

Innovation and the consumer

# The passive and the active consumer

# Introduction

The aim of this lesson is to focus on what the theory of demand and consumption has to say about innovation.

We will meet six broad theories of consumer behaviour, and there are important differences between each of these.

But which is right and which is wrong?

We shall find it helpful to talk of six different consumers:

1. the economic consumer,
2. the routine consumer,
3. the Galbraith consumer,
4. the Douglas consumer,
5. the Marshall consumer
6. the Veblen consumer.

Each consumer behaves according to a different theory of consumer behaviour.

# Let's reflect!

It is quite possible that each of us will, at different times and in different circumstances, behave like each of these different consumers.

- In which circumstances you behave like the X consumer?
- Who is the consumer who most resembles you in most of your purchasing behaviours?

# PASSIVE AND ACTIVE CONSUMERS

This distinction is important in understanding the demand for innovation.

The distinction is a difficult one to capture in a few words.

We will illustrate the distinction with an example: consider the different newspapers available in a newsagent.



## ‘Low brow’ tabloid newspapers.

These are designed to be relatively undemanding to read and contain lots of photographs, skilful use of headlines and short, punchy news stories.



## ‘High brow’ publications.

The latter, by contrast, can be very demanding to read. They consist primarily of text, few photographs and often contain some quite complex argument.

# PASSIVE AND ACTIVE CONSUMERS

It is possible for a passive consumer to read the tabloid newspaper.



That sort of reading is not hard work; it does not call for any great activity and can almost be an automatic or passive process. The passive consumer will get something out of reading the tabloid without putting in much activity.

Only for the active consumer is possible to read the 'high brow' weekly. It is not possible for a passive consumer to read it.



To read this calls for a great deal more thought and hard work. The value that an active consumer gets from such reading depends in large measure on the amount of effort he puts in.

# PASSIVE AND ACTIVE CONSUMERS

Whether a particular consumer is active or not is not defined exclusively by reference to the amount of activity he puts in during actual consumption.

A consumer may be active in seeking out exactly the right purchase but less active when consuming that purchase.

More generally, at each stage in the process of :

1. demanding
2. purchasing
3. consuming

the consumer could be passive or active.

# 1. ECONOMIC CONSUMER

This is the economic consumer from the neoclassical theory of consumer behaviour.

This neoclassical theory of demand and consumption is based on utility theory.

The basic idea is as follows:

- The consumer is assumed to have a complete preference ordering over all possible bundles of goods and services and this preference ordering can be summarised by the function  $u(x)$ .
- In this neoclassical theory of consumption, the consumer is an optimiser.
  - Choice is constrained maximisation, and while the constraints always bite, the consumer nevertheless has a large degree of discretion.
- The applied economics of consumption depends therefore on the assumption of revealed preference: we make inferences about preferences by observing consumption behaviour.

# 1. ECONOMIC CONSUMER

The consumer of mainstream economic theory is an unexciting individual!

- He is an isolated optimiser → an asocial hermit of fixed and pre-determined tastes.
- His behaviour is not influenced by others.
- He has no need to experiment, but given the same products, prices and income would continue to consume in the same way indefinitely → he has little need for variety, though the standard assumption of convexity in consumer theory will tend to mean that the consumer consumes a collection of different goods, and does not just consume one good to the exclusion of all others.

The economic consumer is very **active** in making the optimum decision of what to buy and how much of it, but he appears to be pretty **passive** in actual consumption.



# 1. ECONOMIC CONSUMER

## What does the economic consumer make of innovation?

- will welcome cost-reducing process innovations because these allow him to buy ever more goods and services from his income.
- will welcome product innovations that offer him more of product characteristics that he values.
- will not be interested in product innovations that add new characteristics which he never needed.

The economic consumer may be dull but he is certainly no fool!

He knows what he wants and cannot be coaxed into thinking that he needs anything else. He is resistant to the more persuasive forms of advertising.

## 2. GALBRAITH CONSUMER

Galbraith described a mass-market buyer whose wants and tastes were shaped by **advertising**.

As Galbraith pointed out, the moment we recognise that wants are shaped by the activity of advertisers then we have to be more sceptical about the merits of economic growth:

*As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied. This may operate passively. Increases in consumption, the counterpart of increases in production, act by suggestion or emulation to create wants. Or producers may proceed actively to create wants through advertising and salesmanship. Wants thus come to depend on output.*

Galbraith calls this a **dependence effect** → if production creates the wants it seeks to satisfy then it is unclear that welfare is higher at a greater level of production and consumption.

- Many people would probably want deny that they ever conform to this type of consumption.
- It is hard to see why the advertising industry would have grown to its present size if advertising were never effective in shaping wants.

