

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

This chapter is divided into seven main areas: (1) Four P's marketing mix theory, (2) Consumer behavior theory, (3) Buyer decision processes, (4) Cognitive and personal biases in decision making, (5) Purchase decision making for property, (6) Residential selection theories, (7) Related research

#### **2.1 FOUR P'S MARKETING MIX THEORY**

The four P's marketing mix consists of price, place, product and promotion, describing the position of a product in the market. Culliton (1948) wrote that a marketing decision should be a result of something similar to a recipe that is the origin of the marketing mix. McCarthy (1960) proposed the Four P's theory which is the most popular marketing concept, enumerated in many textbooks and classes.

##### **2.1.1 Price**

The price is money that customer pays for service or product. It is determined by various factors such as market share, competition, material costs, product desirability and customer satisfaction. It may be increased or decreased depending on the demand and supply in the market.

##### **2.1.2 Place**

Place is the location where product or service can be purchased. It is often related to a sale channel, physical or virtual, such as a supermarket or a website.

##### **2.1.3 Product**

Product or service can be mass produced or specifically manufactured. For example, the hotel industry is generally a mass produced service; a car is a mass produced product; a database application is a specific product.

##### **2.1.4 Promotion**

Promotion has four outstanding components – advertising, public relations, word of mouth and point of sale (POS). It is marketers' communications to consumers that they may use in the market. Firstly, advertising includes any communication from television, radio, internet, billboards, print media and cinema commercials for which the advertiser has paid a fee to be included in the media.

Secondly, public relations efforts are indirectly paid for, and include sponsorship deals, exhibitions, conferences, seminars or trade events. Thirdly, word of mouth is any informal communication about product or service by ordinary individuals, satisfied customers or people specifically engaged to create word of mouth.

## 2.2 CONSUMER BEHAVIOR THEORY

**Consumer behavior** is the study of how people buy, what they buy, when they buy and why they buy. This theory attempts to explain the buyer decision making process both individually and in groups. It studies characteristics of individual consumers to explain customers' needs. Moreover, it explains the effects of influences such as family, friends, reference groups, and society in general.

G.E. Belch and M.A. Belch (2004) define consumer behavior as 'the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires'.

A five-stage model of the consumer buying process (Kotler, 2003) explains the basic model of consumer decision making according to Table 1.

***Table 1. Basic model of consumer buying process***

Stage	Brief description	Feeling
Problem recognition	The consumer perceives a need and becomes motivated to solve a problem.	Motivation
Information search	The consumer searches for information required to make a purchase decision	Perception
Information evaluation	The consumer compares various brands and products	Attitude formation
Purchase decision	The consumer decides which brand to purchase	Integration
Post-purchase evaluation	The consumer evaluates their purchase decision	Learning

### **2.2.1 Problem recognition**

When there is a difference between the actual stage and desired stage, the result is problem recognition. Examples of problem recognition sources include:

- An item is out of stock.
- Customer feels dissatisfied with a current service.
- Customer needs new products.

### **2.2.2 Information search**

When consumers have recognized a problem, they will search for more information related to products/services that can help them. They will search for information from internal and external sources, as explained by G.E. Belch and M.A. Belch (2004). Firstly, internal sources are associated with personal perception, consumer attitude and experience. If the internal information is not enough, consumers will search external sources for more information. Secondly, external sources are related to public or commercial sources such as friends, family, and commercial advertising.

### **2.2.3 Information evaluation**

At this stage, consumers can analyze alternative products or services that they researched in the previous stage. They evaluate functional and psychological benefits that products or services can provide them. Consumers' attitudes are associated with the alternative evaluation stage, which is related to internal psychological processes. Attitudes describe what people think and how they feel about something.

### **2.2.4 Purchase decision**

After consumers have evaluated all alternatives, they are ready to make decisions whether to purchase products or services. Purchase intention is not always an actual purchase, so the marketer must stimulate the consumers to act, by means of strategies such as sales promotions, special discounts, or free premiums. The relevant internal psychological strategy should be integrated to purchase decision making.

### **2.2.5 Post-purchase evaluation**

The purchase is not the end of consumers' buying products or services; information after sales should also constitute feedback to the provider. The marketer

can analyze customers' satisfaction, and whether they will re-purchase. Moreover, this is a good opportunity to improve products or services.

## **2.3 BUYER DECISION PROCESSES**

**Buyer decision processes** are the purchase decision making done by consumers who consider products or services before, during and after the purchase processes.

AIUAPR – Awareness, Interest, Understanding, Attitudes, Purchase and Repeat purchase – explained by Mercer (2008) is a simple model explaining that consumers cannot repeatedly purchase without the previous stages of creating products' or services' awareness and convincing consumers to engage in trial use.

### **2.3.1 Awareness**

The marketer should gain the attention of the potential customers to become aware that the products or services exist before anything can happen. If the customers never know of the products, they can not respond in any way.

### **2.3.2 Interest**

The message not only must grab customers' attention, but it must be interesting. Also, it must persuade customers to purchase products or services related to their needs. Good messages clearly and meaningfully answer customers' needs.

