INTERDISCIPLINARY PERSPECTIVES ON INDIVIDUAL CONSUMPTION DECISION

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Abstract

In a world were consumer is attacked by information and the decisional process is hampered by the multitude of choices, the consumption can be explained through a multidisciplinary approach that can integrate also the economic and psychological variables. People are faced with having to choose one option out of many desirable choices, thus their options are evaluated in terms of missed opportunities instead of the opportunity's potential. In this playground appears the regret aversion that can paralyze the action of the consumer and recreate the frame in which this acts. That is why, this area has been approached through a multidiciplinary perspective that can explain better the decisional process of the buyer that can act also in a subjective and non-linear way ante and post-factum decision making.

Keywords: *consumer, decision, regret aversion, interdisciplinarity, economic crises.*

1. Introduction

Consumer's behavior, as a part of human behavior, although it is influenced also by objective factors, has a high subjective load, determined by cognitive and affective factors.

Consequently, market research companies have understood that only an interdisciplinary approach can provide a general overview on consumer's behavior.

It's because knowing and understanding well the mechanisms that influence the decision-making process and manifestation of individual's preference, enable the manufacturers to draw up strategies for sustainable growth and for fluid supply in relation to the new market trends.

2. Economic and psychosocial approaches on consumer's behavior- retrospective analysis

The economic theory, the first area that dealt with the analysis of consumer's behavior, claims that the consumer's purpose is to maximize ones satisfaction by choosing those economic goods, which provide the most utility. Representative of this view is Alfred Marshall's theory, acknowledged as the first consumer's behavior model.

He claims that the purchase decisions "are the consequence of some conscious economic and rational calculations, the nominal income and the price of the economic goods having a final role.[1]

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[1] Morariu D., Pizmaş D., 2001, Consumer's Behavior - dilemmas, realities and perspectives, Bibliofor Publishing house, Deva, p. 10-11.

However, all economic activities, implicitly consumption, are filtered by the human mind. Thus, as the analysis on consumer's behavior went deeper, has become increasingly obvious that the physiologic needs and the purchasing power are not the only determinant factors.

Therefore, in the early 70s of the twentieth century was introduced in economic theory the idea of subjective nature of value. The founders of this new type of analysis (S. Jevons, Walras L., C. Manger), known as marginal theory, although did not know each other they have found at about the same time this principle, the basic concept being the marginal utility.

Another approach that has had a powerful impact on the economic theory belongs to JM Keynes, which highlights the psychological behavior of the individual, in terms of consumption activity.

According to his point of view, the income plays an important role in the evolution of consumer spending, being an objective factor of influence, but he also identified a number of subjective factors that relate to the individual’s psychological characteristics, customs, traditions, social institutions etc.

Although they have brought an important contribution to "decoding" consumer’s behavior, these theoretical approaches have proven insufficient in practice, in the context of the progress made by the socio-economic environment, particularly in business field.

Consequently, this field has extended its area of research outside the economic theory and psychology, addressing the consumer and his decisional process from a broad perspective.

Thus, at the beginning of the last century, the first research on consumer behavior has emerged in marketing, the American psychologist, Daniel Starch, considered one of the pioneers in this field.

That is because in 1914, he was the first who spoke about the three functions of advertising (to attract attention to stimulate interest, to strengthen a response) in his paper "Advertising: Its Principles, Practice, and Technique" and in 1923 he founded the first company which provided market research services - Daniel Starch and Staff.[2]

Currently, the theory of consumer behavior has become a distinct field of marketing, addressed multidisciplinary.

It has even come to transposing the consumer's behavior into cybernetic language.

The American Professor Philip Kotler, the founder of modern "Marketing Management" has described the consumer's decision-making process as a sequence of steps presented in a cyber language: input, output and the black box.

Thus, the exogenous that influence our consumer behavior are received through information channels as inputs, are then evaluated and processed through individual psychological mechanisms within the "black box" to be externalized through the assembly of acts, deeds, decisions that form the consumer behavior.

In this context, the consumer's behavior represents an output that could be anticipated and influenced if the psychical processes carried out in the "black box" would be precisely identified and understood.

