

**RETAIL MANAGEMENT – LECTURE 4**

**CHAPTER 4 – CUSTOMER BUYING BEHAVIOR**

**Overview**

Customer information processing and decision-making is the focus of this topic, which includes which stores to patronize, which distribution channels to use, and which products and services to purchase. It describes the stages that customers go through when making purchase decisions, as well as the factors that influence their decision-making process and their purchasing decisions. Rather than developing unique offerings for each individual customer, retailers focus their efforts on groups of customers (market segments) who have similar needs and purchasing processes. The topic comes to a close with a discussion of how these market segments are established. Then, based on the information about the purchasing process, discuss how retailers can identify the market segments that will be the focus of their retail marketing strategy.

**Desired Learning Outcomes**

1. Discuss how do customers decide which retailer to go to and what merchandise to buy
2. Explain the social and personal factors affect customers purchase decisions
3. Elaborate on how can retailers get customers to visit their stores
4. Discuss how technology affect the future multichannel base on customer shopping experience.

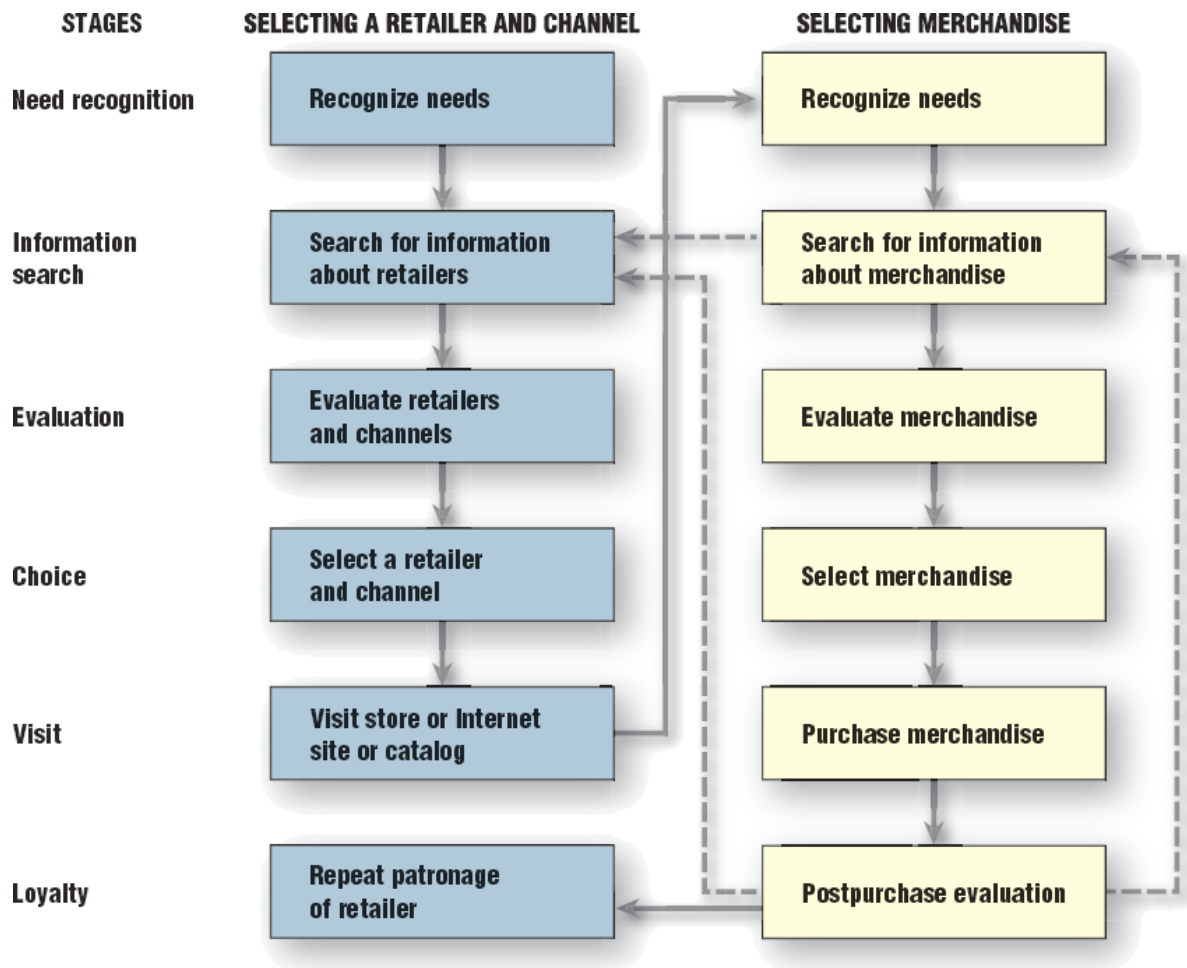
## **CUSTOMER BUYING BEHAVIOR**

### **Learning Objective 1 - The Buying Process**

#### Stages in the Buying Process

The buying process— the steps that consumers take to choose a retailer and distribution channel, as well as to purchase a specific item. The solid lines in the exhibit suggest that the purchasing process is linear, which is supported by the data. It is first necessary to choose the channel, then the retailer, and finally the specific items to be purchased. Customers go through five stages for each of these decisions, starting with a need for recognition and ending with a desire to remain loyal.

