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CONSUMER NEEDS ANALYSIS AS A BASE FOR SUSTAINABLE DEVELOPMENT OF ENTREPRENEURSHIP

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ABSTRACT

Knowledge about consumer needs, factors and motives affecting behavior is one of the ways of ensuring entrepreneurship competitiveness. Authors present the results of the study on the A. Maslow's hierarchy of needs within the context of consumer behavior components affecting consumer behavior from a perspective of entrepreneurial decision making. Authors employ well known methods of research – statistical analysis, grouping, evaluation, predicting etc. In the course of the present research by synthesis of theoretical developments and practical experience decision making model is made. A. Maslow's theory serves as the basis for developing a range of theories dealing with consumer behavior, therefore, when developing the consumer behavior model in Latvia, the author decided to integrate the better known theories. The use of models prepared by the authors in sales, entrepreneurship, and other sectors of economy provide an opportunity to reasonably plan investments for the relevant time period, to avoid mistakes, and to improve the overall economic effectiveness of the company's operations and usefulness of resource utilization.

KEYWORDS: *Consumer needs, A. Maslow's hierarchy of needs, classification of consumption objects and production means.*

JEL CODES: M11, M31

Introduction

Research problem: The global economic crisis has proven that changes of the financial situation in the world directly affect consumption. Statistical data show that 98 % of sectors and companies working in them were affected by the economic crisis. As a result, many companies went bankrupt; many increased the operating efficiency or re-structured the operations. Hence, the following assumption was proven true: each company is potentially interested in determining the goods, which the consumer is ready to purchase, for which goods the consumer is ready to spend money at his or her disposal.

Research purpose is on the basis of consumer behavior analysis to develop model of decision making for needs of entrepreneurship, especially for trading organizations.

Research object is customer needs and possibility to classify them for ensuring right decision making.

The main goal of research is to classify a goods according to the consumer needs. Very special role in presented research is devoted to analyze the theories and to integrate them into the consumer behavior model, at first, structuring of goods and services in the relevant models.

Research tasks are to analyze possibility classify good according their impact on consumer needs; to merge together latest findings in customer needs analysis with existing well known consumer behavior mo-

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dels, to develop model for decision making in entrepreneurship with an aim to ensure development of trading organizations and customer well-being.

Research methods: Conventional quantitative and qualitative data analysis methods of the economics science and management science have been employed. Authors employ well known methods of research – statistical analysis, grouping, evaluation, predicting etc. In the course of the present research by synthesis of theoretical developments and practical experience decision making model is made.

1. Latvian consumer portrait

Consumer behavior is known to be affected by a range of various factors. Several authors with globally recognized researches have conducted studies on mutual interaction of factors, they have grouped, analyzed and evaluated them, etc., in order to analyze consumer behavior more precisely.

One of the key parameters important in each study of consumer behavior is the demographic profile or consumer portrait. Upon summarizing the information available in scientific studies, the author concludes that factors that form the demographic profile of a consumer are as follows: age, gender, occupation, education, marital status, income, living conditions, and lifespan (Evans, Berman, 1987: 115).

Since the authors studies the consumer behavior of Latvia, the authors performed an analysis of the relevant statistical data in order to create the Latvian consumer portrait.

At the beginning of the year 2011, there were 2 million 229 thousand inhabitants in Latvia. Within a decade, since the beginning of the year 2000, the population has declined by 152 thousand people (Central Statistical Bureau, 2012).

The proportion of urban and rural inhabitants in the overall population over the course of last five years has not changed considerably – 68 % of population lives in cities, but 32 % – in rural areas. High concentration of inhabitants of Latvia is observed in the capital – at the beginning of 2011, 700 thousand people lived in Riga (31.4 % of the country's inhabitations). However, since 2000, the number of people living in Riga has declined by 66 thousand (Central Statistical Bureau, 2012).

The average size of a household in 2011 is 2.48 persons. In cities, 1–2 person households are the most common, and their proportion in 2010 was 59.4 %. The parameter of household size is one of the important parameters for forecasting consumer behavior. Normally, according to the size of a household, the volume and structure of consumption is forecasted, as well as the future potential demand is planned (Central Statistical Bureau, 2012).

Household consumption expenses on average in the country, if calculated per member of household, in 2010 were Latvian Lats (further: LVL) 178.01 per month, which is 91 % of the average results regarding expenses in the year 2009.

