

Manipulating Variety Seeking: Simultaneous vs. Sequential Choice

This Wednesday Next Wednesday Following Wednesday

Reese's
Cheetos
Snickers
Sun chips
Jelly beans
Granola bar

Reese's
Cheetos
Snickers
Sun chips
Jelly beans
Granola bar

Reese's
Cheetos
Snickers
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Jelly beans
Granola bar

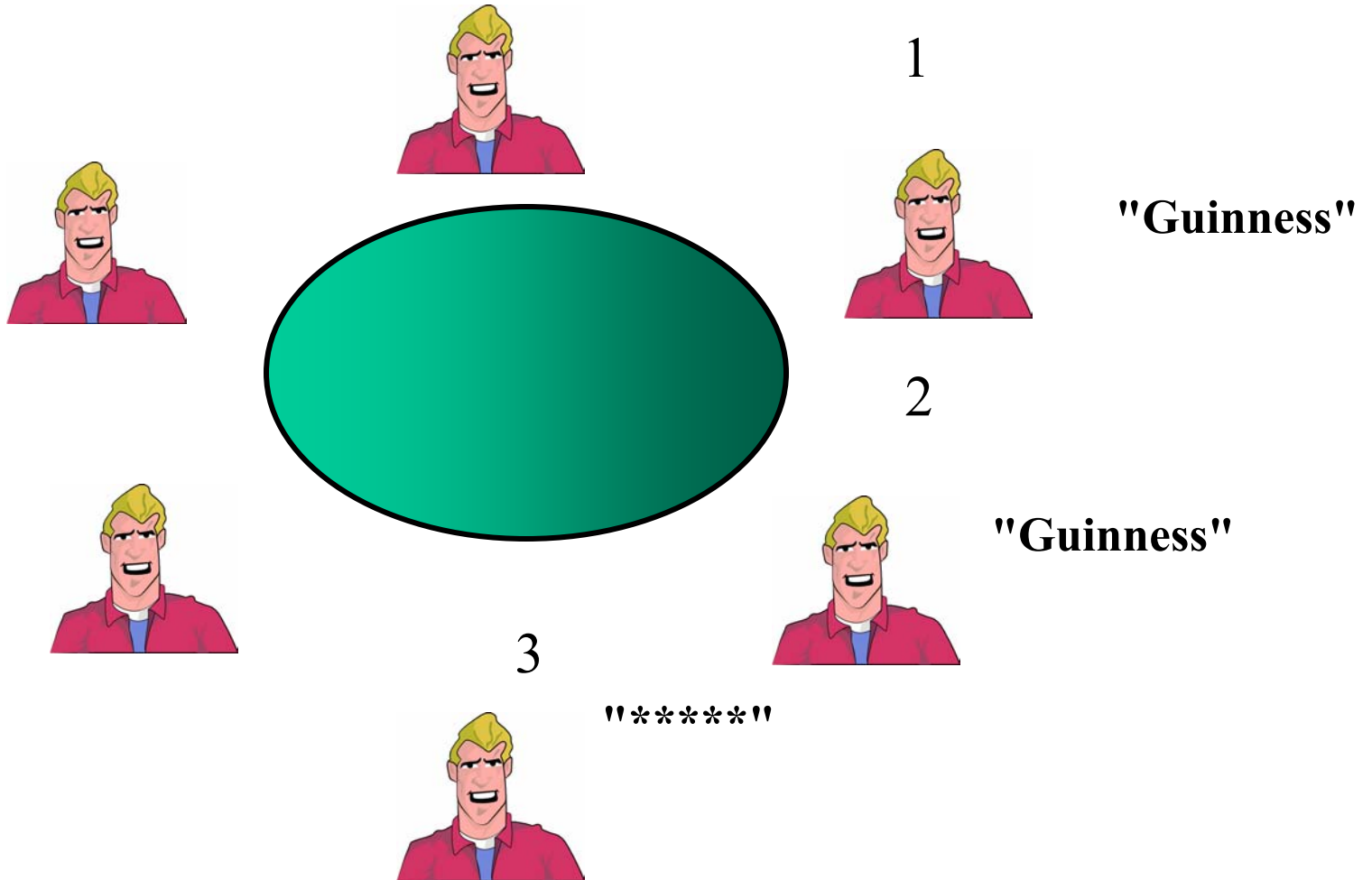
**% choosing
3 different snacks**

***Pick 3 now* 64%**

***Pick each week* 9%**

Variety seeking in groups: taking one for the team

Replace w/generic
same person images



Single outcomes vs. Sequences

What would you prefer?

A) Dinner at Au Jour Dui on the last Friday of this month?

B) Dinner at Au Jour Dui on the last Friday of next month?

What would you prefer?

A') Dinner at Au Jour Dui on the last Friday of this month & dinner at home on the last Friday of next month?

B') Dinner at home on the last Friday of this month & dinner at Au Jour Dui on the last Friday of next month?

Joint vs. Separate Evaluation

	<u>Dictionary A</u>	<u>Dictionary B</u>
# of entries:	10,000	20,000
condition:	like new	torn cover

<u>Evaluation mode</u>	<u>WTP for Dictionary A</u>	<u>WTP for Dictionary B</u>
Joint:	\$w	\$x
Separate:	\$y	\$z

Joint vs. Separate Evaluation

of entries:

Set A

24 glasses

Set B

**27 glasses
& 4 chipped
saucers**

condition:

Evaluation mode

Joint:

**WTP for
Set A**

\$w

**WTP for
Set B**

\$x

Separate:

\$y

\$z

Joint vs. Separate Evaluation

	<u>Model A</u>	<u>Model B</u>
Harmonic Distortion	.01%	.05%
Appearance	so so	attractive

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%

Reference prices

"You are lying on the beach on a hot day. All you have to drink is a bottle of water. For the last hour you have been thinking about how much you would enjoy a nice cold bottle of your favorite beer. A companion gets up to go 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 run down grocery store]. He says that the beers might be expensive and so asks how much you are willing to pay for the beer. He says that he will buy the beer if it costs less than the price you state, but if it costs more, he will not buy it."

What price do you state? \$_____.

Respecting "sunk costs"

"Assume you have already paid \$40 to go to a baseball game. On the day of the game, the weather is lousy and you feel sick."

Would you still go? YES NO

"Assume you received a free ticket (worth \$40) to go to a baseball game. On the day of the game, the weather is lousy and you feel sick."

Would you still go? YES NO

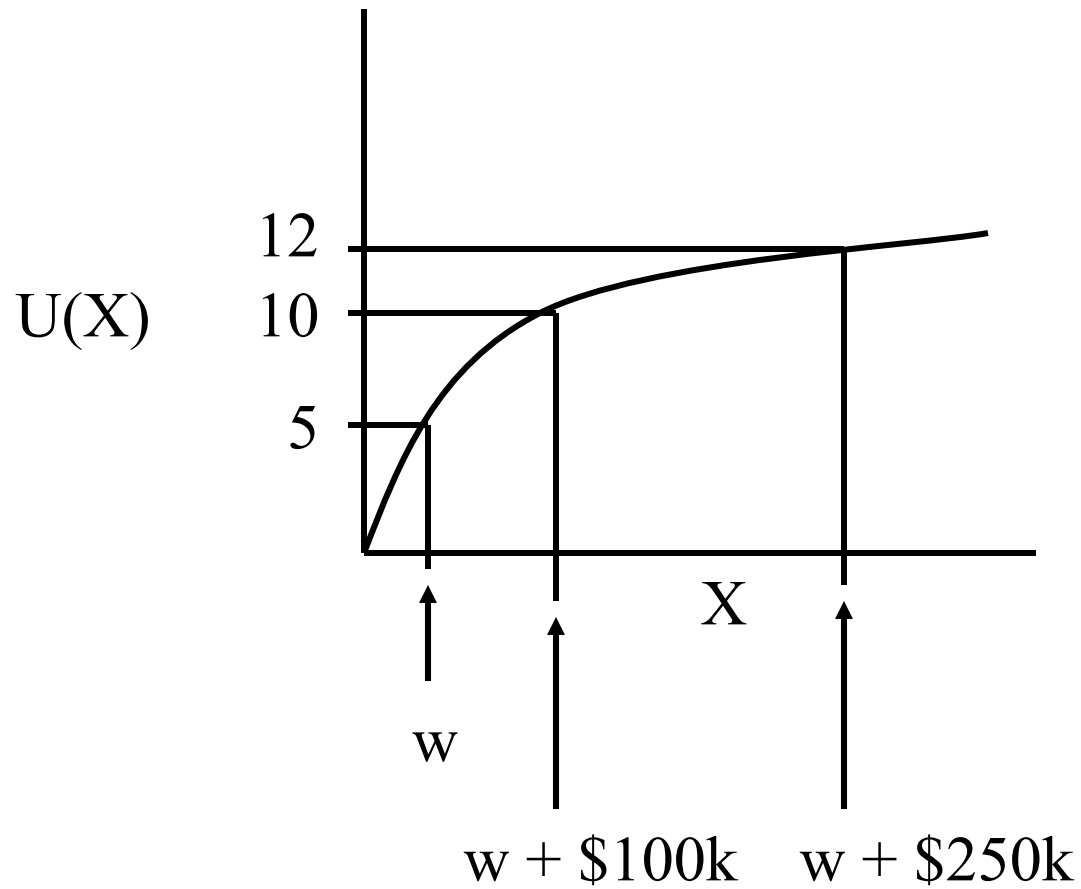
Expected Value vs. Expected Utility

	<u>Heads</u>	<u>Tails</u>
Prospect A:	\$100,000	\$100,000
Prospect B:	\$250,000	\$0

