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BBA | Semester III | UK3DSEMGT204

Consumer Behaviour

Course Code: UK3DSEMGT204 • Module 4 Notes

Module 4: The Consumer Decision-Making Process

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1. Problem Recognition and Need Arousal

The consumer decision-making process initiates when an individual experiences **Problem Recognition**—the conscious perception of a discrepancy between their current actual state (where they are currently situated) and their desired ideal state (where they wish to be). When this discrepancy exceeds a critical psychological threshold, a recognized problem emerges, generating internal psychological tension that impels the consumer toward commercial problem-solving behavior.

Discrepancy Between Actual and Desired States

Consumer researchers identify two primary psychological modes of problem recognition:

- **Need Recognition (Actual State Depression):** Occurs when an individual experiences a deterioration in their actual state (e.g., a laptop computer crashes permanently, an automobile runs out of gasoline, or hunger triggers acute physical discomfort). The consumer's goal is to restore their condition back to normal baseline functionality.
- **Opportunity Recognition (Desired State Elevation):** Occurs when an individual is exposed to superior lifestyle standards, innovative technologies, or aspirational imagery that elevates their desired state (e.g., viewing an ultra-thin 4K OLED television creates dissatisfaction with one's fully functional standard television). The consumer's goal is to elevate their standard of living to match the new ideal.

Triggers of Problem Recognition

Problem recognition is activated through internal physiological drives or external environmental triggers:

1. **Internal Triggers:** Biological drives (hunger, thirst, fatigue, physical illness) that demand physiological homeostatic equilibrium.
2. **Product Depletion:** Routine consumption that exhausts household inventories (groceries, printer ink, laundry detergent), triggering reorder cycles.
3. **Changing Life Circumstances:** Major demographic transitions across the Family Life Cycle (graduating from university, marriage, birth of a child, purchasing a home, career promotion) that necessitate completely new consumption portfolios.
4. **Marketing Influences:** Commercial advertising, sales promotions, sensory packaging displays, and influencer marketing that deliberately stimulate consumer desires, highlight latent problems, and demonstrate the inadequacy of current possessions.

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Generic versus Selective Problem Recognition

Marketing strategists distinguish between two operational forms of problem stimulation:

- **Generic Problem Recognition:** Persuading consumers that a broad, category-wide problem exists, expanding total market demand for the entire industry (e.g., public health campaigns educating citizens on the necessity of home water filtration systems, benefiting all filter manufacturers). Typically deployed by industry trade associations or monopolistic market creators.
- **Selective Problem Recognition:** Persuading consumers that their problem can only be resolved by choosing the marketer's specific proprietary brand over competing substitutes (e.g., advertising that only a specific patented RO filtration technology eliminates heavy metal contaminants). Deployed in mature, highly contested competitive markets.

2. Information Search Behaviour and Economics of Search

Once a problem is recognized, the consumer initiates information search to identify viable product categories, brand alternatives, performance attributes, and retail distribution channels capable of resolving the discrepancy.

Internal versus External Information Search

Information search progresses across two interconnected mental domains:

- **Internal Search:** The cognitive retrieval of stored knowledge, past experiences, and brand impressions retained within long-term memory. In low-involvement or routine purchases (toothpaste, snacks), internal search alone is often sufficient to trigger transaction execution.
- **External Search:** The active gathering of supplementary information from the external market environment when internal memory is incomplete, outdated, or inadequate. Sources of external search comprise:
  - *Personal Sources:* Family members, trusted friends, workplace colleagues, and informal word-of-mouth recommendations (perceived as highly credible).
  - *Commercial (Marketer-Dominated) Sources:* Brand advertisements, retail websites, product packaging, sales brochures, and showroom sales representatives.
  - *Public / Neutral Sources:* Independent consumer review publications, government testing reports, and verified online user review aggregators.
  - *Experiential Sources:* Physical inspection, handling, dealership test-drives, and trial software demonstrations.

