



Note on Consumer Behavior

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In a classic paper on the managerial significance of behavioral decision theory, Itamar Simonson (1993, p. 80) concludes:

In some situations, consumers do have clear and strong preferences for particular product or service characteristics. In such cases, none of the (behavioral science) manipulations are expected to affect purchase decisions. ... (However,) companies can increase their sales significantly by supplementing the voice of the customer with a better understanding of the various “irrational” influences on purchase decisions and translating that knowledge into specific sales, positioning, pricing, and communications tactics.

The purpose of this note is to review key concepts in behavioral decision theory and to indicate how they affect decisions about the 4 P’s of marketing. As we review these ideas, it is important to keep in mind Simonson’s caution. If we can design and position our products successfully so that consumers have clear and strong preferences for our product relative to competition, then we have won most of the battle. Behavioral science manipulations are extremely impor-

tant, but they go hand-in-hand with a basic understanding of customer wants and needs.

Lens Model Revisited

We first saw the lens model (Figure 1) in product development where we learned that the most profitable products are those that customers perceive as best. In product development our goal is to identify customer needs and to design the product and marketing tactics so that the customer perceives that the product fulfills the customers needs. The basic lessons of the lens model carry over to the study of consumer behavior. Customers see the world through the lens of perceptions and their preferences are based on those perceptions. Choice is dependent upon customer preferences, but other influences, such as availability and perceived price, also influence the products that customers choose.

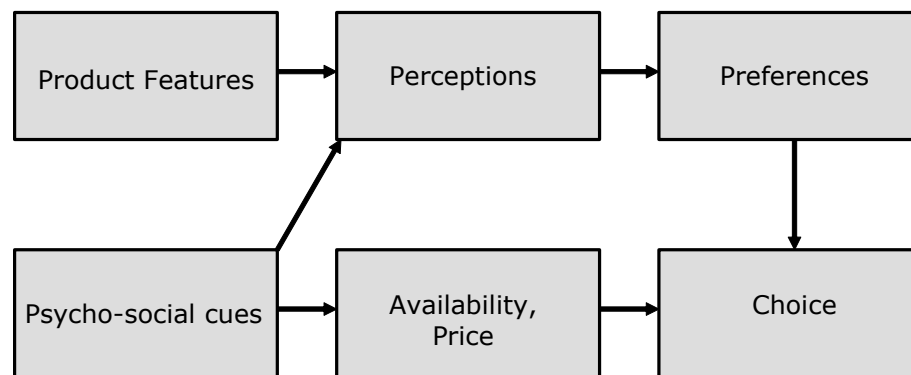


Figure 1. Review of the “Lens” Model

In this note we explore how perceptions are affected by context and framing, how preferences might be constructed based on the choices available, and how choices may, at first, seem “irrational.” In other words, consumer behavior is not a simple, constant process. Each and every arrow in Figure 1 is influenced by context. As managers we can influence that context with the 4 P’s of marketing. I put “irrational” in quotes because (1) there is good scientific evidence that seemingly irrational decisions actually work quite well in most of the situations faced by consumers and (2) who is to define what is irrational if the customer is satisfied with the outcome.

Non-compensatory and Other Constructed Processes

Many of students use personal digital assistants (PDAs). On the website of our MIT's approved supplier, GovConnection, we find 97 PDAs from which we can choose. Local retailers also have moderately broad product lines – 21 at Circuit City, 25 at Staples, 27 at Microcenter, and 33 at CompUSA. On websites and in retail stores sellers provide tools to simplify PDA choice for consumers. For example, Staples, CompUSA, and Microcenter structure the choice sets (e.g., Palm-OS vs. Windows CE) while all retailers and websites encourage consumers to self-organize the choice sets by operating system, brand, price, or other features. Figure 2 reproduces a webpage from CompUSA.

