

The Influence of Social Network Characteristics in Shaping Consumers Behavior and Market Outcome

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Abstract: Social networks are crucial in shaping consumers' behavior and influencing market outcomes. These networks connect individuals and groups, facilitating the exchange of values, ideas, and information. Consumers within these networks are influenced by their social ties and interactions, leading to changes in attitudes, perceptions, and purchasing decisions. The structure and characteristics of these networks can impact the overall market dynamics, affecting product adoption, brand awareness, and overall market performance. Thus, understanding the influence of social networks on consumers' behavior and market outcomes is essential for businesses to develop effective marketing strategies and succeed in a highly connected world. This paper will utilize data from social and economic networks to analyze and identify key network attributes that are influential from various perspectives, drawing resources from an extensive real-world database and supporting theories. This study aims to provide practical implications for marketers and businesses who seek to optimize their strategies in building market success, also for researchers, academics, and other interested parties that can benefit from the results by learning how to apply network analysis in their studies.

Keywords: social networks, homophily, tie strength, externality network theory, social media

1. Introduction

The interaction between individuals significantly impacts consumer behavior and market outcomes. While it is widely accepted that the general structural elements of a network significantly affect the overall performance of the market, the specific ways in which individual actions are influenced by the behavior of others in the network still need to be better understood [1,2]. As a result, businesses and marketers are increasingly interested in network attributes' role in shaping consumer behavior and market outcomes. In order to make educated judgments on marketing strategy and resource allocation, understanding the intricacies of how social network characteristics impact consumers and the subsequent market dynamics is paramount [3].

For the purpose of in-depth discussion, the essay will focus on the characteristics of the network that can influence the behavior of individual consumers from various perspectives, whereby the features that distinguish them from other types of networks. The primary focus of this research revolves around the concepts of homophily and varying tie strengths, and real-world applications will be used as examples to build the main discussions. Also, the research will investigate the impact of

technological advancements, specifically social media, on these phenomena. In addition, the research will draw from the network externalities theory to explore the long-term impact of networks on market dynamics. By doing so, a more comprehensive view of the relationship between networks and economics can be discovered, and their influences on consumer behavior and market outcomes may be provided.

Social networks' impact on economics has become an increasingly important area of study over the years. These networks play a vital role in shaping the behavior and decisions of individuals and groups in society. In the contemporary world, social and economic are ubiquitous in our daily lives, impacting numerous fronts. These networks connect individuals to people they know and strangers, facilitating the exchange of information, ideas, and resources, playing a crucial role in shaping our perceptions, attitudes, and behaviors. They can significantly impact the activities individuals undertake and the decision-making process [2]. Thus, by analyzing individual and group interactions, researchers can uncover the influential network characteristics that impact consumer behavior [4]. This understanding can aid in exploring and selecting marketing strategies, content recommendation systems, and the study of online social dynamics.

Moreover, the impact of networks on consumer behavior is complex, and with new technologies like social media, the phenomena and their implication have extended beyond traditional marketing strategies. Understanding how social ties and network characteristics influence consumers' attitudes, preferences, and purchasing decisions can provide valuable insights for businesses looking to target their audience and drive market success effectively [1,4,5] By examining how information, opinions, and trends spread through social networks, new opportunities for marketing strategies, such as word-of-mouth promotion, can be discovered.

The motivation behind this essay lies in exploring how the structure, dynamics, and properties of social networks influence consumers' decision-making processes. By delving into network characteristics such as homophily, tie strength, and externality, valuable insights can be gained into how consumers are influenced by their social connections in the aspects of changes in attitudes, preferences, and purchasing decisions. Being a helpful insight to develop effective strategies for promoting social and economic development, improving public welfare, and addressing various social issues.

2. Properties That Influence Consumer Behavior and Market Outcomes

Regarding consumer behavior, the characteristics of the network in which individuals are immersed are essential considerations, and their impact on market outcomes is not ignorable. In this section, the influence of homophily and tie strength will be discussed, with an example of their application in the real world. Also, the long-run effect caused by clusters in networks will be analyzed using the externality network theory.

3. The Role of Similarity-Driven Bonds in Influencing Consumer Behavior

Homophily, referring to the tendency for people to associate with others similar to themselves, is a concept that plays a significant role in the development of consumer behavior. When individuals with similar interests, values, and preferences come together, they form bonds and foster relationships, as shown in Figure 1 [6]. This leads to the spread of ideas, behaviors, and attitudes among the group, ultimately leading to a shared set of ideals and values [7].