The Cost-Benefit Calculus of Information Seeking

Classical economics and consumer psychology agree that consumers govern their external information search by balancing perceived costs against anticipated benefits. A consumer continues searching only as long as the expected marginal benefits of additional information (securing a lower price, finding superior quality, reducing risk) exceed the marginal costs incurred (time expenditure, cognitive effort, travel costs, emotional stress).

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Factors that expand the scope of external information search include high financial value, high perceived risk (financial, performance, social, or physical), low prior product knowledge, high consumer involvement, and the presence of numerous competing brand alternatives with divergent attributes.

Perceived Risk Dimensions and Consumer Risk-Reduction Strategies

Perceived risk represents the consumer's subjective uncertainty regarding the negative consequences of a purchase decision. Risk manifests across five distinct dimensions:

Risk Dimension	Underlying Consumer Fear	Marketer Risk-Reduction Mechanism
Financial Risk	Fear of wasting significant monetary capital or suffering financial loss.	Money-back guarantees, low-interest installment financing, clear price-match policies.
Performance Risk	Fear that the product will fail to perform its advertised functional purpose.	Comprehensive manufacturer warranties, independent laboratory certifications, free trials.
Physical Risk	Fear that the product will cause bodily harm, injury, or health hazards.	Rigorous safety testing badges, non-toxic organic ingredient declarations, tamper-evident seals.
Psychological Risk	Fear that the product will damage personal self-esteem or create remorse.	Reassuring post-purchase onboarding messages, supportive customer communities.
Social Risk	Fear that the purchase will result in peer ridicule, status loss, or group disapproval.	Prominent celebrity endorsements, prestige branding, and positive social proof testimonials.

Behavioural Economics: Kahneman & Tversky's Prospect Theory

Daniel Kahneman and Amos Tversky challenged neoclassical economics by demonstrating that human decision-makers do not evaluate outcomes according to absolute wealth, but as gains and losses relative to a psychological **Reference Point**. **Prospect Theory** is characterized by three core tenets:

1. **Loss Aversion:** The psychological pain of losing an amount of money is empirically proven to be roughly 2.0 to 2.5 times greater than the pleasure experienced from gaining the identical sum. Marketers leverage loss aversion by offering "risk-free 30-day home trials" where returning the item feels like a painful loss.
2. **Diminishing Sensitivity:** The marginal value of gains or losses diminishes as distance from the reference point increases (e.g., the subjective difference between ₹100 and ₹200 feels vast, while the difference between ₹10,100 and ₹10,200 is negligible).
3. **Framing Effects:** Presenting the identical factual information in terms of positive gains versus negative losses radically alters consumer choice (e.g., describing yogurt as "90% fat-free" generates significantly higher purchase intent than describing it as "10% fat content").

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Richard Thaler: Mental Accounting and Sunk Cost Fallacy

Richard Thaler introduced the concept of **Mental Accounting**, demonstrating that consumers do not treat money as fungible; rather, individuals mentally segregate financial expenditures into non-transferable mental accounts (e.g., "vacation fund", "grocery budget", "emergency savings"). Two vital concepts govern consumer pricing psychology:

- **Acquisition Utility versus Transaction Utility:** Acquisition utility represents the economic value of the good obtained relative to its retail price. Transaction utility represents the perceived psychological pleasure of getting a bargain (the difference between the internal reference price and the actual price paid).
- **Sunk Cost Fallacy:** The irrational tendency for consumers to continue consuming an unappealing good or service simply because they have already invested non-refundable financial resources into it (e.g., finishing an unpalatable meal at an expensive restaurant).

