



23C59000 - Consumer research

Behavioral (economics) perspective to consumer research – biases and heuristics

Ilona Mikkonen DSc.

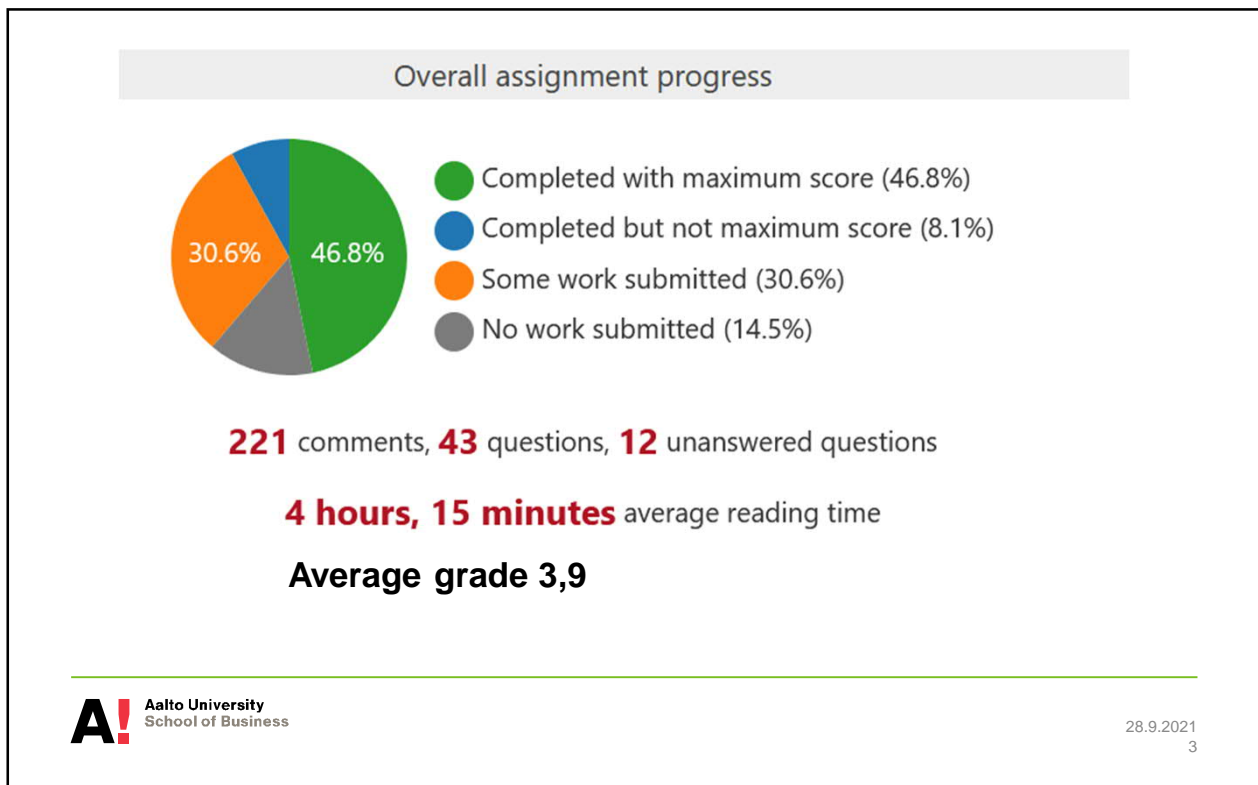
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Agenda

- Questions and comments from Perusall and 3-2-1 quizz
- Behavioral (economics) perspective explained
 - Two modes of thinking
 - Biases in our perceptions
- Biases and heuristics
 - Anchoring
 - Availability
 - Representativeness
 - Other concepts of bounded rationality



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Subliminal influences

Subliminal = ?

“below the threshold of consciousness”

→ **Subliminal advertising communicates symbols that convey meaning but are sent below the threshold of normal perception**

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But does it work?

Karremans, Johan C., Wolfgang Stroebe, and Jasper Claus. "Beyond Vicary's fantasies: The impact of subliminal priming and brand choice." *Journal of experimental social psychology* 42.6 (2006): 792-798.

- Half of the participants in a study were subliminally primed with Lipton Ice ("Lipton Ice" was repeatedly flashed on a computer screen for 24 milliseconds),
- The other half was primed with a control that did not consist of a brand.
 - *It was found that subliminally priming a brand name of a drink (Lipton Ice) **made those who were thirsty** want the Lipton Ice.*
 - *Those who were not thirsty however, were not influenced by the subliminal message since their goal was not to quench their thirst*

Why is it that the field is still dominated by cognitive approaches?

Why is consumer research so dependent on these outdated models? What is the reason that the newer models have failed to make a larger impact in behavioural studies?

