

# SECTION - III

## INFORMATION

The foundation of informed consumerism lies in understanding and utilizing the vast amounts of information available to us in today's interconnected world. In an era defined by rapid technological advancements and a global marketplace, access to accurate, relevant, and timely information empowers consumers to make decisions that are not only beneficial for their well-being but also contribute to a fair and ethical marketplace. This section, "Information," serves as a comprehensive guide to equipping consumers with the knowledge they need to navigate the complexities of modern consumer landscapes effectively.

The essence of informed decision-making begins with an exploration of consumer behaviour. Chapter 7 delves into the psychology behind consumer choices, examining how cultural, social, psychological, and economic factors influence purchasing decisions. Understanding these behaviors enables consumers to reflect on their patterns, avoid impulsive buying, and focus on sustainable and value-driven consumption. This chapter also highlights the importance of awareness in identifying marketing strategies that may manipulate consumer perceptions.

As financial transactions become increasingly integrated into our daily lives, financial literacy emerges as a critical skill. Chapter 8 focuses on the intersection of financial awareness and consumerism, providing insights into budgeting, saving, and managing credit responsibly. It emphasizes the importance of understanding financial products and services, such as loans, insurance, and investments, to safeguard against exploitative practices and ensure long-term financial security. By equipping consumers with these skills, this chapter aims to promote sound financial habits that empower individuals to make wise economic choices.

The world of advertising and marketing has a profound impact on consumer decisions, often shaping perceptions and driving demand. Chapter 9 examines advertising and marketing ethics, exploring the thin line between persuasion and manipulation. It discusses deceptive practices, such as false claims, and misleading advertisements, and the ethical responsibility of businesses to provide truthful and transparent information. Additionally, this chapter highlights how consumers can critically analyze advertisements, recognize biases, and make informed choices amidst a sea of promotional content.

In an age where digital technologies dominate the marketplace, issues of data privacy and security have become paramount. Chapter 10 addresses the growing concerns around personal data collection, storage, and misuse. It provides a framework for understanding how consumer information is gathered and utilized, emphasizing the need for transparency and accountability from businesses. This chapter also offers practical tips for safeguarding personal information, identifying fraudulent schemes, and protecting oneself from cyber threats in an increasingly digitalized consumer environment.

Together, these chapters underscore the power of information in shaping the consumer experience. They advocate for a well-informed consumer base capable of making thoughtful, ethical, and secure choices in a complex market. By addressing the behavioral, financial, ethical, and technological dimensions of consumerism, this section aims to foster a culture of informed decision-making and active participation in promoting fairness, transparency, and accountability in the marketplace. Ultimately, it seeks to equip readers with the tools necessary to navigate the evolving consumer landscape with confidence and clarity.

---

# CHAPTER - 7

## UNDERSTANDING CONSUMER BEHAVIOUR

---

---

***Dr. Rekha Vyas***

*ICAR- Emeritus Professor, College of Community & Applied Sciences, MPUAT, Udaipur, Rajasthan*

Ch.Id:-NSP/EB/CRRISE/2025/Ch-07

DOI: <https://doi.org/10.52458/9789349381636.nsp.2025.eb.ch-07>

Consumer behavior is a key element of marketing strategy as it is essential to understand the needs and expectations of the consumers. It is the actions and decisions that people or households make when they choose, buy, use, and dispose of any product or service to satisfy their needs and wants. Apart from the actual procurement of goods and services, the term is also used to refer to the decision-making process. It is concerned not only with what consumers buy, but also with why, when, where, and how they buy it.

Understanding consumer behavior is, therefore, essential for businesses to create marketing plans that will work and also to supply goods and services that satisfy customers' wants and needs. It is a multi-stage process that involves identifying problems, collecting data, exploring options, making a decision to buy, and evaluating the experience afterward. Consumers may be impacted during these stages by things including personal views and values, social conventions, marketing campaigns, product features, and environmental conditions.

Consumer behavior is diverse and dynamic, and the characteristics that define a consumer will change as their life changes. In recent times, consumer behaviour has undergone several changes in the Indian economy. With the rise of the Internet and e-commerce, the nature of the consumer market has changed significantly. According to Schiffman and Kanuk (2010), "Consumer behavior is the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs." Blackwell, Miniard, and Engel (2006) defined "Consumer behavior as the activities people undertake when obtaining, consuming, and disposing of products and services, including the decision processes that precede and follow these actions."

Kotler and Keller (2012) also define "Consumer behavior as the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants." Solomon (2017) said, "Consumer behavior is the processes involved when individuals or groups select, purchase, use, or dispose of products, services, ideas, or experiences to satisfy needs and desires." Consumer behaviour is a complex phenomenon because every consumer has a different mind and attitude while making purchases, consumption, and disposal of the product (Solomon, 2009). Consumer behaviour is an interdisciplinary discipline that is based on concepts and theories in varied disciplines such as psychology, sociology, social psychology, cultural anthropology, and economics.

## 7.1 CONSUMER BEHAVIOUR AND PSYCHOLOGY

Studying consumer behaviour and consumer psychology is important because it helps markets understand their customers and make better marketing decisions. Consumer psychology is an interdisciplinary field that studies the complex interplay of human emotions, perceptions, and cognition in the context of consumer behavior. Product design and development, branding, advertising, pricing strategies, and the retail environment are all influenced by the psychology and behaviour of the consumers.

Several types of consumer behavior should be understood for creating effective marketing strategies for accomplishing the needs of the buyer. The four types of consumer behavior that may affect the marketplace are as follows:

- **Complex buying behavior:** When consumers actively participate in the decision-making process to understand the notable differences between multiple brands and gather information, assess their options, and do a lot of research before making a purchase.
- **Dissonance-reducing buying behavior:** This type of behavior happens when consumers make expensive or precarious purchases and feel uncomfortable or confused about their purchase decision. Such consumers possibly will seek reassurance, information, or feedback from others to reduce their confusion.
- **Habitual buying behavior:** When consumers make purchases with minimum decision-making and marketing efforts or information search. They buy on prior experiences, as they develop brand loyalty and buying habits, and therefore may buy things out of habit, convenience, or familiarity.
- **Variety-seeking buying behavior:** When consumers are not deeply involved in the purchase decisions but seek variety or uniqueness in their purchases. They often change brands or products to satisfy their curiosity or need for variety.