Cognitive Heuristics in Consumer Search (Simon, Tversky & Kahneman)

Due to human cognitive limitations and pervasive market complexity, consumers rarely process all available information exhaustively. Instead, they rely on **Heuristics**—mental shortcuts or rules of thumb that simplify complex decision tasks:

- **Bounded Rationality and Satisficing (Herbert Simon):** Consumers operate within bounds of cognitive capacity, time pressure, and imperfect information. Rather than optimizing (searching until the absolute best product is identified), consumers *satisfice*—they select the first available alternative that meets their minimum acceptable aspiration threshold.
- **Availability Heuristic:** Consumers evaluate the frequency or likelihood of an event based on how easily concrete instances come to mind. Vivid, emotionally charged product failures (e.g., a viral video of an exploding smartphone battery) distort subjective risk estimates far beyond actuarial statistical probability.
- **Representativeness Heuristic:** Consumers judge the probability that an item belongs to a specific category based on how closely it resembles an archetype or prototype (e.g., assuming a store-brand cola packaged in red-and-white cans tastes identical to Coca-Cola).
- **Anchoring and Adjustment:** Consumers anchor heavily on an initial numerical value presented to them and make insufficient adjustments away from that anchor (e.g., an e-commerce retailer displaying an inflated "Original Price: ₹4,999" beside a "Sale Price: ₹1,499" establishes a high reference anchor that exaggerates perceived transaction savings).

3. Alternative Evaluation and Consumer Decision Rules

Alternative evaluation represents the cognitive stage wherein the consumer processes accumulated product information, narrows down alternatives, and applies decision criteria to establish a definitive brand ranking.

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Categorization of Brand Alternatives: Sets of Alternatives

Through the search process, the aggregate universe of all available brands in a product category is progressively filtered through distinct cognitive sets:

Set Classification	Definition and Cognitive Status	Strategic Marketing Mandate
Total Market Set	The complete universe of all commercial brands existing in the marketplace.	Achieving retail distribution and initial brand visibility.
Awareness Set	The sub-segment of brands that the consumer has conscious cognitive knowledge of.	Building high brand salience and unaided advertising recall.
Evoked (Consideration) Set	The select, highly favored group of 3 to 5 brands that the consumer actively considers acceptable for ultimate purchase.	Securing inclusion through distinctive positioning and superior attribute performance.
Inept Set	Brands the consumer actively rejects due to previous negative experiences or poor reputation.	Executing comprehensive quality turnaround and reputation rehabilitation.
Inert Set	Brands toward which the consumer feels indifferent, possessing neither positive nor negative biases.	Stimulating interest through promotional trial samples and comparative advertising.

Consumer Decision Rules: Compensatory vs Non-Compensatory

Consumers evaluate competing brands across salient attributes using structured heuristic decision rules:

Compensatory Decision Rules

In compensatory decision models (such as the Fishbein multiattribute model), a brand's weakness or poor performance on one evaluative attribute can be mathematically compensated for or balanced out by exceptional strength on another attribute. The consumer calculates an overall composite score for each brand, selecting the alternative with the highest aggregate rating.

Non-Compensatory Decision Rules

In non-compensatory models, a performance deficit on a critical attribute cannot be offset by high performance on other attributes. Failure to meet a specific cutoff threshold results in immediate brand disqualification:

1. **Lexicographic Rule:** The consumer ranks evaluative attributes in order of personal importance, and then selects the brand that scores highest on the single most important attribute. If two brands tie, they are compared on the second most important attribute, continuing until the tie is broken.
2. **Conjunctive Rule:** The consumer establishes minimum acceptable cutoff standards for *all* salient attributes. A brand is accepted only if it meets or exceeds the cutoff on every single attribute; falling below the threshold on even one attribute causes immediate elimination.

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3. **Disjunctive Rule:** The consumer establishes extremely high, demanding performance standards for a few critical attributes. A brand is accepted if it meets or exceeds the threshold on *at least one* of these key attributes, regardless of performance on others.
4. **Elimination-by-Aspects (EBA) Rule:** Combines lexicographic and conjunctive logic. The consumer selects the most important attribute and eliminates all brands failing to meet the minimum cutoff. The process repeats with the second most important attribute until only a single winning brand remains.

