# Unit-3 **Consumer Decision making Process**

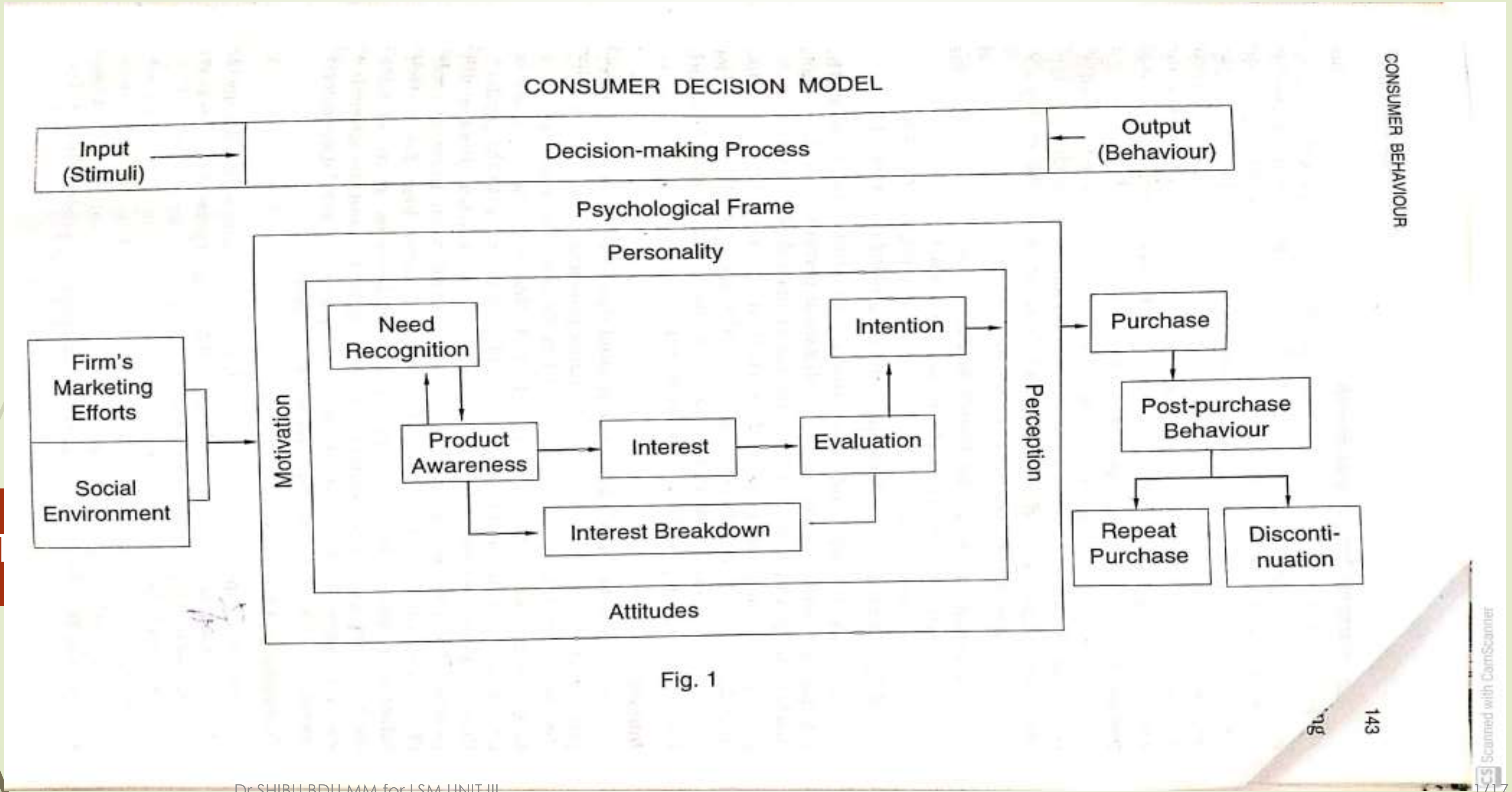



Fig. 1

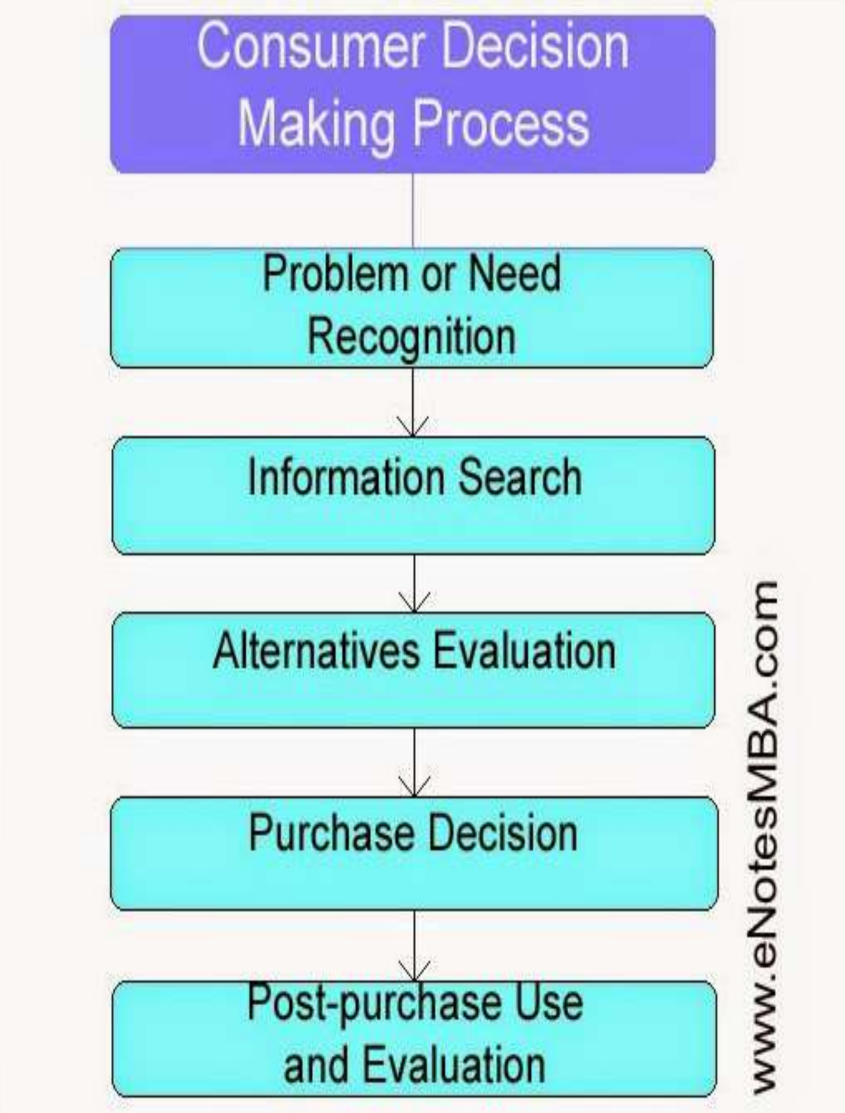
# Consumer Decision making Process



A consumer purchase is actually a response to a problem. Consumer Decision Making pertains to making decisions regarding product and service offerings.

It may be defined as a process of gathering and processing information, evaluating it and selecting the best possible option so as to solve a problem or make a buying choice.

- Consumer Decision Making pertains to the following decisions:
- a) What to buy: Products and Services (and the Brands?)
- b) How much to buy: Quantity
- c) Where to buy: Place
- d) When to buy: Time
- e) How to buy: Payment terms.
- All purchase decisions are not similar. The effort put into each decision making is different.


Consumer Decision Making Process
Problem or Need Recognition
Information Search
Alternatives Evaluation
Purchase Decision
Post-purchase Use and Evaluation
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# Consumer Decision making Process



Consumer decision making process consists of a series of steps which a consumer undergoes.

