

# The Table Illusion

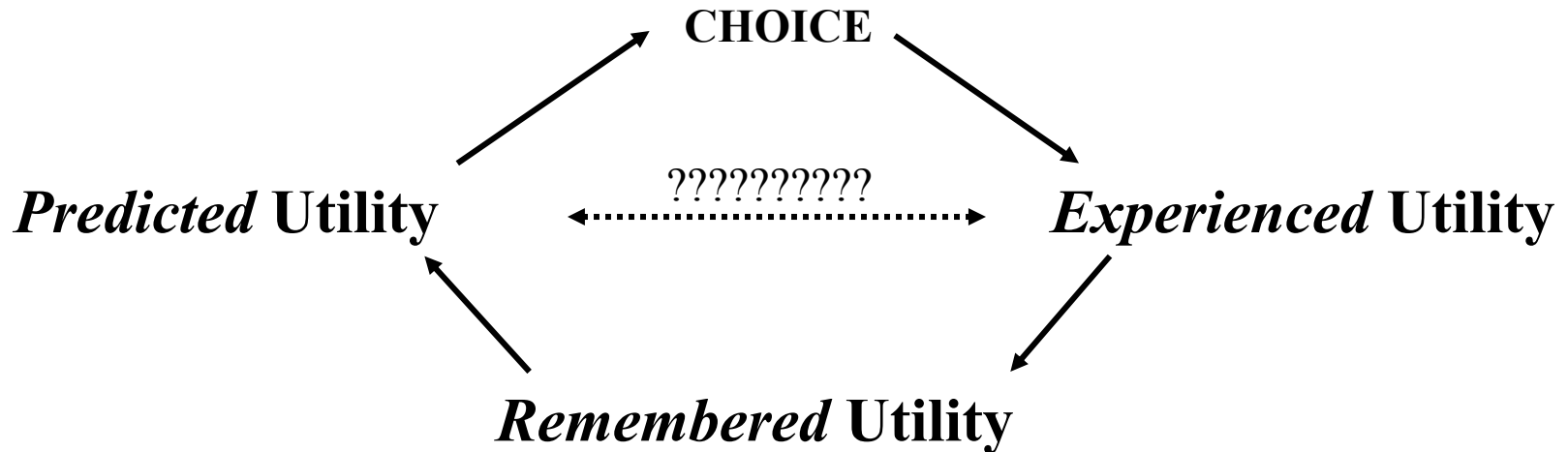
# Why study consumer behavior?

- Until now, we have focused on consumer needs
  - identifying needs through market research
  - satisfying needs through product design
  - \*make more profit by understanding *what people want*
- Consumer behavior is about the psychological processes that underlie consumer choices.
  - identifying the simplifying choice rules consumers use
  - discovering how "framing" of a decision affects preferences
  - \*make more profit by understanding *how they think*

