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# AN EXPLORATORY STUDY ON CONSUMER BEHAVIOR BEING MANIPULATED BY MARKETING STRATEGISTS TO INCREASE SALES REVENUE AND PROFITS

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**ABSTRACT**

The paper analyses the concept of rationality and the changing genre of consumer behavior in recent times. The introduction of consumer psychology in making a rational choice has become an extremely important aspect of behavioral economics. The study of bundling and nudge theory are important in influencing rational decisions. This application has resulted in increased sales for the firms leading to higher profits.

**Keywords :** Rationality, classical , neoclassical, bundling , consumer behavior, nudge theory, physiological influence.

**Research question:** Firms today manipulate consumer behavior to suit their growth strategies of increasing revenues and sales. What path do they follow? Are they different methods used for achieving their goals? Do consumers realize that they are being forced to make 'rational decisions'? Has rationality as indicated by classical and neo-classical economists undergone a change? These and related questions will be attempted in the course of the paper.

## 1. Introduction:

Consumer behavior is significant for businesses that must constantly keep up with the changing consumer preferences if they need to increase their sales and profits. No longer bound by traditional norms, people are exploring new options for how they live and interact with the world, leading to rapid changes in various industries and causing businesses to struggle to keep up with shifting demands. To remain competitive, companies must understand and adapt to these changes.

A large number of external conditions like the pandemic or the Russian-Ukraine crisis and

  

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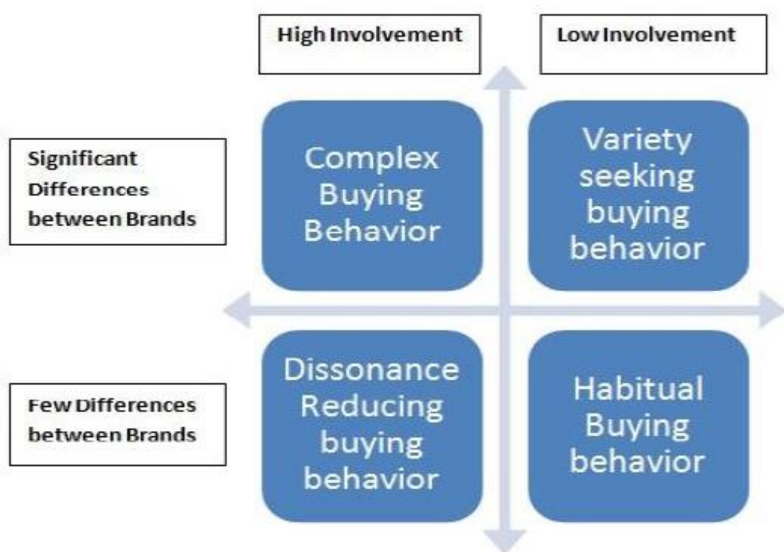
recently the Israel/ Palestine/ Hamas conflict have led to consumers moving to a different "Normal". This means that the equilibrium, which equates demand and supply, keeps shifting due to external and internal conditions. All firms have to respond to these external factors if they need to keep their firms afloat. These circumstances differ entirely from those envisaged by classical and neo-classical economists when they built models to explain consumer behavior. Consumption has to be researched through various strategies to be used effectivelyin achieving its final goal of increased revenue.

It is essential to reconcile the economics and the business aspects of consumer behavior such that it seems rational for the consumer and at the same time profitable for the entrepreneur. Various theories have evolved concerning consumerrationality, how they impact firms and how firms are now manipulating the idea of 'Rationality'.

**Figure 1: Understanding Consumer Behavior**




Source : [www.clootrack.com](http://www.clootrack.com)

### 2. Definition:

To understand the various nuances concerning consumers as well as producers it is important to look at the concept of rationality and how it is perceived by both.