Which prospect has higher expected value? **A** or **B**

Which prospect would you prefer? **A** or **B**

5 utils is better than a 50% chance of 7 utils



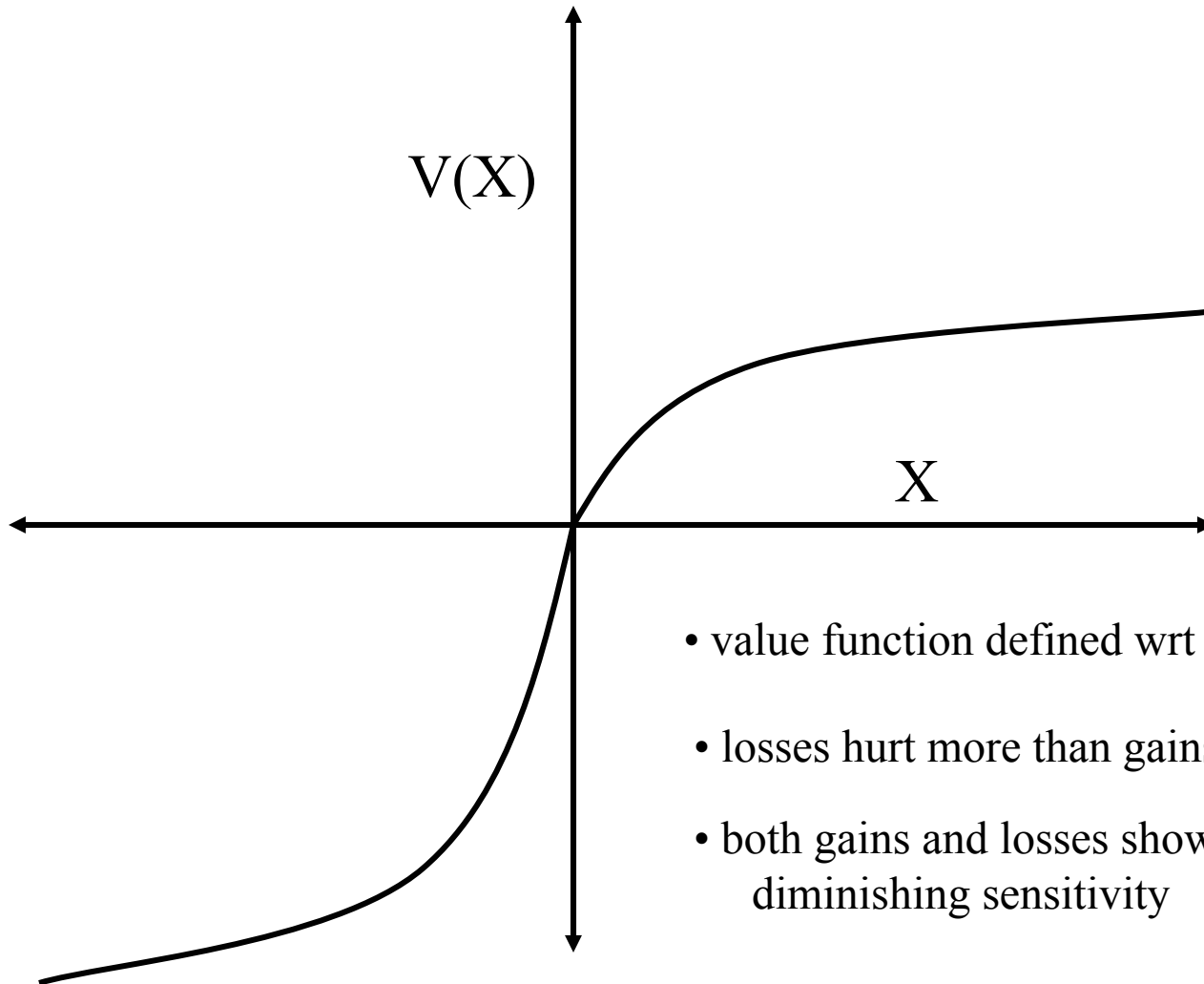
"Ordinary" Utility theory cannot explain this:

	<u>Heads</u>	<u>Tails</u>
Prospect A:	win \$20	lose \$10
Prospect B:	\$0	\$0

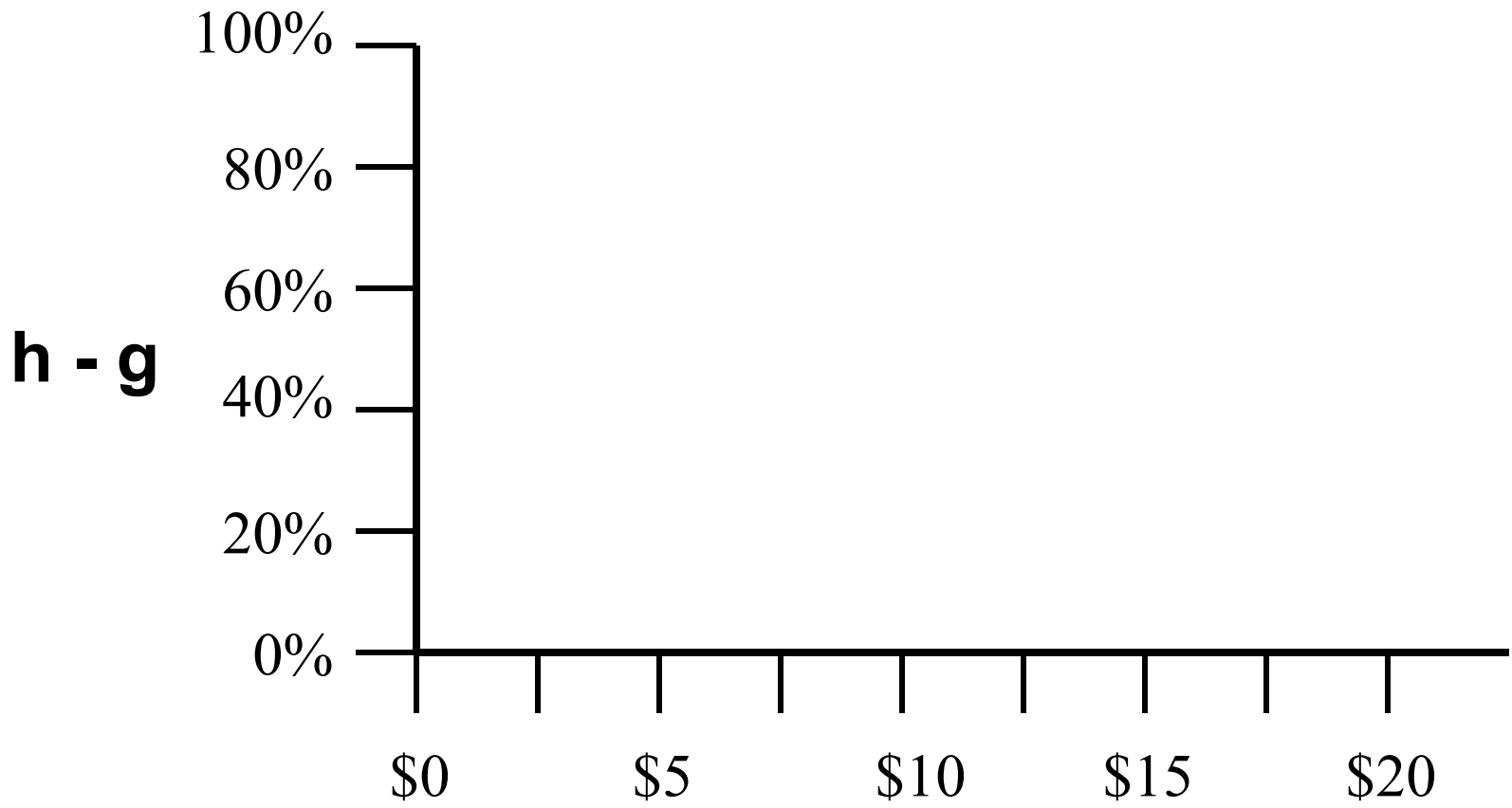
Which prospect would you prefer?

