

Report On

**IMPACT OF IRRATIONALITY IN
CONSUMER BEHAVIOUR**

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CERTIFICATE

This is to certify that the Project Report titled 'Study of Irrationality in consumer behaviour' is a bonafide work carried out by Mr. Rajeesh P of MBA 2012-14 and submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 in partial fulfillment of the requirement for the award of the Degree of Masters of Business Administration.

Signature of Guide

Signature of Head (DSM)

Place:

Seal of Head

Date:

DECLARATION

I, Rajeesh P, student of MBA 2012-14 of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 declare that Project Report on 'Measuring Trust of Consumers in Internet Advertising' submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 in partial fulfillment of the requirement for the award of the Degree of Masters of Business Administration is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge.

This Report is not being submitted to any other Organisation for award of any other Degree, Diploma and Fellowship.

Place:

Rajeesh P

Date:

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Rajeesh P

EXECUTIVE SUMMARY

As technology has simplified meeting basic needs, humans have cultivated increasingly psychological avenues for occupying their consumption energies. Research-led thinking is critical for all progressive companies looking to build mindful, smart and powerful products and services. There are ever-more fascinating insights about how we think and behave every day. While classic economics theories have posited that individuals are rational decision makers that make choices to maximize expected utility, recent research in both psychology and economics have repeatedly demonstrated that individuals deviate from the standard economic models in a predictable fashion.

In this research, first, a review of how four classes of consumption—consuming expectancies, goals, fluency, and regulatory fit is done. Next, a survey to understand the way we make decisions regarding relative pricing, social norms, effect options have, the perception towards “free” is judged and finally the concept of hedonic treadmill is evaluated. Then the takeaways that would help to augment efforts to enhance consumer welfare are made.

The key takeaways from the project are that promotion involving “free” and zero have a profound impact on the mind of consumers. Also the purchase behavior is significantly affected by the peer group, i.e. social norms play a noteworthy role in decision making. People are lazy to put in the effort required for calculations, substituting easy questions in place of difficult ones, retailers would have an upper hand in selling the product they want as rational choices are seldom made when there are no dearth of options. Also, when given options, albeit the common perception is that the more the choices the better, in reality not everyone gives enough thought to which is best amongst the possible alternatives.

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Chapter 1

INTRODUCTION

People currently have more freedom in deciding how to live their lives than ever before in historical times. It is a common supposition in modern society that the more freedom, the better - that individuals are capable to make the right decisions. According to decision-making models that are based in classical economic theories this responsibility should not be a problem. These models assume that individuals are rational and make choices to maximize a utility function, using the information available and processing this information appropriately. However, many deviations from rationality occur only with certain people or under certain circumstances. In other words, people are irrational some of the times and rational at others. How irrationality affects the decision making process of a consumer or when people deviate from standard decision making models. That is the topic of the research.

OBJECTIVES

- ✓ To study the role that relative pricing plays in purchase decisions.
- ✓ To ascertain the role social norms play in purchase decisions.
- ✓ To evaluate the effect options on the way we make decisions.
- ✓ To determine the perception of customers towards "free".
- ✓ To gauge the concept of Hedonic treadmill.

METHODOLOGY

Research Design Descriptive research is done to determine the nature of the way we make decisions. A survey was conducted to have a real time assessment of consumer behavior.

Sampling design Random sampling with online questionnaires was done. Also personal interaction with potential respondents to assess the way responses are given aided in formulating the questionnaire.

Sampling area. The majority of participants were approached at Delhi Technological University, aged between the ages 19 and 28 to fill the questionnaire. Participants were randomly chosen.

Sampling unit To get a real time assessment to the behavioral economics, an online survey was conducted. The sample size was 50.

Sampling technique Random sampling

Mode of data collection Both Primary and Secondary data are used in this study. Primary data is the data collected and assembled specifically for the research project at hand. In order to collect the required information to address the overall research questions and hypothesis, self-administered questionnaire is as a survey instrument. Questionnaire was mailed to the individuals for responses.

Secondary data is the data that have been previously collected for some purpose other than the one at hand. As secondary data, the books and paper published by eminent authors formed a base for this research

Chapter 2

LITERATURE REVIEW

Although consumption is fundamental to all forms of life, human consumption is extraordinary in its variety and sheer inventiveness. Some physical consumption, such as food and water, is essential for basic survival and thus shared with other organisms, but humans are remarkable in the scale of consumption over and above meeting basic needs, and indeed in the way that even “basic” consumption is embellished and elaborated—consider, for example, the sheer number of brands of bottled water. The centrality of consumption is not unique to the modern age, of course, nor is it unique to humans. Animals spend much of their time searching for food and consuming it; similarly, our ancestors spent much of their time foraging for, preparing, and consuming food (Kaplan 2000, Sahlins 1972). With modern technology, however, the nature of consumption has changed: Whereas our ancestors needed a minimum of some 15–20 hours per week to gather and prepare food, the current consumer can accomplish the same tasks with one 30-minute trip to a supermarket per week and 30 minutes per day preparing meals, thanks to innovations such as microwave ovens and instant meals. Four consuming concepts, expectancies, goals, fluency, and regulatory fit are discussed.

