International Journal Of Advance Research, Ideas And Innovations In Technology

ISSN: 2454-132X
Impact Factor: 6.078
(Volume 10, Issue 2 - V10I2-1157)
Available online at: https://www.ijariit.com

Role of Consumer Psychology in Sales and Marketing

Ishaan Sagar
myacademicresearchpaper@gmail.com
American Embassy School, New Delhi, Delhi

ABSTRACT

This paper examines the role of consumer psychology in sales and marketing in the contemporary context. It is essential to understand the hows and whys of consumer decisions, and factors that influence their buying behavior and their purchasing patterns. This is critical knowledge to understand the target audience to develop effective marketing strategies for optimum sales and revenue. The existing market is highly competitive and the key players need to know how to create the right product for the right consumers. Insights into and perceptions of consumer psychology enable the designing of an effective marketing strategy to attract consumers, designing, and producing new products. This is a crucial skill and knowledge for successful sales and marketing.

***Keywords** - consumer psychology, consumer behavior, marketing strategy perception*

INTRODUCTION

The history of consumer behavior is linked to the history of marketing thought. The term consumer psychology surfaced in the late 1950s. A lot of it is attributed to the studies of Walter Dill Scott in the 1900s. Scott wrote about psychology and consumerism in his book " The Psychology of Advertising in Theory and Practice" to understand consumer motivation and its impact on sales and marketing. The theory evolved as a sub-discipline of marketing through the 1940s - 50s. The focus on behavioral sciences emphasized the focus on the consumer as a unit. Sales and marketing analytics considered them along with demographics, socioeconomic segregation, ethnographics, etc to determine their impact. It is a vital component of marketing study that dictates, influences, and defines everything from design, manufacturing, and supply to advertising.

Sales and marketing rely on human choices to manufacture, produce, and design products for consumption. Individual and group choices are ruled by consumer psychology. Consumer psychology motivation can be negative or positive - to avoid the unsatisfactory or receive gratification. Abraham Maslow's hierarchy of needs is a model that highlights five levels of needs according to their importance. It is a general approach to contextualize consumer motivation. The level of consumer involvement influences purchase decisions. Sproles and Kendall developed a theory of eight factors of the decision-making process in 1986. These factors include quality consciousness, brand consciousness, price sensitivity, novelty, fashion influences, etc. These lead to eight parallel decision-making styles - Quality conscious style, Brand conscious style, Price conscious style, Novelty conscious style, Fashion conscious style, etc. These choices, in turn, influence the marketing and sales of various products which translates to branding advertising and other sales, marketing-specific tools. This eis critical for the consumer-manufacturer relationship. Furthermore, pricing rests on these perceptions. Understanding psychological motivations enables market strategy that helps sales. The latest advancement in consumer psychology is termed consumer neuroscience or neuromarketing. These employ sophisticated biometric sensors to detect stimuli. This is a key development that provides valuable insights into consumer market research by allowing a glimpse of the consumer subconscious.

Consumer Psychology

Consumer psychology is the study of consumer behavior including but not limited to how individuals or groups make decisions about what to buy, use, and dispose of. Consumer behavior analyzes the beliefs, perceptions, and reactions of an individual during the purchasing process. By understanding why individuals make certain decisions, businesses can create marketing campaigns, and sales strategies that target the right audience.

Aim:

This research paper aims to explore the factors of consumer psychology that drive consumer decisions and how they impact sales and marketing. Consumer psychology is not only about trying to understand what the consumer wants but also what they don't know they want or need.