# Economic vs. Psychological view of preferences

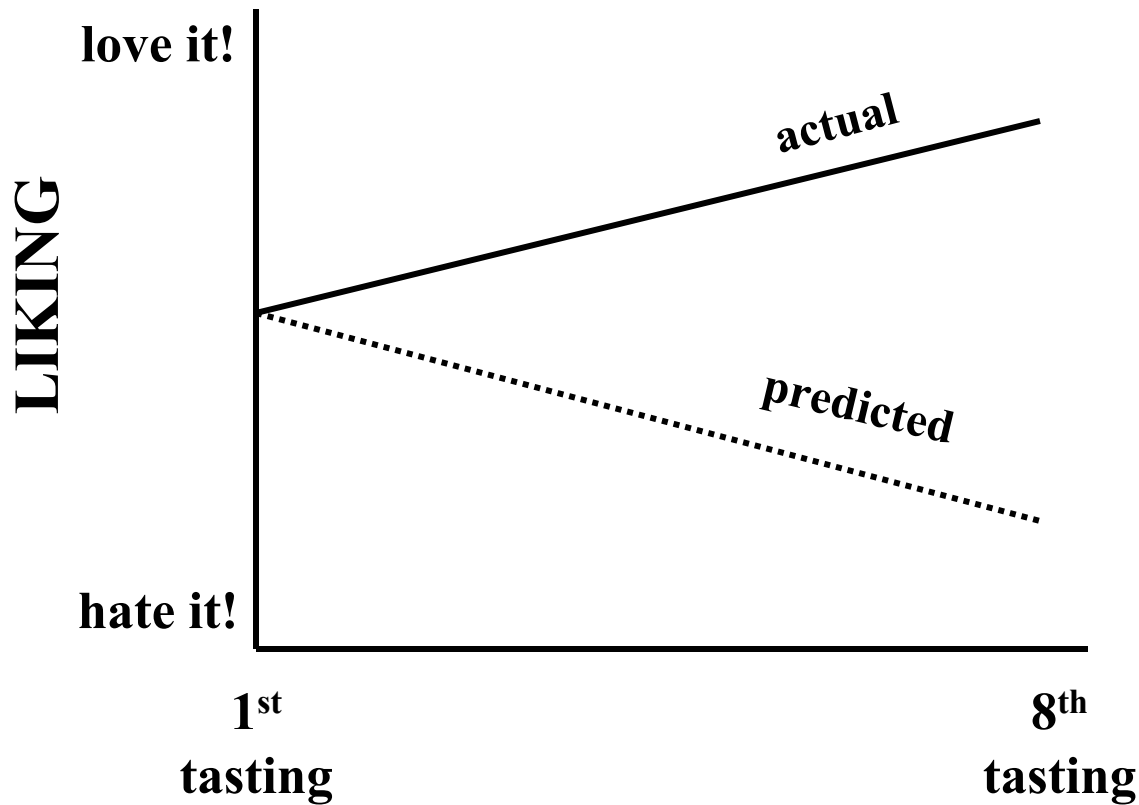
- Economic model of preferences
  - preferences are fixed, stable, precise
  - invariant with respect to description
  - independent of the choice set
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# Do people choose what is best for them?



- How good are people's choices?
  - How accurate are predictions of future enjoyment?
  - How accurate are memories of past enjoyment?