2.1 Consuming Expectancies

One of the concepts that has received the most attention in consumer behavior for its impact on consumption is how people’s expectations influence and alter their consumption, even holding the physical consumption object constant. Indeed, one of the classic studies in consumer behavior (Allison & Uhl 1964) is at heart a study about expectancies: Consumers who drank beer with visible brands saw those beers as highly variable in their taste and preferred beers with their favorite brand label, whereas consumers who drank unbranded beers tended to rate them all as tasting similar to each other. Thus, expectations set by associations with advertising and branding can influence and sometimes supersede physical consumption of both products and services (Boulding et al. 1993, 1999; Braun 1999; Kopalle & Lehmann 2001, 2006; Nevid 1981; Wansink & Chandon 2006). Because people tend to seek confirmation for their

beliefs (Lord et al. 1979, Snyder & Swann 1978), expectations can guide perception and shape behavior; the impact of expectancies on perception has been documented in many domains (for a review, see Fiske & Taylor 2008), including demonstrations of stereotypes influencing perceptions of individuals (Darley & Gross 1983, Klein & Snyder 2003, Norton et al. 2004), of expectancies of humor influencing people's enjoyment of cartoons (Wilson et al. 1989), of the spin doctoring of political consultants influencing perceptions of politicians' performances in televised debates (Norton & Goethals 2004), and of the influence of health information on the enjoyment of food (Levin & Gaeth 1988, Wansink et al. 2000). In addition, expectancies seem to have a life of their own; merely stating that one expects to engage in some behavior can increase the likelihood of performing it (Fitzsimons & Morwitz 1996, Greenwald et al. 1987, Morwitz et al. 1993).

McClure et al. (2004), for example, asked participants who preferred Coke to Pepsi to drink Coke and Pepsi when they knew what drink they were about to consume and when they did not; participants preferred Coke, but only when they knew it was Coke. This finding suggests that controlling for physical consumption, the conceptual consumption made possible by brand associations had an impact over and above the utility of Coke itself. Most interestingly, McClure et al. (2004) conducted this study while participants were scanned using functional magnetic resonance imaging, and analyses revealed that these preferences were reflected by recruitment of brain regions associated with the processing of reward, offering evidence for the deep impact of concepts on physical consumption. In a similar investigation that utilized the well-documented consumer inference that price serves as a signal of product quality (Rao & Monroe 1989; though see Gerstner 1985), Plassmann et al. (2008) asked participants to taste one wine several times but told them that they were actually sampling different wines; across trials, they told participants that the wine they were about to taste was cheap or expensive. Offering converging evidence with McClure et al. (2004), Plassmann et al. (2008) found that consumption of "higher-priced" wines was related to greater recruitment of reward circuitry; once again, controlling for physical consumption, conceptual consumption affected experienced utility.

Expectancies can be so powerful that they can influence not just perception and internal experiences but also external events through what Merton (1948) termed “self-fulfilling prophecies,” and these prophecies can occur without conscious awareness (Chen & Bargh 1997). Males who believe that a woman with whom they are interacting is attractive elicit greater sociability from her (Snyder et al. 1977), students perform better if their teachers are led to believe that they are late bloomers (Jussim & Harber 2005, Rosenthal & Jacobson 1968), and parents’ erroneous beliefs about their children’s drinking habits come to shape how much their children drink (Madon et al. 2003).

One of the most compelling demonstrations of the impact of self-fulfilling prophecies in the domain of consumer behavior is in the domain of placebo effects, an area of research that has received increasing attention in the medical literature (Price et al. 2008). Shiv et al. (2005) asked students to engage in mental tasks such as solving puzzles, but allowed participants to purchase energy drinks before the task began. Some participants purchased the drink at full price, while others were given the opportunity to buy the drink at a discount. Participants who bought the drink at a discount subsequently performed worse on the task. These results extended beyond the laboratory as well: In a field study, Shiv et al. (2005) showed that people who had caught colds rated their cold remedies as more effective if they had paid full price for them. Another investigation demonstrated similar placebo effects for a pill purported to relieve pain: Participants who were told the pill had been discounted were unable to tolerate as much physical pain as those who were told the pill was not discounted (Waber et al. 2008). In a related investigation, Irmak et al. (2005) showed that people’s desire for treatments to work influences the effectiveness of placebos.

Taken together, these studies on expectancies suggest that preconceptions and ideas about consumption can act to modify the physical consumption experience itself. As the MIT Brew, Coke, and placebo examples illustrate, higher-order mental processes are deeply implicated in even the simplest of experiences (tasting beer, drinking Coke, and

taking cold medication), making conceptual consumption an integral part of any physical consumption.