How do the journal's language and country of origin impact the journal ranking?

[with peer-review potentially years] isn't it problematic that the information or data may become outdated before publishing?

Can you combine the behavioural and cultural perspectives in one research project?

We also discussed that we have to decide the research questions first and then decide [the approach and methods]. Is there any situation where the research method could be decided before?

How do you even know if you need to use a qualitative or a quantitative method?

Quantitative approaches suitable for questions that

- Seek to find out general **causalities** or **correlations**
- Are focused on **quantities** or **frequencies**

For example:

If we alter X, how much will Y change?

How many % of X think Y?

How often do X do Y?

Qualitative approaches are interested in meanings, processes and features – questions are typically what or how

For example:

How does X occur (within a context Y)?

How is X experienced by Y (within a context Z)?

What kind of meanings are attached to X by Y (within a context Z)?

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Feedback



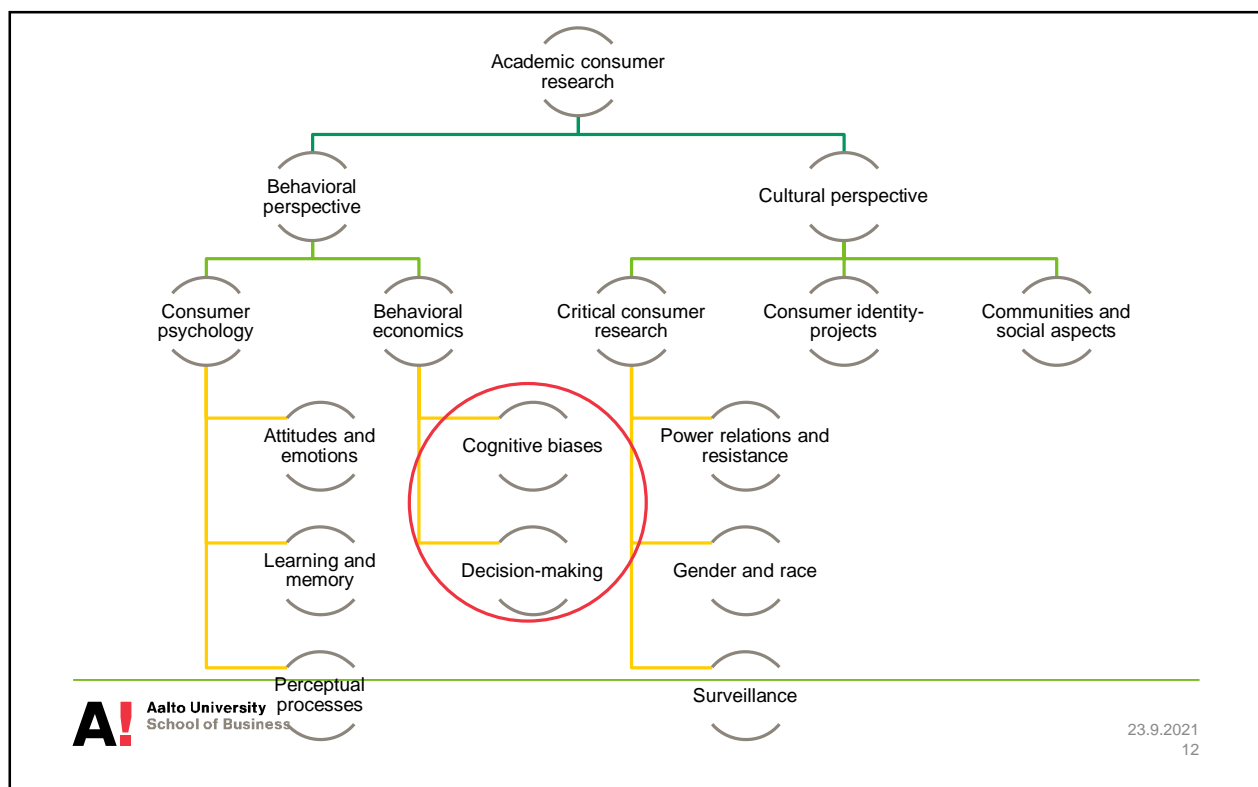
- Perusall
- Breakout rooms



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Behavioral perspective to consumer behavior

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Traditional perspective to economics and consumer decision-making – what are the main assumptions?