- Consumer decision making process generally involves five steps – Problem recognition, information search, evaluation of alternatives, purchase, and post purchase evaluation.
- 1. Problem or Need Recognition:

- Consumer decision making process begins with an unsatisfied need or problem. Everyday we face multiple problems which individuals resolve by consuming products or services.
- Consumer problem can be routine or unplanned. For example – run out of milk or cooking oil, car indicating low level of fuel, are some of the routine problems that individuals face. Routine problems are quickly recognized, defined, and resolved.
- Recognition of unplanned problem may take much longer time as it may evolve slowly over time. For example – need of a new refrigerator as existing one is not working properly.

# Consumer Decision making Process



An individual recognize problem through information processing arising as a result of internal and external stimuli.

- Internal stimuli refer to a personal perception experienced by the consumer, such as hunger, thirst, and so on.
- External stimuli include outside influences such as advertising or word-of-mouth.

After problem recognition the action to solve the problem depends on the magnitude of discrepancy between the current state and desired state and the importance of the problem.

If the problem is highly important & there is high discrepancy between current state and desired state of the individual, he will start the purchase process.

# Consumer Decision making Process



**2.** Information Search: Information search is done to know about product or service, price, place and so on.

In the process of decision making, the consumer engages in both internal and external information search.

Internal information search involves the buyer identifying alternatives from his memory. Internal information search is sufficient for low involvement products or services.

For high involvement product or service, buyers are more likely to do external information search.

The amount of efforts a buyer put in information search depends on various factors like market, competition, difference in brands, product characteristics, product importance.

# Consumer Decision making Process



## 3. Alternatives Evaluation:

- At this step the buyer identifies and evaluates different alternatives to choose from. It is not possible to examine all the available alternatives. So, **buyer develops evaluative criteria to narrow down the choices.**
- Evaluative criteria are certain characteristics that are important to buyer such as price of the product, size, colour, features, durability, etc. To narrow down the choices the buyer considers only the most important characteristics.

# Consumer Decision making Process



**4. Purchase Decision:**

- The earlier mentioned evaluation step helps the consumer in arriving at a purchase intention. Now the consumer forms preferences among the brands in the choice set.
- The **consumer may also form a purchase intention** and lean towards buying the most preferred brand.
- However factors can intervene between the purchase intention and the purchase decision.
- A buyer who decides to execute a purchase intention will be making up to five purchase decisions like brand decision, vendor decision, quantity decision, timing decision and payment-method decision.

# Consumer Decision making Process



5. Post-purchase Use and Evaluation:

- Once the buyer makes a decision to purchase a product or service there can be several types of additional behaviour associated with that decision such as decisions on product uses and decision on services related to the product purchased.
- The level of satisfaction experienced by the buyer after his purchase will depend on the relationship between his expectations about the product and performance of the product.
- If the buyer is satisfied then he will exhibit a higher probability of repeat purchase of the product or service. The satisfied buyer will also tend to say good words about the product or service.
- A highly dissatisfied buyer will not buy the product or service again and spread negative words about service and company.

# LEVELS OF DECISION MAKING



The levels of consumer decision making;

(i) Extensive problem solving (EPS)

(ii) Limited problem solving (LPS)

(iii) Routinized problem solving (RPS) or routinized response behavior.

**Extensive problem solving (EPS):**

- In EPS, the **consumer is unfamiliar with the product/service category**; he is not informed of the product or service offering, and thus, **the situation requires extensive information search and evaluation.**
- The consumer is not aware:

- about the various decision criteria used to evaluate the product or service offering.

- of the various brands that are available and from which to evaluate.

# The levels of consumer decision making



The result is that the purchase process involves significant effort on part of the consumer.

- He has to gather knowledge about

(i) the decision criteria;

(ii) the brands available;

(iii) make a choice amongst the brands.

- The types of products and / situations where we generally have EPS:

1. These goods are ones of high involvement; they are expensive; they are infrequently bought; there is considerable amount of risk involved.

2. These are generally first time purchases.

Examples: Jewellery, electronic goods, Real estate and property etc.

# The levels of consumer decision making



**Limited problem solving (LPS):**

- The consumer is familiar of the product or service offering; but he is unaware of the various brands. The case is one where the buyer is familiar with the product category but unfamiliar with the brands.