Cultural perceptions in consumer psychology

"For example, an emphasis on personal hygiene in Japan has created a demand for products such as automated teller machines (ATMs) that literally ''launder'' money by sanitizing yen before dispensing them to bank customers." (Solomon)

Consumer psychology is influenced by a myriad of factors, each playing a crucial role in shaping purchasing behaviors and decision-making processes. One such factor is perception, wherein individuals interpret and contextualize information, consequently impacting their choices in the marketplace. For instance, when a product is perceived as possessing superior quality, consumers may demonstrate a willingness to invest more in it, reflecting the correlation between perceived value and purchase propensity. Motivation constitutes another influential determinant, wherein the underlying drivers propelling consumer decisions exert significant sway. For instance, individuals motivated by social status may exhibit a predilection towards luxury goods, driven by the desire to conspicuously display affluence and prestige to their peers and social circles

Attitudes and beliefs constitute fundamental pillars of consumer psychology, profoundly influencing purchase decisions. For instance, a consumer's positive attitude towards a brand's environmentally friendly practices may foster a preference for its products, aligning with their values and convictions. Moreover, the interplay between personality traits and consumer behavior underscores the nuanced dynamics within consumer psychology. For instance, consumers characterized by adventurous inclinations may display a proclivity towards experimentation with novel products or brands, driven by an innate openness to new experiences and sensations.

The pervasive influence of culture on consumer psychology cannot be overstated, with cultural norms and values serving as guiding principles in purchasing decisions. For instance, in cultures emphasizing community and solidarity, consumers may prioritize purchasing locally sourced products as a means of bolstering communal welfare and supporting local artisans and businesses. Furthermore, economic considerations constitute a pivotal determinant in consumer decision-making, wherein financial constraints and considerations exert a profound impact on purchasing behaviors. For instance, individuals operating within a specific income bracket may exhibit discerning purchasing behaviors, opting for products that align with their budgetary constraints and financial realities. Consequently, economic factors such as income levels and disposable income exert a tangible influence on consumer psychology, shaping consumption patterns and preferences in the marketplace.

Consumer Behaviors

Consumer behavior encompasses various types of buying behaviors, each influenced by distinct psychological processes and situational factors. Habitual buying behavior occurs when consumers make decisions driven by routine or minimal deliberation, relying on ingrained habits rather than extensive evaluation of alternatives. Conversely, variety-seeking behavior manifests when consumers, despite satisfaction with a product, actively seek out alternative options, driven by a desire for novelty or variety. Dissonance-reducing buying behavior reflects consumers' intense deliberation in the face of perceived choice ambiguity, where they struggle to differentiate between available options that fulfill their needs, resulting in heightened cognitive dissonance. Complex buying behavior emerges when consumers engage in meticulous evaluation and comparison of factors such as cost, quality, and reviews, particularly in significant financial decisions, demonstrating a high level of involvement in the purchasing process. These behaviors are shaped by the nature of the product, the consumer's level of involvement, and the perceived differences among brands. Moreover, businesses strategically target specific consumer segments, known as the target audience, whose characteristics align with the business's offerings. Understanding the target audience entails identifying shared traits such as opinions, demographics, and economic status, as well as lifestyle choices and purchasing behaviors. By comprehensively understanding the target audience, businesses can tailor their marketing efforts to effectively resonate with and address the specific needs and preferences of their intended consumer base, enhancing engagement and fostering brand loyalty.

Customer retention is a metric that measures the loyalty of the customers and the ability to sustain that loyalty to the brand or organization. Customer retention is critical as retaining existing customers is more economical than acquiring new ones. It is important to keep the old customer base while gaining new ones to expand the customer base. According to the 2021 statistics for customer retention almost 65% of a company’s business comes from repeat customers. Increasing customer retention by 5% can increase profits from 25% to 95%. Customer loyalty also allows for experimentation and the production of new products. Often they also bring in newer customers. Customer relations begins with the first interaction and customer retention is measured by the first purchase and the subsequent buys. This provides valuable data for customer experience and success to allow the manufacturers/ retailers to implement them for future reference. A rise or dip in customer retention acts as an indicator of the failure or success of a product or experience.

