

Model answer
Course: MBA
Semester: III
Subject: Consumer Behaviour
Exam -2014

Section-A Short Answer questions

Ans (i) Consumer Behavior is the study of individuals, groups, or organizations and the processes they use to select, secure, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society.

Ans (ii) The term absolute threshold is often used in neuroscience and experimental research. An absolute threshold is the smallest detectable level of a stimulus. For example, in an experiment on sound detection, researchers may present a sound with varying levels of volume. The smallest level that a participant is able to hear is the absolute threshold.

Ans (iii)

People in charge of purchasing products and services for organizations, governments and business. Organizational buyers make buying decisions for their organizations and purchase products and services professionally. This type of buyer tends to be more knowledgeable than normal consumers.

Ans (iv) Loewenstein and Lerner divide emotions during decision-making into two types: those anticipating future emotions and those immediately experienced while deliberating and deciding. Damasio formulated the somatic marker hypothesis (SMH), that proposes a mechanism by which emotional processes can guide (or bias) behavior, particularly decision-making. Pfister and Böhm believe that "the issue of rationality should be based on the validity of emotional evaluations rather than on formal coherence. "Some examples of their results. Decision-makers who were made to consider safety concerns that induced negative emotions when deciding which car to purchase, were more likely to "choose not to choose," or to stick with the status quo.

Ans (v) A marketing idea that is based only on the selling of goods or services, rather than on whether or not they are actually needed. Operating under the sales concept, a business would produce goods that it anticipated a profitable return from and then attempt to persuade consumers to purchase them by using advertising and other sales techniques.

Ans (vi) *Personality* can be described as the psychological characteristics that both determine and reflect how a person responds to his or her environment. Although personality tends to be consistent and enduring, it may change abruptly in response to major life events, as well as gradually over time.

Ans (vii) Consumer materialism is a personal value that reflects the importance a consumer places on the acquisition and possession of material objects. In the consumer-behavior literature, three elements are typically recognized as constituting materialism: the belief that acquisition is necessary for happiness, the tendency to judge the success of one's self and others by their possessions, and the centrality of acquisition and possessions in one's life. Materialism is distinct from conspicuous consumption, a behavioral variable that involves the ownership and display of status objects to enhance one's relative standing and inspire envy. Materialism has important implications for society as a driver of personal consumption, and thus the economy. It also has personal implications because of its negative association with well-being and other desirable personal outcomes. Research into causes of individual differences in materialism has investigated the role of media exposure, early family environment, and peer influences, among others. Materialism is associated with many

variables of interest to marketers, including preference for status goods and unique products, the centrality of visual aesthetics when making a product choice, willingness to purchase counterfeit products, and other decision variables.

Ans (viii) Positioning defines where your product (item or service) stands in relation to others offering similar products and services in the marketplace as well as the mind of the consumer. **Description:** A good positioning makes a product unique and makes the users consider using it as a distinct benefit to them. A good position gives the product a USP (Unique selling proposition). In a market place cluttered with lots of products and brands offering similar benefits, a good positioning makes a brand or product stand out from the rest, confers it the ability to charge a higher price and stave off competition from the others. A good position in the market also allows a product and its company to ride out bad times more easily. A good position is also one which allows flexibility to the brand or product in extensions, changes, distribution and advertising.

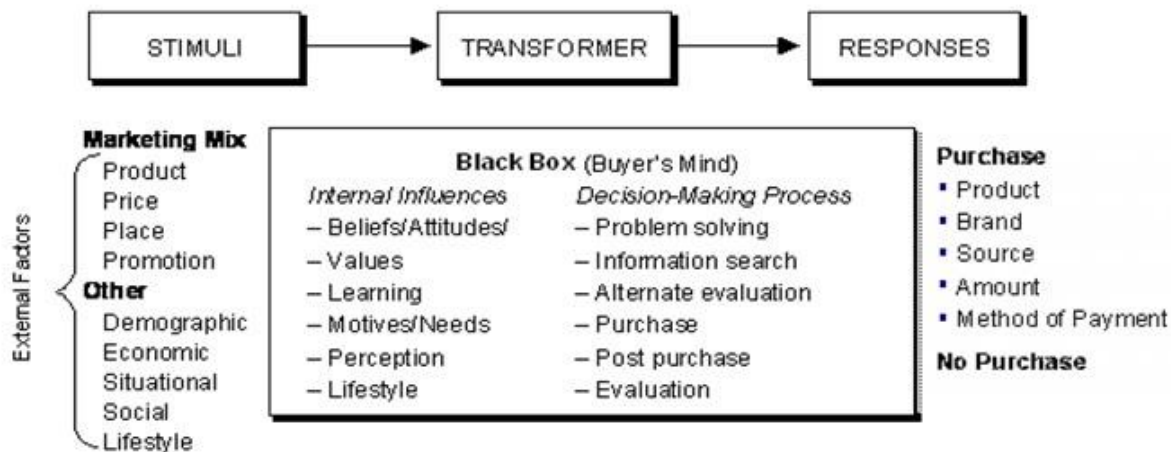
Ans (ix) Most people believe that the choices they make result from a rational analysis of available alternatives. In reality, however, emotions greatly influence and, in many cases, even determine our decisions. When we are confronted with a decision, emotions from previous, related experiences affix values to the options we are considering. These emotions create preferences which lead to our decision. **For example-** A brand is nothing more than a mental representation of a product in the consumer's mind. If the representation consists only of the product's attributes, features, and other information, there are no emotional links to influence consumer preference and action.

