CHAPTER III
THEORETICAL BACKGROUND
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Introduction

Chapter two dealt with review of literature as regards buyer behaviour and brand loyalty that helped the researcher to identify the research gap that formed the basis of this study. This chapter deals with the theoretical background of buyer behaviour and brand loyalty as well as multi-level marketing.

The needs and preferences of consumers are changing and becoming highly diversified. Consumers prefer differentiated products that reflect their distinctive personalities and life style. Marketers cannot treat the customers alike and should understand all categories of consumers. A business that is ignorant of consumer preferences cannot fulfill its obligations in a meaningful and responsible manner.

Buyer behaviour is the study of individuals, groups, or organizations and the processes that use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs. It studies characteristics of individual consumers such as demographics or personality and behavioural variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, sports, reference groups, and society in general. Buyer behaviour study is based on consumer buying behaviour, with the customer playing the three distinct roles of user, payer and buyer. Relationship marketing is an influential asset for buyer behaviour analysis. Greater importance should be placed on consumer retention, customer relationship management, personalization, customization and one-to-one marketing.
Need for understanding buyer behaviour

Knowledge of buyer behavior would serve as the guide in planning and implementing marketing strategies. Consumers’ reaction to a firm’s marketing strategies have a great impact on the success of the firm. Marketing mix can satisfy consumers only when it is based on knowledge about their behavior. Implementation of the marketing concept is not possible without such knowledge.

By understanding the factors that influence the behavior of consumers, marketers are in a better position to predict how consumers will react to their efforts. Study of consumer behavior helps in market segmentation and product differentiation. It is also helpful in the evaluation of marketing programmes. Study of consumer behavior is necessary for introducing new products and new technology.
Factors influencing buyer behaviour

Several factors determine the buyer behavior of consumers. They are classified as follows:

Culture comprise set of values and ideologies of a particular community or group of individuals. Culture of an individual which decides the way he/she behaves. Culture refers to value of an individual. An individual in his childhood from his parents and relatives later becomes his culture.

Social factors play an essential role in influencing the buying decisions of consumers. Human beings are social animals and need people around to talk to and discuss various issues to reach to better solutions and ideas. It is important for individuals to adhere to the laws and regulations of society.

Personal Factors play an important role in influencing the buyer behaviour. It helps to understand the buying tendencies and spending patterns of consumers. All individuals do not prefer similar products. Buyer behaviour deals with as to why and why not an individual purchases particular products and services.
Psychological factors are the factors that operate within individuals and determine their general behaviour on the basis of perception, motivation, beliefs and attitudes and learning.

**Buying Decision Process**

![Diagram of Buying Decision Process]

Need Awareness is the stage in which the consumer recognizes an unsatisfied need. It may arise internally or by external stimulus. A consumer is said to recognize an unsatisfied need when there is a discrepancy between what a consumer wants and actually he has got.

Information search is the second stage in which the customer after recognizing the problem or need, searches for product information that can resolve the problem or satisfy the need. There are two types of information search. Internal search where the customer searches for information in the memory and external search where the consumer obtains information from friends, relatives and the media.

Evaluating alternatives is the third stage in which the buyer view different brands for possible alternatives. Various objective and subjective characteristics are important to the buyer to evaluate the alternatives.

Purchase decision is the fourth stage where the buyer chooses the product or brand. The consumer also decides how much to buy, when to buy, where to buy and how to pay for the purchase.
Post–purchase evaluation is the last stage in which the customer after purchase begins evaluating the product to ascertain the actual performance of the product with expectations.

**Brand**

The term “Brand” means any identification mark used to identify the product of a seller and to differentiate it from the products of the competitors. Branding is the process of assigning a distinctive name to the product by which it is known and remembered. It is the process by which the product is branded. It is a general term covering various activities such as giving a brand name to a product, designing a brand mark and popularizing it.

