

Customer Buying Behavior

CHAPTER 04



Questions

- How do customers decide which retailer to go to and what merchandise to buy?
- What social and personal factors affect customer purchase decisions?
- How can retailers get customers to visit their stores more frequently, and buy more merchandise during each visit?
- How do retailers group customers into market segments?

Illustration of Buying Process

- Eva Mendoza, a student at the University of Washington, is beginning to interview for jobs.
- For the first interviews on campus, Eva planned to wear the blue suit her parents bought her several years ago.
- But after looking at her suit, she realizes that it's not stylish, and it shows signs of wear.
- She wants to make a strong first impression during her interviews, so she decides to buy a new suit.



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Illustration (Continued)

- Eva surfs the Internet for tips on dressing for interviews. She surfs fashion blogs like Nubry and checks what her friends are wearing on Facebook and what they have pinned on Pinterest.
- Before going to the Northgate Mall in Seattle, she issues a status update on her Facebook page announcing her intentions to go to the mall and inviting her friends to join her. Her friend Britt decides to meet her at the mall.
- They first go to Macy's and are approached by a salesperson who asks Eva what type of suit she wants.



Consumers are increasingly turning to fashionista blogs to read reviews and pick up the latest fashion tips.

Illustration (Continued)

- Eva wanders into Macy's, as a salesperson approaches her in the career women's department.
- After asking her what type of suit she wants and her size, the salesperson shows her three suits. Eva photographs them with her cell phone, and sends them to her friend Betsy who couldn't make it.
- Eva, Britt, and the salesperson decide the second suit is more attractive and appropriate.



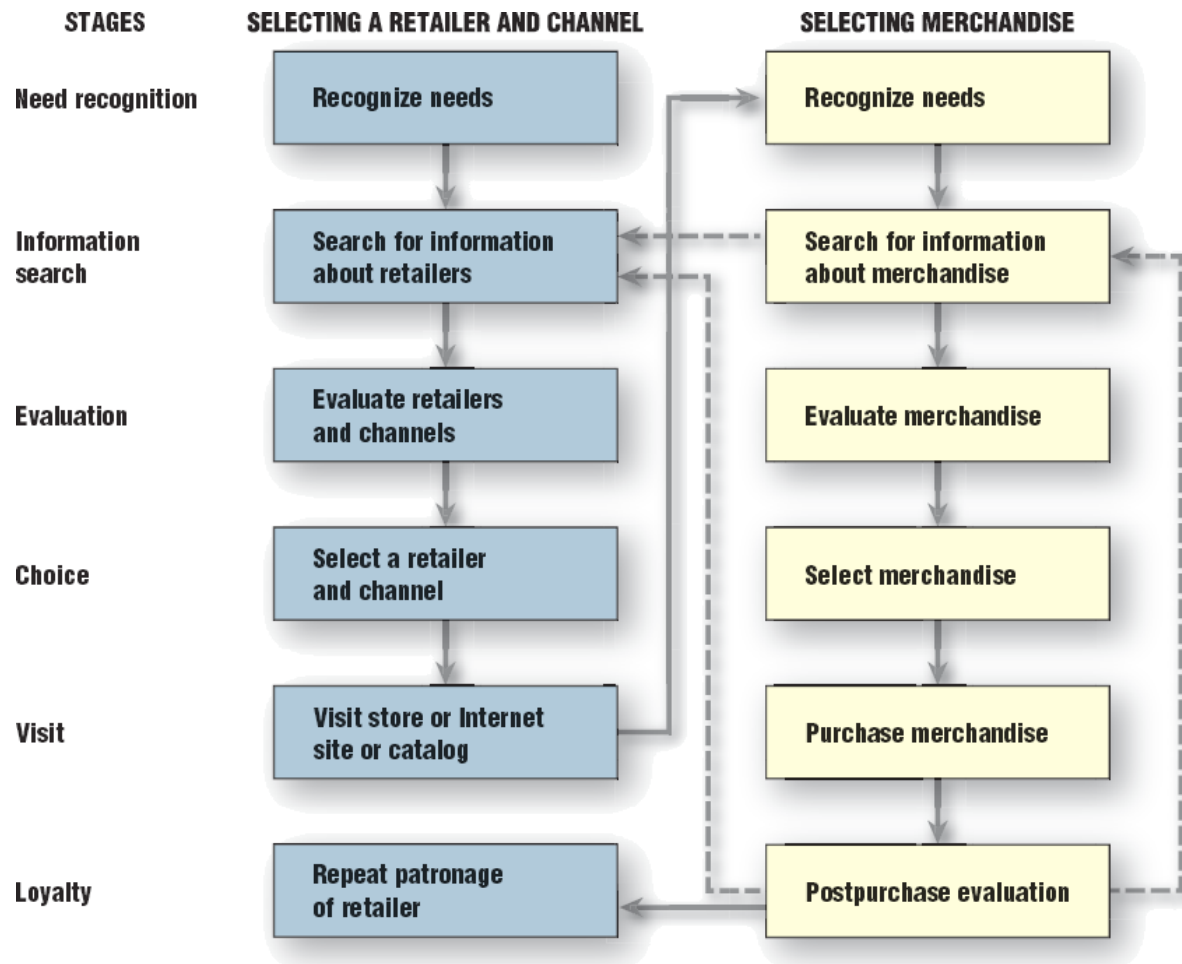
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Illustration (Continued)

