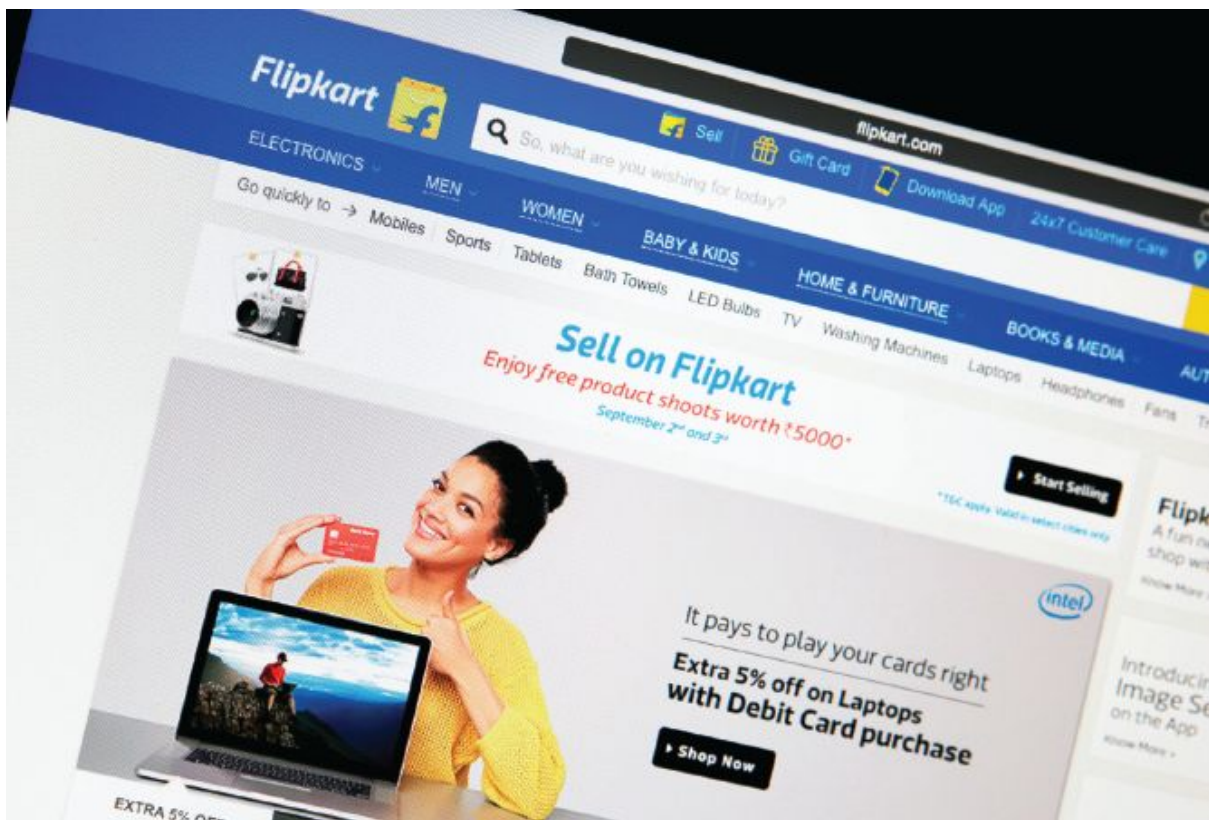


CHAPTER 3

Analyzing Consumer Markets



Flipkart's 'human approach to technology' revolves around customer satisfaction and loyalty. The company's research focuses on understanding factors that affect consumers decision and pain points.

Source: Pawan Kumar / Alamy Stock Photo

Learning Objectives After studying this chapter you should be able to:

3.1 Identify the key factors that influence consumer behavior.

3.2 Explain the role cultural, social, and personal factors play in consumer behavior.

3.3 Explain how consumers' needs, emotions, and memory influence their behavior.

3.4 Illustrate the key stages of the buying decision process.

Flipkart, founded by the IIT Delhi alumni duo—Binny Bansal and Sachin Bansal, started as an online bookstore in 2007.¹ Its technology driven customer-centric approach soon gained popularity, and the company moved into new categories including music, movies, games, electronics and mobiles. The company introduced the 'cash-on-delivery' (COD) option² to gain customers' confidence. COD attracted buyers who were reluctant to use credit cards for prepaid transactions because of widespread online financial frauds. No-questions-asked returns policy, no-cost instalment schemes, easy product exchange and 24×7 contact centres for round the clock service were some of the other customer-friendly initiatives introduced by the company. In 2018, Flipkart reached the milestone of being the first Indian e-commerce company with 100 million registered users and 50 million mobile app users.³ Flipkart's 'human approach to technology' revolves around customer satisfaction and loyalty. All key decisions related to research & development, innovation and technology are driven by a keen desire to understand the changing needs of customers. Its Flipkart Lite, a progressive web app, is primarily designed to support the app browsing for low-speed Internet users. Exclusive online-only product launches and easy product exchange for the value seeking customers exemplify its commitment to meet the evolving customer needs.⁴ In 2018, Walmart acquired a majority stake for \$16 billion in Flipkart, and the latter's growth accelerated by investing in logistics, distribution and fulfilment centres to help sellers on its marketplace.⁵ It launched Brand Pulse, an insights tool to make the online shopping

experience more seamless for consumers and valuable for brands on Flipkart's platform.⁶ The sellers on Flipkart can use insights, gleaned from millions of consumers' digital journey including search, response to banners, page views and purchase, to develop timely and focused marketing plans. Going forward as competition rises from the likes of Amazon and JioMart, Flipkart needs to have even greater focus on customer needs and choices.

Marketers must have a thorough understanding of how consumers think, feel, and act and must offer clear value to each and every target consumer. Understanding consumer needs is the key to designing a value proposition that creates value for each and every customer. One of India's fastest growing brands, Flipkart, has achieved phenomenal market success by developing offerings tailored to the needs of its customers. This chapter explores the buying dynamics of individual consumers. Adopting a holistic marketing orientation requires fully understanding customers and gaining a 360-degree view of both their daily lives and the changes that occur during their lifetimes to ensure that the right products are marketed to the right customers in the right way at the right time.

THE MODEL OF CONSUMER BEHAVIOR

Research on consumer behavior explores how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants.⁷ To create customer value, marketers must fully understand both the theory and the reality of consumer behavior.

The starting point for understanding consumer behavior is the model shown in [Figure 3.1](#). The tactics shaping the offering and the context of the market in which the offering will be sold are filtered through the cultural, social, and personal lenses of target customers, as well as being influenced by consumer motivation, perception, emotions, and memory. This, in turn, influences the consumer buying process—a journey that entails recognition of a need, a

search for the best means to fulfill that need, and evaluation of the available options to finally arrive at the ultimate decision of what, when, where, and how much to buy, and how to pay for these purchases.⁸

We discuss the key consumer characteristics and the psychological processes underlying consumer behavior in the following sections.

CONSUMER CHARACTERISTICS

A consumer's buying behavior is influenced by cultural, social, and personal factors. Of these, cultural factors exert the broadest and deepest influence on people's perceptions and desires and on how they go about fulfilling their needs and wants.

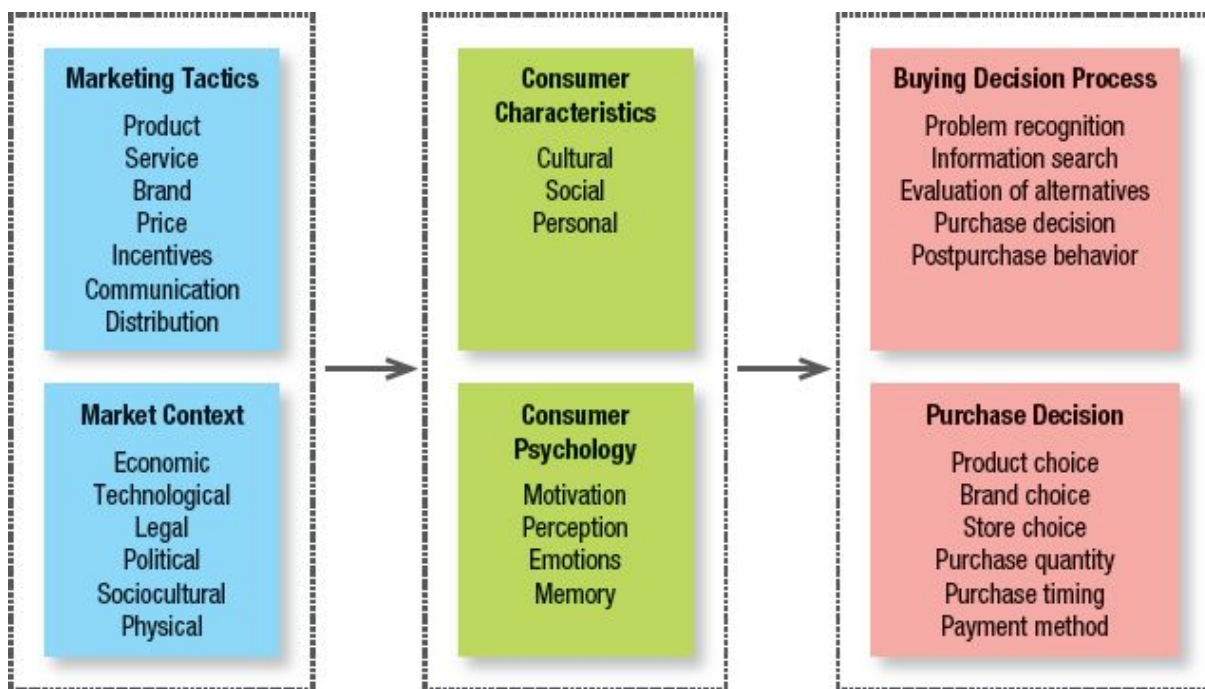


FIGURE 3.1
Model of Consumer Behavior

CULTURAL FACTORS

A culture is a way of life among a group of people—the behaviors, beliefs, values, and symbols that they accept, generally without thinking about them,

and that are passed along by communication and imitation from one generation to the next.⁹

Culture, subculture, and social class are particularly important influences on consumer buying behavior. Culture is a fundamental determinant of a person's wants and behavior. Through family and other key institutions, a child growing up in the United States is exposed to values such as achievement and success, activity, efficiency and practicality, progress, material comfort, individualism, freedom, humanitarianism, and youthfulness.¹⁰ A child growing up in another country might have a different view of self, relationship to others, and rituals.

Cultures can differ on a variety of dimensions, such as the extent to which people prioritize close (vs. distant) others and whether they behave as if they are part of a collective (i.e., collectivistic cultures) or see themselves as independent agents who value their autonomy (i.e., individualistic cultures). Marketers must closely attend to cultural values in every country to understand how best to market their existing products and find opportunities to develop new products. Each culture also consists of subcultures that provide members with more specific identification and socialization. Subcultures include nationalities, religions, racial groups, and geographic regions. When subcultures grow sufficiently large and affluent, companies often design specialized marketing programs to serve them.

To determine the effect of culture on purchases, a recent longitudinal study examined data from 30,000 customers of a global fashion retailer in 30 countries. The study analyzed demographic background, shopping behavior, participation in loyalty programs, types of products bought, product returns, and advertising costs—including e-mail and catalogs—using a framework that enabled national culture to be examined according to the importance of individualism and collectivism, level of indulgence or restraint, type of offerings bought, loyalty to companies/brands, tendency to embrace new technologies, and use of media. Among the findings: Consumers in individualistic societies like Australia and the United States are more likely to buy for themselves, follow trends, use multiple purchase channels (including online and catalog) to find the best deal, and return items that fall below expectations, whereas consumers in collectivist countries (e.g., Portugal,

Mexico, and Turkey) tend to follow the crowd, value long-term reputation, shop for their families, buy from trusted retailers, and prefer traditional brick-and-mortar stores.¹¹

Virtually all human societies exhibit *social stratification*, most often in the form of social classes—relatively homogeneous, enduring, and hierarchically ordered divisions in a society whose members share similar values, interests, and behavior. For example, the United States has lower, middle, and upper classes. Social class members show distinct product and brand preferences in many areas. They may at times want to communicate that they belong to a specific social class by purchasing products that can be viewed as status symbols.¹² The rigidity of social hierarchies and how difficult it is to move up the social ladder also differ across cultures. For example, places like India and Brazil have relatively rigid social hierarchies, with people's positions on the various rungs being determined at birth.

