

CONSUMER VALUES DRIVEN PURCHASING BEHAVIOUR: A PRACTICAL APPROACH FOR MARKET POTENTIAL ASSESSMENT

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Abstract

Consumer purchasing behaviour is driven by complex social behaviours which influence the choice of brands, products or distribution channels.

The objective of the paper is to analyse consumer social value dynamics in Latvia and develop consumer values based approach to explain purchasing behaviour and assess future market trends and potential on a case of the Latvian insurance market.

Analysis is based on empirical sociological data from representative national value surveys which is used to segment customers and identify the relationship between their values and future preferences for insurance consumption.

The paper reveals an empirical evidence of values being a determinant in choice among propositions, describes a simple and practical approach of applying values based segmentation to explain consumer preferences and behaviour as well as suggests strategic directions for market players to gain competitive advantages.

Keywords: *consumer values, purchasing behaviour, insurance, marketing strategy*

Introduction

The rapidly changing economic environment today is heavily driven by consumers. They represent the driving force behind the nature of demand not only from the traditionally acknowledged volume perspective but also influencing strategies of the market players via preferences for certain propositions. The demand is usually influenced by both rational aspects which might be explained from price, availability or certain product features perspective and factors beyond rational – like ones related to brand, customers loyalty etc. In-depth understanding of consumer behaviour and factors influencing is becoming an important competitive advantage for consumer-driven organizations. This is one of the key reasons why consumer researchers attempt to relate purchasing behaviour to personality of the consumer. Last few decades have extended the limits of such research applying consumer social values theories to the explanation of purchasing behaviour.

Social values are a subject of interdisciplinary research as they stretch over the boundaries of a single discipline. For instance, psychologists usually focus on the cognitive aspect of individual's values and the consequential impact on his/her motivation; sociologists emphasize the social-adjustive function of values; marketing and consumer investigators are mainly interested in actions as a result of certain attitudes of the individual, e.g. purchasing behaviour aspect. Social values concept has evolved gradually from wide and diverse understanding of the subject through numerous attempts to develop a common understanding of what the values are and a system for the classification and measurement of values which would support a practical application of the approach in research.

Theoretical background for value studies

First notable values classification system was offered by Spranger who defined values as "beliefs upon which a man acts by preference" and developed a classification system with 6 basic dimensions - theoretical, economic, aesthetic, social, political and religious values. (Spranger, 1914) Instruments to apply the system in research were later developed by Vernon and Allport in early 1930s. (Vernon & Allport, 1931) The approach enabled classification of in segments by their dominating social values measured via self-administrated survey. The methodology known as Study of Values was instantly updated and is considered one of the most frequently used in value research throughout the 20th century. This approach has to be considered important due to its novelty at the time, simplicity in application and being the foundation of the later methodologies which reused some of the principles from the Study of

Values. However it featured the limitations set by dimensions and values themselves changing in relative importance over the time.

A later methodology deserving a special attention is Rokeach Value Survey. Rokeach defined values as “enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence” which are developed by individual in cultural, social and personal interrelationship. Rokeach defined key values and suggested a classification system with two subsets of values: (i) 18 terminal values representing end-state of existence preferred by an individual, and (ii) 18 instrumental values representing preferred means of achieving the terminal values. (Rokeach, 1973) The approach was based on ranking separately terminal and instrumental values to assess the importance of certain values to an individual. Such an approach provided a wide set of data enabling to understand the individual’s motivation better which was among the key aspects why the method gained popularity not only among sociologists but also marketing professionals and investigators. Rokeach also suggested a potential application of the approach in customer segmentation as ranking values higher in personal hierarchy indicates individual preferences which guide a consumer in his/her choice process. Rokeach emphasized the universality of the value concept which might enable to “unify the apparently diverse interests of all the sciences concerned with human behaviour.” (Rokeach, 1973) Some illustrations for Rokeach’s concept like different preferences for certain car makes in different social groups later were supported by different empirical studies. (e.g. Scott & Lamont, 1973; Henry, 1976; Allen & Ng, 1999)