Ans (x) Relationship marketing was first defined as a form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a dominant focus on sales transactions.

Long Answer Questions - Section-B

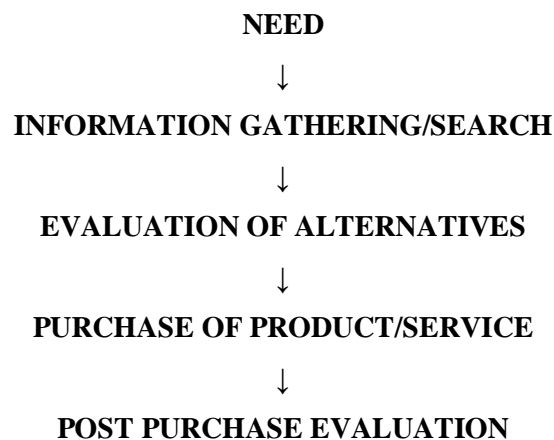
Ans-2 Consumer Behaviour is the study of individual, groups, or organizations and the processes they use to select, secure, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society. It blends elements from psychology, sociology, social anthropology, marketing and economics. It attempts to understand the decision-making processes of buyers, both individually and in groups such as how emotions affect buying behaviour. It studies characteristics of individual consumers such as demographics and behavioural variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general. Customer behaviour study is based on consumer buying behaviour, with the customer playing the three distinct roles of user, payer and buyer. Research has shown that consumer behaviour is difficult to predict, even for experts in the field. Relationship marketing is an influential asset for customer behaviour analysis as it has a keen interest in the re-discovery of the true meaning of marketing through the re-affirmation of the importance of the customer or buyer. A greater importance is also placed on consumer retention, customer relationship management, personalisation, customisation and one-to-one marketing. Social functions can be categorized into social choice and welfare functions. Each method for vote counting is assumed as social function but if Arrow's possibility theorem is used for a social function, social welfare function is achieved. Some specifications of the social functions are decisiveness, neutrality, anonymity, monotonicity, unanimity, homogeneity and weak and strong Pareto optimality. No social choice function meets these requirements in an ordinal scale simultaneously. The most important characteristic of a social function is identification of the interactive effect of alternatives and creating a logical relation with the ranks. Marketing provides services in order to satisfy customers. With that in mind the productive system is considered from its beginning at the production level, to the end of the cycle, the consumer.

Generic consumer behavior Model:-



Ans-3 The consumer decision making process.

A consumer goes through several stages before purchasing a product or service.



- Step 1** - Need is the most important factor which leads to buying of products and services. Need in fact is the catalyst which triggers the buying decision of individuals.

An individual who buys cold drink or a bottle of mineral water identifies his/her need as thirst. However in such cases steps such as information search and evaluation of alternatives are generally missing. These two steps are important when an individual purchases expensive products/services such as laptop, cars, mobile phones and so on.

- Step 2** - When an individual recognizes his need for a particular product/service he tries to gather as much information as he can.

An individual can acquire information through any of the following sources:

- **Personal Sources** - He might discuss his need with his friends, family members, co workers and other acquaintances.

