CHAPTER 1
The importance of understanding consumer behaviour

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- Explain how the study of consumer behaviour has evolved.
- Show how consumer behaviour relates to marketing decision-making.
- Explain why relationships are harder to establish in business-to-consumer situations than in business-to-business situations.
- Describe the scope and nature of psychology and sociology.
- Describe the scope and nature of anthropology.
- Describe the relationship of economics with the study of consumer behaviour.
- Explain the role of exchange in improving people’s welfare.
- Explain how the terms ‘luxury’ and ‘necessity’ relate to consumer behaviour.

Introduction

Every day we buy things. We exchange our money for goods and services, for our own use and for the use of our families: we choose things we think will meet our needs on a day-to-day basis, and we occasionally make buying decisions which will affect our lives for years to come. At the same time, we make decisions about disposing of worn-out or used-up possessions. All these decisions and exchanges have implications for ourselves, our families, our friends, the environment, the businesses we buy from, the employees of those businesses, and so on.

The key concept of marketing is customer centrality: we cannot ignore customer decision-making. Understanding the processes involved in making those decisions is central to establishing policy.

Consumer behaviour, and industrial buyer behaviour, have been studied by marketers since the time before marketing itself became
an academic subject. The academic subjects that preceded marketing include economics (the study of supply and demand), sociology (the study of group behaviour), psychology (the study of thought processes), neurology (the study of brain function) and anthropology (the study of what makes us human). Each of these disciplines has looked at the problem from a different angle, and each will be discussed in greater detail throughout the book. The study of consumer behaviour combines elements from all these disciplines: as marketers.

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**Case study: Pizza**

Pizza was originally invented in Naples in the 16th century as a cheap, filling food for the poor. During the latter half of the 20th century, pizza spread throughout the world, with many regional variations: in Australia the basic tomato and cheese topping is garnished with bacon and eggs, in Pakistan the spicy chicken and hot sausage varieties are popular, in Sweden local cheese is used instead of mozzarella, and so forth.

The UK market is dominated by two American firms, Domino’s and Pizza Hut. Domino’s is entirely devoted to home deliveries of pizzas, whereas Pizza Hut has both restaurants and home delivery. Between them, these two firms have more than half the number of pizza outlets in the UK: there are some small local pizza places, and of course most Italian restaurants offer pizza as a choice on the menu, but for most people having a pizza delivered means calling Domino’s or Pizza Hut.

The overall market is very substantial indeed. Although it is difficult to calculate exactly how substantial (because Italian restaurants don’t keep records of exactly who ordered the pizza and who ordered the spaghetti), the market is estimated at over £1.5 billion per annum. The UK market for all take-away food is estimated at £8.5 billion (the largest in Europe), so pizza has a substantial share, and one that is probably growing.

Pizza is not on anybody’s diet sheet, of course. A chunk of carbohydrate covered in melted fat, with no fresh vegetables and rather a high salt content, would not be exactly what your nutritionist would recommend. There have been links to cancer among frequent pizza eaters, due to the high salt content and predominance of processed foods such as pepperoni and ham. Yet pizza continues to be popular with most people – it is easy to eat, easy to share, and tastes good, as well as being a reasonably cheap alternative for those who don’t feel like cooking or want a treat.

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**How to impress your examiner**

Relate your answers to the real world. Use examples – this shows that you understand the theory, and can put it into a business context. While you are reading the book, try to think of examples of your own – everybody else will know the examples from the book, the examiner included!
Defining consumer behaviour

All of us are consumers: all of us behave. This does not mean that all of our behaviour can be defined as consumer behaviour, of course. Specific consumer behaviour has been defined as follows:

*Consumer behaviour is the activities people undertake when obtaining, consuming and disposing of products and services. (Blackwell et al. 2001)*

This definition is widely used, but it still leaves some questions to answer. First, what do we mean by ‘obtaining’? This presumably includes all the activities that lead up to making a purchase, including searching for information about products and services, and evaluating the alternatives. ‘Obtaining’ may not involve an actual purchase, but most consumer behaviour researchers and writers ignore this angle: a child who promises to keep his room tidy in exchange for a new video game is clearly obtaining a product, but this is not usually regarded as part of a study of consumer behaviour. Likewise, theft is usually ignored as an aspect of consumer behaviour, for ethical reasons.

Challenging the status quo

From a manufacturer’s viewpoint, shoplifting can only be a good thing. If the product is attractive to shoplifters, more of it will leave the retailer’s premises, and since the retailer has already paid the manufacturer for the goods, the manufacturer doesn’t care whether the goods are bought or stolen from the retailer. Leaving ethical considerations aside (and who doesn’t, from time to time?) wouldn’t it be in manufacturers’ best interests to make their products as easy to swipe as possible?

On the other hand, would retailers continue to stock products that were easy to steal? For the manufacturer, the retailer is the customer, not the consumer, so the manufacturer needs to focus on industrial buyer behaviour rather than consumer behaviour! Or, better still, consider the needs of both.

Other issues in the ‘obtaining’ category might include the ways in which people pay for the products (cash, credit card, bank loan, hire purchase, interest-free credit, and so forth), whether the product is for themselves or is a gift, how the new owner takes the purchases home, and how the decisions are affected by branding, and by social elements such as the respect of friends.

Consuming refers to the ways in which people use the products they buy. This includes where the product is consumed, when (in terms of on what occasions the product might be used) and how the product is used. In some cases people use products in ways that were not intended by the manufacturer: this is called re-invention. For example, a biologist might buy a turkey-basting syringe to use for taking water samples from a river, or a gardener might buy a china serving dish to use as a plant pot.
Consumption is necessary for our health and well-being: obviously some consumption is not good for us (over-consumption of alcohol, drug abuse, or even using a mobile telephone while driving) but most of our consumption is essential for living and relating to other people (Richins 2001).

