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A review of consumer decision-making models and development of a new model for financial services

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Abstract

It is recognised that existing theories of Consumer Decision Making (CDM) are not well suited for financial services and there have been calls for development of a new conceptual model. This article reviews prominent models of CDM and identifies strengths and limitations. A new conceptual model that is applicable to financial services is developed. An important element of the model is the recognition that the components interact rather than a consumer following a linear progression through a series of stages. The new model better reflects the iterative decision-making process relevant to financial services and enhances marketers' understanding of the process and thus their ability to influence it to increase the likelihood of positive outcomes for all. The model has three main components: inputs, processes and outcomes. Inputs include the purchase situation (contextual and environmental variables), consumer characteristics (psychological and social influences) and information sources (marketing mix and interpersonal). Processes include need arousal, information utility, criteria development and evaluation of alternatives. Outcomes include the decision (that may be to abort the purchase), the purchase itself and post-decision evaluation. Further research is required to test the relationships between the variables in different contexts, and thus enable refinement and/or validation of the model.

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Biographies

Dr Trenton Milner brings a rich practitioner background to his academic research, having held positions with Goldman Sachs in London, and the Bank of New York. He obtained his doctoral degree from Royal Melbourne Institute of Technology and his specific research interests lie in how a better understanding of consumer behaviour can improve marketing strategy. Particular areas of focus include consumer decision making, financial services marketing as well as the impact of latent needs and innovation (entrepreneurialism) on general business strategy. Dr Milner is currently a Lecturer at the Sydney Business School, Australia.

Dr Daniela Rosenstreich is a senior lecturer in Marketing at Swinburne University of Technology, Melbourne, Australia. She gained her PhD from the University of Otago in New Zealand, with an exploration of conceptual models of service quality. Prior to entering academia Dr Rosenstreich spent a decade managing service units in higher education and local government contexts. Her current research focuses on consumer behaviour in service contexts.

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It is recognised that existing theories of consumer decision-making are not well suited to financial services and there have been calls for development of a new conceptual model. This paper reviews prominent models of consumer decision-making and identifies strengths and limitations. A new conceptual model that is applicable to financial services is developed. An important element of the model is the recognition that the components interact rather than a consumer following a linear progression through a series of stages. The new model better reflects the iterative decision-making process relevant to financial services and enhances marketers' understanding of the process and thus their ability to influence it to increase the likelihood of positive outcomes for all. The model has three main components: Inputs, processes and outcomes. Inputs include the purchase situation (contextual and environmental variables), consumer characteristics (psychological and social influences), and information sources (marketing mix and interpersonal). Processes include need arousal, information utility, criteria development and evaluation of alternatives. Outcomes include the decision (which may be to abort the purchase), the purchase itself, and post-decision evaluation. Further research is required to test the relationships between the variables in different contexts, and thus enable refinement and/or validation of the model.

Keywords

Financial Services

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Buyer Behaviour

Consumer Marketing Strategy

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Introduction

The concepts contained in Consumer Decision-Making (CDM) models and the relationships between them are complex. Since the first models in the 1960s, the frameworks for CDM have evolved through various forms, yet the most commonly accepted models still do not relate well to products like financial services.

There has been a call for a model of consumer decision-making for financial services over recent years. For example, in 1992, McKechnie suggested that "… there is a noticeable absence of any general conceptual framework that describes how consumers buy services in general, let alone financial services in particular"(1992, p. 11). More recently, Byrne (2005) noted that consumer decision-making for financial products have received little attention but that it is a topic with clear practical importance. Harrison, Waite, and White echo the sentiment, stating that "… there has been little attempt to develop a model of consumer behaviour specifically to explain consumer decision processes in relation to complex financial services such as pensions" (2006, p. 7).

This paper reviews the major consumer decision-making models to identify the key components, with the aim of applying the relevant elements to form part of a new conceptual model of CDM for financial services. An exploration of research into consumer behaviour in relation to financial services supports the development of the model. A relevant framework for understanding and researching decision-making for financial services will facilitate marketing decisions in the sector, as well as providing policy makers with further insight into decision-making to create more appropriate decision-making aids (Pfeiffer, Riedl, & Rothlauf, 2009) which may help consumers make improved decisions (Milkman, Chugh, & Bazerman, 2009).

