For example** “ When you go on writing the same thing for 700 times, you tend to make mistakes after some time and this is because of central fatigue occurring due to monotonous task.

Thus, attentional processes serves the tuner function in filtering information selected for further processing that finally leads to perception.

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## **2.6 CONSUMER LEARNING**

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According to Kotler’s Definition, learning involves changes in an individual’s behaviour arising out of the experience. Most of the human behaviour is learned over time, out of the experience.

Following are the features of consumer learning.

- Consumer learning is a process. A process which continually changes and acquires new knowledge.
- This knowledge can be obtained from reading, discussing, observing, thinking, etc.
- Newly acquired knowledge or personal experience, both serve as feedback.

### **2.6.1 Elements of Consumer Learning**

**Motivation** is the driving force of all important things to be learnt. Motives allow individuals to increase their readiness to respond to learning. It also helps in activating the energy to do so. Thus the degree of involvement usually determines the motivation to search information about a product.

For example, showing advertisements for summer products just before summer season or for winter clothes before winters.

Motives encourage learning and cues stimulate the direction to these motives.

**Cues** are not strong as motives, but their influence in which the consumer responds to these motives.

For example, in a market, the styling, packaging, the store display, prices all serve as cues to help consumers to decide on a particular product, but this can happen only if the consumer has the motive to buy. Thus, marketers need to be careful while providing cues, especially to consumers who have expectations driven by motives.

**Response** signifies how a consumer reacts to the motives or even cues. The response can be shown or hidden, but in either of the cases learning takes place. Often marketers may not succeed in stimulating a purchase but the learning takes place over a period of time and then they may succeed in forming a particular image of the brand or product in the consumer's mind.

**Reinforcement** is very important as it increases the probability of a particular response in the future driven by motives and cues.

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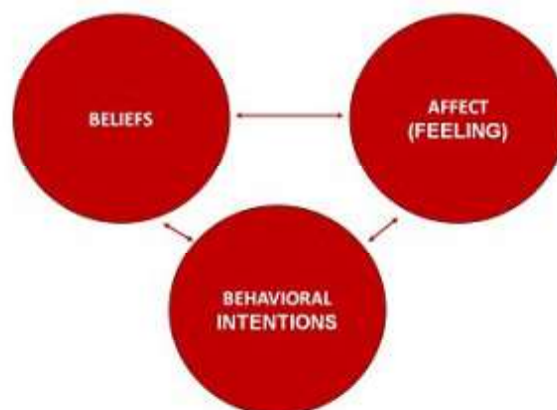
## 2.7 CONSUMER ATTITUDE

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Consumer attitude may be defined as a feeling of favorableness or unfavorableness that an individual has towards an object. As we, all know that an individual with a positive attitude is more likely to buy a product and this results in the possibility of liking or disliking a product.

Consumer attitude basically comprises of beliefs towards, feelings towards and behavioural intentions towards some objects.

**FIGURE 14.3 : COMPONENTS OF SERVICE BLUEPRINT**



## FIG 2.2 CONSUMER ATTITUDE

**Belief** plays a vital role for consumers because, it can be either positive or negative towards an object. For example, some may say tea is good and relieves tension, others may say too much of tea is not good for health. Human beliefs are not accurate and can change according to situations.

Consumers have certain specific feelings towards some products or brands. Sometimes these feelings are based on certain beliefs and sometimes they are not. For example, an individual feels uneasy when he thinks about cheese burst pizza, because of the tremendous amount of cheese or fat it has.

**Behavioural intentions** show the plans of consumers with respect to the products. This is sometimes a logical result of beliefs or feelings, but not always. For example, an individual personally may not like a restaurant, but may visit it because it is the hangout place for his friends.

### 2.7.1 Models of Attitude

The following are the models of attitude.

- **Tri-component Model** “ According to tri-component model, attitude consists of the following three components.
- **Cognitive Component** “ The first component is cognitive component. It consists of an individual’s knowledge or perception towards few products or services through personal experience or related information from various sources. This knowledge, usually results in beliefs, which a consumer has, and specific behaviour.
- **Affective Component** “ The second part is the affective component. This consists of a person’s feelings, sentiments, and emotions for a particular brand or product. They treat them as the primary criteria for the purpose of evaluation. The state of mind also plays a major role, like the sadness, happiness, anger, or stress, which also affects the attitude of a consumer.



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## **2.9 SUMMARY**

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There are several factors contributing to the difficulty in studying consumer behaviour. In the first place, consumer behaviour is mostly about the psychological processes that underlie consumer choice. These processes are generally difficult to fathom. Besides the psychological processes, the individual determinants too impact the behaviour. His/her needs and desires are innumerable, varying from security needs to aesthetic needs. They are also at different stages of emergence and actualization at a given point of time. In addition, they occupy different priorities in the buyer's scheme of things and the buyer has his/her own ideas and plans about realizing them. Uncovering this process is a difficult task. No wonder, the buyer is described as a riddle, an enigma.



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## 2.10 KEY WORDS

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Motivation	personality	self-concept
Perception	Consumer learning	consumer attitude
Trait theory	tri-component model	cues
Response	reinforcement	attitude change
Maslow's need hierarchy theory	Classical conditioning theory	

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## 2.11 SELF ASSESSMENT QUESTIONS

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- 1) Define and explain motivation with diagrammatic representation.
- 2) What is frustration?
- 3) Define personality.
- 4) What is Id, Ego and Superego?
- 5) What do you mean by self-concept?
- 6) List out the elements of perception.
- 7) Briefly explain Maslow's need hierarchy theory.
- 8) "Learning leads to change in behaviour" – Explain.
- 9) What is attitude?
- 10) Briefly explain the models of attitude.

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## 2.12 REFERENCES

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## **UNIT -3: ENVIRONMENTAL INFLUENCES ON CONSUMER BEHAVIOUR**

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### **Structure :**

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Culture
- 3.3 Sub-culture
- 3.4 Social Class
- 3.5 Group
- 3.6 Reference group
- 3.7 Family influences
- 3.8 Personal Influences
- 3.9 Diffusion of Innovation
- 3.10 Notes
- 3.11 Summary
- 3.12 Key Words
- 3.13 Self Assessment Questions
- 3.14 References

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### **3.0 OBJECTIVES**

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After studying this unit you should be able to:

- Assess the environmental influences on consumer behaviour;
- Explain the culture and sub-culture;
- Identify the characteristics of culture;
- Analyze the role of family in changing consumer behaviour;
- Describe the concept of the diffusion of innovation;
- Measure the personal influences on consumer behaviour and
- Discuss about the reference group.

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### **3.1 INTRODUCTION**

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An individual has his own choice and mindset. Consumer buying behaviour eventually refers to the buying behaviour of an individual. An individual can get affected by the environment in which he lives, his culture, his social class, his psychology and his personality. Now, marketers need to understand this psychology and the mindset of these consumers, also, understand what all factors influence their behaviour to develop effective marketing strategies. The task becomes particularly difficult in present times, firstly, today, markets everywhere present a highly diverse consumer base. Second, today's consumers are characterised by a greater amount of complexity. It springs out of the environment in which they operate today.

On the one hand, they are knowledgeable and aware. At the same time, they have to cope with the information overload. They enjoy a multitude of choices. At the same time, the choices often confuse them. The sales environment around them is also complex, with large number of competitors in each category and a multitude of ways for connecting with companies, products and brands.

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### **3.2 CULTURE**

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It is defined as a complex sum total of knowledge, belief, traditions, customs, art, moral law or any other habit acquired by people as members of society. Our consumer

behaviour, that is the things we buy are influenced by our background or culture. Different emphasis is given by different cultures for the buying, use, and disposing of products. People in South India have a certain style of consumption of food, clothing, savings, etc. This differs from the people in the North of India. Different cultures and habits are predominant in different parts of the world. Japanese have a different culture from that of USA, England or Arabian countries. Therefore, in consumer behaviour culture plays a very important part.

Culture is a very important aspect to understand the behaviour of a consumer. It signifies the set of values of a particular community.

An individual decides to behave in a certain manner because of his culture. He gets all these values from his parents and family. Every individual has different sets of values as compared to others, what they see from their childhood when they start practicing those habits, they become their culture.

Culture does vary from individual to individual, region to region, and country to country, so the marketer needs to pay a lot of attention in analyzing the culture of various regions and groups. Throughout the process, the consumer is under influence of his culture as his friends, family, society, and his prestige influence him.

For a marketer, it is very crucial to take all these things into consideration while analyzing or observing a consumer's behaviour as they play a vital role in his behaviour, perception and expectations.

For example, if we observe the taste and preferences, people in southern India prefers rice to roti whereas north Indian people prefer roti than rice.

### **3.2.1 Characteristics of Culture**

- Culture is learned
- Culture regulates society – norms, standards of behaviour, rewards and punishments
- Culture makes life more efficient
- Culture is adaptive
- Culture is environmental

Culture also determines what is acceptable with product advertising. Culture determines what people wear, eat, reside and travel. Cultural values in India are good health, education, respect

for age and seniority. But in our culture today, time scarcity is a growing problem, which implies a change in meals.

### 3.2.2 Some changes in our culture are:

1. **Convenience:** As more and more women are joining the work force there is an increasing demand for products that help lighten and relieve the daily household chores, and make life more convenient. This is reflected in the soaring sale of washing machines, microwaves, pressure cookers, mixer-grinders, food processors, frozen food etc.
2. **Education:** People in our society today wish to acquire relevant education and skills that would help improve their career prospects. This is evident from the fact that so many professional, career oriented educational centers are coming up, and still they cannot seem to meet the demand. As a specific instance count the number of institutional offering courses and training in computers that has opened in your city.
3. **Physical Appearance:** Today, physical fitness, good health and smart appearance are on premium today. Slimming centers and beauty parlors are mushrooming in all major cities of the country. Cosmetics for both women and men are being sold in increasing numbers. Even exclusive shops are retailing designer clothes.
4. **Materialism:** There is a very definite shift in the people's cultural value from spiritualism towards materialism. We are spending more money than ever before on acquiring products such as air-conditions, cars, CD players etc, which adds to our physical comfort as well as status.

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## 3.3 SUB-CULTURE

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Within a culture, there are many groups or segments of people with distinct customs, traditions and behaviour. In the Indian culture itself, we have many subcultures, the culture of the South, the North, East and the West. Hindu culture, Muslim culture, Hindus of the South differ in culture from the Hindus of the North and so on. Products are designed to suit a target group of customers which have similar cultural background and are homogeneous in many respects.

Culture can be divided into subcultures. A subculture is an identifiable distinct, cultural group, which, while following the dominant cultural values of the overall society also has its own belief, values and customs that set apart from other members of the same society.

**Regional, Ethnic and Religious influences on consumer behaviour:** The three major aspects of culture that have important effects on consumer behaviour are regional, ethnic and religious differences. Firstly, consumption patterns may differ in various regions of India and the world, and marketing strategy can sometimes be tailored specifically to these regions.

Secondly, our country has a number of different ethnic groups, and population trends will dramatically alter the demographics profile of the country in the next 50 years. The very diverse Asian American subculture is described as young and having higher socioeconomic status, placing strong value on the family and the group, and being strongly brand loyal.

Finally, religious beliefs and values can influence consumer. Many marketers are now becoming multicultural in their marketing activities by trying to appeal to a variety of cultures at the same time. Although the diversity of the Indian melting pot may be unique, there are many important ethnic groups in other areas of the world.

**3.3.1 Age, Gender, and Household influences on consumer behaviour:** Among the four major age groups, Teens, who need to establish an identity, are the consumers of tomorrow and have an increasing influence on family decisions. The somewhat disillusioned Generation X consists of smart and cynical consumers who can easily see through obvious marketing attempts. Baby boomers grew up in a very dynamic and fast-changing world, and this has affected their values for individualism and freedom. The 50 and older segment can be divided into two groups – the young again and the gray market.

Gender is consistent throughout lifetime, influencing customer values and preferences. Gender shows different consumption patterns and perceptions of consumption situations – e.g. the wedding ceremony.

Households play a key role in consumer behaviour. The proportion of non-traditional households has increased due to factors such as later marriages, co-habitation, dual-career families, increased divorce and fewer children. Households also exert an important influence on acquisition and consumption patterns.

**3.3.2 Psychographics: values, personality and lifestyles:** the roles of psychographics in affecting consumer behaviour are detailed below. Values are enduring beliefs about things that are important. They are learned through the processes of socialization and acculturing. Our values exist in an organized value system, with some values being

viewed as more important than others. Some are regarded as terminal values and reflect desired end states that guide behaviour across many different situations.

Personality consists of the distinctive patterns of behaviours, tendencies, qualities and personal dispositions that make people different from one another. Approaches to the study of personality include:

- The psychoanalytic approach, which sees personality arising from unconscious internal struggles within the mind at key stages of development.
- Trait theories, which attempt to identify a set of personality characteristics that describe and differentiate individuals, such as introversion, extroversion and stability.
- Behavioural approaches, which view an individual's personality in terms of past rewards and punishments.

Marketers also measure lifestyles, which are patterns of behaviour (or activities, interests and opinions). These lifestyles can provide some additional insight into consumer's consumption patterns. Finally, some marketing researchers use psychographic techniques that involve all of these factors to predict consumer behaviour.

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### 3.4 SOCIAL CLASS

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The social groups or membership groups to which an individual belongs are the social classes that influence him. In the social classes, we usually find people with similar values, lifestyle and behaviour. Now a marketer or a researcher needs to pay attention here because generally the buying behaviour of people in a particular social class to some extent is similar, though the level of influence may be low or high, he can tailor his marketing activities according to different social classes. Social perception is a very important attribute that influences the buying behaviour of an individual.

**Example** “ A person from a low-income group may focus on price while making the purchase while a person from a higher income group may consider the quality and uniqueness of the product.

Sometimes an individual also is influenced by a social group to which he does not belong, but wishes to get connected with others. For example, in a college a student is in no need to buy a smart phone but purchases it to be part of that group and be accepted by them.



Marketers need to understand these situations well and plan their strategies accordingly for such social benefits. Individuals play various roles in the consumer buying process “

- **Initiator** “ Initiator is usually the person who comes up with an idea and suggests the purchase.
- **Influencer** “ He is the individual who actually pushes for the purchase. He highlights the benefits of the product. This individual can be from the family or friend or outside the group too.
- **Decision Maker** “ He is generally the person who takes the final decision or the final call after analyzing all the pros and cons of the product. He may not necessarily be the final buyer as he may also take the decision on behalf of the consumer.

For example, a father might decide on buying a laptop for his son or a brother might decide on the best career option for his sister.

- **Buyer** “ Buyer is generally the end user or the final consumer who uses the product.

By social class we refer to the group of people who share equal positions in a society. Social class is defined by parameters like income, education, occupation, etc. Within a social class, people share the same values and beliefs and tend to purchase similar kinds of products. Their choice of residence, type of holiday, entertainment, leisure all seem to be alike. The knowledge of social class and their consumer behaviour is of great value to a marketer.

### 3.4.1 Social Group Influences

A group is a collection of individuals who share some consumer relationship, attitudes and have the same interest. Such groups are prevalent in societies. These groups could be primary where interaction takes place frequently and, consists of family groups. These groups have a lot of interaction amongst themselves and are well knit. Secondary groups are a collection of individuals where relationship is more formal and less personal in nature.

These could be political groups, work group and study groups, service organisations like the Lions, Rotary, etc. The behaviour of a group is influenced by other member of the group. An individual can be a member of various groups and can have varied influences by different members of groups in his consumption behaviour. An individual can be an executive in a company, can be a member of a political party. He may be a member of a service organisation

and of entertainment clubs and study circles. These exert different influences on his consumption.

### 3.4.2 Social Status

A social status of an individual usually comprises of an individual's attitude, class and prestige. It depends on the way he carries himself socially or the position at which he is in his work or family or even in his group of friends. The social status of an individual influences his consumption pattern.

**Example** “ A CEO may want to have a celebration and give a party to his colleagues, friends and family, so for his social status he may want to book a five star hotel, something like Taj or Oberoi instead of any other normal hotel.

A purchase decision takes place because of the above-mentioned factors. A consumer is influenced by his culture, environment, family, social status and groups. Companies need to understand these factors and develop strategies and market themselves accordingly to meet the needs of the consumers and increase sales.

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## 3.5 GROUP

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Group consists of people who have a sense of relatedness as a result of interaction with each other. Not every collection of individuals is a group, as the term is used by sociologists. Actually, we can distinguish three different collections of people: aggregations, categories and groups. An aggregation is any number of people who are in close proximity to one another at a given time. While, a category is any number of people who have some particular attributes in common.

### Classification of Group

**3.5.1 Primary Group:** The hallmark of a primary group is that interpersonal relationships taking place usually on face-to-face basis, with great frequency, and on an intimate level. These groups have shared norms and interlocking roles. Families, work groups and even recreational groups are examples of such groups.

**3.5.2 Secondary Group:** Secondary groups are those in which the relationship among members is relatively impersonal and formalized. This amounts to a residual category

that includes all groups that are not primary, such as political parties, unions, occasional sports groups. Although such groups are secondary, the interpersonal relationships that occur may nevertheless be face-to-face. The distinction lies in the lack of intimacy of personal involvement.

**3.5.3 Formal Groups:** are those with a definite structure, for example they may have a president, vice president, secretary and treasurer. They are likely to be secondary groups designed to accomplish specific goals, whether economic, social, political or altruistic.

**3.5.4 Informal Groups:** are typically primary groups, characterised by a relatively loose structure, a lack of clearly defined goals or objectives, unstructured interactions and written rules. Because of the extent of their influence on individual's values and activities, informal groups are probably of greater importance in seeking to understand consumer behaviour.

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## **3.6 REFERENCE GROUP**

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A reference group is the group whose perspective we consider. Now our reference could be very large or very small including few of our family members or few close friends. Reference groups influence people a lot in their buying decisions. They set the levels of lifestyle, purchasing patterns, etc.

A **reference group** is a group to which an individual or another group is compared.

Sociologists call any group that individuals use as a standard for evaluating themselves and their own behaviour a reference group.

Reference groups are used in order to evaluate and determine the nature of a given individual or other group's characteristics and sociological attributes. It is the group to which the individual relates or aspires to relate him or herself psychologically. It becomes the individual's frame of reference and source for ordering his or her experiences, perceptions, cognition, and ideas of self. It is important for determining a person's self-identity, attitudes, and social ties. It becomes the basis of reference in making comparisons or contrasts and in evaluating one's appearance and performance.

Reference groups provide the benchmarks and contrast needed for comparison and evaluation of group and personal characteristics. Robert K. Merton hypothesized that

individuals compare themselves with reference groups of people who occupy the social role to which the individual aspires.

According to William Thompson & Joseph Hickey “Reference groups are groups that people refer to when evaluating their own qualities, circumstances, attitudes, values and behaviours”.

Reference groups act as a frame of reference to which people always refer to evaluate their achievements, their role performance, aspirations and ambitions. A reference group can be either from a membership group or non-membership group.

An example of a reference group being used would be the determination of affluence. An individual with an annual income of Rs 5,00,000, may consider himself affluent if he compares himself to those in the middle of the income strata, who earn roughly Rs 2,40,000 a year. If, however, the same person considers the relevant reference group to be those in the top 0.1% of households in India, those making Rs 12 Lakh or more, then the individual’s income of Rs 5,00,000 would make him or her seem rather poor.

A reference group is the group whose perspective an individual takes on in forming values, beliefs, attitudes, opinions, and overt behaviours. One considers this group as a “point of reference” when evaluating how they view their own existence in the world. Reference groups can be very small (just a few close friends) or fairly large (a sports team fan club or even a political party). For example, an aspiring politician may choose her clothing carefully so as to gain the respect of her political party.

Reference groups influence consumer behaviour in two ways. First, they set levels of aspiration, offering cues of what lifestyle and related purchasing patterns we should strive to achieve. Second, they help define the actual items/services considered acceptable for displaying those aspirations—the kind of housing, clothing, or car, for example, deemed appropriate for a member of the group.

Research has also suggested that the reference group can also be a deterrent to innovation and innovative behaviours. “Reference Group and Social Influence” provides an overview of reference group influences and the ways in which they affect behaviour. Nowadays those reference groups can exist in both our physical and digital worlds. We have seen the explosion of online realities in such places as Facebook, which, though digital, bring with them almost all the elements that exist in a physical reference group world.

## **Types of reference groups:**

### **3.6.1 Primary reference groups**

Primary reference groups are basically the set of people whom you meet every day. They can be from your family, your close friends, your roommates, etc. These people from primary groups may have a direct and strong impact in your lives and your buying decisions since they are very significant to you. Primary groups make you comfortable and give you a feeling that they are with you when you are confused about a purchase. These people give you very honest and clear advices as they are so close to you, due to which you could be more confident about the purchase. Research shows that the bond between people leads people to be effective social and satisfied consumers.

### **3.6.2 Secondary reference groups**

Secondary reference groups are usually formal and they speak less frequently. They might be professionals, your colleagues, your seniors at work or your acquaintance at club, etc. In secondary reference groups the power to influence people is quite less as compared to primary reference groups as people in these groups are not that comfortable in sharing their thoughts or views on the purchase.

### **3.6.3 Aspirational Group**

Aspirational group is the one to which a person may want to become part of. They currently are not part of that group but wish to become and get with that group. For doing the same, they try to dress, talk, act and even think the way the members of that group do.

For example, people who like Madhuri Dixit wish to become like her and meet her and so start purchasing and using all those products that she endorses.

### **3.6.4 Dissociative Group**

The people in these groups are totally opposite to the people in the aspirational group. Here people deny of becoming or getting connected to a particular group. They just hate being related to that group.

For example, if people don't like a particular community, they would never like being connected to them. So they would try all the possible ways to avoid the way in which they dress, think or act.

For example you may not like to wear a particular dress or shirt if your house maid or watch man has same type of dress or shirt.

Thus marketers need to understand the likes and dislikes of the consumers and also the groups to which they belong. Marketers should recognize the extent to which a reference group influences the consumer and he should also understand out of all the groups which group influences him the most.

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### 3.7 FAMILY INFLUENCES

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It is defined as two or more persons related by blood, marriages or adoption who reside together. Although families sometimes are referred to as households, not all households are families. As we, all know family plays a very important role in making a purchase. The family is responsible for shaping up the personality of an individual. Our attitude, perception and values are inculcated through our family.

An individual tends to have similar buying habits and similar taste and preference and consumption patterns as he gets to see within the family. Perception and family values have strong influence on the buying behaviour of an individual which they tend to keep constant.

Family of a consumer plays an important role in the decision making process. The parents, siblings, relatives all have their own views about a particular purchase.

#### 3.7.1 Following are the roles in the family decision making process

- **Influencers** “ Influencers are the ones who give ideas or information about the product or service to the consumer. Those family members who provide information and advice and influence the purchase. The housewife tells her family about the new eatery that has opened in the neighborhood and her favorable description about it influences her husband and teenaged children.
- **Gate Keepers** “ Gatekeepers are the family members who usually panel the information. They can be our parents or siblings too who can in any form provide us the information about the product. Those family members who control the flow of

information about a product/service thus influencing the decisions of other family members.

- **Decision Makers** “ Family or our parents who usually have the power to take decisions on our behalf are the decision makers. After completing the research they may decide to purchase a particular product or dispose a product. The husband and wife may jointly decide to buy a product or not.
- **Buyers** “ Buyer is the one who actually makes the purchase of the product. A housewife may be the person who actually buys all the food stuffs, rations and toileteries, which are consumed by all the family members.
- **End Users** “ The person who finally uses the product or consumes the service is the ultimate consumer also called as End user as per the context. All family members may use the car, watch the television and listen to the stereo music system.

### 3.7.2 Family Life Cycle

The traditional FLC describes family patterns as consumers marry, have children, leave home, lose a spouse and retire. These stages are described below. But consumers do not necessarily have to pass through all these stages, they can skip multiple stages.

1. **Bachelorhood:** Young singles may live alone, with their nuclear families, or with friends, or they may co-habitate with partners in this age. Although earnings tend to be relatively low, these consumers usually do not have many financial obligations and do not feel the need to save for their futures or retirement. Many of them find themselves spending as much as they make on two wheelers, furnishings for first residence away from home, fashions, recreation, alcoholic beverages, food away from home, vacations and other products.
2. **Newly married couples and parenthood:** Newly married couples without children are usually better off financially than they were when they were single, since they often have two incomes available to spend on one household. These families tend to spend a substantial amount of their incomes on cars, clothing, vacations and other leisure activities.

With the arrival of the first child, parents begin to change their roles in the family, and decide if one parent will stay to take care of the child or if they will both work and

buy day care services. In this stage, families are likely to move into their first home; purchases furniture and furnishings for the child; and purchase new items such as baby food, toys, sleds and skates.

- 3. Post parenthood:** As the family grows older and parents enter their mid-40s, their financial position usually continues to improve because the primary wage earner's income rises, the second wage earner is receiving a higher salary.
- 4. Dissolution:** At this time, the income earners have retired, usually resulting in a reduction in income and disposable income. Expenditures become health oriented, centering on such items as medical appliances and health, and medicines. But many of these families continue to be active and in good health, allowing them to spend time on travelling, exercising and volunteering. Many continue working part time to supplement their retirement and keep them socially involved.

A consumer gets influenced by his family members as well as friends. Since childhood the culture which he follows or the rituals which he observes and the moral values and the religious principles he usually receives are from his family. However, the individual learns fashion, attitude or style from his friends. All these attributes or traits together influence the buyer's decision making.

As has already been said, the family is the most important primary group and is the strongest source of influence on consumer behaviour. The family tradition and customs are learnt by children, and they imbibe many behavioural patterns from their family members, both consciously and unconsciously. These behaviour patterns become a part of children's lives. In a joint family, many decisions are jointly made which also leave an impression on the members of the family.

These days the structure of the family is changing and people are going in more for nucleus families which consists of parent, and dependent children. The other type of family is the joint family where mother, father, grandparents and relatives also live together.

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### **3.8 PERSONAL INFLUENCES**

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Each individual processes the information received in different ways and evaluates the products in his own personal way. This is irrespective of the influence of the family, social class, cultural heritage, etc. His own personality ultimately influences his decision. He can



have his personal reasons for likes, dislikes, price, convenience or status. Some individuals may lay greater emphasis on price, others on quality, still others on status, symbol, convenience of the product, etc. Personal influences go a long way in the purchase of a product.

**Personal factors influencing consumer behaviour are:**

**3.8.1 Age and stage in the life cycle:** As a person passes through different stages of his life he needs different set of products. Further the tastes, habits of persons change with age. They eat baby food in the early years, most foods in the growing and mature years, and special diets in the later years. Taste, clothes, furniture and recreation is also age related. Consumption is shaped by the family life cycle.

**3.8.2 Occupation and economic circumstances:** Occupation also influences a person's consumption pattern. A blue-collar worker will buy clothes, work shoes and lunch boxes. A company president will buy expensive suits, air travel, country club membership, and large sailboat. Marketers try to identify the occupational groups that have above-average interest in their products and services.

**3.8.3 Lifestyle:** People from the same subculture, social class and occupation may lead quite different lifestyles. A lifestyle is the person's pattern of living in the world as expressed in activities, interests, and opinions. Lifestyle portrays the "whole person" interacting with his or her environment. Marketers search for relationships between their products and lifestyle groups.

**3.8.4 Personality:** Each person has a distinct personality that influences buying behaviour. By personality, we mean distinguishing psychological characters that lead to relatively consistent and enduring responses to environment. Personality can be a useful variable in analyzing consumer behaviour, provided that personality types can be classified accurately and that strong correlations exist between certain personality types and product or brand choices.

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## **3.9 DIFFUSION OF INNOVATION**

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The acceptance of new products and services, ideas, new practices is known as diffusion of innovations.

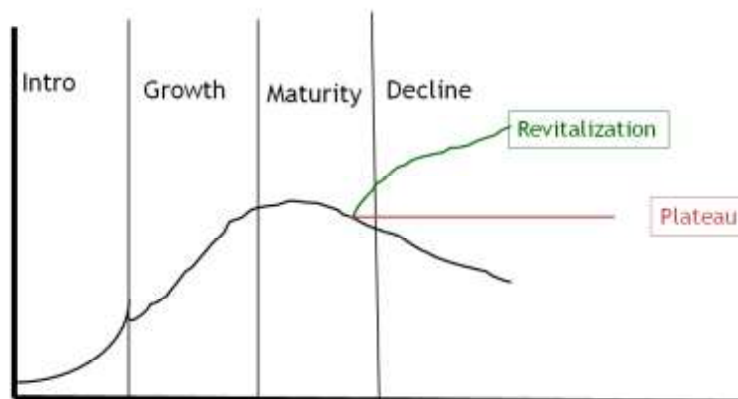
Diffusion: It is a macro process that is concerned with the spread of a new product (an innovation) from its source to the consuming public.

Perhaps the best marketing-oriented definition of the diffusion process is “the adoption of new products and services over time. The diffusion process is the manner in which innovation spread throughout a market. The term spread refers to purchase behaviour in which the product is purchased with some degree of regularity. The market can range from virtually the entire society to the students at a particular campus.

Products tend to go through a *life cycle*. Initially, a product is introduced. Since the product is not well known and is usually expensive (e.g., as microwave ovens were in the late 1970s), sales are usually limited. Eventually, however, many products reach a *growth* phase—sales increase dramatically. More firms enter with their models of the product. Frequently, unfortunately, the product will reach a *maturity* stage where little growth will be seen.

For example, in India, almost every household has at least one color TV set. Some products may also reach a *decline* stage, usually because the product category is being replaced by something better. For example, typewriters experienced declining sales as more consumers switched to computers or other word processing equipment.

The product life cycle is tied to the phenomenon of diffusion of innovation. When a new product comes out, it is likely to first be adopted by consumers who are more innovative than others—they are willing to pay a premium price for the new product and take a risk on unproven technology. It is important to be on the good side of innovators since many other later adopters will tend to rely for advice on the innovators who are thought to be more knowledgeable about new products for advice.



**FIG 3.1 PRODUCT LIFE CYCLE**

At later phases of the PLC, the firm may need to modify its market strategy.

Many firms today rely increasingly on new products for a large part of their sales. New products can be new in several ways. They can be *new to the market*—no one else ever made a product like this before. For example, Chrysler invented the minivan.

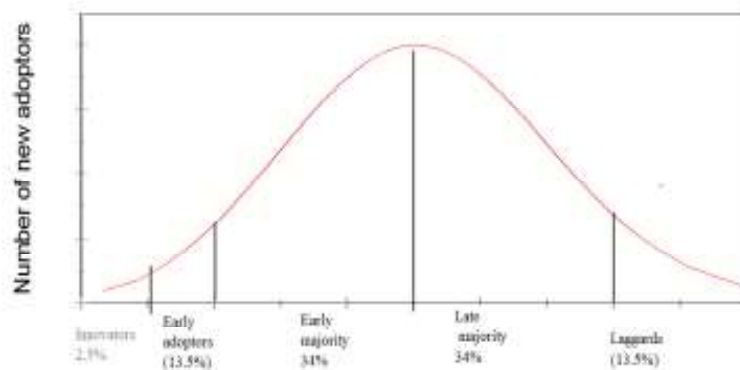
Products can also be new to the *firm*—another firm invented the product, but the firm is now making its own version. For example, IBM did not invent the personal computer, but entered after other firms showed the market to have a high potential.

Products can be *new to the segment*—e.g., cellular phones and pagers were first aimed at physicians and other price-insensitive segments. Later, firms decided to target the more price-sensitive mass market.

A product can be new for *legal purposes*. Because consumers tend to be attracted to “new and improved” product.

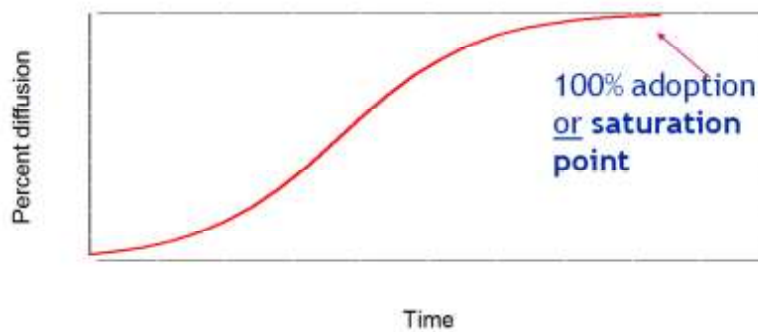
The diffusion of innovation refers to the tendency of new products, practices, or ideas to spread among people. Usually, when new products or ideas come about, they are only adopted by a small group of people initially; later, many innovations spread to other people.

### Adoption of Innovations Over Time



**FIG 3.2** Adoption of Innovation Over Time

The bell shaped curve frequently illustrates the rate of adoption of a new product. Cumulative adoptions are reflected by the S-shaped curve. The *saturation point* is the maximum proportion of consumers likely to adopt a product.



**FIG 3.3 Cumulative Adoption of Innovation Over Time**

Several specific product categories have case histories that illustrate important issues in adoption. Until some time in the 1800s, few physicians bothered to scrub prior to surgery, even though new scientific theories predicted that small microbes not visible to the naked eye could cause infection. Younger and more progressive physicians began scrubbing early on, but they lacked the stature to make their older colleagues follow.

ATM cards spread relatively quickly. Since the cards were used in public, others who did not yet hold the cards could see how convenient they were. Although some people were concerned about security, the convenience factors seemed to be a decisive factor in the “tug-of-war” for and against adoption.

The case of credit cards was a bit more complicated and involved a “chicken-and-egg” paradox. Accepting credit cards was not a particularly attractive option for retailers until they were carried by a large enough number of consumers. Consumers, in contrast, were not particularly interested in cards that were not accepted by a large number of retailers. Thus, it was necessary to “jump start” the process, signing up large corporate accounts, under favorable terms, early in the cycle, after which the cards became worthwhile for retailers to accept.

Some cultures tend to adopt new products more quickly than others, based on several factors:

- *Modernity*: The extent to which the culture is receptive to new things. In some countries, such as Britain and Saudi Arabia, tradition is greatly valued—thus, new products often don’t fare too well. The United States, in contrast, tends to value progress.

- *Homophile:* The more similar to each other that members of a culture are, the more likely an innovation is to spread—people are more likely to imitate similar than different models. The two most rapidly adopting countries in the World are the U.S. and Japan. While the U.S. interestingly scores very low, Japan scores high.
- *Physical distance:* The greater the distance between people, the less likely innovation is to spread.
- *Opinion leadership:* The more opinion leaders are valued and respected, the more likely an innovation is to spread. The style of opinion leaders moderates this influence, however. In less innovative countries, opinion leaders tend to be more conservative, i.e., to reflect the local norms of resistance.

It should be noted that innovation is not always a good thing. Some innovations, such as infant formula adopted in developing countries, may do more harm than good. Individuals may also become dependent on the innovations. For example, travel agents who get used to booking online may be unable to process manual reservations.

Sometimes innovations are *dis*adopted. For example, many individuals disadopt cellular phones if they find out that they don't end up using them much.

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### 3.10 NOTES

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### 3.11 SUMMARY

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Everybody in this world is a consumer. Every day of our life we are buying and consuming an incredible variety of goods and services. However, we all have different tastes, likes and dislikes and adopt different behaviour patterns while making purchase decisions. Many factors affect how we, as individuals and as societies, live, buy, and consume. External influences such as culture, ethnicity, and social class influence how individual consumers buy and use products. The study of culture encompasses all aspects of a society such as its religion, knowledge, language, laws, customs, traditions, music, art, technology, work patterns, products etc. Culture is an extremely critical and all pervasive influence in our life.

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### 3.12 KEY WORDS

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Culture	subculture	social class
Social status	group	primary group
Secondary group	reference group	associative group
Dissociative group	family roles	family lifecycle

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### 3.13 SELF ASSESSMENT QUESTIONS

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- 1) Define Culture.
- 2) What is sub-culture?
- 3) Explain the changes in Indian culture in last decade.
- 4) How social class is determined? Write brief note.
- 5) Define Group.
- 6) Differentiate between primary and secondary group.
- 7) What do you understand by reference group?
- 8) What is family?
- 9) Explain the family lifecycle.
- 10) Explain in brief the diffusion of innovation.

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## **UNIT-4 :CONSUMER DECISION MAKING PROCESS**

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### **Structure**

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Factors influencing consumer decision
- 4.3 Post Purchase Behaviour
- 4.4 Case Study
- 4.5 Notes
- 4.6 Summary
- 4.7 Key Words
- 4.8 Self Assessment Questions
- 4.9 References

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## 4.0 OBJECTIVES

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After studying this unit, you should be able

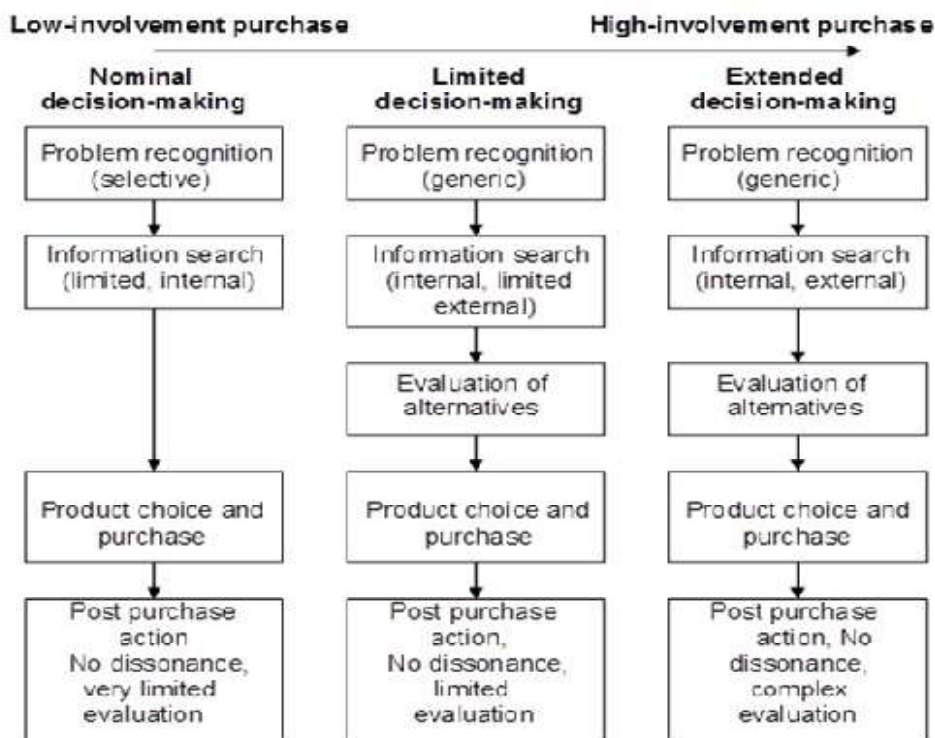
- To explain the consumer decision making process
- To identify the different stages of decision making
- To examine the types of Consumer Buying Decisions
- To assess the factors influencing the consumer decision
- To discuss the post purchase behaviour
- To describe the post purchase action

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## 4.1 INTRODUCTION

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Decision-making is a process of selecting an appropriate option from two or more alternatives. A customer enjoys the freedom of choosing a particular brand or product when there is more than one brand or product to choose from. The purchaser or consumer takes his buying decisions, for some commodities immediately without much consideration such as items of daily use while for some other commodities mainly luxury or durable items, he thinks much before taking a decision to purchase it. Sometimes, he consults with others. Generally, the purchaser passes through five distinct stages in taking a decision for purchasing a particular commodity. Consumer buying behaviour is the study of an individual or a household that purchases products for personal consumption. The process of buying behaviour is shown in the following figure “



**FIG 4.1 Process of Buying Behaviour**

### **4.1.1 Stages of Purchasing Process**

Broadly, in making a purchase decision the consumer goes through the following stages:

#### **1. Need or Problem recognition**

It is the first stage of the buying process where the consumer recognizes a problem or a requirement that needs to be fulfilled. The requirements can be generated either by internal stimuli or external stimuli. In this stage, the marketer should study and understand the consumers to find out what kinds of needs arise, what brought them about, and how they led the consumer towards a particular product.

The buying process starts when the buyer recognizes a problem or need. The need can be triggered by internal stimuli. In the former case one of the person's normal needs are hunger, thirst, sex etc rises to a threshold level and become a drive. In the later case, need is aroused by an external stimulus. Marketers need to understand the circumstances that trigger a particular need by gathering information from a number of consumers. They can then develop marketing strategies that trigger consumer interest.

#### **2. Information Search**

In this stage, the consumer seeks more information. The consumer may have keen attention or may go into active information search. The consumer can obtain information from any of the several sources. This include

- personal sources (family, friends, neighbors, and acquaintances),
- industrial sources (advertising, sales people, dealers, packaging),
- public sources (mass media, consumer-rating and organization), and
- experiential sources (handling, examining, using the product).

The relative influence of these information sources varies with the product and the buyer.

An aroused consumer will be inclined to search for more information. One can distinguish between two levels of arousal. 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 active information search; looking for reading material, phoning friends, visiting websites and visiting stores, to learn about the product of key interest to the marketers. These are the major information sources to which the consumer will turn have the relative influence will have on the subsequent purchase decision.

### 3. Evaluation of Alternatives

In this stage, the consumer uses information to evaluate alternative brands from different alternatives. How consumers go about evaluating purchase alternatives depends on the individual consumer and the specific buying situation. In some cases, consumers use logical thinking, whereas in other cases, consumers do little or no evaluating; instead they buy on aspiration and rely on intuition. Sometimes consumers make buying decisions on their own; sometimes they depend on friends, relatives, consumer guides, or sales persons. There are websites which helps in doing comparasion between brands.

There is no single evaluation process used by all consumers or by one consumer in all buying situations. There are sevral decision evaluation processes the most current models of, which see the process as cognitively oriented. That is, they see the consumer as framing judgement largely on a conscious and rational basis.

### 4. Purchase Decision

In this stage, the consumer actually buys the product. Generally, a consumer will buy the most favorite brand, but there can be two factors, i.e., purchase intentions and purchase decision. The first factor is the attitude of others and the second is unforeseen situational factors. The consumer may form a purchase intention based on factors such as usual income, usual price, and usual product benefits.

In the evaluation stage the consumer forms preference among the brands in the choice. The consumer may also form an intention to buy the most preferred brand. A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by perceived risk. The amount of perceived risk varies with the amount of money at stake the amount of attribute of uncertainty and the amount of consumer is self-confidence.

### 5. Post-Purchase Behaviour

In this stage, the consumers take further steps after purchase based on their satisfaction and dissatisfaction. The satisfaction and dissatisfaction depend on the relationship between consumer's expectations and the product's performance. If a product is short of expectations, the consumer is **disappointed**. On the other hand, if it meets their expectations, the consumer is **satisfied**. And if it exceeds their expectations, the consumer is **delighted**.

The larger the gap between the consumers' expectations and the product's performance, the greater will be the consumer's dissatisfaction. This suggests that the seller should make

product claims that faithfully represent the product's performance so that the buyers are satisfied.

Consumer satisfaction is important because the company's sales come from two basic groups, i.e., **new customers** and **retained customers**. It usually costs more to attract new customers than to retain existing customers and the best way to retain them is to get them satisfied with the product.

#### **4.1.2 Types of Consumer Buying Decisions**

- **Complex buying behaviour/Extensive problem solving**

This situation occurs when a consumer makes full use of the decision process. Considerable time is spent in gathering information and evaluating alternatives – both what to buy and where to buy it – before a purchase is made. The potential for cognitive dissonance is great. In this category there are expensive, complex items with which the person has had little or no experience. Perceived risk of all kinds is high. For example, a house, a first car and a life insurance policy.

- **Dissonance reducing buying behaviour/Limited problem solving**

This situation occurs when a consumer uses each step in the purchase process but does not spend a great deal of time on each of them. It requires less time than extended decision making since the person typically has some experience with both 'what' and the 'where' of the purchase. Items in this category are those that have been purchased before, but not regularly. Risk is moderate and the consumer will spend some time shopping. For example, a second car, clothing, a vacation and gifts.

At this level, consumers already have established the basic criteria for evaluating the product category and the various brands in the category.

- **Habitual buying behaviour/Routinized response behaviour**

This situation takes place when the consumer buys out of habit and skips steps in the purchase process. Customer wants to spend little or no time on shopping and the same brands are usually re-purchased often from the same retailers. This category items are bought regularly. They have little risk because of consumer experience. The key step for this type of decision making is problem awareness. For example, groceries, newspapers and haircuts.

At this level, consumers have some experience with the product category and a well-established set of criteria with which to evaluate the brands they are considering.

#### · **Variety-seeking buying behaviour/Brand switching**

Some buying situations are characterised by low involvement but significant brand differences, here consumers often do a lot of brand switching.

The market leader and others in this product category have different marketing strategies. The market leader will try to encourage habitual buying behaviour by dominating the shelf space, avoiding out-of-stock conditions and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples and advertising that presents reasons for trying something new.

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## **4.2 FACTORS INFLUENCING CONSUMER DECISION**

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The buying behaviour of consumer is affected by a number of factors which are generally uncontrollable. These factors are also known as determinants of consumer buying behaviour. All these factors affect the buying behaviour of consumer differently.

### **4.2.1 Cultural factors affecting consumer buying decision**

**1) Culture:** Culture is the most fundamental determinant of a person's wants and behaviour. It consists of the learned values, norms, rituals and symbols of society, which are transmitted through both the language and symbolic features of the society. Culture affects consumer behaviour a lot. It is the family values, beliefs, perceptions and preferences affect the consumer buying behaviour.

**2) Subculture:** Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subculture includes nationality, religious group, and communities etc. which affect the consumer behaviour. Many subcultures make up important market segments and marketers often design products and marketing programs tailored to their needs.

**3) Social class:** Virtually all human societies exhibit social stratification. Stratification sometimes takes the form of a caste system where the members of different castes are reared for certain roles and cannot change their caste membership. More frequently, stratification takes the form of social classes. Social classes are relatively homogenous and enduring division

in a society, which is hierarchically ordered and whose members share similar values, interests and behaviour. Social class means to divide the society in different social classes, the members of different social class has different likings.

#### **4.2.2 Social factor affecting consumer decision**

**1) Family:** the members of family also affect the buying behaviour of consumer. Family includes:

Influencer- the person who senses the need to buy a product

Decider - the person who takes final decision to buy the product.

User - the person who finally uses the product.

**2) Reference group:** Family alone does not affect the consumer buying behaviour but also the group outside the family also affects the consumer behaviour. It includes the persons with whom we interact like friends, neighbours, co- workers etc. Generally speaking a reference group can designate to any person or group that serves as a point of comparison or reference for an individual informing either general or specific values, attitude or behaviour.

**3) Role and status:** A person participates in many groups – family, clubs and organizations. The person's position in each group can be defined in terms of role and status. A role played by the person in the society are many - Like a person plays the role of son, husband, brother, father, businessman etc. in his life. So the consumer buying behaviour depends upon the role played by him.

#### **4.2.3 Personal factors affecting consumer decision:-**

**1) Age and life style:** As a person passes through different stages of his life he needs different set of products. The consumer buying behaviour changes with the change in the age. Like very small child need toys to play with them and when they grow they need games, computer etc. thus, liking of consumer changes with the age. Further the tastes, habits of persons change with age.

**2) Occupation:** Occupation also affects the consumer behaviour to buy the goods. Like a worker needs simple clothes while his boss needs expensive designer suits to wear. Marketers try to identify the occupational groups that have above-average interest in their products and services. Product choice is greatly affected by economic circumstances.

**3) Income:** The income also affects the consumer buying behaviour because if the person is rich he can buy anything which he wants to buy but for a poor person it is not be easy to buy the things which are beyond his pocket.

**4) Life style:** People from the same subculture, social class and occupation may lead quite different lifestyles. Lifestyle is the way of living of the person. Like some people like luxury livings while some in simple living. A lifestyle is the person's pattern of living in the world as expressed in activities, interests, and opinions. The life style of Narayana Murthy and Azim Premji is completely different form that Vijay Mallya.

**5) Personality:** Each person has a distinct personality that influences buying behaviour. By personality, we mean distinguishing psychological characters that lead to relatively consistent and enduring responses to environment. Personality includes extrovert or introvert which also affects the consumer buying behaviour.

#### **4.2.4 Psychological factors affecting consumer decision:-**

**1) Motivation:** A person has many needs at any given time. Some needs are biogenic; they arise from physiological states of tension such as hunger, thirst, discomfort etc. Other needs are psychogenic; they arise from psychological states of tension such as the need for recognition, esteem or belonging. When the buyer's need is raised to a particular level they become the motives which mean "I want to achieve this" which ultimately affect the consumer buying behaviour.

**2) Perception:** A motivated person is ready to act. How the motivated person actually acts is influenced by his or her perception of the situation. Perception is the process by which an individual selects, organizes and interprets information inputs to create a meaningful picture of the world. This is how the consumer receives, selects and organizes the information which helps him in buying the goods.

**3) Learning:** When people act, they learn. Learning involves changes in an individual's behaviour arising from experience. Most human behaviour is learned. A drive is a strong internal stimulus impelling action. Cues are minor stimuli that determine when, where and how a person responds. Learning experience is helpful in affecting consumer buying behaviour.

**4) Beliefs and attitude:** Through doing and learning, people acquire beliefs and attitudes. These in turn influence buying behaviour. A belief is a descriptive thought that a person holds about something. Belief means the opinion or mind set relating to a particular object; attitude



means the feeling of buyer towards the object. So the marketer should keep in mind the beliefs and attitude of the consumer.

Thus, all these buying characteristics influence consumer buying behaviour.

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## 4.3 POST PURCHASE BEHAVIOUR

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### 4.3.1 Definition

Simply defined, **Post-Purchase Behaviour** is the stage of the Buyer Decision Process when a consumer will take additional action, based purely on their satisfaction or dissatisfaction. The consumer's level of satisfaction or dissatisfaction is directly related to the varying relationship between their initial expectations of the product (pre-purchase), and their *perception* of the actual performance of the product (post-purchase) in their hands.

If after the purchase the consumer perceives the product's performance as matching their expectations, or even exceeding them, they will be "satisfied". If their *perception* of the product's performance is less than their expectations, then the consumer will feel "dissatisfied". The larger the gap between their expectations and the product's performance, the more is the dissatisfaction. This dissatisfaction leads to Cognitive Dissonance.

**4.3.2 Cognitive Dissonance** is buyer discomfort caused by post-purchase conflict resulting from dissatisfaction. The reality is that all purchases, big and small, will result in some degree of Cognitive Dissonance. This is always the case, because every purchase a consumer makes involves some sort of compromise, however small or minute. Since consumers form beliefs and attitudes early in the Buyer Decision Process, at some point they will be concerned about having a negative experience with the product they may chose, or potentially missing the perceived benefits of other competing brands.

The issue of Cognitive Dissonance raises an important question: Why is it so important to satisfy the consumer? It all comes back to our basic definition of marketing: Managing profitable customer relationships. The goal is to attract new customers through superior value, and to keep growing customers by delivering customer satisfaction. If we are doing these things, then we will be able to capture value from customers to create profits and build customer equity. So, if our customers are satisfied they will begin to develop brand loyalty. This brand loyalty will help us develop profitable relationships. Our satisfied customers will buy from us

again. They will become influencers in their cultural and social groups. They will pay less attention to competitors, and buy more of our products.

Dissatisfaction breeds the opposite. Consumers that perceive poor product performance will not create profits and will erode customer equity. They will not be loyal, and they will become negative influencers in their cultural and social groups, leading others away from our brands. What should we do with dissatisfied customers? We should pursue them. Even if they do not want to buy our products, we can still target them with dedicated messaging. We can directly reach out to them, and we can figure out ways to repair the relationship. These consumers can provide us with a wealth of primary data that can be used to improve our offerings and create focused marketing campaigns. Dissatisfied consumers are just as valuable as satisfied ones.

The conclusion is clear: Our job is not done once the consumer buys our product. Once a consumer buys a product they will enter some degree of post-purchase behaviour. These behaviours, based on their satisfaction or dissatisfaction, will either build customer equity and brand loyalty, or lead to eroding sales and brand image issues. This all is related to their relationship between their expectations and the perceived performance of the products in their hands. As marketers, we must have messaging ready for this specific part of the Buyer Decision Process. It is our job to encourage happy consumers to share their experiences and dive deeper into brand offerings. It is also our job to be brand advocates by reaching out to dissatisfied consumers and transforming their experience into one that leads to a profitable relationship.

#### **4.3.3 Post-purchase satisfaction**

What determines whether the buyer will be satisfied, somewhat satisfied or dissatisfied with a purchase? The buyer's satisfaction is a function of the closeness between the buyer's expectations and the product's perceived performance. If performance falls short of expectations, the customer is disappointed; if it meets expectations the customer is satisfied; if it is beyond expectations the customer is delighted. These feelings signify a difference in whether the customer buys the product again and talks favourably or unfavourably about the product to others.

#### **4.3.4 Post-purchase actions**

The consumer's satisfaction or dissatisfaction with the product will influence subsequent behaviour. If the consumer is satisfied he or she will exhibit a higher probability of purchasing the product again. Dissatisfied consumer 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 like business, private or government agencies.

#### **4.3.5 Post-purchase use and disposal**

Marketers should also monitor how buyers use and dispose of the product. If consumers store the product in a closet, the product is probably not very satisfying and word-of-mouth will not be strong. If they sell or trade the product, sales of new product will be depressed. Consumer may also find new uses of the product.

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## **4.4 CASE STUDY**

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### **Dynamics of the Indian Consumer**

Fast-changing consumerism in India over less than two decades has made life more than a little difficult for marketers and analysts who have been trying to understand the changing dynamics of the Indian marketplace.

Gone are the days when consumers could be neatly slotted into a definite category based on a single indicator since consumers and consumerism have turned into more complex proposition, looking for more value and satisfaction for their money.

For instance, two decades ago, ownership of consumer durables by the SEC-A profile consumers and the SEC-C consumer would have been distinctly different. Not anymore. Today, you can expect both groups of consumers to have access to mobile phones, television sets and computers and other gizmos.

Similarly, absolute income data no longer provides validity over a long period of time. To illustrate, going by the income data of 1985-86 those that were classified as the 'low income group' has almost ceased to exist as of 2007-08.

As a result, the conceptual framework and approach of consumer research, resulting in meaningful insights have come into play. Psychographics today play a significant role in determining spending patterns of consumers. As linkages between rural and urban India have

grown, the rural-urban divide in consumer behaviour too has begun to be less stark than it used to be.

Increasingly, the challenge for analysis is to come up with an integrated model those factors in income data, product ownership data, and demographics related information and expenditure and savings data to create holistic, reliable and a multi-dimensional profile of today's Indian consumer.

Let's take income data, for instance. Typically, income refers to new earnings of individuals and households during a year. It is an indicator of the earning capability of the household and in combination with consumption data should be able to provide useful information for marketers who are seeking to understand key consumer segments, their purchasing power consumption behaviour.

However, the problem with income data is that there is rampant understatement of income which often raises doubts about the interpretation of this data. It also raises concerns about the validity of the data.

However, where income data does come in handy is when it is analyzed in terms of income distribution by "quintiles". That is, to measure income distribution, the households are first ranked from highest to lowest income and then the households are divided into five groups or quintiles to determine the share of total income of each quintile, ranging from the Bottom (or first quintile) up to the Top (or fifth quintile). It provides a clear picture about the different consumer segments and how they compare with each other. In a diverse country such as India where there is significant diversity in socio-economic conditions and the gap between the top-earning households and the lowest-income earning families is huge, it becomes necessary to look at the data through the filter of quintiles and deciles.

#### Questions

1. Explain the complexities of the problems faced by Indian consumers because of fast changing consumerism.
2. What kind of role psychographics plays in determining spending pattern of Indian consumers?
3. Is there any difference between Urban and Rural consumer behaviour today?





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#### 4.6 SUMMARY

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When the buyer takes buying decisions, no rigid rule binds him. In some cases he takes the decision on the spot. In some others, he decides after a long search, after evaluating the various alternatives available, and after reassuring himself with the opinion of those who have already purchased product. Interestingly, an on the spot decision does not necessarily mean an irrational decision, nor does a carefully arrived at decision necessarily mean a perfectly rational decision. For example, in the latter case, it is quite possible that subsequently he comes to feel his purchase was impulsive or even foolish! Sometimes, the buyer goes to a shop after having taken the decision to buy a product; but does not buy it. For no apparent reason, he postpones the purchase or even drops the very idea of purchasing the product! Moreover in many cases, the buyer's decision does not wait for the evaluation of all the alternatives available to him.

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#### 4.7 KEY WORDS

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Consumer decision making	need recognition	information search
Evaluation of alternatives	purchase behaviour	post purchase behaviour
Extensive problem solving	limited problem solving	culture
Subculture	motivation	beliefs and attitudes
Cognitive dissonance		

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#### 4.8 SELF ASSESSMENT QUESTIONS

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- 1) What do you mean by consumer decision making?
- 2) Explain the consumer decision making process with a neat diagram.
- 3) Describe the types of consumer buying decisions.
- 4) Explain the factors influencing the consumer decision making.
- 5) Define Post purchase behaviour.
- 6) What is cognitive dissonance?
- 7) What do you mean by post purchase satisfaction?

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#### 4.9 REFERENCES

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**DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT**

**M.B.A III SEMESTER**

**ELECTIVE : MARKETING**

**COURSE - 18B**

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**CONSUMER BEHAVIOUR AND MARKETING RESEARCH**

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**BLOCK**

**2**

**THEORIES OF CONSUMER BEHAVIOR**

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## **BLOCK-2 : THEORIES OF CONSUMER BEHAVIOUR**

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In the previous model you have gained an insight of fundamentals of consumer behaviour. Now you know why you have to study the consumer behaviour and what are the implications of consumer behaviour for a marketer. You have also understood the impact of social, economical and such several other factors on consumer behaviour. Now let us turn our attention towards the various approaches to consumer behaviour and the models related to it.

This models will help you to understand why a consumer behaves as the way he behave. This module will explain the various models proposed by the experts in the field of consumer behaviour. This module will also explain the different dimensions of consumer behaviour such as rural customers behaviour, urban customers behaviour. Special attention is given to bottom of the pyramid consumer behaviour.

India being an developing and an emerging economy with 70 per cent of the people below poverty line, the knowledge about the behaviour of bottom of the pyramid class is highly essential.

This module is classified into 4 units and they are

UNIT 5- Approaches to consumer behaviour

UNIT 6 – Models of consumer behaviour I

UNIT 7 - Models of consumer behaviour II

UNIT 8 – Analyzing consumer behaviour



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## **UNIT 5 – APPROACHES TO CONSUMER BEHAVIOR**

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### **Structure**

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Gestalt Approach
- 5.3 Cognitive Learning Theory
- 5.4 Involvement Theory
- 5.5 Route to persuasion theory
- 5.6 Elaboration Likelihood Model
- 5.7 Social Judgment theory
- 5.8 Notes
- 5.9 Summary
- 5.10 Key Words
- 5.11 Self Assessment Questions
- 5.12 References

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## 5.0 OBJECTIVES

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After studying this unit you should be able to:

- Ø Analyze the gestalt approach to consumer behaviour;
- Ø Appreciate the application of cognitive theory to CB;
- Ø Explain route to persuasion theory and
- Ø Examine social judgment theory.

