CONSUMER BUYING BEHAVIOR DURING A RECESSION: AN APPLICATION TO THE PC INDUSTRY WITH A FOCUS ON APPLE

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ABSTRACT

The following research explores consumer buying behavior and the decision making process during a recession in the consumer electronics industry, with a focus on personal computers. The research application focuses on both the supply and demand side of the market, analyzing general consumers in the marketplace, as well as the best practices of Apple, Inc., an American electronics manufacturer. This work will begin with an introduction, followed by an analysis of current literature on consumer behavior and the decision making process. Following the literature review, an overview of the laptop industry will be discussed, with a focus on Apple and the effects of the recession on US consumption. In the final chapter, results of the consumer interviews will be analyzed and discussed, and recommendations will be made to firms based on this information. This work will end with a conclusion, summarizing the entire work.
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1. INTRODUCTION

1.1 Justification of the Topic

The current state of the United States economy has resulted in a heavy burden for companies across the nation. The decreased spending and increased saving amongst consumers has resulted in a loss of profits for most companies, and experts predict this change will have lasting effects (Lee, Rabanal, & Sandri, 2010). Consumers are now aware of the dangers of spending above their means, and are better educated financially. This new trend has and will create a new challenge for marketers, as consumers are evaluating their needs and being more selective in terms of purchase decisions. As a result, firms need to re-evaluate their marketing strategies and find more effective ways to market their products, with a focus on meeting the needs and delivering value to consumers.

If marketers try and understand consumer behavior and the decision making process for purchase decisions, their strategies will be much more effective than if they simply advertise the product alone. The best marketing strategies begin with understanding consumer desires and motivations on a deep level, and building an effective marketing strategy from this perspective.

I predict that during a recession, consumers are more likely to spend more time contemplating purchases, especially costly ones. I predict that consumers are actively trying to change their buying behavior and are cutting back on items they do not need, including luxuries. In addition, I predict that the primary motivations for consumer purchasing are still the same, and consumers will continue to purchase what is valuable to them, regardless of price. I also predict there will be variations in the degree of
change in buying behavior depending on age, gender, and socioeconomic status, or income level.

The most successful companies are those who possess a sustainable competitive advantage that is valuable, rare, and not easily imitated by competitors. Generally, firms focus on either product innovation, customer service, or operations. Often, firms who try to specialize in all three areas lack focus and consistency. The most successful firms choose one area of main focus and deliver secondary in the other two categories. This paper will help companies realize the importance of determining a source of sustainable competitive advantage, and the importance of communicating this effectively to consumers.

This study will investigate how the consumer decision-making process and buying behavior change during a recession, specifically for laptop computers and electronics. It will also investigate general motivations for buying laptops in addition to specific factors important in the purchase decision. In addition, it will analyze Apple and Apple customers to understand their success from a consumer as well as operational standpoint. This field research will then be combined with purchase motivations in order to apply this knowledge and offer recommendations to companies for their marketing strategies.

1.2 General and Specific Objectives

This study will evaluate consumer buying behavior and the decision making process during the recession in the electronics industry with a focus on laptops. It will investigate how the consumer decision-making process changes, and how companies
can use this information to tailor their strategies. In addition, this research will incorporate Apple, Inc., and investigate their success during the recession. Apple is a US based electronics company that produces laptops, mp3 players, cell phones, and other gadgets. Apple has managed to capture significant market share even in these financially conservative times. We will look into Apple’s best practices and strategy to determine possible explanations for this. Specifically, this research will answer the following questions:

- Does the consumer decision making process for purchase behavior change during a recession in the consumer electronics industry? If so, how?
- What are the main factors that influence buying behavior during a recession for laptops and other consumer electronics?
- What are the most important factors to consumers when purchasing electronics?
- What are the underlying needs that drive consumers to buy electronics and laptops?
- How do consumers choose between brands?
- For consumers that are loyal to Apple, what characteristics of the company/product keep them loyal?

1.3 Methodology

A literature review will begin this work by providing a strong academic foundation for understanding some of the most widely used models of consumer behavior. The literature review will be comprised of secondary research in the form of academic and
management journals. Also, the industry analysis of laptops that follows will set a foundation for the field research.

The field research will be conducted by semi-structured in-depth interviews with twenty consumers from the electronics industry. The outline for interviews was designed on the base of the literature review and it consists of multiple open-ended questions regarding consumer-buying behavior during a recession, specifically for electronic devices. Most of the consumers will be chosen at random while exiting Best Buy, an electronics retailer with locations in Raleigh, NC. Customers exiting this store will be chosen because they represent an appropriate random sample of consumers that purchase laptops. Interviews will also take place outside of the Apple store in Raleigh, NC. Interviews will be recorded using a portable tape recorder.

After interviews are conducted, answers will be analyzed and synthesized and presented in the results section, offering answers and explanations to research questions. The analysis of results will then provide a framework for developing recommendations to firms for ways to effectively develop marketing strategies and increase sales of their products.

1.4. Framework

The present work comprises three main parts. The literature review will examine theories and trends of consumer behavior and analyze the decision making process. It will also examine underlying consumer behavior and motivations to help set the foundation for understanding why humans behave as they do in the marketplace. Three of the most widely accepted models in consumer behavior will be discussed, the
Howard & Sheth model (1969), Engel, Kollat & Blackwell (1986), and Howard (1989). In addition, the Theory of Reasoned Action (TRA), its extension, the Theory of Planned Behavior (TPB), and the Hierarchy of Effects model will be discussed. After introducing these models, we will apply the Consumer Decision-Making Process and explain the steps in detail, followed by highlighting certain internal and external factors affecting the consumer decision-making process.

The next chapter of this work will give an overview of the consumer electronics industry with a focus on personal computers (commonly known as laptops). A Porters 5 forces analysis will be conducted to determine competitive rivalry within the industry, bargaining power of suppliers and customers, threat of new entrants, and threat of substitute products. A PEST analysis will also be conducted to determine political, economical, social, and technological factors affecting the industry. After analyzing the industry, Apple will be introduced with a SWOT analysis and summary of best practices, offering insight into their continued success during the recession. The last section of this chapter will explain the effects of the recession on US consumption to set the foundation for application of the research. After research is conducted and analyzed, it will be organized into results in chapter three. After analyzing results, recommendations will be made to firms based on the findings. Finally, the main conclusions and implications of the study will be presented.
2. LITERATURE REVIEW

Several models of consumer behavior have been developed and studied in order to assist in understanding buying behavior of consumers. Many of these models have been revised and challenged, as new research is conducted and new theories are developed. While many studies have been conducted explaining theories on consumer buying behavior, current research considering consumer buying behavior during a financial recession is lacking.

The following theoretical framework will begin with defining and examining consumer behavior and introducing a few classic models of consumer behavior. The research will then focus on the consumer decision-making process in terms of consumer buying behavior. The synthesis of this literature should help set the foundation for developing or adding to an existing model to describe the effects of an economic recession on the consumer decision making process and buying behavior in the consumer electronics market.

2.1 Consumer Behavior Models

Consumer behavior accounts for all actions and decisions made by humans when they purchase and use goods and services. The study of consumer behavior is important because in order to be successful, firms must be able to understand the driving forces behind consumer purchase decisions. Consumer behavior helps determine why consumers choose certain brands over others, how they make these decisions, and how companies can use this knowledge to create value for customers.
What drives consumers in the market place? What makes consumers buy? What drives them to need something in the first place? What keeps them coming back? Consumer behavior can be defined as:

“The study of the processes involved when individuals or groups select, purchase, use or dispose of products, services, ideas, or experiences to satisfy needs and desires” (Vainikka, 2010).

Vainikka further describes consumer behavior as a combination of psychology, sociology, social anthropology, and economics to help explain when, why, how, and where people buy products, as well as the decision making process of the buyer. This includes the actions one takes in purchasing and using products and services, including mental and social influences affecting those actions. There have been many models of consumer behavior that help predict and explain buying behavior. During the last 50 years, numerous models have been developed and expanded to help explain the behavior of consumers in decision-making situations. This literature will look at some of the most well known models to date.

The development of consumer behavior theory has passed through several stages. The first stage was dominated by empiricism and lasted from 1930 to late 40’s. It was followed by a motivational research phase in the 50’s (Cooper et al., 1993). It was not until the 60’s that consumer behavior was analyzed from a more complex perspective; therefore it can be considered that consumer behavior as a discipline started during this period. At the beginning, only partial proposals were developed, or focused on a specific part of consumer behavior such as the learning process (Howard, 1963) or perceived risk (Bauer, 1960), among others. Then, scholars focused their
attention on an attempt to provide a general and integrated framework for analyzing consumer behavior, what led to the appearance of several well-known models during the late 60’s, 70’s and 80s, deserving special mention those from Bettman (1979); Engel, Kollat and Blackwell (1986); Fishbein and Ajzen (1975); Howard and Sheth (1969); Howard (1989) and Nicosia (1966).

Next, we are going to briefly summarize three of these classical models that have been the most cited and discussed in the consumer behavior literature: Howard and Sheth (1969); Engel, Kollat and Blackwell (1986) and Nicosia (1989).

Howard and Sheth (1989)

The Howard and Sheth model is considered to be one of the most complete and significant research models on buying behavior, and is also one of the most debated. Depicted in Figure 1, this model involves the complexity of the consumer decision-making process in an instance of incomplete information (Howard, 1989). It attempts to explain how the consumer processes information and makes decisions through perception and learning inputs (stimuli and social marketing) and translates these inputs into outputs, or purchase decisions.

This model suggests three levels of decision-making: extensive problem solving, limited problem solving, and habitual response behavior. For extensive problem solving, the consumer does not have any basic information or knowledge about the brand or preferences for a specific product. In this situation, the consumer will extensively search for information before making a purchase decision. Limited problem solving exists for consumers who have some knowledge about the market, and some
degree of preference as to preferred brand. In this instance, consumers will obtain comparative brand information in order to reach a decision. With habitual response behavior, the consumer is educated about different brands available, and can differentiate between the characteristics of each product (Howard, 1989).

Figure 1: Model of Buyer Behavior


As shown in this diagram, four sets of variables can be identified: Inputs, outputs, constructs, and external variables. The inputs include significative sources, or physical aspects of the product; symbolic sources, or ideas and images attached to the supplier; and social sources, or ideas and images attached to the product by society. The perceptual and learning constructs deal with psychological aspects involved in decision-making, including how the customer receives and understands information, as well as...
information about the brand, criteria for evaluating alternatives, and buying intentions. Outputs are the results of the perceptual and learning variables, and how consumers will respond to these variables (Howard, 1963).

Nicosia (1966)

The Nicosia model attempts to establish a link between marketing firms and their consumers. It explains how marketing activities of a firm influence the consumer and result in a decision to buy. According to this model, the messages from the firm influence the predisposition of the consumer towards the product. The consumer then develops a certain attitude towards the product based on the situation, and searches for the product or evaluates the product when deciding between alternatives. If these steps have a positive impact on the consumer, they may decide to buy. If they have a negative impact on the consumer, it is not likely that they will buy. The model segments these activities into four basic fields. Field one is divided into two subfields: firm attributes and consumer attributes (Nicosia, 1966). Depending on the way messages are received by a consumer, a certain attribute may develop and become the input for field two. Field two consists of information search and evaluation of alternatives as well as product being advertised. If this process results in a motivation to buy, it becomes the input for field three, which consists of purchasing the product. Field four is when the consumer actually uses the item, and output from this field is classified as feedback to the firm (Nicosia, 1966).
Engel, Kollat and Blackwell (1986)

Sometimes referred to as the EKB Model (1986), this model describes consumers’ decision processes when purchasing goods, and describes how decisions are made when choosing amongst available alternatives. A diagram of the model is depicted below.