# Can people predict taste changes?: 8 successive tastes of plain yogurt



# Manipulating Variety Seeking: Simultaneous vs. Sequential Choice

## **This Monday**

Reese's  
Cheetos  
Snickers  
Sun chips  
Jelly beans  
Granola bar

## **Next Monday**

Reese's  
Cheetos  
Snickers  
Sun chips  
Jelly beans  
Granola bar

## **Following Monday**

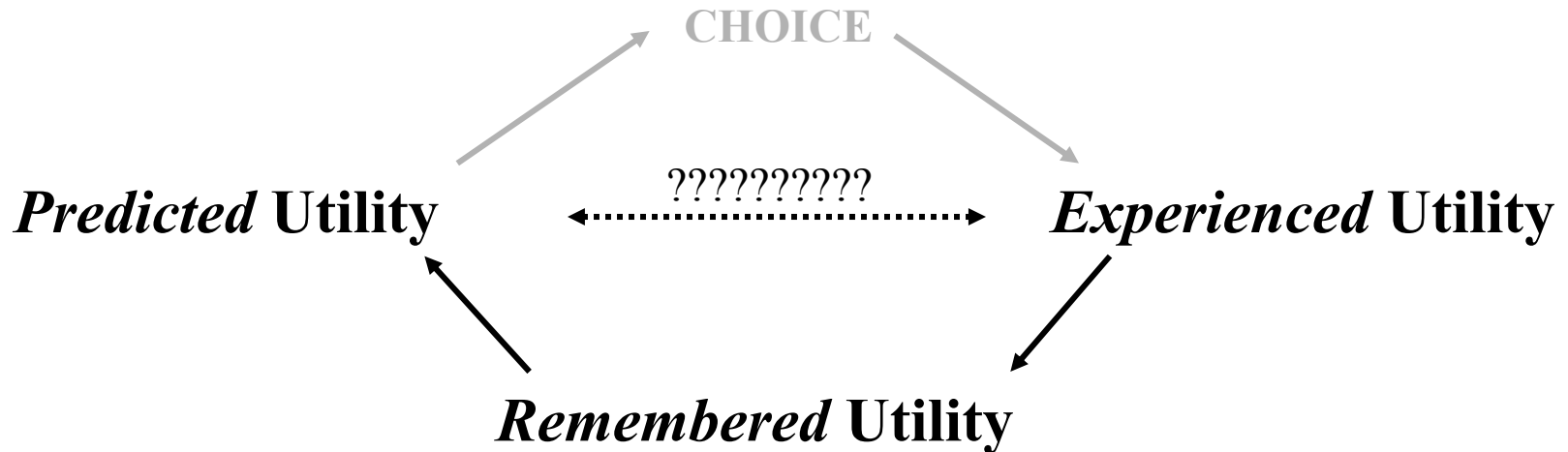
Reese's  
Cheetos  
Snickers  
Sun chips  
Jelly beans  
Granola bar

**% choosing**  
**3 different snacks**

*Choose 1 each monday*      **9%**

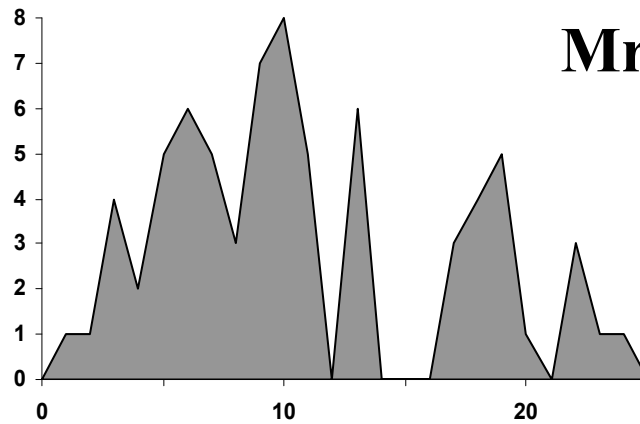
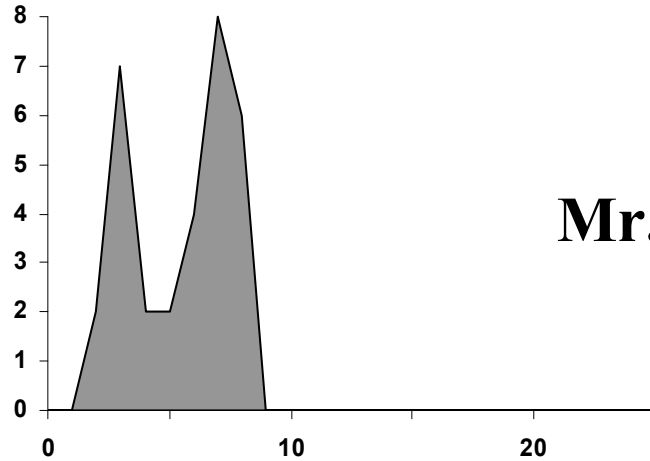
*Choose 3 now*      **64%**

# Intuitive Hedonics: Do people know what they will like?



- How accurate are predictions of future enjoyment?
- How accurate are memories of past enjoyment?

