THE IMPACT OF CUSTOMER VALUES ON PURCHASING BEHAVIOUR: A CASE OF LATVIAN INSURANCE MARKET

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Abstract

The objective of the paper is to analyze consumer value dynamics and related purchasing behaviour in Latvian insurance market over the last years applying consumer values approach, estimate anticipated future trends and provide suggestions to industry players for successful improved competitiveness.

The paper analyzes Latvian insurance market consumer social values trends over the period of 2002-2009 based on empirical sociological data from conducted value surveys representatively sampling the general population of Latvia to identify the causal relationship between the significant values of consumers and their choice of particular insurance products, brands and distribution channels.

The paper provides interesting insights and empirical evidence on values being determinant for consumer choice and suggests priority areas of development for insurance market players in order to adapt to changing customer preferences and gain competitive advantages.

Keywords: consumer values, purchasing behaviour, marketing, Latvia, insurance.

Introduction

Consumer markets are witnessing a rapid developments and challenges to adapt to ever-changing customer needs and wants influenced by a variety of social and economic processes, e.g. globalisation, urbanisation, shift of economy towards services, changing lifestyles and thus purchasing behaviour of consumers. Purchasing behaviour is driven by complex social behaviours which have both rational and subjective influence on customer choice of the brands, products or distribution channels. Marketing researchers instantly attempt to relate purchasing behaviour and related aspects such as media consumption to personality of the consumer. New approaches, models and concepts are emerging at a speed never seen before however with a variable success of being accepted and applied in marketing practice. Over the last few decades consumer social values theories have gained recognition in explanation of purchasing behaviour mechanisms. This approach extends itself across the traditional boundaries from sociology where values theory is born to marketing providing a customer-centric view of motivators underlying the purchasing behaviour instead of company-driven inner view.

This paper considers the hierarchical consumer value system as enabler to explain the impact of the dominating values on the economic behaviour of particular consumer groups - particularly, a case of the Latvian insurance market is being analyzed in the paper.

Consumer values as determinant for purchasing behaviour

Values exert a major influence on the consumer behaviour thus serving as determinant for his/her decision making in a discreet choice among brands, products or in any situation where conflict of choice exists. It is widely accepted choice criteria are based on individual's social values. Selection procedures are influenced by criteria people have set for themselves to select and justify own and others actions (Schwartz, 1992).

Values could be defined in several ways, for instance, in the economic context values are often referred as individual choices, preferences and tastes. Hereby author suggests that the choices or preferences are not values themselves however they are the consequences of the application of individual values in a process of choice. According to Milton Rokeach, value is defined as "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence" (Rokeach, 1973). Values are desirable trans-situational goals of variable importance applied as broader guiding principles by a person or social entity (Schwartz, 1992). They serve as criteria for judgment, preferences, choice and decisions as they underlie the knowledge, beliefs and attitudes (Rokeach, 1968). Basically, the purchasing behaviour of the customer reflects the actions which are based on a consequential relationship between his/her values and consequential wants and actions (Figure 1).

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Figure 1. Values driven purchasing behaviour

However people are not born with certain values - values are largely formed in a process of socialization and transmitted via education or derived from empirical experience passing them across generations, social groups or individual to individual. A major role in this process is played by socializing agents such as family, educational and religious institutions, mass media and government. All of the above might have an influence on large social groups, i.e. whole consumer markets not limited by a single country or language but spreading cross-border due to cultural and religious expansion. The values formed over the time in such a social group influence its consumption habits later. For instance, different forms of food taboos exist when people abstain from consuming certain food or beverages for religious or cultural reasons. Those could be driven by variety of factors from religion (e.g. pork ban for Muslims or Judaists) to social-ethical beliefs (e.g. environmentalism or veganism). In any of cases, there is a negative impact on overall consumption of certain meat products with a scale dependant on a size and nature of the social group given.

Some other values of large consumer groups and the behaviours affected could have a serious impact on particular industries or whole economic systems, e.g. dominating pessimism and vigilance in a period of economic downturn might easily result in a decreased consumption in nearly all the product groups thus influencing the total retail turnover of the economic system. A certain role of mass media and government actions might either drive or limit such a behaviour becoming a tool to mitigate the challenge. Marketers are trying to put their knowledge about values in use to drive the market in desired direction and gain some competitive advantage. Moreover, values being determinant for actions is an enabler to do that as changes in values can be spotted prior they are reflected in consumer actions. However, the relation between values and actions should be evident and measurable in order to take actions.