### 7.1.1 Factors influencing Consumer Behavior

Consumers are influenced by certain key factors which affect their buying behaviour to make purchasing decisions. Each of these factors plays a major role in shaping consumer choices. It's important to understand how they impact buying behaviour and how this knowledge can be used to improve marketing efforts.

- Psychological Factors:** Psychological factors play an important role in buying decisions made by consumers. These are internal influences that affect the consumers' thoughts and feelings about the product. These include motivation, perception, and attitude. They can help to understand how customers view any brand and therefore will help the businesses to adjust marketing strategies to align with their beliefs. For instance, consumers are more likely to buy food than alcohol because it satisfies their basic needs, or if they believe that a product is eco-friendly, they might be more inclined to purchase it.
- Social Factors:** Social factors impact consumer buying behaviour, especially through interactions with social circles. Human beings are surrounded by several people who have different buying behaviors and thus try to imitate the socially acceptable behaviours.
  - **Family and Household Influences:** Family members often impact each other's buying choices. For example, a parent might choose products based on what is best for their children.

- **Peer Influence:** Friends and colleagues can sway purchasing decisions. If a consumer's social circle endorses a product, they are more likely to buy it. By rewarding customers for referring friends or sharing their experiences, markets can encourage word-of-mouth marketing and expand the customer base.
  - **Social Status:** Consumers often make purchases to enhance their social status. Products that signal luxury or success can attract those aiming to elevate their image. Showcase testimonials and user-generated content to reinforce the inspirational value of the products.
- iii. **Economic Factors:** Economic factors are crucial in shaping consumer buying behaviour as they directly affect purchasing power and decision-making.
- **Income:** A consumer's income directly impacts their buying power. Higher-income usually means more discretionary spending, while lower-income might lead to more budget-conscious choices.
  - **Economic conditions:** Broader economic conditions, like inflation or economic downturns, greatly influence how people spend their money. During tough times, consumers tend to focus on essential purchases rather than luxury items. By analyzing these economic trends, one can adapt suitable marketing strategies. For instance, offering rewards points for essential purchases or creating special rewards for budget-friendly product bundles during a recession can keep the brand appealing and relevant, even when spending habits change.
  - **Price Sensitivity:** Price sensitivity varies among consumers. Some may be more inclined to look for discounts or compare prices before making a purchase. Loyalty programs can help retain these price-sensitive customers by offering exclusive deals and rewards. This approach not only attracts budget-conscious buyers but also encourages them to stick with your brand for the long term.
- iv. **Cultural Factors:** Cultural factors play a significant role in influencing consumer buying behaviour, as they shape values, beliefs, and traditions.
- **Cultural Norms:** Norms and values influence what products or services are considered desirable. For instance, in cultures that emphasize family, products that cater to family needs might be more appealing. To fit the marketing efforts, the use of feedback features to gather insights on cultural preferences can be done. This can help to adjust product offerings and marketing messages to better align with cultural values.
  - **Social Traditions:** Traditions and celebrations can drive consumer behavior, especially during specific holidays or events. Markets can capitalize on this by gamification features to create special promotions and rewards tied to cultural events. Offering exclusive deals or themed challenges during major holidays can boost engagement and sales.
  - **Lifestyle Preferences:** Cultural background also affects lifestyle choices, such as preferences for health-related products or tech gadgets. For example, quizzes or challenges related to popular lifestyle trends and offer rewards that resonate with these interests can be created which can be of great help.
- v. **Technological Factors:** Technological factors significantly impact consumer buying behaviour by shaping how consumers interact with products and make purchasing decisions.
- **Access to Information:** With the internet, consumers have easy access to vast amounts of information. They can compare products, read reviews, and research prices before making a purchase.

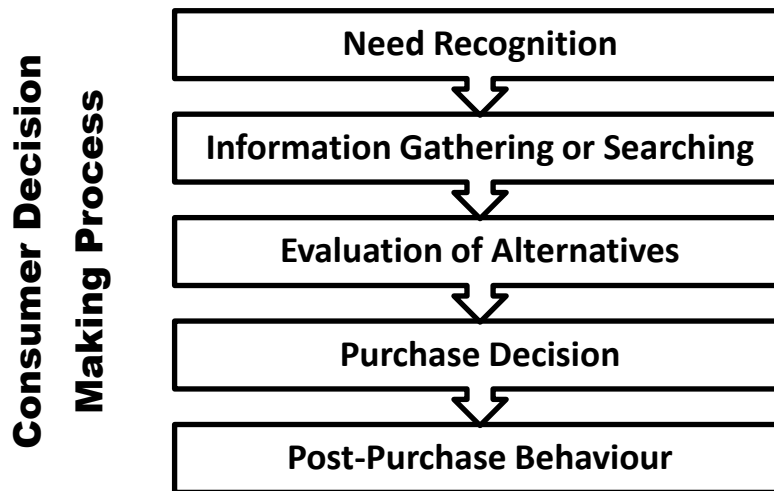
- **Online Shopping Trends:** The rise of e-commerce and mobile shopping has changed buying habits. Consumers are increasingly shopping online and using apps for convenience. Clientele is informed about new products and promotions. This ensures any brand stays top-of-mind in a digital-first world.
  - **Personalization and Recommendations:** Technology allows for personalized shopping experiences based on past behavior and preferences. This personalized approach can enhance user experience and drive higher engagement.
  - **Security and Privacy:** Consumers are increasingly concerned about their online security and privacy. Offering secure payment options and transparent privacy policies is crucial.
- vi. Personal Factors:** Personal factors include individual characteristics that influence buying decisions, such as
- **Age and Life Stage:** A person's age and life stage affect their purchasing needs and preferences. For example, young adults might prioritize tech gadgets, while older consumers may focus on health-related products. Marketing strategies can be planned which will address the specific needs and interests of different demographic groups.
  - **Occupation and Education:** A person's occupation and level of education influence their buying decisions. Professionals may seek high-quality, reliable products, while students might look for budget-friendly options.
  - **Lifestyle and Interests:** Personal interests and lifestyle choices play a crucial role in buying behavior. A person passionate about fitness is more likely to invest in health and wellness products. Gamification features, such as quizzes and challenges, can engage users by aligning with their lifestyle interests. Offering rewards for activities related to their passions can enhance engagement and loyalty.

