

Understanding consumer buyer behaviour



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Consumers make buying decision every day. From what to buy, where to buy, how and how much to buy, when they buy, and why they buy. This complex process has been the study of large companies and marketers for decades. Learning the whys of consumer buyer behaviour is not easy- the answers are often locked deep within the consumers head.

Engel, Blackwell and Miniard (1990) define consumer behaviour as the action and decision process of people who purchase goods and services for personal consumption.

Other definitions with a broader view not solely focussing on the individual were offered by Kotler and Keller (2006) in which groups and organizations were also added into the definition.

Their definition of consumer behaviour is the study of how individuals, groups, and organizations select, buy, use and dispose of goods, services and ideas or experiences to satisfy their needs and wants.

In a similar vein, Hawkins, Best and Coney (1998) and Sheth, Mittal and Newman (1999) defines consumer behaviour as the study of individuals, groups, or organizations and the processes or ideas to satisfy needs and the impacts that these processes have on the consumer and society.

Analyzing consumer behaviour is the cornerstone of any successful marketing strategy. The aim of marketing strategy is to understand their customer's needs and wants create customer value and build strong customer relationships. Ultimately, companies reap the rewards in the form

of current and future sales, profits, market share and long term customer loyalty. (Kotler and Armstrong, 2006)

Loyalty is accompanied by positive consumer behaviour and sales, consumers willing to buy more, recommend more and rebuff competitive offers. All these leads to profitability for the organization (Reichheld and Sasser 1990, Reichheld 1996, Passikoff 2009)

Loyal customers are thought to bring greater profits and increased sales to business.

Loyalty ultimately generates positive and measurable financial results. Improvements in retention and increases in share of customers are the obvious benefits. There are certain other benefits that are not always quite so obvious. (Duffy 2003)

According to Duffy these other benefits of loyalty include:

Cost savings. Customers who are loyal are familiar with your brand; they know how to transact with you. The assistance they need is specific. They are more efficient in terms of the way they use your resources.

Referrals. Customers who become familiar with your brand mention it to their friends and acquaintances. Loyal customers won't hesitate to make recommendations to friends and neighbours.

Complain rather than defect. Customers who are loyal feel like they are stakeholders in the retail brand. When they have a bad experience, they complain. They want to fix it. They complain rather than quietly defecting.

This “second chance” opportunity is very important in today’s business environment in which customers are so fickle.

Channel migration. Loyal customers are much more likely to buy through multiple channels increasing their total consumption and reducing your cost of doing business with them.

Greater awareness of brand assets. Loyal customers tend to be more aware of some of the auxiliary benefits your brand offers. It has been demonstrated that auxiliary benefits or “hidden assets” has an impact on retention and share of customer. (Duffy 2003)

While much research has focused on customer loyalty in business to consumer (B2C) contexts, customer loyalty is important to business to business (B2B) contexts as well. Customer loyalty is a vital issue to any business, as the loss of even one customer can cost a lot to a business. This is especially important in the business market, in this study, the construction industry in which businesses acquire goods and services that will be used in their production process. (Kotler and Keller, 2006)

In a B2B environment, suppliers or service providers need to truly understand their customers and offer customization of services, products and price structure. Generally, developing individual relationships with business customers offer suppliers a secure loyal customer base and opportunities to reach a high level of profitability. As business customers spend large amounts of money in their purchases of products and services, managing and maintaining loyal business customers can offer greater

revenue for a supplier or service provider and ultimately profitability.

(Rauyruen and Miller, 2006)

This study is motivated by the quest to answer the million dollar question that all marketers would like to know- How to maintain their customer's loyalty? Previous research has proposed many different variables to maintain customer loyalty, but few have examined these variables in a perceived uncertainty situation specifically in the construction industry.