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## 5.1 INTRODUCTION

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Dear Student, you have already understood various factors which have influence on consumer behaviour. You have also identified how consumer behaviour decides what to buy and what not buy. Hence from the view point of marketer, it is highly important to know why a consumer behave as the way he behaves. There are several approaches and models proposed by various behavioral scientists who have thrown light upon the consumer behaviour. In this unit let us try to understand the various approaches to consumer behaviour.

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## 5.2 GESTALT APPROACH

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Dear learner, you must have read about gestalt approach in organization behaviour. While exposed to the various stimuli ( influencing or attractive factors), human beings do not select them as separate and unrelated identities, but they group them and perceive them as “a unified whole.” For example when you see a cricket player of your liking drinking Pepsi, you will like Pepsi also. The various stimuli are put together as a unified integrated structure. This organization of the stimuli is based on certain principles, which were first proposed by the Gestalt school of psychology, and hence the name “Gestalt principles”.

The term “Gestalt”, is a German word meaning “pattern” or “configuration” or a “unified whole”. As the various stimuli are patterned together and configured as a single whole, it is given the term Gestalt principles. It speaks about the manner in which these stimuli are unified, and the basis of the configuration/pattern of relationships amongst the stimuli, influences an individual’s overall perception of each stimulus in the configuration. The marketer should aim at making the principles of the Gestalt philosophy work in the product’s favor

There are certain factors that affect the Gestalt perception or the manner in which the configuration of the stimuli takes place. These factors are stimulus factors and individual factors.

**a) Stimulus factors:** These refer to the external and observable characteristics of the stimulus, i.e. of the person, object, thing or situation; in marketing terms it refers to the characteristics of the product, brand, packaging, advertisement, size, intensity, motion, repetition, familiarity and novelty, color and contrast, position, and isolation that attracts attention . Few are explained here.

- **Colour and contrast:** Colour always catches greater attention than black and white. But it has been observed, that it can lose impact when put with other coloured advertisements. Herein the contrast effect assumes importance. A coloured advertisement in a full context black and white or vice versa is a perfect example of contrast effect.

- **Position:** Research has indicated that position also has a role to play in sensory perception. For a language like English, which runs left to right on a page, the upper half of a page gets more attention than the lower half, and the left-hand side more than the right. This would vary across languages like for Urdu, Persian etc. This accounts for price differences in newspapers and magazines, where the price of an advertisement differs according to the position where it is placed.

- **Isolation:** Instead of being closer, when a stimulus stands apart from the other stimuli, the chances of it getting perceived a greater than when it clustered together with other stimuli.

- **Unity:** Unity as a principle has an important role to play while organizing the various stimuli into a unified group. Unity can be achieved by applying the Gestalt principles of proximity, similarity, and density.

- Proximity: Those stimuli that are placed close to others form groups.

- Similarity: Those stimuli which are similar to each other form groups.

- Density: Those stimuli that have common density units form groups.

**b) Individual factors:** These refer to factors internal to and related to the perceiver; in marketing terms it refers to the characteristics of the consumer for example, motivation, learning, personality and self-image etc. Such characteristics are unique to the individual and play an important role in selection, organization and interpretation. They differ from person to person and as such, they are less measurable and quantifiable than stimulus factors.

- **Interest:** The interest level varies from person to person. Some generalizations with respect to interest may be made on the basis of age, gender, social class and lifestyle etc. People would differ across gender, age etc with the level of interest.
- **Involvement:** this refers to the degree with which a person approaches a person, object, thing, or stimuli. It is indicative of how important and relevant something is to a person. When the level of involvement for a product/service category is high, the consumer would be more attentive to any kind of information that is provided; in such a case information gathering, retention and recall would be high. The consumer would perceive the offering differently as compared to one who is not that involved.

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### 5.3 COGNITIVE LEARNING THEORY

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Cognitive theorists believe that a person's learning is a complex mental process. It takes place as a result of a conscious and deliberate information processing and storage activity that takes place within living beings. Living beings make active use of creativity, insight, and information processing to solve issues and problems. The focus of cognitive theorist is on the "thinking" rather than the "doing" of the behavioral scientists.

One of the main proponents of this theory is Edward Tolman, who conducted a series of experiments on rats, and finally came up with his findings. In terms of consumer learning, any kind of extensive problem solving, on the part of the consumer, is cognitive and would be included under this approach. This would include gathering, processing and interpreting information; storing it in memory; and final retrieval when required.

According to the cognitive theorists, response towards stimuli are not always reflexive and automatic, or out of pure conditioning; there is much beyond pure reflex or conditioning. A living being, animal/human being perceives a stimulus (object/situation/person./event) in a particular manner; on the basis of his perception, he assigns meanings and corresponding responses to the stimulus; a set of expectations about the outcome are also generated. The living entity begins to associate a cue with an expectation and memorizes this relationship; this leads to learning. A cognitive structure of this relationship is formed in the memory and is preserved it until it needs to be retrieved in future; learning based on this mental activity is called cognitive learning.

Tolman established this relationship between environmental cues and expectations, based on the experiments that he conducted on white rats. A special T-maze was designed, and the white rats were taught to obtain food in the maze. To start with, Tolman kept food in the right corner of the T maze; a white rat was put in the maze, and was trained to turn right to obtain the food. A



relationship between the cue (food: smell of food) and the expectation (appropriate movement would lead to the food) was established. Thereafter, Tolman changed the position of the food and started him from the opposite part of the maze.

According to the past conditioning (instrumental conditioning, R'!S), the rat should have turned right, but instead it moved in the direction where the food was kept. The rat has learnt to move through the maze with a motive and direction, towards the food (goal), and a connection was built between the stimulus and the stimulus (S'!S). The rat had not only learnt to form an association between the cue and the expectation, (i.e., the smell of the food acted as the cue; and the right movement across the maze to obtain it, was the response), but he had also memorized this association. As the association between the cue and the expectancy was strengthened, learning occurred. So Tolman's approach to learning could be explained as stimulus leads to another stimulus (or S-S) the association between the cue and the expectancy leads to learning; behavior is goal directed.

As and when required to solve problems, he retrieves this information from his memory. The process is continuous; on a regular basis, the person is confronted with new inputs that he integrates with the existing knowledge that he already has in his memory; this may require addition/deletion/modification of existing information.

In terms of consumer behavior, consumers are exposed to information about new product/services or changes in existing products/services on a day to day basis; marketers also constantly update them about their brands like the attributes, features, price, and comparison with other brands etc. In fact, consumers are informed about any change that is brought about in any of the 4Ps; viz., product attributes, benefits, features, price, discounts, availability etc.

The consumer also forms mental images about the various brands through imagery, which leads to easy recall later on. Once the consumer receives this information, he integrates this information with the existing knowledge that he has stored in his memory, and would retrieve this information as and when he wants to solve a problem or satisfy a need through purchase and usage of a product/service.

In terms of consumer behavior: - A person watches an advertisement for a brand (sensory memory). When he pays attention to the advertisement, it moves to his short-term memory. The inputs are processed here in the short-term memory, and if it is found to be of relevance and interest, it moves to the long-term memory. The inputs could relate to the brand name, sign or logo, symbol, features, attributes, price, celebrity endorsing it, the message content, the jingle and the music etc. On the other hand, if the consumer lacks relevance and interest for the product, the information input would be scrapped off and forgotten.

Many a times, a consumer also faces a clutter, in terms of being exposed to too many stimuli at the same time. This amounts to an information overload, and here, a person uses his discretion as to whether to retain it or let it go. Once the person decides to retain it, he rehearses it within himself mentally, by forming images and associating the cues related to it (rehearsal); it is then that the information moves into long term memory. He may also evaluate the information for better comprehension (elaborative rehearsal). The total set of associations that a consumer forms within himself is known as the schema.

The consumer retains the information in his long-term memory. The ability to retain depends much on the cognitive ability. Apart from this, retention is also affected by other factors. The more an information input relates to a person's need, interest, relevance, familiarity, experience, demographic and psychographic background etc., the more likely it is to be remembered. Also the persons' ability to rehearse and repeat information is an aid to retention. So are factors like time, i.e., time lapsed time since exposure to information.

The consumer would retrieve the information when a need arises and he wants to it buy a product to satisfy the need and solve a problem. As explained in consumer decision making, a lot of information search (while problem solving/decision making) is internal, when the consumer retrieves a lot of information from his memory. He also searches a lot of information externally, that add up to his associative network where one node would tend to activate other nodes and help retrieval. Retrieval of information is assisted by cues, which may be self generated or external, and may take forms of images, sounds, shapes, colors, smells, etc. Marketing strategies can be used to create a feeling of nostalgia and affect instant recall.

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#### **5.4 INVOLVEMENT THEORY**

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Based on the cognitive theory, the involvement theory stems out from the body of research referred to as the split-brain theory or hemispherical lateralization. According to the split-brain theory, the human brain can be divided into the right and left hemispheres, each of which "specializes" with different kinds of information.

The right side is emotional, intuitive, metaphoric and impulsive; it concerns itself more with non-cognitive, non-verbal, pictorial (images, colors) and audio-visual information; it deals more with situations of low-involvement and passive learning, where lesser information evaluation is required. The right brain processing falls in line with classical conditioning, and the person learns via repetition, eg. an advertisement being repeated on TV.

The left side of the brain is rational, logical and realistic; it concerns itself with cognitive information in form of alphabets, letters and words in print; it deals with cognitive activities like reading, speaking and writing; it concerns itself more with situations of high-involvement and active learning, where more of cognition is required. The left brain processing is very cognitive, and learning is via the print media.

The involvement theory has implications for selection of a media strategy:

- Non-verbal and pictorial cues trigger right brain processing, and impact recall and familiarity. With involvement being low; people passively process and store nonverbal, pictorial information. TV being an audio-visual medium, TV watching is regarded as a right-brain activity, and a low-involvement medium.
- Verbal or cognitive cues trigger left brain processing and impact evaluation, recall and familiarity. With involvement being high; people passively process and store verbal and written information. Print media (i.e. newspapers, magazines, journals, brochures etc) is regarded as a high-involvement media, and reading and comprehending is regarded as a left-brain activity.

In terms of consumer behavior it implies that:

If a person resorts to information processing for purchasing a product then he is considered to be high on involvement; If not, he is said to be low on involvement.

- For low-involvement purchases, marketing communication through TV is the right media; consumers learn via repetition, i.e. exposure to the same message over TV again and again. On the other hand, in cases of high-involvement purchases, the print media acts as right choice while selection of media. The consumer has access to information in print form, where he can go through the information again and again and process it better for product/brand evaluation and choice.

**Assessment of the theory:** The involvement theory, in particular the split-brain theory has been critically assessed by researchers. Critics argue that the processing of information takes place together and the two sides of the brain do not act independently. In fact, some people have the ability to use both the right and left hemispheres together, and they are integrated processors.

It is also been argued that despite hemispherical specialization, both the right and the left sides of the brain are capable of both kinds of involvement, high and low; the left side of the brain specializes in high and low cognition, the right side in high and low affect. Nevertheless, three theories emerge from within the cognitive theories, especially with reference to high and low

involvement purchase situations, viz., central and peripheral routes to persuasion theory, elaboration likelihood model and the social judgment theory. These have been discussed in the next section.

The theory has practical implications for the content/context and presentation of both print and television advertisements. Non-verbal and pictorial cues trigger right brain processing, and impact recall and familiarity. With involvement being low; people passively process and store nonverbal, pictorial information. TV being an audio-visual medium, TV watching is regarded as a right-brain activity, and a low-involvement medium.

Verbal or cognitive cues trigger left brain processing and impact evaluation, recall and familiarity. With involvement being high; people passively process and store verbal and written information. Print media (i.e. newspapers, magazines, journals, brochures etc) is regarded as a high-involvement media, and reading and comprehending is regarded as a left-brain activity.

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## **5.5 ROUTE TO PERSUASION THEORY**

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The theory holds that consumers attach a degree of relevance to a purchase situation, which could take the form of a high involvement purchase or a low involvement purchase; consumers put in a lot of effort in information gathering, processing and storage when the situation is one of high involvement; the amount of cognitive effort that is put is much more when a purchase is of relevance to them and the involvement is high.

This is in contrast to situations of low involvement, where the purchase is of low relevance, and therefore, information processing and evaluation is much low. Thus, the central route to persuasion, works in case of high involvement purchase situations, and the peripheral route to persuasion, works in case of low involvement purchases. Drawing a parallel from the right split-brain theory and from high and low involvement media strategy, the central route basis itself on cognition, rationality and logic, verbal cues and print media. The peripheral route, on the other hand, basis itself on affect, emotions and intuition, non-verbal cues and the audio-visual media.

### **Implications for a marketer:**

The central route to persuasion operates in cases of high involvement purchases; High involvement purchases require cognitive processing, thus the marketer needs to design his message based on logic and rationality. The product attributes, features and benefits as well as the USPs need to be focused upon; the marketer could also address comparative analysis with other brands in terms of value (comparative advertisements). The media to choose from is the print.

On the other hand, the peripheral route to persuasion operates in cases of low involvement purchases, which do not require cognitive processing, as consumers are less motivated to think. The marketer could get away with advertisements based on emotional appeals, social appeals, fun, fantasy and humor. The media to choose from is the audio visual, TV with colours, jingles and celebrities.

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## **5.6 ELABORATION LIKELIHOOD MODEL:**

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The Elaboration Likelihood Model bases itself in line with what has been said about high and low involvement as well as the route to persuasion theory. According to the theory, the degree of relevance that a person attaches or the level of involvement that a person holds, determines which route to persuasion would be more effective; in cases of high-involvement, where a consumer would put in more cognitive effort, he would follow the central route to persuasion and focus on the message content; on the other hand, in cases of low involvement, he would follow the peripheral route to persuasion and focus on the message context, background, scenery and music.

In terms of relevance for a marketer, for high involvement, where the central route to persuasion works, the focus should be on the message content, logic and arguments; the arguments should suggest product attributes and be highly cognitive; For low involvement, where the peripheral route to persuasion works, the focus should be on the celebrity spokesperson, message context, and highly visual and symbolic advertisements: background, scenery and music. Also comparative advertisements (where product attributes and features are compared with other brands) are processed centrally.

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## **5.7 SOCIAL JUDGMENT THEORY:**

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Here again, the belief is that it is the degree of involvement that determines how an individual would process information; when faced with alternatives, people who are highly involved with an issue/object/person/situation/product, will accept very few alternative opinions. Such people are said to possess narrow latitude of acceptance and wide latitude of rejection. Because of this, highly involved individuals will be assimilating in nature, i.e., they would readily interpret and accept a message that is in line with and congruent with what they believe in and what they support (assimilating effect). They would also negate opinions that are not congruent (contrasting effect). On the other hand, persons who are low on involvement, will accept opinions and arguments both for and against, and would possess wide latitude of acceptance, and also wide latitude of non-commitment.

**Implications for a marketer:**



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**5.9 SUMMARY**

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The Cognitive theory, contributes to the understanding of consumer behavior. Cognitive learning focuses on the gathering and processing of information, storage in memory and final retrieval of knowledge from a person’s memory. Consumers store information and retrieve it later on. Consumers tend to remember product/service category’s which they find to be of relevance and familiarity. Retrieval of information is also assisted by cues, which may be self generated or external, and may take forms of images, sounds, shapes, colors, smells, etc.

The involvement theory and the related contributions viz., route to persuasion, elaboration likelihood model, and the social judgment theory, provide insights into high and low involvement purchases and the selection of media. If a person resorts to information processing for purchasing a product then he is considered to be high on involvement; If not, he is said to be low on involvement. For low-involvement purchases, marketing communication through TV is the right media; consumers learn via repetition, i.e. exposure to the same message over TV again and again. On the other hand, in cases of high-involvement purchases, the print media acts as right choice while selection of media go against their values.

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**5.10 KEY WORDS**

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Consumer behaviour, cognitive theory, social judgment theory, Involvement theory, Elaboration likelihood model

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**5.11 SELFASSESSMENT QUESTIONS**

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1. Define consumer behaviour
2. Outline the cognitive theory

3. Explain the social judgment theory

4. Write a note on involvement theory

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#### 5.12 REFERENCES

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## **UNIT 6 – MODELS OF CONSUMER BEHAVIOUR - I**

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### **Structure :**

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Consumer Behaviour Analysis
- 6.3 Models of Consumer Behavior
- 6.4 Black Box Model
- 6.5 Howard Sheth Model
- 6.6 Nicosia Model
- 6.7 EKB Model
- 6.8 Case Study
- 6.9 Notes
- 6.10 Summary
- 6.11 Key Words
- 6.12 SelfAssessment Questions
- 6.13 References

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## **6.0 OBJECTIVES**

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After studying this unit, you should be able to:

- Ø Explain basics of models of consumer behaviour;
- Ø Appreciate the black box model of consumer behaviour;
- Ø Identify parameters of Howard and Sheth Model and
- Ø Examine Nicossia Model

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## **6.1 INTRODUCTION**

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Understanding the consumer behaviour and knowing consumers are often a great challenge to the marketer. Customers may say one thing but do another. They may not be in touch with their deeper motivations. They may respond to the influences that change their mind at the last minute. The field of consumer behaviour studies how individuals, groups, and organizations select, buy, use and dispose goods, services and ideas or experiences to satisfy their needs and desires.

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## **6.2 CONSUMER BEHAVIOUR ANALYSIS**

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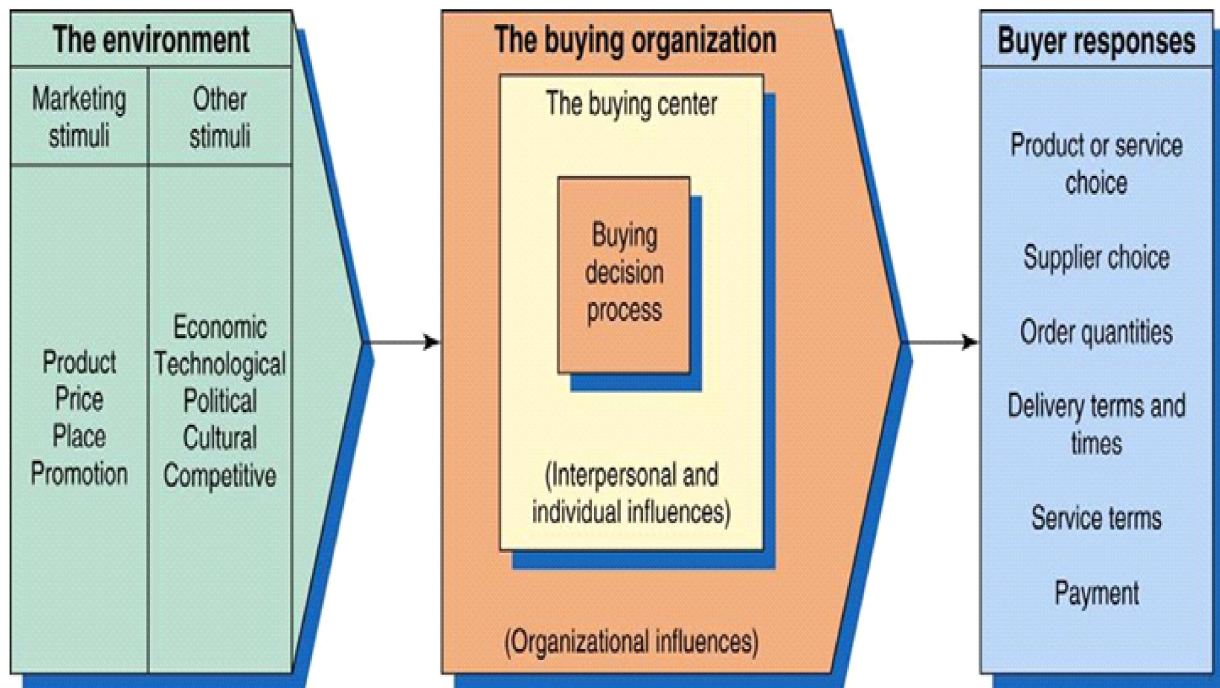
The analysis of consumer behaviour is done through models. A model is a replica of the phenomenon it is intended to designate that it specifies the elements and represents the nature of the relationships among these elements. As such it provides a testable map of reality and its utility lies in the extent to which the models make possible a successful prediction of resulting behaviour or outcomes.

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## **6.3 MODELS OF CONSUMER BEHAVIOUR**

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The models discussed are relatively unsophisticated, in that they are merely elaborate flow charts of the behavioral process. The model has three major components: Input, Process and output. Here we discuss a sample model of consumer decision making that reflects the notions of the cognitive or problem solving consumers.



**FIGURE 6.1: MODEL OF CONSUMER BEHAVIOR**

**Input:** The input of the models draws upon external influence that service as sources to inform about a particular product and influence a consumer related values, attitudes and behaviour. Chief among these inputs are the marketing –mix activities of organizations that are trying to communicate the benefits of their products to potential consumers, and non marketing socio cultural influences which , when internalized affect the consumer’s purchase decisions.

**Marketing inputs:** The firm’s marketing activities constitute a direct attempt to reach, inform, and persuade consumers to buy and use its products. These inputs to the consumers decision process take the form of specific marketing –mix strategies which consist of the products itself, mass, media advertising, personal selling and other promotional efforts , pricing policy and the selection of distribution channels to move the products from the manufacture to the consumer.

**Socio cultural Inputs :** Also exerts a major influence on the consumer .It consist of a wide range of noncommercial influences. The influences of social class, culture and subculture, though less tangible and affect how consumers evaluate and ultimately adopt(or

reject)products .Socio cultural products do not support the purchase of a specific product, but may influence consumers to avoid the product.

**Process :** The process component consist of three stages

- Ø need recognition
- Ø pre purchase search and
- Ø evaluation of alternatives .

The recognition of a need is likely to occur when a consumer is faced with a problem .The pre purchase search state begins when a consumer perceives a need that might be satisfied by the purchase and consumption of a product. Evaluation of alternatives includes making a selection from a sample of all possible brands, that simplify the decision – making process.

**Output :** of the model is associated with purchase behaviour and post purchase evaluation. The objective of both activities is to increase the consumer’s satisfaction with his or her purchase.

Consumer makes two types of purchases: trail purchase and repeat purchase .If a consumer purchases product for the first time and buys a smaller quantity than usual , such a purchase would be considered a trial. Repeat purchase behaviour is closely related to the concept of brand loyalty, which most firms try to encourage because it ensures them of stability in the marketplace.

As consumers use a product , particularly during a trial purchase, they evaluate its performance in light of their own expectations. Postpurchase evaluation reduces the uncertainty or doubts that the consumer might have about the selection.

These three models focus on consumer decision making, especially, on how individual consumers arrive a brand choices.

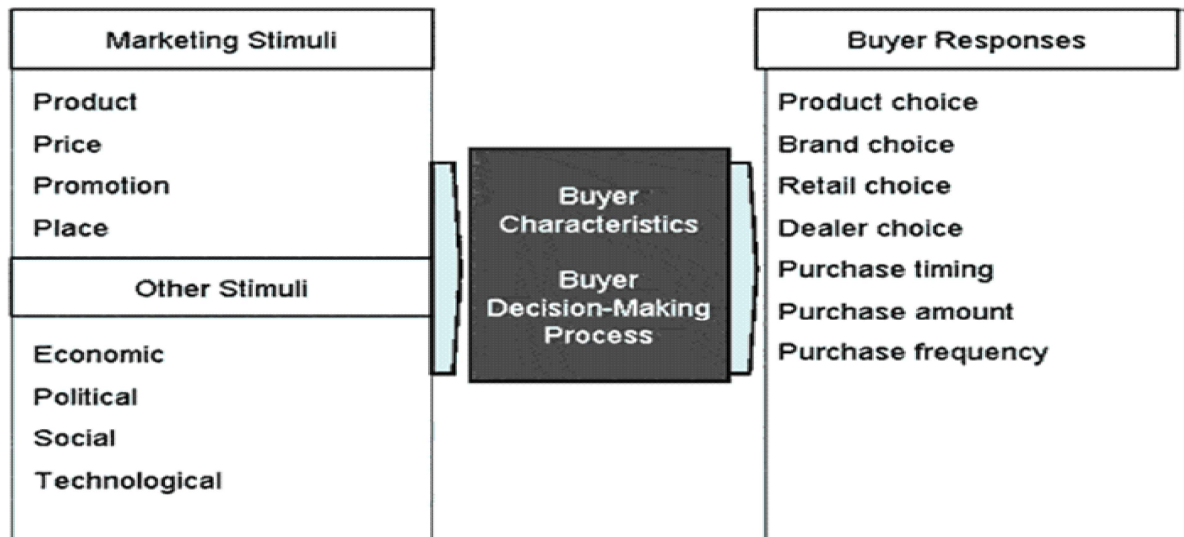
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## 6.4 BLACK BOX MODEL

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According to Kotler and Armstrong, the basic model of consumer decision making process comprises three major components, viz., *marketing and other stimuli* (these act as influences), *the buyer’s black box* (these are related to the consumer) *and the buyer responses* (this is the response part). The components/processes as well as the working dynamics are explained as follows:

**FIGURE 6.2: STIMULUS-RESPONSE MODEL OF BUYER BEHAVIOUR**



**1. Marketing and other stimuli:** A consumer is confronted with a stimulus in the environment. This stimulus could be of two kinds;

- > One that is presented by the marketer through the *marketing mix or the 4Ps*, product, price, place and promotion;
- > Product: attributes, features, appearance, packaging etc.
- > Price: cost, value, esteem (prestige)
- > Place: location and convenience, accessibility

-promotion: advertising, sales promotion, personal selling, publicity, direct marketing.

- The other that is presented by the environment, and could be economic, technological, political and cultural.

**Buyer's black box:** The stimuli that is presented to the consumer by the marketer and the environment is then dealt with by the buyer's black box. The buyer's black box, comprises two sub components, viz., the buyer's characteristics and the buyer decision process.

The buyer's characteristics could be personal, psychological, cultural and social. But how these characteristics would influence the buyer behaviour and how the buyer decision process would

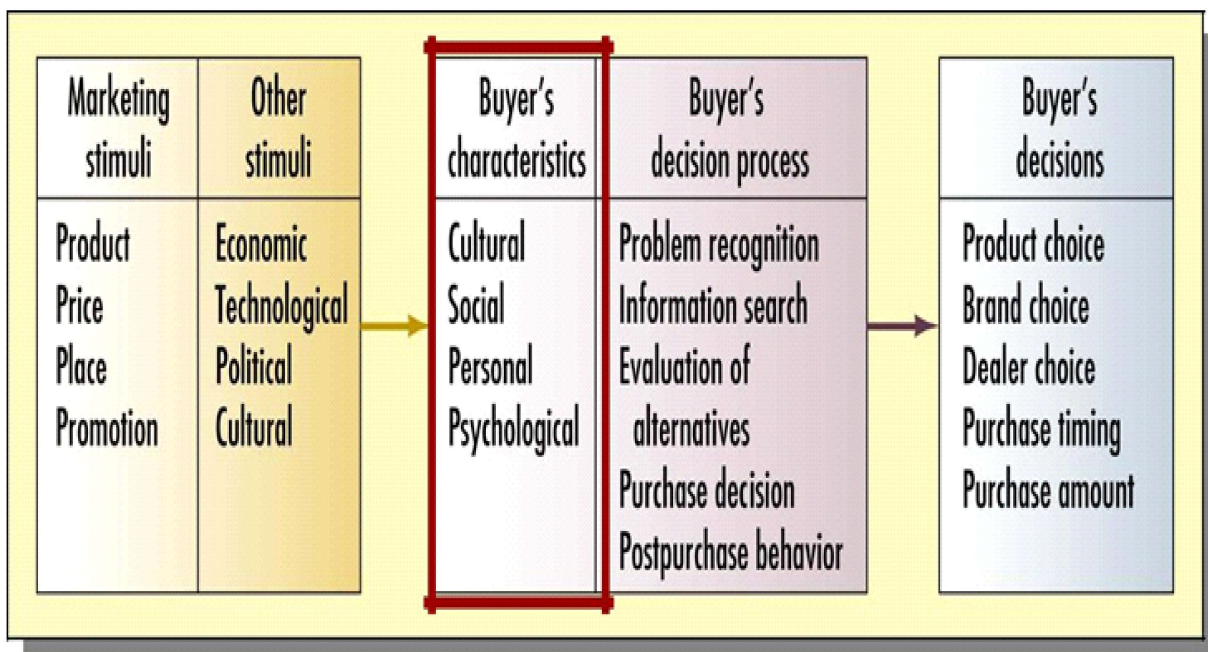
actually takes place is highly difficult predict. No body can say what exactly goes inside the minds of the consumers. Hence this part is called black box.

For ex. You and your friend may visit a automobile exhibition. Both of you have intention of purchasing two wheeler. You would receive the same information but may land up in buying different vehicles.

**3. Buyer responses:** While in the black box, the buyer also takes a decision with respect to the product, brand, dealer, timing and amount. Sometimes customer may decide not buy any thing also.

However after this model is proposed many behavioral scientists have thrown light upon this black box and have come out with their own findings about what process takes place inside the black box. Thereafter various other models were evolved.

An attempt through light upon this was also done by Phillips Kotler as described below



**FIGURE 6.3: KOTLERS MODEL OF BUYER BEHAVIOUR**

**a) Personal:**

Age & life-cycle stage (family life cycle: single, newly married couples, full nest I, full nest II, full nest III, empty nest I, empty nest II, solitary survivor

-occupation (occupation affects consumption patterns) -  
economic situation

-lifestyle (pattern of living as Activities, Interest, Opinions, AIOs)

-personality (personality is defined in terms of traits; these are psychological characteristics which lead to relatively consistent patterns of behavior towards the environment) & self-concept (self-concept is reflective of identity; how a person perceives himself including attitudes, perceptions, beliefs etc). Products and brands also have a personality; consumers are likely to choose such brands whose personalities match their own self.

**b) Psychological:**

-motivation (motives; urge to act to fulfil a goal or satisfy a need/want) -perception (ability to sense the environment and give meaning to it through the mechanisms of selection, organization and interpretation).

-learning (a relatively permanent change in behavior as a result of ones' experience; relates to memory; learning could be experiential based on direct experience or conceptual based on indirect experience; consumer learning could be based on marketing communication/seller provided information, personal word of mouth and/or experiential).

-beliefs (thoughts that a person holds about something; these are subjective perceptions about how a person feels towards an object/person/situation) and attitudes (a favorable or unfavorable disposition/feeling towards an object, person or a situation).

**c) Cultural:**

-culture (a sum total of values, knowledge, beliefs, myths, language, customs, rituals and traditions that govern a society). Culture exerts the broadest and the deepest influence; eg. Influences on our eating patterns, clothing, day to day living etc. Cultural influences are handed down from one generation to the next and are learned and acquired).

-sub-culture (subset of culture: smaller groups of people within culture with shared value systems within the group but different from other groups; identifiable through demographics).

-social class: ordered and relatively permanent divisions/startifications in the society into upper, middle lower classes; members in a class share similar values, interests, lifestyles and behaviors; the division is based on combination of occupation, income, education, wealth, and other variables.

**Social:**

-family: most important influence; (there occurs in a family what is referred to as socialization; family of orientation: parents and siblings; family of procreation: spouse and children; further some decisions are husband dominated, some are wife dominated and some are joint; roles played by family members), family life cycle (stages through which a family evolves; People's consumption priorities change and they buy different goods and services over a lifetime).

-friends and peers, colleagues.

-groups: reference groups {these are people to whom an individual looks as a basis for personal standards; they are formal and informal groups that influence buying behavior; reference groups could be direct (membership groups) or indirect (aspirational groups); reference groups serve as information sources, influence perceptions, affect an individual's aspiration levels; they could stimulate or constrain a person's behavior}.

- opinion leaders (they influence the opinion of others based on skills, expertise, status or personality).

-roles & status: the role refers to the expected activities and status is the esteem given to role by society.

Research and studies into these factors can provide a marketer with knowledge that can help him serve the consumers more effectively. These characteristics affect the buying decision process, which comprises five steps:

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**6.5 HOWARD –SHETH MODEL**

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Howard –Sheth Model :This model explicitly distinguishes among three levels of learning.

- 1) No or little Knowledge Customers: The consumer's knowledge and benefits about brands are very limited or nonexistent. At this initial point , the buyer has no brand preference, and therefore actively seeks information about a number of alternative brands.
- 2) Limited knowledge customers : knowledge and beliefs about the brands are only partially established , which means that the consumer is not fully able to assess brand difference in



order to arrive at a preference. Some comparative brand information is sought, although the choice criteria are likely to be fairly well defined.

- 3) Well aware customers : The consumer's knowledge and beliefs about brands are well established , and there is enough experience and information to avoid confusion about the various brands. The consumer is predisposed to the purchase of one particular brand.

Howard –Sheth model is as shown below . The model consists of four major sets of variables.

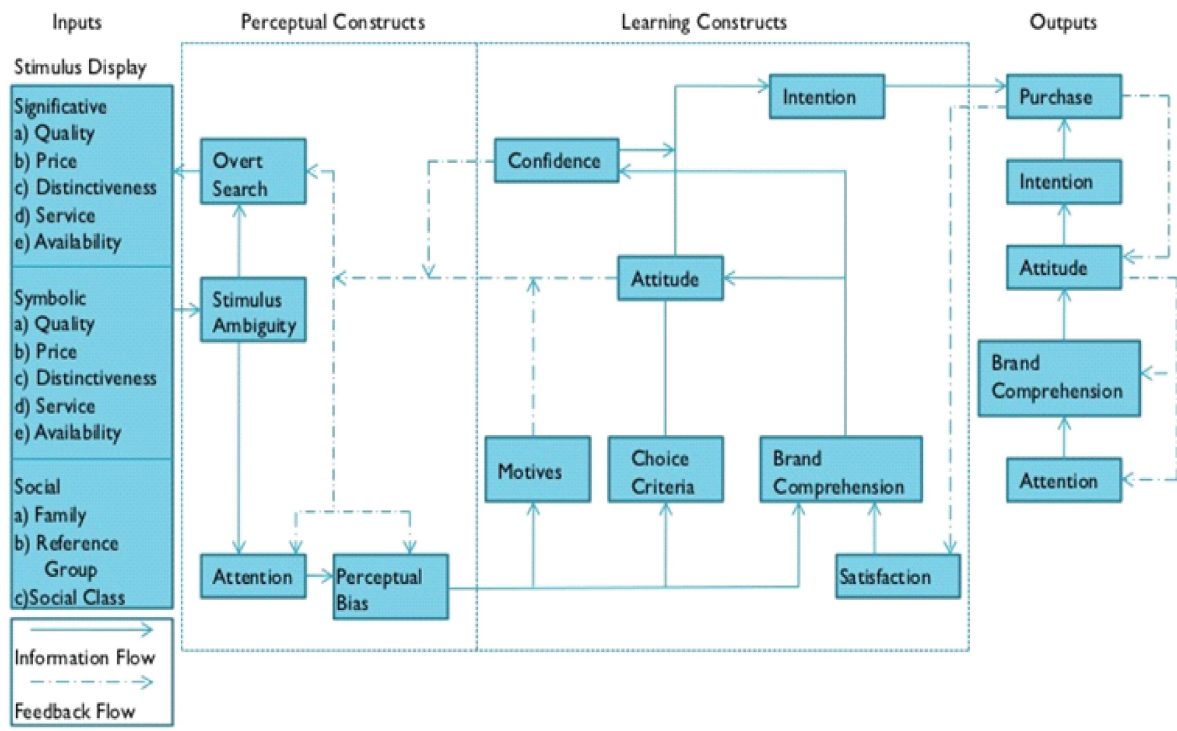
- Ø 1)Inputs
- Ø 2) Perceptual and learning constructs
- Ø Output
- Ø Exogenous variables (not depicted in Fig)

**Inputs** : The input variables consist of three distinct types of stimuli (information sources) in the consumer's environment .Physical brand characteristics (significant stimuli) and verbal or visual product characteristics (symbolic stimuli ) are furnished by the market in the form of product brand information. The third type of stimuli is provided by the consumer's social environment .All three stimuli provide inputs concerning the product class or specific brands to the prospective consumer.

Perceptual and learning constructs: Some of the constructs are perceptual in nature, which are the central component of Howard-Sheth model .These perceptual constructs are concerned with the function of information processing. Stimulus ambiguity occurs if a consumer is unclear about the information received from the environment .Perceptual bias occurs if the consumer distorts the information received so that it his or her established needs or experiences.

Learning constructs serve the function of concept formation. Included in this category are the consumer's goals, information about brands in the evoked set, criteria for evaluating alternatives, preferences and buying intentions. The proposed interaction between the various perceptual and learning variables and the variables in other segments of the model give the Howard-Sheth model its distinctive character.

**Output** : The model indicates a series of output that correspond in name to some of the perceptual and learning construct variables in addition to the actual purchase.



**FIGURE 6.4: HOWARD SHETH MODEL**

Exogenous Variables: are not shown in the model and are not directly part of the decision –making process.

However, because external variables influence the consumer, they should affect the marketers segmentation efforts. Relevant exogenous variables include the importance of the purchase, consumer personality trends, time pressure and financial status.

Howard and Sheth have promoted testing of the model with actual data on consumer decision making. The first test focused on the instant breakfast market. It found that consumers are quite systematic in their use of information and in their establishment of attitudes about brands.

Another test of the model examined consumer’s decision to purchase an automobile .From the analysis of data , the researchers concluded that informal influence was more critical than information supplied by advertisements. Although advertising was found to be a relatively ineffective information source, exposure to advertising did have limited impact on comprehension of the car’s features and on the intention to purchase.

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## 6.6 NICOSIA MODEL

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Nicosia Model : The Nicosia model focuses on the relationship between the firm and its potential consumers. Broadly, the firm communicates with the consumer through its marketing messages (advertising) and consumers communicate with the firm by their purchase responses. Thus the Nicosia model is interactive in design. The firm tries to influence consumers, and the consumers-by their actions influence the firm.

Nicosia model depicted in Fig. is divided into four major fields:

- 1) The span between the source of message and the consumer's attitude
- 2) search and evaluation
- 3) the act of purchase and
- 4) feedback.

Field 1 The consumers attitude based on the firm's messages : First field is divided into two subfields .

**Subfield one** includes aspects of the firm's marketing environment and communication efforts that affect consumer attitudes, such as product attributes , the competitive environment characteristics of relevant mass media , the choice of a copy appeal, and characteristics of the target market.

**Subfield two** specifies various consumer characteristics that media reception of the firm's promotional messages. The output of

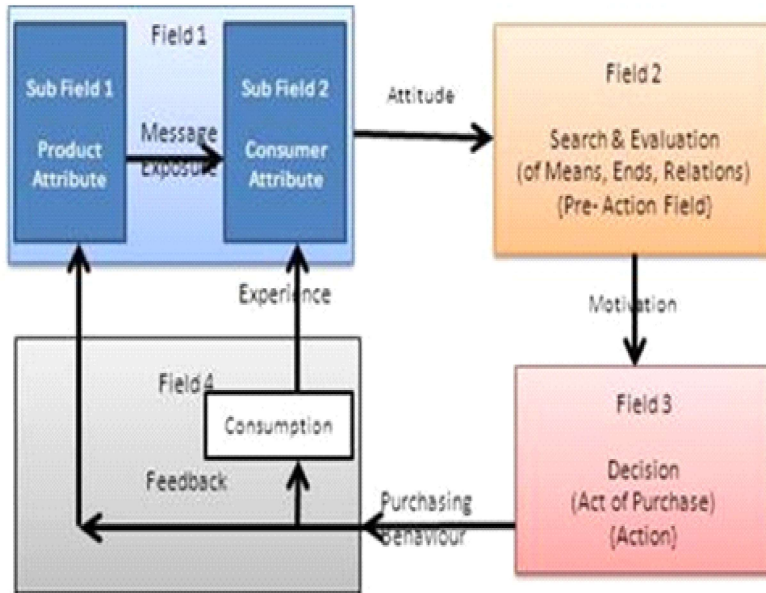
**Field 1** is an attitude toward the product based on the consumer 's interpretation of message.

**Field 2** : Search and evaluation : The second field deals with the search for relevant information and evaluation of the firms brand in comparison with alternatives brands. The output of this stage is motivation to purchase the firms brand.

**Field 3** : the act of purchase: In the third field , the consumers motivation toward the firms brand results in actual purchase of the brand from a specific retailer.

**Field 4** : Feedback, The final field consists of two important types of feedback from the purchase experience : one of the firm in the form of sales data, an other to the consumer in the form

of experience. The consumers experience with the product affects the individual's attitudes and predispositions concerning future messages from the firm.



**FIGURE 6.5: NICOSIA MODEL**

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## 6.7 EKB MODEL

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Engel –Kollat-Blackwell (EKB)Model : The EKB model of consumer behaviour was originally designed to serve as a framework for organizing the fast-growing body of knowledge concerning consumer behaviour. Fig presents the comprehensive model , which consists of four sections

- Ø variables influencing the decision process
- Ø information input
- Ø information processing and
- Ø decision process stages.

Decision process stages : The central focus of the model is on five basic decision process stages :problem recognition, search, alternative evaluation , purchase and outcomes. How many of these stages actually figure in a specific purchase decision , and the relative amount of attention given to each stage, is a function of how extensive the problem –solving task is felt to be .

Information Input : Feeding into the information –processing section of the model is information from marketing and nonmarketing sources .After passing through the consumer’s memory, which serves as a filter , the information is depicted as having its influence at the problem recognition stage of the decision –making process.

Search for external information is activated if additional information is required in order to arrive at a choice or if the consumer experiences dissonance because the chosen alternative is assessed to be less satisfactory than was originally expected.

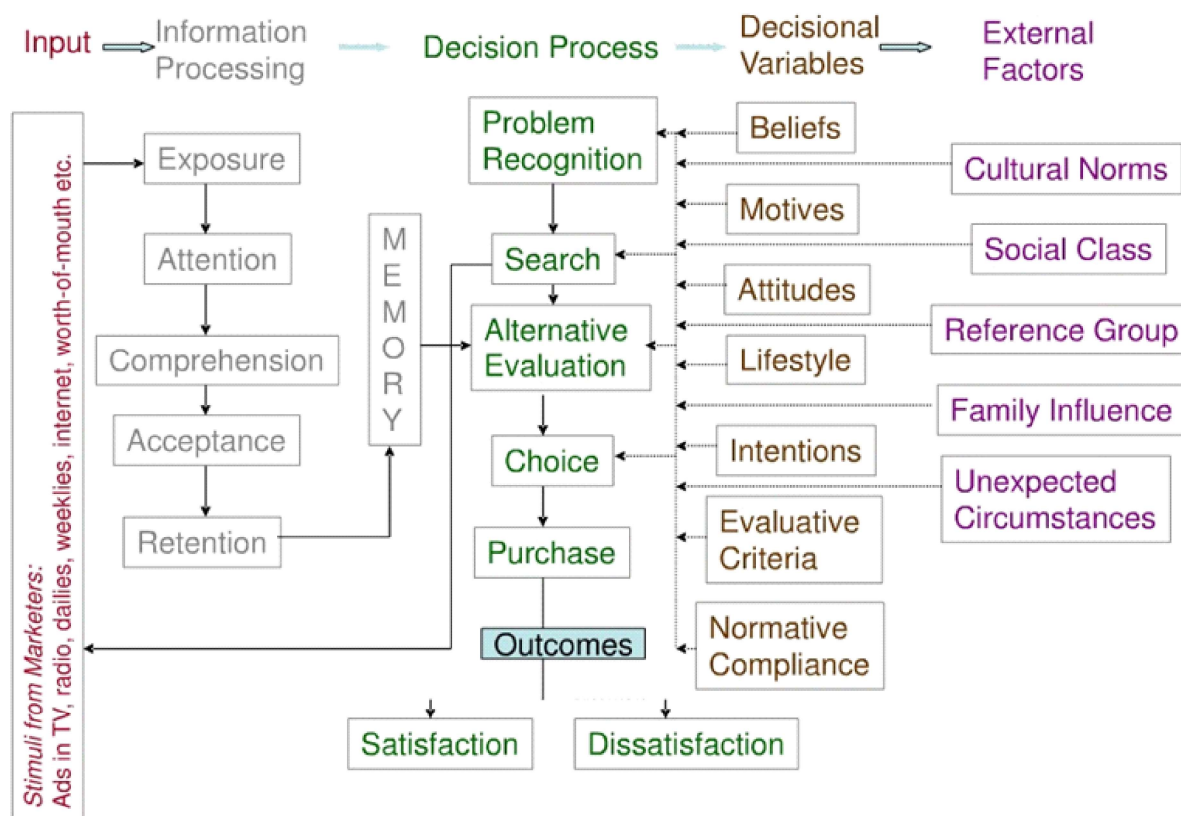
Information Processing: This section of the model consists of the consumer’s exposure , attention , comprehension/perception, yielding /acceptance, and retention of incoming market- dominated and nonmarketing information. Before a message is utilized, the consumer must

- Ø be exposed to it
- Ø allocate information processing capacity to the incoming message
- Ø interpret the stimuli
- Ø be persuaded by it and
- Ø retain the message by transferring the input to long term memory.

In order to be retained in long-term memory as information and experience, a stimulus must first pass through sensory memory, which analyze the input in terms of its physical properties and short-term memory , where the message is analyzed for meaning.

Variables Influencing the decision process : This section consists of individual and environmental influences that affect all five stages of the decision process.

Individual characteristics include motives , value, lifestyle and personality: the social influence are culture, reference groups and family .Situational influences , such as a consumer’s financial condition , also influence the decision process.



**FIGURE 6.6:EKB MODEL**

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## 6.8 CASE STUDY

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### A case of consumer decision making

Mrs.Sharma has just returned from her weekly shopping trip to her neighborhood supermarket. Among her purchase are some cans of “Coorg’s” frozen orange juice .This brand costs Rs.4 more per can than most other brands.

The orange juice was not on her shopping list, but like most women’s shopping lists. Mrs.Sharma covered only about half the items that she eventually purchased .The family drinks so much orange juice that its purchase has become a habit, and taking the “coorgs” cans from the cabinets has become almost automatic.

No one else has participated in the decision to buy either the juice or the particular brand .Mrs.Sharma. however , is not on a budget and she thinks that generally people get better quality when they pay more , she had heard about the healthful qualities of orange juice, and tries to serve it at least once a day .The frozen kind is easier to prepare .The cans are easier to carry than a bag of fresh oranges .Thus , the frozen orange juice is also a convenience.

Mrs.Sharma is willing to pay a bit more for her frozen orange juice because she wants the quality to please her family.The market carries several other brands of frozen orange juice .At the time of her first purchase , certain condition existed. There was a product demonstrator in the store , and although Mrs.Sharma generally finds demonstrators rather “pushy” , this particular brand was pleasant .Mrs Sharma tried a glass and took home a can.

That was several years ago however. These days the “coorg’s” company does some advertising .If Mrs.Sharma were asked today a about her reasons for purchasing the brand ,she would certainly not remember all these things. She might say only that she and her family “like it “ and that it s worth the extra few rupees that she pays for it .Millions of customers like Mrs.Sharma go through generally similar kinds of processes everyday,even though their specific thought and action processes may be different .The motivations, both conscious and unconscious , that are involved in these decision processes are interrelated , and an understanding of them is an important part of the marketing manager ‘s job.

**Questions**

1. What made Mrs.Sharma decide to purchase the Coorg’s brand ?
2. Which model explains this behavior better ?

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**6.9 NOTES**

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## 6.10 SUMMARY

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The various models of buyers behaviour that are presented here gives you an idea of how a buyer behaves as the way he behave. There are various stimuli which are broadly classified as internal and external. The internal stimuli depend upon the personal factors of the consumers such their personality, cultural and social background, economic background so on so forth. The external stimuli comes from the market which includes various marketing strategies formulated by the marketer. It also comes from various people who play different roles such influencers, initiators, deciders users and so on. All these factors are discussed in this unit.

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## 6.11 KEY WORDS

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Consumer behaviour, cognitive theory, social judgment theory, Involvement theory, Elaboration likelihood model, Nicosia Model

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## 6.12 SELF ASSESSMENT QUESTIONS

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1. Explain the concept of black box model
2. Outline the features of Howard Sheth Model
3. Explain the model of Nicosia
4. Describe EKB Model

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## **UNIT 7– MODELS OF CONSUMER BEHAVIOUR- II**

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### **Structure**

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Bettman's IPM of Consumer Choice
- 7.3 EBM Model
- 7.4 A Study on Indian Consumers
- 7.7 Notes
- 7.8 Summary
- 7.9 Key Words
- 7.10 Self Assessment Questions
- 7.11 References

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## 7.0 OBJECTIVES

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After studying this unit, you should be able to:

- Ø Analyze the parameters of Bettman's Model;
- Ø Describe EBM Model and
- Ø Identify the behaviour of Indian Consumers.

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## 7.1 INTRODUCTION

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Under economics it is assumed that man is a rational human being, who will evaluate all alternatives in terms of cost and value received. And select the product or services which gives him or her maximum satisfaction (utility). Consumers are assumed to follow the principle of maximum utility based on the law of diminishing marginal utility. However if this alone holds good, then there is no need to study various consumer behavior models. In the previous unit you have already studied few consumer behaviour models. In this unit let us study two more models.

Let us also study a recent report on changing dimensions of buyer behaviour in India. As you know, India is considered as a biggest market place owing to the population. If 5% of Indians are well to do and buy new things then any market would easily get 6 crore or 60 million people as an easy target. This is more than the population of many advanced countries. Hence instead of selling their products in those countries against stiff competitions, they would prefer to do business in India. For this understanding the Indian consumer behaviour is the primary key.

As already suggested only economics cannot determine the consumer behaviour. A study of consumer behaviour requires a multi disciplinary approach. For example the learning model of buyer behaviour suggests that the consumer behaviour depend on their previous leanings.

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## 7.2 BETTMAN'S INFORMATION PROCESSING MODEL OF CONSUMER CHOICE

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### **Bettman's Information Processing Model of Consumer Choice (1979):**

Bettman, in the 1970s introduced a consumer behaviour model that bases itself on the information processing that takes place within a consumer. According to him, the consumer is central to a host of information processing activities. He receives a large amount of information externally from the marketer, competitors and the environment. He also has a large store of information within him as a database that he builds over time from his learning, experiences, social influences etc.

With a huge amount of information that he is exposed to, the processing becomes difficult and unmanageable. According to him, consumers' possess a limited capacity for processing information. Thus Bettman concluded that consumers use certain simplifying strategies to process information. Within such decision strategies (heuristics), the consumer does not necessarily process all the information together; he could use simple decision rules for specific situations.

The consumer information process is depicted through several flowcharts, which depict the various components of the model and the interrelationships between them. The main components of the model are processing capacity, motivation, attention, information acquisition and evaluation, decision process, consumption and learning processes.

**1. Processing capacity:** Bettman assumes that while the information processing capacity varies across people, it is limited for each one of us. Every person has a limited capacity to process information; thus, consumers are not interested in extensive information processing, and select strategies that make product selection an easy process. They try to bypass their limits by being selective towards information receptivity, ignoring certain information that they consider irrelevant or incomprehensible, prioritizing information that is required and is in use etc. The marketer needs to understand the information processing capacities of individual consumers while delivering marketing information; this would provide invaluable insights to marketers for design of their marketing communication strategies.

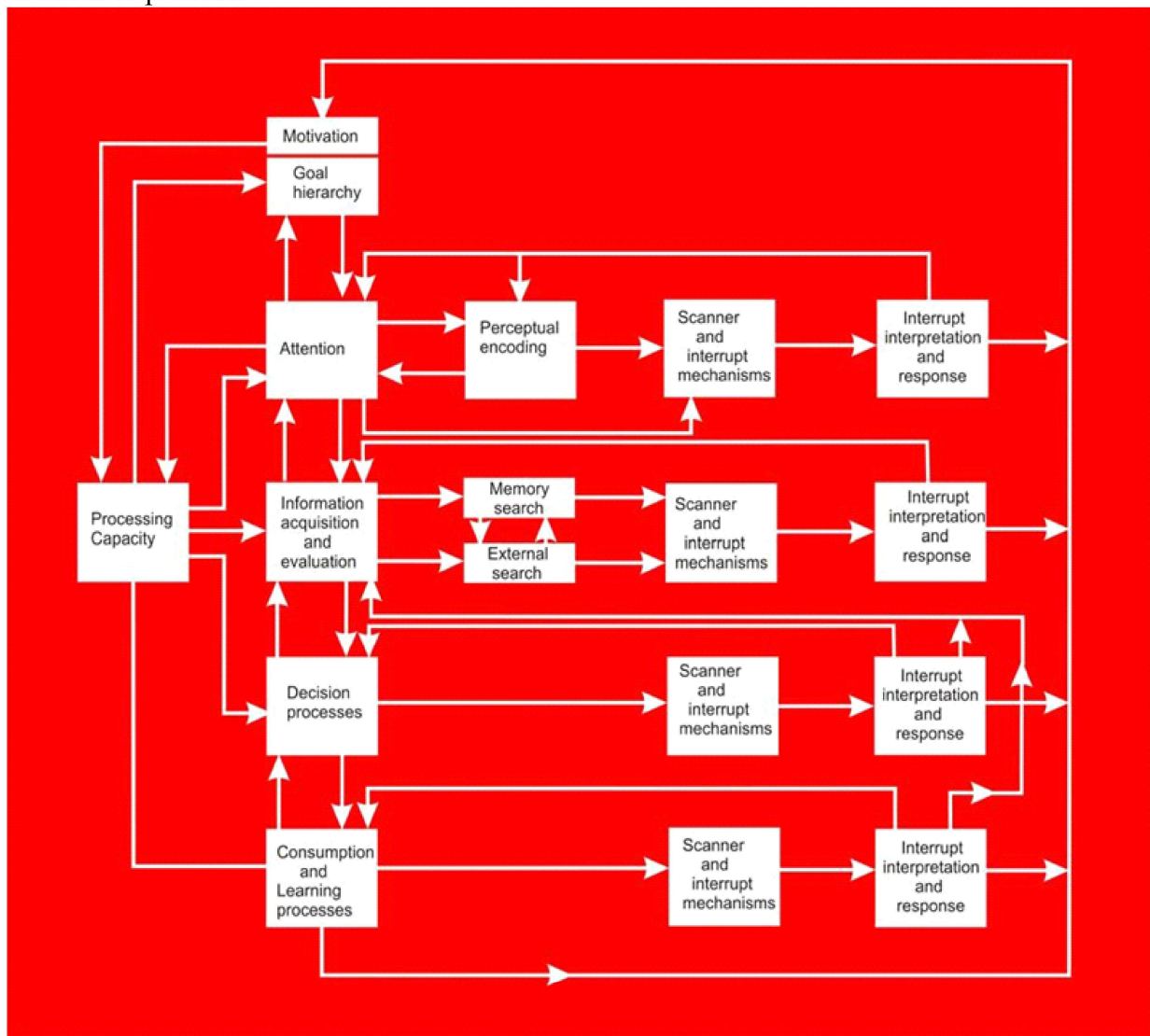
**2. Motivation:** The decision making choice process within a consumer is provided strength, intensity and direction through motivation. There exists a hierarchy of goals' mechanism that provides different sub-goals to simplify the choice selection. Depending upon the goal hierarchy (priority of goals), this component acts as the powerful and imposing component that controls directly not only the subsequent processes of attention, information acquisition and evaluation, decision processes and the consumption and learning processes, but also controls indirectly the various sub-processes in the model via the main process components.

The continuation and suspension of various sub-processes and their interrelationship with the main processes are all impacted by motivation. This component also converts the non-action or passive inputs in the consumers into action outputs or active behavior.

**3. Attention and Perceptual Encoding:** According to Bettman, attention could be voluntary as well as involuntary in nature. When a consumer actively consciously seeks attention to achieve his goals, it is referred to as a voluntary attention. It is the conscious allocation of processing capacity

to current goals. Non-voluntary or involuntary attention is the short term attention that he provides before deciding whether he should process the information that he has been exposed to and as to whether he should provide a voluntary attention. It is an automatic response to disruptive events. Non-voluntary attention could also occur when the consumer is exposed to conflicting information about the product and needs to resolve between this conflicting information.

Perceptual encoding occurs when the person integrates the information that he had processed into his already existing perceptual network or database. Based on perceptual encoding and the database, the consumer decides on the need and the quantum of marketing information that he needs to process.



**FIGURE 7.1: BETTMAN'S INFORMATION PROCESSING MODEL**

Figure: The Bettman Information-Processing Model of Consumer Choice Source: Bettman, J.R., An Information Processing Theory of Consumer Choice, Redaing, Mass: Addison-Wesley, 1979, 17. In Schiffman, L.G. and Kanuk, L.L., Consumer Behavior, 3<sup>rd</sup> Edition, Prentice Hall

This leads to the scanner and interrupt mechanisms and the resultant responses. The scanner and interrupt mechanisms act like on and off switches for a consumer. When the consumer realizes that he does not have adequate and appropriate information in his database (memory), he searches for information; he gives attention to and becomes receptive to information. On the other hand, if he feels that he has sufficient information, the information search process gets interrupted.

**4. Information acquisition and evaluation:** The consumer decides on the kind of information as well as the quantum of information required for the choice decision. Based on heuristics, he assesses the importance and availability of information. If he has the necessary information in a sufficient quantum in his memory, he goes ahead with the next stage. Memory is the source for the internal search for information. If he feels that the information that he has in his memory is insufficient, when it is found to be insufficient, he acquires more information through external search.

At this stage too the consumer again experiences the switch on and off modes through scanner and interrupt mechanisms. When the consumer realizes that he has adequate and appropriate information in his database (memory), he does not search for more information and the information search process gets interrupted; else he does search for more information. After acquiring information, the consumer evaluates the information for utility and sufficiency, and then moves on to make decision choices.

**5. Decision Process:** After information search and evaluation, the consumer takes a decision; the final decision of the brand is based not only on the acquired and evaluated information, but also his personal characteristics, demographics, psychographics (motivation, learning and experiences, attitude, personality, perception, etc), social influences and situational factors. This stage is also affected by the scanner and interrupt mechanisms. If the purchase is a routine purchase, the decision making is faster and often repeat; in other cases, it may take time.

**6. Consumption and learning processes:** After the consumer buys decides on a choice, he purchases the brand. The experience that he gains through the decision making and the consumption of the product in terms of satisfaction/dissatisfaction gets stored in his memory. This learning affects subsequent decision making for similar product categories, and affects the future heuristics for consumer decision making. It provides the consumer with information to be applied to similar choice situation in future. This stage is also affected by the scanner and interrupt mechanisms.

Processing capacity in an individual affects the motivation, attention, information acquisition and evaluation, decision process, consumption and learning processes. These processes impact and are impacted by their respective sub-processes. Thus, all the sub-processes, impact the processes, directly and/or indirectly, and are also impacted by them. And information processing capacity impacts and is also impacted by the various processes directly and sub-processes indirectly.

Bettman's model is model that focuses only on information processing. It starts with the motivation to search for information; be attentive to information; acquire and evaluate information; take a decision; and finally adds up the information (based on good/bad experiences) into the memory for further use. However, critics argue that while the model provides insights into consumers', it is difficult to implement practically.