The screenshot shows the CompUSA.com website interface. At the top, the logo reads "COMPUSA.com WHERE AMERICA BUYS TECHNOLOGY". To the right, there are links for "View Cart", "My Account", "Locations", and "Custom". A red banner advertises "ORDERS \$150 & UP GET... PENNY SHIPPING! CLICK HERE FOR DETAILS". Below this is a navigation menu with categories: "Accessories", "Computers", "Computer Upgrades", "Digital Cameras", "Gaming", "Monitors", and "Network". A search bar contains the text "SEARCH: Enter Your Search Term" and a "Search within results" button. The breadcrumb trail indicates the current page is "CompUSA.com » Departments » PDAs". The main content area displays "Product Results: 30 matching products, refine your list below." and several filter boxes:

- By Department:** [Palm OS](#), [Pocket PC](#)
- By Brand:** [Sony](#), [Toshiba](#), [Hewlett-Packard](#), [PalmOne](#), [Handspring](#), [More...](#)
- By Price:** [\\$50 - \\$100](#), [\\$100 - \\$200](#), [\\$200 - \\$300](#), [\\$300 - \\$400](#), [\\$400 - \\$500](#), [\\$500 - \\$1000](#)
- By Availability:** [In-Store products](#)
- Related Departments:** [PDA Accessories](#), [Flash Memory](#)

A blue bar at the bottom of the filter section indicates "30 products matching".

Figure 2. PDA's From CompUSA

Few consumers take the time to evaluate 33 PDAs, let alone 97 PDAs. CompUSA's website helps consumers narrow that search quickly. But does the very act of providing categories influence consumer behavior? Before we answer that question, it is worthwhile to consider whether consumers naturally process information by categories.

Economic theory introduced the concept of utility functions and indifference curves. For example, a consumer faced deciding among PDAs with different sizes and different prices would trade off size with price. Assuming

small is better, a consumer may be willing to pay more for a smaller PDA. We call this model of consumer behavior a compensatory model because one characteristic, size, can compensate for another characteristic, price. A compensatory model assumes that consumers tradeoff features such as size, keyboard layout, operating system, brand, and price to choose the PDA that is best for them.

However, think of the poor consumer who has to gather information about the characteristics for all 97 PDAs, put them in a spreadsheet, assign some weights to each characteristic, and make a choice. I am willing to bet that very few 15.810 students constructed such a spreadsheet before choosing a PDA (or cell phone).

It is more common for consumers to use a two-stage process of, first, screening the large set of PDAs quickly and then, second, choosing carefully among the smaller set of screened PDAs. Such two-stage processes are common and rational if we consider search and evaluation costs. As a thought experiment, imagine a consumer who screens 97 PDAs to a smaller set of 6 PDAs and then chooses the best of the smaller set. For this consumer, a two-stage process might identify the best PDA for that consumer. If the best PDA is overlooked, the PDA that the consumer ends up purchasing might be almost as good (for that consumer) as the PDA that was overlooked. In other words, the loss in utility (utility of best PDA minus utility of chosen PDA) might be quite small. However, the two-stage process is quicker and easier. It is rational for the consumer if the evaluation and search costs saved are greater than the slight loss in utility from using the two-stage screen-then-choose process.

Once we accept that a two-stage process might be best, on average, for the consumer, we can ask how the first stage operates. Review Figure 2. CompUSA is assuming that the consumer first chooses either operating system (OS), brand, or price range. This is one example of a “lexicographic” process. Lexicography is the process of compiling a dictionary. In English dictionaries, words are sorted in alphabetical order. All the “a” words come before the “b” words; all the “aa” words come before all the “ab” words, etc. The word, “babble,” would not come before the word, “azygous,” even though babble has lots

of letters from the beginning of the alphabet and azygous from the end of the alphabet. The “a,” “e,” and two “b”’s in babble do not compensate for the “z,” “y,” “o,” and “u” in azygous. Azygous begins with an “a” and that sets it ahead of babble.

In an analogy to a dictionary sort order, consumers might sort products lexicographically by the aspects of the features. For example, they might limit themselves to a PDA under \$200. No amount of features would convince them to move up to a \$500 PDA. In other words, all low-priced PDAs are sorted as being preferred to all high-priced PDAs. The next feature in the lexicographic order might be OS. The consumer would sort PDAs as {low-price, Palm}, {low-price, Pocket PC}, {high-price, Palm}, {high-price, Pocket PC}. If there are enough low-priced Palm-OS PDAs, these might form the consumers consideration set. The consumer might then choose only from his or her consideration set.