Rokeach Values survey has been used across different areas of research and adapted for studies related to consumer behaviour in diverse industries. However some drawbacks of the approach were related to (i) complexity and time consuming task for respondent to rank a large subset of values, and (ii) certain degree of freedom to interpret what each of values present stands for. Some of alternative methods tried to overcome these deficiencies like List of Values (Kahle, 1983), Values and Life Style (Mitchell, 1983) and Personal Value Questionnaire (England, 1975) which all were influenced and inspired by Rokeach’s approach. List of Values provided slightly simpler while equally precise measurement based on 9 value dimensions which were aligned with Maslow’s motivation theory. (Maslow, 1954) Values and Life Style provided more practical values and was used by marketers in different industries to segment the consumers by similarity of their life style. Personal Value Questionnaire has been more applied in area of management development rather than consumer research.

Another aspect of value research which has been important for explaining the consumer behaviour is the role of specific national or cultural differences in formation of value system which underlies behaviour which was emphasized already by Rokeach. The importance of cultural background and ethnical differences were later widely researched and proved by empirical studies across a variety of countries (e.g. Vinson et al, 1977b; Hofstede, 1980; Feather, 1984) This represented a serious challenge for investigators to develop research methodologies which could provide universality.

Schwartz’s universal value theory and related methodology (Schwartz Value Inventory, hereinafter - SVI) is the next advance in value research which suggested that values represent a universal in structure while possibly different in contents system. Schwartz defined values as “beliefs pertaining to desirable end states or modes of conduct that transcends specific situations, guides selection or evaluation of behaviour, people, and events, and is ordered by importance relative to other values to form a system of value priorities”. (Schwartz, 1992) The framework of SVI is based on 56-57 values in 10 dimensions or value domains. Contrary to Rokeach Value survey, SVI respondents are first asked to group the values in groups by personal importance to them with or without further ranking of values in each group. This allows easier and more precise evaluation of a large set of individual values. SVI has gained a respect and wide application in both social and consumer research lately. The method is one

of the cornerstones of European Value survey which is one of the most extensive regular researches. Empirical studies in over than 70 countries have proved the sustainability and applicability of the approach. (Schwartz, 2009) This supports a growing application of the method in consumer research across different industries and cross-cultural boundaries.

Consumer research has been dealing with the issue of the influence of social values on selection of brand or product propositions in the market for several decades. Still the range of the methods and studies aiming to link social values to consumption preferences and behaviours are rather limited and basically most of the investigators have applied certain modifications of the abovementioned methods. The most practical application for marketers social values have gained in consumer segmentation (e.g. Vinson et al, 1977a; Pitts & Woodside, 1984; Kennedy et al, 1988). Most of the studies however are related to industries where the impact of values are empirically assumed to play a major role – e.g. fashion industry (Allen & Ng, 1999; Kim, 2005), choice of media (Beatty et al, 1985) or travel decisions (Pitts & Woodside, 1986) – while attempts to explain behaviour in more complex industries using value approach are scarce. Furthermore, most of the studies are related to industrialized countries with sustainable value profiles over long period, while emerging economies could present a challenge due to the fast changing environment which might have a certain influence on values and consequentially consumer behaviour in much shorter time.

This paper provides a brief insight in application of social values based approach in analysis of consumer behaviour in relatively challenging environment of Latvian insurance market. The paper aims to explain the methodology used, show its application by an example and suggest potential application in similar environments focusing on a practical application aspects for market practitioners.

Methodology

While there are different approaches to explain the impact of social values on purchasing behaviour, this study is based on “value-attitude-behaviour” hierarchy which assumes that cognitions and hence values serve as prototypes for attitudes and guide the individual about his/her behaviour. (Kahle, 1980; Homer & Kahle, 1988) This hierarchy as a general model equally may be applied to any purchasing decisions (Figure 1) where values serve as determinants to form consumer wants and attitude towards market propositions in when action (choice, acceptance/rejection) is being considered.