### 2.1 Consumer behavior:

This is the study of individual groups or organizations and all the activities associated with purchasing, using and disposing of goods and services. It also shows how the consumer's

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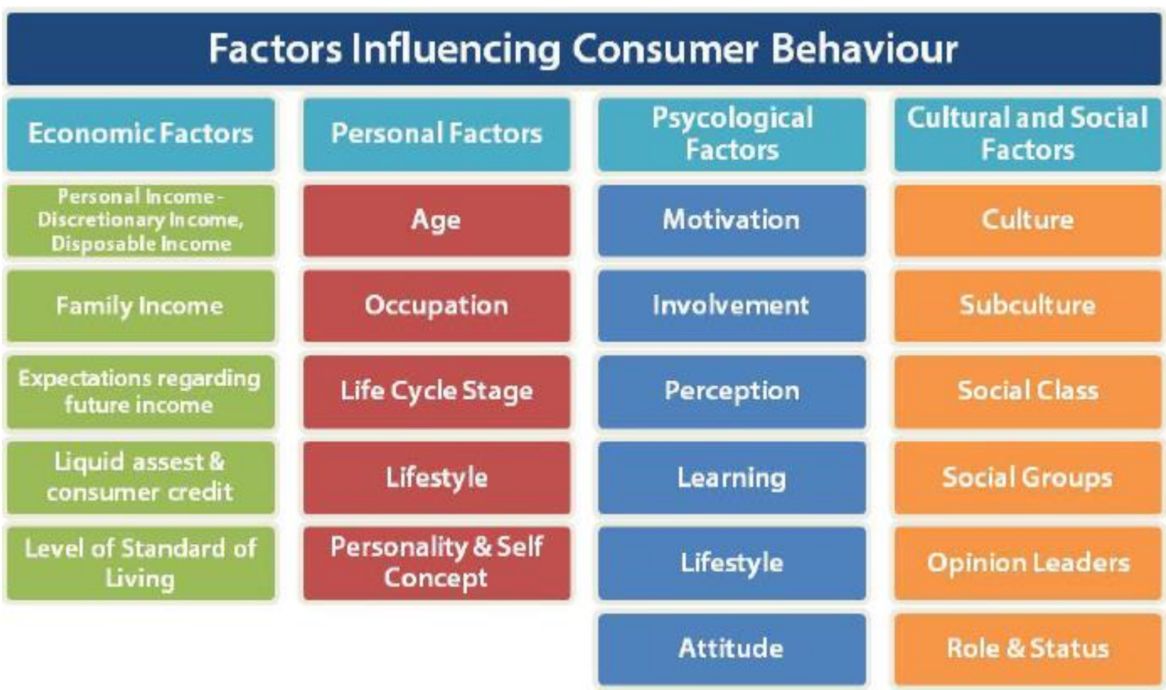
emotions, attitudes and preferences affect buying behaviour. It initially emerged in the 1940s-1950's as a distinct subdiscipline of marketing but has since then become an interdisciplinary social science that blends elements from physiology, sociology, marketing and economics, all primarily part of behavioral economics. In the broader sense, consumer behaviour concerns how consumers select, decide and use goods and services. It formally investigates individual qualities such as demographics, personality lifestyles and behavioural variables such as loyalty, brand advocacy and willingness to provide referrals.

Consumer behaviour investigates the influence on the consumer from social groups such as family, friends, spots and reference groups, brand influencers, opinion leaders, etc.

**Figure 2: Factors influencing consumer behavior**




Source: www.bbamantra.com

It is challenging to predict, but new research methods such as ethnography, consumer neuroscience, artificial intelligence and machine learning have attempted to quantify this pattern. The data collected helps in an extensive examination of behavioural factors that contribute to customer repurchase intentions, consumer retention, loyalty and other behavioural factors such as the willingness to provide a positive reference, become brand advocates or engage in customer citizenship activities.

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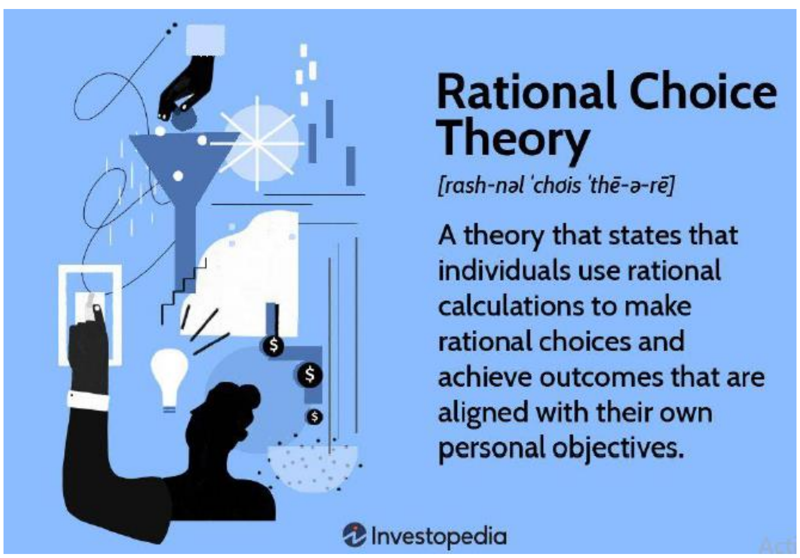
**2.2 Rationality:**

