# **Chapter 14: Consumer Decision-Making** **Outlet Selection and Purchase**

Understanding consumer behavior is critical for modern retailers seeking to thrive in a competitive marketplace. Various factors, including technological innovations, store imagery, and consumer perceptions of risk and pricing, influence outlet selection and purchase processes. This chapter will explore these elements in depth, offering insights into how they shape the shopping experience and influence buying decisions.

At the end of this chapter, you will be able to:

1. Discuss current trends in retail.
2. Recognize factors influencing outlet selection.
3. Recognize factors influencing brand choices.
4. Discuss how consumers evaluate costs in purchasing decisions.

Key Concepts to Remember:

* Omni-channel shopping
* Augmented reality
* In-store beacons and mobile ads
* Push-based apps
* One-click mobile payments
* Artificial intelligence
* Outlet image/store image
* Reference price:   
  external reference price, internal reference price
* Servicescape
* Retail gravitation model
* Perceived risks: social risk, economic risk, financial cost, time cost, effort cost, physical cost
* Shopping orientations:   
  utilitarian buyers, hedonic buyers, bargain buyers
* Point of purchase materials
* Servicescape
* Showrooming
* Webrooming
* Spillover sales
* Unplanned purchases
* Stockouts
* Cost evaluation:  
  Substitution costs, transaction costs, opportunity costs

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## **Current Trends in Retail**

### Omni-Channel Shopping[[1]](#footnote-1)

The explosion of omni-channel shopping reflects consumers' desires for flexibility and convenience. Retailers like Target and Walmart seamlessly integrate online and offline experiences, enabling customers to browse online, check in-store availability, and choose between home delivery or in-store pickup. For example, a consumer might first explore a new clothing line on the retailer’s website, and then visit a local store to try the items on. This hybrid approach allows for greater satisfaction and can enhance feelings of loyalty to the brand.

For instance, consider a consumer shopping for hiking gear. They may first explore options on REI's website, comparing various brands and reading reviews. When they visit the physical store to evaluate specific items, augmented reality displays could help them visualize how a tent would perform in various weather conditions, further influencing their decision to purchase.

### Technological Innovations[[2]](#footnote-2)

Innovative technologies are reshaping the retail landscape, providing shoppers with tools to enhance their purchasing experience.

* **Augmented Reality (AR)** helps customers visualize products in their own space. For instance, IKEA’s AR app allows consumers to place virtual furniture in their homes, helping them assess sizing and stylistic compatibility before purchasing.
* **In-store beacons** transmit location-based messages to shoppers’ smartphones, offering discounts on items nearby. For example, a shopper detected in the shoe aisle might receive a push notification about a sale on sneakers, prompting an immediate purchase decision.
* **Push-based apps** such as Starbucks’ mobile app engage users with rewards and personalized offers, increasing customer retention and motivating purchases.
* **One-click mobile payments** have streamlined the checkout process, enabling consumers to complete transactions with minimal effort. This convenience is especially appealing to tech-savvy shoppers who prioritize speed and efficiency.
* **Artificial intelligence** has been increasingly used by major retailers to better understand and target individual customers. Amazon exemplifies effective use of AI to analyze customer behavior and personalize recommendations based on past purchases. This technology can influence outlet selection when consumers see personalized offers that align with their tastes.

*Reflect*

1. How has **omni-channel shopping** changed the way you shop?
2. Do you think **augmented reality (AR)** is a necessary tool for modern retail, or just a gimmick?

## **Retail Factors Influencing Outlet Selection**

### Outlet and Store Image[[3]](#footnote-3)

Store image significantly affects how consumers perceive a retailer and it influences their purchase decisions. Store image encompasses various factors including service quality, product range, and the overall shopping environment (servicescape).

A strong positive store image fosters trust and loyalty. Retailers like Apple focus heavily on creating an aesthetic and interactive store environment that enhances the overall customer experience. Their minimalist design, knowledgeable staff, and hands-on product displays contribute to an exclusive store image thereby encouraging consumers to choose Apple as their preferred outlet for technology purchases.

For example, a consumer entering a high-end fashion boutique may be drawn not only to the products displayed, but also to the luxurious atmosphere, attentive service, and curated selection, all of which reinforce the store's premium image.

### Pricing Perceptions[[4]](#footnote-4)

Pricing cues affect consumer decisions. **Reference prices** serve as mental benchmarks influencing perceived value:

* **Internal reference prices** stem from a consumer’s prior experiences. For example, when someone considers purchasing a new smartphone, they may recall that their last model cost $800. If they see a similar model priced at $600, they may perceive it as a better deal.
* **External reference prices** are influenced by the marketplace. Retailers often display competitors’ prices to demonstrate savings, influencing outlet selection. For instance, A grocery store might advertise a limited-time sale on organic produce, contrasting it with higher prices at local farmers' markets. This tactic not only drives traffic but also allows consumers to perceive value in choosing that particular retailer.