Pervasive inequality still exists among the upper, middle, and lower classes in Brazil, which are often divided into A-B-C-D-E socioeconomic segments by statisticians and marketers. Although it is relaxing slightly, this strict social stratification still divides wealthier and better-educated property owners, and those with special technical skills and expertise (A and B classes), from the large and disproportionately poor E-class segment of the population that has limited access to employment, education, and even basic government services like health and sanitation. C-class individuals typically have at least a high school degree and provide services to those in the A & B classes as teachers, managers, nurses, and the like. Individuals in the D class serve the C class as maids, drivers, bartenders, mechanics, etc. Those in the lowest economic stratum typically have not completed elementary school, are often illiterate, and, when employed, are usually found in jobs such as cleaner and street sweeper that pay meager wages.¹³

SOCIAL FACTORS

In addition to cultural factors, social factors such as reference groups, including family, affect our buying behavior. We address these factors in more detail next.

Reference Groups. **Reference groups** include all the groups that have a direct or indirect effect on a person's beliefs, decisions, and behavior. Family members typically constitute the most influential primary reference group. Parents and siblings have a major influence in forming an individual's beliefs, value system, and behavior. An individual's spouse and children, on the other hand, have a more direct impact on everyday buying decisions, especially in the case of high-ticket items and items that are used by different members of the household.

Reference groups include not only those that individuals belong to, such as friends, neighbors, coworkers, and religious and interest-based groups. Individuals may also be influenced by groups to which they do *not* belong, such as aspirational groups that they hope to join and dissociative groups whose values or behavior they reject.

Where reference group influence is strong, marketers must determine how to reach and influence the group's opinion leaders. An **opinion leader**, or an **influencer**, is a person who offers informal advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used.¹⁴ Opinion leaders are often highly confident, socially active, and frequent users of the product category. Marketers try to reach these leaders by identifying their demographic and psychographic characteristics and the media they read, as well as by directing messages to them.¹⁵

All of us participate in many groups—family, clubs, organizations—that often influence our norms of behavior. We can define a person's position in each group in terms of role and status. A *role* consists of the activities a person is expected to perform. Each role in turn connotes a *status*. A senior vice president of marketing may have more status than a sales manager, and a sales manager may have more status than an office clerk. People choose products that reflect and communicate their role and their actual or desired status in society. Thus, marketers must be aware of the status-symbol and self-defining potential of products and brands.

Family. The family, as the most influential primary reference group,¹⁶ is the most important consumer buying organization in society. There are two

families in the buyer's life. The *family of orientation* consists of parents and siblings. From parents a person acquires an orientation toward religion, politics, and economics, along with a sense of personal ambition, self-worth, and love.¹⁷ Even if the buyer no longer interacts very much with his or her parents, parental influence on behavior can be a significant determinant of purchases.

A more direct influence on everyday buying behavior is the *family of procreation*—namely, the person's spouse and children. In the United States, purchases have in the past varied widely by product category, with the wife usually acting as the family's main purchasing agent, especially for food, sundries, and clothing items. Traditional purchasing roles are now changing, and marketers now see both men and women as viable targets.

For expensive products and services such as cars, vacations, or housing, the vast majority of spouses engage in joint decision making.¹⁸ Men and women may respond differently to marketing messages, however. Research has shown that women tend to place greater value connections and relationships with family and friends and place a higher priority on people than on companies.¹⁹ Accordingly, marketers have customized the positioning of many products such as Quaker's Nutrition for Women cereals and Crest rejuvenating and whitening toothpaste.

Another shift in buying patterns is an increase in the amount of dollars spent by children and teens and the direct and indirect purchasing influence they wield. Direct influence takes the form of children's hints, requests, and demands: "I want to go to McDonald's." Indirect influence means that parents know the brands, product choices, and preferences of their children without hints or outright requests: "I think Jake and Emma would prefer to go to Panera."

A recent survey of the social media habits of 13- to 33-year-olds reveals that only 2 percent say they do not use any social platform, and Millennials report that they use their smartphones more than 11 hours each day, mostly for messaging and social networking. The majority of participants say they have friended or followed a brand on social media; 38 percent have posted about a brand, with 54 percent of these posts being positive and only 22 percent negative.²⁰

PERSONAL FACTORS

Personal characteristics that influence buyers' decisions include their age and stage in the life cycle, occupation and economic circumstances, personality and self-concept, and lifestyle and values. Because many of these factors have a direct impact on consumer behavior, it is important for marketers to follow them closely.

Our taste in food, clothes, furniture, and recreation is often related to our age. Consumption is also shaped by the *family life cycle* and the number, age, and gender of people in the household at any given time. U.S. households are evolving: The traditional family of four with a husband, wife, and two kids makes up a much smaller percentage of total households than it once did.

In addition, *psychological* life-cycle stages may matter. Adults experience certain passages, or transformations, as they go through life,²¹ causing their behavior during these intervals to adapt to changing circumstances. Marketers should consider *critical life events or transitions*—marriage, childbirth, illness, relocation, divorce, first job, career change, retirement, death of a spouse—as giving rise to new needs. Companies should be alert to these needs and provide products and services that can best meet them.

It's not surprising that the baby industry attracts many marketers, given the enormous amount parents spend and the life-changing nature of parenthood.

The Baby Market Although they may not yet have reached their full earning potential, expectant and new parents seldom hold back when spending on their loved ones, making the baby industry more recession-proof than most. Spending tends to peak between the second trimester of pregnancy and the twelfth week after birth. First-time mothers-to-be are especially attractive target customers since they will be unable to use many hand-me-downs and will need to acquire a full range of new furniture, strollers, toys, and baby supplies. Recognizing the importance of reaching expectant parents early to win their trust—industry pundits call it a “first in, first win” opportunity—marketers use a variety of media, including direct mail, inserts, space ads, e-mail marketing, and websites. Product samples are especially popular, and kits are often distributed at childbirth education classes and other places. Many hospitals have banned the traditional bedside

gift bag, however, because of concerns with privacy and potentially adverse effects on a vulnerable audience (e.g., distributing baby formula may discourage new mothers from breastfeeding). Other avenues of access exist: For example, Disney Baby partners with a company that sells baby bedside photos, hands out playful Disney Cuddly Bodysuits, and solicits sign-ups for e-mail alerts from [DisneyBaby.com](https://www.DisneyBaby.com). Not all expenditures go directly to baby-related purchases. Such a fundamental life change gives expectant or new parents a whole new set of needs that has them thinking differently about life insurance, financial services, real estate, home improvement, and automobiles.²²

Occupation also influences consumption patterns. Marketers try to identify the occupational groups that have above-average interest in their products and services, and they even tailor products for certain occupational groups. Computer software companies, for example, design different products for brand managers, engineers, lawyers, and physicians. Michigan-based Carhartt Inc., founded in 1889, has become a global work-clothing dynasty with 800 products, a network of some 100 metro-Detroit retail stores, and corporate stores in seven states, as well as Carhartt Europe and Australia. Carhartt's line of durable industrial, farm, and outdoor clothing is known for quality fabrics and workmanship and through the years has gained traction as streetwear.²³

Both product choice and brand choice are greatly affected by economic circumstances like the level, stability, and pattern of spendable income; savings and assets, including the percentage that is liquid; debts and borrowing power; and attitudes toward spending and saving. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products or emphasize discount brands so they can continue to offer value to target customers.



Brands like Disney Baby know that reaching expectant and new parents early is essential to success in the baby market.

Source: Carolyn Jenkins/Alamy Stock Photo

Personality and Self-Concept. By **personality** we mean a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli, including buying behavior. We often describe personality in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness, and adaptability.²⁴

Consumers typically choose and use brands with a brand personality consistent with their *actual self-concept* (how we view ourselves), although the match may instead be based on the consumer's *ideal self-concept* (how we would like to view ourselves) or even on *others' self-concept* of us (how we think others see us).²⁵ These effects may be more pronounced for publicly consumed products than for privately consumed goods.²⁶ On the other hand, consumers who are high “self-monitors”—that is, are sensitive to the way others see them—are more likely to choose brands whose personalities fit the consumption situation.²⁷

Finally, multiple aspects of self (serious, professional, caring family member, active fun-lover) may often be evoked differently in different situations or around different types of people. Some marketers, like Joie de Vivre Hotels, carefully orchestrate their brand experiences to appeal to a variety of different personalities.

Joie de Vivre Named one of best boutique hotel chains by the editors of *Smarter Travel* magazine, San Francisco-based Joie de Vivre boasts the largest collection of lifestyle boutique hotels in California, with additional locations in Chicago, Baltimore, and New York City. The chain views itself as “a collection of heartfelt stories brought to life” and aims to inspire “the spirit of playful travel through neighborhood connections.” Guests at Joie de Vivre’s sleek and intimate, pet- and family-friendly, community-focused hotels have the option to donate \$1 a night, which goes directly to each hotel’s philanthropic partners. The chain donates almost \$1.5 million each year to neighborhood organizations in the form of gift certificates, cash and in-kind donations, and events. All hotels participate in recycling, composting, and textile and food donation programs, and all work to conserve water and energy, use environmentally safe products, and purchase organic, fair trade food.²⁸

Values and Lifestyle. Consumer behavior is guided by a *value system*—a set of principles and notions of “right and wrong”—that determines what is meaningful and important to consumers and how they choose to live and interact with others. Consumer decisions are also influenced by these *core*

values, which go much deeper than behavior or attitude and, at a basic level, guide people's choices and desires over the long term. Marketers who target consumers on the basis of their values believe that appealing to people's inner selves makes it possible to influence their outer selves—their purchase behavior.

Late 1990's →



Friday Dressing

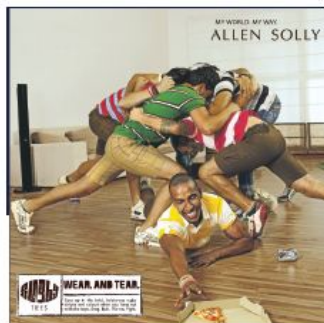


Allen Solly rode the semi-formal workwear adoption wave, courtesy 'Casual Fridays'

2008 →

ALLEN SOLLY

My World. My Way.



The brand matched the fashion sensibilities of a young & dynamic workforce that viewed success differently

2018 →



OPEN WORK CULTURE



Allen Solly was reintroduced as the brand for young, fashion forward leaders of the future.

Market research and consumer understanding spurred Allen Solly to keep introducing new range and collections that reflected changing consumer lifestyle and ramped-up sales.

Source: Allen Solly©Aditya Birla Fashion & Retail Limited, used with permission

Allen Solly Allen Solly is a prominent example of a brand that aligns with the evolving values and lifestyle of its target audience. Established in 1744, the brand was introduced in India in the early 1990s. Strategically positioning itself as 'work casuals', Allen Solly stood out in the premium, formal office wear market. The brand attracted the young professionals, aged between 21 to 30 years, employed in the booming services and software businesses in India. The brand image reinforced through the 'Friday Dressing' concept transformed the office wear range from formal plain and striped shirts and trousers to relaxed casuals.³¹ The success of Allen Solly's office apparel in colourful shirts and khaki trousers paved way

for it to become one of India's leading fashion brand. In response to the changing lifestyle needs of its target audience—the millennials, Allen Solly later extended its positioning to 'casual brand for all occasions' in 2008. The brand's redesigned logo and a new tag line— 'My World, My Way'— reflected the young, independent spirited and dynamic millennials.³² In 2018, the brand launched its 'New Age Work Wear Collection' to celebrate the emergence of open work culture in organisations emphasizing work-life balance and employee friendly policies. Driven by a deep understanding of the ever-evolving young professionals, Allen Solly continues to lead in defining fashion at work through its distinct offerings.³³

People from the same subculture, social class, and occupation may adopt quite different lifestyles. A *lifestyle* is a person's pattern of living in the world, as expressed in activities, interests, and opinions. It portrays the "whole person" interacting with his or her environment.²⁹

Lifestyles are shaped partly by whether consumers are *money-constrained* or *time-constrained*. Companies that aim to serve the money-constrained will create lower-cost products and services. By appealing to thrifty consumers, Walmart has become the largest company in the world. Its "everyday low prices" have wrung tens of billions of dollars out of the retail supply chain, passing the larger part of savings along to shoppers in the form of rock-bottom bargain prices.