A or **B**

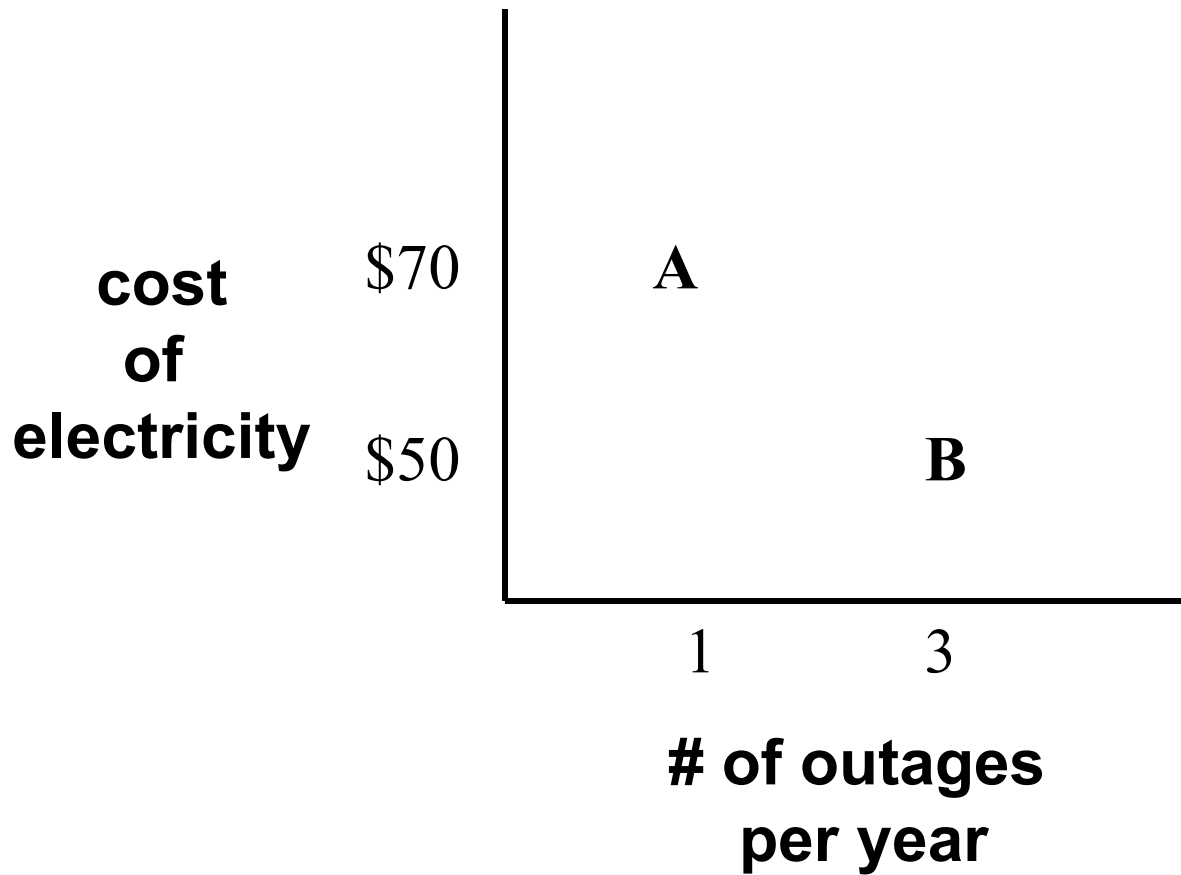
Prospect Theory



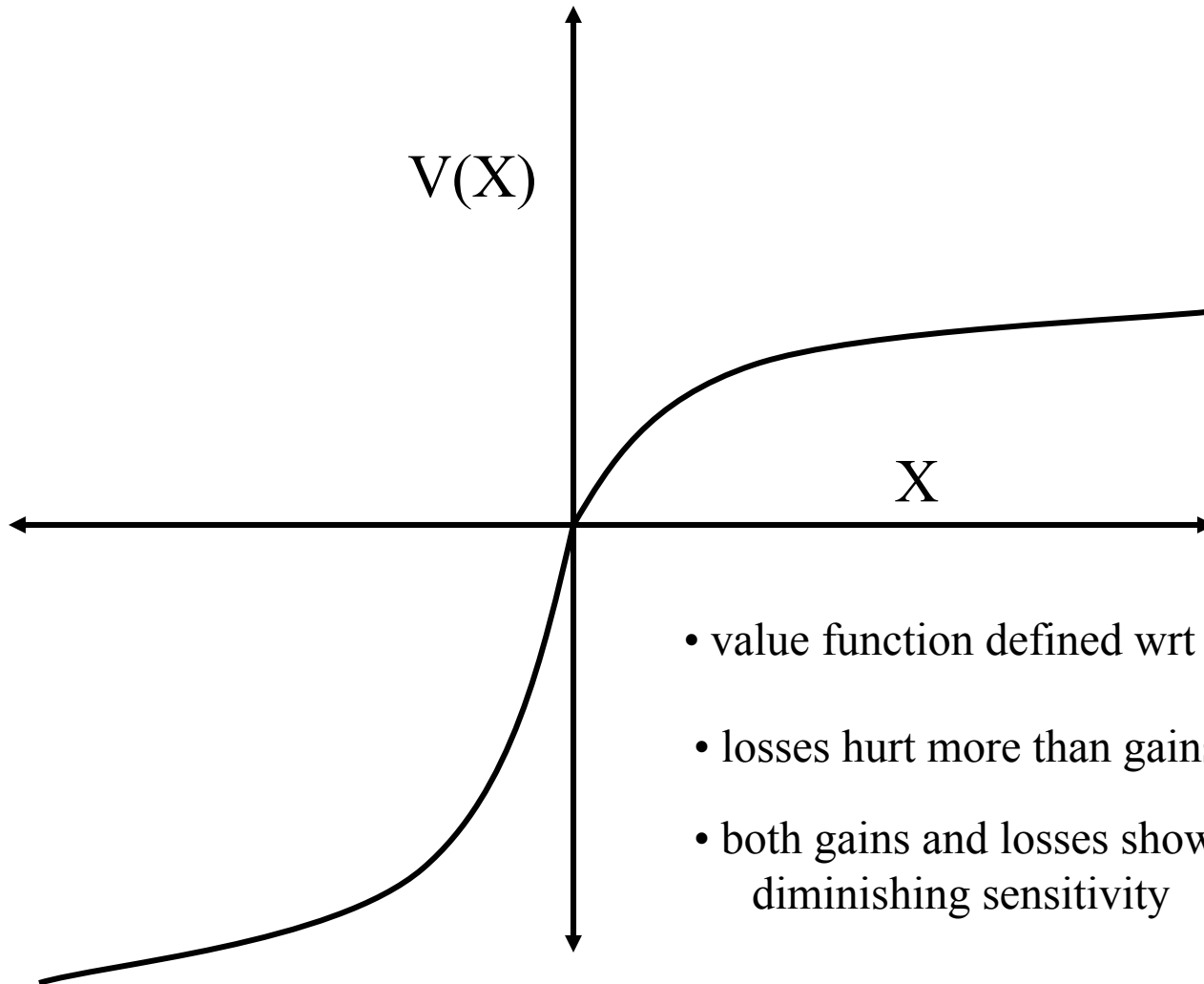
- value function defined wrt a **reference point**
- losses hurt more than gains feel good
- both gains and losses show diminishing sensitivity



The "Endowment Effect" (& "Status Quo Bias")

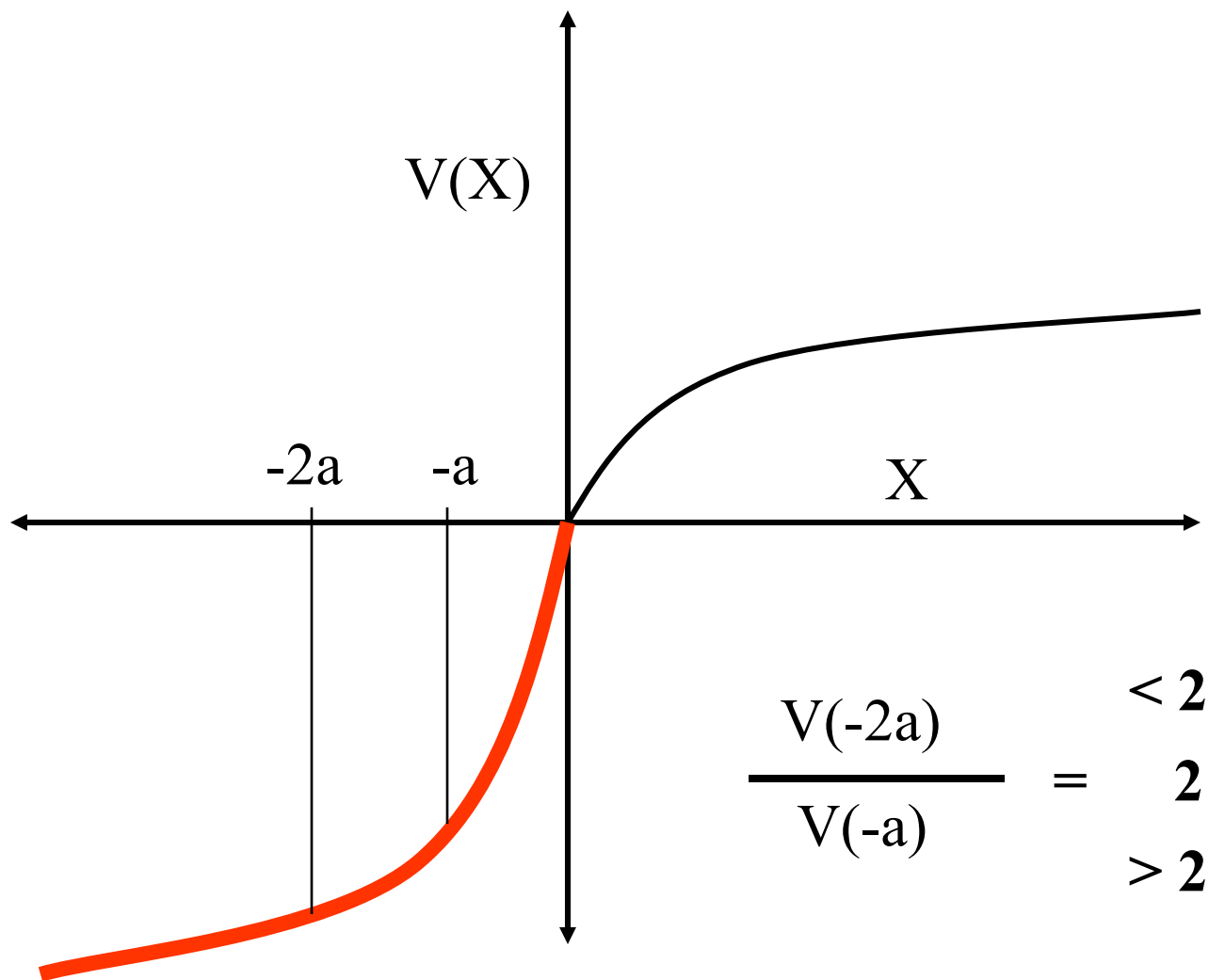


Prospect Theory



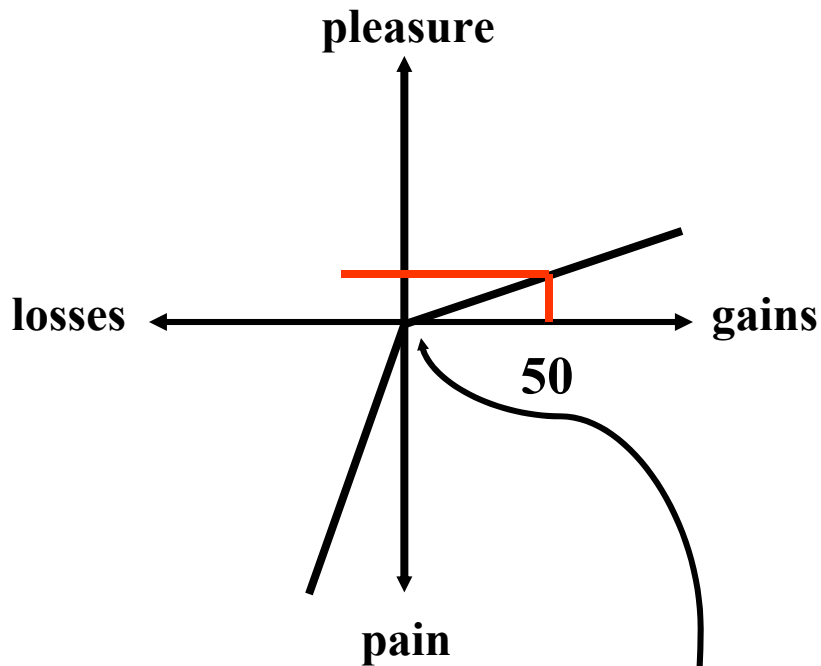
- value function defined wrt a **reference point**
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losses exhibit diminishing sensitivity



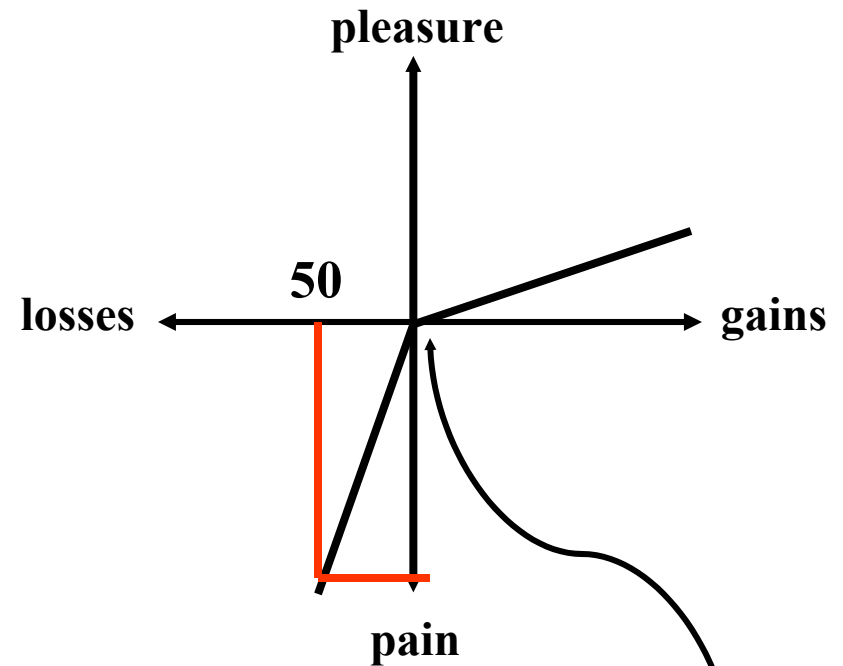
What would you think about having 50 TV channels?