### Servicescape and Atmospherics[[5]](#footnote-5)

The **servicescape** —the physical shopping environment —affects consumer perceptions and behaviors. The design and ambiance of a retail space can significantly influence how customers feel and interact with the products and services offered. Different elements such as layout, lighting, color, signage, and overall cleanliness contribute to the overall servicescape, shaping the shopping experience from the moment customers enter.

* **Layout**: The arrangement of products and pathways within a retail environment plays a critical role in guiding customer movement and encouraging exploration. For example, a supermarket with a strategic layout may place high-demand items at the back to draw customers through other aisles, increasing the likelihood of impulse purchases along the way. A well-organized store layout not only helps customers find what they need efficiently but also enhances their overall shopping experience by reducing frustration and confusion.
* **Lighting**: Effective lighting can dramatically alter the perception of products and the store environment. Bright lighting can create a sense of energy and excitement, making it suitable for fast-paced retail environments like discount stores. Conversely, softer lighting in a high-end boutique can convey a more luxurious feel, encouraging customers to linger and indulge in a more personalized shopping experience. For instance, jewelry stores often utilize focused lighting to highlight their products, making them appear more attractive and enticing.
* **Color**: The colors used in a retail environment can evoke specific emotions and influence consumer behavior. Warm colors like red and orange can stimulate appetite and increase energy levels, making them ideal for food-related businesses. In contrast, cooler colors like blue and green are often associated with tranquility and trust, commonly found in wellness centers or financial institutions. A coffee shop might utilize earthy tones to promote a cozy atmosphere, encouraging customers to relax and enjoy their time there.
* **Cleanliness**: A clean and well-maintained environment reflects professionalism and care, contributing to positive customer perceptions. Customers are more likely to return to a store that appears clean and organized, as this reflects positively on the brand. For example, a well-kept fitness center with clean equipment and tidy locker rooms creates a welcoming environment that motivates members to return regularly.
* **Atmospherics**: The overall atmosphere created by these elements plays an important role in shaping emotional responses. For instance, upbeat music in a clothing store can create a lively shopping atmosphere, enticing customers to spend more time browsing and ultimately making more purchases. Retailers strategically curate playlists to match their brand identity and target demographic, influencing the pace and duration of shopping visits.

For instance, a luxury spa employs soft lighting, calming scents, and tranquil music to create an inviting atmosphere that significantly enhances customer satisfaction. The careful selection of soothing aromas, such as lavender or eucalyptus, not only promotes relaxation but also creates a multi-sensory experience that customers associate with pampering and indulgence. As a result, such an environment encourages repeat visits, as customers seek to recreate the positive emotional experiences they have come to expect.

*Example – Ikea Store Layout*

A customer enters an IKEA store and is immediately directed into the **Showroom**, a maze-like path that showcases fully furnished rooms. As they walk through, they see a variety of setups—bedrooms, kitchens, and living rooms—all arranged to inspire customers by demonstrating how IKEA products work together in real-life settings.

Along the way, they spot a stylish lamp that wasn’t on their shopping list but seems like a perfect addition to their home. They note its product number on a provided shopping list or use the IKEA app to save it.

After completing the showroom section, the customer transitions into the **Marketplace**, a self-service area filled with smaller home accessories like kitchenware, rugs, and décor items. The strategic placement of these items encourages impulse buying as customers pick up affordable, well-designed products they hadn’t planned to purchase.

Finally, they reach the **Warehouse**, where they pick up flat-packed furniture corresponding to the products they saw earlier. The checkout area is located beyond last-minute impulse buys like snacks, candles, and batteries, ensuring that even as they leave, there’s one final chance to add small items to their cart.

This **guided shopping experience** ensures that customers engage deeply with IKEA’s products, increasing the likelihood of higher spending while making the visit feel immersive and inspiring.

In summary, the servicescape is a vital aspect of the retail experience that influences consumer behavior. By thoughtfully designing the physical shopping environment—considering layout, lighting, color, cleanliness, and atmospherics—retailers can enhance customer satisfaction, drive sales, and foster lasting loyalty.

### Retail Gravitation Model[[6]](#footnote-6)

The gravitation model suggests that consumers are naturally drawn to retail outlets that provide the most desirable combination of products, services, and experiences, taking into account factors such as location, convenience, and perceived value. This model emphasizes that consumer behavior is influenced by the availability of competing retail options and personal preferences, which can shape their shopping choices.