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### 7.3 EBM MODEL

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#### **Engel, Blackwell and Kollat's Model or Engel-Blackwell-Miniard Model of Consumer Behavior:**

The Engel, Kollat and Blackwell Model, also referred to as the EKB model was proposed to organize and describe the growing body of knowledge/research concerning consumer behavior. As a comprehensive model, it shows the various components of consumer decision making and the relationships/interactions among them. The model went through many revisions and modifications, with attempts to elaborate upon the interrelationship between the various components and sub-components; and, finally another model was proposed in the 1990s which came to be known as the Engel, Blackwell and Miniard Model (EBM).

The model consists of five parts, viz. information input, information processing, decision process stage, decision process variables, and external influences.

**1. Information input:** The information input includes all kinds of stimuli that a consumer is exposed to and triggers a kind of behavior. The consumer is exposed to a large number of stimuli both marketing (advertising, publicity, personal selling, demonstrations, store display, point of purchase stimuli) as well as non-marketing sources (family, friends, peers); thus the various stimuli compete for consumer's attention. These stimuli provide information to the consumer and trigger off the decision making process.

**2. Information processing:** Stimuli received in the first stage provide information; the information is processed into meaningful information. The stage comprises consumer's exposure, attention, perception/comprehension, acceptance, and retention of information. The consumer is exposed to

stimuli (and the accompanying information); attention determines which of the stimuli he will focus upon; thereafter he would interpret and comprehend it, accepts it in his short term memory and retains it by transferring the input to long-term memory.

**3. Decision-process stage:** At any time during the information processing, the consumer could enter into this stage. The model focuses on the five basic decision-process stages, viz., problem recognition, search, alternative evaluation, choice, and outcomes (post-purchase evaluation and behavior).

There is problem recognition; this is followed by a search for information, which may be internal based on memory. The search of information is also impacted by environmental influences. Thereafter, the consumer evaluates the various alternatives; while evaluation, belief lead to the formation of attitudes, which in turn affect the purchase intention. The next stage is the choice and purchase, which gets impacted by individual differences.

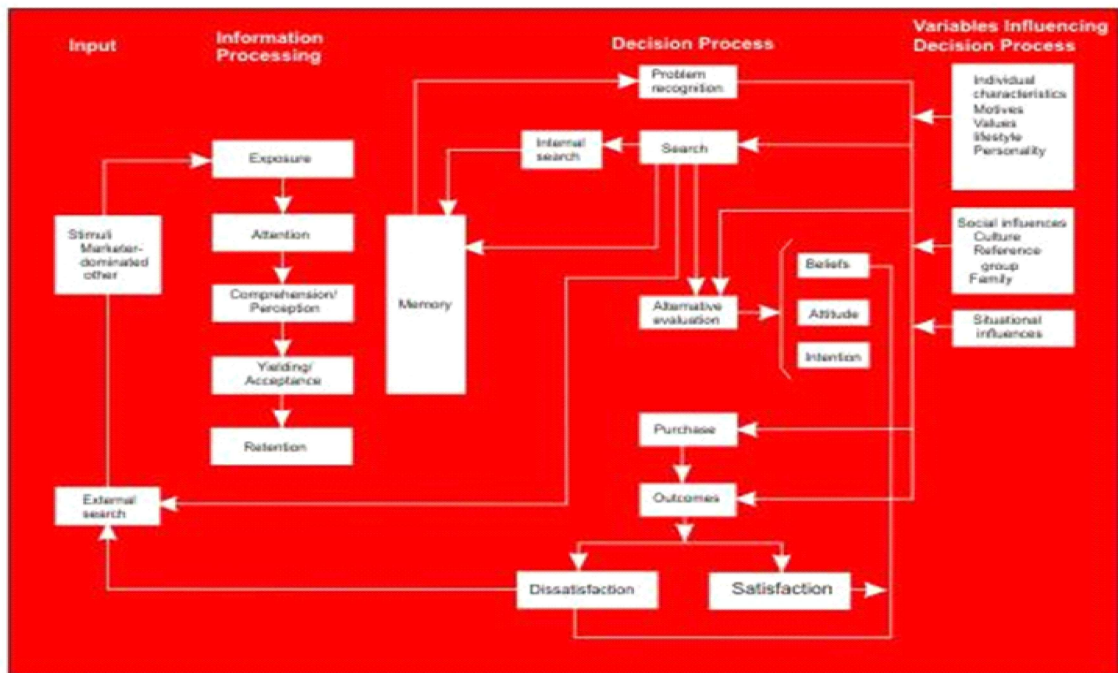
Finally there is an outcome, in the form of satisfaction and dissatisfaction. This outcome acts as a feedback on the input and impacts the cycle again. Environmental influences, individual differences and social influences, directly and indirectly influence each of the stages of the decision process.

However, EKB proposed that it is not necessary for every consumer to go through all the five stages; it would depend on whether the problem is an extensive or a routine problem-solving behavior.

**4. Decision process variables:** The model proposes individual influences that affect the various stages of the decision making process. Individual characteristics include constructs like demographics, motives, beliefs, attitude, personality, values, lifestyle, normative compliance, etc.

**5. Exnternal Influnces :** The model also proposes certain environmental and situational influences that affect the decision making process. The environmental influences include “Circles of Social Influence,” like culture, sub-culture, social class, reference groups, family and other normative influences; situational influences include consumer’s financial condition.





**FIGURE 7.2 : Engel- Kollat-Blackwell (Engel-Blackwell- Miniard) Model of consumer Behavior Source:**

The decision process comprises five stages from need recognition to outcome. The outcome in the form of satisfaction/dissatisfaction acts as the input in then next cycle of a similar purchase. Each of the components is directly or indirectly impacted by environmental influences, individual differences and social influences.

The model incorporates many constructs that impact consumer decision making. It tries to explain clearly the interrelationships between stages in the decision process and the various variables. They attempted to relate belief-attitude-intention. An attempt was made to define the variables and specify functional relationships between the various constructs. However, the model fails to adequately explain as to how each of these influences consumer decision making. Critics argue that there are too many variables; these have not been defined; the model is vague and complex; and the validity of the model has been questionable. The model was revised in the 1990s and proposed again as the Engel, Blackwell and Miniard (EBM) model.

The EBM model consists of four sections viz., information input; information processing; decision process and variables influencing the decision process. The variables and the working relationship is similar to the EKB but has been slightly modified.

Information received from marketing and non-marketing stimuli feeds into the information-processing section of the model. The information section of the model comprises various stages like exposure, attention, comprehension, acceptance and retention. After passing through these stages, it goes into the memory. Then this information that is stored in the memory acts as an initial influence on the need recognition stage. If internal information is inadequate there is a search for external information. The model focuses on the decision process stages: need recognition, search, pre-purchase alternative evaluation, purchase, consumption, post-purchase alternative evaluation and divestment. “Divestment” as a construct was additionally added as a modification over the EKB model. Divestment relates to options of disposal, recycling or remarketing. The entire process is influenced by environmental influences and individual differences.

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#### **7.4 A STUDY ON INDIAN CONSUMERS**

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To do business in India, one has to understand the Indian consumer behaviour. An American marketer cannot easily equate American consumer behaviour with Indian consumer behaviour to sell his products in India. This is the point where most of the MNC companies fail. Hence it is highly relevant to study Indian consumer behaviour. Here I am giving an article that was published in Haward Business Review the most sought after journal on management written by Rajesh Srivastva.

When India opened its economy to the global marketplace in the early 1990s, many multinational corporations rushed in to pursue its middle-class consumers—an estimated 200 million people—only to confront low incomes, social and political conservatism, and resistance to change. It turned out that the Indian consumer was a tough one to figure out and win over.

Things are changing. Although attitudes remain complex, they have shifted substantially toward consumerism, particularly over the past decade. The country’s recent economic performance is a factor, of course. For three years, GDP growth has been strong and sustained, at an average annual rate of around 8%. The population’s demographic profile also plays a role: Indians constitute a fifth of the world’s citizens below age 20. So a youthful, exuberant generation, weaned on success, is joining the ranks of Indian consumers.

To examine the changes in attitude, the Gallup Organization conducted two surveys of more than 2,000 respondents gauging the habits, hopes, plans, and evolution of the Indian consumer in the decade from 1996 to 2006.

### Indians are getting more materialistic.

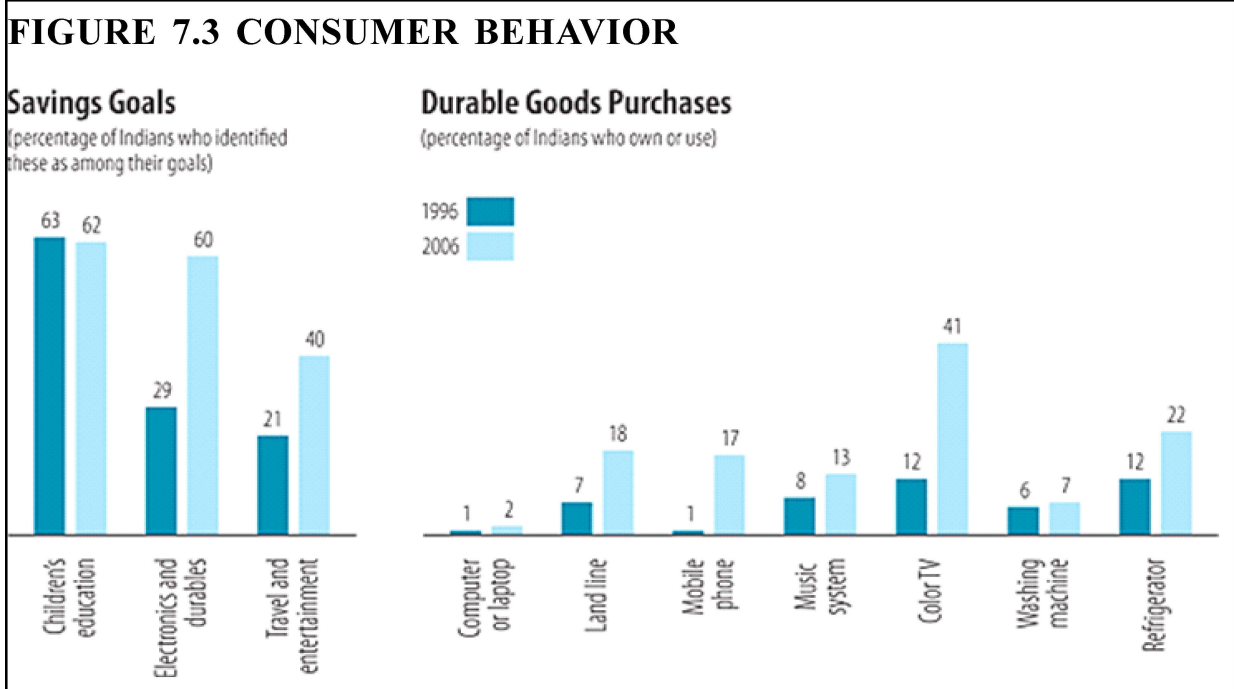
Indians are often stereotyped as deeply spiritual people who reject materialistic values. The research suggests that this stereotype no longer reflects reality. For instance, almost half of India's urban population had adopted a "work hard and get rich" ethos by 1996; another 9% had done so by 2006.

Earlier more people were inclined towards to saving habits. Less percentage of salary was converted in to disposable income.

Indians are more motivated than ever by personal ambition and a desire for material success, and they put in the hours it takes to achieve those goals. A recent Gallup poll of more than 30 countries showed that, with an average workweek of 50 hours, India ranks among the hardest working nations globally. The average in the United States is 42 hours; major European nations such as Germany, France, and the UK have workweeks of fewer than 40 hours.

### Consumerism is becoming a way of life in India.

An analysis of Indians' savings goals underscores the increase in materialism. Although long-term plans remain a high priority, life's pleasures in the here and now have gained importance over the past decade. Indians' desire to set money aside for electronics and durables has grown so dramatically that it has nearly caught up with their desire to save for their children's education. Travel and entertainment have also gained ground.



## **Change in Consumer Behavior**

Interestingly, this trend does not apply only to the young—it holds true for people aged 15 to 55. And it is not merely a large-city phenomenon; people in smaller towns espouse these values as well.

Among durable goods, high-tech luxury items are increasingly in demand. The number of Indians who own or use mobile phones, for example, has grown 1,600%—not surprising in a country that is adding more than 3 million subscribers a month. The number of people who own or use computers or laptops is up 100%, albeit from a very small base. Ownership of music systems and televisions is also on the rise.

Across products, a majority of the potential customers are entering the market for the first time. This is great news for marketers, since it signifies an expanding market, which will get even bigger as current owners replace or upgrade what they have.

A word of caution: Although incomes have risen over the past ten years, middle- and lower-income groups are increasingly dissatisfied with their earnings. It is essential to remember that 30% of Indians still live on less than one U.S. dollar a day. The highest-income groups are delighted with what their income can do for them; the middle and lower groups are much less satisfied. In the short term, income constraints and rising costs could slow India's transformation from a needs-based to a wants-based market. However, a heightened desire to lead the good life might well intensify the middle- and lower-income groups' efforts to make more money, thus fueling consumerism in the long run.

### **Foreign is passé; Indian is paramount.**

While Indians' confidence in foreign companies has remained essentially static, their faith in domestic companies has grown. In 1996, only 34% of those surveyed expressed confidence in Indian companies; in 2006, 56% did. Indians realize that not all foreign goods are perfectly suited to their tastes and needs. They have become discerning consumers who want products that are made in India and for Indians.

A look at the most respected brands in India is telling. Of the top 20 named in a survey, eight are Indian, including names like Tata, Godrej, and Bajaj. Only five of the top 20 are new foreign brands. These have succeeded because they have customized technology to meet Indian needs. Hutch, Nokia, and Samsung have done this particularly well. Nokia modified one of its mobile phones by adding a built-in flashlight that truck drivers, for instance, find useful on poorly lit

highways. “Indianizing” also has to do with keeping prices at levels that are manageable for the average Indian consumer.

Seven of the top brands come from well-established MNCs that are either thoroughly indigenized or involved in a joint venture that gives them the advantages of both worlds—customization of products for India with levels of quality and technology associated with international companies. Names such as Philips and Hero Honda fall into this group.

Trying to connect with consumers at an “Indian” level is a mammoth task. For one thing, India is a diverse country, with 23 official languages and more than 1,000 dialects. It’s also one of the world’s oldest civilizations, and rather than dispense with traditional values, it has wrapped modernity around its traditional core. For instance, 83% of Indians approve of women’s working outside the home, and 74% approve of women’s delaying marriage to further their education or careers (both percentages are up substantially from ten years ago); yet only 25% approve of marriage to someone who is not an Indian, and only 5% approve of couples’ living together without getting married.

To the outside world, the harmonious coexistence of seeming contradictions is one of the most confusing aspects of the Indian psyche—but it also signifies the country’s openness to change and its ability to add new dimensions without losing old ones. The companies, domestic or foreign, that understand this complexity will be the most successful at working with and selling to Indians and stand to reap enormous benefits of scale.

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**7.5 NOTES**

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## 7.6 SUMMARY

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In this unit effort has been made to examine Bettman Model and EBM model of consumer behaviour. The primary concern is to use the models to understand consumer behaviour. Consumer behaviourists as well as marketers are interested in understanding how and why certain decisions are made. The discussion was about some of behaviour models apart from those that are discussed in the previous unit. I have made an attempt to give a comprehensive view of all those aspects of buying situations which are deemed to be significant by their creators. Further discussion is also made about the behaviour of Indian consumers in particular. India being one of the large markets, second highest populated country, is attracting a huge numbers of marketers. Hence one has to specifically study the attitude and perception of Indian consumers which influence their decisions.

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## 7.7 KEY WORDS

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EBM Model, Bettman Model, Indian consumers

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## 7.8 SELFASSESSMENT QUESTIONS

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1. Explain the EBM Model with diagram
2. Discuss the factors considered in Bettman Model
3. Give an overview of Indian Consumers

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## 7.9 REFERENCES

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## **UNIT 8 – ANALYZING CONSUMER BEHAVIOUR**

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### **Structure:**

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Rural Customer behaviour
- 8.3 Differences between rural and Urban Consumers
- 8.4 Living Standards
- 8.5 BOP Customers
- 8.6 Nature and characteristics of BOP market
- 8.7 Notes
- 8.8 Summary
- 8.9 Key Words
- 8.10 Self Assessment Questions
- 8.11 References



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## **8.0 OBJECTIVES**

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After studying this unit you should be able to

- Ø Analyze rural consumer behaviour
- Ø Explain urban customer behaviour
- Ø Describe Living standards
- Ø Measure the characteristics of BOP consumers
- Ø Assess the role of technology on Indian Consumers

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## **8.1 INTRODUCTION**

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As the twentieth century has come to a close and we have moved into the third millennium, we can see many developments and changes taking place all around us with all the industries and firms within each industry trying to keep pace with the changes and diverse need of people.

Today all the firms are engaged in a process of creating a life time value and relationship with the customers. To be successful in this, a study of diversified consumer behaviour becomes highly essential. In India the behaviour of people who reside at urban places strongly differs from that of people in rural places. The marketing mix has to be completely different from rural market and urban market.

Consumer behavior in the rural market is even more perplexing because of lack of consistency in groups which are homogeneous in parameters of demographics age, occupation, education and income. Most marketers realize that India is on the cusp of momentous change. The economy is vibrant, incomes are rising & the habits, preferences & attitude are changing rapidly. There is, thus an emerging need to build expertise in rural marketing.

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## **8.2 RURAL CONSUMER BEHAVIOUR**

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There are three challenges that rural marketers must overcome.

1. The first of this is the challenges of reach-markets in the rural India that are small & scattered making them inaccessible & unreliable or both. But this problem is not new and many companies let it hamper them unduly even as others overcome it with innovation.

2. The next challenge is to ensure that the consumers are aware of your brand and want it.

3. The third challenge in rural marketing is influence. It is an old saying that customer is the king because he is the person whose decision have affect on the demand of any product or service. The attitude of consumer or buyer decides how demand will emerge for a new product & service & how existing goods and services would survive in future and in which manner. The study of consumer behavior implies how & why a particular consumer reacts to the decisions of producers. The study of consumer behavior is the study of how individual make decision to spend their available resources (time, money, effort) on consumption related items. It includes the study of why they buy it, when they buy it, where they buy it, how often they buy it & how often they use it.

The census of India defines rural place as any habitation with a population density of less than 400 per square kilometers where at least 75% of male working population is engaged in agriculture and where there exists no municipality or board leaning aside. Hindustan Uniliver Limited & ITC, most companies in the FMCG sector would define rural as any place with the population up to 20,000. Rural consumers are fundamentally different from their urban counterparts and different rural geographies display considerable heterogeneity calling for rural specific and region specific strategies e.g. a farmer in rural Punjab is much more progressive than his counterpart in Bihar. A farmer in Karnataka is far more educated than one in Rajasthan and so on.

An urban individual is free to take independent purchase decision. In a village, because of strong social structure, including caste consideration and low literacy level, community decision making is quite common. Companies face many challenges in tackling the rural markets. Marketing is all about “Getting to know your customer”. But having largely ignored this cardinal principle, most corporate in rural markets find that success has eluded them.

The rural market account for market worth of 27\$ billion. About 285 millions live in urban India whereas 792 million resides in rural areas. 72% of India’s population resides in its 600000 villages. Many companies like Colgate-Palmolive, HCL & Godrej etc. have already furrows into rural households but still capturing the market is a different dream.

The markets for different products vary largely in size in rural areas. The sizes of the markets for the different sectors in rural markets are shown below:

- FMCG – Rs. 50,000 Crore.
- Durables – Rs. 5,000 Crore.
- Agricultural Inputs – Rs. 45,000 Crore.
- Automobiles – Rs. 8,000 Crore.

The automobile sector is growing at a rate of 25 – 30 %.

**The following table shows the extent of rural sales by select companies.**

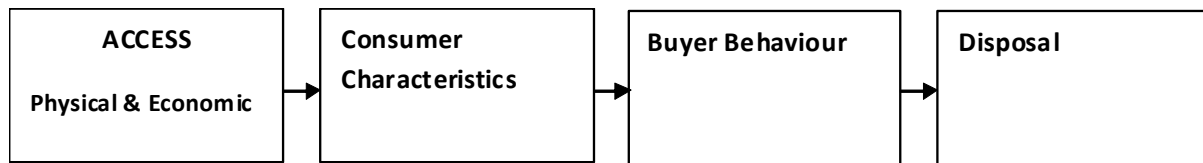
HLL	50 %
COLGATE	50 %
GODREJ	30 %
MARICO	25 %
CADBURY	25 %
GSK	25 %
HEINZ	20 %
CIPLA	18 %
HERO HONDA	40 %
KINETIC	30 %

**TABLE 8.1 Extent of Rural Sales**

For quite sometimes now, the life of the rural India has been the subject of animated discussions in the corporate suites, with the urban markets getting saturated for several categories of consumer goods and with rising rural income.

For example, Tata chemicals ran a chain called Tata Kisan Kendra which offered services ranging from agriculture input to financing to advisory services. Hindustan Levers is offering deals to farmers to cover operation from the pre harvest to post harvest stage. Mahindra & Mahindra limited, India's largest farm equipment company & its subsidiary Mahindra Shubhlabh services has operated in eleven states with 7 lacs strong Mahindra tractor customer base & 400+ dealers provide a complete range of products and services to improve farm productivity and establish market linkages to the commodity market chain.

As already said the rural consumer behaviour differs from urban consumer behaviour. The below diagram shows the parameters of how rural consumer behaviour differs from the previously discussed models of consumer behaviour



**FIGURE 8.1 Parameters of Rural Consumer Behaviour**

**ACCESS-** the first step is to provide access to the product/services for consumer within rural areas. Access can be divided into 2 types namely

- o Economic access
- o Physical access

Economic access relates to the issue of affordability of the product/ service for the rural population. According to NCAER the low penetration rates can be attributed to 3 major factors namely: low income level, inadequate infrastructure facility and different lifestyle.

Normally, the rural consumer spend the majority of their income on basic necessities which makes them price sensitive.

The first factor influencing physical access is the country infrastructure which is comprised of essential service such as transportation system, communication system, utilities and banking system. Infrastructure not only has a tremendous impact on the nature of conducting business in the country but is also vitally important for the future economic growth of India.

The second factor influencing physical access is a distribution strategy. The company can use delivery van which can serve two purposes:

- a) It can take the product to the customers in every nook n corner to the market. It enables firm to establish direct contact and facilitates sales promotion, annual “melas” organized are quiet popular and provide a very good platform for distribution because people visit them to make several purchases. For easy access of once own fund, ICICI bank has developed low cost automated teller machine (ATM) designed for rural areas and is aimed at increasing micro finance in rural India.

**b) Poor-Quality Retail Outlets** Retail outlets in rural area are often characterized as insufficient, time consuming and frustrating. Companies therefore, have to be creative and learn to work around these constraints. The retail establishment where most rural consumers purchase their day-to-day goods is at a Kirana or street shop. Consumers purchase everything from Banana to razors at a kirana with over 2.5 millions kiranas Indian rural town and village. In order to reach these local shop and establish a brand presence in them companies need substantial amount of working capital and large committed sales force.

**CONSUMER CHARACTERISTICS-** The specific products/services that are purchased and consumed may be different in each area. The cultural orientation and social class distribution will determine consumption pattern within a culture.

India per capita income measured in terms of purchasing power parity estimated at US \$ 2,230 against US \$ 440 calculated by conventional method by translating rupees into Dollar at the prevailing exchange rate. Purchasing power parity has been used for comparison to capture available data through certain studies conducted by National council of applied Economic Research .

These studies have attempted to classify the consumer goods market according to the consumption behavior of its constituents. Cultural pattern in rural areas determine whether a culture is traditional or modern in its outlook and that is a factor that can have a major impact on consumption pattern.

**BUYING BEHAVIOR-** This stage encompasses all factors impacting decision making and choice within a rural area.

To understand the buying behavior of rural consumers, we must go to the factors that influence their buying behavior. The factors include:

1. Socio-economic environment of the consumer
2. Cultural environment
3. Geographic location
4. Education/literacy level
5. Occupation

6. Exposure to urban lifestyles
7. Exposure to media and enlarged media reach.
8. The points of purchase of products.
9. The way the consumer uses the products
10. Involvement of others in the purchase.
11. Marketers effort to reach out the rural markets

Some of these points are discussed in some detail below:

***INFLUENCE OF CULTURE:*** Culture and tradition influence perception and buying behavior. For example, the preference in respect of color, size and shape is often the result of cultural factors. Rural consumers' perception of products is strongly influenced by cultural factors

***GEOGRAPHIC LOCATIONS:*** Rural consumer behavior is also influenced by the geographic location of the consumers. For example, nearness to feeder towns and industrial projects influence the buying behavior of consumers in the respective clusters of villages. To cite one more example of how geographic location affects buying behavior, we can point out the fact that the lack of electricity in many rural households acts as a barrier to the purchase of certain consumer durables.

***EXPOSURE TO URBAN LIFESTYLES:*** Extent of exposure of rural consumers to urban lifestyles also influences their buying behavior. An increased exposure and interaction with urban communities has been the trend in recent years.

***THE WAY THE CONSUMER USES THE PRODUCTS:*** The situation in which the consumers utilize the product also influences their buying. The example of lack of electricity affecting buying behavior illustrates this point as well. Lack of electricity automatically increases the purchase of batteries by rural consumers. Similarly, since rural consumers cannot use washing powders/detergent powders that much, as they wash their clothes in streams or ponds, they go in more for washing bars and detergent cakes.

***PLACES OF PURCHASE:*** Buying behavior of rural consumer also varies depending on the place of purchase. Different segments of rural buyers buy their requirements from different places/outlets. Some buy from the village shopkeepers; some from village markets/fairs; others buy from the town that serves as the feeder to the rural area. It is also seen that the same buyer buys different

requirements from different places. For understanding the buying behavior of the rural consumer correctly, the marketer must ask the question: Where from do they buy the products and why?

***INVOLVEMENT OF OTHERS IN THE PURCHASE:*** Involvement of others in the purchase in the purchase decision is yet another relevant factor in this regard. There has been a change here in recent years. In the past, the head of the family used to make the purchase decision all by himself. In contrast, the involvement of the other members of the family in the purchase decision has been growing in recent years. An increase in literacy coupled with greater access to information has resulted in this development. The marketer has to reckon the role of the influencers while sizing up the buying behavior of rural consumers.

***MARKETERS EFFORTS TO REACH OUT THE RURAL MARKET:*** In recent years, many corporate companies have been trying hard to develop a market for their products in the rural areas, investing substantially in these areas. This has brought about some change in the way buyers purchase different products. Developmental marketing has created discriminating buyers and hitherto unknown demand in the rural market. All the above factors influence the buying behavior of rural consumer and hence their responses to the marketing mix variables, and the reference points they use for purchase decisions.

***BRAND EQUITY:*** Brand equity is another aspect of perception. Some of the brands like Colgate, Marlboro are popular brands in rural areas. It might therefore be advantageous to retain these brand names and packaging in rural areas, although companies might want to use the local language on the package itself.

***PRICE-QUALITY RELATIONSHIP:*** The next aspect of perception is price quality relationship. Mostly rural area consumers rely on word of mouth communication more than price as a means to judge quality.

#### **DISPOSAL-**

Many rural areas are becoming more environmentally conscious and are moving away from throw away products. Hence marketers need to design systems to facilitate the safe disposal, recycling, resale of products. They also meet their social responsibilities especially in relation to public safety and environmental pollution. Extended channels of distribution provide numerous options for consumers who wish to move still useful but unwanted products to other consumers.

## RURAL PENETRATION

The below table shows how rural market is growing and could never be neglected by the marketers.

**Table 8.2 Increasing penetration of non essential items (per thousand)**

FM CG	1998-99	2004-05	2014-15
Body telcom power	452	624	630
Face Cream	80	285	450
Packaged biscuit	185	415	680

DURABLES	1998-99	2004-05	2014-15
Motorcycle	16	50	139
Refrigerator	14	60	95
TV(color)	18	80	318

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## 8.3 DIFFERENCES BETWEEN RURAL AND URBAN CONSUMERS

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The difference between rural and urban consumer behaviour is highlighted in the below points

1. Although there are more literate people in rural India (49.3 crore) than in urban India (28.54 crore), the rural literacy level is only 68.9% compared to 85% in urban area. A rural customer may not be very educated but has lot of common sense. He is as intelligent if not more sharper in many ways than his urban counterpart. This is brought out by an incident where in an aggressive farmer held out a cut section of a tyre in his hand and complained to the tyre company executive that though the tyre companies claimed that the tyres had '8 plys' and he could see only 4 plys in the tyre. The executive had to explain in detail about the process of tyre making to convince the farmer that not all the 8 layers used in making the 8 ply can be seen
2. A rural customer is very conscious of "value for money", and may not always go for cheap products or premium or image products. As he may not afford high price, he does not buy products with features that do not enhance the basic functions of the product.



3. Rural customers do not trust the outsiders easily. It is not very easy to convince a rural customer. It is a challenge to introduce anything new to rural customers.
4. Rural customers are more brand loyal than urban customers. However, as the literacy level is low they recognize the brand more through colour, symbol and logo.
5. The rural customer's involvement in purchase of any product is high. In some cases such as buying TV, he consults a number of people. Both rural and urban consumers experience significant influence of their families for buying the select products. However the rural consumers experience greater influence of their families as compared to their urban counterparts.
6. Another important difference is that the rural customer's life is highly routinised and laid back. Sunday is not a holiday in the village and he cannot be made to hurry through.
7. The rural income mostly depends on the agriculture and hence income and purchase reaches greater heights after harvest time. Hence, the disposable income varies across the nation depending on the area, crop, weather etc. Consequently, the buying patterns vary with urban buying patterns.
8. Traditional values, customs and perceptions have a stronger hold on the rural customers than urban customers. This impacts developing common communication programme for entire country.

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## **8.4 LIVING STANDARDS**

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With one of the fastest growing economies in the world, clocked at a growth rate of 7.3% in 2015, India is fast on its way to becoming a large and globally important consumer economy. The Indian middle class was estimated to be 50 million persons (reckoning vehicle owners only) in 2007, by McKinsey & Company. According to Deutsche Research the estimates are nearly 300 million people for all Middle Class. If current trends continue, Indian per capita purchasing power parity is \$1631 and ranked 147 in PPP terms.

According to NCAER, India's middle class population would be 267 million in 2016. Further ahead, by 2025-26 the number of middle class households in India is likely to more than double from the 2015-16 levels to 113.8 million households or 547 million individuals. Another estimate put the Indian middle class as numbering 475 million people by 2030.

The standard of living in India shows large disparity. For example, there is widespread poverty in rural areas of India, where medical care tends to be very basic or unavailable, while cities boast of world class medical establishments. Similarly, the very latest machinery may be used in some construction projects, but many construction workers work without mechanization in most projects. However, a rural middle class is now emerging in rural India, with some areas seeing increasing prosperity.

A 24.3% of the population earned less than US\$1 (PPP, around US\$0.25 in nominal terms) a day in 2005, down from 42.1% in 1981. 41.6% of its population is living below the new international poverty line of \$1.25 (PPP) per day, down from 59.8% in 1981. The World Bank further estimates that a third of the global poor now reside in India.

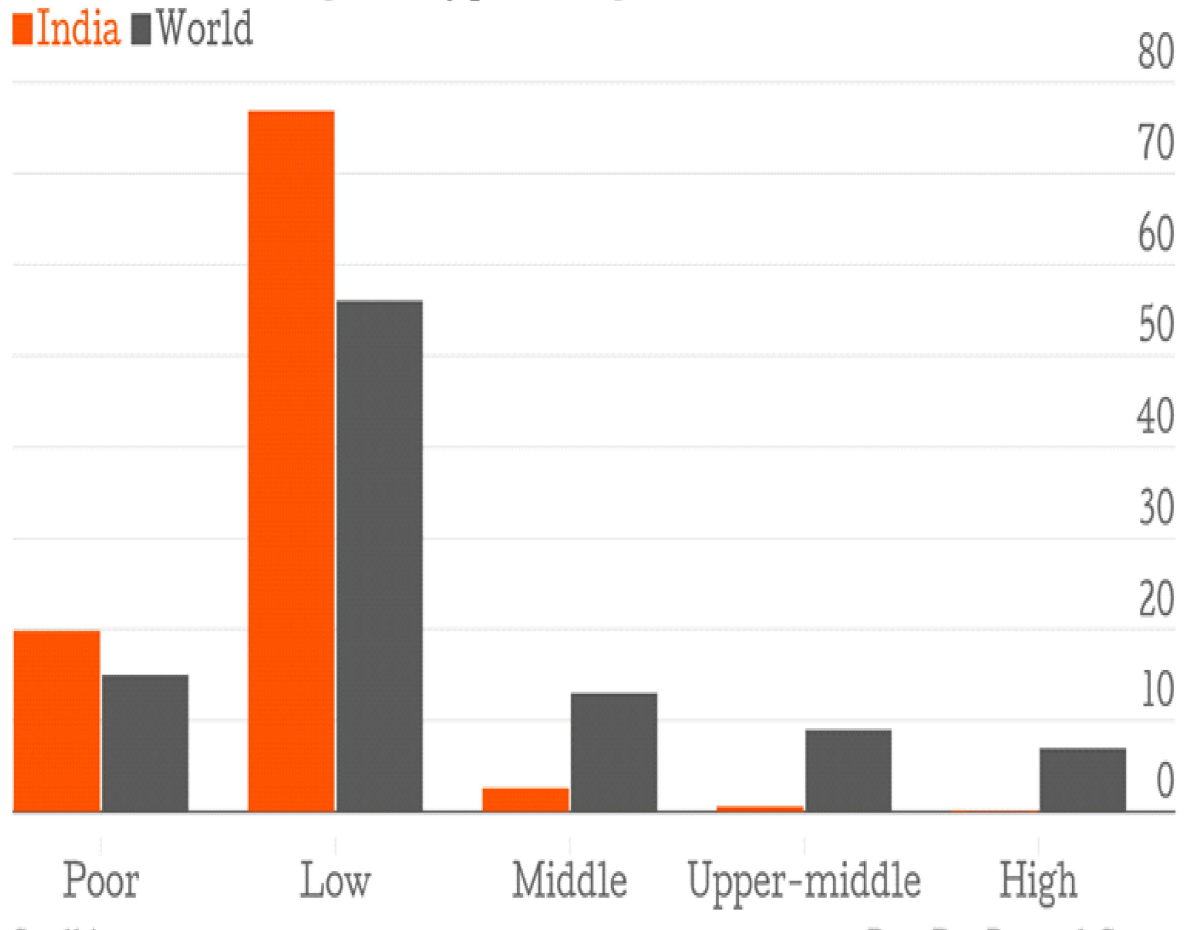
On the other hand, the Planning Commission of India uses its own criteria and has estimated that 27.5% of the population was living below the poverty line in 2004–2005, down from 51.3% in 1977–1978, and 36% in 1993-1994. The source for this was the 61st round of the National Sample Survey (NSS) and the criterion used was monthly per capita consumption expenditure below 356.35 for rural areas and 538.60 for urban areas. 75% of the poor are in rural areas, most of them are daily wagers, self-employed householders and landless labourers.

Although Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas. Between 1999 and 2008, the annualised growth rates for Gujarat (8.8%), Haryana (8.7%), or Delhi (7.4%) were much higher than for Bihar(5.1%), Uttar Pradesh (4.4%), or Madhya Pradesh (3.5%). Poverty rates in rural Odisha (43%) and rural Bihar (41%) are higher than in the world's poorest countries such as Malawi.

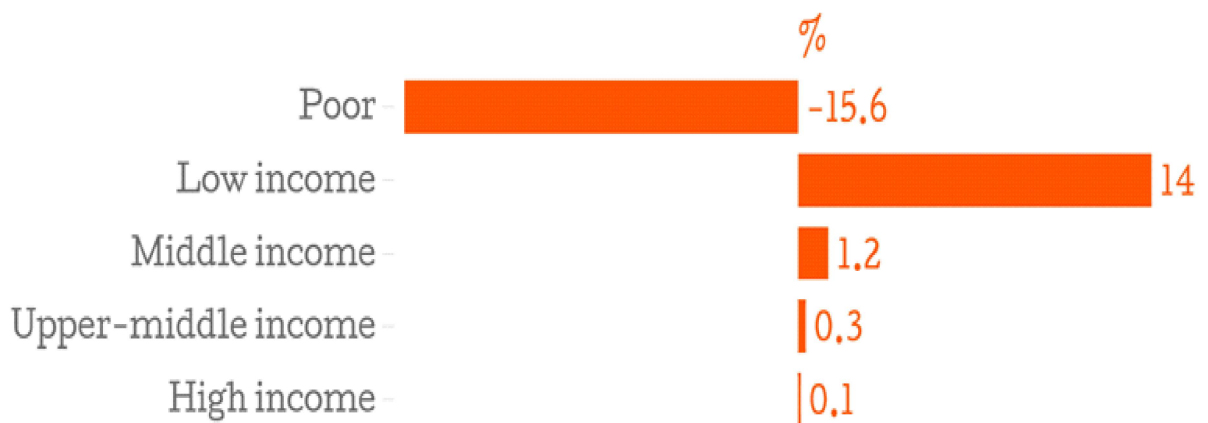
Since the early 1950s, successive governments have implemented various schemes, under planning, to alleviate poverty, that have met with partial success. Programmes like *Food for work* and *National Rural Employment Programme* have attempted to use the unemployed to generate productive assets and build rural infrastructure. In August 2005, the Indian parliament passed the *Rural Employment Guarantee Bill*, the largest programme of this type, in terms of cost and coverage, which promises 100 days of minimum wage employment to every rural household in 200 of India's 600 districts. The Indian government is planning to bring in more economic reforms which can help farmers and unskilled labourers transition into industrialized sectors.

The below graphs gives you a comparasion between India and the world

### Global income categories by percentage



### Change in income-level distribution in India (2001-2011)



**FIGURE 8.1 Global income**

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## **8.5 BOP CUSTOMERS**

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The global financial crisis which originated in the US and evolved into the European debt crisis continues with no end in sight. As a result, global companies have changed track and are now more interested in emerging and developing countries than developed countries such as Japan, the US, and Europe, which have small prospects of economic growth. Japanese companies are rushing to develop new markets; rather than the middle class, they are showing great interest in business targeting the Base of the Economic Pyramid (BOP), i.e. the economic stratum composed of low-income earners (less than \$3000 in purchasing power parity (PPP) per person per year), in particular.

### **Why Global Companies have Turned their Attention to BOP Business**

The BOP has a population of 4 billion people and is expected to become a market worth more than \$5 trillion. In the past, companies around the world were uninterested in developing the BOP market due to its weak purchasing power and lack of market infrastructure. However, some innovative companies (mainly local companies and European and American corporations) were able to analyze income in the BOP in greater depth and create innovative business models, thereby succeeding in practically increasing business profitability and proving that purchasing power can be cultivated within the BOP as well.

Meanwhile, BOP market infrastructure is gradually being built. First, due to developing urbanization.

Most Japanese company executives also tend to notice more business targeted at the middle class concentrated in urban areas, because its purchasing power is more obvious and existing market infrastructure can be put to good use. Consequently, they are very conscious of problems such as whether or not the BOP is really marketable and what kind of business strategy is necessary for entering the market. However, there are now many companies among leading western companies as well as local companies, of course, which have placed BOP business as their core business. A new mindset is needed to help the advancement of BOP business in Japan.

### **Determining BOP Marketability Using Discretionary Income**

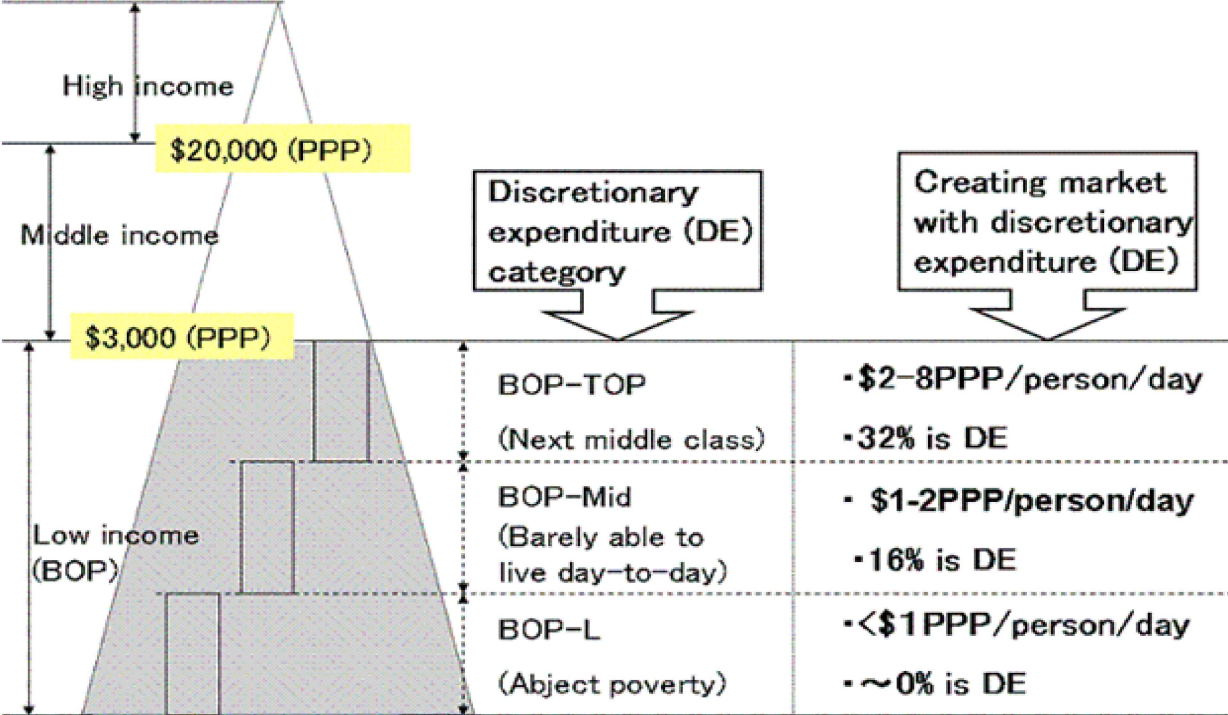
In fact, when determining the marketability and purchasing power of the BOP, one should look at things from a dynamic market structure perspective. That is to say, there is great potential for the low-income level of today to become the middle income level of tomorrow in emerging and developing countries with rapid economic growth. According to a survey by the Euromonitor International, it is

estimated that the population of low-income strata in developing Asian countries will decrease by half, from 2.5 billion in 2000 to 1.15 billion in 2020, while the middle class will increase from 220 million to 2 billion in the same time frame.

However, in the highly competitive global market, if a company waits until a consumer enters the middle class before trying to gain their business, it is often already too late. In other words, global competition has already entered a stage where companies need strategies for cultivating their own customers. It is necessary for companies to make their products and services—their brand—familiar to the BOP. It is important to increase demand stickiness and lock in customers for one’s own company.

Next, companies must also consider the perspective of discretionary income necessary for “creating markets.” If we categorize low-income levels by greater and lesser discretionary income, we see that the low-income stratum has “purchasing power”, too. In other words, it is necessary to have a different strategy for each income level. According to a survey by the World Economic Forum (WEF), discretionary income of the top level of the global BOP (PPP of \$2-8 per person per day; 1.1 billion people) is approximately 32% of income, which is more than sufficient “purchasing power” to allow for product selection.

**Figure 8.2: Low-income levels have purchasing power too**



Source: Created by author based on WEF materials

Harvard Business School's Professor V.K. Rangan and Professor Michael Chu divide the BOP into the same 3 sub-levels but propose two different BOP strategies. Their criteria for categorizing income levels are different, but their ideas on strategy are the same.

1. Low income (\$3-5/PPP)
2. Subsistence (\$1-3/PPP)
3. Extreme poverty (<\$1/PPP)

### **Revolutionizing Business Models by Cultivating and Using “Purchasing Power”**

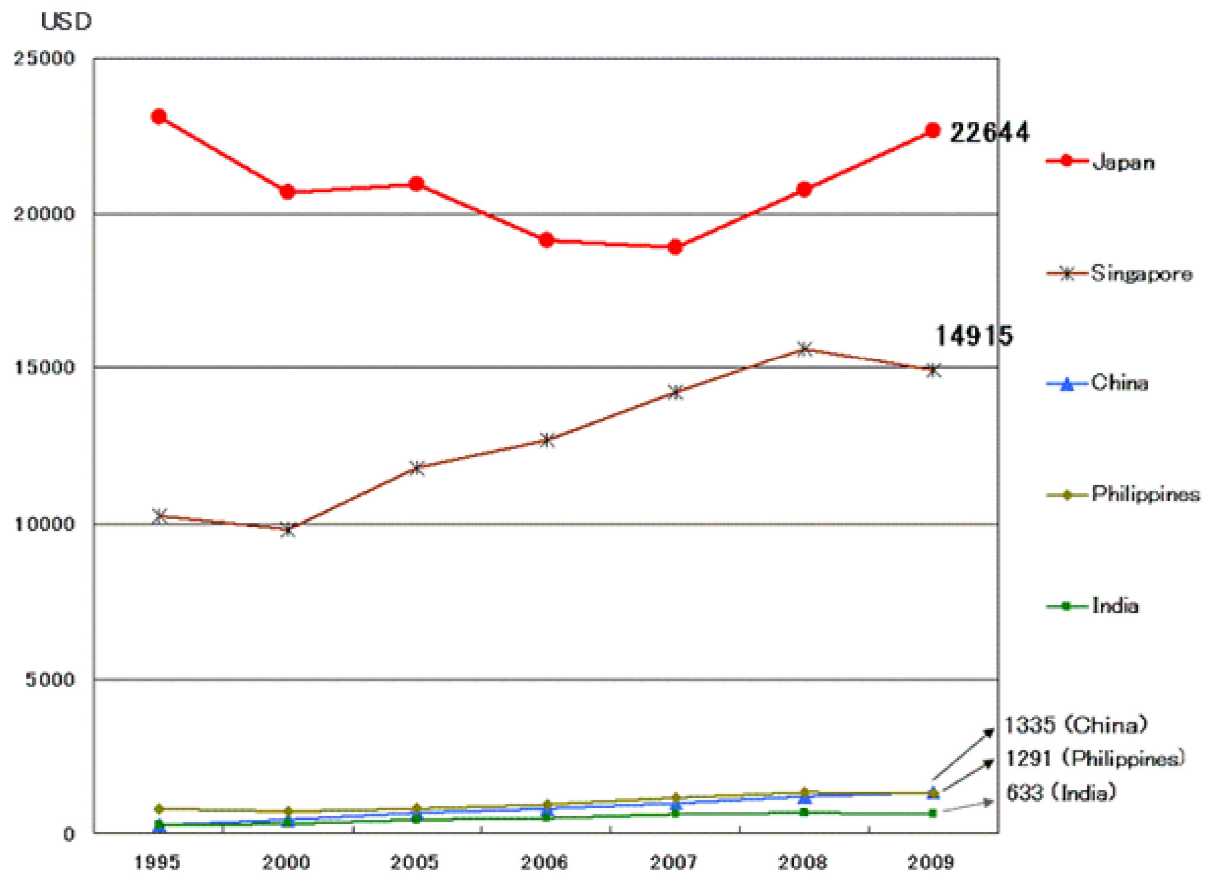
However, the expenditures of individuals in the BOP are small: consumers are all micro-consumers, and they are scattered from the outskirts of cities to farming areas. Therefore, the issues to be considered are how to deal with micro-consumers and how to concentrate a scattered market or lower the cost of accessing the market.

They proposed as the following business model innovation:

1. Devise a way to micronize normal goods and services (e.g. smaller packaging, installment payment plans), or a way to normalize micro-consumers (e.g. group purchasing).
2. Train buyers to become sellers and/or systematize (formalize).
3. Use ICT to connect the scattered BOP market, realize merit of scale.

An oft-heard example of the micronization of normal goods and services is Unilever's move to smaller packaging of consumer products and microfinancing, but there are good examples in other fields as well. For example, Bhati Airtel, the largest mobile communication services company in India, reduced their call-time billing units from minutes to seconds, thus increasing demand from the BOP. Further, an example of normalizing the unstable, micro-purchasing power of BOP consumers can be seen in the BOP-targeted loan business of India's ICIC Bank. Their business model is to lend money to a Self Help Group composed of 10-20 people and have them all take collective responsibility for repaying the loan, rather than providing microfinancing to each individual consumer.

**Figure 8.3: Individual consumption per capita in Asian countries**



Source: Calculated by author based on data from each country and IMF

### Creating Value Together with the BOP

As seen above in the subcategorization of BOP levels, the lower the level of income, the less discretionary expenditure is available and the greater the risk for a company trying to turn a profit. In order to hedge this risk, companies must form close ties with NGOs, NPOs, and government bodies which are involved in regional development. The reason for this is that non-profit groups such as the World Bank, government departments, and NGOs refrain from publicly intervening in levels with a lot of discretionary income in order to avoid market distortion, but using the power of private companies they have taken an active policy approach to combat poverty in the extreme poverty level (<\$1/PPP), of course, and also the subsistence level, which had not been a concern in the past.

Furthermore, when businesses target lower income levels for business and make a profit doing so, the backlash from society is strong. For example, when SKS, a micro-financing company

in India, first went public, it was criticized by politicians and society alike as a “business which wrings money from poor people.” Therefore, it would be prudent to refrain from “selling” too much to the extreme poverty level. In fact, non-profit groups, NGOs, and public institutions should prioritize helping citizens in the BOP to escape from poverty. As a result, B2G business such as public procurement may be created. For example, the oft-cited case study of Sumitomo Chemical’s Olyset Net mosquito netting is a BOP business that succeeded in large part due to the procurements by public institutions such as UNDP; one could say it is a BOP-targeted B2G business.

As we have seen above, Japanese companies should carefully examine the income structure of and changes in the BOP and put their strategies into action. Through such practice, they will accumulate market development know-how, BOP business will become more attractive, and a great contribution will have been made to the growth strategy of Japanese companies.

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## **8.6 NATURE AND CHARACTERISTICS OF THE BOP MARKET**

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The characteristics of the BOP market are diverse and must be integrated into the approach towards serving it. The spending pattern of the poor is dissimilar as compared to the other segments of the market. The high end and medium range consumers generally buy big packs of consumables so that they need not shop frequently. However the BOP consumers do not have such disposable income and that’s why they are unable to buy large volumes and store it for future consumption.

However the degree of impact that culture will have on behavior depends on the narrowness of a culture or its merger with other cultures. The BOP culture is quite different from other segments. Rituals, festivals, harvesting seasons and inhibition to buy new things are some of the key features of BOP consumers.

### **Low brand awareness**

Awareness refers to the strength of a brand’s presence in the consumer’s mind. Awareness is measured in different ways in which consumers remember a brand ranging from recognition. (Have you been exposed to this brand before?) to recall (what brands of this product class can you recall?) to “top of the mind” (the first brand recalled) to dominant (the only brand recalled). Contrasting the more affluent segments the BOP consumers are not very much aware about the brand. The most essential concern for the marketers is to understand and perceive them as value conscious customers.

### **Different buying behavior**

Consumer behavior is defined as the “decision process” and “physical activity” engaged in



by individuals. The physical activity which we focus upon in the course of consumer behavior is that of making the purchase. But there are a number of influences affecting the purchase and a number of individuals may be involved in exerting these influences. So the purchase action that is visible to us is the result of interplay of a number of complex and hidden variables which may have influenced the ultimate purchase activity. The BOP customers will not opt for buying items in a bulk but will rather buy items for their immediate use, i.e these items will be in small packs.

**Extreme Market Conditions**

Many factors make it unrealistic for the private sector to participate in economic development in the BOP market due to tough market condition and environmental factors. Among them are inefficient regulation, widespread corruption, lack of basic infrastructure, extreme poverty, and the underdeveloped financial and banking structure. BOP segments are largely untapped by the corporate because it is hard to access these markets. But companies are trying to explore these vast markets on a profitable basis. The companies have understood that around 60% of developing countries GDP is generated in BOP areas. They have realized that the major barrier to serve BOP markets is access but not their purchasing power. Companies like Cavin Care, ICT, HUL, Dabur, Tata, Godrez, Nirma etc are looking to overcome these barriers and explore the fortune underlying these markets.

**8.7 NOTES**

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## **8.8 SUMMARY**

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Understanding the consumer behaviour and formulating strategies according is always a challenging task. The size of market being large, there is always possibility that that we assume the market to be homogenous and plan our marketing mix accordingly. However to be successful in the market one has to give importance to market segmentation there by making each sub market homogenous and formulate strategies accordingly. Rural customers have to be treated differently from urban customers. BOP customers have to be treated in a special way than middle class and rich class customers. In this unit we have tried to focus these different segment of the market and made an attempt to analyze their behaviour.

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## **8.9 KEY WORDS**

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Consumer behaviour, rural, urban, BOP market

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## **8.10 SELF ASSESSMENT QUESTIONS**

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1. Write a note on rural buying behaviour
2. Differentiate between rural and urban buying behaviour
3. Explain the characteristics of BOP market
4. Write a note on living standards

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## **8.11 REFERENCE**

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**DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT**

**M.B.A III SEMESTER**

**ELECTIVE : MARKETING**

**COURSE - 18B**

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**CONSUMER BEHAVIOUR AND MARKETING RESEARCH**

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**BLOCK**

**3**

**MARKETING RESEARCH**

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**Unit 9**

**Marketing Research - an Introduction** **01-22**

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**Unit 10**

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**Applications of Marketing Sesearch in Business** **70-80**

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## **BLOCK-3 : MARKETING RESEARCH**

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This module is concerned with providing an introduction to marketing research. This means that all the basic elements of method, techniques, and analysis are covered, including those at a more sophisticated level. The methodological scope regarding research design, data collection techniques, and measurement is broad. This module presents its material from primarily a pragmatic and user-oriented rather than theoretical research technician perspective. User-orientation is based on the premise that users need to know method in order to evaluate research presented to them.

### **This Block : Marketing Research, is divided into Four Units**

Unit 9: Marketing Research- an Introduction

Unit 10: Marketing Information System

Unit 11: Types of Marketing Research

Unit 12 : Applications of Marketing Research in Business



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## **UNIT-9: MARKETING RESEARCH- AN INTRODUCTION**

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### **Structure:**

- 9.1 Objectives
- 9.2 Introduction
- 9.3 Meaning of Marketing Research
- 9.4 Definition of Marketing Research
- 9.5 Objectives of Marketing Research
- 9.6 Applications of Marketing Research
- 9.7 Limitations of Marketing Research
- 9.8 Processes of Marketing Research
- 9.9 Qualitative and Quantitative Research Concepts
- 9.10 Notes
- 9.11 Summary
- 9.12 Key words
- 9.13 Self Assessment Questions
- 9.14 References



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## 9.1 OBJECTIVES

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After studying this unit, you should be able to:

- ⇒ Explain the meaning and definition of Marketing Research;
- ⇒ Identify objectives of Marketing Research;
- ⇒ Evaluate applications of Marketing Research;
- ⇒ Assess the Limitations of Marketing Research;
- ⇒ Describe Process of Marketing Research and
- ⇒ Identify the differences between Qualitative and quantitative Research.

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## 9.2 INTRODUCTION

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Marketing is a restless, changing, and dynamic business activity. The role of marketing itself has changed dramatically due to various crises such as material and energy shortages, inflation, economic recessions, high unemployment, dying industries, dying companies, terrorism and war, and effects due to rapid technological changes in certain industries. Such changes, including the internet, have forced today's marketing executive to becoming more market driven in their strategic decision-making, requiring a formalized means of acquiring accurate and timely information about customers, products and the marketplace and the overall environment. The means to help them do this is marketing research.

### WHAT IS RESEARCH?

Research is a systematic and objective investigation of a subject or problem in order to discover relevant information or principles. It can be considered to be either primarily fundamental or applied in nature. *Fundamental research*, frequently called *basic* or *pure research*, seeks to extend the boundaries of knowledge in a given area with no necessary immediate application to existing problems, for example, the development of a research method that would be able to predict what people will like in the future. In contrast, *applied research*, also known as *decisional research*, attempts to use existing knowledge to aid in the solution of some given problem or set of problems.

Marketing research assists in the overall management of the marketing function. A marketing manager must prioritize the more important and pressing problems selected for solution, reach the best possible solution based on the information available, implement the solution, modify the solution when additional information so dictates, and establish policy to act as a ready-made solution for any recurrence of the problem.

Marketing research often focuses on understanding the "Customer" (purchasers, consumers, influencers), the "Company" (product design, promotion, pricing, placement, service, sales), and can also be expanded toward the environment to include "Competitors" (and how their market offerings interact in the market environment).

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### 9.3 MEANING OF MARKETING RESEARCH

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Through introduction we could be able to understand the meaning of research, let us make an attempt to understand meaning of marketing research,

Marketing Research has two words, viz., marketing and research.

- Marketing means buying and selling activities.
- Research means a systematic and complete study of a problem. It is done by experts. It uses scientific methods.

Thus, we can say, “Marketing Research is a systematic method of collecting, recording and analyzing of data, which is used to solve marketing problems.”

Let us consider a situations; a company faces many marketing problems. It faces problems about consumers, product, market competition, sales promotion, etc. Marketing research helps to solve these problems.

Marketing research is a systematic process. It first collects data (information) about the marketing problem. Secondly, it records this data. Then it analyze (studies) this data and draws conclusions about it. After that, it gives suggestions (advice) for solving the marketing-problem.

So, marketing research helps to solve the marketing problems quickly, correctly and systematically.

Marketing research collects full information about consumers. It finds out the needs and expectations of the consumers. So the company produces the goods according to the needs and expectations of the consumers.

Marketing research helps the company to make its production and marketing policies. It helps the company to introduce new products in the market. It helps to identify new-markets.

Marketing research also collects full information about the competitors. The company uses this information to fight competition. It also helps the marketing manager to take decisions.

Marketing research is a special branch and soul of ‘Marketing Management’. It is of recent origin and widely used by manufacturers, exporters, distributors and service organisations.

Marketing research is very systematic, scientific, objective and organized. It has a wide scope. It includes product research, consumer research, packaging research, pricing research, etc.

Marketing research is a continuous process. It has a few limitations. However, a company cannot survive and succeed without it.

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## 9.4 DEFINITION OF MARKETING RESEARCH

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According to *American Marketing Association*, “Marketing Research is the function that links the consumer, customer and public to the marketer through information-information used to identify and define marketing opportunities and problems, generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process.”

Marketing Research is systematic problem analysis, model building and fact finding for the purpose of important decision making and control in the marketing of goods and services.

Marketing Research is a well-planned, systematic process which implies that it needs planning at all the stages. It uses scientific method. It is an objective process as it attempts to provide accurate authentic information. Marketing Research is sometimes defined as the application of scientific method in the solution of marketing problems.

Marketing Research plays a very significant role in identifying the needs of customers and meeting them in best possible way. The main task of Marketing Research is systematic gathering and analysis of information.

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## 9.5 OBJECTIVES OF MARKETING RESEARCH

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The main objective of marketing research (MR) is to provide information to the marketing manager. The marketing manager uses this information to make marketing decision and to solve marketing problems. In addition to this other objectives of marketing research are listed below.