Consumers are prone to multitasking. Some will also pay others to perform tasks because time is more important to them than money. Companies aiming to serve them will create products and services that offer multiple time-saving benefits. For example, multitasking beauty balm (BB) skin creams offer an all-in-one approach to skin care, incorporating a moisturizer, anti-aging ingredients, sunscreen, and sometimes even a whitening agent.³⁰

CONSUMER PSYCHOLOGY

When marketing and environmental stimuli enter the consumer's consciousness, a set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase

decisions. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Four key psychological processes—motivation, perception, learning, and memory—fundamentally influence consumer responses.

CONSUMER MOTIVATION

Understanding consumer motivation begins with understanding the needs consumers aim to fulfill with their actions. Thus, we first discuss the essence of consumer needs and then address the way these needs motivate consumer behavior.

Consumer Needs. *Needs* are the basic human requirements, such as air, food, water, clothing, and shelter. Some needs are *biological* and arise from physiological states of tension such as hunger, thirst, or discomfort. Other needs are *psychological* and arise from psychological states of tension such as the need for recognition, esteem, or belonging.

One of the best-known theories of human motivation, that of Abraham Maslow, carries important implications for consumer analysis and marketing strategy. Maslow sought to explain why people are driven by particular needs at particular times.³⁴ His answer is that human needs are arranged in a hierarchy from most to least pressing—from physiological needs to safety needs, social needs, esteem needs, and self-actualization needs (see [Figure 3.2](#)). People try to satisfy their most important needs first and then move to the next important. For example, a starving man will not take an interest in the latest happenings in the art world (need 5), or in the way he is viewed by others (need 3 or 4), or even in whether he is breathing clean air (need 2) until he has enough food and water (need 1), after which the next most important needs will become salient.

Needs become *wants* when directed to specific objects that might satisfy the need. Our wants are shaped by our society. A U.S. consumer needs food but may want a Chicago-style “deep-dish” pizza and a craft beer. A consumer in India needs food but may want chole, tandoori chicken, and naan.

Demands are wants for specific products backed by an ability to pay. Many people want a Mercedes but only relatively few can buy one. Companies must measure not only how many people want their product but also how many are willing and able to buy it. These distinctions shed light on the criticism that “marketers get people to buy things they don’t want.” Marketers do not create needs: Needs pre-exist marketers. Marketers might promote the idea that a Mercedes satisfies a person’s need for social status. They do not, however, create the need for social status.

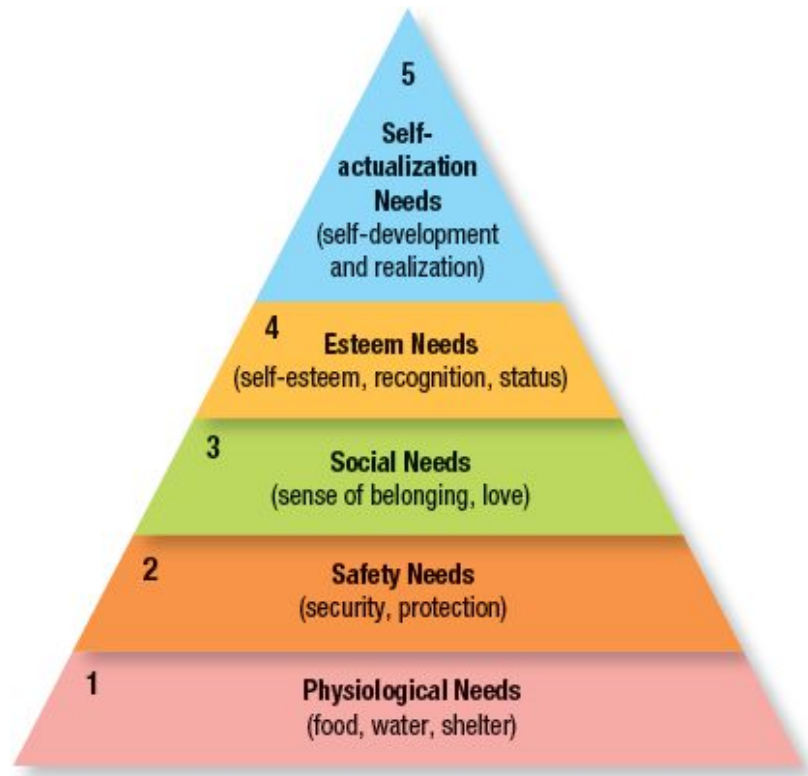


FIGURE 3.2

Maslow's Hierarchy of Needs

Source: A. H. Maslow, *Motivation and Personality*, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 1987). Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Cookies for Gifts



EASY...
they're made from a mix
DELICIOUS...
they're Betty Crocker recipes

REFRIGERATOR COOKIES

Walnut-rich and crisp!

Mix thoroughly with hands...

1 pkg. Betty Crocker Cake Mix—(White, Yellow, PartyCake or Chocolate Devils Food)
1 medium egg
1 tsp. water
1/2 cup finely chopped Diamond Walnuts

Press and mold into long, smooth roll, about 2-in. in diameter. Wrap in waxed paper; chill until stiff (several hours or overnight). With a sharp knife, cut into slices, 3/4-in. thick. Place apart on ungreased cookie sheet. Bake about 6 min., or until lightly browned. In quick moderate oven (375°). Makes about 4 1/2 doz. cookies. You get more cookies for your money! There's a full pound and a quarter of finest ingredients in a package of Betty Crocker White, Yellow, PartyCake or Chocolate Devils Food Cake Mix.

HOLIDAY CRINKLES

Crisp, chewy walnut drop cookies!

Mix thoroughly with hands...

1 pkg. Betty Crocker Cake Mix—(White, Yellow, PartyCake or Chocolate Devils Food)
1 medium egg
2 tsp. water
1/2 cup chopped Diamond Walnuts

Chill dough. Roll into balls the size of small walnuts. Place about 2-in. apart (or drop dough by rounded teaspoons) on ungreased cookie sheet. Top with 1/2 walnut. Bake about 10 min., or until lightly browned, in quick moderate oven (375°). (Do not overbake. Cookies will be soft when done, crisp when cool.) Makes about 3 1/2 doz. cookies. These cake mixes are Betty Crocker recipes all measured and blended for you.

CHRISTMAS GEMS

Quick, easy rolled cookies!

Mix thoroughly with hands...

1 pkg. Betty Crocker Cake Mix—(White, Yellow, PartyCake or Chocolate Devils Food)
1 medium egg
1 tsp. water
1/2 cup finely chopped Diamond Walnuts

Roll very thin (1/16-in.). Cut into desired shapes. Place on ungreased cookie sheet. Bake 5 to 7 min., or until delicately browned, in quick moderate oven (375°). Cookies may be sprinkled with colored sugar before baking, or decorated as desired after baking. Makes about 7 doz. merry Christmas cookies. Such a gay and festive gift! So good, too. Only premium quality ingredients go into Betty Crocker Cake Mixes.



Betty Crocker CAKE MIXES

THE ONLY NATIONAL BRAND TO BRING YOU THAT SPECIAL
HOMEMADE GOODNESS BECAUSE YOU ADD THE EGGS!



Since she sprang into being a century ago, Betty Crocker has lent her name to more than 200 General

Some customers have needs that they are not fully conscious of or cannot articulate. What does the customer mean when asking for a “powerful” lawn mower or a “peaceful” hotel? The marketer must probe further. Responding only to the stated need may shortchange the customer.³⁵ Consumers did not know much about tablet computers when they were first introduced, but Apple worked diligently to shape consumer perceptions and adoption of this technological innovation. To gain an edge, companies must help customers learn what they want—and make it convenient for them to obtain it. Dollar Shave Club’s subscription service helped customers realize they could pay less for razors and Blue Apron helped people overcome a lack of confidence in their culinary skills that made cooking at home appear difficult.

Consumer Motivation. We all have many needs at any given time. A need becomes a motivation when aroused to a sufficient level of intensity to drive us to act.³⁶ Motivation has both direction (we select one goal over another) and intensity (we pursue the chosen goal with more or less vigor).

Motivation researchers often conduct in-depth interviews with a few dozen consumers to uncover deeper motives triggered by a product. They do this by using various psychology-based *projective techniques* such as word association, sentence completion, picture interpretation, and role play to probe consumers’ mindset indirectly, which can yield information not elicited by explicit questioning.

Betty Crocker The name Betty Crocker, synonymous with cooking and baking, came into being in 1921 to personalize responses to consumer inquiries resulting from a promo for Gold Medal Flour. Betty catapulted to fame via a popular radio show and, according to *Fortune* magazine, in 1945 was second only to First Lady Eleanor Roosevelt in popularity. Betty’s image has morphed from the first rather motherly figure in 1936 to that of a modern working woman, and she has managed to stay relevant throughout the years through painstaking research. For example, when sales of its instant Betty Crocker cake mix began to plateau in the 1950s, General Mills looked to Viennese-American psychologist and behavioral marketer Ernest Dichter. The dry cake mix required only the addition of water. Using

Freudian methods to query focus groups of women, Dichter concluded that the ritual of baking a cake was rife with relationship and fertility symbolism and suggested removing the powdered egg from the mix, instead making housewives add their own fresh eggs. Sales soared after General Mills followed this advice.³⁷

Another motivation researcher and cultural anthropologist, Clotaire Rapaille, worked on breaking the “code” behind product behavior—the unconscious meaning people give to a particular market offering. Rapaille worked with Boeing on its 787 “Dreamliner” to identify features in the airliner’s interior that would have universal appeal. Based in part on his research, the Dreamliner has a spacious foyer; larger, curved luggage bins closer to the ceiling; larger, electronically dimmed windows; and a ceiling discreetly lit by hidden LEDs.³⁸ The opposite occurred with Chrysler’s PT Cruiser, which reached the end of the road in less than a decade.

PT Cruiser When introduced at the beginning of the 21st century, the PT (Personal Transportation) Cruiser’s retro looks and accessible price proved to be a hit with consumers in all age groups, although the polarizing design (“a cross between an old-time milk truck and luxurious sedans of the 1930s”) had its critics as well as its imitators, like the Chevrolet HHR. The PT Cruiser was the first DaimlerChrysler vehicle designed using archetype research, a qualitative method developed by French medical anthropologist Clotaire Rapaille. Rapaille’s approach focused on uncovering the deep-seated psychological drivers of consumers’ behavior that go beyond such specific product attributes as color, size, and convenience to capture the feelings and emotions that define the “cultural unconscious” (or, in the words of Rapaille, consumers’ “reptilian hot button”) that defines product choice. The result was a five-door, tall-roofed hatchback that was intended to evoke a nostalgic emotional reaction. Upon its launch, the PT Cruiser was considered a massive success, selling 145,000 vehicles in 2001. But by 2009, sales had plummeted to 18,000. The reason for the PT’s decline came down to Chrysler’s failure to invest in improving and updating the car, as well as its failure to release new models in response to consumer demand.

In addition, the design appealed to a distinctly American audience during a time when globalization was becoming increasingly important to recouping research and development costs.³⁹



The PT Cruiser was DaimlerChrysler's first foray into vehicle design using archetype research intended to trigger an emotional appeal and lead to purchase.

Source: imageBROKER/Alamy Stock Photo

PERCEPTION

Perception is the process by which we select, organize, and interpret information inputs to create a meaningful picture of the world.⁴⁰ A motivated person is ready to act. *How* this person will act is influenced by his or her perception of the situation. In marketing, perceptions are more important than reality because they affect consumers' actual behavior.