Maintaining loyalty is already difficult enough for most organizations in normal conditions, what more in a perceived uncertainty situation- namely a supply shortage situation. According to Morris and Holman, 1998, business customer's attitudinal and behavioural response will change during times of shortages as a defensive mechanism to protect their organizations as well as their

Whereas on the suppliers side, they must modify their marketing mix in response to their customer's change in purchasing behaviour. (Kotler, 1974)

Thus, in the hope to increase loyalty in a shortage situation, marketers and organizations must recognise cognitive and affective variables that effect consumer behaviour and ultimately loyalty. Cognition deals with the mental process of logic, including aspects such as awareness, perception, reasoning, and judgment whereas affective is the very opposite. It is the mental process that deals with emotions and feelings. (Ajzen, 1991)

Therefore, organizations can control the cognitive stimuli usually through external factors, notably the marketing mix, the four P's: product, place,

price and promotion. These external factors can help the buyer/consumer in his/her purchase decision making. (Kotler. 1974)

The difficult part is trying to pinpoint the affective stimuli which usually concern emotions and feelings. Because of one of the characteristics of B2B marketing which is close buyer seller relationships, we propose that relationship quality is an important variable in delivering customer loyalty. Building on past research, we further propose that relationship quality can be affected by the service quality, satisfaction, trust and commitment between the buyer and seller.

1. 2 Background of the problem

The construction industry plays an important role in any country's economic development. It establishes the infrastructure required for socioeconomic development while being a major contributor to overall economic growth. Construction output is referred to as growth initiating and growth dependent. (Abdullah, Chai, Anuar and Tan, 2004)

In general, the construction industry can be categorized into three basic categories namely:

Construction involving heavy and civil engineering work like bridges, roads, tunnels, come under this category

General construction works involves building of real estate such a residential or commercial.

Construction projects involving speciality trades namely electrical works, wood work, etc. (Economy Watch, 2010)

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The Malaysian construction industry has grown rapidly since the country gained independence in 1957. It has since grown and emerged as a matured industry and is regarded as a catalyst of growth while its performance serves as an indicator of the country's economy. (NSTP e-media, Jan 21, 2009)

The construction industry provides employment to millions of workers through related companies ranging from contractors to manufacturers of building materials. According to the Department of Statistics, in 2009, 1,015,900 people were employed in the construction industry, out of the total Malaysian workforce of 10,897,300 workers, and representing 9.5% of the total workforce. The construction industry is the fourth largest employment sector after manufacturing, wholesale and retail trade and agriculture, in that order. (Department of Statistics, 2010)

The construction industry also contributes to gross domestic product of the country through its extensive linkages with the rest of the economy, in particular with construction related manufacturing industries such as basic metal products, cement manufacturing and electrical machinery. By itself, the construction industry contribution to the country's GDP is in the range of 6%, during the boom times and 3% during the recession. (The Construction Industry Development Board of Malaysia (CIDB), 2010)

Construction industry is a booming industry especially in developing countries. As Malaysia moves from developing country status towards a developed and industrialized nation as envisaged in Vision 2020, the construction industry will need to respond to the changes in construction demand.

Under the 10 Malaysia Plan, the Government has allocated RM230 billion in development expenditure. The 10 MP from 2011 to 2015 would potentially have a high impact on the construction industry which was expected to grow at 3.7% this year compared with a 6% per annum gross domestic growth for the country. (The Star Online, Aug 4, 2010)

The industry is supported by a fraternity of construction players, comprising professionals, developers, contractors, building material and equipment suppliers, manufacturers, financiers, regulators and others in the value chain. (NSTP e-media, Jan 21, 2009)

To fuel the constant growth of the construction industry, building materials, the basic ingredient needed for any construction job will be required. The importance of a steady supply of building materials like cement, steel and sand cannot be underemphasised. A supply shortage can adversely delay construction jobs and conversely effect the development of Malaysia.

Building materials can be classified as industrial goods. They can be classified in terms of how they enter the production process and their relative costliness. We can distinguish three groups of industrial goods, materials and parts, capital items and supplies and business services. Materials and parts can be divided into two categories: raw and manufactured. Manufactured materials and parts, also fall into two categories: component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings) (Kotler and Keller, 2006)

Unfortunately, periodic shortages of building materials has surfaced over the decades, most notably during the 1994/95 construction boom period, in <https://assignbuster.com/understanding-consumer-buyer-behaviour/>

which several mega projects were being undertaken at that time, like the Kuala Lumpur International Airport (KLIA), The F1 International Circuit, The Petronas Twin Towers, just to name a few.