Disposal of products when they are worn out or no longer needed has become a ‘hot topic’ in recent years due to environmentalism. Disposal includes the disposal of packaging – whether it is recycled, burned or goes into landfill, packaging represents a major problem for the 21st century. Knowing how people dispose of products can be crucial to marketing them. For example, in many developing countries empty metal cans are used to make oil lamps, ashtrays, drinking vessels, and so forth. Changing the design or size of the can may well affect sales. Likewise, a system for trading in used or worn-out items can be a major boost for sales of new items: second-hand car trading is based entirely on this principle.

Consumer behaviour in action: Trade-in

Trading in old cars for new ones was reputedly invented by General Motors dealers in the 1930s as a way of stimulating the market for new cars. The second-hand cars that were traded in could be sold to people who could not afford a new car, and so the number of people who were driving could be increased dramatically. Trade-in also solved the problem of what to do with a car once it was a few years old and perhaps not looking as new as it once had.

In 1995 Mrs Katherine Freund of Portland, Oregon, had an idea for extending the trade-in concept and at the same time improving road safety. Her son was run over by an elderly driver in 1988 (the son recovered fully) and it occurred to Katherine that there were many elderly people on the road who really shouldn’t be driving, but who felt that they had little choice in a world (and especially in a country) dominated by cars. So Katherine instituted a scheme whereby senior-citizen drivers could trade in their cars in exchange for rides. The elderly people are credited with rides, but the cars are operated by volunteers supplemented by a few paid drivers, and the scheme is self-financing. The rides are very much cheaper than using taxis so the credit in the scheme lasts a long time, and the service runs 24 hours a day, seven days a week.

One of the main advantages of the scheme is that it allows elderly people to remain part of the community and continue to do everything they used to do when they were still driving. The other advantage is that the roads are much safer – the over-75 age group has more accidents than any other group except teenagers.

This novel approach to trade-in has created an entirely new opportunity for older drivers: at the same time, it maintains their mobility and makes life safer for others. As a way of disposing of no-longer-needed cars it is second to none!

Another definition of consumer behaviour runs as follows:

*The dynamic interaction of affect and cognition, behaviour, and environmental events by which human beings conduct the exchange aspects of their lives.*

(Bennett 1993)

This definition has the advantage that it regards consumer behaviour as dynamic, and emphasises the interaction of many different elements in determining consumer behaviour. This is the main reason why strategy needs constant review: a strategy that worked well in the past may not work nearly as well in the future, because the forces that shape behaviour may have changed out of all recognition. The definition
also includes the concept of marketing as the management of exchange, which is not accepted by all marketers: few people would argue, for example, that a mother who promises a child a treat in exchange for good behaviour is engaging in a marketing process. On the other hand, the marketing-as-management-of-exchange idea has a lot to recommend it when considering not-for-profit marketing activities such as anti-smoking campaigns or political election campaigns.

The general model of consumer behaviour shown in Figure 1.1 shows that basic attitudes (formed of thought, emotion and intended behaviour) are influenced by personal and environmental factors to create actual behaviour. Marketers are able to influence this process at several points – they can influence thought processes by providing relevant information at the right time, they can influence emotion by using appealing communication and imagery, and they can provide suitable environmental stimuli (for example, pleasant shops or user-friendly websites) to stimulate purchase. On a more subtle level, marketers can even encourage greater consumption of the product – good marketing does not stop at the point of sale.

From the viewpoint of academic researchers, consumer behaviour might be considered as the field of study that concentrates on consumption activities. In the past the study of consumer behaviour has mainly focused on why people buy. More recently, the focus has moved to include looking at consumption behaviour – in other words, how and why people consume.

Studying consumer behaviour is clearly of interest to marketers, but it is an interesting study in itself, even for non-marketers, because we are all consumers. Ultimately, consumers hold all the power in the business world – as Sam Walton, founder of Wal*Mart, famously said, ‘There is only one boss – the customer. And he can fire everyone in the company, from the chairman on down, simply by spending his money somewhere else.’ Walton always regarded himself as an agent for his customers, finding them the best value for money: this simple philosophy moved Wal*Mart from one small store in Arkansas to being the world’s largest retailer within Walton’s lifetime.

**Consumer behaviour in context**

The fundamental basis for marketing thinking is that the customer (or consumer) should be at the centre of everything the firm does. While there may be some dissent about whether the marketing concept always applies, for marketers, customers are the key concern. This means that an understanding of how and why people make purchasing decisions is crucial to formulating a marketing plan.
In the first instance, purchasing behaviour relates strongly to segmenting the market. The whole purpose of segmentation is to determine which potential buyers are most likely to behave favourably towards our company and its products: most segmentation methods bear at least some relationship to consumer behaviour issues.

First, geographic segmentation breaks the market down according to the location in which the potential customers live. Where someone chooses to live, or is forced to live, is either an example of decision-making or dictates decision-making. Someone living in a cold climate is compelled to buy warm clothing, heating equipment, insulation products for the home, and so forth.

Psychographic segmentation and behavioural segmentation clearly relate very directly to consumer characteristics and behaviour. Psychographic segmentation is based on people’s thought processes and attitudes – clearly the starting-points for behaviour. Behavioural segmentation is based on what people do – what hobbies they have, what foods they eat, how they travel, work and spend their spare time. Demographic segmentation is based on consumers’ wealth, age, gender and education levels (among other things), each of which relate directly to purchasing decisions. There is more on psychological factors in Chapters 2 to 6, and more on attitude in Chapter 7.