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Assumptions of the traditional perspective

- Consumers have **all necessary information**
 - With this information, consumers are able to make **rational decisions**, and choose the **optimal** alternative (optional = **maximized** (economic/monetary) **utility**)
- Consumers always have clear criteria, and alternatives (for example, products) are easy to compare
- Consumption choices are based solely on (own) utility maximization
- Consumers never consume too much or too little for their own good

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The myth of *homo economicus* – the economic man

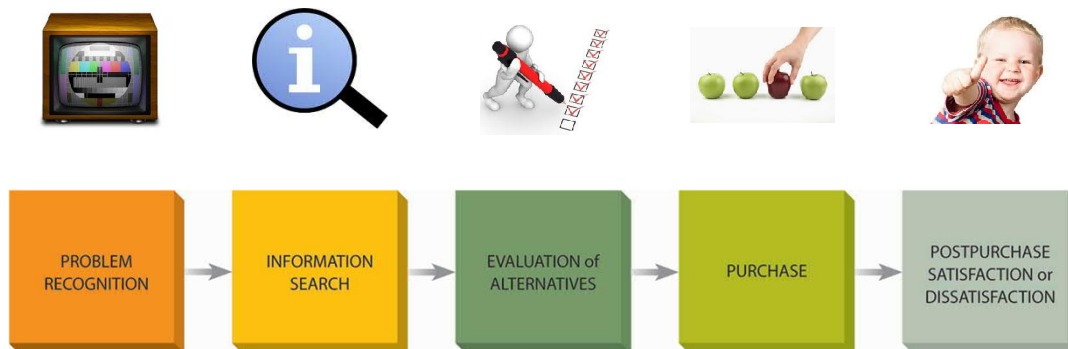
“I pursue my rational objectives optimally”



“I make rational decisions”

“I’m driven by self-interest and the maximization of my own utility”

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John thinks his current TV is old-fashioned

John visits online stores and discussion groups to search for information

John now has criteria with which to evaluate alternatives

John buys one of the alternatives

John is satisfied with his choice

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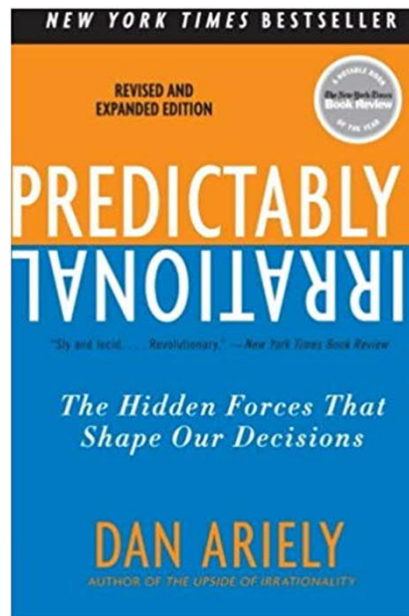
But are we always
(if ever) rational
decision makers,
driven by self-
interest and
constantly trying to
optimize?



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Behavioral economics is primarily concerned with the bounds of rationality of economic agents. Behavioral models typically integrate insights from psychology, neuroscience and microeconomic theory.^{[2][3]} The study of behavioral economics includes how market decisions are made and the mechanisms that drive public choice.

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Two cognitive systems

AUTOMATIC SYSTEM

- "Gut-reaction"
 - Uncontrolled
 - Effortless
 - Fast
 - Unconscious
 - Skilled
- "The lizard brain"

REFLECTIVE SYSTEM

- Conscious thought
 - Controlled
 - Effortful
 - Slow
 - Self-aware
 - Rule-following

This one is in control
most of the time –why is
that?

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Two cognitive systems

AUTOMATIC SYSTEM

- Does not involve what we usually associate with the word "thinking"
- The automatic system in use:
 - Ducking when a ball is thrown at you unexpectedly
 - Smiling when you see a cute puppy
 - Getting scared when your airplane hits turbulence
 - Getting an idea for your bachelor's thesis topic out of the blue

REFLECTIVE SYSTEM

- Deliberate and self-conscious
- Involves "thinking"
- Your conscious thought
- The reflective system in use:
 - Trying to calculate 411×37 in your head
 - Deciding which route to travel to home
 - Writing your bachelor's thesis

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Our perception is distorted.

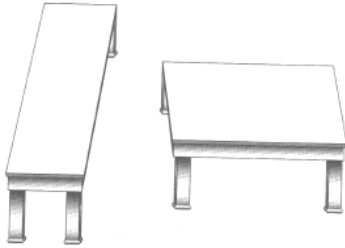
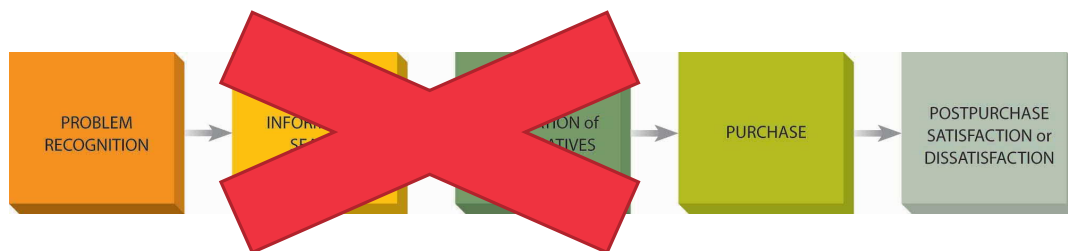


Figure 1.1. Two tables (Adapted from Shepard [1990])



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What does this have to do with consumer **decision making**?