Key factors in this model include the attractiveness of the retailer, determined by factors such as product variety, pricing, brand reputation, and customer experience. Additionally, the proximity of the store plays a crucial role, as consumers are more likely to visit retailers that are easily accessible unless a more distant outlet offers significantly better value or a unique shopping experience.

Moreover, the model acknowledges the impact of competitive forces, where similar retailers in close proximity must differentiate themselves to maintain customer loyalty. This could be achieved through superior customer service, exclusive product offerings, or enhanced in-store experiences.

The retail gravitation model suggests that larger, more diverse retailers will attract customers from further away. For instance, consumers may travel further to shop at a mall that houses several desirable brands rather than settling for a local convenience store with limited options. Therefore, a mall featuring a mix of luxury brands and popular fast-fashion retailers may see higher foot traffic than a standalone high-end store simply because it offers more choices and experiences that cater to varied shopping orientations.

Ultimately, the retail gravitation model helps businesses understand why consumers choose certain stores over others, guiding strategic decisions related to store placement, marketing efforts, and overall customer engagement.

*Reflect*

1. What factors influence your **perception of a store’s image** the most?
2. How do **lighting, music, and store layout** affect your shopping behavior?

## **Retail Factors Influencing Brand Choices**

### Point of Purchase Materials[[7]](#footnote-7)

Strategically placed point of purchase (POP) materials such as signs, displays, andpromotions can significantly influence consumer behavior at the point of sale. These materials serve as vital tools in retail environments, heightening product visibility and creating a sense of urgency that can lead to increased sales. By effectively leveraging POP strategies, retailers can enhance the shopping experience and encourage consumers to make impulsive or unplanned purchases:

* **Heightening Product Visibility**: One of the primary functions of POP materials is to draw attention to specific products, particularly those that might otherwise be overlooked. For instance, a well-placed end-cap display in a grocery store can showcase new items or seasonal products, making them more visible to shoppers. This increased visibility not only helps educate consumers about new offerings but also entices them to consider making a purchase.
* **Creating a Sense of Urgency**: Effective POP materials can create a sense of urgency or scarcity, motivating consumers to act quickly. For example, signage promoting a limited-time discount on a product can prompt shoppers to make immediate decisions rather than delaying their choice. This sense of urgency can be particularly effective during promotional events, holiday sales, or clearance pricing, where consumers feel they must act swiftly to take advantage of a great deal.
* **Visual Appeal in Displays**: A well-designed display can be instrumental in enticing shoppers to try new products on impulse. Consider a new snack product in a supermarket: if it is presented in an eye-catching display with vibrant colors, appealing packaging, and creative arrangements, it is more likely to attract shoppers' attention.
  + **Use of Colors and Lighting**: Effective use of colors and lighting is pivotal in POP displays. Bright colors can grab the consumer's attention, whereas cool colors can evoke a sense of calm or trust. Retailers can highlight products using strategic lighting, ensuring that displays stand out in a busy retail environment. For example, a display for an organic snack brand might use earthy tones combined with warm lighting to convey natural goodness, appealing to health-conscious consumers.
* **Encouraging Unplanned Purchases**: POP materials are particularly influential in promoting unplanned purchases. When shoppers are presented with appealing visuals, enticing signage, or promotional offers, they may decide to purchase additional items that were not part of their original shopping list. For instance, in a supermarket setting, a well-placed display of gourmet cheeses with signage touting "limited European edition" can compel shoppers to add it to their carts, enhancing their overall shopping experience.
* **Seasonal Promotions**: Seasonal promotions are prime opportunities for utilizing POP materials. A Halloween candy display, for example, can prompt shoppers to buy various candies and treats they hadn’t originally planned on purchasing, and which ingredients or health impact they hadn’t had a chance to investigate. Strategically placing this display near the check-out or in high-traffic areas can increase visibility and encourage impulse buys. The excitement around seasonal themes can evoke nostalgia and emotional connections, further driving sales during promotional periods.
* **Enhancing the Shopping Experience**: Beyond driving sales, POP materials enhance the overall shopping experience by providing information and creating engaging interactions. For instance, a cosmetics store may use interactive displays with testers and samples to encourage customers to try products, fostering a tactile shopping experience that can lead to higher conversion rates.

In conclusion, strategically placed point-of-purchase materials play a crucial role in influencing consumer behavior at the point of sale. By heightening product visibility, creating urgency, and using visually appealing designs, retailers can encourage unplanned purchases, boost sales, and enhance customer experiences. The thoughtful incorporation of POP materials into retail strategies can lead to significant benefits, particularly during seasonal promotions or special events.

