

An analysis of Modern Consumer Behaviour Rational Vs Irrational and Role of Nudging

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Abstract: This research paper investigates the concept of rational and irrational consumer behaviour, focusing on the psychological and societal factors that influence purchasing decisions. This investigates the impact of cognitive biases, emotions, and brand loyalty on consumer behaviour using a literature review and case study analysis. While rational decision making is often assumed to be the norm, our findings suggest that irrational behaviour is common and can have a significant impact on consumer choices. However, consumer nudging can influence consumer behaviour to a great extent. The paper concludes with advice for marketers and policymakers on how to better understand and influence consumer behaviour.

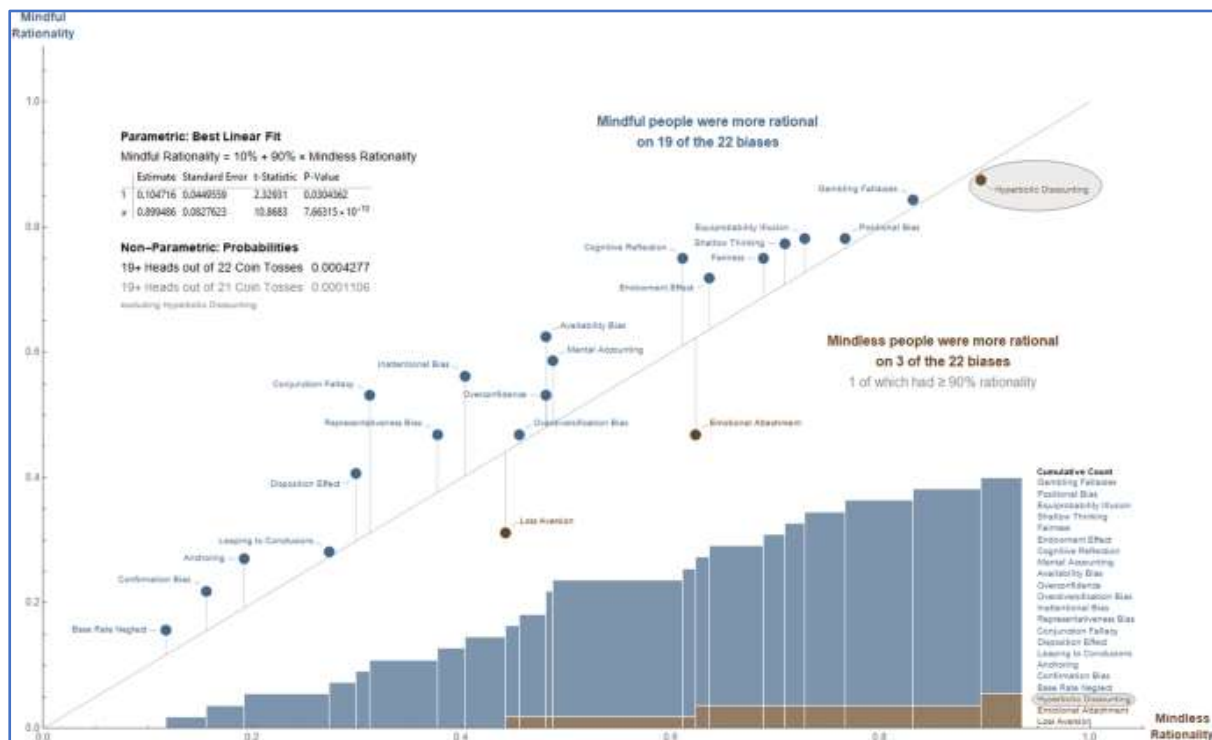
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Rational Vs Irrational behaviour:

The study of how individuals, groups, and organisations make decisions about what to buy, want, need, or act in relation to products, services, or ideas is known as consumer behaviour. Consumer behaviour has become increasingly complex and dynamic in modern times, as consumers are confronted with a plethora of options and a constant stream of information.

