

Understanding the Dynamics of Buyer Choices

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Agenda

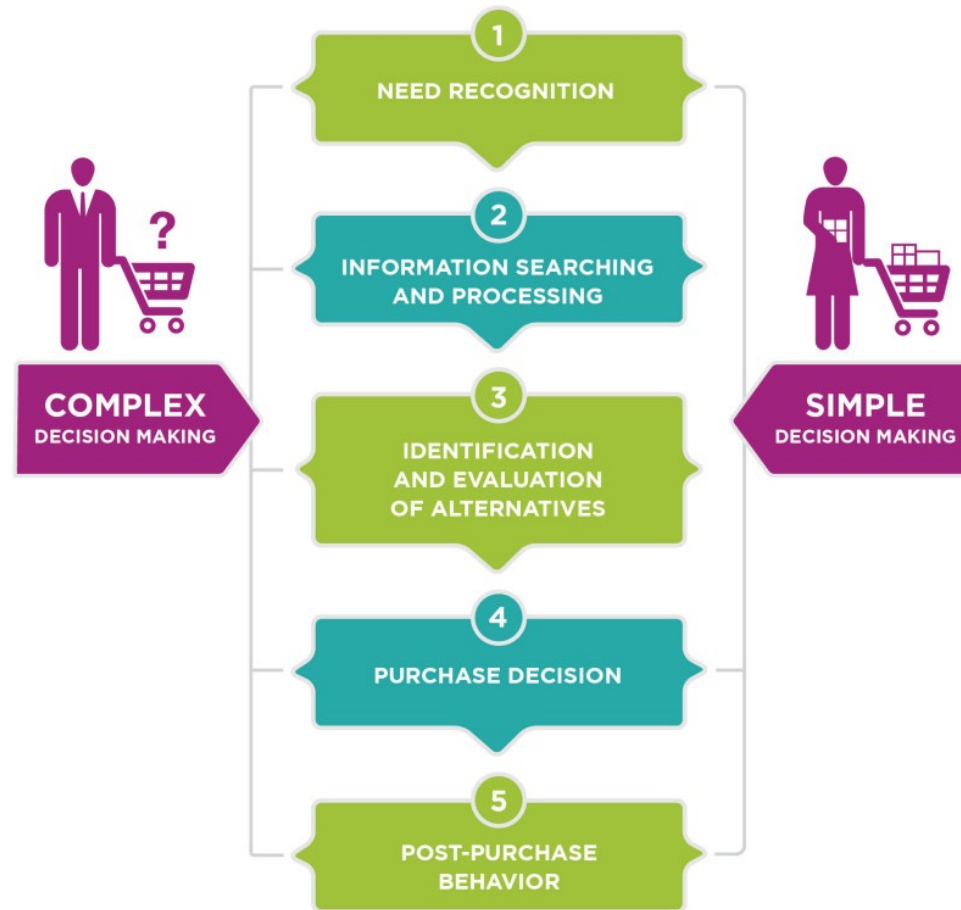
- Consumer Buying Process
- Decision making.
- System 1 and System 2 thinking.
- Nudging.
- Choice architecture techniques.

Consumer buying process

THE CONSUMER DECISION-MAKING PROCESS

Actual state vs Desired state

Internal vs external



Evoked set, Inept set, Inert set

Reference:

Chapter 5 (p.no. 155 – 160) Principles of Marketing, Kotler, Philip; Armstrong Gary, 7th European Edition, 2017, Available Online – TUM library
Part 5 (p.no. 367 – 378) Consumer Behaviour, Global Edition, 2015, Schiffman, Leon G, Wisenblit, Joseph. Available Online – TUM library

Decision making!



Simple vs. Complex choice

Apples vs Oranges



Selection of choice now happens based on your preference!

Apples vs. Apples



The selection here is based on different aspects! Either with the help of colour, shape or size of the apples.