### 7.1.2 Consumer Decision Making Process

The consumer decision-making process refers to the steps consumers go through before, during, and after purchasing a product or service. This process facilitates the consumers to evaluate different options, weigh the pros and cons, and finally make an informed decision. Consumers make decisions through a mix of logical reasoning, emotional responses, and external influences and are shaped by the individual's values, preferences, and perceptions. The outcome of this process is a final selection, which may result or may not result in action. The decision-making process serves as a way to find the solutions to problems and achieve desired objectives. Therefore, it is a way to address the needs of the consumers. Understanding the consumer decision-making process will boost any business. The process typically consists of the following five key stages:

1. **Need Recognition:** The first step is when the consumer becomes conscious that they have a need or an unmet desire. This can be a functional need, e.g. basic needs like food, shelter, or safety, or emotional needs e.g. social status, self-esteem, or comfort. For example: 'I need a toothpaste.' or 'I need a laptop for work.'
2. **Information Gathering or Searching:** The consumer seeks available information to address their needs. This can involve online research, reading reviews, or asking for recommendations. The sources may be internal such as past experiences or external such as advertisements, family, friends, consumer reports, salespeople, mass media, and internet searches.

3. **Evaluation of Alternatives:** Consumers evaluate or compare available options based on criteria like price, quality, brand reputation, or features. By this time, consumers have established their preferences and criteria for what they want in a product. For example comparing smartphones based on battery life, camera quality, and price. The search for alternatives and the methods used in the search is influenced by such factors as: (a) time and money costs; (b) how much information the consumer already has; (c) the amount of perceived risk if a wrong selection is made; and (d) the consumer's predisposition toward particular choices as influenced by the attitude of the individual toward choice behaviour. Their decisions are usually influenced by logical analysis, brand loyalty, aesthetic appeal, or peer influence.
4. **Purchase Decision:** The consumer finally selects a product and proceeds to purchase after evaluating all the alternatives and options. Factors like availability of the product, ease of purchase, and promotions can influence this decision. Personal characteristics such as age, income, and lifestyle can also affect a consumer's purchase decision.
5. **Post-Purchase Behavior:** During this phase, consumers reflect on their purchase and evaluate whether or not they are satisfied with their decision. The consumer decides whether the product meets their expectations or not. Positive or negative experiences of the consumer affect future buying decisions. Satisfaction leads to brand loyalty and repeat purchases and dissatisfaction may result in complaints, returns, or negative reviews. They may also consider the opinions of others when evaluating their purchase.



### Models of Consumer Decision Making

- i. **Economic model:** Consumers are rational in making decisions and they try to maximize utility with limited resources. This model focuses on the role of pricing and income in rational buying decisions. It is understood that the consumer is well-informed and completely aware of the pros and cons. Therefore, he is an economic buyer who makes logical and reasonable decisions.
- ii. **Psychological model:** Consumers learn behavior through stimuli, responses, and reinforcements. This model is based on psychologist A.H. Maslow's theory of Hierarchy of Needs which states that our actions are motivated

by certain physiological and psychological needs that progress from basic to complex. Lower-level basic needs like food, water, and safety must be met first before higher needs can be fulfilled.

- iii. **Psycho-analytic model:** This model examines subconscious motives and how perception and experiences influence decisions. It is based on Freudian concepts. Freud's theory implies that human behavior is influenced by unconscious memories, thoughts, and urges. This model suggests that many purchasing decisions are driven by deeper desires, such as the need for security, power, or social status. Consumers might not always be aware of these underlying motives, but they play a key role in shaping their choices.
- iv. **Sociological model:** This model emphasizes the impact of social groups, culture, and reference groups on consumption patterns. People's choices are often influenced by the opinions and behaviors of others, including family, friends, and their broader social environment. This model shows that social acceptance and belonging play a significant role in decision-making.

Analyzing the approach of decision-making by consumers can help marketers evaluate key attributes of their customers, such as their initial needs, the methods they use to discover products, and what they consider important in terms of budget, product design, or quality. This information can be utilized to inform future marketing efforts, ads, or product releases.

### Factors Affecting Consumer Decision Making

Certain factors affect the decision-making of the consumers. But, these factors may be different for different persons.

- **Income:** The buying decision may primarily be affected by the disposable income of the consumers. The person with less income will purchase low-priced products and vice-versa.
- **Consumers' involvement in the decision-making:** Another important aspect is the involvement of the consumer in the overall process. The consumers are also influenced by other people involved in the process.
- **Perceived risk:** The risk associated with the products enables the buyer to decide whether to buy the product or not.
- **The lifestyle of the consumer:** The customer living a luxury life often goes for the premium range of products. Whereas, the one who belongs to the low-income group goes for affordable products.
- **Price of the product:** Product price is the major factor in every purchase. A large part of the consumer base is price-sensitive. Thereby, influencing the decision-making process.

### 7.1.3 Consumer Segmentation and Targeting

Consumer segmentation and targeting are critical components of effective marketing strategies. They involve dividing a broader audience into smaller, more manageable groups (segmentation) and selecting specific groups to focus on (targeting) to optimize resource allocation and increase marketing effectiveness.

