[Academic Script]
[Consumer Decision Making & Consumer Research Process]

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Consumer Decision Making & Consumer Research Process

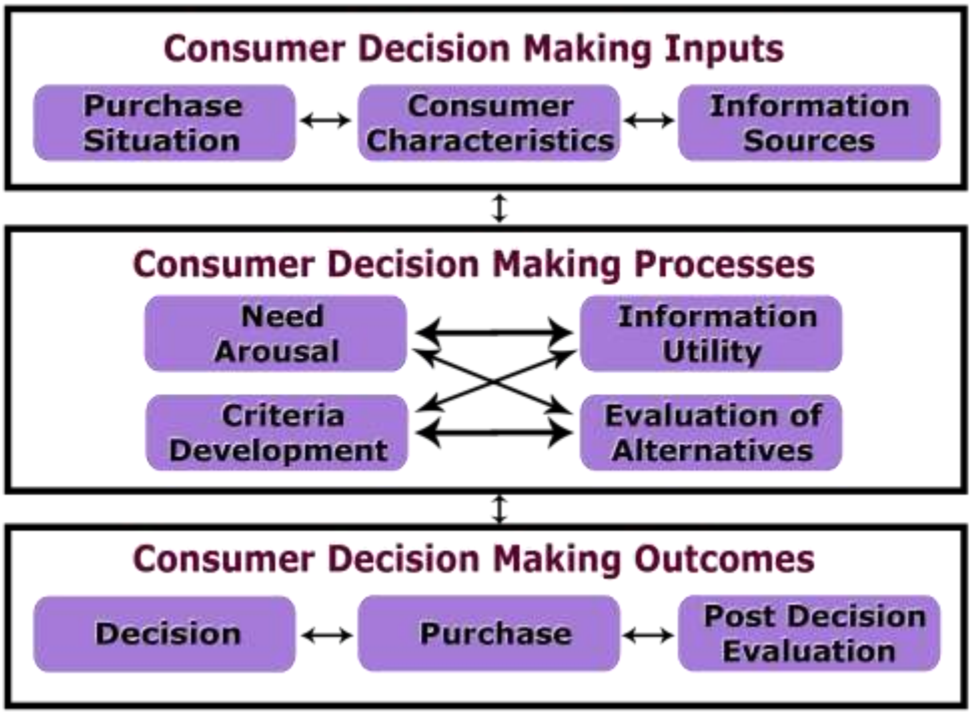
Introduction:

Dear friends as we have learnt that decision making is part and parcel of every single entities life, we today together are going to explore the model and importance of decision making. We here are intending to learn the consumer behavior. Our first step is hence to learn the model of consumer decision making. Any consumer decision is a set of the collective decisions he makes keeping in mind his internal as well as external limitations. This model is our tryst to understand the broader picture of consumer's decision. However, the decisions are likely to vary.

Model of consumer decision making:

A model for consumer's decision-making is presented in the figure. While some fundamentals of decision-making apply to all types of purchases, the specific circumstances for products such as financial services, requires a reframing of the variables and processes. Therefore the model uses some elements from past consumer decision making models but offers some changes relevant to the particular characteristics of financial services. There are ten components in the new model and they are broadly grouped into three categories: **Inputs, Processes and Outcomes.**

Diagram:



1) The first component of this model is the **inputs**, which comprises of purchase situation, consumer characteristics, and information sources. The purchase situation is defined as the internal or external drivers that may lead the consumer to comprehend a difference between what is needed and the current state. This is an input to the decision making system because the purchase situation includes contextual and environmental variables as well as the purchase purpose. Constructs that fit under this part of the model include involvement, the finance being considered, and other contextual variables, which includes significant life events, such as marriage and retirement. It is also well understood that the type of product being considered influences the decision-making process.

Consumer Characteristics: Consumer characteristics for this model are a combination of the two inputs of psychological and social influences, with the addition of key demographic indicators. The variables under consideration in this section are broadened to include influences to the consumer as well as psychological or social.

The sub-elements often measured in this construct include but are not limited to lifestyles, motives, attitudes, personality, memory, knowledge/learning, age, income, goals, and other demographic and cultural variables.

Information Sources: These variables relate to information from organizations and interpersonal sources as an input to the decision-making process. Constructs that fit under this part of the model include involvement, the type of financial product being considered, and other contextual variables, including significant life events, such as marriage and retirement. It has long been accepted that life events are a major influence on consumption behavior and on financial services. It is also well understood that the type of product being considered influences the decision-making process, and this is equally true for financial services

2) Consumer Decision-Making Processes: The second major part of the proposed decision-making model for consumer services is processes, including need arousal, information utility, criteria development, and evaluation of alternatives.