Perception depends not only on physical stimuli but also on the stimuli's relationship to the surrounding environment and on conditions that exist

within each of us. One person might perceive a fast-talking salesperson as aggressive and insincere, whereas another might regard the salesperson as intelligent and helpful. Each will respond to the salesperson differently. People emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion, and selective retention.

Selective Attention. Attention is the allocation of processing capacity to some stimulus. Voluntary attention is something we do purposefully; involuntary attention occurs when our attention is grabbed by someone or something. It's estimated that the average person may be exposed to thousands of ads or brand communications every day. Because we cannot possibly attend to all these, we screen out most stimuli, a process called selective attention. **Selective attention** means that marketers must work hard to attract the notice of consumers. The real challenge is to determine which stimuli people will notice. Here are some findings:

- *People are more likely to notice stimuli that relate to a current need.* A person who is motivated to buy a smartphone will notice smartphone ads and be less likely to notice non-phone-related ads.
- *People are more likely to notice stimuli they anticipate.* You are more likely to notice laptops than portable radios in a computer store because you don't expect the store to carry portable radios.
- *People are more likely to notice stimuli whose deviations are large in relationship to the normal size of the stimuli.* You are more likely to notice an ad offering \$100 off the list price of a computer than one offering \$5 off.

Although we screen out much information, we are influenced by unexpected stimuli, such as unanticipated offers in the mail, over the internet, or from a salesperson. Marketers may attempt to promote their offers intrusively in order to bypass selective attention filters.

Selective attention mechanisms require active engagement and thought on the part of the consumer. **Subliminal perception** has long fascinated armchair marketers, who argue that marketers embed covert, subliminal messages in ads or packaging that consumers are not consciously aware of but that affect their behavior. Although it's clear that mental processes include many subtle subconscious effects,⁴¹ no evidence supports the notion that marketers can

systematically control consumers at that level, especially enough to change strongly held or even moderately important beliefs.⁴²

Selective Distortion. Ever noticed that stimuli don't always come across in the way the senders intended? **Selective distortion** is the tendency to interpret information to fit our preconceptions. Consumers will often distort information to make it consistent with prior brand and product beliefs and expectations. For a stark demonstration of the power of consumer brand beliefs, consider taste tests in which one group of consumers samples a product without knowing the brand, while another group is aware of the brand during sampling. Invariably, the groups will have different opinions despite consuming *exactly the same product*.

When consumers report different opinions of branded and unbranded versions of identical products, it must be that their brand and product beliefs, created by whatever means (e.g., past experiences, brand promotions, familial preferences), have somehow changed their product perceptions. We can find examples of this for virtually every type of product. When Coors changed its label from “Banquet Beer” to “Original Draft,” consumers claimed the taste had changed even though the formulation remained the same.

In another study, Frédéric Brochet, at the University of Bordeaux, gave glasses of red and white wine to wine science students and asked for descriptions. At a follow-up tasting, the students received glasses of the same white wine, with the catch that half the wine was dyed red. They described the white wine as they had previously but described the same red-tinted white wine in terms of red wine, showing that visual cues can override smell, taste—and expertise.⁴³

Selective distortion can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive. In other words, coffee may seem to taste better, a car may seem to drive more smoothly, and the wait in a bank line may seem shorter, depending on the brand.

EMOTIONS

Emotions are mental states that arise spontaneously rather than from conscious effort and reflect people's positive or negative reactions to internal and external stimuli. We typically have little control of feelings such as joy, sorrow, anger, fear, and ambivalence, which vary in intensity and complexity depending on our personal reactions and can be accompanied by physiological and behavioral changes.

Consumer response is not all cognitive and rational. Many responses may be emotional and evoke different kinds of feelings. A brand or product may make a consumer feel proud, excited, or confident. An ad may create feelings of amusement, disgust, or wonder. Brands like Hallmark, McDonald's, and Coca-Cola have made an emotional connection with loyal customers for years. Marketers increasingly recognize the power of emotional appeals, especially if they are rooted in some functional or rational aspects of the brand.

To help teen girls and young women feel more comfortable talking about feminine-hygiene and feminine-care products, Kimberly-Clark used four different social media networks in its "Break the Cycle" campaign for its U by Kotex brand. With overwhelmingly positive feedback, the campaign helped Kotex move into the top spot in terms of word-of-mouth share for that feminine-care target market.⁴⁴

An emotion-filled brand story has been shown to trigger's people desire to pass along things they hear about brands through either word of mouth or online sharing. Firms are giving their communications a stronger human appeal to engage consumers in their brand stories.⁴⁵ Ray-Ban's 75th anniversary campaign, "Never Hide," showed a variety of stand-out and stylish hipsters to suggest that wearers of the brand's aviator glasses and sunglasses feel attractive and cool. Some brands have tapped into the hip-hop culture and music to market a brand in a modern multicultural way, as Apple did with its iPod.⁴⁶

Many marketers like Ray-Ban have leveraged the emotional appeal of the past to connect with current customers, particularly younger ones. Although e-mail, Webinars, and social media platforms have seriously displaced direct mail, seminars, and trade shows, the latter can still play an effective role in marketing efforts. Retro marketing tactics and products have shown that

nostalgia can pay, as costumed mascots, spinning signs, community gatherings, and billboards continue to capture the attention of customers. Products like the revived Beetle, the Fiat 500, and Cadbury's resurrected Wispa chocolate bar show that products steeped in the aura of days gone by enjoy a visceral connection with customers. Fashion houses base new designs on those of past eras. MillerCoors announced a retro marketing campaign for Miller Lite beer, along with a version of the original Miller Lite label from the 1970s. Cartier, Motel 6, and Life Savers are among other major brands that have gone retro with ad campaigns. Even football players cash in on nostalgia marketing: The NFL Pittsburgh Steelers have worn jerseys that are a throwback to the team's 1932 uniforms.⁴⁷

Just as products and brands can elicit certain emotions, different emotional states can influence people's judgments and decisions. For example, emotions such as fear can increase or decrease the effectiveness of different marketing strategies that include social proof (e.g., communicating a product's popularity) and scarcity (e.g., "limited edition").⁴⁸ Similarly, seeing the emotions of others can also be used as a marketing tool. For example, displaying sad (vs. neutral or happy) faces of victims could increase the likelihood that people will donate to a charity.⁴⁹

MEMORY

Memory—the brain's ability to record, store, and retrieve information and events—also plays a role in consumers' purchasing decisions. The different types of memory and the way memory processes work are described in the following sections.

Memory Models. Cognitive psychologists distinguish between **short-term memory**—a temporary and limited repository of information—and **long-term memory**—a more permanent, potentially unlimited repository. All the information and experiences we encode as we go through life can end up in our long-term memory.

Researchers distinguish three types of long-term memory: episodic, semantic, and procedural.

- *Episodic memory* is responsible for storing information about events (i.e., episodes) that we have experienced in our lives. It is an individual's memory of autobiographical events that capture the context—such as times, places, and associated emotions—in which a particular event has occurred.
- *Semantic memory* is responsible for storing information about the world, such as facts, meanings, and concepts. Unlike episodic memory, which is directly linked to an individual's personal experience, semantic memory captures general knowledge that is independent of personal experience.
- *Procedural memory* is responsible for knowing how to perform certain procedures such as walking, talking, and riding a bike. It is a memory of motor skills typically acquired through repetition and involves automatic sensorimotor activities that are so deeply embedded in our minds that they do not involve conscious thought.

Most widely accepted views of the structure of long-term memory assume we form some kind of associative model. For example, the *associative network memory model* views long-term memory as a set of nodes and links. *Nodes* are stored information connected by *links* that vary in strength. Any type of information can be stored in the memory network, including verbal, visual, abstract, and contextual information.

An activation process that spreads from node to node determines how much information we retrieve and can recall in any given situation. When a node becomes activated because we're encoding external information (when we read or hear a word or phrase) or retrieving internal information from long-term memory (when we think about some concept), other nodes are also activated if they're associated strongly enough with the initially activated node.

Based on the associative network memory model, we can think of consumer brand knowledge as a node in memory with a variety of linked associations. The strength and organization of these associations are important determinants of the information we can recall about the brand. **Brand associations** consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, and attitudes that become linked to the brand node. For example, the Adidas brand can conjure thoughts of soccer, shoes, running, tennis, sports apparel, health, fitness, active lifestyle, and outdoor adventures. It also might evoke associations with competitive brands such as Nike, Puma, and Reebok;

brand ambassadors such as Lionel Messi and Kylie Jenner; and country of origin—Germany.

In this context, we can think of marketing as a way of making sure consumers have product and service experiences that create the right brand knowledge structures and maintain them in memory. Companies such as Procter & Gamble like to create maps that depict the key associations likely to be triggered in consumers' minds by a particular brand in a marketing setting and their relative strength, favorability, and uniqueness.

Memory Processes. Memory is very much a process of construction, because people don't remember information completely and accurately. Often, we remember just bits and pieces and fill in the rest based on whatever else we know. In general, memory can be described as a process of encoding and retrieval.

Memory encoding describes how and where information gets into memory. The strength of the resulting association depends on the degree to which we process the information we're encoding (e.g., how much we think about it) and in what way.⁵⁰ In general, the more attention we pay to the meaning of information during encoding, the stronger the resulting memory associations. And the more we are able to associate new information with other information already encoded in our memory, the better we will be able to remember it.

Memory retrieval is the way we reclaim information from memory. Three facts are important about memory retrieval.

- Cognitive psychologists believe that once information is encoded and stored in long-term memory it is extremely durable and its strength of association decays very slowly.
- Information may be *available* in memory but not be *accessible* for recall without the proper retrieval cues or reminders. The effectiveness of retrieval cues is one reason why marketing *inside* a supermarket or retail store is so critical: The product packaging and use of in-store mini-billboard displays remind us of information already conveyed outside the store and become prime determinants of consumer decision making. Accessibility of a brand in memory is important for another reason: People talk about a brand when it is top of mind.⁵¹
- Information about other offerings can produce interference effects and cause us to either overlook or confuse new data. One marketing challenge in a category crowded with many competitors—e.g., airlines, financial services, and insurance companies—is that consumers may mix up brands.

Because of *selective retention*, we're likely to remember only the positive aspects of a product we like, forgetting its negative aspects and the good points about competing products.

THE BUYING DECISION PROCESS

The basic psychological processes we've reviewed play an important role in consumers' actual buying decisions. Here are some key consumer-behavior questions that marketers should ask in terms of who, what, when, where, how, and why:

Who buys our product or service? Who makes the decision to buy the product or service?

Who influences the decision to buy the product or service? How is the purchase decision made? Who assumes what role in the decision process?

What does the customer buy? What needs must be satisfied? What wants are fulfilled?

Why do customers buy a particular brand? What benefits do they seek?

Where do customers go or look to buy the product or service? Online and/or offline? When do they buy? Any seasonality factors? Any time of day/week/month?

How is our product or service perceived by customers? What are customers' attitudes toward our product or service?

*What social factors might influence the purchase decision? Do customers' lifestyles influence their decisions? How do personal, demographic, or economic factors influence the purchase decision?*⁴⁵

Smart companies try to fully understand a customer's buying decision process, which involves all the experiences in learning, choosing, using, and even disposing of a product. Marketing scholars have developed a "stage model" of this decision process (see [Figure 3.3](#)), in which the consumer typically passes through five stages: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior.⁵²

The process by which consumers make purchase decisions and their postpurchase behavior are often referred to as the *consumer decision journey*.⁵³ The reference to a journey stems from the fact that the manner in which consumers make purchase decisions is not always linear, as depicted in [Figure 3.3](#). Instead, it is often an iterative process in which consumers are influenced by the new information they encounter at the different stages of their decision, which can involve the need to go back and revisit their earlier judgments. Recognizing this, marketers must develop activities and programs that reach consumers through different touchpoints at all stages of the decision process.

