

The Springer Series on Demographic Methods  
and Population Analysis 30

Jo M. Martins  
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David A. Swanson

# Consumer Demographics and Behaviour

Markets are People

 Springer

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# Preface

## Purpose

There is a growing interest in markets and the related way people behave as consumers of goods and services. A result has been the rising demand for information dealing with consumer behaviour. These accounts acknowledge the importance of demographic events such as births, population size and other demographic characteristics such as sex and age as determinants of market size and also of market opportunities for different types of products. However, the references to demography are often in the form of tabulated data without a clear indication of the relationship between the data and observed consumer behaviour. Among other things, texts on consumer behaviour mention the importance of market segments in making products more relevant to different groups in society. Frequently, market segments reflect demographic characteristics of groups in the population, such as those born within a given period of time. This allows for the identification and quantification of market segments to assess opportunities for the positioning of specific products in relation to these population segments. The life cycle is also an important determinant of income and changing needs that influence consumer behaviour and preferences for different products as people get older. These underlying market features make the relationship between demography and consumer behaviour an essential perspective.

This introductory book is a response to the demand for a better understanding of consumer behaviour using demographic perspectives that enhance those of other disciplines. It combines theoretical concepts with empirical evidence, and uses some relevant analytical frameworks and tools for this purpose. It also aims to provide teaching material with an emphasis on the characteristics of populations and groups within them and their relation to market size, diversity and consumer behaviour.

## Organization

The book's demographic focus implies an emphasis on populations and groups rather than on the individual per se, which is the basis for assumptions made in micro-economics. However, it associates demographic and macro-economic factors

of income and consumption because, among other things, of the close relationship between levels of income and demographic characteristics during different stages of the life cycle. In this context, the book deals with the influence of population on market size. It also examines market characteristics related to differences in income per head of population and purchasing power for basic and other commodities as relative affluence rises. The book is concerned with demographic and income groups in the populations in relation to generic commodity groups rather than product brands and their differentiation. It concentrates on the interaction between consumers and generic products through their progression in their life cycle and varying income levels. The question of gender and cohort characteristics and their association with consumer preferences for different types of generic commodities is also dealt with. The book is organised into three major parts.

### ***Part I – Basic Issues: Market Size and Composition***

Chapters 1, 2 and 3 introduce basic issues that affect market size and composition, perspectives on consumer behaviour from different disciplines and relevant demographic perspectives that enhance the understanding of market characteristics and consumer behaviour.

### ***Part II – Demographic Change, Markets and Consumption***

Chapters 4, 5 and 6 are concerned with how the demographic transition and growth in population have led to clusters of countries and related markets with different sizes, age distributions and stages of development, which have different demands for basic and progressive commodities. These chapters introduce concepts that relate population growth to income per head of population that in turn determine not just how much but what households consume. The life cycle is also introduced as an organising framework to examine household consumer behaviour.

### ***Part III – Consumption, Income, Age, Cohort and Gender***

Chapters 7, 8, 9, 10 and 11 deal with household allocations of their budgets to meet their varying preferences as their income and age changes. They also examine how gender traits affect preferences for different types of commodities. Further, ageing and product substitution are analysed and cohort preferences are tested. Finally, Chapter 12 reviews demographic perspectives of consumer behaviour and their implications for the future.

## **Use**

The book can be of help to those in business and public organizations who have an interest in enhancing business strategies and government policies concerned with consumer behaviour. It will be of benefit to those with demographic skills who wish to build up their range of experience, and will also profit those with exposure to studies of consumer behaviour who wish to improve their know-how with the enhancement from demographic perspectives. The book also provides material for a full semester course on consumer demographics and behaviour or shorter courses using selected sections of the text. It is designed as a primer without requirement for previous exposure to demography or consumer behaviour studies.

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**Part I**  
**Basic Issues: Market Size and Composition**

# Chapter 1

## The Making of Markets

*We labour to produce with the sole objective of consuming, and the kinds and amounts of goods produced must be determined with regard to what we want to consume.*  
W. S. Jevons – *The Theory of Political Economy* 1871[1970]

### 1.1 Markets are People

This is the *Age of Markets*. Markets have captured the imagination of people and the *Market* has assumed a pervasive place in business language. Often, the *Market* is used to convey a whole gambit of values and attributes that require no further explanation to those in the know. In some ways, markets have become abstractions that are translated in terms of people's understanding of trading and the way in which trading is conducted. The ubiquitous influence of markets has gone beyond private business and has influenced new concepts that involve the promotion of public services and concepts through *social marketing*.

To capitalize on this development, it is essential to understand the driving forces that propel markets. A market can be described as . . . *a gathering of people for buying and selling things*. . .<sup>1</sup> Thus, markets are about people involved in a fundamental human activity: the exchange of goods and services. Consequently, markets are influenced by people's characteristics, their perceptions of wants and tastes, their purchasing power and their relative position in the market as buyers and sellers.

One basic, simple proposition is that there are no markets without people, and that demographic trends and the number and characteristics of people are major determinants of the size and characteristics of markets. However, the social and economic environment of markets also influences the size and characteristics of populations. Among others, Adam Smith proposed that small markets discourage divisions of labour and hinder the power of exchanging. He indicated that small numbers of people force a greater degree of self-sufficiency and offer less scope for

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<sup>1</sup> *Webster's New World Dictionary*. New York: The World Publishing Company, 1968.

people to specialize in their innate skills; thus leading to a less efficient use of human resources and diminished opportunities for the creation of surplus production for exchange (Smith, 1970 [1776]). This also influences productivity and the capacity of households to go beyond mere basics to progress to a wider range of commodities.

In more rudimentary markets, barter is used as the means of exchanging commodities that households have for others that they want. Barter markets are rather cumbersome because they require the meeting of people who wish to exchange one for another specific commodity, on a mutually advantageous basis. Barter tends to fall into disuse as economies become more sophisticated and money becomes the means of exchange. In addition, the creation of credit has allowed for the surplus of some to be used by others who have wants beyond their present capacity to pay for them.

## 1.2 Choices People Make: Tendency to Consume or Save and Credit

Markets are basically about people's decisions within a range of options afforded by their individual or household budgets. A fundamental decision is whether to consume to satisfy a current want or to withhold current consumption and save to satisfy some future want. This can take the shape of storing a particular commodity for future consumption, such as buying food for a rainy day, or the acquisition of an asset such as a house that will provide shelter for many years to come, rather than renting one. Alternatively, saving can take the form of a financial security on the promise of future redemption, usually on favourable terms. This is about social rather than individual events, as it involves people with different characteristics and needs.

The level of people's income influences their *propensity to consume* and *propensity to save*. Keynes pointed out that consumption increases as the level of income rises. However, the proportion or propensity to consume is usually not as great as the rise in income (Keynes, 1967). In other words, the propensity or proportion of income consumed declines as income rises and the propensity to save increases as income rises. Thus, the markets for consumption and investments related goods and services vary depending on people's level of income. This book is mainly concerned with people as ultimate consumers.

Another decision is whether to stay within the current household budget or to seek credit in addition to current income. The use of credit has been a major force in shaping markets in the last fifty years. It has allowed the considerable expansion of current consumption by the promise of payment from future income. Thus, many households have been able to consume above their current income. Yet another decision is to use past savings to complement current income in the satisfaction of present wants.

At lower levels of income, household choices are obviously driven by basic wants for food and shelter. There is little room for choice between consumption and