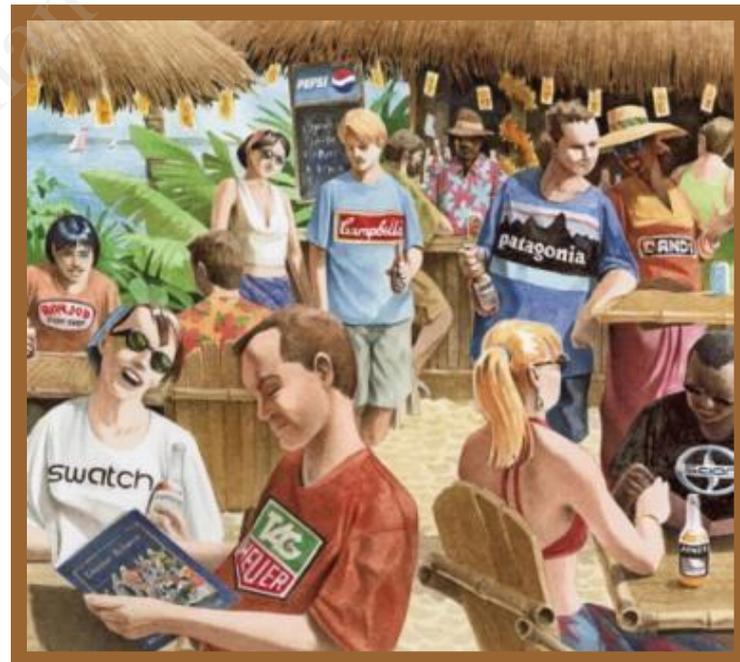


# Chapter 7

# Individual Decision Making

---

**CONSUMER  
BEHAVIOR, 8e**  
Michael Solomon



# Chapter Objectives

---

**When you finish this chapter you should understand why:**

- **Consumer decision making is a central part of consumer behavior, but the way we evaluate and choose products (and the amount of thought we put into these choices) varies widely, depending upon such dimensions as the degree of novelty or risk in the decision.**
- **A decision is actually composed of a series of stages that results in the selection of one product over competing options.**
- **Our access to online sources is changing the way we decide what to buy.**

# Chapter Objectives (cont.)

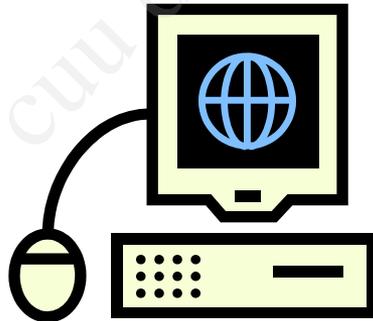
---

- **Decision making is not always rational.**
- **Consumers rely upon different decision rules when evaluating competing options.**
- **We often fall back on well learned “rules-of-thumb” to make decisions.**

# Consumers as Problem Solvers

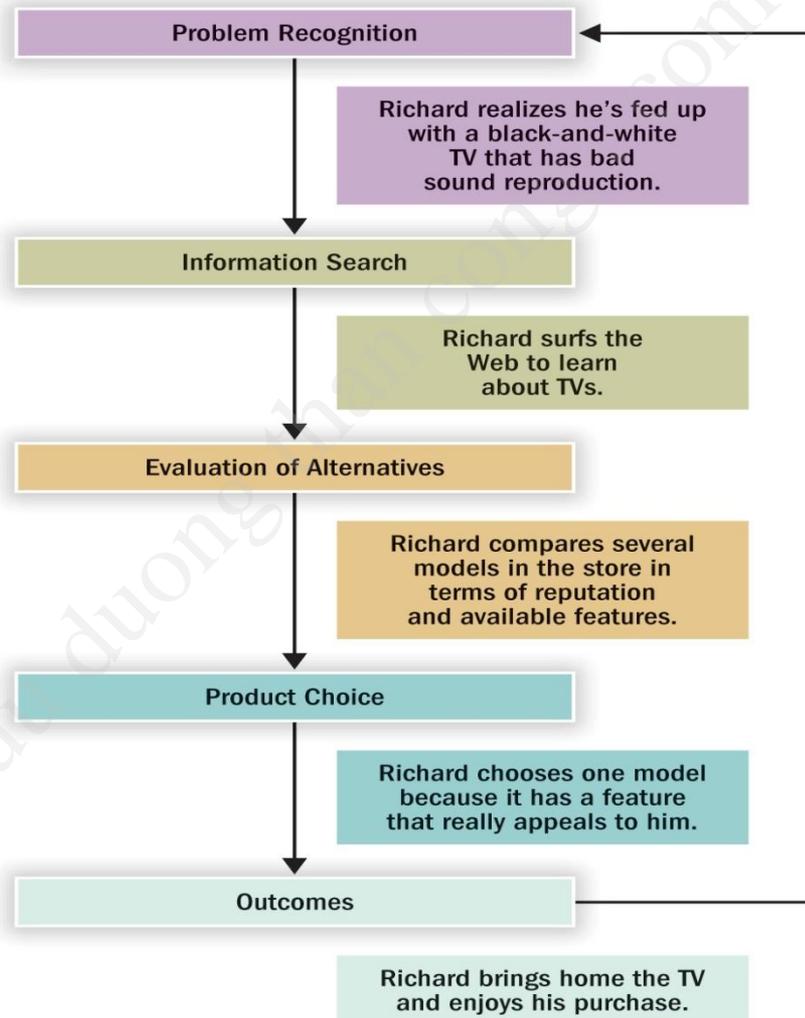
---

- **Consumer purchase = response to problem**
  - After realization that we want to make a purchase, we go through a series of steps in order to make it
  - Can seem automatic or like a full-time job
  - Complicated by consumer hyperchoice
- **Decision-making process**