This research fulfils a growing need as financial services become more prominent in society. Changes in demographics, government spending and the economic climate are requiring individuals to make important decisions regarding their financial future (Hazel Bateman, Kingston, & Piggott, 2001; Gough & Sozou, 2005). The wealth generated by the developed nations in recent history means that there is a demand for financial services which is unprecedented. Additionally, the ageing population poses a problem for western governments as they will have difficulty providing service levels equivalent to previous generations in terms of pension and healthcare (Bryant, 2004; Disney, 1996). In the past, tax and other income raised by governments has been sufficient to provide for the relatively small proportion of the population drawing pensions. However the baby boomers represent such a large percentage of the population, in some countries up to 30%, that the taxes raised from the remainder of the population will not be sufficient to support this group (Bryant, 2004; R. Lee & Skinner, 1999). Due to these developments the responsibility to plan for retirement will be transferred moving increasingly towards consumer or self-managed of retirement assets (Hazel Bateman & Piggott, 2000; Hazel Bateman & Piggott, 2003). In order to support individuals in this changing context, a need exists for more knowledge in the area of financial services decision-making.

It is understood that consumers undertake a complex process when making decisions regarding financial services, for example, choosing retirement planning options (Harrison et al., 2006; McKechnie, 1992). The decision-making process for financial services is under-researched, particularly for consumer services such as retirement planning (Gough & Sozou, 2005; Harrison et al., 2006). An overarching objective of this research is from a communication context, so as to better understand how marketers and policy makers can more effectively communicate with current and potential consumers of financial services. However, all elements of the marketing mix can conceivably be better targeted with an enhanced understanding of CDM processes.

A re-examination of CDM models is arguably long overdue as the most commonly 'taught' model of CDM (variants of the McCarthy et al. 1997 model discussed later in this paper) is now 25 years old. Many consumer behaviour constructs are now much better understood than they were 25 years ago, and there are robust scales and other measurement instruments available. For example, work on the problem recognition construct by Bruner & Pomazal (1993) when considered alongside Oliver's (2010) work allows a much more articulate conceptual definition of Problem Recognition (or Need Arousal). Understanding of services marketing in general and financial services in particular, has also advanced greatly in the last 25 years. The consumer behaviour field has now reached a turning point, where enhanced understanding facilitates the development of a more robust CDM model that is applicable to financial services.

Consumer decision-making models

Models of consumer decision-making have been developing over the last 50 years and encompass research on various constructs borne out of the economic and psychological fields.

Nicosia Model (1966)

Nicosia's model of buyer behaviour (Nicosia, 1966) is credited as the first comprehensive model of buyer behaviour (for example, see Jones, Shaw, & McClean, 2011). Nicosia's model consists of four 'fields', beginning with the communication of information to affect the consumer's attitude (influenced by firm attributes and consumer attributes, notably consumer predispositions), followed by a search and evaluation process, a decision, and outcomes in terms of behaviour, consumption, storage, experience and feedback. Nicosia's formulation of the process to include an iterative, or repurchase cycle is important for conceptual framework development and very relevant to the services context. In financial services in particular, consumers may be purchasing a wide range of products (for example banking services, or financial planning advice) repeatedly from the same provider over a number of years. In addition, there can be high psychological and monetary risks associated with changing companies or products in financial services, and therefore often perceived barriers to switching. A repurchase or feedback loop is therefore required in any CDM for financial services.

However, a major limitation of the Nicosia model is that it is from the marketer's perspective rather than the consumer's, with consumer activities only very broadly defined. There has also been little empirical work to support the model, whereas there is much empirical work to suggest that relationships depicted in the model are not in fact valid (Tuck, 1976).

Engel, Kollat, and Blackwell Model (1968)

Nicosia's model was adjusted by Engel, Kollat, and Blackwell in the late 1960s (Engel et al., 1968). One of the strengths of the revised model is the feedback or 'search' loop, which allows for iterations of partial decision-making. For example, a consumer may proceed past the inputs to arrive at the necessary problem recognition stage, perform an external search for information and then for some reason, opt out of finishing the decision-making process. While the decision-making process may be undertaken, there may exist no intent to purchase and thus the decision process may be halted or postponed at any point, providing feedback for use as inputs next time a need is aroused. An example of this is the stereotype of 'window shopping', or in the context of financial services, attending an investment seminar without necessarily having an intention to invest in the short term. Undertaking of the process may be considered a trial run for recall at a later stage, or the process interrupted by something more important, or the consumer simply did not have the capacity to undertake the remainder of the process.

While it contains many feedback loops and interactions this model in fact presents a more linear process of consumer decision-making. At the core of this model is a clear flow of tasks which depicts an idealistic decision-making process where the individual knows that there is a problem with a consumer solution but has little 'other knowledge' of the area. The individual then undertakes, in order, a search for relevant information on solutions, evaluation of the alternatives against a set of criteria, choice of one and enactment of the tasks to purchase the goods.

