Consumer Behaviour
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Lecture - 34
Models of Consumer Behaviour - I

Welcome. And we are going to start today's session, the most crucial topic in this module or in this entire course that is modules of consumer behavior. And this modules of consumer behavior will be taught in consecutive four sessions now onwards.

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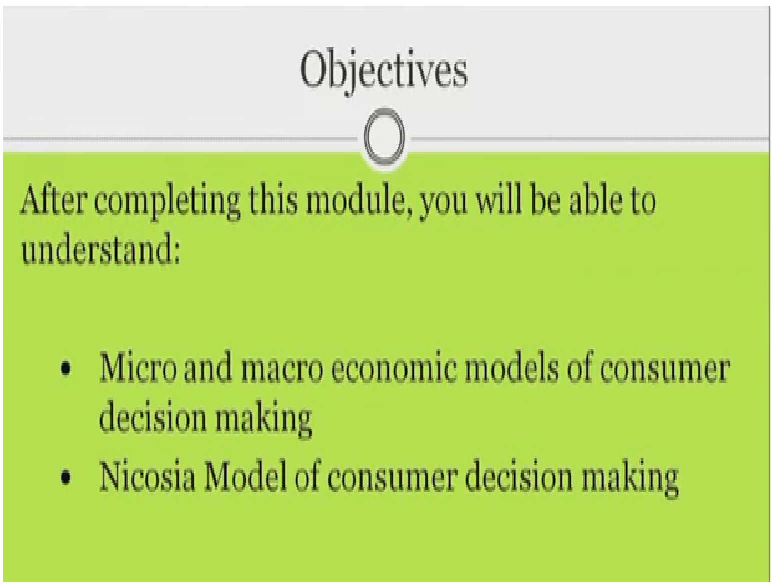

So to begin with the first module of consumer decision making, we will complete micro and macro-economic models of consumer decision making. And we will also discuss the Nicosia model of consumer decision making. So we move ahead.

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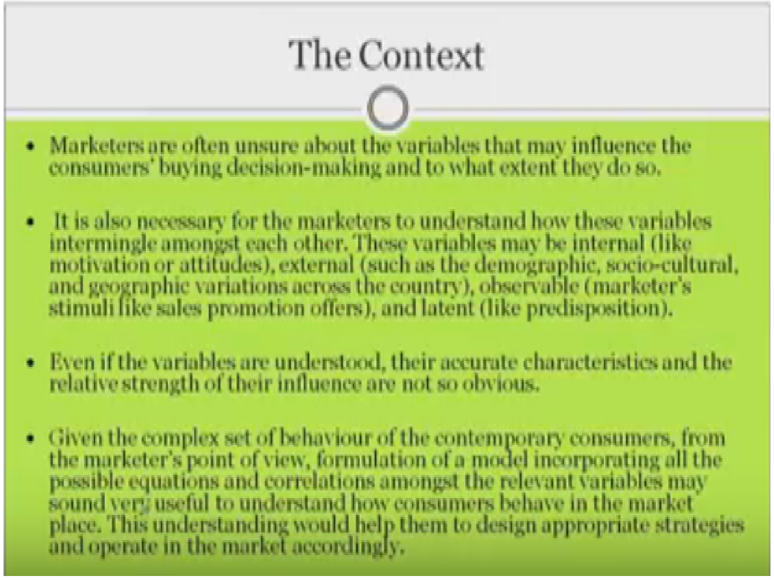

Now why this kind of consumer decision making modules are important. Because marketers are often unsure about the variables that may influence the consumers buying decision making and to what extent they influence. For example, motivation, how much a customer is motivated by a esteem need or a customer is motivated by his social need or what is the attitude of the customer for any particular consumption.

What is the perception of the customer about any consumption of any particular product or a brand. So all these end to what extent? Which is most important parameter of decision making? So these kind of things are always remind as an area of researching consumer behavior. It is also necessary for the marketers to understand how these variables correlate or intermingle with each other.

These variables may be like internal variable motivation attitudes, external like demographic, socio-cultural or geographical variation across the country, observable, that is the marketers driven stimuli any pricing offer, any sales promotion offer or any product differentiation. And latent variables like consumers own predispositions. So even if this variables, what is the meaning of the variables that we understand, their accurate characteristics.

And the relative strength are not so obvious which is more important for which customer that is not so clear. For example, for some customers maybe self promotion offers are very important.

Whenever any free gifts or any discounts are announced, they are very interested to buy the product. Like which happens in the time of Dhanteras, like lot of discounts are given on making charges of golden and diamond jewelry.