From a marketing perspective, values are not uniform. Some of them remain relatively persistent even in the long run. They might enable investigators to explain basic differences in the marketplace however they face limitations to distinguish among different consumption patterns within it. The change of certain values identified over the time provides an opportunity for marketers to develop strategies to meet the challenges and gain competitive advantages in positioning their products and brands better in a light of anticipated changes of consumption patterns for the customer groups representing segments of interest to market player.

Measuring the impact of consumer values to purchasing behaviour

There is a number of methods used to relate social values to purchasing behaviour however the key challenge for most of them is to overcome the limitations of their qualitative nature enabling to measure the dynamics of values and impact on action. Most of the approaches measure the impact of values indirectly, e.g. via and limiting to importance of product attributes. These techniques are typically based on sampled surveys, further segmentation of the respondents in groups by dominating values and analysis of their attitudes towards the product which is later generalized. Key challenges represented are the definition of an appropriate social value classification system and correct determination of significant relationship between values and resulting actions.

While there are a large number of different instruments developed and used over the time there are few most commonly used social value classification systems in marketing research. Rokeach Value Survey (RVS) was one of the first widely accepted instruments and still it is among the most popular. The system contains two sets of values each representing 18 individual items - terminal values which refer to desirable end-states of existence (what the individual wants to achieve) and instrumental values which refer to preferable modes of behavior to achieve the terminal values (Rokeach, 1973). Both sets of values are ranged by participants in order of their personal importance to them. However this approach is time consuming, some of the values allow too much freedom of individual interpretations and often ranking is complicated for respondents. Alternatively a popular approach is Schwartz Value Inventory (SVI) which has grown on a
basis of RVS and has gained a wide acceptance lately. Schwartz identified and validated 10 value domains or distinct value groups with totally 56 or 57 values included. Values are rated by participants of the survey according to the importance of values for them. The domains represent either individualistic or collective values or combination of them and are viewed in a framework of four dimensions - openness to change, self-enhancement, conservation and self-transcendence. (Schwartz, 1992, 1994, 2006) The approach serves as a base for the European Social Survey - a repeated cross-sectional academically driven survey run across more than 30 European countries aimed to explain attitudes, beliefs and behaviour of European nations. Schwartz's suggested domains are validated as culturally universal thus enabling the application of the approach as a baseline for research of consumer behaviour in a variety of markets with a limited adaption in respect to local factors. Among other popular alternatives and variations Values and Life Style (Mitchell, 1983) and List of Values (Kahle, 1989) had been often used in consumer and marketing research.

The practical application of consumer values approach in marketing research has widened over the time exploring different industries and areas. While Rokeach suggested a link between different car brands appealing to consumers representing different value profiles (Rokeach, 1973), following researches provided more empirical evidence for the relationship between values and car types chosen by customers (Henry, 1976). Later Allen and Ng developed a quantitative method intended to uncover both direct and indirect influence of values on purchasing decisions which combined Rokeach and Schwartz methods. A case of suggesting promotion strategy for Toyota Corolla brand based on consumer value study has been presented (Allen, 2001). Numerous researches had been performed also in fashion and apparel industries suggesting the existence of link between values and preferences in fashion (Prakash, 1986; Kim, 2005). Consumer values had been used as instrument for market segmentation (Vinson, Scott &Lamont, 1977; Pitts & Woodside, 1984) however this has been mostly applied to real goods and retailing industries. More complicated industries like financial services always had represented a challenge to investigators, particularly if fast changing environment like emerging financial markets in Eastern Europe are considered. This paper provides a brief overview of the first insights of application of value research in Latvian insurance market.

**Approach and framework of analysis**

The study of consumer values in Latvian insurance market covers a period of 2002-2009 based on empirical data from repeated annual value surveys (Data Serviss, 2002-2009). A dedicated part of the surveys included a set of questions related to insurance market covering consumer insurance needs, attitude towards brands and relevance of brand attributes, current and anticipated future choice of products and purchase channels. Questionnaire design also enabled further analysis and cross-section between insurance related aspects and demography, customer social values, media consumption, lifestyle and other relevant attributes.