Customers are being influenced by retailers as they go through the purchasing process in order to encourage them to purchase their merchandise and services from them. The stages of the purchasing process are discussed in detail in the following sections.



### Need Recognition

When consumers recognize that they have an unmet need, the purchasing process is elicited and begins. The existence of an unsatisfied need occurs when the desired level of satisfaction of customers differs from their current level of satisfaction.

### Types of Needs

- **Utilitarian Needs** – When purchases are used to complete a specific task, the customer is satisfied. Shopping should be simple and effortless, such as at Sam's Club or a grocery store.

**Hedonic needs** – When purchases fulfill a need for entertainment, emotional, and recreational experience, such as in department stores or specialty stores, the customer is satisfied.

Stimulation

- Ex: Background music, visual displays, scents
- Satisfy need for power and status
  - Ex: Canyon Ranch – upscale health resorts
- Adventure
- Treasure hunting for bargains

### **Conflicting Needs**

Cross-shopping refers to the practice of purchasing both high-priced and low-priced merchandise, or of patronizing both expensive, status-oriented retailers and low-priced retailers at the same time.

### **Stimulating Need Recognition**

First, customers must recognize that they have unmet needs before they will be motivated to visit a store or purchase merchandise on the internet. Sometimes an event in a person's life, such as Juana's upcoming interviews, will serve to arouse these desires in them. Retailers, on the other hand, employ a variety of strategies to stimulate unmet needs. Advertising, e-mails, direct mail, publicity, and special events all serve to inform customers about the availability of new merchandise or promotional pricing.

### **Information Search**

Following the identification of a need, customers typically seek information about retailers, distribution channels, and products that will assist them in satisfying the need.

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- Amount of Information Search Depends on the value from searching versus the cost of searching
- Factors Affecting Amount of Information Search

Product Characteristics

Complexity

Cost

Customer Characteristics

Past experience

Perceived risk

Time pressure

Market Characteristics

Number of alternative brands

Sources of Information

- Internal

Past experiences

Memory

- External

Consumer reports

Advertising

Word of mouth

How Can Retailers Limit the Information Search?

- Information from sales associates
- Provide an assortment of services
- Provide good assortments
- Everyday low pricing

- Credit

### **Internet, Information Search, and Price Competition**

- Significant impact on consumers' ability to gather external information. • The number of stores visited is no longer limited by physical distance between locations.
- Low-cost access to information about the product's quality and performance

By providing better services and information, retailers who use the Internet as a channel can differentiate their offerings.

Multiattribute attitude model:

The attributes or characteristics of a retailer, a product, or a service are viewed as a collection by customers. Forecast the customer's evaluation of a retailer, product or service based on the retailer's performance on relevant attributes. a retailer, product or service the significance of those characteristics in the eyes of the customer

Information Needed to Use Multi-Attribute Model

- Alternative Consumer Considering
- Characteristic/Benefits Sought in Making Store and Merchandise Choices
- Ratings of Alternative Performance on Criteria
- Importance of Criteria to Consumer

Getting into the Consideration Set

- **Consideration set:** during the selection process, the set of alternatives that the customer considers
- Retailers develop programs influencing **top-of-mind awareness**

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Methods for increasing the chance of store visit after getting into the consideration set

- Increase the performance beliefs in your store while decreasing the performance beliefs in your competitor's store.

- Intensify the significance of the issue The Importance of Attributes in Which You Have a Competitive Advantage

- Include a new benefit in which you perform exceptionally well.

Purchasing the Merchandise or Service

Customers do not always purchase a brand with the highest overall evaluation.

- It is possible that the highly rated item will not be available in the store. What strategies can a retailer use to increase the likelihood that customers will convert their product evaluations into purchases?