During that period, the construction industry grew 15.2% in 1995 and 14.1% in 1994. In 1995, construction works were valued at RM111 billion. (NSTP e-media, Jan 21, 1996)

Due to its rapid growth, shortage of supply of certain building materials surfaced, in particular cement. The shortfall was due mainly to the growth of the construction sector. The per capita cement consumption also recorded an increase of 13.8% in 1995 at 583 kg compared with 512 kg in 1994. (NSTP e-media, May 2, 1996)

Cement is an indispensable construction material and needed in most construction work. On the average, cement and cement related products such as cement sand bricks, plaster, concrete, reinforced concrete products, concrete piles, comprise almost 50% of materials used in a project.

The situation became critical with many projects coming to a standstill. Housing Developers' Association (HDA) reported that the shortage of the material had reached a critical level with more than 40 projects nationwide at a virtual standstill. The affected projects include both private and public schemes which are critically delayed due to the shortage of cement supply. HDA met with officials from the Ministry of Domestic Trade and Consumer Affairs to highlight the problem faced by the industry and discuss ways of resolving the issue. (NSTP e-media, Jun 26, 1995)

The Government stepped in to try and resolve the crisis by implementing various plans. The Domestic Trade and Consumer Affairs Ministry drew up a plan of action to overcome the 200, 000 tonne cement shortage. The plan included the introduction of a compulsory “ statement of sales” which would record all sales and transactions of cement from factories and the wholesaler’s right down to the final consumer. By closely monitoring the movement of cement, the ministry hoped to be able to ensure that there would be no tampering of supplies. (NSTP e-media, Aug 2, 1995)

Encouraging more imports was another way of solving the problem. Malaysia imported some 880, 000 tons of cement in the first half of 1996, mainly from China and Mexico. (NSTP e-media, Jul 9, 1996)

Another method was to offer “ incentives” to cement manufacturers in order to increase supply. A special committee was set up to monitor expansion of existing cement manufacturing plants and the setting up of new ones. The committee would also ensure adequate supply of cement by 1997 or 1998. The Committee comprised officers from the ministries of Finance, International Trade and Industry, Domestic Trade and Consumer Affairs and the Malaysian Industrial Development Authority. (NSTP e-media, Nov 18, 1995)

Another method was to raise the ceiling price of cement to check profiteering. The move to control price of cement was to ensure adequate supply at retail outlets, thus the Government had decided to fix the distributor and retail prices. The building industry plays a key role in national development and therefore the Government was committed to providing

necessary infrastructure and facilities to ensure its continued progress.

(NSTP e-media, Sep 27, 1996)

This shortage of building materials was not confined to cement only. In general, other materials that had encountered shortages were steel bars and sand. In a study conducted by Arthur Anderson HRM (Management Services) Sdn. Bhd. in association with the Quantity Surveyor Malaysia for the Ministry of Domestic Trade and Consumer Affairs, it stated that at least six basic materials critical to the industry are likely to be short in supply before the year 2000. (NSTP e-media, Sep 30, 1996)

They are clinker, the main component for making cement, supplies of marble, reinforcement steel, structural steel and PVC pipes are also not expected to be able to meet the industry's demand. The supply of sanitary ware and fittings are expected to begin running short by 1999. (NSTP e-media, Sep 30, 1996)

The supply shortage of building materials is not a one of phenomenon, but has over recent years become a perennial trend. Frequent reports surface about shortages, whenever there is a spike in construction activity in the country.

