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THEORY OF CONSUMER BEHAVIOUR AND ITS APPLICATION TO FINANCIAL SECTOR

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ABSTRACT

Financial sector is a consumer driven services oriented sector and all the products or institutions in the financial sector are operated by consumers. Even though traditional structures of financial systems of countries had offered little choice in terms of selecting financial instruments and services for customers, in the present era financial systems of countries develop day by day. In this study writer, intends to explain the theoretical aspect of the behaviour of consumers and how it applies to the financial sector by employing content analysis method. Therefore, research was based mainly on secondary data sources as books, journals and appropriate web sites. Analysis of the present study reveals that Transparency of performance, uncertainty of outcome and poor comparability were three criteria which determine the consumer behaviour in financial services sector.

KEY WORDS: ***Banks; Consumer behaviour; Financial Services Sector; Theory of Consumer Behaviour***

INTRODUCTION

Financial services sector which is dominated by banks mainly based on customer behaviour. Therefore, it’s worth to review how the theory of consumer behaviour applies to financial sector. There were many conceptual models developed by various economists and marketers. Among them most of the conceptual work have centered on the view of consumer buying behaviour as a decision process consisting of a number of discrete but interlinked stages. For instance Engel-Kollat-Blackwell model (Engel et al., 1991) which breaks the decision-making process into five stages: problem recognition; information search; evaluation of alternatives; purchase decision; and post-purchase behaviour. A similar approach was adopted by Nicosia's (1966) model of consumer decision making and also the Howard-Sheth (1969) model.

As the previous section shows there are much of conceptual materials concerned with how buyers make decisions. This is supported by a large volume of empirical work, most of which was developed in the context of studying the purchases of physical goods rather than services. By contrast in the services marketing and financial services marketing literature the conceptual and empirical work is not as well developed.

However, existing empirical studies highlight the importance of factors such as confidence, trust and customer loyalty. Some of the common choice criteria in bank selection are dependability and size of the institution, location, convenience and ease of transactions, professionalism of bank personnel and availability of loans. It would appear from this that the personal consumer is more interested in the functional quality dimension of financial services rather than the technical quality dimension.

The application of some organizational buying behaviour models to the purchasing of international financial services was attempted by Turnbull (1982a), who concluded that no single model adequately explained all the complexities of these purchases.

Financial services marketers need to understand how consumers decide on which suppliers to deal with and which brands to select. Laroche and Manning (1984) found that although banks tended to be recognized by name, there was no clear association of brand concept with this, and that a correlation existed between demographic differences and this process.

Therefore, it is worth to relate the theory of consumer behaviour and financial services sector appropriately to check whether the theory has a considerable application to financial services sector.

METHODOLOGY

This research aims to study on the theory of consumer behaviour and its application to financial sector. To achieve those objectives present study employed conceptual analysis method using secondary sources as books, journals and web sites appropriately. Conceptual analysis is a technique that treats concepts as classes of objects, events, properties, or relationships. The technique involves precisely defining the meaning of a given concept by identifying and specifying the conditions under which any entity or phenomenon is classified under the concept in question. The goal in using conceptual analysis as a method of inquiry into a given field of interest is to improve our understanding of the ways in which particular concepts are used for communicating ideas about that field. Therefore, to understand the concept of consumer behaviour theory and its application researcher has used the conceptual analysis method.

THEORY OF CONSUMER BEHAVIOUR

Generally banks are service oriented industries and thus industries like banking should consider more on the customer and his behavior related to services and how he finally satisfies. Satisfaction may decide the success of banks. To be successful, organizations including banks must look into the needs and wants of their customers (singh, 2006). However customer satisfaction, customer loyality, customer retention are some concepts that concern more in today's banking industry. According to Singh (2006), customer satisfaction is "satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some need, goal or desire". Customer loyalty, on the other hand, according to Anderson and Jacobsen (2000) "is actually the result of an organization creating a benefit for a customer so that they will maintain or increase their purchases from the organization. Oliver (1997) said that customer loyalty refers to "a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future despite situational influences and marketing efforts having the potential to cause switching behaviour". True customer loyalty is created when the customer becomes an advocate for the organization, without incentive". According to Hoyer and MacInnis (2001), customer retention is "the practice of working to satisfy customers with the intention of developing long-term relationships with them". Zineldin (2000) said that retention can be defined as "a commitment to continue to do business or exchange with a particular company on an ongoing basis". Customer or the consumer (both these terms are virtually interchangeable and frequently used to indicate purchaser of some good or a service from a given company- Rose, 2014) behavior should be studied in order to achieve customer satisfaction. Banks and other industries are capable of identifying the strategies to enhance customer satisfaction only after they studied the beheivoural pattern of customers. The theory of consumer behavior applies with that intension.