Figure 2: EKB Decision Making Process Model

Source: (Fowler, 2004)
According to this model, consumers enter through seven steps when making purchase decisions, and during this process, individuals interact with a “buying center”, which influences the purchase decision (Fowler, 2004). First, consumers recognize a need within themselves (this is further explained in section 2.3.7 under Maslow’s hierarchy of needs). After the consumer recognizes a need, they begin to search for information, which includes external search and information already stored in memory. The external search is affected by market stimuli, which is influenced by exposure, attention, comprehension, acceptance, and retention. Furthermore, a consumers’ internal search, or memory, is affected by attention, comprehension, and acceptance. In addition to alternative evaluations, which are affected by attitudes, beliefs, and intentions. Next, the consumer evaluates their alternatives, which are affected by the consumers’ attitudes, beliefs, and intentions. The consumer then makes a purchase decision, which leads to an outcome of either satisfaction of dissatisfaction, which in turn shapes the way the consumer views the product and experience as a whole. In section 2.2, the consumer decision making process will be isolated and explained in further detail.

After explaining these classical integrated models on Consumer Behavior, we are going to present other relevant models that are helpful to understand how consumers behave. As mentioned before, there are many models but we will focus on the Social Influence Theory as well as the Theory of Reasoned Action (TRA) and its extension, the Theory of Planned Behavior (TPB) (Richetin, Perugini, Adjali, and Hurling, 2008). Both models agree that the most important determinant of human behavior is a person’s
intention to perform that behavior (Cooke & French, 2007). After looking into some of these models of consumer behavior, two models of decision-making will be examined, the Hierarchy of Effects model and the Consumer Decision-Making Process.

The Theory of Reasoned Action

Developed in 1967 by Icek Ajzen and Martin Fishbein, the Theory of Reasoned Action is a theory used to explain human behavioral intention. The Theory of Reasoned Action operates on three general constructs, behavioral intention (BI), attitude (A) and subjective norm (SN). It predicts that a person’s attitudes and subjective norms will result in behavioral intention (Cooke & French, 2007). A summary of the Theory of Reasoned Action is depicted in the figure below.

Figure 3: Theory of Reasoned Action

Source: Munro, Lewin, Swart, Volmink (2007)
Under the Theory of Reasoned Action, attitudes include all of the beliefs a person has about the specific behavior, such as behavioral belief and evaluations of expected outcome (Levine & Pauls, 1997). Subjective norms include all of the external factors affecting behavior, such as attitudes and beliefs of members of one's social circle, as well as one's motivation to comply with the normative beliefs. The sum of attitudes and subjective norms then form behavioral intentions, which will in turn predict actual behavior. (Chang, 1998).

The Theory of Planned Behavior

In 1988, The Theory of Planned Behavior was added to the existing model of the Theory of Reasoned Action as an extension of this model, and aims to further explain the link between attitudes and behavior. The major difference between these models is the addition of a third determinant of behavioral intention, known as perceived behavioral control, which is determined by two factors: control beliefs and perceived power (Cooke & French, 2007). The theory of planned behavior is illustrated below.
According to the TPB, people’s actions reflect their intentions and perceptions of control over the behavior, and intentions are a result of attitudes, subjective norms, and perceived behavioral control (Richetin, Perugini, Adjali, and Hurling, 2008). Perceived behavioral control indicates that an individual's motivation is influenced by how difficult the behaviors are perceived to be, as well as how successfully the individual can or cannot perform the activity (Levine & Pauls, 1997). In addition, as stated by Levine & Pauls (1997):

“If a person holds strong control beliefs about the existence of factors that will facilitate a behavior, then the individual will have high perceived control over a behavior. Conversely, the person will have a low perception of control if she holds strong control beliefs that impede the behavior. This perception can reflect past experiences, anticipation of upcoming circumstances, and the attitudes of the influential norms that surround the individual.”
Furthermore, attitudes are positive or negative feelings about the behavior, and social norms reflect a person's feeling about social acceptance in regards to performing the specific behavior, as stated in the Theory of Reasoned Action (Cooke & French, 2007). This information shows that an individual's behavior is influenced most by existing beliefs, ideas of control, and ways of life. It also shows that behavior is largely influenced by how that decision will affect the way they are perceived by their social circle. Consumer behavior is not only influenced by one's own beliefs and attitudes, it is influenced by others' attitudes as well. In terms of consumer decision-making, models have been proposed to help categorize the steps consumers take when evaluating purchase decisions.

The Hierarchy of Effects

The Hierarchy of Effects is a widely used consumer behavior model that attempts to explain the consumer decision-making process. The idea of the model rests on the theory that consumers go through a series of psychological stages before making a purchase decision and focuses on “consumer learning that takes place as he/she processes information from the external world” (Matsuno, 1997). An illustration of the Hierarchy of Effects is demonstrated in figure 2.
Figure 5: The Hierarchy of Effects (From bottom to top)

<table>
<thead>
<tr>
<th>Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conviction</td>
</tr>
<tr>
<td>Preference</td>
</tr>
<tr>
<td>Liking</td>
</tr>
<tr>
<td>Knowledge</td>
</tr>
<tr>
<td>Awareness</td>
</tr>
<tr>
<td>Unawareness</td>
</tr>
</tbody>
</table>

Source: Personal Summary from Matsuno (1997)

As quoted directly from Matsuno (1997):

“The HOE model begins with the state where a consumer has no awareness about the brand (unaware) then develops awareness triggered by external stimuli, such as advertising message or “word of mouth.” As he/she obtains and processes more information, the consumer develops more specific knowledge about the brand. The knowledge, then, is used as basis to form a liking (or disliking), leading to a preference of brand(s) relative to the others. However, people need to be pushed beyond the preference stage to actually buy the brand of preference. The preference stage, after all, simply means that the consumer has formed a preference psychologically. Now it takes conviction for him/her before actually buying the brand.”
Understanding the Hierarchy of Effects is necessary and helpful when trying to determine consumer-buying behavior, and serves as a good starting point for understanding the specific consumer decision-making process when purchasing goods.

The consumer decision-making process includes many important elements from all of these different models, and serves as a good model of reference when studying consumer-buying behavior during a recession; therefore, it will be developed in the next section.

2.2. The Consumer Decision-Making Process

The process of making a decision from various alternative options is referred to as decision-making. Behind the act of every purchase lies a decision making process that must be investigated (Lawson, 1997). Understanding the process of how consumers make purchase decisions has been debated among scholars and researchers for years. Studying and understanding the steps consumers take when making purchase decisions will not only help firms create more value for customers, it will also help them develop more effective marketing strategies.

There are three main levels of consumer decisions and an information-processing model included in the consumer decision-making process (Rai University, 1999). The three levels of consumer decisions include generic product category level, brand level, and retail level. The generic product category level is the product the consumer wants to purchase, such as a car or clothing. The brand level is the specific brand a consumer wants to purchase, such as a Mercedes car or clothes from a specific
designer, and the retail level is where the consumer wishes to purchase the product, such as a retail outlet or online (see Figure 2).

Figure 6: Levels of Consumer Decision Making

<table>
<thead>
<tr>
<th>Generic Product Category Level</th>
<th>Brand Level</th>
<th>Retail Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which Product?</td>
<td>Which Brand?</td>
<td>Where?</td>
</tr>
<tr>
<td>Cell Phone</td>
<td>BlackBerry, Apple, etc.</td>
<td>Best Buy, Verizon, Online</td>
</tr>
</tbody>
</table>

Source: Based on Rai University Book (1999).

In addition to the three levels of consumer decisions made in the initial stages of purchasing, consumers also pass through a series of stages when making purchase decisions. Researchers have traditionally approached consumer decision-making from a rational versus emotional perspective. This school of thought assumes consumers to be more rational and cognitive, as well as emotional, but to a lesser degree (Schiffman & Kanuk, 1997). In this model the consumer passes through five stages of information processing: problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behavior (Matsuno, 1997). This decision-making process, often referred to as the consumer information-processing model, or consumer buying process, is depicted in figure 3.
2.3 Steps in the Consumer Decision-Making Process

Problem Recognition

The first step of the process, problem recognition, is when the consumer identifies a need that needs to be met (Lawson, 1997). This need can be identified when a consumer realizes there is a difference between their actual state and desired state, creating recognition of a problem (Matsuno, 1997). For example, a consumer may run out of milk or break their cell phone. In both instances, a problem has been recognized. The consumer realizes they will have to buy new milk, or purchase a new cellular phone.
Information Search

The next step in the process, information search, is when the consumer searches for information regarding their problem. This may simply mean paying more attention to available advertisements, searching online or reading articles about the product, or asking friends and family for information. According to Matsuno (1997), consumers have a very large set of brands available to them, but they will generally only be aware of a few. All of the brands the consumer is aware of are known as their awareness set. Furthermore, the brands a consumer is aware of that also meet certain buying criteria are known to be a consumers’ consideration set, or the brands a consumer would consider buying. After information search has been conducted, the consumers’ choice set is identified, representing the brands they have narrowed down to choose from.

Search strategies, the patterns of information acquisition customers use to solve their decision problems, can be routine, extended, and limited, and can be classified as either systematic or heuristic (Rai University, 1999). According to Rai (1999), A routine search is one where no new information is considered. This type of purchase is most common with repeat, routine purchases such as toothpaste or milk. An extended search includes extensive search and deliberation. This type of search is likely with more high involvement products, such as buying a car or a new lap top computer. Consumers will put time and energy into researching and selecting the best product to meet their needs. A limited search is a search in which limited time and effort are invested. Depending on the values of the consumer, this could be a product a consumer is buying for the first time, but does not require much thought, such as running shoes or a suitcase. A systematic search is comprehensive and involved,
whereas a heuristic search is quick and requires little thought. All of these search strategies are largely influenced and dependent on certain factors, which will be discussed in more detail later in the paper. The factors affecting search strategies are perceived risk, level of involvement, familiarity and expertise, time pressure, functional versus expressive nature of the product, and information overload (Rai University). The following table illustrates the six factors that influence search strategies.

Figure 8: Factors affecting search strategies

<table>
<thead>
<tr>
<th>1. Perceived Risk</th>
<th>Performance, social, psychological, financial, and obsolescence risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Level of Involvement</td>
<td>Importance of the product to the consumer</td>
</tr>
<tr>
<td>3. Familiarity and Expertise</td>
<td>Based on knowledge and experience</td>
</tr>
<tr>
<td>4. Time Pressure</td>
<td>Consumers do not have much time</td>
</tr>
<tr>
<td>5. Functional versus Expressive Nature of the Product</td>
<td>Is the product being purchased for functional or social reasons?</td>
</tr>
<tr>
<td>6. Information Overload</td>
<td>Too much information</td>
</tr>
</tbody>
</table>

Source: Summarized from Rai (1999)

Evaluation of Alternatives

The third step of the consumer decision-making process, evaluation of alternatives, is when the consumer assesses the value of the alternatives available to them. While there is no clear-cut model for the way every consumer evaluates options
available to them, they generally all make decisions based on fulfilling their underlying needs, and although beliefs about which products will satisfy their needs are often different, the underlying needs are usually the same (Rai University). Consumers look for products and product brands with a specific set of attributes that deliver benefits in order to satisfy their needs (Johnsson 1994).

Purchase Decision

The forth step of the consumer decision-making process, the purchase decision, is the act of choosing a specific product or brand, and purchasing.