The main consumption priority in all households is expenses for subsistence – 28.3 % of the total expenses of consumption and the proportion of these expenses in consumption expenses, in comparison with the previous year (26.7 %) have increased slightly. At the same time, expenses for food on average per member of household have decreased from LVL 52.04 down to LVL 50.47 (Central Statistical Bureau, 2012).

Overall, in all households generally such primary expenses as costs for food, housing maintenance and utility payments, transportation costs, purchasing clothing and footwear, and health care formed two thirds (66 %) of the overall consumption costs.

The second biggest expense item after food since 2006 has been transportation expenses, however in 2009, the second biggest item was expenses for housing and utilities. It is the household expense item, in which an increase in costs is observed several years in a row, and it indisputably affects the overall consumption cost structure.

Upon summarizing the study results, the author has created the portrait of a Latvian consumer. The Latvian consumer is generally 40.9 years old with life expectancy of 68–69 years for men and 78–79 years for women. The consumer is of working age and has paid employment with the average income of LVL 192 per month, spends income for food (26.7 %), housing maintenance and improvement (15.5 %), transport

(13.1 %), clothing and footwear (5.3 %), entertainment and culture (8 %), communications (5.1 %), restaurants and cafés (4.3 %), health care (5.3 %), alcohol and tobacco (3.6 %). He/she lives in the city, in a multi-apartment building; the average number of people per household is 2.51 people. 14 % have higher education and 37.2 % are married (Central Statistical Bureau, 2012).

The consumer portrait can be used in entrepreneurship for making marketing planning decisions.

2. Classification of goods

The motive is the rational consciousness act, the grounds for a person's behavior, which is triggered before the behavior and determines the behavior forms, choice of means, direction of action, desire to act (Garleja, Vidnere, 2001: 95).

The stronger is motivation, the faster the consumer makes a decision on consumption (also purchasing). Motivation is affected by a range of factors: functional ability of a person, energy, interests, authorities, social standards and norms, external stimuli, situations, etc.

The purchase of goods or the use of services is equally affected by several motives. When analyzing, which of the motives of existing and potential clients at this time and in the nearest future could be decisive, when determining the use of a product, then, in fact, the following question must be answered: what will be the benefits for the performer of activity (Veide, 2004: 148).

The occurring processes in the society's behavior are difficult to explain, because in practice, very rarely such behavior can be observed, which is based on satisfying the basic needs, at the base of behavior are various motives, which can usually be only determined, but cannot be easily measured.

Members of the society often consume services and goods not due to necessity, but instead guided by various other motives, they cannot be easily measured, but they can be identified and their variable factors can be determined (Praude, 2001: 65).

A. Maslow's theory in the modern day management has been improved and adapted for the changes of the era and it is interpreted in different ways.

Upon summarizing the messages related to A. Maslow's hierarchy of needs within the context of consumer behavior, the author has grouped various products according to Maslow's levels of needs.

The authors realize that it is infeasible to implement identical classification in all markets. The authors wish to emphasize that such classification can be formed, by setting restrictions according to geographic, economic, political, religious, national, and other restrictions. Furthermore, such classification is limited in time.

A. Maslow's theory serves as the basis for developing a range of theories dealing with consumer behavior, therefore, when developing the consumer behavior model in Latvia, the author decided to integrate the better known theories:

- A. Maslow's hierarchy (pyramid) of needs;
- Classification of consumption objects and production means;
- The effect of affiliation to social groups on the choice of the product and trade brand;
- Distribution of roles in a family, when purchasing various products.

In order to combine the said theories and to integrate them into the consumer behavior model, at first, structuring of goods and services in the relevant models must be carried out.

Authors assume that within the framework of one social layer, the level of hierarchy of satisfying the needs, to which a group of goods belongs to, can be precisely determined.