"kinda nice"



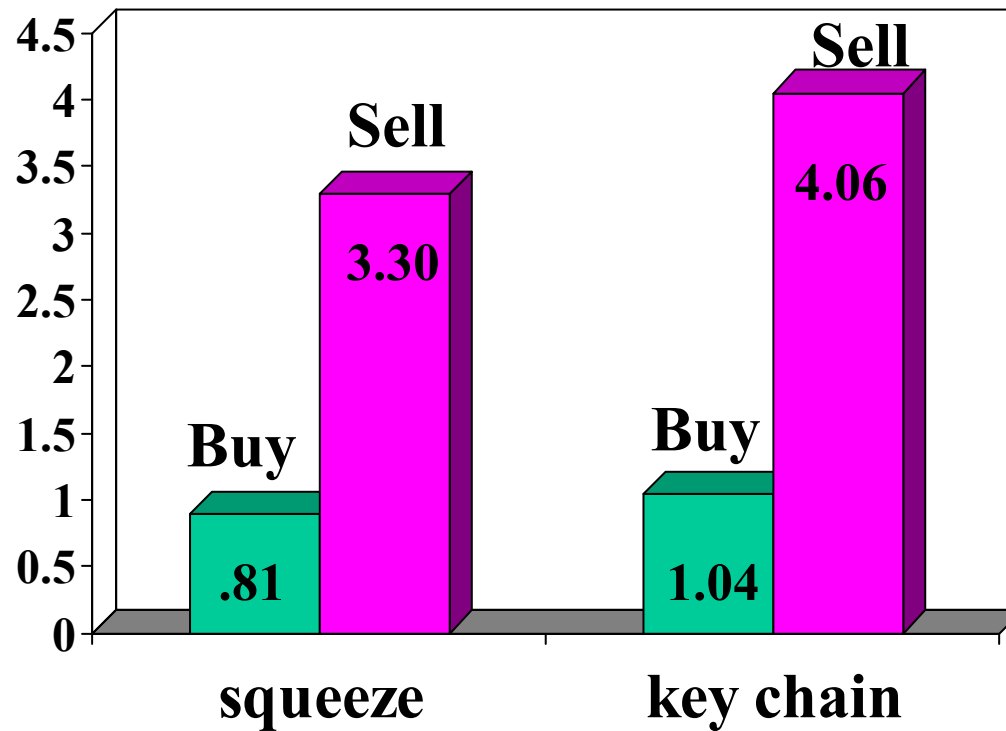
reference point =
30 channels

"really bad"

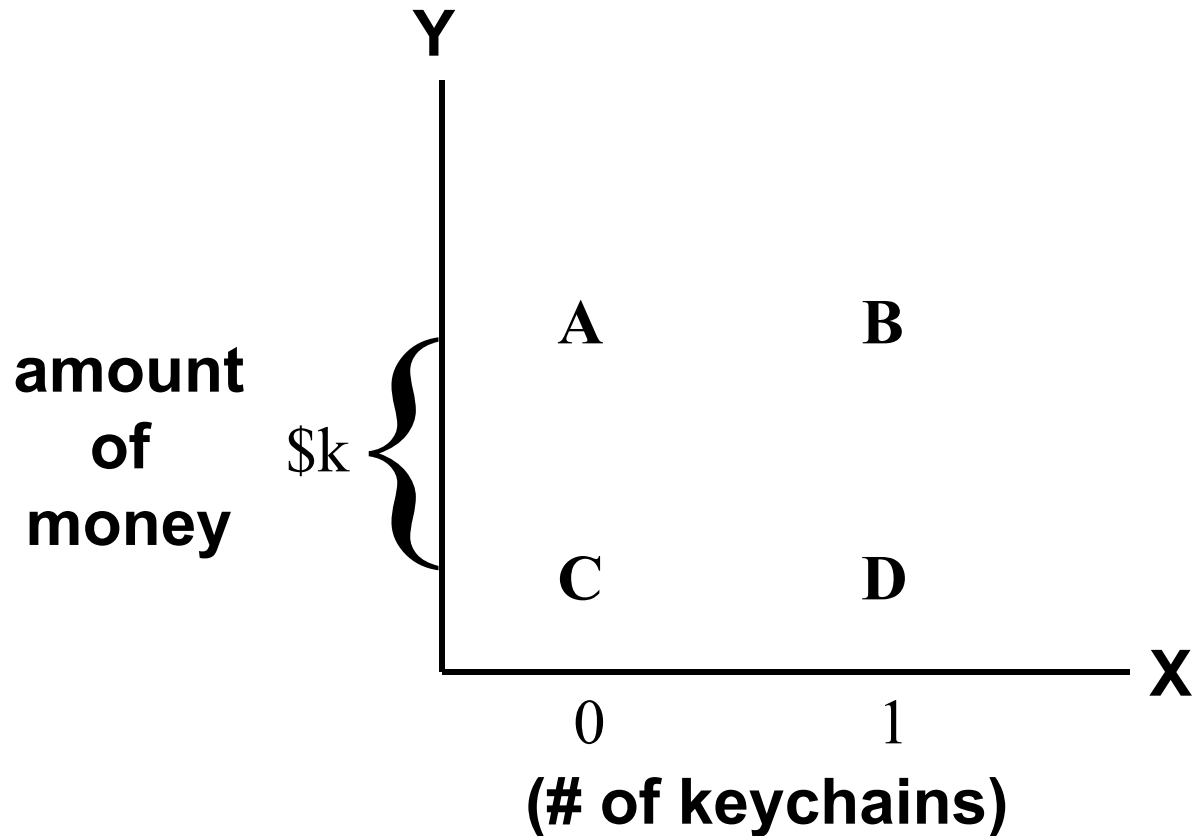


reference point =
70 channels

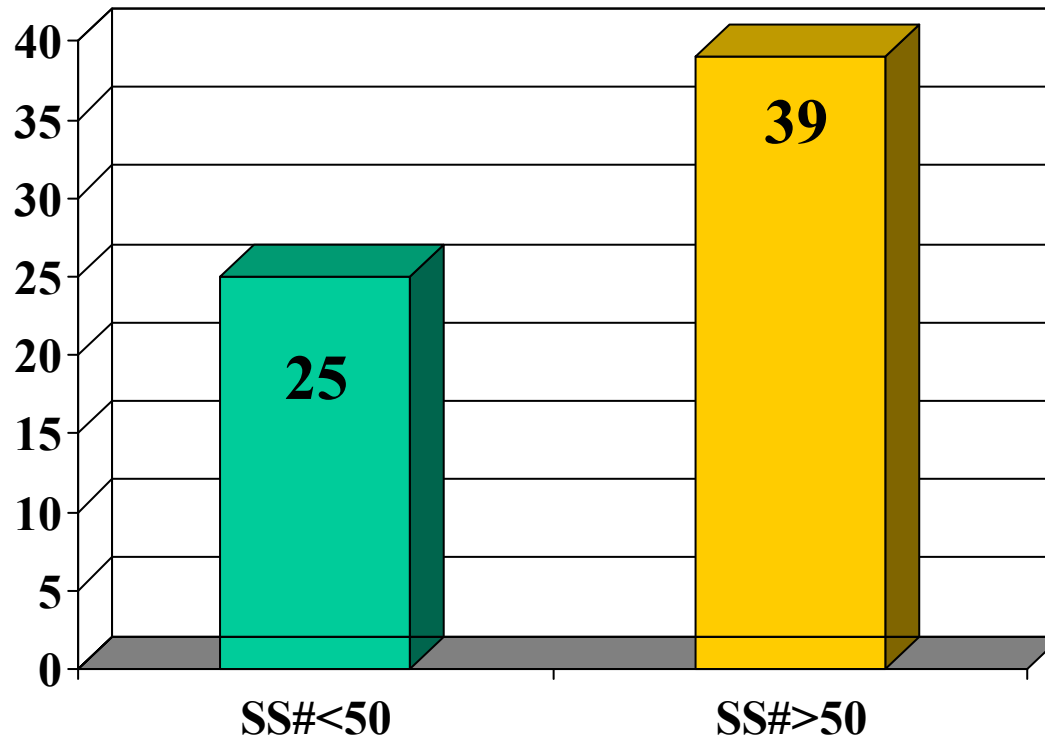
The endowment effect



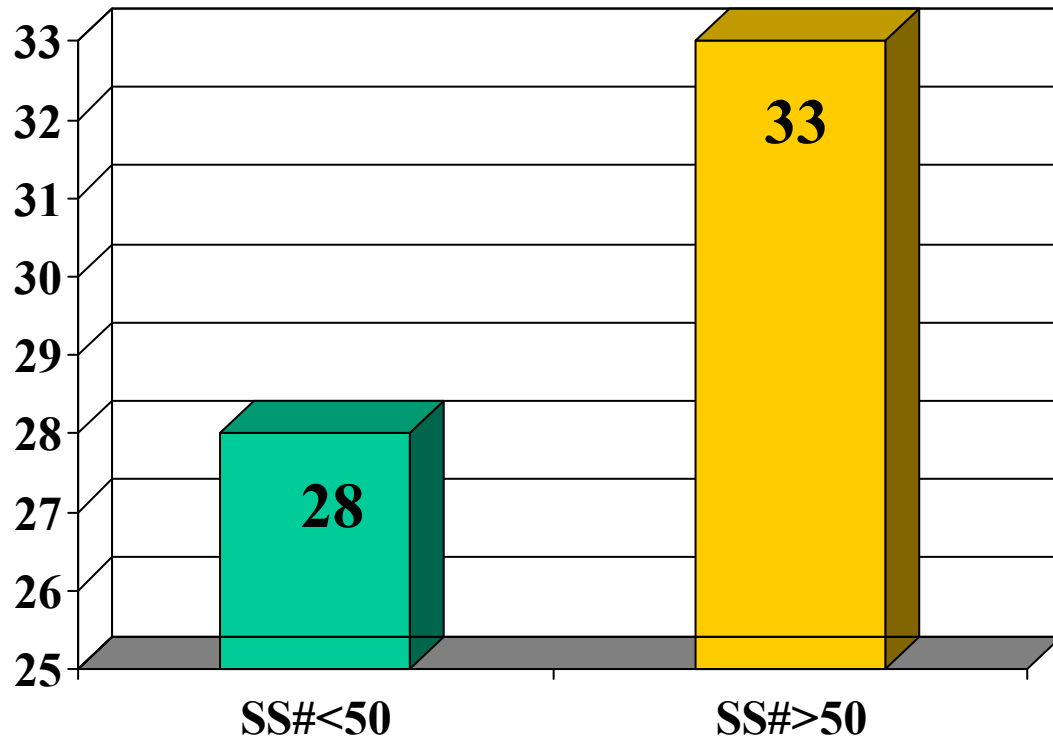
The "Endowment Effect", the "Status Quo Bias" & reference-dependent valuation



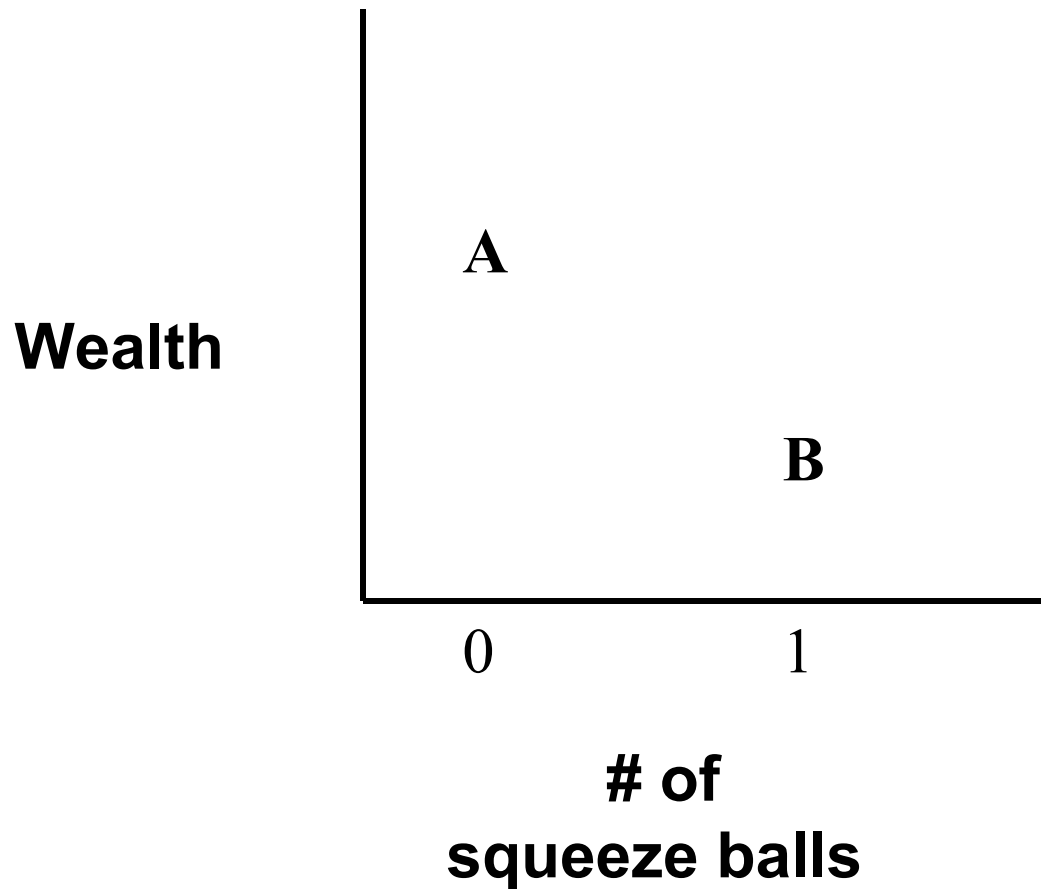
How many murders in Wisconsin?