According to Schiffman & Kanuk (1997: 6-7), two different types of consumers can be distinguished, namely personal and organizational consumers. Personal consumers purchase products and services for personal or household use or as a gift to someone else. Personal consumers, therefore, purchase for final consumption. Organizational consumers on the other hand purchase products and services to run an organization, including profitable and non-profitable organizations, government organizations and institutions.

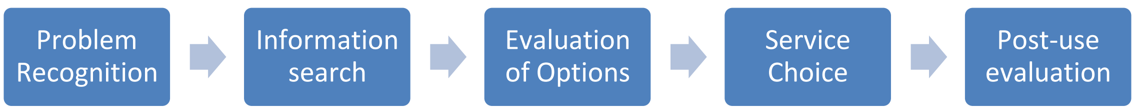
Customer behavior is the process individuals or groups go through to select, purchase, use and dispose of goods, services, ideas or experiences to satisfy their needs and desires. Consumer behavior is not influenced only by the external factors, but also by their attitudes and expectations. These attitudes and expectations are constantly changing in response to continuous flow of events, information and personal experience (Goiteom, 2011).

Acording to Walters (1974), consumer behavior can be defined as the process of individuals decide, whether, what, when, where, how, and from whom to purchase goods and services.

Schiffman & Kanuk (1997) carry out a broader idea regarding the consumer behaviour indicating, consumer behavior as the behavior that consumer displays in searching, using, evaluating, and disposing of products, services, and ideas. In addition to that, explaining that consumer behaviour is, therefore, the study of how individuals make decisions to spend their available resources (time, money, effort) on consumption-related items. It includes the study of what, why, when, where and how often they purchase and how they use the purchased product. In addition, it encompasses all the behaviours that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs.

Consumer decision making process, therefore give an outline idea about consumer behavior thus emphasizing what consumer utilizes and how much effort they put to come out with that decision. Because that decision greatly elaborate the idea of consumer behavior (Goiteom, 2011).

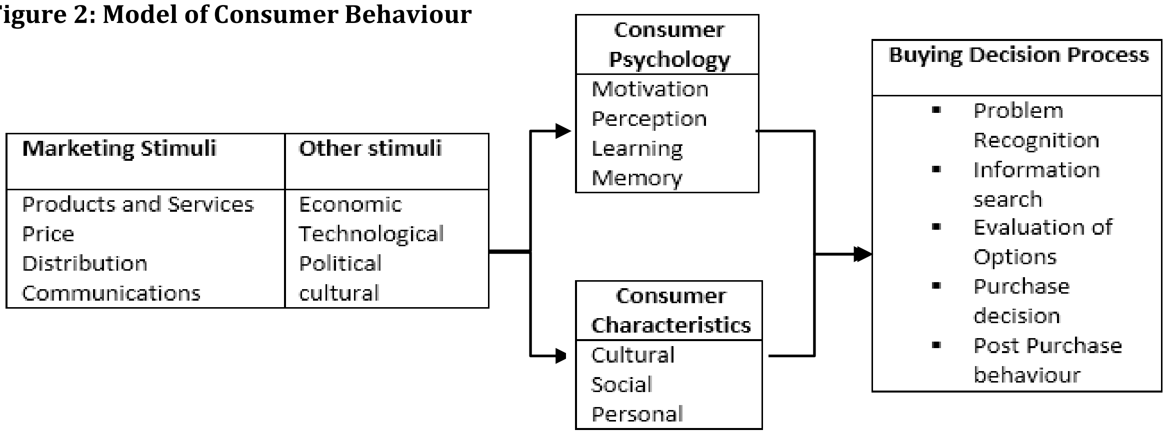
Figure 1: The customer decision making process



Source: Adopted from Goiteom W/Mariam, Bank Selection Decision, 2006, pp.9

Apart from identifying the mechanism of this process, it is important to identify influences of customer decisions or the behavior. Although analyzing about the factors influence on customer behavior is somewhat complex, it is more important to recognize these factors (Kotler, 2008).

