# CONSUMER BEHAVIOUR

**Theory of Consumer Behaviour – Law of Demand and Consumer's Equilibrium**



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# INTRODUCTION TO CONSUMER BEHAVIOUR

Consumer Behaviour is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions.
The study of consumer Behaviour assumes that the consumers are actors in the marketplace. The perspective of role theory assumes that consumers play various roles in the marketplace. Starting from the information provider, from the user to the payer and to the disposer, consumers play these roles in the decision process.

Consumer Behaviour is a complex , dynamic, Multidimensional process and all marketing decisions are based on the assumptions about consumer Behaviour which includes communicating , Purchasing , and consuming , interacting.

## *Meaning and Definition:*

***Consumer Behaviour is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions.***

In the words of **Engel, Blackwell, and Mansard,** "consumer Behaviour is the actions and decision processes of people who purchase goods and services for personal consumption".

**According to Schiffman** "Consumer Behaviour is defined as Behaviour that consumers display in searching for purchasing, using evaluating and disposing of products and services that expect will satisfy their needs".

**According to Louden and Bitta,** "Consumer Behaviour is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services".

## *Nature of Consumer Behaviour:*

1. **Influenced by various factors:**
    i. Marketing factors such as product design, price, promotion, packaging, positioning and distribution.
    ii. Personal factors such as age, gender, education and income level.
    iii. Psychological factors such as buying motives, perception of the product and attitudes towards the product.
    iv. Situational factors such as physical surroundings at the time of purchase, social surroundings and time factor
    v. Social factors such as social status, reference groups and family

vi. Cultural factors, such as religion, social class—caste and sub-castes.

**2. Undergoes a constant change:** Consumer Behaviour is not static. It undergoes a change over a period of time depending on the nature of products.

**3. Varies from consumer to consumer:** All consumers do not behave in the same manner. Different consumers behave differently. The differences in consumer Behaviour are due to individual factors such as the nature of the consumers, lifestyle and culture.

**4. Varies from region to region and country to county:** The consumer Behaviour varies across states, regions and countries. It may differ depending on the upbringing, lifestyles and level of development.

**5. Information on consumer Behaviour is important to the marketers:** Marketers need to have a good knowledge of the consumer Behaviour. They need to study the various factors that influence the consumer Behaviour of their target customers. i.e. Product design/model, pricing, packaging, positioning, promotion of product etc…

**6. Leads to purchase decision:** A positive consumer Behaviour leads to a purchase decision. A consumer may take the decision of buying a product on the basis of different buying motives. The purchase decision leads to higher demand, and the sales of the marketers increase.

**7. Varies from product to product:** Consumer Behaviour is different for different products. There are some consumers who may buy more quantity of certain items and very low or no quantity of other items.

**8. Improves standard of living:** The buying Behaviour of the consumers may lead to higher standard of living. The more a person buys the goods and services, the higher is the standard of living. But if a person spends less on goods and services, despite having a good income, they deprives themselves of higher standard of living.

**9. Reflects status:** The consumer Behaviour is not only influenced by the status of a consumer, but it also reflects it. The consumers who own luxury products like luxury car, watches and other items are considered belonging to a higher status. The luxury items also give a sense of pride to the owners.

## *Consumer:*

A Consumer is an individual who buys products or services for personal use and not for manufacture or resale . A Consumer may be a person or group of people such as a household and similar needs, not directly related to entrepreneurial or business activities who are the final users of products or services. Consumers are the basic economic entities of an economy. All the consumers consume goods and services directly and indirectly to maximise satisfaction and utility.

## *Types of Consumer:*

(i) Personal Consumer/ Individual consumer: Buy the Product and services for his family and own or family.

(ii) Organizational Consumers/Commercial consumers: Buy the product or services for manufacturing or reselling

## *Importance of Studying Consumer Behaviour:*

**1. Modern Philosophy:** It concerns with modern marketing philosophy – identify consumers' needs and satisfy them more effectively than competitors. It makes marketing consumer-oriented. It is the key to succeed.

**2. Achievement of Goals:** The key to a company's survival, profitability, and growth in a highly competitive marketing environment is its ability to identify and satisfy unfulfilled consumer needs better and sooner than the competitors. Thus, consumer Behaviour helps in achieving marketing goals.

**3. Useful for Dealers and Salesmen:** The study of consumer Behaviour is not useful for the company alone. Knowledge of consumer Behaviour is equally useful for middlemen and salesmen to perform their tasks effectively in meeting consumers needs and wants successfully. Consumer Behaviour, thus, improves performance of the entire distribution system.

