

SUBJECT -MANEGERIAL ECONOMICS

TOPIC

Consumer Behaviour: Meaning/Definition and Nature of Consumer Behaviour! -Cardinal and Ordinal Approaches

Meaning and Definition:

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

Marketers expect that by understanding what causes the consumers to buy particular goods and services, they will be able to determine—which products are needed in the marketplace, which are obsolete, and how best to present the goods to the consumers.

The study of consumer behaviour assumes that the consumers are actors in the marketplace. The perspective of role theory assumes that consumers play various roles in the marketplace. Starting from the information provider, from the user to the payer and to the disposer, consumers play these roles in the decision process.

The roles also vary in different consumption situations; for example, a mother plays the role of an influencer in a child's purchase process, whereas she plays the role of a disposer for the products consumed by the family.

Some selected definitions of consumer behaviour are as follows:

1. According to Engel, Blackwell, and Mansard, 'consumer behaviour is the actions and decision processes of people who purchase goods and services for personal consumption'.

2. According to Loudon and Bitta, 'consumer behaviour is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services'.

Nature of Consumer Behaviour:

1. Influenced by various factors:

The various factors that influence the consumer behaviour are as follows:

- a. Marketing factors such as product design, price, promotion, packaging, positioning and distribution.
- b. Personal factors such as age, gender, education and income level.
- c. Psychological factors such as buying motives, perception of the product and attitudes towards the product.
- d. Situational factors such as physical surroundings at the time of purchase, social surroundings and time factor.
- e. Social factors such as social status, reference groups and family.
- f. Cultural factors, such as religion, social class—caste and sub-castes.

2. Undergoes a constant change:

Consumer behaviour is not static. It undergoes a change over a period of time depending on the nature of products. For example, kids prefer colourful and fancy footwear, but as they grow up as teenagers and young adults, they prefer trendy footwear, and as middle-aged and senior citizens they prefer more sober footwear. The change in buying behaviour may take place due to several other factors such as increase in income level, education level and marketing factors.

3. Varies from consumer to consumer:

All consumers do not behave in the same manner. Different consumers behave differently. The differences in consumer behaviour are due to individual factors such as the nature of the consumers, lifestyle and culture. For example, some consumers are technoholics. They go on a shopping and spend beyond their means.

They borrow money from friends, relatives, banks, and at times even adopt unethical means to spend on shopping of advance technologies. But there are other consumers who, despite having surplus money, do not go even for the regular purchases and avoid use and purchase of advance technologies.

4. Varies from region to region and country to county:

The consumer behaviour varies across states, regions and countries. For example, the behaviour of the urban consumers is different from that of the rural consumers. A good number of rural consumers are conservative in their buying behaviours.

The rich rural consumers may think twice to spend on luxuries despite having sufficient funds, whereas the urban consumers may even take bank loans to buy luxury items such as cars and household appliances. The consumer behaviour may also varies across the states, regions and countries. It may differ depending on the upbringing, lifestyles and level of development.

5. Information on consumer behaviour is important to the marketers:

Marketers need to have a good knowledge of the consumer behaviour. They need to study the various factors that influence the consumer behaviour of their target customers.

The knowledge of consumer behaviour enables them to take appropriate marketing decisions in respect of the following factors:

- a. Product design/model
- b. Pricing of the product
- c. Promotion of the product
- d. Packaging
- e. Positioning
- f. Place of distribution

6. Leads to purchase decision:

A positive consumer behaviour leads to a purchase decision. A consumer may take the decision of buying a product on the basis of different buying motives. The purchase decision leads to higher demand, and the sales of the marketers increase. Therefore, marketers need to influence consumer behaviour to increase their purchases.

7. Varies from product to product:

Consumer behaviour is different for different products. There are some consumers who may buy more quantity of certain items and very low or no quantity of other items. For example, teenagers may spend heavily on products such as cell phones and branded wears for snob appeal, but may not spend on general and academic reading. A middle- aged person may spend less on clothing, but may invest money in savings, insurance schemes, pension schemes, and so on.

8. Improves standard of living:

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

9. Reflects status:

The consumer behaviour is not only influenced by the status of a consumer, but it also reflects it. The consumers who own luxury cars, watches and other items are considered belonging to a higher status. The luxury items also give a sense of pride to the owners.