### **2.3.3 Understanding**

Once interest is established, the prospective customers must be able to appreciate that the offering may meet their needs. Advertising is one important tool to achieve customer understanding.

### **2.3.4 Attitudes**

The message must persuade audiences to hold a positive attitude towards services or products they are interested in. The advertisement should focus on the strength of services or products.

### **2.3.5 Purchase**

While customers are considering the advertisement, they may feel the above four stages – awareness, interest, understanding and attitudes – in a few minutes. However, the purchase decision making may take more time because they may compare information before making the purchase.

### **2.3.6 Repeat Purchase**

The actual success is not only the first purchase but also the repeating it. How to ask consumers to re-purchase is a significant challenge for business. This stage is the most difficult stage creating a customers' loyalty to a brand.

## 2.4 COGNITIVE AND PERSONAL BIASES IN DECISION MAKING

It is normal that biases can occur during people's decision making processes. France (2008) explained some common cognitive biases as follows:

1. *Selective information* – people tend to accept only information that supports their conclusion but they refuse other facts that support different conclusions.
2. *Quick termination of search for more information* – people tend to stop searching for more information when they accept the first alternative that looks good.
3. *Inactivity* – some people are unwilling to change their thought despite new evidence.
4. *Experiential limitation* – some people are unwilling to think beyond past experiences or accept unfamiliar information.
5. *Selective perception* – some people ignore information because it is not immediately outstanding.
6. *Optimism* – people tend to notice only positive situations.
7. *Recent information* – people tend to pay attention on more recent information and ignore other information.
8. *Repetition bias* – people tend to believe what they have been informed most often and items repeated from different sources.
9. *Anchoring* - people's decisions are overly influenced by initial information that shapes their point of view of the next information.
10. *Group think* – some people follow group opinion.
11. *Source credibility bias* – people tend to accept information by someone they like and reject information from someone they dislike.
12. *Incremental decision making and escalating commitment* – people tend to continue a series of similar decisions, correcting themselves incrementally, as opposed to zero-based decision making.
13. *Inconsistency* – people are unwilling to apply the same decision criteria in similar situations.

14. *Attribution asymmetry* – people tend to declare their success is due to their abilities and talents, but they point their failures to bad luck and external factors. On the other hand, they ascribe others' success to good luck, and others' failures to mistakes.

15. *Underestimating uncertainty* – people tend to underestimate future uncertainty because they believe they have more control over events than they can do.

16. *Faulty generalizations* – people tend to group people or objects together because they need to simplify an extremely complex world. This may cause bias in the decision making processes.

17. *Ascription of causality* – people tend to conclude cause when the evidence only suggests correlation. For example, just because birds fly to the equatorial regions when the trees lose their leaves, it does not mean that the birds migrate because the trees lose their leaves.

## **2.5 PURCHASE DECISION MAKING FOR PROPERTY**

Wallance (1971) explained that purchase decision making consists of information and systematic processes:

1. Consumers need to change their residence. This stage will start when their lifestyle is changed such as having more income, plus marketing factors that support their change such as a property grand sale at end-of-year. If they do not need to change their residence, they will revert to the decision making stage again; else, they will move to the second stage.

2. Consumers set up their objectives. This stage includes the budget planning, location, residential type such as condominium, house or town house and living style such as renting or buying.

3. The selective stage is the first process considered by consumers. They study residential information such as sale prices, marketing and financial conditions such as amount and period of installment. After they analyze their financial limitations and what they can afford, the next stage will be continued.

4. The comparative stage: consumers will analyze alternative residences that they got information about in the previous stage.

5. They evaluate functional and psychological benefits that the marketer can provide for their decision making, such as project information, company profile and location.

6. They evaluate the financial alternatives such as payment conditions, cash amounts, down amounts, installments and durations. Also, the risk will be analyzed at this stage.

7. After consumers have evaluated all alternatives, they are ready to make decisions on the best choice.

## **2.6 RESIDENTIAL SELECTION THEORIES**

Most explanations of residential selection focus on public construction, public utilities and an environment that is suitable for living. However, each theory differs in its details.

William (1964) explained that residential selection is related to land price. The nearer the area, the more expensive the price. This is one factor determining the residential price. Moreover, land price is linked to transportation cost. As a result, people who have high income have alternatives to live in a suburban area and pay more for transportation, while people who have low income must live in crowded area around the centralized area, reducing their transportation cost.

Barrie (1977) explained the reason why residences should be grouped together. People need convenience to travel from their residence to workplace so they tend to select the area beside public transportation and around the centralized business center.

As enumerated in these theories, the summarized factors that impact residential selection are:

1. People tend to select residences that have good environment.
2. People tend to select residences that are convenient to travel between their residence and workplace.
3. People tend to select residences that are already equipped with the public utilities.

