CHANGES IN INCOME'S IMPACT ON CONSUMER CHOICES

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Abstract

The current article introduces how consumers make their preferable choices and selection about the services and goods they need to purchase with their limited income. This article brings the importance of income in people's lives and their purchasing power. A few themes have been created with the keywords of the study and the thematic analysis helps to provide a brief knowledge of the customers' income affecting the consumer choice. Moreover, the discussion helps to define the strategic development of the firm with the demand forecasting increasing the growth potential of the firm with the risk mitigation factors.

Keywords

Change management, income effect, consumer choice, demand prediction

Introduction

Income affects people's lives and the effects specify the change in customers' demand for services and goods based on their incomes. As per the suggestion of Li et al. (2020), when the rate of income increases, people will automatically start to demand more services and more goods. On the other hand, a drop in income may result in lower demand for the consumer.
Background and Rationale of the study

From the above figure, it can be said that almost over one-third of customers were trusted to purchase goods and services at a low price rate. It has been observed that the inflation in the income had no impact on the share of the customer approximately less than 20 percent. It has been observed that when disposable income increases, the consumption function automatically shifts forward or upward. The choices that consumers make are influenced by their earnings, the price of the services and goods that they purchase, and different other factors.

**Aim and objectives**

The main aim of the article is to equip an appraisal of the effects of income on the purchasing power and behavior of the customer.

**Objectives**

RO1. To clearly specify the role of income in consumer buying choices  
RO2. To critically examine the important factors that is affecting income  
RO3. To illustrate the impact and substitute effects of income on the purchasing behavior and preferences of the consumer  
RO4. To recommend effective ways for handling the income-related issues

**Research Questions**

RQ1. What are the benefit of income in people’s life and their purchasing power?  
RQ2. What are the crucial factors that are affecting consumers' income?  
RQ3. What are the effects of the impact that changes consumer choices?  
RQ4. What are the beneficial ways to overcome the problems of income effect?
Literature review

Specify the role of income in consumer buying choices

Figure 2: The importance of income in consumer buying choices

(Source: Blaylock et al. 2020)

It has been noted that income is the most important thing that affects the purchasing decision of the buyers. As per the suggestion of Blaylock et al. (2020), the income, as well as the earning effect, can change or transform the purchasing power of the customer as the price fall of the goods and services can make the customer feel better and wealthy. Along with this, a change in the price of goods, services, as well as commodities, can directly impact customer demands. It has been observed that the effects mainly vary based on the product and nature of the product or commodity, customer’s choice as well as their preferences as per the view of Pitts et al. (2010), a boost in customer’s income however results in a demand for more goods, commodities, and more services. On the other hand, a poor income or a dropdown in consumer income may cause the exact opposite. Therefore it can be deduced that the income effect is directly related to the spending amount of the consumer.

Effective ways for overcoming the issues regarding income effect

There are several ways by which inequality in the income rate can be overcome. As per the comment of Martinho (2020), proper distribution of wealth through taxes, ownership promotions, as well as socialization and redistribution of capital among all the citizens are the best ways to reduce issues of the income effect. Along with this, income effects can be overcome or reduced by directly or indirectly lowering the rate of income of the wealthiest or boosting the earning of the poor people. It has been observed that the
government can adopt different effective and strong policies based on the matter of enriching the rate of employment as well as employee’s pay scale for increasing their income.

It has been noted that employment-related policies need to be strong and the government can follow a few policies which involve boosting the bargaining rights of the purchasers, schemes related to full employment, different types of living-wage guidelines, various minimum-wage rules and regulation acts, as well as wage subsidies. As per the opinion of Blaylock et al. (2020), direct income-transfer policies can reduce inequalities in income with the help of different types of conditional money-welfare payments. Therefore it can be deduced that the issue of income effect can be resolved by generating revenue like the Tobin tax on the process of financial transactions as well as a global tax policy.

Methodology

In this recent article, the researcher has picked up the philosophy of positivism. As per the suggestion of Li et al. (2020), the philosophy of positivism helps to find factual knowledge and information from relevant articles, papers, and journals of other researchers. Along with this, the research has implemented a deductive research approach as it helped to create a strong hypothesis. Other than this, this particular approach has been picked up to evaluate the practical evidence related to customers’ income changes. On the other hand, this analytical approach helped to complete the article in an effective and efficient manner. Besides this, a descriptive design has been followed in this article. Along with this, a systematic review and thematic analysis have been done in this present article. As per the suggestion of Dangi et al. (2020), thematic analysis is a method of secondary quantitative analysis and it is mainly used in secondary data analysis and systematic reviews. Therefore, it can be deduced that thematic analysis and systematic review have been assigned, for analyzing the income effects and identifying the ways by which it is affecting the purchasing power as well as the behavior of the customer.