**Brand loyalty**

Brand loyalty is a pattern of consumer behaviour where consumers become committed to brands and make repeat purchases from the same brands over time. Loyal customers consistently purchase products from their preferred brands, regardless of convenience or price. Companies often use different marketing strategies to develop loyal customer, including loyalty programs i.e. rewards programs or trials and incentives.
Model of consumer attitude towards MLM brands

- **PRODUCT FACTORS**
- **PERSONAL FACTORS**
- **SOCIAL AND PSYCHOLOGICAL FACTORS**
- **PROMOTIONAL FACTORS**

Consumer Attitude towards MLM

Consumer Behaviour  Brand Loyalty
Classification of customers as regards to brand loyalty

HardCore

Brand Loyalty

Non - Users

Brand Switchers

New Users

Product Factors:
- Brand Name
- Quality/Consistency
- Price/Value for money
- Trustworthiness
- Aesthetic Package

Promotional Factors:
- Advertisement/WOM
- Incentive schemes/Down line commission
- Low Priced sample pack
- Extra benefits (Buy one Get one free offer)
- Discounts and Seasonal Offers

Personal Factors:
- Need/Lifestyle
- Dignity/Social status

Social and Psychological Factors:
- Brand/Company Reputation
- Influenced by Distributors
- Influenced by Friends/Family members
- Took MLM as a means of employment
- Readiness to spend for grooming

Classification Types:
- Hardcore
- Brand Loyalty
- Non-Users
- New Users
- Brand Switchers
Hard core loyal consumers are the ones who buy the product repeatedly irrespective of premium price charged by the brand, even if the brand has changed.

Brand switchers refer to consumers who use two or more brands when a single brand does not satisfy all their needs.

Brand loyalty occurs when a customer repurchases the same product whenever possible, and continues to recommend or maintain a positive attitude towards the product. Customers are loyal due to high switching barriers or lack of real alternatives. Customers are loyal as they are satisfied and want to continue that relationship. Brand loyalty is a buyer’s overall attachment or deep commitment to a product, service brand or organization. Brand loyalty is important for an organization to ensure that the product is kept in the minds of the consumers and prevent them from switching to other brands.

Brand loyalty is one of the most important concepts in the world of marketing and business. Brand loyalty is very important from the marketing strategy perspective, especially when current markets are passing through a high mature phase and intensive competition. Keeping the customers loyal to the brand is very important for the growth and survival of the organization. Brand-loyal consumers are willing to pay more for a brand. This strategy is considered more effective and efficient than attracting a new customer. Brand loyalty leads to greater market share when the same brand is repeatedly purchased by loyal consumers. Brand is the sole distinguishing factor among competing and similar products.
Theoretical framework of country of origin and brand loyalty on cosmetic products among Malaysian students.

Country of origin, cosmetic brands, brand reputation, purchase behaviour and demography of students are independent variables. Brand Loyalty is a dependent variable. The study investigated the challenges of brand loyalty practices among the country of origin, cosmetic brands, brand reputation, purchase behaviour and demography of students by creating the conceptual framework for development of brand loyalty perspective of country of origin, brand reputation, purchase behaviour on the cosmetic brands present among Malaysian students.
Benefits from brand loyalty

- Longer Tenure as a customer
- Lower sensitivity to price increase
- Dramatic effect on profitability

INFLUENCE OF BRAND LOYALTY ON CONSUMER BEHAVIOUR

Brand Loyalty has a favourable attitude towards consistent purchase of a single brand over time. It results from positive reinforcement of previous actions. It reduces risk and saves time due to favourable results.

M.S.Sarma and V.Rana Pratap (2011) in their study on brand loyalty and satisfaction as regards toilet soap among 200 urban consumers in Warangal District (A.P) observed that unique ingredients of soap was ranked first among major influencing attributes in the purchase process. Santoor was the most popular brand with 31% users, majority of the respondents
purchased toilet soap from super bazaars, organized retail outlets of whom 45% purchased once in a month. Chi-square test revealed that there was no significant difference among the respondents belonging to different income groups. There was 10% increase in the present toilet soap brand but when the price was increased to 20% or 40% above the current price, respondents belonging to different income groups exhibited altogether different behaviour. 78% respondents preferred to purchase the same brand from another shop. The respondents were fully satisfied with only premium soaps like Dove and Pears and they were rated above average or excellent.

MULTI-LEVEL MARKETING

Network marketing, also known as Multi-level marketing (MLM), is a marketing activity that compensate promoters of direct selling companies not only for product sales they personally generate, but also for the sale of others whom they introduced to the company. The products are marketed directly to consumers by means of relationship referrals and word-of-mouth marketing. Network marketing is a marketing where marketing activities are carried out through direct selling and referrals there by removing intermediaries from the distribution channel.