Post Purchase Evaluation

The fifth and final step of the consumer decision-making process is the post purchase evaluation, which involves the feelings the consumer has after making the purchase. The post purchase evaluation is largely influenced by the consumers’ level of involvement with the product they are purchasing (Rai University, 1999). The level of involvement is dependent on the level of concern for or interest in the product as well as the extent to which the consumer searches for information prior to making a purchase decision (Matsuno, 1997). For example, a consumer who has a habit of buying a Coke will not be very involved in the purchase, as it is a habitual purchase. They will likely buy the Coke, consume, and be satisfied, giving little thought to the purchase. However, a product such as a personal laptop computer is generally a high involvement purchase, involves more information search and post purchase evaluations, and has a higher risk of cognitive dissonance.
According to the theory of cognitive dissonance, humans have a constant drive to reduce dissonance, which is the feeling of discomfort that results from holding two different beliefs (Gbadamos, 2009). For example, a consumer may spend a lot of money on a computer or car and end up second guessing their purchase decision. They might think, “Did I make the right decision?” “Did I choose the right brand?” “Was this product too expensive?”. By nature, humans are avoidant and want to reduce cognitive dissonance as much as possible, which explains why consumers generally spend more time evaluating alternatives and searching for information for a high involvement product. Such cognitive dissonance may result in a consumer switching brands the next time they decide to buy. It is important for marketers to not only convince consumers to buy, but to make sure they are satisfied after they purchase the product. Figure 6, illustrated below, helps to explain this process in the mind of the consumer:

Figure 9: Elaborate Post Purchase Evaluation

Source: Matsuno (1997)

According to the research, the likelihood of experiencing this dissonance is directly related to the individual’s tendency to experience anxiety, the degree of difficulty
in terms of choosing alternatives, the importance of the decision to the consumer, and the degree of commitment to the decision.

From this information, we can conclude that the post purchase evaluation is one of the most important aspects in terms of overall satisfaction with a purchase. Advertising and marketing need to be geared not only towards luring the customer in to make the purchase, but also taking appropriate steps to ensure customer satisfaction.

2.3.1. Main Factors influencing the consumer decision making process

*Internal*

Many internal factors affect the consumer decision-making process, such as motivation, perception, learning and memory, attitude, age, gender, personality, and lifestyle. At a very basic level, our underlying motivations influence us to make certain decisions. Maslow’s Hierarchy of Needs helps explain these underlying needs and motivations.

Maslow was the first to develop a theory of human motivations and needs. His research aimed to investigate human’s basic needs and motivations that drive them forward in life (Oleson, 2004). Maslow’s research concluded that humans have five basic levels needs in life, and that humans are constantly pursuing a higher level of need once a certain level has been reached. A model of the Hierarchy of Needs is illustrated below.
Maslow’s hierarchy of needs begins with physiological needs, which are the needs for food, clothing, shelter, and other basic necessities required to sustain life (Oleson, 2004). According to Maslow, once physiological needs have been met, other needs become important, moving up the Hierarchy of Needs.

The next level in the hierarchy is the need for safety and security, or the need to be free of danger. This level can be comparable to physiological needs. An indication for the need of safety is the presence of structure and routine in daily life (Oleson, 2004).

Once physiological and safety needs have been met, humans begin to develop the need for love and belonging, the third level in the hierarchy. Humans have a desire for close relationships and companionship in life, as well as the desire to be accepted and loved by others.
The fourth level, esteem needs, refers to the need to be accepted and respected by others, and to have a high level of self esteem. Maslow classified these needs into two basic categories: (1) “The desire for strength, for achievement, for adequacy, for confidence in the face of the world, and for independence and freedom”; (p. 85) and (2) “The desire for reputation or prestige (respect or esteem from other people), recognition, attention, importance, or appreciation” (p. 85, Oleson, 2004).

The last level in the hierarchy, self-actualization, is the need to know oneself completely, and be living and operating at their full potential. This occurs only after all other needs in the hierarchy have been met.

The hierarchy of needs helps to understand and explain some basic principles of human behavior. In theory, humans are constantly striving to fulfill needs in order to reach a happy, comfortable state of living.

Age and gender also affect our decisions. While our basic needs for survival are all similar, our needs as children vary from our needs as adults. In addition, men and women have different needs.

External

Our external environment also affects our decisions. The external environment includes everything on a macro and micro environmental scale, such as culture, social class, family, reference groups, and economic conditions. Culture, social class, family, and reference groups all influence our decisions. We as humans have a need to be accepted and connected with the outside world. Social influence plays a big part in our decisions. People evaluate their opinions and abilities with the opinions and abilities of
others, and often times make decisions based on what others think. In addition, we as humans feel pressure to conform in order to be accepted by society. Later on in this paper, we will examine how the current US recession has affected consumption.
3. APPLICATION TO THE COMPANY

This next chapter will begin with an overview of the consumer electronics industry with a focus on the laptop market. The industry will be analyzed using a PEST analysis, Porters five forces analysis, and then concluding with competitors and key factors. After the industry analysis, the paper will introduce Apple, Inc. with a SWOT analysis, and summary of best practices. The final portion of this section will investigate the effects of the recession on US consumption in order to set a good foundation for the research.

3.1 Industry Overview – Consumer Electronics Market-Laptops

Due to the broad nature of the consumer electronics market, this industry overview will focus on the computer hardware sector. The computer hardware market consists of three main segments: computers, peripheral devices, and storage devices (Datamonitor, 2009). This research will focus on the personal computers segment of computer hardware, specifically laptop computers. The PC market includes both laptop and desktop computers, and data regarding the PC industry as a whole is relevant in this analysis, as laptops represent a segment of the PC market.

A laptop computer, often referred to as a personal computer (PC), is a small, relatively inexpensive computer that is designed for individual and portable use. The industry began in the early 1970’s, with the first portable computer debuting in 1981 (Aditya & Abhinav, 2009). In the mid 1990’s, Microsoft and Intel were the standard for the software and hardware used in laptops.
Since 2004, growth in sales of laptops has exceeded that of desktops, largely due to the increasing price-performance ratio, consumer preferences, as well as increased hardware life (Aditya & Abhinav, 2009). According to Datamonitor (2009) the PC industry is projected to grow at a compound annual growth rate of 5.4% in market value during the years of 2007-2012. Due to the sluggish economy, these numbers are down 7.6% compound annual growth rate for 2003-2007. It is predicted that the laptop segment will face increased competition from new devices and technologies that are able to perform similar operations, such as smart phones and mobile Internet devices (Kozierok, 2001). Both evolving demands from consumers and new technologies will change the industry in years to come, and companies must alter their business strategies to accommodate these changes.

The following analysis of the PC market will include a brief PEST Analysis (political, economical, social, technological), as well as a Porters 5 forces Analysis.

3.1.1 PEST analysis

Political Factors

The laptop and PC industry is predicted to grow at a faster rate in developing countries compared to developed countries, of which the market is nearly saturated. Changes in government policies in these developing countries are likely to affect the growth rates in their markets, such as removal of import duties, changes in taxation, and labor laws (Aditya & Abhinav, 2009).

Outsourcing is also a significant political factor for the laptop industry. Many of the top laptop companies have started outsourcing manufacturing and production
overseas to significantly reduce costs. While cost effective, outsourcing to foreign
countries creates controversy in the United States due to job loss and the added strain
on the economy (Favreau, 2010). When outsourcing business abroad, companies are
also faced with the rules and regulations of the home country, as well as trade,
importing, and exporting regulations.

The increased effect of technology waste on the environment has resulted in
strict environmental regulations such as the RoHS (Restriction of Hazardous
Substances) and the WEEE (Waste Electrical and Electronic Equipment) Directive.
These regulations require manufacturers of electronics to either reuse or dispose of
electronic waste in an ecologically friendly manner. Furthermore, it requires these
manufacturers to allow consumers to return WEEE to them to ensure proper disposal
(Aditya & Abhinav, 2009). The enforcement of these laws cause an increase in the cost
of computers by unit, resulting in increased costs for consumers, or a reduction in
profitability for manufacturers.

Economical Factors

The economy is the number one influence on the various factors affecting the
growth or decline of the PC Market. The global recession of 2008 marked the beginning
of the slow down in demand for PC’s (Aditya & Abhinav, 2009). Companies cut costs
wherever and whenever possible, and consumers were making less, spending less, and
saving more. Datamonitor (2009) predicted a decline of 3.8% in global IT spending in
2008-2009, with a slow recovery beginning in 2010. The PC market growth is expected
to decline from 5.4% in 2009 to 4.1% in 2012, in terms of market value (Datamonitor,
2009). In addition, due to the frequency of outsourcing as well as importing and exporting laptops around the world, PC manufacturers are very much affected by fluctuating currency exchange rates.

Social Factors

The social factors affecting PC sales include education, personal preferences, income levels, and other cultural differences. All of these factors affect the type and amount of demand for personal computers. Differing market segments will view different PC manufacturers differently, and vice versa. PC manufacturers can use these demographics to segment the market and determine which types of consumers they wish to target (MacWilliams, 2010). For example, Apple targets high-income consumers with a strategy of premium pricing and performance compared with other laptop brands, allowing them to gain market share (Aditya & Abhinav, 2009). In contrast, the OLPC (One Laptop Per Child) has been developed for children in underdeveloped countries such as Africa and India.

Culture also plays a big role in the demand of laptops. In the United States, there has been an increased need for staying connected as much as possible through social networking sites, smartphones, and tablets. This represents a huge opportunity for electronics companies, as their products will keep increasing in popularity. Demand fluctuates during different times of the year, and companies often react accordingly, offering promotional sales during back to school months and holidays (Kozierik, 2001).
Technological Factors

Over the past several years, there have been numerous advances in technology, propelling the laptop computer industry forward in the market. These recent advances allow laptop computers to operate at optimum speed while remaining compact, portable, and practical. These technological advances have also resulted in increased efficiency, cutting costs for manufacturers, which in turn passes off to consumers. As stated by Aditya & Abhinav in their global laptop industry report:

“Increased technological advances over the past decade, such as increased processing power with reduced power consumption and reduced cost, or the standardization of windows and Intel in laptops, are one of the main reasons for the increase in market share of the laptop segment compared to the overall computer industry” (Aditya & Abhinav, 2009).

Due to technological advances and decreased costs, laptops are becoming a commodity for certain segments in the United States. While desktop sales led the market in the 1990’s, primarily for families and small businesses, laptops capture the market for individuals purchasing personal computers.

3.1.2. Porters five forces analysis

Competitive Rivalry within the Industry

The PC industry is extremely competitive. The main reason for this is the ease of entry into the market.

“[PC’s] are assembled from standardized components and not a lot of expense is required. There are few barriers to entry to the market…it is easy to set up a new PC
company. As a result, there are many companies making PC’s that perform similar functions.” (Kozierok, 2001).

In addition, the laptop industry has reached maturity, and the industry is seeing a slow price downtrend in the long term. Standardization of products has resulted in low switching costs, and competition is based on price instead of differentiation. As a result, the PC market is extremely price competitive (Aditya & Abhinav, 2009). Apple is an exception, as they compete by product differentiation and promoting premium products instead of cost. As much as price dictates competition in the industry, Apple has proved to be very successful with this strategy.

Bargaining Power of Suppliers

Due to increased commoditization of hardware components in a PC, bargaining power is relatively low (MacWilliams, 2010). Many manufacturers use different suppliers for the same component depending on who is cheaper at the time of purchase (Kozierok, 2001). Hard drives and motherboards have little power due to their limited branding on the final product. Microprocessor suppliers compete for market share but have limited power due to their need for product promotion among consumers. Because of this, suppliers have to keep their prices competitive to ensure manufacturers continue to purchase from them. (Aditya & Abhinav, 2009).
Bargaining Power of Customers

Customers have a large amount of bargaining power over manufacturers, due to the numerous amounts of alternatives available to them, low switching costs, and evolving demands.

“Consumer preference for mobility and wireless connectivity at low cost resulted in the growth of the laptop market compared to desktops. In addition, continued demand for cheaper costs lead to aggressive pricing as well as the creation of new categories such as netbooks...In addition, consumers buying behavior in developing markets influenced Dell’s decision to sell through retail stores as well” (Aditya & Abhinav, 2009).