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Instead of logical and rational

We use different rules of thumbs, or heuristics



Anchoring or focalism is a cognitive bias for an individual to rely too heavily on an initial piece of information offered (known as the "anchor") when making decisions



Availability heuristic is the tendency to overestimate the likelihood of events with greater "availability" in memory, which can be influenced by how recent the memories are or how unusual or emotionally charged they may be.



Representativeness is the tendency to estimate the likelihood of an event by comparing it to an existing schema that already exists in our minds.

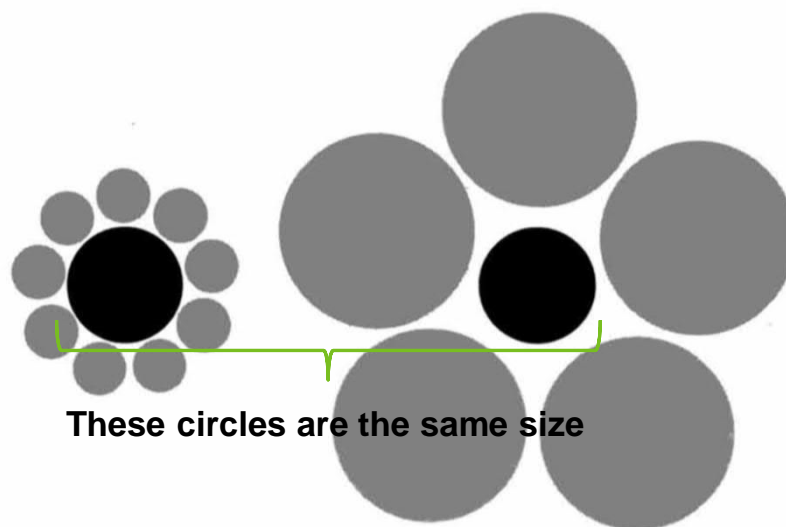


“Most people don't know what they want unless they see it in context”

“Humans rarely choose things in absolute terms. We don't have an internal value meter that tells us how much things are worth. Rather, we focus on the relative advantage of one thing over another, and estimate value accordingly.”

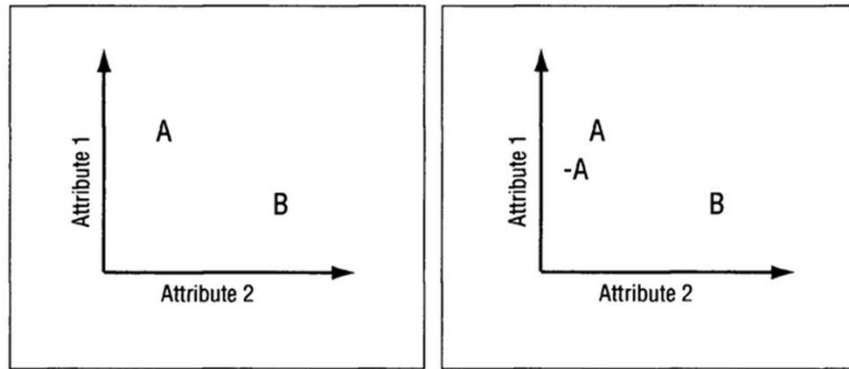
- We don't know what kind of speaker system we like
—until we hear a set of speakers that sounds better than the previous one
- We don't know what kind of house we should live in
—until we see a photo in social media of a perfect house our friend lives in

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“We not only tend to compare things with one another but also tend to focus on **comparing things that are easily comparable**—and avoid comparing things that cannot be compared easily.”



Anchoring and pricing

How do you imprint an anchor,
or create "arbitrary
coherence"?



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CHAPTER 2

The Fallacy of Supply and Demand

*Why the Price of Pearls—and Everything Else—
Is Up in the Air*



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Arbitrary coherence

- Assael pearl prices were initially "arbitrary" → new product, **no natural price point**
- **Tiffany's sold them at a hefty price** → creates for us the idea, that these pearls are **expensive**
- Once these prices were established in our minds they shape present prices and future prices

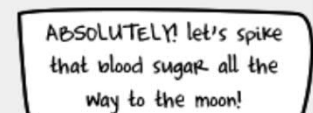
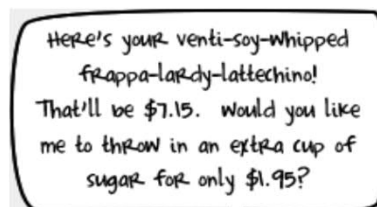
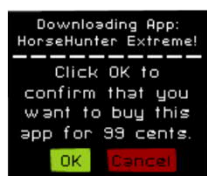


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We have an image of the acceptable price range for different categories →

"expensive" is **very** relative

A \$7 specialty coffee is fine..



