

COURSE: FUNDAMENTALS OF MARKETING

LECTURE 5: CONSUMER AND MARKET BEHAVIOUR

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Lecture learning outcomes:

At the end of the lecture, you will be able to:

- i.** Understand the concept of consumer behavior
- ii.** Discuss the concept of consumer behavior with reference to marketing
- iii.** State the role of consumer behavior in the marketing strategy of a product

Consumer Behavior

Consumer behavior is helpful in understanding the purchase behavior and preferences of different consumers. Consumers differ in terms of sex, age, education, occupation, income, family set-up, religion, nationality and social status. Because of these different background factors consumers have different needs and only buy those products and services which they think will satisfy their needs. In marketing terminology, specific types or group of consumers buying different products (or variation of the same basic product) represent different market segments.

Consumer behavior is a process, and purchase forms one part of this process. There are various endogenous psychological and exogenous environmental factors which influence this process. All these factors and the type of influence which they exert on an individual's consumption behaviors can be understood and analysed. Moreover, some of these factors can be further influenced by specific elements of the marketing strategy, so that the consumer behavior process results in a definite purchase decision. To the extent that the marketer can understand and manipulate the influencing factors, that can predict the behavior of consumers. Though prediction can never be absolutely accurate, it certainly reduces the risk associated with different marketing strategies. Thus, the importance of consumer behavior lies in the fact that behavior can be understood and influenced to ensure a positive purchase decision. The marketing manager's interest lies to ensure that marketing strategy results in purchase of the product.

Consumer behavior 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.

1. **According to Engel, Blackwell, and Mansard**, ‘consumer behavior is the actions and decision processes of people who purchase goods and services for personal consumption’.

2. **According to Loudon and Bitta**, ‘consumer behavior is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services’.

The behavior that consumers display in searching for, purchasing, using, evaluating and disposing of products, services and ideas. A discipline dealing with how and why consumers purchase (or do not purchase) goods and services. Consumer behavior can be thought of as the actions, reactions, and consequences that take place as the consumer goes through a decision-making process, reaches a decision, and then puts the product to use.

The definition reveal two central themes about consumer behavior:

1 It is a process of actions covering purchase, usage and/or disposal.

2 It involves individual or group consumers in goods, services, ideas and experiences.

Consumer behavior is about how consumers behave in situations involving goods, services, ideas and experiences. The situations could cover pre-purchase, purchase and post-purchase. The situations could be for trying something new (for example, a new food item offered by a sales promoter in a supermarket), buying a new purchase (for example, a car), making a repeat purchase (for example, buying the same brand of milk), changing a service provider (for example, your internet or telephone provider), supporting a public service campaign (for example, slowing your driving speed) or considering a purchase but not eventually buying it (for example, travel insurance).

Consumer behavior is defined as the behavior that a consumer displays in searching for purchasing, using, evaluating and disposing of products and services that he expects will satisfy his needs. The study of consumer behavior enables marketers to understand and predict consumer behavior in the marketplace. It is concerned not

only with what consumers buy, but also with why, when, where, and how they buy it. Consumer research is the methodology used to study consumer behavior. It takes place at every phase of the consumption process: before the purchase, during the purchase and after the purchase. Consumer behaviour focuses on how individuals make decisions to spend their available resources on items related to consumption. To succeed, businesses need to know everything they can about consumers. They need to understand the personal and group influences that affect consumer decisions and how these decisions are made. Consumer behaviour is important as it is the essence of marketing. It helps the marketer to provide the desired value to customers. To understand each customer and be able to satisfy all his needs in a market is not possible as the needs vary a lot. Most of the organizations do not have the capability to serve the widely varying needs. So the best option for an organization is to select customers whose needs can be matched with its capability to serve them.

The term consumer behaviour, generally, describes two diverse kinds of consuming entities: the personal consumer and the organizational consumer. The personal consumers are those who use goods and services for their own use or for the household requirements or as gifts. The end users or ultimate consumers are the ones who buy products for final use. The organizational consumer, however, includes profit-making and non-profit businesses, government agencies and institutions and all those who buy products, equipment and services to run their organizations.

Nature of Consumer Behavior

- a. Marketing factors such as product design, price, promotion, packaging, positioning and distribution.
- 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.

2. Undergoes a constant change:

Consumer behaviors 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.

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.

4. Varies from region to region and country to county

The consumer behavior 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 behaviour.

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 varies across the states, regions and countries. It may differ depending on the upbringing, lifestyles and level of development.

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 the organization 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

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.

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.

8. Improves standard of living

The buying behavior 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.

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.

Scope of Consumer Behavior

Demand Forecasting: Consumer behavior helps in the forecasting of demands for the business. Business can identify the needs and wants of the customers by understanding their behavior. They can easily find out their unfulfilled needs and demands. If they get a clear idea of what customer needs, a business can design their products accordingly. It will help them in the forecasting of demands for products by understanding their behavior. The business will be able to identify the market opportunities available to them.