Recently the idea has been proposed that consumers are not simply users of value (and, by extension, destroyers of value as they use up products) but should instead be considered as co-creators of value (Vargo and Lusch 2004). The thinking is that goods and services only have value when they are used – an electric drill has no value if it simply stays on the retailer’s shelf, but it does create value when someone buys it and uses it. This perspective, known as service dominant logic (SDL), supposes that in fact all products are service products, since consumers are not buying a drill, nor are they buying holes, but are in fact buying a hole-drilling service for which they will provide some of the effort and therefore create some of the value. SDL has a strong appeal – after all, someone who needs to drill a hole could (presumably) hire someone to come and drill the hole for them, or could buy (or hire) a drill and do it themselves. The value created is much the same in each case, but the relative contribution by the consumer and the supplier is very different. Chapter 14 has more on services.

There are a great many conceptual implications involved in service dominant logic, and academics are still debating the practical implications for companies. However, there is certainly research supporting the idea that modern consumers are not prepared simply to accept what manufacturers provide for them, but instead seek to re-invent, add value and communicate new ideas to each other entirely independently of producers (Hewer and Brownlie 2010).

Consumer behaviour and the marketing mix

Marketing management is usually considered to consist of controlling the marketing mix. Table 1.1 shows how consumer behaviour relates to the seven Ps (7P) model of the marketing mix developed by Booms and Bitner (1981).

Although the marketing mix has been widely criticised by academics because it tends to imply things being done to consumers rather than things being done for consumers, it is still widely taught because it offers a relatively simply way to understand what marketers do. Putting each element of the mix into a separate ‘silo’ is one way of simplifying the real world, but looked at from the consumer’s viewpoint the distinctions between the elements may not be valid at all. For example, price is regarded as a cost from the consumer’s viewpoint, but might also be regarded as a promotion – a money-off special offer could be regarded as a major incentive to buy now rather than postpone the purchase. In other words, the 7P
Table 1.1 Consumer behaviour and the seven Ps

<table>
<thead>
<tr>
<th>Product</th>
<th>The bundle of benefits consumers acquire is the basis of their decision-making. Deciding which benefits are essential, which are desirable, which do not matter and which are actually not benefits at all but drawbacks is the starting point for all rational decisions.</th>
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<tbody>
<tr>
<td>Price</td>
<td>The cost of a product goes beyond the price tag in most cases. If the product is complex, there will be a learning cost attached to figuring out how to use it: if the product is dangerous, there may be a cost attached to consequent injury. If the product is visible to others, there may be an embarrassment cost. Some products require more effort to use – an electric can opener is easier to use than a hand-operated one, but costs more money. In some cases, these extra costs may exceed the price tag – consumers will take account of them, and will weigh them in the decision, but producers will only be able to obtain the price on the tag.</td>
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<tr>
<td>Place</td>
<td>Convenient locations for making purchases are essential; in fact it would not be too much to say that the easier marketers make it for consumers to find the product, the more product will be sold. Like price, the location can affect the decision in ways which do not benefit the producer – equally, producers can sometimes charge a premium for delivering location benefits. Corner shops (convenience stores) are a good example: although they are invariably more expensive than supermarkets, being within easy reach of home offers a clear advantage that is worth paying for.</td>
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<tr>
<td>Promotion</td>
<td>Promotion is not something that is done to consumers, it is something they consume. People buy magazines, watch TV shows, go to the cinema and ride on public transport. Although they do not usually do these things in order to be exposed to advertisements, they usually pay at least some attention to them and frequently they enjoy the experience. Furthermore, people often use media such as classified advertisements and directories in an active search for information about goods they might like to buy.</td>
</tr>
<tr>
<td>People</td>
<td>Business is not about money, it is about people. The people who run businesses and deal with the public need to understand how other people react in purchasing situations. In some cases, the product is the person: people become loyal to the same hairdresser, the same doctor, the same restaurant chef. The people who work with the customers tend to be the most customer-orientated – and proximity to the customer is a more important factor in this than is the attitude and behaviour of senior management (Hui and Subramony 2008). In other words, senior management may or may not be customer-orientated, but working with customers will in itself tend to focus people on customer need.</td>
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<tr>
<td>Process</td>
<td>The way services are delivered affects the circumstances in which people buy as well as their propensity to buy. A meal out might be a ten-minute lunch stop at a fast-food outlet, or it might be a romantic dinner for two in an upmarket restaurant. The process is completely different in each case, and so is the price: in the first case, the consumer may only go through a limited problem-solving process; in the second case, the process may well be longer because the need to get it right is greater. This is called involvement.</td>
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<tr>
<td>Physical Evidence</td>
<td>Physical aspects of the service experience often relate to the pleasure one feels from receiving the service rather than the practical aspects. The surroundings in a restaurant, the food itself and the quality of the menus all affect people’s perception of the service.</td>
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model may be fine for the marketers to understand, but may not be appropriate from the consumer’s viewpoint.

Chapter 16 explores the practical issues around consumer behaviour within the marketing mix.

Consumers and relationship marketing

Relationship marketing seeks to establish long-term relationships with customers rather than focusing on the single transaction. The differences between relationship marketing and transactional marketing are shown in Table 1.2.

Establishing a relationship in a business-to-business (B2B) context turns out to be a great deal easier than establishing a relationship in a business-to-consumer (B2C) context (see Chapter 15 for more on organisational buyer behaviour). The reasons for this are currently obscure, but may include the following:

1. Businesses change their needs less often than do consumers.
2. There are fewer suppliers and customers in B2B markets.
3. B2B transactions almost always involve the personal relationships between salespeople and buyers, whereas B2C relationships are often impersonal, since people often buy goods on-line or in self-service stores.
4. The possibilities for mutual advantage in establishing a relationship are often much greater in a B2B context.