<http://theoatmeal.com>

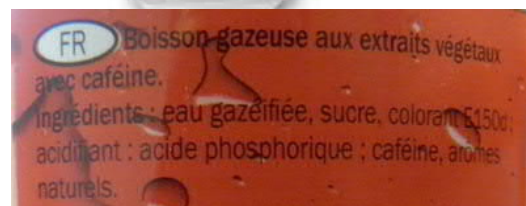
...but \$0.99 for an app is hefty.

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It works also for brands



Ainesosat: Vesi, sokeri, hiilidioksidi, väri (E150d), happamuudensäätöaine (E338), luonnolliset aromit (mm. kofeiini), kasvisuutteet.



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Are we just being played?

“In the real world, anchoring comes from manufacturer's suggested retail prices (MSRPs), advertised prices, promotions, product introductions, etc.—all of which are supply-side variables.”



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Price leadership and anchoring

“Price leadership is when a firm that is the leader in its sector determines the price of goods or services. This approach can leave the leader’s rivals with little choice but to follow its lead and match these prices if they are to hold onto their market share.”



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$16 \times \$59 = \944
 $84 \times \$125 = \$10\,500$
 $= \$11\,444$

$68 \times \$59 = \4012
 $32 \times \$125 = \4000
 $= \$8012$

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THE DECOY PRICE

HMM... EXPENSIVE

\$10 \$30

OH... REASONABLE

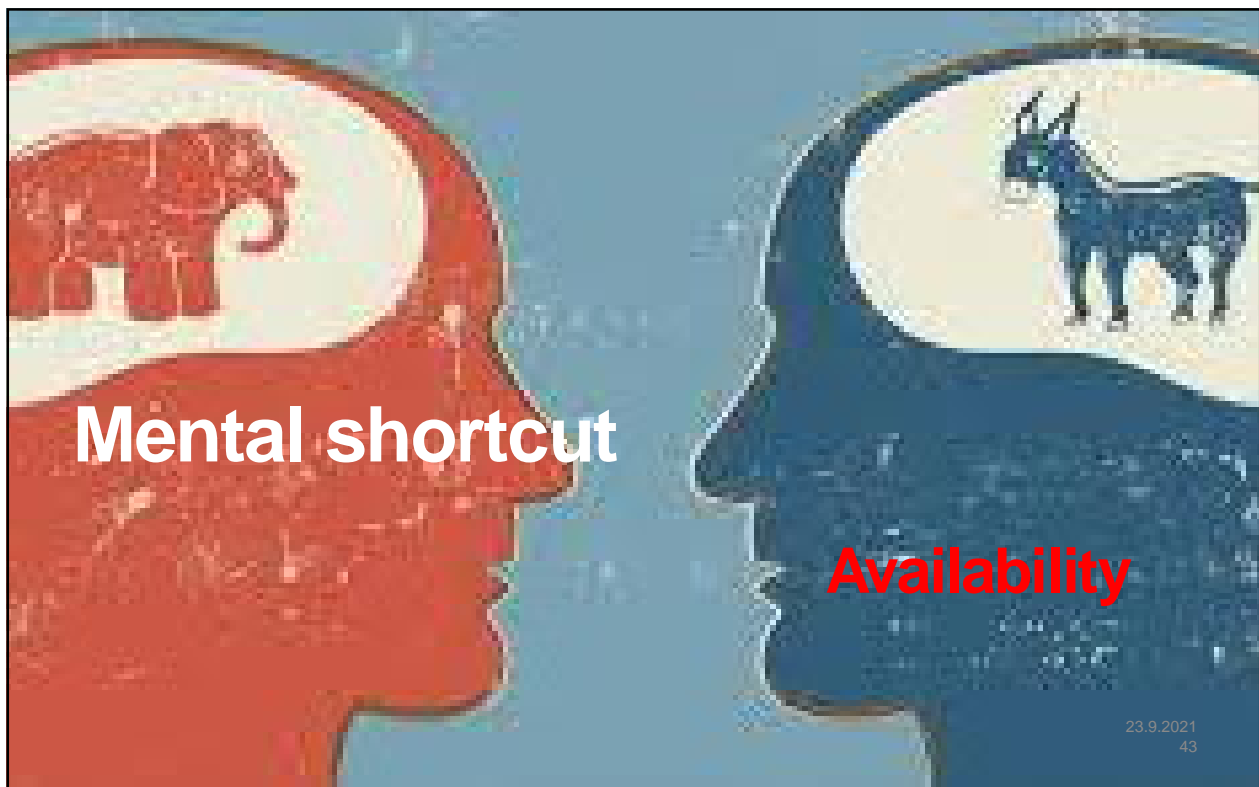
\$10 \$30 \$50

DECOY

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Availability heuristic

During decision-making **people give preference to information and events that are more recent, that were observed personally or were more memorable.** This is because memorable events tend to be more magnified and are likely to cause an emotional reaction.