Customer retention is measured in metrics of retention rate which is by first identifying the period the company wants to focus on. It could be months, a fiscal year, or more. It is calculated by the number of customers in the base at the beginning of that period (S). Number of customers at the end (E) and the number of new customers acquired over time (N). Then the results are derived by applying the following formula E-N/S x 100 = Retention Rate. Monitoring of these numbers is critical for any business.

Customer retention strategies also aid in maintaining the customer base.

Gather Customer Feedback to constantly improve by understanding customer experience and expectation

1. Offer personalized service to make them happy and feel valued
2. Reward Loyalty by incentivizing offers. Loyalty programs, special discounts for them
3. Provide after-sales service to improve and keep ahead of product errors
4. Direct communication channels via emails, and social media to keep the experience personalized
5. Focus on quality
6. Reward Referrals
7. Improve user onboarding
8. Classify customers to deliver the right content for maximum impact
9. Upsell to existing customers
10. Supporting causes that customers care about
11. Constant monitoring of CRR to identify customer churn

Customer retention is key to maintaining business viability and ensuring steady revenue. It builds customer loyalty and promotes brand identification and growth.

Product design

product design influences consumer behavior while noting consumer experience, word of mouth, and willingness to buy. These three aspects are often overlooked in studies on the topic of product design, these topics provide an insight into how product design plays a role in product sales. The study focuses on three categories of product design: aesthetic, functional, and symbolic design (Gilal)

“Our results showed that the aesthetic design was more prominent in capturing consumer willingness to buy for both Chinese and Koreans. Similarly, the aesthetic design was more salient in enhancing word of mouth for Chinese, whereas the symbolic design was more promising in terms of improving word of mouth for Koreans. Further, our moderation results demonstrated that the consumption experience could differentiate the effects of the three product design dimensions on consumer willingness to buy and word of mouth for Chinese. By contrast, the consumption experience” (Gilal)

Identifying market opportunities and Innovate new products

For any entrepreneurial activity one needs to identify the potential or unmet market needs to ascertain brand and product positioning. That is a determining factor for product success. For eg, McDonald's executives discovered that milkshake sales were optimum in the mornings. This research helped them align their product and thereby enhance sales by meeting customer expectations and demand. The psychology was that having a milkshake in the morning would be quicker than breakfast and keep them full for the work commute. Developing or multiplying product availability to meet those demands ensures success. Similarly, it helps to understand the competition and consumer choices.

Disruptive innovation is another technique. Professor Christensen of Harvard Business School coined this term to guide smaller businesses to enter markets and disrupt the market dynamics. Thus providing opportunities for all and more choices for the consumer too. Low-end disruption is when a new low-profit player enters the market with low low-profit model. This allows them to slowly build up business share rather than competing directly with the market leader. While gaining maximum high market segment over time.

The second method is the new market disruption where one creates "a new segment in the existing market." By offering the same products at a cheaper price but the same quality the business can acquire consumers. The 1954 portable transistor radio by Texas Instruments which were smaller and cheaper is one such example. It was hugely popular and can be said to have laid the foundation for Sony Walkman and iPods. Thus identifying market opportunities through market research and asking questions about one's product, services, delivery, etc it possible to create and identify new market opportunities.

Christensen employs the disruptive lens and strategy of " learn, practice, apply" to identify customers over or underserved to identify opportunities to disrupt the segment. This allows smaller entrants, and newer products to identify the market gaps and address them by exploiting the potential. New products can be modified from existing products or new products in an existing market. Thereby creating a stable, easy, and economical method for curating new products and ensuring their success without breaking the bank. The informed & slow approach allows the business or product to become established over some time to enable becoming a competitor to the big business present in the market.

Pricing strategies

Are based on market trends impacted by consumer behavior. Pricing is based on many variables. Most retailers employ the high-low or everyday high-low pricing. (consumerpsycologist.com) For eg, Walmart has a regular low-pricing policy without any sales. Whereas many retailers have sales or discounts on products for a specific period.