# Remembered utility & duration neglect





# treating lung cancer: radiation therapy or surgery?

<u>Radiation</u>	<u>Surgery</u>	<b>% of doctors recommending surgery</b>
<b>0% die</b>	<b>10% die</b>	<b>56%</b>
<b>100% survive</b>	<b>90% survive</b>	<b>82%</b>

# Which hamburger to buy?

	<u>Price</u>	<u>Quality</u>
<b>Hamburger A</b>	<b>\$2.49 / lb</b>	<b>10% fat</b>
<b>Hamburger B</b>	<b>\$1.99 / lb</b>	<b>25% fat</b>

	<u>Price</u>	<u>Quality</u>
<b>Hamburger A</b>	<b>\$2.49 / lb</b>	<b>90% lean</b>
<b>Hamburger B</b>	<b>\$1.99 / lb</b>	<b>75% lean</b>

# Choosing vs. Rejecting

## Resort A

average weather

average beaches

medium hotel

medium temp. water

decent nightlife

## Resort B

lots of sunshine

gorgeous beaches

ultra-modern hotel

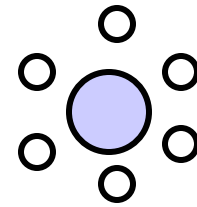
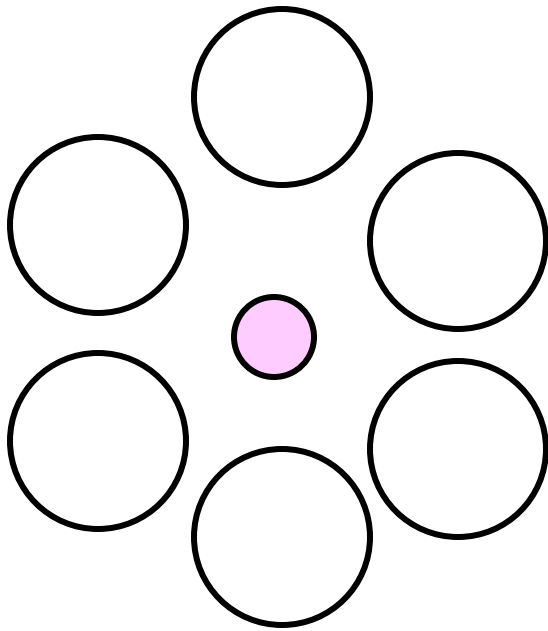
very cold water

no nightlife

**Which resort would you choose:    A    B**

**Which resort would you cancel:    A    B**

# The Ebbinghaus effect



# Would you drive 10 minutes to save \$5?

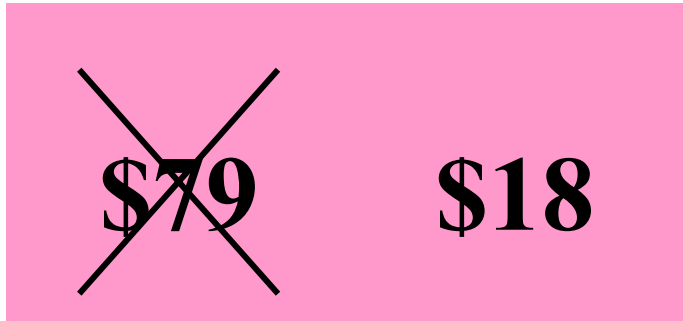
"Imagine that you are about to purchase a pair of gloves for \$15 and the salesman informs you that the jacket you wish to buy is on sale for \$10 at the other branch of the store, which is 10 minutes away."

	<b>68%</b>	
Would you make the trip?	YES	NO

"Imagine that you are about to purchase a jacket for \$115 and the salesman informs you that the jacket you wish to buy is on sale for \$110 at the other branch of the store, which is 10 minutes away."