- The consumer:

- *is aware* of some brands and also of the various criteria used to evaluate the product or service offering.

- is unaware of the new brands that have been introduced.

- has not evaluated the brands amongst the awareness set and has not established preferences amongst the group of brands.

- The result is that the purchase process is more of a recurring purchase and it involves only a moderate effort on part of the consumer. He has to gather knowledge to add/modify the existing knowledge that he has in his memory. Thereafter he has to make a decision.

# The levels of consumer decision making



The types of products and / situations where we generally have LPS:

1. These goods are ones of low involvement; they are generally moderately priced;
2. they are frequently bought and there is lesser amount of risk involved and these are generally recurring purchases.

**Exceptions: They** may also be cases where an expensive product is being repurchased.

**Examples:** A laptop replacing a desktop, a second TV for the home.

**Routinized problem solving (RPS) or routinized response behavior:**

- The consumer is well informed and experienced with the product or service offering. The consumer is aware of both the decision criteria as well as the various brands available.
- Here, the goods are ones of low involvement; they are inexpensive; they are frequently bought; there is no risk involved.

# The levels of consumer decision making



These are routine purchases and are a direct repetition, where the consumer may be brand loyal.

- The result is that the purchase process involves no effort on part of the consumer. It is simple and the process is completed quickly; purchases are routine and made out of habit.
- The types of products and / situations where we generally have RPS:

1. These goods are ones of low involvement; they are inexpensive; they are frequently bought; there is no risk involved.

2. These are routine purchases and the consumer is brand loyal.

- **Examples:** Cold drinks, Stationery etc.

# Channel Intermediaries



The main purpose of Channel intermediaries is to deliver the products from manufacturers to the end users. It is also to move products to consumers(B-C). During this process the intermediaries might take title or ownership of product from producer so they can set the price and control the final method of sale. This is what a typical retailer does.

- Generally there are **FOUR** recognized group of intermediaries. They are Agents, Wholesalers ,Distributers and Retailers.
- **AGENTS/BROKERS**: They are Individuals/companies . They represent the producer to final user while selling the product. They do not own the product directly but they take possession during the distribution process. They earn profits through commissions /fees.
- **WHOLESALERS** : They take title of goods and services if they are intermediaries. They are independently owned and own the products they sell. They buy the product in bulk, store the products until it is time to resell them. They rarely sell the products directly to consumers. They sell the products to other intermediaries such as retailers for higher price They do not operate on commission basis

# Channel Intermediaries



**DISTRIBUTERS**: They take ownership of title of goods, store it, and sell it higher price to other intermediaries. They ally themselves to complimentary products ( Eg. A distributor is a Coca cola and Pepsi and soft drinks distributor). So they maintain a close relationship with their suppliers than wholesalers do.

**RETAILERS**: They come in a variety of shapes and sizes from grocery store to large chains like wal-Mart . In variable to their size they all purchase products from intermediaries and sell them directly to the end user for a profit.

# Types of Channel strategy



Companies are always looking for ways to scale business and generate more sales. Developing an effective distribution channel strategy can help companies reach new consumers, reduce the costs associated with their products and expand their profit margins.

- A channel strategy refers to a vendor's plan to move a product or service through a chain of commerce to the end customer.
- Channels serve two primary functions.
- The first is to sell a product or service to a customer, and
- the second is to deliver a customer experience. Companies can distribute their goods and services through direct or indirect channels.

# Types of Channel strategy



**Direct channel:** In a direct channel, consumers buy a product or service directly from a company. For example, a consumer might purchase a product from a physical storefront or an e-commerce website.

**Indirect channel:** In an indirect channel, consumers purchase a product or service from an intermediary instead of directly from the company that produced it. For example, a consumer might buy a product from another large retailer that the company distributes their products to.