Consumers have an immense amount of control over the PC market. Due to the fierce competition within the industry, manufacturers have to be extremely receptive to changes in consumer demand, and adapt both their branding and products accordingly.

Threat of New Entrants

In terms of the ease of manufacturing a PC, barriers to entry are low, posing a possible high threat of new entrants. However, although barriers to entry are low, the industry hosts aggressive pricing and reduced profit margins (Kozierok, 2001), causing potential manufacturers and small companies to become reluctant to enter into the industry. Large companies are able to hire top talent and invest more in research and development, increasing the likelihood of developing top of the line, innovative products (Aditya & Abhinav, 2009). To enter the market successfully, competitors must identify a gap in demand that they can provide consumers, as opposed to simply imitating
products that are already successful in the market. An example would be ASUSTek’s introduction of the netbook in late 2007. ASUSTek was the only manufacturer of this type of product, which resulted in a 103% growth rate for the company in 2008 (Aditya & Abhinav, 2009).

Threat of Substitute Products

The threat of substitute products in the laptop industry is extremely high. With new advances in technology, many electronic devices entering the market provide the same functionality of a laptop computer, plus some. Smartphones, for example, provide many of the same functions of a laptop, but also include a phone, mp3 player, camera, and countless applications. In addition, cloud computing, using multiple server computers through a digital network, can reduce the need for high computing power in portable laptops (Aditya & Abhinav, 2009) posing a threat to the laptop industry. Apple’s new iPad is an extension of the iTouch, providing all the functions of a laptop computer, but smaller and more compact without a keyboard. The following graph shows the market share of PC’s if the iPad were included in sales figures:
Figure 11: U.S. PC market share including the iPad

Source: (Elmer-DeWitt, CNN Money, 2010).

While this graph shows Apple's increased market share due to the iPad, the figure below represents the decline in notebook sales as a result of the iPad.
3.1.3 Competitors and key factors

The top 5 competitors that dominate the U.S. PC market are: Hewlett Packard (HP), Dell, Apple, Toshiba, and Acer (Datamonitor, 2009). The key success factors for these companies are a result of efficient production and distribution, innovation, and appropriate response to consumer demand.

“Efficient production and distribution capability is one of these key success factors. Due to the reduction in ASP’s of laptops (and PC’s), the industry is becoming more commoditized. Therefore the primary means to reduce production costs lies in process improvement from procurement to production and supply chain. This is possible by exploiting the benefits from mass production: more bargaining with suppliers, better global distribution networks, cheaper production facilities in foreign
countries, etc....Innovation and the ability to identify consumers’ needs are key success factors as well...the effect of these success factors has led to a consolidation in the computer industry, with the largest firms becoming bigger” (Aditya & Abhinav, 2009).

Table 1 depicts a competitive strength assessment for the top competitors in the industry.

Table 1: Weighted Competitive Strength Analysis

<table>
<thead>
<tr>
<th>KSF / Strength Measure</th>
<th>Weight</th>
<th>HP</th>
<th>Dell</th>
<th>Acer</th>
<th>Lenovo</th>
<th>ASUSTek</th>
<th>Apple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Resources</td>
<td>0.15</td>
<td>7 / 1.05</td>
<td>8 / 1.20</td>
<td>5 / 0.75</td>
<td>5 / 0.75</td>
<td>6 / 0.90</td>
<td>9 / 1.35</td>
</tr>
<tr>
<td>Reputation and image</td>
<td>0.15</td>
<td>7 / 1.05</td>
<td>8 / 1.20</td>
<td>6 / 0.90</td>
<td>5 / 0.75</td>
<td>5 / 0.75</td>
<td>10 / 1.50</td>
</tr>
<tr>
<td>Technological Skills</td>
<td>0.15</td>
<td>8 / 1.20</td>
<td>8 / 1.20</td>
<td>6 / 0.90</td>
<td>6 / 0.90</td>
<td>8 / 1.20</td>
<td>10 / 1.50</td>
</tr>
<tr>
<td>Global Distribution Network</td>
<td>0.15</td>
<td>6 / 0.90</td>
<td>5 / 0.75</td>
<td>8 / 1.20</td>
<td>7 / 1.05</td>
<td>6 / 0.90</td>
<td>3 / 0.45</td>
</tr>
<tr>
<td>Netbook segment</td>
<td>0.2</td>
<td>6 / 1.20</td>
<td>4 / 0.80</td>
<td>10 / 2.00</td>
<td>4 / 0.80</td>
<td>9 / 1.80</td>
<td>0 / 0.00</td>
</tr>
<tr>
<td>Global Market share</td>
<td>0.2</td>
<td>8 / 1.60</td>
<td>7 / 1.40</td>
<td>6 / 1.20</td>
<td>5 / 1.00</td>
<td>5 / 1.00</td>
<td>3 / 0.60</td>
</tr>
<tr>
<td>Sum of weights</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall strength rating</td>
<td>7</td>
<td>6.55</td>
<td>6.95</td>
<td>5.25</td>
<td>6.55</td>
<td>5.40</td>
<td></td>
</tr>
</tbody>
</table>

Rating Scale: 1 = Very Weak; 10 = Very Strong
The weights and values are based on the authors’ opinions and beliefs

Source: (Aditya & Abhinav, 2009)

In addition, figure 13 shows the market share as well as market growth for the top players in the U.S. market.
3.2 Introduction to Apple

Founded on April 1st, 1976 by Steve Jobs and Steve Wozniak, Apple, Inc. is a U.S. based multinational corporation that designs, manufactures, and markets personal computers, portable digital music and video players, and mobile communication devices (Datamonitor, 2011). In the past decade, Apple has become one of the most valued and trusted brands in consumer electronics, consistently finding new and exciting ways to create value for their customers.

Apple has developed a reputation of offering both innovative and unique products in the consumer electronics industry, which has helped them build one of the most powerful brands in the industry. For the past three years, Fortune magazine named Apple the most admired company in the world (Fortune, 2010). Apple has built an
empire on providing constant value to their customers. They create unique and innovative products that are easy to acquire, and even easier to use.

Apple offers four main product categories to their consumers: the Mac computer series, iPad, iPhone, Apple T.V., as well as exclusive Apple software. In addition to these product categories, Apple offers a wide variety of accessories to complement their products.

The following figure shows Apple’s revenues by product line from Q3 of 2008 up to Q3 of 2011.

Figure 14: Distribution of Total Sales by Product

Source: MacWorld (2011)
3.2.1 S.W.O.T analysis

Strengths

Apple’s most prevalent and important strength is their strong brand name. The Apple brand is one of the most established, reputable brands in the world, recognized amongst most consumers and has a very loyal set of customers. Their products have a high level of brand awareness and recognition throughout all of their markets (Coman & Ronen, 2009). This strong brand enables Apple to price their products at a premium, and still attract loyal customers. Consumers trust the Apple brand and are willing to pay premium prices for their products. As stated by a Datamonior report,

“Apple leverages its brand image to differentiate its product offering and drive sales. The company’s strong brand enables it to command a premium pricing and create significant demand for its products such as iMac, iPod, iPhone, and iPad” (Datamonitor, 2011).

This strong brand image has attracted a band of loyal followers, some of which buy electronics exclusively from Apple. This intense customer loyalty is contagious to the general public, and entices new customers to try Apple products.

Innovation and product development are two more of Apple’s strengths that contribute to the company’s success and reputable brand. Apple products set high standards for the market, designed for ease of use and functionality (Coman & Ronen, 2009), while still being sleek and stylish. Apple takes advantage of consumer frustration with other hardware, developing products that are very simple and easy to use, highly functional, and harmoniously integrated with one another. Most electronic devices on
the market are very standardized and similar. Apple offers these products with similar features and functionality, but in an innovative and unique way (Foresman, 2011).

Another strength of Apple is their impressive financial performance and investment in research and development. Their sound financial performance increases investor confidence, resulting in increased funding for R&D. The company’s total revenue in 2010 was $65,225 million, up from $19,315 million in 2006, representing a compounded annual growth rate of 36% (Datamonitor, 2011). This increased funding allows the company to put money into R&D to continue to develop cutting-edge technology to provide to customers.

“Apple has a strong focus on research and development as continual investment in R&D is critical for the development and enhancement of innovative products and technologies. In addition to evolving its PC’s and related solutions, the company continues to capitalize on the convergence of the PC, digital consumer electronics, and mobile communications by creating and refining innovations, such as the iPod, iPhone, iTunes Store, Apple TV and iPad. Apple leverages its unique ability to design and develop its own operating system, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative industrial design” (Datamonitor, 2011).

All of the fore-mentioned strengths would not be possible without Apple’s interactive and strategic marketing. Carefully cultivating what the general public thinks about a company can be just as important as how they run their business. Apple’s basic marketing principles are all encompassing, user centric and inspirational. Furthermore, they realize the power of neutral influencers (Nguyen, 2011). Consumers
can be weary of advertisements, and Apple realizes the value of developing relationships with high-tech media, who have a powerful influence over the consumer. In addition, Apple creates and re-defines the market for their products.

“Apple has never been afraid of redefining its market, breaking through well-worn product convention, because it believes in creating and owning whole new markets, rather than competing in existing, crowded arenas” (Nguyen, 2011).

Apple has a way of awakening a sense of wonder in us. Their stores are less like retail outlets and more like interactive museums where customers can spend all day testing and exploring their products. Apple remains secretive and elusive about much of their plans for future advancements. New product launches are built up for months before release, creating suspense and urgency amongst consumers. More on Apple’s strategic marketing will be discussed later in the paper.

Weaknesses

As with all highly complex hardware and software, operational problems can be an occasional problem for Apple, potentially damaging their reputation (Datamonitor, 2011). Product recalls cause frustration amongst consumers, and can add significant warranty and replacement expenses for Apple.

Apple’s software is all proprietary and not compatible with other hardware on the market. All of their products are exclusive to the Apple operating system, and although this adds value to the brand and helps keep customers loyal, it prevents wide adaptation of Apple hardware, especially for computers (Coman & Ronen, 2009). Financial effects of lawsuits are also an issue, as this can affect the company’s
operations and financial standing. Apple has been involved in lawsuits regarding patent infringement, environmental practices, and business practices.

Opportunities

The growth of smartphones and tablets in the United States represents a huge opportunity for Apple, as they offer unique and innovative smartphones and tablets unlike any other company. Apple is the third largest player in the smartphone market in the United States since launching the iPhone in 2007 (Datamonitor, 2011), and sales nearly doubled between 2009 and 2010. According to Datamonitor (2011), mobile applications are one of the most important factors in driving sales of smartphones, and Apple is the strongest player in the market with approximately 350,000 applications.

With the growth of smartphones comes the growth of mobile advertising, which is expected to reach 25 billion globally by the year 2015 (Datamonitor, 2011). Apple launched its mobile advertising platform, iAD, in April of 2010. iADs combine the interactivity of Internet advertising with the emotion of television advertising to give advertisers a powerful and effective way to advertise to consumers.

Due to Apple’s existing loyal customer base, it can be predicted that most product launches will be well received, even if only for the existing customers. Their reputation for high quality and innovation is well deserved and assists in increasing overall sales for all products.
Threats

The most significant external threat affecting Apple is the intense competition within the technology industry. The technology industry is fiercely competitive and rapidly evolving, with many other large, well-funded and experienced players vying for market share. The intense competition can result in price erosion for Apple, negatively affecting the company’s profitability (Datamonitor, 2011). Specifically, the Google Android is gaining rapid popularity amongst the public, offering similar features and applications as the iPhone. Apple must continue to be a step ahead in terms of innovation and R&D to maintain their position in the market.

