

What is Consumer Behavior | Importance | Factors of Consumer Behavior

Consumer behavior is a crucial field of study in economics and marketing that explores how individuals, groups, or organizations make decisions regarding the purchase, use, and disposal of goods and services.

Consumers are those people who consume goods and services to satisfy their own wants. Consumption in economics can be divided into two categories.

1. Money sense
2. Real sense

Consumption in the money sense is that part of income which is spent on consumer goods. e.g., if monthly income is \$1000/- and if \$700/- is spent on clothing, good leisure etc., the amount of \$700/- is called the consumption out of the income.

Whereas in the real sense, consumption is the act of using up the utility of a product to satisfy human wants, e.g. the use of a jacket. The utility or use that one gets from the jacket i.e. by wearing it is known as consumption in the real sense.

What is Consumer Behavior?

Consumer behavior is the study of how consumers make choices and allocate their resources to satisfy their wants and needs. It encompasses various stages, including information gathering, evaluation of alternatives, purchase decisions, and post-purchase evaluation.

Understanding consumer behavior helps businesses and policymakers anticipate market trends, tailor products and marketing strategies, and make informed decisions.

Importance of Consumer Behavior

1. Base for Economic Activities

A subset of economic activities, production has four elements: land, labor, capital and organization.

In order to make a living, a person must be involved in production activities regardless of what kind of a person or class he is in.

He must therefore, have himself involved in land, capital labor, entrepreneurship. If he is the owner of a piece of land, his income will be in the form wages.

If he is a labor his reward will be in the form of wages. If he is involved in capital, he can invest money in it and the return he will receive will be in the form of interest and finally if he is an entrepreneur, his reward will be the profit.

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Now, upon receiving this income / reward on behalf of his personal services or the services rendered by his property, naturally he will want to consume goods and services, by buying food, clothing, sending his children to school etc.

He would have already accomplished his wants, which was his personal target. Then, again if the period of time his wants will continue to increase.

Thus, study of consumption can be compared 1 a life cycle, from economic activities to money reward to expenditure on goods and to obtaining utility, to satisfying wants and then back to economic activities.

2. Base for Production

Consumption plays an important role in production. You only produce when there is a demand for the product.

That is why a macro and micro analysis are conducted partly, with a view to determine the type of commodities required by human beings.

Such as, in some Muslim countries, the government prohibits production of all alcoholic drinks. Simply because the Muslim do not consume alcohol!

However, in some Muslim countries, where other races and religions also exist, probably, the government may not be strict on the regulation.

Therefore, production can only be carried out, if there is a demand for the

3. Base for Fair Distribution of Wealth

The nation produces and the consumes, it produces goods and services and then gives monetary rewards in the form of interest, wages and profit to the people of nation, who later on use their rewards to consume the national product throughout the year.

Consumption is important in the sense that it guides to give a better share to the poor people to raise their standard of living. This calls for fair distribution

4. Base for Efficiency

In this sense we are talking about efficiency as the working capacity. For example, take the Europeans; their standard of living is quite high, they are happy and are devoted to their work.

They have enough income to consume sufficient goods and services. Therefore, their working capacity is high. This prevents them from unhealthy activities e.g., smuggling, corruption, etc.

Whereas in poor countries, the situation is reversed where all these red-tape activities are carried out because the people become so frustrated with their low incomes that they have to stoop so low to perform these activities.

5. Utility

Utility is defined as the satisfaction which is derived from the consumption of some goods and services.

Different Aspects of Utility

- **Initial Utility**

It is the amount of utility which we get from the very first unit of consumption, e.g. we consume six apples and the amount of utility derived from the first apple is known as initial utility.

- **Marginal Utility**

It is just the opposite, i.e. from the six apples which are consumed; the amount of utility derived from the last apple is the marginal utility.

- **Positive Utility**

The amount of utility that gives positive satisfaction, e.g. when you consume five apples with their utility being 20 units, this is positive utility.