**Benefits of channel strategies for distribution**

- **Improve the consumer experience:** Developing an effective channel strategy can help companies **determine** where and how their consumers prefer to purchase their products.
- **Expand into new markets:** Companies often select which channels to integrate into their channel strategy based on which new markets they want to expand into.
- **Reduce costs:** Many companies choose to use distribution channels to outsource pieces of the distribution process. This can help companies reduce their production and marketing costs.
- **Increase sales:** An effective channel strategy can help companies scale faster, acquire new customers and increase sales by giving them access to a larger target audience of potential consumers.

# Channel Management



Channel management can be defined as a process used by companies to direct and manage various marketing techniques and the parties involved in the distribution channels. The channel management process is used to reach a broad range of customers through different marketing and sales channels.

- Successful channel management strategy is a technique of choosing the best and most efficient channel partners and different routes to make your products available in the market and to put various efforts to obtain maximum results from these channels. Separate channels for distribution should be selected based on your customers.
- For example, if you are selling a product for adults, then you might consider both online as well as offline channels that can sell your products in the market on your behalf. But if you are in the grocery of sale products, then selling your products in a well-established store might get you more sales as compared to online channels.

# Steps of channel management



# Steps of channel management



**Identification of sources**: The first step of the channel strategy process is the identification of references.

- When you are new in the market, then you are required to do research to identify sources through different methods.
- For example, you can approach trade associations and take part in trade exhibitions or can enquire in the market to learn about the reputation of distributors and their customers.
- A well-established manufacturer will be approached by different distributors themselves. The things that a manufacturer must verify are views of customers about the distributor, their sales force, and their enthusiasm to sell products.

# Steps of channel management



2. **Preparing a selection criterion**: The next step of the process of channel management is the preparation of selection criteria. There are various factors that a manufacturer should consider before selecting channel intermediaries.

- These factors are knowledge of the market, knowledge of the product, understanding of customers, competitiveness, market coverage, the reputation of intermediaries in the market, and managerial competence, etc.
- A manufacturer should consider the criteria like reputation in the market, knowledge about market and product, and enthusiasm of carrying the products in the market. In addition to this, also determine that the distributor is not selling the products of your competitors
- For example, a well-established distributor might have a good reputation among the customers, but he might be selling products of your several competitors and might be less enthusiastic about his methods of selling.
- On the other hand, a smaller distributor might be less popular and have a lower sales force, but he can be more enthusiastic in his approach to selling.

# Steps of channel management



3. **Selection of intermediaries**: There are several intermediaries of different sizes available in the market.

- Small-scaled and new intermediaries might be inexperienced, but they can sell your products with enthusiasm and will sell your products at a lower margin and fewer incentives.
- But you might need to give proper incentives to convince large-scaled and well-established intermediaries to distribute your products in the market.

4. **Providing required training to intermediaries to sell**

- Once you have selected your channel management partners, the next step that you are required to follow is to provide necessary training to them so that they can sell your products effectively and efficiently.
- By training, you can provide essential information about your products and your organization. Make sure that you cover essential areas such as financial management, marketing strategy, sales, personnel management, and stock control, etc, in the training programmes.

# Steps of channel management



**5. Motivating intermediaries whenever required:**

- The next step in the process of channel management for a channel manager is to drive your channel partners. Motivation could be in financial form, or it could be in non-financial form.
- For example, some distributors will get motivation when you provide them an increased margin on the sales management of the products, whereas; some distributors might like to have territorial rights for some areas.
- you can motivate your channel partners with verbal appreciation and recognition for their efforts, by providing them up-to-date products, providing solutions to their problems, and keeping regular personal contact with them.

# Steps of channel management



## 6. Assessment of intermediaries

- It is essential to assess the performance of all intermediaries. The output of the evaluation process will help you in deciding which channel partner to retain and who to drop.
- There are various criteria of assessment of a channel partner such as sales skills, competencies, customer's response, quality of service provided to customers, the quantity of stock purchased, the position of display in-store, etc.
- Based on the information obtained by assessment , you can decide whether you want to continue business with your channel management partner or not.

# Distribution channels



**Distribution channels** are the set of routes and processes that a company uses to take its products from their place of origin to the final consumers. These channels represent the path that a product travels through the entire supply chain, from production to final delivery.

