

Chapter 5

Mind and Machine: Unravelling Consumer Behaviour Through Psychology and AI

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ABSTRACT

This chapter explores key aspects of consumer behavior, focusing on the cognitive, emotional, motivational, social, and cultural influences that shape purchasing decisions. It delves into the role of AI in analyzing and predicting consumer behavior, illustrating how data-driven insights, hyper-personalization, and behavioral targeting enhance marketing strategies. The chapter also examines ethical considerations of AI, highlighting privacy and manipulation concerns. Through case studies and real-world applications, the chapter demonstrates the transformative power of AI in retail and marketing, providing a forward-looking view of emerging trends in AI-driven consumer behavior.

INTRODUCTION TO CONSUMER PSYCHOLOGY

The scientific study of how people's perceptions, feelings, beliefs, and thoughts affect their purchasing decisions is known as consumer psychology. It covers a broad range of subjects, such as how people choose the items they purchase, use, and discard those products, as well as the variables influencing these actions. Businesses and marketers can develop more potent tactics to influence consumer behavior and raise customer satisfaction levels by knowing the psychological processes that underlie consumer decisions.

Importance of Consumer Psychology

Businesses that want to cater to the requirements and preferences of their target audience must have a solid understanding of consumer psychology. Consumer behavior includes both the things that customers purchase and the reasons behind their purchases. This covers the reasons, feelings, and mental processes that affect the things someone decide to buy. Emotions, for example, have a big influence on consumer preferences since people are drawn to brands and goods that make them feel happy, excited,

DOI: 10.4018/979-8-3693-8588-3.ch005

or nostalgic (Schwarz & Clore, 2007). On the other hand, unfavorable feelings may turn customers away from a company or item.

Businesses can better understand how different stimuli, like marketing messages, social influence, and environmental conditions, affect consumer choices by utilizing consumer psychology. Businesses must understand what makes their product unique and how to promote these attributes in a way that speaks to consumers' psychological requirements in an increasingly crowded market (Solomon, 2018). According to Hoyer and MacInnis (2010), marketers can enhance the efficacy of their campaigns by studying consumer psychology, which enables them to better categorize their audience based on psychological attributes and adjust their marketing methods appropriately.

Consumer psychology has gained even greater significance in the current digital era as the market has shifted from traditional brick-and-mortar retailers to online platforms. With the abundance of information available to them nowadays, consumers may compare various brands, goods, and services. As a result, understanding the cognitive and affective processes that influence online shopping behavior has become a significant element of consumer psychology (Darley, Blankson, & Luethge, 2010).

HISTORICAL CONTEXT OF CONSUMER PSYCHOLOGY

The field of consumer psychology has its roots in psychology as a whole, especially in disciplines like cognitive psychology, social psychology, and behavioral economics. Early in the 20th century, the area started to take shape, greatly impacted by developments in psychology theory and experimental design. The early research of well-known psychologists like Sigmund Freud and John B. Watson established the foundation for our knowledge of human behavior, which subsequently extended to the study of consumer behavior.

According to Freud's psychoanalytic theory, consumer preferences and decisions are significantly shaped by unconscious impulses and desires. While his main focus was on comprehending the human mind in therapeutic contexts, his theories provided valuable early understanding of how ingrained emotional demands could impact purchasing decisions (Freud, 1923). On the other hand, Watson's behaviorist work—especially his studies on classical conditioning—offered a more empirical method of examining consumer behaviour. Early advertising methods were based on Watson's theory that stimulus-response associations might be used to change and shape customer behavior (Watson, 1913).

The focus shifted toward comprehending consumer decision-making from a cognitive standpoint in the middle of the 20th century. Bounded rationality, a theory first proposed by researchers like Herbert Simon, postulated that due to cognitive constraints and the intricacy of information, consumers do not always make completely rational judgments (Simon, 1955). This represented a change from previous models that presupposed customers behaved as perfectly rational actors that constantly sought to maximize utility.

The growth of marketing as a field of study in the 1960s and 1970s increased interest in consumer psychology. Scholars commenced investigating the potential applications of many psychological principles, including motivation, perception, and attitudes, to consumer behavior. For instance, Abraham Maslow's hierarchy of requirements, which postulated that people are driven by a range of hierarchical needs, from basic physiological needs to self-actualization, became a well-liked framework for comprehending customer motivations (Maslow, 1943). This framework was adopted by marketers in order

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