The most recent and notable shortage of cement and steel bars was during the economic crisis of 2007/2008. The supply shortage situation this time around was not caused by the sudden spike in construction activity, instead it was caused by the favourable export prices for locally produced cement and steel bars in the export market, namely to China. (NSTP e-media, April 5, 2007)

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As cement and steel bars are controlled items in Malaysia, there is a ceiling price set for such items. Thus, when steel and cement prices in the export market are more favourable, steel millers and cement manufacturers prefer to export, creating a shortage situation in the local market. (NSTP e-media, April 5, 2007)

The situation reached a critical level sometime in the third quarter of 2007, with reports that several projects through out Malaysia having had to be put on hold due to the shortage of cement. (NSTP e-media, Sep 10, 2007)

The local construction industry came out in full force to urge the Government to take immediate action to solve the supply shortage situation encountered by them. Building Materials Association of Malaysia, Master Builders Association of Malaysia (MBAM), Real Estate and Housing Developers Association Malaysia (Rehda), Persatuan Kontraktor Melayu Malaysia and the Associated Chamber of Commerce and Industry Malaysia issued a memorandum on October 12, 2007 to take immediate steps to ensure that they get enough supply of cement and steel bars.

(NSTP e-media. Oct 29, 2007)

They urged the Government to take action to alleviate the situation or face the consequences of abandoned or stalled projects. The associations estimate that more than 2, 000 developers and 60, 000 contractors would be affected if the supply situation did not improve. (NSTP e-media, Oct 13, 2007)

The Government stepped in to try and alleviate the problem through the Domestic Trade and Consumer Affairs Ministry. Various measures were considered by the Government, such as let market forces dictate the price of steel bars and cement, easing the restriction placed on the import of cement from overseas and imposing an export tax for cement and steel bars. (NSTP e-media, Apr 5 and Jun 4, 2008)

Ultimately, the Government decided to abolish the ceiling prices for cement effective from June 5, 2007. However, at the same time, they imposed a 10% import duty on cement to discourage importers from profiteering in the price increases. This move, which follows on the heels of the removal of ceiling prices for steel bars a month earlier, was the Government's answer to try and solve the supply shortage situation. (NSTP e-media, Jun 7, 2008)

The solution was not well received by most in the construction industry, as they felt that the import duty would cause prices of steel bars and cement to increase instead. Instead, they felt an export duty of 15 to 20 per cent to deter manufacturers from exporting to neighbouring countries would be more effective. Despite these concerns, the construction industry players generally indicated that the move is positive in going forward to try and solve the situation. (NSTP e-media, Jun 7, 2008)

The construction industry is expected to do well in 2010, and is expected to expand 4.9%, supported by sustained property demand, particularly for commercial buildings as well as positive business and consumer sentiments. This increase was largely attributed to the speedy implementation of

construction projects under the Ninth Malaysia Plan (9MP). (The Star, Oct 16, 2010)

Thus, we believe with the anticipated roll out of construction projects under the Tenth Malaysia Plan (10 MP) anticipated in 2011, the situation will be exacerbated and the construction industry will once again encounter shortages in supply in the near future, probably in 2012 when the projects under the 10 MP are fully implemented and in full swing. Therefore, this recurring supply shortage problem needs to be rectified by the Government, as it will have an effect on the development and planned progress of Malaysia.

Valuable lessons can be learnt from the past supply shortages encountered and organizations should keep records on figures and past experiences to help guide them in making sound decisions when they face such challenges again. For marketers, suppliers and service providers, the valuable lessons learnt during a supply shortage situation are how to manage their marketing mix and relationship quality with their customers to ensure their loyalty during such tiring times.

1.3 Problem statement

Customer loyalty and retention is an important issue for any business, what more in B2B marketing due to the large amounts of money involved. In this sense, organizations need a complete understanding of the concept of loyalty that highlights the need to build up customer loyalty as a long term investment as well as the need for customer relationship management between customers and the suppliers. (Rauyruen and Miller, 2006)

This understanding of loyalty will be tested even more especially against any backdrop of uncertainty, such as the case of building materials shortages in the construction industry stated in the section on background of problem.

This anomaly in the buyer seller relationship will provide a good platform for the study of what drives loyalty in a B2B situation. Customer's behaviour should change when the situation changes as stated in the consumer behaviour model. The test of true loyalty will be if the customer's behaviour does not change when the situation changes. They remain loyal with you through thick and thin.