← Click photo to view  
Quicktime video on General  
Electric and consumer shopping

# Decision-Making Process



Hoang Duc Binh, 2008

Figure 9.1

# Decision-Making Perspectives

---

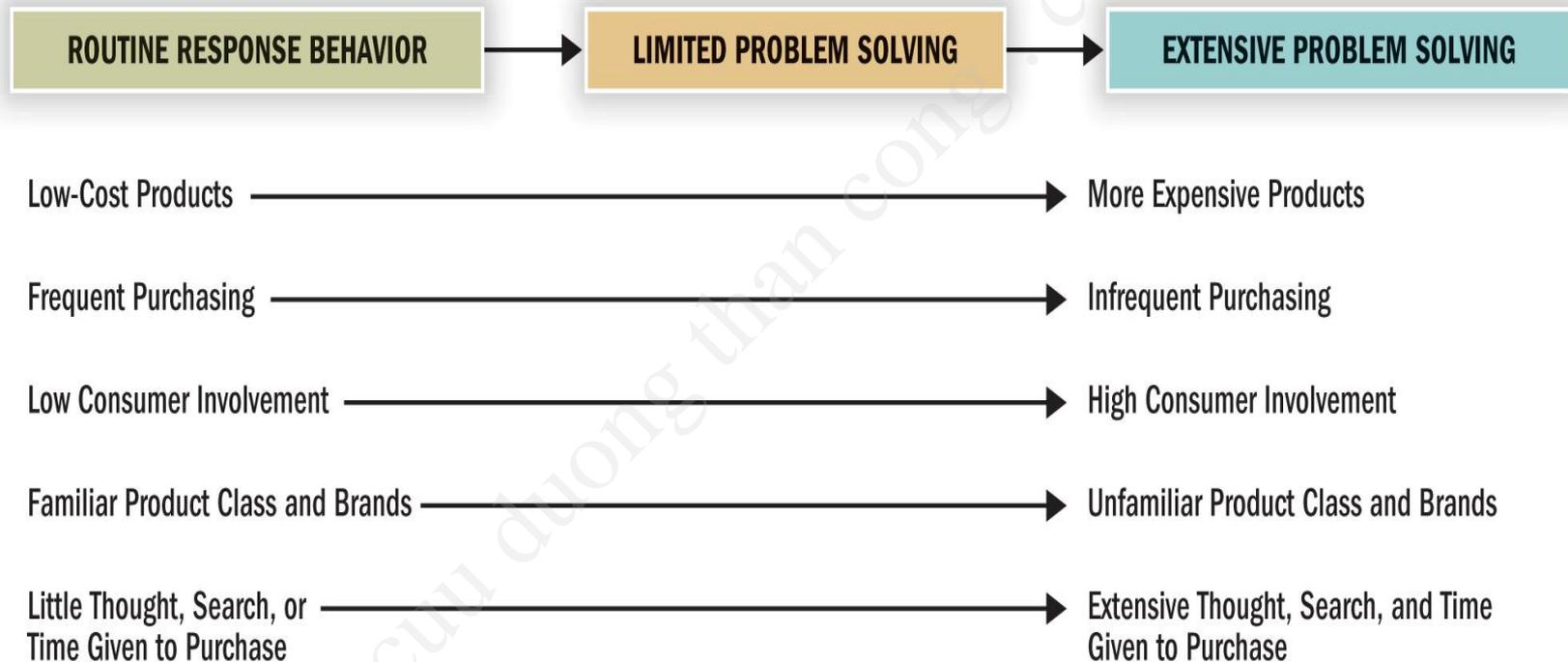
- **Rational perspective: consumers:**
  - **Integrate as much information as possible with what they already know about a product**
  - **Weigh pluses and minuses of each alternative**
  - **Arrive at a satisfactory decision**

# Decision-Making Perspectives (cont.)

---

- **Other models of decision making:**
  - **Purchase momentum: occurs when consumers buy beyond needs satisfaction**
  - **Behavioral influence perspective: consumers buy based on environmental cues, such as a sale**
  - **Experiential perspective: consumers buy based on totality of product's appeal**

# Continuum of Buying Decision Behavior



# Types of Consumer Decisions

---

- **Extended problem solving:**
  - **Initiated by a motive that is central to self-concept**
  - **Consumer feels that eventual decision carries a fair degree of risk**
- **Limited problem solving:**
  - **Buyers not as motivated to search for information or to evaluate rigorously**
  - **Buyers use simple decision rules to choose**
- **Habitual decision making:**
  - **Choices made with little to no conscious effort**