Economic rationality is based on the fact that people behave in rational ways and consider options and decisions with logical structures of thought as opposed to involving emotional, moral or physiological elements. The theory assumes that individuals make decisions with the highest personal utility, giving them the highest benefit or satisfaction among the choices available. Rational behaviour is a decision-making process based on choices that result in an individual's optimal level of use or utility. This assumption implies that consumers would take actions that benefit them versus actions that are neutral or harm them. Almost all classical economic theories are based on the assumption that individuals taking part in an activity are behaving in a rational manner. Rational behaviour may not involve receiving the most monetary or material benefit as the satisfaction could be purely emotional or non-monetary. These decisions provide people with the most significant help or satisfaction given the available choices. These choices would be different depending upon the circumstances of an individual for example - A person's willingness to take on risks or conversely their aversion to risk may be considered rational depending upon their goals and circumstances. An investor cantake more risk concerning his retirement account rather than the account designated for his children's education. Both are considered rational decisions.

Thus it is the circumstances and/or the environment that time which decides on whether the decision is a rational one or not.

**Figure 3: Rational Choice Theory**




Source - www.investopedia.com

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Recent developments concerning rationality and firms profit building have been studied under the umbrella of 'behavioral economics'. This branch of economics takes into concentration psychological, social and even the political environment at that time in understanding 'rationality'.

**Figure 4 : Behavioral economics**


Source- [www.pinterest.com](http://www.pinterest.com)

It considers psychological insights in the explanation of economic decision-making. According to classical economists, *a rational person has self-control and is unmoved by emotional factors.* But, behavioural economics acknowledges that people are passionate and easily distracted; therefore, their behaviour at times follows the patterns of classical economic modeling.

Psychological factors and emotions influence the actions of individuals, which canlead them to

  

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make decisions that may not be entirely rational. This is a new development which various firms take advantage of. There have been cases where investors may make decisions primarily based on emotions, for example, investing in a company for which the investor has positive feelings, even if financial models suggest that the investment is not wise. There have been examples whereby individuals have chosen to invest in the stock of an organic produce operation if they have strong beliefs in the value of organic produce. They decide to invest in this product even though the present value of future income streams is less compared with that of conventional operations.

**Formula of Present Value:**

$$\text{Present Value (PV)}_{t=0} = \frac{\text{Future Value (FV)}}{(1+r)^{n}}$$

- $r$ = Discount Rate (Rate of Return)
- $n$ = Number of Periods

**3. Application of rationality with respect to consumer behavior in classical and neo-classical theory:**

The central assumption of neoclassical economics is that consumers make rational decisions to maximize utility, businesses aim to maximize profits, and people act independently based on having all the relevant information related to a choice or an action. Markets will self-regulate in response to supply and demand and reach an equilibrium position. This assumption of rationality also indicates that people, whether consumers or producers, would rationally choose actions that benefit them versus those that are neutral or harm them.

The neoclassical economic theory identifies a set of preferences which confirm to this hypotheses ;

- Completeness - This indicates that consumers make rational decisions based on the information they have, that they control their preferences, and that external factors do not influence them.

- Reflexivity - This theory states that investors do not base their decisions on reality but rather on their perceptions of reality. It also refers to the self-reinforcing effect of market sentiment. Rising prices attract buyers whose actions drive prices higher until the process becomes unsustainable.