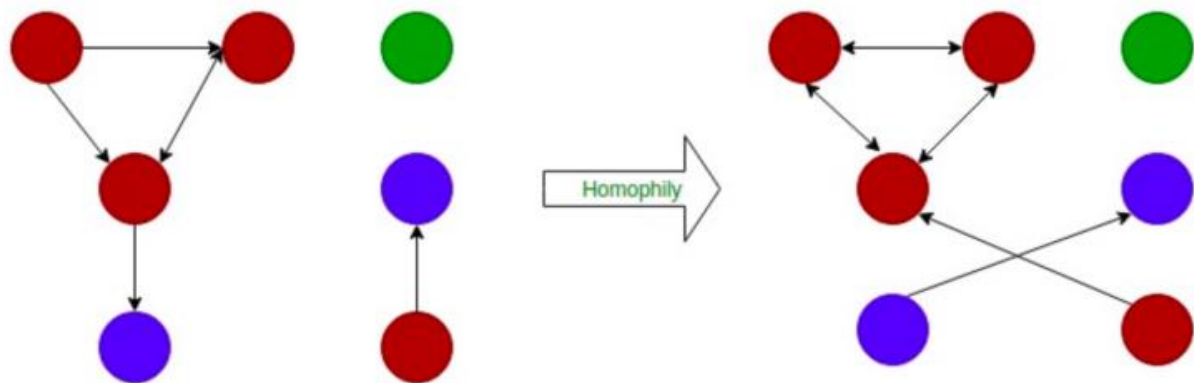


Figure1: Example of homophily [6].

For instance, if a person is part of a group where the vast majority of its members are ecologically conscious, they are more likely to adopt environmentally responsible consumption practices [8]. This is because their peers are likely to share thoughts, information, and recommendations regarding environmentally friendly products, leading to the spread of sustainable consumption practices within the group. Over time, this can lead to a shared set of ideals and values among the group [7]. In addition, homophily fosters uniformity and shared ideals among groups [6]. By associating with others who share similar interests, individuals are more likely to adopt certain behaviors and attitudes, leading to the spread of consumption practices and ideals throughout the group [6]. This can significantly impact the development of in-group behavior, as groups with strong homophilic tendencies are likely to have a more significant influence on one another. Therefore, it is crucial to understand the role of homophily in consumer behavior and how it can help shape the development of consumption practices and ideals in groups.

Moreover, homophily extends beyond traditional face-to-face interactions. With the evolution of social platforms like Facebook or Instagram, homophily plays a crucial role in shaping social circles within these digital environments. This is because consumers tend to engage with content and interact with others who share their beliefs, values, and interests; social media displays content based on the user's previous actions, resulting in selective content being exposed to the user [8,9]. This kind of exposure may result in forming groups with like-minded individuals. Therefore, reinforcement occurs when consumers are exposed to an environment with mainly information and opinions that align with their existing views [4]. These matters may significantly impact consumers' purchasing decisions, and individuals may be more likely to retain customers. Furthermore, individuals forming a social circle are likely to share the same interest in a specific product or brand. This tends to trigger a psychological response among like-minded peers known as the fear of missing out (FOMO); The fear stems from the perception that not participating in the same experiences as their peers could lead to a sense of exclusion from an event and the group [9]. As a result, consumers are more compelled to align their choices with those of their social circle, leading to an increased likelihood of making purchasing decisions that mirror the preferences of their peers. This dynamic can have a profound impact on market outcomes, as the fear of missing out can create a sense of urgency and social pressure that drives consumers to align their choices with the trends set by their like-minded counterparts [9].

4. The Impact of Network Relationships on Market Outcomes

Tie strength, or the degree to which individuals are connected, is another aspect of a network that might affect consumer behavior [10]. In many studies, frequently interacting, feeling emotionally close, and trusting one another are hallmarks of solid relationships [1,10]. These studies have also indicated that individuals are more likely to communicate knowledge and resources that can impact their consumer behavior when they are part of a network that has strong relationships between its members. For instance, if an individual receives a product recommendation from someone within their strong social network, they are more likely to trust that suggestion and make a purchase. Strong ties facilitate the smooth dissemination of information, increasing the likelihood of individuals adopting particular purchasing [1,11]. Also, those that are strongly connected can lead to the establishment of social norms and expectations, which these practices may mean that consumers conform to the preferences and behaviors of their close connections to maintain social harmony [11]. As a result, the conformity effect can impact product choices and brand preferences, as individuals are influenced and potentially pressured by their strong-tie peers [12].

However, those with weak ties with many individuals are also influential toward consumer behaviors and market outcomes. Granovetter's in 1973 study on the power of weak links found that individuals with a wide range of network connections, or those who have weak ties to many different social groups, are more likely to have access to novel information and possibilities; in contrast to strong ties, weak ties represent more distant connections, such as acquaintances or friends of friends from different social circles, and these type of links plays a crucial role in spreading information, ideas, and opportunities. An example of weak ties being more influential than strong ties can be a study comparing two neighborhoods that received subsidized home energy retrofits; it was found that the awareness of the program was higher in the neighborhood with a more significant number of social ties overall, as well as a higher proportion of weak ties [1,12], indicating that the weak ties can be essential for the diffusion of the information in the market.

