Lesson-41

CONSUMER BEHAVIOUR (PART-2)

Models of Buyer Decision Making

General Model

A general model of the buyer decision process consists of the following steps:

- Want Recognition;
- Search of Information on products that could satisfy the needs of the buyer;
- Alternative Selection;
- Decision-making on buying the product;
- Post-purchase Behavior.
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There are a range of alternative models, but that of AIUAPR, which most directly links to the steps in the marketing/promotional process is often seen as the most generally useful;

•AWARENESS - before anything else can happen the potential customers must become aware that the product or service exists.

•INTEREST - but it is not sufficient to grab their attention. The message must interest them and persuade them that the product or service is relevant to their needs.

•UNDERSTANDING - once an interest is established, the prospective customer must be able to appreciate how well the offering may meet his or her needs.

•ATTITUDES - but the message must go even further; to persuade the reader to adopt a sufficiently positive attitude towards the product or service that he or she will purchase it.

•PURCHASE - all the above stages might happen in a few minutes while the reader is considering the advertisement; in the comfort of his or her favourite armchair.

- REPEAT PURCHASE - but in most cases this first purchase is best viewed as just a trial purchase.

This is a very simple model, and as such does apply quite generally. Its lessons are that you cannot obtain repeat purchasing without going through the stages of building awareness and then obtaining trial use; which has to be successful.

Decision Making Style

Cognitive and Personal Biases in Decision Making

It is generally agreed that biases can creep into our decision

•**Selective search for evidence** - We tend to be willing to gather facts that support certain conclusions but disregard other facts that support different conclusions.
•**Premature termination of search for evidence** - We tend to accept the first alternative that looks like it might work.

•**Conservatism and inertia** - Unwillingness to change thought patterns that we have used in the past in the face of new circumstances.

•**Experiential limitations** - Unwillingness or inability to look beyond the scope of our past experiences; rejection of the unfamiliar.

• **Selective perception** - We actively screen-out information that we do not think is salient.

•**Wishful thinking or optimism** - We tend to want to see things in a positive light and this can distort our perception and thinking.

•**Repetition bias** - A willingness to believe what we have been told most often and by the greatest number of different of sources.

•**Anchoring** - Decisions are unduly influenced by initial information that shapes our view of subsequent information.

• **Group decision-** Peer pressure to conform to the opinions held by the group.

•**Source Credibility bias** - We reject something if we have a bias against the person, organization, or group to which the person belongs:
We are inclined to accept a statement by someone we like.

•**Underestimating uncertainty and the illusion of control** - We tend to underestimate future uncertainty because we tend to believe we have more control over events than we really do.

•**Faulty generalizations** - In order to simplify an extremely complex world, we tend to group things and people. These simplifying generalizations can bias decision making processes.

Loss Aversion

"In prospect theory, loss aversion refers to the tendency for people to strongly prefer avoiding losses than acquiring gains".

Some studies suggest that losses are as much as twice as psychologically powerful as gains. Loss aversion was first convincingly demonstrated by Amos Tversky and Daniel Kahneman.

This leads to risk aversion when people evaluate a possible gain; since people prefer avoiding losses to making gains. This explains the curvilinear shape of the prospect theory utility graph in the positive domain. Conversely people strongly prefer risks that might possibly mitigate a loss (called risk seeking behavior).

Loss aversion may also explain sunk cost effects.

Note that whether a transaction is framed as a loss or as a gain is very important to this calculation: would you rather get a 5% discount, or avoid a 5% surcharge? The same change in price framed differently has a significant effect on consumer behavior. Though traditional economists consider this "endowment effect" and all other effects of loss aversion to be completely irrational that is why it is so important to the fields of marketing and behavioral finance.

Can Loss Aversion ever be Rational?

There is an important critique of the view held by economists that this behaviour is irrational. The implicit assumption of conventional economics is that the only relevant metric is the magnitude of the absolute change in expenditure. In the above example, saving 5% is considered equivalent to avoiding paying 5% extra. This is not the only rational interpretation. Another view is that the most important metric is the

magnitude of the relative change in wealth of the decision-maker. Again, referring to the above example, a 5% discount is then not equivalent to avoiding a 5% surcharge.

The reasoning is as follows.

Take a hypothetical item with a base cost of $1000, and consider two possible scenarios:

•In the first scenario, the buyer expects to pay $1000, but then is offered a 5% discount. The price is then $950. The change represents a 5% saving.

•In the second scenario, there is a surcharge of 5%, or $50. The buyer expects to pay $1050. Avoiding the surcharge would mean a price of $1000. Buyers see this as a savings of $50 on what they expected to pay: $1050. Thus, the perceived savings is 50/1050 x 100% = approx. 4.76%.

When the savings relative to the remaining wealth (or stock of money) is different, the value of the transaction changes accordingly. When using this interpretation, decisions made by consumers are not necessarily irrational.

Taking this to an extreme, if I have only $1000, getting $1000 only doubles my wealth (which would be nice), but losing $1000 will wipe me out completely (which might be a matter of life and death). Clearly, in this case, if I need money for food and shelter in order to live, I will be far more motivated to avoid losing $1000 than to try to gain $1000.

In addition, it has been asserted that the effect of relative evaluation is more pronounced the greater the potential amount saved is relative to the total amount the decision-maker has to spend.

All of the above effects can be expressed in terms of the **utility function** of money, and, in particular, not regarding money.