The linear nature of the model is a major source of criticism as it is recognised that the elements of the buyer decision-making process do not necessarily occur in a set sequence (Brinberg & Lutz, 1986) and some may in fact occur concurrently (Phillips & Bradshaw, 1993). This is an important distinction for this paper because while it is comfortable to think that when a solution is sought to a problem, a person searches for information, creates a list of criteria by which to compare the different options and then evaluates these options as best they can, it does not in fact fit with the kind of decisions made in the current financial services marketplace. This is because the level of other known influences and the scope or size of the decision-making process can be more complicated or substantially less so. Thus some of the variables may be taken out of their traditional order and some may be bypassed altogether – especially with repeat purchases or those with low importance. This is discussed further elsewhere in the paper.

Another limitation of the model is the implicit assumption that consumers have the capacity to evaluate the alternatives and make a rational judgment on the best suited alternative. Like many services, financial services are high in credence qualities with many moderating variables and this makes them difficult for consumers to evaluate, even after purchase (Chung-Herrera, 2007; Ennew, 1993; Harrison, 2003; Harrison et al., 2006; McKechnie, 1992). For example, consumers have difficulty evaluating the advice provided after a meeting with a financial planner. Often an assessment of this value requires further cost such as an investment of funds in accordance with the advice (Eisingerich & Bell, 2007; Harrison et al., 2006), so in effect, a ‘purchase’ is required at a very early point of the goods-centric CDM models.

Bray (2008) sums up general criticisms of the model by noting it that its mechanistic approach does not apply well to varied decision-making contexts. He also notes that the environmental and consumer variables, and their mechanisms for influencing decision-making, have not been clearly specified (Bray, 2008). These weaknesses in the model are particularly relevant to financial services: The personal nature of many financial services means consumer variables are critical, and it is well understood that the service environment has a major impact on decision-making, particularly in the absence of other tangible quality cues.

Howard and Sheth Model (1969)

The Howard and Sheth (1969) model presented an advance at the time because of an enhanced level of specificity in terms of the relations between variables, for example, the model notes not only that *attitude* influences *purchase*, but also that *intention* is a moderating variable (Hunt & Pappas, 1972). The model is also notable for including a wide range of inputs into the process in terms of marketing variables and social influences, which is an important step towards current input-process-output models.

The model depicted a flow of information that moved through four main components: 1) inputs (marketing and social stimuli), 2) perceptual constructs (attention and information search), 3) learning constructs (motives, choice criteria, brand comprehension, leading to an attitude, confidence, intention, and satisfaction), and 4) outputs (purchase, intention, attitude, brand comprehension and attention) (Howard & Sheth, 1969). A fifth element, exogenous variables (importance of the purchase; the consumer background, reference groups, personality traits; time available; and financial status), was included as an influence on the perceptual and learning constructs rather than being part of the information flow itself (Howard & Sheth, 1969).

By being more comprehensive, the Howard and Sheth (1969) model certainly achieves a sense of the complexity of the process, with multiple variables with multiple relationships to internal processes and external triggers and information sources. Concepts such as attitude formation, predisposition and time were introduced as well as an overarching sense of perceptual constructs and learning constructs. Paradoxically, the complexity of the Howard and Sheth model is also one of its shortcomings.

It must be noted that initial confirmation testing of the Howard and Sheth (1969) model by Farley and Ring (1970) presented highly unfavourable and non-confirmatory results. Initial testing put pressure on the data and a call for improved data-collection and procedures before the constructs and relationships claimed by Howard and Sheth (1969) could be confirmed. However the Farley and Ring testing became the subject of criticism itself, and led to debate about the testing of such models in general (Hunt & Pappas, 1972; Lutz & Resek, 1972; Taylor & Gutman, 1974). In 1972 many of the constructs within the CDM models had not been extensively explored (for example the disconfirmation paradigm relevant to the satisfaction construct in the model only originated in Oliver's (1980) paper) and so there were considerable difficulties in operationalizing broad theoretical models. There was a recognition evident in the literature that a comprehensive model could provide value conceptually even if it was not possible to test it fully at that time (Taylor & Gutman, 1974). This can be seen as a turning point in development of CDM models, as while the Nicosia model was formulated from explicit formulae and holds some level of statistical rigor, the

Howard and Sheth (1969) model begins the consumer behaviour trend away from mathematical models to conceptual models.

While its importance in the evolution of CDM models is clear, the Howard and Sheth model suffers from conceptual limitations. Evidence suggests that consumers do not always follow the entire path of the model, and the model is too complicated for routine purchases (Olshavsky & Granbois, 1979). Furthermore, there are problems with the model's depiction of consumers moving from one step to another in linear fashion, and thus the modelis subject to the same criticisms as the Engel et al. model discussed earlier in this regard. This is an important point for later discussion in the context of financial services.