There is evidence that lexicographic processes might be rational in situations that we normally encounter. Two German researchers devised a simple test.¹ They asked consumers if they could identify which of two German cities was larger. Consumers tended to address this task lexicographically – if I’ve heard of it, it must be larger; if I’ve heard of both cities, the larger city is the city that is a state capital; if I’ve heard of both and neither is a state capital, the larger city is the city that has a soccer team in the national league; etc. More importantly, they found that lexicographic decision rules did extremely well in classifying German cities. They also found that these heuristics were often better for the German-city task than a compensatory process – weighing all features of the cities to come up with a score. Their argument is that, for the tasks that consumers face everyday, lexicographic processes do quite well.

As an illustration, we tested lexicographic processing on a survey to 15,810 students last year. Each student was asked to choose from a set of 32 SmartPhones that varied on 16 aspects. There were no constraints on how the choice was made. Of these students, 92% used a non-compensatory (lexico-

¹ Gigerenzer and Goldstein (1996).

graphic) process. The key aspects that they used are shown in Table 1. For example, almost 50% of the students simply rejected any SmartPhone priced at \$499 or above. Another 32% limited their search to flip SmartPhones and another 29% limited their search to small SmartPhones. Were this a national sample, the information would be critical to (1) the design of SmartPhones, (2) the design of retail space, (3) the design of websites, and (4) any advertising or communications strategy.

Table 2: Top Lexicographic Aspects for SmartPhones

| Aspect | Accept/Reject | Percent of Sample |
|---------------|---------------|-------------------|
| Price – \$499 | Reject | 49.2% |
| Flip | Accept | 32.0% |
| Small | Accept | 29.4% |
| Price – \$299 | Reject | 19.8% |
| Keyboard | Accept | 17.3% |
| Price – \$99 | Accept | 14.5% |

Constructed Processes

One we accept that consumers might use heuristic processes to evaluate products and services, we must recognize that these processes might be context dependent. For example, if there are only four PDAs, it may not be necessary for the consumer to use a lexicographic process to screen those PDAs. Indeed, when we gave 15,810 students only 16 SmartPhones, the percent of students using a lexicographic process decreased from 92% to 72%. This is a general result – non-compensatory processes are more likely when the number of alternatives is large. In other words, if the manufacturer, retailer, or website offers the consumer more alternatives, the consumer is more likely to use a lexicographic process. In these situations it is critical for the manager to know which aspects are being used by consumers to screen the large set of products.

The size of the choice set is only one influence on the process by which consumers choose. The key scientific idea is that preferences are not immuta-

ble, but, instead, are constructed as the consumer is asked to make a decision. Decisions may be different depending upon the decision context. Students faced with 32 PDAs may make a different choice than those faced with 16 PDAs, even if their first choice from 32 is in the set of 16. In an excellent review of the literature, Profs. Bettman, Luce, and Payne of Duke University suggest that:²

- if the consumer is limited in processing capability, say by time pressure, then the consumer is more likely to construct his or her preferences,
- if choice tasks are more complex, consumers are more likely to use heuristic processing rules such as the lexicographic rule describe above,
- preferences are more stable if the choice task is simpler,
- problem difficulty matters:
 - the number of alternatives has a bigger effect of simplification than the number of features,
 - how one measures the choice task matters when attempting to measure consumer preferences.

Marketing tactics can influence how consumer construct decision processes. For example, in a famous advertising campaign, the soft drink, 7-up, positioned itself as the “Uncola.” Before that campaign, Pepsi and Coke were seen as colas and all other drinks were grouped together. Consumers used a more-or-less lexicographic process choosing cola over “other.” 7-up’s campaign was an attempt to place itself into the “cola” market and, hence, differentiate itself from all other non-colas. This worked quite well for a while until Coke and Pepsi responded with brands of their own, e.g., Sprite, coupled with heavy advertising pressure. The category reverted to a Cola-vs.-other definition.

Even if consumers are using compensatory processes that trade off some features vs. other features, consumers may not know in advance which features to trade off. We have already seen how Brita water filters emphasize the taste feature rather than on the “remove impurities” feature. Even the Ionic Breeze,

² Bettman, Luce, and Payne (1998).

discussed in the “Note on Product Development,” emphasizes clean, healthy, germ-free air rather than collecting dust particles. Refrigerator salespeople often focus consumers on “stuff,” extra features such as ice trays, movable shelves, etc. that the consumers can see, feel, and imagine, rather than features such as a more-reliable compressor that is harder for consumer integrate into his or her decision process.