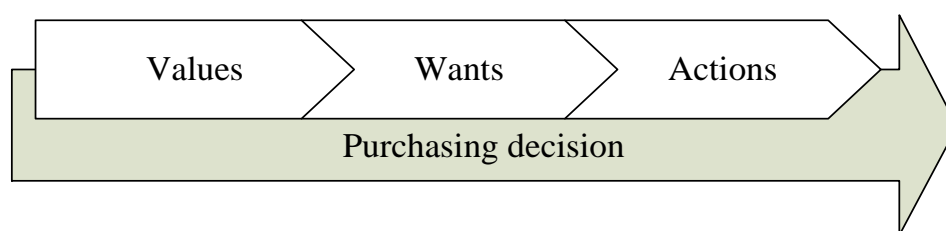


Figure 1: Influence of values on purchasing decision

Dataset was obtained with a help of the national value surveys (Data Serviss, 2002-2009) covering annually on average 1500 sample representative to general population of Latvia. The survey was extended by incorporating insurance specific aspects as a separate section in the questionnaire along with general social values section, demographics and sections specific to other issues (such as general attitudes and non-insurance related consumption). Such an approach offers several advantages for the study such as:

1. representative sample to general population of the country;
2. opportunity to compare the values and attitudes of both current insurance consumers and non-consumers;

- information on non-insurance consumption patterns for the same individuals applicable in cross-industry pattern tests and used by marketers to develop specific strategies (e.g. media consumption in specific segments etc.).

Primary information used for the study are insurance consumption and consumer social values which are used to segment customers and interpret their behaviours. Other sections represent secondary information which provides practical value for marketers while developing market strategies and new propositions. (Figure 2).

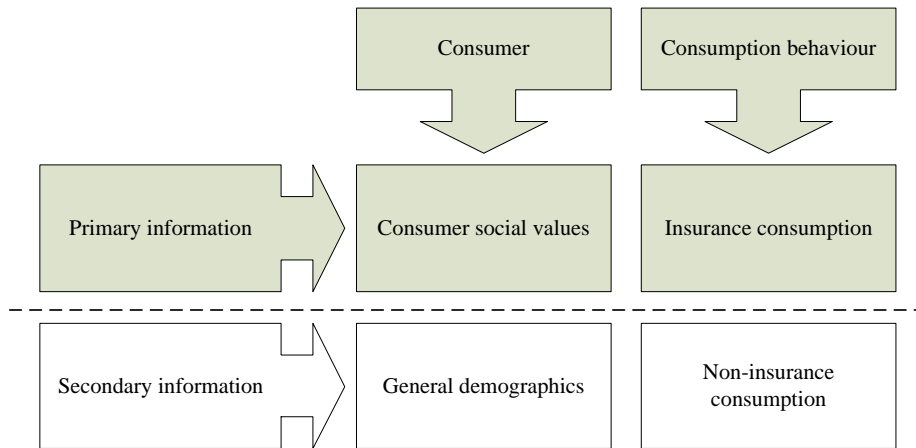


Figure 2: Structure of value survey

The key element of the survey is consumer social values section which employs proprietary Social Values model (Data Serviss, 2008-2009) which is based on adapted SVI approach. Considering values to be relevant for local consumers and based on their local cultural and social experience, 64 universal values are identified as the most relevant to Latvia and grouped in 8 value domains. This is visually represented by value circle of 8 values domains on 4 axes in respect to motivational similarities or dissimilarities. (Figure 3).