Relationship marketing is rooted in the idea that it is cheaper to retain an existing customer than to recruit a new one. There is a certain appeal to this idea: acquiring new customers is a difficult business, whereas keeping someone on board should only be a matter of making sure their needs are met.

In consumer markets, this is a great deal harder than it sounds. As shown in Figure 1.2, consumer needs change relatively rapidly: the needs of someone aged 18 are likely to change dramatically by the time he or she is 25. Likewise, a childless couple’s needs will change should they have a baby together, quite apart from the probable change in their financial circumstances. Second, there is a great deal more

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<th>Table 1.2 Transactional marketing vs. Relationship marketing</th>
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<td><strong>Transactional marketing</strong></td>
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<tr>
<td>Focus on single sale</td>
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<tr>
<td>Orientation on product features</td>
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<tr>
<td>Short timescale</td>
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<tr>
<td>Little emphasis on customer service</td>
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<tr>
<td>Limited customer commitment</td>
</tr>
<tr>
<td>Moderate customer contact</td>
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<tr>
<td>Quality is the concern of the production department</td>
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choice of supplier in consumer markets, and a great many more ways to spend one’s money. People can easily be tempted away from an existing supplier and towards a new supplier. Third, there is little incentive for most consumers to remain loyal to a given supplier when there are so many tempting offers around and little to keep them on board: extra-nice service is really not enough.

Another factor is that people have become much more aware of marketing and marketers. There is a much greater understanding of marketing techniques than formerly, and consequently a greater distrust of marketers. There is evidence that this alienation of consumers is linked to the use of new technology – the Internet allows consumers to take control of the exchange process in a way that has been impossible in the past, and thus they are able to take over some of the role of marketers in managing exchange (Mady 2011).

Relationship marketing has become closely associated with direct marketing, simply because the best way to establish a relationship with a customer is to have direct dealings. Unfortunately, direct marketing has also become associated with direct mail and direct telephone marketing, both of which are extremely unpopular with the public in general; this is probably another reason why relationship marketing is less successful with consumers than with industrial buyers.

Understanding how people create and maintain relationships in their personal lives is obviously useful when considering how people create and maintain business relationships. Businesses are not about profits: they are about people.

**Figure 1.2** Businesses and relationship marketing

If businesses are about people, why is it that companies consistently report their successes and failures in financial terms? Why not report on how pleased our customers were, or on how loyal they were? Why not report on how many customers recommended us to their friends?

Or would it be too difficult to do these things? How do we know whether people are recommending us anyway? The market researchers should be able to find out – but it’s obviously easier just to count up the money!
INTRODUCTION TO CONSUMER BEHAVIOUR

Consumers and marketing planning

Marketing planning has often been considered in terms of managing the product portfolio, developing new products, launching products, managing the product life cycle, and so forth. This involves planning communications that explain the product features and benefits, and seek to persuade consumers to buy the products. It involves deciding which distributors the products should be sold from, what price will provide the company with a good return on its investment, and so forth.

This way of looking at marketing suffers from a serious flaw in that it is not customer-centric. Suppose we were to act in a completely customer-centred manner. We would then be seeking to manage the customer portfolio, considering which customers (or groups of customers) we can serve profitably and which we cannot. We would consider which marketing communications would appeal most to the groups we want to keep, and which would be off-putting to the groups we want to lose. We might consider the customer’s life cycle (see Consumers and relationship marketing above) rather than the product’s life cycle, and consider price in terms of what consumers will think is fair.

Challenging the status quo

Can we really let consumers run the business? After all, if we ask people what they are willing to pay for a product, they are likely to pitch the price as low as they think they can get away with. The same applies to service – everybody wants a lot, but is only prepared to pay a little!

Not to mention the competitive arms race. As one company offers one level of service, everyone else has to match it at least, and exceed it at best. Before long we get to the point where we are grovelling to the customers!

For example, in France one would never argue with the chef. If one likes one’s steak well done, the waiter will suggest the idea to the chef, but after muttering something about ‘Les sales anglais!’ the chef will produce a steak which looks as if it needs a sticking plaster. Contrast with America, where the customer tells the chef exactly what to put in and leave out of the food: ‘No salt, hold the mayo, just a little tabasco’ and so forth. No doubt the American chef is much more customer-centred, but aren’t we, as the customers, paying for his expertise? What’s the point of going to a restaurant where we have a trained chef with years of experience, and then second-guessing the guy? Can we really trust the customer to know what is best for them? After all, doctors and lawyers don’t expect people to know what is best for their health or legal well-being.

So where is customer centrality really located? In France, or in America?

Marketing strategies should therefore not only seek to influence consumers, they should also be influenced by them. Planning for a customer-led future means putting consumer behaviour at the centre of the firm’s thinking. In the 21st century, consumers hold the power: there is evidence that people consider their spending power to be a form of voting, a way of expressing approval for what the supplier is offering.
People are aware that they have choice: at first, when choice became widespread, people might have found this confusing and daunting, but as time has gone on people have found it empowering, and they do not hesitate to use their power (Davies and Elliott 2006).

For example, consumer research might show that a specific group of our customers is more profitable than another simply because they are more loyal. This means that we do not need to recruit new customers to replace those who drop out, which is of course substantially cheaper. We might therefore seek (a) to ensure that we continue to retain these customers and (b) try to find more like them. Their loyalty comes from their purchase behaviour – their propensity to repeat purchases on a regular basis – which in itself may be a function of their personalities, their degree of involvement with the products, and so forth.

