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Lapsed buyers' durable brand consideration in emerging markets

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ABSTRACT

The acquisition of non-customers in durable categories is costly. A history of positive and negative brand behaviors that include past choice (the positive) ending in defection to another brand (the negative) make lapsed buyers of a brand an intriguing segment of non-customers. This research explores how this mixed brand history affects the re-recruitment of lapsed buyers. Drawing on data from over 3500 cell phone owners of 26 cell phone brands across six emerging markets (China, Brazil, Russia, India, South Korea and Indonesia), the results first reveal that the cohort of lapsed buyers hold more positive attitudes than never-buyers. Further, across 74 brand level regressions, even accounting for attitude affects, lapsed buyers are *not less likely* to consider the brand in the future than other non-customers, and in 51% of cases, lapsed buyers have significantly higher consideration levels. This result is consistent across the 26 brands, of large and small market share, and local or global brand origin, but stronger for lapsed buyers in more developed cell phone markets such as China, Brazil and South Korea, suggesting that the more experienced the buyer/market, the more past ownership works in favor of the lapsed brand. This research highlights the importance of considering the buyer's full past history with the brand, not just current status, in theoretical models and when modeling brand choice or customer lifetime value for durables in emerging markets. For practitioners, this research suggests value in marketing efforts to reactivate lapsed users in emerging markets, and that brand history creates another barrier for new entrants, with no lapsed buyers, looking to recruit customers.

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1. Introduction

Emerging markets are of major interest to many companies due to their large populations and growing middle classes (Oxford Economics, 2012). The first wave of market entry focuses on consumer-packaged goods, such as P&G, Unilever and Colgate Palmolive, entering into the BRIC countries, of Brazil, Russia, China and India. As markets evolve, rising standards of living and technological advances trigger decreasing prices of component parts and manufacturing. These advances lead to the entry of more durable product manufacturers, which intensifies competition. The cell phone handset category is of particular interest in emerging markets as many countries face major infrastructure challenges that restrict landline installation, making cell phones a primary device for both communication and to access the Internet. Not only do cell phones continue to experience high consumer uptake but this category also experiences relatively frequent (in durable terms) re-purchase as existing cell phone owners' upgrade. While cell phone adoption is on the rise in all emerging markets, India and China are now worldwide cell phone

growth leaders (Gfk, 2014). These dynamics make the cell phone handset category in emerging markets important to study.

Durable categories have two distinguishing characteristics. The first characteristic is the long inter-purchase cycle, which means buyers get to experience the brand they own for a long period of time. The second characteristic is the relatively high cost of purchase, which increases decision risk. The high price is particularly relevant in emerging markets as while these populations are getting wealthier, typical incomes still lag the developed world. For example, a middle class income in the US is between \$25,000 and \$75,000 p.a. (with variation across states); however, in China, an urban middle class income ranges from \$10,000 to \$37,000 (Barton, Chen, & Jin, 2013). While low-cost cell phone options are available in most emerging markets, the next wave of rapid growth is in the higher end smart phone market. Therefore, durables such as cell phones, which require a considerable amount of discretionary income, are very important decisions.

Research into the durable sector in emerging markets investigates the role of modernization in the consumption of durables (Waheeduzzaman, 2006). A number of other studies have looked into how economic and societal changes in emerging markets' populations fuel demand for durables (Kissonergis, 2015). Further investigations into the buying patterns of durables in Thailand and China also highlight the importance of acquisition for a durable brand to

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their growing market share (Bennett, 2008; Bennett & Graham, 2010).

A cell phone brand has two sources of growth: first-time category buyers and those shifting from feature phones to smart phones. Past studies examine the general diffusion/adoption rates of cell phones in emerging markets (such as Lee & Lee, 2014). However, as the cell phone category evolves the balance shifts from new category buyers to competing for more experienced category buyers. Getting buyers to consider the brand is an important pre-cursor to choice (Hauser & Wernerfelt, 1990; Roberts & Lattin, 1997).

Non-customers differ in past experience with the brand: lapsed buyers with past brand experience which includes defection to another brand, and never-buyers with no past ownership experience. Lapsed buyers have a potential tension between the knowledge created via past experience (Romaniuk, Bogomolova, & Dall'Olmo Riley, 2012) and the behavioral rejection that increases the chance of forming negative associations (Winchester, Romaniuk, & Bogomolova, 2008). This research explores the outcome of this history on current brand consideration. The results of this research could lead to considerable savings in marketing budgets through more effective targeting of customer acquisition efforts either away from, or towards, lapsed buyers.

The data for this study comes from surveys of over 3500 category users across six emerging market countries (Brazil, Russia, India, China, South Korea and Indonesia) and covers 26 mobile phone handset brands, some of which are global brands, others are local providers and some are both. For example, HTC is a local brand in China, but a global brand in other countries. The scope of this data provides a wide range of conditions to test the research questions.