Segmentation and targeting offer numerous benefits that enhance marketing effectiveness and business performance. By dividing a diverse audience into distinct groups based on shared characteristics, businesses gain a deeper understanding of customer needs and preferences, enabling the creation of tailored products, services, and messages. This focused approach improves marketing efficiency, optimizes resource allocation, and delivers higher customer satisfaction by addressing specific demands. Additionally, segmentation and targeting help businesses

achieve a competitive advantage by identifying and serving niche markets, ultimately boosting profitability and return on investment. With data-driven insights, companies can develop better products, retain customers through personalized engagement, and adapt to market trends, ensuring long-term success and growth. It can provide a higher rate of investment by optimizing marketing spend by targeting the right audience.

**A. Consumer Segmentation:** Consumer segmentation is the process of dividing a diverse customer base into smaller, more homogenous groups based on shared characteristics. The primary goal is to understand customer needs and preferences in a better way and create segments that group similar customers. Segmentation can be based on several criteria:

- **Demographic Segmentation:** Dividing consumers based on measurable characteristics such as age, gender, income, education level, marital status, and family size. It is used for products and services with broad appeal, like clothing or insurance.
- **Geographic Segmentation:** It caters to the segmentation based on location like country, region, city, climate, urban vs. rural. It is relevant for location-specific needs, such as weather-appropriate clothing or local events.
- **Psychographic Segmentation:** Dividing the consumers based on lifestyle, values, attitudes, and personality. For example health-conscious consumers, eco-friendly enthusiasts, risk-takers, etc. This is ideal for personalized marketing strategies, like fitness programs or luxury products.
- **Behavioral Segmentation:** This segment is based on consumer behavior toward a product or service such as purchasing habits, product usage, brand loyalty, and benefits sought. It is useful for tailoring promotions, like rewards programs or trial offers.
- **Firmographic Segmentation (B2B Context):** Dividing business customers based on organizational attributes like industry type, company size, revenue, geographical location, etc. It is usually used for businesses selling to other businesses (B2B).

**B. Consumer Targeting:** After segmentation, targeting involves selecting specific segments to pursue. The aim is to focus marketing efforts on the groups most likely to generate revenue or achieve business goals. It involves choosing the most suitable segments for the organization's products or services. The following steps are to be followed in targeting the consumers-

- **Evaluate Segment Attractiveness:** Assess profitability, growth potential, and competitive intensity.
- **Select Target Market:** Choose one or more segments to focus on.
- **Develop Positioning Strategy:** Create a unique value proposition tailored to the target audience.

The targeting strategies involve choosing the approach to reach and cater to the selected target segments. The common four targeting strategies include:

- (i) **Undifferentiated Targeting or Mass Marketing:** Focus on the entire market with one approach assuming that all consumers have similar needs for example demand for generic household products like salt or sugar.
- (ii) **Differentiated Targeting:** Target multiple segments with tailored approaches for each of the specific characteristics and needs of each segment for example automakers offering economy, luxury, and hybrid cars.
- (iii) **Concentrated (Niche) Targeting:** Focus on one well-defined segment and develop a highly specialized marketing strategy to serve that segment for example vegan skincare products.

**(iv) Micro-marketing:** Tailor offerings to individual customers or localized groups with personalized marketing messages for example personalized online recommendations or neighborhood-specific promotions.

By understanding consumer segmentation and targeting, businesses can create highly effective marketing strategies that align with customer needs, leading to stronger brand loyalty and increased profitability. Although there are challenges involved in segmentation and targeting it may require robust tools and accurate data analysis as the preferences can shift rapidly. Excessive focus can lead to small, less profitable markets.

#### 7.1.4 Impact of Digital Technology on Consumer Behaviour

The impact of digital technology on consumer behavior is profound and multifaceted, transforming how consumers search for, evaluate, and purchase products and services. Digital technology has fundamentally reshaped consumer behavior by enhancing convenience, access, and personalization. They have unlimited access to information and demand products and services when they want. Businesses can use strategies like content marketing and User Experience (UX) to engage with customers. To do this, they need to understand their customers' behavior and shopping habits. Below are some key aspects of this impact:

- i. **Increased Access to Information:** Consumers can access vast amounts of information about products, services, and brands via search engines, review sites, and social media and can make wise decisions. Online platforms allow consumers to compare prices, features, and reviews across multiple options instantly.
- ii. **Shifts in Shopping Habits:** Digital technology has led to a rise of E-commerce and there has been a growth of online shopping, offering convenience and a broader range of products. Smartphones have made shopping accessible anytime and anywhere, increasing impulsive buying behavior. Technology facilitates recurring purchases through subscriptions with services like Amazon - Subscribe & Save or streaming platforms.
- iii. **Influence of Social Media:** Consumers increasingly rely on reviews, ratings, and recommendations from influencers or peers on social media platforms. Sharing experiences about products or services can shape others' purchase decisions. Brands use social media to interact with consumers, fostering loyalty and encouraging direct feedback.
- iv. **Personalization and Targeted Advertising:** Companies use consumer data to personalize marketing messages and recommend products tailored to individual preferences. Technologies like cookies and AI algorithms monitor browsing and purchase history to predict future behavior are tracked by the marketers.
- v. **Changing Perceptions of Trust:** Consumers expect brands to be transparent, as they can easily verify claims or discover scandals online. Online reviews significantly influence trust and purchase decisions, though concerns about authenticity exist.
- vi. **Enhanced Consumer Engagement:** Digital technology enables interactive advertisements, augmented reality (AR) product previews, and virtual shopping experiences. Instant responses to queries via chatbots improve customer service and decision-making.
- vii. **Reduced Loyalty:** Digital platforms expose consumers to more choices, making it easier to switch brands. Easy price comparison has heightened sensitivity to cost, sometimes outweighing brand loyalty.