Although the previous studies focused on a variety of factors such as accessibility, transportation, residential environment, and public utilities attributed in various theories influence consumers' decision making selecting their residence, the

actual situation may have other factors which also influence the consumers' decision making. Especially, Wittawat Rungruenphol (วิทวัส รุ่งเรืองผล, 2549) mentioned that the other factors impacting the consumer's decision making on buying condominiums are as follows:

1. *Consumers' income* – different income influences consumers' residential selection. People who have high income can select their residence according to their needs such as good environment, ready public utilities, while people who have low income have more limitation to select their residence. They may select a residence near their workplace to reduce their transportation costs, despite air pollution.

2. *Family life cycle* – different family life cycles influence consumers' residential selection.

- 2.1 People who are studying or have recently started working tend to select residences that are close to their university or workplace depending on their needs.

- 2.2 People who are married tend to select their residences on criteria related to their family. For example, a couple may select their residence near the husband's workplace or wife's workplace; others will select their residences near their parents' house.

- 2.3 People who are married with children tend to select residences that have more living area and are close to their children's school.

- 2.4 People who are retired tend to select residences that are peaceful, often in the suburbs.

3. *Life style* – the unique traits of a certain consumer's life style influences consumers' residential selection. For example, a condominium in the city is suitable for singles and new couples who have worked in the city and live separately from their parents because their life is focused on their work and friends. Hence, they don't have much time to stay in and take care of a house; they need convenience, safety, and proximity to their workplace, shopping malls and community amenities as pubs and restaurants. A condominium in the central area is thus their solution.

## 2.7 RELATED RESEARCH

Previous research investigated the factors affecting consumers' decision making when buying residence in central Bangkok using factors such as location, public transportation, and selling price.

Yongyut Diloktrakarnkij (ยงยุทธ ดิลกตระการกิจ, 2527) explained that convenient and inexpensive transportation and public utilities were the important factors affecting consumers' decision making on buying residences.

Taecha Boonyachai (เตชะ บุญยะชัย, 2530) found that location, quality of construction, price, financial condition, facilities, company's reputation and skill, special offerings from the company such as a sample room, and promotion were the important factors affecting consumers' decision making on buying a residence. Location was the most important factor for condominiums.

Tanorm Ankawattana (ถนอม อังคะวัฒนา, 2534) stated that people who have high income tend to move to a condominium after considering location, price, other services such as restaurant and laundry, transportation time, distance between the condominium and workplace, condominium facilities, condominium structure and design, engineer and architect's reputation and financial aspects. Location was the most important factor for consumers' selection.

Manop Pongsatud (มานพ พงศทัต, 2538-2539) listed the most important factors affecting the consumer's decision to buy a residence as follows:

1. *Location* – people tended to select residential location close to their workplaces and children's schools.
2. *Price* – people tended to compare price among several projects; they evaluated the monthly payment to be not over 20-25% of total family income in each month.
3. *Quality and facility* – people tended to consider the quality of construction and centralized facilities such as playground, swimming pool and club house.

However, he explained that only three major factors are not enough, so people should evaluate the further additional factors:

1. *Company profile* – people tend to consider company reputation and security, the previous reference sites and contacts.

2. *Financing* – people tend to consider financing options of the project. Moreover, the company should coordinate with a lender to provide low loan rates for buyers.

3. *Project progression* – people tend to consider the construction license guaranteed by the government. People prefer to be confident that they can move in immediately to the finished project rather than the project being still unfinished.

Pornnarit Chuanchaiyasit (พรณริศ ชวนไชยสิทธิ์, 2535) explained the factors affecting decision makers' buying a low price condominium in Bangkok:

1. *Low rise-low density project* – this group will consider price and condominium project respectively.

2. *Low rise-high density project* – this group will consider the distance between condominium and workplace, and price respectively.

3. *Medium rise-high density project* – this group will consider the distance between condominium and workplace, and convenience respectively. Conversely, price is the lowest factor for consideration.

Kittipong Trisarawattana (กิตติพงษ์ ไตรสารวัฒน์, 2538) stressed the factors affecting decision makers buying medium price condominiums in central Bangkok:

1. *Mid rise-high density project* – this group will consider environment and security in condominium respectively.

2. *High rise-high density project* – this group will consider the distance between condominium and workplace.

Chaweewan Denpaiboon (ฉวีวรรณ เด่นไพบูลย์, 2536) reported the social and economic factors affecting consumers' decision making to buy a residence in central Bangkok. The major factors are location, public utilities, building design and benefit, price, and project facilities

Rossi (1955) concluded that people have a complicated process in terms of psychology to make a decision in buying their residences. The major factors are location, price, building size and room amount, quality of construction, building design and environment, accessibility such as public transportation and highway, and services center such as hospital, shopping mall and market, whereas the minor factors are

building facilities such as lift, entertainment such as fitness room, swimming pool and club house, and investment.

As found in previous studies, the findings were different among researchers. However, location and price were the most important factors affecting decision making in buying a residence. For this study, the demographic factors, i.e., gender, marital status, and income were investigated in order to see if they would affect consumers' behavior on buying condominiums.