McCarthy, Perreault, and Quester Model (1997)

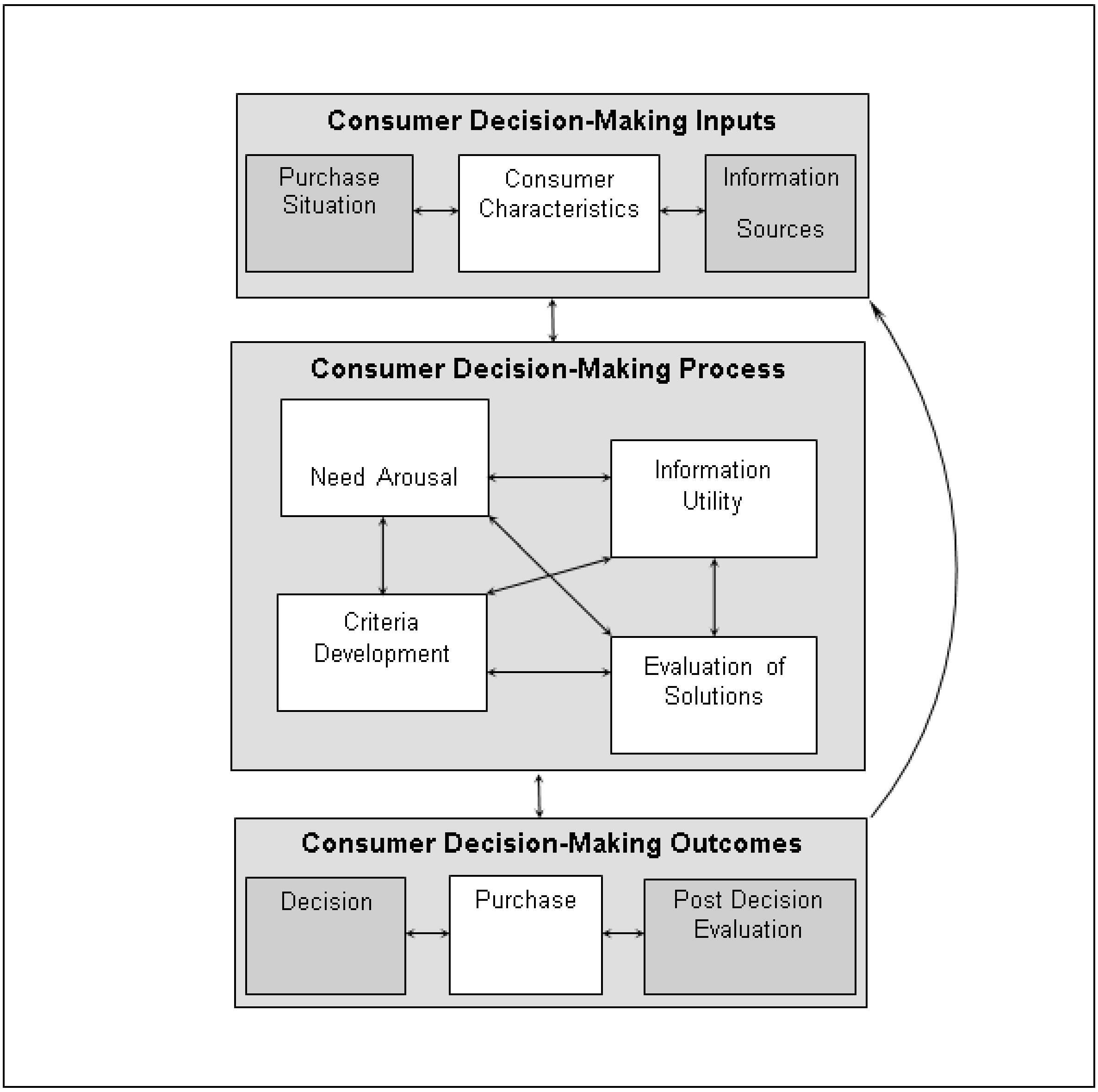
The McCarthy, Perreault, and Quester (1997) model of consumer decision-making, or a variant of it, appears in most 21st century introductory marketing and consumer behaviour textbooks (for example, Kotler & Armstrong, 2010; Neal, Quester, & Hawkins, 2006). Essentially the McCarthy et al. model is a modification of the Engel et al. model with some minor changes and clarifications. For example McCarthy adds the concept of criteria for choice which is an important unpacking of the evaluation task, since it recognises that the task of setting up criteria is quite different to evaluating the alternatives. The McCarthy et al. (1997) model has been able to group like constructs in a form with logical simplicity while remaining comprehensive. It does however display some of the weaknesses that are common to the models that preceded it, such as: depicting a linear process; depicting a limited and counter-intuitive influence of *social* and *situational variables* (they are shown as only impacting only on *need want awareness*); and not clearly indicating the manner in which *psychological variables* influence the process. As noted earlier, these issues are significant in the context of financial services.