Need Arousal: Need arousal is a measurement of whether the individual understands and recognizes the need for a solution and chooses to activate the remainder of the process, or alternatively the need remains latent and the process is truncated. In the case of financial services it is quiet common that an individual recognizes simultaneously both that a financial problem/opportunity exists, and the specific service category so that it is used properly and solved.

Information Utility: Information utility can be defined as the collection, processing, and use of information, from any source, to aid in the resolution of the problem or opportunity. This information utility variable within the decision-making process is distinct from the information sources that may stimulate the start of the decision-making process. Information utility is slightly lower than need arousal but higher than the other variables in the processes section of the model to indicate that sometimes (but not always) it occurs prior to the other stages. Information utility relates to a consumer’s need for information from external and internal sources. External sources include marketing communications and interpersonal sources, while internal sources include memory and learning, subjective knowledge, experience and expertise. Information utility can provide a better understanding of where customers ‘shop’ for information, what information they are seeking, and how they use it.

The interaction between information utility and the other processes is an important part of the new model – it is clear that as a consumer gathers and uses information that their growing knowledge may also influence their conception of how to go about evaluating their choices, and the evaluation itself. It is also conceivable that the consumer considers that the information available is presented in a way that is difficult to understand, or that the consumer perceives the cost i.e. the time or opportunity of 'learning' to understand the different alternatives is too great to be a viable undertaking. Consumer characteristics and information sources clearly influence the information utility the consumer experiences, as well as influencing the other process elements.

Criteria development: The development of criteria for evaluation lies between information utility and the application of the criteria to evaluating options. Criteria development is not generally a separate construct in the traditional Consumer Decision Making (CDM) models. But this component is relevant because it sets the boundaries of the decision .The development of criteria component of the model comprises a preliminary consideration leading to formation of an evoked set, and with this, development of the decision criteria that will later be used to evaluate possible solutions offered by the evoked set. Development of the evoked set requires a preliminary informal information search, which is distinct from the more intensive evaluation once the evoked set is formed . In the health industry we have come to know that when consumers have less objective knowledge relevant to a purchase decision, they tend to have a smaller evoked set because those with less knowledge of the product find it harder to distinguish between alternatives. The intangible nature of services means that consumers often face a shortage of relevant information that they are able to comprehend and base evaluations upon and this is certainly true of many financial services. The interactions between the models' constructs of information utility and criteria development, as depicted in the new model. Evaluative criteria development is relevant to financial services purchase decisions in particular due the perceived complexity of some of the products, and that consumers may not be able to appreciate differences between available financial service providers. Decision-making for financial services is also complicated by the fact that a range of diverse products may accomplish very similar goals.

Evaluation of solutions. Evaluation of solutions lies below criteria development and comes prior to outcomes in the model. Evaluation mechanisms are the decision rules which are essentially techniques used to evaluate the alternatives presented from the previous procedural components of the decision-making process. Consumers differ in the rules they use to evaluate goods allowing comparison of techniques over groups. The techniques used to evaluate alternative financial services that can be derived from the heuristics literature. It was noted that a 'contingent processing concept' needed to be broadened to include heuristics such as agency, conformity, imitation and recommendations. Evaluation of solutions in the model includes substitute products, and products categories, as well as brand choice. This is an expansion of the construct from the narrow classifications presented in some models where evaluation of brand choice was the ultimate goal. The structures inherent in the financial services market and substitutability of services make brand choice alone superficial because it requires a choice of the product category to be performed prior to the decision-making process. While this may be clear in other product or service categories, financial services can have high substitutability, for example few consumers note the difference between funds managers and financial planners, the decision between which is often made at the same time as brand/product choice research suggests that need arousal and evaluation of alternatives may be the most prominent of the decision-making variables, and that many consumers rely largely on prior knowledge and inbuilt preconceived criteria when making a decision .This could make the arousal of the need and the method of evaluation via a heuristic the most influential components of the decision-making process.

3) Consumer decision-making outcomes: The third component of the conceptual model is the outcomes, including the decision, purchase, and post-decision evaluation.

Decision or choice: A decision is the immediate result of the process elements of decision-making. Decision is considered separate to purchase due to the separation of the activities and the fact that decision does not necessarily lead to purchase. For example, a consumer may not have the financial means to be able to complete the transaction; an interrupting variable such as a point of sale discount for an alternative may intervene; or simply 'sleeping on a decision' may reduce the need arousal and the item is forgotten.