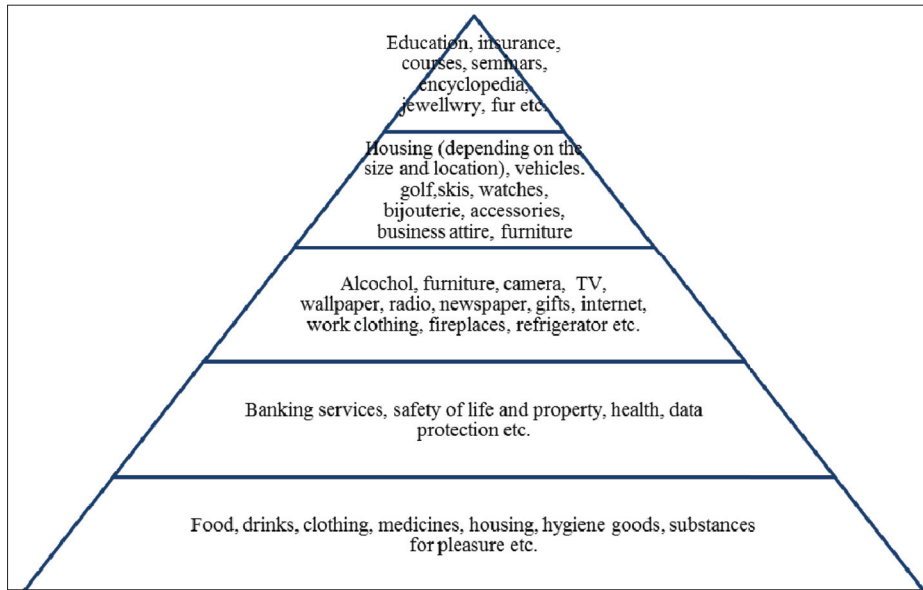


Figure 1. Distribution of products and services in accordance with the Maslow hierarchy theory

Source: figure by the authors

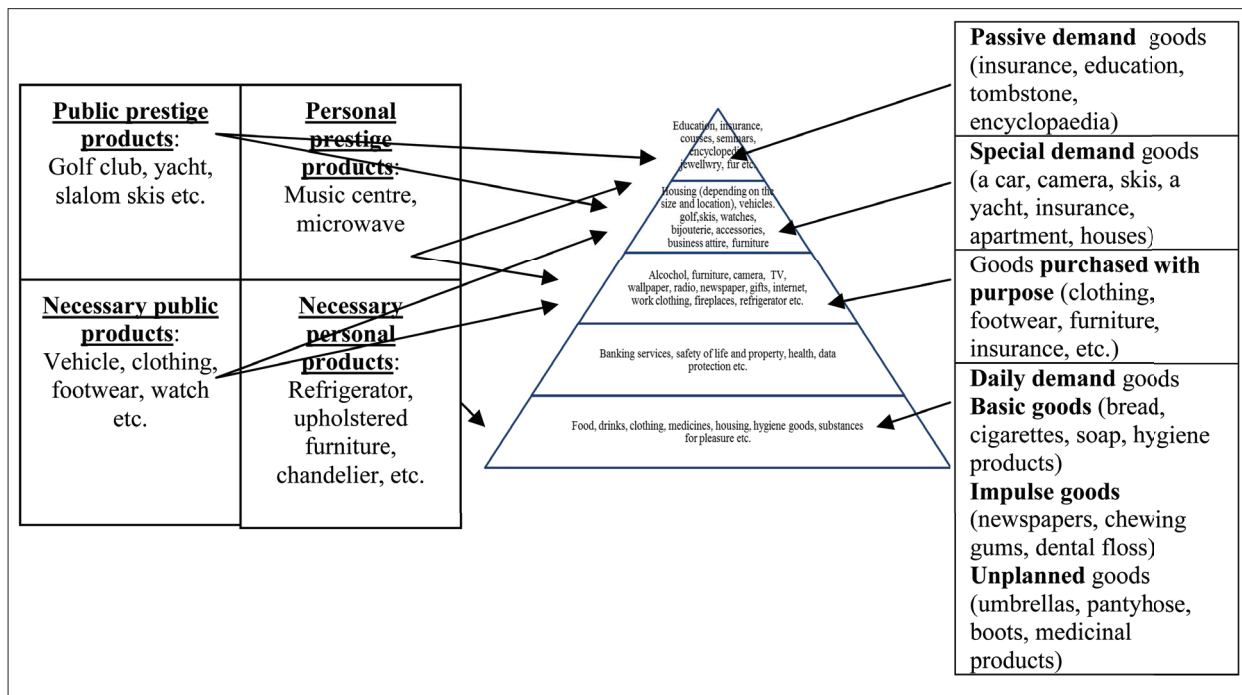


Figure 2. Relationship of A. Maslow's pyramid of needs with classification of goods and the impact of affiliation to social groups on the choice of products and brands

Source: figure by the authors

Similarly, products can be grouped according to the impact of affiliation to social groups on the choice of products and brands. All products can be divided into four types (Bearden, Etzel, 1982: 185):

- Public prestige products;
- Personal prestige products;

- Necessary public products;
- Necessary personal products.