How many home runs did Mark McGuire hit in his rookie season?



The "Endowment Effect" (& "Status Quo Bias")

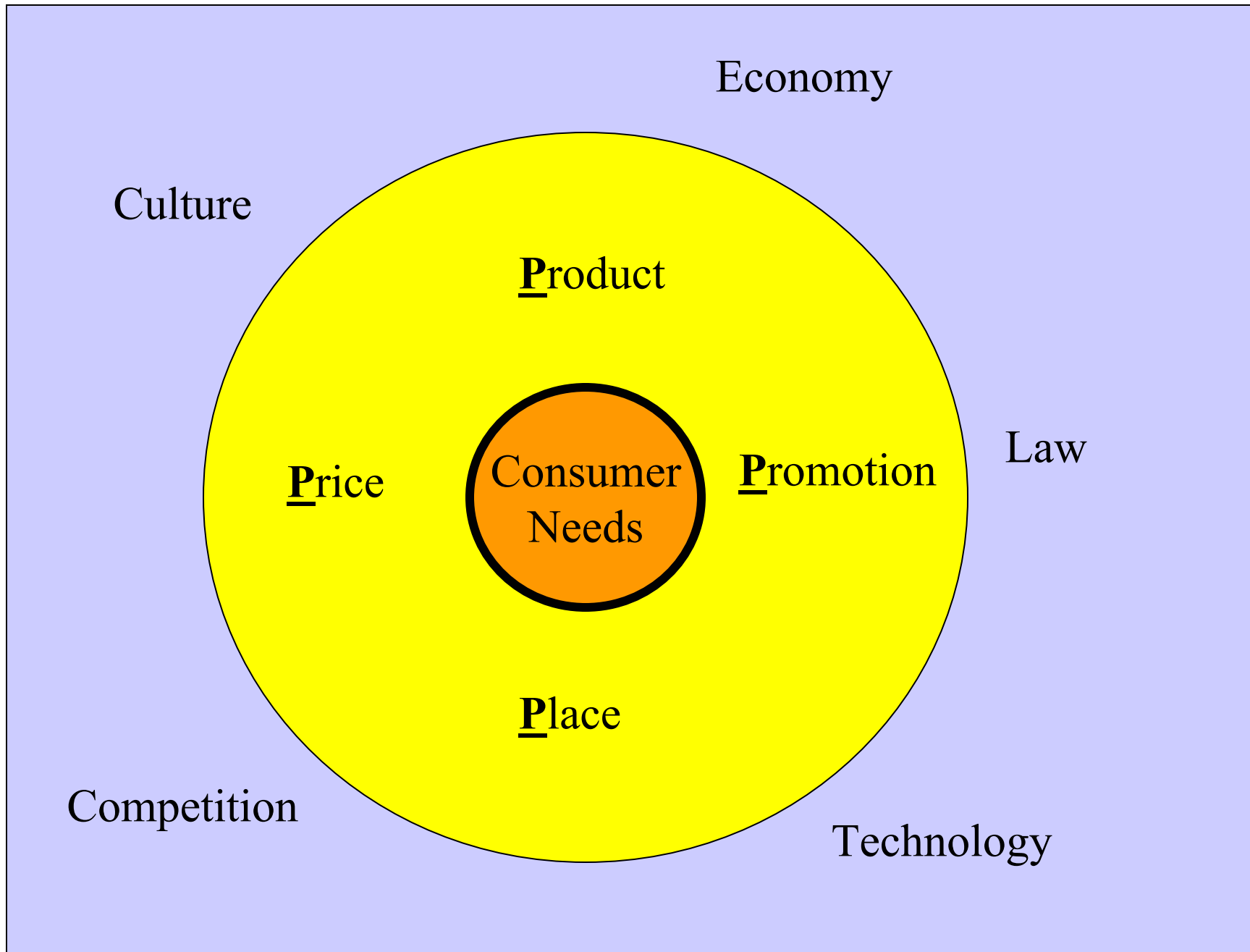


Why study consumer behavior?

- 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*

The Sachet Lecture

- 1. What is it used for? What needs/wants does it satisfy? Why would someone buy it?
- 2. What is the target market?
- 3. What are substitutes?



Economy

Culture

Product

Law

Price

Consumer
Needs

Promotion

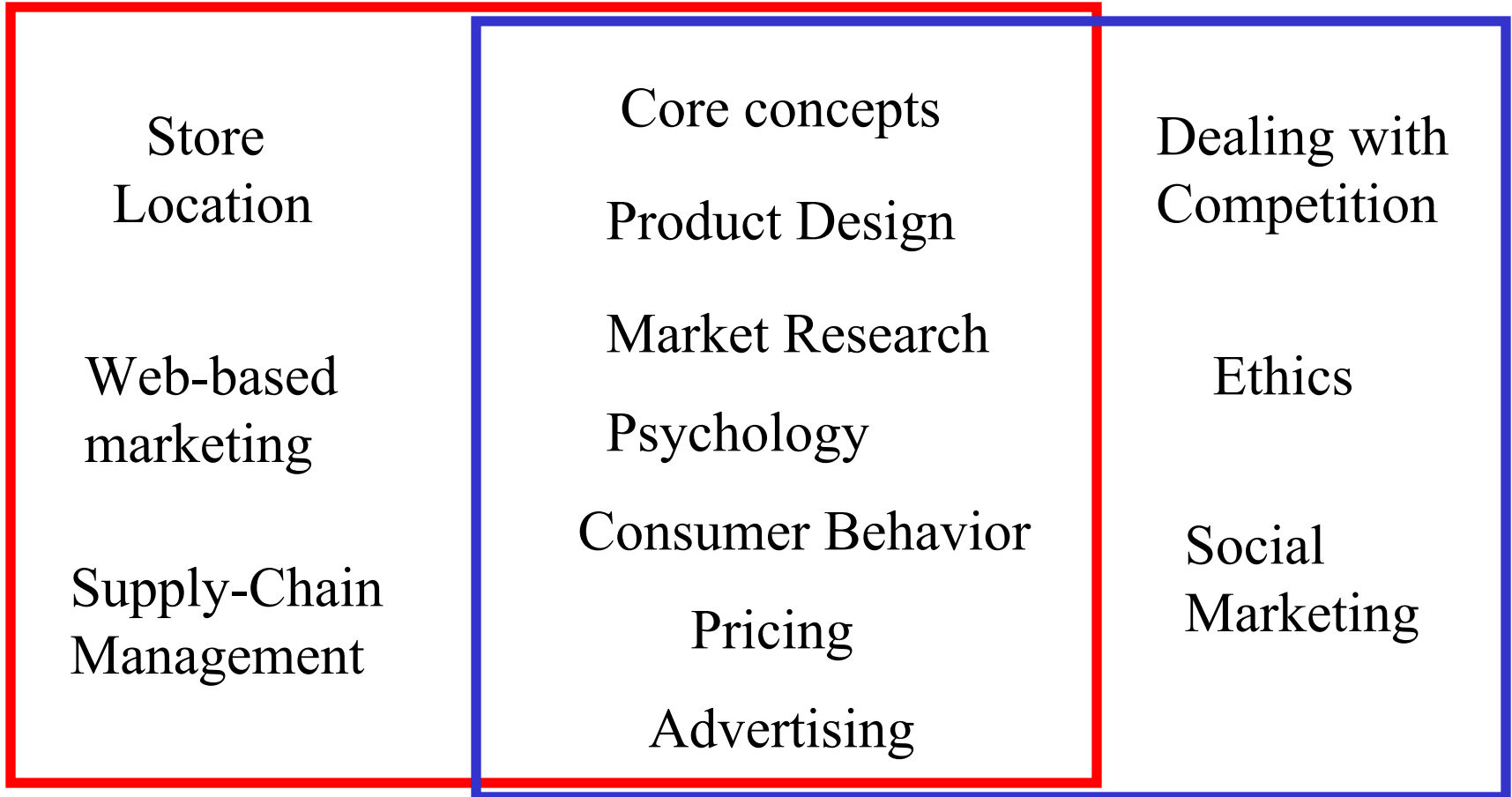
Place

Competition

Technology

How well does the product (15.812) provide what consumers want/need?

consumer needs

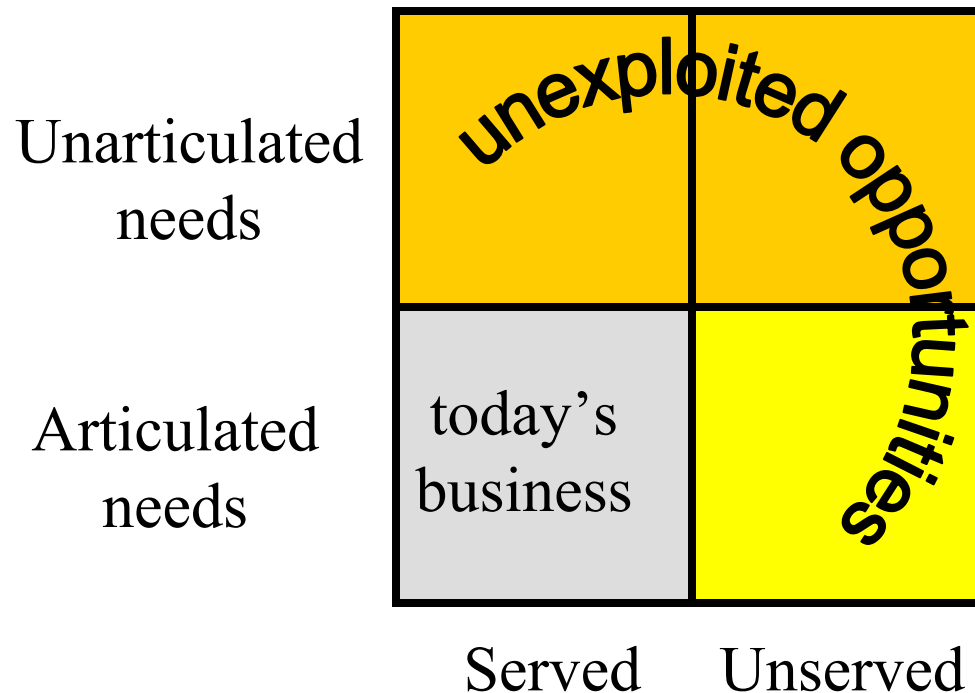


product features

Should consumers be followed or led?