Each of the 22 questions has an average mindful rationality vs. average mindless rationality, as well as an identity line to show the differences. The table below shows the total number of biases for which either the mindful or mindless respondents performed better. Estimates from a linear regression as well as non-parametric probabilities are displayed.¹

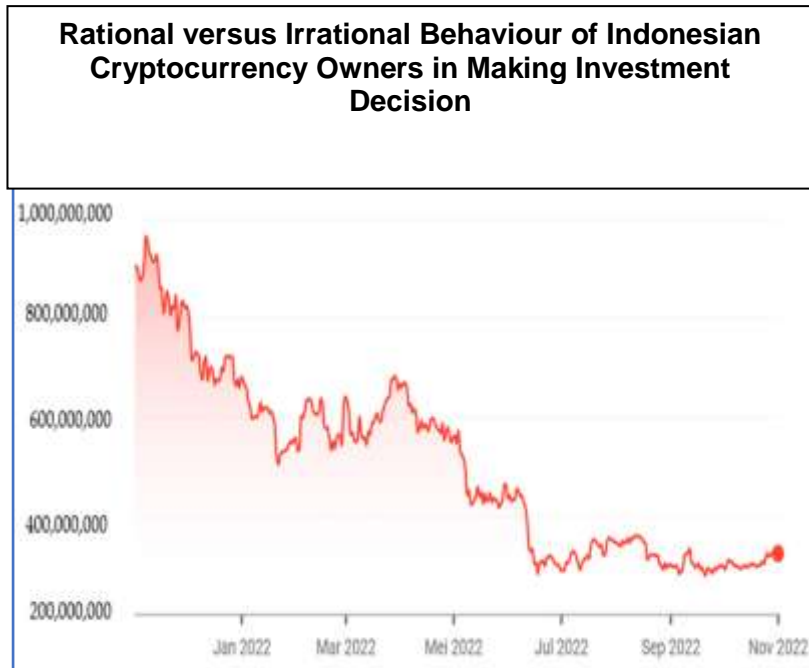


¹<https://www.nature.com/articles/s41599-021-00712-1>

The use of logic and reason in making decisions about what to buy, want, need, or act in relation to products, services, or ideas is characterised as rational consumer behaviour. Rational consumers carefully consider various options and make decisions based on the best available information. When making decisions, they consider factors such as quality, price, and features. In order to make the best decision, they consider their own needs, values, and budget.

Irrational consumer behaviour, on the other hand, is defined by making decisions based on emotions, biases, or impulses rather than logic and reason. Irrational consumers may be influenced by factors other than product or service characteristics, such as brand loyalty, social norms, or personal values. They may also be swayed by emotional advertising and marketing strategies rather than logic.

A rational consumer looking to buy a car, for example, will consider factors such as fuel efficiency, safety ratings, warranty, and price. They will conduct research and compare various models before making a decision based on the information gathered. In contrast, an irrational consumer may be swayed by a flashy advertisement or the brand name of a car and purchase the vehicle without conducting proper research or evaluating the car's features. Individual investors from the same geographic area were more likely to adopt



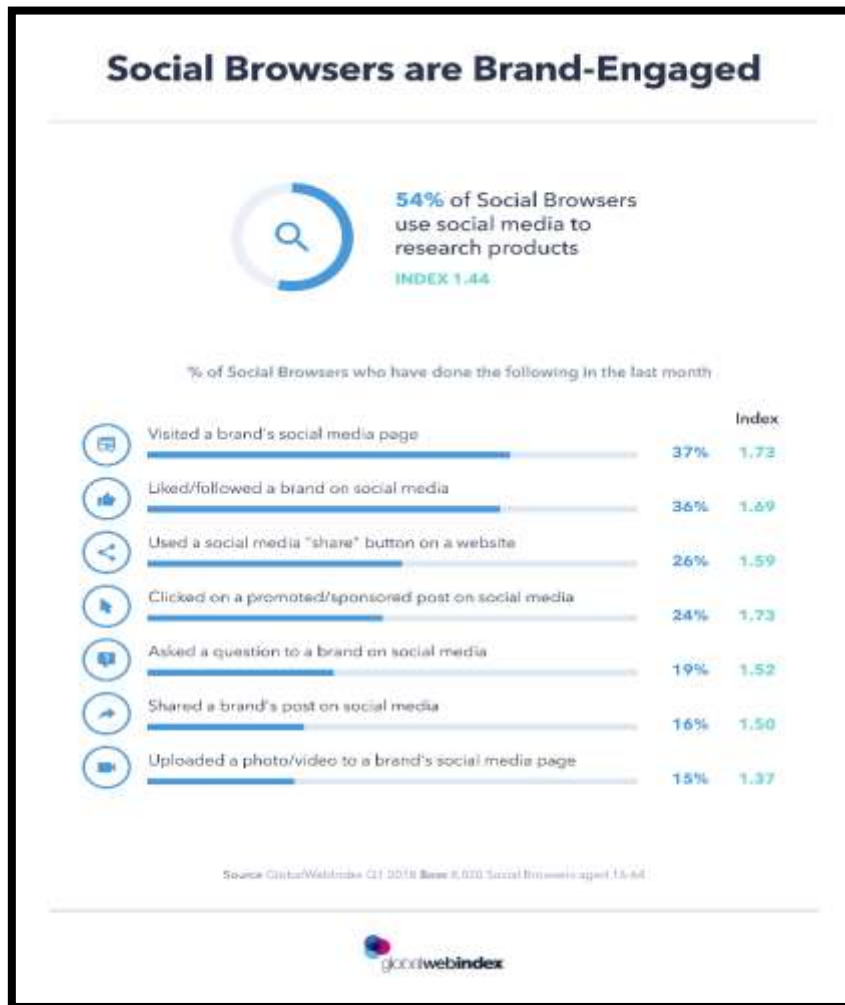
biased behavior than cross-country investors (Choi 2016). Indonesia has seen a 280 percent growth in the number of crypto investors since 2020, from 1.5 million to 4.2 million individuals, with a daily trading volume reaching USD 117.4 million (Blockchain Association of Indonesia 2022).²