2.2 Consuming goals.

Recent years have seen a large increase in research exploring the nature and function of goals in psychology and consumer behavior (Bagozzi & Dholakia 1999, Baumgartner & Pieters 2008), with investigations of factors that influence goal completion—such as setting deadlines (Ariely & Wertenbroch 2002) or coping with distractions (Fishbach et al. 2003)—as well as research exploring how people manage conflicting goals (Fishbach & Dhar 2005). There is little doubt that goal setting serves as a strong motivator for humans; researchers have demonstrated the power of goals in shaping behavior in countless domains, from relationships with others (Chartrand et al. 2007, Fitzsimons & Bargh 2003) to prosocial behavior (Nelson & Norton 2005, Trötschel & Gollwitzer 2007) to weight loss (Bagozzi & Edwards 1998). Indeed, people are willing to overcome obstacles to meet goals, returning to tasks relevant to a desired goal when such goal-directed behavior is interrupted (Bargh et al. 2001), and goals are even contagious, spreading from one person to another with relative ease (Aarts et al. 2004).

Gollwitzer (1990, 1999) introduced the concept of implementation intentions, or how goals lead people to behave in ways consistent with those goals. When an individual decides on 40 push-ups as part of a new exercise regimen, they then treat that number as a reference point, leading to increased effort as they approach that number (in line with having implementation intentions to reach that goal) but a rapid drop-off after that point (Heath et al. 1999). In this case, of course, the individual has set this goal herself, and 40 push-ups may have some real meaning in that it is an appropriate level for which to aim. But what about cases in which researchers set goals? The research reviewed above suggests that experimentally induced goals have a powerful impact on human behavior; in one recent investigation, people's choices for tasks were dramatically impacted by the number of "points" those tasks offered—even when the points in fact had no value (Hsee et al. 2003).

We are particularly interested in how a goal can come to serve not as a motivator to engage in some desired behavior, but, ironically, as a goal in and of itself. In other words, we explore cases in which goals serve as concepts that humans wish to consume, leading goals to supersede physical consumption. Below, we describe three investigations that demonstrate goal consumption, two in which the desire to consume a goal leads to increased physical consumption, and one in which goal consumption leads to decreased physical consumption.

2.3 Consuming fluency.

Another area that has received increased attention in recent years is the impact of fluency broadly defined, the ease with which stimuli are processed and experienced—on consumer behavior. The classic studies in this domain are Zajonc and colleagues' investigations of mere exposure, where simply being exposed to a stimulus—whether above or below consciousness—leads to more positive affective reactions (Kunst-Wilson & Zajonc 1980, Zajonc 1968) due to the perceptual fluency that results from familiarity (Whittlesea 1993). Indeed, so strong is the link between familiarity and liking that people make two related mistakes: the reverse inference that things they like must be familiar (Monin 2003) and that increased exposure invariably leads to liking even in cases when it does not (Norton et al. 2007). Building off the core concept in Tversky & Kahneman's (1973) availability heuristic—that instances that spring to mind more readily exert greater influence in judgment—Schwarz and his colleagues have explored the more general impact of ease of retrieval (Schwarz 2004, Schwarz & Clore 1996).

Such feelings of fluency—of things “feeling right”—have been shown to impact judgments and behavior ranging from brand and product evaluations (Ferraro et al. 2008, Janiszewski 1993, Labroo et al. 2008, Lee & Labroo 2004, Menon & Raghurir 2003), to responses to advertising (Fang et al. 2007, Petrova & Cialdini 2005), to creativity (Csikszentmihalyi 1990), to gambling behavior (Simmons & Nelson 2006), to performance in school (Nelson & Simmons 2007). Our interest is in how fluency might affect behavior over and above physical consumption. In one particularly striking

example using real data from the New York Stock exchange, Alter & Oppenheimer (2006) showed that stocks with fluent stock ticker codes (those whose abbreviations were pronounceable) outperformed stocks with more disfluent names:

Given a \$1000 investment, the ten most fluently named shares would have yielded a profit of more than \$100 in the first day of trading and more than \$300 after one year compared with the ten most disfluently named shares. This study offers particularly compelling evidence for the impact of conceptual consumption: Since stock prices are meant to be driven by market factors reflecting the true value of corporations (though see Shleifer & Summers 1990), and stock ticker codes are unrelated to the actual profitability of the companies they represent, these data suggest that fluency alone leads people to value the consumption of stocks with fluent names.

2.4 Consuming “fit.”

Consumption of fluency—the feeling of ease that accompanies stimuli that are easy to process—shares characteristics with another area of research that continues to grow in scope and scale: Regulatory “fit,” when people “feel right” when engaged in a task in which their motivations align with their behavior (Higgins 2000, 2005). Regulatory fit has been shown to impact phenomena ranging from the amount of effort people devote to tasks (Vaughn et al. 2006), to their susceptibility to persuasive appeals (Cesario et al. 2004), to their ability to engage in effective self-control (Hong & Lee 2008). Although fluency and fit are conceptually and likely experientially distinct, we suggest that both offer opportunities for conceptual consumption: People can receive value from fit such that the desire to conceptually consume regulatory fit alters physical consumption.