- Identify the consumer response to the company’s product.
- Know the consumers’ needs and expectations.
- Seek maximum information about the consumer, i.e. the know consumers’ income range, their location, buying behavior, etc.
- Know the nature and extent of competition and also the strength and weaknesses of the competitors.
- Check the reaction of the dealers to the company policies.

- Evaluate the reputation of the company in the market.
- Identify and solve the marketing problems of the company.
- Search for new marketing opportunities.
- Find out alternative uses of the existing products.
- Estimate the cost of marketing of goods and service.
- Help company to introduce new products in the market and improve its existing products.
- Assist a company to select a suitable channel of distribution and test the effectiveness of this distribution channel.
- Facilitate company to select suitable sales promotion measures and test the effectiveness of the sales promotion techniques.
- Aids the company to select a suitable media for advertising and find out the overall impact of advertising.
- Help the marketing manager to decide about the quality of the product, product modification, packaging, pricing, branding, etc.
- Provide information to top level of management for making objective, policies, plans and strategies.
- Provide prerequisite information to forecast the marketing budget.
- Supply up-to-date information about market trends, demand and supply position, etc.
- Forecast the future sales and business conditions.
- Marketing research is very useful to government, manufacturers, wholesalers, retailers, consumers and to entire society.

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## **9.6 APPLICATIONS OF MARKETING RESEARCH**

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Marketing research applications include: Advertising testing research, branding

research, customer satisfaction research, pricing research, product positioning research, new product assessments, marketing due diligence, and segmentation research.

**Applications of marketing research can be divided into two broad areas:**

1. Strategic
2. Tactical

Among the strategic areas, marketing research applications would be demand forecasting, sales forecasting, segmentation studies, identification of target markets for a given product, and positioning strategies identification.

In the second area of tactical applications, we would have applications such as product testing, pricing research, advertising research, promotional research, distribution and logistics related research. In other words, it would include research related to all the 'P's of marketing: how much to price the product, how to distribute it, whether to package it in one way or another, what time to offer a service, consumer satisfaction with respect to the different elements of the marketing mix (product, price, promotion, distribution), and so on. In general, we would find more tactical applications than strategic applications because these areas can be fine-tuned more easily, based on the marketing research findings. Obviously, strategic changes are likely to be fewer than tactical changes. Therefore, the need for information would be in proportion to the frequency of changes.

**The following list is a snapshot of the kind of studies that have actually been done in India.**

1. A study of consumer buying habits for detergents—frequency, packs size, effect of promotions, brand loyalty and so forth.
2. To find out the potential demand for ready-to-eat chapattis in Mumbai city.
3. To determine which of the three proposed ingredients—tulsi, coconut oil or neem, the consumer would like to have in toilet soap
4. To find out what factors would affect the sales of Flue Gas Desulphurization equipment (industrial pollution control equipment)
5. To find out the effectiveness of the advertising campaign for a car brand

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## 9.7 LIMITATIONS OF MARKETING RESEARCH

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Following are the main **limitations of Marketing Research**:

- Marketing Research (MR) is not an exact science though it uses the techniques of science. Thus, the results and conclusions drawn upon by using MR are not very accurate.
- The results of MR are very vague as MR is carried out on consumers, suppliers, intermediaries, etc. who are humans. Humans have a tendency to behave artificially when they know that they are being observed. Thus, the consumers and respondents upon whom the research is carried behave artificially when they are aware that their attitudes, beliefs, views, etc are being observed.
- MR is not a complete solution to any marketing issue as there are many dominant variables between research conclusions and market response.
- MR is not free from bias. The research conclusions cannot be verified. The reproduction of the same project on the same class of respondents give different research results.
- Inappropriate training to researchers can lead to misapprehension of questions to be asked for data collection.
- Many business executives and researchers have ambiguity about the research problem and its objectives. They have limited experience of the notion of the decision-making process. This leads to carelessness in research and researchers are not able to do anything real.
- There is less interaction between the MR department and the main research executives. The research department is in segregation. This all makes research ineffective.
- MR faces time constraint. The firms are required to maintain a balance between the requirement for having a broader perspective of customer needs and the need for quick decision making so as to have competitive advantage.
- Huge cost is involved in MR as collection and processing of data can be costly. Many firms do not have the proficiency to carry wide surveys for collecting primary data, and might not also able to hire specialized market experts and research agencies to collect primary data. Thus, in that case, they go for obtaining secondary data that is cheaper to obtain.
- MR is conducted in open marketplace where numerous variables act on research settings.

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## 9.8 PROCESS OF MARKETING RESEARCH

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The **market research process** is a systematic methodology for informing business decisions. The figure below breaks the process down into six steps:



**Figure 9.1 :Marketing Research Process**

### **Step1. Define the Objective & Your “Problem”**

Perhaps the most important step in the market research process is defining the goals of the project. At the core of this understand the root question that needs to be informed by

market research. There is typically a key business problem (or opportunity) that needs to be acted upon, but there is a lack of information to make that decision comfortably; the job of a market researcher is to inform that decision with solid data. Examples of “business problems” might be “How should we price this new widget?” or “Which features should we prioritize?”

By understanding the business problem clearly, you’ll be able to keep your research focused and effective. At this point in the process, well before any research has been conducted, I like to imagine what a “perfect” final research report would look like to help answer the business question(s). You might even go as far as to mock up a fake report, with hypothetical data, and ask your audience: “If I produce a report that looks something like this, will you have the information you need to make an informed choice?” If the answer is yes, now you just need to get the real data. If the answer is no, keep working with your client/audience until the objective is clear, and be happy about the disappointment you’ve prevented and the time you’ve saved.

## **Step2. Determine Your “Research Design”**

Now that you know your research objects, it is time to plan out the type of research that will best obtain the necessary data. Think of the “research design” as your detailed plan of attack. In this step you will first determine your market research method (will it be a survey, focus group, etc.?). You will also think through specifics about how you will identify and choose your sample (who are we going after? Where will we find them? How will we incentivize them? , etc.). This is also the time to plan where you will conduct your research (telephone, in-person, mail, internet, etc.). Once again, remember to keep the end goal in mind—what will your final report look like? Based on that, you’ll be able to identify the types of data analysis you’ll be conducting (simple summaries, advanced regression analysis, etc.), which dictates the structure of questions you’ll be asking. Your choice of research instrument will be based on the nature of the data you are trying to collect. There are three classifications to consider:

***Exploratory Research*** – This form of research is used when the topic is not well defined or understood, your hypothesis is not well defined, and your knowledge of a topic is vague. Exploratory research will help you gain broad insights, narrow your focus, and learn the basics necessary to go deeper. Common exploratory market research techniques include secondary research, focus groups and interviews. Exploratory research is a qualitative form of research.

***Descriptive Research*** – If your research objective calls for more detailed data on a specific topic, you’ll be conducting quantitative descriptive research. The goal of this form of market research is to measure specific topics of interest, usually in a quantitative way. Surveys are the most common research instrument for descriptive research.

***Causal Research*** – The most specific type of research is causal research, which usually comes in the form of a field test or experiment. In this case, you are trying to determine a causal relationship between variables. For example, does the music I play in my restaurant increase dessert sales (i.e. is there a causal relationship between music and sales?).

## **Step3. Design & Prepare Your “Research Instrument”**

In this step of the market research process, it’s time to design your research tool. If a survey is the most appropriate tool (as determined in step 2), you’ll begin by writing your questions and designing your questionnaire. If a focus group is your instrument of choice, you’ll start preparing questions and materials for the moderator. You get the idea. This is the part of the process where you start executing your plan.

By the way, step 3 should be to test your survey instrument with a small group prior to broad deployment. Take your sample data and get it into a spreadsheet; are there any issues with



the data structure? This will allow you to catch potential problems early, and there are always problems.

#### **Step 4. Collect Your Data**

This is the meat and potatoes of your project; the time when you are administering your survey, running your focus groups, conducting your interviews, implementing your field test, etc. The answers, choices, and observations are all being collected and recorded, usually in spreadsheet form. Each nugget of information is precious and will be part of the masterful conclusions you will soon draw. Brief about the process is as follows.

Data Collection in Marketing Research is a detailed process in which a planned search for all relevant data is made by researcher.

#### **Types of Data**

1. **Primary Data-** Primary data is the data which is collected first hand specially for the purpose of study. It is collected for addressing the problem at hand. Thus, primary data is original data collected by researcher first hand.
2. **Secondary data-** Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all.

#### **Data Collection Methods**

1. **Qualitative Research-** Qualitative Research is generally undertaken to develop an initial understanding of the problem. It is non statistical in nature. It uses an inductive method, that is, data relevant to some topics are collected and grouped into appropriate meaningful categories. The explanations are emerged from the data itself. It is used in exploratory research design and descriptive research also. Qualitative data comes into a variety of forms like interview transcripts; documents, diaries and notes made while observing. There are two main methods for collecting Qualitative data.

- a. **Direct Collection Method-**When the data is collected directly, it makes use of disguised method. Purpose of data collection is not known. This method makes use of-
  - i. Focus Groups
  - ii. Depth Interview

- iii. Case Study
- b. Indirect Collection-Method
- i. Projective Techniques

**2. Quantitative Research-** Quantitative Research quantifies the data and generalizes the results from the sample to the population. In Quantitative Research, data can be collected by two methods

- Survey Method
- Observation Method

### **Step5. Analyze Your Data**

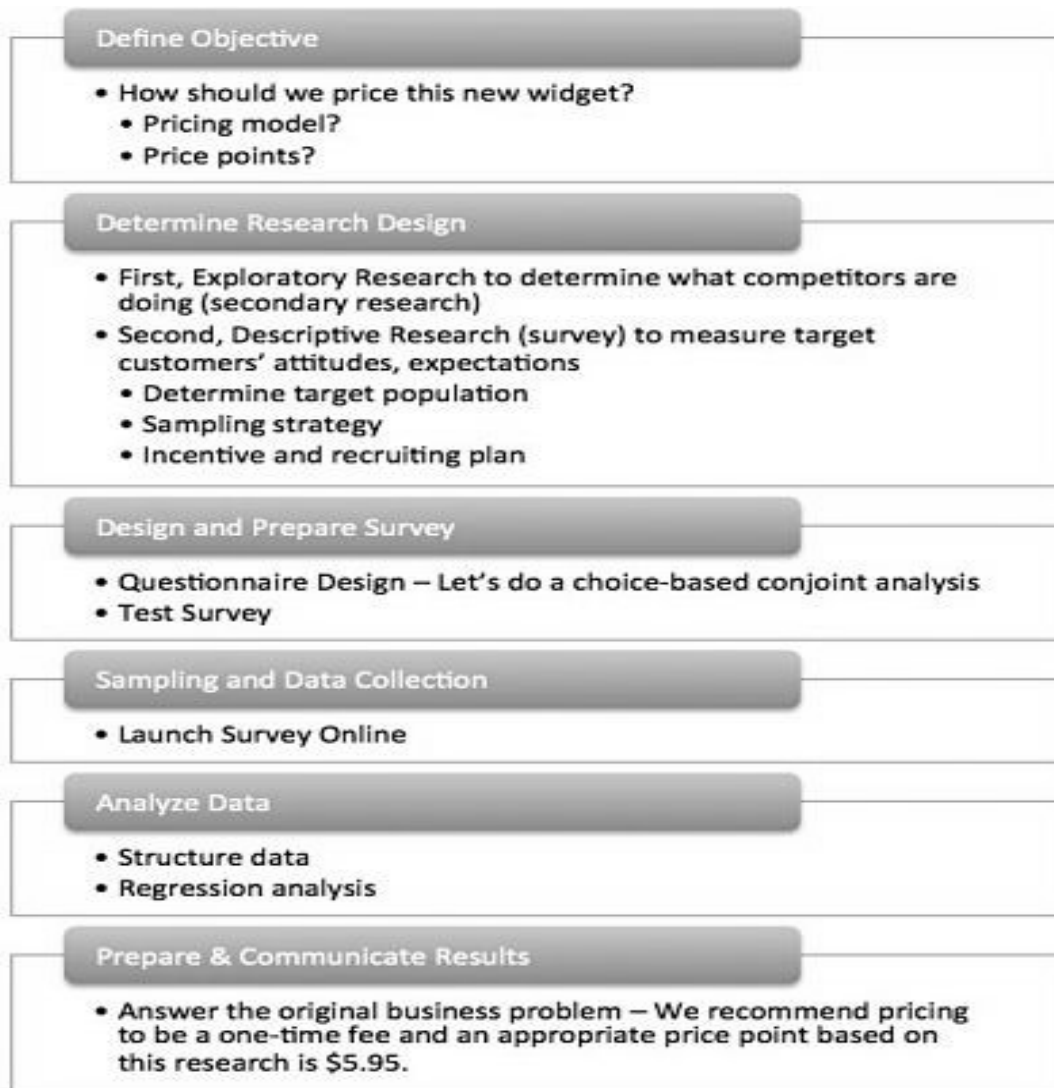
Step 4 (data collection) has drawn to a close and you have heaps of raw data sitting in your lap. If it's on scraps of paper, you'll probably need to get it in spreadsheet form for further analysis. If it's already in spreadsheet form, it's time to make sure you've got it structured properly. Once that's all done, the fun begins. Run summaries with the tools provided in your software package (typically Excel, SPSS, Minitab, etc.), build tables and graphs, segment your results by groups that make sense (i.e. age, gender, etc.), and look for the major trends in your data. Start to formulate the story you will tell.

### **Step6. Visualize Your Data and Communicate Results**

You've spent hours poring through your raw data, building useful summary tables, charts and graphs. Now is the time to compile the most meaningful take-away into a digestible report or presentation. A great way to present the data is to start with the research objectives and business problem that were identified in step 1. Restate those business questions, and then present your recommendations based on the data, to address those issues. When it comes time to presenting your results, remember to present *insights*, *answers* and *recommendations*, not just charts and tables. If you put a chart in the report, ask yourself "what does this mean and what are the implications?" Adding this additional critical thinking to your final report will make your research more actionable and meaningful and will set you apart from other researchers.

While it is important to "answer the original question," remember that market research is one input to a business decision (usually a strong input), but not the only factor.

Following example gives us little more detail about the process of Marketing Research process in action, starting with a business problem of "how should we price this new widget?"



**Fig:9.2. Marketing Research Procedure**

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## 9.9 QUALITATIVE AND QUANTITATIVE RESEARCH CONCEPT

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As the names suggest quantitative research produces numerical data whereas qualitative research generates non numerical data. However, this is only a superficial understanding of the terms. Let us explore little more to understand these concepts.

### Qualitative Research

In a nutshell, qualitative research gives us vital insights in comprehending why do consumers feel or behave in a manner they do. It helps in identifying and perceiving the underlying opinions,

behaviour patterns and motivations. Qualitative research aids the formulation of hypothesis to be used for deeper exploration or quantification. In a way, it adds richness to the information gathered by quantitative research by understanding instead of measuring. To sum up, the qualitative approach helps decipher the less rational and more emotional perspective of the consumer's decision making nature, i.e. how would I feel if I were in the consumers' shoes?

## Usage

Qualitative studies assist in the following business situations:

- **Market Study:** Analyzing consumer interest in the company's new idea in a particular demographic.
- **New Product Development:** Understanding the actual need of the end user.
- **Creative Development Research:** Pertaining to branding; what should be said and how should it be said.
- **Diagnostic Studies:** Understanding how is the company's category or brand doing as compared to the competitor's offerings and image respectively.

## Techniques

Qualitative research can be carried out by:

- 1. Focus Group Discussions:** This is the most effective and preferred technique for qualitative studies. Respondents, in a group of 5-8 people, are made comfortable and asked general questions first. Gradually, the conversation is shifted to the topic of research. It helps obtain initial reactions to marketing programs or understand the consumers' impressions about a new product concept.
- 2. In Depth Interviews:** Personal interviews are conducted instead of focus groups in the following cases:
  - Discussing sensitive, confidential or embarrassing topics (Example: Women's hygiene issues)
  - Requirement of detailed probing (Example: Purchase psychology for an automobile is best done with the respondent one on one)

- Situations where the respondent may get influenced by the group response (Example: Opinion on TV censorship where social norms prevail)
- Interviews with highly professional people with busy schedules (Example: Understanding required from doctors on a new medical topic )

Another term associated with qualitative research and worth mentioning here are projective techniques. These are ways of extracting information from respondents that capture the emotions in consumer behaviour. Often direct questions do not bring out the hidden motivations as consumers are themselves not fully aware of their reasons and naturally are not able to express themselves fully. Direct questions may give sensible answers, but they may not necessarily be ‘real’ answers. For this reason, projective techniques such as the below ones are used:

- Brand Personalities: The strength of advertising can be tested by imagining brands as persons or objects. For example, asking that if Sunsilk was a person, what would he be like?
- Collages: Asking respondents to draw collages of a brand to help understand what consumers think about symbols used for advertising the brand.
- Word Association: First word that comes to mind upon mentioning a particular word. For example if the word Coke brings out the first mentioned word as happiness, Coke is maintaining its strong brand image.

## **Quantitative Research**

The aim of this method is to consume numerical data and present facts or uncover patterns in the study. The aftermath of quantitative research is results that are projectable because they are drawn statistically. Basically, while qualitative research is subjective, the quantitative method is more objective. Another characteristic of quantitative research is that it is drawn from a reasonably sized and carefully selected sample which is representative of the target population. The methods of choosing a proper sample are discussed in the previous chapter. Typically, a terminology of 95% confidence interval is considered good while deciding the sample sizes. This actually means that if the survey is reoccurred 100 times, 95 times the same response would be obtained.

## **Usage**

Quantitative research is most widely used for determining cause effect relations. For example, if the marketing budget is increased by 15%, how much is the revenue expected to increase. If the

strength between the dependent (revenue) and independent (marketing budget) variable is strong, the test hypothesis holds true and the company should invest more in its marketing. Thus a decisive stance can be taken from the facts presented in this research.

## **Techniques**

Data collection for quantitative studies is done by various kinds of surveys using questionnaires. The survey can be done through various mediums such as face-to-face, email, telephonic, online, etc. Designing questionnaires for a survey is a detailed topic which will be covered in the next chapter. For now, we will explore the methods for conducting a survey.

- **Mail survey:** Mail surveys are convenient and maintain anonymity of the respondent. They are also relatively inexpensive. However the major drawback is that feedback cannot be obtained from the respondent.
- **Telephonic & Face-to-face survey:** There is little scope of error in these types of survey as the interviewer is available for assistance. However, while guiding, the interviewer may sometimes influence the respondent leading to biased answers.
- **Online:** Surveys carried out over the internet are gaining popularity these days as they can reach a wide audience. The downside is that without incentive, the respondent at the end may not be interested in taking up the survey or answering all questions seriously.
- **Hybrid:** A fusion of techniques can be used to record better responses. A commonly used hybrid method is Telephone-Mail-Telephone (TMT) wherein respondents are instructed over the phone and then sent the survey over mail to be filled at their convenience.

The choice of the above mediums depends on the budget, time and complexity. If budget is a constraint, mail surveys can be used. Online surveys are instant and hence should be deployed when there is a time crunch. When interaction is required, personal or telephonic surveys must be utilized.

## **Concluding Remarks**

We have seen in the sections above that in which situations the usage of quantitative research is preferable over qualitative research and vice versa. Ideally, if there are less budget constraints, we can use both types as they give variant perspectives and complement one another. Sometimes both have to be used in tandem as in case of Usage and Attitude Studies that we will see in the later chapters. Finally, a qualitative research will generate a more narrative report with a contingent







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### 9.11. SUMMARY

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Marketing research is the set of activities central to all marketing-related decisions regardless of the complexity or focus of the decision. Marketing research is responsible for providing managers with accurate, relevant, and timely information so that they can make marketing decisions with a high degree of confidence. Within the context of strategic planning, marketing research is responsible for the tasks, methods, and procedures a firm will use to implement and direct its strategic plan.

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### 9.12 KEY WORDS

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Marketing Research, Advertising testing research, Branding research, Customer satisfaction research, Strategic research, Tactical Research, Research Design

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### 9.13 SELFASSESSMENT QUESTIONS

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1. What is research?
2. What do you mean by marketing research?
3. Discuss the objectives of marketing research.
4. Narrate the applications of marketing research.
5. What are the limitations of marketing research?
6. Discuss the various steps involved in marketing research process with suitable examples.
7. Identify the differences between qualitative and quantitative research approaches.

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### 9.14 REFERENCES

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## UNIT 10: MARKETING INFORMATION SYSTEM

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### Structure:

- 10.1 Objectives
- 10.2 Introduction to information system
- 10.3 Marketing Information System-an Introduction
- 10.4 Definition of Marketing Information System
- 10.5 Difference between Marketing Research and MkIS
- 10.6 Importance of Marketing Information System
- 10.7 Components of Marketing Information System
- 10.8 Creating a comprehensive MkIS in a “perfect” world
- 10.9 Risks of Marketing Information System
- 10.10 Notes
- 10.11 Summary
- 10.12 Key words
- 10.13 Self Assessment Questions
- 10.14 References

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## 10.1 OBJECTIVES

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After studying this unit, you should be able to:

- ⇒ Explain the concept of Information system;
- ⇒ Describe Marketing information system;
- ⇒ Evaluate definitions of marketing information system;
- ⇒ Differentiate between marketing research and Marketing information system;
- ⇒ Estimate the importance's of marketing information system ;
- ⇒ Identify components of marketing information system and
- ⇒ Create model of marketing information system in the present competitive world of marketing.

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## 10.2 INTRODUCTION TO INFORMATION SYSTEM

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In today's information and communication age, there is a constant reference to information systems and management of information systems. In the digital age data, storage and retrieval are done through various systems and interfaces.

**An information system**, therefore, can be defined as set of coordinated network of components which act together towards producing, distributing and or processing information. An important factor of computer based information system is precision, which may not apply to other types of systems.

**In a system**, network of components work towards a single objective, if there is lack of co-ordination among components, it leads to counterproductive results. A system may have following features:

- **Adaptability:** some systems are adaptive to the exterior environment, while some systems are non-adaptive to the external environment. For example, anti-lock braking system in car reacts depending on the road conditions, where as the music system in the car is independent of other happening with the car.
- **Limitation:** every system has pre-defined limits or boundaries within which it operates. This limits or boundaries can be defined by law or current state of technology.

Common definition of **information** is data. However, data is no true information. Data gets its meaning and significance if only it is information. Information is represented with data, symbols and letters.

Information has following properties:

- **Objective:** One of the key properties of information is its objectiveness. Objective information is a key component of any modern scientific research.

- **Subjective:** Set of information which is useful to science may be abstract or irrelevant for others. Therefore, information is subjective also.
- **Temporary:** Information is temporary with every update in the database.

Information is **represented** with help of data, numbers, letters or symbols. Information is perceived in a way it gets represented. Decimal system and binary system are two ways of representing information. The binary circuits of computers are designed to operate under two states.

### **Organization of Information**

The way in which information is organized directly affect the way the information is managed and retrieved.

The simplest way of organizing information is through linear model. In this form, data is structured one after another, for example, in magnetic tapes, music tapes, etc.

In a **binary tree model**, data is arranged in an inverted tree format where it assumes two values.

The **hierarchy model** is derived from a binary tree model. In this model, branch can assume multi-value data, for example in the UNIX operating system this model is used for its file system.

The **hypertext model** is another way of organizing information; World Wide Web is an example of this model.

**Random access model** is another way of organizing information. This model is used for optimum utilization of available computer storage space. Here data is stored in specified location under direction of the operating system.

### **Networking Information**

Information is networked through network topology. The layout of all the connected devices, and it provides virtual shape or structure to the network is known as network topology. The physical structure may not be representative of network topology. The basic types of topology are bus, ring, star, tree and mesh.

The above topologies are constructed and managed with help of Hubs, Switches, Bridges, Routers, Brouters and Gateways. you have already gained knowledge of this in your second semester.

## Securing Information

Security of information as well as an information system is critical. Data back-up is on the way through which Information can be made secured. Security management for network and information system is distinct for different setup like home, small business, medium business, large business, school and government.

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### 10.3 MARKETING INFORMATION SYSTEM-AN INTRODUCTION

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An information system which captures, stores, analyzes and distributes marketing information to facilitate the decision-making process is called marketing information system.

The source of marketing information comes through internal records and external records. The internal record includes day to day production data as well as product sales data. Internal data helps manager track marketing impact on the different product mix.

External data is market performance of a competitor also plays important in the decision-making process. Company's sales force is a huge data source. Therefore, it is essential for system to capture their market intelligence input.

The data collected through external or internal market research agencies plays an important to provide a holistic market view to the managers.

An information system captures information from all the different sources. The information is analyzed and then distributed to managers for decision-making process.

Marketing information systems helps managers in following ways:

- It helps organizing data from different sources at one location.
- It helps in development and tracking of marketing plans.
- It helps in manipulation data as per management requirement.
- It facilitates historical analysis of marketing data.

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## 10.4 DEFINITION OF MARKETING INFORMATION SYSTEM

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A **marketing information system** (MkIS) is a management **information system** (MIS) designed to support **marketing** decision making.

Jobber (2007) defines it as a “**system** in which **marketing** data is formally gathered, stored, analyzed and distributed to managers in accordance with their informational needs on a regular basis.”

A **marketing information system** (MkIS) is a software program that provides information about marketing research. It allows users to compile and analyze data in a very easy, organized fashion. MkIS systems are also effective tools that help users make decisions about consumer behavior and the marketing mix, including products and how they are placed, priced, and promoted. The more sophisticated the management information system, the more information it can provide.

Philip Kotler has defined it more broadly as “people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers.”

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## 10.5 DIFFERENCE BETWEEN MARKETING RESEARCH AND MARKETING INFORMATION SYSTEM

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By now we could able to understand the basic aspects of marketing research and marketing information system, let us compare the roles played by both the concepts in marketing to take the decisions by marketing managers.

<b>Marketing Research</b>	<b>Marketing Information System</b>
1. Emphasis is on handling external information	1. It handles both internal and external data.
2. It is concerned with solving problems.	2. It is concerned with preventing as well as solving problems.
3. It operates in a fragmented fashion – on a project-to-project basis.	3. It operates continuously as a system.
4. It tends to focus on past information.	4. It tends to be future oriented.
5. It is a source of input for marketing information system.	5. It includes other subsystems besides marketing research.

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## 10.6 IMPORTANCE OF MARKETING INFORMATION SYSTEM

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Marketing information includes all the data, in terms of facts, opinions, views guidelines and policies, which are necessary to make vital marketing decisions. The data is collected from customers, competitors, company sales force and other staff, government sources, specialized agencies and sources.

MIS provides relevant, reliable and required information in respect of business environment- both internal and external environments. Such information is vital for successful decision making.

### **The following are the Importance/benefits or advantages of MIS;**

- 1. Helps to recognize trends:** - MIS helps managers to recognize marketing trends. The changing trends may be in respect of prices, product design, packaging, promotion schemes, etc. managers can take effective decisions in respect of prices, product designs, etc., in response to changing trends in the environment.
- 2. Facilitates Marketing Planning and Control:** -Effective market planning is required in terms of product planning, pricing, promotion and distribution. Such planning will be possible only if the company is possessing adequate and relevant information.
- 3. Quick supply of information:** -A firm has to take quick decision for this purpose; it requires fast flow of information which is facilitated by a properly designed MIS. Due to timely supply of marketing information, the marketing managers can make quick and effective decisions.
- 4. Quality of decision Making:** -in every aspect of marketing, there is need to make constant and correct decisions. A properly designed marketing information system promptly supplies reliable and relevant information. With the help of computers and other data processing equipments, the marketing managers can make the right decisions at the right time.
- 5. Tapping of business Opportunities:** -There are number of business opportunities which have remained untapped for various reasons are due to unavailability of sufficient information. MIS makes it possible to tap business opportunities as it can supply required and reliable data.
- 6. Provides Marketing Intelligence:** -Marketing intelligence refers to information of the events that are happening in the external environment, i.e., changes in customer tastes, expectations,

competitors' strategies, government policies, international environment, etc. with the help of MIS specialists, it is possible to collect marketing intelligence which is vital to make effective marketing decisions.

**7. Help managers to Recognize Change:** -a business firm may be handling or marketing a wrong line of products. As such the company will not be able to make profits. And if it does, profits may not be adequate. A firm which is well equipped with **MIS** will be able to realize the need to change the line of business.

**8. Integration of Information:** -firms, which are largely decentralized can gather information which is scattered at many centers or departments and integrate it for effective decision making. Such integration is possible if there is a centralized **MIS**.

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## **10.7 COMPONENTS OF MARKETING INFORMATION SYSTEM**

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A marketing information system (MkIS) is intended to bring together disparate items of data into a coherent body of information. An MkIS is, as will shortly be seen, more than raw data or information suitable for the purposes of decision making. An MkIS also provides methods for interpreting the information the MkIS provides. Moreover, as Kotler's definition says, an MkIS is more than a system of data collection or a set of information technologies:

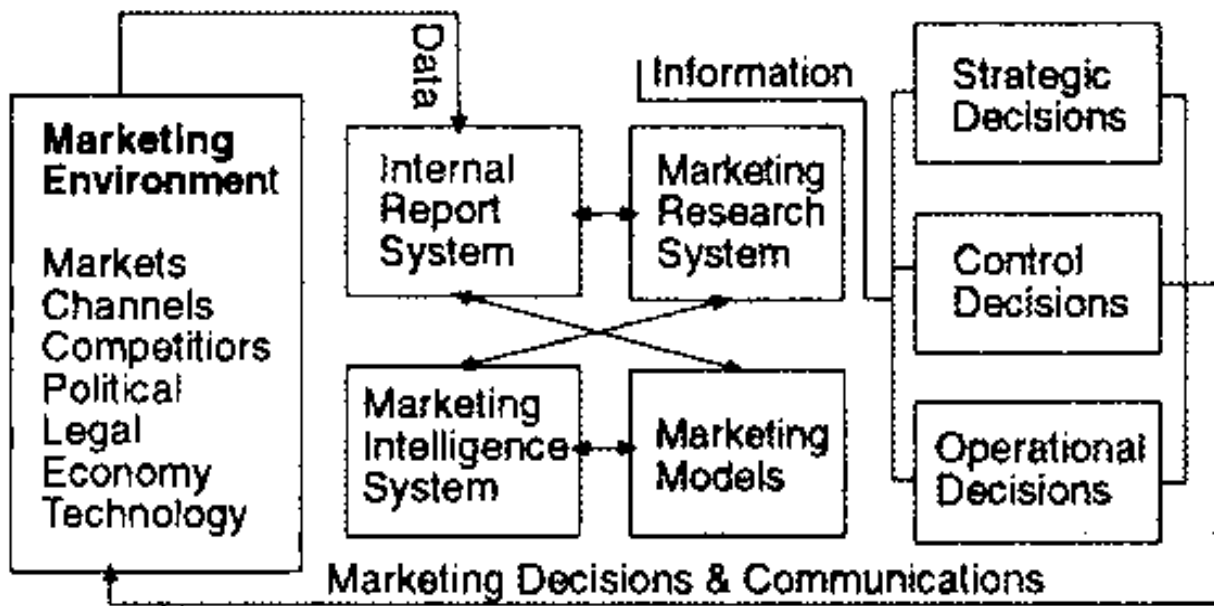
“A marketing information system is a continuing and interacting structure of people, equipment and procedures to gather, sort, analyze, evaluate, and distribute pertinent, timely and accurate information for use by marketing decision makers to improve their marketing planning, implementation, and control”.

Figure 10.1 illustrates the major components of an MkIS, the environmental factors monitored by the system and the types of marketing decision which the MkIS seeks to underpin.

The explanation of this model of an MkIS begins with a description of each of its four main constituent parts:

- The internal reporting systems,
- Marketing research system,
- Marketing intelligence system and
- Marketing models.





**Figure 10.1** The marketing information systems and its subsystems

It is suggested that whilst the MkIS varies in its degree of sophistication - with many in the industrialized countries being computerized and few in the developing countries being so - a fully fledged MkIS should have these components, the methods (and technologies) of collection, storing, retrieving and processing data notwithstanding.

**Internal reporting systems:** All enterprises which have been in operation for any period

of time have a wealth of information. However, this information often remains under-utilized because it is compartmentalized, either in the form of an individual entrepreneur or in the functional departments of larger businesses. That is, information is usually categorized according to its nature so that there are, for example, financial, production, manpower, marketing, stockholding and logistical data. Often the entrepreneur or various personnel working in the functional departments holding these pieces of data do not see how it could help decision makers in other functional areas. Similarly, decision makers can fail to appreciate how information from other functional areas might help them and therefore do not request it.

The internal records that are of immediate value to marketing decisions are: orders received, stockholdings and sales invoices. These are but a few of the internal records that can be used by marketing managers, but even this small set of records is capable of generating a great deal of information. Below, is a list of some of the information that can be derived from sales invoices?

- Product type, size and pack type by territory
- Product type, size and pack type by type of account

- Product type, size and pack type by industry
- Product type, size and pack type by customer
- Average value and/or volume of sale by territory
- Average value and/or volume of sale by type of account
- Average value and/or volume of sale by industry
- Average value and/or volume of sale by sales person

By comparing orders received with invoices an enterprise can establish the extent to which it is providing an acceptable level of customer service. In the same way, comparing stockholding records with orders received helps an enterprise ascertain whether its stocks are in line with current demand patterns.

**Marketing research systems:** The general topic of marketing research has been the prime subject of the textbook and only a little more needs to be added here. Marketing research is a proactive search for information. That is, the enterprise which commissions these studies does so to solve a perceived marketing problem. In many cases, data is collected in a purposeful way to address a well-defined problem (or a problem which can be defined and solved within the course of the study). The other form of marketing research centres not on a specific marketing problem but is an attempt to continuously monitor the marketing environment. These monitoring or tracking exercises are continuous marketing research studies, often involving panels of farmers, consumers or distributors from which the same data is collected at regular intervals. Whilst the *ad hoc* study and continuous marketing research differs in the orientation, yet they are both proactive.

**Marketing intelligence systems:** Whereas marketing research is focused, market intelligence is not. A marketing intelligence system is a set of procedures and data sources used by marketing managers to lift information from the environment that they can use in their decision making. This scanning of the economic and business environment can be undertaken in a variety of ways, including

#### **Unfocused scanning**

The manager, by virtue of what he/she reads, hears and watches exposes him/herself to information that may prove useful. Whilst the behaviour is unfocused and the manager has no specific purpose in mind, it is not unintentional

#### **Semi-focused scanning**

Again, the manager is not in search of particular pieces of information that he/she is actively searching but does narrow the range of media that is scanned. For instance, the manager may focus

more on economic and business publications, broadcasts etc. and pay less attention to political, scientific or technological media.

### **Informal search**

This describes the situation where a fairly limited and unstructured attempt is made to obtain information for a specific purpose. For example, the marketing manager of a firm considering entering the business of importing frozen fish from a neighboring country may make informal inquiries as to prices and demand levels of frozen and fresh fish. There would be little structure to this search with the manager making inquiries with traders he/she happens to encounter as well as with other *ad hoc* contacts in ministries, international aid agencies, with trade associations, importers/exporters etc.

### **Formal search**

This is a purposeful search after information in some systematic way. The information will be required to address a specific issue. Whilst this sort of activity may seem to share the characteristics of marketing research it is carried out by the manager him/herself rather than a professional researcher. Moreover, the scope of the search is likely to be narrow in scope and far less intensive than marketing research

Marketing intelligence is the province of entrepreneurs and senior managers within an agribusiness. It involves them in scanning newspaper trade magazines, business journals and reports, economic forecasts and other media. In addition it involves management in talking to producers, suppliers and customers, as well as to competitors. Nonetheless, it is a largely informal process of observing and conversing.

Some enterprises will approach marketing intelligence gathering in a more deliberate fashion and will train its sales force, after-sales personnel and district/area managers to take cognizance of competitors' actions, customer complaints and requests and distributor problems. Enterprises with vision will also encourage intermediaries, such as collectors, retailers, traders and other middlemen to be proactive in conveying market intelligence back to them.

**Marketing models:** Within the MkIS there has to be the means of interpreting information

in order to give direction to decision. These models may be computerized or may not. Typical tools are:

- Time series sales models
- Brand switching models
- Linear programming
- Elasticity models (price, incomes, demand, supply, etc.)
- Regression and correlation models
- Analysis of Variance (ANOVA) models
- Sensitivity analysis
- Discounted cash flow
- Spreadsheet ‘what if models

These and similar mathematical, statistical, econometric and financial models are the analytical subsystem of the MkIS. A relatively modest investment in a desktop computer is enough to allow an enterprise to automate the analysis of its data. Some of the models used are stochastic, i.e. those containing a probabilistic element whereas others are deterministic models where chance plays no part. Brand switching models are stochastic since these express brand choices in probabilities whereas linear programming is deterministic in that the relationships between variables are expressed in exact mathematical terms.

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## **10.8 CREATING A COMPREHENSIVE MKIS IN A “PERFECT” WORLD**

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In a perfect world, an MkIS system would be created from the ground up and integrated with all of a business’s systems and processes. In such a world, every sale and lead could be traced back to the marketing effort that produced it. Also, every complaint or compliment would be tracked to the source. Skilled customer service personnel would quickly turn all negatives into positives, and skilled marketing communicators would create content that incorporated the testimonials. That’s the dream. The reality falls far short. What is a marketer to do?

### **Creating a ”real world” MkIS for those that cannot afford to wait**

Rather than wait for the dream to materialize, marketers need to improvise. They need a system that enables them to (1) make better decisions and (2) support those decisions with verifiable data. The initial steps of this approach typically involve the following:

1. Look at what systems the company already has in place,
2. Determine what useful marketing information can be gleaned from those systems,

3. Identify the information marketers need that they are not getting from existing systems,
4. Create, or find, additional systems to provide the needed marketing information,
5. Integrate these systems with companywide enterprise systems (if possible and not too costly).

### **Following are the steps to create effective Marketing Information System**

#### **Step1. Start with the accounting system**

A good place to start is the business system that every business has – the Accounting system. What information do businesses get from their accounting system that is useful to marketers?

1. Sales
2. Costs/Expenses
3. Profits

If the accounting software is well designed and flexible, this information can be sorted in a variety of ways including by

- (1) Sales person,
- (2) Product,
- (3) SKU (stock-keeping-unit),
- (4) Division or Region,
- (5) Distribution channel,
- (6) Reseller, and
- (7) Season.

The information obtained from the accounting system is typically enterprise-wide and at a macro level. It usually does not give marketers, or their bosses, the information necessary to

- (1) determine the effectiveness of the organization's marketing efforts;
- (2) enable it to react quickly to real-time crises and opportunities; or
- (3) respond rapidly to competitive threats. Some of the information that marketers need from an effective marketing information system includes the following:

1. Marketing strategy feedback (or how well marketing strategies are working)
2. Complaints
3. Compliments (testimonials)
4. New Product ideas
5. Competition information
6. Marketplace changes

To capture and properly respond to this information, most marketers need to create a Marketing Information System that augments the macro information provided by their accounting systems.

## **Step 2: Market Information Form**

To minimize paperwork, marketers can collect a lot of the information from the above list on a Market Information Form (or its electronic equivalent). The information collected and how this information is used is summarized below.

- 1. Complaints.** Once collected, complaints are distributed to those that can solve the problem quickly. The objective is to turn the negative into a positive and build a stronger relationship with the offended party. The way companies handle complaints can mean the difference between success and failure in an increasingly competitive marketplace.
- 2. Compliments.** After obtaining permission, marketers use compliments in their marketing communications. Nothing is more effective than bona fide testimonials from customers. Copies are also given to sales people so they can put them in their sales notebooks and use them to impress prospects and close business.
- 3. New Product ideas.** These are fed into the company's new product development system.
- 4. Competition Information.** This is given to sales people to put in their sales notebooks so they can use the data to answer objections and close business (with the caveat of not disparaging competitors) and is fed into the company's new product development system so that new products can be designed to beat competitors.
- 5. Strategy feedback.** This information is organized by the marketing building blocks
  - (1) corporate image,
  - (2) positioning,
  - (3) product,
  - (4) pricing,
  - (5) distribution,

- (6) promotion, and
- (7) marketing information system

(yes we need to collect information as to how well our MIS strategies are working). Based on feedback, strategies are adjusted as necessary.

A pad of these forms (or an electronic version) is provided to all the contact points including

- (1) Receptionists and secretaries that answer the phone,
- (2) Sales people,
- (3) Customer service people,
- (4) Repair people,
- (5) Personnel that respond to inquiries and complaints online and on social media,  
and
- (6) accounts receivable (since they often hear about complaints when they try to collect on late invoices).

### **Step3. Lead Card**

Leads are captured on a lead card or its electronic equivalent. Sales people use the lead card to follow up on a prospect's interest with the objective of closing the sale.

In addition to notes of all contacts, there are four main pieces of information that should be captured on the lead card.

**1. Identification of the prospect.** If you are selling to a business, most of the information you need is on your contact's business card. For additional information you need, your lead card should be designed so you can add it with minimal effort.

**2. Product interest.** The products you typically sell should be pre-listed on the lead card so sales people can quickly check them off.

**3. Degree of interest.** This is your sales person's estimate of how likely the prospect is to buy your product in the current period, which is usually this month. Because the degree of interest is also called "buying temperature" the metaphor for degree of interest that is often used is Hot for the most interested leads, Warm for the next most interested leads, and Cool for the least interested. The "Hot" leads should automatically update another MIS report called the Hot List.

**4. Lead source.** All promotion that you do should have a unique code so that when the lead is captured, you know what marketing activity generated the lead. This lead source should automatically update another MkIS report called the Promotion Effectiveness report.

In addition to helping sales people follow up on leads and close business, smart marketers use lead card information for other Marketing Information System purposes, such as the Hot List and Promotion Effectiveness Report described below.

#### **Step4. Hot List**

An MIS report called the Hot List contains the following information on “Hot” leads:

1. **Prospect name.** This could be a business or individual.
2. **Decision makers.** This is so the sales person does not waste time talking with the wrong person.
3. **Product or project proposed.** This is what the prospect wants.
4. **Proposal date.** This is the date the product proposal and estimate of the cost is given to the prospect.
5. **Amount proposed.** This is the price of the product proposed.
6. **Percent chance of closing in the current period.** To qualify for the Hot List, a hot lead should have at least a 25% chance of closing in the current period (each company should decide their own minimum threshold for Hot).
7. **Expected Value** (5 multiplied by 6). If the amount proposed is 10,000 and the % chance of closing is “estimated” to be 50%, the expected value would be 5,000.
8. **Objections.** This lists the objections that are keeping the prospect from buying.  
  
Sales managers use the Hot List in two ways.
  1. **Help close sales.** The sales manager helps sales people to close hot leads by coaching them on how best to answer the Objections in column 8 of the Hot List.
  2. **Dynamic sales forecast.** The sales manager helps to insure that the sum of Expected Values equals, or exceeds, each sales person’s quota for the month. If the expected values are lower than a sales person’s quota, the sales manager can encourage the sales person do whatever is necessary to get more hot leads on the Hot List so that the sum of Expected Values equals or exceeds the quota. The sales quotas of all the sales people should sum to the “measurable goal” of the Marketing Plan.

#### **Step 5: Promotion Effectiveness Report**



As each sales person captures the promotion source for each lead on the Lead Card, the information automatically flows onto his or her Promotion Effectiveness Report. Every time a sales person gives a presentation or makes a sale from a lead, that information is recorded on the Promotion Effectiveness Report. The MIS system automatically adds up the total number of the leads, presentations, and sales company-wide for each promotion source.

When compared to the costs of that promotion source, the marketing department can calculate the promotion effectiveness, or ROI, of each promotion. Since totals for leads, presentations, and sales are available in the MIS by sales person, the sales manager can automatically compute the batting average of each sales person and determine the number of leads and presentations each one needs to make his or her sales quota. In this way, the sales manager and the company marketers systematically work together to insure that

(1) plan goals are met and

(2) the money invested in promotion is not wasted (the ads and promotions that are effective will be repeated and the ones that don't will be discontinued).

### **Step 6: Market Research**

The systems above (Market Information Form, Lead Card, Hot List and Promotion Effectiveness Report) typically capture information in real time and provide a lot of great information that help the marketing functions do a more effective job and prove it to the CEO. Even so, this is not enough. There are still lapses in the information marketers need. In an effort to plug these holes, there is one big missing piece, Market Research. There are two big categories of Market Research, Secondary and Primary.

### **Step 7: Secondary Research**

Secondary research is simply research done by others. Perhaps the greatest invention for secondary research is the search engine. Marketers can simply type in search terms in a search window and browse the Internet for any data related to those search terms. Furthermore, marketers can set up "alerts." That is, search terms can be entered into a search engine so that the search engine's crawlers will continually search for anything that contains those search terms and send you an email when it finds them. There are so many other sites, which marketers frequently visit that

provide a wealth of information. Just a few examples include: Media Post, Marketing Sherpa, Brand Channel, Hoovers, the CIA World Factbook, and ClickZ.

### **Step 8: Primary Research**

When some big holes remain that still need to be plugged, marketers will often do primary research, which is their own research. Common forms of primary research include surveys, focus groups, experiments, and various forms of crowd sourcing.

### **When have you done enough research?**

Since you can always do more research, when have you done enough? Some academics believe you never do enough. Smart marketers and business people that understand cost/benefit analysis know you have done enough research when your answers converge (often called “converging data”). If they diverge, you typically need to do more.

### **You will never plug all the holes**

Smart marketers also know that you will never plug all the holes in the information you would like to have. Why? The marketplace is constantly changing. Moreover, you do not need perfect information. If you are collecting the information discussed in this post,

you will have the information you need to make better marketing decisions. The great thing about business is you do not have to be perfect. You just need to get sufficient information to stay ahead of your competitors and keep updated on your ever-changing marketplace. If you do that, you are likely to win more often than not.

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## **10.9 RISKS OF MARKETING INFORMATION SYSTEM**

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The collection of information is a continuous process that gathers data from a variety of sources synthesizes it and sends it to those responsible for meeting the market places needs. The effectiveness of marketing decision is proved if it has a strong information system offering the firm a Competitive advantage. Marketing Information should not be approached in an infrequent manner. If research is done this way, a firm could face these risks:

1. Opportunities may be missed.
2. There may be a lack of awareness of environmental changes and competitors’ actions.
3. Data collection may be difficult to analyze over several time periods.
4. Marketing plans and decisions may not be properly reviewed.





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## 10.11 SUMMARY

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Marketing information systems are intended to support management decision making. Management has five distinct functions and each requires support from an MIS. These are: planning, organizing, coordinating, decisions and controlling.

Information systems have to be designed to meet the way in which managers tend to work. Research suggests that a manager continually addresses a large variety of tasks and is able to spend relatively brief periods on each of these. Given the nature of the work, managers tend to rely upon information that is timely and verbal (because this can be assimilated quickly), even if this is likely to be less accurate than more formal and complex information systems.

Managers play at least three separate roles: interpersonal, informational and decisional. MkIS, in electronic form or otherwise, can support these roles in varying degrees. MkIS has less to contribute in the case of a manager's informational role than for the other two.

Three levels of decision making can be distinguished from one another: strategic, control (or tactical) and operational. Again, MkIS has to support each level. Strategic decisions are characteristically one-off situations. Strategic decisions have implications for changing the structure of an organisation and therefore the MkIS must provide information which is precise and accurate. Control decisions deal with broad policy issues and operational decisions concern the management of the organization's marketing mix.

A marketing information system has four components: the internal reporting system, the marketing research systems, the marketing intelligence system and marketing models. Internal reports include orders received, inventory records and sales invoices. Marketing research takes the form of purposeful studies either *ad hoc* or continuous. By contrast, marketing intelligence is less specific in its purposes, is chiefly carried out in an informal

manner and by managers themselves rather than by professional marketing researchers.

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## 10.12 KEY WORDS

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Information System, Binary tree Model, Hierarchy model, Hypertext model, Random access model, Marketing information form, Lead card

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### 10.13 SELFASSESSMENT QUESTIONS

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1. Discuss the concept of Information system
2. What do you mean by marketing information system?
3. Give the differences between marketing research and Marketing information system
4. Explain the importance of marketing information system.
5. Discuss the components of marketing information system
6. Explain the steps involved in developing marketing information system in the present competitive world of marketing

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## **UNIT 11: TYPES OF MARKETING RESEARCH**

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### **Structure:**

- 11.1 Objectives
- 11.2 Introduction
- 11.3 Types of Marketing Researches
- 11.4 Exploratory research
- 11.5 Descriptive Research
- 11.6 Causal Research
- 11.7 Case Study
- 11.8 Notes
- 11.9 Summary
- 11.10 Key words
- 11.11 Self Assessment Questions
- 11.12 References

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## 11.1 OBJECTIVES

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After studying this unit, you should be able to:

- ⇒ Explain the meaning of Research design;
  - ⇒ Identify types of Marketing Research and their applications;
  - ⇒ Evaluate Exploratory type of research and its process;
  - ⇒ Discuss Descriptive type of research and its methods and
  - ⇒ Describe the Process of causal research and its methods.
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## 11.2 INTRODUCTION

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Marketers use marketing research to find answers to various questions related to market dynamics, business environment and consumer behaviour. For this a formal research design plan is created by marketers. But some marketers conduct research without formal plan as well. For example, a hotel owner who asks returning customers what was their experience during their stay at his hotel, is conducting a research without a formal research design.

The major component of research design is to decide which type of marketing research will be best suited for desired objective. Marketing Research can be classified into three categories depending upon the objectives of the research. Brief discussion about each type of marketing research is as follows.

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## 11.3 TYPES OF MARKETING RESEARCHES

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Research can be categorized either on the basis of technique (surveys, experiments, observation studies, etc) or on the basis of purpose. Now let us focus on the 3 methods of doing Marketing Research based on purpose:

### 1. Exploratory

As the name implies, exploratory research is the initial exploration done to get an idea and insights into the problem. Research is a relatively expensive process; exploratory research ensures that this process is not initiated without a thorough understanding of the problem. This study is qualitative (understanding the concept) rather than quantitative (providing precise measurement). Also, this type of research does not give conclusive evidence and subsequent research needs to be done.

Further, the following purposes justify the use of exploratory research:



- **Diagnosing a Situation:** Sometimes, companies have a situation at hand, but do not know how to define it clearly. This prohibits action to be taken. One reason for using it is to identify the exact nature of the business problem, but exploratory research is limited only to this. Successive descriptive or experimental research needs to be carried out to craft the action plan.
- **Screening Alternatives:** Consider a situation where there are several options, but budget restrictions do not allow implementation of all of them. Exploratory research helps choose the best alternatives in this case.
- **Uncovering New Ideas:** Many a times, consumers do not know what they need which is especially true in case of technology. Prior to the invention of the first smart phone in the early nineties, an average person did not feel the need for it or understand how pervasive the device would become. Exploratory research is used in cases like this to induce new ideas.

A widely used method for executing exploratory research for this purpose is Concept Testing. Here, target consumers are introduced to an idea and asked how they feel about it, whether they are likely to use it, etc. It tests the likeability or acceptability of the new product before investing in its research and development.

## 2. Descriptive

This type of research is used when there is some comprehension of the problem, objectives are defined and the research questions are clearly formulated. Contrary to exploratory research, the proof descriptive research provides is used for formulating action plans. It helps answer the questions 'when', 'who', 'what', 'how' and 'where', but not 'why'.

Descriptive research typically gives a detailed account of the characteristics or behaviour of a population. Hence the research work usually involves some element of consumer profiling and market segmentation.

## 3. Experimental

Experimental studies demonstrate cause and effect relationships. They try to decipher the outcome marketing actions might have. For example, it is used when the purpose is to determine the impact of increase in price on usage.

This research is used in succession to exploratory and descriptive research and hence sufficient knowledge is gained on the topic by then. Experimental research is also popularly known as **causal research**.

The extent of uncertainty also affects what type of method should be chosen. The more well defined the situation is, the more the research agency will move from exploratory to descriptive to experimental research.

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## **11.4 EXPLORATORY RESEARCH**

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**Exploratory research** is most commonly unstructured, informal research that is undertaken to gain background information about the general nature of the research problem. By unstructured, we mean that exploratory research does not have a formalized set of objectives, sample plan, or questionnaire. It is usually conducted when the researcher does not know much about the problem and needs additional information or desires new or more recent information. Often exploratory research is conducted at the outset of research projects. Because exploratory research is aimed at gaining additional information about a topic and generating possible hypotheses to test, it is described as informal. Such research may consist of going to the library and reading published secondary data; of asking customers, salespersons, and acquaintances for their opinions about a company, its products, services, and prices; or of simply observing everyday company practices.

Exploratory research is systematic, but it is very flexible in that it allows the researcher to investigate whatever sources he or she desires and to the extent he or she feels is necessary in order to gain a good feel for the problem at hand. In the following sections, we discuss the specific uses of exploratory research as well as the different methods of conducting exploratory research.

### **11.4.1. Uses of Exploratory Research**

Exploratory research is used in a number of situations: to gain background information, to define terms, to clarify problems and hypotheses, and to establish research priorities.

#### **Gain Background Information**

When very little is known about the problem or when the problem has not been clearly formulated, exploratory research may be used to gain much-needed background information. This is easily accomplished in firms having a marketing information system in which a review of internal information tracked over time can provide useful insights into the background of the firm, brand,

sales territories, and so on. Even for very experienced researchers it is rare that some exploratory research is not undertaken to gain current, relevant background information. There is far too much to be gained to ignore exploratory information.

### **Define Terms**

Exploratory research helps to define terms and concepts. By conducting exploratory research to define a question such as, “What is bank image?” the researcher quickly learns

that “image” is composed of several components—perceived convenience of location, loan availability, friendliness of employees, and so on. Not only would exploratory research identify the components of bank image but it could also demonstrate how these components may be measured.

### **Clarify Problems and Hypotheses**

Exploratory research allows the researcher to define the problem more precisely and to generate hypotheses for the upcoming study. For example, exploratory research on measuring bank image reveals the issue of different groups of bank customers. Banks have three types of customers: retail customers, commercial customers, and other banks for which services are performed for fees. This information is useful in clarifying the problem of the measurement of bank image because it raises the issue of which customer group bank image should be measured.

Exploratory research can also be beneficial in the formulation of **hypotheses**, which are statements describing the speculated relationships among two or more variables. Formally stating hypotheses prior to conducting a research study is very important to ensure that the proper variables are measured. Once a study has been completed, it may be too late to state which hypotheses are desirable to test.

### **Establish Research Priorities**

Exploratory research can help a firm prioritize research topics in order of importance, especially when it is faced with conducting several research studies. A quick review of a spreadsheet that calculates sales gains and losses by product, for example, may dictate research priorities. A summary account of complaint letters by retail store may tell management where to devote their attention. One furniture store chain owner decided to conduct research on the feasibility of carrying office furniture after some exploratory interviews with salespeople revealed that their customers often asked for directions to stores carrying office furniture.

### **11.4.2. Methods of Conducting Exploratory Research**

A variety of methods are available to conduct exploratory research. These include

- Secondary data analysis,
- Experience surveys,
- Case analysis,
- Focus groups, and
- Projective techniques.

#### **Secondary Data Analysis**

By **secondary data analysis**, we refer to the process of searching for and interpreting existing information relevant to the research objectives. Secondary data are data that have been collected for some other purpose. Your library and the Internet are full of secondary data, which include information found in books, journals, magazines, special reports, bulletins, newsletters, and so on. An analysis of secondary data is often the “core” of exploratory research. This is because there are many benefits to examining secondary data and the costs are typically minimal. Furthermore, the costs for search time of such data are being reduced every day as more and more computerized databases become available. Knowledge of and ability to use these databases are already mandatory for marketing researchers.

Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all.

#### **Advantages of Secondary data**

1. It is economical. It saves efforts and expenses.
2. It is time saving.
3. It helps to make primary data collection more specific since with the help of secondary data, we are able to make out what are the gaps and deficiencies and what additional information needs to be collected.
4. It helps to improve the understanding of the problem.
5. It provides a basis for comparison for the data that is collected by the researcher.

## Disadvantages of Secondary Data

1. Secondary data is something that seldom fits in the framework of the marketing research factors. Reasons for its non-fitting are:-
  - a. Unit of secondary data collection-Suppose you want information on disposable income, but the data is available on gross income. The information may not be same as we require.
  - b. Class Boundaries may be different when units are same.

Before 5 Years	After 5 Years
2500-5000	5000-6000
5001-7500	6001-7000
7500-10000	7001-10000

- c. Thus the data collected earlier is of no use to you.
2. Accuracy of secondary data is not known.
3. Data may be outdated.

## Evaluation of Secondary Data

Because of the above mentioned disadvantages of secondary data, we will lead to evaluation of secondary data. Evaluation means the following four requirements must be satisfied:-

1. **Availability**- It has to be seen that the kind of data you want is available or not. If it is not available then you have to go for primary data.
2. **Relevance**- It should be meeting the requirements of the problem. For this we have two criterion:-
  - a. Units of measurement should be the same.
  - b. Concepts used must be same and currency of data should not be outdated.
3. **Accuracy**- In order to find how accurate the data is, the following points must be considered:
  - 
  - a. Specification and methodology used;
  - b. Margin of error should be examined;
  - c. The dependability of the source must be seen.

#### **4. Sufficiency-** Adequate data should be available.

Robert W Joselyn has classified the above discussion into eight steps. These eight steps are sub classified into three categories. He has given a detailed procedure for evaluating secondary data.

1. Applicability of research objective.
2. Cost of acquisition.
3. Accuracy of data.

### **Experience Surveys**

**Experience surveys** refer to gathering information from those thought to be knowledgeable on the issues relevant to the research problem. If the research problem deals with difficulties encountered when buying infant clothing, then surveys of mothers or fathers with infants may be in order. If the research problem deals with forecasting the demand for sulphuric acid over the next two years, researchers may begin by making a few calls to some experts on this issue. Experience surveys differ from surveys conducted as part of descriptive research in that there is usually no formal attempt to ensure that the survey results are representative of any defined group of subjects. Nevertheless, useful information can be gathered by this method of exploratory research.

The Survey method is the technique of gathering data by asking questions to people who are thought to have desired information. A formal list of questionnaire is prepared. Generally a non disguised approach is used. The respondents are asked questions on their demographic interest opinion.

### **Advantages of Survey Method**

1. As compared to other methods (direct observation, experimentation) survey yield a broader range of information. Surveys are effective to produce information on socio-economic characteristics, attitudes, opinions, motives etc and to gather information for planning product features, advertising media, sales promotion, channels of distribution and other marketing variables.
2. Questioning is usually faster and cheaper than Observation.
3. Questions are simple to administer.
4. Data is reliable
5. The variability of results is reduced.

6. It is relatively simple to analyze, quote and interrelate the data obtained by survey method

### **Disadvantages of Survey Method**

1. Unwillingness of respondents to provide information- This requires salesmanship on the part of the interviewer. The interviewer may assure that the information will be kept secret or apply the technique of offering some presents.
2. Inability of the respondents to provide information- This may be due to
  - a. Lack of knowledge
  - b. Lapse of memory
  - c. Inability to identify their motives and provide “reasons why?” for their actions
3. Human Biases of the respondents are there, for eg: “Ego”
4. Symantec difficulties are there - it is difficult, if not impossible, to state a given question in such a way that it will mean exactly same thing to each respondent. Similarly two different wordings of the same question will frequently produce quite different results.