- Transitivity- This means that the selection between goods is rational. If people prefer

  

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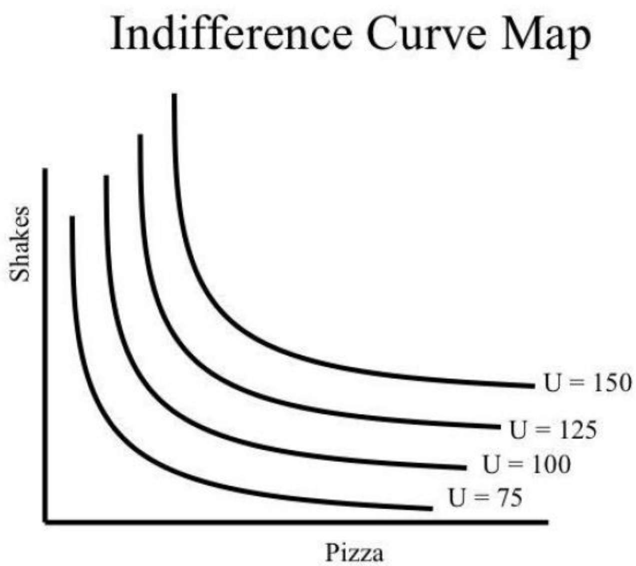
bundle A to bundle B, and bundle B is selected to bundle C, then the transitivity assumption indicates that bundle A is chosen to bundle C. This implies internal consistency.

- Continuity- This assumption states that an entity will continue to operate indefinitely unless solid evidence exists that the entity will terminate.

**Figure 5: Indifference Curve Map**




Source : www.pinterest.com

The diagram above indicates the indifference curve and states that a rational consumer would prefer to be on the highest indifference curve available vis-a-vis anyone lower. The restricting factors could be the commodity's price and the income's availability.

The assumption of rationality indicates that individuals have selfish preferences, maximize their utility, and act independently based on complete information. The critical elements of all rational choice explanations are individual preferences, beliefs and constraints. Preferences indicate the positive or negative evaluation that individuals attach to the possible outcome of their actions. They can have many roles, ranging from culturally transmitted tastes for food or other items to personalhabits and commitment.

The assumption of rationality can be traced back to the father of economics' AdamSmith'. In his theories three hypotheses were important:

1. That individuals have selfish preferences

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2. They maximize their utility

3. They act independently based on complete information

Increasing criticism of the above led to the birth of behavioural economics. If the information available is limited, then rational behaviour will be restricted to the information available. The lack of complete information has led to the branch of behavioural and nudge economics that various firms in the 21st century have taken advantage of.

**4. Changing the concept of consumer behavior by large multinational firms**

Consumer behaviour is the study of how people make decisions when they purchase, helping businesses and marketers capitalize on these behaviour by predicting how and when a consumer will make a purchase. It helps identify what influences these decisions and highlights strategies to manipulate consumer behaviour proactively.

A few key factors shape consumer behaviour.

- Physiological - these factors include a person's attitude and perceptions about a situation—their ability to understand information, what factors motivate them, their personality and beliefs. For example- a person who believes in climate change and reducing plastic consumption will buy products that follow their conviction, as opposed to those who do not believe in sustainability.

- Personal factors includes characteristics like age, gender, financial situation, occupation, background, culture and location. For example- an older person would like to visit a physical store, and a younger one would prefer to shop online.

- Social factors influence the buying pattern of an individual. This includes a person's friends, family, community, work, social class, living conditions and education.

Consumer behaviour theory allows businesses to understand more about their target audience and thus craft products, services and companies strategy to influence buying habits. This will enable firms to understand

- What do consumers think about one's product versus one's competitors?

- What are the factors that decide a choice between different alternatives?

- How does the consumer behave while shopping ?

  

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- Impact of the environment which may influence consumer behaviour.
- What are the pricing strategies that consumers best respond to?

Studying the above factors helps firms launch new products and services that they are sure consumers are more inclined to buy. These factors also help firms make changes to their physical store, as well as make the online shopping processes seamless, resulting in higher revenues.

Most types of 'buyer behaviour' can be categorized into

1. Routine response-

Brand recognition and repetition play a significant role in understanding consumers' buying behaviour. People tend to purchase a brand they recognize or have tried before or what they like the best. As this behaviour is routine, buying doesn't require much thought

2. Limited decision-making-

Mid-level or occasional buying decisions fall into this category. Buyers tend to research and apply some thought before making a choice. This is often seen when the consumer eats out or watches a film. The 'aware' consumer tends to look at various reviews before taking a definite step in experiencing the product

3. Extensive decision-making-

Buying decisions that involve a substantial financial investment or personal impact fall into this category. Buyers who plan to spend a considerable sum of money will extensively research before they decide, e.g., to buy a house

4. Impulse buying-

This has no prior planning, and the purchase is made on a whim with little thought and is often irrational. It will depend on the buyer's age and financial situation. A car can be an impulse buy for an affluent consumer but could be a decision that needs a lot of research for a person with limited resources.