- viii. **Social and Ethical Considerations:** Digital platforms amplify discussions around sustainability, prompting consumers to support eco-friendly brands. Awareness of data collection practices influences trust and purchasing decisions.
- ix. **New Payment Methods:** Digital wallets and cryptocurrencies have changed how consumers pay, emphasizing convenience and speed. Flexible payment models like Buy Now, Pay Later (BNPL) encourage purchases that might not have occurred otherwise.

## 7.2 CONSUMER ECONOMICS AND SOCIOLOGY

Sociology deals with the relationship between society and humans whereas Economics helps to identify the pattern of want and consumption of resources by people. Consumer economics and sociology are very closely related fields that help us to understand the relationship between consumption patterns and behaviour of humans. Both are intertwined fields that explore the motivations, and implications of consumption within society. While consumer economics focuses on the microeconomic aspects of individual and household consumption decisions, sociology examines the broader social, cultural, and economic contexts that shape these behaviors.

The interplay between consumer economics and sociology reveals important insights into modern consumption patterns:

- **Economic Freedom vs. Social Constraints:** While consumer economics emphasizes individual choice and freedom in spending, sociology points out that these choices are often constrained by social norms, economic conditions, and cultural expectations.
- **Impact on Economic Growth:** Understanding consumer behavior is crucial for assessing its impact on economic growth, particularly in post-industrial economies where consumption diversity is increasing.
- **Collective Behavior:** Sociology posits that individual consumption choices are influenced by collective behaviors and societal trends rather than purely individualistic decisions.

### 7.2.1 Consumer Demand and Supply

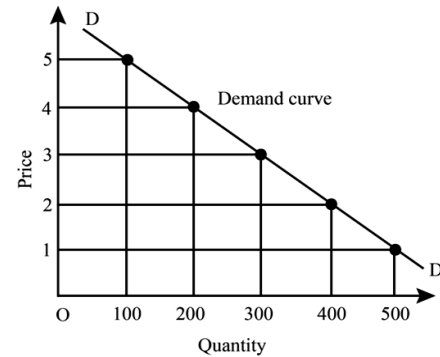
Demand and supply are the forces that make the market economies work. Consumer demand and supply are the two fundamental concepts in economics that describe the relationship between the number of goods consumers are willing to purchase and the quantity suppliers are willing to provide at various price levels. While consumers constitute the buyers side of the market the sellers make the supply side. Understanding these concepts is essential for analyzing market dynamics and price determination, consumer behavior, and economic policy.

- A. Consumer Demand:** Demand refers to the quantity of a good or service that consumers are willing and able to purchase at different price levels during a specific period.

#### Demand Curve

Graphically, the demand curve slopes downward from left to right, illustrating the inverse relationship between price and quantity demanded.

The demand curve is guided by the 'Law of Demand' which states that there is an inverse relation between the price of a commodity and its quantity demanded, assuming all other factors affecting demand remain constant. It means that when the price of a good falls, the demand for the good rises, and when the price rises, the demand falls. Thus, this relationship is typically represented by a downward-sloping demand curve, indicating that lower prices lead to higher demand.



Though the demand curve is generally downward-sloping, for some goods it is upward-sloping. Two such types of goods have been given definitions and names that are in common use: *Veblen goods*, because of fashion or signaling are more attractive at higher prices, and *Giffen goods*, which, by being inferior goods that absorb a large part of a consumer's income (e.g., staples such as the classic example of potatoes in Ireland), may see an increase in quantity demanded when the price rises.

#### The key determinants of demand are:

- Price of the Good: Lower prices in general increase demand, while higher prices decrease it.
- Consumer Income: Higher disposable income frequently increases demand, mainly for normal goods.
- Preferences and Tastes: Changing trends, cultural factors, or marketing campaigns can considerably have an impact on demand.
- Substitute and Complementary Goods: The demand for a product may increase if a substitute becomes more expensive or if a complementary product becomes cheaper.
- Expectations of Future Prices: Anticipated future prices can affect demand levels and may increase the current demand.
- Population and Demographics: A growing population or shifts in age and income groups can alter demand patterns.

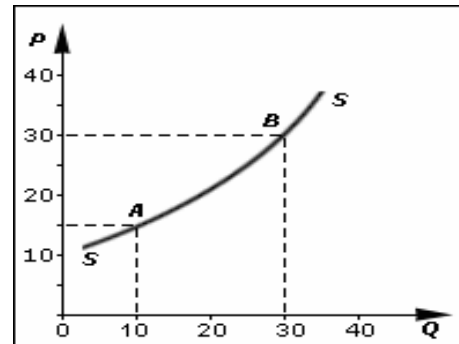
#### Types of Demands

- **Individual:** Demand by a single consumer for a good or service.
- **Market:** The total demand of all consumers in the market for a good or service.
- **Direct:** Demand for goods or services that directly satisfy a consumer's needs or desires e.g., food, clothing.
- **Derived:** When the demand for one product increases the demand for another product e.g., demand for steel due to demand for cars.
- **Composite:** When a single product has multiple uses e.g., milk for drinking, making cheese, or producing butter.
- **Joint:** When the demand for one product or service generates demand for another related product or service e.g., flour, butter, and sugar for baking.
- **Complementary:** Demand for goods that are used together e.g., cars and fuel, coffee and sugar.
- **Substitute:** Demand for goods that can replace each other e.g., tea and coffee, butter and margarine.

**B. Consumer Supply:** Supply is a crucial concept in economics. It is the amount of products available on the market at any one time and is linked to the concept of demand. It is usually measured on a supply curve. Supply refers to the quantity of a good or service that producers are willing and able to offer for sale at different price levels during a specific period. Supply can be for products, labor, raw materials, or other scarce or valuable objects. It represents the producer's side of the market and is influenced by factors such as price, production costs, technology, and government regulations.

### Supply Curve

The supply curve typically slopes upward from left to right, reflecting the direct relationship between price and quantity supplied. The supply curve is a graphical representation of the quantity of goods or services that a supplier willingly offers at any given price. The price per unit is on the vertical axis, and the quantity supplied is on the horizontal axis. This represents how supply works. Supply is closely related to demand, and the two concepts are intertwined to create market equilibrium.