## 2. GALBRAITH CONSUMER

It is useful to remind an essential distinction in the literature on advertising between informative and persuasive advertising.

- **informative adv.:** seeks to inform the consumer that a product or service exists, that it has been redesigned and improved, or that the price has been cut.
- **persuasive adv.:** seeks to persuade the consumer that they want the product or service in question, or seeks to transform the consumer's perception of the good or service.

The economic consumer does not ignore informative advertising: it can help him optimise his purchasing behaviour. But he is unmoved by persuasive advertising.  
The Galbraith consumer is heavily influenced by persuasive advertising.



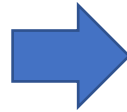
The economic consumer is active in buying behaviour.  
The Galbraith consumer is passive and impressionable. When it comes to actual consumption, Galbraith's consumer can be active or passive.

**What does the Galbraith consumer make of innovation?**

This consumer is impressionable and malleable → he could be encouraged to buy many new products and services which the hard-nosed economic consumer might not consider.

# 3. DOUGLAS CONSUMER

This consumer has tastes that are not fixed, but the forces that shape his tastes are different.



Douglas stressed that **much consumption is an inherently social activity**, and yet much of the economic analysis of consumption treats it as a matter of individual choice, neglecting interactions between consumers.

Douglas wrote that ‘the real moment of choosing is the **choice of comrades and their way of life**’. Once that choice is made, choices over lesser matters are largely determined by group norms.

This is an especially interesting perspective because it suggests some ex ante discretion in consumption, but much less ex post discretion.



The Douglas consumer has discretion when deciding which tribe to join but less choice thereafter. From this perspective, consumption of goods is a way of associating with peers.

### 3. DOUGLAS CONSUMER

Because the loyal Douglas consumer has limited discretion over what he buys, he may seem to be relatively **passive** as far as purchasing decisions are concerned.

But because the Douglas consumer shares consumption as a social activity with members of his peer group, then the Douglas consumer may be relatively **active** in consumption itself.

How does a Douglas consumer react to innovation?

At first sight it would appear that the Douglas consumer must be rather resistant to innovation, but that is not necessarily so. Innovations may offer the Douglas consumer an opportunity to affirm membership of his peer group in an imaginative way.

→ when an opinion leader within a group adopts an innovation, it is likely that Douglas consumers will be quick to follow.

# 4. VEBLEN CONSUMER

An individual's consumption can be influenced by the behaviour of at least three groups:

1. a peer group, with which the consumer wishes to associate, and with which the consumer wishes to share consumption activities;
2. a distinction group from which the consumer wishes to distinguish himself;
3. an aspiration group, to which the consumer aspires to belong, but membership of which is as yet unattainable.

For the Douglas consumer, the key reference group is the peer group, though some of the consumption behaviour of some Douglas consumers may also be driven by a desire to distinguish themselves from rival groups.

**Veblen consumer's consumption is driven primarily by this desire for distinction**

**--> this consumer wishes to signal his distinction and wealth by a very conspicuous display of consumption.**

## 4. VEBLEN CONSUMER

The Veblen consumer is definitely an **active** consumer.

1. he is active in choosing items for consumption that will achieve the desired purpose: of demonstrating the distinction of the consumer. It is hard to see how a passive consumer could hope to achieve distinction.
2. he is active in the process of consumption – because such consumption will only demonstrate distinction if it is distinctive.

# 4. VEBLEN CONSUMER

## How does a Veblen consumer react to innovation?

Some product innovations – notably the more radical innovations – would appear to offer an opportunity to demonstrate distinction.

The demand for distinction can be subtle and the reaction to innovations more complex than appears at first sight.

Eg. in an analysis of the demand for distinction through the ownership of prestige cars, we identify two types of Veblen consumer:

- one who seeks **distinction in novelty** (very likely to desire the latest model of Ferrari) → innovation is welcome as a new source of distinction
- one who seeks **distinction in antiquity** (more interested in a Rolls Royce Silver Cloud from 1955 than the latest model of Rolls Royce) innovation is a way of ensuring that the new rich city trader who spends his money on a new Rolls Royce cannot hope to match the timeless elegance of the 1955 Silver Cloud.



# 5. MARSHALL CONSUMER: the innovative consumer

Marshall's consumer is the most active consumer of all.

The way in which he achieves higher 'utility' may change significantly as the target rises.

Marshall recognised this in an important passage about the consumer:

- every step in his progress upwards increases the variety of his needs together with the variety in his methods of satisfying them.
- he desires not merely larger quantities of the things he has been accustomed to consume, but better qualities of those things;
- he desires a greater choice of things, and things that will satisfy new wants growing up in him.