- Eva is happy with the aesthetics of the suit: its color, fit, fabric, and length. Although, she is about the costs of dry cleaning, and she realizes she's spending more money than she had planned.
- Then Eva decides to buy it after another customer in the store tells her she appears very professional in the suit
- As the salesperson walks with Eva to the cash register, they pass the shoes. Britt tells Eva, "You need to buy shoes that go with your suit." She finds a pair of pumps that she likes and then realizes she can buy them for \$20 cheaper online and have them delivered the next day.



Stages in the Buying Process



Types of Needs

- **Utilitarian Needs** –satisfied when purchases accomplish a specific task. Shopping needs to be easy, and effortless like Sam's or a grocery store.
- **Hedonic needs** – satisfied when purchases accomplish a need for entertainment, emotional, and recreational experience as in department stores or specialty stores.



Hedonic Needs that Retailers can Satisfy

- 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

- Ex: Eva's hedonic needs conflict with her budget, and her utilitarian need to get a job.
- Customers make trade-offs between their conflicting needs.
- [Cross-shopping](#)



Information Search

- 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
 - Internet
 - Social Media



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How Can Retailers Limit the Information Search?

- Information from sales associates
- Provide an assortment of services
- Provide good assortments
- [Everyday low pricing](#)
- Credit
- Conversion rate-the percentage of customers who enter a store or access a website and then buy a product from that same store or website.



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Internet, Information Search, and Price Competition

- Profound impact on consumers' ability to gather external information
- Number of stores visited is no longer limited by physical distance
- Information about the quality and performance at a low search cost
- Retailers using an Internet channel can differentiate their offerings by providing better services and information

Evaluation of Alternatives

- Multiattribute attitude model:
 - Customers see a retailer, product, or service as a collection of attributes or characteristics
 - Predict a customer's evaluation of a retailer, product, or service based on:
 - Its performance on relevant attributes
 - The importance of those attributes to the customer

Evaluation of Retailers

EXHIBIT 4-3
Evaluation of Retailers

Characteristic	IMPORTANCE WEIGHTS*		PERFORMANCE BELIEFS		
	Young Single Woman	Parent with Four Children	Supercenter	Supermarket	Internet Grocer
Economy	4	10	10	8	6
Convenience	10	4	3	5	10
Assortment	5	8	9	7	5
Availability of product information	9	2	4	4	8
OVERALL EVALUATION					
Young single woman			151	153	221
Parent with four children			102	164	156

*10 = very important, 1 = very unimportant.

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:** the set of alternatives the customer evaluates when making a choice of what retailer to patronize.
- Increase beliefs about performance
- Change customers' importance weights
- Add a new benefit



Purchasing Merchandise or Services

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

- The high-rated item may not be available in the store.
- How can a retailer increase the chances that customers will convert their merchandise evaluations into purchases?