- Commercial sources - Advertisements, sales people (in Tim's case it was the store manager), Packaging of a particular product in many cases prompt individuals to buy the same, Displays (Props, Mannequins etc)
 - Public sources - Newspaper, Radio, Magazine
 - Experiential sources - Individual's own experience, prior handling of a particular product (Tim would definitely purchase a Dell laptop again if he had already used one)
3. **Step 3** - The next step is to evaluate the various alternatives available in the market. An individual after gathering relevant information tries to choose the best option available as per his need, taste and pocket.
 4. **Step 4** - After going through all the above stages, customer finally purchases the product.
 5. **Step 5** - The purchase of the product is followed by post purchase evaluation. Post purchase evaluation refers to a customer's analysis whether the product was useful to him or not, whether the product fulfilled his need or not?

Level of Involvement

– An individual's intensity of interest in a product and the importance of the product for that person. **Levels of Decision Making:** Consumer decision making can be seen at three distinct levels. Three levels of learning /stages of decision making are: Extensive problem solving Limited problem solving Routinized response behavior

Extensive problem solving Limited problem solving Routinized response behavior

Types of Decision	Consumer Involvement In Purchase	Characteristics of Consideration Set	Information Sources Consulted	Consumer Involvement In Purchase
Routine	Low	One of a few brands, sellers and product characteristics evaluated	Internal sources used	As little as possible
Limited	Moderate	Several brands, sellers and product characteristics evaluated	Internal and some external sources	Some time invested
Extensive	High	Many brands, sellers and product characteristics evaluated	Internal and many external sources	Much time invested

Extensive Problem Solving:

- Early Stage of Decision Making
- Buyer has little Information of Brands
- Buyers Choice Criteria is NOT yet Formed

Limited Problem Solving:

- Advanced Stage of Decision Making
- Choice Criteria are now Defined
- Buyer Undecided about the Best Brand

Routinized Response Behavior:

- Routinized Response Behavior
- Choice Criteria are Well Defined
- Predisposition towards one Brand

- Little Evaluation of Alternatives by the Buyer

Ans-4 Indian consumer class can be classified into according to following criteria. **(1) Income:-** India has a population of 1.095 billion people, comprising of 1/6th of the world population. India's population can be divided into 5 groups on the basis of annual household income. These groups are Higher Income, Upper middle income, middle income, lower middle income, and lower income.

(2) Socio economic status: - Indian households can also be segmented according to the occupation and education levels of the chief earner of the household.

(the person who contributes most to the household expenses). This is called as Socio-Economic Classification (SEC), which is mainly used by market planners to target market before launching their new products. SEC is made to understand the purchase behavior and the consumption pattern of the households. **(3) Age demographics:** - India is a very young nation, if compared with some advanced and developed countries. Nearly two thirds of its population is below the age of 35. and nearly 50% is below 25.

(4) Geographical dispersion:- There is large difference in economic prosperity levels among several states in India, linked to the wealth creation from trade, industrial, and agricultural development. Customer prioritization as the degree to which customers are treated differently with respect to marketing instruments according to their importance to the firm. Thus, there is a high level of customer prioritization when top-tier customers receive clearly different and preferential treatment (i.e., value proposition) compared with bottom-tier customers regarding marketing instruments, such as product, price, sales, communication, and processes.

Prioritization Based on Value, Cost, and Risk:- On a small project, the stakeholders can probably agree on requirement priorities informally. Larger or more contentious projects need a more structured approach, which removes some of the emotion, politics, and guesswork from prioritization.

Industry analysts have proposed several techniques that involve estimating the relative value and relative cost of each requirement, such that the highest priority requirements provide the largest fraction of the total product value at the smallest fraction of the total cost. In essence, you're trying to identify those requirements that will maximize the product value within the existing cost constraints. Subjectively estimating the cost and value by pair-wise comparisons of all the requirements is impractical for anything more than a couple dozen requirements.

Another alternative, Quality Function Deployment (QFD), provides a robust and comprehensive method for relating customer value to the proposed product features. A third approach, based on Total Quality Management (TQM), rates each requirement against several specific, weighted project success criteria and computes a score to rank the priority of the requirements. However, in my experience few software organizations are willing to undertake the rigor of QFD or TQM.

The typical participants in the prioritization process include:

- The project manager, who leads the process, arbitrates conflicts, and adjusts inputs from the other participants if necessary
- Key customer representatives, who supply the benefit and penalty ratings
- Development representatives, such as team technical leads, who supply the cost and risk ratings.

Follow eight steps to use this prioritization model.