# Stage 1: Problem Recognition

---

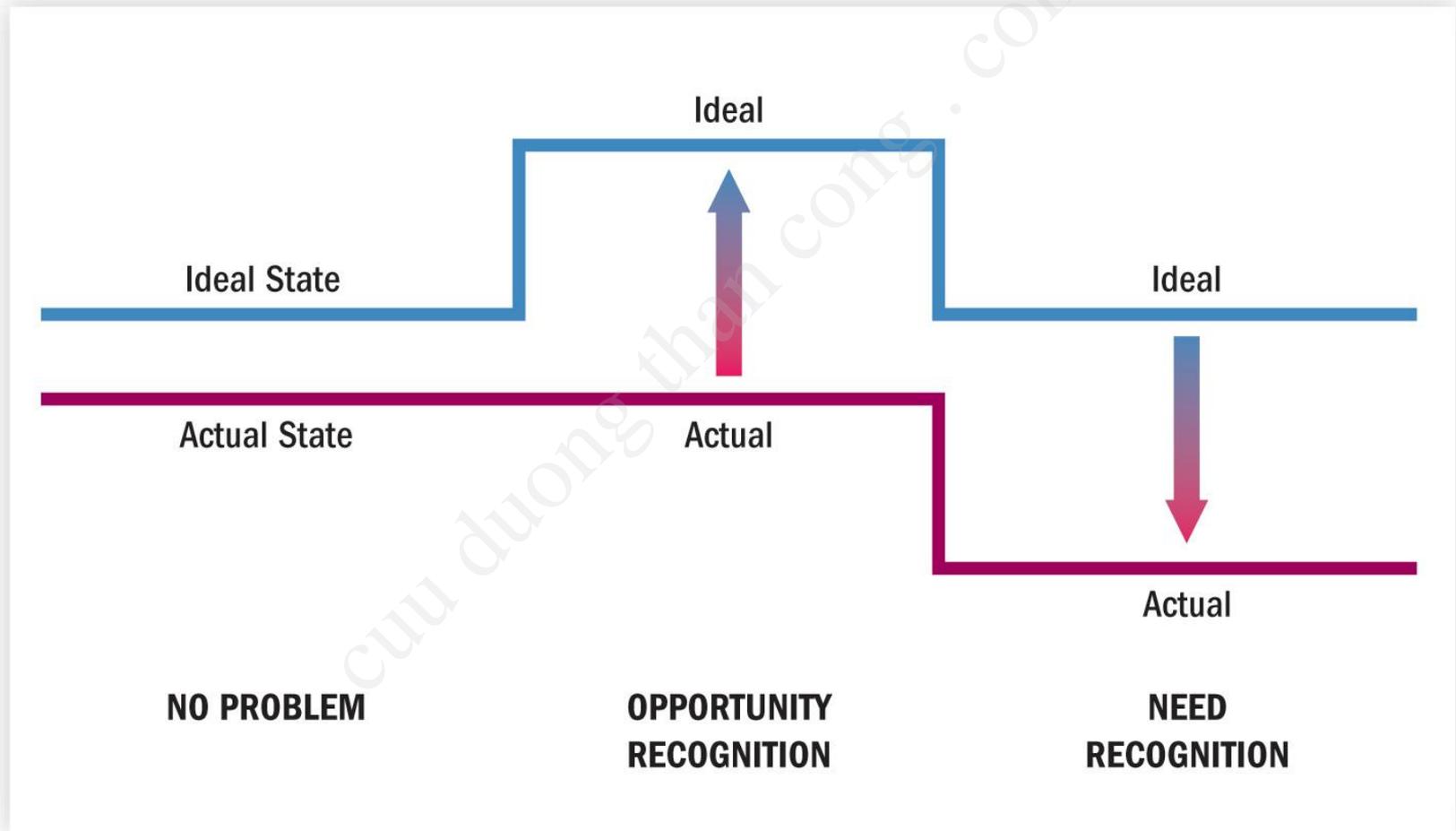
**Occurs when consumer sees difference between current state and ideal state**

- **Need recognition: actual state moves downward**
- **Opportunity recognition: ideal state moves upward**

**Marketers can create:**

- **Primary demand: encourage consumers to use product category**
- **Secondary demand: persuade consumers to use specific brand**

# Problem Recognition: Shifts in Actual or Ideal States



Hoang Duc Binh, 2008

Figure 9.3

# Stage 2: Information Search

- **Information search: process by which consumer surveys the environment for appropriate data to make reasonable decision**

<b>Prepurchase versus Ongoing Search</b>		
	<b>Prepurchase Search</b>	<b>Ongoing Search</b>
<b>Determinants</b>	<b>Involvement with purchase</b>	<b>Involvement with product</b>
<b>Motives</b>	<b>Making better purchase decisions</b>	<b>Building a bank of information for future use</b>
<b>Outcomes</b>	<b>Better purchase decisions</b>	<b>Increased impulse buying</b>