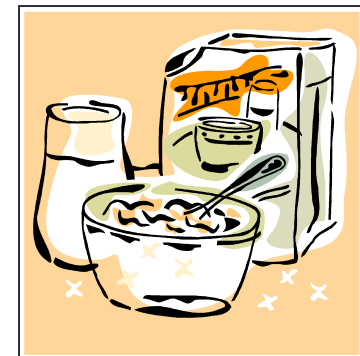
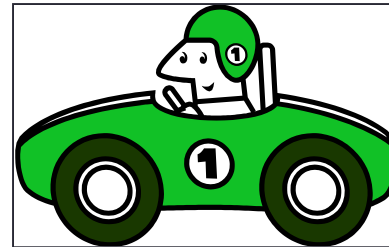
The McGraw-Hill Companies, Inc./Jill Braten, photographer

Postpurchase Evaluation

- Satisfaction
 - A post-consumption evaluation of how well a store or product meets or exceeds customer expectations
- Postpurchase evaluation becomes part of the customer's internal information that affects future store and product decisions
- Builds store and brand loyalty

Types of Buying Decisions

- Extended Problem Solving
 - High financial or social risk
- Limited Problem Solving
 - Some prior buying experience
- Habitual Decision Making
 - Store brand, loyalty



Extended Problem Solving

Consumers devote time and effort analyzing alternatives

- 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



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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?

- It depends...
- 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

- [Impulse buying](#): unplanned purchase, and 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
 - Put merchandise where customers are waiting



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Habitual Problem Solving

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

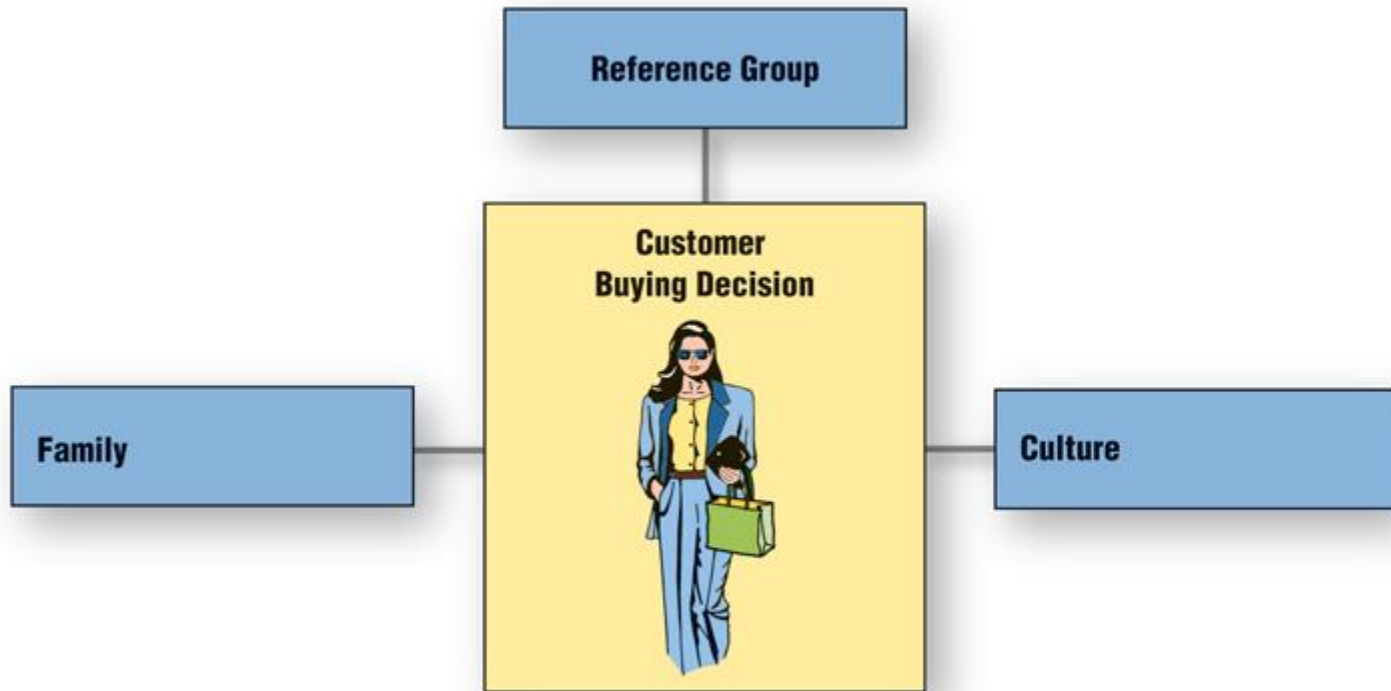
- **Brand Loyalty**
 - Committed to a specific brand
 - May switch retailers to buy brand
- **Store Loyalty**
 - Committed to a specific retailer
 - Reluctant to switch retailers