Framing

In one experiment MIT’s Professor Ariely asked some respondents how much they would pay for a poetry reading and other respondents how much they would need to be paid to endure a poetry reading. This induction alone increased the number of respondents who would attend a free poetry reading—more would attend if they had been asked how much they would be willing to pay than if they had been asked how much they would be paid. This and other experiments suggest that subjects do not have a predisposition as to whether a poetry reading is good or bad, but rather construct their preferences in response to environmental cues.

In another experiment Prof. Ariely extended this concept of constructed preferences to the impact of free goods. When trick-or-treaters came to his door for candy, he gave them three Hershey kisses (a small chocolate candy). He then offered them a deal, they could trade some Hershey kisses for one of two larger candy bars. (This was a good deal and all children took it.) He gave some children a small Snicker’s bar for free and asked them if they wanted to upgrade to a larger bar – the price, one Hershey’s kiss. He gave other children an option – they could have a small bar in exchange for one Hershey kiss or a large bar in exchange for two Hershey kisses. If the “frame” did not matter, then the same percentage should upgrade in each situation – every child is being asked to pay exactly one Hershey kiss for the upgrade. But the frame mattered – fewer children upgraded when they were endowed with the free, but small, candy bar.

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These experiments illustrate the general issue of “framing.” Consumers react to buying situations differently, depending upon how they are framed. For

example, consumers perceive beef labeled as 75% lean to be superior to beef labeled as 25% fat.³ Physicians, faced with a decision on medical care might choose one procedure when outcomes are framed as survival rates (90% will survive the first year and 34% will survive by year five), but choose a different procedure when outcomes are framed as death rates (10% will die in surgery, 66% will die by year five).⁴ A consumer might be willing to travel to a distance shopping center to save \$200 on an \$800 business suit, but might be unwilling to make a similar trip to save \$200 on an \$80,000 automobile.

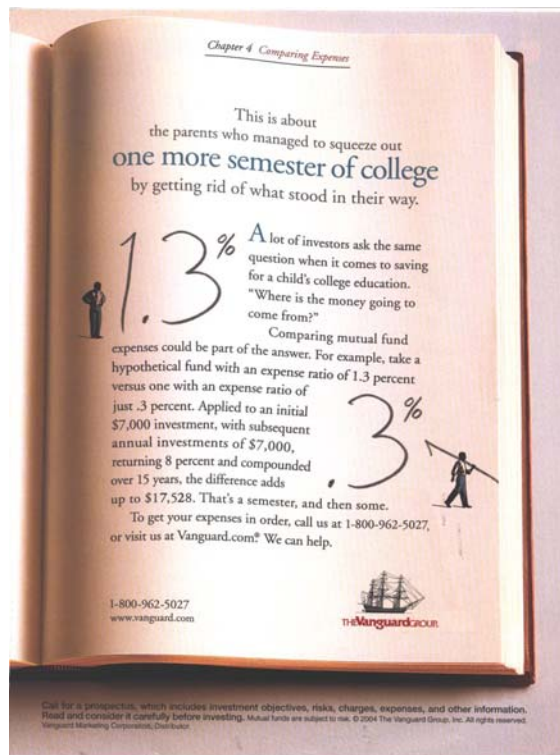


Figure 3. Reframing Expense Ratios

As a final example of framing, consider Figure 3. The Vanguard Group excels on low expense ratios. In a typical mutual fund prospectus, consumers are faced with many features and may not weigh heavily expense ratios. After all, an expense ratio of 1.3% does not seem all that high to an unformed consumer. If The Vanguard Group can reframe expense ratios, then they might be

³ This and other examples are from Simonson (1993) or Russo and Schoemaker (1989).

⁴ The difference in the choice of procedures was quite dramatic – a study published in the *New England Journal of Medicine*.

able to attract more consumers. The advertisement in Figure 3 attempts to re-frame expense ratios by comparing them to one more semester of college tuition. The advertisement is successful if consumers now think of the choice of expense ratios as the choice among whether or not their children can obtain a college education.

Context Effects⁵

We have already seen that context (32 vs. 16 SmartPhones) affects whether or not a consumer uses a lexicographic process to screen a large set of products (32 or 16 SmartPhones) down to a smaller set that can be evaluated more carefully. Context also matters in the final decision process. When consumers were faced with the choice of receiving either a Cross pen or \$6 in cash, 36% chose the pen. However, when a low-quality pen, clearly inferior to the Cross pen, was also offered, 46% of the consumers choose the Cross pen. (Only 2% chose the inferior pen.) It appears that the presence of the inferior pen increased the attractiveness of the Cross pen.

