The Customer Decision Process

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1. Collect information about the alternatives

2. Form expectations

3. Make purchasing decision

1. Collect Information

Trade off cost and benefit of searching

– importance of decision: car, house

– cost of search: taxis

– firms can control the cost and benefit of search: dentists

Relationship between prior expertise and extent of search

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Distortions While Searching

Selective attention
- – people are more likely to notice stimuli that they anticipate

Selective distortion
- – people interpret information in a manner that supports their prior beliefs

Selective retention
- – people retain information that supports their beliefs

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2. Form Expectations

Customers infer quality from observable features

- brands

- exterior of cars

- restaurant parking lots

- Ferrari sponsoring Formula 1

Customers infer price from the price of other products

- tennis balls

- soda

3. Purchasing Decision

Customers are generally required to trade off attributes

Firms would like to predict customers' trade-off

Two problems:
– Measuring how customers make trade-offs
– The trade-offs are not stable

Measuring How Customers Make Trade-Offs

How will customers trade-off different product features:

– Do they prefer fuel efficiency to horsepower?

– Is ease of parking more important than luggage capacity?

Why not just ask customers?

What is Conjoint Analysis?

Widely used

Reveals how customers trade-off different product attributes

Presents customers with complete product profiles

Trade-Offs Are Not Stable

Examples: endowment effect

                 adding a dominated alternative

                 focussing attention

                 mental accounts

                 transaction utility

                 credit card logos

                 adding unneeded options

Reconcile departures from the utility maximization model

Endowment Effect

Mug Experiment (2000)

	Spring	Fall
Average purchasing price:	$3.37	$2.62
Average selling price:	$10.87	$9.62

Adding A Dominated Alternative

The tendency to prefer X over Y can be increased by adding a third alternative that is clearly inferior to X but not to Y.

Respondents chose between alternatives

Group 1

$6	64%
An elegant (CROSS) pen:	36%

Group 2

$6	52%
An elegant (CROSS) pen:	46%
An ugly pen	2%

Williams and Sonoma bakery example

Focussing Customers' Attention

Focussing attention on one alternative can increase the perceived attractiveness of that alternative.

Group 1 "How attractive do you find frozen yogurt?"

frozen yogurt	52%
fruit salad	48%

Group 2 "How attractive do you find fruit salad?"

frozen yogurt	25%
fruit salad	75%

Mental Accounts

Would you buy a $10 theater ticket if:

1. Upon arrival at the theater you discovered you had lost your original ticket (46% yes)

2. Upon arrival at the theater you discovered you had lost a $10 bill (88% yes)

Transaction Utility

You are lying on the beach on a hot day. All you have to drink is ice water. For the last hour you have been thinking how much you would enjoy a nice cold bottle of your favorite brand of beer.

A companion gets up to go and make a phone call and offers to bring back a beer from the only nearby place where beer is sold - a fancy resort hotel/a small run-down grocery store.

He says that the beer may be expensive and asks how much you are willing to pay for the beer. He says he will not buy the beer if it costs more than the price you state.   What price do you tell him?

Fancy resort hotel: $2.65
Small run-down grocery store: $1.50

Credit Cards

Auction for Celtics tickets

    – average cash bid: $28.51

    – average credit card bid: $60.64

Other studies:

    – charitable donations

    – tipping

    – direct response advertising

    – mail-order catalogs

Adding Unneeded Optional Features

Fewer people bought a brand of brownie cake mix when it included a sales promotion comprising an option to buy a Collector's plate for $6.19

Fewer people bought a brand of film when it included a sales promotion comprising an option to buy a golf umbrella for $8.29

Offering an installment billing option in a premium catalog reduced demand

Reconciling Departures
From The Rational Utility Model

Customers' evaluations depend upon the context:

– not a deterministic process

– no pre-existing preferences

– explains why customers cannot describe the importance of individual needs

Disadvantage: hard to predict behavior

Advantage: can influence how customers perceive your product

Summary

Search

- Cost vs. benefit of searching
- Their own expertise
- Biases

Inferences

- Brand
- Other price and quality cues

Trading off different attributes

- Measuring tradeoffs (conjoint)
- Context will affect tradeoffs