### Showrooming and Webrooming[[8]](#footnote-8)

**Showrooming** refers to the practice of consumers examining products in a physical store before purchasing them online. Shoppers often engage in this behavior to take advantage of the tactile experience—touching, trying out, and evaluating the product before committing to a purchase. In contrast, **webrooming** involves researching products online and then buying them in-store. This behavior allows consumers to gather information and reviews conveniently at home before finalizing their purchase at a physical location.

Both showrooming and webrooming underscore the need for retailers to deliver cohesive experiences across all shopping channels, as consumers now seamlessly navigate between online and offline environments during their decision-making.

Showrooming can pose challenges for brick-and-mortar retailers, as consumers may use the store's physical space to evaluate products while ultimately opting for online purchases, often seeking better prices or convenience. For instance, a consumer might explore a new laptop model at Best Buy, valuing the ability to test it firsthand, but later choose to purchase it from Amazon for a better price or faster delivery. This behavior can result in lost sales for physical retailers if they don’t adapt to today’s consumer shopping habits.

Conversely, webrooming allows consumers to leverage the wealth of information available online—such as product comparisons, customer reviews, and pricing—while ultimately opting for the immediacy and assurance of buying the product in person. A shopper might spend time reading online about the latest smartphone model, learning about features, pros, and cons, before deciding to visit a store to see the device up close and make the purchase. This behavior can drive foot traffic to physical locations, benefitting stores that provide the products and experiences consumers desire.

Showrooming vs. Webrooming

|  |  |
| --- | --- |
| Behavior | Description |
| Showrooming | Checking a product in-store but purchasing online. |
| Webrooming | Researching a product online but buying in-store. |

To effectively address both showrooming and webrooming, retailers must create cohesive experiences across all shopping channels. This entails ensuring that product information, pricing, promotions, and inventory levels are consistent online and in-store. A unified approach can help reduce consumer confusion and encourage them to make purchases through the channel that best suits their needs.

Retailers can respond to the challenges posed by showrooming by implementing several strategies:

* **Price-Match Guarantees**: Offering price-matching guarantees can help persuade consumers to make their final purchase in-store. By advertising that they will match or beat online prices, retailers can enhance customer confidence that they’re getting the best deal available, discouraging showrooming behavior.
* **Incentives for In-Store Purchases**: Implementing incentives—such as exclusive in-store discounts or loyalty points—can encourage consumers to finalize their purchases on-site. For example, a store might offer a 10% discount on an item that a customer demonstrated interest in while showrooming if they buy it that day.
* **Emphasizing Customer Experience**: Enhancing the overall in-store experience can also help counteract showrooming. Offering knowledgeable staff, engaging demonstrations, or unique in-store events can create added value that cannot be replicated online. For instance, a tech store might offer workshops or hands-on demos of new products, fostering a deeper connection between consumers and the brand.
* **Leveraging Technology**: Retailers can also leverage technology to bridge the gap between online and offline shopping. Implementing apps that allow for inventory checks, price comparisons, and easy transitions between shopping channels can make the experience smoother for consumers. For example, an app that lets customers scan a product in-store to see online prices and reviews can facilitate informed decision-making.

In summary, showrooming and webrooming are significant behaviors shaping modern retail. Retailers that recognize the importance of cohesive experiences across shopping channels and implement strategies to engage consumers in both online and physical environments will be better positioned to thrive in an increasingly competitive marketplace.

### Spillover Sales[[9]](#footnote-9)

Spillover sales occur when the purchase of one product leads to additional purchases, often within the same shopping trip. This phenomenon is crucial for retailers as it can significantly increase the average transaction value and enhance overall sales performance. Retailers can capitalize on spillover sales by implementing strategies such as bundling and cross-promotions that encourage consumers to add complementary items to their carts.