The product distribution mentioned in this theory is applicable to A. Maslow's hierarchy of needs, the necessary personal products correspond to the physiological needs, but other products are distributed into several groups.

Upon summarizing all of the afore-considered theories and novelties proposed by the authors, it can be concluded that the hierarchy of needs by A. Maslow is at the base of many theories. The author has summarized the interconnections in Figure 2.

The authors conclude that the process of classification of goods according to the consumers' needs is a rather big challenge; however, establishment of such classification is justified by the need of measuring the supply and demand in a particular market. The author recommends developing such mathematical models for evaluating the demand of separate groups of goods, which could be modeled with one, two, or several variables.

The developed model can serve to forecast and make decisions at several levels – starting with national level down to company and individual level.

In order to appraise the classification of goods in accordance with the consumers' needs developed by the author (hereinafter CGACN), a focus group was created, which included consumers of various age, of both genders, having consumption experience, along with theoretical and practical knowledge in the field of marketing.

As a result of the work of the focus group, the following conclusions were made regarding CGACN:

- The distribution of products and services into levels for each consumer is different;
- The CGACN developed by the authors can be used as an additional method to segment the consumers;
- The CGACN developed by the authors can be used by any manufacturer to position the assortment products according to the consumer needs. The promotion paper includes an example on the use of CGACN;
- Different needs dominate in A. Maslow's pyramid of need for each age phase, therefore the CGACN model can be used in various age groups, when the understanding of specific needs expands.

Classification of goods cannot be applicable to a specific level, it applies to all levels, because, for example, goods purchased with purpose correspond to several levels.

The bibliographical sources provide various models, which include factors affecting consumer behavior. The authors have gathered information available in various bibliographical sources concerning consumer behavior and factors affecting it.

3. Sustainable Development and Entrepreneurship

Sustainable development, a concept originally popularized by the 1987 report *Our Common Future*, proposes that future prosperity depends on preserving "natural capital" – air, water, and other ecological treasures – and that doing so will require balancing human activity with nature's ability to renew itself (World Commission on Environment and Development, 1987). Within the realm of business, this idea refers to development that meets the needs of business organizations without compromising the ability of future generations to meet their own needs. The goals of economic and social development must, therefore, be defined in terms of sustainability. In this context, development is taken to mean a progressive transformation of economy and society which is sustainable in a physical sense (Lozada, 1999).

Sustainability is the capacity to create, test, and maintain adaptive capability. Development is the process of creating, testing, and maintaining opportunity. The phrase that combines the two, 'sustainable development' thus refers to the goal of fostering adaptive capabilities and creating opportunities. It is therefore not an oxymoron, but a term that describes a logical partnership (Holling, 2001: 400). Sustainable development

is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations.

According to Hasna Vancok, sustainability is a process which tells of a development of all aspects of human life affecting sustenance. It means resolving the conflict between the various competing goals, and involves simultaneous pursuit of economic prosperity, environmental quality and social equity famously known as three dimensions with the resultant vector being technology, hence it is a continually evolving process; the 'journey' (the process of achieving sustainability) is of course vitally important, but only as a means of getting to the destination (the desired future state). However, the 'destination' of sustainability is not a fixed place in the normal sense that we understand with destination. Instead, it is a set of wishful characteristics of a future system.

At the same time, the opinion exists that: "Sustainable development is said to set limits upon the developing world. While current first world countries polluted significantly during their development, the same countries encourage third world countries to reduce pollution, which sometimes impedes growth. Some consider that the implementation of sustainable development would mean a reversion to pre-modern lifestyles."

Others have criticized the overuse of the term: "The word sustainable has been used in too many situations today, and ecological sustainability is one of those terms that confuse a lot of people. You hear about sustainable development, sustainable growth, sustainable economies, sustainable societies, and sustainable agriculture. Everything is sustainable" (Temple, 1992).