The high low and everyday low prices are strategies that take care of price elasticity in the market. It also allows the distinction between brand loyalists (those who will buy a product irrespective of price) and those who are price sensitive and will buy during sales. It also allows for " switchers" - consumers who move to other brands during sales. This enables the expansion of the consumer base and sales. There are other pricing tactics to increase sales - skimming, penetration, cost plus, etc.

Skimming involves offering a high price for getting the product first. This is usually evident in the sales of the latest gadget models, mobile phones, etc. Penetration strategy in contrast is the reverse. It offers low cost for a product to boost sales. Complementary products such as computers and software might employ this to boost sales for one product to allow the other product ease of market entry. A lot of these are based on consumer perceived value and price awareness. While other costs such as manufacturing, distribution, labor, etc are inbuilt into pricing approximations there are government laws that also play a role in determining the pricing. Laws such as minimum pricing, anti-competitive pricing, government capping, etc are some considerations.

Other psychological pricing tactics are

Price anchoring is when an initial product price is an anchor for decision-making for the second product. For example, if a jeweler shows a ring worth USD 20,000 and then shows the customer a ring worth USD 15,000, the consumer will most likely buy the cheaper option. This is applicable in tiered pricing structures.

Charm pricing employs the " left digit bias" or prices ending in number nine to influence purchase. According to research a product priced at $199 is more likely to sell than rounded off to $200. The consumer perceives it as a deal even though technically it is only a cent less.

There is Odd-Even pricing similar to charm pricing wherein the costing is evident in the odd or even last digit of the cost. This is however done on a much larger scale. One instance is Old Navy which uses both charm and odd pricing whereas Nike uses even pricing.

Another tactic is Decoy Pricing which uses a third "inferior" option to make the first two products appear attractive and induce sales. A lot of subscription offers utilize this to make the consumer choose the other two options.

Lastly, the Centre Stage method presents a range of products to draw the customer to the centre or middle product. Some package deals make the middle option seem attractive and cheaper to induce customer choice. This works well with a company that has multiple pricing options. Pricing strategies are dependent on the product, market, and above all consumer perception, preferences, and behaviour. This primarily dictates production, distribution, and pricing.

Understanding customer needs and preferences

"Customer needs and preferences are expectations, likes, dislikes, motivation and inclinations that drive a customer to purchase specific products." (possiblenow.com)

This is a guiding factor for product development and critical for marketers to optimize their brands and profits. This defines market demand and companies ascertain consumer mindset to produce and offer the products at the right time based on needs and preferences (wallstreetmojo)

Paul Anthony Samuelson, the American economist, introduced this concept in 1938 through the Theory of Revealed Preferences.

These can be divided into four main categories - Conditional, Unconditional, Qualitative, and Quantitative. These in turn are dependent on three assumptions Completeness, Transitivity, and Nonsatiation. Consumer preferences are based on brand, quality, price, demand, features, durability, personal income, inflation, etc. The bigger considerations are influencing factors such as social, cultural, political, psychological, environmental, etc. It is important to remember that in microeconomics customer preference is based on certain assumptions, the most important is the premise of the rational customer. Since human behavior is complex companies have to rely on surveys, studies, and market trends to forecast and anticipate needs. The ability to constantly evolve is critical for a market player to sustain market share.

Sometimes unprecedented situations too influence consumer choice. For instance, during COVID certain medical products had a high demand due to need and also paucity of supply. Many companies utilize such circumstances to raise profits and optimize sales through effective distribution and supply.

Consumer preferences are based on prices and their affordability. People place a lot of importance on durability, looks, features, and satisfaction when choosing a product. Availability, utility, and innovative features are inducements to buy too. Product information, services, and consumer experience build brand loyalty, and many customers might prefer a product or brand due to the service they receive after product purchase. Many retailers curate special customer experiences to attract them.