* **Bundling Strategies**: Retailers often use bundling to package related products at a discounted price. This strategy not only enhances consumers' perceived value but also increases the likelihood of purchasing additional items together. For example, a video game retailer might offer a bundle that includes a gaming console, a popular game, and an extra controller. By bundling these items at a discounted rate, shoppers are more likely to see the benefits of purchasing the bundle rather than buying the items separately, thereby increasing their overall spending.
* **Cross-Promotions**: Cross-promotions involve strategically placing related products near one another to inspire additional purchases. For instance, in a grocery store, a display of gourmet cheeses might be placed near an Italian cured ham promotion. When customers approach the chips, they may also grab the salsa due to the convenient placement and potential savings. This encourages shoppers to think about complementary products that enhance their initial purchase, boosting both sales and customer satisfaction.
* **Checkout Area Promotions**: Positioning additional products strategically near the checkout area can effectively leverage spillover sales. Retailers often place small, related items—such as snacks, drinks, or travel-sized toiletries—at the register. Customers waiting in line may impulse buy these items as they finalize their purchases. For instance, a customer purchasing a camera may be tempted to buy a protective case and memory card if they are positioned near the checkout area with promotional pricing or eye-catching displays. This can lead to a higher average sale per transaction.
* **Digital Spillover Sales**: In the online shopping space, retailers can use algorithms to suggest related products during the checkout process. For example, if a customer adds a laptop to their cart, the retailer may recommend accessories such as a laptop bag, mouse, or software at a discounted rate. This not only provides convenience for the consumer but also encourages additional spending while they are already in a purchasing mood.
* **Loyalty Programs**: Retailers can also integrate spillover sales into their loyalty programs by offering points or rewards for purchasing multiple items together. For instance, a pharmacy may have a promotion where buying a certain medication earns double points if paired with a related product, such as vitamins. This incentivizes customers to consider additional purchases they might not have initially considered.

In conclusion, spillover sales present a valuable opportunity for retailers to enhance their sales strategies. By leveraging bundling, cross-promotions, strategic placement at checkout areas, digital recommendations, and loyalty incentives, retailers can effectively encourage customers to make complementary purchases, ultimately increasing profitability and enhancing the overall shopping experience.

### Unplanned Purchases[[10]](#footnote-10)

Unplanned purchases occur when consumers decide to buy items they hadn’t originally intended to buy, often driven by impulse or situational factors. These spontaneous purchases can occur for various reasons, such as seeing a product on sale, being influenced by attractive displays, or responding to emotional triggers. Retailers often aim to capitalize on these unplanned purchases to boost sales and enhance the shopping experience.

Many elements can spur unplanned purchases. For instance, an appealing product display at the end of an aisle, a promotional sign, or even the scent of freshly baked goods in a grocery store can entice customers to add items to their carts that they hadn’t intended to buy. Retailers can strategically place high-margin or seasonal items in prominent areas to encourage impulse buying.

Unplanned purchases play a vital role in overall sales, as they not only increase the transaction value but also enhance customer satisfaction by providing additional value or convenience. For example, a shopper who enters the store to buy ingredients for dinner might be enticed to purchase a dessert when they encounter a promotion for a cake mix.

### Stockouts[[11]](#footnote-11)

On the other hand, stockouts occur when items are out of stock, leading to frustration and potentially lost revenue, as customers may opt for alternatives or decide not to make a purchase. Stockouts can severely impact customer loyalty and satisfaction, prompting them to seek out competitors who may have the desired products available.

The implications of stockouts can extend beyond immediate lost sales. When customers frequently encounter stockouts, they may begin to perceive the retailer as unreliable, leading to diminished trust and repeat business. Research has shown that consumers may turn to competitor stores if they regularly find their preferred items out of stock, making effective inventory management critical.

Implementing a robust inventory management system is essential to minimizing stockouts and keeping customers engaged. Retailers can use technology that tracks inventory levels in real time and forecasts demand based on sales trends. For instance, a grocery store might implement an inventory system that alerts staff when popular items are low in stock, ensuring that shelves remain stocked and customers leave satisfied. For instance, if a store's inventory management system detects that a best-selling brand of cereal is nearing a low threshold, it can automatically notify staff to reorder the item. Additionally, this system could provide insights into seasonal fluctuations, allowing the store to anticipate demand spikes during the holiday season.

By maintaining optimal stock levels and anticipating customer needs, retailers not only reduce the chance of stockouts but also foster a positive shopping environment. Customers are more likely to plan future visits when they feel confident that their preferred products will be available.

In summary, while unplanned purchases can enhance revenue and customer satisfaction, stockouts can lead to frustration and lost sales. Effective inventory management is vital to striking the right balance, allowing retailers to maximize unplanned purchases while minimizing stockouts. By implementing proactive inventory systems and strategies, retailers can create a more positive shopping experience that encourages customer loyalty and ongoing engagement.

*Reflect*

1. Have you ever engaged in **showrooming**? What made you buy online instead of in-store?
2. Do you find **external reference prices** (e.g., "compare at $XX") helpful or misleading?

## **Consumer Factors Influencing Outlet Selection and Purchase**

### Evaluating Costs in Purchasing Decisions

When making purchasing decisions, consumers often weigh various costs, which influence their choices and satisfaction with their purchases. Understanding these costs can help retailers better cater to consumer needs and improve their offerings.

