

The Role of Behavioral Economics in Marketing Strategies

Dr. Rupinder Kaur ^{1*}

¹Associate professor USB Chandigarh University Mohali, Punjab

Abstract

Today's competitive business environment has made it increasingly important to comprehend consumer behaviour. It provides invaluable insights into the decision-making process of individuals, as behavioural economics is a combination of economics and psychology. These principles can be employed by marketers to develop strategies that are profoundly resonant with consumers, thereby facilitating engagement and conversions. In this article review the various literature's study on role of behavioral economics in marketing strategies.

It concluded that behavioral economics has significantly influenced marketing by leveraging psychological triggers such as scarcity, social proof, and emotional appeal to shape consumer behavior. Emotionally engaged consumers exhibit greater loyalty, while personalized recommendations from companies like Amazon and Netflix enhance customer retention. Pricing strategies, including anchoring and implicit pricing, manipulate consumer perceptions to drive sales. Social influence and scarcity effects further increase motivation to purchase. However, ethical considerations must be addressed to ensure transparency. By applying behavioral economics principles, firms can create more engaging marketing strategies, strengthen brand loyalty, and enhance consumer decision-making in an increasingly competitive market.

Keywords: Consumer behaviour, Behavioural economics, Marketing strategies, Consumer perceptions, Consumer decision-making, Nudging, etc.

* ISBN No. - 978-81-983155-7-1

1 Introduction

A. Behavioral economics

The study of behavioural economics examines how cognitive, behavioural, emotional, and social psychological aspects influence people's or organisations' choices and how they differ from those suggested by conventional economic theory. The main focus of behavioural economics is on how rational economic actors may be. The ideas from microeconomic theory, psychology, and neuroscience are usually included into behavioural models [1]. Although behavioural economics emerged as a separate academic discipline in the years 1970 and 1980, its roots may be seen in the work of economists like Adam Smith in the 18th century, who examined how people's preferences can affect their economic behaviour. As a branch of economics, behavioural economics is relatively new, with the innovations that gave rise to it occurring within the latter thirty years of the 20th century. The area of behavioural economics is continually expanding, with more and more applications in both research and education [2].

Adam Smith observed that people are frequently overconfident in their own abilities in the 18th century. He pointed out that every man overvalues the chance of gain and that most men undervalue the chance of loss. He also pointed out that almost no man, even one in good health and spirits, values anything more than it is worth [3]. In this way, Smith thought that people were not logical given their inherent constraints. As early as the 1960s, behavioural economics began to take shape as a number of economists discovered important biases in information retention [4]. Amos Tversky and Daniel Kahneman developed this concept, known as the availability heuristic, which causes people to perceive facts unreasonably. For instance, headlines may give the impression that shark attacks are more common than they really are, but this is not always the case [5]. According to prospect theory, which was developed by Tversky and Kahneman, individuals may be more negative about losing than about winning equally. Richard Thaler's work in determining the elements that influence people's economic decisions earned him the Sveriges Riksbank Prize in Economics Science in 2017. Individual decision-making, social preferences, lack of self-control, and limited rationality were all present in Thaler's study.

B. Factors Influencing Behavior

Bounded Rationality: According to this theory, people's capacity for thought and comprehension is limited. They often use straightforward thought processes rather than always coming to the best judgements. We can better understand why people sometimes make decisions that may not appear reasonable when we understand constrained rationality [6].

Choice Architecture: Consider this as the process of creating the environment in which individuals make decisions. The choices that individuals make can be influenced by altering the way in which things are organised. By selecting architecture with precision, we can assist individuals in making more informed decisions without compromising their autonomy.

Emerging Trends in Commerce and Management: A Multi-Disciplinary Approach
(VOLUME-1)

Cognitive Bias: Our minds may think incorrectly at times. We refer to this as biases. For example, we may make judgements depending on the way information is presented to us or believe we are better at something than we really are. We can make better choices and judgements if we are aware of cognitive biases.