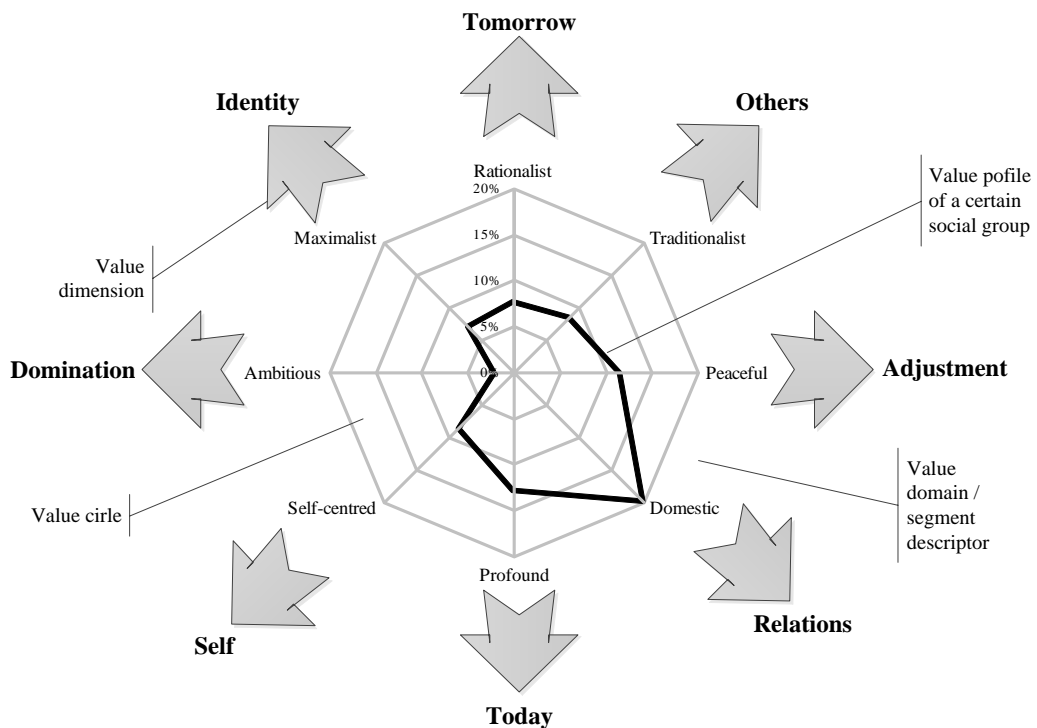


Figure 3: Social Values model (Data Serviss, 2002-2009)

Any of social groups represent a value profile which could be plotted on value circle as a radar chart representing consumers with dominance of a certain values as share of total in segment providing simple visual representation of customer segments. A segment descriptor is attributed to each of the value domains for easy interpretation and practical application.

During the survey respondents group the values according to their individual importance for them. This baseline information is used later to segment consumers and explain their purchasing behaviour based on dominance of certain values within the group.

Application example and results

Value survey supplies the investigator with a large dataset enabling to interpret different aspects of purchasing behaviour and underlying motivation of insurance consumers. As this paper is developed to present the approach itself, the focus in this section is on potential of application of the methodology for market practitioners. Several examples are provided to illustrate aspects which could be important for marketers and visualization of the results while not focusing on in-depth statistical analysis and interpretation of the data which is subject to a wider study.

Insurance purchasing behaviour in Latvian risk insurance market is analysed in the study thus a brief insight in market environment is provided first. Latvian insurance market highly competitive concentrated market dominated by foreign insurers. 54.3% of total insurance premiums (both life and general insurance) in 2009 were written by insurers with over 50% stake of foreign capital. This figure, adjusted by premiums written by branches of foreign insurers under EU Freedom of service rules, is even higher reaching 60.6%. (Financial and Capital Markets Commission, 2010) There were 11 operational insurers in risk insurance market. Four leading risk insurers control 64.5% of Latvian risk insurance market. After double digit growth for several years, the market has been heavily hit by recession in 2009 and experienced a decline of premiums written by -33% (Kaže & Škapars, 2010) which even exceeds the decline in usually publically referred statistics of -28%. (Latvian Insurers Association, 2010) The decline of the market had started in the second half of 2008, and has resulted in both decreasing insurance consumption by existing customers and virtually no new business in the market. This has changed the nature of the competition – insurers instead of relying on easy new business inflow start to chase existing customer base of competitors. A proper understanding of motivation driving consumers in choice for a particular insurance brand or product proposition becomes a key competitive advantage, particularly, in downturn when market players have to be fast in adjusting their market strategies to win. Few of the potential practical applications of values based approach to interpret market trends are provided by this study.

