Changing Consumer pattern from Price to Attribute; An Empirical study

Dr H K Renushree

Assistant Prof , PG & UG dept of Economics , Field Marshal K M Cariappa College Madikeri

ABSTRACT

One of the most fundamental building blocks of economics is the law of demand. Demand theory describes and explains individual choice of consumption bundles. Traditional theory considers optimizing behaviour when the consumer's choice is restricted to consumption bundles that satisfy a budget constraint. The budget constraint is determined by price–income pairs.

On the other hand Characteristics demand theory states that consumers derive utility not from the actual contents of the basket but from the characteristics (attributes) of the goods in it. This theory was developed by Kelvin Lancaster in 1966 in his working paper "A New Approach to Consumer Theory". Lancaster argued that individuals do not have preferences for marketed goods or services as such; instead they have preferences for particular characteristics. The individual gets utility not from the consumption of goods directly but from the acquisition of these characteristics embodied in the goods. Labelling characteristics by the letter Y, an individual's utility can be written as $U = U(Y_1, Y_2, …, Y_N)$ where the various items inside brackets are N characteristics that 'matter' to this person's subjective well-being.

The traditional theory of demand recognizes that the desire for a product fluctuates with the price of the item. The simplified summary of the theory says other things remaining constant higher the price, the lower the demand vice versa. But there are other important considerations that influences more than price in recent times. Attributes of products like shape colour aroma packing and durability etc can also have significant influences on the level of demand for products.

With this background, this article analyses empirically changing consumer behaviour from price to attributes based on primary data.

Key words: Traditional demand theory; Lancaster Theory; Consumer Behaviour; Attributes

Changing Consumer pattern from Price to Attribute; An Empirical study

Introduction

In the era of globalization, attribute has gained recognition as a determinant in consumer purchasing. Consumer behaviour is stated as the behaviour that consumer displays in searching for, purchasing, using, evaluating, and disposing of products, services and ideas that they expect will satisfy their needs. The study of consumer behaviour is concerned not only with what consumers buy, but also with why they buy it, when and how they buy it, and how often they buy it. It is concerned with learning the specific meanings that products hold for consumers.

One of the most fundamental building blocks of economics is the law of demand. Demand theory describes and explains individual choice of consumption bundles. Traditional theory considers optimizing behaviour when the consumer's choice is restricted to consumption bundles that satisfy a budget constraint. The budget constraint is determined by price–income pairs.

On the other hand Characteristics demand theory states that consumers derive *utility* not from the actual contents of the basket but from the characteristics (attributes) of the *goods* in it. This theory was developed by Kelvin Lancaster in 1966 in his working paper "A New Approach to Consumer Theory". Lancaster argued that individuals do not have preferences for marketed goods or services as such; instead they have preferences for particular characteristics. The individual gets utility not from the consumption of goods directly but from the acquisition of these characteristics embodied in the goods. Labelling characteristics by the letter Y, an individual's utility can be written as $U = U (Y_1, Y_2, \ldots, Y_N)$ where the various items inside brackets are N characteristics that 'matter' to this person's subjective well-being.

The traditional theory of demand recognizes that the desire for a product fluctuates with the price of the item. The simplified summary of the theory says other things remaining constant higher the price, the lower the demand vice versa. But there are other important considerations that influences more than price in recent times. Attributes of products like shape, colour, aroma packing and durability etc can also have significant influences on the level of demand for products.

With conventional theory, the introduction of a new option meant that we could not reliably predict how this would slot into the consumer's preference map. However, by relying on a study of the characteristics rather than the goods or service involved, we can predict how changes will affect a consumer's behaviour without needing to start once again empirically.

Consumer research takes place at every phase of consumption process, before the purchase, during the purchase and after the purchase. According to Philip Kotler consumer behaviour as "all psychological, social and physical behaviour of potential customers as they become aware of and evaluate, purchase, consume and tell others about products and services". The scope of consumer behaviour includes not only the actual buyer and his act of buying but also various roles played by different individuals and the influence they exert on the final purchase decision .Individual consumer behaviour is influenced by economic, social, cultural, psychological, and personal factors.

Methodology:

This research is descriptive and empirical in nature. Data has been collected from both Primary and secondary sources. Primary data has been collected through online survey method with closed ended as well as open ended framed questionnaire. Nearly 150 samples were collected but due to certain incomplete samples only 104 samples were used for analysis. Non probability snowball sampling technique has been used to collect the sample. Data has been collected during the month of November to December 2016. This data has been analyzed with statistical tools like percentages frequency and multiple regression method for analyzing factors influencing consumer behaviour keeping Lancaster theory as base.