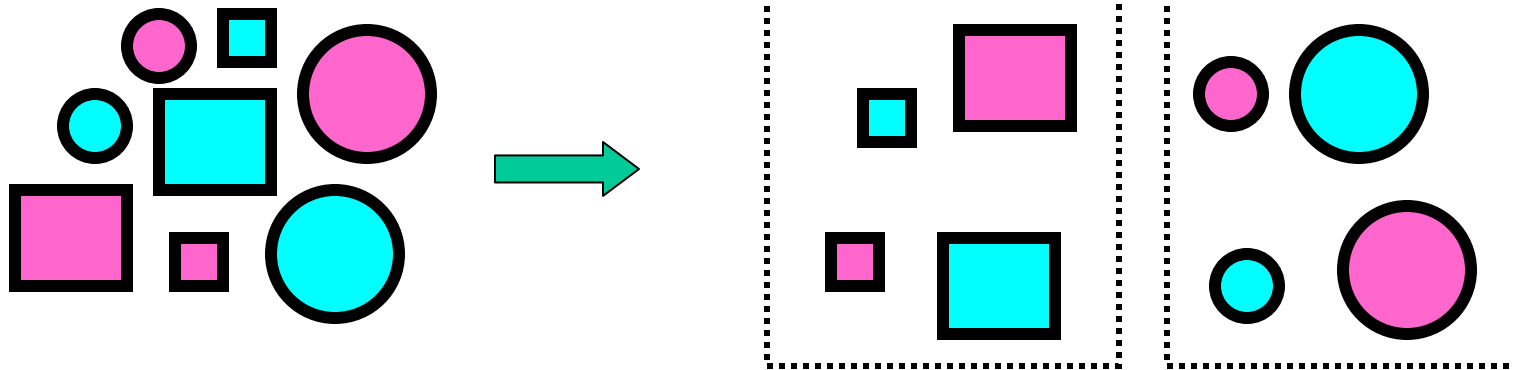
- “Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. So instead of doing a lot of market research, we ...try to create a market for a product by educating [the public about what the product can do for them]. ”

(Akio Morita, CEO of Sony)



Market Segmentation

- **Segmentation** = grouping consumers by some criteria, such that those within a group will respond similarly to a marketing action and those in different groups will respond differently.

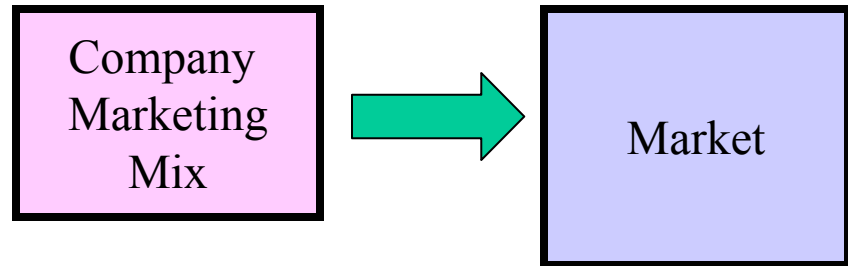


A group of individual consumers

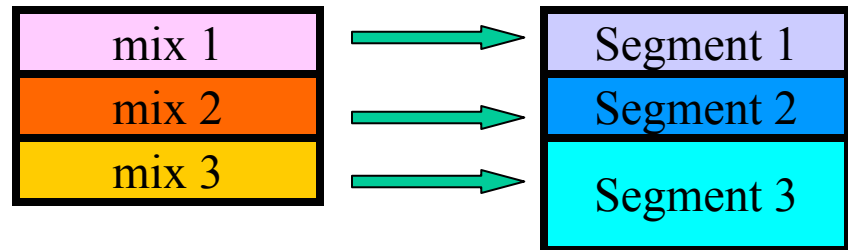
two more homogenous market segments

3 market-coverage strategies

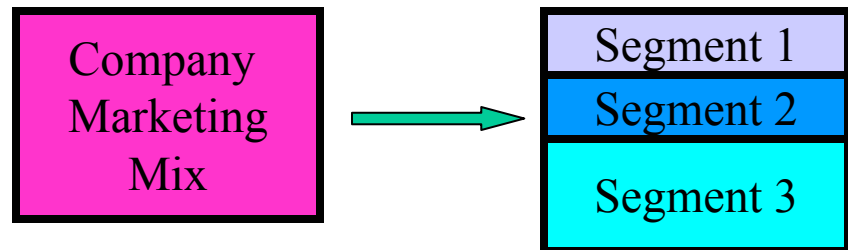
mass marketing



differentiated marketing

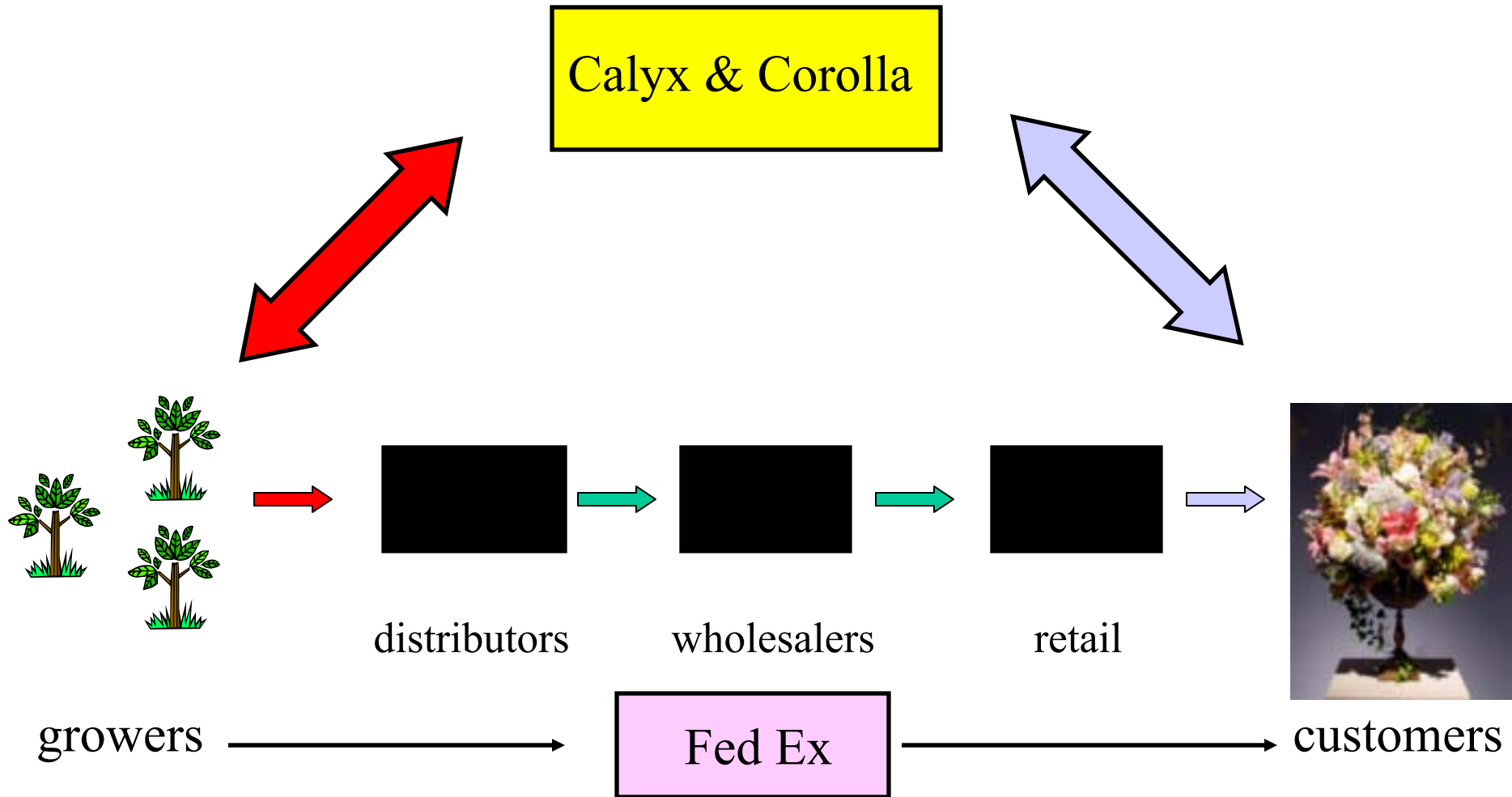


concentrated marketing

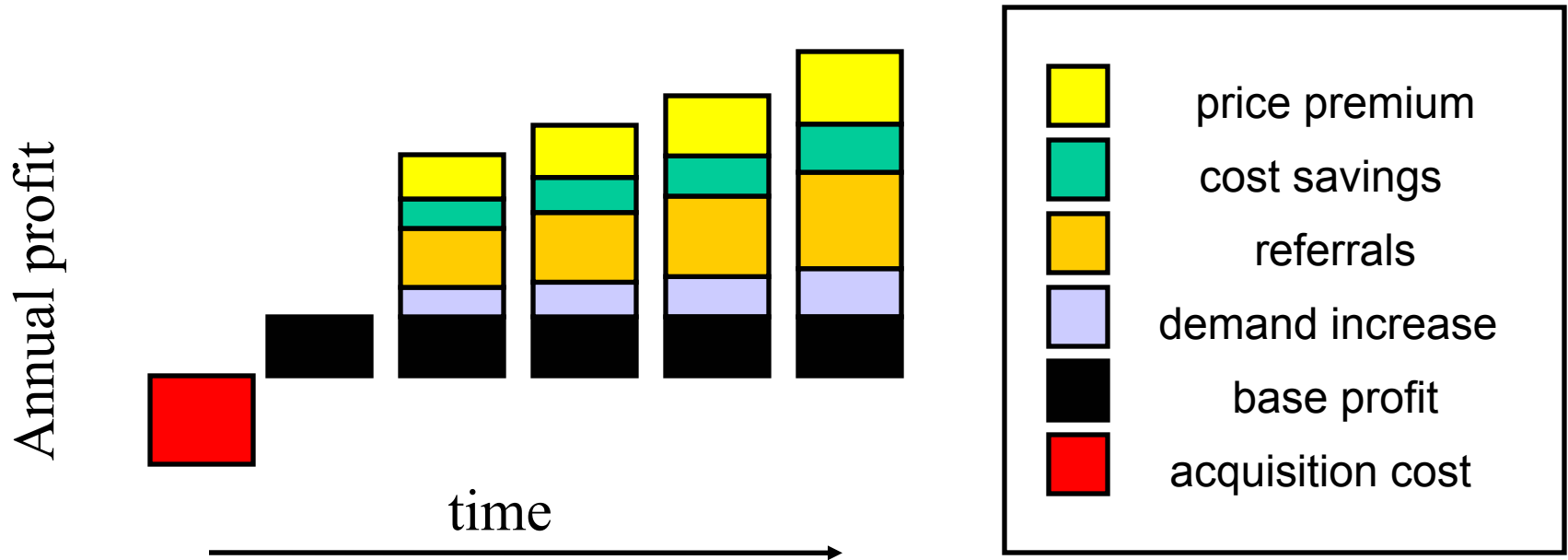


Calyx & Corolla

Replace only left
images w/generic ones



lifetime customer value



Microwave Mexican Food: Picking a good name?