Step 1. List all of the requirements, features, or use cases that you wish to prioritize in a spreadsheet; we'll use features in this example. All of the items must be at the same level of abstraction. For example, don't mix individual requirements with product features. If certain features are logically linked (that is, you would only implement feature B if feature A were included as well), include only the driving feature in the analysis. This model will work with up to several dozen features before it becomes unwieldy. If you have more items than that, abstract related features together to create a more manageable initial list. You can do a second round of analysis at a finer granularity of requirements detail if you need to.

Step 2. Estimate the relative benefit that each feature provides to the customer or the business on a scale from 1 to 9, with 1 indicating very little benefit and 9 being the maximum possible benefit. These benefits indicate alignment with the product's business requirements. Your customer representatives are the best people to judge these benefits.

Step 3. Estimate the relative penalty the customer or business would suffer if the feature is not included. Again, use a scale from 1 to 9, where 1 means essentially no penalty and 9 indicates a very serious downside. For example, failing to comply with a government regulation could incur a high penalty even if the customer benefit is low, as would omitting a feature that any reasonable customer would expect, whether or not they explicitly requested it. Requirements that have both a low benefit and a low penalty add cost but little value; they may be instances of gold plating.

Step 4. The Total Value column is the sum of the relative benefit and penalty. By default, benefit and penalty are weighted equally. As a refinement, you can change the weights for these two factors. In Table 2, all benefit ratings are weighted twice as heavily as the penalty ratings. The spreadsheet totals the feature values and calculates the percentage of the total product value provided by these features that is attributable to each feature.

Step 5. Estimate the relative cost of implementing each feature, again on a scale ranging from a low of 1 to a high of 9. The spreadsheet will calculate the percentage of total cost for each feature. Developers estimate the cost ratings based on factors such as the requirement complexity, the extent of user interface work required, the potential ability to reuse existing designs or code, and the levels of testing and documentation needed.

Step 6. Developers estimate the relative degree of technical or other risk associated with each feature on a scale from 1 to 9. An estimate of 1 means you can program it in your sleep, while 9 indicates serious concerns about feasibility, the availability of staff with the needed expertise, or the use of unproven or unfamiliar tools and technologies. The spreadsheet will calculate the percentage of the total risk that comes from each feature.

By default, cost and risk are weighted equally, and each carries the same weight as the benefit and penalty terms. You can adjust the cost and risk weightings in the spreadsheet. In Table 2, risk has one-half the weight of the cost factor, which has the same weight as the penalty term. If you don't want to consider risk in the model, set the risk weighting value to zero.

Step 7. Once you enter the estimates into the spreadsheet, it calculates a priority number for each feature. The formula for the Priority column is: $\text{priority} = \text{value \%} / (\text{cost \%} * \text{cost weight} + \text{risk \%} * \text{risk weight})$.

Step 8. Sort the list of features in descending order by calculated priority. The features at the top of the list have the most favorable balance of value, cost, and risk, and thus should have higher implementation priority. The key customer and developer representatives should review the completed spreadsheet to agree on the ratings and the resulting sequence.

Ans 5 Customer service is never ending process? Based on one's experience of the service from the organization has to develop the response. Following points must be taken care in elaboration:

1. Customer Retention

2. Relationship marketing
3. Life time customer Value
4. Pre sales service, While sales service and post sales servicing
5. After sales product service etc.

Add description by self-experience.

Ans-6 (A) – INITIAL PURCHASE (1). Routine purchase: When you go to the grocery store and are trying to grab a loaf of bread, odds are you'll either buy the variety you're familiar with or the one that is carrying the lightest price tag. In these situations, products are essentially purchased without any significant thought.

2. Limited purchase: If you're in the market for some new clothes or a new collapsible chair that you can bring camping, you might do a little bit of research on brands, but odds are—unless you're Kate Moss or some other model or celebrity—you're going to go with what's in your budget and what looks good or seems the most practical.

3. Extensive purchase: Imagine you're a first-time homebuyer looking to settle into your first home with your new spouse. You've never bought a house before, but obviously you understand how big of an investment and how expansive a decision such a purchase is. Such a decision comes with evident economic risks. But how are you going to feel, personally, about the purchase? How are your peers going to look at you? Extensive decision making requires the most research.

B – REPEAT PURCHASE:-The buying of a product by a consumer of the same brand name previously bought on another occasion. A repeat purchase is often a measure of loyalty to a brand by consumers and is often taken into account by marketing research professionals to evaluate a business.