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Availability and salience

Which of



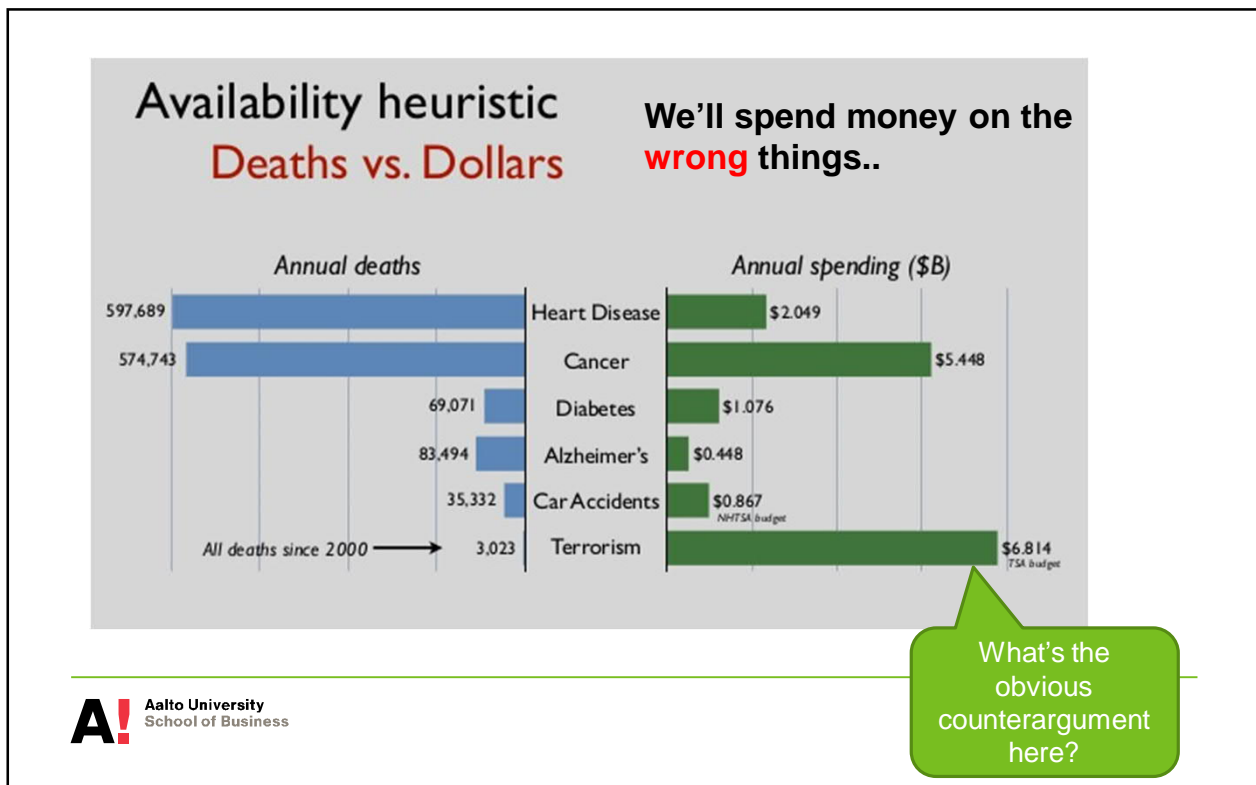
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Why do anchoring and availability biases matter...?



They predispose us to think in a certain way,
and sometimes that might lead to problems

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.. or we get distorted answers in our questionnaires:

Correlation between dating and happiness (in Nudge)

a) How happy are you?
b) How often are you dating?

No correlation between dating and happiness

a) How often are you dating?
b) How happy are you?

Correlation between dating and happiness

Anchoring Bias
Occurs even when initial information is clearly wrong...

Q1: Did Mahatma Gandhi live beyond age 140?	Q1: Did Mahatma Gandhi live beyond age 9?
Q2: How old was Mahatma Gandhi when he died?	Q2: How old was Mahatma Gandhi when he died?
Average answer on Q2: 67	Average answer on Q2: 50

Sources: Strack, F., & Mussweiler, T. (1997). "Explaining the enigmatic anchoring effect: Mechanisms of selective accessibility". *Journal of Personality and Social Psychology*, 73(3), 437-446.