Surveys were conducted annually with average size of the sample targeted to 1500 participants, demographically representative to general population of Latvia. Methodology incorporated direct interviews and adapted SVI approach - participants rated 64 universal values identified as relevant to local population. Values were grouped in 8 value domains. Domains and respective target segments representing them were attributed a name based on dominating values:

1. Rationalist (e.g. values like being logical, treating others equal, respecting differences)
2. Traditionalist (e.g. humbleness, good relationship with other people)
3. Peaceful (e.g. inner harmony, honesty, politeness, avoiding conflict situations)
4. Domestic (e.g. family security, thrift, loyalty, health)
5. Profound (e.g. settled personal life, wealth, friendship)
6. Self-centred (e.g. self-respect, self-determination, enjoying life, independence of thought)
7. Ambitious (e.g. fame, influence, authority, exploring new opportunities)
8. Maximalist (e.g. activity, creativity, life-long education, holding ground)

Domains were organised in respect to motivational similarities and dissimilarities into 4 dimensions: living for tomorrow vs. today, identity vs. relations, self vs. other, domination vs. adjustment. Domains and dimensions represent a value circle featuring a radar chart for convenient data visualization (Figure 2).
Figure 2. Data Serviss Value circle model

Social groups or target customer segments (for instance, customers of certain company or users of some product) can be easy plotted on radar visualizing the respective value profile and importance of certain value domain within the segment.

The analysis applied to insurance market considers as target group only those participants of the survey who use any of insurance products. Value profile for the segment is developed in a same way as for sample representing whole general population. Same approach could be applied to develop and valuate profiles for users of certain products, distribution channels and brands. Empirical insights over the period of studies reveal that customer segments representing a certain value domain tend to prefer brands associated with the same value group and the correlation between values and driving choice criteria for choosing a specific proposition (a product with a specific set of features offered by a certain market player) among alternatives exist. This allows to perform some direct matching to position the brands and product attributes while structural equation modelling (SEM) is applied to explain more complex causal relationship like relation between particular value domains and the importance of certain choice criteria (brand or product attributes) to discreet choice among propositions.

**Dominating values and tendencies of Latvian insurance market**

The results of study are broad and complex hence due to limitations of the paper author seeks to provide only some key insights from application of value models to interpret developments of the industry.

**Finding 1. Remarkable shift of values for Latvian consumers observed over the time**

The value profile of Latvian general population has significantly changed along with economic developments as illustrated for selected years in Figure 3. Significant changes observed in 2004 vs. 2002 as society shifts from collective action values to individualist, self-enhancement values. A relationship with rapid economic growth over that period of time is suggested as population tries to maximize individual utility. Particularly, in 2004 value profile has exploded to suggest a trend towards values of individual enrichment and social status. This was evident in later consumption behaviour - growth in retail turnover and consumption crediting. In 2005-2006 the broad value profile was still persistent however a remarkable shift towards long-term utility (rationalist values, dimension Tomorrow) was observed which had been reflected in property market and mortgage crediting boom. However already in 2007 value profile had dramatically shrunk on nearly all dimensions outlining stress and increasing precaution towards which links to later purchasing behaviour characterized by constrictive individual consumption trends typical to economic downturn. This is significant empirical observation as value changes were observed and interpreted nearly a year before the actual impact on consumption was observed in second half of 2008. This might provide an interesting base for further research and predictive modelling. Year 2008-2009 value profiles remained quite similar suggesting the purchasing behaviour to remain the same however in 2009 value profile has expanded slightly in three rather different dimension simultaneously - Tomorrow, Adjustment and Self - which might
indicate fragmentation of general population thus becoming more challenging for marketers to address several segments in the same way. This is one of the reasons why understanding of consumer values and their impact on consumption is essential for marketers to develop winning marketing strategies.

Figure 3. Value profile dynamics in Latvia 2002-2009

Finding 2. Insurance market customer value profile complies with profile of general population exhibiting prevalence of domestic values

Value profile of average insurance customer shows no significant differences from the one of the general population of Latvia over the period of research which suggests that interpretation of overall motivators might be the same (Figure 4).