Figure 2: Model of Consumer Behaviour



Source: P. Kotler, K.L.Keller, A Framework for Marketing Management, 2008. Pg.: 106

The factors influence on consumer behavior can be identified in two main aspects as, consumer psychology and consumer characteristics. These two are the important determinant of deciding how a consumer/customer buy or purchase some good or a service.

Under the consumer characteristics there are three factors as cultural, social and personal factors. When considering about the cultural factors, culture, subculture and social class are particularly important influence on consumer behaviour. Culture is the most fundamental determinant of person's wants and needs. Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, social groups and geographic regions. When subculture grows large and affluent enough, companies often design specialized programs to design them (Kotler et el., 2008). For instance, recently banks adopt some special strategies to absorb more deposits from rural people (Hemachandra, 200). Social classes are also relatively homogeneous and enduring divisions in a society. They are hierarchically ordered and generally each class has similar values, interests and behaviour. In United States there are seven different classes as, lower lowers, upper lowers, working class, middle class, upper middle class, lower uppers and upper uppers. Those who are in the same class behave more alike than the persons from other social class (Kotler et el., 2008). For instance in Sri Lanka people in high urbanized areas always tend to use internet banking and other high technology banking services contrary most of the times rural people deposit their money in informal sources than in formal sources.

When concerning about social factors in addition to cultural factors, consumer behaviour is influenced by such social factors as reference groups, family and social roles and statuses. Reference groups consist of all groups that have direct or indirect influence on person's attitudes or behaviour. Some primary groups are family, friends, neighbours while some secondary groups are professional and trade union groups. Family is the most important consumer buying organization in society. Roles and status also such determinant of consumer behavior. Generally, a person in a society performs several roles and the position in each role he has is defined as the status. Roles and status of a person have great influence on buying decisions (Kotler et el., 2008).

When considering about the personal factors, age and stage in the life cycle, occupation and economic circumstances, personality and self-concept are the driving factors of consumer decision making process and hence it affects to the consumer behaviour. In addition to that psychological factors of a person also can impact on consumer behaviour. Namely motivation, perception, learning and memory (Kotler et el., 2008).

APPLICATION OF CONSUMER BEHAVIOUR THEORY IN FINANCIAL SERVICES INDUSTRY

Customer is the most important factor of deciding the success of banking activities. Banks cannot perform their banking activities without customers. Banks do their operations with the funds of customers also so many regulations are introduced by the central banks in order to secure customers and their funds in banks. Therefore appropriate study on the customer (consumer) behaviour is a vital necessity for banks since customers are the motive forces to carry out activities of banks. Banks cannot exist without customers (Samarasiri, 2014). However, banks found that they needed far more detailed information about the various categories of depositors and borrowers (customers) and how they likely would behave in various stress scenarios (Turner, 2010).

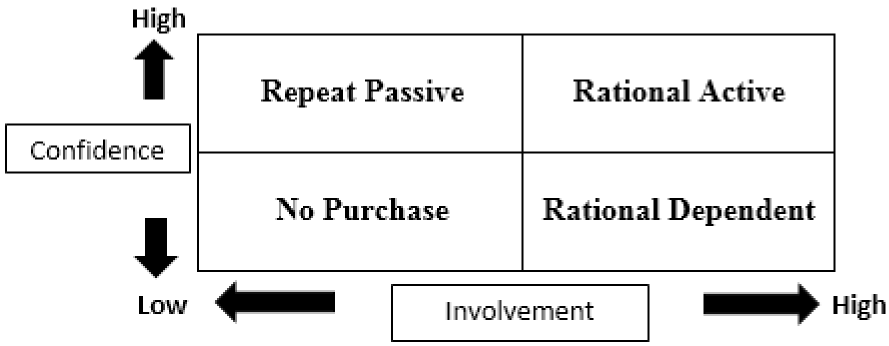
As this study mainly considers on customer behaviour towards Savings mobilization, it is important to shed light on customer behaviour context of financial industry. When concerning about the customer behaviour in financial services there are three characteristics of financial services industry which determine the behaviour of customers namely, Transparency of performance, Uncertainty of outcome and poor comparability (Bader, 2012).