Another threat to Apple is the risk of product cannibalization within their product offerings. For example, the iPad is very much like a hybrid between an iTouch (iPod) and a MacBook, performing many of the same functions. An iPad is very similar to an iTouch, but larger. It is very similar to a MacBook, but smaller without a keyboard. Some consumers might trade in their MacBook for an iPad, instead of purchasing an iPad in addition to a MacBook. Also, the iPhone functions as both an iPod and iPhone, eliminating the need for an iPod. Although this is a possible threat, Apple realizes that even though they might experience product cannibalization to a degree, they must keep innovating these products to keep themselves ahead of competition. Apple realizes if they don’t offer these innovative and unique hybrid products, consumers will switch to other companies. It is much more desirable for consumers to switch within the company than to purchase elsewhere.

Another threat to Apple is their dependence on suppliers for certain components used in their products. This makes them susceptible to pricing and inventory risks,
which can negatively affect the company’s operations and profits (Coman & Ronen, 2009). Apple must be sure to maintain healthy relationships with suppliers to ensure fair practice. Suppliers can take advantage of the fact that only they provide certain components that Apple needs for their products, and charge high prices. Dependence on suppliers and competition are not the only threats to Apple. While Apple’s CEO Steve Jobs is one of their greatest assets, his declining health is one of their worst threats.

The charismatic and visionary CEO of Apple, Steve Jobs, has played a huge role in the success and growth of the company. Recently, his declining health has shareholders and customers worried for the future of Apple. Previously, Jobs took a six-month leave to undergo liver transplantation, which caused an 8% drop in Apple’s share price. According to Datamonitor (2011),

“Mr. Jobs’ involvement with the company is highly weighed by all the stakeholders, as he has been instrumental in Apple’s success after he rescued the company in 1996 by returning from a 12 year absence…Apple needs more dynamic innovations if it has to continue its momentum of expanding. Without Mr. Jobs’ full time involvement, that may turn out to be a challenge”.

Figure 15 depicted below is a summary of key points in the SWOT Analysis for Apple.
3.3 The Effects of the Recession on U.S. Consumption

The financial crisis of late 2008 resulted in one of the most significant economical events in United States history. Its ramifications extended far beyond the United States, resulting in a worldwide economic recession affecting consumers and businesses across the world. Prior to the recession, personal consumption expenditure had risen above 95 percent of disposable personal income (Lee, Rabanal, & Sandri, 2010). The crisis resulted in a sharp decline in wealth and consumption, and an increase in personal saving. According to the International Monetary Fund Staff Position Note (2010), these changes in consumption and spending are likely to be long-term. According to Lee, Rabanal, & Sandri, (2010):

“Asset prices and household wealth are not likely to return to their pre-crisis highs in the near future, not least reflecting the weakened outlook for the long-term..."
growth. Credit conditions are likely to remain tighter than in the past decade, reflecting a renewed appreciation of risks and the decline in wealth”… “This decline exceeded somewhat the decline in wealth during 2001–02 after the bursting of the Internet bubble.”

The following figure illustrates the effect of the recession on US consumer spending (monthly averages of average daily spending, reported by consumers). As you can see, there was a sharp decline in consumer spending between the years 2008 and 2009, when the US plummeted into a recession. Since then, consumer spending has remained relatively stable, with no sharp declines or increases.

Figure 16: U.S. Consumer Spending, January-April, 2008-2011

As a result of less consumer expenditure, businesses have suffered. Consumers are now aware of the dangers of buying large amounts on credit and spending more
than they make. Not only this, but business failures and government debt has depressed job opportunities and personal incomes. As a result of this recession, consumers are smarter and more educated regarding purchase decisions. Impulse buying and spending is decreasing. Consumers spend more time thinking about their purchases, what is valuable to them, and what they can cut back on.

In order to adapt to this worldwide recession and shift in consumer purchasing behavior, marketers must shift their strategies in order to acquire and retain loyal customers. In order to do this, they must look deep into consumer behavior to investigate the subconscious, underlying reasons for purchase decisions. Furthermore, it is important for companies to investigate how they can be continuously adding value to their customers’ lives through their products and services. Apple is an example of a company that has maintained impressive performance throughout the recession. The following section will investigate Apple’s performance during the recession.

3.3.1 Apple and the recession
Despite the recession, Apple has managed to keep sales up, profits high, and customers happy. Apple’s sales figures during the recession have proved this company has the rare ability to sell high quality products at high price points, while keeping operating costs low and maintaining profitability. The company recorded revenues of $65,225 million during the financial year ending September 2010, an increase of 52% over 2009 (Datamonitor, 2011). During a worldwide recession, these numbers are particularly impressive. Apple’s overall operating margin increased. The following figures show Apple’s operating margin in relation to major competitors.
Figure 17: Apple Operating Margin

Source: Keizer (2009).

Figure 18: Operating Margins of HP, Dell, Nokia

Source: Keizer (2009). (Note: margins include company margins as a whole. Graphs drawn on slightly different scales)
As shown in the graph, when the recession first hit in late 2008, Apple’s operating margin continued to increase while Nokia and Dell took a sharp dive, and HP’s operating margin stayed consistent.

What remains impressive about Apple’s performance during the recession is the consistency of their marketing strategies. They did not begin offering any promotions they had not previously offered before the recession, and prices stayed the same. According to Cellan-Jones (2009), Apple sold 22.7 million iPods, 4.7m iPhones, over 2.5m Macintosh computers, and had a profit margin close to 35% in 2009. While most companies had to resort to discounting and promotions, Apple’s price points remained the same, all while benefiting from decreased component prices (Cellan-Jones, 2009). While Mac desktop sales have been on a slight decline on the large scale, this is largely due to the market shift towards laptop computers as a whole (Keizer, 2009).

In addition to a well organized and strategic business model, Apple’s success during the recession can be attributed to a few main principles: their strong brand name, inter-related choice of product offerings, and commitment to building and sustaining customer relationships.

It is necessary to note that Apple’s unique line of product-offerings is a big reason for their success during the recession. The iPhone has been Apple’s cushion during the recession (Keizer, 2009), accounting for 47% of sales in 2011. Coming in second at 21% was the iPad, followed by Mac sales at 18%, iPod and iTunes together accounted for 10% of sales, and other accessories at 4% (Macworld, 2011). The following pie chart illustrates these sales percentages for Apple during quarter three of 2011.
All of these products work together, harmoniously complementing one another. Apple products are exclusive and proprietary. For example, although you can download iTunes to any computer, iTunes purchases are protected files and can only be uploaded to an iPod. Furthermore, the iPhone has all the benefits of an iPod, plus a phone, and is manufactured to work perfectly with all of Apple’s products. In other words, Apple’s products are almost contagious to one another, a package deal. Apple also has the advantage of the “halo-effect”, largely attributed to its positive brand name. For example, if a customer purchases an iPod and is very pleased with the product, they will be more likely to attribute the positive features of one product with other Apple products, increasing their trust in the brand as a whole.
At the root of Apple’s success is their strong focus on the end consumer, and their commitment to adding value. As stated by IBM consultant Sean Lafferty:

“We’re seeing a big shift as a lot of the consumer electronics companies are really starting to focus on the end consumer more than they have in the past. A great example is what we’ve seen with Apple. They are offering a more complete solution. You have the product, you have the service, you have compelling design, you have compelling price points and marketing campaigns that are tailored to Apple’s consumer segments and for the most part they also sell direct so you’re bringing all of these things together and you see a more complete solution, more focused on the end consumer” (Lafferty, 2005).

All of this is possible due to Apple’s commitment to adding value and creating relationships with their customers, resulting in brand value and customer loyalty, even during a recession. To begin, firms must understand the consumer in order to provide what they need. They need to have a thorough understanding of what motivates consumers to buy, and what causes them to choose one product over another.

The next portion of this thesis will investigate consumer-buying behavior during a recession in the consumer electronics industry, with a focus on laptops. Interviews will be conducted in order to gain a thorough understanding of why consumers choose certain brands over others, as well as why Apple customers are so loyal to the Apple brand. This information will then be used to develop recommendations to firms for their marketing strategies.
4. PROPOSAL FOR COMPANIES

4.1 Objectives for Research and Proposal

The following research investigates consumer-buying behavior during a recession in the consumer electronics industry from a demand perspective. To analyze this trend from the demand perspective, we will interview a variety of U.S. consumers about their general buying behavior with a focus on electronics and laptops. In addition, we will determine if and how the consumer decision-making process changes during a recession. In the previous section of the paper, Apple's main strategies and business models were introduced, which serves as an explanation for how and why they have remained successful from the supply side. In this section, we will extensively interview customers of Apple who are loyal to the brand, and determine what keeps them successful from the consumer standpoint. We will also interview consumers that buy from other brands to be able to compare their buying behavior with Apple's customers. Previous research has shown that consumers are, in fact, consuming and spending less during the recession and sales numbers have decreased for most companies. This research will help determine reasons behind this, specifically:

1. Does the consumer decision making process for purchase behavior change during a recession in the consumer electronics industry? If so, how?

2. What are the main factors that influence buying behavior during a recession for laptops and other consumer electronics?

3. What are the most important factors to consumers when purchasing electronics and, specifically, a laptop?
4. What are the underlying needs that drive consumers to buy electronics and laptops?

5. How do consumers choose between brands?

6. For consumers that are loyal to Apple, what characteristics of the company/product keep them loyal?

4.2 Methodology

To accomplish the stated objectives, a qualitative method was adopted and semi-structured in-depth interviews with consumers were conducted. The outline for interviews was designed on the base of the literature review and may be found in Appendix X. It consists of multiple open-ended questions regarding consumer-buying behavior during a recession, specifically for electronic devices.

In-depth interviews provide versatile and profound knowledge about the subject and allow for further clarification, rationalization and description of responses. Semi-structured interviews have been recognized as being best suited for achieving the deeper insight into the customer’s value perception (Woodruff & Gardial 1996). They also allow for a flexible type of interview, allowing the interviewer to ask follow-up questions.

Twenty subjects were interviewed in total. The first five subjects interviewed were friends and family, each lasting approximately 30 minutes. Five subjects were chosen at random while exiting the Apple store at Crabtree mall in Raleigh, NC, and the remaining 10 subjects were chosen randomly while exiting Best Buy electronics store at Crabtree mall in Raleigh, NC. These interviews were conducted on a Saturday.
afternoon and lasted approximately 15-20 minutes. Best Buy is a general electronics retailer carrying multiple top electronics brands such as Samsung, Sony, Hewlett Packard, Apple, and many more. Customers exiting this store were chosen because they represent an appropriate random sample of consumers that purchase laptops. Furthermore, five customers were chosen at random exiting the Apple store in hopes to find out if and why they were loyal to Apple over other brands. Finally, five close friends and family members were chosen, as it was easier to extract very deep data from these subjects. The five close friends were chosen strategically, as it was important to extract opinions from individuals of multiple ages and circumstances.