Marketing Management: Marketing has an important role in the successful functioning of every business. Better understanding of customer needs, problems and expectations will help the business in framing sound marketing strategies. If a company is able to do marketing effectively it can attract more and more customers. Understanding customer behaviour will help companies to have better knowledge about their customers. This will ultimately help business in conducting their marketing in a better way.

Selecting The Target Market: Consumer behaviour helps in identifying target customers from the market. Study of customer behaviour identifies all customer segments with unique and distinct needs. It helps in segmentation of the overall market into different groups. Grouping of customers and identification of their needs will help business in serving them better. The business will be able to design their products in a better way as per the needs and wants of their customer. It makes clear to businesses who are their target customers and what they want.

Market Mix: Designing an accurate mix of important elements like product, price, place and promotion are important for every business. It helps in finding out the dislikes and unfulfilled wants of customers. This helps marketers in designing the optimum marketing mix for improving the effectiveness of marketing strategies. The proper marketing mix will help marketers to attract more and more customers thereby increasing the profit.

Educating Customer: Consumer behaviour helps marketers to identify how customers spend on their buying decision. By understanding their behaviour marketers can easily guide their customers about how they can improve their buying decisions. They can suggest ways to save their money and guides them with better options available in the market. Customers get aware of different opportunities available to them as per their behaviour.

Assists in Designing Product Portfolio: Designing the right product portfolio is a challenging task for every business. Every business should design such a portfolio consisting of all class of products. Consumer behaviour helps in identifying the class and requirements of peoples. This helps in designing products as per people's needs and include in the product portfolio of the company. This way business is able to design the optimum product portfolio and able to serve its customers in a better way.

Applications of consumer behaviour:

1) Analysing market opportunity: Consumer behaviour study help in identifying the unfulfilled needs and wants of consumers. This requires examining the friends and conditions operating in the Marketplace, consumers lifestyle, income levels and energy influences. This may reveal unsatisfied needs and wants. Mosquito repellents have been marketed in response to a genuine and unfulfilled consumer need.

2) Selecting target market: Review of market opportunities often helps in identifying distinct consumer segments with very distinct and unique wants and needs. Identifying these groups, their behavior and how they make purchase decisions enable the marketer to design and market products or services particularly suited to their wants and needs. For example, a study revealed that many existing and potential shampoo users did not want to buy shampoo at a high price and would rather prefer a low price package containing enough quantity for one or two washes. This finding led companies to introduce the shampoo sachet, which became a good seller.

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. Where too, consumer behaviour study is very helpful in finding answers to many perplexing questions. The factors of marketing mix decisions are product, price, promotion, distribution

4) Use in social and non profits marketing: Consumer behaviour studies are useful to design marketing strategies by social, governmental and not-for-profit organisations to make their programmes more effective such as family planning, awareness about AIDS.

5) Consumer Involvement: Consumer involvement is defined as a state of mind that motivates consumers to identify with product/service offerings, their consumption patterns and consumption behavior. Involvement creates within consumers an urge to look for and think about the product/service category and the varying options before making decisions on brand preferences and the final act of purchase. It is the amount of physical and mental effort that a consumer puts into a purchase decision. It creates within a person a level of relevance or personal importance to the product/service offering and this leads to an urge within the former to collect and interpret information for present/future decision making and use. Involvement affects the consumer decision process and the sub processes of information search, information processing, and information transmission.

As Schiffman has put it —Involvement is a heightened state of awareness that motivates consumers to seek out, attend to, and think about product information prior to purchase. It is the perceived interest and importance that a consumer attaches to the acquisition and consumption of a product/service offering.

Types of Consumer Involvement: Depending on whether the involvement is short term or long term, consumer involvement could be of two types, viz., situational and enduring.

1. **Situational involvement:** This is a state of arousal directed towards attaching relevance to a person/object/situation for a short term. As an affective state, it creates a level of involvement when a person thinks about a particular person/object/situation. It is specific to a situation and is thus temporary in nature. It could vary from low to high, depending upon the situational factors. For example, a middle aged lady suddenly decides to gift a laptop to her son on his birthday. She is not techno savvy and has little interest with the product category. She goes to the electronics mall and visits the various stores that sell computers and laptops. She collects information on the product features, prices, etc and finally takes the help of her middle aged neighbor to reach a final decision. Her involvement with the purchase activity would be regarded as a situational involvement.