So that time probably you can see that just because this kind of A is festival stimuli. And second is of course, the kind of discounts, which actually leads the customers to buy certain products, so that becomes important at that time. But sometimes it may be very different issue, the motivation may be daughter's wedding. So for that a person is buying a wedding jewelry. So there the motivation is totally different, it does not depend on the sales promotion offer.

It is actually the time bound program, marriage is fixed up in a particular time. So therefore it does not matter whether the shops are giving discounts or not, they will buy it. So in that case, the exclusivity of the jewelry because it is life time gift you are giving to the daughter, so that time may be the exclusivity of the design, the weight of the jewelry, the quality of the jewelry matters more than the sales promotion offers.

So at which condition, what matters more that also has to be understood. Even if given the complex set of behavior of the contemporary consumers, from the marketer's point of view, formulation of a model incorporating all the possible equations and correlations amongst the relevant variables may sound very useful to understand how consumers behave in the market place.

Now this understanding will actually help them to design appropriate strategies and operate in the market accordingly.

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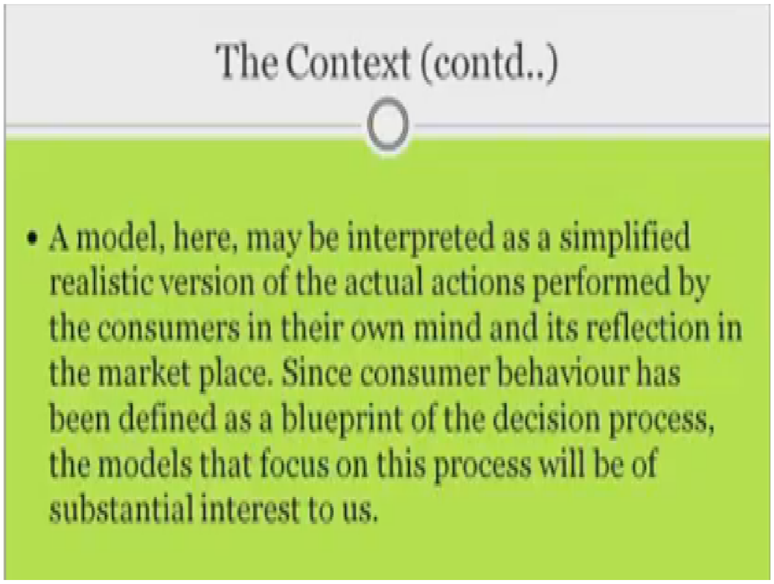

So therefore we are talking about the consumer decision making model, this is the model where a model is usually interpreted as a simplified realistic version of the actual actions performed by the consumers in their own mind and its reflection in the market place. Since consumer behavior has been defined as a blueprint of the decision process, the models that focus on this process will be of substantial interest to us.

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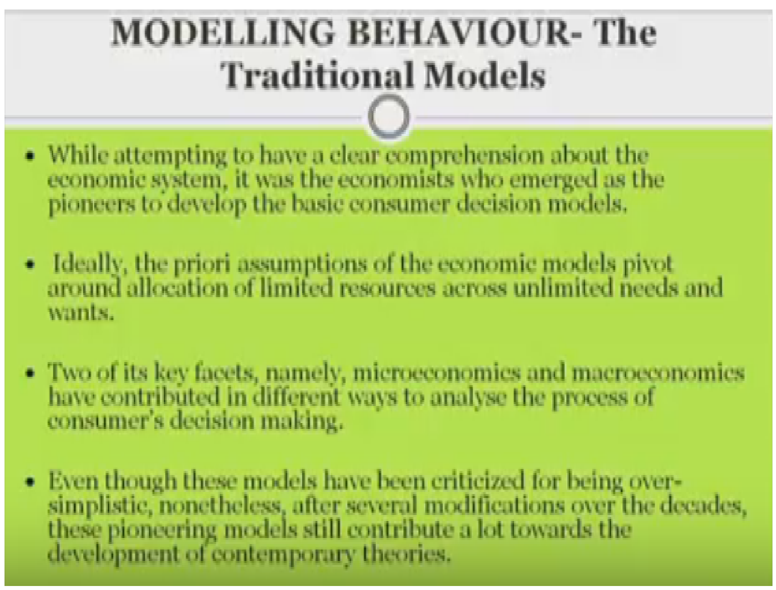

Now while modeling the behavior, we have two things. A is the traditional models and B is the contemporary models. So the traditional models has had a lot from the economist, because this models draw a lot from the development economics and also a consumer behavior in from economic perspective. So ideally, the priori assumption of the economic models pivot around allocation of limited resources across unlimited needs and wants.

Two of its key facets like microeconomics and macro economics have contributed in different ways to analyze the process of consumer's decision making. So even though these models has been criticized for being too simplistic, nevertheless after several modifications over the decades these pioneering models still contribute a lot towards the development of contemporary theories.