*Costs in Purchasing Decisions*

|  |  |
| --- | --- |
| Cost Type | Description |
| Substitution Cost | Loss of satisfaction when choosing an alternative product. |
| Transaction Cost | Time, effort, and logistics of acquiring a product. |
| Opportunity Cost | Value of missed alternatives when making a purchase. |

#### Substitution Costs[[12]](#footnote-12)

Substitution costs refer to the potential loss of satisfaction that consumers may experience when they choose an alternative product instead of their initially preferred option. This cost is particularly relevant when the alternative does not fully meet the consumer's expectations or desires. For instance, if a consumer is set on buying a specific brand of coffee but decides to purchase a different, less familiar brand because it is on sale, they might feel disappointed if the alternative doesn’t match the flavor or quality they were expecting. This dissatisfaction can influence future purchasing habits, making consumers less likely to switch again.

#### Transaction Costs[[13]](#footnote-13)

Transaction costs relate to the time, effort, and logistical challenges involved in searching for or acquiring a product. These costs can include travel time to a store, waiting in line, or navigating a complicated online purchase process. For example, a consumer looking for a new kitchen appliance may visit multiple stores to compare prices and features. The transaction costs here include time spent driving between locations, waiting for assistance, and potential frustration during the search process. Retailers can mitigate these costs by offering convenient online shopping options, clear in-store signage, and efficient checkout processes.

#### Opportunity Costs[[14]](#footnote-14)

Opportunity costs represent the value of the missed alternatives when choosing one product over another. This is a crucial consideration for consumers who must assess what they are sacrificing by making a particular purchase. For example, if a consumer decides to purchase a premium pair of wireless earbuds instead of a less expensive wired option, their opportunity costs include, e.g., missing out on buying a pair of sneakers they liked for the money they would have saved had they bought wired headphones. If they value the features and convenience of the wireless earbuds, they may perceive the opportunity costs as justifiable.

*Example – Cost Evaluation*

Consider a consumer who chooses to buy a pair of running shoes from a local store rather than ordering a different pair online. In this case, they may incur higher **transaction costs** due to travel time and effort spent going to the store. However, they might perceive lower **opportunity costs** since they prioritize immediate fulfillment (having the shoes right away) over waiting for shipping. If the local store had a selection of running shoes that included their desired size and style, the immediate availability may outweigh the inconvenience of traveling.

Additionally, consumers assess how these costs align with their values and preferences. For instance, if a consumer is environmentally conscious, they might choose to buy locally to support sustainability, even if it incurs higher transaction costs. Conversely, consumers might seek convenience and lower overall costs, making them more likely to purchase items online despite the potential for delays.

In conclusion, these various costs (substitution, transaction, and opportunity) play important roles in influencing consumer purchasing decisions. By recognizing and addressing these factors, retailers can create strategies that minimize costs for consumers, enhance satisfaction, and ultimately drive sales. For example, offering price-comparison tools or free shipping incentives can lower transaction costs, while highlighting product benefits can mitigate perceived substitution and opportunity costs. Understanding these elements is key for retailers aiming to thrive in a competitive marketplace.

*Example – Costs in Purchasing Decisions*

Imagine a consumer named Sarah, who is an avid runner. After her old running shoes finally wore out, she decided it was time to buy a new pair. Sarah has been following the latest trends in running gear and has her eye on a specific model of running shoes that she’s read about online. However, she faces a choice between purchasing the shoes from a local sporting goods store or ordering them online.

**Decision Context**: Sarah learns that the running shoes she wants are available at both the local store and various online retailers. The local store offers the advantage of immediate availability, meaning she can try on the shoes and take them home right away. However, the online prices might be slightly lower, and some websites offer free shipping, but they would take 3-5 business days for delivery.

**Substitution Costs**: As Sarah prepares to visit the local store, she considers the substitution costs involved. If the local store does not have her desired model in stock, she may have to select a different brand or style that she’s less enthusiastic about. When thinking about selecting an alternate shoe, she recalls a review that highlighted the shoe's unique cushioning system, which is one of the reasons she is set on the original model. If she ends up purchasing a less preferred option from the store, she worries she'll miss out on the comfort benefits of her desired pair.

**Transaction Costs**: Sarah also factors in her transaction costs. Traveling to the local store will take about 20 minutes each way, plus an additional 10 minutes to shop and make her decision. This totals approximately 50 minutes of her time, not counting any wait time during busy store hours. She is conscious of her schedule since she has a busy week ahead with work and other obligations. On the other hand, ordering online would require some time spent searching websites, and she would have to wait for the shoes to be delivered, which could take 3 to 5 days depending on the retailer.