	<b>29%</b>	
Would you make the trip?	YES	NO

# The contrast principle in marketing

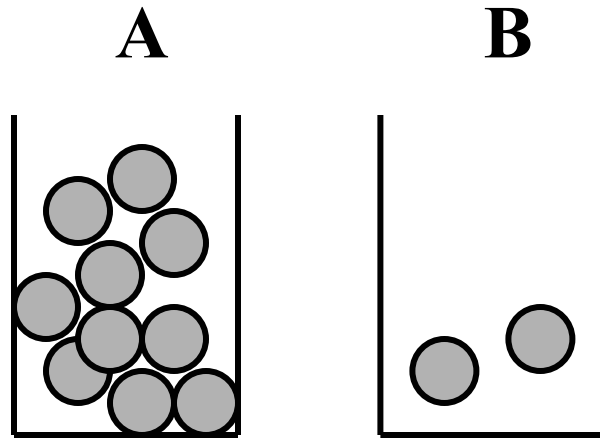


Price tag at store Red



Price tag at store Blue

# The scarcity principle



**How good do these cookies taste?**

0 1 2 3 4 5 6 7 8 9 10  
**terrible** **very good**

# A Violations of *Regularity*

SET (A)	\$6 in cash	a Cross pen	
	64%	36%	
SET (B)	\$6 in cash	a Cross pen	a Bic pen
	52%	46%	2%



## Another violation of *Regularity*

SET (A)	\$1.50	a Zebra pen	
	25%	75%	
SET (B)	\$1.50	a Zebra pen	2 pilot pens
	53%	34%	13%

# Decision difficulty & delay

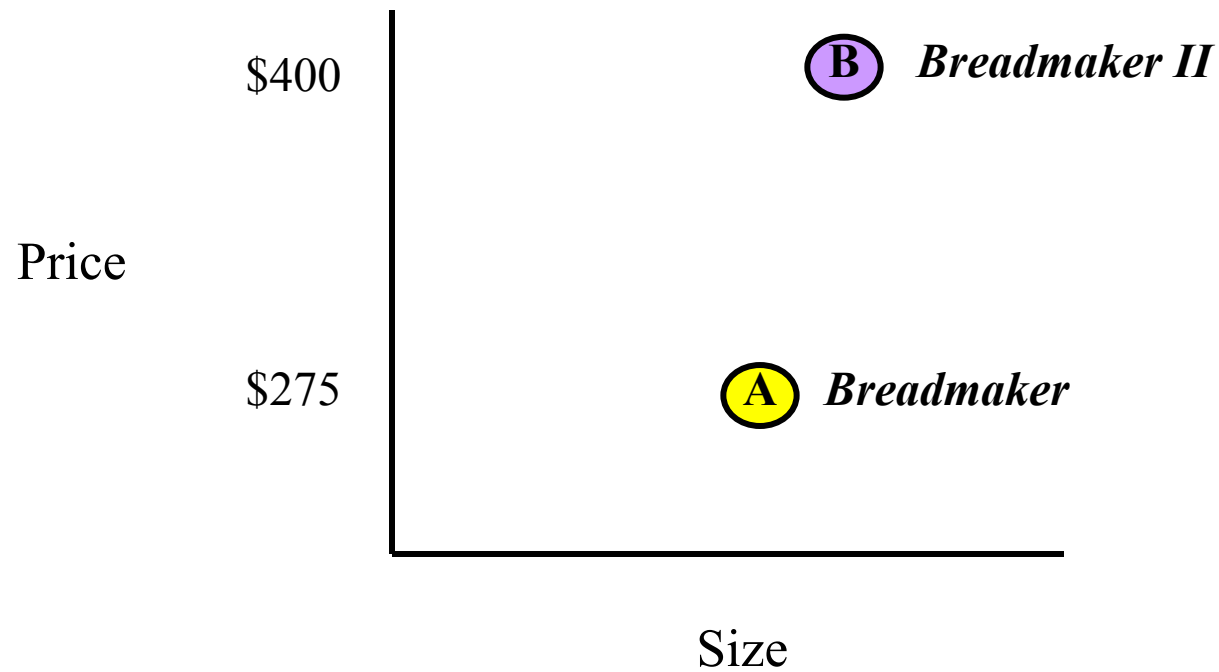
"Suppose you are considering buying a CD player and have not yet decided what model to buy. You pass by a store that is having a 1-day clearance sale. They offer a popular SONY player for just \$99, [and a top-of-the-line AIWA player for just \$169. Both are] well below the list price."