Network marketing provides an opportunity to earn additional/residual income. Network marketing Companies focus more on recruiting down lines rather than selling products to customers. Individuals, involved in distribution channels, represent the Company as the employee of the Company with no fixed salary but are awarded commission in return. They develop the organization in two ways (i) building an active customer base who purchase directly from the Company, and (ii) recruiting a down line of independent distributors who also build a customer base. Thus, there is a scope of earning more on the part of distributors and hence are motivated to join network marketing business.
A marketing Company is called as MLM or network marketing Company when it had established business for atleast 10 years as on Dec 31st 2012 and should have a Google Page rank – GPR - (A scale of 1 to 10, 10 being the best). The Company must have an Alexa Rank- AR (Here the smaller the better). The Company must show in Google trends- GT, All Regions in last 12 months. Amway, Herba life, Avon, Ori flame, Tupperware are some of the examples of MLM Companies operating as MLM around the globe.

Sreekumar, Sasmita Mishra and Swapna Menon (2008) in their study on consumers’ attitude towards Network Marketing among 35 users and 93 non-users in Rourkela city observed that 80.64% of non-users were aware of Network Marketing, 60% obtained information from friends, maximum number of users were aware of Oriflame, majority felt that network marketing was an easy way to earn money and get quality products, 90% of consumers spent Rs.3000 pm and personal care products was the most popular one. The weighted average score showed the most important factor perceived by the users of network marketing was quality and timely delivery. Brand name, goodwill and image were important for Network Marketing.

R. Kuselar, M.Senthil and N.R.V. Prabhu (2011) in their study on network marketing through buzz marketing strategy among 600 network marketers belonging to Amway India in Hyderabad and Secunderabad observed that age, gender, education, marital status, occupation, monthly income had no relation with the level of satisfaction derived. Most of the distributors collected information through friends and relatives who were also distributors. Word of mouth played a dominant role in network Marketing.

ORIGIN OF MULTI LEVEL MARKETING

It is generally accepted that the first multi-level marketing plan was introduced in 1945 by the California Vitamin Company that later
became Nutrilite. The plan allowed Nutrilite distributors with at least 25 regular customers to recruit new distributors and draw 3 percent commission from their sales. Unlike traditional direct selling, this was an on-going payment whenever the customer re-ordered; allowing direct sellers to build a sales organization that could generate a residual-like income.

**ADVANTAGES OF MULTI LEVEL MARKETING**

MLM is a very attractive business model for those who want to supplement their current income.

- A business that uses MLM as a means to market a product or service gains as they need not hire full time salespeople.

- Marketing is done through a multi-tiered system of independent representatives. They are responsible for selling the product or service offered by the Company and for recruiting new independent sales people into the business.

- One distinct advantage is low overhead cost for the independent representative.

- Most orders are taken either online or through a campaign of catalogue distribution. The affiliate takes these orders and combines them into a single large order from the Company. Then the affiliate distributes the products to those who had placed orders.

**MARKETING MIX**

**PRODUCT**

MLM products have higher quality than retail products. ‘Feel better’ is the key to success in this business. The product is the strong foundation for any MLM company. A quality product which does not lose its appeal would bring income to the business. MLM Company offer products to cater the
needs of all age group in different categories such as beauty care that includes skin and health care, nutrition supplements and accessories. The products are offered to both men and women.

**PRICE**

The customer is able to personally consume the preferred products at a wholesale price rather than retail prices. The distributors earn the difference between the retail price and the wholesale price he/she paid to acquire the product. In MLM business builder earns commission on sales of the distributors/down line and also the distributor financially benefits from personal consumption at wholesale prices, as they would have to pay some retail mark up if they acquire these products.

**PLACE**

The sales people are expected to sell products directly to consumers by means of relationship referrals and word of mouth marketing. The products are available for sale online too. In MLM the distributors house or the customers house act as the place of sale for the product.

**PROMOTION**

MLM products are promoted through social media platforms such as Facebook, Twitter etc. They are promoted through articles on the first page of Google. Solo advertisements find the responsive list of subscribers who would be interested in buying the products.
FACTORS INFLUENCING CONSUMER BUYER BEHAVIOR AS REGARDS MLM PRODUCTS

PERSONAL FACTORS

i. Lower initial cost for the distributors/customer to start his/her own business.

ii. Excellent training about product/service and the way to carry out business from their up-lines

iii. Opportunity to earn additional income

iv. Flexibility to work at one’s own place and time

v. Excellent travel opportunities

vi. Opportunity to meet, associate and interact with positive and like-minded individuals

vii. Choice of retirement at any point of time

ECONOMIC FACTORS

MLM contributes to the economic growth of the nation. It contributes to the growth of national income. This leads to improved standard of living.