In this case, when a dominated alternative, the inferior pen, was added to the choice set, it increased the perceived value of the Cross pen. This context effect, known as asymmetric dominance, is an effective sales strategy. Salespeople often demonstrate the advantage of their product by comparing it against another dominated product. Asymmetric dominance is also used in catalogue sales. Williams-Sonoma doubled the sales of a less-expensive bread maker by introducing a larger, more-expensive bread maker.

The compromise effect is another example of the influence of context. Consumers often prefer products that represent compromises. For example, consider the choice of a low-priced portable grill and a moderately-priced portable grill. The sales of the moderately-priced portable grill can often be increased by introducing a high-priced portable grill. It is as if consumers are choosing the moderately-priced grill as a compromise between the two extremes.

⁵ The examples in this section are from Simonson (1993).

Retailers often include “good,” “better,” and “best” alternatives in the hopes of increasing the sales of the “better” choice. The compromise effect is related to constructed preferences. If the consumer is not sure about his or her preferences, say because the product must be experienced before it can be evaluated fully, the consumer might infer the preferences of the market from the offered products. If the consumer thinks of himself or herself as “not extreme,” it might be reasonable for the consumer to infer that the middle alternative is the best match. The compromise effect is common, but not universal. Managers are best advised to test its effectiveness before using it.

In considering context effects it is important to remember that seemingly unrelated decisions can affect a decision on a focal product. Firms often offer bundled promotions. For example, Pillsbury offered consumers the option to purchase a Collector’s Plate if they purchased Pillsbury’s brownie mix. Because the Collector’s Plate was an option, the option should have some positive value (or at least non-negative value). However, 13% fewer consumers purchased the brownie mix when offered the promotion. It appears that some consumers considered the Collector’s Plate to be an unattractive feature of the brownie mix, even though it was trivial for them to ignore the option. This unattractive feature lowered the perceived value of the brownie mix. (It might also have been the case that consumers inferred that, because a promotion was necessary to sell the brownie mix, the brownie mix was overpriced to those who did not choose to exercise the option.)

A final context effect is timing. Products are often purchased well in advance of consumption. For example, many consumers go to the supermarket once per week for their major purchases and then consume these items throughout the week. In these contexts, consumers often overestimate their desire for variety. For example, in one experiment students were given a choice of six snacks (candy, chips, etc.) that they could have over the next three weeks. One group was asked to make the three-week decision in the first week. That is, in the first week they chose the items they would consume in week 1, week 2, and week 3. Another group was asked to make a decision each week for immediate

consumption. Sixty-four percent (64%) of the choose-now-consume-later group selected three different snacks, but only 9% of the choose-now-consume-now group selected three snacks. This effect has been replicated many times and suggests strategies such as variety packs and greater variety for products that are purchased in advance (supermarket) versus those purchased for immediate consumption (vending machines). Naturally, the final decision on product assortment also depends upon the distribution of tastes within the population. Even if each consumer always buys their favorite juice drink, consumers' tastes may vary. The juice bottlers and distributors may still want high variety even in vending machines or other "cold" channels.

Memory Schema

In the early 1980s the Tylenol brand of acetaminophen experienced a tragic poisoning instance. A number of consumers died from Tylenol that had been laced with poison. The poisoning was not the result of any actions by Tylenol, but rather the action of a criminal. Nonetheless, consumers associated the poisoning with the Tylenol brand. As a result, Johnson & Johnson, Tylenol's parent, pulled all Tylenol from the market. At the time, no one believed that Tylenol would recover because the image of poisoning would be forever tied in memory to Tylenol.

But Tylenol did recover and they did so, in part, because they understood how images (schema) are connected in memory. In particular, when they were ready to re-launch the brand, advertisements for Tylenol never mentioned the poisoning nor safety or any other attribute that might trigger the negative image in memory. Instead, advertisements emphasized Tylenol's long history of reliability. The advertisements featured testimonials by actual consumers of how Tylenol had been given to them by trusted doctors. (This was effective, in part, because of Tylenol's long history of "detailing" to doctors who, in turn, recommended Tylenol to their patients.) These and other marketing activities built new memory schema, or resurrected existing positive schema. Consumers' memories were so overwhelmed with the new schema that the poisoning incident became less salient.