**4. More Relevant Marketing Programme:** Marketing programme, consisting of product, price, promotion, and distribution decisions, can be prepared more objectively. The programme can be more relevant if it is based on the study of consumer Behaviour. Meaningful marketing programme is instrumental in realizing marketing goals.

**5. Adjusting Marketing Programme over Time:** Consumer Behaviour studies the consumer response pattern on a continuous basis. So, a marketer can easily come to know the changes taking place in the market. Based on the current market trend, the marketer can make necessary changes in marketing programme to adjust with the market.

**6. Predicting Market Trend:** Consumer Behaviour can also aid in projecting the future market trends. Marketer finds enough time to prepare for exploiting the emerging opportunities, and/or facing challenges and threats.

**7. Consumer Differentiation:** Market exhibits considerable differentiations. Each segment needs and wants different products. For every segment, a separate marketing programme is needed. Knowledge of consumer differentiation is a key to fit marking offers with different groups of buyers. Consumer Behaviour study supplies the details about consumer differentiations.

**8. Creation and Retention of Consumers:** Marketers who base their offerings on a recognition of consumer needs find a ready market for their products. Company finds it easy to sell its products. In the same way, the company, due to continuous study of consumer Behaviour and attempts to meet changing expectations of the buyers, can retain its consumers for a long period.

**9. Competition:** Consumer Behaviour study assists in facing competition, too. Based on consumers' expectations, more competitive advantages can be offered. It is useful in improving competitive strengths of the company.

**10. Developing New Products:** New product is developed in respect of needs and wants of the target market. In order to develop the best-fit product, a marketer must know adequately about the market. Thus, the study of consumer Behaviour is the base for developing a new product successfully.

**11. Dynamic Nature of Market:** Consumer Behaviour focuses on dynamic nature of the market. It helps the manager to be dynamic, alert, and active in satisfying consumers better and sooner than competitors. Consumer Behaviour is indispensable to watch movements of the markets.

**12. Effective Use of Productive Resources:** The study of consumer Behaviour assists the manager to make the organisational efforts consumer-oriented. It ensures an exact use of resources for achieving maximum efficiency. Each unit of resources can contribute maximum to objectives.

**NOTES :** *It is to be mentioned that the study of consumer Behaviour is not only important for the current sales, but also helps in capturing the future market. Consumer Behaviour assumes: Take care of consumer needs, the consumers, in return, will take care of your needs. Most of problems can be reasonably solved by the study of consumer Behaviour. Modern marketing practice is almost impossible without the study of consumer Behaviour.*

### *Factors Influencing Consumer Behaviour:*

The behaviour of consumer is dependent on a number of factors which may be economic or non-economic factors and are dependent upon economic factors such as income, price, psychology, sociology, anthropology, culture and climate. The study of consumer behaviour has proved that following are the main factors which influence the behaviour:

***1. Economic* Factors*:*** Price, Income, Distribution of Income, Competition with substitute , utility and Consumer preferences are the factors categorised as Economic factors .

***2. Social Factors:*** Culture, Attitude of society, social values, Life-style, personality, Size of family, Education, health standards are the factors catagorised as Social factors.

***3. Psychology :*** It decides the personality, taste, attitudes of individuals or groups, life style, preferences especially on occasions like marriage. The demonstration influence is also dependent upon psychology of an individual.

***4. Anthropology & Geography:*** Climate, region, history all effect, consumer behaviour. In hot countries like India certain products which keep us cool like squashes, sarbatas, are demanded but they have no demand in cold regions. Culture is also influenced by climate.

***5. Technology:*** In case of equipment's whether for consumer use or industrial use is affected by technological innovations and features. Even in case of perishable goods the shelf life etc are determined by technological developments. Innovations and introduction of new product also depends upon technological development.

***6. Others:*** Knowledge-technical or otherwise and information. Government decisions, laws, distribution policies, production policies have also big affect on consumer behaviour.

## *Advantages of Study of Consumer Behaviour:*

***1. Saves from Disaster:*** The failure rate of new products is surprisingly high not only in highly competitive economies of USA, Europe and Japan etc. but even in India. For instance, Roohafza of Hamdard succeeded well but when other companies tried like Dabur to produce similar products they could not succeed. There are many more such examples. If one tests the market before launching a new product this type of disaster can be avoided or minimized.

***2. Helps in Formulating Right Marketing Strategy:*** If one studies well what factors will influence demand of a product accordingly production and marketing strategies can be framed. In food items it is taste which decides whether consumer will buy it or not. If through the study of consumer behaviour one is able to know correctly the factors which influence buying decisions of the consumer one can promote sales of existing or new product.