Qualitative which focuses on quality features such as durability, design, utility, etc. Then the Quantitative which looks at the quantity of the product, shape, size, and other tangibles. The Conditional, as the term implies is based on conditions for instance a consumer will purchase a cooking pan if it comes with a spatula or there are bundle offers. Unconditional in contrast does not have any purchase prerequisites. The consumer will buy it irrespective of size, price, quantity, etc. Given these parameters, the companies base their pricing on certain assumptions. Completeness is the premise that a customer can and will compare products to opt for one. Transitivity assumes that the consumer will make a rational choice based on their ever-changing preferences. Their choice will be from the variety of products available. Nonsatiation points to the fact that customers are always attracted to " more." This influences their preferences as human choice relies on getting more. It makes it seem like a deal thus enabling them to choose the product that offers more. Advertisers use this as a hook in their copy to attract customers and expand the consumer base.

To have an effective pricing companies need data. This is vital in providing key insights and promoting business success. It allows an understanding of the needs and changing preferences of the customer. Thereby allowing a company to stay abreast of the needs by anticipating and adapting their product line, features, and services. (Lake)

Transactional and point-of-sales data is the starting point (forbes.com) for understanding broad customer trends. This enables optimizing pricing. Furthermore, demographic data is an indicator of what people are buying. Market research also looks at attitudinal data which employs AI and other collation strategies to gather information on who is using the product and their feedback. Additionally, there are economic data to ascertain spending power and meteorological data that indicate how weather and seasons impact needs and preferences. The latest data technology includes search engines like Google Trends and Facebook Custom Audience service. These use member algorithms to profile needs and preferences. Many opt for innovative methods to tap into data such as the example of a window manufacturer who utilized the public information on vandalism crime to station their repair services in such areas for optimum sales and anticipating customer needs. Additional insights are provided in real-time that identify the “micro-moments” - the second decision to buy that exists in that brief window but if identified can be utilized to optimize sales through effective pricing. By using all these types of data manufacturers and marketers have a tremendous technological advantage to understand and anticipate consumer needs and preferences. Many internal databases also allow them to keep track of the changes in their loyal consumer base and thus provide personalized services and products that appeal to them thus retaining their customer base. Understanding customer needs and preferences is critical in driving business growth and its success.

Innovation

Evolution and adaptability are key for market survival and creating space for innovative products. The success or failure of an innovative product depends largely on the consumer. For products to resonate with their target market, businesses need to understand the needs and preferences as mentioned before. Innovation is driven by certain factors that influence consumers. Cultural values, beliefs & systems affect their worldview. Their choices might depend on these beliefs. Many Asian companies use red color as it is considered auspicious by Asian customers to enhance sales (faster capital.com). In addition to understanding cultural nuances, social influences like peer recommendations, family suggestions, and celebrity endorsements are key influences that companies study while creating innovative products. The psychological aspect is that of personality, attitudes, perspectives, motivation, level of exposure and learning, etc. The economic factors too need to be taken into account as they are instrumental in enabling spending power. Economic strata, purchasing power, and price sensitivity impact consumer spending habits. These habits create demand and allow for innovation to meet these expectations. Consumer behavior now is also greatly impacted and influenced by technology. These have greatly transformed consumer engagement and research about new products. The ease of delivery and global shipping has increased demand for unique, new, and niche products. The key to being successful is to “not only meet but exceed customer expectations.” (fastercapital.com). This is done through identifying unmet needs and looking for a gap in the market for such products. Apple products like the iPod, iPhone, etc have revolutionized the gadget industry and laid the path for others. Alleviation of pain points that reduce hassles and make it easier for consumers are solutions that customers quickly opt for like Zomato, Porter, etc. Identifying changing preferences and keeping up and abreast of societal change and cultural shifts allow for evolutionary products and services. Many companies look at personalization and customization to add value to products and create demand for them. This can be an add-on to an existing product too. Emotional connectors of ethos, pathos, and logos to create a bond with the customer also ease the way for new products. The trend and growing awareness of sustainability and eco-friendly products have created new possibilities. (“Factors influencing consumer behavior. | Download Scientific Diagram”)