Consumers don't always pass through all five stages; they may skip or reverse some. When you buy your regular brand of toothpaste, you go directly from the problem-recognition stage to the purchase decision, skipping information search and evaluation. The model in [Figure 3.3](#) provides a good frame of reference, however, because it captures the full range of considerations that arise when a consumer contemplates a new purchase or a high-involvement product that entails functional, psychological, or monetary risk. Later in the chapter, we will consider other ways in which consumers make decisions that are less calculated.

PROBLEM RECOGNITION

The buying process starts when the buyer recognizes a problem or need triggered by internal or external stimuli. With an internal stimulus, one of the person's basic needs—hunger, thirst, sex—rises to a threshold level and becomes a drive. A need can also be aroused by an external stimulus. A person may admire a friend's new car or see a television ad for a Hawaiian vacation, which inspires thoughts about the possibility of making a similar purchase.

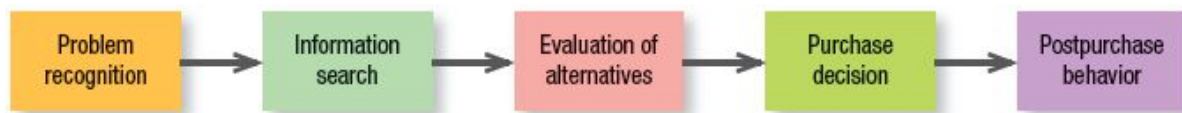


FIGURE 3.3
Five-Stage Model of the Consumer Buying Process

Marketers should identify the circumstances that trigger a particular need by gathering information from a number of consumers. They can then develop marketing strategies and effective advertising campaigns that spark consumer interest. Increasing consumer motivation can be particularly important to encourage serious consideration of discretionary purchases such as luxury goods, vacation packages, and entertainment options. The drivers behind consumers' recognition of a need that they want fulfilled include factors such as *natural depletion*—e.g., the need to replace a regularly used item like toothpaste; *dissatisfaction with the current offering*, which causes consumers to seek other means of fulfilling their need; *lifestyle and goal changes*—e.g., the birth of a child or a job promotion, which can have a significant impact on purchasing habits; and *social influences*—e.g., the opinions of family, friends, and colleagues or competition from peers.

INFORMATION SEARCH

Surprisingly, consumers often search for only limited information. Surveys have shown that half of all consumers look for durable goods at just one store, and a mere 30 percent look at more than one brand of appliances. We can distinguish between two levels of engagement in the search. The milder search state is called *heightened attention*. At this level a person simply becomes more receptive to information about a product. At the next level, the person may enter an *active information search*: looking for reading material, phoning friends, going online, and visiting stores to learn about the product.

Marketers must understand what type of information consumers seek—or are at least receptive to—at different times and places. Unilever, in collaboration with Kroger, the largest U.S. retail grocery chain, has learned

that meal planning goes through a three-step process: discussion of meals and what might go into them (heightened attention), choice of exactly what will go into a particular meal (information search), and, finally, purchase. Monday, it turns out, is the critical meal-planning day for the week ahead. Conversations at breakfast time tend to focus on health, but later in the day, at lunchtime, discussion centers more on how meals can be repurposed for leftovers.⁵⁴

Information Sources. Major information sources to which consumers turn fall into four groups: *personal*, such as family, friends, neighbors, acquaintances; *commercial*, such as advertising, websites, e-mails, salespersons, dealers, packaging, displays; *public*, such as mass media, social media, consumer-rating organizations; and *experiential*, such as handling, examining, or using the product.

The relative amount of information obtained from these sources and their influence vary with the product category and the buyer's characteristics. Generally speaking, although consumers receive the greatest amount of information about a product from commercial—that is, marketer-dominated—sources, the most effective information often comes from personal or experiential sources or public sources that are independent authorities.⁵⁵ The ubiquity of social media has forever blurred the boundaries and widened the range of information sources. People sharing information about their purchases on Facebook or writing product reviews on Amazon can be viewed by others as independent authorities whose opinions carry great weight and far-ranging influence.

Each source performs a different function in influencing the buying decision. Commercial sources normally perform an information function, whereas personal sources perform a legitimizing or evaluation function. For example, physicians often learn of new drugs from commercial sources but turn to other doctors for evaluations. Many consumers alternate between going online and offline (in stores) to learn about products and brands.

Consumers rely on both internal and external information to help them arrive at a decision. Internal information is based on one's own individual experiences. For example, an individual who wants to go out for dinner might recall having a great meal at a local Italian restaurant or seeing an ad for a

recently opened French bistro. External information sources are typically sought for high-involvement decisions such as purchasing a car or buying a high-end appliance. External sources can include the suggestions and opinions of family, friends, and work colleagues; making trips to dealers and searching online to compare models and prices; and consulting sources like *Consumer Reports*.

Search Dynamics. By gathering information, the consumer learns about competing brands and their features. The first box in Figure 3.4 shows the *total set* of brands available. The individual consumer will come to know a subset of this group, the *awareness set*. Only some brands, the *consideration set*, will meet the consumer's initial buying criteria. As the consumer gathers more information, just a few options, the *choice set*, will remain strong contenders. The consumer makes a final choice from these.⁵⁶

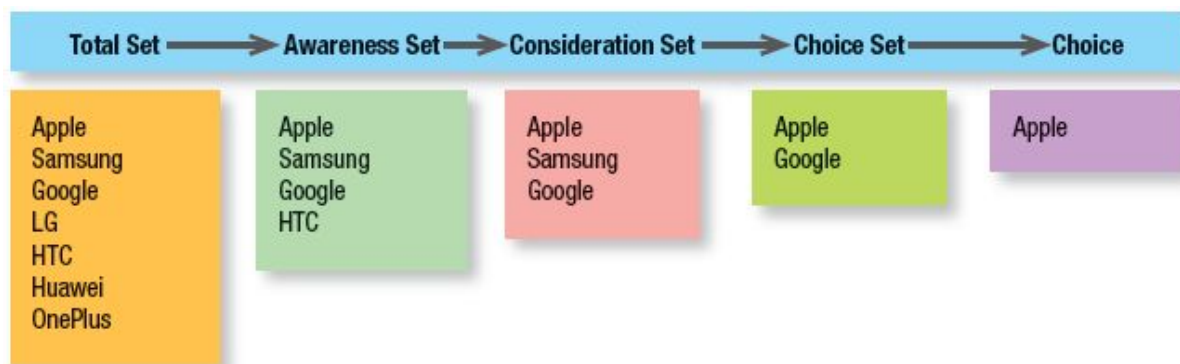


FIGURE 3.4
Successive Sets Involved in Consumer Decision Making

Marketers need to identify the hierarchy of attributes that guide consumer decision making in order to understand different competitive forces and how various decision sets are formed. The process of identifying this attribute hierarchy is called *market partitioning*. Years ago, most car buyers first decided on the manufacturer and then on one of its car divisions (*brand-dominant hierarchy*). A buyer might favor General Motors cars and within this set choose a Chevrolet model. Today, many buyers decide first on the nation or

nations from which they want to buy a car (*nation-dominant hierarchy*). Buyers may first decide they want to buy a German car and then opt for an Audi before zeroing in on the Audi A6.

The hierarchy of attributes also can reveal customer segments. Buyers who first decide on price are price dominant; those who first decide on the type of car (sedan, coupe, SUV, hybrid) are type dominant; those who choose the brand first are brand dominant. Type/price/brand-dominant consumers make up one segment; quality and service buyers make up another. Each segment may have distinct demographics, psychographics, and behaviors, as well as different awareness, consideration, and choice sets.

Figure 3.4 implies that a company must strategize to get its brand into the prospect's awareness, consideration, and choice sets. If a food store owner arranges yogurt first by brand (such as Dannon and Yoplait) and then by flavor within each brand, consumers will tend to select their flavors from the same brand. However, if all the strawberry yogurts are put together, then all the vanilla, and so forth, consumers will probably choose the flavors they want first and then choose the brand they want for that particular flavor.

Search behavior can vary online, in part because of the manner in which product information is presented. For example, product alternatives may be presented in order of their predicted attractiveness for consumers, who then may choose not to search as extensively as they otherwise would have.⁵⁷ Increasingly sophisticated recommendation engines use algorithms and data to uncover patterns in consumer choices and recommend the most relevant offerings for a particular consumer's needs and interests.

Amazon's item-to-item collaborative filtering algorithm presents recommendations to customers based on product lines and subject areas that match a customer's purchases to similar products. This involves the analysis of billions of data points derived from viewing online customer behavior, from purchase history to abandoned carts. Recommendations appear in several places: in personalized recommendations and previously viewed products links, as well as in a "Frequently Bought Together" section that helps Amazon cut delivery costs. Studies suggest that more than a third of consumer purchases on Amazon come from product recommendations.

The company must also identify the other brands in the consumer's choice set so that it can plan the appropriate competitive appeals. In addition, marketers should identify the consumer's information sources and evaluate their relative importance. Asking consumers how they first heard about the brand, what information they learned later, and the relative importance of these different information sources will help the company prepare effective communications for the target market. Digital marketing allows for easier detection and analysis of the other sites that are sending potential customers to the company's website. For instance, Amazon's affiliate network shows which websites and blogs are driving traffic not only to Amazon's site but also to specific products.

EVALUATION OF ALTERNATIVES

The way consumers decipher the pros and cons of available options is affected by the beliefs and attitudes they hold, whether these are valid or erroneous. These perceptions and the differing ways in which consumers process information weigh heavily in the purchase decision, as the following sections show.

Beliefs and Attitudes. Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behavior. A **belief** is a conviction that something is true or real, regardless of whether or not it is. Just as important are **attitudes**, a person's enduring favorable or unfavorable evaluations, emotional feelings, and behavioral tendencies toward an object or idea. People have attitudes about almost everything: religion, politics, clothes, music, food.

Attitudes put us into a frame of mind: liking or disliking an object, moving toward or away from it. They lead us to behave in a fairly consistent way toward similar objects. Because attitudes economize on energy and thought, they can be very difficult to change. As a general rule, a company is well advised to adapt its product to existing attitudes, rather than trying to change attitudes. If beliefs and attitudes become too negative, however, it may be necessary for the company to take more active steps.

Understanding consumers' attitudes is beneficial for marketers, because attitudes may at times predict behavior during the consideration and choice set stages of the customer decision process. For example, attitudes that are developed from interacting with a product during a trial can more accurately predict the likelihood of consumers purchasing the product than attitudes formed from exposure to a product ad.⁵⁸

Information Processing. How does the consumer process the information about the available options and make a final value judgment? No single process is used by all consumers or by one consumer in all buying situations. The most current models see the consumer forming judgments largely on a conscious and rational basis.

Some basic concepts will help us understand the consumer evaluation process. First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product offering a solution for that need. Third, the consumer sees each product as a bundle of attributes with varying abilities to deliver the benefits desired. The attributes of interest to buyers vary by product: for example, *hotels*—location, cleanliness, atmosphere, price; *mouthwash*—color, effectiveness, germ-killing capability, taste/flavor, price; *tires*—safety, tread life, ride quality, price. Consumers will pay the most attention to attributes that deliver the sought-after benefits. We can often segment the market for a product according to attributes and benefits important to different consumer groups.

More choice seems like a good thing, but this isn't always so—particularly when a consumer has no marked preferences or when no superior option exists in the awareness/consideration sets. Negligible differences among the options and time constraints further complicate the decision. Also, consumers will expend brainpower, time, and effort only in proportion to the importance of the decision task. The astute marketer must know when to reduce choice overload (and the cognitive effort imposed) by adding a superior option to the assortment (total set), reducing the amount of information customers must sift through, asking pertinent questions that aid in decision making, and alleviating time constraints involving sales or special offers.

Expectancy-Value Model. The consumer arrives at attitudes toward various brands through an attribute-evaluation procedure, developing a set of beliefs about where each brand stands on each attribute.⁵⁹ The **expectancy-value model** of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—both positive and negative—according to importance.