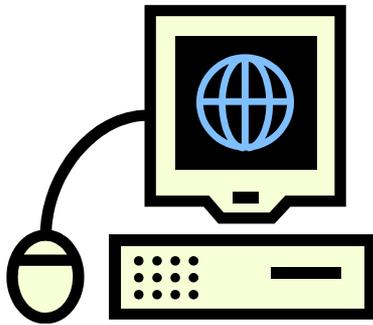
# Internal versus External Search

---

- **Internal search**
  - **Scanning memory to assemble product alternative information**
- **External search**
  - **Obtaining information from ads, retailers, catalogs, friends, family, people-watching, Web sites**

# Deliberate versus “Accidental” Search

---



↑ Click photo for  
[Consumerreports.org](http://Consumerreports.org)

- **Directed learning: existing product knowledge obtained from previous information search or experience of alternatives**
- **Incidental learning: mere exposure over time to conditioned stimuli and observations of others**

# The Economics of Information

---

- **Consumers will gather as much data as needed to make informed decisions**
  - **We will collect most valuable information first**
- **Variety seeking: desire to choose new alternatives over more familiar ones**

# Do Consumers Always Search Rationally?

---

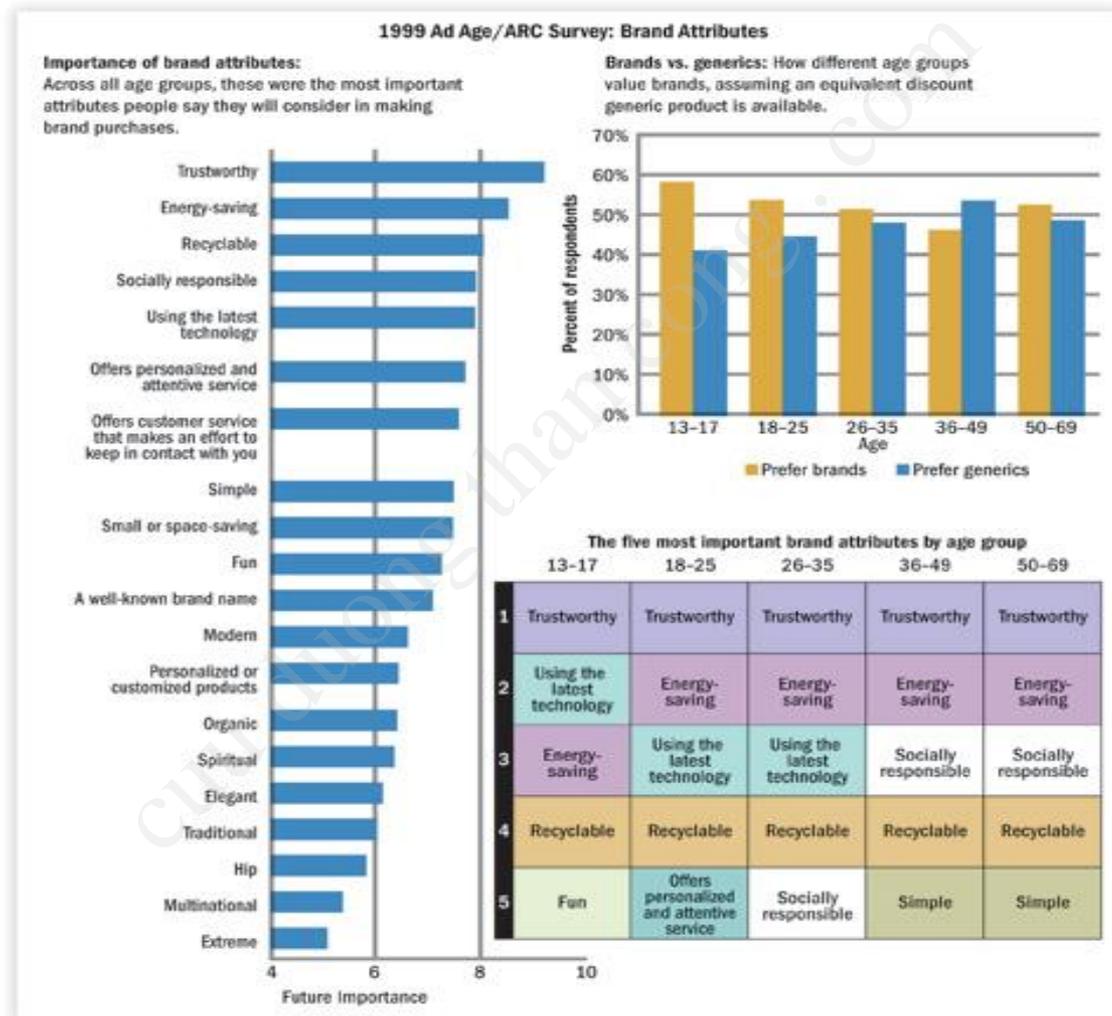
- **Some consumers avoid external search, especially with minimal time to do so and with durable goods (e.g. autos)**
- **Symbolic items require more external search**
- **Brand switching: we select familiar brands when decision situation is ambiguous**
- **Variety seeking: desire to choose new alternatives over more familiar ones**