Loyalty is a multidimensional construct, which is identified and viewed differently by researchers. One of the earlier thoughts about loyalty are from Tucker (1964) who argues that behaviour (past purchases of the brand/product) completely accounts for loyalty. Jacoby and Chestnut (1978) observe behavioural loyalty studies have focused on interpreting patterns of repeat purchasing as a manifestation of loyalty. For attitudinal loyalty, Zeithaml, Berry and Parasuraman (1996) identify attitudinal concepts as providing positive word of mouth, recommending the service to others and encouraging others to use the service.

For the purpose of this study, we subscribe to Rauyruen and Miller (2006) interpretation of loyalty, which is composite loyalty, as having both attitudinal and behavioural components.

A customer is loyal when they repurchase, increase their purchase volume, recommend your product or company and refuse to switch to another product or company.

It has long been recognized that the B2B environment is often heavily dependent upon effective relational interaction between buyer and seller. Thus, the study of relationship quality is important to see the effect it has on customer loyalty. According to Hakansson, relationships are important in industrial markets, because the marketer's and buyer's task in this case have more to do with maintaining the relationship than with making a straightforward sale or purchase. Therefore, the marketing and purchasing of industrial goods is seen as an interactive process between two parties within a certain environment. (Evans, O'Malley and Patterson, 2004)

Maintaining loyalty is already difficult enough for most organizations, what more in a shortage situation. According to Morris and Holman (1998) they believe that business customer's attitudinal and behavioural response will change during times of shortages as a defensive mechanism to protect their organizations as well as their own interests.

Thus, will customers really maintain their loyalty with their supplier during a supply shortage situation or will they purchase from whichever supplier who can supply to them during that shortage period?

Besides relationship quality, the marketing mix, consisting of the 4 P's play an important part in achieving customer loyalty.

An industrial product is all of the value satisfactions that a customer derives at both an organizational and a personal level. The purchasers of cold rolled steel is buying physical specifications (thickness, chemical composition), a particular package (technical advice and delivery reliability). (Hutt and Speh, 1992)

Another element of the marketing mix is price. Price is not just a number on a tag or an item. Traditionally, price has operated as the determinant of buyer choice. This is still the case with commodity type products, although non price factors have become more important in recent decades, price still remains one of the most important elements determining market share and profitability. (Kotler and Keller, 2006)

The link between buyers and seller is the channel of distribution or place in the marketing mix. The channel of distribution accomplishes the entire task necessary to affect a sale and to deliver product to the customers. These tasks include making contacts with buyers, negotiating, contracting, communicating, arranging financing, servicing the product and providing local inventory transportation and storage. (Hutt and Speh, 1992) Thus, in channel of distribution, the most important factor would be the ease and reliability of getting your goods from that said seller.

Promotions in the marketing mix usually comprise advertising and sales promotions. They are rarely employed alone in the business to business setting, but are intertwined with the total communications strategy- particularly personal selling. Personal and non personal forms of communication interact to inform key buying influences. (Hutt and Speh, 1992) Industrial goods manufacturers rarely if at all advertise their products. There is little or no branding at all especially for main building materials like cement, steel and sand.

In the case of the construction industry, the standardized nature of component materials usually means that price and suppliers reliability are

key purchase factors. Price and service are major marketing considerations and branding and advertising tend to be less important. (Kotler and Keller, 2006) As we can see, the most important elements in the marketing mix that could affect a customer's loyalty are the product range and availability offered by the seller, the price and the ease and reliability of distribution (place). Promotion plays little importance. But will all these change when a supply shortage situation occurs in the construction industry? For organizations, will advertising more be able to attract and retain customers?

1. 4 Research objectives

The objectives of the study are:

To determine whether the supplier's marketing mix during a supply shortage situation will have any influence on customer loyalty such as repurchase, increase in repurchase volume, recommendations and refusal to switch.

To determine whether customer's relationship quality with their supplier during a supply shortage situation will have any influence on customer loyalty such as repurchase, increase in repurchase volume, recommendations and refusal to switch.

