



Why we buy? Modeling consumer selection of referents



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ABSTRACT

This paper investigates the dynamic concept of reference points through an empirical evaluation of consumer selection of referents related to apparel purchase decision-making. The overarching aim is to build a new multi-item measurement scale that exhibits sound psychometric properties and which can be reliably replicated across different sample populations. A mixed-method research approach is employed in data collection, comprising both qualitative (i.e. focus group discussions) and quantitative (i.e. survey instrument) techniques. The results produced a model made up of seven dimensions that underlined the highest first order constructs of implicit and explicit referents. The seven dimensions are: EXPLICIT^{REFERENTS} (BRAND, PRICE and STORE), IMPLICIT^{REFERENTS} (PERSONAL, FINANCIAL, SOCIAL and CULTURAL). The characteristics of the reference points inventory (RPI) can guide marketing managers to promote and advertise their products more effectively. The evolving categorization of referents adds value to, and extends, the reference points literature from the consumers' perspective.

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1. Introduction

A careful examination of the literature indicates that consumers simultaneously use both explicit and implicit multi-attribute reference points (Dholakia and Simonson, 2005). Thematic studies

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have concentrated on examining the effects of reference points from the domain of *prospect theory* (Kahneman and Tversky, 1984; Shafir and Thaler, 2006). Prospect theory suggests that people make rational choices to purchase products on the basis of explicit reference points (Dholakia and Simonson, 2005), against which they evaluate competing products and choose those which will maximize pleasure and minimize pain/cost/effort (Tarnanidis et al., 2010). However, studies in this field have been limited to particular attributes of reference points such as price, assortment, and reward referents (Werthenbroch et al., 2007; Chernev, 2006; Lewis, 2004). Thus, there is a major gap in our understanding of how explicit multi-level reference points and implicit multi-level reference points are interconnected and developed by individuals in order to help them simplify choices. Consequently, the problem addressed in this study is to identify which reference points consumers utilize in order to form their consumption preferences.

In addition, the extant literature (e.g. Babutsidze, 2007; Kees, 2011) reveals that there is a substantial need for practitioners to study reference points with a wider variety of attributes, targeted at specific decision-making situations. In fact, reference points have not yet been exhaustively conceptualized. In consideration of the multi-dimensionality of the concept (Novemsky et al., 2007), it is intellectually and practically desirable to test its force within a specific purchase decision situation in order to establish a stronger empirical rationale than hitherto the case. Purchase decisions related to "intimate apparel" (for important shopping occasions, e.g. weddings, social parties, anniversaries, celebrations, and work

tasks) offers a strong and legitimate contextual premise for the study largely because ‘intimate apparel carries a relatively strong social meaning when compared with other apparel products’ (Law et al., 2012, p. 126). Accordingly, this paper aims to accomplish the following objectives:

- To evaluate the triggers of consumer referents, that is, how reference points are selected and prioritized with regard to apparel products.
- To identify the weaknesses in the normative construction and application of reference points.
- To propose an alternative perspective for the construct of reference points.

The structure of his paper is as follows: it begins with a review of the reference points literature. The research framework and underpinning hypotheses are next outlined. It then sets out the methodology used. Finally, a summary of the paper, discussion of results and recommendations for further research are presented.

2. Review of the current literature

The literature on reference points has largely been guided by the principles of prospect theory. Prospect theory derives from the work of Kahneman and Tversky (1979) which presents an alternative to the principles of the earlier utility theory (Friedman and Savage, 1948; Shafir and Thaler, 2006; Staddon, 1992; Thaler, 2008; Tversky and Kahneman, 1986). The existing literature on utility theory suggests that individuals seek absolute maximization of an expected value that they derive by rationally evaluating different choice alternatives and selecting the option that has the maximum return (Friedman and Savage, 1952). Thus the principle of utility theory stands upon absolute maximization of choices and preferences (Shafir and Thaler, 2006). However, prospect theory argues that while individuals act in this way they make subjective evaluations that the world of specific presuppositions would regard as irrational (Tversky and Kahneman, 1986; Devetag, 1999; Mayhew and Winer, 1992). The prospect theorists examine multiple categories of examples, in which preferences in diverse situations violate the axioms of utility theory (Kahneman, 2003; Colgate et al., 2007; Bromley, 2010; Marshall et al., 2011).