Suppose a consumer has narrowed her choice set to four laptops (A, B, C, and D). Assume she’s interested in four attributes: memory capacity, graphics capability, size and weight, and price. Table 3.1 shows her beliefs about how each brand rates on the four attributes. If one computer dominated the others on all the criteria, we could predict that this consumer would choose it. But, as is often the case, her choice set consists of brands that vary in their appeal. If she wants the best memory capacity, she should buy C; if she wants the best graphics capability, she should buy A; and so on.

Laptop Computer	Attribute			
	Memory Capacity	Graphics Capability	Size and Weight	Price
A	8	9	6	9
B	7	7	7	7
C	10	4	3	2
D	5	3	8	5

TABLE 3.1 Laptop Computer Choice Set

If we knew the weight this consumer attaches to each of the four attributes, we could more reliably predict her choice. Suppose she assigned 40 percent of the importance to the laptop’s memory capacity, 30 percent to graphics capability, 20 percent to size and weight, and 10 percent to price. To find this consumer’s perceived value for each laptop according to the expectancy-value model, we would multiply these weights by her beliefs about each computer’s attributes. This computation leads to the following perceived values:

Laptop A 0.4(8) 0.3(9) 0.2(6) 0.1(9) 8.0

Laptop B	0.4(7)	0.3(7)	0.2(7)	0.1(7)	7.0
Laptop C	0.4(10)	0.3(4)	0.2(3)	0.1(2)	6.0
Laptop D	0.4(5)	0.3(3)	0.2(8)	0.1(5)	5.0

An expectancy-model formulation predicts that this consumer will favor Laptop A, which (at 8.0) has the highest perceived value.⁶⁰ The expectancy-value model implies several strategies that a company can use to increase the probability that consumers will choose its offering. Suppose most laptop buyers form their preferences the same way. Knowing this, the marketer of Laptop B, for example, could apply the following strategies to stimulate greater interest in Brand B. First, the company might choose to redesign the laptop—for example, by changing its functional attributes, modifying its form, and improving service. Alternatively, the company can alter consumers' beliefs about the laptop, without necessarily modifying the laptop itself, by better communicating its benefits. The company might also alter consumers' beliefs about competitors' offerings by communicating the drawbacks of the competitive products. Finally, the company might alter consumers' beliefs about the importance of the different product attributes by persuading buyers to attach more weight to the attributes in which the brand excels.⁶¹

PURCHASE DECISION

In the evaluation stage, the consumer forms preferences among the brands in the choice set and may also form an intention to buy the most preferred brand. In executing a purchase intention, the consumer may make as many as five purchase decisions: brand (Brand A), distribution channel (Retailer X), quantity (one computer), timing (weekend), and payment method (credit card). This decision complexity often leads consumers to use mental shortcuts, or heuristics.

Decision Heuristics. The expectancy-value model is a compensatory model, in that perceived good things about a product can help to overcome perceived bad things. Thus, even though Brand A in the previous example lacked the graphics capability of Brand C, had the second lowest size/weight evaluation, and was more expensive than any other brand, its overall memory and

graphics capacity won out relative to the other computers in the choice set. With non-compensatory models of consumer choice, positive and negative attribute considerations don't necessarily net out. Evaluating attributes in isolation facilitates decision making for consumers, but it also increases the likelihood that they would have made a different choice if they had deliberated in greater detail.

Rather than calculating the perceived importance of every attribute across products in a consideration set, consumers often take “mental shortcuts,” called **heuristics** or rules of thumb, in the decision process. This is especially true when people are short on time or cognitive resources.⁶² Our brand or product knowledge, the number and similarity of brand choices, time pressures, and the social context (such as the need for justification to a peer or boss) may affect whether and how we use choice heuristics. Consumers don't necessarily use only one type of choice rule. For example, they might use a non-compensatory decision rule.

A number of factors will determine the manner in which consumers form evaluations and make choices. University of Chicago professors Richard Thaler and Cass Sunstein show how marketers can influence consumer decision making through what they call *choice architecture*—designing the environment in which consumer decisions are structured and buying choices are made. According to these researchers, presenting choices in the right environment can give consumers a “nudge” via some small feature that attracts attention and leads to a specific desired behavior. They maintain that Nabisco is employing smart choice architecture by offering 100-calorie snack packs, which have solid profit margins, while nudging consumers to make healthier choices.⁶³

The Level of Consumer Involvement. The expectancy-value model assumes a high level of consumer involvement and active processing by the consumer in response to a marketing stimulus. Richard Petty and John Cacioppo's **elaboration likelihood model**, an influential model of attitude formation and change, describes how consumers make evaluations in both low- and high-involvement circumstances.⁶⁴

There are two means of persuasion in their model: the *central route*, in which attitude formation or change stimulates much thought and is based on the consumer's diligent, rational consideration of the most important product information; and the *peripheral route*, in which attitude formation or change provokes much less thought and results from the consumer's association of a brand with either positive or negative peripheral cues. *Peripheral cues* for consumers might include a celebrity endorsement, a credible source, or any object that generates strong emotional response.

Consumers follow the central route only if they possess sufficient motivation, ability, and opportunity. In other words, they must want to evaluate a brand in detail, have the necessary brand and product or service knowledge in memory, and have sufficient time and the proper setting. If any of those factors is lacking, consumers tend to follow the peripheral route and consider less central, more extrinsic factors in their decisions. We buy many products under conditions of low involvement and without significant brand differences. Consider salt. If consumers keep reaching for the same brand in this category, it may be out of habit, not strong brand loyalty.

Evidence suggests there is low involvement with most low-cost, frequently purchased products. Low-involvement products carry little cost or risk and are not well differentiated, which also means that it's easy for consumers to switch to other products in this category or indulge in impulse buying to satisfy their need for variety. Marketers can boost habituation to the purchase of these products by stressing quality and brand affiliation and by ensuring effective distribution so that consumers aren't forced to look elsewhere if, for example, their usual bath gel or soap is not available.

Marketers use four techniques to try to convert a low-involvement product into one that encourages higher involvement. First, they can link the product to an engaging issue, as when Crest linked its toothpaste to cavity prevention. Second, they can link the product to a personal situation—for example, fruit juice makers began to include vitamins and calcium to fortify their drinks. Third, marketers might design advertising to trigger strong emotions related to personal values or ego defense, as when cereal makers began to advertise to adults the heart-healthy nature of cereals and the importance of living a long time to enjoy family life. Fourth, they might add an important feature—for

example, GE's introduction of "Soft White" lightbulbs. These strategies at best raise consumer involvement from a low to a moderate level: They do not necessarily propel the consumer into highly involved buying behavior.

If consumers have low involvement with a purchase decision regardless of what the marketer does, they are likely to follow the peripheral route. Marketers must give consumers one or more positive cues to justify their brand choice, such as frequent ad repetition, visible sponsorships, and vigorous PR to enhance brand familiarity. Other peripheral cues that can tip the balance in favor of the brand include a beloved celebrity endorser, attractive packaging, and an appealing promotion.

Intervening Factors. Even if consumers form an evaluation, two general factors can intervene between the purchase intention and the purchase decision (see Figure 3.5). The first factor is the *attitudes of others*. The degree to which we're influenced by another person's attitude depends on two factors: (1) the intensity of the other person's attitude toward our preferred alternative and (2) our motivation to comply with the other person's wishes.⁶⁵ The more intense the other person's attitude and the closer he or she is to us, the more we will adjust our purchase intention. The converse is also true.

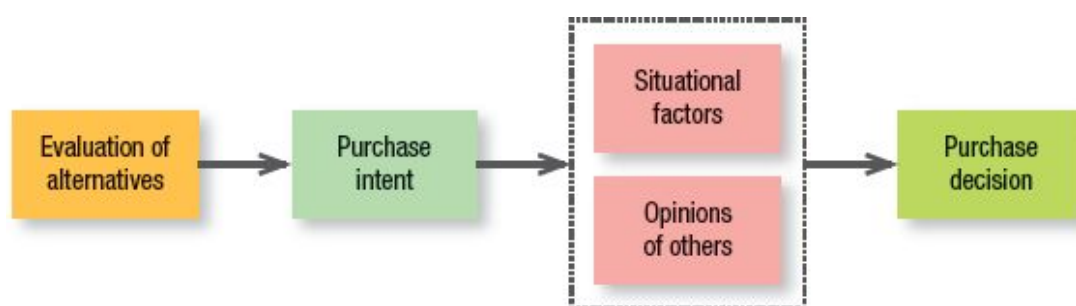


FIGURE 3.5
Steps between Evaluation of Alternatives and a Purchase Decision

Related to the attitudes of others is the role played by infomediaries' evaluations: The *New York Times* Wirecutter website, which offers recommendations for tech and electronic products; *Consumer Reports*, which provides unbiased expert reviews of all types of products and services; J. D. Power, which provides consumer-based ratings of cars, financial services, and

travel products and services; professional movie, book, and music reviewers; customer reviews of products, books, and music on such sites as [Amazon.com](https://www.amazon.com); and the increasing number of chat rooms, bulletin boards, blogs, and other online sites like Angie's List where people discuss products, services, and companies.⁶⁶

The second intervening factor involves the *situational considerations* that may erupt to change the purchase intention. The consumer might lose her job before she purchases a laptop, some other purchase might become more urgent, or a store salesperson might turn her off. Preferences and even purchase intentions are not completely reliable predictors of purchase behavior.

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by one or more types of *perceived risk*.⁶⁷ These involve the *functional risk* that the product does not perform to expectations, the *physical risk* that the product poses a threat to the physical well-being or health of the user or others, the *financial risk* that the product is not worth the price paid, the *social risk* that the product results in embarrassment in front of others, the *psychological risk* that the product affects the mental well-being of the user, and the *opportunity risk* that the failure of the product results in spending more time and money to find another, more satisfactory product.

The degree of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty, and the level of consumer self-confidence. Consumers develop routines for reducing the uncertainty and negative consequences of risk, such as avoiding decisions, gathering information from friends, and developing preferences for national brand names and warranties.⁶⁸ Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce it.

POSTPURCHASE BEHAVIOR

After the purchase, the consumer might experience dissonance from noticing certain disquieting features or hearing favorable things about other brands and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help her or him feel good about the brand. The

marketer's job doesn't end with the purchase. Marketers must monitor postpurchase satisfaction, postpurchase actions, and postpurchase product uses and disposal.

Satisfaction is a function of the closeness between consumer expectations and the product's perceived performance.⁶⁹ If performance falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted. These feelings make a difference in whether the customer buys the product again and talks favorably or unfavorably about it to others. The larger the gap between expectations and performance, the greater the dissatisfaction. This is where the consumer's coping style comes into play. Some consumers magnify the gap when the product isn't perfect and are highly dissatisfied; others minimize it and are less dissatisfied.

Satisfaction influences customers' *postpurchase actions*. A satisfied consumer is more likely to purchase the product again and will also tend to say good things about the brand to others. In fact, one can argue that the highest level of success is achieved when a customer becomes an advocate and recommends the company's offering to others. Dissatisfied consumers may abandon or return the product. They may take public action by complaining to the company, going to a lawyer, complaining directly to other groups (such as business, private, or government organizations), or expressing their dissatisfaction to others online. Private actions include deciding to stop buying the product (exit option) or warning friends (voice option).⁷⁰

Postpurchase communications to buyers have been shown to result in fewer product returns and order cancellations. Computer companies, for example, can send a letter to new owners congratulating them on having selected a fine new tablet computer. They can place ads featuring satisfied brand owners. They can solicit customer suggestions for improvements and list the location of available services. They can write intelligible instruction booklets. They can send owners e-mail updates describing new tablet applications. In addition, they can provide effective channels for speedy redress of customer grievances.

An important aspect of postpurchase behavior that marketers should monitor involves the *use* and *disposal* of the product. A key driver of sales frequency is the product consumption rate: The more quickly buyers consume

a product, the sooner they may be back in the market to repurchase it. Consumers may fail to replace some products soon enough because they overestimate product life.⁷¹



Quip created a sleek and simple toothbrush that relies on a subscription service that mails replacement batteries and brush heads to users every three months.