### **How to overcome the limitations of Survey Method**

1. Careful framing and phrasing of questions.
2. Careful control of data gathering by employing specially trained investigators who will observe carefully report on subtle reactions of persons interviewed
3. Cautious interpretations by a clear recognition of the limitations of the data and understating of what exactly the data represents. This is especially true of responses to questions like - “What price would you be willing to pay for this product?”
4. Looking at facts in relative rather than absolute terms. For eg - A survey by a dentist team showed that the number of families in the middle income group used toothpaste taken by itself in the absolute sense, the results of the survey are in some doubt. Even though the individual groups readings shall differ say for eg: for upper income group families it could be 90 %. Hence we should look at the facts in relative rather than in absolute terms.

### **Case Analysis**

By **case analysis**, we refer to a review of available information about a former situation(s) that has some similarities to the present research problem. Usually, there are few research problems that do not have some similarities to some situation in the past. Even when the research problem

deals with a radically new product, there are often some similar past experiences that may be observed. For example, when cellular telephones were invented but not yet on the market, many companies attempted to forecast how many cellular telephones would be sold. Part of the forecasting process was to determine the rate of adoption. These companies looked at adoption rates of consumer electronic products such as televisions and VCRs. A wireless communications company, 21st Century Telesis, used data from a low-power, neighborhood phone system that was very successful in Japan to help it market cellular phones to young people in Japan.

Is this valid? Yes, but researchers must be aware of the caveats in using former case examples for current problems. They should ask themselves questions to determine the relevancy of prior cases. How similar is the phenomenon in the past to the phenomenon in the present? (For example, would adoption rates of Japanese have any relationship with adoption rates of Americans?) What situational factors have changed that may invalidate using the case to predict a future outcome? To the extent that the researcher can adequately answer these questions, the greater should be his or her confidence in using a case analysis as part of exploratory research.

### **Advantages of Case Study**

1. Accurate data is provided
2. There is detailed analysis

### **Disadvantages of Case Study**

1. It is difficult to generalize.
2. It consumes lot of time.
3. Confidential and sensitive information may not be given.
4. Interviewer bias is there.

### **Focus Groups**

An increasingly popular method of conducting exploratory research is through **focus groups**, which are small groups of people brought together and guided by a moderator through an unstructured, spontaneous discussion for the purpose of gaining information relevant to the research problem. Although focus groups should encourage openness on the part of the participants, the moderator's task is to ensure the discussion is "focused" on some general area of interest.



For example, the Piccadilly Cafeteria chain periodically conducts focus groups all around the country. The conversation may seem “freewheeling,” but the purpose of the focus group may be to learn what people think about some specific aspect of the cafeteria business, such as the perceived quality of cafeteria versus traditional restaurant food. This is a useful technique for gathering some information from a limited sample of respondents. The information can be used to generate ideas, to learn the respondents’ “vocabulary” when relating to a certain type of product, or to gain some insights into basic needs and attitudes. Focus groups are discussed extensively in Chapter 8 and now several companies are offering online focus group services.

Focus groups are also known as group interviews or group discussions. They are used to understand the attitude or behaviour of the audience. Six to twelve individuals are selected and either one or two moderators (those who lead the discussions) are selected. If there are two moderators, they will adopt opposite positions. It is the moderator who introduces the topic. Discussion is controlled through these moderators. The group is watched from adjacent rooms. There are various devices which are used to record these discussions.

### **Objectives of Focus Group**

1. To gather primary information for research project;
2. To help developing questionnaires in terms of survey research;
3. To understand reason behind a particular phenomenon;
4. To see how people interpret certain phenomenon;
5. To test primarily ideas or plan

### **Steps involved in conducting Focus group**

1. Define the problem
2. Select a sample
3. Determine the number of groups necessary (minimum number should be two)
4. Prepare the study mechanics. Arrange the respondents place where the focus group is to be assembled.
5. Select moderators and brief them.
6. Prepare the focus group material.
7. Conduct the session.

8. Analyze the data and prepare summary report.

### **Advantages of Focus Group**

1. It is used to collect primary information and therefore it can conduct a pilot study also.
2. Relative cost is not much.
3. It can be conducted quickly.
4. It has flexibility.
5. Moderator can detect the opinion and certificates of those who cannot speak well by facial expression and other non verbal behaviour.
6. We can get the questionnaire filled up either before or after the discussion.

### **Disadvantages of Focus Group**

1. It is inappropriate for gathering quantitative data.
2. Self appointed group leader may impose his /her opinion on other members. Moderators can restrict people.
3. It depends heavily on skills of moderator.
4. Respondents in the focus group may or may not represent the population from which they are drawn.
5. Recording equipments are likely to restrict respondents. Location of recording equipment is very important.

### **Projective Techniques**

**Projective techniques**, borrowed from the field of clinical psychology, seek to explore hidden consumer motives for buying goods and services by asking participants to project themselves into a situation and then to respond to specific questions regarding the situation. One example of such a technique is the sentence completion test. A respondent is given an incomplete sentence such as, “Andrea Livingston never buys frozen dinners for her family because. . . .” By completing the sentence, ostensibly to represent the feelings of the fictitious Ms. Livingston, the respondent projects himself or herself into the situation.

**Projective Techniques** are indirect and unstructured methods of investigation which have been developed by the psychologists and use projection of respondents for inferring about underline motives, urges or intentions which cannot be secure through direct questioning as the respondent either resists to reveal them or is unable to figure out himself. These techniques are useful in giving respondents opportunities to express their attitudes without personal embarrassment. These techniques help the respondents to project his/her own attitude and feelings unconsciously on the subject under study. Thus Projective Techniques play an important role in motivational researches or in attitude surveys.

### **Important Projective Techniques**

1. Word Association Test.
2. Completion Test.
3. Construction Techniques
4. Expression Techniques

- 1. Word Association Test:** An individual is given a clue or hint and asked to respond to the first thing that comes to mind. The association can take the shape of a picture or a word. There can be many interpretations of the same thing. A list of words is given and you don't know in which word they are most interested. The interviewer records the responses which reveal the inner feeling of the respondents. The frequency with which any word is given a response and the amount of time that elapses before the response is given are important for the researcher. For eg: Out of 50 respondents 20 people associate the word "Fair" with "Complexion".
- 2. Completion Test:** In this the respondents are asked to complete an incomplete sentence or story. The completion will reflect their attitude and state of mind.
- 3. Construction Test:** This is more or less like completion test. They can give you a picture and you are asked to write a story about it. The initial structure is limited and not detailed like the completion test. For eg: 2 cartoons are given and a dialogue is to written.
- 4. Expression Techniques:** In this the people are asked to express the feeling or attitude of other people.

### **Disadvantages of Projective Techniques**

1. Highly trained interviewers and skilled interpreters are needed.

2. Interpreters' bias
3. It is a costly method.
4. The respondent selected may not be representative of the entire population.

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## 11.5 DESCRIPTIVE RESEARCH

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**Descriptive research** is undertaken to describe answers to questions of who, what, where, when, and how. When we wish to know who our customers are, what brands they buy and in what quantities, where they buy the brands, when they shop, and how they found out about our products, we turn to descriptive research. Typically, answers to these questions are found in secondary data or by conducting surveys.

Marketing decision makers often need answers to these basic questions before they can formulate effective marketing strategies. Consider the following examples. *Who* may be defined as the firm's (competitor's) customers? *What* may be defined as the products, brands, sizes, and so on that are being purchased. *Where* may be defined as the places the customers are buying these products. *When* refers to the time or the frequency with which purchases are made. *How* may mean the ways in which customers are using the products. Note that we cannot conclusively answer the question of *why* using descriptive research. Conclusive answers to questions such as why sales increase or decrease if we increase or decrease advertising or why one ad garners greater attention than another are questions that must be answered through causal research designs.

### 11.5.1. Classification of Descriptive Research Studies

There are two basic descriptive research studies available to the marketing researcher:

- Cross-sectional and
- Longitudinal designs.

**Cross-sectional studies** measure units from a sample of the population at only one point in time. A study measuring your attitude toward adding a required internship course in your degree program, for example, would be a cross-sectional study. Your attitude toward the topic is measured at one point in time. Cross-sectional studies are very prevalent in marketing research, outnumbering longitudinal studies and causal studies. Because cross sectional studies are one-time measurements,

they are often described as “snapshots” of the population. As an example, many magazines survey a sample of their subscribers and ask them questions such as their age, occupation, income, educational level, and so on. These sample data, taken at one point in time, are used to describe the readership of the magazine in terms of demographics. Cross-sectional studies normally employ fairly large sample sizes, so many cross-sectional studies are referred to as sample surveys.

**Longitudinal studies** repeatedly measure the same sample units of a population over a period of time. Because longitudinal studies involve multiple measurements, they are often described as “movies” of the population. Longitudinal studies are employed by almost 50 percent of businesses using marketing research. To ensure the success of the longitudinal study, researchers must have access to the same members of the sample, called a panel, so as to take repeated measurements. **Panels** represent sample units who have agreed to answer questions at periodic intervals. Maintaining a representative panel of respondents is a major undertaking.

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## 11.6 CAUSAL RESEARCH

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**Causality** may be thought of as understanding a phenomenon in terms of conditional statements of the form “If  $x$ , then  $y$ .” These “if–then” statements become our way of manipulating variables of interest. For example, if the thermostat is lowered, then the air will get cooler. If I drive my automobile at lower speeds, then my gasoline mileage will increase. If I spend more on advertising, then sales will rise. As humans, we are constantly trying to understand the world in which we live. Fortunately for humankind, there is an inborn tendency to determine causal relationships.

This tendency is ever present in our thinking and our actions. Likewise, marketing managers are always trying to determine what will cause a change in consumer satisfaction, a gain in market share, or an increase in sales. In one recent experiment, marketing researchers investigated how color versus non color and different quality levels of graphics in Yellow Page ads caused changes in consumers’ attitudes toward the ad itself, the company doing the advertising, and perceptions of quality. The results showed that color and high-photographic graphics cause more favorable attitudes. But the findings differ depending on the class of product being advertised. This illustrates how complex cause-and-effect relationships are in the real world. Consumers are bombarded on a daily and sometimes even hourly basis by a vast multitude of factors, all of which could cause them to act in one way or another. Thus, understanding what causes consumers to behave as they do is extremely difficult. Nevertheless, there is a high “reward” in the marketplace for even partially understanding causal relationships. Causal relationships are determined by the use of **experiments**, which are

special types of studies. Many companies are now taking advantage of conducting experiments online.

## **EXPERIMENTS**

An **experiment** is defined as manipulating an independent variable to see how it affects a dependent variable, while also controlling the effects of additional extraneous variables.

**Independent variables** are those variables over which the researcher has control *and* wishes to manipulate. Some independent variables include level of advertising expenditure, type of advertising appeal (humor, prestige), and display location, method of compensating salespersons, price, and type of product.

**Dependent variables**, on the other hand, are those variables that we have little or no direct control over, yet we have a strong interest in. We cannot change these variables in the same way that we can change independent variables.

A marketing manager, for example, can easily change the level of advertising expenditure or the location of the display of a product in a supermarket, but he or she cannot easily change sales, market share, or level of customer satisfaction. These variables are typically dependent variables. Certainly, marketers are interested in changing these variables. But because they cannot change them directly, they attempt to change them through the manipulation of independent variables. To the extent that marketers can establish causal relationships between independent and dependent variables, they enjoy some success in influencing the dependent variables.

**Extraneous variables** are those that may have some effect on a dependent variable but yet are not independent variables.

To illustrate, let's say you and your friend wanted to know if brand of gasoline (independent variable) affected gas mileage in automobiles (dependent variable). Your "experiment" consists of each of you filling up your two cars, one with Brand A, the other with Brand B. At the end of the week, you learn that Brand A achieved 18.6 miles per gallon and Brand B achieved 26.8 miles per gallon. Do you have a causal relationship: Brand B gets better gas mileage than Brand A? Or could the difference in the dependent variable (gas mileage) be due to factors other than gasoline brand (independent variable)? Let's take a look at what these other extraneous variables may be: (1) One

car is an SUV and the other is a small compact! (2) One car was driven mainly on the highway and the other was driven in the city in heavy traffic. (3) One car has never had a tune-up and the other was just tuned up. We think you get the picture.

Let's look at another example. Imagine that a supermarket chain conducts an experiment to determine the effect of type of display (independent variable) on sales of apples (dependent variable). Management records sales of the apples in its regular produce bin's position and then changes (manipulates the independent variable) the position of the apples to end-aisle displays and measures sales once again. Assume sales increased. Does this mean that if we change display position of apples from the produce bins to end-aisle displays, then sales will increase? Could there be other extraneous variables that could

have affected the sales of the apples? What would happen to apple sales if the weather changed from rainy to fair? If the apple industry began running ads on TV? If the season changed from summer vacation to fall? Yes, weather, industry advertising, and apples packed in school lunch boxes are viewed in this example as extraneous variables, having an effect on the dependent variable, yet themselves not defined as independent variables. As this example illustrates, it would be difficult to isolate the effects of independent variables on dependent variables without controlling for the effects of the extraneous variables. Unfortunately, it is not easy to establish causal relationships but it can be done. In the following section we will see how different experimental designs allow us to conduct experiments.

## **Experimental Design**

An **experimental design** is a procedure for devising an experimental setting such that a change in a dependent variable may be attributed solely to the change in an independent variable. In other words, experimental designs are procedures that allow experimenters to control for the effects on a dependent variable by an extraneous variable. In this way, the experimenter is assured that any change in the dependent variable was due only to the change in the independent variable.

When a measurement of the dependent variable is taken prior to changing the independent variable, the measurement is sometimes called a **pretest**. When a measurement of the dependent variable is taken after changing the independent variable, the measurement is sometimes called a **posttest**.

There are many research designs available to experimenters. In fact, entire college courses are devoted to this one topic. But our purpose here is to illustrate the logic of experimental design

and we can do this by reviewing three designs of which only the last is a true experimental design. A “**true**” **experimental design** is one that truly isolates the effects of the independent variable on the dependent variable while controlling for effects of any extraneous variables. However, the first two designs we introduce you to are *not* true experimental designs. We introduce you to the first two designs to help you understand the real benefits of using a true experimental design.

The three designs we discuss are after-only; one-group, before–after; and before–after with control group.

## Types of Experiments

We can classify experiments into two broad classes:

- Laboratory Experiments and
- Field Experiments

**Laboratory experiments** are those in which the independent variable is manipulated and measures of the dependent variable are taken in a contrived, artificial setting for the purpose of controlling the many possible extraneous variables that may affect the dependent variable.

To illustrate, let us consider the study we previously mentioned whereby subjects were invited to a theater and shown test ads, copy A or B, spliced into a TV “pilot” program. Why would a marketer want to use such an artificial, laboratory setting? Such a setting is used to control for variables that could affect the purchase of products other than those in the test ads. By bringing consumers into a contrived laboratory setting, the experimenter is able to control many extraneous variables.

For example, you have learned why it is important to have equivalent groups (the same kind of people watching copy A as those watching copy B commercials) in an experiment. By inviting preselected consumers to the TV “pilot” showing in a theater, the experimenter can match (on selected demographics) the consumers who view copy A with those who view copy B, thus ensuring that the two groups are equal. By having the consumers walk into an adjoining “store,” the experimenter easily controls other factors such as the time between exposure to the ad copy and shopping and the consumers’ being exposed to other advertising by competitive brands. As you have already learned, any one of these factors, left uncontrolled, could have an impact on the dependent variable. By controlling for these and other variables, the experimenter can be assured that any changes in the dependent variable were due solely to differences in the independent variable; ad copy A and B. Laboratory experiments, then, are desirable when the intent of the experiment is to achieve high levels of internal validity.



## **Advantages to laboratory experiments**

First, they allow the researcher to control for the effects of extraneous variables. Second, compared to field experiments, lab experiments may be conducted quickly and with less expense. Obviously, the disadvantage is the lack of a natural setting and, therefore, there is concern for the generalizability of the findings to the real world. For instance, blind taste tests of beer have found that a majority of beer drinkers favor the older beers such as Pabst; Michelob, or Coors, yet new beer brands are introduced regularly and become quite popular, so the generalizability of blind taste tests is questionable.

## **Field experiments**

Are those in which the independent variables are manipulated and the measurements of the dependent variable are made on test units in their natural setting. Many marketing experiments are conducted in natural settings, such as in supermarkets, malls, retail stores, and consumers' homes. Let us assume that a marketing manager conducts a *laboratory* experiment to test the differences between ad copies A, the company exists ad copy, and a new ad copy, copy B. The results of the laboratory experiment indicate that copy B is far superior to the company's present ad copy A. But, before spending the money to use the new copy, the manager wants to know if ad copy B will really create increased sales in the real world. She elects to actually run the new ad copy in Erie, Pennsylvania, a city noted as being representative of the average characteristics of the U.S. population. By conducting this study in the field, the marketing manager will have greater confidence that the results of the study will actually hold up in other real-world settings. Note, however, that even if an experiment is conducted in a naturalistic field setting in order to enhance external validity, the experiment is invalid if it does not also have internal validity.

The primary advantage of the field experiment is that of conducting the study in a naturalistic setting, thus increasing the likelihood that the study's findings will also hold true in the real world. Field experiments, however, are expensive and time consuming. Also, the experimenter must always be alert to the impact of extraneous variables, which are very difficult to control in the natural settings of field experimentation.

The example we just cited of using Erie, Pennsylvania, for a field experiment would be called a "test market." Much of the experimentation in marketing, conducted as field experiments, is known as test marketing.

## **Test Marketing**

Test marketing is the phrase commonly used to indicate an experiment, study, or test that is conducted in a field setting. Companies may use one or several test market cities, which are geographical areas selected in which to conduct the test. There are two broad classes of uses of test markets:

- (1) To test the sales potential for a new product or service and
- (2) To test variations in the marketing mix for a product or service.

Although test markets are very expensive and time consuming, the costs of introducing a new product on a national or regional basis routinely amount to millions of dollars. The costs of the test market are then justified if the results of the test market can improve a product's chances of success. Sometimes the test market results will be sufficient to warrant further market introductions. Sometimes the test market identifies a failure early on and saves the company huge losses. The GlobalPC, a scaled-down computer targeted for novices, was tried in test markets. The parent company, MyTurn, concluded that the test market sales results would not lead to a profit and the product was dropped before the company experienced further losses. Test markets are not only conducted to measure sales potential for a new product but also to measure consumer and dealer reactions to other marketing mix variables as well. A firm may use only department stores to distribute the product in one test market and only specialty stores in another test market city to gain some information on the best way to distribute the product. Companies can also test media usage, pricing, sales promotions, and so on through test markets.

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## **11.7 CASE STUDY**

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### **Case 1 : Swing Jacket**

Swing Jacket is a strap-on training device for golfers. The product's main feature is its patented swing rails that guide a golfer's arms and help produce a better swing. By using the jacket, the golfer's muscles "learn" the correct path to take to ensure a proper swing. Swing Jacket, Inc. faced difficulties with its initial plan to sell the apparatus through golf stores. The product was hard to sell due to its relative technical complexities. Swing Jacket, Inc. decided that the expense was too great to train specialty golf store salespeople across the nation on the proper use of the device. So the company decided to focus its resources on direct sales and hired legendary Script-to-Screen to produce an infomercial.

Within the first two quarters after the infomercial aired, Swing Jacket, Inc. knew it had a problem. Return rates for the product soared at 23 percent. Swing Jacket, Inc. wasn't sure why people were returning the device. The infomercial starred popular PGA tournament player Peter Jacobson and tracked the improvement of three amateur players with varying handicaps. The Rs.

150 product was advertised to “significantly lower your score” or consumers could return the product within 90 days. Trials during product development did not show a problem. Golfers who had tried the product before its debut didn’t suggest that they were embarrassed to wear the device nor did they find it uncomfortable. Players who had tried the product reported that it helped their golf swing. But yet, the return rate of the Swing Jacket still hovered at nearly 25 percent.

1. Should Swing Jacket, Inc. conduct research? Why or why not?
2. Assuming you believe Swing Jacket, Inc. should conduct research, what type of research design would you recommend?
3. Would you recommend more than one research design?

### **Case 2: Meridian Research Associates (MRA)**

Laura Holladay is a project manager for Meridian Research Associates (MRA). During the week she oversaw a project for General Mills that involved setting up taste tests in locations around the country to compare regional taste differences for three new products. She also made calls on three prospective clients. On Friday afternoon she sat down to review her notes of the three client visits.

Tuesday/A.M. Met with Susan Greer—assumed position as vice president of the Colony Bank last May. Bank only six years in this market. Board meeting suggestion for her to conduct a bank image analysis. Neither Greer nor other officers have any experience with bank image analysis studies. How should they conduct the study? What is bank image analysis? Should they include their competitors in the study? Greer wants MRA to give them guidance; they feel they should do the study. Want to hire us for advice. Next appointment set for 5:30 on 14th.

Wednesday/P.M. Judd Tucker, brand manager for Pooch Plus dog treats. Pooch Plus division of Petco Products, Inc. Dog treats business very competitive; constant sales promotions conducted to sway market share from competitors. Tucker very aggressive and wants us to conduct research examining dog treat brand swings in market shares over last five years. What types of promotions lead to greatest share swings? What are the best methods to counter effective promotions of competitors? We will need to track market share and promotion history of dog treats category. (Call Gayla VanZyverden at Information Resources Thursday A.M.) Appointment set up for 8:30 on 19th.





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## 11.9 SUMMARY

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Research design refers to a set of advance decisions made to develop the master plan to be used in the conduct of the research project. There are three general research designs: exploratory, descriptive, and causal. Each one of these designs has its own inherent approaches. The significance of studying research design is that, by matching the research objective with the appropriate research design, a host of research decisions may be predetermined. Therefore, a research design serves as a “blueprint” for researchers. Selecting the appropriate research design depends, to a large extent, on the research objectives and how much information is already known about the problem. If very little is known, exploratory research is appropriate.

Exploratory research is unstructured and informal research that is undertaken to gain background information; it is helpful for more clearly defining the research problem. Exploratory research is used in a number of situations: to gain background information, to define terms, to clarify problems and hypotheses, and to establish research priorities. Reviewing existing literature, surveying individuals knowledgeable in the area to be investigated, and relying on former similar case situations are methods of conducting exploratory research. Exploratory research should almost always be used because it is fast, inexpensive, and sometimes resolves the research objective or is helpful in carrying out descriptive or causal research.

If concepts, terms, and so on are already known and the research objective is to describe and measure phenomena, then descriptive research is appropriate. Descriptive research measures marketing phenomena and answers the questions of who, what, where, when, and how. Descriptive studies may be conducted at one point in time (cross-sectional) or several measurements may be made on the same sample at different points in time (longitudinal). Longitudinal studies are often conducted using panels.

Panels represent sample units who have agreed to answer questions at periodic intervals. Continuous panels are longitudinal studies in which sample units are asked the same questions repeatedly. Brand-switching tables may be prepared based on data from continuous panels. Market tracking studies may be conducted using data from continuous panels.

The second type of panel used in longitudinal research is the discontinuous panel. Discontinuous, sometimes called omnibus panels are those in which the sample units are asked different questions. The main advantage of the discontinuous panel is that research firms have a large sample of persons who are willing to answer whatever questions they are asked. The demographics of panel members are often balanced to the demographics of larger geographical areas they are to represent, such as a region or the entire United States. Marketing research firms

such as NFO Worldwide and ACNielsen have maintained panels for many years. More recently, online survey research firms use panels to gain access to respondents.

Sometimes the research objective requires the researcher to determine causal relationships between two or more variables. Causal relationships provide relationships such as “If  $x$ , then  $y$ .” Causal relationships may only be discovered through special studies called experiments. Experiments allow us to determine the effects of a variable, known as an independent variable, on another variable, known as a dependent variable.

Experimental designs are necessary to ensure that the effect we observe in our dependent variable is due, in fact, to our independent variable and not to other variables known as extraneous variables. The validity of experiments may be assessed by internal validity and external validity.

Laboratory experiments are particularly useful for achieving internal validity whereas field experiments are better suited for achieving external validity. Test marketing is a form of field experimentation. Test market cities are selected on the basis of their representativeness, isolation, and the degree to which market variables such as distribution and promotion may be controlled. Various types of test markets exist (standard, controlled, electronic, simulated, consumer, industrial, and lead country) and, although test markets garner much useful information, they are expensive and not infallible.

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### **11.10 KEY WORDS**

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Hypothesis, Secondary data analysis, Experience surveys, Case analysis, Focus Group  
Projective Techniques, Cross sectional studies, Longitudinal designs, Experiments

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### **11.11 SELFASSESSMENT QUESTIONS**

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1. How would you match research designs with various research objectives?
2. Give some examples illustrating the uses of exploratory research.
3. What type of research design answers the questions of who, what, where, when, and how?
4. What are the differences between longitudinal studies and cross-sectional studies?
5. Explain why studies of the “if-then” variety are considered to be causal studies.
6. What is the objective of good experimental design? Explain why certain designs are called quasi-experimental designs.
7. What do you mean by test marketing?

8. Think of a past job that you have held. List three areas in which you, or some other person in the organization, could have benefited from having information generated by research. What would be the most appropriate research design for each of the three areas of research you have listed?
9. Design an experiment. Select an independent variable and a dependent variable. What are some possible extraneous variables that may cause problems? Explain how you would control for the effects these variables may have on your dependent variable. Is your experiment a valid experiment?
10. The Maximum Company has invented an extra-strength, instant coffee brand to be called “Max-Caff” and positioned to be stronger tasting than any competing brands. Design a taste test experiment that compares Max-Caff to the two leading instant coffee brands to determine which brand consumers consider to taste the strongest. Identify and diagram your experiment. Indicate how the experiment is to be conducted, and assess the internal and external validity of your experiment.
11. Coca-Cola markets PowerAde as a sports drink that competes with Gatorade. Competition for sports drinks is fierce where they are sold in the coolers of convenience stores. Coca-Cola is thinking about using a special holder that fits in a standard cooler but moves PowerAde to eye level and makes it more conspicuous than Gatorade. Design an experiment that determines whether the special holder increases the sales of PowerAde in convenience stores. Identify and diagram your experiment. Indicate how the experiment is to be conducted and assess the internal and external validity of your experiment.

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## **UNIT 12: APPLICATIONS OF MARKETING RESEARCH IN BUSINESS**

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### **Structure:**

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Need for Marketing Research
- 12.3 Applications of Marketing Research in various areas of Business
- 12.4 Notes
- 12.5 Summary
- 12.6 Key words
- 12.7 Self Assessment Questions
- 12.8 Reference

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## **12.0 OBJECTIVES**

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After studying this unit, you should be able to:

- ⇒ Explain the Application of marketing research in various areas of business;
- ⇒ Identify importance of marketing research and
- ⇒ Select a particular research based on your need.

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## **12.1 INTRODUCTION**

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Marketing Research serve as a basic input for any business, it helps organisations to take decisions in various areas. Application of marketing research in business includes:

Advertising testing research, Branding research, Customer satisfaction research, Pricing research, Product positioning research, New product assessments, Marketing due diligence, and Segmentation research.

Thus every business must conduct these marketing research studies for firms of most sizes, from venture funded start ups to middle-market and large enterprises.

Business market research is the process of collecting data to determine whether a particular product/service will satisfy the needs of your customers. With effective market research, your company can gain invaluable information about your competitors, economic shifts, demographics, the current market trends and the spending traits of your customers.

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## **12.2 NEED FOR MARKETING RESEARCH**

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Marketing research is needed on a continual basis, if you want to keep up with the latest market trends and gain a competitive edge in the business market. Understanding market research and using it to your advantage is vital in reaching out to your target audience and increasing your sales. Here is why your company should conduct business market research:

- Identify the problem areas in your business
- Understand the needs of existing customers and why they chose your service/product over competitors
- Identify new business opportunities and changing market trends
- Recognize new areas for expansion, and increase your customer base
- Discover potential customers and their needs, which can be incorporated into your products/ services
- Set achievable targets for business growth, sales, and latest product developments
- Make well-informed market decisions about your services and develop effective strategies

In the following section let us try to understand more about each application in detail

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## 12.3 APPLICATIONS OF MARKETING RESEARCH IN VARIOUS AREAS OF BUSINESS

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### 12.3.1. Advertising Testing Research

Advertising research design is determined by specific advertising goals and the stage of ad development, or campaign. A broad range of advertising research techniques including ad recall surveys, message and theme salience and impact measures, buying motivation and association with the ad message or positioning theme. We can employ both qualitative and quantitative research tools.

Advertising research covers a big spectrum of applications...

- Positioning & messaging opportunities
- Ad development ... comparing appeal levels of varying copy strategies
- Tracking advertisement effectiveness over time periods.
- Understanding base buyer motivations, beliefs and needs.
- Pinpointing arousal points in broadcast, print, video and online media
- Competitive positioning analysis to identify content targets.

A broad range of advertising research techniques including ad recall surveys, message and theme salience and impact measures, buying motivation and association with the ad message or positioning theme.

### 12.3.2. Branding Research

Branding decisions drive branding marketing research strategy. Corporate, product and advertising brand development is a mix of creativity and marketing information to uncover brand positioning opportunities in cluttered market spaces.

Branding research has one goal: deliver branding research information that helps you better understand your brand position, and then, to enhance that brand position in the marketplace.

In a word, to uncover brand positioning opportunities in market spaces often cluttered with brand noise. Here's the flow for a brand development engagement showing the integration of creative and branding research.

Branding research studies often begin with Brand Base research followed by Brand Qualitative research and targeted quantitative Brand Screening Survey studies.

- **Brand Base Research**

This helps the organisations to gauge the landscape evaluating existing available branding research, client and competitive advertising, and brand name architecture. It seeks to uncover existing comparative brand equity marketing information and knowledge. A part of this brand equity discovery process, includes conducting far reaching interviews with client

management, field sales, product development and customer service staff. Talking to sales people in the channel about their own brand preferences and their perception of customers. Brand Base Research involves an initial round of qualitative depth interview, focus groups, or qualitative online forums. This qualitative research has a branding and brand name equity focus. It typically includes a small sample of client product customers and those loyal to competitor brands.

- **Brand Qualitative Research**

Business employs unique qualitative methods. The typical starting point is a small sample round of depth interviews. In the beginning stages of brand development, this method can be far more useful than focus groups which may come later. Here, a non-directive design and style, combined with projective interviewing techniques to

uncover buyer motivations and brand perceptions is used. It continues the qualitative exploration with a larger sample using an online qualitative time-extended method which combines both qualitative and quantitative assessments. If certain conditions exist, it may add focus group discussions to the qualitative market research work.

- **Brand Screening Survey**

Brand screening survey involves

- Testing hypotheses developed from the Branding Qualitative Research. These pertain to segmentation, strength of brand and category perceptions, buyer attitudes and beliefs, and product behavior patterns.
- Screen positioning concepts using concept statements and appeal ratings
- Screen brand name and communications themes
- Evaluate linguistic considerations

### **12.3.3. Customer Satisfaction Research**

Customer satisfaction research measurement studies with two core components that are focused on building customer loyalty.

#### **Customer Satisfaction Decision Drivers**

Qualitative research uncovers the broad picture of how customers make purchase and repeat purchase decisions. It explores the product and company attributes, and understand purchase and brand loyalty factors beyond attributes which affect customer satisfaction and customer loyalty. These may be the brand-product use application, emotional drivers, or external forces.

### **Attribute Definition**

Before proceeding to quantitative customer satisfaction research, core attribute factors which, based on preliminary findings, are identified and created which account for most of the differences in customer satisfaction levels.

### **Opportunity Scanning**

Opportunity scanning asks the question, “What else?” “What are your core needs and what would be the ideal solution to those needs?” Here qualitative research exploration uncovers possible emerging needs, and changing competitive factors.

### **Customer Satisfaction Measurement — Static Measures**

Static customer satisfaction measurements are standard core quantitative survey measurements. They are termed “static” because they are used as constant comparative measures and are of our standard CSM research measurements.

### **Brand-Company Attribute Ratings**

Specific product, brand or company attributes.

### **Attribute Importance**

Reported or stated importance levels.

### **Brand-Company Overall Ratings**

These are the global or “dependent” measures which are later correlated to attribute ratings and importance ratings.

### **Brand-Company Loyalty**

Here the stability of repeat purchase of the client product brand or company brand is measured.

### **Global Shift Expectations**

Over time, customer expectations change as competitors and technology enhance customer service and product quality. Performance which once would “exceed expectations” is today the norm. Here evolving of expectation is assessed.

### **Customer Satisfaction Measurement — Dynamic Measures**

The dynamic measures focus on competitive positioning and the pathway for making specific changes to product or customer service to improve customer satisfaction.

### **Competitive Advantage**

### **Emerging Needs**

Here, today’s and tomorrow’s customer needs are identified forecasting where possible how needs will evolve over time. Where appropriate, concept testing is employed

to posit future ways the Company, products, or brands may respond to these changing customer need environments. A customer satisfaction measurement study that accounts for market dynamics by anticipating emerging customer needs becomes actionable so that clients “see the future” a bit more clearly from the customers’ perspective.

#### **12.3.4. Pricing research**

Involves first a pricing strategy assessment supported by strong **pricing research capabilities**. Sound pricing market research requires a broad strategic perspective together with a focus on pricing decision options. Focus finds optimum price-product-feature configurations in the context of market positioning opportunities. For pricing studies, both qualitative research and quantitative research tools are employed

Pricing research usually concentrates on customers’ sensitivity to pricing. This price sensitivity is driven by the nature of the market, the target within that market, the differentiation level of product or service, and the value of brand.

In the quantitative phases of pricing research, market segmentation research, and positioning research is conducted which involves concept testing and price sensitivity conjoint analysis.

#### **12.3.5. Product development marketing research**

Serves several goals such as new product design and market validation research or assessing existing products. The goal and overall positioning and market strategy drive product research design.

These steps show when product research may be needed to increase the probability of optimum decisions and successful market impact:

Effective product market research for new products and existing products is well integrated with R&D and technical product design functions. For consumer or business B2B product market research, a global approach, can be taken incorporating appropriate market research at each design stage: The goal is to align astute technical product R&D, product innovation and design with market demand.

#### **12.3.6 New Product Assessment**

For new product development market research, the question becomes one of matching the stage of new product development with the right creative or product market research method. The Marketing Intelligence Platform is used to guide the use of the three forms of Intelligence — Ideas, Data, & Drivers — to the product development process.

Product development market research methods and tools used may vary according to the product type, the extent of incremental change from other products, the investment and risk factors, and the costs of seeding the new product in the marketplace.

Product development is a sequential decision process. It's a series of decisions, not one. It is key, therefore, to concentrate attention on the precise new product decision at hand, and think through the market research and creative tools needed for that stage.

### **12.3.7. Marketing due Diligence Research**

In technology and innovative early stage companies marketing, the value proposition can be a moving target, both for companies, component suppliers, and their new products. Market segmentation tools can meaningfully identify the need structure of differing market sectors. Technology market research often requires the researcher to be both knowledgeable in the language and concepts of technical issues, while bring a fresh approach to technology marketing issues. Depending on the marketing decisions and issues, technology market research studies are designed using hybrid designs, incorporating market survey method of both qualitative and quantitative genres. When assessing new products opportunities, primary and secondary research can be driven by what we call 'next bench' innovation — the concepts and market knowledge of technology workers on the firing line. Competitive intelligence techniques may also be required.

### **12.3.8. Market segmentation**

Research maintains focus and delivers needed marketing insight.

Comprehensive market segmentation research examines a broad range of demographic and psychographic determinants. Implied in the notion of segmentation research is identifying the 'ideal brand' for each identified segment.

#### **Methods we used include in portfolio of market segmentation research methods:**

Qualitative Market Research...

Here *a priori* judgement is used regarding segment configuration and product brand positioning. Preliminary focus groups or other qualitative methods such as depth interviews are conducted among market segments for which hypotheses are framed as to their importance. In focus groups, probe how they talk about the product or service category. Using projective techniques, uncover insight as to how various consumer and business audiences see and feel about the product category and competitive brands.

Qualitative market segmentation research effort centers around refining hypotheses, discovery and refining learning about customers whether consumers or business audiences. The goal is to develop preliminary **segmentation dimensions** not draw conclusions about either their importance or size. That is done in quantitative segmentation research effort.

#### **Quantitative Market Segmentation Research**

Market Segmentation Goals

- Estimate the market segment dimension salience or impact.

Market segmentation dimensions may be demographic, behavioral, attitudinal, or a combination of these which may form psychographic segments.







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## 12.5 SUMMARY

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With the economy becoming more and more competitive with each passing day, having apt knowledge about the concerns and preferences of your customers has become integral for any business. Marketing research is the best way to increase customer satisfaction, understand the factors that affect your business, and to elevate your performance.

**Market research can guarantee the success of your marketing campaigns, and in-turn sales** Market research not only helps in identifying new business opportunities, but also helps in designing marketing campaigns that will directly target the interest of your potential consumers and help in increasing sales. Marketing research provides valuable information about the potential of a particular market segment, during a specific time, and within a particular age group.

**Market research can help you keep a tab on your competitors** Marketing research is a good evaluation tool that can be of great use in comparative studies. You can track your company's progress as well as the growth of your competitors, by keeping an eye on your competitors. You can devise business strategies that would keep you ahead of your business rivals.

**Market research can help you minimize loss in your business** with marketing research; you can reduce the chances of loss to a large extent. Before launching a product, you can identify potential problems and even determine the solutions. The research carried out after the launch of a new product can help you find loopholes and devise plans to counter that loss and increase the profits.

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## 12.6 KEY WORDS

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Advertising testing research, Branding research, Customer satisfaction research, Pricing research, Product positioning research,

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## 12.7 SELFASSESSMENT QUESTIONS

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1. Name the application of the marketing research in business.
2. "Business requires marketing research for the successes and survival in the present competitive environment" Elucidate this statement with suitable examples.
3. Explain the applications of marketing research in various areas of Business.

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**DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT**

**M.B.A III SEMESTER**

**ELECTIVE : MARKETING**

**COURSE - 18B**

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**CONSUMER BEHAVIOUR AND MARKETING RESEARCH**

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**BLOCK**

**4**

**DYNAMICS OF CONSUMER BEHAVIOUR**

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**Unit-13**

<b>Online Buying Behaviour</b>	<b>01-15</b>
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**Unit-14**

<b>Groupdynamics and Opinion Leadership</b>	<b>16-36</b>
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**Unit -15**

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**Course Design and Editorial Committee**

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## **BLOCK – 4: DYNAMICS OF CONSUMER BEHAVIOR**

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Dear Learner. In this module let us study about the recent trends in consumer behaviour. In the previous modules, you have already studied about the various dimensions and models of consumer behaviour. Owing to the ease of technology today many people are orienting themselves towards on line buying. Many large retailers online sellers have established their own footprints in e-commerce. Since e-business has become order of the day, it has become highly significant for the marketer to study the online buying behaviour.

Further there are few other factors which influence the buyer behaviour. These factors include group dynamics, opinion leadership, cultural and cross cultural influences. Let us study all these factors and their influences on the buying behaviour. One can simply ask why to study the consumer behaviour. Let us also concentrate on how this study of buyer behaviour helps the marketer to formulate his strategies.

This fourth module is classified into 4 units as given below

**Unit 13      Online Buying Behaviour**

**Unit 14      Group Dynamics and Opinion Leadership**

**Unit 15      Cultural and Cross Culture Influence on consumer behaviour**

**Unit 16      Marketing Implications of Buyer Behaviour**



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## **UNIT – 13: ONLINE BUYING BEHAVIOUR**

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### **Structure**

13.0 Objectives

13.1 Introduction

13.2 Online Buying Behaviour

13.3 Categories of E-commerce

13.4 History of Online Buying Behaviour

13.5 Factors Affecting Online Buying Behaviour

13.6 Consumer mind set model in online shopping

13.7 Factors That Boost Online Shopping in India

13.8 . Few Facts about Online Shopping

13.9 Changing Attitude towards Online Shopping Malls

13.10 Notes

13.11 Summary

13.12 Key Words

13.13 Self Assessment Questions

13.14 References



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## **13.0 OBJECTIVES**

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After studying this unit you will be able to :

- Explain Dynamics in buyer behavior;
- Analyze Opinion leader influence on consumer buying behavior;
- Interpret Global consumer buying behavior and
- Describe Dimensions of buyer behaviour.

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## **13.1 INTRODUCTION**

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Consumer behavior implies that study of behavior of purchaser of all goods and services whether purely consumer goods, intermediate goods or capital goods. In other words, it implies study of attitude of all consumers in disposing of their resources. There are several units in the marketing that can be analyzed by consumer behavioral studies. Consumer behaviour information coupled with firm's strengths and weaknesses and those of competing firms helps marketers to evolve effective marketing strategies. Suppose, for example, a product aimed at older consumers, a growing segment. A competing firm that targets babies, a shrinking market, is likely to consider repositioning toward older market. To assess a competing firm's potential threat, it is necessary to examine its assets (e.g., technology, patents, market knowledge, awareness of its brands) against pressures it faces from the market. Finally, to assess conditions (the marketing environment). For example, although firm developed a product that offers great appeal for consumers, a recession may cut demand dramatically.

Serving existing consumers costs less than acquiring new consumers, firms' marketing strategies evolve around retaining consumers and building long-term consumer relationships. In the pursuit of acquiring consumer loyalty, enhancing consumer value has been the focus of many firms' relationship building efforts.

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## **13.2. ONLINE BUYING BEHAVIOUR**

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Electronic commerce has become one of the essential characteristics in the Internet era. According to UCLA Center for Communication Policy (2001), online shopping has become the third most popular Internet activity, immediately following e-mail using/instant messaging and web

browsing. It is even more popular than seeking out entertainment information and news, two commonly thought of activities when considering what Internet users do when online. Of Internet users, 48.9 percent made online purchases in 2001, with three-quarters of purchasers indicating that they make 1-10 purchases per year. When segmented into very versus less experienced Internet users, the very experienced users average 20 online purchases per year, as compared to four annual purchases for new users.

Electronic commerce, also referred as e-commerce is defined by Oxford Dictionary (2012) as 'commercial transactions conducted electronically on the Internet'. Another definition made by Financial Times (2012) as a buying and selling activity over the Internet. To sum up e-commerce can be defined as the buying, selling and exchanging of goods and services through an electronic medium (the Internet) by businesses, consumers and other parties without any physical contact and exchange.

Online shopping behavior (also called online buying behavior and Internet shopping/buying behavior) refers to the process of purchasing products or services via the Internet. The process consists of five steps similar to those associated with traditional shopping behavior. In the typical online shopping process, when potential consumers recognize a need for some merchandise or service, they go to the Internet and search for need-related information. However, rather than searching actively, at times potential consumers are attracted by information about products or services associated with the felt need. They then evaluate alternatives and choose the one that best fits their criteria for meeting the felt need. Finally, a transaction is conducted and post-sales services provided. Online shopping attitude refers to consumers psychological state in terms of making purchases on the Internet. There have been intensive studies of online shopping attitudes and behavior in recent years. Most of them have attempted to identify factors influencing or contributing to online shopping attitudes and behavior. For example, Case, Burns, and Dick suggest that internet knowledge, income, and education level are especially powerful predictors of Internet purchases among university students. According to an online survey of 425 U.S. undergraduate and MBA students, There are positive relationships between online shopping behavior and five categories of factors, which include e-stores, logistical support, product characteristics, websites technological characteristics, information characteristics, and homepage presentation. However, there is a lack of coherent understanding of the impact of relevant factors on online attitudes and behavior and an inconsistent identification of relevant independent and dependent variables.

Since the recent economic reforms, Indian consumers have just begun to understand benefits of using Internet for shopping. However, the growing number of Internet users has not been reflected to the online sales. Thus, it is important to identify factors affecting Indian consumers' online buying behavior in order to find the way to stimulate their online shopping behavior. The internet technology, appearing during the last quarter of the 20th century and having been used frequently for few years in daily lives, has influenced all parts of our lives in a short time. The hangings in technological area all over the world have changed the concept of information and communication. The use of internet for commercial purposes gave rise to the existence of the electronic commerce (e-commerce) phenomenon. With the implementation of these information and communication technologies by commercial institutions in order to support business activities, electronic business concept was developed.

'The rise of these new information and communication technologies and of Internet users, has introduced a new marketing reality'. This new presence change the relations between the players. Furthermore businesses have realized and seen the importance of the Internet and it has become that e-commerce in the business context, for most companies, can be seen as a complement .The importance of the competitive power and superiority has come to foreground and organisations' understanding of competition has changed dramatically. In today's world businesses use electronic commerce channels to communicate with customers and to increase competitive advantage

In spite of a number of evidence showing the growth of Internet usage by Indian consumers, Internet sales show less than 1 percent of the total retail sales in India. This may represent a great potential to grow yet some obstacles to overcome for online retailers. Many Indian consumers have low self efficacy in using Internet and feel shopping online to be unconventional. It seems that even for those, who use Internet on regular bases, Internet is mainly for searching product information, comparing prices, and/or checking consumer reviews rather than making a purchase. Would the reasons for Indian shoppers not shopping online be the same as the ones identified in other countries online shopping environments? Would there be specific concerns Over the past few decades, the Internet has developed into a vast global market place for the exchange of goods and services in the world. In many countries, the Internet has been adopted as an important medium, offering a wide assortment of products with 24 hour availability and wide area coverage. Indians use the Internet for e-mail and IM (98%); job search (51%); banking (32%); bill payment (18%); stock trading (15%); and matrimonial search (15%) etc. (Feb,2006 data)

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### 13.3 CATEGORIES OF E-COMMERCE

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So many company now operate on the Internet. Some of companies only have a web presence, called as click-only dot-coms, such as Amazon.com and Expedia.com. These companies sell products and services directly to consumers via the Internet. On the other hand traditional companies also enhance their marketing strategies to adopt today's requirements and create their own online sales channels and become click-and-mortar companies. Nowadays it is hard to find an organisation that doesn't have a web presence.

E-commerce has been divided into four categories considering the characteristics of the buying and selling parties. These categories are: business to business (B2B), business to consumer (B2C) or consumer to consumer (C2C) or consumer to business (C2B).

Cisco Systems, Inc and Office Depot, Inc are examples of the business to business e-commerce companies. B2B e-commerce is the electronic support of business transactions between companies and covers a broad spectrum of applications that enable an enterprise or business to form electronic relationships with their distributors, resellers, suppliers, and other partners. E-commerce help businesses to enhance their organisational coordination and decrease transaction costs for the buyer teams . Furthermore, Wise and Morrison state that e-commerce helps organisations to access too many buyers and sellers. According to Gummesson and Polese's argument it is not noticeable that which B represent the supplier or the customer. Initiatives could come from both sides. Buyers can demand and/or sellers can provide buyers' desires.

Another type of transaction, business to consumer e-commerce activities also known as e-retailing, take place between organisations and the customers. E-commerce is just another tool for retail companies selling products by using web-based technologies. www.gap.com is an example for this kind of companies which use a web site to reach their customers and also providing shipping services. The success of this area mainly based on trust issue . Situations such as; products can not be seen or touched by consumers or if customers do not have a previous experience, to reassure customers for companies have carried a critical importance. Yet, trust is an important element for commercial activities . it becomes more crucial for e-businesses. Moreover, organisations should be customer-centric . It is because the success of e- business mostly depend on loyal customers. Individuals could find another provider anytime, anywhere on the Internet . Therefore, managing customer relations are important and especially in the e-business there is no face-to-face contact, e-services are important to satisfy customers.

The third type is consumer to consumer e-commerce action which provides to consumers to put their goods on the market for other consumers 'in auction format' . eBay is the first and most popular C2C type of e-commerce company. If an individual wishes to sell its product, can simply register to a web-site and put the product on the market. After that a buyer can browse and search the product they interested in. Later, if the buyer is willing to buy the product they can buy it directly from the seller. In this way, the organisation (eBay) acts as an interface between two players and generate revenue from this action. Organisations usually charge fees from seller side, not from the buyer part in these kind of activities because of fees could discourage buyers from the purchasing activity .

The final online marketing domain is consumer to business online marketing. With today's Internet environment consumers can reach companies easily. Using the web, consumers can drive transactions with businesses, rather than the other way around. In this transaction, dominating factor is seen as price . For instance, Priceline.com provides to companies to buy airline tickets, hotel rooms etc which are put by consumers on the web site. Consumers can also send requests and complaints via complaint web sites .

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#### **13.4 HISTORY OF ONLINE BUYING BEHAVIOUR**

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The emergence of e-commerce has begun with two organisations. Amazon.com, Inc and eBay Inc. have been the early leaders of the e-commerce industry . Both of them are now offering many different types of products to many parts of the world. Since then, Amazon and Ebay have become the icons of the new economy. Paying visits to their Web sites has become part of our regular life .

Amazon is founded by Jeff Bazos in 1994 in Washington and the website has launched in 1995. They started with an online book store. Amazon also provided to consumers to order hard-to-find books as easily as best sellers . Amazon also developed systems; such as 'Search Inside the Book' and '1-click® Shopping' which make the company the pioneer of innovations. Being first in the market provided to Amazon.com a trusted brand name .

eBay is founded by Pierre Omidyar in 1995 and first product had been sold at the same year by him as well. He says that 'it was a broken laser pointer, I was about to throw away' . A collector bought it and this leads to a new way of the commerce. In 1996, the company already reached 41,000 users. 'Since then eBay have a presence in 39 markets with more than 90 million eBay.com users worldwide' .

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### **13.5 FACTORS AFFECTING ONLINE BUYING BEHAVIOUR**

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Consumer behaviour can be explained in four dimensions which are personal characteristics, psychological characteristics, social characteristics and cultural characteristics . Identifying these characteristics are crucial to decide marketing strategies and to target correct consumer groups.

#### **a Personal Characteristics**

Characteristics of a person, is an important factor affecting the purchase decision process. Personal factors include age, gender, occupation, income status, education, life style. In online shopping researchers, most of the studies are conducted on young adults because of their familiarity with ICT traditional shopping mostly have been chosen by older individuals (40 years old and above).

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### **13.6 CONSUMER MIND SET MODEL IN ONLINE SHOPPING**

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The concept of consumer mind set is introduced by Wurtzberg motivational psychologist. A mind set refers to a “specific cognitive orientation”. According to this theory, every consumer mind set is composed of different thought, modes of emotions and different information processing Propensity to shopping is affected by consumer mind set. Online consumers are goal oriented rather than experimental if they chose online shopping. Consumer mind set has two types of determinants one is goal oriented and second one is experimental According to Association of motivations with shopping outlet, Toy retailer found that experimental mind set consumer buy toys more as compare to goal oriented mind set consumer as they prefer to buy through online channels. Dholakia and Bagozzi also contributed their efforts in mind set formation and influence (MSFI) model. They introduce most relevant factors contributing mind set on consumer. According to this MSFI model, consumer search behavior depends on website selection, length of website visit and information obtained has influence on one’s minds. Mind set has a string influence on key cognitive, effective and behavioral aspects of consumer’s activities in online shopping. Mind set gives concepts to reach cognitive orientation through experimental and goal oriented. Mindset has ability to overcome external environment. This is the strong point of mind set to help managerial point of view since it provides actionable insight. Through mind set research in the consumer behaviors helps to increase more opportunity in market. Below are discussed about mind set categories such as goal oriented mind set and experimental mind set.

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### **13.7 FACTORS THAT BOOST ONLINE SHOPPING IN INDIA**

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The following factors are attributed to the growth of online shopping in India

- Rapid growth of cyber cafés across India
- Access to Information
- The increase in number of computer users
- Reach to net services through broadband Middle-class population with spending power is growing. There are about 200 million of middleclass population good spending powers. These people have very little time to spend for shopping. Many of them have started to depend on internet to satisfy their shopping desires.

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### **13.8 . FEW FACTS ABOUT ONLINE SHOPPING**

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The figures from IAMAI show that the internet users in India will grow to 200 million by 2016. Around 25% of regular shoppers in India are in the 18-25 age groups, and 46% are in the 26-35year range. Indian online matrimonial sector is worth around \$230 million. Online shopping has hit a tipping point and will see exponential growth in 2015-2020, a new study by search firm Google India. According to a study, compiled by Google India along with TNS, highlights exponential growth in interest in online shopping by Indians as per data recorded on Google Trends. The study says that online shopping in India saw 128% growth in the period between 2011-12, compared to only 40% growth the previous year. Apparels and accessories (30%) emerged as the second biggest product category after consumer electronics (34%) and is expected to become bigger than consumer electronics this year. Other popular searched categories include books (15%), beauty & personal care (10%), home & furnishings (6%), baby products (2%) and healthcare (3%).

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### **13.9 CHANGING ATTITUDE TOWARDS ONLINE SHOPPING MALLS**

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Malls springing up everywhere and yet people are e shopping! In addition, not in small numbers either. E-commerce figures are going through the roof, according to Assocham (Associated Chambers of Commerce & Industry of India). Today ( the figures are touching Rs. 5500 crore, but are expected to increase by 150 percent to Rs 7,000 crores. And two metros - Delhi and Mumbai are driving the growth: It was never thought that Indians would go in for e-shopping in such a big way. Ticketing, travel bookings and even books and movies seem fine to buy online. Knowing that







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### **13.11 SUMMARY**

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Online shopping behavior (also called online buying behavior and Internet shopping/buying behavior) refers to the process of purchasing products or services via the Internet. The process consists of five steps similar to those associated with traditional shopping behavior. In the typical online shopping process, when potential consumers recognize a need for some merchandise or service, they go to the Internet and search for need-related information. However, rather than searching actively, at times potential consumers are attracted by information about products or services associated with the felt need. They then evaluate alternatives and choose the one that best fits their criteria for meeting the felt need. Finally, a transaction is conducted and post-sales services provided. Online shopping attitude refers to consumer's psychological state in terms of making purchases on the Internet.

In this unit efforts have been made to explain the online buying behaviour, Light is thrown upon the history of online buying behaviour. Factors about online buying and factors that boost online buying behaviour are also discussed here. This unit also explains the categories of e-commerce.

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### **13.12 KEY WORDS**

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E-Commerce, Online buying, online buying behaviour , consumer mind set model

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### **13.13 ASSESSMENT QUESTIONS**

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1. Define E-commerce
2. Explain the categories of e-commerce
3. Explain the factors influencing online buying behaviour.
4. Differentiate between goods and services

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## **UNIT-14 : GROUP DYNAMICS AND OPINION LEADERSHIP**

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### **Structure**

14.0 Objectives

14.1 Introduction

14.2 Meaning of group and Reference Group

14.3 Types of Groups

14.4 Consumer relevant reference groups

14.5 Reference Group and Consumer

14.6 Factors Affecting Reference Group Influence

14.7 Reference Group Impact on Product and Brand Choice

14.8 Benefits of the Reference Group Appeal

14.9 Opinion Leader and interpersonal flow of communication

14.10 Opinion Leadership and the Firm's Marketing Strategy

14.11 Notes

14.12 Summary

14.13 Key Words

14.14 Self Assessment Questions

14.15 Reference

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## 14.0 OBJECTIVES

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After studying this unit you will be able to:

- Define Group as a factor for influencing consumer behavior;
- Explain Types of groups and their influence;
- Analyze Reference group influence on consumer buying behavior and
- Examine the role of Opinion leader in consumer buying decision.

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## 14.1 INTRODUCTION

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Individual identifies with the group to the extent that he takes on many of the values, attitudes or behaviors of the group members. such as families, friends, civic and professional organizations. Any group has a positive or negative influence on a person's attitude and behavior. Affinity marketing is focused on the desires of consumers that belong to reference groups. Marketers get the groups to approve the product and communicate that approval to its members. Eg. Credit Cards. The degree to which a Reference Group affect a purchase decision depends on an individual's susceptibility to reference group influence and the strength of his/her involvement with the group. With the exception of those very few people who can be classified as hermits, people tend to be involved with others on a rather constant basis. Like almost all behavior, an individual's social relationships is often motivated by the expectation that they will help in the satisfaction of specific needs. For example, a person might become a volunteer ambulance driver to satisfy a need for community recognition. Another person might join a computer club in an effort to find compatible friends to satisfy social needs. A third person might join a health food cooperative to obtain the benefits of group buying power. These are just a few of the almost infinite number of reasons why people involve themselves with others.

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## 14.2 MEANING OF GROUP AND REFERENCE GROUP

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A group may be defined as two or more people who interact to accomplish some goals. Within the broad scope of this definition are both an intimate "group" of two neighbors who informally attend a fashion show together and a larger, more formal group, such as a neighbourhood, club members etc and act as a point of reference for a consumer.

Reference groups are groups that serve as a frame of reference for individuals in their purchase decisions. This basic concept provides a valuable perspective for understanding the impact of other people on an individual's consumption beliefs, attitudes, and behavior. It also provides some insight into methods that Groups can be used to effect desired changes in consumer behavior.

A reference group is any person or group that serves as a point of companion (or reference) for an individual in the formation of either general or specific values, attitudes, or behavior. The usefulness of this concept is enhanced by the fact that it places no restrictions on group size or membership, nor does it require that consumers identify with a tangible group (i.e., the group can be symbolic: prosperous business people, rock stars, and sports heroes).

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### **14.3 TYPES OF GROUPS**

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For simplification purpose, we can consider four different types of group classification: primary versus secondary groups, formal versus informal groups, large versus small groups, and membership versus symbolic groups.

#### **Primary versus Secondary Groups**

If a person interacts on a regular basis with other individuals (with members of his or her family, with neighbors, or with co-workers whose opinions are valued), then these individuals can be considered as a primary group for that person. On the other hand, if a person interacts only occasionally with such others, or does not consider their opinions to be important, then these others constitute a secondary group for that person. From this definition, it can be seen that the critical distinctions between primary and secondary groups are the frequency with which the individual interacts with them and the importance of the groups to the individual.

#### **Formal versus Informal Groups**

Another useful way to classify groups is by the extent of their formality; that is, the extent to which the group structure, the members' roles, and the group's purpose are clearly defined. If a group has a highly defined structure (e.g., a formal membership list), specific roles and authority levels (a president, treasurer, and secretary), and specific goals (to support a political candidate, improve their children's education, increase the knowledge or skills of members), then it would be classified as a formal group. The local chapter of the Red Cross, with elected officers and members who meet regularly to discuss topics of civic interest, would be classified as a formal group. On the other hand, if a group is more loosely defined, if it consists, say, of four women who were in the

same college sorority and who meet for dinner once a month, or three co-workers who, with their spouses, see each other frequently then it is considered an informal group.

### **Large versus Small Groups**

It is often desirable to distinguish between groups in terms of their size or complexity. A large group might be thought of as one in which a single member is not likely to know more than a few of the group's members personally, or be fully aware of the specific roles or activities of more than a limited number of other group members. Examples of large groups include such complex organizations as General Motors, with its numerous subordinate divisions, and the American Bar Association, with its many state, county, and city chapters. In contrast, members of a small group are likely to know every member personally and to be aware of every member's specific role or activities in the group. For example, each staff member of a college newspaper is likely to know all the other members and be aware of their duties and interests within the group. In the realm of consumer behavior, we are principally concerned with the study of small groups, since such groups are more likely to influence the consumption behavior of group members.