# Biases in Decision-Making Process

---

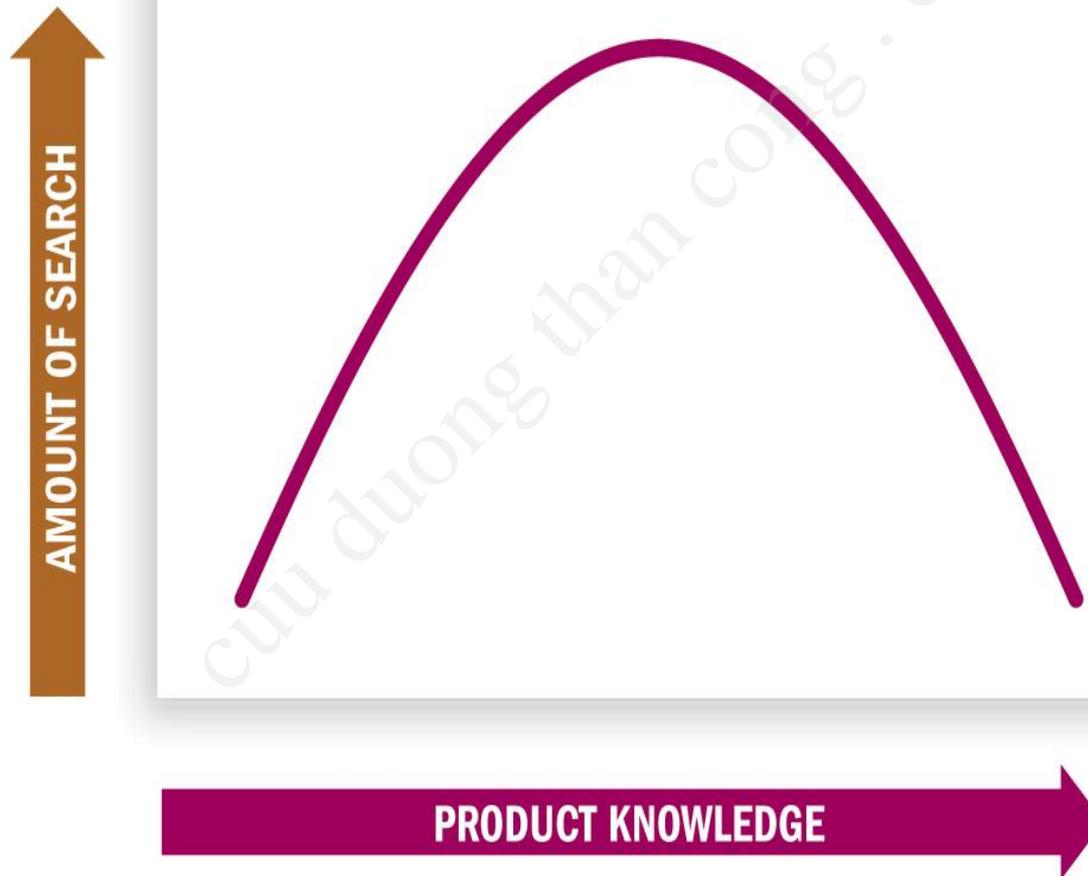
- **Mental accounting:** framing a problem in terms of gains/losses influences our decisions
- **Sunk-cost fallacy:** We are reluctant to waste something we have paid for
- **Loss aversion:** we emphasize our loss more than gain
- **Prospect theory:** risk differs when consumer faces options involving gains versus those involving losses

# Ad Age Poll: Importance of Brand Attributes



# Amount of Information Search and Product Knowledge

---

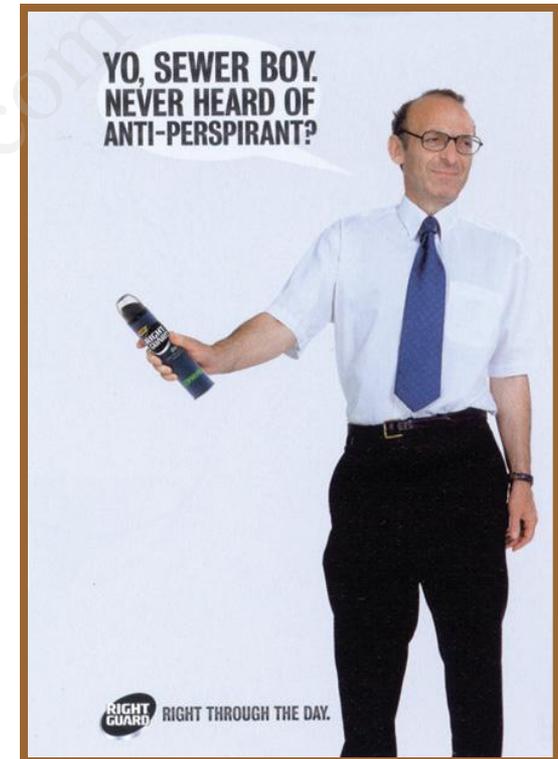


Hoang Duc Binh, 2008

Figure 9.5

# Perceived Risk

- **Perceived risk: belief that product has negative consequences**
  - **Expensive, complex, hard-to-understand products**
  - **Product choice is visible to others (risk of embarrassment for wrong choice)**
- **Risks can be objective (physical danger) and subjective (social embarrassment)**