- **Satiety**

When the marginal utility is zero and the total utility is the maximum that is known as saturation point or point of satiety.

- **Negative Utility**

The utility that gives negative satisfaction is known as negative utility. This happens when you consume more than necessary leading to a further decrease in marginal utility, e.g. -5, -10....etc. (units).

- **Total Utility**

The total amount of units obtained from the consumption of all the units, in this case six apples, is the total utility.

6. Market Research and Segmentation:

Consumer behavior research is indispensable in the process of market segmentation. By scrutinizing consumer preferences and behavior, businesses can identify discrete market segments and tailor products and marketing strategies that cater to the unique demands of each segment.

7. Product Development and Innovation:

Consumer behavior studies offer a window into unmet needs and opportunities for product development. They empower companies to create products that better align with consumer preferences and expectations.

8. Pricing Strategies:

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A profound understanding of consumer behavior is pivotal for devising effective pricing strategies. Companies can employ various pricing models, such as value-based or cost-plus pricing, grounded in consumer perceptions of value.

9. Marketing and Advertising:

Effectual marketing and advertising campaigns draw upon consumer behavior insights. Advertisements can be meticulously crafted to resonate with consumers' emotional triggers and aspirations, significantly enhancing their efficacy.

10. Brand Loyalty:

Cultivating brand loyalty is a fundamental goal for businesses, and consumer behavior studies aid in uncovering the factors that contribute to it. By understanding what drives consumers to select and remain loyal to a brand, companies can augment customer retention strategies.

11. Consumer Satisfaction and Post-Purchase Behavior:

Post-purchase satisfaction is of paramount importance for encouraging repeat business and positive word-of-mouth. Consumer behavior research enables companies to pinpoint factors influencing satisfaction and resolve issues that may lead to dissatisfaction.

12. Policy Development:

Policymakers draw upon insights from consumer behavior research to formulate and appraise regulations, particularly those pertaining to product safety, labeling, and consumer protection. This ensures that policies are in harmony with consumer preferences and well-being.

13. Economic Predictions:

Economists heavily rely on consumer behavior data to prognosticate economic trends. Consumer spending patterns are a significant driving force behind economic growth and stability.

14. Social and Environmental Impact:

Consumer choices wield a profound influence over social and environmental outcomes. Consumer behavior research aids in comprehending the factors that impact sustainable and responsible consumption patterns.

Factors Influencing Consumer Behavior

There are number of factors influencing Consumer behavior, here are few of them.

1. Cultural Factors:

Culture, subculture, and social class mold consumers' values, beliefs, and behaviors. They impact what is considered acceptable or desirable in different cultural contexts.

2. Social Factors:

Social influences, such as family, reference groups, and social networks, wield a significant impact on consumer decisions. Individuals often seek approval or conform to the expectations of these groups.

3. Personal Factors:

Personal characteristics, including age, gender, and lifestyle, and occupation, hold sway over purchasing choices. These characteristics define an individual's self-concept and how they view themselves in society.

4. Psychological Factors:

Individual motivations, perceptions, attitudes, and learning processes all play a role in consumer behavior. Psychological factors guide how consumers perceive and process information, which subsequently influences their choices.

5. Situational Factors:

The specific circumstances surrounding a purchase, such as the physical environment and time constraints can significantly influence buying decisions. An individual's state of mind and immediate surroundings often shape their choices.

6. Marketing and External Stimuli:

Marketing efforts, advertising, promotions, and sales tactics can wield considerable influence over consumer behavior. Effective marketing strategies can sway consumer preferences and trigger action.

7. Economic and Financial Considerations:

Economic factors, including income, price levels, and economic stability, are central to consumer choices. An individual's financial situation significantly influences what they can afford and their spending patterns.

Understanding consumer behavior is an ongoing process that requires continuous research and adaptation. It empowers businesses and policymakers to stay attuned to consumers' evolving demands, promote responsible consumption, and drive economic growth.