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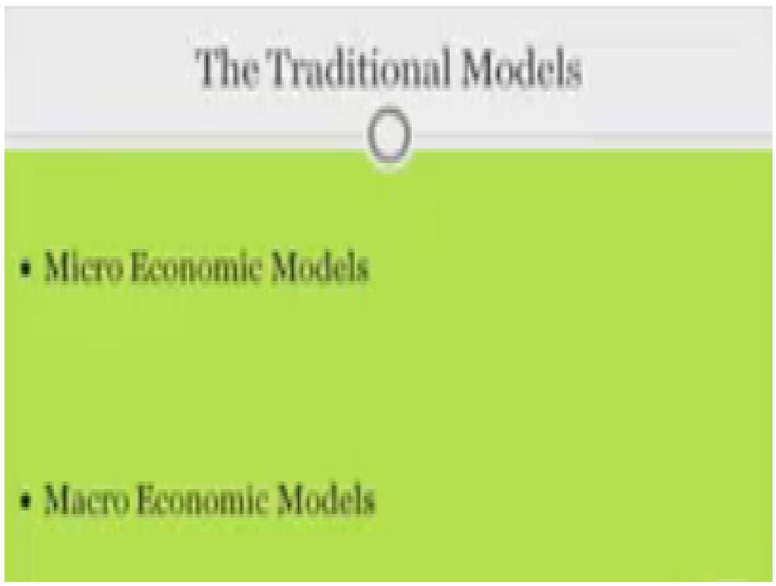

So from here, we can understand the traditional models are of two kinds, A is the micro economic model and B is the macroeconomic model. Micro economic model is individual choice specific and macroeconomic model is where we are talking aggregate customers of the economy.

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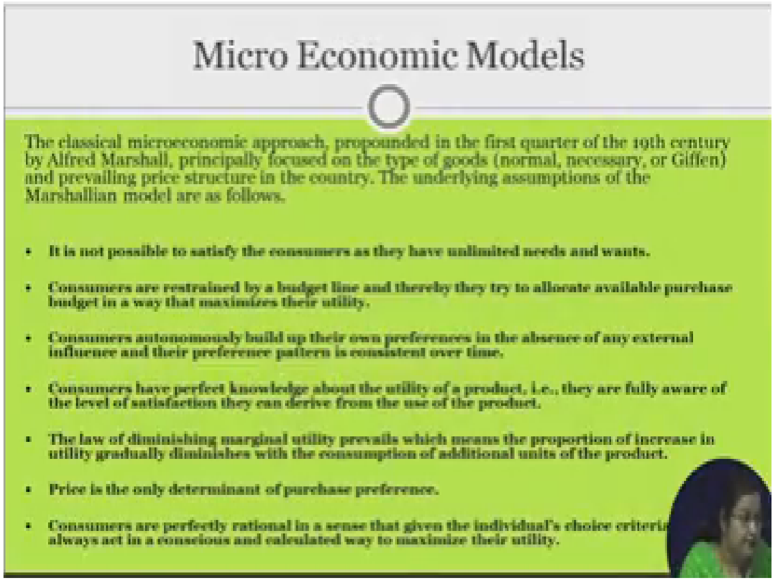

So we come with, begin with microeconomic models. The classical microeconomic approach, propounded in the first quarter of the tenth century by Alfred Marshall, this principally focused on the type of goods like whether you are talking about a normal good, necessary good or Giffen good and prevailing price structure in the country. I just tell normal goods are usually like which follows the law of demand like, when the price goes up the demand falls.

And when the price goes down the demand goes up. So usually most of the products are like that. There are some kind of necessary product, where the demand becomes very inelastic, like salt. Even if the price of salt goes up, people have to consume certain amount of salt. Even if the price of rice goes up, people have to consume certain amount of rice. The salt, rice, these kind of products are basically the necessary products, where the demand is very much inelastic irrespective of the price.

Now the other one is Giffen good. Giffen good is like, when the price goes up, the consumptions of these items also goes up. When price goes down, the consumption goes down, why this happens. I just discuss like meat and potato. It was found in Europe that whenever the price of meat or price of potato, it was used to go down, that time people used to buy less potato and save that money to buy whole meat.

So this kind of thing like potato is the Giffen good in this case. So these are three kind of goods. And the underlying assumptions of the Marshallian model are as follows. It is not possible to satisfy the consumers as they have unlimited needs and wants. Consumers are restrained by a budget line that is a fixed monthly income or a fixed allocation of resource for consumption.

And they are going to try to allocate all the available purchase budget in a way that maximizes their utility, given a budget constraint. Now consumers autonomously build up their own preference in the absence of any external influence and their preference pattern is consistent over time. Consumers have perfect knowledge about the utility of a product. That is they are fully aware of the level of satisfaction they can derive from the use of the product.