C – IMPULSIVE PURCHASE

Consumers who buy something impulsively wake up that day without knowing they're going to spend money on a particular item. But all of a sudden, they are inspired for whatever reason and make the purchase. Impulsive buying requires no conscious planning. The person who goes to a liquor store to buy a six-pack and snags an airplane bottle of whisky when checking out is someone who's just bought something impulsively.

D – VARIETY SEEKING

Variety-seeking buying behaviour occurs when the consumer is not involved with the purchase, yet there are significant brand differences. In this case, the cost of switching products is low, and so the consumer may, perhaps simply out of boredom, move from one brand to another. Such is often the case with frozen desserts, breakfast cereals, and soft drinks

POST PURCHASE CONSUMER BEHAVIOR

The behaviour after a product purchase is called Post purchase behaviour. Post-purchase behavior involves all the consumers' activities and the experiences that follow the purchase. Generally after a product purchase the buyer undergoes post purchase dissonance means the buyer regrets his /her purchase.

This dissonance can be due to: -

- Large number of alternatives
- The other alternatives have better features
- It was a difficult buying decision
- Performance risk of the product

- High financial commitment towards the product
- Wear and tear of the product

But if the performance of the product is good the customer is satisfied

Now based on the satisfaction or dissatisfaction the consumer will rebuy the product or discontinue the product.

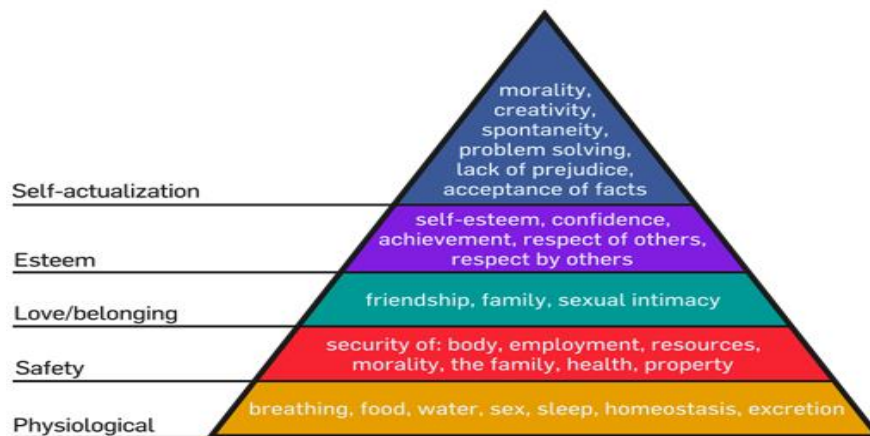
Post-Purchase

Actions:

Satisfaction or dissatisfaction with the product will influence subsequent behavior. A dissatisfied consumer may abandon or return the product.

- Product Non-Use
 - Product non-use can be a significant problem in some categories.
 - Non-use can indicate:
 - The perception that the utility of the product has changed.
 - situational influences have not been favorable for product use (need to expand acceptable range of situations)
- Product Use
 - Product purchase is normally followed by product use (though not always).
 - Consumers use products to fulfill needs - it is not the purchase which generally fulfills the need, but the product use.
 - It is of importance to know how the customer uses a product
 - Satisfaction = Benefits - expectations
 - To increase satisfaction, it is imperative that consumers receive maximum possible benefits.
 - Need for consumers to use a product so that
 - Actual usage = ideal usage (to yield maximum level of benefits)

Ans7. Various need types & their explanations.



Maslows Need Hierarchy

Physiological Needs: These include the most basic needs that are vital to survival, such as the need for water, air, food, and sleep. Maslow believed that these needs are the most basic and instinctive needs in the hierarchy because all needs become secondary until these physiological needs are met.

Security Needs: These include needs for safety and security. Security needs are important for survival, but they are not as demanding as the physiological needs. Examples of security needs include a desire for steady employment, health care, safe neighborhoods, and shelter from the environment.

Social Needs: These include needs for belonging, love, and affection. Maslow described these needs as less basic than physiological and security needs. Relationships such as friendships, romantic attachments, and families help fulfill this need for companionship and acceptance, as does involvement in social, community, or religious groups.

Esteem Needs: After the first three needs have been satisfied, esteem needs becomes increasingly important. These include the need for things that reflect on self-esteem, personal worth, social recognition, and accomplishment.