Figure 4. Memory Schema Matter

Memory schema or images are an important means by which marketing activities can affect perceptions in the Lens model. Almost all advertising attempts to link images to products, whether it be Steve McQueen in a Ford Mustang advertisement or the image of a new day, full of hope, in a coffee advertisement. Examine Figure 4, an advertisement by Phillips that talks about the ability of Phillips' TVs to be seen from peripheral angles. Rather than stressing scientific drawings, this advertisement included images that many consumers would find attractive and memorable. These vivid visual cues might become connected in memory to Phillips and increase consumers' positive perceptions of Phillips' TVs.

Self-Perception and Labeling

A newspaper in Evanston IL was considering a promotion to increase

subscriptions.⁶ They planned to offer a trial period followed by a request for a yearly subscription. Three promotions were tried: (1) consumers were asked to pay full price for a limited trial subscription, (2) consumers were offered the trial subscription at half price, and (3) consumers were offered a free trial subscription. Following standard economic theory, as the price of the trial subscription fell, more consumers chose to try a subscription. However, the goal of the newspaper was not to get trial subscriptions, but to get the year-long subscriptions.

Pure demand theory would predict that Option 3 achieved the largest number of long-term subscriptions – at the margin more consumers would try the newspaper and, presumably, some of those consumers would purchase the long-term subscription. We can imagine scenarios where the newspaper would choose Options (1) or (2) because Option (3) was too expensive, but it is hard, without consumer behavior theory, to imagine that Option (3) would not result in the most long-term subscriptions

In this experiment, Option 2 was most effective. Consumers who received the free trial did not perceive the newspaper as of high value – the publishers had to give it away free. On the other hand, those that paid half-price perceived the newspaper as more valuable – otherwise they would have had to justify to themselves a (bad) decision to accept the half-price trial. In other words, the free trial “labeled” the newspaper as low quality. Similar phenomena are associated with price-off promotions and other sales. Such promotions might increase demand, but there is always the danger that they can label the promoted product as a product with lower quality. Managers considering promotions should think carefully about these effects and test promotions carefully.

Labeling can also work on consumers themselves. Museums and other not-for-profit organizations often use a “foot-in-the-door” strategy. They first ask for a small donation. If the consumer gives that small donation, they then label the consumer as the type of person who supports such causes. The consumer is reinforced as having been smart and socially-conscious to provide the

⁶ This example is based on Scott (1976).

small donation. After a while the consumer comes to think of himself or herself as the type of person who is smart and socially conscious. This positive self-image is then reinforced by ever larger donations.

Mental Accounting⁷

Many consumers have savings accounts that pay a few percentage points of interest, yet borrow money, at a higher rate, to purchase an automobile. Although they would clearly pay less net interest if they were to take money from their savings account, they choose not to do so. Each year millions of American citizens look forward to their tax refund even though this has been, effectively, a tax-free loan to the government. Each of these scenarios can be explained partly, but not completely, by risk avoidance. For a more-complete explanation, we must think in terms of mental accounts.

Consumers often segregate gains and losses into different accounts, much as a corporation might have an explicit accounting system. Consider the following examples simplified from Thaler (1985).

- 1) Monica won \$50 in one lottery and \$25 in another lottery. Mary won \$75 in a lottery.
- 2) Monica received a letter from the government saying that there were a minor error and that she owed \$150. Mary received a letter from the Federal government saying she owed \$100 and a letter from the state government saying she owed \$50, both on the same day.
- 3) Monica won \$20 in the lottery. Mary won \$100 in the lottery, but, on the same day had to pay her landlord \$80 if repair a damaged carpet.
- 4) Monica's car received \$200 in damage in the parking lot, but, on the same day, she won \$25 in a lottery. Mary's car received \$175 in damage in the parking lot.

In each case, when respondents were asked who would be happier, they chose Monica. These respondents seem to believe that both Monica and Mary will hold their gains and losses in separate mental accounts.

⁷ The examples in this section are from Thaler (1985).