**Antecedents of consumer behaviour**

The study of consumer behaviour is, like marketing itself, a combination of other disciplines. As a study, it draws from economics, sociology, psychology and anthropology (and, more recently, neuroscience) for its basic theories and research approaches. Academics aim to develop a body of specifically consumer-based research, but the influence of the other disciplines will always be at the forefront of the theory that develops, as shown in Figure 1.3.

All of these areas will be discussed in much greater detail throughout the book, but a quick overview of the basic contributions of each discipline should be helpful in understanding how consumer behaviour has developed as an academic study.

**Economics** is the study of demand. Economists study demand in the individual transaction, at the level of the firm and its customers, and also the overall level of demand in the economy. The former study is called microeconomics, the latter is called macroeconomics. Although microeconomics appears at first sight to explain consumer behaviour, in fact it only really explains rational behaviour. Economists consider such concepts as utility, value for money and economic choice, not such nebulous ideas as whether one’s friends will admire one’s new outfit.

Economics has provided consumer behaviour theorists with a number of useful concepts that help to explain the rational side of consumer behaviour.

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**Figure 1.3** Antecedents of studying consumer behaviour
THE ECONOMIC CHOICE

This simply means that someone cannot spend money on something if he or she already spent the money somewhere else. This implies that all companies are competing with all other companies for the consumer’s money: people have only a certain amount of money they can spend, or commit to borrowing. In fact economic choice is somewhat blurred by the existence of credit. People can easily be persuaded to borrow the money to buy whatever they want, which means that other factors than money might come into the equation. The theory still holds true, though, if we consider the economic choice of how we spend our time, or how we use other resources such as our cars or our homes. The theory really talks about use of limited resources in aiming to satisfy one’s needs.

Marketers have certainly taken on board the concept of the economic choice, broadening out the spectrum of competitors to include anyone who aims to satisfy similar needs in consumers. This means that cinema owners recognise theatres, restaurants, bowling-alleys and other entertainment places as competitors, and in recent years have developed complexes where all leisure activities can take place under one roof: this is not just an example of taking over competitors, it is also an example of how a firm can help people make the best use of limited leisure time. With time as the constraining variable, such complexes can make best use of economic choice theory.

INDIFFERENCE CURVES

People typically own portfolios of products. Some people like to have large numbers of some products (for example, some people have several TV sets) and few of something else. Indifference theory says that people might have a ‘trade-off’ in their minds about how much of a given product they consider is equivalent to a quantity of another product.

Figure 1.4 shows an indifference curve comparing money and turkeys. Someone who has no turkeys but plenty of money might decide to buy a turkey; if he or she is a particular lover of roast turkey, the temptation might arise to buy one or two extras for the freezer. As the freezer fills, though, there will come a point where the turkeys would have to be a real bargain to be worth buying, and of course eventually the individual will reach the point where he or she would not buy any more no matter how good a deal the marketer offered. Likewise, someone who is desperate to buy a turkey might be prepared to spend more money than usual on one. At one end of the curve we have a mood of ‘What’s the use of having all this money if I can’t enjoy a turkey?’ and at the other end of the curve the mood would be ‘How many turkeys does one person need?’

Figure 1.4 Indifference curve
For example, if one is in a pub and a friend goes to the bar, one might want a pint of beer and two packets of sandwiches. If the friend mixes up the order and brings back two pints of beer and one packet of sandwiches this may not matter to you, but if he brings back no beer and three packets of sandwiches (or vice versa) this might not be acceptable. In those circumstances, you would have moved beyond the limits of your indifference curve: one way of returning to a satisfactory arrangement would be to swap some of your sandwiches for someone else’s beer, in other words to trade.

Indifference curve theory leads on to the Edgeworth Box, which tells us that trade always makes people better off because both parties move onto a higher indifference curve.

In Figure 1.5, we have a situation where two roast turkey lovers meet and decide to trade. Each has some turkeys and some money: the axes of the box show the total amount of each that the two people have between them. Each person would be quite happy with any combination of turkeys and money along the line of the indifference curve, but obviously would be even happier with more of both. If the people concerned then trade, they will each end up with a turkey–money combination situated somewhere along the contract line; where each person ends up is a matter for negotiation.

The idea that trade is always good is actually fairly obvious: if both parties were not better off, one or other would not be prepared to make the trade. The degree to which each party is better off depends largely on negotiation skills: some people are better negotiators or are in stronger negotiating positions than others.

**ELASTICITY OF DEMAND**

Although a rise in prices generally means a reduction in demand (there are some exceptions), there is a question about the degree to which demand is affected by price. In some cases, a rise in price appears to make very little difference to demand – salt is the example usually given for this, because salt is extremely cheap and is rarely purchased, so even a doubling of the price would probably go unnoticed. On the other hand, some products seem to be dramatically affected by even small changes in price: this usually happens if there is a close substitute available, for example if the price of beef rose relative to the price of pork or lamb. In these circumstances, price calculations need to be carried out extremely carefully as a mistake could result in a dramatic loss of business.
Figure 1.6  Inelastic demand curve

Figure 1.6 shows a product that sustains much the same demand whatever happens to the price. As the price rises, demand does fall slightly but overall demand remains fairly constant.

There are elasticities other than price. For example, income elasticity of demand tells us that some products are affected by increases in the individual’s spending money. In some cases, this will produce an increase in demand – as people become richer, they are likely to buy more clothes and more entertainment products, for example. In other cases, the demand for an individual product might reduce as people become wealthier: a higher income might lead someone to buy a BMW car rather than a Ford. In some cases, a general rise in income reduces demand fairly dramatically, and bread is an example. As people become richer, they tend to buy less bread, and eat more meat and vegetables instead. In recent years, rising standards of living in China and India have led to steep rises in the worldwide cost of many foods as people in those countries are able to afford more meat and vegetables, and thus do not rely as much on cheap foods such as rice and bread.