It's important to remember that consumer behaviour isn't always purely rational or irrational; it can be a combination of the two. Consumers' behaviour can be rational in some situations and irrational in others, and it can be influenced by a variety of factors. As a result, understanding the complexities of consumer behaviour is critical for marketers, policymakers, and

researchers in order to develop effective strategies for influencing it.

²<https://www.mdpi.com/2227-9091/11/1/17/htm>

Key influence for consumer behaviour:



The influence of technology is one of the most important aspects of modern consumer behaviour. Consumers can now easily access information and communicate with others about products and services thanks to the rise of the internet and social media. This has increased the number of choices available to consumers, as well as their ability to compare and evaluate products and services. However, increased access to information has resulted in information overload, making rational decision-making more difficult for consumers.

Time spent commuting to work on a train or bus, for example, has been drastically altered as a result of technology and connected devices. According to the Centre for Economics and Business Research, UK consumers spend more than £22.8 billion per year on online shopping while taking public transportation.

When it comes to social media, customers use it to interact with brands and submit customer service inquiries. However, they can also use it as a resource to help them make purchasing decisions. According to Global WebIndex, 50% of social media users have used the platform to conduct product research.³

The influence of emotions and psychological factors is another important aspect of modern consumer behaviour. According to research, consumers frequently make decisions based on emotions rather than logic and reason. Consumers, for example, may be more likely to purchase a product if it makes them feel good rather than being the best option for their needs. Furthermore, psychological factors such as brand loyalty, social norms, and personal values may influence consumers.

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³<https://thekeenfolks.com/the-impact-of-technology-on-consumer-behaviour/>

⁴<https://johnnoels.medium.com/5-marketing-strategies-to-influence-consumer-purchasing-behavior-bb6926e00844>

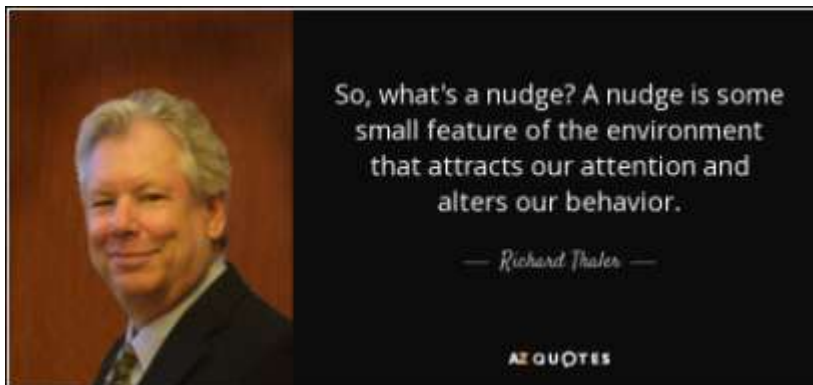


According to advertising research, the emotional response of a consumer to an advertisement has a far greater influence on their reported intent to buy a product than the ad's content—by a factor of three for television commercials and two for print ads.⁵

Marketing and advertising have a significant influence on modern consumer behaviour. Advertising, promotions, and branding are some of the techniques used by businesses to influence consumer behaviour. These strategies can be effective in persuading customers to buy products and services, but they can also be deceptive and manipulative.