Apples vs. Apples



Price: Rs. 70/ kg



Price: Rs. 95/ kg

It is the same apples now your decision changes based on your **budget line!**

Apples vs. Apples



Price: Rs. 70/ kg
Fresh from farm



Price: Rs. 95/ kg
Organic Apple

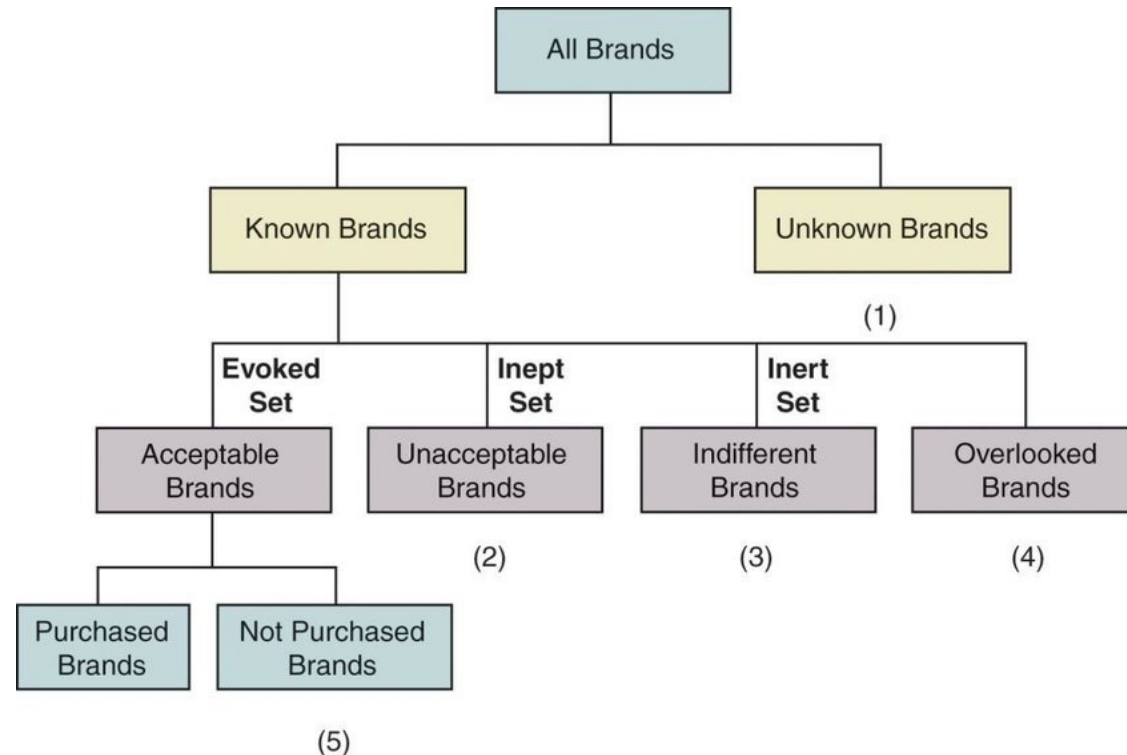
It is the same apple now your decision changes based on your **health goal and budget line!**
If you have a strong goal to keep up your health then you will prefer the organic apple!



Consumer Decision Making



- **Evoked set** refers to the specific brands a consumer considers in making a purchase
- **Inept set** consist of brands that are excluded from the purchase
- **Inert set** consist of brands the consumers is indifferent towards it (because they are perceived as not having any particular advantages)



Reference:

Consumer decision making

Three broad categories:

Extensive problem solving – no established or set criteria for evaluating a product in a particular category.

Limited problem solving – the consumers have already set the basic criteria or standard for evaluating the products.

Routinized response behavior – consumers have experience with the product and they have set the criteria.

Which car do you prefer?

	CAR A	CAR B
Price	Rs. 6,00,000	Rs. 7,25,000

Which car do you prefer now?

	CAR A	CAR B
Price	Rs. 6,00,000	Rs. 7,25,000
Mileage	23 kmpl	26 kmpl

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Total cost/ 10 years	Rs. 12,50,000	Rs. 12,25,000

This information will facilitate the decision making process!