The law of diminishing marginal utility prevails which means that the proportion of increase in utility gradually diminishes with the consumption of additional units of the product. I will explain this. Like you are consuming, you are very thirsty, you drunk a bottle of Thumps up. Now again the thirst was not quest, so you drank another bottle of Thumps up. But obviously, the utility have got from the first bottle of Thumps up would be much higher than you have got from the second bottle of Thumbs up.

Because after consuming the first bottle, your some, some thirst has been already quenched. Now for the third bottle your utility level will further fall down and so on and so forth. So with the consumption of additional unit, the marginal utility of the product goes down. This is the assumption of marshal. And marshal assumes that the price is the only determinant of purchase preference.

Now he also assumes that the customers are perfectly rational in the sense that given the consumer individual's choice criteria, they will always act in a conscious and calculated way to maximize their utility.

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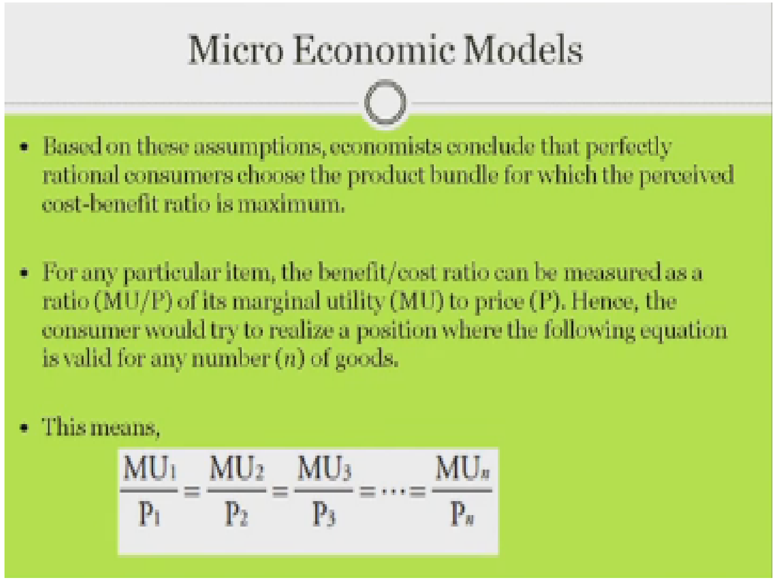

Now based on these assumptions, economist conclude that perfectly rational consumers choose the product bundle for which they perceived the cost benefit ratio is maximum. Which means that they have to maximize the utility given a budget constraint. For any particular item, the cost benefit observed, benefit to cost ratio can be measured as the ratio of its marginal utility to price. Hence, the consumer would try to realize the position where the following equation is valid for any number of goods.

Like marginal utility of product one equal to marginal utility of product two to up to, I mean not much, this ratio that is benefit to cost ratio MU one/P one equal to MU two/ P two, MU three/P three, all these has to be equal. So this is what the micro economic model marshal is. But here the problem with the microeconomic model are is over simplification. First of all, you can see here, it is said that consumers are always constrained by a budget line.

But given these days the credit card and the EMI system, the consumer even buys more than their present income at times. These kind of things have not been handled here. Secondly is, it is the decisions are autonomous, that is also not always the case, because in that case, you are actually ignoring the social variables and the extravaganza variables in the picture. And then it is said that they have a perfect knowledge.

In many of the times, like when I am going to buy a television set, I am only may be I am looking at style, design, price and the clarity of picture, I may not be knowing the very integrity of the technical, I tribute up the product as such. And particularly when you talk about the bottom of the peramic customers, they go by two, three cues to select criteria for a product. So in that case they have perfect knowledge about the utility of the product, is somewhat unrealistic assumption in today's world.

And price is not the only determinant of purchase. There are so many other things, there could be esteem need, there could be safety need, there could be many other needs for which the customer is deciding, it may be the brand name itself, it may be the style, the design, the comfort of the product and many other things, which acts as the determinant. That's how microeconomic models were criticized