Nudge and Consumer behaviour:

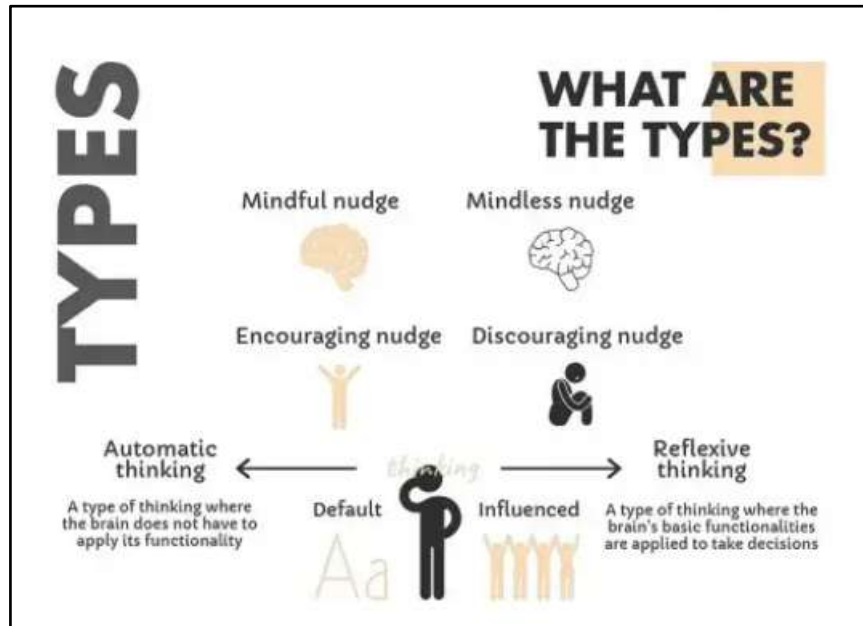
Consumer behaviour in the modern era is complex and dynamic, influenced by a variety of factors such as technology, emotions, psychological factors, marketing and advertising, culture, demographics, and personal values. While consumers have greater access to information than ever before, they are also subject to information overload. The availability of numerous options also makes rational decision-making more difficult for consumers. Thus Nudging plays a significant role in consumer decision making.



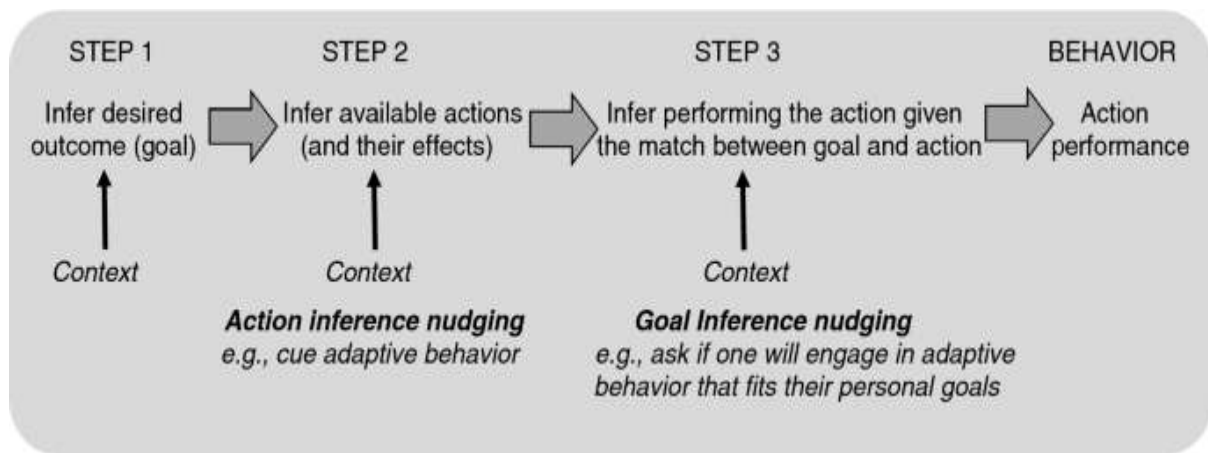
⁵<https://www.psychologytoday.com/intl/blog/inside-the-consumer-mind/201302/how-emotions-influence-what-we-buy>

There are various types of nudging, among them are:

Positive nudges: These nudges make desired behaviours easier or more appealing to perform. Negative nudges: These nudges discourage undesirable behaviour by making it more difficult or less appealing to engage in it. Default nudges: These nudges make a specific option the default option, increasing the likelihood that people will select it. Social nudges: These nudges influence behaviour by using social pressure or social norms. Nudges that provide rewards or incentives for specific behaviours are known as incentive nudges. Persuasion nudges: These nudges influence behaviour by using persuasive techniques.