Post purchase Evaluation

Satisfaction

- An evaluation of how well a store or product meets or exceeds the expectations of customers after they have purchased it. Becomes part of the customer's internal information that affects future store and product decisions

#### **Learning Objective 2 – Types of Buying Decisions**

Extended Problem Solving - Consumers devote time and effort analyzing alternatives

High financial or Social Risk

- Financial risks – purchasing expensive products or services
- Physical risks – purchases that will affect consumer's health and safety
- Social risks – consumers will believe product will affect how others view them

What do Retailers Need to do for Customers Engaged in Extended Problem Solving

- Provide a Lot of Information

Use Salespeople rather than advertising to

Communicate

with customers

- Reduce the Risks

Offer Guarantees

Return Privileges

- Limited Problem Solving - Purchase decisions process involving moderate **amount of effort and time**
  - Customers engage in this when they have had prior experience with products or services
  - Customers rely more upon personal knowledge
  - Majority of customer decisions involve limited problem solving

What do Retailers Need to do for Customers Engaged in Limited Problem Solving?

- If the Customer Is Coming to You, provide a Positive Experience and Create Loyalty
  - Make Sure Customer is Satisfied
  - Provide Good Service, Assortments, value
  - Offer Rewards to Convert to Loyal Customer
- If the Customer Goes to Your Competitor's Store, Change Behavior
  - Offer More Convenient Locations, Better Service and Assortments

Encouraging Impulse Buying

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- Impulse buying: one common type of limited problem solving
- Influence by using prominent point-of- purchase (POP) or point-of-sale (POS)

Have Salespeople Suggest Add-ons

Have Complementary Merchandise Displayed Near Product of Interest

Use Signage in Aisle or Special Displays

Put Merchandise Where Customers Are Waiting

Some Prior Buying Experience

- Habitual Decision Making - Purchase decision process involving little or no conscious effort
  - For purchases that aren't important to the consumer
  - For merchandise consumers have purchased in the past
  - For consumers loyal to brands or a store

### Customer Loyalty

- **Brand Loyalty**

Committed to a Specific Brand

Reluctant to Switch to a Different Brand

May Switch Retailers to Buy Brand

- **Store Loyalty**

Committed to a Specific Retailer

Reluctant to Switch Retailers

What do Retailers Need to do for Customers Engage in Habitual Decision Making

- If the customer habitually comes to you, reinforce behavior
  - Make sure merchandise in stock
  - Provide good service
  - Offer rewards to loyal customer
- If the customer goes to your competitor's store, break the habit
  - Offer special promotions

### **Learning Objective 3 – Social Factors Influencing the buying Process**

#### **Family Influences Buying Decisions**

When families make purchasing decisions, they frequently take into account the requirements of all family members. All members of the family may participate in the decision-making process when selecting a vacation destination, for example. In other cases, a family member may take on the role of decision-maker on their own initiative.

- Purchases are for entire family to use
- Whole family participates in decision making process
- Retailers work to satisfy needs of all family members

**Reference Groups** - One or more people who a person uses as a basis of comparison for beliefs, feelings, and behaviors are included in this category. As we discussed in the previous section, a consumer may have a variety of different reference groups, with the family being the most important of these, according to the consumer.

- A reference group is one or more people whom a person uses as a basis of comparison for beliefs, feelings and behaviors.
- Reference groups affect buying decisions by:

**Offering information**

Providing rewards for specific purchasing behaviors

Enhancing a consumer's self-image

**Culture** is the meaning, beliefs, morals and values shared by most members of a society

- Western culture: individualism
- Eastern culture: collectivism
- Subcultures are distinctive groups of people within a culture

**Learning Objective 4 – Market Segmentation**

The preceding discussion focused on

- (1) how individual customers evaluate and select stores, channels, and merchandise and
- (2) the factors affecting their decision making.

- **Geographic** segmentation groups customers according to where they live.
- **Demographic** segmentation groups consumers on the basis of easily measured, objective characteristics such as age, gender, income, and education.
- **Geodemographic** segmentation uses both geographic and demographic characteristics to classify consumers.
- **Lifestyle, or psychographics**, refers to how people live, how they spend their time and money, what activities they pursue, and their attitudes and opinions about the world in which they live.
- Buying situations can influence customers with the same demographics or lifestyle.
- Benefit segmentation groups customers seeking similar benefits.

### Composite Segmentation Approaches

There is no segmentation strategy that meets all of the criteria. For example, segmenting customers based on demographics and geography is ideal for identifying and gaining access to them, but these characteristics are frequently unrelated to the needs of the customers. As a result, these approaches may not indicate the actions that are required to attract customers in these market segments. Knowing what benefits customers are seeking, on the other hand, is important for designing an effective retail offering; the challenge is identifying which customers are seeking these benefits. As a result, composite segmentation makes use of a variety of variables to identify customers in the target segment based on the benefits they seek, their lifestyles, and their demographics, among other things.

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