***3. Segmentation of Market is Helped:*** The study of consumer behaviour suggested that everyone does not buy on price consideration or utility consideration only. For high income group's high priced cloth, cars, etc have been produced. The producers of such items make heavy profits which would not have been possible without study of consumer behaviour because it is against basic economic theory.

***4. Helps in Development of New Products:*** Before launching a new product proper study of consumer tastes i.e. behaviour avoids later failure and loss. This is particularly true for food items and daily consumption products. It is equally true for fashion goods like garments, cosmetics, cigarettes and new flavors of existing products. In certain cases if a product is reintroduced after a long gap this type of study helps.

***5. Helps in Product Orientation:*** The study of consumer behaviour helps to find-out why consumers are drifting away from a product or why they are not liking it. For instance, some of Indian toothpastes are being produced for long like Neem but it could not capture the market.

There are many other instances when a new product has been developed or reoriented to again capture its old glorious position.

Those who do it scientifically succeed and others who do not study consumer behaviour properly or do not orient loose the market, merely by pretty faces or fancy claims he wants to be assured that what is claimed is really true.

***6. Helps in Reorientation of Packaging:*** A great deal of importance is being given to packaging for quite some time by marketing department and market research. But whether a particular packaging is liked by consumers or not is a recent phenomenon. Consumer if likes a packing helps in pushing sales. In certain cases this fact is advertised also. But in many cases this has been done without study of consumer behaviour and his attraction or disliking of a particular packaging. The fact however remains that proper study can help in pushing sales.

***7. Helps Consumers to Study their Behaviour:*** The consumers often are guided by their income, emotions, opinion of others and they do not undertake study of their behaviour whether it is scientific or not. The science, however, can help them to study cost benefit of their buying decisions. The study can reveal them whether buying an expansive item is rational, or not. If there are competitive goods it can help them to make consumer preference chart and then decide what to buy immediately and what to postpone and what should be rejected.

## *Limitations of Study of Consumer Behaviour:*

Consumer buying behavior relates to the identification of consistent stages of decision making used in every purchase situation. The process begins with need recognition, followed by information gathering, a purchase and finally, post-purchase evaluation. Marketers rely on an understanding of buyer behavior to effectively position products and services.

However, consumer buying behavior does have following limitations :

***1. Inconsistency:*** One of the biggest drawbacks of relying too heavily on consumer buying behavior is that consumers rarely apply the same steps in the same way for every product and service purchase. This makes it more difficult for marketers trying to stimulate a need or to offer messages that enhance the likelihood of a purchase for their brand. Thus, most companies have to perform more research into their particular market segments and how they approach their brand.

***2. Limited Buyer Interest:*** Another primary limitation for marketers using the consumer buying behavior model is that consumers sometimes are much less involved in a purchase decision. For instance, someone buying laundry detergent is generally less involved in the purchase than someone buying a car or washer and dryer. Thus, the ability of marketers to affect consumers by analyzing buyer behavior is limited.

***3.Social and Cultural Influences:*** Marketers spend significant time trying to interpret consumer buying behavior related to their products, but they must also understand how each given customer is influenced externally by social relationships and culture. However, knowing how a given customer is influenced by family, friends and their community for purchases of appliances, food and household items is significantly more complex.

***4. Applying Stimuli:*** In its "Buyer Behavior" overview, MMC Learning points out that marketing tries to respond to consumer buying behavior by communicating with stimuli expected to elicit the desired consumer response. Unfortunately, MMC Learning notes that buying behavior involves a number of complicated psychological variables related to consumer perception, motivation, learning, memory, attitude and personality. Accurately predicting response to a given message often demands significant marketing research and focus group studies.

## *Demand:*

Economics is a study of market that comprise a group of buyers and seller of a particular product or service. The working of the market system is governed by two forces, demand and supply. These two forces play a crucial role in determining the price of a product and size of the market. Demand is the rate at which consumers want to buy a product. Economic theory holds that demand consists of two factors: taste and ability to buy. Taste, which is the desire for a good, determines the willingness to buy the good at a specific price. Ability to buy means that to buy a good at specific price, an individual must possess sufficient wealth or income.

Demand refers to the willingness as well as ability of a buyer to pay for a particular product. In other words, demand can be defined as the quantity of a product that a buyer desires to purchase at a specific price and time period. The demand for a product is influenced by a number of factors, such as price of the product, change in customers' preferences and standard of living.