Devetag (1999) points out that consumers structure preferences by association with a reference point, which has an impact on anticipated gains and losses. Arguably, consumers have time-inconsistent preferences, and qualify their evaluations of different products with self-structured heuristics that arise from social and self-interest considerations. Laibson and Zeckhauser (1998) conclude that the work of Tversky and Kahneman explains in general the inequalities in human judgment about decision-making, highlighting only the externalities for their rationale, but without giving any further explanation for the origin of those irregularities. The prospect theory assumes that when people (consumers) make decisions under risk, they under-weight or underestimate outcomes that are only probable, as opposed to those that are certain.

The main argument of prospect theory is that it is possible to examine every decision as a choice between prospects (reference points) and ultimately by framing those prospects or violating them (e.g. anchoring them differently) one can gain more reliable results. One drawback of prospect theory is the difficulty of predicting how consumers reframe decision-making problems and behave in a real-time situation. Barkan et al.’s (2005) investigation into the areas of integration and segregation, recognize a dynamic inconsistency bias between the processes of planned and actual consumer choices. It may be argued that consumers develop a more concrete knowledge about a specific product when they

have already acquired or used one rather than when they are buying it for the first time. Munro and Sugden (2003) criticize the endowment effect or status-quo bias, underlying the fact that, until recently, reference points have been examined exogenously without regard to possible tensions or discrepancies that are likely to arise when endogenous variables (e.g. customary and habitual consumption) are focused.

For example, it is argued that each consumption option is a collection of attribute claims (Bettman et al., 1998) which consumers subjectively select and anchor in their mindsets (Babutsidze, 2007) with the most salient one dominating the others (Tversky and Sattath, 1979; Busemeyer and Johnson, 2003). Consumers adopt this strategy by formulating individual justifications so as to constantly support and convince themselves that they have made the best choice, e.g. a trade-off between price versus quality (Simonson, 1989; Sheth et al., 1991). Therefore, consumers elaborate on and use different multi-level reference points.

An emerging paradigm shift in the conceptualisation of reference points is more evident in purchase decision situations that involve sure risk, such as the clothing consumption decisions where consumers evaluate information drawn from both intrinsic and extrinsic cues (Seock and Bailey, 2009). Those cues can be summarized in terms of brand, image, quality, design, fabric, color, price, and country of origin (Wang et al., 2004). However, evaluations may be influenced by many personal cues (i.e. perceptions, personality, esthetics, emotions, values, and goals). Previous research regarding the evaluation of apparel clothes was made on the distinction between two bipolar modes: data-driven and concept-driven perceptual modes (Holbrook and Hirschman, 1982; Hirschman, 1985; Abraham-Murali and Littrell, 1995). Data-driven mode includes the evaluation of abstract product attributes that result from the acquisition of available information. Such attributes may include garment details, color and feel. The concept-driven mode includes the evaluation of intangible attributes that arise from the domain of cognitive evaluations, such as performance, good fit, self-confidence, and social appraisal.

The extant literature also suggests that consumers evaluate and judge more easily the extrinsic cues, as opposed to intrinsic ones (Ulgado and Lee, 1998). Essentially, consumers may lack tacit knowledge to evaluate all the intrinsic cues that surround a product bundle. Thus they seek to capture and identify different external cues that help them to structure their preferences. Similarly, the existing literature suggests that extrinsic cues can be further sub-categorized and analyzed from the domain of cognition (Abraham-Murali and Littrell, 1995). However, little research has been done to examine more salient attributes, such as the impact of esthetics and the role of hedonics in the context of the apparel decision-making process. Similarly the selection of an apparel product involves symbolic meanings to consumers, with a potentially direct impact upon their own social image, identity and life-style (Radder et al., 2006; Oh and Fiorito, 2002). For example, consumers may purchase clothes in order to communicate their social status, consumption preferences or satisfy salient psychological needs (O’Gass, 2000). Moreover, because consumers buy different clothes for different shopping occasions (e.g. daily clothes and professional clothes), they are susceptible to influences by many social referents such as family members, close friends, co-workers, or other aspirational groups (e.g. movies stars and celebrities). This is probably the reason why intimate apparel retailers spend much effort in creating unique identity through distinctive visual merchandising strategies aimed at providing a positive mood for consumers which, in turn, enhances purchase intentions (Law et al., 2012).

Implicitly, the problem-solving process integrates elements from behavioral economics, social psychology, and consumer behaviour to elucidate the concept of reference points. Van de

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