Source: ZikG/Shutterstock

One strategy to speed replacement is to tie the act of replacing the product to a certain holiday, event, or time of year (such as promoting changing the batteries in smoke detectors when Daylight Savings ends). Another is to offer the product on a subscription basis like Dollar Shave Club, whose razors are shipped monthly, and Quip, which delivers its electric toothbrush head refills every three months. Companies send monthly boxes to subscribers containing

a variety of related products in areas that range from cosmetics (Birchbox) to clothing (Le Tote), food (Blue Apron), and dog care (BarkBox).

Another strategy is to provide consumers with better information about when they need to replace the product to sustain its current level of performance. Batteries have built-in gauges that show how much power they have left; razors have colored lubricating strips to indicate when blades may be worn; toothbrushes have colored bristles to indicate wear; and so on. Perhaps the simplest way to increase usage is to learn where actual usage is lower than recommended and persuade customers about the benefits of regular usage or of increasing the amount of product used on each occasion, which is behind the “shampoo, rinse, and repeat” instructions on everyone’s favorite shampoo bottle.

marketing INSIGHT

Behavioral Decision Theory

Consumers don’t always process information or make decisions in a deliberate, rational manner. One of the most active academic research areas in marketing over the past three decades has been behavioral decision theory, which studies how consumers make decisions in these situations. Behavioral decision theorists have identified many scenarios in which consumers make seemingly irrational choices. Here we review some of the decision issues in two broad areas: (1) heuristics and biases and (2) framing effects.

Heuristics are simple decision rules (or mental shortcuts) that people use to save time and minimize cognitive effort when forming judgments and making decisions. Thus, heuristics tend to focus only on the most relevant aspects of the problem, while paying little or no attention to other factors. This simplified approach to decision making often leads to choices characterized by lower accuracy and systematic errors that could result in suboptimal outcomes. These systematic errors, also referred to as *decision biases*, are particularly common in complex decisions when

consumers have limited information while facing time constraints. Some of the most common decision heuristics are outlined below.

- The *availability heuristic* reflects people's tendency to judge that an event is more likely to occur if they can recall more instances of that event. For example, if asked whether more people in the United States die from homicide or emphysema, most people would attribute a greater number of deaths to homicide because it more easily comes to mind (news media give more coverage to homicide than to emphysema), even though in reality emphysema causes more deaths than homicide.
- The *representativeness heuristic* reflects people's tendency to judge the likelihood of an event occurring based on the degree to which this event is similar to the category it represents. A pale, meek, quiet person wearing glasses is more likely to be considered a computer geek than an active, outgoing, and outspoken one. This heuristic leads to a number of decision biases, including base-rate neglect, which ignores the actual probability of an event occurring.
- The *conjunction fallacy* results from people's erroneous belief that the probability of two events occurring jointly is greater than the probability of either event occurring independently. A classic example of the conjunction fallacy provided respondents with a description of Linda as bright, outspoken, and concerned with discrimination and social justice as a student. When asked to evaluate whether Linda is (A) a bank teller or (B) a bank teller and active in the feminist movement, most respondents chose the latter, even though a conjunction (B) cannot be more probable than one of its constituents (A).

Decision framing is the manner in which choices are presented to and seen by a decision maker. A \$200 cell phone may not seem that expensive when compared to a \$400 phone, but it may seem very expensive when compared to a phone costing \$50. Framing effects are pervasive and can be powerful.

We find *framing effects* in comparative advertising, where a brand compares itself favorably to another brand with inferior features ("twice the cleaning power"); in pricing, where unit prices can make the product seem less expensive ("only pennies a day"); in product information, where

larger units can seem more desirable (a 24-month warranty versus a two-year warranty); and in pitting a new product against existing products so consumers can better understand its superior functions and features.

When making financial decisions, consumers use a specific form of framing called *mental accounting*. Research has found that consumers tend to place different transactions into different mental accounts, even though there is no logic to doing so because money from any of these accounts can be used toward achieving any of the goals. Mental accounting is based on a set of core principles:

- Consumers tend to *segregate gains*. When a seller has a product with more than one positive dimension, it's desirable to have the consumer evaluate each dimension separately. Listing the multiple benefits of a large industrial product, for example, can make the sum of the parts seem greater than the whole.
- Consumers tend to *integrate losses*. Marketers have a distinct advantage in selling something if its cost can be added to another large purchase. For example, house buyers are more inclined to view additional expenditures favorably given the already high price of buying a house.
- Consumers tend to *integrate smaller losses with larger gains*. The “cancellation” principle might explain why withholding taxes from monthly paychecks is less painful than making large, lump-sum tax payments: The smaller withholdings are more likely to be overshadowed by the larger pay amount.
- Consumers tend to *segregate small gains from large losses*. The “silver lining” principle might explain the popularity of rebates on big-ticket purchases such as cars.

Consider a choice between two scenarios. In Scenario A, you spend \$50 to buy a ticket for a concert. As you arrive at the show, you realize you've lost your ticket. You decide to buy a replacement. And in Scenario B, you decide to buy a ticket to a concert at the door. As you arrive at the show, you realize somehow you lost \$50 along the way. You decide to buy the ticket anyway.

Which loss would you feel less keenly? Most people choose Scenario B. Although the loss is the same, in the first case you may have mentally

allocated \$50 for the concert, and buying another ticket would exceed your mental concert budget. In the second case, the money you lost did not belong to any account, so you have not exceeded any mental budget.⁷²

Circular Customer Decision Journey

Proliferation of products and digital channels coupled with rise of more informed and discerning customers has changed the way customers search for information, evaluate options and make buying decisions.⁷³ In many buying situations, the traditional funnel-based, mostly linear buying process has evolved into a circular decision-making process. The alternatives being considered expand as well as reduce at different stages of the decision-making process, unlike the funnel approach where the options being evaluated shrink with each succeeding stage. This new circular and iterative journey is more complex as ‘word of mouth’ and reviews from digital and social channels play a major role in the decision process.⁷⁴

The different stages of the decision process, namely initial consideration, active evaluation, purchase and post purchase decision are connected with each other in a circular manner with an additional loyalty loop.

Initial consideration is driven by brand perception, recent exposures, touch points, and prior experience. Empowered with information from digital and social media, consumers add or subtract options as they assess and refine their needs during the active evaluation stage.

The customers take the final decision by selecting the product for purchase in the third phase. Word-of-mouth and reviews play a major role in influencing the purchase decision at every stage. The technology driven, digital consumer is increasingly influenced by non-commercial sources like reference groups and review sites.

Post-purchase experience updates the brand perception driven by consumer’s usage experience. A satisfactory experience can potentially turn the customer into a loyal user who will re-purchase without going through the entire cycle again.

The circular decision-making process is complex as consumer behaviour differs across product categories. It reinforces the need for an

integrated marketing approach with a systematic and scientific blend of marketing activities across multiple touch points to reach the prospects and customers. Firms that align their marketing approach with consumer's purchase journey, have better chance to reach them at the right time, at the right place with the right message, influencing each stage of the decision-making process.⁷⁵

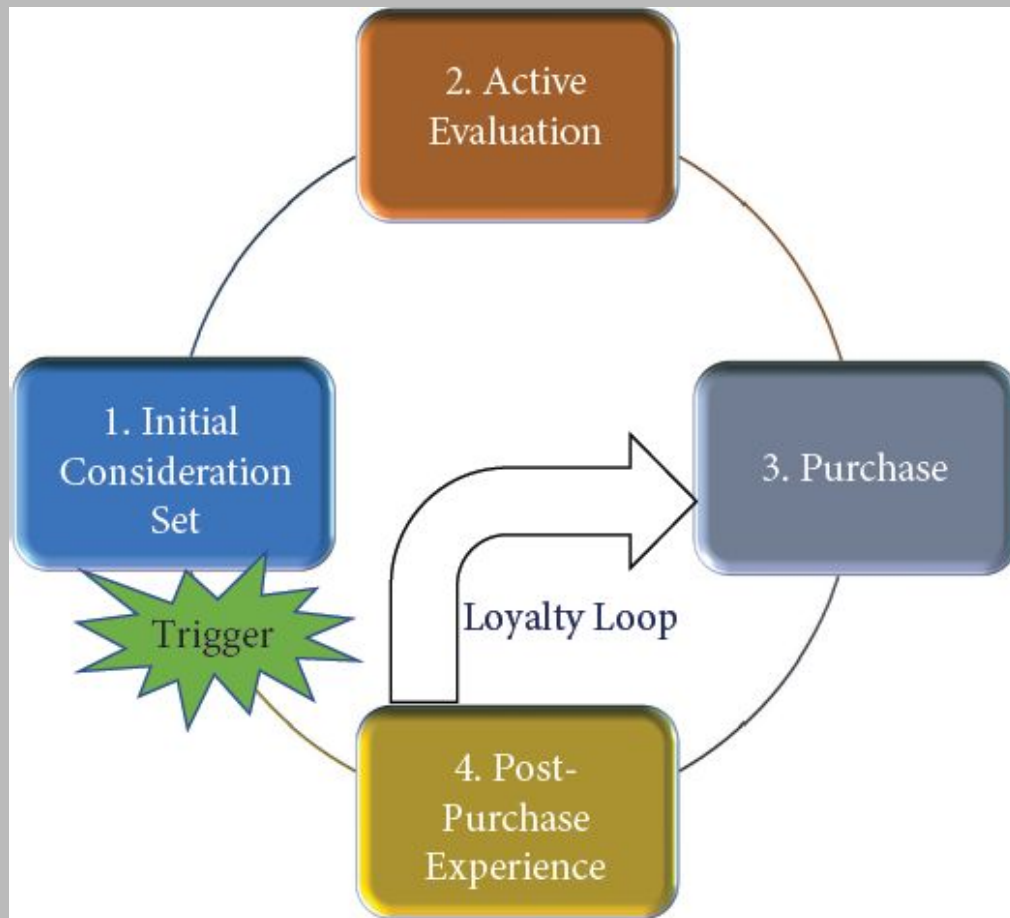


Exhibit 1: Consumer Decision Journey (Adapted)*

SUMMARY

1. To successfully compete in the market and create customer value, managers must fully understand both the theory and the reality of

consumer behavior.

2. Consumer behavior is influenced by three factors: cultural, social, and personal. Research into these factors can provide clues to help companies reach and serve consumers more effectively. Of these, cultural factors exert the broadest and deepest influence on people's perceptions and desires and on how they go about fulfilling their needs and wants.
3. Four main psychological processes affect consumer behavior: motivation, perception, learning, and memory.
4. Understanding consumer motivation begins with understanding the needs that consumers aim to fulfill with their actions. Some needs are biological and arise from physiological states of tension such as hunger, thirst, or discomfort. Other needs are psychological and arise from psychological states of tension such as the need for recognition, esteem, or belonging. A need becomes a motivation when it is aroused to a sufficient level of intensity to drive us to act. Motivation has both direction and intensity.
5. Perception is the process by which we select, organize, and interpret information inputs to create a meaningful picture of the world. In marketing, perceptions are more important than reality because they affect consumers' actual behavior. People emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion, and selective retention.
6. Consumer response is not all cognitive and rational; much may be emotional and evoke different kinds of feelings. Emotions are mental states that arise spontaneously rather than from conscious effort and reflect people's positive or negative reactions to internal and external stimuli.
7. Memory—the brain's ability to record, store, and retrieve information and events—plays an important role in consumers' purchasing decisions. There are two types of memory: *short-term memory*—a temporary and limited repository of information—and *long-term memory*—a more permanent, potentially unlimited repository. The *associative network model* views long-term memory as a set of nodes and links. *Nodes* are stored information connected by *links* that vary in strength.
8. The typical *buying process* consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. Consumers will not necessarily go through the buying process in an orderly fashion: They may skip and reverse stages and alternate between shopping online and

offline. The marketers' job is to understand the buyer's behavior at each stage.