It is worth reiterating that research supports our claim that a linear model is not well suited to financial services: It has been noted that financial services decisions can last over many years with several failed attempts to purchase (Harrison et al., 2006; McKechnie, 1992; McKechnie & Harrison, 1995). Consumers may also shop without purchase intentions (Bloch & Richins, 1983; Bloch, Sherrell, & Ridgway, 1986; Earl & Potts, 2000). This implies that consumers can not only stop mid-decision but may also pause for long periods (Greenleaf & Lehmann, 1995). Furthermore, the concept of consumers moving in a linear process through decision-making is debatable with the findings that some decision-making processes involve screening, phasing and multiple stages (Aribarg & Foutz, 2009; Payne, Bettman, & Johnson, 1988). There are indications that complex decisions, that can take many years to develop, may not follow the path of arousal, search, evaluate and choice but rather sample the components in magnitude and the direction as experienced by the consumer (Harrison et al., 2006; Malhotra, 1982; Witte, 1972).

Consumer decision-making model for financial services

A conceptual model for consumers undertaking financial services decision-making is presented in Figure 1. While some fundamentals of decision-making apply to all types of purchases, the specific circumstances for high credence products, such as financial services, requires a reframing of the variables and processes. Therefore the model uses some elements from past consumer decision-making models but offers significant changes relevant to the particular characteristics of financial services. There are ten components in the new model and they are broadly grouped into three categories: Inputs, Processes, and Outcomes. A comprehensive outline of the reframed variables is presented below.

Figure 1: Conceptual Framework of Consumer Decision-making for Financial Services



Consumer decision-making inputs

The first component of the new model is the inputs, comprised of purchase situation, consumer characteristics, and information sources.

Purchase Situation

The purchase situation is defined as the impetus or external drivers that may lead the consumer to comprehend a difference between the desired and current state. This is an input to the decision-making system because purchase situation includes contextual and environmental variables as well as the purchase purpose. Constructs that fit under this part of the model include involvement (with the product category), the type of financial product being considered, and other contextual variables, including significant life events, such as marriage and retirement. It has long been accepted that life events are a major influence on consumption behaviour in general (for example, Andreasen, 1984; Belk, 1988), and on financial services specifically (Lazarus & Folkman, 1984; Mergenhagen, 1995; Schewe & Meredith, 1994). It is also well understood that the type of product being considered influences the decision-making process, and this is equally true for financial services (Rickwood & White, 2009). For example, McColl-Kennedy and Fetter (1999) found that the type of information search conducted varied depending on whether a service was more or less people directed.

Consumer Characteristics

Consumer characteristics for this model are an amalgam of the two inputs from the McCarthy Model (1997) of psychological and social influences, with the addition of key demographic indicators. The variables under consideration in this section are broadened to include influences that are personal to the consumer as well as psychological or social. The sub-elements often measured in this construct include, but are not limited to, lifestyles, motives, attitudes, personality, attitudinal involvement, memory, knowledge/learning, age, age cohort, income, goals, and other demographic and cultural variables. The influence of such variables on consumer decision-making has been subject to extensive research over many years, and can be found in any consumer behaviour textbook as well as in psychology literature on consumer decision-making (for example, see Yoon, Cole, & Lee, 2009).

Information Sources

This variable relates to information from organisations and interpersonal sources as an input to the decision-making process. (Information is also covered in the process section of the model, discussed below). This is recognised by McCathy et al. (1997) in their two outlying components of marketing mixes and all other stimuli. In the case of services, the marketing mix includes physical evidence, people, and processes (Bitner & Booms, 1981), as well as the traditional price, place, product, and promotions, all of which can convey information to a consumer. For example, Kotler's seminal piece on atmospherics notes how the atmosphere is a "'silent language' in communications" (1973, p. 48) and Bitner's (1992) work on the servicescape clarifies the many aspects of a service environment that can impact consumers' perceptions. The importance of information from personal sources to consumer decisions related to services (particular those with high credence qualities) has also been recognized for many years (King & Hill, 1997; Murray, 1991).

The new model shows more clearly than earlier models that information in the environment interacts with the purchase situation and consumer characteristics, to influence need arousal, rather than having a linear relationship. For example, a message reminding consumers of tax deadlines, interest rate charges, or a new share issue can have a direct influence on the instigation of a consumer decision process.

In addition, the construct of information in a financial services context is more complicated because the information itself is often seen as unavailable or costly to obtain, and consumers may not always have the skills or knowledge to understand the information (McKechnie, 1992). These difficulties with information accessibility and comprehension are clearly closely related to the previous construct 'consumer characteristics', and also relate to the 'information utility' construct discussed as part of the process element of the model below.