5. Applying Homophily and Tie Strength to the Real-World

Businesses have already recognized the importance of the social network. Word-of-mouth marketing, for instance, has highly benefited from people's social networks [4]. Traditional WOM is simply a process of passing information from person to person with oral communication. This has acted as a potent influencer at various stages of the purchase process, including information search, alternative evaluation, and final product selection [7]. It has always been a cheap and efficient marketing method, and now, with online social media, the influence of WOM has increased. This method's impact on purchasing decisions is driven by two significant factors [4]; First, it is homophily; when consumers interact with like-minded individuals, they are exposed to content and information that aligns with their interests and preferences. As previously mentioned, social media algorithms are designed to present content based on the user's previous interactions, reinforcing existing beliefs and values, influencing their purchasing decisions, and creating echo chambers of shared interests, which can then lead to a specific group culture and purchasing behavior [6]. The second driving factor for WOM is the tie between individuals; on the one hand, consumers tend to put more trust in recommendations and opinions from their strong-tie connections, and this may lead to a ripple effect within their strong-tie network [7]. As a result, consumer clusters are formed around shared interests, and the close relationships create pockets of influence. Within the strong-tie clusters, it may heighten brand awareness and credibility, prompting potential consumers to consider and adopt recommended products [7]. These can then result in the growth of businesses through market shares, for instance. On the other hand, weak ties ensure that the information is diffused and reaches a larger audience, allowing the businesses to reach a more extensive customer base [1].

6. Effect of Interconnected Growth in the Long Run

In the long run, when a group has adopted a similar product, the added value may be presented through the product under the theory of network externalities, also known as the “Network Effect” [13]. The theory emphasizes the value a product or service gains as more users adopt it; it explains that a product’s utility increases for each user as the number of other users grows. Taking the example of mobile phones, when more individuals adopt the same operating system, there is an increase in the availability and compatibility of applications and services, enhancing the overall user experience [14]. One of the most compelling examples of the network externality’s impact can be seen in the rivalry between Android and iOS operating systems. According to Counterpoint Global statistics (2023), starting from 2021 till the present, Android holds a dominant market share with approximately 80% of the mobile operating system market, while iOS follows with around 17% in 2021 and 20% during 2023 [15]. The sheer number of Android users encourages businesses to innovate a vast ecosystem of apps and services, making it highly appealing to new smartphone buyers [16]. The continuous dominance in the market can be due to the increase in the consumer base, which may create a positive feedback loop, attracting potential users from separate networks to join the environment and adopt the product, which can significantly benefit products that establish a strong network presence [16]. While businesses may also be benefited from demand-side economics of scale with the increase of consumers and the increasing demand for smartphones worldwide, manufacturers may be able to produce them in larger quantities, leading to cost reductions due to economics of scale [17]. Businesses may be benefited from the reduction of price, leading to potential increase in profit or being more price competitive.

7. Conclusion

Social networks play a critical role in shaping both consumer behavior and market outcomes. The characteristics and features of these networks can influence attitudes, preferences, and purchasing decisions, leading to potential changes in market dynamics. Businesses and marketers can develop effective strategies to target their audience and achieve success in a highly connected world by studying how individuals are influenced by their social connections. This paper has explored the impact of network characteristics on consumer behavior and market outcomes, focusing on homophily, tie strength, and network externalities. The findings demonstrate that individuals with similar interests, values, and preferences are more likely to have an impact on one another, fostering uniformity and shared ideals among groups. Strong relationships between individuals can establish social norms and expectations, and weak ties can provide access to novel information as well as opportunities. The network effect can also enhance the overall user experience and reduce costs, allowing a better market outcome. The insights provided in this essay have practical implications for businesses, marketers, or researchers seeking to optimize their strategies or develop a nuanced understanding of the complex relationship between economics and social networks, especially regarding consumer behaviors’ influence on market outcomes. By recognizing the influence of network characteristics on consumer behavior and adopting the changes that social media brings, businesses can tailor their marketing strategies to target specific audiences and achieve market success.

While this essay highlights the importance of understanding the influence of social networks on consumer behavior and market outcomes, it is essential to acknowledge its limitations. One limitation of this research is that it only focuses on a few network characteristics, such as homophily and tie strength, and network externalities. Many other network characteristics may also significantly shape consumer behavior or influence market outcomes that were not discussed here. Future studies could explore the impact of other network characteristics, such as network topology, network density,

network centrality, and network diversity, to provide a more thorough understanding of the influence of social networks on the market. Another limitation is that this essay primarily focuses on the impact of social networks on consumer behavior and market outcomes without considering the impact of other factors, such as personal preferences, individual values, and cultural differences. To resolve so, future research could explore the interaction between social network characteristics and other factors that may influence consumer behavior and market outcomes, providing a more nuanced understanding of these phenomena. Also, other measurements like profit margin are as crucial as diffusion level to indicate a successful market outcome. Although demand-side economics of scale was shortly discussed in the essay, future research may evaluate other factors like how social network encourages information sharing and innovations, which are vital to achieving market success and businesses.

In conclusion, while this essay provides valuable insights into the relationship between social networks, consumer behavior, and market outcomes, there is still much to be explored in this field. Future studies could expand on these limitations of this essay, exploring new network characteristics and other factors that may impact consumer behavior and market outcomes. By doing so, businesses and marketers can develop more effective marketing strategies and succeed in an increasingly connected world.

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