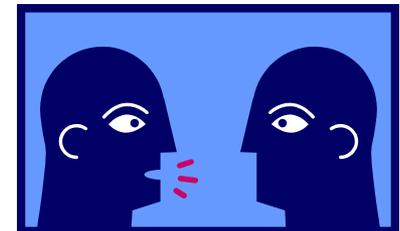
# Five Types of Perceived Risk

	<b>BUYERS MOST SENSITIVE TO RISK</b>	<b>PURCHASES MOST SUBJECT TO RISK</b>
<b>MONETARY RISK</b>	Risk capital consists of money and property. Those with relatively little income and wealth are most vulnerable.	High-ticket items that require substantial expenditures are most subject to this form of risk.
<b>FUNCTIONAL RISK</b>	Risk capital consists of alternative means of performing the function or meeting the need. Practical consumers are most sensitive.	Products or services whose purchase and use requires the buyer's exclusive commitment are most sensitive.
<b>PHYSICAL RISK</b>	Risk capital consists of physical vigor, health, and vitality. Those who are elderly, frail, or in ill health are most vulnerable.	Mechanical or electrical goods (such as vehicles or flammables), drugs and medical treatment, and food and beverages are most sensitive.
<b>SOCIAL RISK</b>	Risk capital consists of self-esteem and self-confidence. Those who are insecure and uncertain are most sensitive.	Socially visible or symbolic goods, such as clothes, jewelry, cars, homes, or sports equipment are most subject to social risk.
<b>PSYCHO-LOGICAL RISK</b>	Risk capital consists of affiliations and status. Those lacking self-respect or attractiveness to peers are most sensitive.	Expensive personal luxuries that may engender guilt, durables, and services whose use demands self-discipline or sacrifice are most sensitive.

# Discussion

---

- ***Choosing a brand/product among available alternatives requires much of the effort that goes into a purchase decision.***
- ***Which is the greater problem for a consumer:***
  - ***Not having enough choices or having too many choices?***
- ***Why?***



# Identifying Alternatives

---

- **Extended problem solving = evaluation of several brands**
  - **Occurs when choice conflicts arouse negative emotions (involving difficult trade-offs)**
- **Habitual decision = consider few/no brand alternatives**

# Identifying Alternatives (cont.)

---

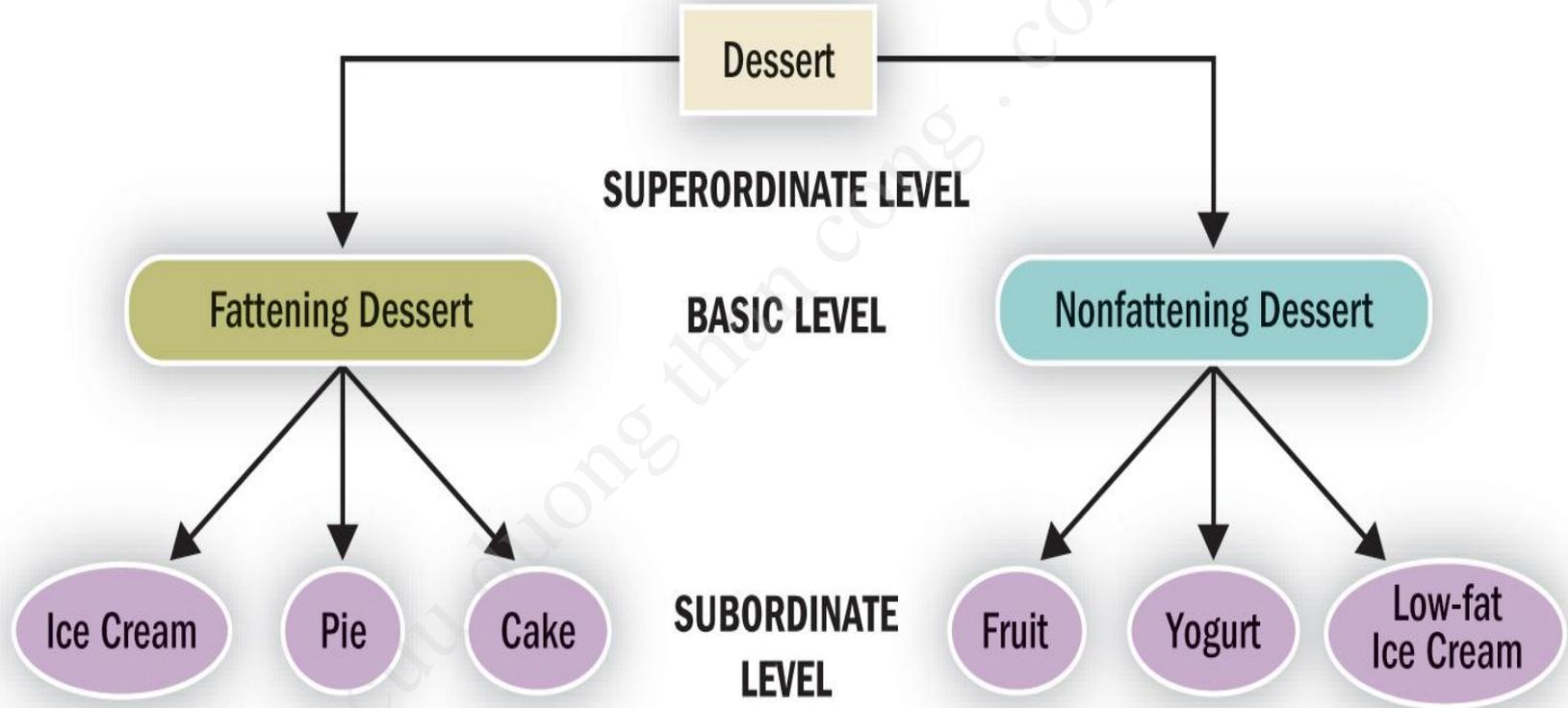
- **Evoked set versus consideration set**
  - **We usually don't seriously consider every brand we know about.**
  - **In fact, we often include only a surprisingly small number of alternatives in our evoked set.**
- **Marketers must focus on getting their brands in consumers' evoked set.**
  - **We often do not give rejected brands a second chance.**