SOCIAL AND PSYCHOLOGICAL FACTORS

MLM enables one to create new friends and relationships. It is an easy way of develop new networks. The down lines recruited become friends, and they not only offer business but also personal support.

Reference group can influence the belief, attitude and behaviour of a consumer in different circumstances. Hence buyer behaviour and brand preference also changes. Consumers are influenced by word of mouth information from members of reference groups rather than advertisement.
Family is generally a primary decision making unit with complex with different roles and functions. The influences of by family members play an important role in decision making. A great deal of family interaction happens before the purchase decision is made, especially on expensive products or personal care products that the entire family uses.

Shailesh Kumar J. Limbad (2013) in his study on women’s buying behavior as regards cosmetics, in Surat Region, India observed that out of 150 women consumers in Surat, 49% were aged between 21-25 years, 51% were housewives, 93% used branded products, 26% bought cosmetics for fashion purpose, 30% bought cosmetics from medical stores, 55% spent an average of Rs. 501 – Rs. 750 per month on cosmetics. Likert scale revealed factors like brand image, quality, quantity etc that influenced buyers. Nyle Shampoo and Ponds face wash were brand leaders.

MLM in India

Direct selling is a relatively new industry in India. It had provided self-employment opportunities to more than 5 million people, out of which nearly 60 % were women. Besides providing additional income opportunities to direct sellers, the industry also generated direct employment. Majority of the direct selling companies outsource production, packaging and distribution of their products and thus generate direct employment across the value chain while enabling the development of SME sector. The industry also contributed to the exchequer INR10 billion as taxes. Many direct selling companies had been actively contributing to social activities.

In India, the industry had contributed significantly to women’s empowerment, skill development, technology percolation and the growth of SME sector, besides contributing to the exchequer. In addition, the industry also provides a viable form of alternative income, and promotes self-
employment. Over five million people were associated with the industry as direct sellers.

Lahiri and Das (2011) found that customers of MLM brands were loyal than that of non MLM brands and the factors considered for selection of MLM brands were availability, quality, price and promotion.

**AMWAY**

Amway is the short form of American way. It is an American Company that uses a MLM model to sell a variety of products, primarily in the health, beauty and home care markets. It was founded in 1959 by Jay Van Andel and Richard Devos. It is one of the leading MLM Company having presence in many countries across the globe. They offered 450 unique high quality products in the areas of nutrition and wellness, beauty, home care and personal care, home tech and insurance. Some of the products of Amway are dish drops, dynamite, G & H, Glister, artistry youth xtend, persona, SA8, satinique, deodorants and detergents.

**AVON**

Avon is an American international manufacturer and direct selling Company in beauty, household and personal care categories. It is the fifth largest beauty Company and second largest direct selling enterprise in the world. It was founded in 1886 by David H. McConnell. Some of the products of Avon are body lotion, body wash, cleanser, conditioner, eye care, face treatment, foot care, face mask, intimate care, fragrance women/men and lipstick.
ORIFLAME

Oriflame is a MLM Company founded in 1967 in Sweden by the brothers Jonas af Jochnick and Robert af Jochnick. The Company sells personal care, accessories and nutritional products. Some of the products of Oriflame are day cream, night cream, serums, capsules, sun protectors, cleansing systems, eye makeup remover, toners, moisturisers and skin care tools

HERBALIFE

Herbalife International is an American Multinational Corporation that develops markets and sells nutrition supplements, weight management, sports nutrition and personal-care products. The Company was founded by entrepreneur Mark Hughes in 1980, and it employed around 7,800 people worldwide. Some of the products of Herbalife are weight management products, sports supplements, vitamins, minerals and supplements, herbal tea, nutrition bars and drinks for digestion and nausea, jars and containers, coffee tea and beverages and grocery and gourmet foods.

TUPPERWARE

Tupperware is the name of a home product line that includes preparation, storage, containment, and serving products for the kitchen and home. It also includes plastic containers used to store goods, and or food. In 1942, Earl Tupper developed his first bell shaped container and the brand products were introduced to the public in 1948. Tupperware develops, manufactures, and internationally distributes its products as a wholly owned subsidiary of its parent company Tupperware Brands. It is marketed through approximately 1.9 million direct sales people on contract. Some of the products of Tupperware are cookware and bake ware, storage and thermo
ware, kitchen tools, dining and serving, tea and coffee serve ware, micro wave cooking and disposables.

CONCLUSION

This chapter discussed the theoretical background of buyer behaviour and brand loyalty and also about multi-level marketing. It also provides the basis for the propositions that are identified and further developed in the next chapter.