Figure 1.7 shows an elastic demand curve. Here the demand for the product is affected greatly by the price – even a small increase in price has a fairly profound effect on the demand for the product.

One point that arises from the elasticity concept is that there is no product which has a completely inelastic demand curve. In other words, there is no product which
has a demand curve that is entirely unaffected by price. This means that there is no product which is an absolute necessity of life – if this were the case, the producer could charge anything at all for the product and people would have no choice but to pay, since the alternative would be death. This is an important issue for marketers, because it shows us that there is no theoretical basis for considering some products as necessities and other products as luxuries. The difference exists only in the minds of consumers. To some people, a car would be a luxury; to others it is a necessity. Likewise, water might be considered as a necessity of life, yet some people rarely (if ever) drink just plain water: they drink tea, beer, orange juice, cola, or any one of many different products containing water, all of which are substitutes for plain old tap water.

**Neuroscience**

Neuroscience is the study of the ways in which the human brain works. A sub-branch of the discipline, neuroeconomics, seeks to explain some economic behaviour in terms of the brain’s physiology.

Neuroscientists, and especially evolutionary neuroscientists, see the brain as the result of a long series of evolutionary adaptations leading to a set of domain-specific computational systems. These systems have evolved to solve recurring problems – originally these problems were characterised by survival problems (finding food, evading predators, cooperating with tribe members, and so forth) and reproduction problems (finding a suitable mate, protection and feeding of children, and so forth). These problem-solving systems act to adapt behaviour in order to improve the individual’s chances of surviving, prospering and reproducing. In the modern world, the same systems are applied to apparently new problems – career progression, financial management, learning to operate a smartphone, and many other tasks that did not exist when our ancestors evolved on the African savannah.

Evolution is, in general, a very slow process, and in the case of human beings it has been further hindered by our dominance of the environment: people are less likely to make fatal mistakes and thus remove themselves from the gene pool.

Neuroeconomics seeks to map brain activity onto economic behaviour. In this way, neuroscientists hope to explain consumer behaviour in terms of evolutionary and survival factors. As yet, the discipline is in its infancy, but neuroscientists have already identified some of the mechanisms by which people are affected by packaging (Stoll et al. 2008), and have identified a dedicated response to celebrity-based advertising (Gakhal and Senior 2008). It seems likely that further practical insights will emerge as research continues (Garcia and Saad 2008).

**Psychology**

Psychology is the study of mental processes. Psychologists study the ways people think, which is of course basic to understanding how people think about the products they buy. This includes learning about products, developing an overall perception of products and brands and fitting it into one’s overall perception of the world, and the basic drives that encourage people to seek solutions for their needs.

Each of the contributions made by psychologists (as shown in Figure 1.8) will be covered in more detail in Part Two of this book, but for the time being here is a brief overview of the main issues.
**INTRODUCTION TO CONSUMER BEHAVIOUR**

**DRIVE AND MOTIVATION**

Drives are the basic forces that make us want to do things (see Chapter 2). A drive is created when the desired state of the individual is different from the actual state: the greater the difference, the stronger the drive. A drive that has a definite target becomes a motivation. Part of the marketer’s job is to encourage drives to develop by encouraging shifts in the desired state (it is pretty much impossible to develop shifts in the actual state). The other part of the marketer’s job is to direct drives towards a specific target. For example, a marketer might encourage a shift in the desired state by saying, ‘Isn’t it about time you bought yourself a better car?’ and follow this by saying, ‘Why not treat yourself to a new Jaguar?’

**GOALS AND INCENTIVES**

A goal is the rational element of motivation (see Chapter 3). Motives are largely emotional: goals are the rationalisation of a motivation. For example, someone might decide that they really want to learn to fly (a largely emotional motivation, based on reading adventure stories or on an unspecified emotion). The goals that derive from this might be concerned with finding an appropriate flying school, saving up the money to pay for lessons, and freeing up the time to learn. The incentive for achieving these various goals is the satisfaction of the need.

**PERSONALITY AND SELF-CONCEPT**

Personality is a combination of the various traits that determine who we are (see Chapter 4). The type of person we are dictates what we like and what we dislike, our preferred ways of dealing with our consumption problems, our preferred lifestyles, and so forth. Self-concept is about how we see ourselves – this includes how we see ourselves in terms of consumption patterns, branding and other consumption-based aspects. For example, each of us has favourite brands, which we feel express our personalities. Some of us are Ford drivers, for some of us it’s BMW; some of us are Nike wearers, others Adidas; and so forth. What we buy and wear expresses who we are.
PERCEPTION

Perception is about the way we make sense of the world (see Chapter 5). Each of us has a particular view of the world, a perceptual map, which enables us to make sense of what is happening around us. We assemble this map by taking in information through our senses and using it to develop an understanding of how the world works and where different things fit into it. Psychologists study the ways in which people filter out unnecessary information, group information together in useable ‘chunks’ and arrange the information to create the perceptual map. Marketers are interested in these processes in order to ensure that their brand is mapped into the most effective place in the consumers’ perceptions.

The word perception is often used to mean ‘untrue’ but in fact this is not the case. The only truth we have is what we hold in our minds, so a person’s perceptual map is the truth for that person. Even though we each have different perceptual maps, they are near enough to each other for us to be able to communicate and cooperate.

LEARNING

Learning is the behavioural changes that result from experience (see Chapter 6). How we learn is critical to marketing communications, because marketers want people to remember the messages and act upon them in ways that are favourable to the organisation.