# Categorizing Products

---

- **We evaluate products in terms of what we already know about a (similar) product.**
- **Evoked-set products usually share similar features**
  - **When faced with a new product, we refer to existing product category knowledge to form new knowledge.**
- **Marketers want to ensure that their products are correctly grouped in knowledge structures.**
  - **Jell-O gelatin flavors for salads**

# Levels of Categorization

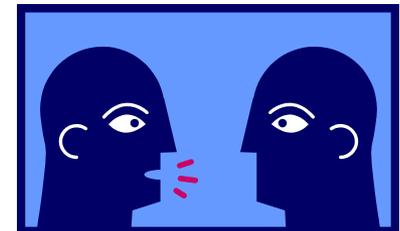


# Discussion

---

***Using the levels of categorization tool, design three levels of categorization for fast food restaurants:***

- ***What is the superordinate level?***
- ***What choices are there for the basic level?***
- ***What choices are there for the subordinate level?***



# Strategic Implications of Product Categorization

---

## Product positioning

- Convincing consumers that product should be considered within a given category
- Identifying competitors
  - Products/services different on the surface can actually compete on superordinate level for consumer dollars



Hoang Duc Binh, 2008

# Strategic Implications of Product Categorization (cont.)

---

- **Exemplar products**
  - Brands strongly associated with a category “call the shots” by defining evaluative criteria
  - But “moderately unusual” products stimulate more information processing and positive evaluations
- **Locating products**
  - Products that do not fit clearly into categories confuse consumers (e.g., frozen dog food)

# Product Choice

---

- **Selecting among alternatives**
  - **Once we assemble and evaluate relevant options from a category, we must choose among them**
  - **Decision rules for product choice can be very simple or very complicated**
    - **Prior experience with (similar) product**
    - **Present information at time of purchase**
    - **Beliefs about brands (from advertising)**

# Evaluative Criteria

---

- **Evaluative criteria: dimensions used to judge merits of competing options**
- **Determinant attributes: features we use to differentiate among our choices**
  - **Criteria on which products differ carry more weight**
  - **Marketers educate consumers about (or even invent) determinant attributes**
    - **Pepsi's freshness date stamps on cans**

# Evaluative Criteria (cont.)

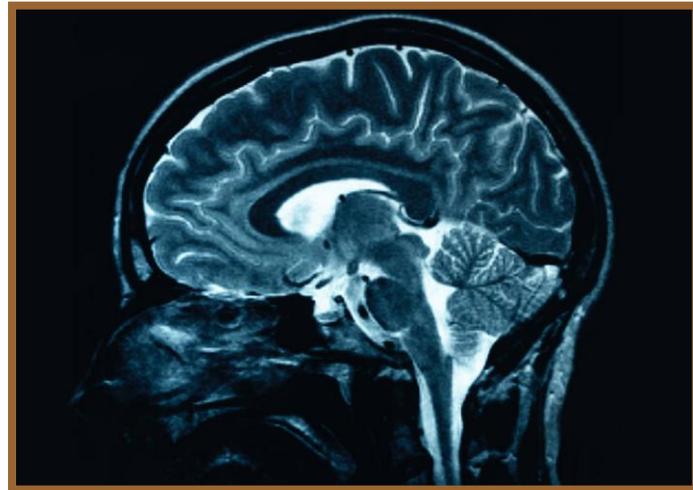
---

- **Procedural learning: cognitive steps before making choice**
  - **Marketers often point out significant differences among brands on relevant attribute...**
    - **Then supply consumers with decision-making rule (“if, then”) that has helped them make previous decisions**

# Neuromarketing

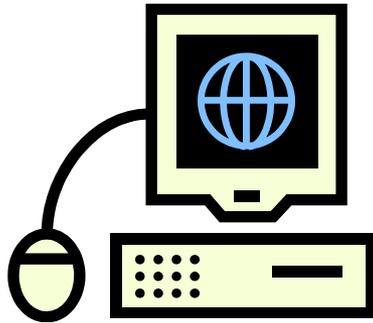
---

- **Neuromarketing: uses functional magnetic resonance imaging, a brain-scanning device that tracks blood flow as we perform mental tasks**
- **Marketers measure consumers' reactions to movie trailers, choices about automobiles, the appeal of a pretty face, and loyalty to specific brands**



