Consumer Behavior

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About the Tutorial

Consumer behavior is about the approach of how people buy and the use merchandise and services. Understanding consumer behavior will assist business entities to be more practical at selling, designing, development of products or services, and every other different initiative that impacts their customers.

In this tutorial, it has been our endeavor to cover the multidimensional aspects of Consumer Behavior in an easy-to-understand manner.

Audience

This tutorial will help management students as well as industry professionals who work in a product development environment, or in packaging, or for that matter, any part of a company that has an interface with the customers.

Prerequisites

To understand this tutorial, it is advisable to have a foundation level knowledge of basic business and management studies. However, general students and entrepreneurs who wish to get an understanding about consumer behavior may find it quite useful.

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Unit 1 – Introduction to Consumer Behavior
Consumerism is the organized form of efforts from different individuals, groups, governments and various related organizations which help to protect the consumer from unfair practices and to safeguard their rights.

The growth of consumerism has led to many organizations improving their services to the customer.

**What is Consumerism?**

Consumer is regarded as the king in modern marketing. In a market economy, the concept of consumer is given the highest priority, and every effort is made to encourage consumer satisfaction.

However, there might be instances where consumers are generally ignored and sometimes they are being exploited as well. Therefore, consumers come together for protecting their individual interests. It is a peaceful and democratic movement for self-protection against their exploitation. Consumer movement is also referred as consumerism.
Features of Consumerism

Highlighted here are some of the notable features of consumerism:

- **Protection of Rights**: Consumerism helps in building business communities and institutions to protect their rights from unfair practices.

- **Prevention of Malpractices**: Consumerism prevents unfair practices within the business community, such as hoarding, adulteration, black marketing, profiteering, etc.

- **Unity among Consumers**: Consumerism aims at creating knowledge and harmony among consumers and to take group measures on issues like consumer laws, supply of information about marketing malpractices, misleading and restrictive trade practices.

- **Enforcing Consumer Rights**: Consumerism aims at applying the four basic rights of consumers which are Right to Safety, Right to be Informed, Right to Choose, and Right to Redress.

Advertising and technology are the two driving forces of consumerism:

- The first driving force of consumerism is advertising. Here, it is connected with the ideas and thoughts through which the product is made and the consumer buys the
product. Through advertising, we get the necessary information about the product we have to buy.

- Technology is upgrading very fast. It is necessary to check the environment on a daily basis as the environment is dynamic in nature. Product should be manufactured using new technology to satisfy the consumers. Old and outdated technology won’t help product manufacturers to sustain their business in the long run.
Consumer behavior covers a broad variety of consumers based on diversity in age, sex, culture, taste, preference, educational level, income level, etc. Consumer behavior can be defined as “the decision process and physical activity engaged in evaluating, acquiring, using or disposing of goods and services.”

With all of the diversity to the surplus of goods and services offered to us, and the freedom of choices, one may speculate how individual marketers actually reach us with their highly definite marketing messages. Understanding consumer behavior helps in identifying whom to target, how to target, when to reach them, and what message is to be given to them to reach the target audience to buy the product.

The following illustration shows the determinants of consumer behavior.

The study of Consumer Behavior helps in understanding how individuals make decisions to spend their available resources like time, money, and effort while purchasing goods and services. It is a subject that explains the basic questions that a normal consumer faces: what to buy, why to buy, when to buy, where to buy from, how often to buy, and how they use it.
Consumer behavior is a complex and multidimensional process that reflects the totality of consumer decisions with respect to acquisition, consumption, and disposal of goods and services.

**Dimensions of Consumer Behavior**

Consumer behavior is multidimensional in nature and it is influenced by the following subjects:

- **Psychology** is a discipline that deals with the study of mind and behavior. It helps in understanding individuals and groups by establishing general principles and researching specific cases. Psychology plays a vital role in understanding how consumers behave while making a purchase.

- **Sociology** is the study of groups. When individuals form groups, their actions are sometimes relatively different from the actions of those individuals when they are operating individually.

- **Social Psychology** is a combination of sociology and psychology. It explains how an individual operates in a group. Group dynamics play an important role in purchasing decisions. Opinions of peers, reference groups, their families and opinion leaders influence individuals in their behavior.

- **Cultural Anthropology** is the study of human beings in society. It explores the development of central beliefs, values and customs that individuals inherit from their parents, which influence their purchasing patterns.
The Demand Curve

The quantity of a particular good or service that a consumer or group of consumers want to purchase at a given price is termed as demand. It is the consumer’s ability or willingness to buy a specific product.

As shown in the figure, the demand curve is downward sloping which means the consumers will buy more when the price decreases and the same consumers will buy less when the price increases.

It is not only price, the demand for a good or a service is also influenced by other factors such as the price of substitute goods and complementary goods.
Determinants of Demand

The key determinants that affect the demand function are as follows:

- **Income**: A rise in consumer’s income will tend to increase the demand curve (shift the demand curve to the right). A fall will tend to decrease the demand for normal goods.

- **Consumer Preferences**: Favorable change leads to an increase in demand, unfavorable change leads to a decrease in demand.

- **Number of Buyers**: More the number of buyers, more will be the demand. Fewer buyers lead to a decrease in demand.

- **Substitute Goods** (goods that can be used to replace each other): The price of substitutes and demand for the other good are directly related. Example: If the price of coffee rises, the demand for tea will also rise.

- **Complementary Goods** (goods that can be used together): The prices of complementary goods and their demand are inversely related. Example: if the price of printer increases, the demand for computer sheets will decrease.

Demand Function

The demand function relates to the price and quantity. It shows how many units of a good will be purchased at different prices. At higher prices, less quantity will be purchased.

The graphical representation of the demand function has a negative (-ve) slope. The market demand function is calculated by totaling up all of the individual demand functions.

Demand Function of an Individual

The individual demand function has a functional relationship between individual demand and the factors affecting individual demand.

It is expressed as:

\[ D_x = f (P_x, P_r, Y, T, F) \]

Where,

- \( D_x \) = Commodity Demand \( x \);
- \( P_x \) = Commodity \( x \)’s price;
- \( P_r \) = Related Goods’ Price;
- \( F \) = Expectation of Change in Price in future.
- \( Y \) = Consumer’s Income;
- \( T \) = Tastes and Preferences.
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