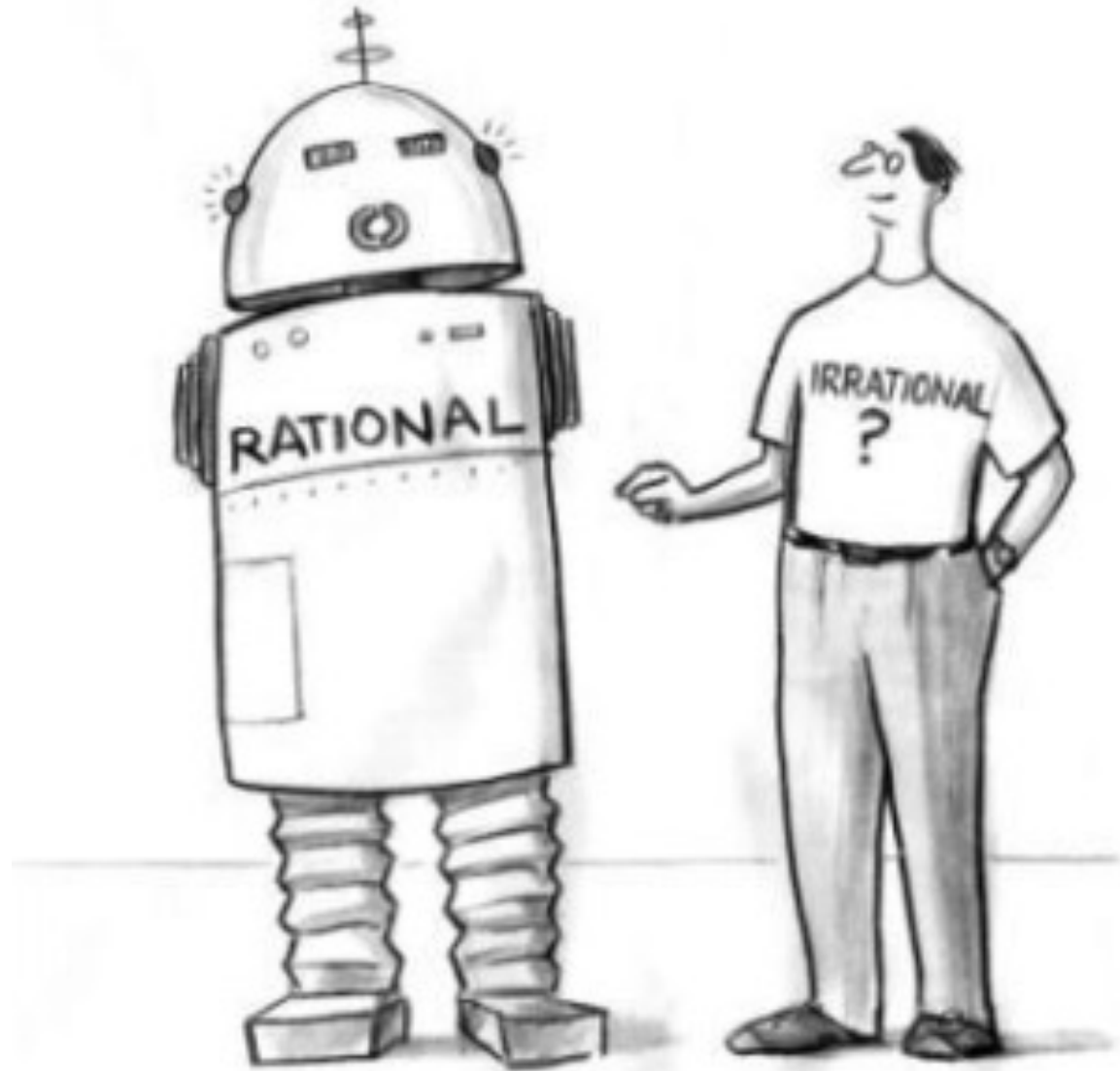
However, this information is not provided to you.

If you are acting rational, you need to perform the computation and make a decision!

The examples we saw until now are choices under certainty.

But we also take decision under uncertainty – we will not look at that today!