Self-actualizing Needs: This is the highest level of Maslow's hierarchy of needs. Self-actualizing people are self-aware, concerned with personal growth, less concerned with the opinions of others, and interested fulfilling their potential.

Ans-8 There are four different approaches to the study of marketing. These approaches explain clearly the mechanism and concept of marketing. These approaches are Commodity Approach, Institutional Approach, Functional Approach and Decision Making Approach.

(1) Commodity Approach or Product Approach: This approach refers to the study of a product in detail. The marketing situation of each product chosen for study is examined from such viewpoints as sources and conditions of supply, producer marketing organisations, policies, different middlemen (wholesaler's & retailers etc.) who take part in distributing the product. Problems with regard to a particular product are studied in detail under this approach. Products of any nature e.g. agricultural products wheat, rice, maize, etc., industrial products like machine tools, lathe-machines, generators, oil engines, etc., and any other products can be covered under this study. In practice, this approach tends to be repetitive and time consuming.

(2) Institutional Approach: This approach relates to various marketing institutions viz., wholesalers, retailers etc., engaged in marketing. In applying this approach, a thorough study with regard to a particular middleman is undertaken. For example, in retailing, nature and significance of retailing in terms of functions and services performed and rendered by retail institutions like departmental stores, multiple shops, mail order houses etc. Besides wholesalers and retailers, other marketing institutions can be stock exchanges, produce exchanges, banks, regulated markets, etc. In short, it can be said that this approach is applicable on various types of marketing intermediaries.

(3) Functional Approach: As the very name suggests this approach comprises of the study of various activities or functions performed in the process of marketing of goods and services. It analyses each function in relation to the importance of its performance. Various marketing functions are buying, selling, financing, transportation, banking, risk bearing, market information etc. By analysing and studying every function in detail and problems confronted in the performance of each function, it is possible to understand marketing properly.

(4) The Decision Making Approach: This approach is of vital importance from the viewpoint of marketing management. Various decisions are taken at every level of management. In successful marketing, decision making occupies an important place. The marketing manager should be very expert and competent in his job so that he takes proper decisions for marketing the goods and services. **Under the marketing management philosophy, we shall study the following five concepts:**(1) Production Concept (2) Product Concept (3) Selling Concept (4) Marketing Concept(5) Societal Marketing Concept. Examinee is required to elaborate on these approaches also.

Ans-9 Culture refers to the cumulative deposit of knowledge, experience, beliefs, values, attitudes, meanings, hierarchies, religion, notions of time, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a group of people in the course of generations through individual and group striving. There are several factors which influence the buying decision of consumers, cultural factors being one of the most important factors. Cultural factors comprise of set of values and ideologies of a particular community or group of individuals. It is the culture of an individual which decides the way he/she behaves. In simpler words, culture is nothing but values of an individual. What an individual learns from his parents and relatives as a child becomes his culture **Cultural factors have a significant effect on an individual's buying decision.** Every individual has different sets of habits, beliefs and principles which he/she develops from his family status and background. What they see from their childhood becomes their culture. Let us understand the influence of cultural factors on buying decision of individuals with the help of various examples. Females staying in West Bengal or Assam would prefer buying sarees as compared to Westerns. Similarly a male consumer would prefer a Dhoti Kurta during auspicious ceremonies in Eastern India as this is what their culture is. Girls in South India wear skirts and blouses as compared to girls in north India who are more into Salwar Kameez. Our culture says that we need to wear traditional attire on marriages and this is what we have been following since years. People in North India prefer breads over rice which is a favorite with people in South India and East India. Subcultures each culture further comprises of various subcultures such as religion, age, geographical location, gender (male/female), status etc. Religion (Christianity, Hindu, Muslim, Sikhism, Jainism etc) A Hindu bride wears red, maroon or a bright colour lehanga or saree whereas a Christian bride wears a white gown on her wedding day. It is against Hindu culture to wear white on auspicious occasions. Muslims on the other hand prefer to wear green on important occasions. For Hindus eating beef is considered to be a sin whereas Muslims and Christians absolutely relish the same. Eating pork is against Muslim religion while Hindus do not mind eating it. A sixty year old individual would not like something which is too bright and colorful. He would prefer something which is more sophisticated and simple. On the other hand a teenager would prefer funky dresses and loud colours. In India widows are expected to wear whites. Widows wearing bright colours are treated with suspicion. Status (Upper Class, Middle class and Lower Class) People from upper class generally have a tendency to spend on luxurious items such as expensive gadgets, cars, dresses etc.