# Cybermediaries

---



↑ Click photo for  
Shopping.com

- The Web delivers enormous amounts of product information in seconds
- Cybermediary: helps filter and organize online market information
  - Examples: Shopping.com  
BizRate.com  
MySimon.com  
NextTag.com  
PriceGrabber.com  
PriceSCAN.com

# Cybermediaries (cont.)

---

- **Intelligent agents and collaborative filtering**
  - **Learn from past user behavior to recommend new purchases**
  - **“Shopping robots” filtering**
- **Electronic recommendation agents**
  - **Asks user to communicate preferences**
  - **Recommends list of sorted alternatives**
  - **Findings associated with such agents**

# Heuristics: Mental Shortcuts



↑ Click photo for  
iparty.com

- **Heuristics: mental rules-of-thumb that lead to a speedy decision**
  - **Examples: higher price = higher quality, buying the same brand your mother bought**
- **Can lead to bad decisions due to flawed assumptions (especially with unusually named brands)**

# Relying on a Product Signal

---

- **Product signal: observable product attributes that communicate underlying qualities**
  - **Clean and shiny car = good mechanical condition**
- **Covariation: perceived associations among events**
  - **Product type/quality and country of origin**
  - **Consumers are poor estimators of covariation (self-fulfilling prophecy: we see what we are looking for)**

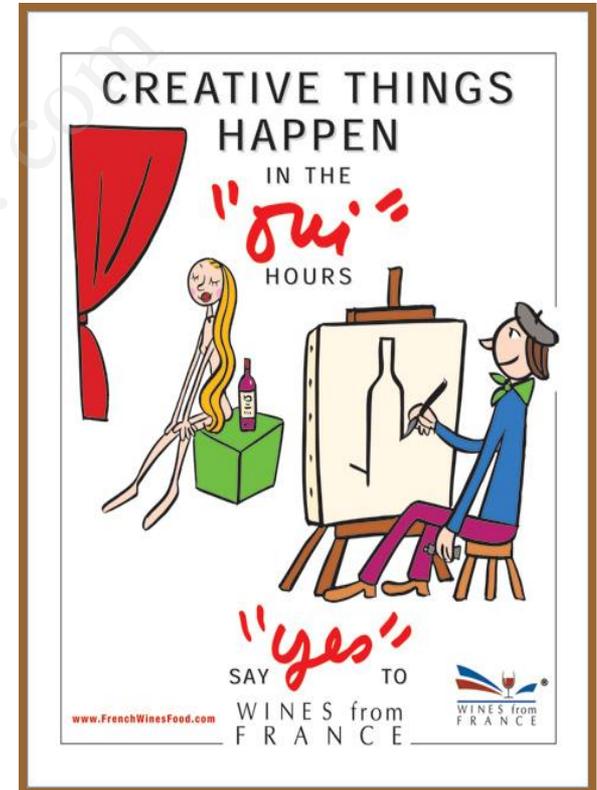
# Market Beliefs

---

- **Consumer assumptions about companies, products, and stores that become shortcuts for decisions**
- **Price-quality relationship: we tend to get what we pay for**
- **Other common marketing beliefs**
  - **All brands are basically the same**
  - **Larger stores offer better prices than smaller stores**
  - **Items tied to “giveaways” are not a good value**

# Country-of-Origin

- We rate our own country's products more favorably than do people who live elsewhere
- Industrialized countries make better products than developing countries
- Attachment to own versus other cultures
  - Nationalists
  - Internationalists
  - Disengaged



# Choosing Familiar Brand Names

---

- **Zipf's Law: our tendency to prefer a number one brand to the competition**
  - **Brands that dominate the market are sometimes 50% more profitable than their nearest competitors**
- **Consumer inertia: the tendency to buy a brand out of habit merely because it requires less effort**
- **Brand loyalty: repeat purchasing behavior that reflects a conscious decision to continue buying the same brand**

# Hypothetical Alternatives for a TV Set

Attribute	Brand Ratings			
	Importance Ranking	Prime Wave	Precision	Kamashita
Size of screen	1	Excellent	Excellent	Excellent
Stereo broadcast capability	2	Poor	Excellent	
Brand reputation	3	Excellent	Excellent	Poor
Onscreen programming	4	Excellent	Poor	Poor
Cable-ready capability	5	Good	Good	Good
Sleep timer	6	Excellent	Poor	good

# Decision Rules

---

- **Noncompensatory decision rules** when we feel that a product with a low standing on one attribute can't compensate for this flaw by doing better on another attribute
- **Types of noncompensatory decision rules:**
  - **Lexicographic rule**, consumers select the brand that is the best on the most important attribute
  - **Elimination-by-aspects rule**: the buyer also evaluates brands on the most important attribute
  - **Conjunctive rule**: entails processing by brand

# Decision Rules (cont.)

---

- **Compensatory decision rules: give a product a chance to make up for its shortcomings**
- **Types of compensatory decision rules:**
  - **Simple additive rule: the consumer merely chooses the alternative that has the largest number of positive attributes**
  - **Weighted additive rule: the consumer also takes into account the relative importance of positively rated attributes, essentially multiplying brand ratings by importance weights**