**Opportunity Costs**: While considering these factors, Sarah reflects on her priorities. By opting to buy the shoes online, she might save 10-20% of the price due to sales and avoid the commute, but she also considers what she would miss out on. Waiting for delivery might mean that she won't have her new shoes in time for a scheduled weekend running event, which she has been training for. Additionally, the thrill of trying on various sizes and possibly discovering new styles while shopping in the store also plays into her excitement for the purchase.

**The Decision**: After weighing the costs, Sarah decides to visit the local store. Although it necessitates a trip and slightly higher costs, the advantages of immediate satisfaction and the ability to try on different sizes ultimately sway her decision. When she arrives, she finds the specific running shoes she wanted in her size, as well as the chance to explore a few other recommended options.

**Conclusion**: At the store, Sarah tries on her preferred shoes alongside a few alternate models. After confirming that her original choice fits perfectly, she completes the purchase on the spot. Though it required more effort and time than ordering online would have demanded, she feels satisfied knowing that she received the exact product she desired and could begin training with her new shoes right away. By making the purchase locally, she also feels good about supporting a small business in her community.

Retailers must grasp the complex interplay of factors influencing outlet selection and purchasing decisions. By leveraging technology, fostering positive perceptions, and creating integrated shopping experiences, they can better cater to consumer behaviors and ultimately drive sales. Understanding and addressing the nuances of consumer behavior not only supports sales growth but also builds lasting relationships with customers.

### Perceived Risks[[15]](#footnote-15)

Consumers face several perceived risks when making purchases, including:

* **Social Risk**: This pertains to the fear of negative judgments from peers. For instance, if a consumer buys an expensive handbag, they may worry about friends’ opinions regarding its value. An example would be someone purchasing a designer handbag. If their friends view it as a status symbol, the buyer may feel proud. Conversely, if the same friends consider it frivolous, the buyer might experience embarrassment or ridicule.
* **Economic Risk**: This relates to the potential financial loss if a product does not meet expectations. High-end electronics often carry significant economic risk due to their price points. For example, a consumer might spend $2,500 on a high-end laptop, but if it fails to perform well or malfunctions shortly after purchase, they face substantial economic implications, including the cost of replacing it or repairing it.
* **Financial Cost**: Beyond the initial purchase price, there are additional financial considerations such as maintenance, repairs, or accessories that may be necessary. For instance, buying a luxury car often involves more than just the sticker price. Owners must also factor in higher insurance premiums and potential maintenance costs, such as higher service fees, which can total thousands over the car's lifespan. This can deter consumers who are mindful of their overall budget.
* **Time Cost**: Consumers also evaluate how much time they will invest in the purchasing process, including research, comparison shopping, and waiting for delivery. For instance, if a consumer spends six hours researching and reading reviews for a new smartphone, this time commitment can feel burdensome. Furthermore, if the item takes two weeks to arrive, the consumer might question whether it was worth the wait, especially if they needed a new phone urgently.
* **Effort Cost**: This refers to the physical and mental effort required to make a purchase and engage with a new product. For example, consider a high-tech home coffee machine that requires multiple steps for setup. If it takes an average consumer an hour to install and learn to operate it, many might opt for a simpler standard coffee maker that only requires a button press. The mental hassle of learning a complex machine can lead to indecision and a lack of purchase.
* **Physical Cost**: Some products may have physical implications for buyers. For instance, large furniture that is heavy and difficult to move can pose a physical burden. A consumer purchasing a bulky couch must consider the physical effort required to get it into their home, especially if they live in an apartment with narrow stairways. This can deter them from purchasing or lead them to pay for delivery services, adding to overall costs.

*Perceived Risks in Purchasing Decisions*

|  |  |
| --- | --- |
| Type of Risk | Description |
| Social Risk | Fear of judgment from others. |
| Economic Risk | Concerns about financial loss. |
| Financial Cost | Ongoing costs such as maintenance and accessories. |
| Time Cost | Time spent on research, comparison, and purchase. |
| Effort Cost | Physical and mental effort needed for buying and using a product. |
| Physical Cost | Risk of physical strain or harm. |

Retailers can mitigate these perceived risks by offering transparent return policies and warranties. Many brands built their brand around an exceptional return policy. By allowing customers to return items for free within 30 days and providing shipping labels with each purchase, they reduce the perceived economic risk associated with online shoe shopping and alleviate the time and effort costs of decision-making. This assurance encourages consumers to try new products, knowing they have a safety net.

*Reflect*

1. How do substitution, transaction, and opportunity costs influence your purchasing decisions?
2. Have you ever avoided a product due to perceived risk?