# 5. MARSHALL CONSUMER: the innovative consumer

Marshall's consumer:

- becomes more subtle and varied in his consumption:
  - As ... Man rises in civilisation, as his mind becomes developed ... his wants become rapidly more subtle and more various; and in the minor details of life he begins to desire change for the sake of change.
- is selective in those areas in which he seeks distinction.

What starts as a demand to enable Marshall's consumer to take part in some 'higher activities' may in due course turn into a demand for more conspicuous purposes.
- will not be satisfied with distinction alone.

he aspires to excellence for its own sake, even in private consumption: 'For indeed, the desire for excellence for its own sake is almost as wide in its ranges as the lower desire for distinction.'

The Marshall consumer **is an innovator, actively seeking out new and different consumption opportunities, and actively making the most of each consumption experience.**

# 5. MARSHALL CONSUMER: the innovative consumer

## How does a Marshall consumer react to innovation?

- He is as receptive to innovations as any consumer can be.
- He is one who, even if he had no apparent need for an innovation when it is first marketed, would want to try it out because he is always interested in the 'new pursuit' and to 'engage in new undertakings'.
  - This can mean that the Marshall consumer plays a pivotal role in developing the market for some new innovation.
- He is not just important as an enthusiastic recipient of innovation. He is, in a sense, an innovator himself: **an innovative consumer.**

# 6. ROUTINE CONSUMER

The routine consumer, described by Warde (2002), is perhaps the most **passive** of all.

- He does not actively compute optimum consumption bundles like the economic consumer: instead he just sticks to familiar routines in consumption.
- He is not unduly influenced by advertising, in contrast to the Galbraith consumer.
- He will probably not change his consumption patterns even if members of his peer group change their consumption. He does not seek distinction, in contrast to the Veblen consumer.
- He is definitely not an innovator, in contrast to the Marshall consumer.
- The routine consumer just buys the familiar and ordinary.
- He is hardly an active consumer.
- He is arguably an even less interesting character than the economic consumer.
- He will be highly suspicious of innovation.

# Are these active or passive consumers?

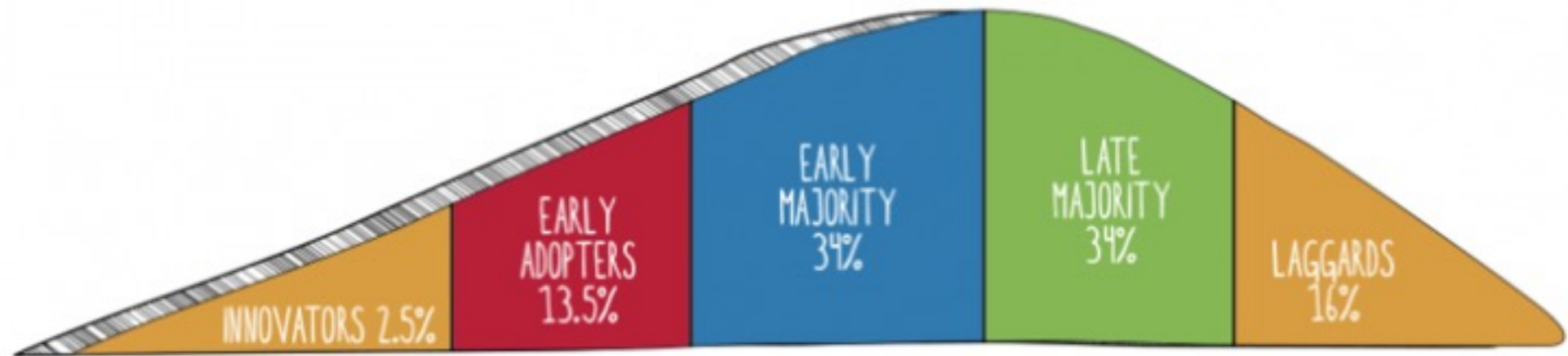
As we look at the six theories of consumption, and the sorts of consumer they describe, we shall see that we cannot unambiguously classify these consumers as passive or active.

- The **economic consumer is active in optimising his purchasing** behaviour but may be quite **passive in actual consumption**;
- By contrast, the **Veblen consumer is very active in actual consumption** but may be fairly **passive in purchasing**;
- The **routine consumer is passive** in most things;
- The **Marshall consumer is active** in most things;

But even though these different consumer types may be part active and part passive that does not diminish the value of the distinction.

The distinction between active and passive consumers remains important because these two types respond to innovation in rather different ways.

# DIFFUSION OF INNOVATION MODEL



# Let's reflect!

It is quite possible that each of us will, at different times and in different circumstances, behave like each of these different consumers.

- In which circumstances you behave like the X consumer?
- Who is the consumer who most resembles you in most of your purchasing behaviours?