Purchase: The purchase component is particularly relevant to both – as output to the decision making process as well as the behavioral aspect of the process. Most of the other constructs are internally focused as thought processes or situational based constructs such as past experiences.

Post-decision evaluation: This variable has been altered from the norm of post-purchase evaluation because for financial services it is harder for consumers to make post-purchase evaluations. Difficulties in evaluating services are well covered in the literature. A good example of this is a financial investment which provides a 4% return, which depending on the economic context and the consumer's level of understanding could be seen as excellent, ordinary or calamitous. Additionally, if decision-making processes are considered to be iterative, can be seen as trial or shopping experiences, or can lead to no decision, then the standard analysis of post purchase constructs need to be expanded to include the feedback from the decision if there is no purchase. These outputs to the model remain valid and many are recycled within consumer's minds in the form of memory, attitudes and experiences which can in turn lead to a form of education and culminate in expertise.

Consumer Research Paradigms:

The research paradigm in the study of consumer behavior focuses on **two approaches** i.e. , **Quantitative research** and **Qualitative research**.

a) Quantitative Research : This approach makes application of quantitative research techniques to the study of Consumer Behavior. It comprises

(i) research techniques that are used to gather quantitative data over large samples randomly, and

(ii) statistical tools and techniques, inclusive of survey techniques, observation and experiments.

This type of research is descriptive and empirical in nature. It is primarily used by the positivists while studying consumer behavior, with a focus on prediction of consumer behavior. The findings can be generalized to marketing situations.

b) Qualitative Research in Consumer Behavior: This approach makes application of qualitative research techniques to the study of Consumer Behavior. It comprises

(i) research techniques that are used to gather qualitative data over small samples randomly and,

(ii) non-statistical tools and techniques, inclusive of depth interviews, focus group, projective techniques and even observation.

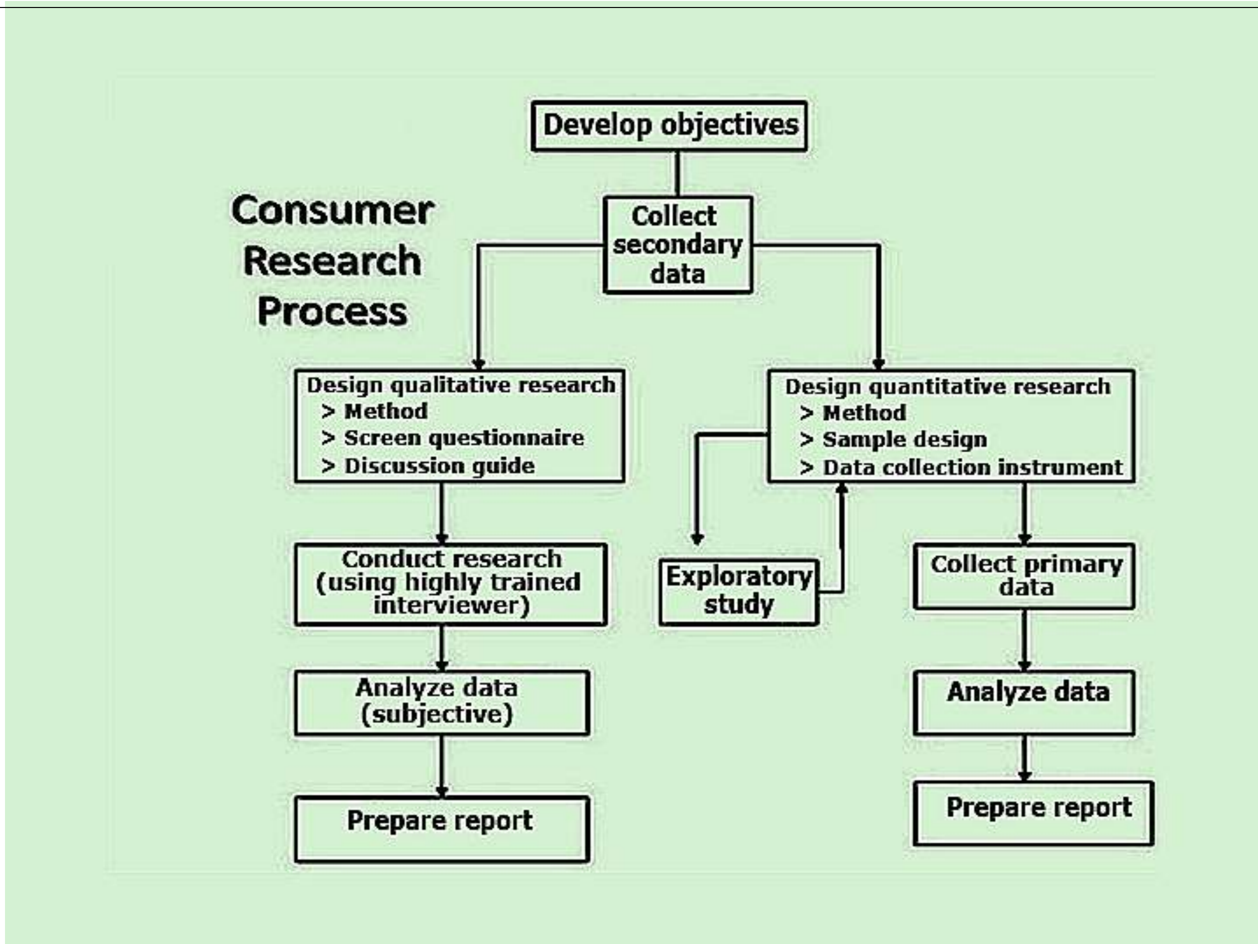
The type of study is subjective and non-empirical in nature. It lays emphasis on the holistic "what, where, when, why and how" of human behavior". The focus is on understanding consumption behavior and consumption patterns. The objective is to gain an understanding of consumer behavior and the underlying causes that govern such behavior. The approach assumes that all marketing situations are unique; and, hence the findings cannot be generalized to marketing situations.