Consumer Decision-Making Processes

The second major part of the proposed decision-making model for consumer services is processes, including need arousal, information utility, criteria development, and evaluation of alternatives.

Need Arousal

Need arousal is a measurement of whether the individual recognises the need for a solution and chooses to activate the remainder of the process, or alternatively the need remains latent and the process is truncated. The concepts which underpin need arousal have been have studied in some detail (see Bruner & Pomazal, 1993 for an indepth articulation of the process of need arousal).

This construct has been reframed from the traditional ‘Problem Recognition’ to more adequately represent the felt state or affective components which have been robustly investigated since their appearance in the Engel et al model (1968) as well as by the founding theorists Cannon (1932) and Maslow (1943, 1970). While this is a simple process for many physical goods, in the case of financial services it is less common that an individual recognises simultaneously both that a financial problem/opportunity exists, and the specific service category to use to solve it. More often is a large period of latency, or ‘recognition without action’ that precedes the uptake of a financial service (Greenleaf & Lehmann, 1995).

This is the first procedural component of the decision-making process and is seen as the trigger for the continuation of the process (Bruner & Pomazal, 1993). In the context of this paper it has been raised above the other procedural components to indicate the order established by previous models, however, reciprocal relationships between all the other procedural variables are present, which is an advance on previous models. Indicating, for example, that information sources as an input may react with the information utility component to cause an arousal in need while, for example, watching a news item on investment options.

Information Utility

Information utility can be defined as the collection, processing, and use of information, from any source, to aid in the resolution of the problem/opportunity. This information utility variable within the decision-making process is distinct from the information sources that may stimulate the start of the decision-making process. Information utility is slightly lower than need arousal but higher than the other variables in the processes section of the model to indicate that sometimes (but not always) it occurs prior to the other stages (as suggested in traditional CDM models). Information utility relates to a consumer's need for information from external and internal sources. External sources include marketing communications and interpersonal sources, while internal sources include memory and learning, subjective knowledge, experience and expertise. Information utility can provide a better understanding of where customers 'shop' for information, what information they are seeking, and how they use it.

The interaction between information utility and the other processes is an important part of the new model – it is clear that as a consumer gathers and uses information that their growing knowledge may also influence their conception of how to go about evaluating their choices, and the evaluation itself (Bruner, 1986, 1987). For example, in choosing a financial advisor a consumer may read that one local advisor has a particular qualification, and this may influence their evaluation of other potential advisors. The quality of information available on certain financial services institutions and the manner in which the information is provided may also have a strong influence on the evaluation of the service, given the information-based nature of the service and the service consumer's need for cues to assist in evaluation of service quality.

Furthermore, the concept of utility here is designed to reflect that consumers inherently make a judgment of the perceived value and costs associated with information gathering and expectations

(Wilton & Myers, 1986). The seminal work by Simon (1955, 1957) notes that consumers act with only bounded rationality, limited ability and that they do not necessarily search for all alternatives. Furthermore information processing as a consumer capability forms an input to the decision-making process, as does experience and expertise. While consumers inherently seek information to reduce perceived risks in complex purchase such as financial services (Mitra, Reiss, & Capella, 1999), they may also perceive that the information is not available, or is available however at a cost that they are not willing to pay. It is also conceivable that the consumer considers that the information available is presented in a way that is difficult to understand, or that the consumer perceives the cost (time/opportunity) of 'learning' to understand the different alternatives is too great to be a viable undertaking. Consumer characteristics and information sources clearly influence the information utility the consumer experiences, as well as influencing the other process elements. This relationship was not clearly represented in prior models.

Criteria development

The development of criteria for evaluation sits between information utility and the application of the criteria to evaluating options. Criteria development is not generally a separate construct in the traditional CDM models, but this component is relevant because it sets the boundaries of the decision (J. Lee & Marlowe, 1999). The development of criteria component of the model comprises a preliminary consideration leading to formation of an evoked set, and in tandem with this, development of the decision criteria that will later be used to evaluate possible solutions offered by the evoked set.

Most decisions are truncated to include only a small *evoked set* of alternatives (Howard & Sheth, 1969), sometimes referred to as the *consideration set* (Hauser & Wernerfelt, 1990). Development of the evoked set requires a preliminary informal information search, which is distinct from the more intensive evaluation once the evoked set is formed (Hauser & Wernerfelt, 1990). (See Laroche, Kim, and Matsui (2003) for a useful summary of the literature relating to the formation of evoked sets). Research suggests that evoked sets for services are on average smaller than for goods (Turley & LeBlanc, 1993). From the work of Wirtz and Mattila (2003) on professional services in the health industry we know that when consumers have less objective knowledge relevant to a purchase decision, they tend to have a smaller evoked set because those with less knowledge of the product find it harder to distinguish between alternatives. The intangible nature of services means that consumers often face a shortage of relevant information that they are able to comprehend and base evaluations upon (King & Hill, 1997), and this is certainly true of many financial services. The interactions between the models' constructs of information utility and criteria development, as depicted in the new model, is clearly evident from this discussion.