4. The decision making model in entrepreneurship

Since a great volume of data is necessary for modeling, then each company, which plans to perform modeling, must be able to ensure all the necessary information about clients and their consumption habits. That, for its part, means that a company must perform regular market and consumer opinion studies.

Upon summarizing the aforementioned information, it must be concluded that the model developed by the authors is useful in entrepreneurship to analyze a company's return on investments, to determine the perspective and less perspective fields of investments, to plan advertising communications, etc.

All models can be used each separately, thus increasing the company's operating effectiveness in trade. However, the authors believe that the greatest overall effectiveness can be achieved if retail companies used advantages offered by all developed models.

In order to demonstrate, how the developed models can be effectively used, the authors suggest choosing the following approach (see Fig. 3):

- To perform sector analysis by using the author's developed model for assessing the parameters affecting consumer behavior. By using this model, it can be determined, which of these factors dominate in decision-making and how, as the investments change, consumer behavior changes (i.e. sales volume will increase).
- Afterwards, the authors suggest performing an analysis of the company's assortment, using classification of goods according to the consumer's needs. The needs corresponding to each segment, age group, and group of goods can be determined, and this information can be used when positioning the goods or services in the consumer market or when performing other activity directed at strengthening or increasing demand.
- The third step, as suggested by the authors, is using the model of consumer expectations theory and based on consumer expectations, the understood fair reward and insignificant rewards, to develop direct impact factors, including improving the salespersons' performance at the shop and paying increased attention to the arrangement of the commercial premises.