Mom's old fashioned Tex-Mex

Burrito Bandit

Aunt Jemima's Mexican Classics

Ice to Rice

Speedy Gonzalez

The cola "taste test"

Group 1

"A" = RC Cola

"B" = Coke

"C" = Shaw's

Group 2

"a" = Coke

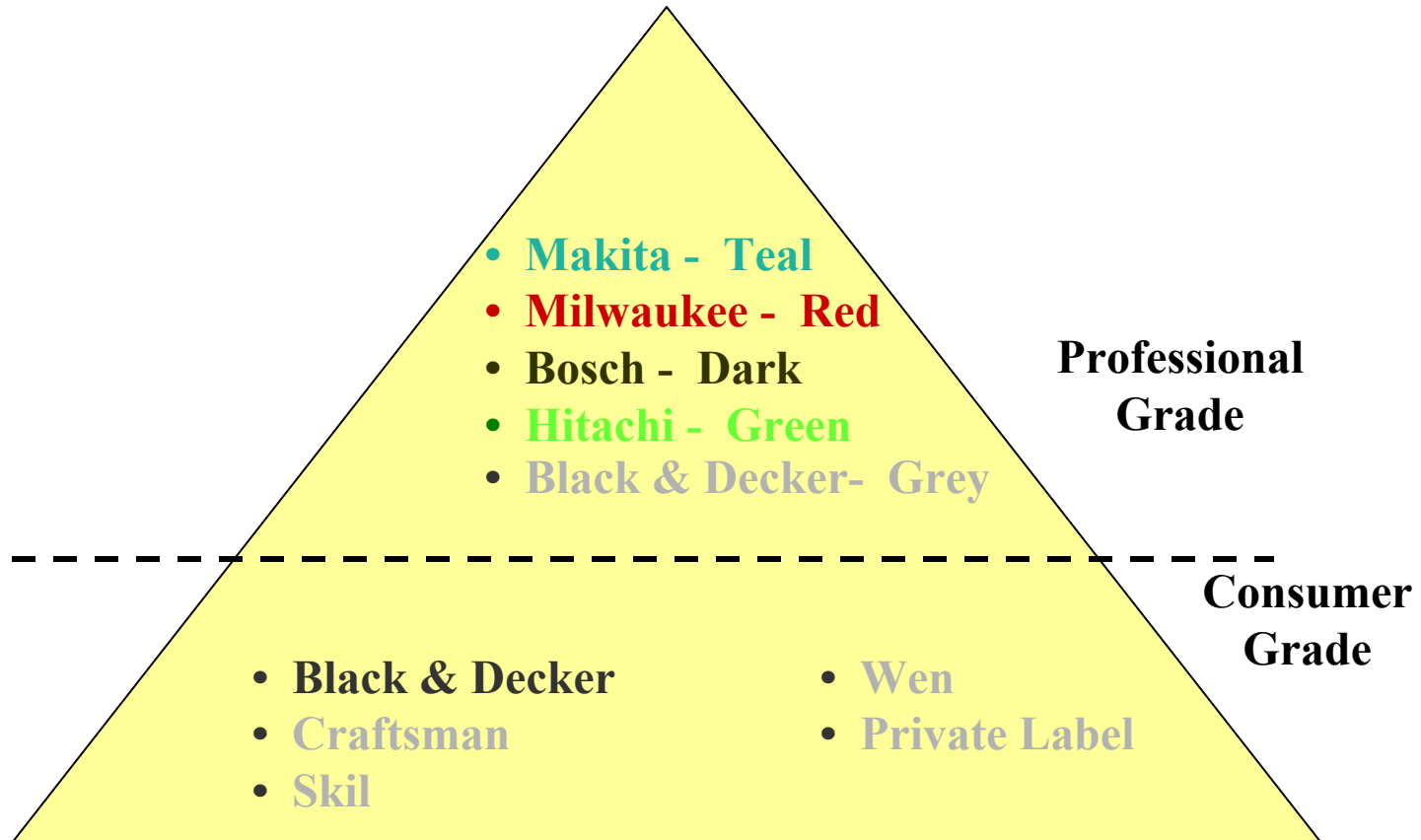
"b" = Coke

"c" = Coke

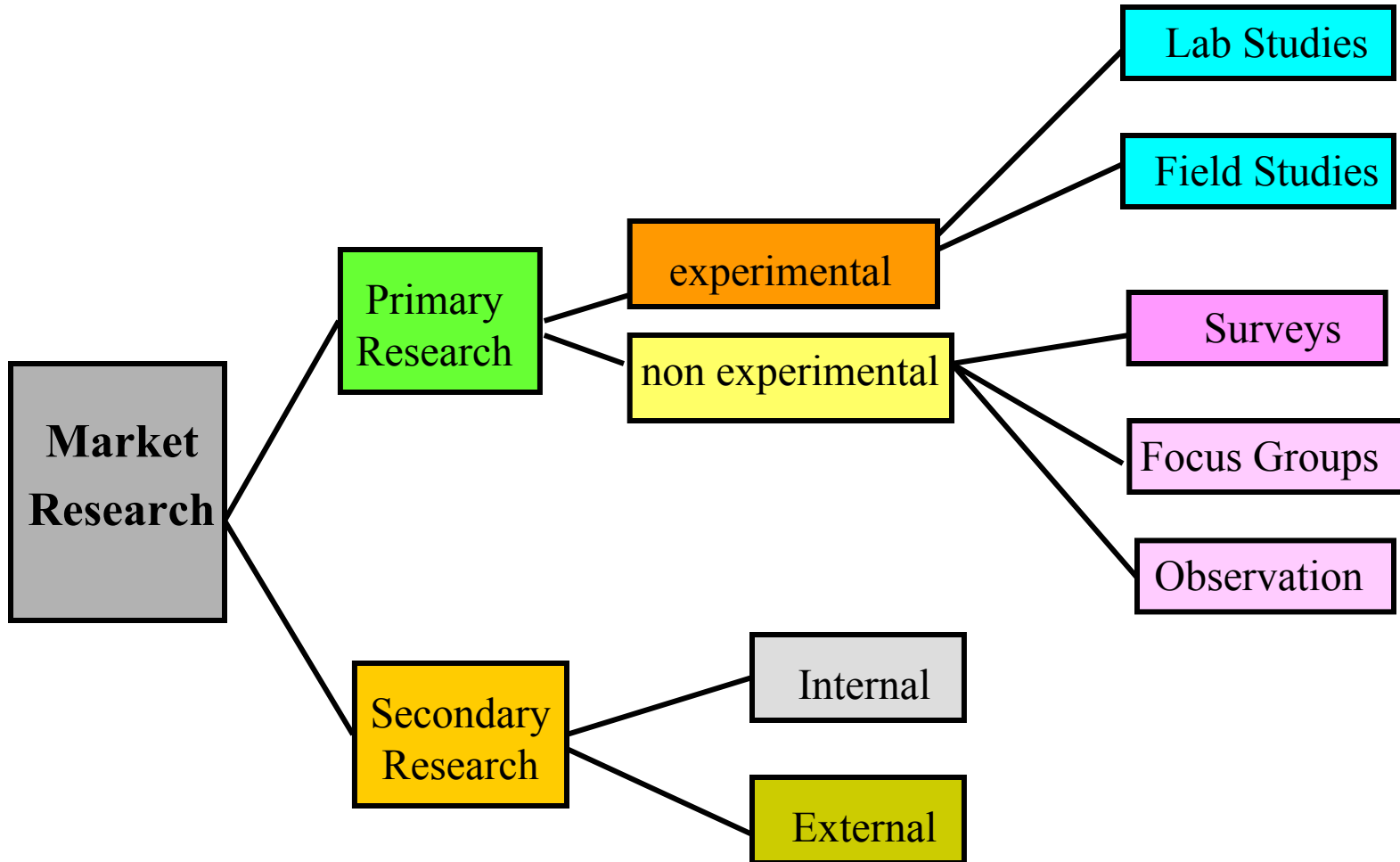
What are some reasons for having such a design?

Black & Decker: Product positioning & the importance of color as a cue

Figure D Color Differentiation



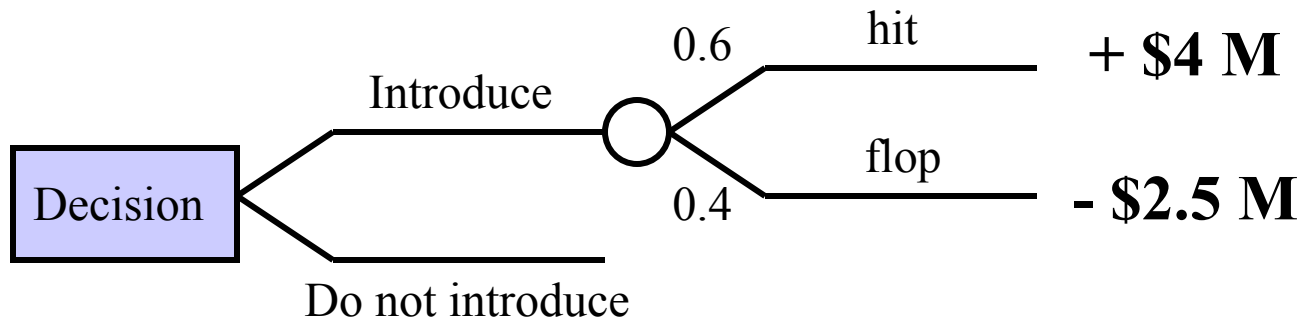
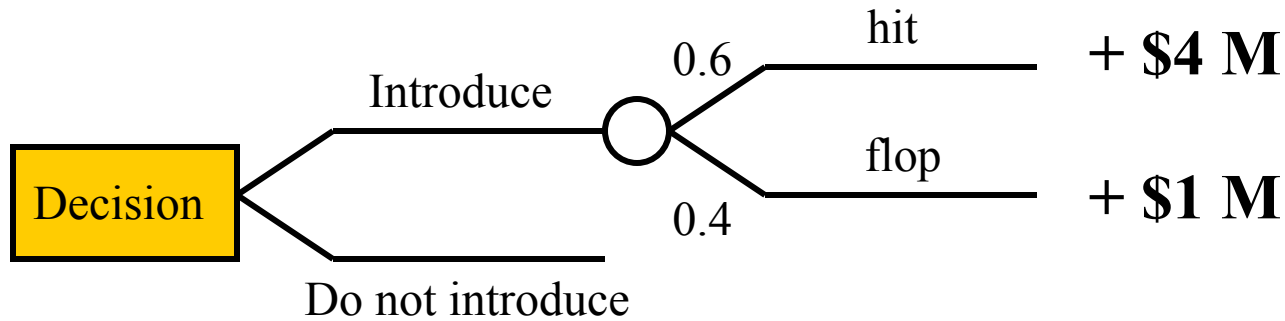
Types of Market Research