Transparency of performance refers to the performances of banks and other financial institutions and consumer's ability to make evaluations based on the information. In reality banks and other financial institutions have varying degree of performance transparency and it affects to happen difficulties for customers in understanding and identifying the outcomes of some financial services. Some of the services are more important than the others as the activities related to handling of savings deposits and credit cards have higher degree of transparency when compared to the activities related to investment funds might prove difficulties for customers to understand it clearly (Beckett, 2000).

Uncertainty of outcome refers to the role of services in giving customers control over the uncertain external environment (Bader, 2012). Beckett (2000), highlights that some financial services, such as money transactions or bank accounts are designed with the intension to increase consumer's control over these services. However, there are financial services as housing loans customers cannot easily access for them and control them. Finally some services are characterized by poor comparability such as investments. Products and service comparisons are an important stage in consumer's decision process. Some financial services have more identifiable attributes and benefits, and therefore they are more comparable. For instance, fixed deposits have a specific attribute of offering higher deposit interest scheme. Therefore benefits of fixed deposits offered by one bank can be easily compared with the other bank. Customers always have rational decisions; therefore they always tend to compare alternatives. If there is poor comparability it will make difficulties of analyzing customer behaviour.

Customer behaviour in the financial service industry can be identified by the two dimensional matrix developed by Beckett (2000). In this matrix Beckett (2000), considers two factors as involvement and confidence, onto a simple continuum running from high to low. This matrix is important to recognize the consumer behaviour towards financial services in four different aspects.

Figure 3: Consumer Behaviour Matrix



Source: Beckett et el., 2000, "An exposition of consumer behaviour in the financial services industry", Pg. 16

The above matrix of consumer behaviour which provides greater insights into the possible range of interaction modes. Furthermore, this matrix describes the purchasing alternatives available to consumers to structure their interaction when acquiring products or services of a financial institute. This matrix combine both economy and psychology aspects of customers related to the financial services. According to this model, it outlines ideal types of consumer behaviour.

- Repeat-Passive

In this quadrant consumers display low levels of involvement with the financial product as they are fully aware of the product's salient features. Given the low levels of involvement and the limited perception of uncertainty, these consumers can be described as ``passive" in the sense that they will make repeated interactions without actively seeking alternatives. This repeated pattern of purchase behaviour, which is described as ``behavioural loyalty" in the literature, has been extensively researched.

- Rational-Active

In this quadrant it is postulated that the consumer's involvement in terms of the process dimensions of control, participation and contact is high and so too is their confidence in terms of product complexity and certainty of outcome. It is these active consumers that economic theory has viewed as the norm, possessing the ability and inclination to make carefully considered purchase decisions across all choice environments. In terms of ideal types these consumers are rational or rationally inclined.

- No purchase

This quadrant describes consumers who, because they have no involvement with the financial product and do not possess the ability or the confidence to make transaction decisions, make no purchase.

- Relational-Dependent

In this quadrant consumers are highly involved, but are not in control due to the complexity of the product and uncertainty of eventual outcome and this reduces consumer confidence. In order to make choices, the consumer will seek advice and help from banks or third parties and can, therefore, be described as "dependent consumers" who form relationships to reduce uncertainty and structure their pattern of purchases.

CONCLUSION

Even though there were many conceptual and theoretical frameworks to explain consumer behaviour among them only few models explain the behaviour of consumers with respect to the purchasing of services generally and financial services in particularly. However, three criteria have been identified as Transparency of performance, Uncertainty of outcome and poor comparability in financial sector which determine the consumer behaviour of banking customers. Also, consumer behaviour matrix has developed by Beckett (2000) has used to describe how consumers change their behaviour and how it affects to make fluctuations in involvement and confidence of consumers related to the financial products.

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