Application example 1. Comparison of different consumer segments.

One of the applications of analysis based on study is related to interpretation of differences among consumer segments. Value profiles provide simple yet explicit tools to visualize and compare profiles of different consumer groups which assist marketers to interpret differences among segments and adjust their propositions or communication messages. Figure 4 illustrates a comparison of value profiles of general population, current risk insurance consumers and a segment from the latter which represents consumers who use broker channel for their insurance in 2009. While there are no significant differences between value profiles of general population and insurance consumer apart from slightly higher dominance of peaceful and domestic values and less exposure in maximalist values for insurance users. Contrary to average insurance consumer, broker channel customers represent much more proactive consumers who are more driven by individualistic values – they are more self-centred, profound, and ambitious. This certainly might serve as guideline for marketers when developing channel specific propositions. Similar representations might be developed for any consumer groups thus enabling easy application with more convenience than usual tabular statistics.

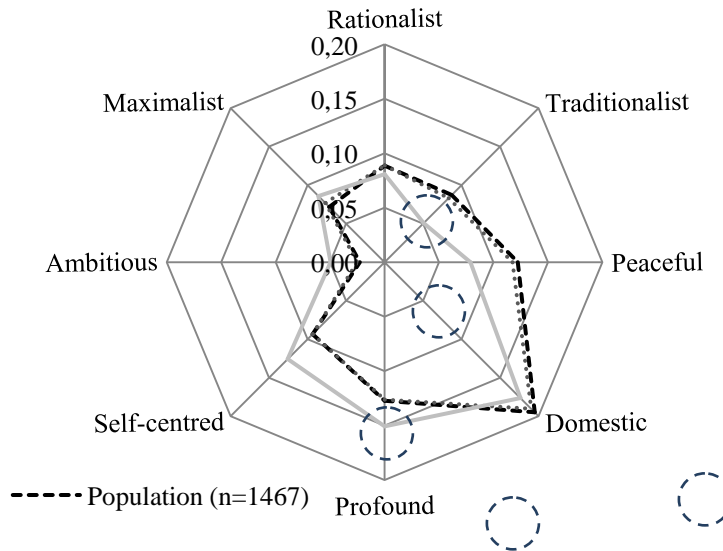


Figure 4: Differences of values among consumer segments in 2009

Application example 2: Dynamics of consumer segments.

Comparison of value profiles of the same single or several groups in dynamics might suggest early changes required for successful future strategy. Figure 5 illustrates values of the insurance consumer which are changing over the time reflecting the impact of the economic downturn. As values are determinants of purchasing behaviour, the shift of values might be observed before the purchasing activities are taken and thus reflected in market statistics. Risk insurance market started its decline in the second half of 2008 and only 2009 revealed a steep decline in premiums written while value profile for 2008 already showed remarkable shift from 2007. In the same time values remain relatively stable in 2009 suggesting that changes in consumption behaviour are not anticipated in 2010 which sets the framework for market strategies. Market players along with stagnating customer base and insurance consumption are suggested to focus the attention on retaining existing customers and seeking ways how to extend capitalizing on customers representing more sustainable value segments.

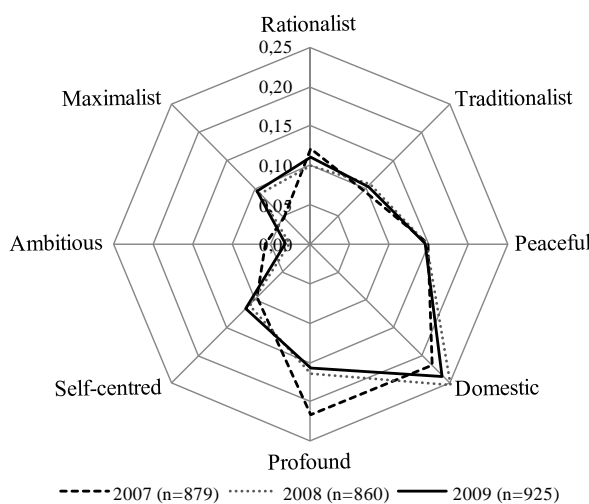


Figure 5: Dynamics of risk insurance consumer values 2007-2009

Application example 3. Analysis of value impact on purchasing motivation.