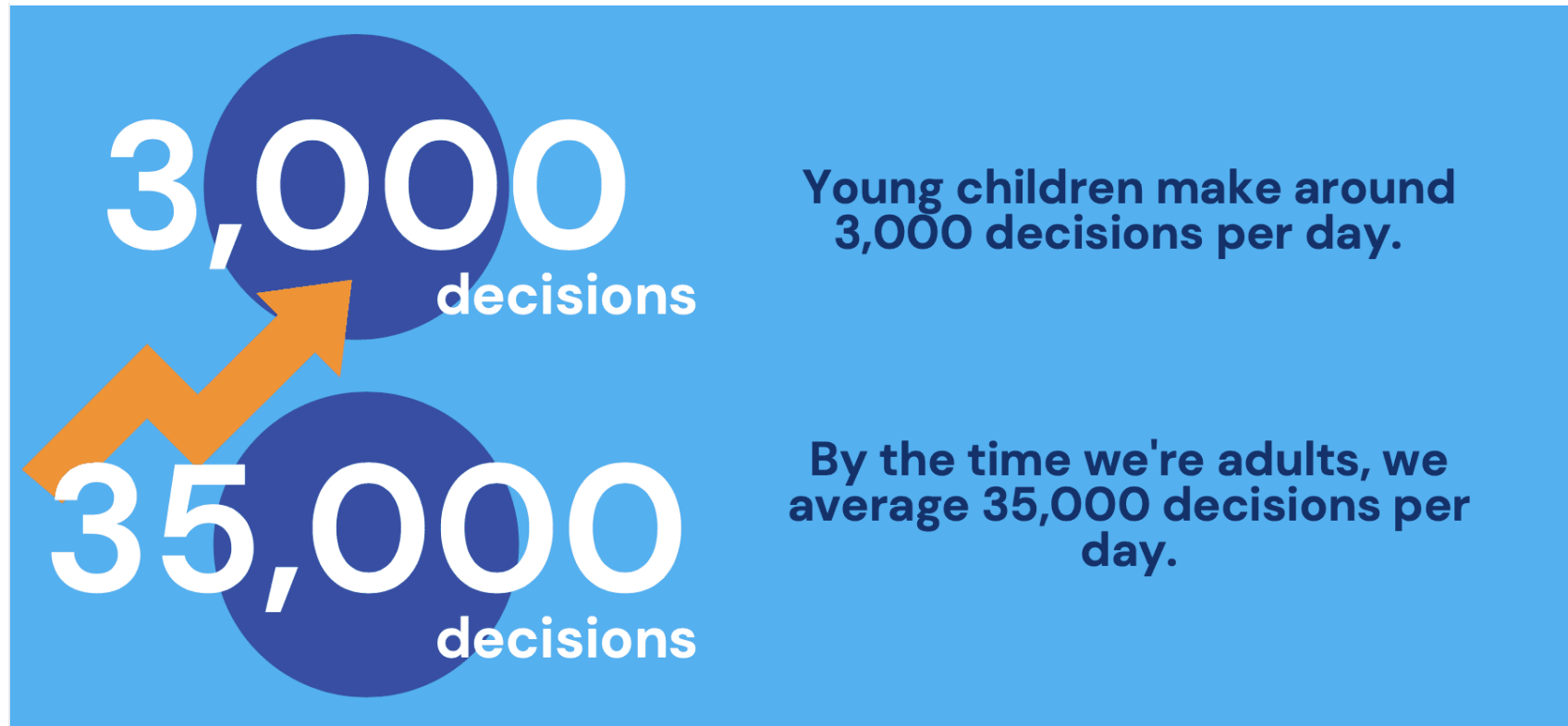
We are
expected to
behave
rationally!



Why did we fail to make the right choice?



We need make too many decisions per day!







Decision fatigue!

That's why husbands/wives are crazy when their husbands/wives ask what to cook today?

Choice overload!



Too much information!

	 2021 Genesis GV80 2.5T Standard SUV Change vehicle See More Pricing	 2021 Kia K5 LXS Sedan Change vehicle See More Pricing	 2021 MAZDA CX-30 Premium SUV Change vehicle See More Pricing	 2021 Audi Q8 55 TFSI Premium Plus SUV Change vehicle See More Pricing
Starting Price	\$ 49,925	\$ 25,455	\$ 31,050	\$ 73,145
KBB Expert Rating	★★★★☆ 4.7 Read review	★★★★☆ 4.7 Read review	★★★★☆ 4.7 Read review	★★★★☆ 4.7 Read review
Consumer Rating	★★★★★ 5.0 See reviews	★★★★★ 5.0 See reviews	★★★★★ 5.0 See reviews	★★★★★ 5.0 See reviews
Fuel Economy	City 21/Hwy 25/Comb 23 MPG	City 27/Hwy 37/Comb 31 MPG	City 24/Hwy 31/Comb 26 MPG	City 18/Hwy 23/Comb 20 MPG
Safety Rating	N/A	N/A	★★★★★ 5.0	★★★★★ 5.0
Seating Capacity	5	5	5	5
Basic Warranty	5 years or 60000 miles	5 years or 60000 miles	3 years or 36000 miles	4 years or 50000 miles
Horsepower	300 @ 5800 RPM	180 @ 5500 RPM	186 @ 6000 RPM	335 HP
Engine	4-Cyl, Turbo, 2.5 Liter	4-Cyl, Turbocharged, 1.6 Liter	4-Cyl, SKYACTIV-G, 2.5 Liter	V6, Turbo, 3.0 Liter
Drivetrain	RWD	FWD	AWD	AWD

Market sentiments!