In behavioural economics, nudge refers to small changes in the environment that can influence decision making. In the context of consumer decision making, nudging can be used to guide people toward making decisions that are in their best interests, such as eating healthier or saving for retirement. This can be accomplished in a variety of ways, such as changing the layout of a grocery store or prominently displaying nutritional information on food items. Nudging can also be used to encourage certain behaviours, such as recycling or conserving energy. Nudging, as opposed to traditional forms of regulation or persuasion, is frequently used as a subtle way to influence behaviour. Here is an example.⁶

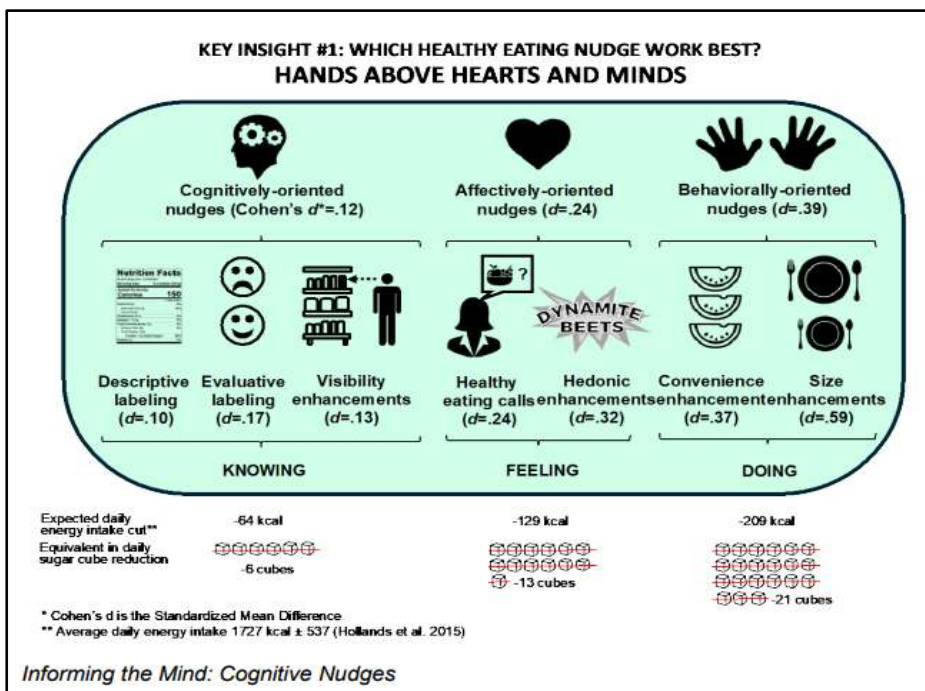


⁶<https://www.nature.com/articles/s41598-022-12964-1>

Nudge and Consumer behaviour in practice:

Nudge theory can also be used to influence consumer behaviour by changing the way that information is presented. For example, using social norms and positive reinforcement can encourage consumers to make better choices. For example, a store may display a sign saying "most of our customers buy X product" which can influence the consumer's decision.⁷

When it comes to nudging people towards healthier food choices, appealing to the head or the heart is not nearly as affective as giving someone a hand. A recent study found that nudges