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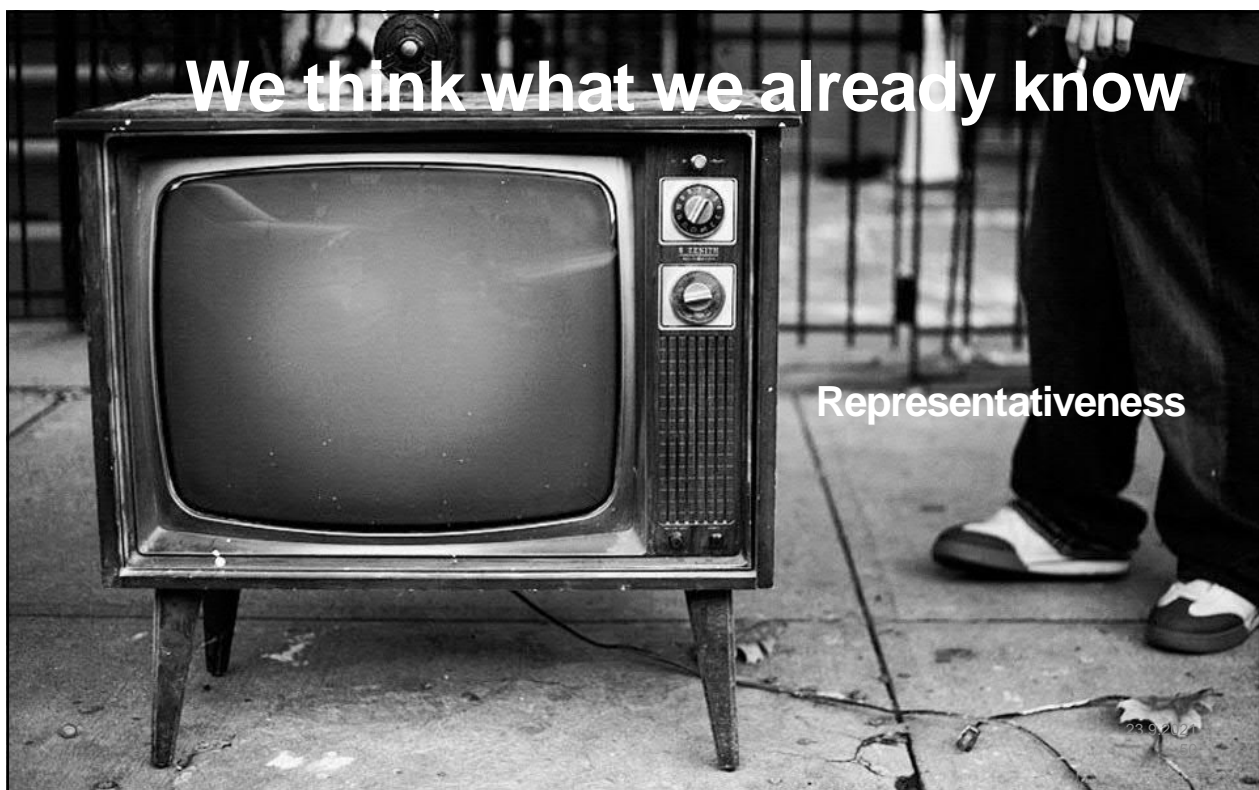
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Bob is an opera fan who enjoys touring art museums when on holiday. Growing up, he enjoyed playing chess with family members and friends. Which situation is more likely?

A. Bob is a farmer

B. Bob plays trumpet for a symphony orchestra

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Representativeness heuristics

“The representativeness heuristic involves estimating the likelihood of an event by comparing it to an **existing [stereotype] that already exists in our minds**. This prototype is what we think is the most relevant or typical example of a particular event or object.”



Representativeness heuristics

The third of the original three heuristics bears an unwieldy name: representativeness. Think of it as the similarity heuristic. The idea is that when asked to judge how likely it is that A belongs to category B, people (and especially their Automatic Systems) answer by asking themselves how similar A is to their image or stereotype of B (that is, how “representative” A is of B). Like the other two heuristics we have discussed, this one is used because it often works. We think a 6-foot-8-inch African-American man is more likely to be a professional basketball player than a 5-foot-6-inch Jewish guy because there are lots of tall black basketball players and not many short Jewish ones (at least not these days). Stereotypes are sometimes right!

Can cause false conclusions and lead to biases...