ATTITUDE FORMATION AND CHANGE

Attitudes consist of knowledge, feelings and proposed behaviour (see Chapter 7). An attitude is a tendency to behave in a consistent manner towards a given stimulus: in other words, people tend to react the same way every time towards something about which they have an attitude. For marketers, understanding how attitudes are formed and are changed is useful in creating appropriate attitudes towards brands and products: sometimes attitudes need to be demolished and rebuilt if the brand is to continue.

Psychology is not the only behavioural science, however. It is mainly concerned with the individual, but human beings are herd animals: we operate in groups. In prehistoric times, being part of a group meant the difference between surviving and not surviving: even today, people who do not fit in with one or more groups usually lead unhappy lives, and there is medical evidence to suggest that they do not live as long as other people either. The behaviour of people in groups is the province of sociology.

Sociology

Group behaviour is crucial to human beings, and therefore is crucial to understanding what motivates people to buy specific brands. Buying the wrong brand can be embarrassing: we are all aware of how, in our early teens, we have to have the right brand of trainers, play the right video games, see the right films and enjoy the right music to fit in with the desired group. Even adolescent rebellion is actually a drive to join a group. The contributions from sociology are shown in Figure 1.9 and described below: the following topics will be covered in much greater detail in Part Three of the book.

REFERENCE GROUPS

People identify groups they would like to join, and also groups they would prefer not to be associated with (see Chapter 9). Almost all such groups involve some type of
consumption: clothing to wear, things to use in the group activities, or shared consumption of group-owned items. Most of us define ourselves at least in part by the groups we belong to, whether it is our work group, our group of friends, our family group, our religious group, or our group hobbies.

FAMILY

The family is probably the most important reference group because it exerts the most influence on us (see Chapter 10). Families share consumption of many items (food, housing, energy, etc.) and our upbringing also influences our behaviour in later years.

CLASS AND CULTURE

The study of culture and class is part of the study of anthropology. Anthropology is a wide-ranging discipline, covering everything that makes us human: anthropologists consider archaeology as part of their discipline as well as cultural anthropology.

Culture is the set of beliefs and behaviours that distinguishes one large group of people from another, and it includes such issues as religious beliefs, language, customs, class distinctions and accepted norms of behaviour. For marketers, culture is one of the driving forces of behaviour including consumption behaviour, but perhaps more importantly it is a minefield in which communications and brands can cause offence to people from other cultural backgrounds. In particular, religious beliefs can create problems for marketers since people are often inflexible about religious taboos or restrictions. Cognitive anthropology has been used to study the problem-solving behaviour of green consumers (Wagner-Tsukamoto and Tadajewski, 2006).

SELF-IMAGE AND ROLE

The images we form of ourselves are almost entirely derived from feedback from other people (see Chapter 4). This feedback is derived in turn from the images we project as part of our role in life. In fact, we each perform many roles in our dealings with others: as friends, work colleagues, children, fathers, mothers, professionals, and so forth: we judge ourselves as being good at each of these roles by the feedback of the people we deal with every day. The only way one can know if one is a good work colleague is by the feedback from fellow-workers.
People often define themselves, at least in part, by the products they consume. Possessions become an extension of the individual – an extended self – and thus project who the person is to others (Mittal 2006). Indeed, many acts of consumption are tribal and role-supporting, even when they do not define the self (Ryan et al. 2006). Consumer decision-making is therefore not isolated from all other human behaviour. People try to behave in ways that enable them to enjoy their lives, to relate to their friends and families, and to contribute to society at large. In almost all cases this behaviour is likely to involve consumption of products and services produced by other people: this is the province of consumer behaviour.

Summary

Consumer behaviour studies derive from many different academic disciplines, as well as from direct studies by marketing academics. As a field of study, it has an appeal to most of us because it is, after all, about people. For marketing practitioners, understanding the ways in which people make decisions about their purchasing behaviour is clearly of crucial importance in planning almost every aspect of managing the exchange process.

Key points

- The study of consumer behaviour is largely derived from other disciplines.
- Consumer behaviour is at the centre of all marketing decision-making.
- Relationships are harder to establish in business-to-consumer situations than in business-to-business situations.
- Psychology is about internal thought processes; sociology is about behaviour within groups.
- Anthropology is the study of what makes us human.
- Economics is the study of demand.
- Exchange always makes both parties better off.
- ‘Luxury’ and ‘necessity’ are subjective terms: they have no objective reality.

Review questions

1. How might marketers use knowledge of indifference curves to affect consumer choices?
2. Would you expect salt to have an inelastic demand curve, or an elastic demand curve? Why?
3. If a product has an inelastic demand curve, what does that imply for marketers?
4. If a product has an elastic demand curve, what are the implications for marketers?
5. How might group behaviour affect purchasing behaviour?
6. Why does exchange always make both parties better off?
7. What is the importance of the concept of perception to marketers?
8. Why is learning important to marketers?
9. Why are customers more important to a firm than, say, employees?
Case study revisited: Pizza

So what is it about pizza that creates its eternal appeal? In some cases, no doubt it is the convenience of the product – having someone prepare your dinner for you and deliver it to the door is convenient in itself, but pizza is also easy to eat. Probably most people eat it straight from the delivery box, so there is no washing-up either.

Then again, it is a really easy product to share. One or two pizzas will feed a family, and everyone can eat as much or as little as they want: for children, pizza is hard to beat because they can eat it with their fingers without having to deal with adult-size cutlery, tables and plates. It’s an easy meal to eat in front of the TV as well.