The demand for a product in the market is governed by the law of demand, which states that the demand for a product decreases with increase in its prices and vice versa, while other factors are constant. In the market system, buyer constitute the demand for a product, while sellers represent the supply side of the product in the market.

***Concept of Demand:*** Theoretically, demand can be defined as a quantity of a product an individual is willing to purchase at a specific point of time. Some of the management experts have defined demand in the following ways:-

"The demand for anything, at a given price is the amount of it which will be bought per unit of time at the price." - Prof. Benham

"By demand is meant, demand at a price, for it is impossible to conceive of demand not related to price." - Prof Hanson

"Demand means the various quantities of goods that would be purchased per time period at different prices in a given market." - Prof Hibdon

"The demand for goods is schedule of the amounts that buyers would be willing to purchase at all possible prices at any one instant of time" - Prof Mayers

From the aforementioned definitions, it can be concluded that demand implies a desire supported by an ability and willingness of an individual to pay for a particular product. If an individual does not have sufficient resources or purchasing power to buy a particular product, then his/her desire alone would not be regarded as demand.

For instance, if an individual desires to purchase a Ferrari Car and does not have adequate amount of money to purchase the car, his/her desire is not considered as demand for the car Apart from It, if an affluent individual desires to purchase a car, but does not have willingness to spend money for purchasing the car then his/her desire is also not considered as demand.

Therefore, we can say that effective demand is the desire backed by the purchasing power and willingness of an individual to pay for a particular product. An effective demand has three characteristics namely, desire, willingness, and ability of an individual to pay for a product.

The demand for a product is always defined in reference to three key factors, price, point of time, and market place. These three factors contribute a major part in understanding the concept of demand. The omission of any of these factors would make the concept of demand meaningless and vague.

## *Demand Analysis:*

Demand analysis is a research done to estimate or find out the customer demand for a product or service in a particular market. Demand analysis is one of the important consideration for a variety of business decisions like determining sales forecasting, pricing products/services, marketing and advertisement spending, manufacturing decisions, expansion planning etc. Demand analysis covers both future and retrospective (पूर्वव्यापी) analysis so that they can analyze the demand better and understand the product/service's past success and failure too.

For a new company, the demand analysis can tell whether a substantial demand exists for the product/service and given the other information like number of competitors, size of competitors, industry growth etc it helps to decide if the company could enter the market and generate enough returns to sustain and advance its business.

Demand analysis helps in identifying key business areas where demand is highest and areas which needs attention as very low demand indicates different problems like either the customers are not aware of the product/service and more focus must be in advertisement and promotion or the customer needs are not met by current product/service and improvements are needed or competitors have sprung up with better offerings etc.

## *Significance of Demand:*

The demand analysis is of crucial importance to the business enterprises. It is the source of many useful insights for business decision making. The success or failure of business firms depend primarily on its ability to generate resources by satisfying the demand of consumers. The firms unable to attract consumers are soon forced out from the market. The importance of demand analysis in business decisions can be explained under following headings:

***1. Sales Forecasting:*** The demand is a basis for the sales of the production of a firm. Hence, sales forecasting can be made on the basis of demand. For example, if demand is high, sales will be high and if demand is low, sales will also be low. The firms can make different arrangements to increase or reduce production or push up sales on the basis of sales forecast.

***2. Pricing Decisions:*** The analysis of demand is the basis of pricing decisions of a firm. If the demand for the product is high, the firm can charge high price, other things remaining the same. On the contrary, if the demand is low, the firm cannot charge high price. The demand analysis also helps the firm in profit budgeting.

***3. Marketing Decisions:*** The analysis of demand helps a firm to formulate marketing decisions. The demand analysis analyses and measures the forces that determine demand. The demand can be influenced by manipulating the factors on which consumers base their demand on attractive packaging.

**4. *Production Decisions:*** How much a firm can produce depends on its capacity. But how much it should produce depends on demand. Production is not necessary if there is no demand. But continuous production schedule is necessary if the demand for the production is relatively stable. If the demand is less than the quantity of production, new demand should be created by means of promotional activities such as advertising.

***5. Financial Decisions:*** The demand condition in the marker for firm's product's affects the financial decisions as well. If the demand for firm's product is strong and growing, the needs for additional finance will be greater. Hence, the financial manager should make necessary financial arrangement to finance the growing needs of the capital.

# Law of Demand

## Introduction:

The law of demand is one of the most fundamental concepts in economics. It works with the law of supply to explain how market economies allocate resources and determine the prices of goods and services that we observe in everyday transactions. The law of demand states that quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded. This occurs because of diminishing marginal utility. That is, consumers use the first units of an economic good they purchase to serve their most urgent needs first, and use each additional unit of the good to serve successively lower valued ends.