Evaluative criteria development is relevant to financial services purchase decisions in particular due the perceived complexity of some of the products, and that consumers may not be able to appreciate differences between available financial service providers. Decision-making for financial services is also complicated by the fact that a range of diverse products may accomplish very similar goals. For example, a completely substitutable investment strategy could use, financial planning, funds management, stock broking, home loans, superannuation or a combination of all these through self-managed superannuation (depending on the context). It appears that consumers tend to use a smaller number of salient features to evaluate services than they do for physical goods (Turley & LeBlanc, 1993), and the complexity of the decisions could account for this.

Evaluation of solutions.

Evaluation of solutions sits below criteria development and comes prior to outcomes in the model. Evaluation mechanisms are heuristics or decision rules (Plous, 1993), which are essentially techniques used to evaluate the alternatives presented from the previous procedural components of the decision-making process. Consumers differ in the rules they use to evaluate goods (Bettman, Johnson, & Payne, 1991), allowing comparison of techniques over groups. The techniques used to evaluate alternative financial services can be derived from the heuristics literature. It was noted by Plous (1993) and Olshavsky and Granbois (1979) that a ‘contingent processing concept’ needed to be broadened to include heuristics such as agency, conformity, imitation and recommendations. Different need arousal levels may see the use of different decision rules which is important to note when marketing services.

Evaluation of solutions in the model includes substitute products, and products categories, as well as brand choice. This is an expansion of the construct from the narrow classifications presented in some models, such as Howard and Sheth (1969), where evaluation of brand choice was the ultimate goal. The structures inherent in the financial services market and substitutability of services make brand choice alone superficial because it requires a choice of the product category to be performed prior to the decision-making process. While this may be clear in other product or service categories, financial services can have high substitutability, for example few consumers note the difference between funds managers and financial planners, the decision between which is often made at the same time as brand/product choice (Black, Lockett, Ennew, Winklhofer, & McKechnie, 2002).

Recent research suggests that need arousal and evaluation of alternatives may be the most prominent of the decision-making variables, and that many consumers rely largely on prior knowledge and inbuilt preconceived criteria when making a decision (Mata & Nunes, 2010; Yoon et al., 2009). This could make the arousal of the need and the method of evaluation via a heuristic the most influential components of the decision-making process.

Consumer decision-making outcomes

The third component of the conceptual model is the outcomes, including the decision, purchase, and post-decision evaluation.

Decision or choice

A decision is the immediate result of the process elements of decision-making. Decision is considered separate to purchase due to the separation of the activities and the fact that decision does not necessarily lead to purchase. For example, a consumer may not have the financial means to be able to complete the transaction; an interrupting variable such as a point of sale discount for an alternative may intervene; or simply 'sleeping on a decision' may reduce the need arousal and the item is forgotten. It is known that, in the purchase of services, consumers may defer making the decision for some time due to the greater perceived risk inherent in the purchase, particularly the uncertainty and potential loss (Murray, 1991), which are clearly significant factors for financial services.

Purchase

The purchase component is particularly relevant not only because it is the output to the decision-making process, but also because purchasing is a highly behavioural aspect of the process. Most of the other constructs are internally focused as thought processes or situational based constructs such as past experiences.

Post-decision evaluation

This variable has been altered from the norm of post-purchase evaluation because for financial services it is harder for consumers to make post-purchase evaluations. Difficulties in evaluating services are well covered in the literature (for example see Devlin, 2001; Montfort, Masurel, & Rijn, 2000). Of particular note is the seminal article by Darby and Karni (1973) which posited that credence goods are those that often cannot be evaluated even after they have been consumed. A good example of this is a financial investment which provides a 4% return, which depending on the economic context and the consumer's level of understanding could be seen as excellent, ordinary or calamitous.

Additionally, if decision-making processes are considered to be iterative, can be seen as trial or shopping experiences, or can lead to no decision, then the standard analysis of post purchase constructs such as cognitive dissonance needs to be expanded to include the feedback from the decision if there is no purchase. These outputs to the model remain valid and many are recycled within consumer's minds in the form of memory, attitudes and experiences which can in turn lead to a form of education and culminate in expertise.

Overarching Features of the model for Financial Service Relevance

The preceding discussion of the components of the new conceptual framework highlights some of the points of departure from existing models, but there are also additional points of difference that warrant discussion.