Do you:

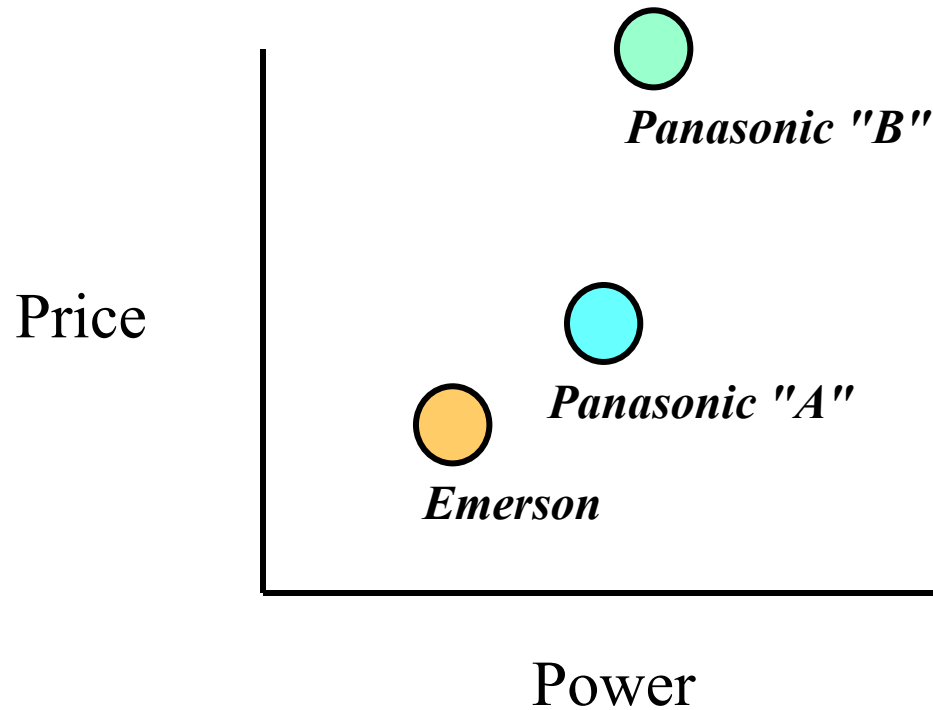
- buy the SONY player P%
- wait and learn more about other models Q%

- buy the SONY player A%
- buy the AIWA player B%
- wait and learn more about other models C%

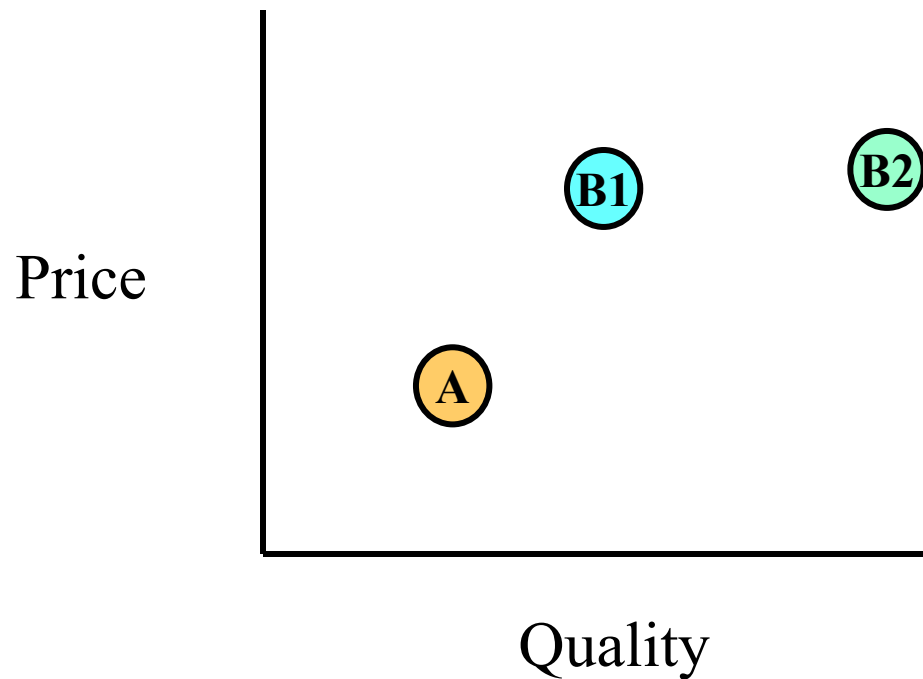
# Consumers do not know their own values