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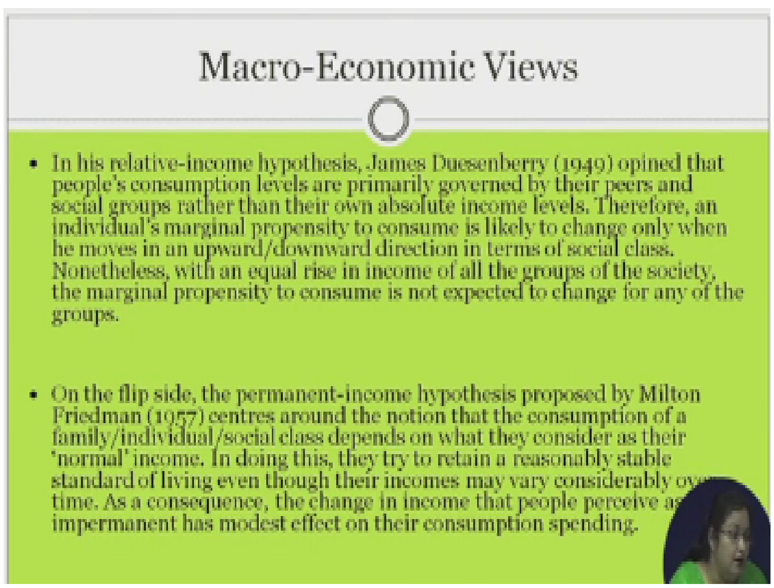

And then, in the macroeconomic perspectives. In the relative, macroeconomic perspectives two major theories are there. One is the James Duesenberry's relative income hypothesis, another is Milton Friedman's permanent income hypothesis. So James Duesenberry in 1949 opined that people's consumptions levels are primarily governed by their peers and social groups rather than their own absolute levels of income.

Therefore, an individual's marginal propensity to consume is likely to change only when he moves in an upward or downward direction in his social class. Nonetheless, with an equal rise in income of all the groups in the society, the marginal propensity to consume is //expected to change for any is// not supposed to change for any groups, which means say five group members in a society.

If all of their income raises, maybe I cannot perceive the raise of income as such and I may not change my way of living. But if in a group of five friends, suddenly my income goes up and the others income are constant so that time may be I am thinking that I am better off and then I may start consuming more and I may consume some of the luxury products and all. So that's what the Duesenberry's relative income hypothesis is.

On the flip side, the permanent income hypothesis proposed by Milton Friedman centers around the notion that the consumption of a family, individual or social class depends on what they consider as their normal income. In doing this, they try to retain a reasonably stable standard of living even though their incomes may vary considerably over a period of time. As a consequence.

The change in income that people perceive as impermanent has modest effect on their consumption spending, which means this was the kind of binding which I am thinking is consistent over a period of time, unless it is drastically changed income.

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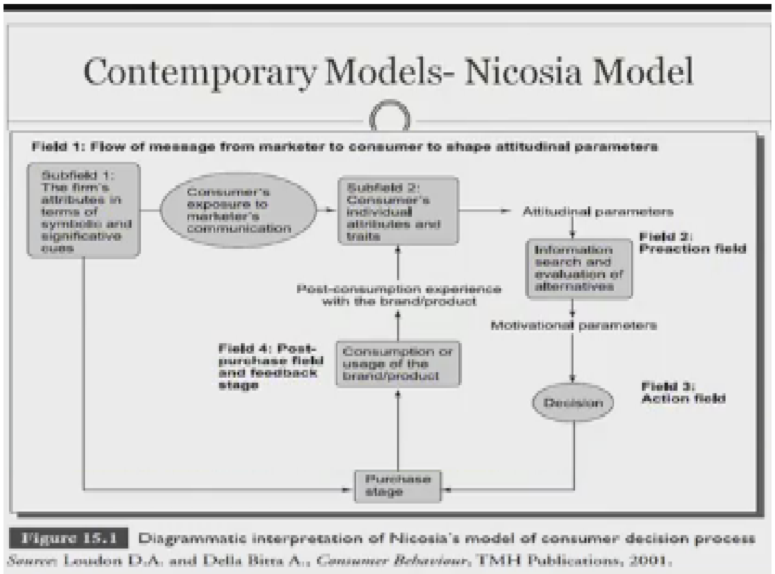

Now again macroeconomic theory also, if we go back and see the macroeconomic theory, this also talks about the economy, largely focus on the income of the individual as the determinant of purchase decision. So again, income and price these are only some of the variables for choosing a product, but so far since we have studied the individual determinance and the group determinance of consumption or environmental determinance of consumption.

We are aware that there are so many other things, so many other factors, social and individual factors, which governs the choice of the person. So therefore we find that these economic models, this is slightly not explaining the psychological decision, psychology aspect of the consumer decision making. So that gap is addressed by the contemporary social scientist. And we talk here, but the first model.

The first model was actually designed by Anderson. But we are not designing that, talking about that model because it is told. So we start with the Nicosia model. Nicosia model, as you can see is the four field model. So we discuss field wise. One is the first subfield, where we are talking about the firm's attribute and how firms provide stimuli to the customers. And customers are exposed to the firm's communication here, so this two.