**Fig: Supply Curve**

The 'Law of Supply' indicates that all else being equal, as the price of a good or service increases, the quantity supplied increases, and vice versa. The law of supply depicts the producer's behavior when the price of a good rises or falls. With a price rise, there is the tendency to increase supply because there is at this time more profit to be earned. On the other hand, when prices fall, producers tend to decrease production due to the reduced economic opportunity for profit. An increase in the cost of raw materials would decrease supply, shifting the supply curve to the left as at each possible price a smaller quantity would be supplied. This shift may also be thought of as an upward shift in the supply curve because the price must rise for producers to supply a given quantity. A fall in production costs would increase supply, shifting the supply curve to the right and down.

### The key determinants of supply are:

- Price of the Good: Higher prices incentivize producers to supply more, aiming for greater profits.
- Production Costs: Lower costs for raw materials or labor can increase supply.
- Technological Advancements: Innovations can make production more efficient, boosting supply.
- Prices of Related Goods: If a producer can switch to a more profitable alternative product, supply for the original product may decrease.
- Government Policies: Taxes, subsidies, or regulations can influence the cost of production and the willingness to supply.
- Market Expectations: Anticipation of future price changes can affect current supply levels.

### Types of Supply

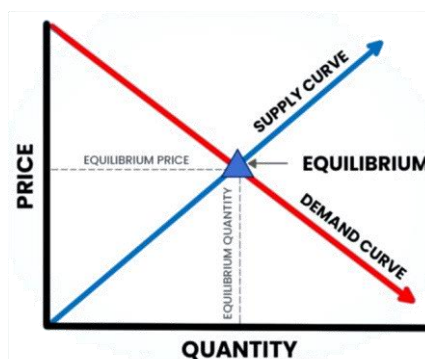
- i. Market supply:** The total quantity of a good or service available for purchase in a market. It explains the overall willingness and ability of the total supply of a good or service by all producers or sellers in any given market.
- ii. Individual supply:** Supply of a good or service by any single producer.

- iii. **Short-term supply:** This type of supply explains that the ability of a purchaser to buy goods is constrained by the available supplies. Buyers cannot purchase beyond the supplied products.
- iv. **Long-term supply:** This is the type of supply when all factors of production are variable, allowing firms to adjust fully to market conditions. It explains the factor of time availability whenever the demand changes i.e. when there is a scope to adjust to a sudden shift in demand.
- v. **Joint supply:** This is the consequential supply i.e. the production of one good or service results in the automatic production of another good or service.
- vi. **Composite supply** is used to explain the supply of products that serve more than one purpose. A single product can be used for multiple purposes or can be sold to different markets. The supply of the product is therefore influenced by the demand for each of the different uses or markets.
- vii. **Elastic supply:** The supply of a good or service that is highly responsive to changes in price. When the price of a good or service increases, producers quickly and easily increase the supply to meet the higher demand.
- viii. **Inelastic supply:** The supply of a good or service that is not very responsive to changes in price. When the price of a good or service increases, producers may not increase the supply in a short period which may lead to a shortage in supply and as a result, the prices will be higher.

### Interaction of Demand and Supply

The supply and demand relationship is important in an economy as it is the backbone of several factors, including the price of commodities and services. The market equilibrium is achieved when the quantity demanded equals the quantity supplied at a specific price level. This intersection point is known as the equilibrium price and equilibrium quantity.

Supply and demand are price-sensitive and they negotiate the price of a commodity. The resulting price, known as the equilibrium price, is the point at which the good's producers and customers reach a mutually agreeable price. In a state of equilibrium, the production of a good is identical to consumption. The cost has an impact on consumption. A surplus of goods and commodities is created when supply exceeds demand, leading to downward pressure on prices and a shortage is created when demand exceeds supply, leading to upward pressure on prices.



Law of Supply and Demand			
Supply	Demand	Price	Market
Unchanged	Increases	Increases	Shortage
Unchanged	Decreases	Decreases	Surplus
Increases	Unchanged	Decreases	Surplus
Decreases	Unchanged	Increases	Increases

Understanding demand and supply is very important in economic analysis as it enables policymakers, businesses, and consumers to make informed decisions.

- **For Policymakers:** This will help in designing tax, subsidy, and price control policies.
- **For Businesses:** Guides pricing strategies, inventory management, and market expansion.
- **For Consumers:** Aids in making informed purchasing decisions based on price trends.

### 7.2.2 Social Class and Consumer Behaviour

Social class refers to a hierarchical division of society based on economic, social, and cultural factors. It includes various aspects, such as income, wealth, occupation, education, and lifestyle. These factors directly impact an individual's access to resources, quality of life, and consumption patterns. The social class provides a framework for understanding individuals' positions within society and their associated behaviors and preferences. The behaviour of all social classes is unique within themselves.

In India, there are many social classes and these divide the society into a hierarchy of classes typically stratified into different levels, forming a hierarchical structure.

- At the top, there is the **upper class**, composed of individuals with significant wealth, prestigious occupations, and extensive educational backgrounds.
- Below them, there are **middle-class** individuals, who are further divided into upper-middle and lower-middle classes based on income, occupation, and lifestyle.
- Finally, there are **lower-class** individuals or a working class which comprises individuals engaged in manual labor and low-paying jobs.

Social class influences consumer aspirations, shaping their desire to attain a higher social status. Individuals from different social classes may have varying criteria for judging the quality, functionality, and desirability of a product. Social class is usually calculated through lifestyle profiles that reveal patterns of consumption, values, and priorities. These profiles offer business insights into the desires and aspirations of different social groups, enabling them to plan targeted marketing campaigns. Each social class has its pattern of purchase, education, occupation, recreation, etc. This is important for sellers, to understand the needs of the consumer, and accordingly to frame a marketing strategy.