Comparative Worked Example of Decision Rules

Consider a consumer evaluating four laptop models across four attributes rated on a 1-to-10 scale (where 10 is outstanding). The consumer's attribute importance ranking is: 1. Processing Speed (cutoff = 7), 2. Battery Life (cutoff = 6), 3. Weight/Portability (cutoff = 8), 4. Price Affordability (cutoff = 5):

Laptop Model	Processing Speed (Rank 1)	Battery Life (Rank 2)	Portability (Rank 3)	Price Affordability (Rank 4)
Brand A	9	5	8	7
Brand B	8	7	6	9
Brand C	7	8	9	6
Brand D	9	8	5	8

Decision Outcomes by Rule:

- **Lexicographic Rule:** Brands A and D tie on Processing Speed (score 9). Moving to the second attribute (Battery Life), Brand D scores 8 while Brand A scores 5. *Winner: Brand D.*
- **Conjunctive Rule (Cutoffs: Speed ≥ 7, Battery ≥ 6, Portability ≥ 8, Price ≥ 5):** Brand A fails Battery (5 < 6). Brand B fails Portability (6 < 8). Brand D fails Portability (5 < 8). Brand C passes all four thresholds (Speed 7 ≥ 7, Battery 8 ≥ 6, Portability 9 ≥ 8, Price 6 ≥ 5). *Winner: Brand C.*
- **Disjunctive Rule (Exceptional threshold ≥ 9 on any attribute):** Brands A, C, and D qualify (Brand A has Speed 9; Brand B has Price 9; Brand C has Portability 9; Brand D has Speed 9).
- **Elimination-by-Aspects (EBA):** Speed cutoff ≥ 7 eliminates no brand. Battery cutoff ≥ 6 eliminates Brand A. Portability cutoff ≥ 8 eliminates Brand B and Brand D. *Winner: Brand C.*

The Additive Difference Decision Model (Amos Tversky)

In addition to compensatory and non-compensatory heuristics, Amos Tversky formulated the **Additive Difference Model**, which posits that consumers compare alternative brands by calculating attribute-by-attribute differences rather than evaluating brands holistically in isolation. When choosing between Brand Alpha and Brand Beta, the consumer evaluates the difference across each attribute, assigns an importance weight to the differential, and sums the weighted differences. If the net difference is positive, Brand Alpha is preferred; if negative, Brand Beta is selected.

4. Purchase Execution and Post-Purchase Dynamics

Alternative evaluation produces a commercial Purchase Intention; however, the transition from intention to actual purchase execution is mediated by point-of-purchase environmental factors, retail atmospherics, financing availability, and post-purchase consumption evaluation.

Point of Purchase (POP) Factors and Store Atmospherics

In-store and on-screen environments heavily influence commercial conversion rates. Philip Kotler introduced the concept of *Atmospherics*—the deliberate design of retail space to produce specific emotional effects in shoppers that enhance purchase probability. Atmospherics encompasses lighting intensity, background acoustic tempo, scent branding, aisle spatial navigation, and digital checkout ergonomics.

Impulse Buying represents an unplanned, spontaneous purchase decision spurred by immediate sensory stimuli, emotional arousal, and low cognitive deliberation. Marketers optimize impulse purchasing through point-of-sale (POS) checkout counter displays, promotional end-cap merchandising, flash discount timers, and one-click digital checkout architectures.

The Mehrabian-Russell Environmental Psychology Model (PAD Model)

Albert Mehrabian and James A. Russell developed the **PAD Model**, establishing that physical store atmospherics induce three primary internal emotional states in shoppers:

- **Pleasure (P):** The degree to which the consumer feels good, joyful, or satisfied in the retail environment.
- **Arousal (A):** The degree to which the consumer feels stimulated, alert, excited, or energized by ambient sensory cues (bright lighting, uptempo music).
- **Dominance (D):** The degree to which the shopper feels in control of their movement, navigation, and purchasing choices without feeling confined or overwhelmed.