Discrimination: This occurs when individuals are treated unjustly due to their ethnicity, gender, or beliefs. It is unethical; however, it may occur due to social or cultural factors. To combat discrimination, it is necessary to establish a society that is more inclusive and equitable, in which all individuals are treated equally.

Herd Mentality: Envision a situation in which individuals adhere to the throng without exercising their own judgement. That constitutes herd mentality. People frequently engage in this behaviour, particularly in scenarios such as the stock market, where they may purchase or sell equities solely because their peers are doing so. It is possible to make more independent decisions and avoid uncritically following others by comprehending herd mentality [7].

Individual Characteristics: Each person is unique. The manner in which we make decisions is influenced by factors such as our knowledge, beliefs, and personalities. It is possible to more effectively support disparate requirements by customising strategies and interventions based on the recognition and comprehension of individual characteristics [8].

Interpersonal Factors: Our conduct may be influenced by the support we receive from others and the relationships we engage in. Religious or spiritual beliefs may also contribute. Well-being and decision-making results can be improved by establishing robust interpersonal relationships.

Institutional Factors: The primary focus of this discussion is the regulations and frameworks that govern the environments in which we reside or conduct business. Even if we are unaware, they can influence our actions. By analysing institutional factors, we can identify areas in which systems and policies can be enhanced to enhance impartiality and effectiveness.

Community and Cultural Factors: Lastly, our thoughts and behaviours are influenced by the norms and values in our communities. These may be customs or just the course of action that has always been followed. Fostering tolerance and understanding among various people requires a grasp of community and cultural elements [9].

C. Applications of Behavioral Economics

Understanding Consumer Behavior: It is often difficult for businesses to forecast customer behaviour. In this situation, behavioural economics is useful. It aids businesses in understanding how individuals make decisions and the reasons behind their sometimes surprising behaviour. They use this information to choose what goods to sell and how best to market them [10].

Market Analysis: Businesses are better able to comprehend market dynamics when they use behavioural economics. They are able to understand why individuals purchase certain items but not

others. This increases the likelihood that consumers will choose a company's goods by enabling them to modify their plans to suit consumer preferences [11].

Nudging: The notion of nudging is an interesting one that behavioural economics has developed. This entails using interventions or effects to discreetly guide behaviour. Without using forceful methods, companies may create goods, services, and advertising campaigns that gently guide customers towards desired decisions or behaviours by using the insights gained from behavioural economics [11].

Price Strategies: An effective pricing strategy is essential to a successful company plan. Behavioural Economics provides useful information on how businesses might price their goods to affect the purchasing decisions of their customers. A price that is initially higher and later lowered, for example, might encourage customers to buy by giving them a sense of value.

Product Packaging and Marketing: Purchasing decisions and consumer perceptions can be significantly influenced by the packaging and marketing of products. In this discipline, the principles of behavioural economics offer valuable guidance. Businesses can optimise their advertising and marketing strategies to connect with distinct target audiences by comprehending consumer biases and perceptions. This, in turn, will increase brand engagement and drive sales.

Policy Development: Using insights into human decision-making, governments can develop policies that promote societal well-being and safeguard consumers. In order to promote positive outcomes and more effectively address societal challenges, policymakers can develop interventions that consider behavioural biases and preferences.

Financial Decision-Making: in the financial sector, behavioural economics illuminates the reasons why investors occasionally make irrational decisions. Ultimately, financial professionals can make more informed investment decisions by anticipating market trends and capitalising on the aberrant behaviour of market participants by comprehending cognitive biases and heuristics.

Fairness and Equity: In addition, behavioural economics can contribute to the advancement of equity and impartiality in the decision-making process. Organisations can cultivate a more fair and harmonious society by designing systems that are more equitable and inclusive for all stakeholders, which is achieved by considering social preferences and behavioural biases [12].

Sales Growth: Behavioural economics can be employed by companies to stimulate sales growth. Businesses can improve customer engagement and increase sales by analysing consumer decision-making processes and adjusting their strategies accordingly. Companies can establish more robust relationships with their target audience and, as a result, increase their profitability by aligning their products and marketing initiatives with consumer preferences and biases [13].