Consumer Research Process:

Consumer research plays a very important aspect, especially when a company decides to start with a new product into the market. Companies conduct market research to better understand the consumers, their needs and their satisfaction level.

After conducting various surveys and focus groups, companies analyse the consumer data and then decide the results.

This illustration explains the consumer research process −



Developing Research Objectives

The first step in the consumer research process is to develop the research objectives which involves defining the purposes and objectives to ensure a good and appropriate design. A statement of objective helps us to define the type and level of information needed.

Collection of Secondary Data

There are two distinct sources of secondary data –**external and internal**

External Sources:

External sources are numerous. Consumer Generated Media (CGM), especially, has grown in importance as a data source. The key is to avoid spending too much time following ‘blind alleys’. This is where the time and cost can worsen sharply.

Primary Research

Primary research is basically the original research. Here we ourselves collect the information through various tools available. In primary research, we don't tend to depend on any third party. We may conduct interviews or surveys, observe, or even directly go to the object for collecting information.

Quantitative Research

A quantitative research study is comprised of research design, the data collection methods, instruments to be used, and the sample design.

Following are the three basic designs or approaches used for quantitative design −

- **Observational Research** − In this method of observational research, the customers are observed effectively when they purchase a particular product. It helps the researcher to gain in-depth understanding of the relationship between the people and products by observing them while purchasing and using the product.

- **Experimentation** − Experimentation is a type of research where only certain variables are manipulated while others are kept constant in order to encourage the change in the constant variable

- **Surveys** − A survey is a method of research in which an interviewer interacts with respondents to obtain facts, opinions and attitudes.

Data Collection Instruments for Quantitative Research Data:

Questionnaire and Attitude Scale –In case of quantitative research the primary data collection instrument is a questionnaire and the most frequent one is anattitude scale which is used to capture evaluative data.

Following are the important methods of data collection in the qualitative design techniques which are used in the initial stages of research.

- **In-Depth Interview −** Depth interview is conducted in length and in a non-structured manner where the interviewer is highly trained and minimizes his own participation in the discussion once the general subject is discussed.

- **Focus Group −** Focus group involves many respondents who interact with the analyst in a group discussion and focuses on a particular product.

Projective Techniques

Projective techniques are best used to understand the motives of people when they are unconsciously rational.

The analyst generally analyses and reports his findings based on the responses received in qualitative research whereas in quantitative analysis, the researchers oversees the complete research, analyses the open ended questions, classifies the responses and systematically tabulate them.

Summary:

So, in today's session we studied about the

A model for consumer's decision-making - Some fundamentals of decision-making apply to all types of purchases, the specific circumstances for products such as financial services, requires a reframing of the variables and processes.

Consumer Research Paradigms: The research paradigm in the study of consumer behavior focuses on **two approaches** i.e. , **Quantitative research** and **Qualitative research**.

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