Objective of the Study:

1. To know consumers preference (price or attributes)
2. To identify factors influencing Consumer preference

Review of Literature:

Following literature have been reviewed to link shifting of consumer preference pattern.

A. Abdul Brosekhan & C. Muthu Velayutham in their article *"Consumer Buying Behaviour – A Literature Review"* have reviewed Consumer Behaviour based on different approaches like the traditional,

positivist perspective based on utilitarian approach to consumption that is based on price. While the non-positivist perspectives place much greater emphasis on the symbolic dimensions of choice.

Riccarda *et.al* (2011) in their article *"Consumer Preferences for Fruit and Vegetables with Credence-Based Attributes"* have discussed the research findings in food marketing sector. Their study reveals increased level of interest of consumer demand for products with an increasingly wide array of attributes.

Md Reaz Uddin *et.al* (June 2014) in their *"Factors Affecting customers' Buying decisions of Mobile Phone : A study on Khulna city, Bangladesh"* This study presents factors affecting in customers choosing mobile phone. The result shows that the most important factor is physical attributes. Some other factors are charging and operating facilities, size and weight, friends' and colleagues' recommendations, neighbours' recommendations advertising than price of mobile.

Enid Katungi *et.al* (August 2011) *"Relative importance of common bean attributes and variety demand in the drought areas of Kenya"* This analysis assessed the relative importance of production and consumption attributes to different wealth groups of households and tested the effect of attribute preference and that of other factors on common bean variety demand in the drought areas of Eastern Kenya. Variety demand was conceptualized within the agricultural household framework and attributes were incorporated into the model according to the Lancaster (1966) consumer theory.

John R Hauser and Glen L urban (1979) *"Assessment of Attribute Importance and consumer utility functions : von Neumann-Morgenstern Theory Applied to consumer behaviour"* This paper tries to summarize selected results from the theory, addresses mental measure , validity issues and discusses the applicability of the theory to consumer research.

John K. Dagsvik (Feb 1996) *"Consumer Demand with Unobservable Product Attributes"* This paper developed a new framework for empirical modelling of consumer demand with particular reference to products that are differentiated with respect to quality and location attributes.

Result and Discussion

This section presents demographic details of the respondents followed by results of the multiple regression model.

The table 1 indicates that 57.7 percent of the respondents are female and the rest 42.3 percents are male. It depicts 4 percent of the respondents are below 18 years old, 13.5 percent of the respondents fall within the age group of 18-25, 53.8 percent of the respondents fall within the age group of 35-40 years, while 17.3 percent of the respondents' falls within 40-50 years 10 percent of respondents falls within age group of 50-60 years and 2 percent of the respondents' falls above 60 years. Therefore, it indicates greater number of respondent falls within 35 to 40 years which represents 53.8% respondents and followed by 40 to 50 years which represent 18 respondents. Moreover table also shows income composition as 14 of the respondents who buy out of pocket money accounts 13.5 %, 16 of the respondents have income below Rs. 10000 which represents 15.4%, 22 out of 104 respondents shares income between Rs 10000-25000 and 25000- 50000 which represents 21.2% respectively. 30 of the respondent's income is between Rs. 50000– Rs1 lakh which represents 28.8%.

Majority of our respondents belonged to urban area with 71.2 percent and remaining 28.8 percent to rural area. Regarding employment, majority of the respondent are (78.8%) are employed who are employees in government sector (55.8%), private, (19.2%), followed by NGO (15.2%) and students (9.6%). Moreover, there are respondents considered as unemployed comprised 21.2 percent were home makers.

With respect to education, majority of the respondents are holders of master degree (59.6%) followed by PhD (28.8%) graduation (5.8%) other (3.8%) followed by diploma (1.9%) and others (3.8%) who had perceived job oriented courses. Table also shows purchasing pattern of respondents based on Price and Attributes in this case out of 104 , 21 respondents (21.2%) preferred to buy based on price and rest based on attributes 82(78.8%) .

It is clear from the above that majority of respondents buy products based on attributes than price. But this has to be verified to what extent these factors are influencing consumer behaviour has to be tested. To test the effects of these variables on the decision to buy a product, the study used the multiple regression analysis. Following section presents the result of the multiple regression model.