These emotional states dictate **Approach Behaviors** (longer store dwell time, exploration of aisles, higher basket spending) versus **Avoidance Behaviors** (immediate store exit, feeling crowded, reluctance to interact with sales personnel).

Customer Satisfaction and Oliver's Expectancy Disconfirmation Theory

Richard L. Oliver formulated the seminal **Expectancy Disconfirmation Model**, positing that post-purchase consumer satisfaction is not an absolute judgment of product performance, but a psychological comparison between prior expectations (E) and perceived actual performance (P):

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Disconfirmation State	Performance vs Expectation	Psychological Outcome	Consumer Behavioral Response
Positive Disconfirmation	Performance exceeds expectation ($P > E$).	Customer Delight and Euphoria.	Passionate brand advocacy, viral word-of-mouth, high repeat loyalty, price insensitivity.
Zero Disconfirmation (Confirmation)	Performance exactly matches expectation ($P = E$).	Customer Satisfaction.	Passive contentment; repeat purchase maintained unless competitor offers discounts.
Negative Disconfirmation	Performance falls below expectation ($P < E$).	Customer Dissatisfaction and Frustration.	Negative word-of-mouth complaints, product returns, permanent brand defection.

Consumer Complaint Behavior and Service Recovery Paradox

Ralph Day and E. Laird Landon developed a taxonomy of consumer dissatisfaction responses, classifying actions into: (1) *No Action:* Dissatisfied consumers quietly switch brands; (2) *Private Action:* Voicing negative word-of-mouth to friends and boycotting the vendor; (3) *Public Action:* Demanding redress directly from management, lodging complaints with statutory consumer commissions, or filing legal suits.

The **Service Recovery Paradox** describes an empirical commercial phenomenon wherein a customer who experiences a serious service failure, but has the problem resolved swiftly, generously, and empathetically by management, develops a higher level of brand loyalty and trust than a customer who never experienced any service breakdown.

Retail Store Patronage and Spatial Gravity Models

The selection of physical retail stores is governed by consumer perceptions of travel effort, merchandise assortment breadth, and retail store image. Quantitative marketing models capture store patronage dynamics:

- **Reilly's Law of Retail Gravitation (William J. Reilly):** Draws an analogy to Newtonian physics, asserting that two competing cities or regional retail clusters attract shoppers from an intermediate town in direct proportion to their population sizes and in inverse proportion to the square of the travel distances.
- **Huff's Retail Gravitation Model (David Huff):** Delineates the probability that a consumer residing in a particular residential zone will choose to shop at a specific retail center, modeled as a direct function of the retail center's square footage (merchandise breadth) and an inverse power function of travel time.

Post-Purchase Product Disposition and Circular Consumer Behaviour

Consumer behavior does not terminate with product consumption; rather, it extends into **Product Disposition**—how consumers discard, recycle, or reallocate used goods. Jacoby, Berning, and

Dietvorst classified disposal options into three major pathways:

1. **Keep the Product:** Retaining the item for alternative uses (repurposing glass jars for pantry storage), converting it to a secondary function, or storing it indefinitely due to sentimental emotional attachment.
2. **Permanently Dispose:** Discarding the item in municipal landfills, incinerating waste, or diverting recyclable materials into formal circular recovery streams (e-waste recycling programs).
3. **Temporarily or Permanently Transfer:** Reselling the item via peer-to-peer digital marketplaces (eBay, OLX, Poshmark), trading it in for manufacturer allowances, gifting it to family members, or donating it to charitable organizations.

5. Industrial Procurement: The Organizational Decision Process

While consumer decision-making focuses on individual psychology, industrial buying processes involve formal organizational governance, multi-stage procurement gates, and structured contract administration.