Of the 20 respondents, 12 were male and 8 were female. One respondent was below 18 years of age, six respondents were between 18-25 years, five respondents were between 26-34, five were 35-45, two were 45-55, and one respondent was 55-65. For income levels, three respondents make less than $25,000 a year, three make $25-50,000, three make $50-75,000, five make 75-100,000, three make $100-200,000, and the remaining three were either retired, unemployed, or did not know. Respondents in high school and college reported household income numbers unless deemed independents. Of the respondents, 7 owned Apple computers, 4 owned Dell computers, 6 owned HP computers, 1 owned a Toshiba computer, and 2 owned an IBM ThinkPad. Table 2 represents a demographic summary of respondents.
Table 2: Demographic Summary of Respondents

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Name</th>
<th>Age</th>
<th>Gender</th>
<th>Occupation</th>
<th>Income</th>
<th>Change in Buying Behavior and DMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Daniel Shields</td>
<td>24</td>
<td>Male</td>
<td>Pharmacy Student</td>
<td>&lt;$25,000</td>
<td>No</td>
</tr>
<tr>
<td>2.</td>
<td>Nancy James</td>
<td>56</td>
<td>Female</td>
<td>School Teacher</td>
<td>$25-50,000</td>
<td>Yes</td>
</tr>
<tr>
<td>3.</td>
<td>Allison Lanka</td>
<td>23</td>
<td>Female</td>
<td>Bartender</td>
<td>&lt;$25,000</td>
<td>Somewhat</td>
</tr>
<tr>
<td>4.</td>
<td>Bradley Brown</td>
<td>22</td>
<td>Male</td>
<td>Inventory Mgmt.</td>
<td>$25-50,000</td>
<td>Somewhat</td>
</tr>
<tr>
<td>5.</td>
<td>Laura Doolittle</td>
<td>39</td>
<td>Female</td>
<td>Financial Advisor</td>
<td>$50-75,000</td>
<td>Yes</td>
</tr>
<tr>
<td>6.</td>
<td>Adam Hung</td>
<td>29</td>
<td>Male</td>
<td>Executive Recruiter</td>
<td>$50-75,000</td>
<td>Yes</td>
</tr>
<tr>
<td>7.</td>
<td>Patrick Willard</td>
<td>34</td>
<td>Male</td>
<td>Pharmaceutical Sales Rep</td>
<td>$75-100,000</td>
<td>Yes</td>
</tr>
<tr>
<td>8.</td>
<td>Lauren Whitley</td>
<td>26</td>
<td>Female</td>
<td>Nurse</td>
<td>$50-75,000</td>
<td>Somewhat</td>
</tr>
<tr>
<td>9.</td>
<td>Susan Falkner</td>
<td>42</td>
<td>Female</td>
<td>Home-maker</td>
<td>(Household) $100-200,000</td>
<td>No</td>
</tr>
<tr>
<td>10.</td>
<td>Bill Galliard</td>
<td>51</td>
<td>Male</td>
<td>Engineer</td>
<td>$100-200,000</td>
<td>Yes</td>
</tr>
<tr>
<td>11.</td>
<td>Daniel Potts</td>
<td>29</td>
<td>Male</td>
<td>Insurance Salesman</td>
<td>$75-100,000</td>
<td>Yes</td>
</tr>
<tr>
<td>12.</td>
<td>Amy Sanger</td>
<td>16</td>
<td>Female</td>
<td>High School Student</td>
<td>Does not know</td>
<td>No</td>
</tr>
<tr>
<td>13.</td>
<td>Brian Sanger</td>
<td>20</td>
<td>Male</td>
<td>College Student</td>
<td>(Household) $100-200,000</td>
<td>No</td>
</tr>
<tr>
<td>14.</td>
<td>George Adkins</td>
<td>62</td>
<td>Male</td>
<td>Retiree</td>
<td>N/a</td>
<td>Yes</td>
</tr>
<tr>
<td>15.</td>
<td>Amelia Stanfield</td>
<td>34</td>
<td>Female</td>
<td>Home-maker</td>
<td>(Household) $75-100,000</td>
<td>Somewhat</td>
</tr>
<tr>
<td>16.</td>
<td>Gray Evans</td>
<td>45</td>
<td>Male</td>
<td>Insurance Salesman</td>
<td>$75-100,000</td>
<td>Yes</td>
</tr>
<tr>
<td>17.</td>
<td>Mike O’Neil</td>
<td>43</td>
<td>Male</td>
<td>Web Developer</td>
<td>$75-100,000</td>
<td>Yes</td>
</tr>
<tr>
<td>18.</td>
<td>Brittney Owens</td>
<td>21</td>
<td>Female</td>
<td>Student/Waitress</td>
<td>&lt;$25,000</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Table 2 cont.

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Age</th>
<th>Gender</th>
<th>Occupation</th>
<th>Income</th>
<th>DMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.</td>
<td>Brandon Clarke</td>
<td>24</td>
<td>Male</td>
<td>IT Recruiter</td>
<td>$25-50,000</td>
<td>Yes</td>
</tr>
<tr>
<td>20.</td>
<td>Eddie Browne</td>
<td>41</td>
<td>Male</td>
<td>In between jobs</td>
<td>N/a</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Note: Some names have been changed due to confidentiality requests from respondents.
DMP: decision-making process

4.3 Results

The responses of the interviews were carefully analyzed and studied to form conclusions about consumer buying behavior during a recession in the electronics industry. These main conclusions will be discussed in detail accompanied by specific quotes from respondents and organized according the main objectives of the study:

1. How the decision making process has changed during the recession
2. The main variables that affects consumer-buying behavior
3. The most important factors to consumers when purchasing a laptop
4. The underlying needs driving consumers to buy electronics and laptops
5. How consumers choose between brands
6. The reason Apple customers have remained loyal to the brand

1. Overall, consumers spend more time analyzing purchase decisions during the recession.

The following table illustrates how the consumer decision-making process has changed throughout the recession. The first column lists the step in the decision-making process. The second column explains the decision-making process before the recession, the third column explains the decision-making process during the recession,
and the last column summarizes and concludes the changes in the decision making process during a recession.

Table 3: The consumer decision making process pre and during recession

<table>
<thead>
<tr>
<th>Problem Recognition</th>
<th>Pre-Recession</th>
<th>During Recession</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>In this stage, consumers recognize a problem when they are without something they want or need</td>
<td>Consumers are more likely to recognize a problem as being without a need, versus a want, and spend more time thinking about how much they actually need the product</td>
<td>During a recession, consumers are more aware of the differences between needs and wants</td>
<td></td>
</tr>
<tr>
<td>Information Search</td>
<td>Consumers who are very involved and interested in the product will search extensively for information, via word of mouth, advertisements, purchase the first product that meets their needs</td>
<td>More time is spent searching for information via word of mouth, internet research, advice from friends and family, consumer reports, and less emphasis on advertising</td>
<td>Consumers spend more time searching for information during a recession, are less swayed by advertising, and value the opinions of friends and family</td>
</tr>
<tr>
<td>Evaluation of Alternatives</td>
<td>Consumers evaluate their alternatives carefully to make sure they are getting the best value for their money</td>
<td>Consumers evaluate their alternatives carefully to make sure they are getting the best value for their money</td>
<td>The recession does not affect the degree to which consumers evaluate their alternatives</td>
</tr>
</tbody>
</table>

60
What is interesting about the analysis of the consumer decision-making process (DMP) before and during the recession is that many consumers don’t realize their behavior has changed. When asked at the beginning of the interview if consumers felt their DMP changed during the recession, close to half of respondents replied with no. They admitted their *buying behavior* might have changed, but not necessarily their decision-making process. Once the interview progressed to specific stages of the decision-making process, consumers responses showed that their decision making process did in fact change during a recession. From this, it can be concluded that the decision making process is partially subconscious, as are many underlying factors affecting consumer buying behavior. When asked if her decision making process changed during the recession, Susan Falkner (Homemaker, 42) responded:
“No, I try to look for better deals, but I generally stick to the same brands, and I wouldn’t say my decision making process changes.” However, when asked if she spent more time searching for information and evaluating alternatives during the recession, Susan responded with:

“Yes, I definitely spend more time looking for information and evaluating alternatives. I'll call my parents or friends, and get their input or advice, especially if it’s a bigger purchase.”

Based on this information, it is largely subjective. While many subjects don’t realize their DMP has changed even when it has, some subjects were more aware of how their buying behavior changed. Laura Doolittle (Financial Advisor, 39) states that while she has always considered herself a thorough decision maker when buying, it has been magnified by the recession.

“Due to my occupation, I’m very educated about how important it is to save and invest your money. I have never been one to buy on impulse without thinking about why I need it. Obviously, this is even more exaggerated during the recession because I don’t know what my investments will look like a year from now. I really try to cut back on the luxuries, and buy only what I need.”

According to Apple customers, their decision-making process for *certain* goods changed, but not for electronics. Respondents stated that they remained loyal to the brand because it was seen as a long-term investment, versus something less permanent or tangible. A laptop or iPhone is something consumers use frequently on a daily basis; therefore, they are more willing to invest more for these products. These
customers cut back on other items, such as buying private label brands for household products, and eating out less.

2. The main variable affecting consumer buying behavior for laptops is value

   According to both Apple customers and customers who owned other brands of laptops, the single most important variable affecting consumer buying behavior is the degree of value the product will add. In this survey, value was even more important than price. As stated by Adam Hung (Executive Recruiter, 29),

   “Value is the most important factor when purchasing a laptop, especially during a recession. A laptop is an investment, and so I’m not going to just go out there and purchase the cheapest available laptop on the market. I’m going to do my research, and determine which product gives me the best value for my money.”

   Gray Evans (Insurance Salesman, 45) agrees,

   “Even though I’m looking for cheaper products overall due to the recession, I’m not as willing to forgo value for price on a product as important as a laptop or electronic device. These are pretty big purchases, stuff I use on a daily basis, plus there are good discounts because of the recession, so I can get a really great value product at a bargain price.”

3. The most important factors when purchasing a laptop are reliability and ease of use.

   Out of all factors that are important to consumers when purchasing a laptop, the degree of reliability and ease of use ranked highest. Consumers want a product that will work, and they want a product they can count on. This research found that the
mainstream consumer wants something that is easy to use, and not so technical. More tech savvy consumers are more enticed by special bells and whistles, but not at the expense of a reliable machine.

“My laptop in college was pathetic. It constantly froze, turned off on its own, it was incredibly slow, not to mention confusing to use. Purchasing a MAC was the best decision I’ve made. Yeah, I paid a bit more, but I’ve had the computer for 3 years so far and I seriously have not had one virus or bug. Plus, it is so easy to use, its idiot proof, and its fast and aesthetically appealing” –Bradley Brown (Inventory Manager, 22).

Apple customers put slightly more emphasis on overall brand appeal and physical product. They claimed that reliability and ease of use is already a given with Apple products, so they focus more on the size and structure of the product.

4. The main underlying needs that drive consumers to buy laptops and related electronics are the needs for utility, social acceptance, and staying connected.

Most respondents surveyed agree that with the growing presence of technology, owning a computer, or at least a device that can function as a computer, is a necessity. Consumers see owning a computer as a necessity due to the increasing need for staying connected as well as social acceptance. Whether it means keeping up with work or with family and friends, there is an increasing need to stay connected and up to date. This has resulted in an overall increase for electronics, but not necessarily laptops. As mentioned in the previous chapter, many of the sophisticated smartphones double as computers, offering many similar functions. Laptop sales are still high despite possibility of product cannibalization, but it is something companies should be
increasingly aware of. The Internet is a very useful source of information, and people want to know that they have constant access to connection.

Social acceptance is also a very important factor driving consumers to purchase electronics and laptops. Respondents were less likely to admit this up front, but when asked questions from different angles, it was clear that a need for belonging and identity factored in to purchase decisions.

“A lot of my friends have the same types of computers, or smartphones. Not that I’m worried I won’t fit in if I don’t have it, but having the same things [devices] as your friends is fun because you can talk about them together.”

From this comment, it can be inferred that while respondents don’t necessarily think actually buying the product will help them feel connected and gain social acceptance, the act of bonding over a shared interest and device, will.

5. Consumers choose between product lines by brand reputation, appropriate fit for their needs, and degree of familiarity.

After analyzing responses of how consumers choose between brands, it is clear that consumers are more likely to purchase brands they trust and are familiar with, in addition to a brand that offers a product fit for their needs.