Regulatory fit has been of particular interest in recent years to researchers in consumer behavior (see Aaker & Lee 2006, Avnet & Higgins 2006), with studies exploring the impact of regulatory focus on information processing in consumer choice (Wang & Lee 2006) and on product decisions made in the moment or for the future (Mogilner et al. 2008). Most importantly for our account, research in consumer behavior has demonstrated that fit qualifies as another class of conceptual consumption. In one investigation, Higgins et al. (2003) first assessed participants’ chronic regulatory

orientations, sorting them into promotion-focused or prevention-focused individuals. They then offered participants the chance to buy a mug or a pen, but manipulated whether participants considered how much they would gain from choosing one (matching a promotion focus) or how much they would lose from choosing one (matching a prevention focus). Participants whose chronic orientation matched the mode with which they were asked to make their bids for the item (i.e., who were experiencing fit) offered a 50% price premium over those who were experiencing a mismatch between chronic orientations and task instructions. In a related investigation, Avnet & Higgins (2003) induced participants to adopt either a locomotion or assessment orientation, then asked them to choose book lights either by an elimination strategy (matching the locomotion orientation) or a full-evaluation strategy (matching the assessment orientation). Again, participants' valuation of the book light was higher when they were experiencing fit than when they were not.

Finally, Levav et al. (2008) demonstrated that when multiple products offer an opportunity to consume fit, the conflict between consuming these concepts leads to choice deferral in the same way that conflict between consuming similar physical products does (see Chernev 2004), further evidence of the impact of concepts on consumption. In sum, holding physical consumption constant (the mugs, pens, and book lights in the above experiments were the same in all conditions), the experience of consuming fit appears to offer utility—and the lack of fit or conflicting fit, disutility—suggesting that, like fluency, regulatory fit is conceptually consumed.

Chapter 3

FACTORS AFFECTING DECISION MAKING MODELS

According to standard economic model, individual decision-making behavior should adhere to the axioms of rational choice such as transitivity, dominance and invariance (Neumann & Morgenstern, 1947). Consequently, individual preferences are assumed to be time-consistent, affected only by personal payoffs and independent of external influences such as framing effects (DellaVigna, 2009). However, recent research in behavioral economics and psychology suggests that people systematically deviate from the behavior predicted by the standard models and – as a consequence – more freedom does not automatically lead to better (i.e., utility-maximizing) decisions. Examples of systematic deviations have been described by numerous researchers in both economics and psychology. For instance, Thaler (1981) showed that individual preferences are time-inconsistent. Charness and Rabin (2002) as well as Fehr and Gächter (2000) demonstrated that individuals do have a concern of welfare of others on top of profit-maximization during decision-making. Kahneman and Tversky (1979) found that individual attitude towards risk that depends on framing and reference points. In addition, the literature has showcased various individual violations of rationality assumptions. Camerer and Lovallo (1999), for example, showed that people routinely overestimated their skills and over-project from their current state (Read & van Leeuwen, 1998). Individuals are affected by transient emotions (Loewenstein & Lerner, 2003) and employ heuristics to solve complex problems.(Gabaix & Laibson, 2006). These examples are very instructive in showing how people deviate from rational economic models of decision-making. However, they have much less to say about when people deviate. If it simply were the case that people are predictably irrational (Ariely, 2008) then all that would need to be done was adjust standard economic models such that they are more descriptively accurate. However, many deviations from rationality occur only with certain people or under certain circumstances. In other words, people are irrational some of the times and rational at others.

3.1 The cognitive miser

Human reasoners have been characterized as cognitive misers who show a strong tendency to rely on fast, intuitive processing rather than on more demanding, deliberate thinking (Evans, 2008; Kahneman, 2011). Although the fast and effortless nature of intuitive processing can sometimes be useful, it can also bias our reasoning. It has been argued that the key to this bias is a process of so-called attribute substitution – when people are confronted with a difficult question they often intuitively answer an easier one instead.

3.2 Hedonic adaptation

is the tendency of us mere humans to quickly return to a relatively stable level of happiness despite major recent positive or negative events or life changes. According to this theory, as we make more money (or eat more choccy), our expectations and desires rise in tandem. This then results in no permanent gain in happiness.

During the late 1990s, the concept was modified by Michael Eysenck, a British psychologist, to become the current “hedonic treadmill theory” which compares the pursuit of happiness to a person on a treadmill, who has to keep working just to stay in the same place.

A 2-week Harvard study was carried out on chocolate consumption with two groups for a two week period. Group A were allowed to binge on unlimited choccies, whereas group B had none. After the two-week period, both groups were then given chocolate. It was found that control group B reported higher treat savouring, higher happiness and was in a better mood after eating the treat.

Other than the studies around chocolate and commercial interruptions, another found that taking breaks while listening to music or getting a nice massage protracted and increased the pleasure subjects received.

3.3 Anchoring Bias

We tend to rely too heavily on the first piece of information seen. Setting a high price for one item makes all others seem cheaper, though only when the price shown is actually plausible (and not some silly amount!)

During decision making, anchoring occurs when individuals use an initial piece of information to make subsequent judgments. Once an anchor is set, other judgements are made by adjusting away from that anchor, and there is a bias toward interpreting other information around the anchor.

For example, the initial price offered for a used car sets the standard for the rest of the negotiations, so that prices lower than the initial price seem more reasonable even if they are still higher than what the car is really worth.