### **Membership versus Symbolic Groups**

Another useful way to classify groups is by membership versus symbolic groups. A membership group is a group to which a person either belongs or would qualify for membership. For example, the group of women with whom a young homemaker plays golf weekly or with whom she hopes to play golf when an opening occurs would be considered, for her, a membership group. In contrast, a group in which an individual is not likely to receive membership, despite acting like a member by adopting the group's values, attitudes, and behavior, is considered a symbolic group. Clearly, actual membership groups offer a more direct, and thus a more compelling, influence on consumer behavior. In summary, we can say that small, informal, primary membership groups are of the great interest to marketers because they exert the greatest potential influence on consumer purchase decisions.

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## 14.4 CONSUMER RELEVANT REFERENCE GROUPS

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To more fully comprehend the kind of impact that specific groups have on individuals, there are six basic consumer-relevant groups: the Family, Friendship groups, Formal social groups, Shopping groups, Consumer action groups and Work groups.

### a. The Family

An individual's family is the most important group to influence his or her consumer decisions. The family's importance in this regard is due to the frequency of contact that the individual has with other family members and that the family has a greater extent of influence on the establishment of a wide range of values, attitudes, and behavior.

### b. Friendship Groups

Friendship groups are informal groups because they are, usually unstructured and lack specific authority levels. In terms of relative influence, after an individual's family, it is friends who are most likely to influence the individual's purchase decisions. Seeking and maintaining friendships is a basic drive of most people. Friends fulfill a wide range of needs, they provide companionship, security, and opportunities to discuss problems that an individual may be reluctant to discuss with members of his or her own family. Friendships are also a sign of maturity and independence, for they represent a breaking away from the family and the forming of social ties with the outside world. Consumers are more likely to seek information from those friends they feel have values or outlooks similar to their own.

### c. Formal Social Groups

In contrast to the relative intimacy of friendship groups, formal social groups are more remote and serve a different function for the individual. A person joins a formal social group to fulfill such specific goals as making new friends, meeting "important" people (e.g., for career advancement), or promoting a specific cause. Because members of a formal social group often consume certain products together, such groups are of interest to marketers. For example, the membership list of a men's club would be of interest to local men, Insurance agents, automobile agents, tax accountants. Membership in a formal social group may influence a consumer's behavior in several ways. For example, members of such groups have frequent opportunity to informally discuss products, services, or stores. Some members may copy the consumption behavior of other members whom they admire.



#### **d. Shopping Groups**

Two or more people who shop together whether for food, for clothing, or simply to pass the time, can be called a shopping group. Such groups are often offshoots of family or friendship groups. People like to shop with others who they feel have more experience with or knowledge about a desired product or service. Shopping with others also provides an element of social fun to an often boring but necessary task. In addition, it reduces the risk that a purchase decision will be socially unacceptable.

Relatively few marketing or consumer behavior studies have examined the nature of shopping groups. However, one study of the in-store behavior of shoppers revealed some differences between group and individual shopping. The research found that shopping parties of at least three persons deviated more from their original purchase plans (they bought either more or less than originally planned) than did either single shoppers or two-party groups. The study also found that shopping groups tended to cover more territory in the store than individuals shopping alone, and thus had more opportunity to see and examine merchandise and to make unplanned purchases.

A special type of shopping group is the in-home shopping group, which typically consists of a group of women who gather together in the home of a friend, to attend a “party” devoted to the marketing of a specific line of products. The in-home party approach provides marketers with an opportunity to demonstrate the features of their products simultaneously to a group of potential customers. The undecided guests often overcome a reluctance to buy when they see their friends make positive purchase decisions. Furthermore, some of the guests may feel obliged to buy because they are guests in the home of the sponsoring hostess.

#### **e. Consumer Action Groups**

A particular kind of consumer group or consumer action group has emerged in response to the consumerist movement. This type of consumer group has become increasingly visible since the 1960s and has been able to influence product design and marketing practices of both manufacturers and retailers. Consumer action groups can be divided into two broad categories: those that organize to correct a specific consumer abuse and then disband, and those that organize to address broader, more pervasive, problem areas and operate over an extended or indefinite period of time. A group of tenants who band together to dramatize their dissatisfaction with the quality of service provided by their landlord, or a group of irate community members who unite to block the entrance of a fast-food outlet into their middle-class neighborhood, are examples of temporary, cause-specific consumer action groups.

## **f. Work Groups**

The sheer amount of time that people spend at their jobs, frequently more than thirty-five hours per week, provides ample opportunity for work groups to serve as a major influence on the consumption behavior of members. Both the formal work group and the informal friendship/work group have the potential for influencing consumer behavior. The formal work group consists of those individuals who work together as a team. Their direct and sustained work relationship offers substantial opportunity for one or more members to influence the consumer-related attitudes and activities of other team members. Members of informal work groups may influence the consumption behavior of other members during coffee or lunch breaks or after hours meetings.

Reference groups can be classified in terms of a person's membership or degree of involvement with the group and in terms of the positive or negative influences they have on his or her values, attitudes, and behavior. Four types of reference groups that emerge from a cross-classification of these factors: contractual groups, aspirational groups, disclaimant groups, and avoidance groups.

### **A contractual group**

A contractual group is a group in which a person holds membership or has regular face-to-face contact and of whose values, attitudes, and standards he or she approves. Thus a contractual group has a positive influence on an individual's attitudes or behaviour.

### **Aspiration group**

An aspirational group is a group in which a person does not hold membership and does not have face-to-face contact, but wants to be a member. Thus it serves as a positive influence on that person's attitudes or behavior.

### **Disclaimant group**

A disclaimant group is a group in which a person holds membership or has face-to-face contact but disapproves of the group's values, attitudes, and behavior. Thus the person tends to adopt attitudes and behavior that are in opposition to the norms of the group.

### **Avoidance group**

An avoidance group is a group in which a person does not hold membership and does not have face-to-face contact and disapproves of the group's values, attitudes, and behavior. Thus 'the person tends to adopt attitudes and behavior that are in opposition to those of the group.

Assume that, Ram, a senior majoring in advertising at the state university. The school's Advertising

Club, of which he is vice president, serves as one of Ram's contractual groups. Ram believes that continuing his education to obtain an MBA will enhance his career opportunities. It is clear that individuals who hold the MBA degree serve as an aspirational group for him. Still further, although he enjoys his position as a reporter on the university's newspaper, the recent editorials (endorsed by most of the staff) urging students to adopt a more conservative political philosophy run counter to his own views. Thus the newspaper staff is currently a disclaimant group. Finally, Ram personally knows a number of students who have quit college during their final year; these former students serve as an avoidance group.

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## **14.5 REFERENCE GROUP AND CONSUMER**

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Reference groups that influence general values or behavior are called normative reference groups. An example of a child's normative reference group is the immediate family, which is likely to play an important role in molding the child's general consumer values and behavior (e.g., which foods to select for good nutrition, appropriate ways to dress for specific occasions, how and where to shop, what constitutes "good" value etc).

Reference groups that serve as benchmarks for specific or narrowly defined attitudes or behavior are called comparative reference groups. A comparative reference group might be a neighboring family whose lifestyle appears to be admirable and worthy of imitation (the way they maintain their home, their choice of home furnishings and cars, the number and types of vacations they take). Both normative and comparative reference groups are important. Normative reference groups influence the development of a basic code of behavior; comparative reference groups influence the expression of specific consumer attitudes and behavior. It is likely that the specific influences of comparative reference groups are to some measure dependent upon the basic values and behavior patterns established early in a person's development by normative reference groups.

Like many other concepts borrowed from the behavioral sciences, the meaning of reference group has changed over the years. As originally employed, reference groups were narrowly defined to include only those groups with which a person interacted on a direct basis (e.g., family and close friends). However, the concept has gradually broadened to include both direct and indirect individual and group influences. Indirect reference groups consist of those individuals or groups with whom a person does not have direct face-to-face contact, such as movie stars, sports heroes, political leaders, or TV personalities. Referents that a person might use in evaluating his or her own general or specific attitudes or behavior vary from an individual to several family members to a broader

kinship, from a voluntary association to a social class, a profession, an ethnic group, a community, or even a nation.

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## **14.6 FACTORS AFFECTING REFERENCE GROUP INFLUENCE**

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The degree of influence that a reference group exerts on an individual's behavior usually depends on the nature of the individual and the product and on specific social factors. This section discusses how and why some of these factors operate to influence consumer behaviour.

### **Information and Experience**

An individual who has firsthand experience with a product or service, or can easily obtain full information about it, is less likely to be influenced by the advice or example of others. On the other hand, a person who has little or no firsthand experience with a product or service, and does not expect to have access to objective information about it (e.g., a person who believes that relevant advertising may be misleading or deceptive), is more likely to seek out the advice or example of others. Research on imitative behavior provides some interesting insights on how insufficient experience or information concerning a product makes consumers more susceptible to the influence either positive or negative, of others. For example, if a medical student wants to impress his new girlfriend, he may take her to a restaurant that he knows from experience to be good or to one that has been highly recommended by the local newspaper's Dining-Out Guide. If he has neither personal experience nor information he regards as valid, he may seek the advice of friends or imitate the behavior of others by taking her to a restaurant he knows is frequented by physicians whom he admires.

### **Credibility, Attractiveness and Power of the Reference Group**

A reference group that is perceived as credible, attractive, or powerful can induce consumer attitude and behavior change. For example, when consumers are concerned with obtaining accurate information about the performance or quality of a product or service, they are likely to be persuaded by those they consider to be trustworthy and knowledgeable. That is, they are more likely to be persuaded by sources with high credibility. When consumers are primarily concerned with the acceptance or approval of others they like, with whom they identify, or who offer them status or other benefits, they are likely to adopt their product, brand, or other behavioral characteristics. When consumers are primarily concerned with the power that a person or group can exert over them, they might choose products or services that conform to the norms of that person or group in order to avoid ridicule or punishment. However, unlike other reference groups that consumers

follow either because they are credible or because they are attractive, power groups are not likely to cause attitude change. Individuals may conform to the behavior of a powerful person or group but are not likely to experience a change in their own attitudes. Different reference groups may influence the beliefs, attitudes, and behavior of an individual at different points in time or under different circumstances. For example, the dress habits of a young female attorney may vary, depending on her place and role. She may conform to the dress code of her office by wearing conservative business suits by day and drastically alter her mode of dress after work by wearing more conspicuous, flamboyant styles.

### **Conspicuousness of the Product**

The potential influence of a reference group varies according to how visually or verbally conspicuous a product is to others. A visually conspicuous product is one that can be seen and identified by others, and that will stand out and be noticed (e.g., a luxury item or novelty product). Even if a product is not visually conspicuous, it may be verbally conspicuous it may be highly interesting or it may be easily described to others. Products that are especially conspicuous and status-revealing (a new automobile, fashion clothing, home furniture) are most likely to be purchased with an eye to the reactions of relevant others. Products that are less conspicuous (canned fruits, laundry soaps) are less likely to be purchased with a reference group in mind. The success of a brand of status running shoes like Reebok is aided by the fact that it is relatively easy to spot a person wearing them-given the distinctive flag symbol on the side of each shoe.

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## **14.7 REFERENCE GROUP IMPACT ON PRODUCT AND BRAND CHOICE**

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In some cases, and for some products, reference groups may influence both a person's product category and brand (or type) choices. Such products are called product-plus, brand-plus items. In other cases, reference groups influence only the product category decision. Such products are called product-plus, brand minus items. In still other cases, reference groups influence the brand (or type) decision. These products are called product-minus, brand-Plus items. Finally, in some cases, reference groups influence neither the product category nor the brand decision; these products are called product-minus, brand-minus items. The idea of classifying products and brands into four groups in terms of the suitability of a reference group appeal was first suggested in the mid-1950s, along with an initial classification of a small number of product categories.

Marketers are particularly interested in the ability of reference groups to change consumer attitudes and behavior (i.e., to encourage conformity). To be capable of such influence, a reference group must

1. Inform or make the individual aware of a specific product or brand;
2. Provide the individual with the opportunity to compare his or her own thinking with the attitudes and behavior of the group;
3. Influence the individual to adopt attitudes and behavior that are consistent with the norms of the group;
4. Legitimize an individual's decision to use the same products as the group.

The ability of reference groups to influence consumer conformity is demonstrated by the results of a classic experiment designed to compare the effects.

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## **14.8 BENEFITS OF THE REFERENCE GROUP APPEAL**

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Reference group appeals have two principal benefits for the advertiser: they increase brand awareness and they serve to reduce perceived risk.

### **Increased Brand Awareness**

Reference group appeals provide the advertiser with the opportunity to gain and retain the attention of prospective consumers with greater ease and effectiveness than is possible with many other types of promotional campaigns. This is particularly true of the celebrity form of reference group appeal, where the personality employed is generally well known to the relevant target segment. Celebrities tend to draw attention to the product through their own popularity. This gives the advertiser a competitive advantage in gaining audience attention, particularly on television where there are so many brief and similar commercial announcements.

### **Reduced Perceived Risk**

The use of one or more reference group appeals may also serve to lower the consumer's perceived risk in purchasing a specific product. The example set by the endorser or testimonial giver may demonstrate to the consumer that uncertainty about the product purchase is unwarranted. Following are examples of how reference group appeals serve to lower the consumer's perceived risk.

**Celebrity.**

Consumers who admire a particular celebrity often have the following reactions to the celebrity's endorsement or testimonial. For eg. "She wouldn't do a commercial for that product if she didn't believe it is really good."

**Expert.**

When consumers are concerned about the technical aspects of a product, they welcome the comments of an acknowledged or apparent expert. For eg. "If he says it works, then it really must work."

**Common Man.**

When consumers are worried about how a product will affect them personally, they are likely to be influenced by a common man endorsement or testimonial. For eg. "People just like me are using that product,"

We live our lives in groups and an understanding of the interaction between individuals and the groups they belong to is crucial to an understanding of consumer behaviour. This is particularly true of small, primary groups where the psychological dynamics involved have been intensively studied for many years. But larger, secondary groups are also important, as are an individual's membership and reference groups. Patterns of interaction between people are a key feature of group life. Word-of-mouth contact has a very potent effect on many buying decisions, especially when opinion leaders are involved.

Perhaps the single most important aspect of any group's life is the pressure on individuals to conform to the group's expectations. The effects of it on many forms of purchase decisions are immediately evident in our lives. This is perhaps most apparent when consumers aspire, by their buying behaviour, to be seen as members of a particularly valued reference group

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**14.9 OPINION LEADER AND INTERPERSONAL FLOW OF COMMUNICATION**

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Individuals sharing information with other individuals are a critical influence on consumer decisions and business success. An issue of considerable importance to consumers and marketers alike- the informal influence that others have on consumers' behaviour and the dynamic processes that impact consumers' behaviour is the nature and dynamics of the influence that friends, neighbors, and the acquaintances have on our consumer related decisions. This influence is often called word-of-mouth communications or the opinion leadership process. It also considers the personality and

motivations of those who influence, i.e., opinion leaders and those who are influenced, i.e. opinion receivers.

Opinion leader is the person who influences the opinion of others in their purchase decisions. Opinion leaders have opinion followers. Marketers try to attract opinion leaders they actually use (pay) spokespeople to market their products. Michael Jordon (Nike, McDonalds, Gatorade etc.).

### **Opinion Leadership**

Opinion Leadership is the process by which one person (opinion leader) informally influences the actions or attitudes of others, who may be opinion seekers or merely opinion recipients. The definition of opinion leadership emphasizes on informal influence. This informal flow of opinion related influence between two or more people is referred to as word-of-mouth communication. The person is the **opinion leader** and may become an **opinion receiver**. Individuals who actively seek information and advice about products are often called **opinion seekers**.

These opinion leaders are very often a part of the social groups and also have social communication network. The biggest advantage of the informal word-of-mouth communication is that it is informal and interpersonal in nature and this takes place between people who are not directly associated with the commercial selling source or the firm. Very often, we can see that the formal word-of-mouth communication is more influential than mass advertising in determining which product or brand is bought.

### **Characteristics of Opinion Leaders**

Let us now take a look at the main characteristics of opinion leaders. Some of the main features that all opinion leaders have are:

- Opinion leaders are more knowledgeable, and have a keen level of interest.
- More involved in the product category
- Have local friendship and social interaction
- Can disseminate information
- Have high credibility



## **Opinion Leader and Opinion Receiver**

Opinion seekers or receivers are at times relay on the formal information flow in the form of opinion or advice. The following are the ways in which opinion leader and opinion follower interact impersonally or personally in the purchase decision making.

### **Self-Improvement Motivations**

- Reduce post purchase uncertainty or dissonance
- Gain attention or status
- Assert superiority and expertise
- Feel like an adventurer
- Experience the power of “Converting” others
- Reduce the risk of making a purchase commitment
- Reduce research time

### **Product-Involvement Motivations**

- Express satisfaction or dissatisfaction with a product or service
- Learn how to use or consume a product
- Learn what products are new in the marketplace

### **Social Involvement Motivations**

- Express neighborliness and friendship by discussing products or services that may be useful to others
- Buy products that have the approval of others, thereby ensuring acceptance

### **Message Involvement Motivations**

- Express one’s reaction to a stimulating advertisement by telling others about it
- Have more self-confidence, are more sociable and cosmopolitan, can take risks.

Opinion leaders are activated greatly to reduce distance process for the products they have bought; may want to influence neighbours and friends. They involve themselves, to confirm their own

judgments. They are younger, have more education, have a higher income, and higher occupational status. They are exposed to media. See more movies and television. Also read information magazines and technical publication devoted to the product category. Having greater knowledge about the product, they can disseminate more and true information about the products and their usage. Opinion leaders are therefore a case of study to marketers and their strategies are evaluated and formed, keeping the opinion leaders and their roles in mind. The following are the benefits of an opinion leader for an opinion seeker.

1. Opinion leaders are perceived to be highly credible sources of product related information. Opinion leaders are persons who are considered to be knowledgeable. They often voice their opinion based on first hand information.
2. Opinion leaders are gregarious people and also have a lot of experience: Their experience as a shopper and user sets them apart from other people. Since most of their advice is based on firsthand experience, opinion receivers have a lot of confidence in their advice. Besides, because of their gregarious nature, people enjoy interacting with them.
3. Opinion leaders usually provide unbiased information, i.e., they provide both favorable and unfavorable information to the opinion seekers: This adds credibility to them and opinion seekers have faith that they are receiving correct information.
4. Opinion leaders are both sources of information and advice.
5. Opinion leaders have got greater exposure to the media, especially in their area of leadership.
6. Opinion leaders tend to be consumer innovators.
7. Opinion leaders have got some personal product specific characteristics like personality traits, social status and demographic characteristics.

### **Profile of Opinion Leaders**

Now we need to study a profile of opinion leader so that we can identify them. It would be a very difficult job to exactly identify the profile of opinion leader, but we have a generalized profile. Often we can see that more than half of the people studied in any consumer research project are classified as opinion leaders with respect to some self selected product category. The frequency of consumer opinion leadership suggests that people are sufficiently interested in at least one product or product category to talk about it and give advice concerning it to others. Market research suggests the existence of a special category of opinion leaders, **the market maven**. These are the consumers

who possess a wide range of information about many different types of products, retail outlets, and other dimensions of markets. Some important characteristics associated with market maven are:

- They both initiate discussions with other consumers and respond to requests for market information.
- Although they appear to fit the profile of opinion leaders in that they have high levels of brand awareness and tend to try more brands, unlike opinion leaders their influence extends beyond the realm of high involvement products.
- Market mavens are also distinguishable from other opinion leaders because their influence stems not so much from product experience but from a more general knowledge or market expertise that leads them to an early awareness of a wide array of new products and services.

Opinion leaders seek relevant information from the mass media and other sources, and transmit the same to members of the group. You might have observed that ideas often flow from radio and print media to opinion leaders and from them to the general public. This is the concept behind the **two-step flow of communication**. This so-called two-step flow of communication theory portrays opinion leaders as direct receivers of information from impersonal mass-media sources, which in turn transmit (and interpret) this information to the masses. This theory views opinion leader as a middleman between the impersonal mass media and the majority of society. A more comprehensive model of the interpersonal flow of communication depicts the transmission of information from the media as a Multistep flow.

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#### **14.10 OPINION LEADERSHIP AND THE FIRM'S MARKETING STRATEGY**

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Marketers have long been aware of the power that opinion leadership exerts on consumers' preferences and actual purchase behavior. Many marketers look for an opportunity to encourage word-of-mouth communications and other favorable informal conversations. New product designers take advantage of the effectiveness of word-of-mouth communication by deliberately designing products to have word-of-mouth potential. A new product should give customers something to talk about.

Proof of the power of word-of-mouth is the cases in which critics hate a movie and the viewing public like it and tell their friends. In instances where informal word of mouth does not spontaneously emerge from the uniqueness of the product or its marketing strategy, some marketers have deliberately attempted to stimulate or to simulate opinion leadership.

There are different opinion leaders for different products. The marketer must determine through research, experience or logic, the role an opinion leader plays in the existing situation for a product or service. Consumers talk to each other about their experiences and performance of the product. If their experiences do not meet expectations then there is cause for concern, and the marketer must take relevant steps to redress their complaints.

This can be reduced by utilizing the knowledge of opinion leaders, which are rather difficult to identify. Opinion leaders are gregarious and tend to belong to clubs and associations. Some product categories have professional opinion leaders who are also very influential. Hairstylists serve as, opinion leaders for hair-care products. For healthcare products-pharmacists are important opinion leaders. Computer professionals can give an opinion about the purchase of personal computers. The idea is to identify the opinion leaders, and then undertake a marketing research on them and formulate a marketing strategy. The marketing research conducted on opinion leaders gives ideas of the likes and dislikes of the product users and their categories. Various tests should include the product use test, the pre-testing of the advertising copy, the media preferred for customers to respond favorably to the firm's marketing mix. The sampling should be done from amongst the opinion leaders. In retailing and personnel selling various techniques can be adopted to attract customers like, one meal extra for every three meals or, pay for two and take three or, a "fashion advisory board" can be constituted in clothing stores. In advertising, people of prominence and, owners can be used and their experiences and satisfaction received can be projected through conversation and by giving their impression to the general public and non-owners of the product. Opinion leaders can be used effectively in commercials to promote the product to the masses.

The influence of opinion leader is a social influence and also one of the powerful influences on consumer buying decision. The multiple flow of communication involves opinion leaders for a particular product area who actively seek information from the mass media and other sources. The most important characteristics of a opinion leader is long-term involvement with the product category than the non-opinion leaders in the group. This is referred to as enduring involvement, and it leads to enhanced knowledge about and experience with the product category or activity. Opinion leaders get involved in social activities and always enjoy being in the limelight. New product designers take advantage of the effectiveness of word-of-mouth communication by deliberately designing products to have word-of-mouth potential through opinion leaders.





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## **14.12. SUMMARY**

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A group in its broadest sense includes two or more individuals who share a set of norms values or beliefs and have certain implicit or explicit relationships such that their behaviors are interdependent. Some groups require membership; other do not. Groups that have frequent personal contact are called primary groups; those with limited interpersonal contact are called secondary groups. Group influence varies across situations. Informational influence occurs when individuals simply acquire information shared by group members. Normative influence happens when an individual conforms to group expectations to gain approval or avoid disapproval. Identification influence exists when an individual identifies with the group norms as a part of his or her self-concept and identity. A reference group is any person or group that serves as a point of companion (or reference) for an individual in the formation of either general or specific values, attitudes, or behavior. The usefulness of this concept is enhanced by the fact that it places no restrictions on group size or membership, nor does it require that consumers identify with a tangible group (i.e., the group can be symbolic: prosperous business people, rock stars, and sports heroes).

The influence of opinion leader is a social influence and also one of the powerful influences on consumer buying decision. The multiple flow of communication involves opinion leaders for a particular product area who actively seek information from the mass media and other sources. The most important characteristics of a opinion leader is long-term involvement with the product category than the non-opinion leaders in the group. This is referred to as enduring involvement, and it leads to enhanced knowledge about and experience with the product category or activity. Opinion leaders get involved in social activities and always enjoy being in the limelight. New product designers take advantage of the effectiveness of word-of-mouth communication by deliberately designing products to have word-of-mouth potential through opinion leaders.

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## **14.13. KEY WORDS**

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Opinion leader, Opinion leadership, culture, cross culture, Marketing strategy, reference group.

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## **14.14 SELF ASSESSMENT QUESTIONS**

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1. What is group influence on consumer behaviour? Explain its implications in marketing management.

2. Explain the types of reference groups and their influence on consumer behaviour.
3. Explain the characteristics of Opinion leaders.
4. Explain the role of opinion leader on companies marketing strategy.

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## **UNIT –15 : CULTURAL AND CROSS CULTURE INFLUENCE ON CONSUMER BEHAVIOUR**

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### **Structure**

15.0 Objectives

15.1 Introduction

15.2. Meaning

15.3 Characteristics of Culture

15.4 Types of Culture

15.5 Cultural Influences

15.6 Sub Cultures and Consumer Behaviour

15.7 Cross Cultural Consumer Behaviour

15.8 Strategic Implications

15.9 Notes

15.10 Summary

15.11 Key Words

15.13 Self Assesment Questions

15.14 References

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## 15.0 OBJECTIVES

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After studying this unit, you should be able to:

- Define culture;
- Identify the various influences on culture ;
- Describe sub-cultures and its influences ;
- Analyze the Environmental variations and cultural values and
- Explain the cross-cultural influences on consumer behaviour.

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## 15.1 INTRODUCTION

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Everybody in this world is a consumer. Every day of our life we are buying and consuming an incredible variety of goods and services. However, we all have different tastes, likes and dislikes and adopt different behaviour patterns while making purchase decisions. Many factors affect how we, as individuals and as societies, live, buy, and consume. External influences such as culture, ethnicity, and social class influence how individual consumers buy and use products, and help explain how groups of consumers behave. The study of culture encompasses all aspects of a society such as its religion, knowledge, language, laws, customs, traditions, music, art, technology, work patterns, products, etc. Culture is an extremely critical and all pervasive influence in our life.

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## 15.2. MEANING

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For the purpose of studying consumer behaviour, culture can be defined as the sum total of learned beliefs, values and customs that serve to guide and direct the consumer behaviour of all members of that society. Howard and Sheth have defined culture as —A selective, manmade way of responding to experience, a set of behavioral pattern . Thus, culture consists of traditional ideas and in particular the values, which are attached to these ideas. It includes knowledge, belief, art, morale, law, customs and all other habits acquired by man as a member of society. An accepted concept about culture is that includes a set of learned beliefs, values, attitudes, habits and forms of behaviour that are shared by a society and are transmitted from generation to generation within that society.

### **Culture is learned through the following three ways:**

1. Formal learning: parents and elders teach children the proper way to behave. For instance, you have been taught that you need to study to be successful and happy in life. This learning may influence your response both as a student and individual towards education.
2. Informal learning: we learn by imitating the behaviour of our parents, friends, or by watching TV and film actors in action
3. Technical learning: instructions are given about the specific method by which certain things to done such as painting, dancing, singing etc.

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### **15.3 CHARACTERISTICS OF CULTURE**

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Following are the characteristics of culture,

- \* Culture is learned.
- \* Culture regulates society –Norms, standards of behaviour, rewards and punishments.
- \* Culture makes life more efficient
- \* All members follow same norms.
- \* Culture is adaptive.
- \* Culture is environmental.
- \* Multiple cultures are nested hierarchically.

Culture also determines what is acceptable with product advertising. Culture determines what people wear, eat, reside and travel. Cultural values in India are good health, education, respect for age and seniority. But in our culture today, time scarcity is a growing problem, which implies a change in meals. Some changes in our culture:

1. **Convenience:** As more and more women are joining the work force there is an increasing demand for products that help lighten and relieve the daily household chores, and make life more convenient. This is reflected in the soaring sale of Washing machines, microwaves, Pressure cookers, Mixer-grinders, food processors, frozen food etc.

2. **Education:** People in our society today wish to acquire relevant education and skills that would help improve their career prospects. This is evident from the fact that so many professional, career oriented educational centers are coming up, and still they cannot seem to meet the demand. As a specific instance count the number of institutions offering courses and training in computers that has opened in your city.

3. **Physical appearance:** Today, physical fitness, good health and smart appearance are on premium today. Slimming centers and beauty parlours are mushrooming in all major cities of the country. Cosmetics for both women and men are being sold in increasing numbers. Even exclusive shops are retailing designer clothes.

4. **Materialism:** There is a very definite shift in the people's cultural value from spiritualism towards materialism. We are spending more money than ever before on acquiring products such as air-conditioners, cars CD players etc, which adds to our physical comfort as well as status.

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## 15.4 TYPES OF CULTURE

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Based on the context and nature, culture may be of following types

- \* National culture
- \* The culture prevalent in a nation, common to everyone
- \* Popular culture
- \* The culture of the masses with norms of mass appeal
- \* Subculture
- \* The culture of a group within the larger society
- \* Group identification based on nationality of origin, race, region, age, religion, gender, etc.
- \* Corporate culture
- \* The company's values, rituals, customs, myths and heroes

### 15.4.1 Hofstede's Five Dimensions of Culture

Culture has a profound impact on the way consumers perceive themselves, products they buy and use, purchasing processes, and the organisations from which they purchase. Marketers, however, are giving more attention, to understanding macro cultures and how they affect consumer

behaviour. Hofstede found five dimensions of culture that are common among 66 countries. These dimensions serve as a foundation for characterizing, comparing and contrasting specific national cultures, and they are helpful in identifying environmentally sensitive segments of the market.

### **1. Individualism versus collectivism ( Pursuit of self- or group interest )**

Individualism describes the relationship between an individual and fellow individuals, or the collectivity that prevails in society. Table 1.1 below depicts the attitudinal and behavioural differences associated with individualism and collectivism.

### **2. Power distance ( Social inequality and submission to authority)**

Power distance reflects the degree to which a society accepts inequality in power at different levels in organizations and institutions. It can affect preferences for centralization of authority, acceptance of differential rewards, and the ways people of unequal status work together.

### **3. Uncertainty avoidance ( Tolerance/avoidance of ambiguity )**

Uncertainty avoidance concerns the different ways in which societies react to the uncertainties and ambiguities inherent in life. Some societies need well-defined rules or rituals to guide behaviour, whereas others are tolerant of deviant ideas and behaviour.

### **4. Masculinity/femininity (Segregation of male and female roles in society )**

This factor determines the extent to which societies hold values traditionally regarded as predominantly masculine or feminine. For instance, assertiveness, respect for achievement, and the acquisition of money and material possessions are identified with masculinity; and nurturing, concern for the environment and championing the underdog are associated with a culture's femininity.

### **5. Abstract versus associative thinking**

Creation of value in products based on cause/effect logic or association among events without a logical link.

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## 15.5 CULTURAL INFLUENCES

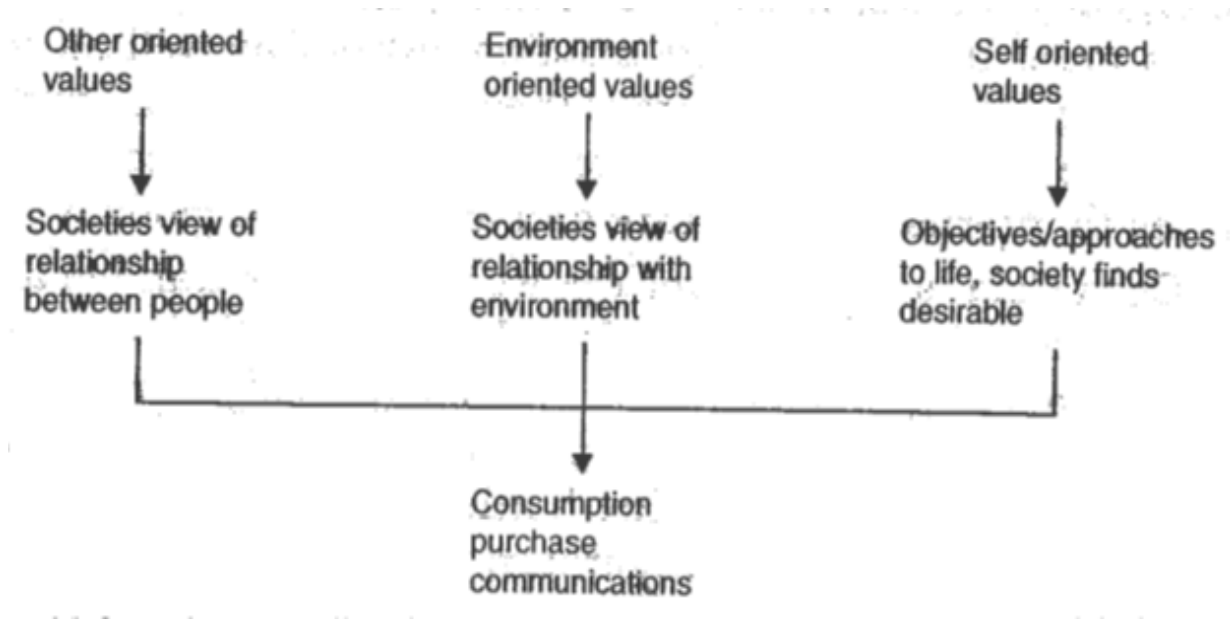
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Culture is that complex whole which includes knowledge, belief, art, law, morals, customs and any other capabilities and habits acquired by humans as members of society. Culture influences the pattern of living, of consumption, of decision-making by individuals. Culture is acquired. It can be acquired from the family, from the region or from all that has been around us while we were growing up and learning the ways of the world. Culture forms a boundary within which an individual thinks and acts. When one thinks and acts beyond these boundaries, he is adopting a cross-cultural behaviour and there are cross-cultural influences as well. The nature of cultural influences is such that we are seldom aware of them. One feels, behaves, and thinks like the other members of the same culture. It is all pervasive and is present everywhere. Material culture influences technology and how it brings cultural changes like use of telephones, mobile phones, clothing styles and fashions, gives the marketers a chance to improve the product, packing, etc. to meet the needs of the customers.

Norms are the boundaries that culture sets on the behaviour. Norms are derived from cultural values, which are widely told beliefs that specify what is desirable and what is not. Most individuals obey norms because it is natural to obey them. Culture outlines many business norms, family norms, behaviour norms, etc. How we greet people, how close one should stand to others while conducting business, the dress we wear and any other patterns of behaviour. Culture keeps changing slowly over time; and is not static. Changes take place due to rapid technologies. In case of emergency, war, or natural calamities, marketers and managers must understand the existing culture as well as the changing culture and culture of the country where the goods are to be marketed. Major companies have adapted themselves to international culture and are accepted globally. Coca Cola is sold all over the world. Procter & Gamble and other companies give cross-cultural training to their employees. By making cross-cultural mistakes, many companies have difficulty in pushing their products for example, (i) Coca Cola had to withdraw its 2 litres bottle from Spain, because it did not fit in the local refrigerator; (ii) Many countries are very traditional and do not like women displayed on the products. This acts as a detriment to business in those countries.

### **Variation in Cultural Values**

There are three broad forms of cultural values as shown in the following figure.



This shows the relationship between individuals and the society. The relationship influences marketing practices. If the society values collective activity, decisions will be taken in a group. It gives rise to following questions which affect consumer behaviour.

**Individual/ collective:** Whether individual initiation has more value than collective activity?

**Romantic orientation:** This depicts whether the communication is more effective which emphasises courtship or otherwise. In many countries a romantic theme is more successful.

**Adult/ child theme:** Is family life concentrated round children or adults? What role do children play in decision-making?

**Masculine/ Feminine:** Whether the society is male dominant or women dominant or balanced.

**Competitive/ Cooperation:** Whether competition leads to success. This is achieved by forming alliances with others.

**Youth/ age:** Are prestige roles assigned to younger or older members of the society. American society is youth oriented and Korean is age oriented. Decisions are taken by mature people in Korea.

## **Environment Oriented Values**

**Cleanliness:** If a culture lays too much stress on cleanliness. There is *scope* for the sale of beauty creams, soaps, deodorants, insecticides, washing powder, vacuum cleaner, etc. In western countries, a lot of emphasis is placed on this aspect and perfumes and deodorants are widely used.

**Performance/ status:** A status oriented society cares for higher standards of living, and chooses quality goods and established brand names and high priced items. This is true for the United States, Japan, Singapore, Malaysia, Indonesia, Thailand and most Arabic countries.

In performance oriented societies, where rewards and prestige is based on an individual's performance, less importance is given to brand names. Products which function equally well and may not be big brand names are used. Germans do not give the same amount of emphasis to brand names. The marketers adopt strategies accordingly.

**Tradition/ change:** Traditional oriented societies stick to the old product and resist innovation or new techniques. In traditional societies, there is less scope for new products, and old traditional products are in greater demand. In some societies which are upwardly mobile, consumers are looking for modern methods, new products, new models and new techniques.

**Risk taking/ security:** An individual who is in a secure position and takes a risk can be either considered venturesome or foolhardy. This depends on the culture of the society. For developing new entrepreneurs risk taking is a must. It leads to new product development, new advertising themes and new channels of distribution. Security oriented societies have little chances of development and innovation.

**Problem solving/fatalist:** A society can be optimistic and have a problem solving attitude or, be inactive and depend on fate. This has marketing implications on the registering of complaints when consumers are dissatisfied with the purchase of the products. Advertising plays an important part and gives guidance to the consumer, and removes these doubts to a great extent.

**Nature:** There are differences in attitude over nature and its preservation. Consumers stress on packing materials that are recyclable and environment friendly. Some countries give great importance to stop environmental pollution and to recycling of products.



Companies like P&G, Colgate-Palmolive captured a great extent of the market by offering products which are less harmful to the environment. They also use ingredients in the products which are not harmful in any way.

### **Self-Oriented Values**

**Active/passive:** Whether a physically active approach to life is valued more highly than a less active orientation. An active approach leads to taking action all the time and not doing anything. In many countries, women are also taking an active part in all activities. This makes the society a highly active one, where everybody is involved in work.

**Material/non-material:** In many societies money is given more importance, and a lot of emphasis is on being material minded. While in many societies things like comfort, leisure and relationships get precedence over being materialistic. Materialism can be of two types.

\* Instrumental materialism, which is the acquisition of things to enable one to do something or achieve something. Cars are used for transportation.

People like to possess things of material value which would help them to bring efficiency.

\* Terminal materialism is the requisition of materialism for the sake of owning it rather than for use-Art is acquired for owning it. Cultural differences play an important role in this type of materialism. Instrumental materialism is common in the United States of America, whereas Japanese advertisements are mostly dominating terminal materialism.

**Hard work/leisure:** This has marketing implications on labour saving products and instant foods. Some societies value hard work and consider it as a fuller life. Others adopt labour saving devices and instant foods to have more leisure time at their disposal.

**Postponed gratification/ immediate gratification:** Should one save for the rainy day or live for the day? Sacrifice the present for the future, or live only for the day? Some countries like The Netherlands and Germany consider buying against credit cards as living beyond one's means, whereas credit cards are very popular in America and other countries having a different cultural orientation, some prefer cash to debt. Some societies save for tomorrow; others enjoy the present and spend lavishly.

**Sexual gratification/Abstinence:** Some traditional societies curb their desires, food, drinks or sex, beyond a certain requirement. Muslim cultures are very conservative, and do not want their

women to be seen in public or be exposed, so the Polaroid camera which gives instant photographs can be purchased and pictures can be taken by the family members without their women being exposed to the developers in a photo lab.

***Humour/serious:*** Should we take life lightly and laugh it off on certain issues or, take everything seriously? This is another aspect of culture. Advertising

personnel selling techniques and promotion may revolve around these themes and the way the appeal for a product is to be made in various cultures.

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## 15.6 SUB CULTURES AND CONSUMER BEHAVIOUR

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Culture can be divided into subcultures. A subculture is an identifiable distinct, cultural group, which, while following the dominant cultural values of the overall society also has its own belief, values and customs that set them apart from other members of the same society.

There are various sub-culture categories such as

- (i) Nationality: Indian, Srilanka, Pakistan ,
- (ii) Religion: Hinduism, Islam
- (iii) Race: Asian, black, white (iv) Age: young, middle aged, elderly
- (v) Sex: Male, Female
- (vi) Occupation: Farmer, teacher, business
- (vii) Social class: upper, middle, lower
- (viii) Geographic regions: South India, North-eastern India

### 15.6.1 Regional, Ethnic, and Religious Influences on Consumer Behavior

The three major aspects of culture that have important effects on consumer behavior are regional, ethnic, and religious differences. Firstly, consumption patterns may differ in various regions of India and the world, and marketing strategy can sometimes be tailored specifically to these regions.

Secondly, our country has a number of different ethnic groups, and population trends will dramatically alter the demographic profile of the country in the next 50 years. The very diverse Asian American subculture is described as young and having higher socioeconomic status, placing strong value on

the family and the group, and being strongly brand loyal. In spite of its diversity, marketing strategies can be developed for this group.

Finally, religious beliefs and values can influence consumer. Many marketers are now becoming multicultural in their marketing activities by trying to appeal to a variety of cultures at the same time. Although the diversity of the Indian melting pot may be unique, there are many important ethnic groups in other areas of the world.

### **15.6.2 Age, Gender, and Household Influences on Consumer Behavior**

Among the four major age groups, Teens, who need to establish an identity, are the consumers of tomorrow and have an increasing influence on family decisions. The somewhat disillusioned Generation X consists of smart and cynical consumers who can easily see through obvious marketing attempts. Baby boomers grew up in a very dynamic and fast-changing world, and this has affected their values for individualism and freedom. The 50 and older segment can be divided into two groups-the young again and the gray market. Neither group likes to be thought of as old. The affect of gender differences on consumer behavior is examined next. Sex roles are changing. Women are becoming more professional and independent, and men are becoming more sensitive and caring. Also, men and women can differ in terms of traits, information processing, decision styles, and consumption patterns.

Gender is consistent throughout lifetime, influencing customer values and preferences. Gender shows different consumption patterns and perceptions of consumption situations –E.g. the wedding ceremony.

Households play a key role in consumer behavior. The proportion of nontraditional households has increased due to factors such as

(1) later marriages, (2) Cohabitation, (3) Dual-career families, (4) Increased divorce, and (5) Fewer children

Households also exert an important influence on acquisition and consumption patterns. First, household members can play different roles in the decision process (gatekeeper, influencer, decider, buyer, and user). Second, husbands and wives vary in their influence in the decision process, depending on the situation-husband-dominant, wife-dominant, autonomic, or syncretic.

### **15.6.3. Psychographics: Values, Personality, and Lifestyles**

The roles of psychographics in affecting consumer behaviour are detailed below.

Values are enduring beliefs about things that are important. They are learned through the processes of socialization and acculturation. Our values exist in an organized value system, with some values being viewed as more important than others. Some are regarded as terminal values and reflect desired end states that guide behavior across many different situations. Instrumental values are those needed to achieve these desired end states. Domain-specific values are those that are relevant within a given sphere of activity. Western cultures tend to place a relatively high value on material goods, youth, the home, family and children, work and play, health, hedonism, and technology. Marketers use tools like value segmentation to identify consumer groups with common values.

Personality consists of the distinctive patterns of behaviors, tendencies, qualities, and personal dispositions that make people different from one another. Approaches to the study of personality include

1. The psychoanalytic approach, which sees personality arising from unconscious internal struggles within the mind at key stages of development;
2. Trait theories, which attempt to identify a set of personality characteristics that describe and differentiate individuals, such as introversion, extroversion, and stability;
3. Phenomenological approaches, which propose that personality is shaped by an individual's interpretation of life events
4. Social-psychological theories, which focus on how individuals act in social situations (e.g., compliant, detached, or aggressive); and
5. Behavioral approaches, which view an individual's personality in terms of past rewards and punishments.

Marketers also measure lifestyles, which are patterns of behavior (or activities, interests, and opinions). These lifestyles can provide some additional insight into consumers' consumption patterns. Finally, some marketing researchers use Psychographic techniques that involve all of these factors to predict consumer behavior. One of the most well known Psychographic tools is the Values and Lifestyle Survey (VALS). The newer VALS2 identifies eight segments of consumers who are similar in their resources and self-orientations.

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## 15.7 CROSS CULTURAL CONSUMER BEHAVIOUR

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Cross-cultural marketing is defined as —the effort to determine to what extent the consumers of two or more nations are similar or different. This will facilitate marketers to understand the psychological, social and cultural aspects of foreign consumers they wish to target, so as to design effective marketing strategies for each of the specific national markets involved.

A company can enter a foreign market as a

- \* Domestic exporter
- \* Foreign importer
- \* Foreign government-solicit the firm to sell abroad

The firm's objectives could be:

- \* To determine how consumers in two or more societies are similar/different and devise suitable, appropriate strategies
- \* Devise individualized marketing strategy if cultural beliefs, values and customs of a specific country are different

### **Characteristic features of a firm going global:**

1. High market share in the domestic market
2. Advantageous economies of scale
3. Access to marketing/manufacturing bases across global borders
4. Availability of resources and capability to absorb huge losses
5. Product/technology clout
6. Cost and differentiation advantages

### **Problems in Cross Cultural marketing**

1. Problems related to product selection: The marketer going for cross cultural marketing has to select the customers/ market not on the basis of the superficial similarities of age or income, but by using the real motivating factors that prompt them to accept or reject products.
2. Problems related to promotion/marketing communication: e.g. Ariel in the middle east and also Pepsi
3. Problems related to pricing: the marketer has to adjust his pricing policies according to the local economic conditions and customs.

4. Problems related to selection of distribution channels: in Japan, P & G used this to sell soap

**Cross-Cultural Consumer Analysis**

To determine whether and how to enter a foreign market, we need to conduct some form of cross-cultural consumer analysis.

Cross-cultural consumer analysis can be defined as the effort to determine to what extent the consumers of two or more nations are similar or different. Such analysis can provide marketers with an understanding of the psychological, social, and cultural characteristics of the foreign consumers they wish to target, so that they can design effective marketing strategies for the specific national markets involved.

*Similarities and differences among people*

A major objective of cross-cultural consumer analysis is to determine how consumers in two or more societies are similar and how they are different.

American cultural traits	Japanese cultural traits
Diverse · Fight for one’s beliefs/positions · Individualistic · Clear-cut · Specific · Display emotions in public · Result oriented · Make a short story long · Verbal communication important · Interested in what is spoken	Homogenous · Harmony to be valid and preserved · Group, not individual, important · Ambiguous · General · Hold back emotions in public · Process-oriented · Make a long story short · Nonverbal communication important · Interested in who is speaking

Some of us may argue as markets are becoming more and more similar, standardized marketing strategies are becoming more and more feasible. But, some more would argue back that differences between consumers of various nations are far too great to permit a standardized marketing strategy. Whether to use shared needs and values as a segmentation strategy or to use

national borders as a segmentation strategy? Shared needs and values would mean to appeal to consumers in different countries in terms of their common needs, values, and goals. Using national borders as a segmentation strategy would mean to use relatively different local or specific marketing strategies for members of distinctive cultures or countries.

Table 15.1 Product-Communication Grid

<b>Product strategy</b>	<b>Standardized communications</b>	<b>Localized communications</b>
Standardized product	<b>Global strategy :</b> Uniform product / Uniform Message	<b>Mixed Strategy :</b> Uniform product / Customized message
Localize Product	<b>Mixed Strategy:</b> Customized product / Uniform Message	<b>Local strategy :</b> customized Product / Customized Message

1. Favoring a World Brand: A lot of companies have created world brand products that are manufactured, packaged, and positioned in exactly the same way regardless of the country in which they are sold. For instance, Sony sells its Walkman in this fashion.
2. Adaptive Global Marketing: In contrast to the above, some other organizations imbibe a strategy that adapts their advertising messages to the specific values of particular cultures. A very good example here would be that of McDonald’s, which tries to localize its advertising to consumers in each of the cross-cultural markets in which it operates.

### **Tangible Benefits of Global Brand Building**

Global brand building drastically reduces marketing investments. A strong brand needs lower and lower levels of incremental investment to sustain itself over time. A new and unknown player will have to spend two to four times more than the market leader to achieve the same share of mind. Given the huge difference in business volumes, the pressure of the bottom-line is much higher for an un established player. Strong global brands always account for more stable businesses. Global brand building commands a premium. As long as there is a distinct value attached to your offering, the consumer will always be willing to pay more for it. That is the only reason why an unknown

brand called Titan could command a substantial premium over HMT. That is the same reason why a brand such as BPL at a higher cost beat the stuffing out of companies such as Akai, Sony and Philips in the CTV wars. Global brand building builds entry barriers. Human beings as a species love status quo. Therefore, a brand which is entrenched in the consumer's mind is very difficult to dislodge. Global brand building increases cash flow efficiency: Global brand building also increases value of the business due to the international presence. Phillip Morris bought Kraft from General Foods in 1991 for \$13 billion, more than three times its book value. Coca-Cola paid \$60 million to acquire Thumbs-Up from Parle. Neither buyer had any lacunae in manufacturing, finance or human resources. They merely bought business with very powerful brand equities and therefore paid more than the net worth of the businesses.

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## **15.8 STRATEGIC IMPLICATIONS**

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There is an assumption that the world is becoming homogenised; yet national and sub-regional cultures do exist. This makes global branding a tough challenge and one that is handled differently from organisation to organisation. Some companies pursue strategies based upon the identification of common elements among countries, whilst others find it more profitable to adapt and adjust according to specific conditions in various markets. There are five basic propositions that a global brand manager has to take note of while developing strategy at the global level. Many marketers operate in global markets with a strategy still rooted in the domestic market. The strategy needs to embrace the opportunities and the costs of working in multiple countries. The marketer has to look for his competitive advantage outside the country of origin. What will allow one to compete and win in a strange country? Are the product and the brand in particular needed in another culture? Only careful consideration of these questions will create the right platform for a global branding strategy.

### **Cultural Variations & Non Verbal Communication.**

In a culture we have many variations in non-verbal communications. Each culture assigns a meaning to non-verbal signs utilised by it. There are some variables in non-verbal communication. These are:

- a) Use of time



- b) Use of space
- c) Friendship
- d) Agreements
- e) Things
- f) Symbols
- g) Etiquette

### Time

Time is a resource which is distributed equally amongst everybody. Every person has the same amount of time at his disposal. What view individuals and societies take of time makes them different. Some can be classified under monochronic culture and others in polychronic culture. Some of the important differences between monochronic a polychronic culture are give in the table below.

**Table 15.2 Differences between Monochronic and Polychronic Culture**

Monochronic culture	Polychronic culture
Do one thing at a time.	Do many things at once.
Concentrate on the job.	Highly distractible and subject to interruption.
Take deadlines and schedules seriously.	Consider deadlines and schedules secondary.
Committed to job.	Committed to people and relationships.
Adhere religiously to plans.	Change plan often and easily.
Emphasise promptness.	Base promptness on relationship.
Accustomed to short term relationships.	Prefer long term relationships

The meaning of time may be different in different cultures. Some people take time in making decisions according to the importance of decisions. Some insist on coming to the point directly in business transactions and are well prepared. Some keep appointments by the minute, others make people wait for a long time

### Space

Space may be related to prestige rather than the need. The higher the office, the bigger the office space and so on. Americans have the offices of executives on the top floor and tend to separate the office of subordinates. Japanese have their discount stores on the upper floor. Some cultures and individuals maintain a fair distance while transacting, others co-mingle easily. Americans maintain a fair distance while interacting with associates. Arabs stand very close to each other.

### **Friendship**

Friendship plays an important role in business transactions. Good personal relationship and feelings matter most in a long term agreement. Social contacts developed by parties gain priority over technical specifications. Americans make friends easily, and drop them easily as well, because of both social and geographical mobility. Some cultures like Indian or Latin Americans have lasting relationships that endure for a long time and so does the business. Personal ties, personal trust leads to cooperation and a lot of transaction can take place between parties. Some want to transact business only with those whom they get along and, making money is secondary.

### **Agreements**

All business when transacted is done under some agreements. These agreements may be written or just on an understanding between the two parties. Most people enter into an agreement, but friendship and kinship are also given a lot of importance. Verbal commitments are also binding in some cultures, where signing a contract is just a mere formality.

### **Things**

Different cultures attach different meaning to things. Things include products as well as gifts given in certain business and social situations. An appropriate product in the form of a gift is to be carefully chosen. The gifts can be big or small. They can be given openly or presented privately. This depends on the practices followed in that particular country. Some want to make a show of the gift, by giving it in front of others. Others are secretive about it.

### **Symbols and Colors**

Different countries attach different meanings to symbols, numbers and colors. Symbols can be flowers, triangles, pictures and animals, etc. Some numbers are considered lucky, and others not so lucky, or even unlucky, like 13, 4, etc. Colors have different interpretations. Pink is associated with a female, and blue with the male in the US, whereas it is just the opposite in Holland.

A list of colors and their interpretations is given below:

**White:** Symbol of mourning or death in the Far East, happiness, purity and peace in the United States.

**Purple:** Associated with death in many Latin American countries.

**Blue:** Symbolises femininity in Holland and masculinity in the United States, Sweden, India, etc.

**Red:** Color for brides and children in India. Sign of masculinity in the UK and France, negative in Nigeria, Germany and positive in Denmark, Rumania and Argentina.

**Yellow:** Sign of death in Mexico, infidelity in France, celebrations in many countries including India.

**White lilies:** Suggestion of death in England.

#### **Symbol of Numbers**

**7:** Lucky in India, USA, Morocco, Nicaragua and Czechoslovakia.

**13:** Unlucky in many countries including India.

**4:** Symbol of death in Japan. Packing in 4s is avoided.

**Triangle:** Negative in Hong Kong and Taiwan, positive in Columbia.

**Owl:** Wisdom in the United States, bad luck in India.

**Deer:** Speed, grace in the United States; Homosexuality in Brazil.

#### **Etiquette**

These are accepted norms of behavior. Some behavior may be rude or abusive in one culture and quite acceptable in other cultures, e.g. sitting with legs crossed or sitting in a manner that shows the sole of a shoe. In Japan it is considered impolite to say no directly to a business offer. They put it differently, by saying it is very difficult, which means no. The exchange of business cards in Japan is essential, and indicates the level of your status in your business. Similarly, there are many different habits and ways of doing things socially that affect the making of advertisement. Eating with the fork in the right hand and the left hand kept under the table is quite common in America, whereas, in European culture, the fork should be in the left hand and the right hand holding the knife or spoon.

These non-verbal communications in different countries or different languages have a direct bearing on the marketing activity and must be taken care of. As people recognize verbal languages, they act accordingly. In a similar manner, non-verbal communication must also be recognized and





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## 15.10 SUMMARY

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Culture, in the social scientific sense of the term, is important to an understanding of consumer behaviour. This is true of the assumptions about the world that people never talk about, as well as the more obvious beliefs and attitudes of a society. Similarities between different cultures are often difficult to see, but they cover the whole range of human behaviour. Moreover, it has been argued that, with the development of global systems of communication and the marketing and advertising which accompanies them, there is a trend towards convergence between cultures in their patterns of consumption.

Differences between cultures are still more apparent, however, than similarities. This is true of both verbal and non-verbal forms of communication. These can present marketers and advertisers with many potential pitfalls and lead to the failure of an otherwise successful product. But these are the *means* of communication between cultures; cultural values themselves have still to be understood and these may be very complex and exhibit apparent contradictions. The issues of influential subcultures within a parent culture must also be dealt with. Finally, all these factors must be considered against a background of ongoing cultural change throughout the world.

Due to the existence of diversity among individual consumers marketer needs to study the various factors influencing the consumer behavior to make this diversity. The variety of factors may be consumer himself, marketers strategies, cultural and social environment, personal factors, and behavioural and psychological and also economic factors shape the individuals purchase and consumption behavior.

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## 15.11 KEY WORDS

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Culture, Sub Culture, Global Culture, etiquette, Strategic implication of culture

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## 15.12. SELF ASSESSMENT QUESTIONS

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1. Explain the influence of cultural factors on consumer behavior
2. What are cross cultural variable? Explain the impact of global culture on a consumer.
3. Explain the socio-cultural factors influence on consumer behavior.
4. With example, explain the cultural variations in marketing strategy formulations.

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## **UNIT – 16 MARKETING IMPLICATIONS OF BUYER BEHAVIOR**

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### **Structure**

16.0 Objectives

16.1 Introduction

16.2 Consumer behavior and Marketing Strategies

16.3 Importance of Consumer Behavior Studies in Marketing

16.4 Customer Satisfaction and Retention

16.5 Case Study

16.6 Notes

16.7. Summary

16.8 Self Assessment Questions

16.9 References



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## **16.0 OBJECTIVES**

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After studying this unit you should be able to

- Assess Importance of consumer behaviour in marketing strategy formulation;
- Identify Important areas in marketing which requires consumer input and
- Measure Customer satisfaction and retention based on understanding consumer behaviour.

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## **16.1 INTRODUCTION**

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Consumer behavior is comparatively a new field of study which evolved just after the Second World War. The sellers market has disappeared and buyers market has come up. This led to paradigm shift of the manufacturer's attention from product to consumer and specially focused on the consumer behavior. The evaluation of marketing concept from mere selling concept to consumer oriented marketing has resulted in buyer behavior becoming an independent discipline. The growth of consumerism and consumer legislation emphasizes the importance that is given to the consumer. Since, consumer behavior is a study of how individuals make decision to spend their available resources (time, money and effort) or consumption related aspects, it is an important base for a marketing strategy formulation.

The heterogeneity among people makes understanding consumer behaviour a challenging task to marketers. Hence marketers felt the need to obtain an in-depth knowledge of consumers buying behavior. Finally this knowledge acts as an imperative tool in the hands of marketers to forecast the future buying behavior of customers and devise marketing strategies in order to create long term customer relationship.

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## **16.2 CONSUMER BEHAVIOR AND MARKETING STRATEGIES**

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The firms that choose not to understand their customers purchase behavior often loses out. An excellently engineered product may fail just because the customer doesn't identify himself or herself with it. It is therefore, imperative that the firm understand the structural changes taking place in its market and also the long-term

According to customer oriented marketing concept, an organization must provide target customers more value than its competitors. The customer value is the difference between all the benefits derived from a total product and all the cost of acquiring those values. Providing superior

customer value requires the organization to do a better job of anticipating and reacting to customer needs than the competitors does. In the ever changing marketing environment, there is a growing concern or awareness among marketers to go for a careful study of the buying behavior which will provide the basis for all marketing activities.

Marketers are trying to determine the underlying needs and motives of consumers as well as the various factors which influence the formation of needs and their satisfaction. The marketers are also trying to understand the learning process adopted by consumers and buyers. Understanding consumers' behavior and resulting marketing strategy is the rule of modern marketer.

The basic belief of marketing-oriented company is that the customer is the hub around which the business revolves. Therefore, understanding what makes people to buy in general and firms customer in particular is a vital part of business success. Market itself means – customer, around whom all marketing strategies are formulated and implemented. In order to meet competition at the market place, the marketing managers are using various methods to add value to the final product which will reach the hands of the consumers. It means in ever changing marketing environment, there is a growing concern or awareness among marketers to go for a careful study of the consumer behaviour around which all marketing activities are made. Following are the key marketing implications of consumer behaviour.

