



# To what extent is the application of consumer psychology in the streaming industry effective?

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## Abstract

Consumer psychology theories and knowledge have been used by companies for several years to understand the wants of the customer. Over the years, this has become an essential component when finding the right marketing strategies for a product. The streaming industry with its rapid growth and competitiveness has used consumer psychology differently than others. This paper highlights the importance of using consumer psychology in businesses especially the streaming industry along with an overview of how consumer psychology originated. It emphasizes the unique marketing strategies used by companies to increase their customer base. This analysis is facilitated by theoretical knowledge including the integration of the theories of Maslow and Sproules and Kendall. Towards the end, the paper also provides an evaluation of applied consumer psychology for companies.

**Keywords:** Consumer behaviour, Marketing strategies, Music Streaming

## Introduction

*Are today's brands taking undue advantage of consumer psychology to brainwash consumers into behaving how they want them to?*

In today's competitive market it becomes vital to market the right product to the right customer. This makes it important to understand what customers need and want and this can be done by understanding what is known as 'consumer psychology'. The term consumer psychology broadly means understanding customer habits to provide them with a good experience with a particular brand or company. This can include understanding consumer behaviour based on their past purchases, and choices and understanding what influences them to make these decisions. Although the term was coined much later, the application of consumer psychology dates back to the early 1900s. The idea of combining the knowledge of psychology with consumer purchasing patterns was suggested by Walter Dill Scott in his book "The Psychology of Advertising" in 1903 (Haugtvedt et al., 2008).

Understanding and catering to these changing patterns of customers may be important to the entire business, however, certain departments require this thorough understanding more than others. An example of this is the marketing department of companies which is responsible for researching the wants of customers before they themselves know it as well as finding the most effective ways to then market the innovations. Therefore, many marketers find themselves attempting to understand the psychology of their target market within the context of varying theories that have been developed in this field over time. For example, one of the most popular theories is Maslow's Hierarchy of Needs as suggested by Abraham Maslow in 1943 (Cherry, 2022).

Although consumer psychology remains important in many industries, specific ones can benefit from it more greatly. The streaming industry is an example of an industry which is gaining a great level of popularity as time is progressing. The aforementioned is also the reason that this specific industry is becoming increasingly competitive - making the need for individual brands to understand consumers and deliver suited products and services better than the others. This research paper, therefore, aims to uncover the importance of consumer psychology in the streaming industry with a specific focus on case studies from platforms such as Spotify and Netflix. In doing so, the question to be answered is **“To what extent is the application of consumer psychology in the streaming industry effective?”**

### **An overview of consumer psychology**

Although the term consumer psychology has received many different definitions over the years, the basic principle remains the same, or put more simply: understanding the customer's desires through their behaviour in order to provide them with exactly what they want. On paper, consumer psychology was developed in the 1950s with a few relevant names such as W.D. Scott, H. Dittmar, R.P. Bagozzi, Z. Gurhan-Canli, J.R. Priester and G. Belch, but really, the application of consumer psychology had been around long before that. For example, when a new reading craze emerged in the early 16th century, booksellers aimed at a wider audience and therefore published short books with illustrations and colours for ordinary people to enjoy as well. Not only did this help them make more profits, but it also increased literacy rates by 20 percent, a significant and effective application of consumer psychology (Ncert, 2011).

Back in the 1950s, when the term ‘consumer psychology’ was just being coined, it was a branch of organizational psychology, but as recognition grew, it gradually separated to form its own speciality. By the 1960s, consumer psychology was well-developed in countries like the United States, and there was a new generation of online shopping websites, virtual travel, and even some online stores (Haugtvedt et al., 2018). It was around this time that the Scientific Society for Consumer Psychology was forming, and people were starting to pay more attention to what made a consumer buy a product. One of these main factors was *motivation*, which was either positive or negative. Understanding customer motivators and recognizing what drives them is always a major challenge for companies in

all industries. Nonetheless, this is a challenge worth embracing as it helps to better allocate resources and address the right motivations of customer personas (Singh, 2021).