Followed by, we have subfield number two, which talks about the consumer one's individual attributes, its motivation, its attitudinal parameters all these. Then it comes to the information search of the customers. So this is field two because subfield one and subfield two, this is for field number one. Field number two is the pre action field, where information search and evaluation about it goes on. That is driven by motivational parameter.

Then we come to field number three, which is action field. And then we come to purchase field and then we reach supposed field number four, where we have consumption and post purchase behavior, which again forms customer attributes.

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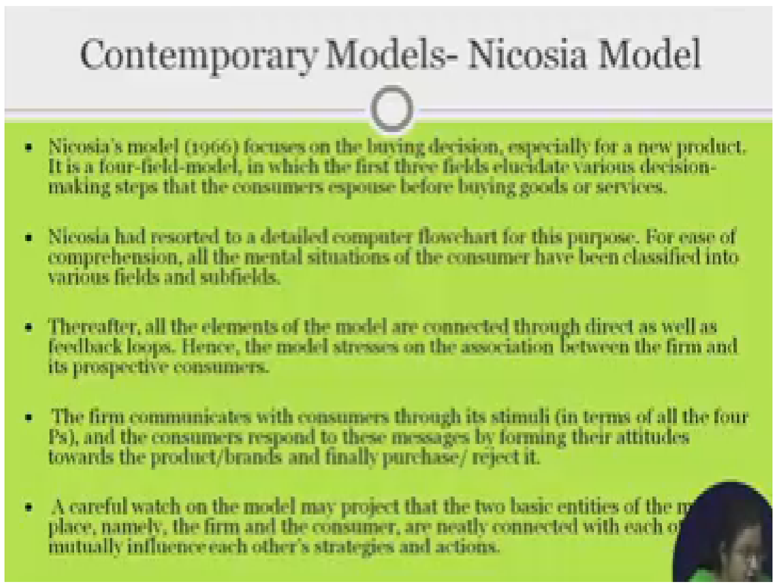

We will just tell in details. Nicosia model in 1966, focuses on the buying decision, especially for a new product. It is a four field model as I have said, first three fields elucidate various decision making stage, which makes this as field number one, constitutes of subfield one and subfield two, field number two pre action field, field number three is action field, which is decision and purchase, all these relates to the decision making steps, where last stage is actually post purchase stage

So Nicosia resorted to detailed computer flowchart for this purpose. For ease of comprehension, all the mental situations of the consumer have been classified into various fields and subfields. Thereafter, all the elements of the model are connected through direct as well as feedback loops. Hence, the model stresses on the association between the firm and its prospective consumers. The firm communicates with consumers through its stimuli, in terms of all four piece.

And the consumers respond to these messages by forming their attitudes towards the product, brand and finally purchase or reject it. A careful watch on the model may project that the two basic entities in the market, one is the consumer and the another is the marketer, are here, one is the marketer that is the firm, another is the customer, so they constitute two subfield in field one. So we talk about field one in details.

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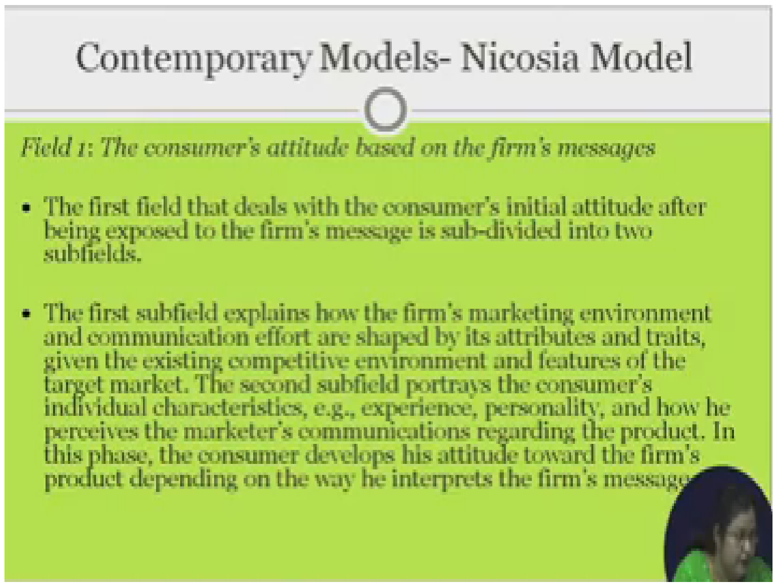

Like this is consumer's attitudes based on firm's messages. So this is the first field that deals with consumer's initial attitude after being exposed to the firm's message and this is subdivided into two subfields, which I have said. The first subfield explains how the firm's marketing environment and communication effort are shaped by its attributes and trails, given the existing competitive environment and features of the target market.

