CHAPTER

2

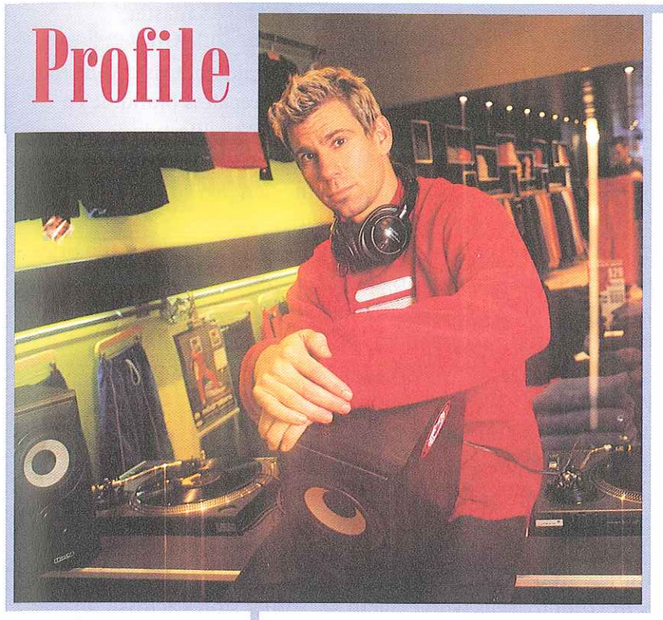
BUSINESS AND THE CONSUMER

Student Expectations

After completing this chapter, you will be able to

- **demonstrate how businesses respond to needs and wants**
- **analyze how needs, wants, values, and goals affect consumer spending**
- **understand how choice affects you as a consumer**
- **identify the key factors that influence what consumers buy**
- **identify three key factors that determine how consumers buy**
- **describe the concepts behind e-commerce**
- **explain how a business can get established online**

Profile



Steve Debus, owner of Mōdrobes.

Mōdrobes: Clothing the Modern World

Young designer/entrepreneur Steve Debus's funky urban sportswear clothing line, Mōdrobes, is booming. He went from sales of $70 000 in his first season to $3 million in 1999, and he is intent on making Mōdrobes the next Levi's. But he's definitely not going the denim route. Explains Steve: "Denim is not a fit for the modern world! People sit at computers now rather than working in factories and need something more comfortable, a little more lightweight. That's where I thought we would fit perfectly."

Mōdrobes has taken off because of Steve's back-to-basics marketing style. Staying current with young customers means marketing where they meet. So on Canada Day 1999, Steve set up shop at Edgefest in Barrie, Ontario, one stop on a nine-city, cross-country series of rock concerts. In Barrie, with a two-storey booth, Steve and staff sold their clothes to a captive audience of 30 000 who flock to gatherings like this.

From there, the Mōdrobes travelling road show made stops at Edgefests all the way to Vancouver. These concert sell-a-thons were a lot of fun—and profitable. But that's not all: They also created huge demand. Steve launched retail outlets in Toronto to deal with the soaring local sales. He also started selling wholesale to stores across Canada. Plus, he was doing all the designing himself.

Faced with almost unrelenting growth, what was a stretched-thin entrepreneur to do? By late July, Steve's solution to his growth crisis seemed to be … ignore it. The call of the road was too strong. This time he headed to Woodstock '99 in Rome, New York. For the first time ever, Mōdrobes sold in the U.S. Despite deplorable conditions and many technical difficulties, American kids bought Mōdrobes in droves.

CONTINUED →

Current Trends

Although jeans and T-shirts remain fashion basics, it is the different, or "in," look that lures both teenage and adult consumers into retail stores. For many people, clothing helps create an image. For teens, clothing is often seen as an indicator of status, popularity, or being part of an exclusive group. As a result, clothing is a key area of youth spending. You might even be strongly influenced by your friends to buy something you don't really want. This type of influence is called **peer pressure**. Teenage peer pressure comes into play most often at school and in social settings. Buying to belong is a common motive in the buying patterns of young people and a popular strategy in product advertising targeted at teens.

Staying in style can be costly. The latest fashions quickly become obsolete and are replaced by something new. You can easily spend hundreds of dollars putting together a single outfit that will soon be thrown out or forgotten because it is out of fashion. Keeping up with the latest trends often leads to unwise purchases.

Teenage Consumers

Canadian businesses see teens as a major market. As a group, this generation of teenagers has more money to spend than any previous generation of teenagers. Not only do teens directly contribute to the Canadian economy, they also influence parents' or guardians' spending patterns. Whether it's clothing, groceries, sports equipment, television sets, vehicles, electronic equipment, personal computers, or vacations—what teens want often decides what the family gets.

Businesses target teens for another reason. Teens are usually in the process of establishing their own identities, independent of the family. Although they regularly buy items such as soft drinks, clothing, CDs, and personal grooming products, teens have no strongly established buying patterns. That's why marketers often design advertising and sales promotions aimed at teens. If companies can establish buying habits and loyalties to certain products and services now, they may have customers for life.

BUSINESS FACT

The teen market responds to fashion trends more than any other segment of society.