So, what prompted a consumer to buy a product? Consumer attitudes towards a brand are described as the link between the brand and purchase motivation (which can be positive or negative) (Emotiv, 2022). This human motivation of a consumer was elaborated by Abraham Maslow in his 1943 paper, "A Theory of Human Motivation" suggesting that people are more likely to meet their basic needs before moving on to more advanced needs. He explained his theory using a 5-level pyramid, the base of which is physiological needs, followed by safety needs, love and belonging, esteem, and finally self-actualization. It was initially believed that it was important to fully satisfy one level before moving on to another, but a more modern perspective is that all levels overlap. As a person reaches higher levels, their motivation becomes more focused on those levels. Although their primary focus is at higher levels, they will continue to focus on lower levels of the hierarchy with lesser intensity (CFI TEAM, 2022). Abraham Maslow was becoming a driving force at this time and his theory was seen as a fundamental theme of human behaviourism. To date, Maslow's hierarchy of needs theory is well accepted and applied in work areas to study consumer behaviour and motivation.

As consumer psychology grew in importance, marketers began to closely examine a consumer's decision-making process. Sproules and E.L. Kendall studied this closely and eventually categorized decision-making into eight different styles, which include the impulsive style, the perfectionist or quality-conscious style, the confused or indecisive style, novelty style, the budget-conscious style, the recreation-conscious style, and finally the habitual style (Haugtvedt et al., 2018). According to the theory, consumers may even have more than one decision-making style, which would vary by product. This theory helped people understand the process behind a consumer's decision-making and are to date used by marketers in various companies and brands to get more insight and produce and package their products accordingly in the competitive global market.

### **Applied Consumer Psychology**

Walter Dill Scott was one of the first applied psychologists who believed that advertising was primarily a persuasion tool rather than an information tool and that advertising impacted consumers in an almost hypnotic way. In the second half of the 19th century, the first industries emerged that actually used the theoretical knowledge of consumer psychology and understood their customers in order to manufacture products appropriately and thus respond to the needs of their customers more efficiently. Soon, companies began to realize the importance of applied consumer psychology and that no matter how good their product was, it would not gain sufficient success and recognition if it was not communicated to the consumer in the right way. Consumer psychology grew in popularity and eventually split off into its own subfield.

As companies gained and applied this knowledge, they began to wonder how to attract the attention of new customers and retain their existing customers. This led to the rise of marketing in businesses. The purpose of marketing was not to buy or sell a product but to get people interested in the products by promoting them and creating more demand for the product. The word marketing has been derived from the Latin word 'marcatus', which literally means marketplace or merchant (Stockmeyer, 2018). To create personalized marketing strategies for a business, marketers had to do research, conduct surveys, and use consumer psychology to learn about customer behaviour. The marketing process involved deciding a product's price, how to publicize it, measuring its effectiveness, its design, and how to communicate it to customers. Although the importance of marketing officially came up in the late 19th century, the concept of marketing actually started with the first humans. Taking the example of the first biblical story, we see Eve persuading Adam to eat the forbidden apple. But Eve wasn't the first marketer. It was the snake that convinced her to market to Adam (Kotler, 2019).

As the competition in the market increased, it became imperative for brands to use marketing tactics to increase the popularity of their brands and products and in turn generate more profits. Jerome McCarthy, an American professor who was a major contributor to marketing, established the concept of the 4 Ps, namely product, price, place and promotion. It is evident how consumer psychology applies to each of them, as elaborated below.

*Product* was the most important factor of all as the type of product will determine the price, location and how it should be promoted. To do this, the marketer had to understand and study the product in detail. The product aspect focused on the branding, its qualities and what sets it apart from the competition towards the consumer.