Direction

The new conceptual model in Figure 1 depicts a framework with an input-process-output directionality, similar to previous models. The process components however have been altered from the ubiquitous McCarthy et al. (1997) model to enable multiple interactions between any of the process components – a shift back towards the multiple relationships of Engel et al. (1968) or the non-sequential model of Brinberg and Lutz (1986). This multiple interaction approach was included, because, as previously discussed, there is little evidence of the procedural nature of these concepts.

Furthermore, as noted earlier, the nature of the decision for financial services is often a complicated interplay between all procedural components over long time frames. It is also recognised that information from a search can serve as a mechanism to instigate higher levels of need. A hypothetical example is an individual who considers that a tax refund is desirable to have in the future, which leads them to search for an accountant to take administrative burden from submission. This search for information on accountants may lead them to the discovery that the final tax filing day is in one week. This further arouses the need to see an accountant and may change the speed and intensity of the decision-making process.

Timeliness and Trial

The other major divergence from the models of the past is that while they do not contain explicit timeframes, they imply that most decisions are made in comparatively short time frames. It has been noted that financial services may have decisions that last over many years with several failed attempts to purchase (Harrison et al., 2006; McKechnie, 1992; McKechnie & Harrison, 1995). Whether failed attempts are considered a 'no decision' or simply a comprehensive and timely undertaking of one or several of the procedural elements over time is not important. What is important is that consumers may use the decision-making process as a learning experience, or perhaps a form of window shopping for services, and 'no decision' is a viable alternative with many iterations possible.

Grouping and articulating

Another modification from the McCarthy et al. model (1997) is the combining of the inputs of psychological and social variables to form consumer characteristics. While the constructs underpinning these classifications are important, in order to aggregate these components for research, it provides conceptual clarity to classify them as 'all constructs internal to the consumer' and simply use the constructs that are relevant to the purchase frame.

While purchase situation could be seen as a consumer characteristic it has been set apart because technically it is external to the consumer. Life events, or occurences that change a consumers ‘life status’, are included here as they change the situation and could potentially act as an instigator for the decision-making processes. This group is suggested by communication and behavioural researchers to be one of the most powerful motivators to behavioural change (Mackay, 1994) and as such requires a separate construct.

The final input to the decision-making framework is a combination of the two outlying components of ‘marketing mixes’ and ‘all other stimuli’ as shown in the McCarthy Model (1997). These two components have been combined into the construct of ‘Information Sources’ as it is in fact the communication of marketing mix elements or how stimuli is received that makes it an input to the process elements.

Scope

The nature of financial decision-making as well as current competitive market conditions led to a further assumption within the model which we will refer to as ‘scope’. Scope in this context can be described as the type of alternative solutions available. Initial models, while using problem-solving frameworks, were designed with very narrow problem solving scope. For example, Howard and Sheth (1969) specifically designed their model to be a process to help explain brand choice, assuming that the consumer had already made the decision to purchase from the product category. In this model the broadening of the scope to include all available, directly substitutable services into the conceptual framework was considered important because many consumers are unable to distinguish differences between, for example, a financial planner, a funds manager or even an accountant. This concept of scope is directly relevant to the concept of need arousal where Bruner and Pomazal (1993) recognise that the process may be broad or narrow in focus. For example, a particular need could potentially be satisfied by a whole class of goods while the other extreme suggests there may exist a situation where only a particular brand will meet the need.

Conclusions and implications

This paper has reviewed notable models of consumer decision-making, highlighting those aspects that are applicable to financial services as well as those that require adaption. From a review of consumer decision-making and financial services literature a new conceptual model was developed.

The new framework comprises three main components: inputs, processes, and outcomes. The inputs that may prompt need arousal include the purchase situation (contextual and environmental variables), consumer characteristics (both psychological and social influences), and information sources (marketing and interpersonal). The process section of the model includes need arousal, information utility, criteria development and evaluation of solutions. An important element of the model is the recognition that these processes interact with each other rather than a consumer following a linear progression through these stages. The final component of the model is the outcomes, including the decision (which may be to abort the purchase), the purchase itself, and post-decision evaluation. The outcomes feed back into both the inputs and (indirectly) the processes, through their influence on memories, attitudes and beliefs.

The new model better reflects the iterative decision-making process relevant to consumers of professional services, while clarifying the relationships between elements of the process, and highlighting the role of information as both an input and a key process in decision-making.

Understanding the consumer decision-making process better enables marketers to develop more efficient and effective strategies for assisting consumers through the process to a resolution that is mutually beneficial. The common models for consumer-decision-making are not well suited to services, and this new conceptual framework is a response to the calls for improved conceptual models for financial services in particular.

Further research is required to test the relationships between the variables in different contexts, and thus enable refinement and/or validation of the model.

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