1. 5 Research questions

This study attempts to answer the following questions:

Does customer's perception concerning the marketing mix (product, price, place and promotion) used by their supplier influence their loyalty? (customer's intentions to repurchase, increase in repurchase volume, intention to give positive recommendations and refusal to switch)

Does customer's perception concerning the relationship quality with their supplier (service quality, satisfaction, trust and commitment) influence their loyalty? (customer's intentions to repurchase, increase in repurchase volume, intention to give positive recommendations and refusal to switch)

Does customer's perceived environment uncertainty (supply shortage situation) moderate the relationship between the marketing mix and their loyalty?

Does customer's perceived environment uncertainty (supply shortage situation) moderate the relationship between the relationship quality and their loyalty?

1. 6 Significance of study

The construction industry was chosen as the study for B2B marketing because of its importance to the Malaysian GDP, employment and general economic development. Due to its various characteristics such as the nature of the industry (pure competition), the nature of the target market (business market) and the nature of the product offer (industrial goods and manufactured parts), it can serve as a good choice to study relationship quality and external factors on customer loyalty.

Today, most industrial companies rely heavily on a professional sales force to locate prospects, develop them into customers and grow the business. Sales personnel serve as the company's personal link to the customers. The sales representative is the company to many of its customers; it is the sales representatives who bring back much needed information about the customer. (Kotler and Keller, 2006)

Thus, selling such products is much specialized and can prove a good platform to study relationship quality on customer loyalty.

Another important characteristic of the construction industry is that there is little product differentiation in industrial products. Therefore, it will serve as a good platform to study whether external factors like product, price, place and promotion will play a part in customer loyalty.

This study also studies these variables in a supply shortage situation which can happen and frequently does in real life. Thus, buyer and sellers can understand the factors that impact their behaviour in such a situation.

1. 7 Contributions of study

To date, limited attempts have been made to conceptualize customer loyalty and investigate its antecedents in the B2B context. Much research has been done for customer loyalty in the consumer/retailing situation. However a search of the literature has not uncovered anything written specifically on the Malaysian construction industry. The construction industry plays an important role in any country's economic development. It provides economic growth by providing employment and companies with business. Thus, this study hopes to contribute to both the theoretical and practical perspectives for practitioners in this industry.

Most researchers like Woo and Ennew, 2004, have only viewed the quality of the business to business relationship as a crucial factor in building success in the market. They believe retaining customers over the long run yields greater profits. However, Rauyruen and Miller, 2006 state that most

researchers have not widely explored either the development of loyalty or its potential application to the business to business setting.

Little is still known about the mechanism through which a good buyer-supplier relationship enhances customer's loyalty. Thus the linkage between relationship quality and levels of customer repurchase, increase in repurchase, recommendations and refusal to switch suppliers represents an important void in research. Therefore, this study aims to add to the literature and provide a picture on how relationship quality can influence customer loyalty in a B2B context.

The 4 P's namely product, price, place and promotion is frequently used by sellers in their marketing strategies and its efficacy has never been questioned or tested. Most buyers attempt to achieve customer loyalty by blending these four elements in an optimal manner. Much literature is written about how these four elements if used correctly, can help generate a positive response in the target market. Research has been done about marketing strategies in the B2B situation, but none specifically in the Malaysian construction industry. Thus, understanding marketing mix on customers are important in order to determine whether they have an impact on customer behaviour, and ultimately on their loyalty as well. This study hopes to contribute to that body of knowledge.

Both variables mentioned, relationship quality and marketing mix have been studied in other research concerning customer loyalty, but never tested in an extra ordinary situation. This study will specifically be looking at these two variables in a supply shortage situation in the Malaysian construction

industry. It is hoped that it will be able to contribute to the knowledge of the effects of these two variables in an anomalous situation on customer loyalty.

1. 8 Scope of study

This study will cover the construction industry in Malaysia. The respondents consists of building contractors registered with the Construction Industry Development Board of Malaysia (CIDBM)

It proposes to study the impact of relationship quality and marketing mix on customer loyalty during a supply