## Meaning:

Economics involves the study of how people use limited means to satisfy unlimited wants. The law of demand focuses on those unlimited wants. Naturally, people prioritize more urgent wants and needs over less urgent ones in their economic behaviour, and this carries over into how people choose among the limited means available to them. For any economic good, the first unit of that good that a consumer gets their hands on will tend to be put to use to satisfy the most urgent need the consumer has that that good can satisfy.

For example, consider a castaway on a desert island who obtains a six pack of bottled, fresh water washed up on shore. The first bottle will be used to satisfy the castaway's most urgently felt need, most likely drinking water to avoid dying of thirst. The second bottle might be used for bathing to stave off disease, an urgent but less immediate need. The third bottle could be used for a less urgent need such as boiling some fish to have a hot meal, and on down to the last bottle, which the castaway uses for a relatively low priority like watering a small potted plant to keep him company on the island.

In our example, because each additional bottle of water is used for a successively less highly valued want or need by our castaway, we can say that the castaway values each additional bottle less than the one before. Similarly, when consumers purchase goods on the market each additional unit of any given good or service that they buy will be put to a less valued use than the one before, so we can say that they value each additional unit less and less. Because they value each additional unit of the good less, they are willing to pay less for it. So the more units of a good consumers buy, the less they are willing to pay in terms of the price.

## Important Facts:

- The law of demand is a fundamental principle of economics which states that at a higher price consumers will demand a lower quantity of a good.

- Demand is derived from the law of diminishing marginal utility, the fact that consumers use economic goods to satisfy their most urgent needs first.
- A market demand curve expresses the sum of quantity demanded at each price across all consumers in the market.
- Changes in price can be reflected in movement along a demand curve, but do not by themselves increase or decrease demand.
- The shape and magnitude of demand shifts in response to changes in consumer preferences, incomes, or related economic goods, NOT to changes in price.

## *Consumer's Equilibrium*

***Meaning:***
Consumer's equilibrium is a situation when he spends his given income on the purchase of one or more commodities in such a way that he gets maximum satisfaction and has no urge to change this level of consumption, given the prices of commodities.

***Definition:***
The state at which a consumer derives maximum utility from the consumption of one or more goods and services given his/her level of Income is called Consumer's Equilibrium. At that level of balance between total utility and income, the marginal utility of a product is equal to its one unit price.

### *Concept of Consumer's Equilibrium:*

Consumers derive utility from each commodity they consume. This utility is dependent on the price of a product. The point at which the marginal utility (MU) of a product equals its price (P) is where consumer satisfaction maximizes. It is expressed as MU = P . If the marginal utility of a product is higher than the price a consumer would continue to purchase additional units and vice versa until MU equals the fixed price level.

### *Importance of Consumer's Equilibrium:*

- It allows a consumer to maximum his/her utility from the consumption of one or more commodities.
- It helps arrange the combination of two or more products based on consumer taste and preference for maximum utility.

There are two main approaches to study consumer's equilibrium. They are as follows:

## *1. Cardinal utility approach (or Marshall's utility analysis)*
## *2. Ordinal utility approach (or indifference curve analysis)*

- ***Utility:*** Utility is defined as the power of a commodity to satisfy a human want. Utility of a commodity is the total amount of psychological satisfaction that a person gets from consumption of a good or service, e.g. a thirsty person derives satisfaction from drinking a glass of water. So a glass of water has got utility for the thirsty person. Utility differs from person to person. Utility is subjective and cannot be measured quantitatively.
- ***Marginal Utility (MU):*** Marginal utility is the addition to the total utility derived from the consumption of an additional unit of a commodity. It can also be defined as the utility from the last unit of a commodity consumed. Marginal utility can be calculated by the following formula:

$$\mathbf{MU_n = TU_n - TU_{n-1}}$$

Where,

**MUn** = Marginal utility of nth unit of the commodity

**TUn** = Total utility of n units

**TUn–1** = Total utility of n–1 units

**Xn** = Quantity of nth unit of good X

**Xn–1** = Quantity or (n–1)th unit of good X

**"n"** takes the values 1, 2, 3, ... .

- ***Total Utility (MU):*** Total utility is the total satisfaction obtained from the consumption of all possible units of a commodity. Total utility can be obtained by summing up marginal utilities from consumption of different units of a commodity. Thus, total utility can be calculated as:

**TUn = MU1 + MUZ + MU3 + ........ MUn**