
USE OF MENTAL ACCOUNTING IN PURCHASE DECISION MAKING WITH REFERENCE TO D-MART IN THANE REGION

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ABSTRACT

Although the term Mental Accounting sounds strange to many people but knowingly or unknowingly every people is aware about mental accounting. Every human being allocates their budget mentally before attempt a purchase. Mental accounting plays a decisive role in purchase decision making. Thus after considering this psychological fact of people, the present study tries to explore the importance of mental accounting in purchase decision. The present study doesn't confine to only exploration of importance of mental accounting in purchase decision but also tries to place mental accounting as a vital stage in buying decision making process. The findings of such a study is expected to hold much importance in better understanding the basic and analytical manner in which the customers' minds work while deciding on their purchases; which, in turn, would be helpful in developing various marketing strategies in respect of timing of offers, pricing, payment aids, product launches, transaction facilitation, so on so forth. Moreover, this paper tries to add some more ingredients in mental accounting theory which was propounded by Richard H. Thaler.

Keywords: Mental Accounting, Consumer Decision Making Process, mental accounting process.

INTRODUCTION

Today market is totally consumer oriented. Consumer is the king in today's marketing world and the priority of marketer is to make consumers always happy. There are different types of decisions taken by consumer in order to get final purchase of "what to buy, how to buy, when to buy and how much to buy." But the question arises that how they take their purchase decisions, how they allocate money for everything they need to purchase. So now the concept of Mental Accounting arises which means to the tendency for people to separate their money into different accounts made by consumer themselves according to the origin of the money and intent for account.

The term mental accounting is named by Richard Thaler. Mental accounting is the set of cognitive operations used by individuals and households to organize, evaluate, and keep track of financial activities. Mental accounting theory states that a people separate their money into mental accounts, necessarily treating a rupee in one account differently from a rupee in another since each account has a different significant. The overarching notion behind the theory is that people think of value in relative rather than absolute terms. They derive pleasure not just from an object's value, but also the quality of the deal.

A core idea of mental accounting is that people treat money differently, depending on factors such as the money's origin and intended use, rather than thinking of it in terms of formal accounting.

RATIONALE AND GAP ANALYSIS

India is predominantly a country of savers, and within such country is the establishment of Dmart which has taken the Indian shoppers by storm. DMart has created a Win-Win Matrix in the minds of all its stakeholders but especially that of the consumers. This study focuses on the successful implementation of mental accounting strategies by DMart.

In 1999 Richard H. Thaler had coined the term Mental Accounting in his paper "Mental Accounting Matters". He gave the definition that 'Mental Accounting is the set of cognitive operations used by individuals and households to organize, evaluate and keep track of funding activities'. He underlined this theory with the concept of fungibility of money. It means that, regardless of its origins or intended use, all money is the same. In this paper only the first component of Mental Accounting Transactional utility, a term used to describe the happiness a consumer gets from the perceived value of the deal, and the principle of framing gains and losses is explored.

This paper aims to find out how Consumers behave differently when the same product is purchased with unexpected discounts in D Mart and at MRP in a local Kirana store. It analyses when (i) a discount is offered unexpectedly the Consumer will buy more than what is required but won't do the same in a local kirana store (ii) the gains (discount) of each and every product purchased from D Mart are segregated while that from a Kirana store the losses are integrated. Ex. Consumer goes to D Mart and finds out unexpectedly that two shampoo bottles are on sale with 50% off. He buys both the bottles irrespective of the fact he did not need it,

while this would not been the case had the discount factor been eliminated by buying it from a local kirana store(MRP). First the discount factor comes into play inducing the Consumer to buy more then he normally would have and Second segregation of discount received from each product purchased gives greater pleasure.

D Mart has correctly exploited the strategy of Mental Accounting by providing transactional utility for the daily necessity items. The Gap Analysis presented through this study is that Consumers don't perceive the Mental Accounting Effect on daily basis when shopping from D Mart. For this the research has taken up 3 areas to study. One is a comparison of Mental Accounts with respect to D Mart and Kirana Store. The Second is the Strategy of D Mart and Third is Source of payment transactions.

- Two different Mental Accounts are created one while shopping from D Mart and another from a Kirana Store just because of 2 factors coming into play. One is Discount and second the Quantity of Purchase (Bulk or small). This makes the concept that Money is fungible irrelevant for consumers.
- D Mart successfully creates the experience of transactional utility higher prompting people to go again and again to spend in bulk.

Settling transactions by using Cash Vs Plastic Cards / Digital Wallets /UPI etc.