Studies have shown that anchoring is very difficult to avoid. For example, in one study students were given anchors that were obviously wrong. They were asked whether Mahatma Gandhi died before or after age 9, or before or after age 140. Clearly neither of these anchors are correct, but the two groups still guessed significantly differently (choosing an average age of 50 vs. an average age of 67).

3.4 IKEA Effect

We place disproportionately-high value on self-made products. Two groups were given IKEA boxes, with one group given fully-assembled versions, and the other given assembled boxes, which they were told to put together. This second group were willing to pay much more for their box during the subsequent bidding process than those with pre-assembled boxes.

So we humans will pay more (and not less) for something that we've put labour into than for something bought ready-made. The study above looked at other scenarios, using origami and lego, and found the same results. Interestingly, the research suggests that our efforts lead to increased valuation only when we successfully complete tasks.

When participants built and then destroyed their creations, or failed to complete them, the IKEA effect dissipated. By extension, consumers are also willing to pay a premium for products that they have customized to their idiosyncratic preferences (Franke and Piller 2004; Schreier 2006).

3.5 Von Restorff Effect

Items that stand out from their peers are more memorable. But different doesn't necessarily mean better. Being different is more memorable, but you need to be positively remembered for standing out from the crowd.

3.6 Choice Paradox

Too much choice will lead to indecision and lower sales. When people have no choice, life is almost unbearable. As the number of available choices increases, as it has in our consumer culture, the autonomy and liberation this variety brings are powerful and positive. But as the number of choices keeps growing, negative aspects of having a multitude of options begin to appear. As the number of choices grows further, the negatives escalate until we become overloaded. At this point, choice no longer liberates, but debilitates. It might even be said to tyrannize.

But stepping aside from the jam experiment for a moment, it's important to recognise the difference between choice and complexity. Consider choosing between jams on the one hand, and making a decision about important long-term investment options on the other. There is a lot more complexity involved in the latter, and the risk of putting off or not carrying out such a decision is significantly higher to a person's well-being than walking out of the shop without a chosen jar of jam.

3.7 Inaction Inertia Effect

Missing an offer means you're less likely to buy in the future. Foregoing a very attractive opportunity decreases our willingness to go for subsequent opportunities.

We humans are unique in having the capacity to reflect upon the past. Such thinking can provide insight as to how to best prepare for future decisions. This then provides the

basis for a phenomenon known as ‘counterfactual thinking’ (otherwise known as ‘what-if’ thinking), where we look back on our decisions and choices throughout life and imagine how things would have turned out differently if other decisions had been taken (Kray et al., 2010).

In the example above regarding a missed opportunity, regret (McCrea, 2008) and counterfactual thinking play out in full effect, rendering us unwilling to grab that same product after we miss the discount. The discount has reduced the perceived value of the product, and our expectation over its value is set at a new, lower baseline. Knowing this info and faced with the choice of buying it at full price, the study shows it’s highly unlikely that we’ll bite.

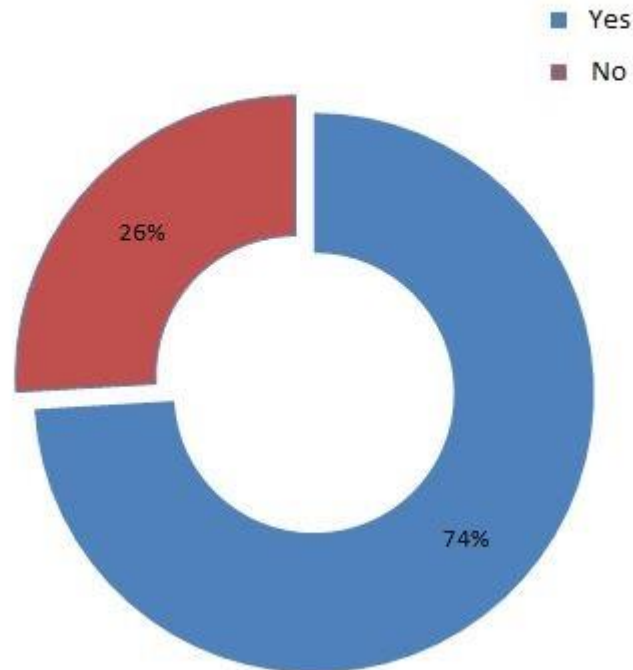
Chapter 4 ANALYSIS

4.1 Perception of the customers towards “free”

It's no secret that getting something free feels very good. Zero is not just another price, it turns out. Zero is an emotional hot button- a source of irrational excitement. Would we buy something if it was discounted by 50%.. well if it discounted to zero. definitely !

There has been a lot of “free” or zero seen around. Especially in food items. Food manufacturers have to convey all kinds of information on the side of their box. Items are usually either fat free or not, there is no middle ground as we see in some advertisements 90% fat free. The survey was conducted to evaluate the effect free has on a popular omnipresent pizza. In exact words “Buy 1 Pizza Get 1 Pizza FREE Offer – Enjoy Friday Freak out deal, Buy one pizza and get 2nd pizza of the same or lesser value absolutely free.”

Has the offer of 1+1 on pizzas on affected your consumption pattern?