Meaning and Concept of Utility

Utility Definition – It is a measure of satisfaction an individual gets from the consumption of the commodities. In other words, it is a measurement of usefulness that a consumer obtains from any good. A utility is a measure of how much one enjoys a movie, favourite food, or other goods. It varies with

Utility Definition

Suppose you went to a restaurant and ordered your favourite food. What will you experience? Either the food satisfies your taste buds or not. Another day you went to another restaurant and ordered the same food. Is the experience the same? Maybe or may not be.

Similarly, if you eat your favourite ice-cream you will be happy. What will happen in the second round? Happy, Right? Will you be satisfied one after the other rounds? No!

The satisfaction of a consumer is the basis of the utility function. It measures how much one enjoys when he or she buys something. A utility is a measure of how much one enjoys a movie, favourite food, or other goods. It varies with the amount of desire. One can conclude the following conclusions

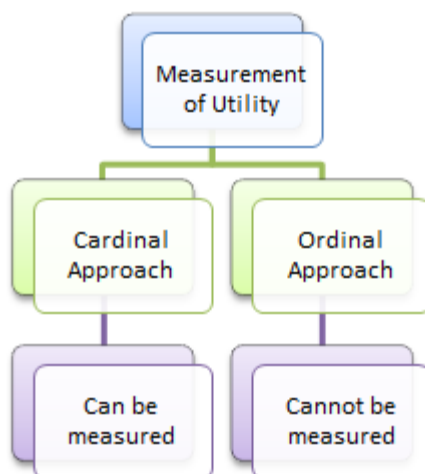
- A Utility of a good differs from one consumer to another.
- It keeps on changing for the same consumer due to change in the amount of desires.
- It should not be equated with its usefulness.

Characteristic of Utility

- It is dependent upon human wants.
- It is immeasurable.
- A utility is subjective.
- It depends on knowledge.
- Utility depends upon use.
- It is subjective.
- It depends on ownership.

Measurement of Utility

Measurement of a utility helps in analyzing the demand behaviour of a customer. It is measured in two ways



Cardinal Approach

In this approach, one believes that it is measurable. One can express his or her satisfaction in cardinal numbers i.e., the quantitative numbers such as 1, 2, 3, and so

on. It tells the preference of a customer in cardinal measurement. It is measured in utils.

Limitation of Cardinal Approach

- In the real world, one cannot always measure utility.
- One cannot add different types of satisfaction from different goods.
- For measuring it, it is assumed that utility of consumption of one good is independent of that of another.
- It does not analyze the effect of a change in the price.

Ordinal Approach

In this approach, one believes that it is comparable. One can express his or her satisfaction in ranking. One can compare commodities and give them certain ranks like first, second, tenth, etc. It shows the order of preference. An ordinal approach is a qualitative approach to measuring a utility.

Limitation of Ordinal Approach

- It assumes that there are only two goods or two baskets of goods. It is not always true.
- Assigning a numerical value to a concept of utility is not easy.
- The consumer's choice is expected to be either transitive or consistent. It is always not possible.

Types of Utility

It is basically of three types

Total

The sum of the total satisfaction from the consumption of specific goods or services. It increases as more goods are consumed.

Total Utility (T.U.) = $U_1 + U_2 + \dots + U_n$

Marginal

It is the additional satisfaction gained from each extra unit of consumption. It decreases with each additional increase in the consumption of a good.

$$\text{Marginal Utility (M.U.)} = \text{Change in T.U.} / \text{Change in Total Quantity} = \Delta \text{ TU} / \Delta \text{ Q}$$

Average

One can obtain it by dividing the total unit of consumption by the number of total units. Suppose there are total n units, then

$$\text{Average Utility (A.U.)} = \text{T.U.} / \text{Number of units} = \text{T.U.} / n$$

Types of Economic Utility

- **Form:** It refers to the specific product or service that a company offers.
- **Place:** It refers to the convenience and readiness of the services available at a place to the customer
- **Time:** It refers to the ease of availability of products or services at the time when a customer needs.
- **Possession:** It refers to the benefit a customer derives from the ownership of a company's product.

Solved Example for You

Problem: Which type of utility is in the situation when a carpenter is making a table?

- a. Place
- b. Form
- c. Time
- d. None of these

Solution: b. Form.