An understanding of underlying consumer motivation is equally important to understanding which segments might represent an interest for the market player. Straightforward analysis of a single or multifactor correlation is not the suggested approach to

link values to choice of particular propositions. The limitation is the complexity of causal relationship among values, rational (e.g. product features) or irrational (e.g. values exhibited by brand) attributes of the proposition, consumer behaviour while seeking for proposition (e.g. consideration of single or several propositions). However it is possible to map the relationship using structural equation modelling methods aligned with the cause-effect path with adopted purchase decision process in Figure 1 – i.e. values determine which factors are important for the group in choice of the proposition, and those factors affect the actual choice. Figure 6 illustrates the motivation analysis for one of the market leading risk insurance brands “X” which has positioned itself as a leading company which strives to be opinion leader and regularly approaches consumers with new product propositions trying to position itself below average market price in key products.

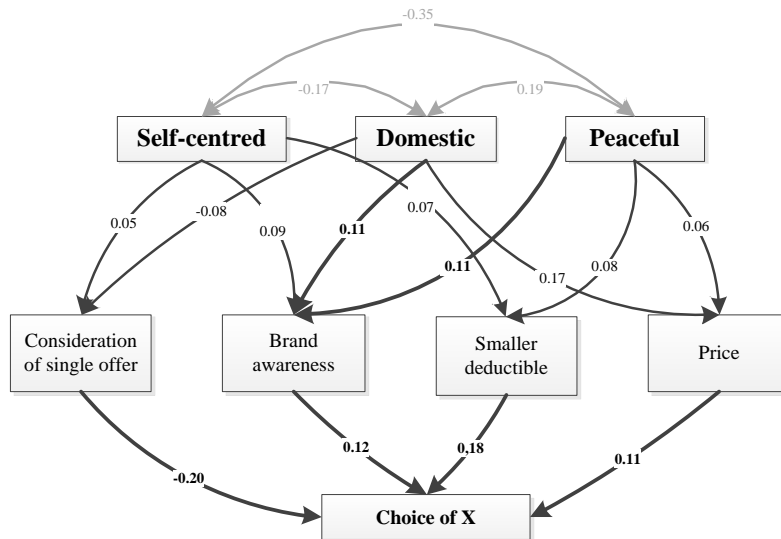


Figure 6: Motivation analysis for customers choosing brand “X”

Analysis show that the choice of brand “X” is mostly driven by domestic values via brand awareness and price factors which might shape a marketing strategy of being loud with attractive pricing or discount packages for this segment which is the widest value segment in the market. At the same time a remarkable influence on choice of the brand is from one of the product features – smaller deductible, however the relationship between this factors and values is weak. Brand awareness combined with attractive price shapes current market success of the brand “X”. This is equally important information for “X” marketers as might be used by competitors as provide clues for successful attack on “X” customer base. This example both suggest the impact of values on choice of the brand, and provides the illustration for practical use of the survey data for marketing professionals.

Conclusions

Consumer values have an impact on purchasing decisions and thus might represent a vast opportunities for application in marketing, specifically – development of marketing strategy and new propositions. However there is a lack of simple and practical marketing tools which enable to track the relationship between values and purchasing decisions.

Annual Social Values survey might provide Latvian marketers with such tools. The method enables a simple yet comprehensive segmentation of consumers combined with easy interpretation and visual aids. The method has a potential in cross-industry application as well as potential for cross-border repeatability if adapted to locally relevant values.

The limitations of the scope and length of the paper allow only basic introduction to methods which could be applied to dataset obtained via social values survey, thus a further development of consistent set of visual aids is underway and testing of repeatability on other industries is planned using extended data from the survey.

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