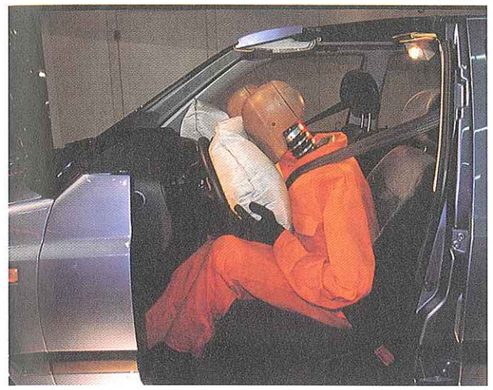
Customs and Habits

Family, religion, community, and customs often affect consumer choices. For example, weddings, birthdays, and baby showers are customary gift-giving times. In fact, special occasions and certain holidays result in dramatically increased consumer spending. Without proper planning, holiday spending can also lead to disastrous consumer debt.

Habit also plays a part in what you buy. You may buy a particular magazine each week or month, rent a videocassette every Friday, go out to a movie every week, or eat at the same fast-food outlet every day. These behaviours are habits—they are formed over time and done repetitively, often with very little thought.

Safety

Product safety has become a major public and consumer issue, and often reflects the purchases that consumers make. Parents are extremely concerned about their children's safety when they purchase items such as cribs, car seats, highchairs, and baby carriages. Safety has also become a major concern for car buyers and manufacturers. As a result, air bags, antilocking brakes, and other safety devices are now common features of most vehicles.



Crash test dummies are used to test a car's safety.

Canada is recognized worldwide for its excellent product standards. Canadians have come to expect a high level of safety, effectiveness, and quality in the goods they buy. Many of these items must meet safety standards established by government and industry. The Canadian Standards Association (CSA) is a not-for-profit, voluntary-membership association. It is involved in developing standards for safety and in certifying products. CSA standards are supported by producers and consumers, and are widely used by industry and commerce. They are often incorporated into government regulations, particularly in areas of health, safety, building construction, and the environment. You will read more about health and safety regulations in Chapter 5.

Is It Always Safe?

Even products developed for safety may be unsafe under certain circumstances. For example, many air bags deploy at such a great force that they can injure children in the front seat or drivers who cannot maintain a distance of 25 cm between the steering wheel, where the air bag is located, and their breastbone. Transport Canada offers suggestions for ways to minimize the risk posed by air bags, and has a program to deactivate air bags for those who cannot minimize the risk.

Promotion

Business advertising and promotion are designed to influence consumer spending and create a desire for products and services. Strong competition in the global marketplace has led to more sophisticated promotional techniques. For one thing, advertisers now use the Internet to attract customers to businesses and products in very different ways. Through advertising, consumers learn about the many products and services available to them.

Sometimes, advertising methods are deceptive. Consumers are led to believe, for example, that a certain product or service is far superior to another, when in fact little or no difference exists. False or misleading advertising comes in many different forms. One form, known as **lifestyle advertising**, shows attractive, healthy, successful, and appealing people using the product or service that is being promoted. The ads suggest that if you use the product or service, you will be just like these ideal people and, instantly, your lifestyle will improve. Advertisements for soft drinks, snack foods, jeans, and athletic shoes often use this technique. To be a smart consumer, a person has to pay careful attention to the intention of advertisements and not be taken in by the unrealistic expectations they promote.

E-ACTIVITY

Can advertising be harmful? Visit www.business.nelson.com and follow the links to learn about organizations that uncover the truth behind ads.

ACTIVITIES FOR ...

Information	Connection	Extension
1. a) Name six factors that affect buying decisions.	**b)** Choose a product. When buying that product, which of the six buying factors most affects your final decision?	**c)** Have you ever made a buying decision based on one factor, then regretted your decision? Tell about the experience.
2. a) What is the function of the Canadian Standards Association?	**b)** Does the CSA support consumers, businesses, or both? Explain your answer.	**c)** Using the Internet, research the CSA and similar organizations in other countries. How are their missions the same? How are they different? Create a visual or print presentation about the CSA or a similar organization using the organization's logo and its mission statement to describe its work.

Taking Care of Business

Business decisions would be very simple and predictable if all consumers only made purchases to satisfy the three basic survival needs: food, clothing, and shelter. Obviously, however, some businesses satisfy much more than just basic needs; they focus on consumer wants. If every consumer "needed" a particular good or service, then the potential market for that good or service would be enormous. As a result, those businesses offering it could be very profitable. On the other hand, businesses that focus on a specific consumer want, perhaps luxury cars, would find the demand much more limited. Deciding which products or services to offer requires careful thought and, in some cases, a great deal of risk taking.

Not only do businesses have to decide which products and services to offer, they must also decide how much to charge. This is one of a business's most important tasks. As discussed in Chapter 1, pricing is determined by supply and demand. If a good or service is not priced very competitively, consumers will shop elsewhere.

Business Responses to Consumer Behaviour

Businesses try to determine how much customers will buy to satisfy their needs and wants. By studying customers' behaviour patterns, a business can create an environment that will promote sales and, as a result, increase profit opportunities. Three factors determine how customers buy: the amount of time a customer spends in a store, the amount of contact time between customers and sales personnel, and the amount of time a customer must wait to pay.