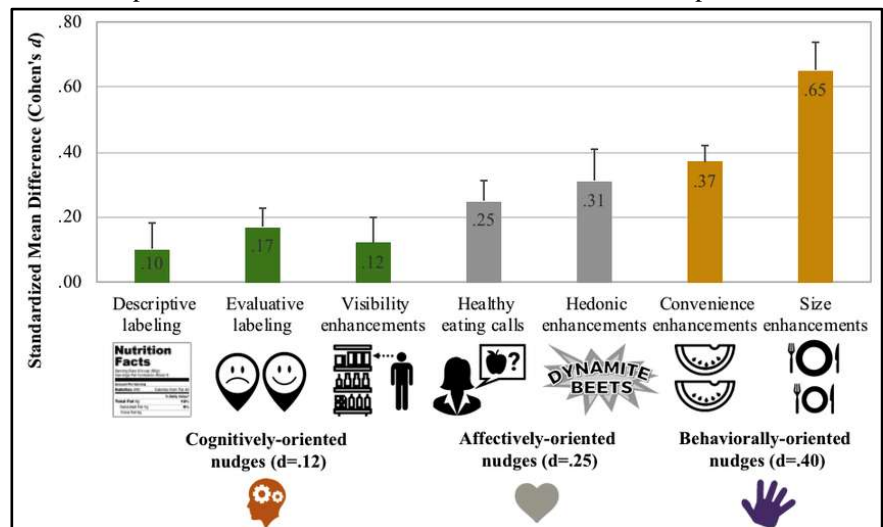
targeted at behavioural changes were almost twice as effective than affective nudges and four times more effective than cognitive nudges.⁸ Surprisingly, providing nutrition information on its own, such as simply listing a calorie count, was the only type of nudge that did not have a measurable impact on healthy eating. The response was already significantly better and statistically better than zero once context was added, which we call evaluative labelling - an interpretative cue like a smiley face or traffic light colours.⁹

⁷https://www.google.co.in/url?sa=i&url=https%3A%2F%2Fwww.pinterest.com%2Fflydiadogg%2Fnudging%2F&psig=AOvVaw0M7bguD3Tp-KujOXRfhSHb&ust=1673784159780000&source=images&cd=vfe&ved=0CBAQjRxqFwoTCKCewYSCx_wCFQAAAAAdAAAAABAR

⁸<https://www.theconsumergoodsforum.com/wp-content/uploads/2018/10/Chandon-Article-04-10-2018.pdf>

⁹https://www.researchgate.net/figure/Effect-sizes-by-nudge-type_fig4_318420196

Excessive honking accounts for 70% of noise pollution on Mumbai's roads. After numerous attempts, Mumbai Police did what fines could not: they changed behaviour with an unexpected dash of humour by converting traffic signals into Punishing Signals. When honking reached 85 decibels, the countdown timer at a signal would reset, making impatient drivers wait even longer. Mumbai Police cut and tweeted a video of this solution. It quickly became India's most liked and shared topic, generating instant results as well as nationwide chatter.¹⁰



Mumbai Police’s clever (and funny) anti-honking initiative features a ‘punishing signal’

Mumbai police used a decibel meter that increases the duration of the red light at a traffic signal when sound levels cross 85 decibels.



¹⁰<https://www.dandad.org/awards/professional/2020/231938/the-punishing-signal/>

Summer has arrived in the United Kingdom. On a littered street, two cigarette disposal bins are erected. One bin is labelled Ronaldo, while the other is labelled Messi. The bins encouraged smokers to use their cigarette butts to vote for the best football player. Cigarette litter had decreased by 46% after twelve weeks. A similar



experiment in the United States reduced cigarette litter by 74% in six months. Rather than yelling at smokers to "clean up your butts," the bins implied the desired behaviour in a simple and enjoyable way.¹¹

Nudging's effectiveness in influencing consumer decisions is still being studied, but some studies have found that nudges can be effective in changing consumer behaviour. Small changes to the design of a supermarket, such as

moving healthier food items to eye-level shelves or placing them at the front of the store, for example, have been shown in studies to increase the likelihood that those items will be purchased. Nudges that help consumers make a desired choice, such as providing clear information or simplifying a decision-making process, have also been shown to be effective. However, depending on the context and population, other studies have found that nudging can be less effective or even have no effect. Additionally, the effectiveness of a nudge can also depend on the type of behaviour being targeted and the strength of the nudge.

To summarise, nudging is a behavioural economics concept involving the use of subtle cues or incentives to influence people's choices and decisions. It has been used in a variety of contexts, including consumer decision-making, to encourage people to make healthier or more environmentally friendly choices. Consumer nudging's effectiveness is still being studied, but some studies have found that nudges can be effective in changing consumer behaviour. It is important to note, however, that the effectiveness of nudging varies depending on the specific context and population being targeted. Furthermore, the ethical implications of nudging, such as the possibility of manipulation and infringement on individual autonomy, should be considered.

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