Table 1 Demographic profile of the respondents

GENDER		
	Frequency	percent
Male	44	42.3
Female	60	57.7
Total	104	100.0
AGE		
	Frequency	percent
<18	4	3.8
18-25	14	13.5
35-40	56	53.8
40-50	18	17.3
50-60	10	9.6
>60	2	1.9
Total	104	100.0
INCOME		
	Frequency	percent
Buying out of pocket money	14	13.5
<than 10000	16	15.4
10000-25000	22	21.2
25000-50000	22	21.2
50000-1 Lakh	30	28.8
Total	104	100.0
BELONG TO		
	Frequency	percent
Rural	30	28.8
Urban	74	71.2
Total	104	100
EMPLOYMENT		
	Frequency	percent
Yes	82	78.8
No	22	21.2
Total	104	100.0
EMPLOYED IN		
	Frequency	percent
Student	10	9.6
Government	58	55.8
Private	20	19.2
NGO	16	15.4
Total	104	100
EDUCATION		
	Frequency	percent
Diploma	2	1.9
Graduation	6	5.8
Post graduation	62	59.6
PhD	30	28.8
Other specify	4	3.8
Total	104	100.0
GENERALLY BUY PRODUCT BESED ON		
	Frequency	percent
Price	22	21.2
Attributes	82	78.8

| Total | 104 | 100.0 |

In this study, seven independent variables namely gender, age, income, belong to employment employed in and education are considered as parameter that influences the buying decision. Before analyzing the data using multiple regressions, it is appropriate to test the presence of multi-co-linearity among the independent variables. It indicated that the maximum correlation coefficient is 0.724 that represent less likely to find multi-co-linearity among the independent variable.

The table 2 shows the multiple regression result between seven independent variables and the dependent variable decision to buy. It indicates that all the seven independent variables (gender, age, income, belong to employment, employed in and education) influenced the consumers buying decision but not significantly. Among them leading factor is Income, education you belong to. The adjusted R^2 of 001 indicates 1 percent of variances in consumer buying decision can be predicted by the seven variables used in this research study. Accordingly, there are other variables that influence buying decision of individuals represented by the remaining 1percent. But the majority of the variance in buying decision can be predicted by the seven variables included in this study.

Table 2
Multiple regression results of dependent and independent variables Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.744	.259		2.867	.005
GENDER	-.045	.086	-.054	-.517	.606
AGE	-.017	.040	-.053	-.419	.676
INCOME	-.079	.053	-.269	-1.503	.136
You Belong to	.100	.095	.110	1.045	.299
Employment	.074	.150	.074	.495	.622
Employed in	.001	.039	.002	.015	.988
Education	.079	.073	.137	1.087	.280

Dependent Variable: generally buy product
R Square: 069
Adjusted R Square: .001

Limitation of the Study:

1. There are various direct and indirect parameters that can be considered for the study, for this paper only some important parameter were considered.

2. Consumer action changes due to time and knowledge they acquire. Following study was carried out for a particular time period.

Conclusion: The objective of this research was to investigate consumer preference and factors that influence consumer preference. The study revealed that consumer prefers to buy product based on attribute which is according to Lancaster theory. Furthermore, demographic factors like gender, age, income, belong to employment employed in and education, though having influence, did not show significant result.

Reference

[1] A. Abdul Brosekhan & C. Muthu Velayutham *"Consumer Buying Behaviour – A Literature Review"* IOSR Journal of Business and Management(IOSR-JBM) e-ISSN : 2278-487X, p-ISSN : 2319 7668, PP 08-16

[2] Riccarda Moser, Roberta Raffaelli and Dawn Thilmany-McFadden (2011) *"Consumer Preferences for Fruit and Vegetables with Credence-Based Attributes* A Review International Food and Agribusiness Management Review Volume 14, Issue 2,

[3] Lancaster (Apr., 1966), A New Approach to Consumer Theory The Journal of Political Economy, Vol. 74, No. 2 pp. 132-157

[4] A. Abdul Brosekhan & C. Muthu Velayutham *"Consumer Buying Behaviour – A Literature Review"*

[5] Mesay Sata (2013) "Factors *Affecting Consumer Buying Behaviour of Mobile Phone Devices*" Mediterranean Journal of Social Sciences MCSER Publishing, Rome-Italy Vol 4 No 12 October 2013

[6] Md Reaz Uddin Nusrat Zahan Lopa and Md. Oheduzzaman (June 2014) *"Factors Affecting customers' Buying decisions of Mobile Phone : A study on Khulna city, Bangladesh"* International Journal of Managing Value and Supply Chains (IJMVSC) Vol.5, No. 2,

[7] Enid Katungi *et.al* (August 2011) "*Relative importance of common bean attributes and variety demand in the drought areas of Kenya"* Journal of Development and Agricultural Economics Vol. 3(8), pp. 411-422

[8] John K. Dagsvik (Feb 1996) "*Consumer Demand with Unobservable Product Attributes*" Discussion Papers No. 166 • Statistics Norway,

[9] John R Hauser & Glen L urban (1979) "*Assessment of Attribute Importance and consumer utility functions : von Neumann-Morgenstern Theory Applied to consumer behaviour"* journal of consumer Research, INC