From this perspective, areas such as cognitive psychology, neurology, biology, contribute substantially to complementing this knowledge scientifically grounded within this disciplinary field.

Business professionals have acknowledged the limits of traditional market research, which led to the development of a new field of study --Neuro-marketing. It uses specific techniques of neuroscience and cognitive psychology (brain scanners, EEGs devices eye - tracking, galvanic

[2] Chelcea Septimius, 2014 Advertising psychology. About the visual ads, Polirom Publishing House, Bucharest, pg.79-84.

skin response sensors) to obtain information about consumer's reaction various products and commercial messages.

Neuro-marketing has shown a major development in the last 10 years, currently working in this field over 60 companies. Leading companies have used specialist's services to increase their sales (Microsoft, Mc Donald's, Facebook, Google, Procter & Gamble, etc.).

However, the benefits of progress in the field of consumer's behavior shouldn't be seen only from the manufacturer's perspective. The advantages arise also for consumers who can benefit, thus, from economic goods adapted to their own expectations, needs.

If we consider the statistics, according to which 80% of new products launched on the market are not successful[3], precisely due to inconsistencies demand - offer, we can state that benefits arise for the entire society by reducing inefficient use of limited resources.

3. Current trends in consumer's behavior

New levers shape the way companies build their strategy to reach faster and more efficiently the consumer. If some, as we have seen, are already outlined, other lie ahead as challenges to traditional approaches.

That is because the economic- financial crisis, which began in 2008, has put a strong imprint on people's attitudes towards consumption.[4]

For example Romanians, according to GFK research- one of the largest market research company in the world- have gradually reduced their spending for durable goods (houses, cars), then they cut also the ordinary expenses (clothes, holidays).[5]

This can be also noted from the comparative analysis of the household consumption expenditure in Romania between 2008 and 2013, which reflected a growing on the "housing, utilities, fuel" segment and a significant reduction in consumption on the "education", "clothing", "shoes" and "transport" segments.[6]

Thus, we find that more than half of household budget is allocated to food expenditures (40.9%) and maintenance of the dwelling (15.5% compared to 13.6% in 2008). However, we also must keep in mind that this increase registered under the reduction of the living standard was determined by the rising prices within this period and by the inelastic character of the demand on this segment.

At the opposite pole are education expenses, whose share in the total consumption expenditure dropped from 0.6% to 0.3%.[7]

In conclusion the consumers are now more temperate and more aware of the products they buy, they inquire more, make price comparisons, turning towards the best alternative price-quality.[8]

An important aspect highlighted in GfK's research is that, these changes in consumer's behavior actually represent "a final metamorphosis, due to changes in people's lives, and not a temporary phase," which means that, in the future it is possible even to extend and refine the

[3] Pradeep A. K., 2010, The buing brain.Secrets for sellingto the subconscious mind, published by Jon Wiley & Sons, Inc., Hoboken, New Jersey, chap.1.

[4] Flatters P., Willmott M.,2009, Understanding the Postrecession Consumer, Harvard Business Review, July/ August 2009, p.106 -109.

[5] Alexandrescu P., 2014, "Consumer's Behavior Romanian: dualistic, with the extreme manifestations," *Wall Street*, 9 Jun 2010.

[6] Orgonas C., 2014, Evolution of household consumption between 2008 and 2013", *BusinessDay.ro*, 8.01.2014

[7] idem.

[8] Butaru C., 2013, "How has the consumer's behavior evolved during the five years of the crisis, *Ziarul Financiar*, 20.September. 2013.

intelligent purchase behavior, the information search skills and diversifying the information sources used in the process.[9]

This is why, the modern theories apply an interdisciplinary approach meant to introduce, also, in the study of consumer behavior, the psychological elements which are relevant especially in explaining the deviations from a “normal consumption behavior” which are more evident during the situations of crisis.

Where utility theory views the consumer as a „rational economic man“ , contemporary research on consumer behaviour considers a wide range of factors influencing the consumer, and acknowledges a broad range of consumption activities beyond purchasing. These activities commonly include: need recognition, information search, evaluation of alternatives, the building of purchase intention, the act of purchasing, consumption and finally disposal.