*Price* ideally meant determining how much customers would be willing to pay for a product, taking into account procurement costs, retail markup, competitor price, and various other factors. Consumer psychology proves to be important when deciding what pricing strategy would be most optimal for a brand to use. Psychological pricing, for instance, is one of the most popular strategies used by brands worldwide and entails pricing products and services just below a whole number like at \$4.99. As per the available research and knowledge, seeing such prices, consumers are psychologically convinced that they are getting a better/cheaper deal - increasing their purchase intention.

*Place*, as described by McCarthy, meant identifying the places where the product should be available and from where it would gain more traction. The most important decision that had to be made was where to place the products so customers would be more likely to buy them. Many brick-and-mortar stores, for instance, use their understanding of consumer psychology to dictate the manner in which products should be placed in stores. Many times, certain products are placed closer to the tills in a bid to increase the impulsive desire of consumers to purchase products in a short span of time.



*Promotion* of the product theoretically meant getting the product across to the consumers with the right price while highlighting the special qualities of their product and showing how it differs from the competition. Promoting a product involves public relations, advertising, media, and marketing strategies to publicize the product and draw audiences' attention to it. Once again, it is very important to understand the psychology of the target audience in order to make a decision regarding the most suitable advertising strategies.

### **The application of consumer psychology in the streaming industry**

As we've covered in earlier sections of this paper, we know that by the 1980s, using consumer psychology and having a marketing team in place was essential for the success of the upcoming companies. This applies to this day; industries have advanced to staggering heights that could not even be imagined in the past by using various unique marketing tactics and building connections with their customers. Industries have learnt how to accurately use the information they are provided with to build more personalized connections with their customers.

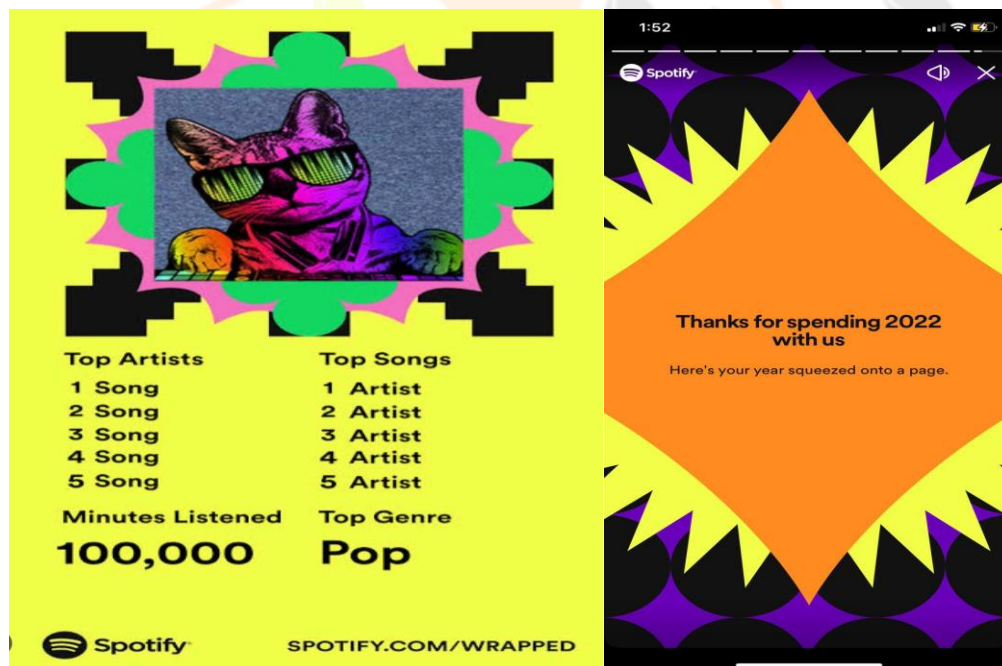
Of these, the streaming industry has been one of the most fast-moving industries since it was introduced in the late 1980s. The main role of the streaming industry is to essentially provide any kind of media content, either recorded or live. It involves providing videos or music for entertainment services at our demand. One of the first streaming companies to emerge was Xing Technology. This company used newly introduced marketing strategies to attract more customers and try to make their products as appealing and unique as possible. Today streaming industries in the US alone are worth over 1 billion dollars and are estimated to reach 750 billion by 2031 (Pop Neuro, 2022). YouTube, HBO Max, Netflix, Spotify and Hulu are some successful streaming industries which have managed to use consumer psychology to their advantage. However, the streamers differ from service to service, for example, the streamers for the music industry will be different from the streamers who prefer visual entertainment services such as Netflix and amazon prime video.