2 Literature Review

(Sari & Saputra, 2024)[14] investigates how social proof, emotional appeal, scarcity, and other behavioural economic concepts are used to affect consumer choice. The research evaluates advertising

Emerging Trends in Commerce and Management: A Multi-Disciplinary Approach
(VOLUME-1)

strategies used in a variety of businesses, focussing on customer welfare, in order to determine their efficacy and ethical consequences. The findings show that these psychological triggers raise ethical questions about the autonomy and well-being of consumers even if they may successfully increase sales.

(Maier & Baccarella, 2024) [15] Conduct review of the literature in order to create a conceptual framework that integrates various customer empowerment scenarios and their corresponding behavioural (such as product preferences and willingness to pay) and psychological (such as firm perceptions and feelings of empowerment) effects. This will help to improve comprehension of the psychological and behavioural effects of customer empowerment. We organise prior research, point out parallels and discrepancies across consumer empowerment scenarios, and provide the groundwork for future studies using this paradigm. This study adds to our knowledge of why some consumer empowerment tactics work better than others (and under what conditions) by adopting a customer viewpoint. We demonstrate that, on a more general level, studying innovation from a behavioural and psychological standpoint may be worthwhile.

(VENKATESWARARAO PODILE et al., 2024) [16] Investigate the application of consumer psychology principles in contemporary marketing practices to examine the manner in which businesses employ psychological concepts to influence purchasing decisions. According to the findings, the integration of consumer psychology into a company's marketing strategy can lead to improved segmentation, targeting, and positioning, resulting in increased customer engagement and brand loyalty. Marketers have revolutionised the utilisation of psychological levers through the implementation of digital marketing; personalised advertising, emotive narrative, and social proof are just a few of the methods by which digital platforms seize the consumer's unconscious mind. Finally, it emphasises the prevalence of neuromarketing strategies, which employ brain-scanning technologies to ascertain consumers' implicit responses to specific activities and subsequently modify marketing strategies accordingly.

(Antre & Dharmadhikari, 2024) [17] Investigates how digital marketing techniques improve network marketing organisations' sales effectiveness and customer psychology. According to the survey, tailored digital marketing techniques greatly improve customer engagement by affecting how they see businesses and raising the possibility that they would make a purchase. Furthermore, the study finds a clear link between increased sales performance and the frequency of digital marketing initiatives. Customers' confidence in network marketing firms and their purchase choices are further influenced by exclusive promos and interactive digital marketing strategies. According to the results, better client loyalty and more revenue might result from using digital marketing methods that work.

(Halevy, 2023) [18] The consumer is portrayed in neoclassical economics as having consistently sound judgement, yet behavioural economics research has shown that people often make illogical judgements. Because the rational consumer is presumably unaffected by such tactics, traditional economic thinking makes it difficult to link a particular marketing technique to a particular outcome, even in the face of massive marketing efforts aimed at taking advantage of human irrationality and the volume of decisions made in retail environments. Using behavioural economics and prior empirical research, this study

explores how retailers might utilise priming and framing heuristics in advertising, in-store displays, and sales promotions to boost sales. Although the ideas are mostly aimed at physical merchants, several of them may also be used in a digital retail environment.

(Riabchenko, 2023) [19] The scientific novelty of the results obtained is derived from the justification of the practical and theoretical underpinnings of forming an effective tool to assess the effectiveness of marketing activities. Specifically, the concept of behavioural economics as a component of marketing was defined and clarified, and a methodology was developed to assess the effectiveness of marketing activities. Additionally, the relationship between behavioural economics and marketing efficiency was examined, and the significance of considering consumer behaviour when developing marketing campaigns was highlighted.

(Dr. Maitri, 2022) [20] A review of behavioural economics was conducted to evaluate the theoretical rationale. In this paper, various forms of bibliometric analysis were conducted and presented. In the past few years, additional literature reviews have been conducted by selecting papers based on their relevance. Accordingly, additional research themes have been proposed in light of the identified findings. Behavioural economics themes were evident in numerous subjects during the investigation of the web of science. Additionally, this investigation may be prolonged and conducted on the Scopus database for an extended period of time in order to acquire profound insights regarding this subject matter. The impact of behavioural economics on the field of economics has not been adequately assessed due to the absence of an examination of its numerous dynamics.