Figure 4. Value profiles for general population and insurance market customer 2009

Differences in insurance customer profile from general population exhibit a minor prevalence of Traditionalist, Peaceful and Domestic values as well as insurance user being slightly less exposed in Maximalist value domain. Extended analysis suggested that some of the differences could be explained by slightly different demographic profile of average insurance consumer (more often Latvian speaking, male, aged 36-45) however cross-check with other lifestyle aspects support higher social engagement of the insurance users. Dominance of domestic values combined with higher potential of social resources suggest insurance companies to shape a successful marketing strategies to approach this segment via communication messages focused on relevant values (security and devotion to family, loyalty, responsibility, thrift). Brand and proposition specific suggestions are also derived from research via application of SEM. The suggestions are company specific thus being out of scope of current paper.

Study has revealed a shift of preferences and customer choice motivators for most and particularly Domestic value segment which correlates with the effect of economic downturn. Domestic segment has always been price sensitive however this indicates rather changes in choice motivators than values - survey
revealed a shift from choosing an extensive insurance cover even at an extra price towards opting for smaller cover featuring cover with adequate price. Basically, the need for insurance persists in the segment, customers still seek a combination of price/benefit and this segment offers opportunities for market players to compensate anticipated decline in other segments.

Finding 3. Relative brand perception

There are different motivators for customer segments to consider and choose a particular brand or product propositions from different brands. A straightforward single-factor analysis is not sufficient to support hypothesis about existence of strong relationship among values, preferences (associated both with brand and product features) and choice as the latter is dependent on more complex decision making system. However, the application of SEM allows to reveal such correlations.

An output of analysis for motor insurance product is visualized in Figure 5. The case is based on December, 2008 dataset with population sample 1428, insurance customers 860 (Data Serviss, 2008). Limitation to select appropriate sample applied. Customers representing the three value domains with highest relevance and size of the sample were considered. A discreet choice between propositions from two market leading companies (A with sample 274, B - 221) considered, motivators split between customers considering only a single proposition (643) and considering several to choose discreetly among them (217) selecting motivators with highest impact and relevance only.

Figure 5. Motivation analysis for choice of insurance proposition

Analysis revealed different key drivers for a choice of the proposition which could suggest distinct marketing strategies for companies to succeed in the long-run.

Recomendation for company A is strongly driven by brand reputation and supported by rational choice of product features in two segments Profound and Peaceful with some negative impact of price factor which is particularly important aspect for Domestic segment. This might suggest company to reconsider marketing strategy and grow in a brand conscious Profound segment via marketing communication as well as to remove some price barriers in Domestic segment. The success in this segment could be achieved not by simple price reduction which might be out of scope for strategy of company but rather shaping the product feature set to provide the market leading price/benefit package which is important motivator for segment.
Recommendation for B is driven by Domestic values via price and awareness factors. This is compliant to market strategy of the respective company - aggressive price driven competition supported with higher than average marketing investment in public campaigns. Though product features have some impact on recommendation, they are little related to value segments which suggests rather technical than brand leadership thus successful marketing strategy for the company has to include more brand reputation focus.

There are certain limitations of this model - some external factors (e.g. marketing and promotion activities) not included in model might had had influence on customer choice; as model is based on structured survey data - some motivators might not be considered. These factors could be mitigated by extending and adjusting dataset on rolling data base from repeated regular studies. First iterations of the model developed show that it has a potential for linking customer purchasing behaviour to their values and there are opportunities to improve and adjust model.

Conclusions

Application of values based analysis has some unjustified lack of attention in both marketing and academic worlds - particularly due to complexity and interdisciplinary nature of the subject which breaks the boundaries between sociology and economic science. Complexity and sustainability of social values over the time represents a challenge for investigators which could be met in such environments as emerging markets where a significant shift of consumer values is observed in a short period of time as reviewed in paper.

Application of value modelling on a case of Latvian insurance market has revealed both general market and company level findings. First, relationship between values and purchasing behaviour in economic system is suggested which could enable further development of predictive modelling instruments. Next, there is considerable dominance of customer segments representing certain value domains in the market which allows one level deeper analysis to determine motivators and relations driving consumer behaviours.

Structural equation research might provide further understanding of relation among values, attitudes and consumption which provides value both on academic level for development predictive models and on business level to enable market players develop winning marketing strategies. First steps of modelling on empirical data suggests there is a potential for improvement and generalization of the approach to be applied for wider analysis of trends in insurance and potentially other markets.

References