Some famous companies which provide music streaming services are Spotify and Apple music. Spotify is one such company that has made a huge mark in the music streaming industry and set the bar high for other companies to follow. This company was started in 2006 by Daniel Ek and Martin Lorentzon as a small start-up in Stockholm. Over the years, Spotify has made many updates, fixed bugs, and introduced new features. Some of these have worked out well in its favour while some have backfired and left them at loss. Today Spotify has one of the largest market shares, at 34%, with 200 years' worth of songs (Labay, 2020).

The advanced use of consumer psychology over the years has helped users discover their music personalities and tastes and keep them interested in the app with new updates and edits every month. Spotify has also used marketing techniques to spread its usage internationally. Spotify invests majorly in personalized marketing. It uses a psychological term called 'familiarity heuristic'. As humans, we have the tendency to form associations in our

memory with different songs. As a result of these associations, songs become stimuli that have the ability to set off internal triggers within us (Guerrero, 2018). Thus, Spotify uses the previous data of the user with their permission and resonates with them to provide them with better services and cater to their needs more efficiently.

Spotify's marketing techniques are also very different from other companies in the music streaming industry which differentiates it from the rest and provides an advantage to get a foot ahead in the competitive market. For example, although Spotify does have an option for push notifications, they are sent comparatively much lesser than other companies in the same industry. Companies usually see push notifications as a way to improve brand loyalty and give their customers frequent updates. However, this is not a part of Spotify's strategy. Spotify usually sends emails to the customers as a substitute which are too not frequent. This provides a chance for the customers to open the app more often to keep up with the updates and new features such as 'Weekly remixes', and 'Discover Weekly' at the end of the week and also personalized playlists made by Spotify according to our taste. At the end of the year, Spotify also provides 'Spotify Wrapped' (as seen in the images below) where users get a deep dive into their most memorable musical moments of the year. It presents itself as a slideshow of the most played songs, artists, and genres of the user along with a playlist of the most played 100 songs and other personalized information. It also gives the option to share this information to social media stories and posts such as Instagram and Snapchat. When users do this, it in turn attracts new customers and influences them to use Spotify.



The integration of consumer psychology into marketing strategies can be extremely expensive and although if successful they result in major profit for the companies, if they fail, they can result in major loss of customers and money. An example of a failed use of consumer psychology in the streaming industry is the 'Qwikster' feature unveiled by Netflix in 2010. The main purpose of this feature was to enable Netflix to focus its resources and energy on acquiring streaming content and to phase out the less profitable, less popular DVD-by-mail service (Gilbert, 2011).

Netflix at the time expected this feature to help the company stand out but they didn't realise that this would change the dynamic of Netflix completely and instead caused major confusion as it meant 2 accounts, 2 passwords, and 2 separate websites for Netflix. It also meant different cost structures, different benefits and different marketing schemes as well. This launch faced major backlash and people expressed their opinion on social media applications such as Twitter and Instagram. It resulted in the loss of over 80000 subscribers for Netflix and the stock plummeted more than 25 per cent in after-hours trading. Therefore, Qwikster was cancelled by Netflix before it was even ever released (AP, 2022).