As with other findings, deeper probing was necessary to unlock deeper reasons for not only purchases of laptops and electronics, but reasons for purchasing certain brands over others. When respondents were asked why they chose one brand over another, a variety of responses were given. Some respondents believe brand had nothing to do with why they purchased, they simply purchased the best product for their
needs. Even though these respondents don’t consciously think that brand had anything to do with their purchase decision, further questioning reveals that it did. For example, Patrick Willard (Pharmaceutical Sales Representative, 34) stated that he bought an Apple computer because it was a superior product, not just because it was Apple brand, which he insisted had nothing to do with it. However, when questioning was directed towards how he developed the mindset that Apple produced a superior product, his responses pointed towards a positive brand reputation. He mentioned that friends of his owned the computer prior to him, and he knew it was a quality-manufactured computer. He strongly believed that Apple made a superior computer, but didn’t realize that his opinion of Apple computers was largely due to brand reputation.

6. The reason Apple customers have remained loyal to the brand

It seems that once a consumer purchases an Apple product, they never go back. Throughout this study, special attention was paid to the characteristics of the Apple brand that keep customers so loyal. Apple creates a product line of electronics that have the same general, sleek look, and similar operating mechanisms. They all work together perfectly and compliment one another.

“Owning Apple products is like being a member of a Club”, states Bradley Brown. “Their products are a step above the rest, across the board. They look different and operate different than all other laptops on the market.”

Apple’s operating system is different than that of a regular PC, and the ease of use and structure of the software is so appealing to customers. The hardware is also very sleek, very modern, and attractive. Some individuals who do not own Apple claim
that Apple is simply a very trendy product right now and those who buy Apple struggle with their identity, but Apple users disregard this comment, as they too might have felt that way before purchasing Apple products, only to end up thoroughly enjoying the product for what it is, regardless of image.

“I used to think Apple was just a really big trend, and the products weren’t really superior. All of my friends started getting MacBook computers and they were raving about them. I tried them out here and there and they were intriguing enough to convince me to purchase one for myself. Now, I am completely loyal to the brand, I want Apple everything! —Allison Lanka

Consumers also like the idea of owning a “set” of Apple products. One factor that surfaced multiple times was the “halo” effect of Apples products, and the feeling of exclusivity and excitement this evokes among its customers. The Halo effect is when one a trait of one product carries over to another. In other words, if a consumer purchases an iPod and loves the way it works and operates, they will be more likely to attribute those characteristics to other Apple products, and be more likely to purchase.

In addition to their innovative products, Apple makes it a priority to develop relationships with customers and respond to their needs. In a day where product sophistication is easy to imitate, the strong focus on developing and sustaining customer relationships is increasingly important.

4.4. Factors Affecting Results

While analyzing the research, certain trends in purchase behavior became apparent. It must be noted that consumers who were highly interested and involved in
the products spent more time both searching for information and making a purchase decision. Respondents who stated they were not very involved or interested in the purchase of electronics were more likely to find a product as quickly as possible that met their needs. For example, a consumer who considers themselves very tech-savvy and interested in computers is more likely to extensively research a computer prior to purchase. Although external factors such as brand awareness, brand familiarity, and need for social acceptance are not as prevalent in these individuals, they still have more pull than the consumer realizes.

There were notable differences in the thought processes of men and women. Men were generally more concerned with what specific functions a laptop or electronic device could offer them. They seemed more excited by bells and whistles and the “prestige” of owning a sought after product. Women, on the other hand, were more concerned with how the device would add quality and value to their lives, how it would make communication easier, and how the product looked.

In addition, there were differences among age groups and income levels. Twelve males and eight females were chosen at random for this study. Of the twelve males, nine admitted their buying behavior changed, one said his buying behavior changed somewhat, and two said their buying behavior did not change. Interestingly enough, the two males who admitted their buying behavior did not change were both students under the age of 25 and made less than $25,000 a year. When asked why their behavior did not change, their answers were very similar. As stated by respondent Daniel Shields,
“I’m young and I haven’t yet accumulated any personal wealth. I didn’t have any money in the stock market, and so I didn’t lose any when the market crashed. Plus, I’ve always been on student loans so I don’t have much to spend anyway.”

Likewise, respondent Bradley Brown stated, “I have never made enough money to buy luxuries, so during a recession when most people cut out luxuries, my spending habits stay the same because I was always buying only necessities. I buy really cheap, and I probably always will. I cut coupons, I take advantage of sales, and I do what I can to save the little that I have.”

Respondents that had accumulated enough wealth to be negatively affected by the recession had the most prominent change in buying behavior. These consumers are classified as individuals who either lost money in the stock market or experienced salary cuts and layoffs, or both.

“I saw my stocks go down, I saw money being lost. In addition, my wife lost her job. My job is pretty secure, but I am not making the commissions used to. We were never huge spenders to begin with, but we have tried to cut back as much as we can, when I saw my retirement funds plunge like that it was scary.” -Daniel Potts (Insurance Salesman, 29).

Another factor to keep in mind is how age affects spending on electronic products. Younger respondents in the study felt that good quality electronics were a necessity, not a luxury. A couple in there 40’s or 50’s might consider an iPhone or Mac computer a luxury item or a toy, while the younger population in there 20’s feel that these items are of great importance on their budget list. This is a very interesting trend to be aware of. The new generation of technology has changed our society. Individuals
in there 20’s view good quality laptops and electronics as a very important investment, where as 20 or 30 years ago, young professionals spent their money on other things.

“When I was first married and starting a home, my husband and I spent money much differently than people do now. The lifestyle of young professionals has changed drastically...people are much more mobile and educated. They would rather have the latest iPhone or take a trip somewhere than spend money on quality furniture or a piece of artwork. I have the most basic laptop computer and cell phone, and I don’t care much for the latest technological advancements or bells and whistles. I just want a product that gets the job done.” – Nancy James (School Teacher, 56)

“The iPhone does everything. It’s my camera, phone, iPod, GPS, address book, and entertainment device all packed into one. It’s expensive, but it’s worth it because I’m getting all of these devices packed into one. The applications are endless! It helps me stay connected and I consider it one of the best investments I’ve made.” - Allison Lanka (Bartender, 23).

As age increased, the need for top of the line electronics seemed to decrease (in terms of social acceptance and need for connectivity). This trend was independent of respondents who felt they were “tech-savvy” or respondents who considered electronics to be a hobby of theirs. Other than this, as respondents’ age increased, fascination and the feeling of “needing” the latest laptop or iPhone diminished.

4.5. Proposal and Recommendations to Firms

The final section of this chapter will combine data found in interviews in addition to best practices of Apple to develop suggestions for how electronics companies can more
effectively market their products to consumers during the recession. Based on this analysis, there are five main principles firms must be sure to adhere by when developing marketing strategies:

- Rethink and redefine brand image: Know what you want to communicate
- Direct marketing to a clear and concise target market
- Advertise without advertising
- Tap into the underlying needs of consumers, speak to their subconscious minds
- Let marketing strategy drive product development

Rethink and redefine brand image: Know what you want to communicate and how to communicate it effectively.

With the fierce competition in the electronics industry, it is no longer sufficient to advertise with sole objective of creating awareness. Firms must analyze their products and their corporate culture, and develop a unique brand strategy independent of other firms. For example, when consumers were asked what adjectives come to mind when
they think of Apple computers, responses included “innovative”, “new age”, “interactive”, “elite”, “unique”, “different”, etc. The Apple brand evokes these thoughts in consumers, which translates into feelings and association with the brand. Companies need to formulate a strategy based on delivering a very unique and concise message to consumers. Likewise, when respondents were asked what adjectives come to mind when they think of HP and Dell computers, they were not able to pin point any strong adjective. Most respondents replied with very vague and generic responses, stating that they had been around for a while and were “pretty reliable” computers, but didn’t offer anything very special or unique from other laptop brands. According to respondents, most felt Apple was a “step above” the rest for laptops, even if they did not own an Apple computer themselves.

It is necessary for companies re-evaluate their marketing strategies, and ask themselves thought provoking questions about what type of brand image they want to portray. According to the research in this study, the most important variable to consumers is value, and the most important factors are reliability and ease of use. Firms should incorporate these factors in with their own unique brand strategy, whether that is the very dependable and reliable brand with an excellent reputation, the funky, different, and unique brand, or the more conservative, prestigious brand image, targeted at big businesses and corporations. Whatever the objective, it is important to develop a unique brand image in order to differentiate from competitors. This is the future of marketing. Gone are the days of hoping product awareness will take care of sales numbers. Create a strong brand image and bring the customers to you.
Direct marketing to a clear and concise target market.

Even with a strong and powerful brand image, it is still important to define a clear target market, understand the target market, and direct the marketing strategy towards correctly, instead of relying only on your brand image to bring customers in. By defining a target audience and marketing towards them, not only will it entice new customers to your brand, it will reach out to those who are unaware.

In addition to developing a target market, it is equally important to know the target market and what drives them. The results of this study show that younger individuals are more concerned with image and social acceptance, and older respondents are more concerned with value for money, and what a product can do for them. Likewise, men were more seduced by brands associated with prestige and quality, while women were more interested in added value and image. As with any successful marketing strategy, it is important to know your target market as well as possible and tailor the strategy accordingly.

Find alternative ways to advertise, or advertise without advertising.

While creative advertising can be a strategic and effective way to increase brand awareness, many respondents in this study felt that advertisements had little effect on actual purchase decisions. With the abundance of available information on the Internet, advertising is becoming much less powerful. Many consumers read customer reviews and consumer reports to determine the best product for their needs, instead of relying on advertisements as a source of information. In addition, modern technology allows us to tune out traditional methods of advertising. Many households have TiVo and DVR,
which make it possible to fast forward through TV commercials. XM radio and the increased use of iPods means radio advertising will not reach as many listeners.

“I don’t really pay attention to advertisements, because I don’t have to. If I need to know something about a product, it’s much easier…and reliable…to ask a friend. Not only that, but a friend will be honest about the product, they aren’t trying to sell it, they are giving their honest opinion.” – Brandon Clarke (IT Recruiter, 24).

Most of the respondents in the study, especially those older and more educated, were aware that the sole objective of advertising is to increase sales and awareness of a product, and are therefore less likely to be “fooled” by exaggerated claims. It should also be noted that effect of advertisements on consumers decreased with age. Companies must think of other ways to entice customers in addition to advertising. Companies can leverage their brand awareness by getting involved with social media, investing more in customer relationship management, participating in sponsorships and charitable events, and creating an intriguing atmosphere for customers. Apple’s interactive store is a great example, allowing customers to touch, feel, and play with their products. The store is completely interactive. Even respondents who didn’t use Apple products admitted it was exciting to walk into an Apple retail store and test all of their products.

“The energy in those stores is incredible, the staff are so knowledgeable, and it seems like people stay in there for hours! The energy really is contagious…you can’t help but be intrigued while walking by…it really lures you in.” – Brian Sanger (College Student, 20).
Apple advertises, but it is not their main forefront for attracting customers. Their strategy is completely product based, and most advertisements feature the product itself with minimal distraction, evoking a sense of power and prestige. Respondents in the study felt that Apple advertisements were more powerful because of the strong focus on the product, without many distractions. This generates curiosity for the product, which customers are able to demo in the stores. In addition, Apple is well known in the media for community engagements and industry news. Apple employees build relationships with their customers, and truly believe in the brand.

Tap into the underlying needs of consumers; speak to their subconscious minds.

One of the most effective methods of marketing is persuasion at a subconscious level. Subliminal messages are so powerful because consumers are unable to detect or pinpoint their root. For example, if a consumer views a generic advertisement for a camera, they will be informed of the product, but they will also recognize that the purpose of the advertisement is to persuade. The key is to persuade on a subliminal level, or a level below the threshold of awareness. In other words, finding a way to persuade without so blatantly trying to sell. Apple creates suspense and anticipation by their extremely secretive nature. They build up suspense for new product launches, announcing “exciting product and industry news” creating a sense of urgency in consumers. This results in increased excitement and anticipation for Apple products, and consumers are unlikely to realize on a surface level that these emotions translate into increased desire for Apple products, and that it is actually a marketing strategy of Apple. Subconscious feelings are the root of what drives consumer behavior. They
encompass the underlying motivations and desires that trigger our purchases from a deeper level, and incorporate psychological needs such as social acceptance, belonging, companionship, power, prestige, etc.