Findings

**Theme 1: Changes in Income, prices, and preferences of customers are impacting on consumer choices**

Changes in the income level of the population create uncertainty for the production process in the firm. Moreover, the process of the products is needed to be managed systematically to satisfy consumers with lower income levels. High end products are created for satisfying the consumers with the highest income level. As commented by Cox et al. (2020), the price increase of the products and services decreases the demand for the products as the household attracts more towards high quality and cost effective products. Budget constraints control the customer choices and preferences of the products in set by this phenomenon. The opportunity of the company lies in designing the products and creating market research on the consumer behaviour for reducing the risks of wastage in the firm.
Figure 3: Factors affecting consumer behaviour

(Source: Catalano, Forni & Pezzolla, 2020)

Figure 3 shows the factors impaction on the consumer behaviour and choices that is required to keep in mind while designing the strategies for production and marketing. The changes in the income level create challenges for the firm to collect cost effective resources for reducing the barriers to the production and delivery. Advancement of technological tools helps to understand the past performances of the firm and the income level of the population and instructs the production managers to increase automation in workload management for employee satisfaction. As opined by Catalano, Forni & Pezzolla (2020), the increasing level of production collects more revenue and it increases the salary structure of the working class. Moreover, the salary hike promotes economic development and financial stability in the market.

Theme 2: Concepts of demand prediction to analyse the consumer choices for business success

The demand prediction model helps to analyse the market condition for identifying consumer choices. Insights are provided by the demand prediction that improves the strategies of the firm and leads the firm towards customer-centric goals. As highlighted by Ellison et al. (2021), consumers' income is a major factor in designing and improving the change management practices to meet the need of the changing consumer behaviour. Proper demand forecasting helps the company to control excessive fund wastage by buying expensive raw materials for the production procedures.
Figure 4: Consumers Demand analysis parameter

(Source: Habib et al. 2021)

Figure 4 highlights the consumer demand analysis parameter to forecasting consumer choice. A competitive pricing strategy is needed to increase competitive advantages and attract the consumer toward innovative products. According to Habib et al. (2021), the application of advanced technological tools in the production helps to identify potential opportunities and supply the products into a demanding market for sales growth. The managers need to set goals and objectives to increase the customer pool in the firm with understanding the consumer choice in changing environment.

Theme 3: Contrasts of income effect and substitution effect for change management

The substitution effect deal with the change in price of goods and service affecting the consumers’ choice and income effect defines the change in the consumer choice with the changes in the income level of the consumer. Moreover, the customers with and substitute effect buy substitute products for the excessive price increase of the required products. As stated by Jorgenson et al. (2019), substitute products give relatively equal benefits comparing to the high end products. The income effect on the consumer behaviour deals with the fall of demand with the excessive growth in prices decreasing the growth potential of the firm (Bonnet et al. 2020). The fall in demand increases wastages in the firm and creates massive job loss and financial insecurity in the firm.
Figure 5: Income effect on consumer choice

(Source: Galoni, Carpenter & Rao, 2020)

Figure 5 shows the impact of income effect on consumer choice and it motivates the firms to design substitute products for managing financial risk and staffing issues in the firm. As opined by Galoni, Carpenter & Rao (2020), massive job loss creates uncertainties to meet the deadline on time. Formulation substitute choosing alternative resources increases the employee retention in the firm, providing new goals and objectives for creating cost effective sustainable products for business growth (Moon, Choe & Song, 2021). Quality of the goods is maintained in the substitute products that increase the satisfaction rate decreeing the process of the commodities.

Discussion

The importance of consumer choice has been discussed here and the significance of the income level of the consumer has been justified in relation to business growth. As stated by Wachter (2020), the thematic analysis has been created in the study with the help of the secondary qualitative research method. Moreover, the themes are created to suggest that managers to strategically design the change management strategies in the firm for encouraging the employees to improve the production rate to changing demand of the market (Wang, Wong & Narayanan, 2020). The aims and objectives are created in the study to discover a unique conclusion by answering the research questions properly.

Based on the research questions, the solutions have been provided to encourage the managers for dealing with the income effect skilfully to increase the adaptation rate of alternative resources in the firm. Demand parameter has been discussed in the study to create additional funding for the improved software in the firm for supply chain management (Feil et al. 2020). The importance of the customer-centric business approach is evaluated in this study and the future outcome is predicted with the analysis of the historical sales data. As stated by Singh & Jang (2022), customer demographic re needed to be checked by the managers to
formulate the design of the products for attracting the customers. After predicting the demand the budget of the firm is formulated and investment in the required inventory is provided after demand forecasting. Moreover, the study helps to track the sales performance of the firm to compare the productivity rate with the competitor firm for sales increase.

Conclusion

The study deals with the changes in income and their effect on consumer behaviour. The past researchers' viewpoint helps to establish a brief knowledge on the benefits of customer demand prediction model tackling the changes of the market condition. Moreover, the income of the consumer’s results in the number of products bought. It shapes the ways of production performance of the firm suggesting the managers gather alternative resources for reducing the uncertainty of the manufacturing process.

References