Rational models of consumer behaviour see consumer especially as at a rationally considering being, acting on the basis of economic advantage. Consumer behaviour is interpreted as a result of consumer rational consideration. Nevertheless some preconditions must be kept: consumer is wholly informed about all options parameters and is able to make decision-making algorithm that he deliberately complies. Bindings among income, prices, facilities, budget limit, marginal behoof, cross-elasticity, indifferent curves and others are controlled.

On the other side sociologic approaches to consumer behaviour study how consumer behaviour is influenced by social aspects and social groups. Concrete form of purchase decision-making process is conditioned by every consumer individuality, his consumer predisposition. The binding of predisposition and decision making takes place inside every human, it is about internal processes and in a manner it expresses consumer blackbox.

Consumer blackbox is more or less some kind of consumer behaviour predisposition and purchase decision-making interaction. After the purchase being made, the consumer may confront with a state of cognitive dissonance that leads to the appearance of regret. Many of us buy something on the spor of the moment only to realize afterwards that their acquisition was not so inspired. That is why a good decision can lead to hapiness or to regret that ist o say that people anticipate regret if they make a wrong choice, and take this anticipation into consideration when making decisions. Fear of regret can play a large role in dissuading or motivating someone to do something.

Bell (1982) and Loomes and Sugden (1982) derived an economic theory of regret

They propose a normative theory of choices under uncertainty that explains many observed violations of the axioms used to build the traditional expected utility (EU) approach.

Regret theory (RT) assumes that agents are rational but base their decisions not only on expected payoffs ("value") but also on expected regret. Investors reach their investment decision by maximizing the expected value of this modified utility. So investors try to anticipate regret and take it into account in their investment decisions in a consistent manner.

Risk takes two dimensions: traditional risk (volatility of final wealth) and regret risk. RT offers a parsimonious specification with strong cognitive and axiomatic foundations. It predicts Allais' paradox and many other axiom violations reported in experiments by Kahneman and Tversky (1979) and others. There is an extensive literature in experimental psychology and a recent literature on neurobiology that shows that regret influences decision-making under uncertainty beyond disappointment and traditional uncertainty measures. Other theories have proposed normative models of consumer behaviour based on some preference based characteristics that differ from the standard economic model.In first place, it can be mentioned the models relied on Prospect Theory[10] a descriptive theory that has beedn

[9] Mirila O., 2013, „Romanian consumer's purchasing behavior in 2013 ', *Journal The market*, 06 November 2013.

[10] Kahneman, Daniel, and Amos Tversky, (1979), Prospect theory: An analysis of decision making under risk, Econometrica, 47(2), 263-291.

extensively used in behavioral finance. A second class of preference-based models also introduce the notion of loss aversion, but derive these preferences from Disappoinment Aversion theory (Gul, 1991), an axiomatic and normative decision theory using class of risk preferences. Customer satisfaction can be regarded as a summary of the activities of the consumer who is affected by both negative and positive emotional experiences that can make one feel sad or happy. For example, it was shown that individuals tend to overestimate the usefulness of what they earn in the future (Easterlin, 2001), although there were positive correlations between happiness and high levels of income.

Whenever the consumer makes a decision and does not have the expected results or find an alternative that would have a more favorable outcome is a candidate to regret. We consider post-decision regret that appears after one consumer anticipates the outcome of the decision and regret that is felt before it made its decision. Post-decision regret is defined as customer remorse. So regret does nothing to affect the psychological state of the consumer and as there are several alternatives, the more likely to experience regret, either in anticipation of the decision or after.

Once with the growth of opportunity costs increases also the regret. The more options there are, the more scenarios can be generated and thus increasing regret and decreasing the satisfaction felt after the election made by consumer. For example, Mr. David owns shares in insurance company X. In the last year considered the alternative of buying shares in the company Z, but decided not to invest. Then find that this change would have brought a gain of 2,000 euro. Mr. Paul owns shares in company Z. During the last year has become a shareholder in the company X. But this change has lost 2,000 euro. Who feels the biggest regret? Since both shareholders hold shares in company X and since both would be richer if they had 2,000 shares in the company Z should be in the same situation. However, 92% believe that Mr. Paul will regret it more than Mr. David. The key is that Mr. Paul regrets what he did when Mr. David regrets something you ought to do and failed. Most consumers regret more the actions that did not turn out as desired than the unsuccessful attempts. This is called a "propensity to failure", a tendency to frustrate attempts failed when assessing the consequences of our decisions. (adaptation from “The paradox of choice”, Barry Schwartz, 2004).