Towards this many companies have incorporated it into their brand identity. Moreover to facilitate global innovations one needs to take into account cultural beliefs and values, languages, symbols, social etiquette, and local information to target products and advertising for maximum sales. Many international companies employ local franchises to identify core values and address them for success. A few modern successful innovations are by brands like Nike, Apple, Netflix, Airbnb, etc that illustrate the incorporation of the above features to ensure their success.

However while customer needs and preferences are a driving force for this, there exists a strong relationship between innovation and resistance. Innovation adoption is reliant on “consumer characteristics and the characteristics of innovation (tandfonline.com).” Human nature is always wary of the new and unknown. It takes skill, research, and effective persuasive strategies by businesses to break down that customer perception and convert them into loyalists. Since the global market is dynamic and constantly evolving, businesses need to be alert keep up with demands, and anticipate needs. Big businesses employ research teams to constantly engage and study the market to come up with innovative solutions to satisfy and excite consumers with new offerings.

CONCLUSION

This paper looked at consumer psychology, consumer behavior, target audience, customer retention, product design, identifying market opportunities, pricing strategies, and understanding consumer needs and preferences. Consumer psychology in the study of consumer behavior. Consumer behavior is how the consumers act in the process of a transaction, target audience is the select group of people the business has identified to most likely be their customers. Consumer retention is the measure of consumer loyalty to a brand. Product design is relevant in the topic of consumer psychology as the design of the product can affect willingness to buy, word of mouth, consumer experience, and buyer remorse. Identifying market opportunities can bring in new customers. Pricing strategies affect the consumer's interpretation of the product. understanding consumer needs and preferences can build brand loyalty and help marketers optimize their brands and profits.

REFERENCES

[1] Cherry, Kendra. "Consumer Psychology: Understanding the Minds of Consumers." *Verywell Mind*, https://www.verywellmind.com/what-is-consumer-psychology-2795800. Accessed 16 April 2024.

[2] "Factors influencing consumer behavior. | Download Scientific Diagram." *ResearchGate*, https://www.researchgate.net/figure/Factors-influencing-consumer-behavior_fig1_348868919. Accessed 16 April 2024.

[3] Gilal, Naeem Gul. "(PDF) Linking product design to consumer behavior: The moderating role of consumption experience." *ResearchGate*, 5 April 2024, https://www.researchgate.net/publication/325124379_Linking_product_design_to_consumer_behavior_The_moderating_role_of_consumption_experience. Accessed 16 April 2024.

[4] Lake, Laura. "Consumer Psychology: How It Affects Buying Behavior." *The Balance Small Business*.

[5] "(PDF) Linking product design to consumer behavior: The moderating role of consumption experience." *ResearchGate*, 5 April 2024, https://www.researchgate.net/publication/325124379_Linking_product_design_to_consumer_behavior_The_moderating_role_of_consumption_experience. Accessed 16 April 2024.

[6] "The Psychology of Pricing: How Consumer Behavior Shapes Pricing Strategies." *Medium*, 21 June 2023, https://medium.com/@pricing.researchlabsciative/the-psychology-of-pricing-how-consumer-behavior-shapes-pricing-strategies-7fda5adf1a94. Accessed 16 April 2024.

[7] "Social marketing: 3.2 The factors which influence consumer behavior | OpenLearn - Open University." *The Open University*, https://www.open.edu/openlearn/money-business/business-strategy-studies/social-marketing/content-section-3.2. Accessed 16 April 2024.

[8] Solomon, Michael Robert. "(PDF) Consumer Psychology." *ResearchGate*, 11 March 2016, https://www.researchgate.net/publication/297735190_Consumer_Psychology. Accessed 16 April 2024.