Various theories categorize eight buyer characteristics. These could be placed in the following categories-

1. Perfectionist
2. Brand conscious

3. Hedonist: a person who treats shopping as a form of enjoyment

4. Price awareness: the customer looks for sales and discounts

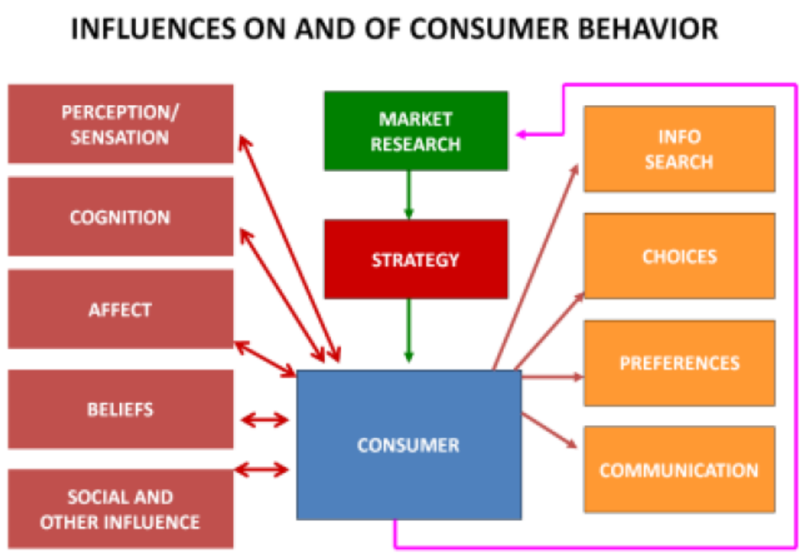
5. Fashion Awareness

6. Confused: the consumer has too much information or a choice

7. Impulsive

8. Habitual: the customer is loyal to the brand and follows a routine

**Figure 6: Consumer behavior**




Source- [www.univerityofsourthercalifornia.com](www.univerityofsourthercalifornia.com)

### 4.1 Nudge theory

Nudge theory is the latest concept in behavioural economics, which is based upon the idea that by shaping the environment, also known as 'Choice', one can influence the likelihood that one option is chosen over the other by individuals. This concept involves social physiology and psychology. Richard Thaler from the University of Chicago Popularised this concept. It can be used to explore, understand and explain existing influences on how people behave, especially those that are unhelpful to remove or alter. It improves the understanding and management of 'heuristic' influences on human behaviour. Central to this behaviour is decision-making from the choices available. The theory is concerned with the design of options. This design of choices

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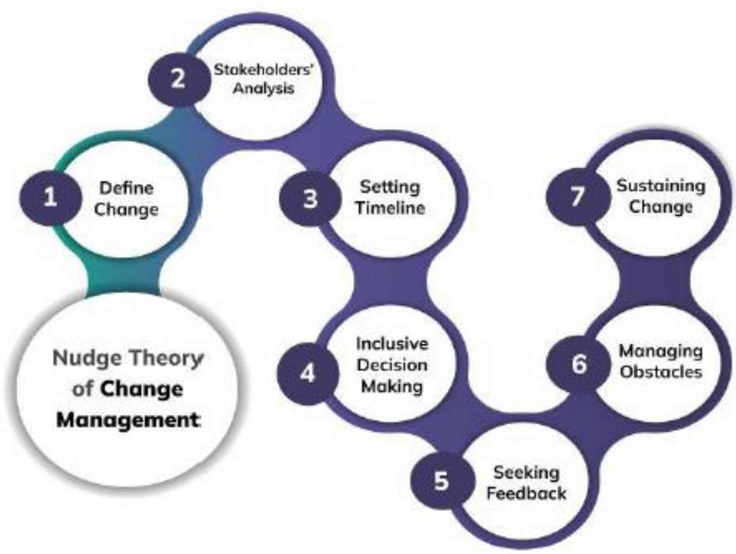
should be based on how people think and decide instinctively and irrationally rather than how leaders and authorities traditionally and typically incorrectly believe people think and choose logically and rationally.