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Drug dependence questions

Emily is addicted to heroin. Lately, she has been using much larger doses than she had been previously. When her counselor asked her if she was afraid of overdosing, Emily replied, "I had a friend who started shooting up at 15, shot up his whole life, and never had any problems." **What type of heuristic is Emily using to justify her drug usage?**

She is assuming her friend is a representative case (most likely they are not).

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Who graduated from Harvard?



**Can you think of any consumer
behavior related examples?**

- In retail setting the words “low fat” or “reduced sugar” are taken as sign of healthiness
- A store brand is seen as better quality if it's packaging resembles that of a leading brand



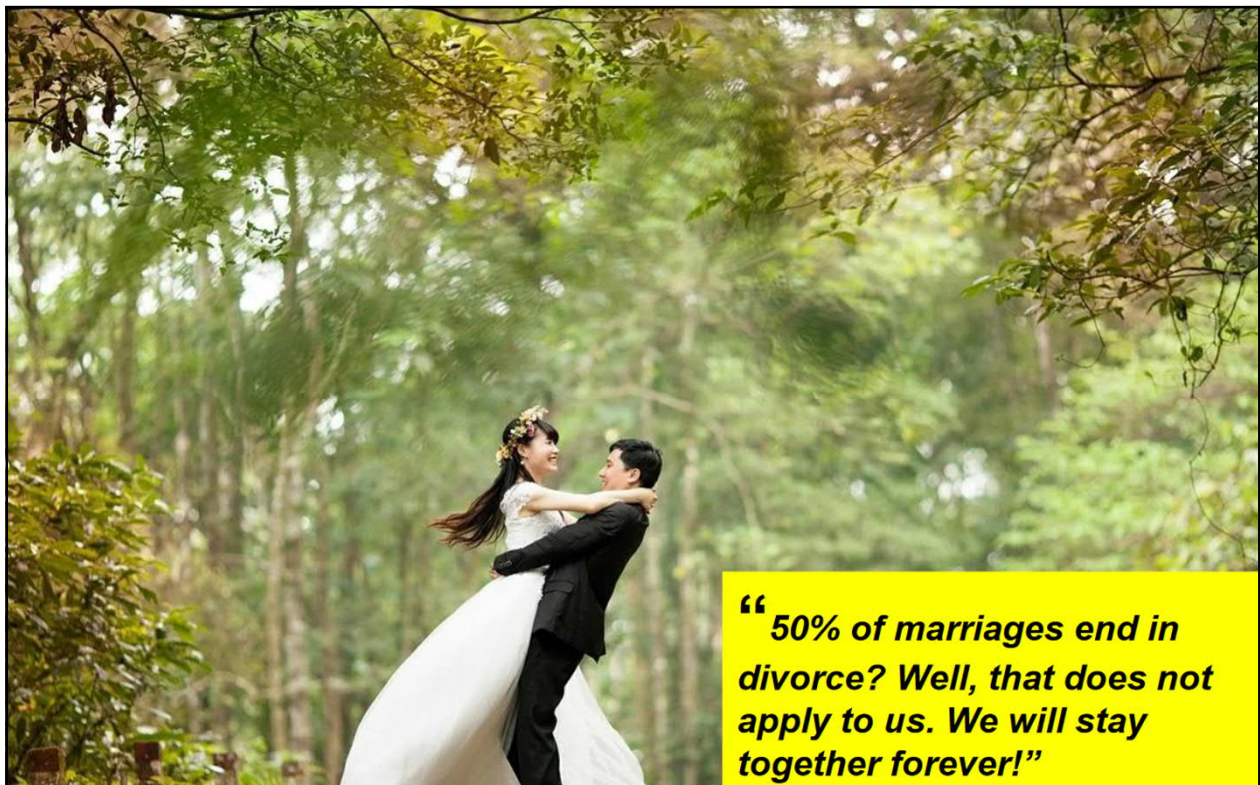
Other concepts of bounded rationality

Optimism and Overconfidence

90% of all drivers think they are above average behind the wheel. And nearly everyone (including some who are rarely seen smiling) thinks he has an above-average sense of humor.



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Gains and losses

“People hate losses (and their Automatic Systems can get pretty emotional about them). Roughly speaking, **losing something makes you twice as miserable as gaining the same thing makes you happy.** In more technical language, people are **“loss averse.”**”
(Predictably Irrational)

Heads you win \$X, tails you lose \$100. How much does X have to be for you to take the bet?

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Status quo bias

People have the tendency to stick with their current situation.

→ Most students are always sitting on the same seats in class

This bias can easily be exploited by marketers

→ “free” month subscriptions



 **YouTube Premium**

YouTube and YouTube Music ad-free

TRY IT FREE

3-month free trial • Then \$11.99/month

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Default mode

The combination of loss aversion with mindless choosing implies that if an option is designated as the “default,” it will attract a large market share.



Questions, comments, grievances?