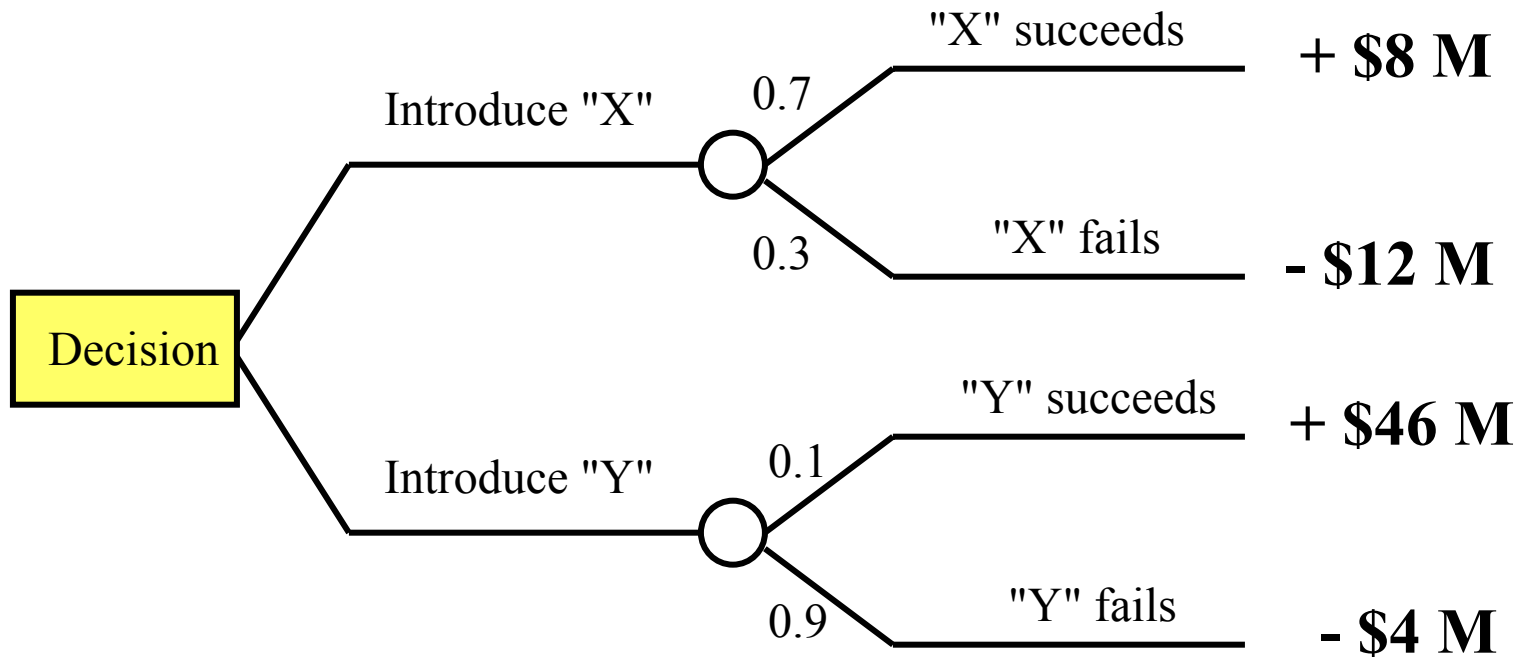


Conjoint Analysis

	Looks	Personality	British Accent	<u>Overall Desirability</u>
A	9	9	NO	80
B	9	5	NO	40
C	5	9	NO	60
D	5	5	NO	20
E	9	9	YES	95
F	9	5	YES	55
G	5	9	YES	75
H	5	5	YES	35

calculating the value of information





$$.7 * \$8 = (5.6) + .3 * .1 * \$46 = (1.38) + .3 * .9 * -\$4 = (-1.08) = 5.9$$

$$5.9 \text{ (with research)} - 2 \text{ (without research)} = 3.9$$

Types of Scales:

Categorical: Where do you live?

(1) Arlington (2) Beacon Hill (3) Cambridge (4) Somerville

Ordinal: Rank the following colas, from best to worst:
(Coke, Meijer, RC, Shaw's,)

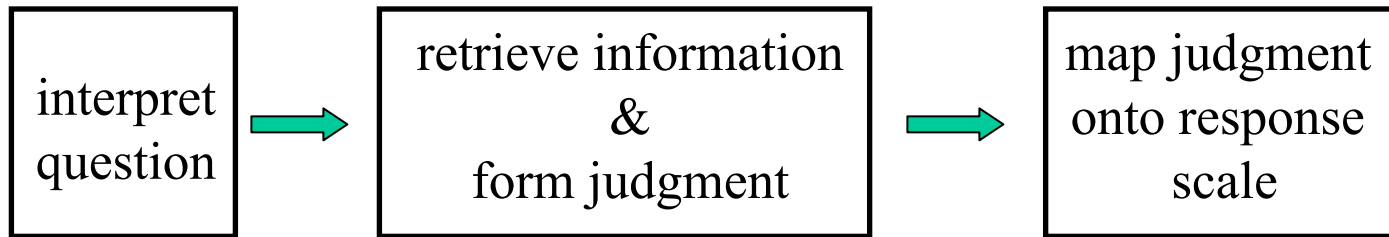
1st: Coke 2nd: RC 3rd: Meijer 4th: Shaw's

Interval: Rate the 4 brands of colas, on a 10 point scale:

S	M	RC	C
0...1...2...3...4...5...6...7...8...9...10			
very bad			fantastic

Ratio: How many cans of *Coke* did you drink last year? _____

3 cognitive stages in answering a survey question



Mid Term Course Evaluation: (e.g. Semantic Differential Scale)

For each line below, think about 15.812, and then place an “X” somewhere between the two adjectives.

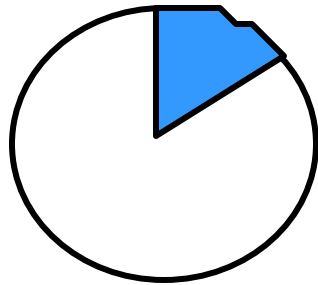
Quantitative	_____	_____	_____	_____	_____	_____	Qualitative
				*	X		
Breadth	_____	_____	X	*	_____	_____	Depth
Practical	_____	_____	X	*	_____	_____	Theoretical
Structured	_____	_____	X*	_____	_____	_____	Free - Form

3 methods of forecasting demand:

- **What people say they will do**
 - surveys
- **What people have done**
 - extrapolation (time series analysis)
 - statistical demand analysis
- **What people actually do**
 - laboratory markets
 - test markets

Market *size* vs. Market *share*

- Market size (total or "primary" demand)
- Market share (selective demand)



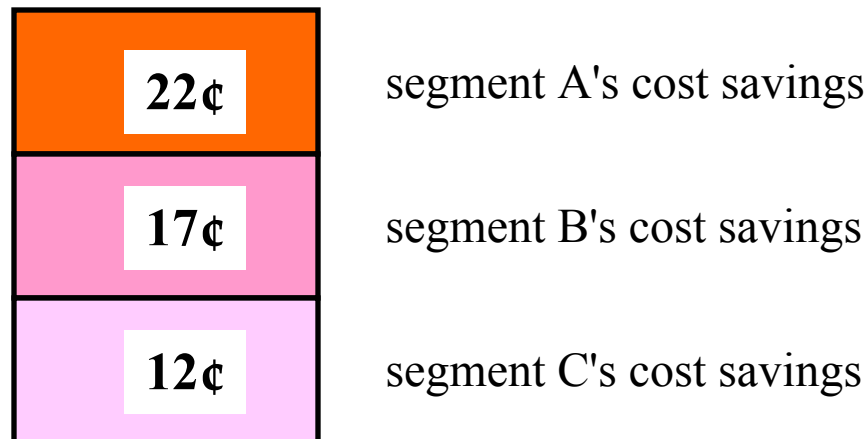
- **Market Forecast:** = anticipated demand | x,y,z....

Pricing contact lenses for chickens

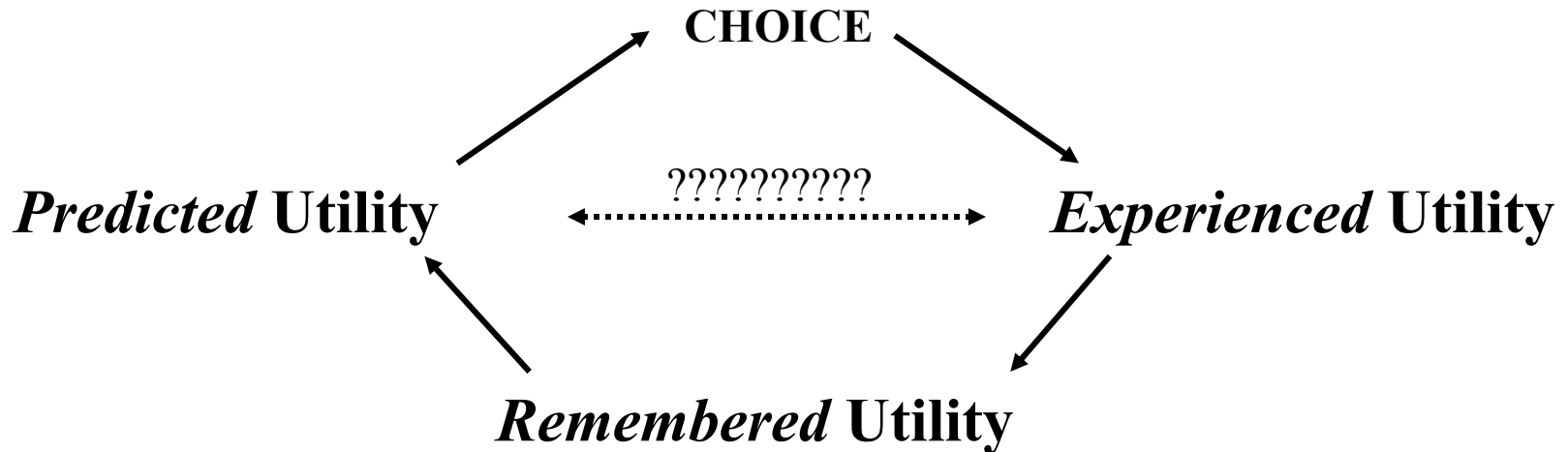
$$3\text{¢} < p^* < 24\text{¢}$$

- What are the advantages / disadvantages of a low price?
- What are the advantages / disadvantages of a high price?

"skim" or "penetrate"



Different types of utility: evaluating the quality of choices



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

The importance of "framing": "75% lean" or "25% fat"

	<u>Price</u>	<u>Quality</u>
Hamburger A	\$2.49 / lb	90% lean
Hamburger B	\$1.99 / lb	75% lean
	<u>Price</u>	<u>Quality</u>
Hamburger A	\$2.49 / lb	10% fat
Hamburger B	\$1.99 / lb	25% fat

Context Effects: the choice set matters!