2. **Enduring involvement:** When the level of involvement towards the product/service category extends over a period of time across situations, it is referred to as enduring involvement. The person shows a high-level of interest in the product category and spends time collecting and processing information and integrating it within his memory. For example, a person desires to buy a laptop for his son to be gifted to him when he goes to college, which would be three years later. The father plans well in advance, tries to collect information through advertisements, brochures, trade journals, visits to dealers, and word of mouth from peers and colleagues. Within this period he gets involved with the product category and after three years is in a position to take a decision based on the facts that he has collected. This is referred to as enduring involvement. Enduring involvement with a product category often gives birth to an opinion leader. An opinion leader is a person who holds interest in a particular product/service category, and becomes a specialist; he makes efforts to gather all information about the category, the brand offering etc.; he talks about and spreads the information and the knowledge that he possesses. When a person wants to make a purchase, he seeks the advice and guidance of such an opinion leader who helps him make a decision. Opinion leaders are product specific. In the example above, if the lady approaches her neighbour and takes his advice/guidance because the neighbour is young, techno savvy and knows a lot about electronics and in particular laptops, she would actually be taking help of what is

known as an —opinion leader (Sathyabama Institute of Science and Technology-Deemed tube University).

A Model of Consumer Behaviour

A consumer's decision to purchase a particular product or service is the result of complex interplay of a number of variables. The starting point for the decision process is provided by the company's marketing stimuli in the shape of product, promotion, price and distribution strategy.

The marketing stimuli are received by the potential consumer along with the other stimuli already existing in the environment. These stimuli may be social, economic, cultural, technological and political in nature. At the point of receiving the marketing stimuli, the consumer already has a certain mental, emotional and psychological frame of mind developed over the years by his cultural, religious, social, family and psychological background. However, most of these factors (or buyer characteristics) exert their influence at the sub-conscious level so that the consumer is not really aware of their existence or working.

When a stimulus is received, the consumer goes through an elaborate process of: decision-making in terms of receiving, retaining, interpreting and evaluating the stimuli according to his own framework. Depending on the nature of product being purchased, this process may work at the sub-conscious level or it may be overt, the time taken to make the decision may vary from a few seconds to a few days or months. The buyer characteristics and buyer decision-making process in conjunction with marketing stimuli lead to a decision to either buy the product or not to buy.

Factors Influencing Consumer Behaviour

Consumer behaviour is affected by a host of variables, ranging from personal motivations, needs, attitudes and values, personality characteristics, socioeconomic and cultural background, age, sex, professional status to social influences of various kinds exerted by family, friends, colleagues and society as a whole. The combinations of these various factors produce a different impact on each one of the customer as manifested in different behaviour as consumers. You may think that the best way of utilising annual saving is to have a holiday, but then somebody else like wife thinks it is wisest to invest in a house, while a colleague considers buying shares as the best way of spending savings. Thus you would find that each person has his or her own standards of judgments and distinct behaviour in every aspect of his role as a consumer. But at the same time, underlying the individual differences are similarities which help explain behaviour of specific types or groups of people. It is

these similarities which make it possible for firms to classify and analyse the behaviour of individual consumers.

Psychological factors such as individual consumer needs and motivations, perceptions, attitudes, the learning process and personality characteristics are the similarities which operate across different types of people and influence their behaviour. Amongst the social influences affecting behaviour, influences are classified as of family, friends, leaders and the social class to which the 'consumer belongs.

Demand Forecasting

Demand for a product begins with the wants and desires of buyers (individuals, family or organisation). Effective demand for a product need purchasing power (income, assets and credit) as well as buying motives, i.e., willingness to buy a product. When the effective demand for all buyers is added up, the result is the total market demand for the product. Demand forecasting is a combination of two words; the first one is Demand and another forecasting. Demand means outside requirements of a product or service. In general, forecasting means making an estimation in the present for a future occurring event. It is a technique for estimation of probable demand for a product or services in the future. It is based on the analysis of past demand for that product or service in the present market condition. Demand forecasting should be done on a scientific basis and facts and events related to forecasting should be considered. Therefore, after gathering information about various aspect of the market and demand based on the past, an attempt may be made to estimate future demand. This concept is called forecasting of demand.

Market demand is influenced not merely by price but by many other factors which are not constant as supposed in economics. Market demand is influenced by other variable factors such as marketing mix and marketing environment, e.g, competition, buyer's behavior, general economic condition, fashion trends, government regulations etc. Willingness to buy is influenced by environmental factors as well as marketing effort of the industry.

It refers to the total volume that could be bought by a defined customer group in a defined geographical zone in a defined period of time in a defined marketing environment under a defined marketing programme. The demand is expressed in physical or monetary forms.

Company Demand:

Company demand is the volume of sales expected under given environmental conditions for a specific forms. It is a function of the firm's strategic marketing effort and specifies the amount of sales turnover which would be realised by a company under different levels of company's selling efforts.

Industry Forecast: It indicates the customer demand under the expected level of marketing effort which can be put forward by all the sellers within an industry.

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