Thaler goes on to explain these outcomes via a theory due to (Nobel laureate) Daniel Kahneman and Amos Tversky. The theory is known as prospect theory and it states that (1) consumers evaluate gains and losses relative to a reference point, (2) gains are concave, (3) losses are convex, and (4) losses are steeper than gains. In this note I will not describe the theory in detail because it is taught in other courses at Sloan. However, the implications for marketing are that consumers are likely to:

- segregate gains,
- integrate losses,
- integrate mixed gains, and
- segregate a large loss and a small gain.

For example, telemarketers often segregate gains – “if you act now to buy this portable grill, you will receive, free of charge, this wonderful spatula, a special cookbook, and a handy storage container.” Consumers, by themselves, often integrate losses. For example, charge cards and credit cards integrate expenses so that the consumer only need feel the pain of paying once rather than at each transaction.

When losses and gains come together it is a little harder, but consumers do this intuitively. The popularity of rebates are an example of segregating a large loss (the expense of the new SmartPhone) from a small gain (the rebate). Mixed gains are normal transactions – the consumer feels that the value of the product (gain) is worth the price (loss) – a net gain.

Thaler expands the concept of mental accounting to include the utility of the transaction. For example, paying \$2.50 for a beer in a bar might be considered reasonable, but paying \$2.50 in the grocery store would be considered a “rip-off.” Although the 2004 Red Sox could have charged almost any price for World Series tickets, they did not raise their price above that which was pre-announced. Had they raised their prices to scalper’s levels, this would have been perceived as “unfair” with fall-out that might affect their long-term image in the market place.

Marketers can address the limitations imposed by transaction utility by reframing the purchase. For example, if a Red Sox ticket is sold as part of a tour package (hotel, travel, ticket), it might be perceived as more fair. Hotels during graduation weekend often impose a three-day minimum even though the demand is for one or two days. This allows them to spread the higher price over three days rather than one or two. A final example is the suggested retail price, which sets an expectation. Consumers often anchor on the higher price and adjust too little. Some goods, such as furniture, are often always “on sale” and sell at deep discounts. (Naturally, this must be balanced with labeling and other consumer behavior phenomena.)

Summary

The study of consumer behavior is interesting scientifically and of critical importance to marketing management. Consumers are intelligent and provide important pressures to the firm to provide high value at a fair price. However, high value is based on consumer perceptions. These perceptions are anchored in reality, but can also be affected by many psycho-social cues. To be effective a marketing management must understand these cues and how they affect consumer behavior. This understanding leads to better marketing tactics.

This note reviews many of the key ideas in consumer behavior. If you find this topic fascinating, as do I, then I encourage you to seek more information. The references below are a start as are textbooks on consumer behavior. Each year we teach an advanced course in consumer behavior at MIT Sloan.

We have covered a number of consumer-behavior phenomena in this note. Whenever you design products, select communication strategies, set your prices, or negotiate with channel partners, you should keep the following effects in mind.

- the Lens model – consumers see the world through the lens of perceptions. Perceptions are based on physical reality, but can be influenced by word-of-mouth, advertising, context, and other psycho-social cues.
- heuristic screening of products – when there are many products from which to choose, or consumers are under time pressure, or are faced with

limited “processing resources,” consumers often use non-compensatory (e.g., lexicographic) heuristic processing rules to screen the set of products down to a smaller consideration set. Knowing these rules identifies the critical features that are necessary for the product category. The use of these rules can be influenced by various marketing tactics.

- constructed processes – consumers do not have fixed, immutable preference, but often construct their preferences on the fly. The manner in which features are presented can influence the choices they make.
- framing – products and services are more than a set of features. Decisions can be reframed to a firm’s advantage – college tuition rather than mutual fund expense ratios.
- context effects – consumers’ preferences and choices of products depend upon the context of the decision. Asymmetrically dominated alternatives, compromise alternatives, seemingly unrelated decisions, and purchase timing all effect the products that consumers choose.
- memory schema – it is not just the product, but the image of the product that influences consumer perceptions. Tying positive images to a product can increase a consumer’s affect (liking) toward the product.
- self-perception and labeling – a low price can cause a product to be perceived as low value. A consumer’s self-image affects future purchases.
- mental accounting – consumers tend to keep mental accounts that treat gains and losses differently. By understanding the integration or segregation of mental accounts and the impact of transaction utility, managers can improve their marketing tactics.

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