For example, Tanishq, they came with eighteen carat gold and kind of very elegant designs and all these, mostly for the working class, when they try to position it for the wedding jewelry they came with a new set of ad and new set of design of the jewelry and also the shops were also designed in that way. So that is a kind of all designed shops, design products, design promotional design, all these things are marketed driven to stimuli, which is provided to the target market.

Now the second subfield is the consumer's individual attitude like their own experience about the wedding jewelry may be. In this case their own personality, what kind of wedding jewelry they like, they will like a platinum jewelry, they will because they want to portray there, they have mode of esteem need, they are having more income also, so they think that they will buy more platinum jewelry or some people, they may focus on the diamond jewelry, so it depends.

What is your experience, what is your personality, what how do you perceive the marketer's communications do. From the communication, do you think that it is kind of very cheap product or it should be very traditional, I may not want so much of traditional jewelry, I may want a little bit of match modernism and traditionalistic in my jewelry, it is something like that? So these are the things in the customer's field.

So customers will filter the message, which their visit from the marketer based on their own individual characteristics. And therefore he develops his attitude toward the firm's product depending on the way how he interprets the firm's message. As he interprets the Tanishq has now only become the wedding jeweler or it be still jewelry for the lay working women or it is only a subam collection for the festival thing.

So what is my perception? Is it change? And how do I perceive it? So that depends on my understanding, my level of knowledge, my own experience and all these.

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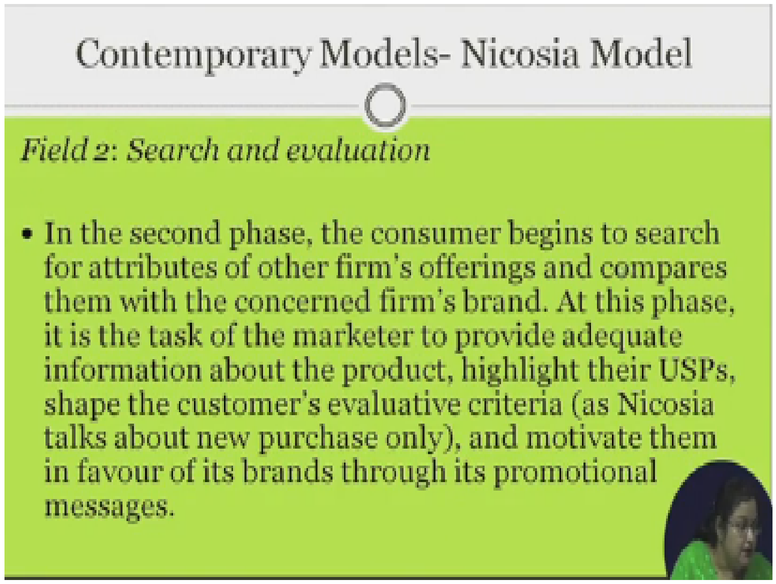

Second is the search field and evaluation. This is the field number two, here which you can see, so this is the second phase, the consumer begins to search for attributes of other firm's offerings and compares them with the concerned firm's brand. At this phase, it is the task of the marketer to provide adequate information about the product, highlight their USPs, shape the customer's evaluative criteria and motivate them in favor of its brands through its promotional messages.

Now say there are Tanishq, whereas Sikander, whereas there are Chinku and many other jewelry brands. So once I form my idea that I want to buy a wedding jewelry and I want say I like traditional kind of wedding jewelry and mainly that has to be a kind of Bengali or Tamilian kind of design, so if Tanishq message passes through this filter and Tanishq is in my work set now that I think okay Tanishq could be one possible brand, which I can choose.

Similarly, I may choose, I may like Sikander also, I may like Chinku also. So, all these three is now still in my work set. Now I will try to compare this three brands based on the designs, style, price, making charges and many other things. So for that I will search more information, I can go to the shop and check, I can go to their website and check different kind of designs or I can see the promotional things.

And somehow I will develop certain kind of preference towards a brand because I will I start evaluating at this stage.

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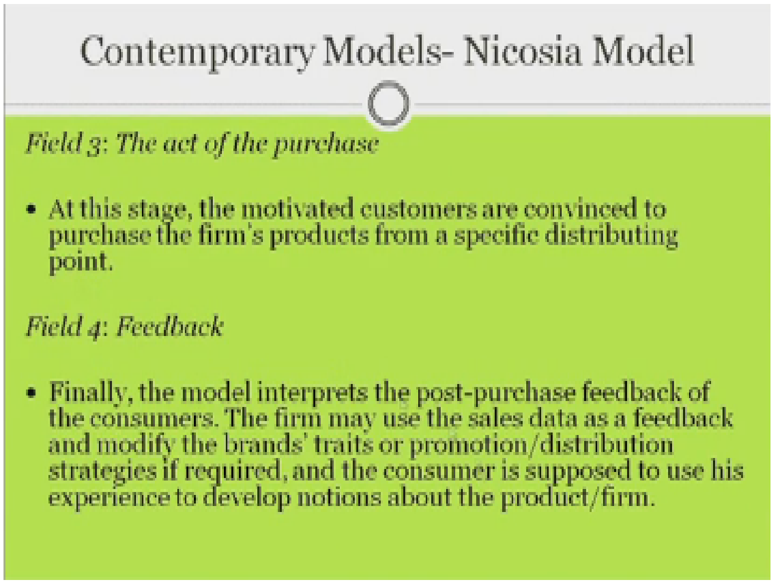