Understanding the consumer behaviour is the basic for marketing strategy formulation. Consumers' reaction to the strategy determines the organization success or failure. In the competitive environment, organizations can survive only by offering more **customer value** - difference between all the benefits derived from a total product and all the costs of acquiring those benefits than competitors. Providing superior customer value requires the organization to do a better job of anticipating and reacting to the customer needs than the competitor. Marketing strategy is basically the answer to the question: How will company provide superior customer value to its target market? The answer to this question requires formulation of **marketing - mix** – product, price, place and promotion strategies. The right combination of these elements meets customer expectation and provides customer value. For example, marketer of a bike must know the customers performance expectations, desired service, Price willing to pay, information he seeks and after-sales service to provide superior customer value.

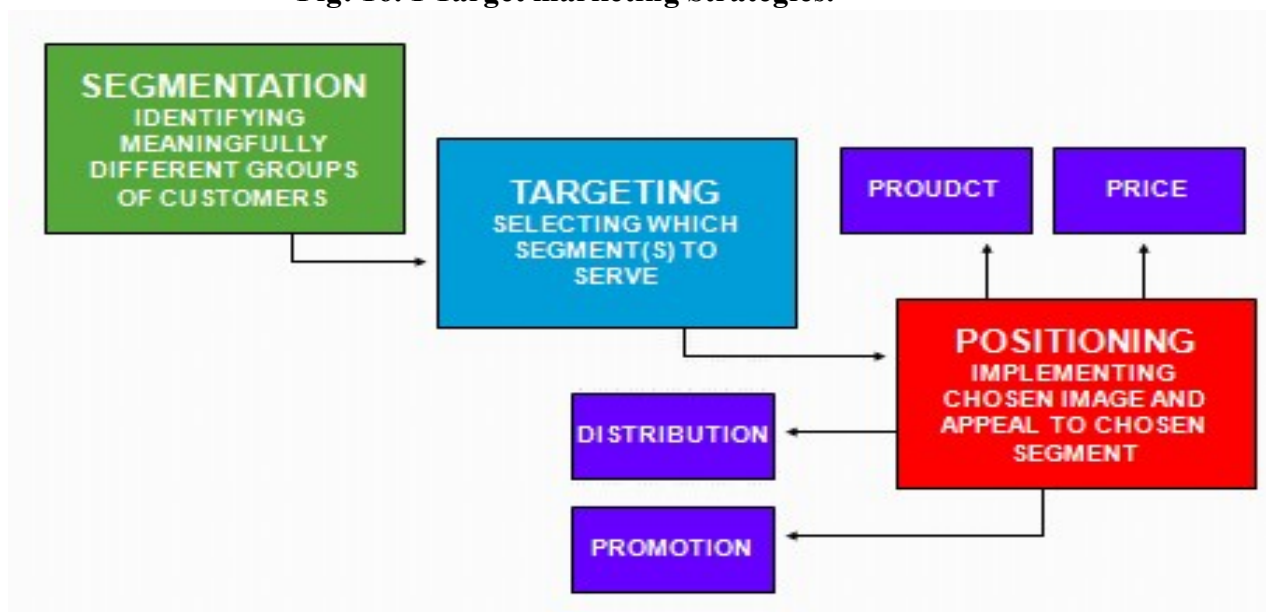
The answer to the above questions require the formulation of a consistent marketing mix. The marketing mix is the set of decision about product, price, communications, distributions and

services provided to the target market. Two important marketing decisions based on the consumer behaviour are

1. Market segmentation
2. Marketing Mix strategies

A good marketing strategy involves identify the market segments and develop marketing mix for the chosen segments. Segmentation, targeting, and positioning together comprise a three stage process. We first (1) determine which kinds of customers exist, then (2) select which ones we are best off trying to serve and, finally, (3) implement our segmentation by optimizing our products/ services for that segment and communicating that we have made the choice to distinguish ourselves that way.

**Fig: 16. 1 Target marketing Strategies.**



Segmentation involves finding out what kinds of consumers with different needs exist. In the auto market, for example, some consumers demand speed and performance, while others are much more concerned about roominess and safety. In general, it holds true that “You can’t be all things to all people,” and experience has demonstrated that firms that specialize in meeting the needs of one group of consumers over another tend to be more profitable.

Market segmentation is the most important decision of a firm. Selection of one or more market segments on which to focus marketing effort is a crucial marketing decision. A market segmentation is a process of dividing the heterogeneous customers in to homogeneous groups of customers who respond uniformly to a marketing stimuli. Since, market segment has unique needs, a firm that

develops total product focused solely on the needs of that segment will be able to meet the segment's desires better than a firm whose products or services attempt to meet the needs of multiple segments. Market segmentation involves four steps:

1. Identifying product- related need sets.
2. Grouping customers with similar need sets.
3. Describing each group.
4. Selecting an alternative segment(s) to serve

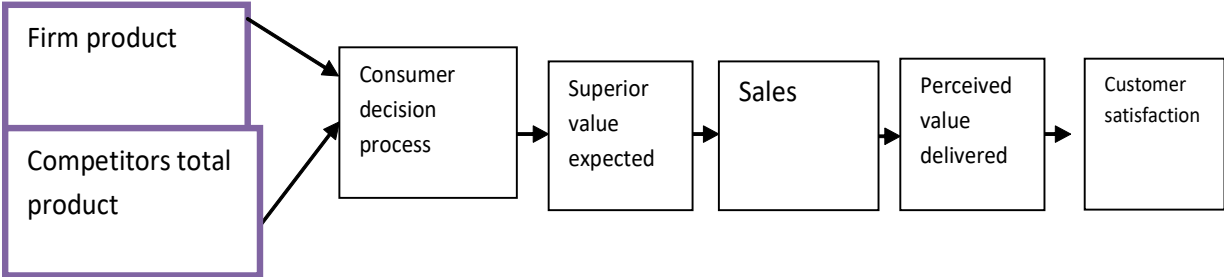
The term need set is used to reflect the fact that most products in developed economies satisfy more than one need. The customer's needs are not just restricted to the product's features. They also include types and source of information about the product, outlet where the product is available, the price of the product, service associated with the product, the image of the product or firm etc. Identifying the various needs set that the firm's current or potential product might satisfy typically involves consumer research. These needs sets are often associated with demographic and psychographic variables of a consumer.

The next step is to group the consumers with similar need sets bearing some common characteristics. This step also generally involves consumer research, including focus group interview, survey and product concept tests.

Once the consumers with similar need sets are identified, they should be described in terms of their demographics, life style and media usage. In order to design an effective marketing mix program, it is necessary to have a complete understanding that consumer needs are correctly identified.

The next step is selecting the target market which is basically a larger market on which marketing effort is focused. This decision is based on ability of a marketer to provide the selected segment with superior customer value at a profit. The size and growth of the segment, the intensity of the current anticipated competition and the cost of providing superior value are some of the important considerations.

**Fig: 16.2 Creating Satisfied Customer.**



From the above figure, it is clear that offering superior value is necessary for a firm to make the initial sales. Therefore, it is obvious that, one must have a thorough understanding of the potential consumers needs and their information acquisition process to succeed at this task.

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### **16.3 IMPORTANCE OF CONSUMER BEHAVIOR STUDIES IN MARKETING**

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Many factors come into play with consumer behavior, but the power is in knowing how to understand and influence that behavior. The knowledge of consumer behavior actually allows marketers to improve the marketing strategy. It helps in understanding the way the consumer thinks, feel, reason, and selects between alternatives. Consumer behavior knowledge gained from studying consumer behavior creates effective marketing campaigns that speak directly to specific consumers. In the following section, the major steps involved in creating a marketing strategy through understanding consumer behavior are given.

#### **a. Researching the market to find commonalities**

Market research is the key to understand consumers and their behavior. It's the systematic collection, recording, analyzing, and distributing of marketing data. It ensures that firms produce what the consumers really want and need — not just what firms think they need. Market research is the function that links the consumer and the public to the marketer. Marketers use the information that they gather in research to identify marketing opportunities as well as problems. Marketing research helps in-depth look at new trends in the market, develop long-running marketing strategies, identify external threats and opportunities, evaluate the potential of diverse markets, select a target market, establish realistic goals, and formulate a strategic plan.

#### **b. Breaking the overall market into the segments and targets**

Segments are market groups within the total market that are made up of people who have similar needs. When marketers can recognize a segmented group, their marketing opportunities increase and they gain the highest return on their marketing. That's because segmenting enables them to focus on the customers that are most likely to purchase the products or services — those individuals that are most interested in what the firms offer.

Segmenting makes marketing cost-effective and easier it also allows delving into the behavior of consumers. It also assists in identifying their needs. In turn, firms can position their products in a way that shows them how consumer fulfill an unmet need that they have.

### **c. Uncovering the untapped markets**

Determining new marketing opportunities and identifying untapped markets can help marketers to grow their business. Untapped markets represent markets that firms haven't yet entered and that the competitors may not be aware of. When companies get into untapped markets, they identify new ways to grow their business by opening up doors for consumers who may not be familiar with them yet. Firms can identify untapped markets by taking the time to examine their consumer base and understand the market.

### **d. Creating a Consumer-Driven Marketing Plan**

Marketing isn't just about flashy advertisements and fancy commercials. And it isn't just about creating awareness; it's about gaining new customers. The only way that marketers gain new customers is by creating a marketing plan that's intentionally consumer driven. A consumer-driven marketing plan is developed and created and then practiced with integrity in mind. With a consumer-driven marketing plan, firms do all the following:

1. Listen and speak directly to consumers and tell them that their needs are understood.
2. Position products in a way that shows them that you fulfill their unmet needs.
3. Gain their attention by providing them with the education they need to make good purchasing decisions.
4. Share with them the reasons they should adopt new products and accept the changes that you make to existing products.
5. Gain their committed loyalty and make them want to be a customer for life.

All of these tasks help marketers to create a marketing plan that not only benefits business but benefits the consumer by creating an awareness that causes them to want to purchase firms product. Marketer knowledge on consumer behavior in a way that they understand and are attracted to the following.

### **e. Practicing Integrity**

Marketing ethics impact both the consumer and the business. When it comes to marketing, companies must build trust with their consumers. It's the responsibility to embrace, communicate, and practice ethical values that improve the confidence of the consumers. Marketers need to understand the importance of marketing ethics, because deceptive marketing practices can affect

consumer behavior. Unethical marketing behavior affects the emotions, attitudes, and perceptions of consumers — whether it happens to them directly or they just hear about it.

#### **f. Inducing Need Awareness through Positioning**

Positioning is the marketers act of creating a unique identity for whatever it is that the firm is selling and then targeting a segment of the broader market by fitting the product or service to that segment's wants and needs. In order to get consumers to recognize that the product fits their needs, firms must figure out what the consumers in the target market need and want, what to offer them, what are firm benefits, and who are competitors. Firms use this information to create a positioning strategy and statement. Positioning a product or service, is made through two separate steps. First, it involves differentiating the product or service from its competitor, and then addressing the consumer's need or desire. These steps form the basis for the articulation of positioning statement. Within each of the two steps the firms can use strategies to reach out to the target market.

#### **g. Engaging consumers' attention and leading them to purchase**

At this point in the process, firms really begin working with the influence of perception in order to engage the consumers' five senses and draw their attention to the product or service. In order to do so, marketers must create value for their consumers to shape and cultivate their perceptions. Value is created by focusing on what the consumers believe is essential. It isn't enough to get consumers to notice whatever the firm selling; it must educate them about the value and benefits of offering in order to overcome any objections regarding the purchase.

Successful marketing counters any objections to the prospective purchase. The key is to present the benefits of the product in a way that consumers understand. Marketers also need to develop a unique selling proposition (or USP). A USP, is a statement that sets company apart from the competition. It paves the way for positioning strategy and statement. When marketers identify his USP, he finds something meaningful and unique to say about product that competitors either can't or won't say.

#### **h. Convincing customers to adopt new products**

You may wonder to know that so many new products fail in the introductory stage. The truth is that it's often because business owners don't understand the adoption process. They don't know what it takes for a consumer to adopt a new product. Consumers go through a series of evaluation steps when adopting new products. This process often involves the give and take. In other words, they determine what they have to give up in order to take in the benefits of a new

product. Consumers are inundated with new products every day. So when trying to get consumers to adopt a new product, it helps to understand the product life cycle and to identify what phase the products are in. Marketers also need to be able to identify characteristics of the different adopter categories.

This way firms can speak directly to any apprehensions they may have and gain a better understanding of their readiness to purchase. Just remember that marketers can influence new product adoption by simply understanding the adoption process that consumers go through. Consumers also face a great deal of challenge when it comes to accepting changes in the terms of existing product. Term changes can be any change that made to the current products. Examples include a change in benefits, a change in price, or a change in distribution. Help consumers in the transition of change by taking into account how consumers will view the change and whether they will see it as a “gain” or a “loss.” Then develop a marketing strategy that speaks directly to the challenges the consumer may be feeling. This strategy helps to increase the rate of adoption to the change and save the loss of customers who otherwise may stop buying the product.

**i. Encouraging customer loyalty**

Success is about getting consumers to continually buy from the company products, because it’s easier to gain loyalty from a current customer than it is to gain a new customer. Marketers can gain consumer loyalty by understanding how consumers learn and by using techniques that help them remember the company. Consumer loyalty really comes from meeting the emotional needs of consumers. Those needs include the need to be understood, feel important, feel welcomed, and feel comfortable. Marketers can meet these needs and encourage consumer loyalty by providing consumers with expertise, attention, friendliness, flexibility, patience, and superiority in the products and services. This is done by communicating and creating relationships with consumers. Customers carry a great deal of value when they’re loyal to the company and its brands. So it’s important to be able to gauge and nurture the relationship that marketers have with their consumers and to be able to turn satisfied customers into loyal customers.

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## **16.4 CUSTOMER SATISFACTION AND RETENTION**

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The marketing gurus have been preaching the importance of the ‘satisfied customer’. Customer satisfaction with a company’s products or services is often seen as the key to a company’s success and long-term competitiveness. In the context of relationship marketing, customer satisfaction is often viewed as a central determinant of customer retention. However,



the few empirical investigations in this area indicate that a direct relationship between these constructs is weak or even nonexistent.

In recent times, customer satisfaction has gained new attention within the context of the paradigm shift from transactional marketing to relationship marketing which refers “to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges”. In numerous publications, satisfaction has been treated as the necessary premise for the retention of customers, and therefore has moved to the forefront of relational marketing approaches

Kotler, sums this up when he states: “The key to customer retention is customer satisfaction”. Consequently, customer satisfaction has developed extensively as a basic construct for monitoring and controlling activities in the relationship marketing concept. This is exemplified through the development and publication of a large number of company, industry-wide, and even national satisfaction indices

The link between satisfaction and the long-term retention of customers is typically formulated by marketing practitioners and scholars in a rather categorical way, and is therefore treated as the starting point, rather than the core question of the analysis

The assumption that satisfaction/dissatisfaction meaningfully influences repurchase behavior underlies most of the research in this area of inquiry. Building customer loyalty is not a choice any longer with businesses: it’s the only way of building sustainable competitive advantage. Building loyalty with key customers has become a core marketing objective shared by key players in all industries catering to business customers. The strategic imperatives for building a loyal customer base are as:

- Focus on key customers
- Proactively generate high level of customer satisfaction with every interaction
- Anticipate customer needs and respond to them before the competitor does
- Build closer ties with customers
- Create a value perception.

Satisfaction also influences the likelihood of recommending a departmental store as well as repurchase but has no direct impact on loyalty. Thus satisfaction in itself will not translate into loyalty. However, satisfaction will foster loyalty to the extent that it is a prerequisite for maintaining a favorable relative attitude and for recommending and repurchasing from the store. Once customers

recommend a department store it fosters both repatronage and loyalty towards that store. Thus the key to generating loyalty is to get customers to recommend a store to others. Also, customers are likely to recommend a department store when they are satisfied with that store and when they have a favorable relative attitude towards that store.

Two mechanisms drive the financial correlation. Retention of old customers costs much less than acquisition of new ones. The profit generated from the retained customer must therefore handsomely exceed the harvest reaped from the new clientele. The retained customer base is thus a huge intangible asset. If you want to make it look tangible, use averages like the cost per transaction and the profit margin to work out the net present value of the retained customer base.

Customer satisfaction with a company's products or services is often seen as the key to a company's success and long-term competitiveness. In the context of relationship marketing, customer satisfaction is often viewed as a central determinant of customer retention. However, the few empirical investigations in this area indicate that a direct relationship between these constructs is weak or even nonexistent. In recent times, customer satisfaction has gained new attention within the context of the paradigm shift from transactional marketing to relationship marketing which refers "to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges.

Consumer behavior is often based on how much learning has taken place, by which individuals acquire, purchase, and consumption knowledge and experience, which is applied to future behavior. Several individuals are interested in studying consumer behavior viz, researchers, students, and consumers by himself. Consumer need is the pivotal importance in developing effective marketing strategies. Two important marketing strategies very much rely upon the customer inputs are segmentation and marketing mix strategies. Understanding the consumer behavior is pivotal importance in satisfying and retaining the customer.

Consumer behaviour is an integral part of our daily lives. The psychological and social processes involved in buying and consuming goods and services form the subject matter of this text. The objective positivist approach to studying cause and effect in consumer behaviour (as in any other kind of behaviour), will be combined with the interpretivist emphasis on trying to understand the emotional, non-rational aspects of the process.

The environment which the consumer operates in, including the nature of the market place for goods and services, also needs to be considered. Finally, the change from a production orientation

to a marketing concept has been instrumental in fostering the study of consumer behaviour over recent decades.

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## 16.5 CASE STUDY

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Over the last couple of years, a substantial growth in the online shopping industry has been noticed, especially in India. The reason? People are always looking for newer and better modes of service, and the online shopping industry is catering it to them. The industry is continuously designing and executing newer trends that allow them to attract the masses.

Trends help businesses to stay ahead of their competition. It is generally the business that invents a trend that gets the most benefit out of it. Hence the trends are mainly an equipment to help the businesses make more profits. With the **online shopping** industry in its boom period at the moment, the online shopping companies and portals are coming up with newer and better trends that will make them the first choice for their consumers.

Question:

1. Identify the factors that attracts consumers to online marketing
2. How Cultural factors influence online buying behvaiour ?

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## 16.6 NOTES

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## 16.7 SUMMARY

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Consumer behavior is often based on how much learning has taken place, by which individuals acquire, purchase, and consumption knowledge and experience, which is applied to future behavior. Several individuals are interested in studying consumer behavior viz, researchers, students, and consumers by him self. Consumer need is the pivotal importance in developing effective marketing strategies. Two important marketing strategies very much rely upon the customer inputs are segmentation and marketing mix strategies. Understanding the consumer behavior is pivotal importance in satisfying and retaining the customer.

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## 16.8 SELFASSESSMENT QUESTIONS

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1. What is consumer behavior? Explain its characteristics.
2. Explain the importance of consumer behavior studies in marketing decisions.
3. Why it is important for a marketer to retain the customers

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## 16.9 REFERENCES

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**DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT**

**M.B.A III SEMESTER**

**ELECTIVE : MARKETING**

**COURSE - 18B**

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**CONSUMER BEHAVIOUR AND MARKETING RESEARCH**

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**BLOCK**

**5**

**CUSTOMER RELATIONSHIP MANAGEMENT**

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## **BLOCK - V: CUSTOMER RELATIONSHIP MANAGEMENT**

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Dear Student, by now you have understood consumer behaviour and I believe you have appreciated the immense applications of study of consumer behaviour. By understanding the consumer behaviour, a marketer can decide the way he should keep the relationship with customers. Few customers may demand frequent interaction with the service provider/manufacturer where as few may feel too much interaction is disturbing and hence may decide stay away from such service providers/ manufactures. Hence understanding their requirement and acting accordingly is vital for the success.

Customer relation management help the marketer to understand the requirements and fulfil those requirements in a effective. Customer relationship management is not a new term. You might observed that the shop keeper next you door would speak to you in a cordial way. He would know all your family members and closely interact. But for a big organization it is difficult maintain a close relationship with all the customers. However the technology of toady including big data management has made this process easy. The companies can well understand your needs, identify your interest, measure you ability to buy product and design he relationship accordingly. In this unit let us try to focus on the various issues in customer relationship management. You might have already studied CRM in your second semester Information Technology for Managers. However there you have studied from technology perspective. Here let us focus from marketing perspective and more elaborated way.

In this module, we have four units namely,

**UNIT 17 – INTRODUCTION TO CRM**

**UNIT 18 – CRM STRATEGY**

**UNIT 19 – CALCULATING CUSTOMER LIFE TIME VALUE**

**UNIT 20 – MANAGING UNPROFITABLE CUSTOMERS AND USING CUSTOMER  
VALUE IN OTHER FIELD**





## **BLOCK - V**

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### **UNIT-17 : INTRODUCTION TO CRM**

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17.0 Objectives

17.1 Introduction

17.2 Evolution and scope of CRM

17.3 Relationship Marketing

17.4 Difference between marketing and CRM

17.5 Difference between CRM and Relationship marketing

17.6 CRM marketing initiatives

17.7 Types of CRM

17.8 Case Study

17.9 Notes

17.10 Summary

17.11 Key Words

17.12 SelfAssessment Questions

17.13 References

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## 17.0 OBJECTIVES

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After studying of this unit you should be able to:

- ⇒ Define evolution and scope of CRM;
- ⇒ Explain Relationship marketing;
- ⇒ Differentiate between marketing and CRM;
- ⇒ Difference between CRM and relationship marketing and
- ⇒ Describe Types of CRM

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## 17.1 INTRODUCTION

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Relationship with the customer has existed since the advent of trade and business. So why has there been a sudden interest and so much of literature/studies and research on CRM?

To understand this it is important to understand the change in context of buyer/seller relationship over the ages.

1. Barter Age: Buyer and seller transacted for a mutual exchange of goods/services, fully understanding and negotiating in a face-off environment. Relationships were on one on one basis.
2. Customised Product Age: Skilled craftsmen created goods that were customised for buyers in direct contact with them. Here again the requirements of the buyer were fully understand and products were crafted and adapted to maximum possible extent.
3. Mass Production Age: Industrial age brought mass production capabilities enabling volumes helping to bring down costs and servicing of buyers across geographical boundaries. As markets extended far and wide, end buyers got further separated from the manufacturer. To service this widespread client base, intermediate wholesalers/retailers came up. This led to emerging of differentiation between 'customer' and 'consumer'.
  - a. Customer: purchaser of goods/services and not necessarily the one consuming them e.g. dealer/stockist/retailer/wholesaler.

- b. Consumer: one who utilizes the goods/services to fulfil his need.

Due to desegregation of the producer from the final consumer – the ‘Voice of the Customer’ in a typical ‘Chinese Whisper’ syndrome started to get distorted. Chinese whispers is a typical chinese game played around the world, in which on person whispers a message to another, which is passed through line of people. Since consumers from different market segments were distinctly different and varied, the success of the corporation now lay in building capabilities/systems and methods in correctly and systematically picking these ‘voices’ and responding to them as appropriately and closely as possible to meet the consumers’ felt/expressed needs.

It is this endeavour that has led manufacturing systems to evolve to high levels of sophistication like – JIT/Kanban that allows consumers to select various components of a car and customise it to their individualised need (e.g. colour of car, interiors, accessory choice; etc.) or as in Dell computer by allowing consumers to order a PC with customised configurations.

4. Customisation Age: Similar concepts are evolving in ‘service’ industry where self-service/ consumer defined service specifications on the web are taking the concept of addressing individualised needs in a mass production environment – closer to building a 1:1 relationship with consumers.

While organisations are developing methods in the manufacturing domain to cater to customisation and the internet provides a great media for individual 1:1 relationship building, there is surprisingly a lack of comprehensive management structure/methodology and system to guide organisations for carrying forward this 1:1 relationship across the consumer lifecycle.

There are many advantages of 1:1 relationship building across the consumer lifecycle:

- Highest share of ‘lifetime value’ of the consumer for specific product/services can be captured.
- Shifts in consumer preference in various micro segments can be understood.
- Changes in the competitive landscape.
- Closing of the gap between management perception and customer expectation.

- A referral base can be built.

CRM addresses all these issues

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## 17.2 EVOLUTION AND SCOPE OF CRM

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CRM has been spoken of and understood in various forms in the last few years. The subject and practice has meant different things to different people. To a vast majority, it stands for an IT capability for facilitating relationship management. To some it is a ‘contact centre’ for managing relationship with consumers – through telephone/web/mail, etc. as ‘post sales’ management of customers.

CRM is all this and more. CRM aims to look at all aspects that will enable an organisation’s capability to manage and nurture its 1:1 relationship with its consumers (An organisation is not necessarily a company – it could also be a government, non-financial entity). Even when applied within a non-commercial framework, the CRM principles/systems can yield the same level of effectiveness in meeting the desired output in line with objectives of the constituencies involved.

When people ask what CRM is the literal answer is “Customer Relationship Management” but that does not really convey much of what all CRM does for a business.

There are now very efficient ways that companies have of understanding and responding to customers’ needs and preferences, allowing them to build more meaningful connections with their consumers than ever before. These connections promise to benefit the bottom-line by reducing costs and increasing revenue.

Unfortunately a close look suggests that the relationship between companies and customers are a troubled one at best. Companies may delight in learning more about their customers and being able to provide features and services to please different palates but customer’s delight and loyalty is in neither. In fact customer dissatisfaction is increasing resulting in huge complaints/litigations/churn.

Sooner or later corporate performances will suffer unless systemic corrections are applied to ensure a continuum in customer orientation/relationship building and experience delivery.

In 1985, psychologists Michael Argyle and Monica Henderson, both professors at Oxford University, defined several basic universal rules of friendship. Among them are – providing emotional support,

respecting privacy, preserving confidences and being tolerant of other friendships. Companies have violated each of these rules. In doing so they have forfeited customers' trust and with it the chance to build the intimacy that results in truly rewarding partnerships. How can they regain that trust? They must behave in ways that will show consumers that companies can be valued partners. They have to prove through actions that relationships need not be empty, meaningless or stressful at best.

True Customer Intimacy – the backbone of a successful rewarding relationship – requires a deep understanding of the context in which products and services are used in the course of customers' day-to-day lives.

Companies often do not seem to identify the problem they are trying to solve, said Jill Dyche partner – Baseline consulting group. There is a lack of consensus.

And even those who have clearer picture of their goals, struggle with what it means to be truly customer facing and end up paying only lip service to it. They want to build long term relationships with customers – noted Jim Barnes, executive Vice President of the Bristol Group – but put very little effort into building loyalty, which could eventually be translated into greater profiles or maybe they confuse loyalty with buying frequency. The customers who buy most frequently are not necessarily the most loyal – they must be motivated by pricing, product availability and convenience. Nor are frequent buyers the most valuable among customers.

### **CRM: Definition**

Let us examine some definitions to understand what CRM is;

#### **Definition by Gartner**

Gartner has defined CRM as a business strategy designed to optimise profitability, revenue and customer satisfaction.

#### **Definition by PWC Consulting**

CRM is a business strategy that aims to understand/appreciate, manage and personalise the

needs of an organisation's current potential customers.

### **Definition by Parvatiyar and Sheth**

CRM is a competitive strategy and process of acquiring, reacting and partnering with selective customers to create superior value for the company and customer.

### **Definition by Bob Thompson – CRM Guru.com**

CRM is a business strategy that applies to every organisation. It means working with customers such that they receive great service and are motivated to return again and again to do more business with the company.

### **Metagroup Definition**

Customer Relationship Management is not simply a technology tool or business process to “delight the customer” or show how the organisation loves its customers. CRM is ultimately about driving bottom-line revenue through proactive management of the customer lifecycle. It is about applying the right CRM treatment to the right customer segment at the right time to produce business results. The difficulty is in determining what the right CRM treatments are and to what segments they should be applied. Enter CRM pattern mastering, where to realize returns on CRM investment, organisations must think in terms of using customers' information and CRM technology to build exit barriers and switching costs into reusable CRM treatment. Each treatment is described as a three layered CRM pattern called “Customer Relationship Anatomy” (CRA). CRA will be differentiated not just on the basis of what the customer wants (we all want to be platinum flyers on all airlines) but also on what the organisation finds appropriate based on the customer's current period and future predicted value. And it must be noted that “Value” is defined as more than just profitability, as unprofitable current period customers may turn out to be very profitable in the future.

CRM is a business strategy providing a systemic approach to customer life cycle management (CLCM). CLCM is a three domain business system, aligning business processes, technology and the customer life cycle. This business system must integrate sales, service and marketing process and CRM technology environment with the customer. To fully release the potential of CRM, this business system must be optimised around the customer life cycle (engage, transact, fulfil and service)–

where customer (neither technology nor process) is the design point in understanding the concept of customer relationship management.

### **Defining CRM by CRM (UK) Ltd.,**

Customer Relationship Management is the establishment, development, maintenance and optimization of a long-term mutually valuable relationship between consumer and organisation. Successful CRM focuses on understanding the needs and desires of the consumer and is achieved by placing these at the heart of the business by integrating them with the organisation's strategy, people, technology and business processes.

#### Understanding the various definitions

Examining each of these definitions we can see the common thread running through them.

##### **a) CRM is about 'strategy'**

It is a strategy of not only delivering a singular customer experience and value but also creating of on-going continuous improvements in customer experience and value enhancement in the relationship.

CRM is about creating a competitive advantage by being the best at understanding, communicating, delivering and developing existing customer relationships, in addition to creating and keeping new customers. The concept of life cycle is giving way to the customer life cycle, focusing on developing products that anticipate the future needs of the customer, existing customers and creating services that extend existing customer relationships beyond merely transactional. The customer life cycle focuses on lengthening the life span of an organisation's relationship with its customers rather than the endurance of particular product. Customers' needs change as their lifestyles alter. The development and provision of the products or services they require and to meet and satisfy those needs is CRM. Mission statements now focus more on how to deliver customer satisfaction and organization structure themselves around customer segments not product lines. A good CRM strategy takes the business vision and applies it to the customer base by asking the questions:

- What products and services are we offering now and in the future?
- In what markets?



- What customer groups will these products and services appeal to?
- Which of these are of greatest value to the organization? In terms of expenditure? In terms of reliability? In terms of profitability? In terms of growth potential?
- What additional needs do the most valuable customer groups have? Additional products? Additional services?
- In what different ways can we do business to deliver to our customers better?

### **What motivates companies to adopt CRM strategies?**

It is generally one or more of these fundamental business reasons:

- **Competition:** With globalization and e-commerce continuing to spread, corporate offerings are increasing and becoming commoditised. Differentiating products and services is becoming more and more difficult. In such a scenario, CRM shows a company the way to increase customer loyalty, earn higher margins and stronger branding.
- **Consumer Expectation:** E-commerce has competition just a mouse click away and consumers have become more demanding when voting with their pocket books. Companies that use CRM to truly understand their customers and respond to their needs will come out on top. Amazon.com is a text book example in this context.
- **Technology:** The cost of CRM Technology has dropped, so it is easier to justify systems that consolidate your customers 'touch points'. The separate and isolated systems traditionally used by Customer Service, Sales and Marketing can now be phased out and the old communication gaps filled in.
- **Diminishing impact of advertising:** Whether it is primetime TV, print journalism, direct mail or email marketing, all forms of advertising are becoming ineffective. With CRM you can target your message more precisely, hold people's attention better and retain customers longer and at a lesser cost.

## **b) CRM – the ‘customer’ thread**

Whether the customers are current/potential/selected CRM is about acquiring, retaining, partnering, personalising relationships with them.

At its most basic CRM involves customers, organizations and relationships, and the combination creates the need for management. It is not simply a buzzword, a new software package or a breakthrough in sociological research methodologies. It is the renaissance of a belief that at the heart of all transactions should be created mutual value for all parties.

Let us look at an expansive definition of customers.

CRM helps businesses use technology and human resources to gain insight into the behaviour of customers and the value of these customers.

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### **17.3 RELATIONSHIP MARKETING**

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Under ‘Selling concept’ a company’s task was to sell and promote products coming out of its factories in an effort to win as much volume as possible and thus maximise profits. The job was to hunt down customer prospects wherever they could be found and use the persuasion power of personalised selling to make a sale. Management gave little thought to segmenting the market and developing different product and service versions that met varying needs in the marketplace. Product standardisation was the key coupled with mass production, distribution and marketing.

The central purpose of traditional marketing was to sell products. The aim was to find customers for company’s products. With increased competition ‘Marketing’ concept shifted attention from the factory to customers and to their varying needs. Now a company’s aim was to develop appropriate segment based offerings and marketing mixes. Skills of market segmentation, targeting and positioning became the key. Delivering loyal customers satisfaction in each chosen segment to produce loyal customers whose repeat purchase would lead to increased profitability became the focus.

The job of marketing was therefore to develop contextual offering of products, services and experience to match individual customer requirements. To continuously explore, create and deliver individual customer value in a very dynamic and a competitive environment needs investment in ‘relationship’ with various

stakeholders consumers, collaborators, employees, communities. CRM is in the domain of relationship management with customers.

Lester Wunderman of direct marketing fame has put it well:

The call of the industrial revolution was “This is what I make, won’t you please buy it?” Which has now given way to that of the customer revolution which declares, “This is what I need, can’t you please make it”. From a company being the hunter, consumer has now become the hunter – informing the company of his specific requirements proposing the price he will pay, establishing how he wants to receive the company information and advertising.

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#### **17.4 DIFFERENCE BETWEEN MARKETING AND CRM**

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The differences are best explained three cornerstones

-Unlike marketing CRM views products as processes through Customer receives value not only from purchase but from each exchange between the customer and the provider Thus managing relationship based processes is core competence

-Second concept in CRM is customer value creation or co creation. According to this approach competitive advantage is not based exclusively on price but also on the ability of the provider to help customers create value for themselves. Third relates to provider’s responsibilities. A company can build stronger relationships with its customers only if it takes the responsibility for developing these relationships and offers its customers possibilities to create value for themselves.

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#### **17.5 DIFFERENCE BETWEEN CRM AND RELATIONSHIP MARKETING**

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Relationship Marketing is a broader overriding concept. According to Gummesson (2002), ‘Relationship marketing is marketing based on interactions within networks of relationship’.

A network is a set of relationships which can grow into enormously complex patterns. In the relationship, as the simple dyad grows into a complex networks, the parties enter into active contact with each other. This is called interaction. The relationship between the one who sells something and the one who buys something forms the classic dyad of marketing,( a two party relationship.)

CRM is the values and strategies of relationship marketing – with particular emphasis on customer relationship turned into practical application. CRM does not deal with networks but focused on the customer-supplier interaction.

Gummesson(2002) has converted the philosophy of Relationship Marketing into tangible relationships that become part of the company’s marketing and business planning. This has been by defining 30 relationships, the 30 R’s.

These 30 R’s are divided into four broad categories:

1. Classic market relationships (Consisting of the relationship between the supplier and the customer, between the customer-supplier-competitor and the classic network distribution channels).
2. Special market relationships (Relationship via full time marketers and part time marketers, interaction between customers and service providers, relationship in industrial and business marketing, e-relationship, green relationship (environment and health based, law based).
3. Mega relationships (Personal and social network, mass media).
4. Nano relationships (Introduction of profit centres in an organization, relationship between internal customers and internal suppliers, the relationship between operations management and marketing, relationship with the employee market, etc.).

The first two types are market relationships be it classic market relationships or special market relationships. The next two types are non-market relationships which directly influence efficiency of market relationship.

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## **17.6 CRM MARKETING INITIATIVES**

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A number of changes have occurred in the marketplace over the past year that have put tremendous strain on an organization’s capital investments. Employee layoffs, mergers and stock market drops all affect the amount of money consumers have to spend on products and services. Therefore, it is becoming even more important for organizations to both retain and deepen their relationships with existing customers.

Customer relationship management (CRM) is an overall strategy that allows organizations to more effectively manage and track customer contacts. CRM initiatives start with a vision of how to make the organization more customer-focused, but often require a substantial investment in software and infrastructure to execute.

While CRM initiatives in most organizations have been scaled back this year, it is essential, now more than ever, to gain substantial internal support to ensure the projects continue through completion. A well-developed and persuasive business case could save your CRM project and your job.

Some of the initiatives in organization are given below.

Barclays Bank PLC has signed an agreement with Microsoft whereby Microsoft will provide Barclays Bank with Dynamics CRM a fully integrated, adaptable business management solution. Barclays Bank Pakistan chose Microsoft CRM solution as it is an affordable technology solution that helps automate and streamline the three basic steps of customer management: Identifying, attracting, and retaining the customer. It provides a 360 degree view of the customer with access to members across an organization with up-to-date information of the customer. This commitment, along with inherent business values aim to provide efficient and innovative banking solutions throughout the Barclays branch and sales centre network across Pakistan.

**Salesforce.com** Salesforce.com was the clear champion in 2006, winning both the mid-market CRM and sales force automation categories, and scoring a position as one of the top five on the small business CRM list. Kudos went to the company for revolutionizing the on-demand CRM market and delivering a solution with a simple user interface and easy-to-navigate features. Salesforce.com was also applauded for its continued commitment to broadening its customization and integration capabilities.

**NetSuite** NetSuite was one of just a few CRM companies to make an appearance on more than one list, being named as an industry leader in both small business CRM and mid-market CRM. The company scored serious points for delivering a fully-integrated front and back office solution that specifically addresses the needs of smaller businesses. By making CRM, ERP, and e-commerce available via a single hosted platform, NetSuite has achieved considerable recognition within the market for its ability to dramatically reduce the complexity of IT infrastructures.

**RightNow Technologies** RightNow Technologies is considered a stand-out among today's best CRM companies for its solid customer service and support capabilities. Additionally, its recent acquisition of Salesnet, a provider of on-demand sales workflow automation solutions, is expected to close any product functionality gaps and strengthen the company's sales force automation offering. The CRM Magazine editors also praised RightNow's flexible deployment and payment options.

**Maximizer** High scores in both customer satisfaction and depth of functionality earned Maximizer Software the top spot in the small business CRM suite category. In addition to enhancing its product portfolio with mobile and wireless capabilities, the company has taken a more aggressive approach to marketing and public relations in the past year, making a big play to steal a larger chunk of small business market share away from other CRM companies. Panelists also made note of Maximizer's ability to combine strong capabilities with an intuitive interface, offering smaller businesses some of the best CRM features in an easy-to-use environment.

**FrontRange Solutions** Although FrontRange Solutions, the company that designs and develops the GoldMine CRM suite, lost its first place spot among small business CRM companies this year, it still earned a position on the top 5 list – thanks to the continued strength of its contact management/sales force automation product and its contact center utility. The experts noted that FrontRange has outlined a solid strategy for the near-term future, and will be watching closely as the company begins to execute on it.

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## 17.7 TYPES OF CRM

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Types of CRM can be broadly understood by looking at two different ways of categorization. These two types of categorization are as follows:

1. Proactive versus Reactive CRM or
2. Operational, Collaborative and Analytical CRM

Let us understand these in detail. In the first type of categorization, the practice of a company to anticipate and respond to the customer needs with suitable offerings is contrasted with the practice of simply responding to the customer stimulus that comes in through suggestions or complaints.

In an increasingly dynamic business world, companies with progressive outlook are those who not only understand and translate their customer value proposition through their entire offering but also attempt to accommodate the future needs of their customers. Needless to say, companies attempting Proactive CRM are generally those which are increasing the level of personalization and are practicing one to one marketing.

Another type of CRM which is often referred to is the second one which attempts to distinguish and delineate the scope of Operational, Collaborative and Analytical CRM.

### **Operational CRM**

Today, the consumer approaches the business in far too many ways than in the past. Also known as front office CRM, it involves the areas where direct customer contact occurs . These interactions are referred to as customer touch points.

The customer touch points are classified into:

- Face to face touch points  
Sales/Service/Channel/Events/Stores/Promotions
- Database driven touch points  
Telephones/Email/Mail/SMS/Fax/Loyalty Cards/ATMs
- Mass Media  
Advertising/PR/Website

At any of these touch points; any number of the following transactions can take place

- Financial transaction
- Sale
- Payment
- Return of sale
- Information transaction
- Request for information
- Complaint
- Suggestion

Operational CRM enables and streamlines communication to and from the customer. But this does not necessarily mean optimizing service. Here ‘Optimization’ means letting marketers plan and prioritize all inbound and outbound customer communications in order to maximize effectiveness while balancing the organization’s capacity to deliver and the likelihood that customers will respond.

### **Collaborative CRM**

Jill Dyche defines Collaborative CRM as a specific functionality that enables a two way dialog between a company and its customers through a variety of channels to facilitate and improve the quality of customer interactions.

The mandate of Collaborative CRM is to manage various partners of the company be it business partners, agents, brokers, ORMs, intermediaries like distributors, dealers, resellers and retailers. By managing all these partners, it tries to in turn facilitate the integration of various activities like Marketing, Sales, Service/Support and quality.

### **Analytical CRM**

Also known as back-office or strategic CRM, it involves understanding the customer activities that occurred in the front office . It involves analysing large amounts of cross-functional data using data mining and other methods and feeding the result (knowledge gained) back to operational CRM. It also studies consumer behaviour patterns that help to know what products to position for cross-selling/up-selling and the level and kind of service to deliver to meet customer demand.

Analytical CRM requires technology to compile and process the mounting of customer data to facilitate analysis) and new business processes to refine customer facing practices in order to increase customer loyalty and raise profitability.

In today’s highly competitive business environment companies must learn from interaction with customers and respond to the knowledge gained from these interactions. Customers are after all a moving target; the customers you have today may be your competitors tomorrow. Let us look at the three types of CRM again.



**Operational CRM:** CRM is a process by which a company maximises the process of gathering and understanding customer information from all touch points i.e. point of sale, call centres, web, etc. in an effort to increase customers' loyalty and to retain them over their lifetime. It is not a short term goal based on isolated transactions resulting in sporadic client service.

**Collaborative CRM:** However, since the primary goal is to build a long term and 'profitable' relationship with the 'chosen' customers, it is necessary that all the concerned parts of the organizations work in collaboration with aligned purpose, objective and strategy to achieve this outcome. A 'lifetime' value extraction is possible only through close collaboration of internal stakeholders and customers.

**Analytical CRM:** To enable all the above, technology is deployed as a facilitator. Technology involves a progressive approach in gathering customer data via multiple interconnected delivery channels. This mass of data has to be further transformed into 'business knowledge' for it to be effectively utilised and deployed. Knowledge-like-behaviour patterns, preferences, values, etc. are the various attributes that are drawn by analysis of data from different sources and touch points drawn in by the operational CRM.

This knowledge helps the collaborative CRM layer to position right products and services, offer cross-sell and up-sell options, and tailor-made solutions for the customers.

All this gives you the power to know your customers and use that information to foster consumer loyalty over their lifetime.

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## 17.8 CASE STUDY

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### **Touch point management at Philips**

Dutch consumer electronics MNC Philips, uses a program called touch point tool, which is a six point plan to create an improvement framework for each business and function. The touch point tool is basically a methodology that helps to identify a company's interactions with its customers and other stakeholders and then prioritise and improve on them. Identifying every touch point is stressed upon since it influences customer opinion. Each interaction then needs to be managed in a way that it is aligned with the brand positioning. With the help of "touch point wheel" all touch points are plotted sequentially

along a customer's passage, from pre-purchase to post-purchase. For example, a touch point could be a chat with a Philips account manager, a Philips TV commercial or even a hit on the Philips website – that is, any place where the customer 'touches' Philips.

All customer interfaces are defined and the ones with the greatest impact are prioritized. These are then tested against the three criteria with which every product, solution, service and process has to be aligned. The three criteria – “designed around you”, “easy to experience” and “advanced” – were unearthed after extensive research to measure Philips' performance and that of its competitors. The result serves as a framework for the planning process to develop improvement programmes, which are tested against real customer insights. The process is divided into six steps:

- Identify touch points
- Prioritise touch points
- Assess touch points
- Define touch point improvements
- Define business impact and resources
- Develop key action steps

The touch point tool enables managers to view the business from the perspective of customers. It takes them through the process of studying customer requirements and ensuring that they constitute the centre of all marketing activities. For example, the semiconductor division at Philips regularly conducts customer-specific product seminars – a valuable touch point. The touch point tool helped in making these seminars more interactive. It was discovered that the customer needed to feel more closely connected with the products and the tool helped to achieve this. End-to-end demos and taking participants through the whole product process were some key action steps taken.

The touch points tool helps both during introduction of a new product and re-launching of an old one. For example, market research showed that Senseo (a new type of electric kettle from Philips) was often given as a gift. Hence word-of-mouth was one of its vital touch points. A strategy was developed using this information, which proved to be an effective marketing tool and even saved on an expensive advertising campaign. All Philips marketing managers are trained on the touch point tool, which helps them understand the full cycle of interaction points right from point-of-purchase to end application. By







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**17.11 KEY WORDS**

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CRM, Operational CRM, Analytical CRM, Collaborative CRM, Relationship marketing

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**17.12 SELFASSESSMENT QUESTIONS**

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1. Define CRM
2. Explain the evolution and scope of CRM
3. Explain the types of CRM
4. Differentiate CRM with relationship marketing
5. Differentiate CRM with marketing.

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## 18.0 OBJECTIVES

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After studying this unit you should be able to:

- ⇒ Formulate CRM strategy;
- ⇒ Analyze Grand strategy;
- ⇒ Explain Balanced scorecard and
- ⇒ Identify Elements of strategy.

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## 18.1 INTRODUCTION

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CRM Strategy is complex. Not because it involves strategy and not because it involves CRM, but because it involves both. Why would it be more complex than, say, an ERP strategy or a network strategy? Because it involves our contemporaneously defined customers. If you were developing an ERP strategy, while it would be big and it would be complicated, the level of complexity only begins to approach CRM. With ERP, you're basically involving the back office folks, the senior management, the IT department, and a smattering of others because they are the ones, who will be involved in the system, be it finances, human resources, or manufacturing processes. You can even stretch the definition to include the supply chain, but that's it. With network architecture, other than some user surveys, you're really only involving the IT department because the user doesn't know much at all how the guts of an IT infrastructure work, nor do they care.

Frankly, a strategy for network architecture is pretty narrowband when it comes to ordinary humans. But CRM begins to reach all those customers, so the elements are much more involved. Of course senior management and users are involved, but partners, vendors, and clients are also a direct consideration for involvement in the planning of how your strategy is going to work. If CRM strategic objectives involve customer satisfaction, it probably pays to find out from the customers what satisfies them, doesn't it? Additionally, customer-facing processes dominate most organizations – sales, marketing, customer service, and even human resources and finances to some extent are among those examples. A technology-enabled CRM strategy to meet customer-focused objective involves the majority of any organization's people and processes.



For example, a typical grand objective of a CRM strategy is to create a unified, 360-degree view of a customer that is cross departmental. That is the Holy Grail for successful CRM. Ideally, if a CRM strategy succeeds, the system in place will allow any department to see whatever the appropriate view of the customer is for them in order to tend to the customer's needs, wants, and desires. However, the Holy Grail is something that neither King Arthur nor Monty Python ever found or found with enormous heartache (and heartburn) so be forewarned. There are multiple pitfalls in the path of a successful CRM strategy. Since the customer has already been tagged with a new definition, it behoves us to move on with a definition of strategy.

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## 18.2 CRM STRATEGY

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### The Grand Strategy

First and foremost, remember, as Shakespeare once didn't say, "know thy customer". When you are sure of the range of customers you are going to encompass, be they your paying clients, your vendors, your employees, or perhaps your partners, you can capture the view from Everest and look for the paths for the descent. The "grand strategy" is usually the starting point: what the major objectives and results should be from implementing CRM successfully. In short, they are:

**Value proposition** what does the company want to get out of the project?

**Business case** what are the benchmarks and key performance indicators (KPIs) that will be used to determine the success of that value proposition? What will be the return on investment (ROI)?

### Value Proposition

The value proposition is the result you want from your CRM implementation.

Do you want to increase the number of customers by  $x$ -fold or make sure that your customer retention rate goes up  $x$  percent to  $x + 1$  percent?

Do you want to reduce the time it takes to solve customer problems?

Do you want a reduction in administrative work time so the sales team can go out and sell more often?

Do you want to automate the processes that measure the effect of various marketing campaigns or be able to change those campaigns actively in real time?

Do you want to establish the capacity to measure the lifetime value of the customer so you can decide how to spend your carefully managed available funds for sales and marketing?

Do you want to establish a pipeline to your channel partners so their contributions to your revenue are increased to some determined level?

Do you want to increase customer satisfaction by some number that also makes you happy? *Ad infinitum.*

All of the above represents possible objectives that CRM can bring to fruition – hopefully. They will vary from company to company. But the value proposition must be established concretely before anything else is done. This provides the ground upon which a foundation can be poured.

### **Business Case and Metrics**

Next comes the creation of the business case that will show how CRM will support the successful execution of the goals and objectives. It is here that the formal studies for ROI and the establishment of key performance indicators, those measurements that identify the tangible and intangible goals success factors, are done.

What makes this difficult is that this is the place where you quantify what can be intangible goals?

How are you going to quantify customer satisfaction?

Are you successful if your customer hugs you when he or she sees you?

If determining how you will spend your dollars more effectively on the more important customers is your business goal, how are you going to determine the measurements of what “important” is in your business model ?

If there are employee self-service objectives such as reducing the amount of administrative work that the sales force does, how are you going to:

Determine the percentage reduction number that is going to make you happy?

Determine how that number is to be reached?

Determine how the newly liberated sales guy will be using that extra time?

For example, is a smile on the salesperson's face an effective measurement of successful liberation? I don't think so. But how do you quantify the subjective?

Luckily, it didn't take a brain surgeon, but it did take a doctor of the Ph.D. kind, to figure out a method (one of several existing) of doing this.

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### **18.3 THE BALANCED SCORECARD**

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Back in 1996, Dr. Robert Kaplan and David Norton co-authored what has become a landmark book called *The Balanced Scorecard*. This book established a strategic management system that took not only the tangible objectives (financial goals and internal business processes), but also the intangible (customer appearance, learning and growth) and developed a method to quantify these into a coherent, balanced whole.

Each of the segments has a question attached:

**Financial:** How should we appear to our shareholders to succeed financially?

Of course, this is the historical measurement of performance for business. They can be such measures as return on capital employed or operating income.

**Customers:** How should our customers see us to achieve our vision?

This is normally segmented by business unit, Measure include market share, customer retention numbers, or customer satisfaction. For a more drilled-down example, let's look at what Robb Eklund, vice-president of Product Marketing for PeopleSoft's CRM products, has to say:

Key performance indicators for customer satisfaction might include how quickly the customers pay their bills or how frequently they buy maintenance renewals. These can be indicators of how happy the customer really is.

**Internal Performance Management:** In order to satisfy the above two, what should our business processes be?

What works for the company today and what will work for it tomorrow ?

Which processes have value and which don't ?

It's the management of the present and the future and discarding of the past that can provide the basis for future success. This needs to be a key part of the CRM planning process because major cultural change is going to happen, like it or not.

To achieve all of the above, how do we sustain our ability to grow and learn?

Since the market has shifted from demand-driven to customer-driven in the last five years or so, the company needs to shift accordingly, this is why CRM is implemented ordinarily. Indicators of success in this venue are employee satisfaction through retention measures, information systems performance, and the organization's calibration with employee incentives that are aligned with customer satisfaction.

The measurement of KPIs has been widely adopted, with or without the rest of the Balanced Scorecard, as the framework of measurement for tangible and intangible corporate goals and objectives.

As you can see, the possibilities that are touched upon in these simple questions are enormous. The consequences of success are potentially fantastic; the results of failure potentially devastating. That's why these questions have become a bonafide development in the last five years. In response, several CRM vendors have embedded the Balanced Scorecard into their application functionality and usability cannot be a factor at this stage of strategic planning, whether they incorporate the Balanced Scorecard or not. The vendors' importance comes considerably later.

What gives the Balanced Scorecard credibility, despite its initials, is not so much the questions that are clearly being asked here but more so the idea that intangibles are not only a viable "thing" to be measured, but also are mission-critical elements of any strategic planning. Once the four questions are answered, the idea is to align the enterprise with the answers so that there is no isolation between mission, vision, strategy, and departmental actions. Continuous feedback is part of the Balanced Scorecard's plan so that adjustments can go on in near real time throughout the planning and execution of the strategy.

## **Does Understanding Mean Action?**

Despite the penetration of this important tool into the business centre, companies aren't packing the stores to buy Balanced Scorecard power drills.

A lot of companies aren't putting together any formal criteria, and thus, almost guarantee CRM failure before they even select the package they are going to fail with. These formal criteria are an essential part of your CRM strategic planning because it is these measurements that will be used to determine the success or failure of the CRM rollout. A formal business case is critical. A recent study by AMR Group through the CRM Project found that 58 percent of the companies that were spending countless U.S. dollars on CRM implementations hadn't done a formal business case. Another small study done by IMT strategies of 50 CRM heads at varying companies found that 90 percent were implementing CRM on faith, with no ROI or metrics planned! This is a deadly game to play when millions of dollars, countless jobs, and even corporate success or failures are on the line. Educated guesswork is not sufficient. Keep in mind; the previous statements are coming from a guy who dislikes formality in almost anything under most circumstances.

In "normal" economic periods, commonplace metrics for customer satisfaction levels and retention rates and reduced costs of services and/or sales are used. In good economics, customer acquisition and increased sales and revenue are often measured. In recessionary times, head count reduction becomes a factor in CRM strategic planning.

That grim statement made, onward to the rocky path of strategic reality.

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## **18.4 ELEMENTS OF STRATEGY**

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The grandest and highest levels of strategy are the mission/vision statement and writing of the business case. But the down-and-dirty details are the next step and next place for a misstep. There is so much detail to be planned and so much to monitor when the plan is being executed that it is actually necessary to plan how to monitor the plan.

Once the objectives are set and the metrics for identifying the successful execution of those objectives are completed, the elements of the strategic plan have to be decided, and the successful, real-time monitoring of those elements and the resultant organizational change has to occur.

Because CRM is a technology-enabled strategy that encompasses the breadth and depth of an enterprise, it involves creating a unified view of the customer that is accessible across multiple departments of a company through multiple communications media. Business processes may be changed, remain, be eliminated, or added. Corporate culture may be dramatically altered in unexpected ways. The CRM technology that is agreed upon has implications far beyond what package or packages or even what approach to the packages you select. Imagine what happens if you don't really understand what is going on as you plan. If you're in charge, it's not hard to figure out what will happen to you, given contemporary corporate accountability.

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## **18.5 STRATEGIC PLANNING FROM AN INDUSTRY LEADER**

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For the last ten years, KPMG Consulting has played a prominent role in strategic planning for CRM. The market is barely that old and has an acronym younger than even its existence. By that token, KPMG can be called a pioneer in the planning of CRM planning. In fact, they developed a Connect-to-Customer Solution that has evolved to a results-driven holistic approach for CRM. It is instructive to take a brief look at this real-world example so you can get some idea of how CRM strategy has a genuine practical application.

### ***CRM Strategic Planning and Getting Real***

KPMG Consulting looks at how the total enterprise gains value from the application of CRM, rather than just parochial departmental gain. They investigate and create what they call Relationship Equity, which converts customer intelligence into highly differentiated, personalized, and explicitly valued customer experiences that, if successful, will translate into sustainable revenue and direct profitability because of the improved knowledge of and use of customer behaviour.

For example, let's look at a health services company. Suppose that this health care provider receives a request from you for a brand name pharmaceutical product. This will trigger an action that compares your request against both your purchase history and available generic brand drugs of the same type as the brand name you requested. An email will be sent to your address with the suggested alternative generic drugs, their prices, and the savings that purchasing the generic drugs will provide. In other words, you have gotten a differentiated (your drug request and the generic drug alternates),

personalized (the check against your purchase history), and valued (savings on the cost of the drugs by purchase of the generic version) customer experience via one of many possible customer touch points.

### ***Making This into a Strategy***

Bruce Culbert, senior vice-president and CRM Global Solutions Leader for KPMG Consulting, says:

Unfortunately, even after investing heavily in CRM initiatives, too many organizations are still struggling to define exactly what CRM is and to identify the ROI benefit it can provide. Organizations are often thrust into action by one or another market or corporate mandate, too many of which consider CRM as a project or a piece of software, rather than a strategy.

### **Stake-holding Committee**

To make sure that the business processes are re-engineered with the corporate vision, benchmarks, and KPIs in mind, the formation of a team of stake-holders that will drive the CRM strategy, planning, and implementation from the point of vision to the final rollout of the applications is the first essential step. But there is a conundrum. Since CRM is ultimately an enterprise-wide project, it needs to be driven by senior management. Yet, since the primary reason for the high rate of CRM failure is that users simply don't use it, the users have to be as involved from the beginning of the project through to the end as senior management. "User-as-stakeholder" involvement might be considered a bit of a controversial position. It is not widely recommended yet, though it is gaining credence among the integrators, vendors, and analysts. I'll drive a stake (holder) in the ground here. It is not only valid, but critical to the success of any CRM project. Let's look at it.

Who are the users? They are the employees who are going to access the CRM applications chosen to effect the changes in the business processes. They are the customers who are paying the company for products and services. They are the partners who are working in tandem with sales team of the company. If one of the stated objectives of the CRM strategy is to improve customer satisfaction, then it makes sense to involve those customers from the beginning in helping you architect the program for their satisfaction. It becomes almost a self-perpetuating, self-contained CRM strategy

because the customers are happier when they involved in planning a CRM strategy and business approach that is aimed at their own satisfaction.

### **Executive Advisory Board**

KPMG Consulting, in addition to the normal stake-holding committees, tries to gain even more stakeholders commitment by the establishment of an executive advisory board. This is aimed at getting the continued buy-in and commitment from the executives of both internal and external stakeholders (the customer, the vendor, and the integrator for example). An executive oversight committee should be established during the proposal and contracting phase of a large or important CRM engagement. That way the senior executives who are major stakeholders would have the opportunity to review and discuss the project's process. If need be, they could make timely and strategic decisions to reinforce the vision and direction of the project. This takes the onus from the project teams, freeing them up to concentrate on delivering the actual goods.

### **Business Processes**

Thorough examination of how the company does business is a prerequisite that needs to occur long before any vendor selection. There is a very strong tendency in the world of senior management to let CRM sexiness get in the way of a clear view of corporate business processes and methodology. CRM "coolness" can be incredibly hot to a senior executive who looks at the politics of success. CRM vendors' claims tease and tantalize, but often bear little relationship to what any company actually needs. All this good stuff is exciting and seems easy. On the other hand, taking a hard look at the business methods and rules of a company often is agonizing because, to accomplish the objectives set out in the value proposition, it becomes obvious that the existing system doesn't really work and the customers aren't really happy. That means major overhauls of how the company does business, time honoured or not, can be necessary. Sometimes this means tweaks and a few adjustments. But it can also mean eliminating those processes, practices, and rules that don't conform to the new mission or changing those that have some merit but aren't entirely appropriate.