Nudge theory is a radically different and more sophisticated approach to achieving change in people than traditional methods of direct instructions, enforcement, punishments, etc. It is based on indirect encouragement and avoids direct educationor enforcement. It accepts that people have certain attitudes, knowledge, capabilities, etc. and allows for these factors, understanding and providing for the reality of the situation and human tendencies. It does so by designing choices for people that encourage positive, helpful decisions. This theory seeks to minimize resistance and confrontation, commonly arising from a more forceful directing and autocratic method of changing people and their behaviour. These methods may be cooperative and measurable.

The concept was initially developed as an ethical one for improving society and not as a mechanism for commercial exploitation or government manipulation. But, it has grown significantly in all fields or in any situation where one seeks to influence a person or a group of people, advocating change through indirect methods. Central to this concept is that people can be helped to think appropriatelyand make better decisions by offering *choices designed* to enable these outcomes. It is non-judgemental, open-ended, with no pressure being imposed on the consumer.

**Figure 7: Nudge Theory**

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Common examples of this theory are signs placed near the door of a room reminding people that they should switch off lights, use the dustbin etc. As far as commercial aspects are concerned there is a tendency in a supermarket to place sweets and chocolates at the billing counter to attract children while their parents are paying the bill. In these cases, the more expensive items are likely to be placedat eye level, attracting consumers to buy them.

### 4.2 Bundling

Bundling is a new strategy that increases sales revenue and works on the rationality concept of consumer increasing sales and revenue for the firm. As a new product introduction strategy, bundling an unknown brand with a strong brand increases visibility and sales. The brand image of the bundle partner will affect consumer behaviour towards the quality perception of the new brand. For instance, the Microsoft Windows operating system involves a series of additions like Outlook Express, windows, and accessories all in one package. This is also true for Apple, where anyone who purchases a Mac has to pay extra for any other operating system that does not come from the Mac bundle. However, it encourages consumers to add the iPhone and I-watch at an attractive price so that there is complete advertising synchronization of the three. As these are bought at an attractive price, the consumer thinks he is getting a 'deal'. The firm has managed to attach a slow-moving product from its repertoire to a hot-selling product, pricing it so that the consumer thinks he is making a rational decision. There are many such products which firms have bundled to increase sales. For example- a travel plan consists of an airline, a hotel and a rental car. The firms attractively price it leading to increased sales, and simultaneously the consumer thinks they are making a rational decision.

**Figure 8: Concept of Bundling**


Source: [www.wallstreetmojo.com](www.wallstreetmojo.com)

### 5. Manipulations of consumer rationality to increase demand and thus profits.

Consumption is essential for a firm's profits, but more than just selling subscriptions or memberships, it is necessary for customer retention. Companies increase their profits by

  

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bundling products. For the entertainment industry, spending on the movie is just a part of the company's profit. An equally important source of revenue is

- Parking
- Food and drinks
- Souvenir sales

Consumption is essential to any business that relies on satisfaction to generate repeat sales and positive word of mouth. But for the consumer to buy a product, they should be convinced that it is a rational proposition. To achieve rationality, the physiological mindset of the consumer has to be rationally manipulated so that the result is consumption. Cost is a significant factor that drives consumption. Given this fact, companies tend to bundle services or commodities to indicate better value for money. They also tend to use 'nudge economics' to direct increasing product consumption.

Besides this, it is the perception of costs that influences consumption. Some pricing policies highlight the perceived cost of a paid-for product, while other pricing policies measure the cost. For example- when one pays in cash, one remembers a ₹100 payment vis-a-v with ₹500, but if the transaction is made through a card, thenone tends not to be aware of the magnitude of the transaction as it involves just signing a slip of paper.

As pricing has a powerful effect on consumption, it is essential to be careful aboutwhen and how to charge for goods and services. The timing of payment is important. For example, the members who pay for gym membership every monthuse the facility more consistently than those who pay for the year. Making the former scheme more likely to generate renewals of memberships.

## 6. Conclusion

Rationality as an assumption that classical and neoclassical economists use has recently changed with the development of consumer behavioural analysis. This branch of economics considers the psychological impact of any decision on a consumer. Firms today work on this aspect of consumers' thought process, in convincing them that their choice seems rational. Marketing strategists use bundling and nudge theory concepts to direct the consumer in a particular direction. This is far from the original idea of rationality, which earlier economistshad assumed.

As pricing is one of the significant factors influencing consumers, firms must workthis aspect correctly to translate into buying commodities. It is essential for companies that there are repeat buyers of their products. Considering all these factors involves in-depth knowledge of consumer behaviour and the role of rationality in it.

  

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