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

- It depends...
- 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

Social Factors Influencing the Buying Decision Process



Family Influences Buying Decisions

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



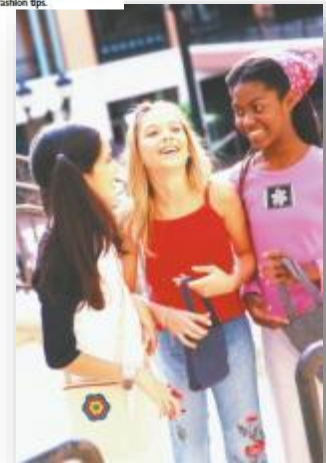
Reference Groups

- 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



ppers look to celebrities like Katy Perry for fashion tips.

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Culture

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

Example:

- U.S. Hispanic population is growing faster than any other market segment and Hispanics' purchasing power is rising faster than the general population.
 - Many retailers are employing bilingual sales associates
 - Restaurants are offering both Spanish and English menus

Market Segmentation



- Retail Market Segment- a group of customers who are attracted to the same retail mix because they have similar needs.

Criteria for Evaluating Market Segments

Actionable

- Retailer should know what to do to satisfy needs for the customers are in the segment

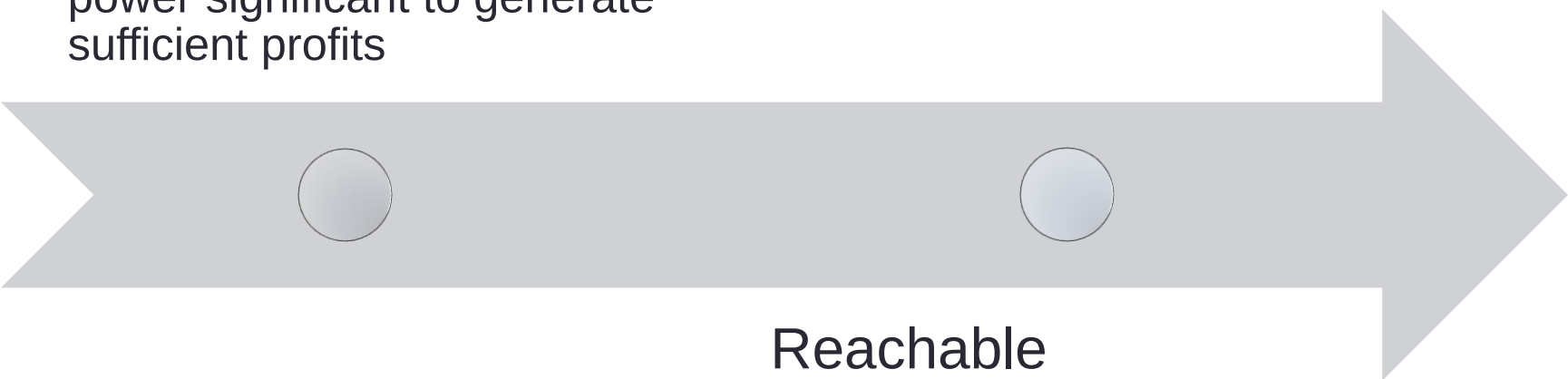
Identifiable

- Retailer is able to determine which customers are in the segment

Criteria for Evaluating Market Segments

Substantial

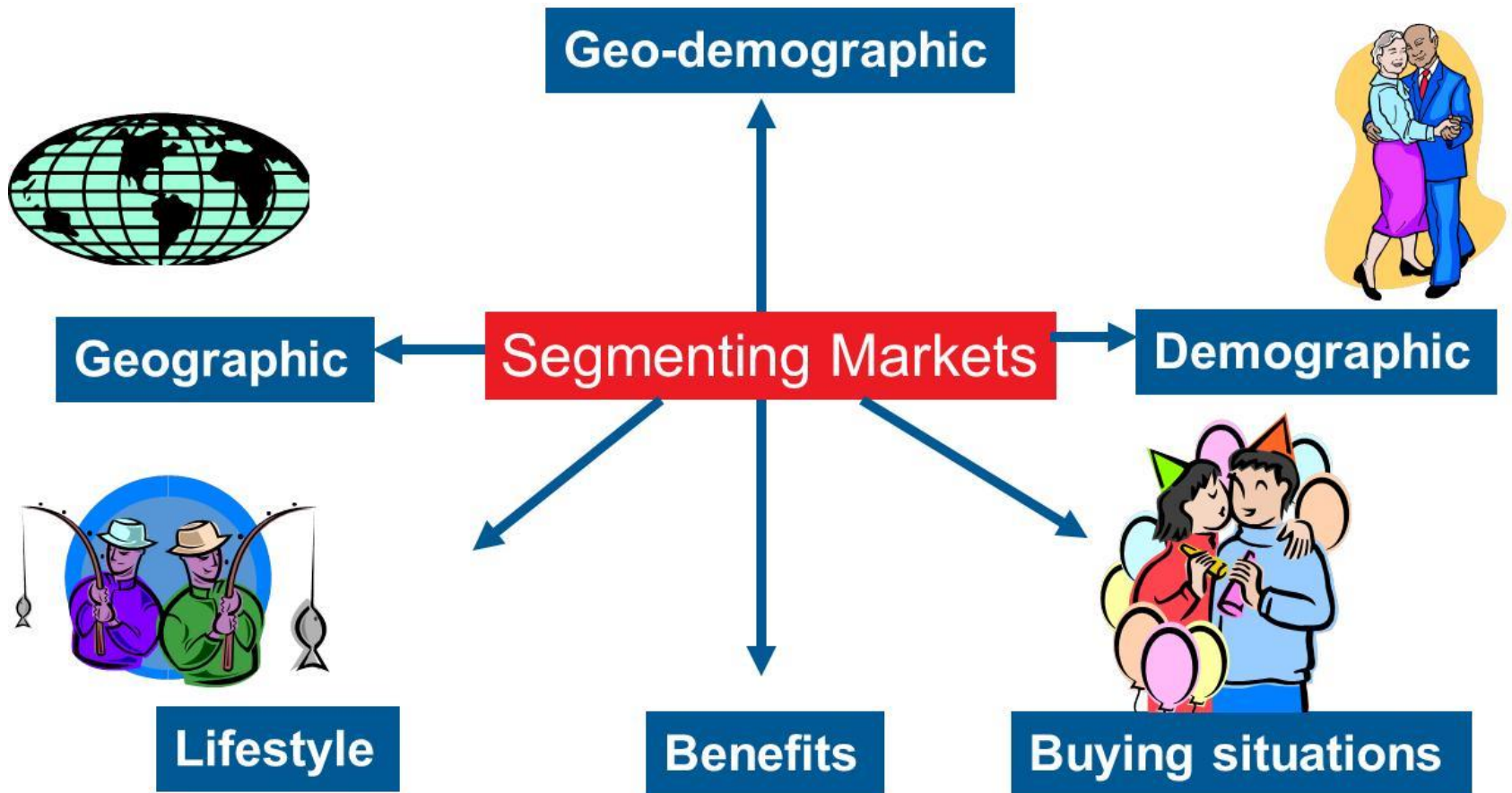
- Market segment must be larger enough or its buying power significant to generate sufficient profits



Reachable

- Retailer can target promotions and other elements of the retail mix to customers in the segment

Approaches for Segmenting Markets



Approaches for Segmenting Markets

- **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.

Approaches for Segmenting Markets

- **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.

Keywords

- **complexity** The ease with which consumers can understand and use a new fashion.
- **cross-shopping** A pattern of buying both premium and low-priced merchandise or patronizing expensive, status-oriented retailers and price-oriented retailers.
- **everyday low pricing (EDLP)** A pricing strategy that stresses continuity of retail prices at a level somewhere between the regular nonsale price and the deep-discount sale price of the retailer's competitors.
- **impulse buying** A buying decision made by customers on the spot after seeing the merchandise.
- **information search** The stage in the buying process in which a customer seeks additional information to satisfy a need.
- **lifestyle** Refers to how people live, how they spend their time and money, what activities they pursue, and their attitudes and opinions about the world they live in.
- **multiattribute attitude model** A model of customer decision making based on the notion that customers see a retailer or a product as a collection of attributes or characteristics. The model can also be used for evaluating a retailer, product, or vendor. The model uses a weighted average score based on the importance of various issues and performance on those issues.
- **postpurchase evaluation** The evaluation of merchandise or services after the customer has purchased and consumed them.
- **satisfaction** A post-consumption evaluation of the degree to which a store or product meets or exceeds customer expectations.
- **store advocates** Customers who like a store so much that they actively share their positive experiences with friends and family.