Maybe pizza also appeals because of its cultural connotations. We see images of people ordering pizza deliveries in films and TV shows, and it has a certain American appeal about it (despite being Italian in origin). Most advertising for pizza (in the UK at least) emphasises the American aspects of the product – Chicago pizzas, New York pizzas and just plain old American pizzas are emphasised.

On the other hand, Pizza Hut have reported a £22 million pound loss for 2011–12. Despite the fact that the market is predicted to grow by 22% between 2012 and 2016, Pizza Hut’s business has shrunk considerably. Some of this appears to be due to a downturn in the restaurant part of the business: people simply aren’t eating out in pizza places as much as they did, and if they do they tend to go to restaurants offering a wider variety of food on the menu, or places with a rather more pleasant ambience than Pizza Hut provides.

Helen Spicer, a senior food analyst at market research company Mintel, says that Pizza Hut have failed to keep pace with changes in the eating out market, and are now seen as outdated. Perhaps closer attention to the consumers, and their behaviour, might have helped.

Case study: Center Parcs

Center Parcs started in Holland over 40 years ago, and revolutionised the holiday industry there. The company provides family accommodation in purpose-built villages in forested areas, and specialises in short breaks (i.e. visits of less than one week). The company has scored a remarkable success since entering the UK market in 1987 with its flagship village in Sherwood Forest – it now has four locations, strategically placed around England so that a Center Parc is within a short drive of most places. Center Parcs claim to have achieved 95% occupancy of their resorts – no mean feat in an industry which regards 70% as good – and also claim to be the market leader in short breaks.

The resorts themselves are entirely self-contained, with restaurants and activities on-site, but visitors can explore the local forest on bikes supplied by Center Parcs. Within the resort itself there is a dizzying range of activities on offer – everything from watercolour painting to scuba diving lessons. Many activities happen indoors, and each resort has a ‘Subtropical Swimming Paradise’ in which the temperature is maintained at 29°C: it is free to all residents, and it would be entirely possible to spend the whole day in there since it has a cafe and a bar. Residents can even rent a ‘cabaña’ for the day, in which there is a TV, comfortable chairs, free soft drinks and towels and a true tropical ambience. In view of the British climate, this little taste of the tropics must be very welcome for residents.

Restaurants and cafes on-site are run by nationally known chains: in the Sherwood Forest Center Parc residents can find Cafe Rouge (for French food), Huck’s (American fast food), Forester’s Inn (a gastro-pub), The Pancake House, Rajinda Pradesh (Indian food), Zilli’s (Italian), Strada (also Italian), Starbucks (coffee), and Sports Cafe (casual dining overlooking
the sports area. Accommodation is luxurious and has a kitchen, so that residents can cook their own food if they prefer (or if they have specific dietary needs). There is, of course, a well-stocked supermarket on-site.

Because there are so many activities for children on-site, parents are able to have some time to themselves if they want to. Apart from swimming and cycling, children can have real adventures, zipping through the trees on high wires or learning falconry. The Center Parcs approach goes well beyond simply supplying a child-minder dressed as a clown to supervise the play area – children can learn new skills such as archery, can build nesting boxes for wildlife, can learn tennis or rollerskating, and any one of dozens of skills (even including survival skills). Parents are encouraged to join in – the whole Center Parcs ethos is built around families sharing experiences.

Perhaps one of the biggest selling-points of Center Parcs is that there is always something to do, whatever happens to the weather. For most British people, holidays mean going out of the country, simply because the weather is so unpredictable (and is often rainy). Center Parcs can guarantee a sub-tropical experience, even if it is artificially created, and if the weather is bad one can always go for a sauna or a spa treatment, or the children can try something new indoors. For those who remember wet holidays in a seaside caravan park, this is a major plus. Of course, Center Parcs are not cheap: most activities have to be paid for, and the accommodation is upmarket. A long weekend (arriving Friday and leaving Monday) in peak season will cost anywhere between £600 and £1900 for four people staying three nights: this is approximately what bed and breakfast in a three-star hotel would cost. A family of four should budget at least £800 for a weekend at Center Parcs, even if they plan on self-catering.

Having said that, for a family Center Parcs offers a truly memorable experience. Families have the opportunity to spend time together and share new experiences in a way that is not often available in normal, day-to-day life in the 21st century.

Questions

1. Why the emphasis on short breaks?
2. Why have the on-site catering run by chain restaurants and cafes?
3. Why do Center Parcs have so many adventure activities for children?
4. What factors might figure in the choice to have a weekend at Center Parcs rather than go abroad?
5. Who might be most likely to take a break at Center Parcs?

Further reading

*Economics* by Richard Lipsey and Alec Chrystal (Oxford: OUP, 2011) is a comprehensive text covering all aspects of economics. It is written in a clear, straightforward style and covers the ground well.

*Anthropology: The Basics* by Peter Metcalf is a fascinating introduction to the subject. There are plenty of examples, some of which you can try yourself, and some excellent in-depth looks at cultural issues.

*Sociology* by Anthony Giddens (Cambridge: Polity Press, 2009) is now in its 6th edition. The latest version includes a chapter on war and terrorism, and it is jargon-free and comprehensive.

*Games People Play: The Psychology of Human Relationships* by Eric Berne (Harmondsworth: Penguin Books, 2010) is a humorous way of looking at the ways in which people relate to each other. Berne describes the various interactions in terms of games, with winners and losers and rules. This is not a serious textbook, but it is a fun read and it offers some entertaining insights into human interaction.

It’s very much a light read, and the academic rigour is definitely questionable – but what
the authors are looking to do is to shake up some traditional thinking, and examine some
economic behaviour from a different angle [for example, they show that New York drug
dealers would earn more working in minimum-wage jobs]. Not to be taken too seriously,
but good fun nonetheless.

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