(Babu, 2016) [21] Marketers must exercise extreme caution when developing marketing strategies to ensure that the brand is presented in a manner that effectively communicates the message to the consumer without causing inconvenience or irritation. The ultimate success of a brand is contingent upon the marketer's ability to discern the consumer's needs and communicate them effectively through a variety of marketing techniques and tools. In order for marketers to develop a flawless image of consumers in their marketing strategies, it is essential to possess a good understanding of consumer psychology. Almost all marketers employ the same marketing techniques to attract consumers, generate new products, and engage in various activities, such as advertising, celebrity endorsement, event shows, demonstrations, coupons, and trade shows.

(Wells, 2015) [22] A variety of academic fields, including psychology, have impacted studies of marketing and consumer behaviour. One branch of psychology, behaviourism, has had a less noticeable impact on consumer and marketing research, nevertheless. In addition to giving researchers who are not acquainted with the field a quick overview of behavioural psychology, this article reviews behavioural psychology research and applications in the field. For both consumer and marketing scholars, the paper also identifies areas for further investigation into the possible advancement of behavioural psychology methodologies.

3 Conclusion

Behavioral economics has significantly reshaped marketing strategies by offering insights into the psychological triggers that influence consumer decision-making. Techniques such as scarcity, social proof, and emotional appeal are widely employed to shape consumer behavior, demonstrating effectiveness across industries. Emotionally engaged consumers tend to exhibit higher loyalty, making emotional connection a key factor in branding and marketing success. Companies like Amazon and Netflix leverage consumer data to deliver personalized experiences, enhancing customer satisfaction and retention. Pricing strategies, including anchoring and implicit pricing, further manipulate consumer perceptions and drive purchasing decisions. By strategically presenting information—such as emphasizing positive product features or adjusting price displays—firms can significantly influence consumer behavior. Social influence and scarcity effects also play a crucial role, as testimonials, "best seller" labels, and time-limited promotions create urgency and drive sales. While these strategies optimize marketing effectiveness, ethical considerations must be addressed to ensure transparency and prevent manipulation. Ultimately, behavioral economics empowers marketers to anticipate consumer needs, predict behaviors, and craft highly engaging strategies. By applying these principles, firms can enhance purchase intentions, strengthen brand loyalty, and create meaningful connections with consumers in an increasingly competitive marketplace.

References

- [1] Q. Chen, "Behavioral Economics: Understanding the Psychological Factors Driving Consumer Decisions," *Int. J. Glob. Econ. Manag.*, vol. 4, no. 1, pp. 99–104, 2024, doi: 10.62051/ijgem.v4n1.16.
- [2] B. J. Galli, "Economic-Decision-Making in New Product Development : A Review of the Relationship," *Int. J. Appl. Manag. Sci. Eng.*, vol. 7, no. 1, pp. 1–27, 2020, doi: 10.4018/ijamse.2020010101.
- [3] V. Singal, "Behavioral Economics and Consumer Choice : Understanding Decision-Making Processes," vol. 14, no. 3, pp. 545–565, 2024.
- [4] L. Fergus, A. R. Long, and D. Holston, "Modeling Behavioral Economics Strategies in Social Marketing Messages to Promote Vegetable Consumption to Low-Resource Louisiana Residents: A Conjoint Analysis," *J. Acad. Nutr. Diet.*, vol. 123, no. 6, pp. 876–888.e1, 2023, doi: 10.1016/j.jand.2023.01.011.
- [5] L. A. Reisch and M. Zhao, "Behavioural economics, consumer behaviour and consumer policy: State of the art," *Behav. Public Policy*, vol. 1, no. 2, pp. 190–206, 2017, doi: 10.1017/bpp.2017.1.
- [6] J. Sheth, "New areas of research in marketing strategy, consumer behavior, and marketing analytics: the future is bright," *J. Mark. Theory Pract.*, vol. 29, no. 1, pp. 3–12, 2021, doi: 10.1080/10696679.2020.1860679.
- [7] S. Radi, "The Impact of Behavioral Economics on Marketing : The Case of Multinational Consumer Companies in Egypt," no. 115305, 2022.