The impact of social class on consumer behavior is as follows:

- **Influence on purchase decisions:** Social class significantly influences consumer purchasing decisions. Individuals from different social classes have distinct tastes, preferences, and buying behaviors. For example, consumers belonging to the upper class may seek luxury products that showcase their status, while those from the working class may prioritize affordability and functionality.
- **Lifestyle choices and consumption patterns:** Social class also affects individuals' lifestyle choices and consumption patterns. Different social classes have unique values, interests, and activities, which translate into their consumption behaviors. For instance, the upper class may engage in high-end leisure activities and luxury travel, while the working class might focus more on practical and cost-effective options.
- **Brand preferences and loyalty:** Consumer behavior is heavily influenced by social class when it comes to brand preferences and loyalty. Individuals from specific social classes often align themselves with certain brands

that resonate with their values, aspirations, and self-perception. Brand loyalty is fostered when brands successfully cater to the needs and aspirations of a particular social class.

Understanding social class and consumer behavior allows businesses to (i) segment the market i.e. to identify and target specific social classes with tailored products and services, (ii) design marketing campaigns such as developing messages that resonate with the values and aspirations of each social group and (iii) innovate products i.e. create offerings that align with the financial capacity and preferences of diverse consumer segments.

Therefore, by understanding the dynamics of social classes, businesses can create effective strategies to address the needs and aspirations of different market segments. This understanding not only fosters better consumer satisfaction but also drives sustainable business growth.

### **7.2.3 Market Structure and Consumer Welfare**

Market structure refers to the organizational characteristics of a market, influencing the interaction, and competition of the firms which affects consumer welfare to a great extent. The relationship between market structure and consumer welfare is a critical area of study in economics, particularly within the context of competition policy. Different market structures impact pricing, product availability, quality, and innovation, all of which are critical for consumers.

#### **Types of Market Structures**

Market structures are broadly categorized based on the number of firms in the market, the type of products sold, entry and exit barriers, and market control.

- 1. Perfect Competition:** In a perfectly competitive market, many small firms are there. They sell similar products (homogeneous), lack price influence over the commodities, and are free to enter or exit the market. No single firm can influence the market price, as it is determined by overall supply and demand. Consumers in this type of market have full knowledge of the goods being sold. They are aware of the prices being charged and the product branding e.g. agricultural markets for crops like wheat or corn.
- 2. Monopolistic Competition:** This structure involves a large number of sellers selling similar but not identical products. Firms differentiate their products through branding, quality, or additional features. There is relatively free entry and exit. The consumers have a wide range of choices which enhances their satisfaction. The prices are generally competitive but higher than in perfect competition. Examples are restaurants, clothing brands, and cosmetic products. Another example is the coffee shop market e.g., Starbucks, Dunkin' which demonstrates product differentiation based on branding and taste.
- 3. Oligopoly:** An oligopolistic market features a few dominant firms that influence market conditions e.g. airlines, automobile manufacturing, and telecommunication services. Products may be homogeneous (e.g., oil) or differentiated (e.g., cars). Since there are few players in the market, their competitive strategies are dependent on each other. Barriers to entry are high and the firms may engage in price collusion or competition. There is potential for reduced competition which can lead to higher prices.

- 4. Monopoly:** A monopoly exists when a single firm dominates the market and supplies a unique product with no close substitutes e.g. local utility providers for electricity or water services. This type of market is characterized by factors such as the sole claim to ownership of resources, patent, and copyright, licenses issued by the government, or high initial setup costs. Consumers have to pay higher prices due to a lack of competition. There is limited product choice which can reduce consumer satisfaction. However, natural monopolies (e.g., utilities) can benefit consumers if regulated effectively.

### **Influence of Market Structure on Consumer Welfare**

Consumer behavior and well-being tend to be intertwined concepts in economics. Market structure, which is related to the distribution of goods and services in the market, has a significant impact on consumer welfare. Consumer welfare is the benefits individuals receive from consuming goods and services. The preferred market structure for consumers is perfect competition as this type of market structure provides reliable information to consumers on the production process of a product, the minimum and maximum price of a product, and the quantity of a product.

- **Price:** The price of a good that consumers pay varies across market structures and influences their well-being. The prices are lower in perfect competition and potentially higher in oligopolies and monopolies.
- **Choice:** Consumers benefit from greater choice in monopolistic competition, but choices are limited in monopolies but the consumers have the preference of choosing one product over another. The sellers can also charge a marginally higher price since they may enjoy some market power.
- **Innovation:** Oligopolies often drive innovation due to the rivalry among a few dominant players, while monopolies may innovate less due to a lack of competition.
- **Product Quality:** In competitive markets, firms must maintain quality to attract consumers. In monopolistic markets, quality may stagnate unless regulated by their effects on price, quality, innovation, and product availability. While perfect competition offers the most benefits for consumers, regulated monopolies can provide necessary services efficiently.

### **7.2.4 Consumer Socialization**

Consumer socialization is the process through which individuals, particularly children and adolescents acquire the skills, knowledge, attitudes, and behaviors necessary to function effectively as consumers in the marketplace. This lifelong process begins in childhood and continues into adulthood, evolving with experiences and social influences. It is a critical aspect of modern society, as it helps individuals understand how to navigate the marketplace and make purchasing decisions. The stages of consumer socialization are-

#### **Stages of Consumer Socialization**

- 1. Childhood Stage:** In the childhood stage the child is introduced to the market and he becomes aware of the marketplace. This stage is characterized by observation and imitation, as children watch their parents and other adults engage in consumer behavior. During this stage, children learn about money and the value of goods and services. They also begin to develop preferences for specific brands and products. Marketers can influence this stage by targeting advertisements for children and promoting their products as desirable.