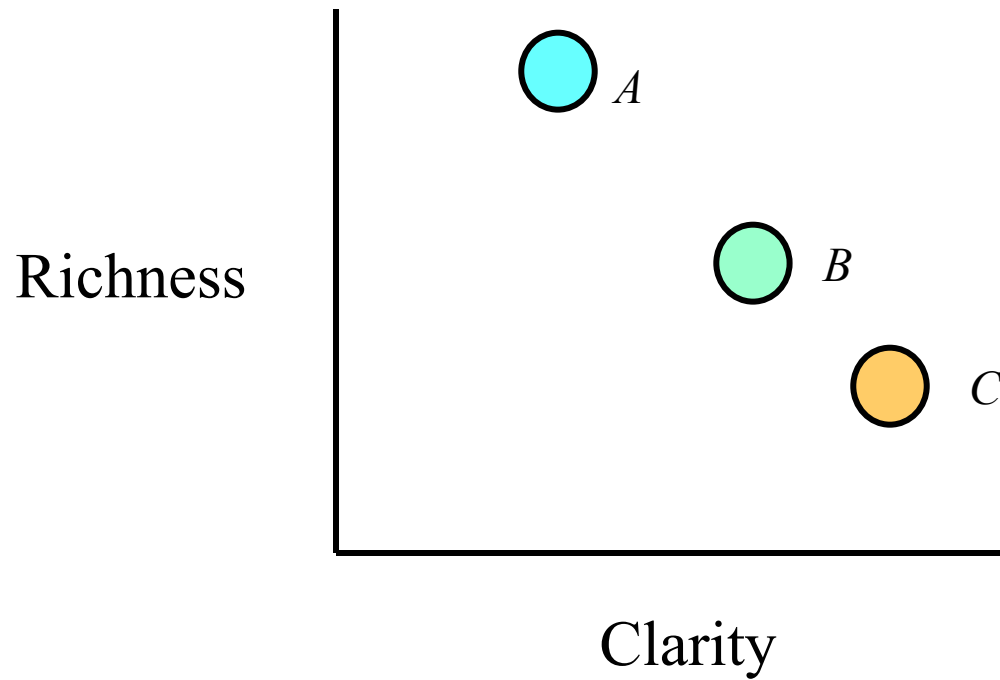
# Microwave Ovens: Adding a relatively inferior alternative



Would "B2" sell better in direct competition with A or in competition with both A and B1?



# 3 Stereo Speakers



# Economic vs. Psychological view of preferences

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# Explanations?

	<u>Fidelity</u>	<u>Range</u>
<b>Stereo X</b>	<b>20</b>	<b>3</b>
<b>Stereo Y</b>	<b>13</b>	<b>8</b>

	<u>Fidelity</u>	<u>Range</u>
<b>Stereo X</b>	<b>20</b>	<b>3</b>
<b>Stereo Z</b>	<b>10</b>	<b>8</b>

**Choice Share of Y = 57%**

**Choice Share of Z = 69%**