This is random event that caused a drop in the price! What could have

Bitcoin price (BTC)



Elon Musk
@elonmusk



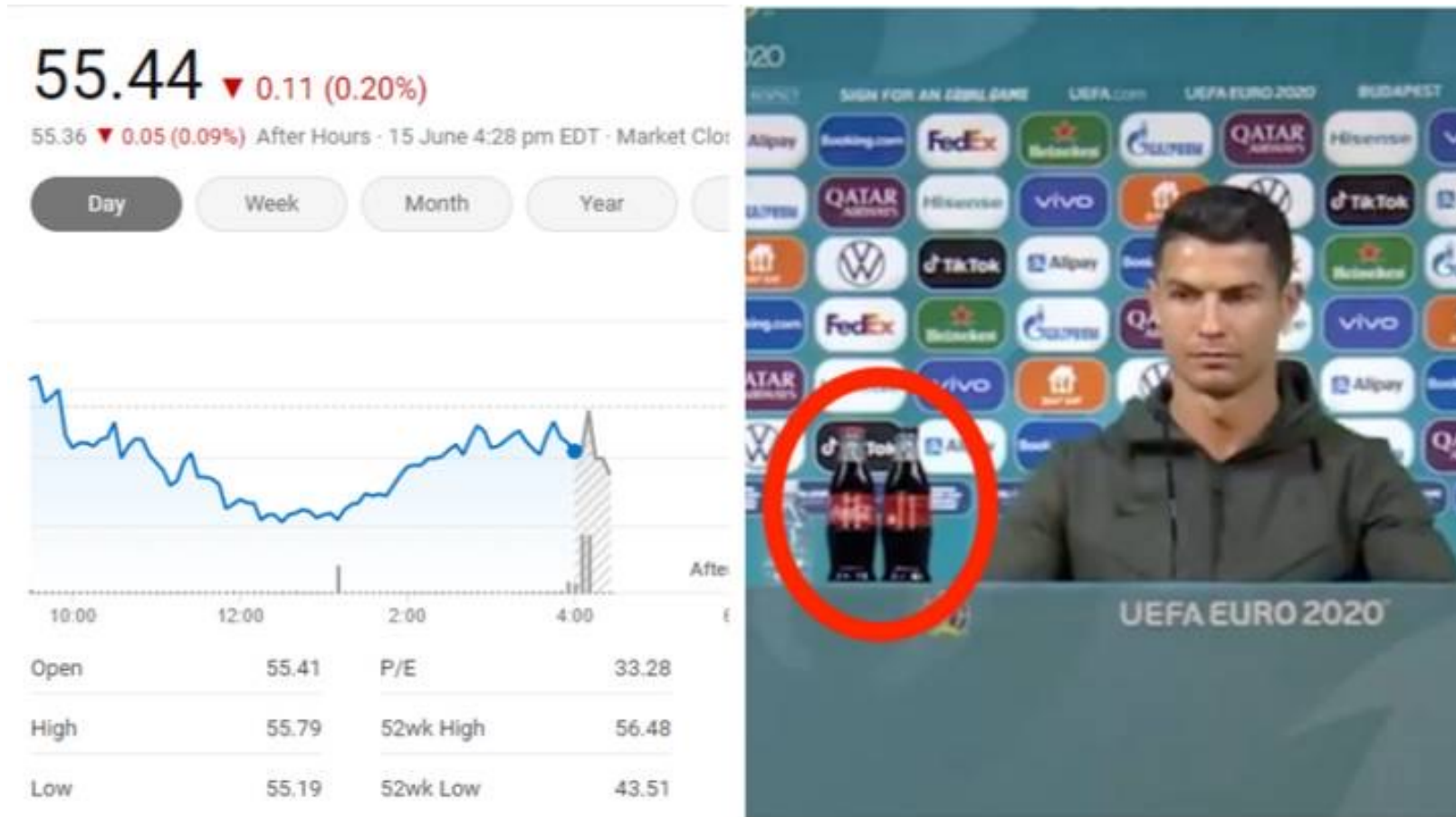
Tesla & Bitcoin

Bitcoin. We are concerned about rapidly increasing use of fossil fuels for Bitcoin mining and transactions, especially coal, which has the worst emissions of any fuel.

Cryptocurrency is a good idea on many levels and we believe it has a promising future, but this cannot come at great cost to the environment.