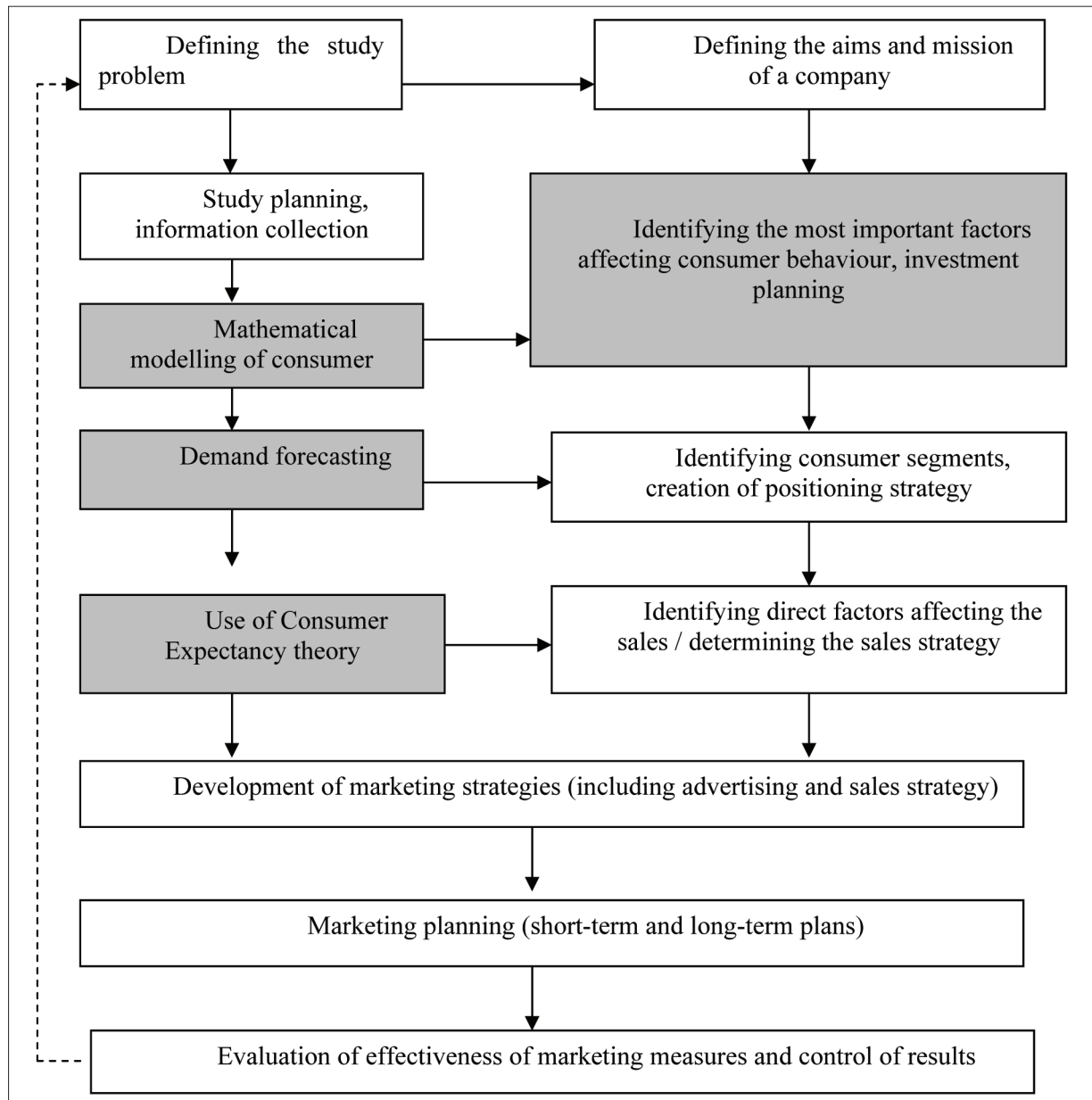


Figure 3. The decision-making model in entrepreneurship, based on practical applicability of consumer behavior models developed by the author

Source: authors created figure, novelty

In accordance with the authors proposed approach, after obtaining and summarizing modeling information, the company's marketing strategy must be defined and marketing measures must be planned.

After the marketing measures, it is recommended to determine effectiveness of measures and there with – also the effectiveness of the use of models.

As one of the important components in implementing any marketing campaign is client servicing at the point of sales, the author recommends paying particular attention to this stage.

The use of models prepared by the authors in sales, entrepreneurship, and other sectors of economy provide an opportunity to reasonably plan investments for the relevant time period, to avoid mistakes, and to improve the overall economic effectiveness of the company's operations and usefulness of resource utilization.

The use of models simultaneously ensures an increase in the trading volume and minimization of a company's costs.

Conclusions

A. Maslow's hierarchy of needs in the modern-day management has been supplemented, adapted for the changes of the era, and it is interpreted differently. Studies show that all consumer goods can be placed into the Maslow's pyramid of needs and to use this theory for analyzing and forecasting that theory. It is a rather great challenge to perform classification of goods in accordance with the consumer needs; however development of such classification can be justified with the need to measure supply and demand in a particular market. For this purpose, mathematical models for evaluating demand can be developed in order to ensure modeling with one, two, or more variables.

It is recommended that entrepreneurs, who deal with selling goods or services in the market of Latvia, divide the consumer's decision-making process into subgroups according to the consumer's choice (decision-making): habitual decision-making (impulsive decision-making, routine decision-making), restricted decision-making, and expanded decision-making. Based on such division of the decision-making process, the companies can make a well-grounded choice for the development and action strategies.

For making decisions at a retail company and for long-term strategic development planning, the author suggests using the entire set of models described and developed in the promotion paper, which would ensure logical and well-grounded decision-making within the specific territory. Timely and well-grounded use of the developed models would ensure sustainable development of companies in Latvia.

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VARTOTOJŲ POREIKIŲ, KAIP DARNAUS ĪMONĒS VYSTYMOŠI PAGRINDO, ANALIZĒ

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Santrauka

Pažinti vartotoju poreikius, veiksnius, kurie daro įtaką jų elgsenai, yra būtina, siekiant užtikrinti organizacijos konkurencingumą. Autorių pateikti tyrimo rezultatai remiasi A. Maslowo poreikių hierarchija vartotojų elgsenos kontekste valdymo sprendimo priėmimo požiūriu. Autorės taiko statistinės analizės, grupavimo, vertinimo, prognozavimo ir kt. metodus, pateikia sprendimų priėmimo modelį. A. Maslowo teorija taikoma kaip pagrindas daugelyje vartotojų elgsenos teorijų, todėl kurdamos vartotojų elgsenos modelį Latvijoje, autorės nusprendė integruoti labiausiai žinomas teorijas. Sukurto modelio taikymas įvairiuose ekonomikos sektoriuose leidžia racionaliai planuoti investicijas, išvengti klaidų ir padidinti ekonominę bendrovės efektyvumą.

PAGRINDINIAI ŽODŽIAI: *vartotojų poreikiai, A. Maslowo poreikių hierarchija, vartojimo objektų ir gamybos priemonių klasifikacija.*

JEL KODAI: M11, M31