This introduction sets the agenda of the paper. In the next section, the paper presents the conceptual background to the research, then the methodology and results follow. The paper ends with a discussion of the implications and contributions for marketing knowledge and practitioners.

2. Background

Emerging markets have two major attractions: large populations and positive economic growth that is increasing the wealth of citizens (Burgess & Steenkamp, 2013; Sheth, 2011). This combination creates new large middle classes that fuel the demand for all products and services (Kumar, Sharma, Shah, & Rajan, 2013). Support from governments in emerging markets, through adjusting regulations and improving infrastructure, is accelerating foreign investment. These factors provide favorable conditions for growth, yet the sheer size of these markets mean marketers still require knowledge about where to focus efforts to ensure this growth occurs most effectively. Growth can come from retention, acquisition, or a mix of both (Kumar et al., 2013). This research focuses on the acquisition side of growth, which involves recruiting non-customers to buy the brand. In particular, the research examines if lapsed buyers' past defection from the brand inhibits the probability of future consideration.

2.1. The potential of lapsed brand buyers as acquisition targets

The past brand experience journey separates lapsed buyers from other non-customers. This experience consists of a mix of the positive (buying and using the brand) and the negative (rejecting the brand in favor of another). Therefore, the question is how this mixed past experience influences the willingness to consider the brand in the future. A stream of research which explores the perceptions of lapsed customers, relative to those who never tried it, shows lapsed buyers as holding more positive and negative associations, while those who have never tried the brand as having either negative nor positive associations (Bird, Channon, & Ehrenberg, 1970; Romaniuk, 2001; Romaniuk et al., 2012; Winchester & Romaniuk, 2008). While brand knowledge is an asset when trying to recruit new buyers in a highly competitive

category, the effect of the mix of both positive and negative on lapsed buyers' attitudes to the brand is unclear. Those who have never tried, lacking the same mix of experiences, are unlikely to experience this conflict.

A handful of separate studies examine the link between brand attitude and cessation of brand buying. A study into lapsed membership to sport teams, McDonald and Stavros (2007) find lapsing is rarely due to with dissatisfaction with the team. Instead, defection in this context relates to lifestyle changes, which cause a member to exit the category rather than switch to another club. In contrast Bogomolova (2010) finds that supplier dissatisfaction with service or price accounts for 61% of business customers of financial services reasons for defection, suggesting that many, but not all, lapsed customers have a predisposition to have and express negative brand attitudes, given the link between dissatisfaction and negative word of mouth (Anderson, 1998). Finally, in a longitudinal study, Winchester et al. (2008) provide evidence from financial services that lapsed buyers are more likely to form negative attitudes *post-defection*. This suggests that while negative reasons might not underpin the act of defection, post-hoc rationalization can lead to the subsequent development of negative attitudes to the brand. However, the literature looks backwards, no research looks forward to examine how this past experience influences future consideration of the brand. This forward-looking perspective is a key contribution of this paper. Past research also does not involve a durable product with a service dimension as cell phones involve both a handset and a telecommunications service provider. The focus of this research is on switching of the handset brand, but some of these handset changes may be due to changing service providers, which means that the handset brand might change without the lapsed customer developing negative perceptions towards the brand.

2.2. Drivers of brand consideration

Consideration set entry is particularly important in durables as few brands are actively considered (Lapersonne, Laurent, & Le Goff, 1995; Terech, Bucklin, & Morrison, 2009). While many choice formation models exist, two drivers of consideration are common across the majority of studies researching the consideration stage: *awareness* and *attitude* (see e.g. Howard & Sheth, 1969; Posavac, Sanbonmatsu, & Fazio, 1997; Priester, Nayakankuppam, Fleming, & Godek, 2004). Narayana and Markin (1975) describe in detail the choice set formation process, highlighting the roles of both awareness and attitude. Brands salient at the choice situation form *the awareness set* and undergo an evaluation process to determine which are further considered. The authors further suggest that *positive attitude* should lead to future consideration and *negative attitude* will lead to a brand becoming part of the inept set (non-consideration). However, importantly to this paper non-consideration does not have to link to negative attitude, as brands can be inert and have no attitudinal valence for the buyer. The fact that, in some instances, brand attitude does not drive brand consideration, raises the question of whether the brand would enter into the consideration set of lapsed buyers, with potentially mixed or neutral attitudes—a scenario that prior research does not consider.

If attitude is an important driver of brand consideration, then it is important to understand the current attitude of lapsed buyers, which is the first research question:

RQ1: How does the attitude of lapsed buyers compare to those who have never bought the brand?

The second research question is whether, once any attitude differences are taken into account, does being a lapsed buyer decrease the propensity to consider the brand. Three scenarios are possible. First, attitude could fully explain the model, and whether someone is a lapsed buyer or not, the attitude drives brand consideration (see e.g. Fishbein, 1967; Laroche, Kim, & Matsui, 2003) such that lapsed buyer status is

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