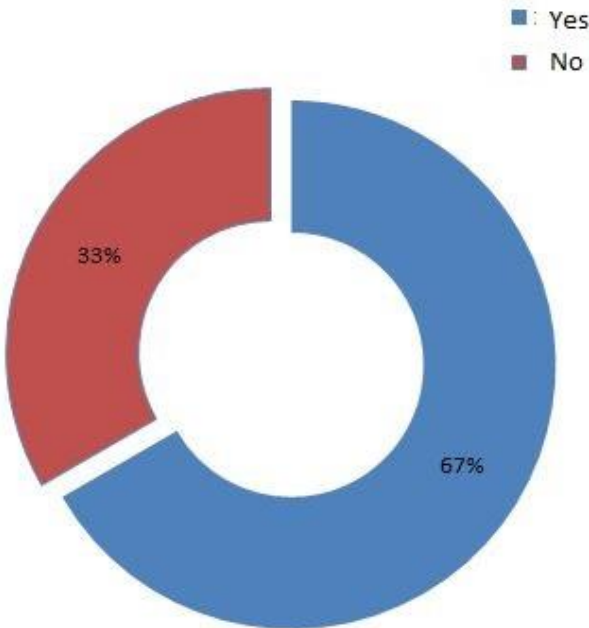
The responses show that the offer made a difference in the consumption pattern of 74% respondents.

An informal interaction with the majority of online shoppers (read flipkart users) also revealed that the free shipping acts as an irresistible force, a temptation too good to let go which makes people willing to pay extra to reach goods worth 500 so as to avail free shipping. Students especially hostellers also look out to purchase together in the same shopping basket for the same reason even though the shipping charges may be small.

4.2 Role social norms play in purchase decisions

Peers and society as a whole plays a role in the way we make purchases. Peer pressure is a paramount factor when it comes to many factors shaping our decisions.

Is your choice of apparel brand affected by your peer group?



Findings

67% of the respondents stated that peer pressure play a major role in their brand preference. Social aspects of consumption may also be one of the reasons for the sometimes-limited relationship between satisfaction and behavioural indicators, such as buying retention, consumption or loyalty.

Even though the large number of brands available in apparels, even with the sheer amount of individuality in offers, the pressure to fit in has an impact on the purchase decision.

This relationship was supposed to be weak. A more holistic, context - dependent and dynamic approach to the understanding of satisfaction and consumer behaviour would lead to better understanding of this psyche. A deeper understanding of the social dimensions would aid in influencing satisfaction and its link to purchase behaviour.

4.3 THE COGNITIVE MISER

Influential work on human thinking suggests that our judgment is often biased because we minimize cognitive effort and intuitively substitute hard questions by easier ones. A key question is whether or not people realize they are doing this and notice their mistake.

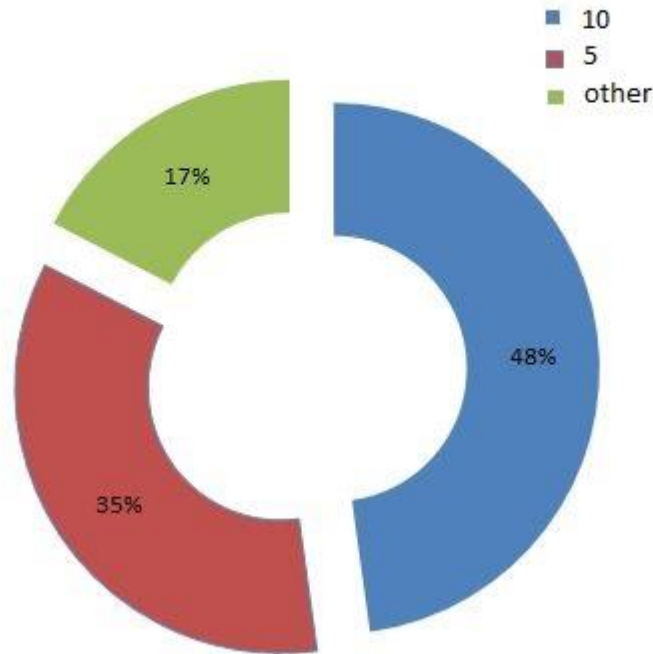
Method

Material and procedure

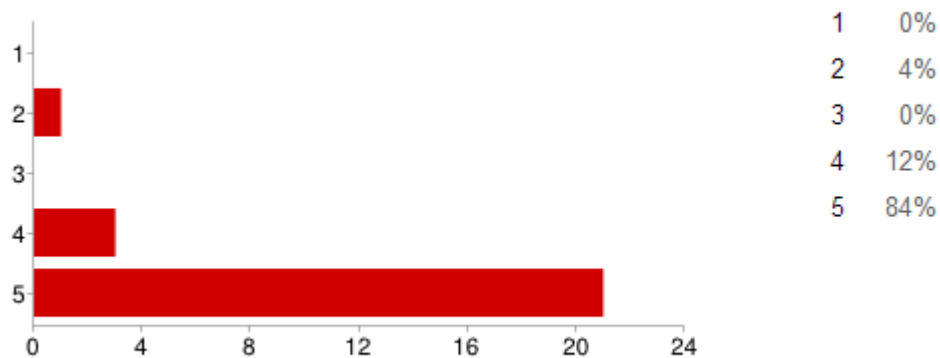
Participants were presented with a standard and control version of the bat-and-ball problem.