## Types of distribution channels

**Distribution channels** can be **classified into different types.**

**Direct distribution channel:** In this type of channel, the manufacturer sells its products directly to the consumer without intermediaries. It is ideal for companies that want to maintain total control over marketing and customer relations.

**Indirect distribution channels:** Indirect channels involve intermediaries between the manufacturer and the end consumer. These intermediaries may be wholesalers, retailers, agents or distributors, who are responsible for bringing products to market and facilitating their sale.

**Short Channel**. This channel consists of three parts: manufacturer, supplier and end consumer.

**Long Channel**. Channels that have four or more levels: manufacturer, wholesaler, retailer and consumers.

# Distribution channels



## Hybrid distribution channels

Hybrid distribution channels combine elements of both direct and indirect channels. Here the company uses both its own direct distribution channels and external intermediaries to reach the market.

This allows for greater flexibility and scope in product distribution. Companies can use hybrid distribution channels to leverage the strengths of both approaches and adapt to specific market needs.

**Functions of distribution channels**

- Deliver the product
- Provide information and promotion
- Facilitate the transfer of ownership
- Perform logistics functions like warehousing, inventory management, packaging and product labeling.

# Key objectives of Distribution channels



Achieving maximum coverage

- Optimize logistics efficiency
- Improve customer experience
- Increase sales and generate revenue

# Physical Distribution



Physical distribution is the transfer of commodities, products, and raw materials between storage facilities, manufacturing facilities, and distribution hubs as well as the delivery of completed items to customers.

Some of the processes involved in effectively transferring commodities from producer to end user or consumer are transportation, inventory management, warehousing, material handling, forecasting, customer service, plant and warehouse placement, and order processing.

# Physical Distribution

## Objectives of Physical Distribution



- Efficient Transportation:
- Inventory Management
- Order Processing
- Warehousing
- Distribution Network Design
- Customer Service
- Cost Reduction
- Market Expansion:
- Environmental Sustainability
- Risk Management

# Physical Distribution



## Components of Physical Distribution

The components include the following

- **Transportation:**

- This component involves deciding which mode of transportation is most suitable for shipping goods. Choices include trucks for land transport, ships for water transport, and planes for air transport.
- It also encompasses the planning of transportation routes, considering factors such as distance, cost, and time to ensure efficient movement of goods.
- Involves coordinating the loading, unloading, and tracking of goods during transit, as well as managing transportation providers and negotiating rates.

# Physical Distribution



## Warehousing:

- Warehousing involves the storage of products in a systematic manner, ensuring they are organized and easily accessible for distribution.
- This component also deals with the handling of goods within the warehouse, which includes activities such as picking, packing, and moving products.
- Warehousing aims to make the best use of available storage space, maximizing capacity while minimizing wasted space.

# Physical Distribution



- Inventory Management:
- It involves predicting customer demand for products and adjusting inventory levels accordingly to prevent shortages or overstock situations.
- Inventory management defines reorder points, which indicate when it's time to replenish stock to maintain a sufficient supply of products.
- This component also focuses on reducing excess inventory holding costs, which can include storage, insurance, and financing expenses.

# Physical Distribution



**Order Processing:**

- Order processing begins with the entry of customer orders into the system, either manually or electronically.
- It encompasses the various steps required to fulfill orders, including picking items from inventory, packing them securely, and preparing them for shipment.
- Order processing also involves tracking shipments to ensure they reach customers on time, providing customers with shipment status updates as needed.

**Packaging and Materials Handling:**

- This component includes designing packaging materials to protect products from damage during transit while minimizing packaging waste.
- Addressing materials handling involves finding ways to efficiently move products through the distribution process, reducing the risk of breakage or spoilage.
- It also considers cost-efficient packaging and handling practices to minimize expenses associated with materials and labour.

# Importance of Physical Distribution



- Cost Efficiency
- Customer Satisfaction
- Market Expansion
- Competitive Advantage
- Resource Optimization
- Risk Mitigation
- Inventory Control
- Environmental Sustainability
- Profitability
- Product Availability