- [8] F. Nordin and A. Ravald, "The making of marketing decisions in modern marketing environments," *J. Bus. Res.*, vol. 162, no. July, p. 113872, 2023, doi: 10.1016/j.jbusres.2023.113872.
- [9] W. I. Bashir, S. Jan, and A. Manzoor, "Digital Marketing Strategies and Consumer Behavior : Insights from Behavioral Economics," vol. 10, no. 11, pp. 51–59, 2023.
- [10] R. Khosla, "The Impact of Digital Marketing Strategies on Consumer Behavior : A Case Study of an Indian E- commerce Company," vol. 9, no. 9, pp. 437–446, 2024.
- [11] D. Jindal, "Impact of Psychological Marketing on Consumer Behaviour- A study in Kolkata," vol. 8, no. 10, pp. 738–754, 2023.
- [12] K. Kanojia and T. Rathore, "Digital Marketing Strategies for Small Businesses," *Int. J. Mark.*, vol. 15, no. 3, pp. 112–125, 2025, doi: 10.69968/ijisem.2025v4i138-45.
- [13] A. Ghosh, "CONSUMER BUYING BEHAVIOUR REGARDING FINANCIAL PRODUCTS," *Interantional J. Sci. Res. Eng. Manag.*, vol. 08, no. 04, pp. 1–5, 2024, doi: 10.55041/ijsrem32722.
- [14] R. Sari and B. Saputra, "Behavioral Economics in Advertising : Analyzing Consumer Decision-Making Patterns," no. 1, 2024.
- [15] L. Maier and C. V. Baccarella, "The psychological and behavioral consequences of customer empowerment in new product development: Situational framework, review, and research agenda," *J. Prod. Innov. Manag.*, no. July 2021, pp. 220–252, 2024, doi: 10.1111/jpim.12734.
- [16] VENKATESWARARAO PODILE, L. N. ABHISHEK, B. S. SAMEER, A. V. KOMAL, G. R. BOLLAREDDY, and K. KUNCHE, "CONSUMER PSYCHOLOGY AND ITS IMPACT ON MODERN MARKETING STRATEGIES," no. November, 2024.
- [17] G. Antre and S. Dharmadhikari, "Effectiveness of Digital Marketing Strategies of Network Marketing Companies on Consumer Psychology," *ShodhKosh J. Vis. Perform. Arts*, vol. 5, no. 6, pp. 112–125, 2024, doi: 10.29121/shodhkosh.v5.i6.2024.1653.
- [18] K. Halevy, "Leveraging Behavioral Economics to Improve Marketing Efficacy and Increase Retail Sales," pp. 1–19, 2023, [Online]. Available: <http://dx.doi.org/10.47611/harp.258>
- [19] I. Riabchenko, "Statistical Marketing Efficiency in a Complex of Behavioral Economics and Marketing," vol. 7, no. 2, pp. 165–181, 2023.
- [20] D. D. K. Dr. Maitri, "Behavioral Economics: A Review & Bibliometric Analysis," *J. Econ. Financ. Manag. Stud.*, vol. 05, no. 04, pp. 1122–1135, 2022, doi: 10.47191/jefms/v5-i4-21.
- [21] M. S. H. Babu, "A Study on Consumers' Psychology on Marketing Tools," *Philos. Prog.*, no. May, pp. 125–164, 2016, doi: 10.3329/pp.v55i1-2.26394.
- [22] V. K. Wells, "Behavioural psychology, marketing and consumer behaviour: a literature review and future research agenda," *J. Mark. Manag.*, vol. 30, no. 11–12, pp. 1119–1158, 2015, doi: 10.1080/0267257X.2014.929161.