The problem stated that a book and a pen cost Rs 110. The book costs 100 rupees more than the pen. How much does the pen cost?

A book and a pen cost Rs 110. The book costs 100 rupees more than the pen. How much does the pen cost?



Confidence about the above answer



Immediately after participants wrote down their answer they were asked to indicate how confident they were that their response was correct by writing down a number between 0 (totally not sure) and 5 (100% totally sure). Note that we only intend to use this

measure to contrast people's relative confidence difference in the standard and control versions. Obviously, the confidence ratings will be but a proxy of people's phenomenal confidence state. It might be hard to openly admit that one has given a response that one is not confident about, mere social desirability can drive people's estimates upwards.

Results

Accuracy. In line with previous studies, only 41% of participants managed to solve the standard bat-and-ball problem correctly. Incorrect responses were almost exclusively of the "10 rupee" type suggesting that biased participants were not simply making a random guess but indeed engaged in the postulated substitution process. 29% of the respondents made a substitution process guess. The present data establish that reasoners are completely oblivious to their substitution bias.

Discussion

However, the fact that decision-makers do not deliberately reflect upon their response does not necessarily imply that they are not detecting the substitution process. That is, although people might not engage in deliberate processing and might not know what the correct answer is, it is still possible that they have some minimal substitution sensitivity and at least notice that their substituted "10 rupee" response is not completely warranted.

4.4 Hedonic treadmill

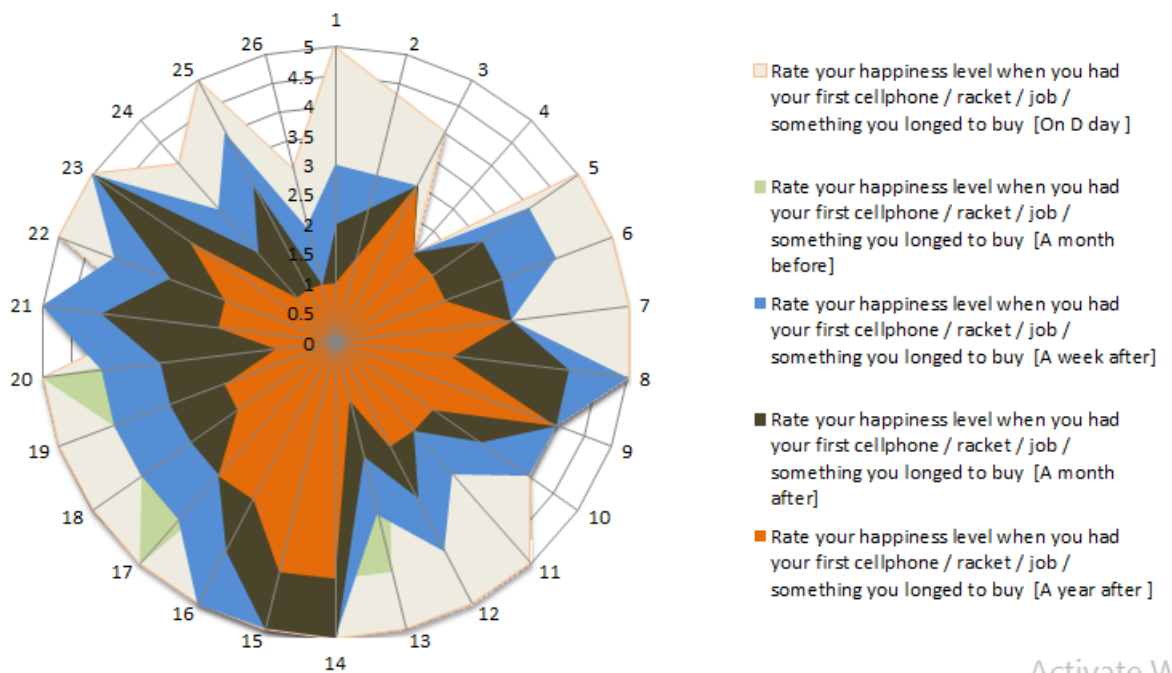
The hedonic treadmill, also known as hedonic adaptation, is the supposed tendency of humans to quickly return to a relatively stable level of happiness despite major positive or negative events or life changes. According to this theory, as a person makes more money, expectations and desires rise in tandem, which results in no permanent gain in happiness.