9. Consumers are constructive decision makers and are subject to many contextual influences. They often exhibit low involvement in their decisions, using many heuristics as a result. The attitudes of others and unanticipated situational factors may influence the decision to buy. A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by one or more types of *perceived risk*.
10. Marketers must monitor customer satisfaction and the ways in which customers use the company's offerings. Satisfaction is a function of the match between consumer expectations and the product's perceived performance. Monitoring satisfaction is important because it reflects the value customers receive from the company's offering. Examining customers' postpurchase behavior aims to capture the *use* and *disposal* of the offering both to detect potential problems and to identify new market opportunities.

marketing INSIGHT

Aravind Eye Care System

Aravind Eye Care System, globally renowned for restoring eyesight to millions—especially for the poor and needy, is the world's largest eyecare provider that conducts over half a million surgeries every year. Set up by Dr. Govindappa Venkataswamy (Dr.V) in 1976, Aravind has pioneered a high quality, large volume and low-cost service delivery model led by Dr. V's enduring vision to provide compassionate and quality eyecare affordable to everyone. Aravind removes the roadblocks for the poor in receiving the required treatment, and simultaneously, generates enough surplus to make the solution sustainable and scalable. The pioneering eyecare system has handled more than 68 million out patients visits and conducted over 8.2 million surgeries till date. While more than fifty per cent of the patients at Aravind receive free or subsidised treatment at its eyecare camps, vision centres and hospitals, the paid services are also offered at affordable prices. Surplus generated from paying customers

finance the hospitals' operations of offering free and subsidized services to the poor. High quality services are provided with dignity to all users irrespective of their economic and social strata.⁷⁶



Source: ©Aravind Eye Care System, used with permission

It all started when after retiring from the local public medical college at the age of 58, Dr. V converted a home into a eyecare clinic with 11 beds in Madurai, Tamil Nadu. The visionary's inspiring leadership has successfully shaped Aravind into the world's largest and most efficient eyecare system with 14 hospitals, 6 community eye clinics and 95 primary eyecare facilities in Tamil Nadu, Puducherry (Pondicherry) and Hyderabad (Telangana). In addition to consultation, treatments and surgeries, Aravind is also engaged in research, education, training, consultancy and capacity building.

The hospital chain has also invested in facilities to manufacture ophthalmic supplies and equipment to reduce cost by substituting imported goods. High quality but affordable ophthalmic products are produced by Aurolab, a non-profit trust and manufacturing division of Aravind, set up

in 1992.⁷⁷ A wide range of ophthalmic consumables like intraocular lenses, eye drops, sutures, blades, ophthalmic instruments and specialty products are manufactured at their modern production facilities. These products are exported to 160 countries around the world. During 1990s, Intraocular Lens (IOL) used for cataract procedures used to be imported. Priced at \$100, most patients in India could not afford them. Support from the California-based Seva Foundation helped Aurolab start manufacturing high quality IOLs at \$5—literally, at a small fraction of the cost of the imported ones. Aurolab now produces around 9% of the global volume of intraocular lenses.

Aravind's unique operational model was conceptualized by Dr. V to fulfil his mission to eliminate avoidable blindness. The assembly line approach of Ford to reduce costs and standardization achieved by McDonald's across its outlets around the world were his inspirations. Enabling large volume, high quality and affordable service, with a patient-centric approach is unique. Designed to maintain equity, Aravind ensures that all patients are treated and served with high quality services regardless of their financial or social status.

One of the most critical aspects of Aravind's operational model is its ability to manage a large number of patients. The free eye screening camps conducted in rural areas, usually during the weekends, in partnership with the local community and voluntary organizations attract large numbers.⁷⁸ Consultations and basic treatments are provided at these eye camps. Patients requiring surgeries or more complex treatments are transported to the nearest Aravind hospital at the end of the eye camp. This structured process allows Aravind to schedule treatments and achieve maximum utilization of its resources including doctors, surgeons, operation theatres and hospital beds. Costs are optimised due to the high volume through economies of scale. The functional model is well-equipped to provide efficient quality services with value and financial sustainability for a large number of people.⁷⁹ In 2019-20 alone, surgeons across Aravind's 14 hospitals conducted over 5.19 lakh surgeries and 4.6 million patients received consultations and treatment.⁸⁰

The secret of the highly successful operation model of Aravind Eyecare System lies in its assembly line operations which increases the overall productivity of the system, making it extremely frugal and efficient⁸¹. On an average, a surgeon at Aravind Eyecare System performs 2000 surgeries per year—five times the global average of 400 surgeries per year. With its unique operations and management system, Aravind is an inspiration—its system being studied and explored for its quality, productivity and financial self-reliance even as it allows patients to decide for themselves how much they would pay⁸². Even with such a generous arrangement, Aravind manages a surplus that is ploughed back to expand patient services and set up new projects. Its successful model demonstrates the power of integrating innovation with empathy, business principles with service, and outer transformation with inner change.

Nurses form the backbone of Arvind's efficient system. Mostly female, these nurses are recruited from rural areas, trained extensively and equipped for multi-tasking in ophthalmic nursing, counselling and other support functions. Ingrained with compassion for patients, the nurses are proficient in what they do and serve with empathy.

Aravind regularly conducts free eye screening camps to reach the underserved. Teams of doctors, nurses and volunteers set up eye camps in rural areas for free check-up and treatment services. On an average, they conduct 2,500 camps every year⁸³. These eye camps continue to be popular and attract thousands of eyecare seekers, but there always remains the need for permanent facilities to offer regular services. Aravind adopted tele-medicine to overcome the shortage of doctors in rural areas and set up vision centres (VC). The VCs are located in a rural town, with easy access to 15-20 villages within a distance of 5-7 kms, covering a population of 50,000 to 75,000. Managed by a coordinator, a technician, and a field worker, every VC is connected to a base hospital. Awareness and education programs conducted by field workers at schools, community centres and door-to-door home visits encourage patient footfall at the VCs. The trained technician performs basic tests for patients visiting the VC and then connects them to a doctor at the base hospital for a video consultation. All these services are provided for a nominal fee of ₹20. In addition, Aravind's

large scale centralised procurement system allows patients to buy low-cost medicines and prescription spectacles at these centres. Aravind steadily scaled up its VCs after the success of its pilot centre set up in 2004. By 2020, the eyecare giant recorded consultation and treatment to around 6.88 lakh patients in its 79 vision centres then. Easy and affordable access to eyecare has significantly improved healthcare outcomes in these rural areas. It has also changed the healthcare-seeking behaviour.⁸⁴

Aravind has been constantly scaling up its mass outreach through inclusiveness and affordability. Following a business model driven by productivity, quality, scalability and transferability, the eyecare chain is built on a strong foundation of compassion and committed leadership. The focus on standardisation and volume leads to effective cost-control. Aravind sets the example of a competent human–process collaboration, wherein a team of dedicated and motivated individuals equipped with high quality, efficient procedures and technology, ensures that Dr V’s vision is realized and benefits thousands of patients every day.⁸⁵

Questions

1. Explain why Aravind is exceptional at serving patients. What value does Aravind create for patients?
2. What are the key points differentiating Aravind from other hospitals and medical facilities?
3. Can other service providers adopt Aravind’s operational and financial model to scale up? Why or why not?

Paytm

Paytm, arguably the leading fintech firm in India, was founded in 2010 by Vijay Shekhar Sharma. Set up as a bill payment service provider app, Paytm steered the mobile wallet revolution in India. Paytm is now transforming into a digital financial supermarket serving a network of over 20 million merchants and 300 million customers.



Source: Sharaf Maksumov@shutterstock.com

Driven by its mission to bring half a billion Indians into the mainstream economy through payments, banking, investments and financial services, Paytm is playing a leading role in building trust on the digital payments and financial system. Its user-friendly and interactive features have made Paytm one of the most popular mobile apps in India. Services ranging from mobile recharges, utility bill payments, travel bookings, buy tickets for movies and events, to making hassle free instant in-store payments continue to attract users. Paytm's success mantra is simple—identify users' pain points and then solve them efficiently.⁸⁶

Prior to the e-wallet revolution, India's mobile phone consumer, of whom 85% being pre-paid users, needed to visit a physical store to buy recharge coupons that provided a long password to top-up talk time and validity period of their mobile service. Paytm's wallet eased the customers' efforts by allowing them to instantly pay into their mobile accounts for phone recharge and top-ups. This instant top-up service helped Paytm build brand awareness and a loyal customer base.

The company's broad portfolio of services cover digital banking solutions, investment products, mobile games, and insurance. These services address the evolving needs of its young and tech savvy customers.

With effective services, in a short span of time Paytm could win over the trust of Indian customers. In March 2021, the company recorded 1.2 billion monthly transactions led by offline payments and financial services. It has also achieved a benchmark of serving 150 million active customers with highest market share in offline payments. Offline payment options for its 17 million merchants include Paytm All-In-One QR (quick response), Paytm All-In-One Android PoS (point of sale), Soundbox and Paytm for Business application. The offline payment market share continues to grow at the rate of 15% per month.

Product innovation and refinement focused on changing needs of its customers are at the core of Paytm's business model. With an emphasis on meeting the needs of all of its users (merchants and consumers), Paytm regularly keeps adding new solutions to its portfolio. The journey of becoming a financial services conglomerate included several milestones like launch of Paytm wallet, Paytm UPI, Paytm Insurance, Paytm Digital payment, and the latest ones being multiple offline payment options for its merchant partners.

Each Paytm product is the result of extensive research, aimed to understand the altering preferences and requirements of the customers. Paytm uses the latest analytical tools to capture the consumption behavior of its customers, to develop an understanding about the changing needs of the customers.

The leadership counts 'speed' as its greatest asset. Paytm's quick reaction to the Indian Government's surprise announcement to demonetize currency notes of denomination ₹500 and ₹1,000, contributed significantly to its rapid growth⁸⁷. The sudden announcement sucked out about 86% of India's cash in circulation in the latter part of 2016. People shifted to digital transactions using QR codes on mobile wallet apps. While merchants looked for alternatives to cash transactions, Paytm released newspaper ads that merchants could post on their storefronts "Paytm Accepted" as a notification of cashless transactions for customers. There was a remarkable surge in the app download and Paytm's wallet customer base grew from 125 million before demonetization to 185 million three months later.⁸⁷ By June 2017, over five million offline merchants signed

up to accept payments through Paytm's QR. The multilingual feature of the app attracts merchants from small towns and tier II & tier III cities. Over a quarter of its users prefer using regional language apps that were strategically rolled out by Paytm. The government's push for digital payments has further helped accelerate adoption among the masses and small merchants.

In addition to expanding the digital payments ecosystem by enabling small merchants accept payments digitally, Paytm started exploring opportunities in the broader financial services landscape. Paytm's entry into the payments bank business in May 2017 created an opportunity for the company to build a primary deposit relationship with its customers. In addition, the app is turning into a distribution channel for financial services for its users to access a wide range of financial products, from home and life insurance policies to investment assets and products on its merchant store.

Paytm Money has become one the fastest growing investment platforms for stock broking, dematerialization and pension services. It is the largest contributor of new systematic investment plans (SIPs) in the mutual funds industry. The recognitions helped Paytm gain customer's faith in the brand.

Paytm launched its subscription-based loyalty program 'Paytm First', to cater to entertainment needs of the customers. The gaming and entertainment platforms attracted millions of users. Paytm has now emerged as a leading player in the competitive market for digital games.

Its e-commerce venture, Paytm Mall, after an initial growth fuelled by cashback deals, offers and promotional campaigns, however, could not sustain in the hyper-competitive market with well-established players, Amazon and Flipkart.⁸⁸

Paytm's growth and expansion strategies are analysed in leading business schools as case studies. The company is a leader in the fintech industry with its wide portfolio of offerings that meet the evolving needs of a large customer base through multiple solutions ranging from wealth management, insurance, digital market space, digital payment platform and online entertainment & gaming platform.

Prone to adaptability, one of its recent strategic moves to address the need of online food delivery during COVID-19 pandemic, included the partnership with 'Tata Starbucks', offering an online food delivery service platform.⁸⁹

Questions

1. Why is consumer research critical to Paytm's success?
 2. What value does Paytm's offerings in financial services create for customers?
 3. What challenges Paytm will face in the near future?
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