After evaluation, in field number three, I just go back here, where to see this one, field number three is action field, where you take the decision to purchase a particular product and then finally you purchase it. And then comes field number four. In the field number four in the model, as you have seen is the feedback loop. So in this feedback loop, finally the model interprets the post purchase feedback of the customer.

The firm may use the sales data as a feedback and modify the brands' traits and promotion, or distribution strategies if required. And the consumer is supposed to use his experience to develop notions about the firm. It is just like this. Here customer has a post. Suppose I have bought a Tanishq jewelry and I feel that everybody is appreciating me after wearing this and the way it used to look in the promotion.

The way, it used to look in the catalogue, the polish and all these thing is lasting for a long time. So I will have a good post purchase experience about it and form a positive attitude about the brand Tanishq. So this is what in a perception formation. And sometimes if customer forms a negative perception, then the marketer can from their feedback, from their self esteem or from, the shopkeepers, will come to know that what are the different complaints customers are making.

So they can modify their product accordingly and they will again communicate to the customer as per the requirement.

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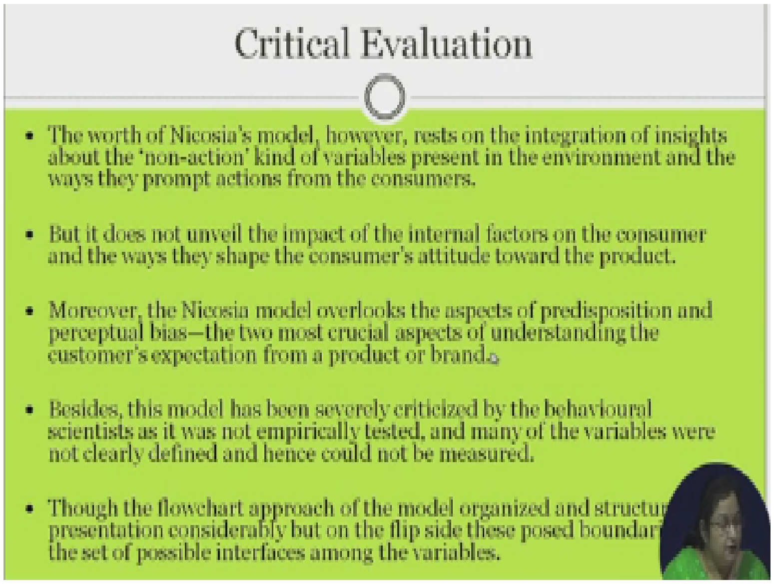

So we just critically evaluated it in short. That is the worth of Nicosia's model, however, rests on the integration of insights about the non action kind of variables present in the environment and the ways they prompt actions from the consumers. But it does not unveil the impact of the internal factors of the consumer and the ways they shape the consumer's attitude toward the product.

Moreover, the Nicosia model overlooks the aspects of customers' predisposition and perceptual bias, the two most crucial aspects of understanding a customer's expectation for a product or brand. That is why Howard Sheth model is actually addressed this problem. And besides, this model has been severely criticized by the behavioral scientists as it was not empirically tested, it is only a theoretical model.

And many of the variables, which has been measured like attitude, motivation and all, the exactly measurement variables has not been listed and tested. So though the flowchart, although the flowchart approach of the model are very organized and structured but the flip side of it is that if we look at this model, it is always one way. So it shows that how information such impacting on the evaluation of alternatives.

Here if you see and how attitudinal parameters are here, customers attitudinal parameters impacts the information search and evaluation of alternatives. And then based on the motivational parameters is taking a decision, but the reverse has not been identified, like depending on the motivational parameters also you know the informational search may be lengthy or it may be shortened.

And your motivational parameter also has some application on the attitudinal parameter and the customer’s individual attributes and traits. So this reverse side has not been analyzed actually in this model. So therefore now it is, we say that it is simplification this way is slightly limited. So we stop here in this module and in the next module we will continue with the Howard Sheth model of consumer decision making. Thank you.