Rate your happiness level when you had your first cellphone / racket / job / something you longed to buy

Likert scale 1-5 (5 max)

	1	2	3	4	5
A month before	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
On D day	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A week after	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A month after	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A year after	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Hedonic treadmill



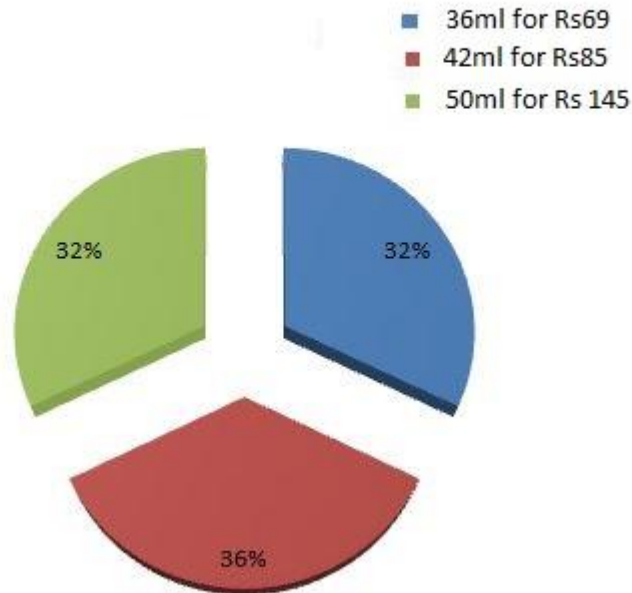
Activate W

The level of happiness is a relative constant; Majority of respondents did not enjoy a sustained increased level of happiness due to major positive changes in life. The event bought about an increase in happiness for a short duration of time which goes back to normal after some period of time

4.5 CHOICE PARADOX

It is a common supposition in modern society that the more choices, the better—that the human ability to manage, and the human desire for, choice is infinite. From classic economic theories of free enterprise, to mundane marketing practices that provide customers with entire aisles devoted to potato chips or soft drinks, to important life decisions in which people contemplate alternative career options or multiple investment opportunities, this belief pervades our institutions, norms, and customs. Ice cream parlors compete to offer the most flavors; major fast-food chains urge us to "Have it our way." On the face of it, this supposition seems well supported by decades of psychological theory and research that has repeatedly demonstrated, across many domains, a link between the provision of choice and increases in intrinsic motivation, perceived control, task performance, and life satisfaction

Of these three, choose the shampoo you would buy if you had to



The responses obtained showed almost equal distribution amongst the three options with majority going with the middle option. Even though the first option is the best available. 32% of the respondents opted for the best option at their disposal. 36% went

with the middle option. And 32% with 50 ml for Rs 145. The result may be skewed because of brand preference as the brands mentioned are different.

In a typical laboratory study, the intrinsic motivation of participants is compared across two conditions: one in which participants are given a choice among half a dozen possible activities, and a second in which participants are told by an experimenter which specific activity to undertake. The recurring empirical finding from these studies is that the provision of choice increases intrinsic motivation and enhances performance on a variety of tasks. Moreover, the positive consequences of choice are often apparent even in contexts where the choice itself is trivial or incidental.

LIMITATIONS OF THE STUDY

- The study involves only one months' period.
- The research was based on the response of particular demographics only.
- The study is conducted considering the prevailing conditions which are subject to change in the future.

Chapter 5

CONCLUSION

Takeaways for decision-makers

1. You'll have to work harder & spend more to market the differences between the products in your range, the more choice you offer.
2. Retailers would be well-placed to take advantage of our laziness with offer pricing structures.
3. That said, this recent research shows that we are indeed mindfully-aware of the fact that we're perhaps not allocating enough brain power over these decisions, which may harm consumer sentiment and trust.
4. Also note that the effect seems to be most effective when we assume the maths to be so absurdly simple that no slow, thoughtful calculations are needed. Use this with complex pricing at your peril!
5. Promotion involving "free" and zero have a profound impact on the mind of consumers. This can be used as an effective tool.
6. Meaningless attributes often lead to meaningful differentiation as evident from the fact that people don't put in the effort to make the right choice, following the choices others made.
7. Think hard about the minimum amount of choice you need, in order to clearly differentiate your brand from the competition. Look back 6 years and compare Apple's iPhone product range next to Nokia's, for instance. Choice can be a confusing burden as much as a convenience.
8. Every decision you fail to take to focus and simplify your range, is one more that your customers will be burdened with, every single time.
9. Too much choice can be perceived as a lack of confidence in your own brand. Being asked 12 different questions about how you want your burrito will be cognitively-tiring and leave many wondering why the company can't be more bold and self-assured with respect to its product.

10. Streamline choice architecture to encourage some sort of ‘good’ decision (whatever you, as a decision-maker, determine ‘good’ to be) where one would otherwise not take place at all. For instance, reducing choice and consumer apathy within a user flow at key intervals where drop-off has been found to be high will increase conversion.

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Annexure

Questionnaire

Has the offer of 1+1 on pizzas on affected your consumption pattern?

- Yes
- No

Of these three, choose the shampoo you would buy if you had to

- 36 ml Pantene for Rs 69
- 42 ml Heads and shoulders for Rs 85
- 50 ml Garnier for Rs 145

Is your choice of apparel brand affected by your peer group?

- Yes
- No

Rate your happiness level when you had your first cellphone / racket / job / something you longed to buy

Likert scale 1-5 (5 max)

	1	2	3	4	5
A month before	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
On D day	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A week after	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A month after	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A year after	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

A book and a pen cost Rs 110. The book costs 100 rupees more than the pen. How much does the pen cost?

Likert 1-5 (5max)

	1	2	3	4	5
Confidence about the above answer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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