A difference must be made between regret and disappointment. Regret aversion is the fear of experiencing the pain of regret, regret is an emotional reaction, a pain felt when facing the negative effects or a non positive response of our action. In another words regret appears when the consumer considers the failure as due to its error of judgment. In which concerns disappointment a similar pain but less acute, can also strike when the damage comes from the general uncertainty that any decider faces when taking any decision. The margin between regret and disappointment is thin because people have the tendency to attribute failure to other people even if this are related to our neglects or illusions of knowledge or competence.

On the other hand we might feel emotionally guilty for damaging events that really depends of us.

Regret aversion faces the fact that people keep the status quo because they know from experience that options that seem to be favorable given the apparently correct information at the time the decision is to be made, may later turn out to be less favorable than previously assumed (Samuelson and Zeckhauser,1988). Regret aversion refers to the theory of omission bias, which sustains that people perceive harmful commissions as worse than corresponding omissions and, therefore, prefer omission to commission (Ritov and Baron, 1992).This is to say that consumer can create false reference points when making a decision having into mind the omission of regret or cognitive dissonance in the near future.

Regret aversion arises due to the desire to avoid feeling the pain of regret resulting from a poor decision. It embodies more than just the pain of financial loss, and includes the regret of feeling responsible for the decision, which gave rise to the loss. Regret aversion could encourage 'herd behavior' in economy, for example, to invest in 'respected' or reliable companies as these investments carry implicit 'insurance' against regret (if you lose money, so will a lot of other people, and therefore you won't feel as bad about it.).

In particular, the biases can be applied also in the area of ordinary purchases having into consideration the facts that people try to extrapolate the past trends into future when they buy a product, to have over or under reaction to price changes or news. Regret aversion has the particularity than can paralyze consumer decision to consume a certain good, tangling the decisional process and creating anxiety for the future purchases, but this is the topic of another future debate upon the subject.

Conclusions

Consumer Decision was treated in terms of opportunity cost and regret that it involves. It was noticed that many times, freedom of choice that involves consumer’s multitude of alternatives does not mean necessarily a good thing. Even if the consumer makes the right decision once with the multitude of alternatives increases the attractiveness of the features of the other options which ultimately diminishes felt satisfaction and increases the opportunity costs despite the fact that the election was correct. Thus, the context in which the decision is made, continue to have influences after the decision.

It is important to understand the basic motivation behind the behavior of economic agents in order to improve existing theories and to obtain more accurate predictions. That is why "limited rationality" describes the cognitive limitations faced by decision makers in terms of obtaining and processing information.

The key presumption of regret model expected utility theory is that individuals avoid the adverse consequences of an outcome that would prove worse than the best result given the size of loss would have been known from the start.

So the regret theory does not assume that the decision maker experiments only regret but that the anticipation of regret experimentation is a decisive factor in the decision process of the buyer.

Thus, consumer behavior has become a complex study field, well-founded from a scientific and interdisciplinary point of view, studies in the field of economics, psychology, sociology, neuroscience, genetics, evolutionism, anthropology, statistics, bringing thus its contribution to a better understanding of the motivations, preferences and consumer’s habits, both at individual and organizational levels.

Addressed individually, these prospects have a reduced utility, being necessary but insufficient whereas they address limitedly the consumption behavior, with reference to the influence factors specific to the disciplinary field of the specialist. However, the scientific information provided do not contradict each other but they complement each other, contributing thus to the formation of an overall view on the motivations, preferences and consumers’ habits, considering the internal and external factors (personal, economic, social, demographic, psychological, cultural) that leave a mark on consumer's behavior, ante and post-factum decision making.

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