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## 18.6 EVALUATING RISK

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CRM risk evaluation, viewed solely from an enterprise level or as a single factor, is a potentially disastrous mistake. CRM risk factors need to be segmented individually. When you are dealing with multiple modules or even a single module, the risks engendered can involve the culture, processes, technology, goals, and objectives. Some of these elements are immature, some mature. Some play a small part in the CRM planning, some a large part. Some interact with others. All of this has to be taken into account when evaluating risk. Some risk factors to consider are:

- Lack of cross-functional planning: compartmentalizing things into individual stovepipes
- No formal CRM business strategy: leading to arbitrary approaches and educated guesswork
- Poor or no senior-level support: leading to lack of corporate vision and poor knowledge of financial factors
- Poor or no user support: leading to lack of use of the final product
- Blinding light of the vendor: leading to purchasing a vendor solution with no understanding of corporate objectives, goals, or vision for CRM

This list could go on extensively, but suffice it to say the risks are great and need to be identified and controlled prior to any implementation or vendor selection.

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## 18.7 CRM IMPLEMENTATION PROCESS

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CRM implementation has the following issues

### **Corporate Culture and Change Management**

Implementing a CRM strategy is a high-stress activity. Unfortunately, it places that stress on the workings of the company, not necessarily on the individuals doing the planning. Going to the gym is not the way to deal with the impact on your company's corporate life that CRM will have.

Most of the company is going to be impacted not just by the implementation and its execution, but also by the preparatory work for the strategy. It calls such fundamental questions into play as: How do we make our customers happy?

How do we change our business model?

With rare exceptions, the changes that are acceptable alter the company landscape vividly. Acknowledging and planning for this and the organizational effect is the single most complex part of creating a corporate CRM strategy.

For example, the company has been focused on demand-based, company-based, or product-based business activity. The entire way the company and its employees think is embedded in its dusty past. Maybe your idea of customer service had historically been that you will take care of customer complaints within 72 hours. A change to make it a 24 hour response time will dramatically affect the corporate culture. More people have to be in for longer hours or you'll have to hire new and competent people to handle the more rapid turnaround. If you have a contact centre, how you determine the numbers of personnel you need to staff that contact centre at varying times of day, due to volume considerations, will be influenced.

Perhaps Excel has been your application of choice to track your sales pipelines or Outlook has been your contact manager. Senior management and sales managers realize that the company has grown sophisticated enough to need better tools for managing that pipeline or for reducing the sales team's administrative work. Yet, that doesn't really mean that much to the user. The user has been using Outlook and Excel just fine, thank you, and doesn't see that changing over to CRM is really going to make it any easier for him to do his work. It probably will make it harder. The idea that it's for their own good (and the corporate good) has to be transmitted by the CRM evangelists in the company. How?

Compensation incentives that show these loyal and productive folks that they can be more productive and that there is something in it for them sure can help here. To put them in place and to get the new CRM system up and running will change the odd corporate culture and assign it to where the Roman Empire sits today – the dustbin of history. These changes, both positive and negative, have to be planned for. Managing the change as it occurs is of the essence. While the statements of the importance of change here may seem dramatic, they are actually true.

## **Technology**

Do you know what technological infrastructure and architecture already exists in the company? As in many companies, there has probably been a major investment in what are now legacy systems and, also potentially, third party applications. Who among us wants to spend lots more money on IT infrastructure? Not so many since the dot-com bomb of 2001. Utilizing what you have is now very important in the CRM scheme of things. That also means that a technology survey is necessary to assess what platforms, applications, and hardware exist. Do you already have an enterprise resource planning (ERP) system in place? How easily can the CRM applications that you are thinking of implementing integrate with your existing technology infrastructure? For example, if you have an SAP Financial system in place, it might be easier or more cost effective to implement an SAP CRM solution simply because of the obvious integration points between them. There is the added benefit (particularly in SAP's case) of utilizing common data from the data store that your system uses. A complete technology survey and plan is paramount for any sort of CRM strategy. Know thy infrastructure.

## **Package Selection**

Okay, you're decided on the value proposition, built the business case, assessed the business processes, identified the technologies, determined the risks, and looked at the cultural change that is likely to occur. Hopefully, your users were involved from the beginning or much of what I'm going to say now is moot. It's vendor time! Time to decide what is going to be implemented with what you need done, and who is going to do the implementation. Needless to say, if we lived in a perfect universe, this would be either obvious because of all the other work done so well to date, or the package picking would be done while you're completing your plan. But I'm sad to say, it isn't a perfect world and this is a particularly political part of the overall strategic planning. The politics of who likes what for whatever reasons now asserts itself. Even though it is only 24% of the cost of the implementation, it is about 70% of the aggravation and, hopefully not at your company, 90% of the manoeuvring that will go on. Why? Careers are made and broken on these things. The wrong pick and despite all your other careful planning, your project is ruined. The right pick and the vice-presidency is awaiting you.

Prior to picking the package, the package strategy that overlaps with the implementation strategy has to be decided.

Simply put, are you going to implement an enterprise-wide solution or a modular one with one or a few of the modules at a time?

Are you going to implement a single package or best of breed in the areas that you identify as mission-critical for CRM?

Are you concerned about the way the package integrates with what IT infrastructure you already have or can it even integrate with it at all?

All of these questions are vital and are directly affected by all the factors that have already gone into the strategy.

Don't leave out the economy here. For example, in a recessionary economy, since the value proposition tends toward customer retention and cost reduction, the approach that is often taken is modular. Find out where the bleeding is occurring in your processes and fix that with the implementation of particular modules of a CRM application. If your obvious weak points are in the production of your sales team, then sales force automation (SFA) might be the domain you want to look at. Within that context you can find modules for any facet of sales management you want. However, if your weakness is elsewhere, such as bad communication with your business partners, or you are pushing for the channel to sell about 25% more product than they have historically done because you let go 50% of your sales force, perhaps partner relationship management (PRM) is the way to go.

Once the strategy for package selection is decided, then a vendor review starts. That is a fairly obvious thing because by the time you get to the vendor selection, if you've correctly developed your CRM strategy, you will know what you need pretty clearly. There are a few salient points to be made nonetheless.

- When you buy the application, you buy the vendor: this means the application isn't the only thing that must be evaluated. How good is the vendor at customer service? Do the vendor's account managers have a good relationship with the point people at the company? How financially stable is the vendor? How well do they understand the business model

that the enterprise works with? What experience do they have in the particular industry? Is the vendor's CRM corporate culture customer-friendly, or is CRM just an application to them? These matter very much in the considerations that you have here. For example, what if the company CRM-appointed staff doesn't get along with the vendor's account managers? What will happen when you need something from the vendor, which is inevitable?

- Most of the applications have similar functionality: since human beings tend to give similar labels to similar things or the same labels to the same things, opportunity management features tend to be pretty standard stuff. The more pertinent question at this stage is how usable is that functionality? Can the users understand it right away (or with some training) as something important to their productivity that is not that difficult to grasp? How well the application executes the functionality is essential.
- How well does the CRM architecture integrate with your existing systems? There is hardly a company that is implementing CRM that doesn't have information technology systems already in place that they've invested millions into. One aspect of package selection that is vital is how well that package fits those systems you are not replacing. If you are a mainframe-based company, does the architecture of the CRM system allow mainframe data to pass to the CRM application? Can it handle a very mobile workforce? Most of the major CRM vendors have either or both Internet architectures, synchronization, integration "points" such as APIs (SAP calls them Business APIs [BAPs]; PeopleSoft calls them Enterprise Integration Points [EIPs]), and toolkits that allow for customization. There is also Enterprise Application Integration (EAI) software that operates as "middleware" – passing data from one place to another in disparate systems. In any case, this is an important consideration in package selection.

While hardly the only consideration in the package selection stage, these are three critical considerations that the company stake-holders must be aware of while they are making their selections. There are many more, but that's what professionals who do this for a living are for. Engage them.

## **Implementation Strategy**

Once the package selection is complete, the final step for the purposes of this chapter is the implementation strategy. Keep in mind that implementation services ordinarily cost about three times what the software licenses cost, so this is a critical phase. The initial questions to be asked (and these apply to all enterprise-level packages, not just CRM) are who is going to do it and how are they going to do it?

### **Some options are:**

- **Internal:** the least viable choice. Very rarely is there an internal group of employees who have the experience and/or the time to actually implement a very CRM-complex system by themselves. The internal team should play an integral role in working with the vendor or consulting services implementation teams.
- **Vendor professional services:** This can be a good alternative and provides the customer with an experienced team with access to the latest information from the vendor. This can be very expensive, but you are pretty well guaranteed the knowledge of the product and have the resources of the vendor's entire enterprise as part of the package.
- **Integrators:** Whether large or boutique, this is often the best option for price and commitment. Look for a certified partner of the vendor you are using for the software. Be sure of their experience in implementing the CRM applications and customizing the applications in the industry that your company represents. This can be a huge plus. If you choose to go to a less experienced firm (everyone starts from somewhere), get a serious price break from the firm.

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## **18.8 CASE STUDY**

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At a press conference in December 2002, the management of Cigna Corporation (Cigna), one of the largest health insurers in the US, announced that problems in their customer database systems had resulted in misquoting their number of customers by an extra 900,000. The beginning of 2002 saw Cigna face problems on many fronts including customer service and profitability. The company's membership fell due to poor customer service and by the end of 2002, the membership was 12.5 million, down from 13.3 million at the end of 2001. For the fiscal year 2002, Cigna reported revenues of US\$ 19.34 billion and a net loss of US\$ 398 million

According to analysts, one of the main reasons for Cigna's poor customer service and the resultant reduction in membership was the failure of the restructuring of its information technology (IT) and CRM<sup>3</sup> systems, at its HealthCare division.

This US\$ 1 billion project was aimed at moving 3.5 million customers of Cigna from the twenty year old computer systems to new AS400 systems that supported claims processing platforms - PowerMHS software and ProClaim software.

The project was monitored by the Chief Information Officer (CIO), Andrea Anania. Despite Anania's confidence in it, the changeover did not go smoothly, encountering several glitches.

As a result, customer service went haywire resulting in millions of dissatisfied customers. The company lost six percent of its healthcare members in 2002 alone.

The management of Cigna, during the shareholders' meeting in October 2002, accepted that they had been unsuccessful in executing the project. Cigna's top management analyzed the reasons for the debacle.

The reasons cited were: greater than expected cost of implementing the project, and misconceptions about the timing of the economic benefits from the project.

On March 31, 1982 the Philadelphia-based Insurance Company of North America (INA) and Hartford-based Connecticut General Corporation (CGC) merged their operations to form Cigna. Cigna acted as the holding company with INA and CGC as its chief operating companies, and was headquartered in Philadelphia.

In 1999, Cigna HealthCare was operating with IT systems that were nearly two decades old and were clearly outdated. It had separate units for membership (enrollment), processing the medical claims and verifying customer eligibility

Anania felt that the migration process for more than 13 million customers would take too long if she went by her plan of migrating customers to the new platforms in small groups.

In January 2002, Anania decided that Cigna should start work on a web portal project - mycigna.com. The web portal project aimed to make it possible for millions of healthcare customers to make easy and secure online transactions.









and objectives were either easy or routine, the implementation failure rate would not be deplorably high (over 50% according to research firm Gartner) . In this unit we have discussed about various CRM Strategies

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### **18.11 KEY WORDS**

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CRM Strategy, Strategic Planning, Risk Evaluation

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### **18.12 SELF ASSESSMENT QUESTIONS**

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1. Define CRM strategy
2. Explain grand strategy.
3. Discuss strategic planning of an Industry leader.
4. Explain the risks involved in evaluating CRM.

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## **UNIT 19 – CALCULATING CUSTOMER LIFE TIME VALUE**

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### **STRUCTURE**

- 19.0 Objectives
- 19.1 Introduction
- 19.2 Customer Life time Value (CLV)
- 19.3 Benefits of CLV in CRM
- 19.4 Dimensions of CLV
- 19.5 Calculating value of CLV
- 19.6 Using CLV to Segment Customers
- 19.7 Customer Value Management
- 19.8 Marketing implication of CLV
- 19.9 Case Study
- 19.10 Notes
- 19.11 Summary
- 19.12 Key Words
- 19.13 Self Assessment Questions
- 19.14 References

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## **19.0 OBJECTIVE**

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After studying of this unit you should be able to:

- ⇒ Calculate Customer Life time Value (CLV);
- ⇒ Explain Benefits of CLV;
- ⇒ Identify Dimensions of CLV and
- ⇒ Describe Customer Value management.

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## **19.1 INTRODUCTION**

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Kotler and Keller (2005) explain the concept of Customer Lifetime Value (CLV) as: “the present value of the stream of future profits expected over the customer’s lifetime purchases. The company must subtract from the expected revenues, the expected costs of attracting, selling, and servicing that customer”. The authors point out that “the aim of CRM is to produce high customer equity. Customer equity is the total of the discounted lifetime values of all of the firm’s customers”. This marks a shift from the traditional concept of focusing on brand equity. It also entails a shift from focusing on customers instead of brands or products since traditionally, companies have been extolling the value of their brands. However, it should be noted that the emergence of CRM as a concept does not mean the demise of the concept of branding. Companies will certainly need to have branding strategies that will support their CRM initiatives and Relationship Branding will be a helpful tool.

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## **19.2 CUSTOMER LIFETIME VALUE (CLV):**

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Investment in marketing is expected to grow customer equity, and leads to improved customer perceptions. This, results in increased customer attraction and retention. In this regard, Berger and Nasr have shown that better attraction and retention lead to increased CLV.

CRM will help realizing the lifetime value of customers. Researchers have suggested CLV as a metric for selecting customers and designing marketing programmes. The researchers have also provided empirical evidence to prove that a relationship exists between marketing actions and CLV at the aggregate level.

Companies are taking efforts in minding the CLV at the aggregate while dealing with them. SAS (a leader in business intelligence software and service) offers the SAS Lifetime Value for Insurance that enables companies to:

- Calculate the present profitability level of each individual policyholder in life and P&C insurance companies, combining the key measures of retention, cross-sell/up-sell and claim costs over a defined time horizon.
- Calculate CLV by integrating data, analytic and business intelligence needs. The end-to-end solution includes logical and physical data models for data storage, pre-built data management capabilities and the necessary analytic modelling and business intelligence tools.

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### **19.3 BENEFITS OF CLV IN CRM**

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The benefits of CRM are

1. By finding out the CLVs of the customers, firms would be able to differentiate among the customers.
2. The capability to differentiate among customers would enable companies to segment customers on the basis of their value to the firm in the long-term.
3. Once the firm has been able to find out who are the valuable customers, the firm can focus on them and ensure that their needs are being met as well as they are being satisfied.
4. Ensuring that the valuable customers are satisfied would help in retaining them and realizing the CLV of the valuable customers.

With the introduction of CRM as a discipline, rather than a technology, there has been a resurgence of interest in customer profiling and segmentation – the selection of customers/prospects on the basis of a defining rule or algorithm. That said, segmentation is nothing new, having existed for almost as long as the concept of direct marketing, but it has been evolving. Its evolution can be understood through the following phases:

- ⇒ First phase – manual selection of criteria (e.g. postcode)
- ⇒ Second phase – inclusion of socio-economic/geo-demographic data.

- ⇒ Third phase – data mining/ propensity scoring.
- ⇒ Fourth phase – LTV based selection.
- ⇒ Fifth phase (current) – yield – optimized multi-channel / product segmentation.

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## 19.4 DIMENSIONS OF CUSTOMER LIFETIME VALUE

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The dimensions of customer life time value are

- The duration of the ‘customer lifetime’.
- The firm’s share of wallet among its customers, i.e. what portions of the customer’s purchases in the firm’s offering categories are captured by the firm as opposed to its competitors.
- The firm’s success in terms of frequency of up and cross-selling to its customers so as to increase the levels and monetary value of their purchase over time.
- The firm’s costs of acquiring, serving and retailing its customers.

### What would make a successful CLV Method?

- Connect with overall strategy of the business.
- It should link with the loyalty that the company seeks to bring in.
- Referrals must be part of the component of the CLV (True Loyalty).
- Constant rate of retention and discount not feasible.
- Risk rate should also be associated.
- Dynamics of the different sectors must be incorporated e.g. automobile from Airlines.
- Truly customized CLV for highly volatile sectors such as financial services and online companies.
- It should link with Loyalty program.

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## 19.5 CALCULATING VALUE OF CLV

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Simply put, the LTV of any given customer can be expressed as:

$$\text{LTV} = \text{total revenue} - (\text{fixed costs} + \text{variables costs}).$$

Revenue is fairly straightforward to measure . One simply adds up the total of all of the orders placed with the organization. However, recently there have been a growing number of attempts to model the costs associated with these revenues more accurately through practices such as ‘activity-based costing’ and ‘activity-based accounting’.

- Identify those customers who are most profitable and focus retention efforts on them.
- Find more customers who match the profile of the most profitable customers.
- Calculate which products or product combinations are contributing most to profit.

*CLV = Average transaction value \* Frequency of purchase \* customer life expectancy*

Link between the customer retention rate and the average customer lifetime.

- Average customer lifetime (years)= 
$$\frac{1}{1-\text{retention rate}}$$

Example: if the customer retention rate is 90% per annum (meaning that we lose 10% of our existing customer base each year), then the average customer lifetime will be ten years.

### **Customer Lifetime Value using referrals**

$$CLV = D [(Rt - Ct) + Rf(Ac - Acr)] / (1 + r) - Ac$$

**Source:** Edgar, Dunn & Company

Where:

t = Year

Rf = Number of referrals generated by customer each year

n = Length of customer relationship

Ac = Full acquisition costs (for new customers)

D = Customer retention rate

Acr = Reduced acquisition costs (for existing customers)



$R_t$  = Revenues earned from customer in year  $t$

$C_t$  = Cost of servicing customer in year  $t$

$r$  = Discount rate

It is important to note that some of these variables such as revenues earned and acquisition costs are easily calculable and absolute, based on historical data. However, others such as average number of referrals generated each year are less definite and may need to be estimated.

The other approach which is a further simplification of the LTV formula as developed by Prof. Sunil Gupta of Columbia Business School is as follows:

$$CLV = \frac{m}{r/1+i-r}$$

Where

$m$  = margin or contribution for each customer in a given time period.

$i$  = discount rate and

$r$  = retention rate

Factor  $(r/1+i-r)$  is the 'margin multiple'. This approach also suffers from a drawback which is that this approach is not very suitable for developing countries as it is for the developed countries where the economy has a fixed ground. In a country like India where the market is on the rise the changes have to be incorporated very frequently. There is also another drawback that is it does not account for referrals and the contribution made by them. Nevertheless, in the absence of very organized data management systems, this can be considered as the starting point for calculating customer lifetime value.

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## 19.6 USING CLV TO SEGMENT CUSTOMERS

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The goal of the mass-marketing age is the "segment of one" "perceived intimacy" between customers and vendor. Customer segmentation groups customers and then personalizes communications and strategy according to that group's characteristics. Segmentation mainly enables prioritization. Companies can budget their marketing expenditure according to a customer's (current and future) profitability. Jay Abraham, in his seminal work, *Getting Everything You Can Out of All You've Got* says, "until you identify and understand exactly how much combined profit a client represents to your

business, for the life of the relationship, you can't begin to know how much time, effort and... expense you can afford to invest to acquire that client in the first place". This prompts us to move to the next step.

There is a long-standing rule of thumb (The Pareto Principle) that says, 20% of customers represent 80% of profit. However, some have noticed that this top band of 20% is often already "maxed-out", using every service they could ever need, hence giving such a high return but preventing further sales opportunities. These customers need to be retained, but should not be targeted for cross- or up selling. Segmentation does not stop here. Of the 80%, the bottom 20% will be low-profit or unprofitable customers – those with negative CLV (minimum sales or even "dead" accounts). This 20% represents lots of service calls, wasted marketing and only 1% of total profitability. It is highly unlikely that these customers' profitability will improve, so marketing to them is wasted budget. It is far better to market to the remaining middle 60% and budget according to potential profitability.

When marketing to this remaining 60%, precision is the key to get return on investment. By determining customer preferences and his likely behaviour, financial services providers are better able to segment their audience and market the services that their customers require, when they require them. By calculating customers' lifetime value, a company is then able to allocate funds to marketing more accurately, ensuring that the customers most likely to bring the greatest returns (to move up to the "GOLD" bracket) receive the greatest attention in terms of a marketing offensive.

Using CLV to segment customers can also enable organizations to channel lower-profit customers into low-cost sales routes such as internet banking. It may be worthwhile first of all, to contact these customers to ascertain whether they are still using these accounts, or if they simply made a one-off purchase or inquiry. Once those who intend to retain their unprofitable accounts are identified, providers can deal with them in one of the ways detailed above. In particular, companies can think of adopting two types of communication channel strategies based on LTV calculations. These are:

1. Graduated account management strategy
2. Channel migrator strategy

#### **Graduated account management strategy**

- Is based on the existing and future potential value of customers.
- Many B to B companies have implemented a graduated approach where important commercial customers are served by key account managers, medium sized businesses through telephone based account managers and small customers through a call centres.

### **Channel migrator strategy**

- Concerned with customers who migrate from one channel to another.
- This strategy may be driven by a new channel's potential to serve more lucrative customer segments or the opportunities to reduce costs or increase customer value. For instance, low cost airline Easy Jet, sold tickets solely through a call centre but are now encouraging customers to purchase its tickets through the internet.

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## **19.7 CUSTOMER VALUE MANAGEMENT**

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Customer value management as defined by Khalid and Scott is a systematic approach to:

1. Understand what causes customer purchase and repurchase behaviour.
2. Predict the future purchase behaviour of customers and potential customers
3. Maximize future purchase behaviour by managing the predictors .

It is a process that enables businesses to determine how well they address the expectations and needs of prospective and direct customers, distributors and end users, relative to competition.

The overarching strategy of CVM is to deliver a better value proposition than the strongest competitor in each targeted market segment. The premise is that a value proposition is at work, and CVM provides a systematic methodology of modelling the value proposition, relative to competition, by operationalizing the results through process improvements, communicating these improvements to the employees and customers, and linking them to financial performance.

In a customer value management roadmap, there are following management phases:

- Needs and value based segmentation
- Value proposition development
- Product and service delivery
- Business operations metrics

- Integrated channel strategy
- Customer service
- Expanding customer relationship and
- Migrating customers to new channels/segments

### **Importance of CVM: Transformation at Tata Steel**

The implementation of a relationship migration strategy for select accounts has resulted in a win-win situation for Tata Steel as well as for many of CVM companies. Besides increasing business, it has acted as a unifying force in the organization, cutting across functional and hierarchical boundaries. A larger number of people are focused on continually adding more value to the company's customers, thereby challenging them to innovate and stay energized. Creating a rational customer portfolio with discerning customers has resulted in focused relationships with them. It has stopped the precious organizational energies from frittering away.

### **Changing nature of dialogue with the customer**

CVM has resulted in creation of knowledge platforms to relate to the customers across all organizational levels. Broad basing of relationships has shifted the discussion horizon to long-term growth and partnership from transactional and adversarial relationships that were common in the past.

### **Moving from 'opinion-based' to 'data driven' decision making**

The CVM implementation, along with other improvement initiatives has embarked the company on a course to change its culture. As against opinion based decision that were common in the past, CVM has ushered in fact-based, data driven and rigorous analysis.

### **Bringing in accountability in organizational functions**

While the sales manager handling the customer account is the single person responsible for driving the CVM, the process of rigorous review and ownership of improvement ideas by idea owners drives accountability for implementation throughout the organization. This process has helped in transforming ideas into meticulous and time bound implementation. Wherever difficulties are encountered, top management facilitates their debottlenecking. Where required, funds are provided to facilitate implementation of the ideas. Based on rigorous review of CVM implementation, the whole process acquires 'mission-mode' priority in the company.

### **Increased responsiveness to customer needs**

In addition to the idea implementation accountability, after the implementation of the CVM initiative at Tata Steel, there is intense improvement in employees of the company at the bank end. Appreciation of the customer's problems and the changing mind set of a large section of the employees in Tata Steel is one of the key soft benefits of the CVM program.

### **Customer Valuation**

Customer value can be categorized as actual and potential. Understanding both types of value allows enterprises to grow through established customer relationships. Defining the specifics around the equation can be a daunting task. It requires a detailed analysis of a company's customer data. This presents challenges for many, as data can be decentralized or lacking. In most cases an equation to value customers can be created.

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## **19.8 MARKETING IMPLICATION OF CLV**

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Everyone talks about customer lifetime value, but few have actually calculated it. The process is not that difficult.

In the first place, what is lifetime value? It is the expected profit that you will realize from sales to a particular customer in the future. Although it builds on past customer history, LTV is all about the future. It is based, primarily, on the customer's expected retention and spending rate, plus some other factors that are easy to determine. To understand LTV, let's begin with a typical LTV table.

In this table, 100,000 customers are acquired originally. We are following their purchase history for the next three years. The first thing you will notice is that 40% of them disappear after the first year. The retention rate is only 60%. In future years the retention rate grows. The loyalty of retained customers is higher than that of newly acquired customers. As customers stay with you, their number of orders per year and their average order size tends to increase.

**Table 19.1 Customer LTV**

	<b>Acquisition Year</b>	<b>Second Year</b>	<b>Third Year</b>
<b>Customers</b>	100,000	60,000	42,000
<b>Retention Rate</b>	60%	70%	80%
<b>Orders per Year</b>	1.8	2.5	3
<b>Avg Order Size</b>	\$90	\$95	\$100
<b>Total Revenue</b>	Rs16,200,000	Rs14,250,000	Rs12,600,000
<b>Costs</b>	70%	65%	65%
<b>Cost of Sales</b>	Rs11,340,000	Rs9,262,500	Rs8,190,000
<b>Acquisition/Mkt. Cost</b>	Rs 55	Rs 20	Rs 20
<b>Marketing Costs</b>	Rs 5,500,000	Rs 1,200,000	Rs 840,000
<b>Total Costs</b>	Rs 16,840,000	Rs 10,462,500	Rs 9,030,000
<b>Gross Profit</b>	(Rs 640,000)	Rs 3,787,500	Rs 3,570,000
<b>Discount Rate</b>	1	1.16	1.35
<b>Net Present Value</b>	(Rs 640,000)	Rs 3,265,086	Rs 2,644,444
<b>Cumulative NPV Profit</b>	(Rs 640,000)	Rs 2,625,086	\$5,269,531
<b>Customer LTV</b>	(Rs 6)	Rs 26	Rs 53

We are assuming a 70% cost of sales. The cost typically goes down after the first year. The cost of customer service to existing customers is usually lower than that to new customers. It costs you Rs55 to acquire a new customer. This is computed by taking all your advertising and sales costs and dividing this by the 100,000 customers that you acquired. We are assuming that you spend Rs20 per customer per year on subsequent marketing, including the cost of the database that provides the information needed for this table, and is used to provide the personal communications needed to improve the retention rate.

The Gross Profit is simply the revenue minus costs. We have to divide this by a discount rate to get the Net Present Value of the expected profits. The discount rate (based on interest rates) is needed because future profits are not worth as much in today's money as present profits. The formula for the discount rate is:

$$D = (1 + (i \times rf))^n$$

Where D = Discount rate, i = interest rate, rf = the risk factor, and n = number of years that you have to wait. With a risk factor of 2 and an interest rate of 8%, the discount rate in the third year (two years from now) is  $D = (1 + (.08 \times 2))^2$  or  $D = (1.16)^2 = 1.35$ .

The lifetime value is calculated by dividing the cumulative LTV by the originally acquired 100,000 customers. The LTV in the third year is Rs 53. That means that the LTV of the average newly acquired customer is Rs 53 in the third year. In this one number we have encapsulated the retention rate, the spending rate, the acquisition, marketing and goods costs, and the discount rate. It is a wonderful number.

From this table, you can learn quite a lot. As you can see, acquiring new customers is not a profitable activity. Customers, in this case, become profitable only in the second and third years. This is typical. It is why money spent on increased retention has a higher payoff than money spent on acquisition.

We have calculated an average LTV for a group of 100,000 customers. We now have to figure out the LTV of each individual customer. This is done by creating customer segments. How you develop customer segments is an art. It depends on your customer base and marketing program. Segments might be by age (Senior Citizens, College Students, etc.) or by spending habits (Gold, Silver, Bronze) or by product type (Deluxe, Regular, Economy), etc. However you do this, you can redo your LTV table to create a LTV for each segment.

Jane Adams, one of your customers, may be a Deluxe customer, who spends about Rs300 per year. The LTV of the Deluxe customers for example, may be Rs100 in the third year. They may spend an average of Rs200 per year. So Jane Adams third year LTV is Rs150  $((300/200) \times 100)$ . You can set

up a program to compute this number for every customer and put that number into your customer database.

LTV can thus be a valuable tool in your marketing arsenal. You treat customers with high LTV (high expected future profits) differently from those with low LTV. You spend more to retain them. Some customers may even have negative LTV. Why spend a lot of money trying to retain these losers?

The LTV table can be used to evaluate the expected results of new marketing programs before you have spent millions on them. When you come up with a new initiative, estimate what it will do to the retention rate and the spending rate (orders and average order size). Some marketing programs will fail this test. Their benefits will be lower than their costs. They may cause LTV to drop rather than to rise. Don't fund them.

The table can also be used to validate your LTV calculations. All of the numbers shown in the table above are real numbers (not assumed numbers like "awareness"). When the second year arrives, you can go back and see what was your actual retention rate and spending rate. If you have been too optimistic or pessimistic, you can learn that and do a better job next year.

LTV is thus a wonderful marketing tool which costs very little to calculate, and can return rich rewards in terms of improved marketing strategy. You now know how to calculate it. Go forth and make money.

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## 19.9 CASE STUDY

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### **Royal Bank of Canada: Segmenting and modelling skills**

In the area of segmentation and predictive modelling, the Royal Bank of Canada seems to be ahead of the pack. The bank has 1,300 branches, a large ATM network, point-of-sale capabilities and fast growing phone and internet banking services. Almost 90% of routine transactions are handled outside the bank. Products and services run the gamut from trust services and securities trading to personal financial planning and investing.

Royal also has a large mobile banking capability that originates about 40% of its residential mortgages. This sales force works on commission but is not allowed to take business away from branches. It is to



develop its own sources of business that represent new customers to the bank. The push is now on at Royal to personalize and deliver advice to small micro segments through appropriate channels. James Rager, vice chairman of personal and commercial banking, believes the internet will eventually dominate the banking business. So the bank is working hard to learn how to customize offerings via the internet as well as its other electric channels. At the same time, Royal wants to excel at target marketing.

“We will have strategies for each customer that will allow us to anticipate their needs and personalize all interactions that they have with us”, says MrRager. “Based on our segmentation knowledge, we will have pricing strategies and channel offerings for every single customer that are customized to the fullest possible extent. “For example, an existing customer in good standing, who visits the bank’s website to investigate mortgages, will be offered a pre-approval for a mortgage almost immediately.

Royal conducts extensive research on customer’s channel preferences, current as well as anticipated. This allows marketing managers to include channel preferences when devising customized product offerings to micro segments. The engine of all this activity is database technology that provides four key insights into a customer:

- § Likelihood of defection
- § Current and expected value
- § Credit-risk scoring at the client level
- § Channel preferences

Segments are defined in terms of broad behavioural and attitudinal attributes that imply future profitability. In the past, the bank looked only at current profitability and the consequence was that the most profitable customers were seen as a homogenous group. Today, Royal reports success with target marketing after studying channel preferences, combining external and internal data and applying modelling techniques to come up with clearer pictures of micro-segments.

Mr Rager also says that this analysis capability provides a strong sense of where the bank needs to improve its management of the lower profitability segments that is, the system helps to identify steps the bank can take to evolve the loss-makers or profit-neutral clients so that they generate value. The action may be simply directing a low value customer to the direct phone bank. Sales people are trained in how

to find out what is behind channel preferences and to address those issues in ways that will move a customer to other channels. If the customer is uncomfortable with voice-response units, for instance, the salesperson may offer to demonstrate their use. “We migrate customers”, Mr Rager says, “But it’s never forced”.

The customer management system is currently being enhanced with contact management and campaign management software. The idea is that if a customer makes a transaction in a branch, the information about that transaction is immediately available in the call centre or any other channel. Ideally, the information that is provided to the various channels about customers – and about strategies for managing the relationship with customers – will be consistent enterprise-wide.

This is the hallmark of a bank that has its evolutionary path clarified. In essence, it is the ability to leverage relationships with customer and give them the power to control their relationship with the bank. And that is, perhaps, the most powerful retention tool of all. The bank invested and developed a centralized customer database that could project.

- Customer’s lifetime values
- Customer’s grow ability to offers
- Customer’s vulnerability in order to take preventive actions

**QUESTIONS**

- 1) Analyse CRM as a retention tool
- 2) What are other basis on which you can segment customers?

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**19.10 NOTES**

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### **19.11 SUMMARY**

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In [marketing](#), **customer lifetime value** (CLV) (or often CLTV), **lifetime customer value** (LCV), or **life-time value** (LTV) is a prediction of the [net profit](#) attributed to the entire future relationship with a customer. The prediction model can have varying levels of sophistication and accuracy, ranging from a crude [heuristic](#) to the use of complex [predictive analytics](#) techniques.

Customer lifetime value can also be defined as the rupee value of a [customer](#) relationship, based on the present value of the projected future [cash flows](#) from the customer relationship. customer lifetime value is an important concept in that it encourages firms to shift their focus from quarterly [profits](#) to the long-term health of their customer relationships. Customer lifetime value is an important number because it represents an upper limit on spending to acquire new customers. For this reason it is an important element in calculating payback of advertising spent in [marketing mix modeling](#).

One of the first accounts of the term Customer Lifetime Value is in the 1988 book *Database Marketing*, which includes detailed worked examples. Early adopters of Customer Lifetime Value models in the 1990s include Edge Consulting and BrandScience.

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### **19.12 KEY WORDS**

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Customer Time Value, Marketing mix modelling, Customer value management

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### **19.13 SELF ASSESSMENT QUESTIONS**

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1. Define Customer Life Time Value.

2. What are the benefits of CLV?
3. How to calculate CLV?
4. Explain Customer Value Management.

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**UNIT 20 – MANAGING UNPROFITABLE CUSTOMERS AND USING CUSTOMER  
VALUE IN OTHER FIELDS**

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**Structure**

- 20.0 Objectives
- 20.1 Introduction
- 20.2 Managing unprofitable customers
- 20.3 CRM in Manufacturing
- 20.4 CRM in Insurance
- 20.5 CRM in Airlines
- 20.6 CRM in Hotels
- 20.7 CRM in Telecom
- 20.8 Notes
- 20.9 Summary
- 20.10 Key Words
- 20.11 Self Assessment Questions
- 20.12 References

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## 20.0 OBJECTIVES

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After Studying of this unit you should be able to:

- Ø Manage unprofitable customers;
- Ø Explain CRM in manufacturing;
- Ø Describe CRM in insurance;
- Ø Discuss CRM in airline;
- Ø Provide an overview CRM in hotels and
- Ø Examine CRM in telecom firms.

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## 20.1 INTRODUCTION

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Embattled companies are moving toward the realization that without customers, products don't sell and revenue doesn't materialize. They have been forced to become smarter about selling, and this means becoming smarter about who's buying. CRM is also about managing customers and monitoring their behaviors.

In the business-to-consumer (B2C) space, CRM means keeping pace with a savvy and impatient consumer base that is closer than ever to finding your main competitor and more willing to share their bad experience with your prospects.

There is five-part customer divestment framework. First, reassess the context of present customer relationships, looking beyond simple profitability. You may find that the most productive option is to educate customers rather than drop them. In some cases, if you renegotiate the value proposition with them, both of you will win. In other instances, you'll want to migrate customers to other subsidiaries or providers, as long as the move is undertaken and perceived to be conducted in good faith. If it becomes necessary to terminate a customer relationship, use a direct, interpersonal approach. No business can afford to squander its customer base, so divestment should not be boiled down to determining merely



who is profitable and who is not the strategic consequences are too weighty. In the end, the decision about whether to divest might prove to be the toughest customer of all.

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## 20.2 MANAGING UNPROFITABLE CUSTOMERS

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Problem customers can cost your business lots of money, but quickly ejecting them may not be the best way to relieve the burden. Thus deciding to end a relationship with a customer segment or individual can increase profitability, improve employee morale, address capacity constraints, and a business strategy. However, divestment also comes with potential downsides for various constituencies, including employees and remaining customers, both of whom may wonder whether they're next. In addition, ethical and legal consequences — and the risk of bad publicity always loom.

So what's a company to do about unprofitable customers?

- 1. Do not implement an across-the-board price increase.** You could end up having to raise prices so much to make up for the losses that there's no way you could really justify the hike. The consequence will be losing some of your profitable customers.
- 2. Do not selectively allocate costs.** Twenty-five percent of sales does not mean twenty-five percent of overhead. You've got to allocate costs based upon what activities match up with the client. For example, a company had two brands one of which was far more profitable. They decided to allocate 70% of the cost of servicing their customers of the more profitable brand. The problem was the sales people were spending 70% of their time on the brand that only generated 30% of the profits. This kind of selective allocation distorts the true picture of profitability.
- 3. Do not be emotional.** Your decision process needs to be data-driven. For example, a company may contemplate to drop a unprofitable customer thinking that he has been a customer for over 10 years which actually meant he is a unprofitable customer for over 10 years.
- 4. Do not confuse profit and revenue.** Just because a customer is filling your top revenue line doesn't mean that they're impacting your bottom line. It's easy to get enticed by the big revenue figures and forget to do the analysis. You need to analyze customers in terms of driving both your top and bottom line (profit driven volume).

Hence you need to do the following in order to retain the customers who are unprofitable due to various reasons:

1. **Sell the companies additional services or products to attain profitability.** Many times customers are not aware of all the services a provider offers. Some clients can be taken from unprofitable to profitable just by educating them on the other items or services you can provide.
2. **Raise your price levels selectively.** There may be some unprofitable customers who can absorb price increases. You can also raise prices on profitable customers but make sure you are not doing it to make up for the unprofitable ones.
3. **Examine whether you are over-servicing customers.** Anytime you're servicing a customer there is an associated cost. Do you really need to call on that customer once a month? Maybe once a quarter, or once every two months would do.
4. **Separate unprofitable customers into two categories; high-touch and low-touch.** Figure out who is requiring a lot of your time compared to who is requiring less. You may be over-servicing unprofitable customers but additionally you need to ask, 'Are these accounts unprofitable because of your existing overhead?' Once you understand what is the cause of their lack of profitability you can determine the best course of action. You may be able to have your customers serviced from a part of your company that has a lower overhead.
5. **Sell off unprofitable customers, even to a competitor.** If you can't make money off of them, someone else might be able to. If your company is doing \$100,000,000 in sales and you have competitors doing \$15,000,000 in sales with much lower overhead structures, they might love these \$5,000 accounts. The result could be a one-time profit gain for your company plus the benefit of eliminating your unprofitable customers.
6. **Test, test, test.** Test all changes on a small sample of customers. Go through the pitch with thirty accounts and see what their reaction is when you say, "We're looking at doing XYZ." If you get a positive reaction from the majority, then you know it will work.

There are two final things you should bear in mind. The first is that these approaches are not mutually exclusive. Any and all can be tried simultaneously. The second is that there are times

it makes sense to keep unprofitable customers, such as influencers or thought leaders who will help you gain credibility in the marketplace and, hopefully, other customers. If you get a customer that is desirable to other customers (an influencer), you can leverage this customer to gain an additional four to five accounts—that has to be taken into consideration. You can't always assign a rupee figure to the value of an influencer. There are times you will have to make a judgment call as to whether you think this company/customer will be or could be an influencer.

Additionally, you have to understand the impact of your decisions. A company decided to drop certain items from their product line because they were unprofitable. A manager suggested that they should test their idea on their customers. In doing so, they discovered that there was an inter-relationship between those products and some very profitable ones. If they had discontinued the unprofitable items, the result would have been an overall loss of profitability. Therefore, those unprofitable items were similar to the 'influencer' mentioned above where there were other, valid reasons to continue to carry these items.

So don't take the easy way out by raising prices across the board. You have to thoroughly analyze your accounts, take a strategic approach and consider all your options to maximize your overall profitability.

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### **20.3 CRM IN MANUFACTURING**

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The Manufacturing Industry accounts for approximately one quarter of world economic activity. Manufacturing, generally stated, is the use of tools and processing mechanisms that when used together converts raw materials into manufactured goods for various markets worldwide. Companies engaged in manufacturing various products can use CRM as a strategy for better results. The aspects where manufacturing companies can benefit using CRM include:

#### ***Using CRM in all stages of the sales cycle***

For manufacturers, the sales cycle with the customer value extends from the pre-purchase to the re-purchase stage. CRM can prove useful at all stages of the cycle.

- Ø In the pre-purchase stage, manufacturers can enable customers to gain access to the right information through multi-channels. For example, manufacturers of TVs , refrigerators,

enable the customers to call on the toll free number of the call centre, log on to the website for information, visit a dealer or a demo centre, organize exhibitions at various locations etc.

- Ø To make the purchase stage easy for the customer, manufacturers have tie-ups with banks to offer loans to customers where the paper work is taken care of by the manufacturer's representatives. There is lot of importance given to customers in auto sector, where the automobile is brought to the door step for test drive.
- Ø *Post-purchase*: In the post-purchase stage, manufacturers enable customers to access after-sales service through multi-channels and also offer prompt redress to all problems. Registration of service requests can be done on the website of Onida – a manufacturer of consumer durables. Spare parts should be made easily available through the channels and new features that can be added should be offered to customers (for example, conversion of petrol run cars into gas-converted cars offering cheaper running costs).
- Ø *Re-purchase*: In case regular re-purchases need to be made, the customer should be able to do so through an easy and quick process. For example, manufacturers of LPG cylinders should enable customers to get refills easily. Bharat Gas has set up the ebharatgas.com website to enable customers to requisition refill cylinders and HP Gas also offers helplines for single access bookings. In other cases, up gradation offers can be sent to old customers – for example, Maruti offered to buy back old Esteems and offer new Balenos for a bargain.

## **Dealer Management**

Manufacturers selling through a network of dealers need to practice CRM with both sets of customers, primary and secondary. The dealers are the primary customers and need to be given adequate attention. LG set up 'lgdealernet' to enable proper Dealer Management. The features included: order placement and tracking, sales ledger, account statements, sales history, personalised ticker to push information, online account reconciliation, updated dealer schemes. All these features enabled LG to get into a relationship mode with the dealers instead of following a transaction mode. The dealer extranet has been integrated with the MIS part of the ERP system within the company. The online facility has enabled the sales order processing time to be brought down to just 50 seconds enabling an annual saving of 2500 man-hours.

## **Supplier Management**

Thanks to the sharing of data from the online dealer net and the internal ERP system called M project, the suppliers are fed with updated information with regard to production plans, purchase orders and shipping details. The supplier is privy to real time information with regard to inventory parts available with LG and the quality and timing of the deliveries to be made by the supplier in the near future. This helped to reduce the local parts inventory from 11 days to just 3 days. The total purchasing time has also been reduced by 15% thanks to the system. Account information is also available to suppliers through the system. The payment gateway with ICICI Bank has enabled reduction in payment time for the suppliers.

## **Customer Collaborations**

Manufacturers that sell through dealers do not get the benefit of being in direct contact with the ultimate customers – the consumers of the products. Therefore, the manufacturers should create opportunities for direct interaction with consumers and practice CRM for better results. Direct interactions can be used to get valuable feedback for improvement of products. These interactions can be done through the website, trade fairs, home visits, etc. beta versions of new software products are given by software manufacturers to customers to get feedback and suggestions for improvement. Also, manufacturing companies can help customers use their products better through useful interactions. For example, to promote the concept of cooking with microwaves, LG has organized cookery classes for its customers.

## **Product Customization**

Manufacturers can practice CRM by enabling customers to get customized products that would be of greater benefit to them. For example, Nike allows customers to decide the position of the logo on the shoe.

A paint manufacturer in India offered customers the opportunity of bringing a colour shade to the dealer and buying paint that matched that very shade. By getting the specifications from customers, manufacturers can custom-create products depending on the exact requirements.

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## **20.4 CRM IN INSURANCE**

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The insurance industry has been booming in India and companies are going overboard to get and retain customers. CRM has provided to be an effective tool in the quest for better customer relationships for the insurance companies. The aspects where insurance companies have been able to apply CRM concepts include:

## **Personalization of Offers**

In an underserved market like India, insurance companies have appointed many trained ‘insurance advisors’ who regularly establish contact with prospective customers and undertake the job of explaining to them the benefits of the insurance policies. In order to extend the reach of the company, various insurance companies regularly advertise on mass media as well as popular internet websites to establish contact with potential customers. For example, an insurance company offer a potential benefit through a banner on rediff.com website and seeks a few details from the prospects to ensure that they can draw up a proper profile of the prospect. Thereafter, based on the financial objectives of the prospect and the demographic profile, a suitable insurance product can be selected and offered to the prospect for investment.

## **Regular Communication with Customers**

Insurance products are intangible and customers are often left high and dry to understand the various aspects concerning the policy that they have bought. Therefore, to ensure that customers are kept in the know, regular communication is required from both the company to the customer and also the sales agent to the customer. This is because the agent is the person who has won the customer’s confidence and represents the company. The customer generally imposes tremendous faith in the agent and the clarifications regarding the customer’s queries in touch with the customer, the insurance company comes to know of the other unmet insurance needs that the customer may have. This results in cross-selling and up-selling opportunities.

## **Agents Adopting a Customer-centric Approach**

An insurance company called Travelers conducted research to understand the causes leading to customer defections and the role that agent could perform to arrest the defection. The study showed that 65% of customers who defected had not spoken to the agent but 80% of customers who had spoken to the agent during the year had not left. The company developed five annual ‘touches’ based on the insurance product that the customer had purchased. These were: designing the right message to be sent; deciding a suitable frequency of the message being sent to the customer; the desired channel of interaction with the customer; the timing of the message and the likelihood of defection. Using database analysis and modelling, customers could be segregated into segments based on lifetime value calculations and

profitability. Agents were kept informed of the desirability of each customer so that they could fine-tune their efforts while dealing with these customers. In India, ICICI Lombard's contact centre agents can resolve customer requests better using response templates, auto correct features and categorize complaints for easier reporting and tracking, Branches located in remote areas use features like chat or email to service customers.

### **Sales force Automation**

To ensure higher impetus on CRM initiatives, sales force automation can be of help. This will offer more customer-facing time for the salespeople. All routine data entry tasks could be automated or outsourced to data management centres. Online access to all required data information will help salespeople obtain current information as and when they require. Special access can be given to the agents to ensure that they are able to process customer requirements quickly and efficiently. This will result in integration of front end and back end data. Automation will also result in lesser costs and increased profitability for the company. By getting more customer-facing time, salespeople would be able to focus on the unmet needs of customers. For example, healthcare insurance is becoming a critical need for many Indians though traditionally life insurance has been the popular insurance product in India. So, given enough opportunity, the salespeople can explain the benefits of healthcare insurance to prospective customers and rope in more customers or undertake cross-selling for the existing customers. When the salespeople enter the transactions into the system, the company can analyse these to gain insight into the noteworthy market trends. ICICI Lombard's agents and intermediaries making use of the Online manager to log the transactions related to account creation, payments and policy issue. The system handles about 50,000 transactions a week. For the corporate businesses, the company used a system called PREMIA that had the workflow comprising of quotation, underwriting and policy issue. The system handles around 7,000 transactions per week and has around 250 database users. Agents, full time employees, and customers use the company's claims processing system.

### **Unification of Data – Single Customer View**

Insurance companies have been known to operate as silos with hardly any data sharing across the various divisions and departments. This results in the same customer being targeted by the various divisions (catering to diverse insurance needs like home, life, automobile, healthcare, etc.) and resulting in irritation for the customer as well as waste of efforts on the part of the insurance company. However, Standard Life Group in the UK overcome the hurdles posed by its various divisions to ensure sharing of

data and created unified customer views of its customer. It had four divisions – life insurance, general insurance, banking and healthcare. The multiple systems prevalent within the company prevented it from generating a single view of the customer. The company began by matching of data across its divisions – taking into account the customer names, contact details, etc. thereafter, it began data extraction after ensuring that the matching process was properly done. Then a major hurdle was encountered with regard to the ‘ownership’ of the customer since multiple divisions’ staked claims on the same customer. The company then created rules for the ‘primary’ ownership of the customer and created ‘engagement rules’ for the other divisions which allowed them to directly sell the customer belonging to another division. In India, ICICI Lombard’s customer representatives can access single screen customer data which offer a 360 degree view of the customer containing the customer contact information, profile, the appointments with the customer and service requests irrespective of the channel used for communication.

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## **20.5 CRM IN AIRLINES**

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The airline industry has witnessed tremendous growth in the recent past and continues to grow at an unprecedented pace. The cut-throat competition among the plethora of airlines has resulted in them investing in CRM initiatives to gain competitive advantage over rivals. The noteworthy aspects of the CRM practices undertaken by the airline industry include:

### **Multi-channel Customer Access**

To facilitate customers in gaining easy and convenient access the airline offers customers-websites, call centres, travel agents, emails, etc. Various airlines have set up strategic partnerships with other vendors for facilitating customers. For example, Air Deccan has tied up with petrol pumps to enable customers to book tickets using their access points. Apart from that, traditional travel agents continue to serve the customers they have nurtured over the years. All airlines enable customers to book tickets through their websites and also through partner portals like [www.indiatimes.com](http://www.indiatimes.com) which offers air tickets through a bidding process. Likewise, call centres have been set up to assist customers for booking of tickets and other transactions like rescheduling of flights and giving information to customers. In fact, Air Deccan gives the schedule of flights on a daily basis with regard to delays in departure and expected time of arrivals on its site [www.airdeccan.net](http://www.airdeccan.net).



## **Automation and Co-creation of Value**

A lot of processes have been automated leading to lesser time taken to service customers. The initiatives in this regard include: remote check-in through the internet website or through the customer's mobile phone; self-check-in at the airport through automated machines. A lot of routine queries are answered through Interactive Voice Response Systems (IVRS) – these help to cultivate more fruitful customer relationships owing to enhanced value through co-creation of value through customers. For round trips, one time check-in also help in better CRM.

## **Segmentation and Loyalty Schemes**

To ensure proper focus on valuable customers with greater lifetime values, airlines resort to segmentation. Privileges are offered according to the worth of the customer and they ensure better customer retention. For example, Jet Airways has created 5 different levels of membership for its Jet Privilege Programme which also enables customers to be upgraded to higher levels on accomplishments of the required spending levels. In this programme, the customer gets to accumulate JP (Jet Privilege) miles as and when they undertake the travel. These can later be redeemed for free trips or other benefits (such as companion travel, etc.). The registered members are offered personalized access to the web based system and transactions can be undertaken by them as well as giving them all information regarding to their accounts at one point. These customers can opt for telecheck-in or web check-in facilities. In case these customers wish to check in through the airport countries, there are special Club Premiere countries which enable quicker check-in. they are also offered complimentary upgrade vouchers and lounge access at some airports. They are also assured guaranteed reservation 24 hours before departure. Apart from the before mentioned privileges, these customers can also carry excess baggage on flights without any penalties.

## **Personalization**

Airlines are offering personalization to ensure better CRM. Enabling customers to choose their seats at the time of ticket booking. They also enable customers to make a choice with regard to their preferred in-flight food. The entertainment system in airlines also offers a wide choice of music and visual entertainment choices to suit the exact preferences of individual customers. Customers requiring special care such as challenged customers needing wheelchairs or mothers with infants are offered required assistance.

### **Reduced Hassles**

Customers are often hassled owing to the imperfections in the functioning of the airline processes or goof-ups like baggage being lost. United Airlines has launched RFED tagging for baggage to ensure that they are tracked easily. United Airlines had created the 'Make Amends' programme to ensure that customers were provided proper service. Delays in flights were quickly communicated to customers to ensure that they are not hassled or inconvenienced. Air hostesses have been known to provide special pillows to mothers travelling with infants. Likewise, customers can ask for blankets in case the inside temperature becomes too chilly. A range of newspapers and magazines are available for customers for in-flight reading.

### **Enhanced Value through Strategic Tie-ups**

Airlines have also tied-up with various other service providers to offer enhanced value to customers. For example, Air Sahara tied up with Taj Group to offer the passengers a stay at the Taj Hotel. The tie-ups can be done with various parties for providing various value enhancements. Jet Airways has had a strategic tie-up to launch a co-branded credit card. Likewise, British Airways has tied up with Diners Card for a special credit card that offers more privileges for the customers when they fly using the airline. Similarly, tie-ups with insurance service providers can be used to offer insurance to customers as a package offer whenever they book the flight tickets. Sometimes, the low cost airlines enter into strategic tie-ups to reduce costs by outsourcing various service functions to outside agencies. In India, Air Deccan has been known to have made good use of this ploy. On the other hand, competence can be enhanced through tie-ups in areas where the airline lacks competence. For example, the IT functions in airline can be handled through strategic partnerships with competent IT firms. All these initiatives result in enhanced customer value and better CRM.

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## **20.6 CRM IN HOTELS**

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The hotel and hospitality industry has successfully used CRM to develop more fruitful customer relationships. CRM initiatives in hotels have been most noteworthy in the following areas:

### **Enhanced Customer Service**

Customers that really matter to the hotel (which they can find out by computing their life time values) are pampered every bit to ensure continued loyalty and retention. They are offered

services like airport pickup and drop services, complimentary use of various hotel amenities, etc. the services made available to the customers can really prove to be a great help and attraction for the customers. For example, Oberoi Hotels has tied up with Atlas Luxury Explorer to offer customers to browse the best-of-the-best destinations around the world using its unique, interactive satellite map. Also, Oberoi Hotels offers customers an 'Exclusive Directory' which offers the customers various privileges – such as, they can call up the concierge of the hotel which they would be staying in and fix up various services in advance so that they can use their time fruitfully during their stay at the hotel.

### **Features that Facilitate Greater Work Fulfilment**

Most travelling miss the conveniences that they are used to at the office and at home and therefore hotels are going overboard to provide services that can enable the travellers to avail the best of the offerings. For example, the Oberoi Hotels are offering high speed internet connectivity to its customers and also providing 'Satellite Conferencing' for its customers to ensure that they really conduct business with all the vigour that they are used to doing in their own offices. Likewise, the Taj group offers wi-fi connectivity and video conferencing facility at its hotels. Also, the Taj offers guests the facility of having all incoming calls send at SMSs in case the guest is out of the hotel so that do not miss out on any calls.

### **Access to Consolidated Data**

The transactional data arising out of the various transactions taking place across the various properties of the hotel chain needs to be consolidated and analysed to give indicators regarding the customers. The data can also help to generate single customer views. The Oberoi Hotels have the Property Management System which integrates various hotel functions like the guest check-in, billing, room occupancy and revenue applications at the various individual hotels, the chain owns around the world. The system is also fed with the data from the stand-alone system like the touch screen based Point of Sales System that is used for creating the bills at the restaurants, health clubs and laundry. Likewise, the Taj Group has created the Customer Information System (CIS) which offers complete customer profiles at the click of the mouse.

## **Focus on Loyal Customers**

Hotels are giving emphasis to customer retention initiatives rather than only focusing on customer acquisition. Loyalty schemes are being offered like the 'Oberoi Advantage' which enables frequent guests at Oberoi to accumulate reward points with every visit. These can be redeemed for complimentary stays at select Oberoi Hotels and Resorts. The Taj Hotels gives special emphasis on the retention of customers and maintains the special requests made by a customer during his stay so that the next time he comes, the hotel is prepared in advance to cater to his preferences.

## **Multi-channels**

Hotels have also invested in multiple channels for enabling customers to gain easy access. Therefore, they have set up websites that can be used for making reservations or other transactions. Travel agents have been signed up to sell the hotel's services to their clients. The customers can also call up the salespeople of the hotel and undertake transactions on the telephone. Both the Oberoi and the Taj group have set up interactive websites for facilitating customers online.

## **Investment in CRM software**

Telecom companies like Tata Teleservices has invested in a CRM package – oracle CRM to ensure that they can actually offer the benefits to the customers. Likewise, Bharti Group (the owner of the Airtel brand) used the SAS software to interpret customer behaviour using the transactional data. Using the software, they understood that identified dropped calls and wrong tariff plans as some of the culprits for the churn. By taking necessary action, the company managed to bring down the churn rate from 3% to 2% when the industry average was 5-6%.

## **Usage and Unmet Needs**

By interpreting the usage made by the customers and also taking into account their demographic and psychographic profile, the telecom service providers can gauge the unmet needs that the customer may have and offer the same. For example, Airtel has begun the Airtel Live! Feature which offers young customers the opportunity to download movie clips, music in digital format and also ringtones. By offering added value to the customers, Airtel is able to ensure higher customer satisfaction. Also, through value

## **Strategic Partnerships for Higher Customer-need Fulfilment**

In order to ensure that the customer is offered all the services that they seek thereby providing a total solution hotels have created strategic partnerships with various service providers. At a very basic level, they have tie-ups with credit card companies to enable customers to make payments through the credit cards. On the other hand, they have tie-ups with travel services to enable customers go for sightseeing tours or business trips in cars or luxury buses. Hotels also have tie-ups with a wide variety of speciality service providers to ensure that customers who book the hotel for a wedding reception are provided a one-step shop solution through the hotel.

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## **20.7 CRM IN TELECOM**

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The mobile telephony business is highly competitive and companies have gone overboard in trying to woo the customers with attractive rates, value added services, freebies, etc. In India, the private players launched a number of attractive schemes that grew the customer base and resulted in tremendous growth for the industry. However, the price wars among the players created high churn rate and customer defection became a cause for serious concern for the mobile telephony companies. In order to ensure that customers are retained and their lifetime values realized by the companies, they have launched a number of noteworthy CRM initiatives that include the following:

### **Customer Friendly Processes**

The users of the state-owned BSNL landline telephones have had to encounter tremendous hardship for availing the services over the years. But the mobile telephony services took care to ensure that the processes were all made customer-friendly. This meant that the distribution was made more intensive (by roping in the grocery stores to sell the prepaid cards); customer care cells for addressing all issues related to customers; payment of bills could be done through multi-channels – all processes were designed keeping the customer's convenience in mind. The bills were created with all the necessary details to ensure total transparency and remove all doubts in the customer's mind with regard to the charges that he was paying.









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## 20.9 SUMMARY

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The widespread use of customer relationship management (CRM) applications has provided companies with increasingly detailed insights into the profitability of their individual-level customer relationships. Historically, this information has primarily been used to identify the most profitable customers and to define ways for serving them in an optimal manner. Nowadays, however, companies have become more aware of unprofitable clients, and the fact that these relationships can account for a substantial share of their total customer base. Drawn from a series of research projects conducted over the last few years, A six-step approach for dealing with such unprofitable customers was proposed . The ABCs of Unprofitable Customer Management:

*Avoid their acquisition in the first place,*

*Bear in mind potential rescue operations,*

*Catch the possibility of abandonment,*

*Draw up a cost–benefit analysis,*

*Ensure familiarity with your environment, and*

*Facilitate biting the bullet.*

We also provide a series of recommendations regarding how best to break up with customers, in order to ensure that firms can separate themselves from unprofitable accounts in the least painful way.

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## 20.10 KEY WORDS

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CRM in Telecom, CRM in Hotels, CRM in Manufacturing, CRM in insurance

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## 20.11 SELF ASSESSMENT QUESTIONS

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1. Explain how to manage unprofitable customers
2. Describe CRM in manufacturing.

3. What are the benefits of CRM in banking?

4. Explain the value of customers in service industry.

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## 20.12 REFERENCES

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