BUSINESS FACT

Businesses try to increase the amount of time customers spend in their stores by providing a welcoming environment, including wide aisles, suitable music, free samples, and babysitting services.

Time Spent in a Store

The amount of time a shopper spends in a store is perhaps the most important factor in determining whether or not a customer will buy. Consumer research surveys show that the longer a business can keep a customer in the store, the greater its chances of making a sale.

Table 2.1 Time Spent in a Store

	Buyer	Non-buyer
Electronics store	9 min 29s	5 min 6s
Toy store	17 min	10 min

Contact Time

How much time do customers spend with a store employee while they are in the store? If this contact time, or **interception rate**, is increased, the opportunity for making a sale also increases. A business that has fewer employees to "intercept" potential customers is likely to have lower sales rates than a store that is fully staffed with friendly and approachable salespeople. Employees can help customers find the goods or services they are looking for. They can also recommend complementary products to increase the customer's total purchases and answer any questions they might have.

Waiting Time

Even customers who reach the checkout counter satisfied with the goods and services they have chosen may quickly become impatient and irritable if they have to wait a long time to pay. In today's world, most people are extremely busy and pressed for time—they are less likely to shop at a particular store if they see that there is a long lineup or if they have experienced slow service at that store in the past. Long lines discourage customers and could result in a loss of business.

Business in a Changing Marketplace

Today, the Internet has created a new kind of marketplace and a new form of business. It is known as **e-commerce**, which stands for "electronic commerce." In today's electronic marketplace, consumers and sellers can conduct business without ever meeting face to face. To go shopping, all you need is Internet access. Most traditional businesses may be open 12 hours a day for six days a week. E-businesses are generally "24/7"—they are open 24 hours a day, seven days a week.

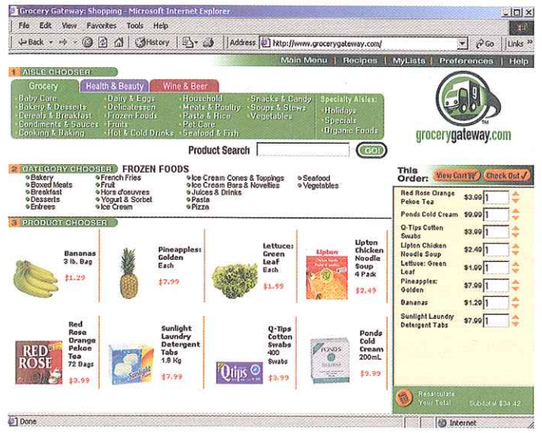
Setting Up an E-Business

To conduct e-commerce, a business needs an actual physical space in which to operate. Electronically, the first thing the business needs is a **Web site** to conduct e-commerce transactions. It also needs a **domain name**—a catchy and simple Internet address—if it wants to present the business professionally to potential customers. This Internet address lets potential customers connect with the business **online**. Once a business Web site is created, **Web pages** are necessary to advertise the goods or services that are for sale. Some small businesses do this design work themselves, but larger businesses usually hire professional Internet-service businesses to do this work. E-businesses also need a method of processing payments. If it is more convenient for them, online businesses may hire other businesses to assist them with their payment process.

E-ACTIVITY

Visit www.business.nelson.com and follow the links to learn how businesses register domain names.

Once all this is accomplished, e-businesses can measure their success in different ways. Sales and profits are a critical indicator, but e-businesses can also gauge the popularity of their Web site by keeping track of the Web site hits. **Web site hits** measure the number of people who visit the Web site. They are a reflection of whether the business's online presence has become well known and popular.



More and more people are ordering groceries from online grocery stores, such as grocerygateway.com. They can choose from a variety of products, as shown on this screen.

Deciding Whether to Buy Online

Many goods and services are selling well on the Internet, and the volume of sales is increasing rapidly. Some products that sell particularly well online include CDs, health products, books, software, and hardware. Clothes, jewellery, toys, and gift items are also gaining popularity online. Frequently used online services include banking and investing, distance education, airline bookings, and travel planning. Of course, the Internet has also created a market for many new types of services, such as Web page design and Internet security services.

Table 2.2 Approximate E-commerce Revenue for 2000 and Projected E-commerce Revenue for 2004

Region	2000	2004
North America	$795.0 billion	$5.5 trillion
Asia Pacific	$84.0 billion	$2.5 trillion
Western Europe	$136.0 billion	$2.4 trillion
Latin America	$6.3 billion	$128.0 billion
Rest of world	$4.7 billion	$104.7 billion

As more businesses go online, consumers will be faced with a staggering number of goods and services. In the "real world," consumers can touch the goods they are considering buying. They can meet the people offering services. E-commerce, however, takes place in cyberspace, where nothing is tangible. As a result, consumers are cautious about placing their trust in e-businesses. Research indicates that many consumers make buying decisions online but then buy offline. (See Chapter 10 for more information about online shopping, and Chapter 13 for information about banking online.)