The Jagdish Sheth Model of Industrial Buying Behaviour

Jagdish N. Sheth developed a comprehensive conceptual model of organizational buying that integrates psychological, organizational, and situational factors across four core components:

- **Component 1: Psychological World of Organizational Buyers:** Evaluates the backgrounds, education, personality traits, and lifestyle profiles of procurement officers, engineers, and financial controllers who comprise the buying center.
- **Component 2: Determinants of Joint Decision Making:** Identifies company-specific variables (product complexity, commercial risk, enterprise size, orientation toward technology) that dictate whether a purchase will be decided autonomously by a single procurement agent or jointly through a formal multi-department committee.
- **Component 3: Methods of Conflict Resolution:** Outlines how cross-functional committees resolve disagreements regarding vendor selection through Problem Solving, Persuasion, Bargaining, and Politics.
- **Component 4: Situational Influences:** Unexpected corporate crises, sudden executive turnover, regulatory shifts, or macroeconomic shocks that disrupt normal procurement workflows.

The Formal Industrial Buying Process

1. **Need Formulation and Requisition:** Operational units generate formal purchase requisitions detailing functional requirements.
2. **Technical Specifications Development:** Engineering specialists draft meticulous technical drawings, tolerances, and quality criteria.
3. **Vendor Sourcing and Request for Proposals (RFP):** Procurement teams broadcast formal tenders to pre-qualified suppliers globally.

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4. **Proposal Analysis and Commercial Negotiation:** Bids are audited for technical compliance, total lifecycle cost, delivery schedules, and payment terms.
5. **Supplier Auditing and Selection:** On-site operational audits inspect prospective vendor manufacturing facilities, ISO quality systems, and financial stability.
6. **Contract Execution and Order Routine:** Multi-year supply contracts are formalized, establishing delivery SLAs, penalty clauses for downtime, and EDI inventory linkage.
7. **Post-Purchase Performance Auditing:** Comprehensive quarterly supplier scorecards track on-time delivery rates, parts-per-million (PPM) defect rates, and technical responsiveness.

Worked Example: Weighted Point Vendor Rating

An industrial procurement committee evaluates two qualified vendors using a Weighted Point Plan. Evaluation criteria comprise Product Quality (weight = 0.40), On-Time Delivery (weight = 0.35), and Commercial Service/Technical Support (weight = 0.25). Performance is audited on a 1-to-100 scale:

Evaluation Criterion	Weight	Supplier X Score	Supplier X Weighted	Supplier Y Score	Supplier Y Weighted
Product Quality (PPM Defect Rate)	0.40	95	38.0	85	34.0
On-Time Delivery Compliance	0.35	80	28.0	95	33.25
Technical Service Support	0.25	90	22.5	80	20.0
Composite Vendor Rating	**1.00**	—	**88.50**	—	**87.25**

Decision Resolution: Supplier X earns a superior composite vendor rating of 88.50 compared to Supplier Y's 87.25, driven by its outstanding performance in Product Quality, the most critical operational criterion. Supplier X is awarded the primary long-term supply agreement.

B2B Procurement Negotiations and Service Level Agreements (SLAs)

Unlike retail consumer transactions governed by fixed non-negotiable prices, industrial procurement culminates in formal commercial negotiations. Purchasing teams and supplier sales directors negotiate complex multi-variable contract packages:

- **Total Cost of Ownership (TCO) vs Acquisition Price:** Procurement agents evaluate beyond unit purchase price to calculate installation expenses, energy consumption efficiency, tooling amortization, maintenance parts availability, and residual salvage value.
- **Service Level Agreements (SLAs) and Uptime Guarantees:** Establishing legally binding operational metrics (e.g., 99.8% server uptime, replacement component delivery within 4 hours) backed by predefined financial penalty clauses (liquidated damages) for vendor non-compliance.

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- **Incoterms (International Commercial Terms):** Defining explicit risk and freight cost transfers across global supply routes (e.g., FOB - Free on Board, CIF - Cost, Insurance, and Freight, DDP - Delivered Duty Paid).
- **Contractual Risk Mitigation Clauses:** Incorporating force majeure provisions, price escalation indexing linked to commodity raw material indices, intellectual property confidentiality indemnification, and multi-tier dispute resolution protocols.

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