ABSTRACT

Harvey Leibenstein's (1950) defines the bandwagon effect as "the extent to which the demand for a commodity is increased due to the fact that others are also consuming the same commodity".

The bandwagon effect is a well documented form of groupthink in behavioral science. The general rule is that conduct or beliefs spread among people, as fads and trends lead to any individual adopting it. The tendency to follow the actions or beliefs of others can occur because individuals directly prefer to conform, or because individuals derive information from others. The herd behavior, herd mentality or herd instinct of consumers is a quirk in individual buying preference. The bandwagon effect explains why there are fashion trends. Whether one buys may be determined in part by how many others have. When the correlation is positive we refer to ‘bandwagon’ effects, and when negative, ‘reverse bandwagons’. The expression "network effect" is applied most commonly to positive network externalities as in the case of the telephone. Negative network externalities can also occur, where more users make a product less valuable, but are more commonly referred to as congestion. Over time, positive network effects can create a bandwagon effect as the network becomes more valuable and more people join, in a positive feedback loop.

In case of articles and brands showing positive bandwagon effect, the law of demand does not hold good as with a cut or rise in price the demand may not show changes. Factors leading to positive bandwagon effect are- Fashion Fads and Trends, Impact of Television and Electronic Media, Changes in life style patterns, Awareness and brand consciousness, Increase in real income of consumers, Technological Breakthroughs, Network externalities and Complementary bandwagon effects.

Keywords: Bandwagon effect, Network externality, Market demand, Demand determinants, Consumer buying behaviour/Psychology

1. Introduction

The quantity demanded of a commodity per unit of time is a function of independent variables. The independent variables or determinants are drivers in affecting quantity demanded. In today’s globalized world order we find numerous variables having significant impact on consumer buying behavior. Corporate and marketing people are not only interested in drawing relationship between price (immediate factor affecting demand) and quantity demanded which is studied and explained by economists like Alfred Marshall and Hicks long
back in 19th century on the basis of diminishing marginal utility and equi marginal utility but the real drivers affecting market demand of their brands in highly competitive world.

We find a complete shift in demand (increase or decrease in demand) due to factors like change in people’s tastes and preferences, life style patterns, fooding habits, clothing habits, economic, socio-cultural factors etc. Demand for consumer goods is direct or autonomous. In reality, however, there may be interdependence of demand, i.e., an individual demand may be depending on the demand of other people in case of some goods. This situation is described as “Network Externalities” which may be positive or negative in effect. One such network externality is identified as “The Bandwagon Effect” or “Demonstration Effect”.

1.1. The bandwagon effect

The bandwagon effect is a well documented form of groupthink in behavioral science. Consumer’s beliefs spread among people, as fads and trends lead to any individual adopting it. The tendency to follow the actions or beliefs of others can occur because individuals directly prefer to conform, or because individuals derive information from others. As more people come to believe in something, others also "hop on the bandwagon" regardless of the underlying evidence. Bandwagon effect, first proposed by David Luder, also known as "cromo effect" and closely related to opportunism, is the observations that people often do and believe things because many other people do and believe the same things. The bandwagon effect is the reason for the bandwagon fallacy's success. Harvey leibenstein in 1950-in his analysis on bandwagon effects states that consumer’s preferences are purely psychological. In layman’s term the bandwagon effect refers to people doing certain things because other people are doing them, regardless of their own beliefs, which they may ignore or override. The perceived "popularity" of an object or person may have an effect on how it is viewed on a whole. For instance, once a product becomes popular, more people tend to "get on the bandwagon" and buy it, too. The bandwagon effect explains why there are fashion trends. Whether one buys may be determined in part by how many others have. When the correlation is positive we refer to bandwagon’effects, and when negative, reverse bandwagons (social taboos).

When individuals make rational choices based on the information they receive from others, economists have proposed that information cascades can quickly form in which people decide to ignore their personal information signals and follow the behavior of others. The herd behavior, herd mentality or herd instinct of consumers is a quirk in individual buying preference.

In figure I when the price falls from P to P1, there is movement along the demand curve from point a to b there is expansion of demand from Q to Q1. The distance from point b to e shows shift in demand (price remaining unchanged) which is due to Bandwagon effect hence the increase in demand is from Q1 to Q2.

2. Network externality

In economics network externality or demand-side economies of scale is the effect that one user of a good or service has on the value of that product to other people. When network effect is present, the value of a product or service is dependent on the number of others using it. This creates a positive externality because a user may purchase a telephone without intending to create value for other users, but does so in any case.
The expression "network effect" is applied most commonly to positive network externalities as in the case of the telephone. Negative network externalities can also occur, where more users make a product less valuable, but are more commonly referred to as congestion. Network effects become significant after a certain percentage of consumer base has been achieved, called critical mass. At the critical mass point, the value obtained from the good or service is greater than or equal to the price paid for the good or service. As the value of the good is determined by the user base, this implies that after a certain number of people have purchased the good, additional people will subscribe to the service or purchase the good due to the value exceeding the price. After a certain point, most networks become saturated, stopping future uptake. Over time, positive network effects can create a bandwagon effect as the network becomes more valuable and more people join, in a positive feedback loop.

Network externality in market demand has become an important concept in the area of advertising and sales promotion, brand promotion and strategic marketing management. The advertising strategy of corporations is drawn up keeping the psychological behavior of groupthink of the consumer. Demand manipulation is a marketing approach and acts as an important tool to promote the brand. The bandwagon effect will be stronger if the intrinsic
value of the product is also high. Building up strong bandwagon effect leads to manipulation of market demand.