### **Shopping Orientation[[16]](#footnote-16)**

Shoppers exhibit various orientations in their purchasing behavior:

* **Utilitarian Shoppers**: These consumers seek efficiency and practicality in their shopping experiences. Their primary motivation is to fulfill a specific need or requirement, often leading to quick decision-making. For example, a utilitarian shopper may enter a grocery store with a specific list of items to purchase, such as fruit, meat, and eggs. They prioritize speed and efficiency, navigating directly to the needed aisles, making their selections, and checking out without unnecessary distractions. Retailers can attract these shoppers by prominently displaying essential items, offering time-saving services like self-checkout, and providing clearly marked sales aisles. Promotions like limited-time discounts on staples can also capture this audience effectively.
* **Hedonic Shoppers**: In contrast, hedonic shoppers prioritize enjoyment and the intrinsic pleasure of the shopping experience itself. They engage in activities like browsing, exploring new products, and often indulging in impulse buys. For instance, a hedonic shopper might wander through a department store, drawn to bright displays, attractive packaging, or engaging product demonstrations. Their shopping may be motivated by the thrill of discovery and the enjoyment of choosing items that please them, such as a stylish dress or scented candles, rather than necessity. Retailers can appeal to hedonic shoppers by creating an inviting atmosphere with interactive displays, enticing product sampling, and hosting events that foster a sense of community and enjoyment, such as themed shopping nights or fashion shows.
* **Bargain Shoppers**: These consumers are primarily motivated by the pursuit of deals, discounts, and maximizing value for their money. They enjoy the challenge of finding the best price possible and often compare prices across multiple retailers before making a purchase. A bargain shopper may actively seek out clearance racks, use coupons, and wait for seasonal sales to get the lowest possible price on an item. For example, a bargain shopper in a clothing store might browse through discount sections first, carefully inspecting markdowns and searching for additional promotions. They may also use apps or loyalty programs to stack discounts and maximize savings. Unlike utilitarian shoppers, who focus on efficiency, bargain shoppers often enjoy the thrill of the hunt, spending extra time looking for the best deals, even on products they have not planned to buy. Retailers can attract bargain shoppers by offering frequent promotions, well-organized clearance sections, and loyalty programs that provide exclusive discounts. Flash sales, coupons, and "buy one, get one free" deals are particularly effective in capturing their attention. Additionally, signage that highlights savings—such as "50% Off Today Only!"—can create a sense of urgency and encourage immediate purchases.

*Shopping Orientations*

|  |  |
| --- | --- |
| Orientation | Characteristics |
| Utilitarian Buyers | Focus on efficiency, goal-driven shopping. |
| Hedonic Buyers | Shop for enjoyment, pleasure-driven. |
| Bargain Buyers | Seek discounts, maximize savings. |

Understanding these orientations can help retailers tailor their offerings and marketing strategies effectively. For example, a supermarket might design weekly promotions targeting utilitarian shoppers with discounts on essentials such as meat, and eggs ensuring clear signage and quick access to these items. At the same time, they could host in-store tastings of gourmet cheeses and fresh fruit platters to engage hedonic shoppers who are seeking enjoyable experiences while shopping.

By offering a mix of practical promotions and delightful experiences, retailers can effectively cater to both types of shoppers, enhancing customer satisfaction and driving sales. This dual strategy not only meets customers' immediate needs but also fosters loyalty and encourages repeat visits as consumers begin to associate the store with both efficiency and enjoyment.

*End-of-Chapter Self-Reflection*

1. Do you prefer online shopping, in-store shopping, or a mix of both? Why?
2. Have you ever made an unplanned purchase that you later regretted? What influenced your decision?
3. Which type of shopping orientation (utilitarian, hedonic, bargain) best describes you?
4. Have you ever left a store due to a stockout? How did it impact your perception of the brand?

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Parts of this textbook have been created or enhanced with the help of generative AI (ChatGPT, Copilot, Grammarly). AI was also used to assist with proofreading and formatting.

Parts of this textbook have been adapted, revised, and remixed from the following OER resources:

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* Launch! Advertising and Promotion in Real Time by Solomon et al. 2009: <https://open.umn.edu/opentextbooks/textbooks/launch-advertising-and-promotion-in-real-time>
* Principles of Marketing by Lumen Learning <https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/>
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    Li, J., Abbasi, A., Cheema, A., & Abraham, L. B. (2020). Path to purpose? How online customer journeys differ for hedonic versus utilitarian purchases. *Journal of Marketing*, 84(4), 995–1014. <https://doi.org/10.1177/0022242920911628> [↑](#footnote-ref-16)