In addition to these marketing strategies, firms should incorporate underlying needs into their product development. This research shows that consumers want a laptop that is reliable and easy to use. Apple computers are very reliable and user friendly, while being fun and interactive as well. They want to create the feeling of exclusivity, uniqueness, and awe in their customers, and they develop their products to evoke these emotions. As a result, the product succeeds in marketing itself, and needs less aggressive selling. Apple has a way of bringing the customer to them by understanding their underlying needs and providing that in their products.

Let marketing strategy drive product development, not vice versa.

Most firms develop a product, and then decide how to market the product once it has been developed, or how to position the product in the minds of consumers. A more effective way to market is to decide this before even developing the product. Ask the question: what do we want to accomplish? What type of individual do we want to attract? What human needs do we want to fulfill? How do we want to be viewed by the public? It is much easier to develop a successful and state of the art product if its development is driven by a few core principles. Apple is very successful in this regard. The entire offering of products works harmoniously together, creating a halo effect. Consumers who buy one of the products, such as a MacBook or an iPod, become hooked on other Apple products. Firms should clearly and concisely define how they
want to position their product, and adapt the product accordingly. In addition, offering complimentary products will help drive overall sales. Users will aspire to have the collection of product offerings.
5. CONCLUSION

5.1. Summary & Managerial Implications

The preceding research confirmed that the consumer decision-making process during the recession does in-fact differ from decision-making pre-recession for laptops and electronics. In addition, this research investigated further into the topic by investigating:

- How the decision making process has changed during the recession
- The main variable that affects consumer-buying behavior
- The most important factors to consumers when purchasing a laptop
- The underlying needs driving consumers to buy electronics and laptops
- How consumers choose between brands
- The reason Apple customers have remained loyal to the brand

To begin, this research revealed that consumers spend more time and careful evaluation making decisions during the recession, although it is commonly below the threshold of awareness. Respondents admitted their buying behavior changed, but did not think that their process of making decisions had changed. It was not until the decision making process was broken down into specific parts that they realized how their rationale changed.

The main variable affecting consumer buying-behavior is *value*. During the recession, consumers do not mind spending more on an item if the perceived value is greater than the cost. The importance of value was widely agreed upon; where as the definition of “value” was very subjective and dependent on the consumer. The most
important factors to consumers when purchasing a laptop are reliability and ease of use. The mainstream consumer wants an innovative and highly capable device, but not at the expense of the device being difficult to navigate or unreliable, which causes frustration amongst consumers.

People buy laptops for utility purposes and staying connected. They are slowly becoming a commodity in today’s society. While people may purchase a laptop because they need it for daily activities, the underlying reasons consumers purchase laptops stem from the needs of social acceptance and social influence. As humans, we want to be accepted by society, and we feel pressure to conform to societal norms, thus a possible explanation for the consideration of a laptop as a commodity. Individuals feel pressure to keep up with the constant evolution of technology and staying connected to those around us.

After analyzing responses of how consumers choose between brands, it is clear that consumers are more likely to purchase brands they trust and are familiar with, in addition to a brand that offers a product appropriate for their needs. Consumers who deemed themselves not very “tech-savvy” are likely to purchase a certain brand of laptop simply because they recognize the brand name and know it to be trustworthy. These types of consumers make decisions based off of brand recognition, brand reputation, and search for information primarily through word-of-mouth communication. People trust the opinions of their friends, family, and social circle.

Finally, Apple is so successful because consumers feel that when they are purchasing an Apple product, they are purchasing a product that is rare, unique, exclusive, innovative, in addition to being very reliable and easy to use. Customers of
Apple feel that Apple offers the entire package, the best of all brands of laptops, combined into one product. An Apple computer offers something no other competitor does: a combination of products that compliment one another and work together, and a brand new operating system different from the traditional windows software on a PC. Apple offers a product and brand experience unlike any other, giving them a sustainable competitive advantage over competitors.

The data found during this research provides helpful insight to companies in search of new marketing strategies. Gone are the days of aggressive selling and interrupting advertisements, largely due to the increasing ability to tune out advertisements, and the increasingly product educated consumer. Due to the Internet, a wealth of information is available at any consumers’ fingertips. As a result, it is more important now than ever to create a truly high quality product, as word-of-mouth and viral marketing over the Internet can spread information about a product within seconds. The new way of marketing is to make your consumer come to you by understanding the driving forces of consumer buying behavior and using that to guide your overall strategy.

First, firms need to redefine their brand image and be clear about what they want to communicate, and who to communicate to. As proved in this research, age, gender, income, and socioeconomic status all have significant effects on buying behavior and personality. Correctly targeting a specific audience will ensure the message is received well.

Companies need to develop a strategy that delivers a source of value to consumers that competitors cannot easily imitate. A source of value that is rare and
difficult to imitate will serve as a source of sustainable competitive advantage to a firm. Companies should conduct diagnostic tests within their companies to determine their strengths, weaknesses, and core competencies in order to develop an effective strategy. Without a clear strategic vision, firms are likely to suffer during these difficult financial times.

Relationship marketing and customer relationship management have recently become paramount in the marketplace, and understanding the underlying needs of consumers and speaking to their unconscious minds will assist in a successful marketing campaign. Firms must put themselves in the shoes of their target market, what are their needs? What are they looking for in products? How can we deliver that in the most effective way possible? What can we offer that competitors are not offering? How are we different, rare and unique as a company? Answering these questions as a basis for marketing strategy is a good way to diagnose strengths and weaknesses of a company to help determine possible competitive advantages.

The most successful companies develop long terms strategic goals, focusing on their core competencies. Apple’s core competency is their product innovation, and customer service and operations are secondary. It is important for firms to deliver in all three areas, but the most successful companies focus in on one, and make the other two secondary priorities. It is crucial to develop a clear and concise strategy, and allow that to drive company-wide operations.
5.2. Limitations & Further Research

Although the information extracted from in-depth interviews was very thorough, the number of consumers interviewed (20) was low. In addition, we must keep in mind that certain consumers may have been pressed for time and short with their answers, or simply not capable of or willing to articulating their true feelings. For example, some consumers may have said their buying behavior had changed during the recession when in fact it did not, for fear of judgment or simply not being fully aware of their own habits. Some consumers may have given shorter answers just to speed the interview process along, and some consumers might have been apathetic towards the study.

It would be interesting to interview customers loyal to other electronics and laptop brands to determine what makes them loyal to that specific brand. That information combined with findings in this study could help segment the market for laptops. This could help determine which factors are important to certain demographic segments. For example, young professionals prefer the uniqueness and modern aspects of Apple, and older individuals prefer the traditional operating systems of an IBM ThinkPad.
6. REFERENCES


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7. APPENDIX

7.1. Questionnaire/Interview Questions

1. General questions about the recession and buying behavior:

1. How do you feel the current recession in the United States has changed your buying behavior for commodities and necessities?

1a. Do you still buy the same brands of toilet paper, milk, etc. or have you switched to private label brands? Why?

1b. Do you still buy in the same shops or have you switched? Why?

2. How do you feel the recession has changed your buying behavior for luxury goods and services? (The definition of “Luxury” is likely to differ amongst individuals, but generally services such as personal trainers, spa treatments, club memberships, designer accessories and clothing, vacations, etc.) Which did you cut back on, and why/what were the reasons? (Value, etc.)

3. Are there any products or services you used to purchase regularly and no longer purchase due to the recession? If so, list all:
4. Why did you cut back on these products and services over others?

5. Are there any products or brands you have stayed loyal to during the recession despite a cheaper alternative available?

   4a. If so, what is it about the product that still convinces you to buy? (Belief of superior product, customer service, investment, etc.)

6. Have you taken advantage of any low cost deals available as a result of the recession? If so, which types of products, and why? (For example, even though there is thought to be much less purchasing during a recession, some individuals might take advantage of all of the low cost deals and promotions)

7. To what degree do you feel the recession changed your buying behavior overall?

8. To what degree do you feel the recession has permanently changed your buying behavior?

9. To what extent has the recession affected your buying behavior of electronics?

   Brands you buy:
Where you buy:

How much you spend:

Criteria for choosing products and brands:

Importance of social acceptance:

2. General questions regarding consumer electronics:

1. Do you consider yourself an “electronics-savvy” consumer? In other words, are you interested in consumer electronics beyond their basic functions? (This is important to determine what type of consumer they are for the market—someone who feels they are computer savvy is going to put much more time into information search than someone who just needs a device to get the job done.)

2. Regarding consumer electronics, are there any brands you are loyal to, or do you seem to buy the best product for your needs, regardless of brand.

   1a. If you are loyal, please describe why (Depending on the answer -- what is it about the PRODUCT that makes you buy, what is it about the BRAND that makes you buy)
3. Do you consider electronic devices such as computers and laptops necessities or luxuries? Why?

Cell phones

1. Do you own a cell phone? If so, what kind and brand?

2. How important is owning a cell phone for you? Why?

3. How important are others’ opinions (friends, colleagues, etc.) for you when deciding to buy a cell phone?

Analysis of Purchase Decision Making Process

1. When purchasing your cell phone, to what degree did you search for information regarding the types of cell phones available? Where did you purchase from and why? (retailers, Word-of-Mouth, Official Websites of the brands; foros; …).

2. To what degree did you evaluate your alternative choices for cell phones? How many different options did you consider? How did you do the final choice? Please, explain the main reasons or criteria that helped you to decide.

2a. How important is functionality of a cell phone? Why?
2b. How important is style/look of a cell phone? Why?

2c. How important is price of a cell phone?

2d. Overall, why did you choose this brand of cell phone? (reputation, product, social image, most friends had it, business, etc.)

3. How did you feel after purchasing your cell phone? (happiness, excitement, buyer’s remorse, post-purchase anxiety, etc.)

Computers

1. Do you own a desk-top or a laptop computer? What brand? Why?

   -If respondent owns both, but of different brands, ask why.

2. How important is owning a computer for you? Why?

3. How important are others’ opinions (friends, colleagues, etc.) for you when deciding to buy a computer?
Analysis of Purchase Decision Making Process

1a. When purchasing your computer, to what degree did you search for information regarding the types of computers available? Where did you get information from and why? (retailers, Word-of-Mouth, Official Websites of the brands; foros; …).

2. To what degree did you evaluate your alternative choices for computers? How many different options did you consider? How did you do the final choice? Please, explain the main reasons or criteria that helped you to decide.

2a. How important is functionality of a computer? Why?

2b. How important is style/look of a computer? Why?

2c. How important is price of a computer?

2d. Overall, why did you choose this brand of computer? (reputation, product, social image, most friends had it, business, etc.)

3. How did you feel after purchasing your computer? (happiness, excitement, buyer’s remorse, post-purchase anxiety, etc.)
4. What other electronic devices do you have?
   1a. Which brands? Why? Do you use them regularly?

5. Other Apple products:

3. General demographic questions for consumers:

   Name:

   Gender:  M  or  F  

   Marital Status: Single  Divorced  Married  

   Age:  18-25  26-34  35-45  45-55  55-65  65+  

   Occupation:

   Number of Children: (0)  (1)  (2)  (3)  (4)  (5 or more)  

   Personal Income: (Less than 25,000)  ($25-50,000)  ($50-75,000)  ($75-100,000)  
   ($100-200,000)  ($200,000 +)
Household Income: (Less than 25,000) ($25-50,000) ($50-75,000) ($75-100,000) ($100-200,000) ($200,000+)

Percentage of Disposable Income saved per year pre recession: (None) (Less than 5%) (5-10%) (10-20%) (20+)

Percentage of Disposable Income saved per year post recession: (None) (Less than 5%) (5-10%) (10-20%) (20+)