OBJECTIVES OF THE STUDY:

The objectives of the study are laid down as follow:

- To analyse the effect of Mental Accounting strategies implemented by D mart on the Consumer in comparison to a Kirana store.
- To determine the impact of using Cash vs POS Machines ,Digital Wallet.
- To highlight the effect of discount which is considered free money and MRP while making small purchase
- To determine the importance of mental accounting in purchase decision with regard to different types of purchase behavior
- To show Mental Accounting as a stage in buying decision making process with regard to different types of purchase behavior

REVIEW OF LITERATURE:

Hasting& Shapiro (2012) carried out a study on "Mental Accounting and Consumer Choice: Evidence from Commodity Price Shocks." They embedded the test in a discrete choice model of product quality choice and estimate the model using micro data on gasoline purchase. They evaluate the qualitative performance of aset of psychological models of decision making in explaining the pattern they observe.

Heath, et al. (1995)studied on "Mental Accounting and Changes in Prices: The frame dependence of reference dependence." Their findings demonstrate that mental accounting principle, principle perception, and reference dependence are sensitivity to the ways in which deviations from reference state are framed.

Karlson. (1998) studied on "Mental Accounting and Self Control". His study tested the hypothesis that future consumption is considered to a lesser extent when money is available as current income compared to when current assets have to be used. He found that the uncertainty of future expenses imposed by greater distance in time increased the difference in decisiveness to buy between current asset and income.

Aggarwal& Liu.(2012)conducted their study on "Mental Accounting in Consumer Brand Relationship." They contributed by outlining the multitude of ways in which the application of mental accounting framework to consumer based relationship can give deeper insights into the antecedents, processes and consequences underlying consumer behavior.

Thaler, R.H. (1999)carried out a study on "Mental Accounting Matters". This paper summarizes the current state of our knowledge about how people engaged in mental accounting activities. The paper concerns with three components of mental accounting which receives the most attention and his paper comes into conclusion that each of the components of mental accounting violates the economic principle of fungibility.

Thaler, R.H. (1985)studied on "Mental Accounting and Consumer Choice". He develops a new model of consumer behavior using a hybrid of cognitive psychology and microeconomics. He also incorporated household budgeting process to complete the characterization of mental accounting.

Kivetz, R. (1999)studied on "Advances in Research on Mental Accounting and Reason Based Choice." This paper explores recent research on the role of mental accounting and reason based choice. The paper also

discussed the construction of preference as a process where in certain cases consumer chooses reasons rather than options.

RESEARCH METHODOLOGY

Study was conducted among the people who use and do not use D-Mart for their monthly or daily requirement goods shopping who were the sampling unit of the research. Data collection was done from various customers through Questionnaire. Questions in the questionnaire were both open-ended and close-ended questions. Data was collected through primary sources. Data was collected from people across Thane which were our sampling area. Sample size was approximately 100 samples. The software used for questionnaire was Survey Heart.

Assumptions: To make the study more feasible the assumptions undertaken

1. Consumer visits both D mart as well as the Kirana store
2. Consumer lives in a locality near to D mart

QUESTIONNAIRE

OUTCOMES

1. Two Mental Accounts Created for D Mart and Kirana store Scenario 1: In DMart Mental Account, Discount is equated to Savings and so bulk purchases are made. Although this gives a sense of satisfaction to the Consumers, in reality they spend more than what is actually required/planned. The discount effect reduces the fungible effect of money leading to higher purchases and lower savings. Scenario 2: In Kirana Store Mental Account, Consumers are willing to spend and shell out the MRP Price since only few purchases are made. The impact of few purchases reduces the fungibility concept of money. Due to low quantity and low amount, Consumers neither will they equate it to a higher amount paid nor will they consider savings aspect in this regard. This is due to not regarding money as fungible and differentiating it to be a small amount. Another reason could be how Consumers perceive that they are not getting any discount as compared to DMart whereas they are getting discounts on each and every product. But it still leads to them willing shelling out the MRP prices because of keeping it in the Mental Account that the amount is small.
2. Cash Payments does have an impact on Quantity purchased Whether in D mart or in a Kirana store making payment in Cash does have an effect as compared to using plastic money, digital wallets. Money is considered to be fungible when making payment in Cash by calculating the amount to be paid and the change to be received. Plastic Money/Digital Wallet reduces this effect considerably leading to making unnecessary expenses or availing attractive deals than what is required. Benefit to the Society

The central benefits of mental accounting that have received significant academic attention are: -

- o Simplification of financial decisions
- o Implementation of spending rules

Segregating funds allows people to resist the temptation of immediate consumption opportunities by pre-committing their spending. Some of the other benefits of being aware about Mental Accounting are as follows: Discount Effect: Money should be treated fungible even while availing unexpected discount. Savers Mentality: In order to save money, we buy more discounted goods than what is required. If we had an Investor Mentality, we would only purchase what is required without giving into unnecessary expenses or bulk purchases. Consumption Level: Increase in consuming more quantities than what is required becomes quite the norm. Green Effect: Unexpected Purchases lead to a downfall in creating a Green Effect for the Environment. Relatable Example: Awareness to the Society regarding the concept of Mental Accounting in their day to day affairs of making groceries purchases. Better Planning: Taking conscious effort and planning beforehand will reduce the mental accounting to an extent.

