

Starbucks and the Theory of Consumer Choice

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Introduction

The success of an organization relies on the state of the economy, especially in their unique field. Thus, the market environment comprises many economic and human factors. The choice individual makes before buying a product influences them to buy such products (McFadden, 2014). Hence, it is important to understand and identify human factors so that firms can put strategies in place that will be productive and profitable. The theory of consumer choice implies the customer has full and transitive preferences and chooses the products they want. In this sense, Starbucks's marketing department has an interest in getting insights into how consumers make economic decisions.

Consumer choice influences the economic prosperity of a firm. For instance, in Starbucks, customers prefer branded coffee, which has enabled the company to make a profit. Therefore, the preference of the customer influences the demand curve (Foxall, 2016). However, the curve may go down because of the high cost of the products. It can also arise when the prices increase. In this sense, the upward slope informs the company that the products they sell are performing well in the market demand regardless of the cost they are selling the product. Additionally, higher wages mean consumers can afford higher luxury quantities (McFadden, 2014). Certain products are inferior, normal and substitutes, while others are complementary. These types of goods determine how customers make their choices. Also, with the higher rate of interest for customers, there is a possibility that they can save a lot because they are likely to get high in return.

Demand Curve

From the above diagram, it is factual that not every demand curve will take the down slope merely because the cost of the item increases. Customers often buy products regardless of the increase of the price (Zhao, Wang, Watson & Guan, 2013). Typically, higher costs of products imply a lower in demand. The curve shows that consumers are not affected by the price increase.

Higher Wages

The customer choices in relation to income are influenced by the four types of products. Substitutes, inferior, normal and complementary types of goods greatly affect the choices the consumer makes.

The diagram above demonstrates the income consumption curve to describe the normal product (Foxall, 2016). Overall, there is a rise and fall in utility as the quantity varies. Further, when the income augments, other relative goods also increase in price simultaneously. For instance, when buying goods, some other goods will be bought by the consumer. Substitute products are substituting the goods for the consumer. These products do not have an impact. Consumers buy substitute products to fulfil their needs.

Higher Interest Rates

The increase in interest rates affects the consumers' spending. Therefore, a rise in interest will make consumers save more cash, and they normally stop spending. Similarly, when the rate of interest falls, there will be an increase in spending (Foxall, 2016). As a result, certain consumers may wait longer for the rates of interest to be lower.

The Role Of Asymmetric Information

It is important for any company to conduct better market research. This will enable them to get consumers' insight and aim to provide for their needs. The asymmetric information provides evidence that a company experiences some challenges in the market. For instance, when purchasing coffee, a customer does not need more information compared to the individual who made the offer. In this sense, the person who makes the coffee should do a lot of market research to understand what the consumers want (Pinjari et al., 2016). Therefore, customers are not allowed to buy information about the product even if they are paying less or more. Commoners should be given the information about the products they are buying.

Condorcet Paradox And Arrow's Impossibility Theorem In The Political Economy

The Condorcet paradox is proving to be a challenge in the business world and to the entire society. Customers are not sure what they want to buy just because they need other things as well. The implication is that the problem is the economy (Oliveira-Castro, Cavalcanti, & Foxall, 2016). Some people may need to purchase something, yet they do not have enough money to help them buy those items. For example, if the client votes for A more than options B and C, while other customers opt for B or C. The examples include;

Customer 1, $A > B > C$

Customer 2, $B > C > A$

Customer 3, $C > A > B$

The question that is then not answered is, who will get the majority votes? Therefore, the Arrow impossibility theory may assist in solving such problems. Overall, it is a social option paradox that accurately shows what type of product wins the majority of votes.

People Not Being Rational In Behavior Economics

When one decides to order a coffee, an instance of the economics of behaviour, a plain coffee remains the rational option in a case whereby customers are not able to make the decision on the type of coffee they want to buy. However, when the customers make the decision to add cream and sugar. The company, Starbucks, has condiments for each item of coffee inside the shop. Moreover, the consumers who are not sure about the purchase always place an order for default goods.

Conclusion

In conclusion, it is important to get consumers' insight about how they will make their decisions and choices regarding the products they purchase. Therefore, the company should adjust based on the market situation. Additionally, goods are branded depending on how the consumers remain attracted to the process. Overall, higher wages, demand curves, as well as a rate of interest comprehensively define and describe the effect of the behaviour of consumers. Furthermore, if the customers are unable to make decisions on whatever they need, the Condorcet paradox, together with the Arrow impossibility assumption, may help in solving such challenges. It is therefore important for companies to study consumer purchasing behavior to make better sales volume. Those companies that have failed to examine customer's insight have experienced market challenges. However, firms such as Starbucks have taken the initiative to serve their consumers while providing the best products and services.

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