2. **Adolescence Stage:** The adolescent stage of consumer socialization is marked by increased independence and decision-making. During this stage, adolescents assert their identities and make purchasing decisions based on personal preferences. Peer groups and social circles become major influences, often overriding parental guidance. They also develop more sophisticated criteria for evaluating products, such as quality, price, and social status. Marketers can influence this stage of consumer socialization by targeting advertisements at adolescents and promoting their products to express individuality and social status.
3. **Early Adulthood Stage:** It is characterized by increased financial independence and the establishment of personal lifestyles. During this stage, individuals develop their identities and become more independent. Decisions are shaped by personal values, beliefs, and aspirations. Increased earning capacity leads to the establishment of individual consumer identities. Products and services are marketed to align with the self-expression and lifestyle preferences of this demographic.
4. **Middle Adulthood Stage:** The middle adulthood stage of consumer socialization is marked by increased stability and security. During this stage, individuals focus more on maintaining their current lifestyles and meeting their basic needs. They also tend to be more brand loyal and resistant to change. Marketers can influence this stage of consumer socialization by targeting advertisements for middle-aged adults and promoting their products as a way to maintain a comfortable lifestyle.
5. **Late Adulthood Stage:** A focus on health and longevity characterizes the late adulthood stage of consumer socialization. During this stage, individuals prioritize products and services that support their physical and emotional well-being. Marketers can influence this stage of consumer socialization by targeting advertisements for older adults and promoting their products as a way to maintain health and well-being. During this stage, individuals typically retire and have more free time and disposable income. They may become more interested in luxury products and experiences like travel and fine dining. They are also more likely to make purchases that reflect their values and beliefs, such as environmentally-friendly products. Late adults may be more skeptical of marketing messages and rely more on friends and family recommendations.

### **Factors Influencing Consumer Socialization**

Several various factors influence the consumer socializing process-

- **Family Influence:** Parents are primary agents, teaching children about money management, shopping behaviors, and brand preferences. Brand loyalty is passed down from parents to children. Interaction and example-setting are key mechanisms.
- **Peer Influence:** As individuals grow, siblings, brothers, classmates, instructors, and the media significantly impact consumer choices. The desires to fit in with peers often drive trends and brand loyalty.
- **Media and Advertising:** Exposure to various media, including TV, the internet, and social media, shapes consumer preferences. Advertisements associate products with desirable lifestyles and identities.
- **Cultural Influences:** Cultural norms shape attitudes toward consumption, influencing spending, saving, and brand loyalty.
- **Education:** Educational systems play a crucial influence in influencing the view of how individuals engage with the market from an early age. The flow and perception of consumer-related knowledge are determined by

cultural norms and values, which are closely intertwined with these systems. This knowledge is not only academically transmitted; it is also inculcated with cultural habits that provide context and significance.

### **Impact of Consumer Socialization**

- **Brand Loyalty:** Early exposure to brands fosters long-term loyalty. Childhood experiences often influence lifelong preferences.
- **Consumer Attitudes:** Socialization shapes consumption habits, whether frugal or conspicuous.
- **Spending Habits:** Early lessons in budgeting and financial management impact future behaviors, including impulse buying or careful budgeting.

### **Implications for Marketers**

Understanding consumer socialization allows marketers to:

- Tailor messages to resonate with the values of different life stages.
- Build brand loyalty early through targeted campaigns.
- Leverage media and cultural influences to connect with consumers effectively.

## **CONCLUSION**

Understanding the key factors affecting consumer buying behaviour helps in connecting consumers in a better way. By considering psychological, economic, cultural, social, personal, and technological factors, the producers can formulate marketing strategies effectively. With features like gamification, personalized surveys, and in-app messages, markets can engage customers and enhance their experience. Technology has facilitated consumers to access an ample range of products and services, compare prices, and make enlightened decisions.

### **End of Chapter Questions:**

1. What do you understand by consumer behavior? Discuss the factors that affect consumer behavior.
2. How consumer behavior is affected by digital technology?
3. How do consumer segmentation and consumer targeting help businesses?
4. Explain the Law of Demand and the Law of Supply and their relation to each other.
5. What is the impact of social class on consumer buying behavior?
6. Write a short note on market structure and consumer welfare.
7. Define Consumer Socialization. What are the factors that influence the consumer socializing process?

## REFERENCES

1. Blackwell, R. D., Miniard, P. W. & Engel, J. F. (2006). *Consumer Behavior*. Thomson South-Western.
2. Carlton, D. W., & Perloff, J. M. (2015). *Modern Industrial Organization*. Pearson.
3. <http://www.netmba.com/econ/micro/supply/curve/>
4. <https://articles.outlier.org/demand-curve>
5. <https://www.marketforecast.com/methods/market-structure>
6. Kotler, P., & Keller, K. L. (2012). *Marketing Management*. Pearson Education.
7. Krugman, P., & Wells, R. (2020). *Microeconomics*. Worth Publishers.
8. Mankiw, N. G. (2020). *Principles of Economics*. Cengage Learning.
9. Pindyck, R. S., & Rubinfeld, D. L. (2018). *Microeconomics*. Pearson.
10. Rao, Roopa. (2024). *Consumer Awareness and Education in India*. In S. Singh, S. Dinesh, & R. Rao (Eds.), *Resource Management (RM: ASSET): Advancements & strategies for education and transformation*. pp. 265 – 324. Satish Serial Pub House, New Delhi, India. [satishserial.com/book/9788119105403/resource-management-rmasset-advancements-strategies-for-education-and-transformation](http://satishserial.com/book/9788119105403/resource-management-rmasset-advancements-strategies-for-education-and-transformation)
11. Schiffman, L. & Kanuk, L. (2010). *Consumer Behavior*. Pearson Education.
12. Singh, S. (2023) *Family Finance and Consumption Economics*. Himanshu Publications, New Delhi
13. Solomon, M. R. (2017). *Consumer Behavior: Buying, Having, and Being*. Pearson Education.
14. Tirole, J. (1988). *The Theory of Industrial Organization*. MIT Press.
15. Varian, H. R. (2014). *Intermediate Microeconomics: A Modern Approach*. W.W. Norton & Company.