FUTURE SCOPE

By 2025 Digital Payments in India is set to grow to 71.7% of all payment transactions (ACI Worldwide Report). In March 2021 alone United Payments Interface (UPI), India's big digital payments bet, has broken a new record by crossing ₹5 lakh crore in value across 2.30 billion transactions. This trend is set to rise which has already been accelerated by the pandemic. Growing number of user base and transactions will birth to the use of UPI/Digital wallets/Plastic Money where Mental Accounting will play an important role. There is scope for further study to be carried in future about the impact of going cashless, the mental accounting effect and the

new strategies adopted by Indian Retail Corporations. It will be interesting to note the evolvement of mental accounting strategies.

Another study could be of E-Commerce operations in India with respect to Mental Accounting which is surprisingly shown to lower the impact in Developed Countries.

SWOC ANALYSIS/LIMITATIONS

The SWOC analysis of this study highlights the successful implementation of the Win-Win Matrix by D mart in the minds of all stakeholders. With reference to Consumers the daily discount given by reducing their profitability margin creates an attractive deal and Mental Accounting strategy but at the same time is a weakness for D Mart.

This study is limited to the fact that the Consumer might know the concept of Mental Accounting but won't be able to apply it or might not know the concept of Mental Accounting but will be able to make proper use of its application. The Strengths for the Consumer will be once he is able to identify he will be more conscious while weakness will always be weighing time ,effort and convenience over money. The Opportunity will be choosing the one which benefits him the most in terms of money as well the value and necessity of commodity purchased while the challenge will be to overcome the attractive deals.

DATA ANALYSIS

This analysis and interpretation of data and information of the study has been shown below:

- I. Except budget, window display is considered most by majority of the respondents in complex purchase whereas behavior of the seller is considered most in habitual purchase.
- II. Debit card/Credit card is considered as the most preferred option for payment in complex purchase whereas cash payment is considered most in habitual purchase.

.Mental accounting is a process which take place in the minds of the consumer as it has been found from the study that first the need for money arises as soon as the need for any product/service arises. Then majority of the respondents tries to make tentative budget for their monetary requirement which is needed to satisfy the need. After making budget people tries to evaluate the sources in their mind from where they will raise their fund also consider the solutions for repayment and adjustments to those sources. After this they acquire the money from the appropriate source and go for information search regarding product or services.

It has been observed from the study that Mental accounting process applies only in case of complex purchase because in case of habitual purchase people do not tend to follow the mental accounting process just like in case of purchase decision making.

CONSUMER BUYING BEHAVIOUR- Consumer buying behavior is the end result of the attitudes, preferences, intentions and decisions made by the consumers in a market place before buying a product. The study of consumer buying behavior is an interdisciplinary approach drawing widely from sociology, psychology, anthropology etc. Types of Buying Behavior

- a) Complex: consumer involvement with significant brand differences Is high E.g.:- Cars.
- b) Dissonance Reducing: High degree of involvement with little brand differences. E.g.:- Carpeting
- c) Habitual: Low involvement with little brand difference. E.g.:- Salt
- d) Variety seeking: Low enthusiasm with significant perceived brand difference. E.g.:-Chocolates .

The buying decision process involves Need Identification--- Information search ---Listing of alternatives --- Evaluation of alternatives ---Purchase Decision ---Post purchase behaviour ,where mental accounting plays a very important role in listing of alternatives .

CONCLUSION OF THE STUDY:

The main purpose of the study was to create a deeper and through consideration about mental accounting and its importance in purchase decision making. As we know how important mental accounting can be now a days and how much it influences the purchase decision of a consumer. In order to comply with the study, a questionnaire has been distributed among 100 respondents and the study reveals that mental accounting has a strong and positive influence in purchase decision making. The study also reveals that in the purchase decision making people tend to follow mental accounting especially in a case of complex buying behavior. In this study it has also been found that while purchasing, budget is something which comes to the mind of the customer first. The study reveals that people generally tend to make accounts in their mind for all expenses and after making

accounts in their mind they go through a process which we can call as mental accounting process where they consider the source for the money, repayment to those sources etc. but mental accounting process generally very effective only in case of complex purchase where the involvement of the consumer is very high.

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