In case of articles and brands showing positive bandwagon effect, the law of demand does not hold good as with a cut or rise in price the demand may not show changes. Factors leading to positive bandwagon effect are as follows:

2.1 Fashion fads and trends

As times change we can find new ways of doing things, people’s attitude, behavior and perception also change. This leads to emergence of trend setters, gradually people’s behavior is conditioned by fashion fads and trend setters. People like to be in style, buy, do wear, behave, consume like their fellows, the desire to be like the crowd. Marketing approach to bandwagon effect is positive as more and more people would like to try out the product as others are doing it. Rigorous advertising efforts further leads to communicate about the brand.

2.2 Impact of television and electronic media

In today’s time one can hardly ignore the impact of media (television, internet, magazines etc.) in developing strong brand image of the product. In a highly competitive world where the cross elasticity of demand is positive and gets highly elastic, corporates leverage to build up the brand image which leads to positive bandwagon effect. It represents the desire of people to purchase a commodity in order to get into ‘the swim of things’.

2.3 Changes in life style patterns

Socio cultural factors, change in people’s tastes and preferences, life style patterns, fooding habits, clothing habits leads to change in life style patterns of the people. This is reinforced by the aggressive marketing efforts of the companies in order to manipulate market demand by creating positive bandwagon effect for their brands. Teenagers like to wear clothing and listen to the music of a specific kind which others in their cohort group are doing. Bandwagon effects are the reason we have a sudden panic selling in financial markets.

2.4 Awareness and brand consciousness

Companies spend huge amount on their advertising budget for brand promotion, in this competitive age in order to maximize revenue, consumers have to be induced to buy and convert effective demand into sales. A product may be bought not just to serve functional utility but the buying decision is based on factors like brand endorsement by a celebrity in order to conform with the people they wish to be associated with in order to be fashionable or stylish or, in order to appear to be like them. Higher intrinsic value of the product helps in building bandwagon effect. History of Microsoft illustrates how bandwagon effects can lead to market concentration and market power.

2.5 Increase in real income of consumers

Higher economic growth is imperative for surge in market demand. As demanded is the amount of quantity bought per unit of time boom in the economy boosts up demand in all sectors of the economy. This indirectly results in increase in real income of the consumers and also growth of double income group. As there is a shift in demand, the market demand
increases. Increase in consumers’ income and further growth in dole income household leads to more consumers trying out a product which is reinforced by the positive Bandwagon effect playing an important role in manipulating market demand.

2.6 Technological breakthroughs

The world is getting flatter. Information Technology (IT) revolution has brought about sweeping and multifaceted changes and has enabled the digital representation of all the important forms of expression; words, music, numeric data, maps, photographs and eventually voice, video and global exchange of all digital information. Internet or information super highway has lead to surge in online buying and selling, growth of e-commerce. Buying on the internet is affected or positively correlated with the number of comments posted, review rating, likes by other consumers sharing post purchase experience of the product. IT tools have enabled companies to build up on marketing communication and better customer experience management. Bandwagon effect further results in increasing demand for their brands. Consumer enjoys rational exuberance as consumer sets expands.

2.7 Network externalities

Network externalities are the benefit from being able to communicate with additional individuals who have also become users of the product or service (these apply to products and services that use telecommunications networks, e.g. fax machine, telecommunication services, internet, social media, e-mail services and cellular services). Strategy of Reliance telecommunication services introducing free calling facility on within their network is an apt example of exploiting benefits of network effect. This leads to creation of external demandside scale economics; benefits that accrue to consumers as the user set expands. They are external to a single user, because the benefits to him or her derive from actions of others.

2.8 Complementary bandwagon effects

These apply to products whose value derives, at least in part, from use of competitively supplied complementary products. Software serve as a suitable example as the demand of personal computers and laptops increase more and more softwares will be written. This has a bearing on the pricing decisions of the company. The unit cost of production goes down as a result of mass production. Hence complementary bandwagon effect impacts the individual and market demand scenario. Bandwagon effect working for the product (X) will positively affect the demand for its complimentary product as they have joint usage whether or not the complimentary product (Y) is liked or not individually by a consumer.

3. Conclusion

As stated in the paper the quantity demanded of a commodity per unit of time is a function of independent variables. The independent variables or determinants are drivers in affecting quantity demanded of a product per unit of time. Harvey Leibenstein's (1950) defines the bandwagon effect as "the extent to which the demand for a commodity is increased due to the fact that others are also consuming the same commodity”. An attempt has been made through this paper to understand some invisible yet inevitable and pertinent factors like Fashion Fads and Trends, Impact of Television and Electronic Media, Changes in life style patterns, Awareness and brand consciousness, Increase in real income of consumers, Technological Breakthroughs, Network externalities and Complementary bandwagon effects which create bandwagon effect and as a result of which companies marketing approach is to build up
bandwagon effect leading to market demand manipulation as the demand increases and shifts rightward. The factors mentioned can be taken as the external consumption effect, if external consumption effect is present demand curve will be more elastic than when it is not present. The paper has attempted to understand that in order to draw inference from pure economic theory of Demand analysis, a decision maker has to take into account certain invisible factors present which can in some cases in a subtle way influence the consumer buying behavior or buying pattern. Theory of Bandwagon effect for years has guided marketers in building on brand value but there are factors which in turn lead to creation or building up positive bandwagon effect for a product. If these factors as mentioned above are manipulated and utilized will effectively favour the efforts made by companies’ in order to increase demand of their product. Hence we can conclude that there can be multiple variables or factors acting on the real individual demand for a consumer for a product at a point of time. Economic theory may sometimes not provide answers to these complex and dynamic behavioral patterns of humans/consumers, varying from time to time but at the most it can provide insights and solutions to complex decision making which otherwise would leave everyone clueless.

4. References