### **Evaluation of consumer psychology**

When consumer psychology is not carried out properly, it can have major drawbacks. From the example of the 'Qwikster' feature that Netflix almost added in 2010, we know that poor usage of consumer psychology can cause even a popular company to lose billions of dollars. Furthermore, to make sure that the strategies applied by the company are economically profitable, many resources have to be put in, and marketing strategies have to be planned out well in advance. The company needs to make sure that they actually understand the wants of the consumer so that they can develop products that cater to their needs as well as possible. This is an extremely time and cost-intensive process and can sometimes lead to huge losses (as marketing is expensive) or slow down the company's growth.

On the other hand, if done right, consumer psychology has numerous advantages. Different brands apply different strategies according to what suits them the most. The right strategies can help the company develop better products, gain popularity and increase investments by millions. For example, the purpose of SugarBearHair vitamins was essentially to help in hair growth and nutrition. They were not that popular before, however, the brand then executed an advertising strategy wherein they used popular celebrities such as the Kardashians to market their product as regular candy on social media platforms like Instagram. By understanding and correctly exploiting the impact of celebrity endorsements on consumers' psychology, the brand executed a strategy which has allowed them to see great success and have a revenue of 6 million dollars (PitchBook, 2022). This shows how the right marketing strategy can help increase the income of the company. Once again, as seen previously, even Spotify is a strong example of a company that has invested millions of dollars into understanding what their consumers want which has in turn provided them with better results as it has enabled strategies such as personalization which makes the consumers feel understood by the company and potentially increases their loyalty.

However, it is true that understanding what the consumer wants and needs can sometimes be difficult as they themselves might not be aware of what they are missing. Solving this becomes a brand's duty but it also requires more advanced research strategies. An example of such a strategy is to conduct ethnographic research - when ethnographers observe life as it happens instead of trying to manipulate it in a lab (University of Virginia, 2021). They use qualitative methods and quantitative data. Ethnographers put themselves in the situation of a consumer and

try to study the product from their point of view. It is more effective than interviews or surveys as no misunderstandings can take place and marketers are then able to understand the product from the consumer's perspective. Samsung, for instance, conducted one on one interviews with customers who had switched from using Samsung smartphones to another brand in the past 6 months. At the end of the interview to get a real sense of how their phone is used and what expectations people have of them, each participant was handed one of Samsung's flagship phones to take away and use for the next 2 weeks. This proved to be a powerful moment in the study because of the heightened emotional state participants displayed when handed the new phones. The customers each had an app on their phone where they would update their experience on a daily basis within 2 weeks. Through the results of this study, Samsung was able to figure out why their consumers shifted from Samsung to other emerging brands and work on improving their products (REO, 2022).

On the whole, all the above examples show us the importance of consumer psychology and how it can be extremely beneficial to a brand and essential to its success when it is integrated into the strategies correctly.

## **Conclusion**

The field of consumer psychology existed for many years before it was even coined. As time has passed, its importance has increased in businesses especially in the marketing departments as it is crucial to have a good understanding of the consumer before bringing the product to the market as well as continuing to build the understanding post-purchase. This paper aimed to prove the high importance of the use of consumer psychology in businesses, especially the streaming industry due to the high level of competition.

Consumer psychology started emerging as its own separate field in the 1960s. By the second half of the 19th century, companies started applying this theoretical knowledge of consumer psychology. After seeing immense success, they researched it in detail, and this led to the emergence of marketing departments in companies. The core fundamentals of marketing were linked to the 4 P's (product, place price, promotion) and gradually, having a marketing department became crucial for companies as the competition increased. Today, we understand that the correct use of consumer psychology has been extremely helpful with companies like Spotify which have unique marketing strategies and indulge in finding unique ways to resonate with their customers such as using familiarity heuristics to build personal playlists, daily mixes etc. However, sometimes even when companies invest millions in consumer psychology, they end up in losses such as the Qwikster feature of Netflix.

We, therefore, see that the use of consumer psychology in the streaming industry has been effective to some extent.



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