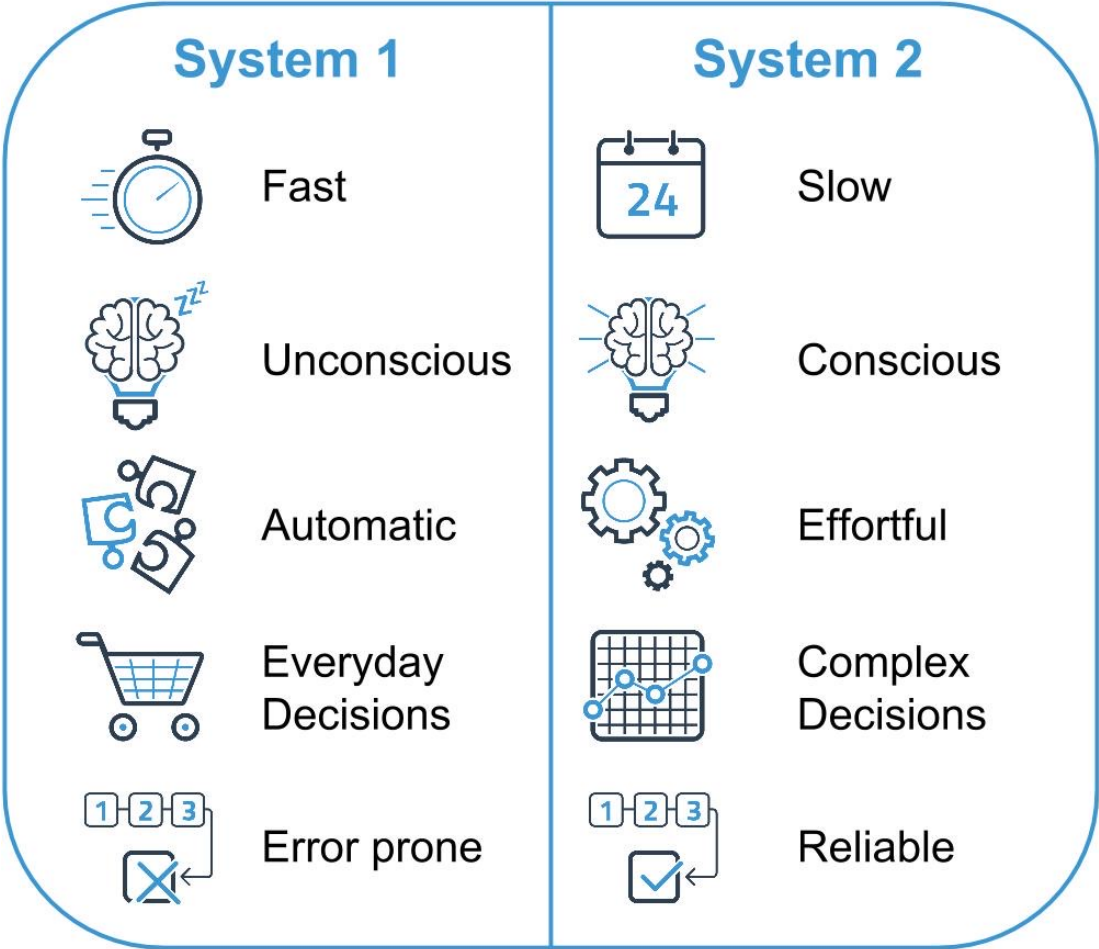
Tesla will not be selling any Bitcoin and we intend to use it for transactions as soon as mining transitions to more sustainable energy. We are also looking at other cryptocurrencies that use <1% of Bitcoin's energy/transaction.

Coke vs. Ronaldo!



His preference should not affect your preference!

Two ways of thinking!



Habits != Goal oriented behavior



Brushing



Cycling to work



Making coffee

You do them everyday, without any great deal

These things happens unconsciously without any great effort
(system 1)

System 1 is prone to make errors!

- We might eat unhealthy food. (strong preference)
- Fail to do exercise or hit gym. (Active choice)
- Buy products that are not environmentally friendly. (Temporal discounting)
- May not save for our retirement or fail to invest. (Temporal discounting)
- Swayed by group decisions, which is not right. (Groupthink)
- Use shortcuts to arrive at a sub-optimal solution (we saw that earlier - car buying).
- Sticking to our old habits/ old products (that are not good) because we are lazy (status quo bias)

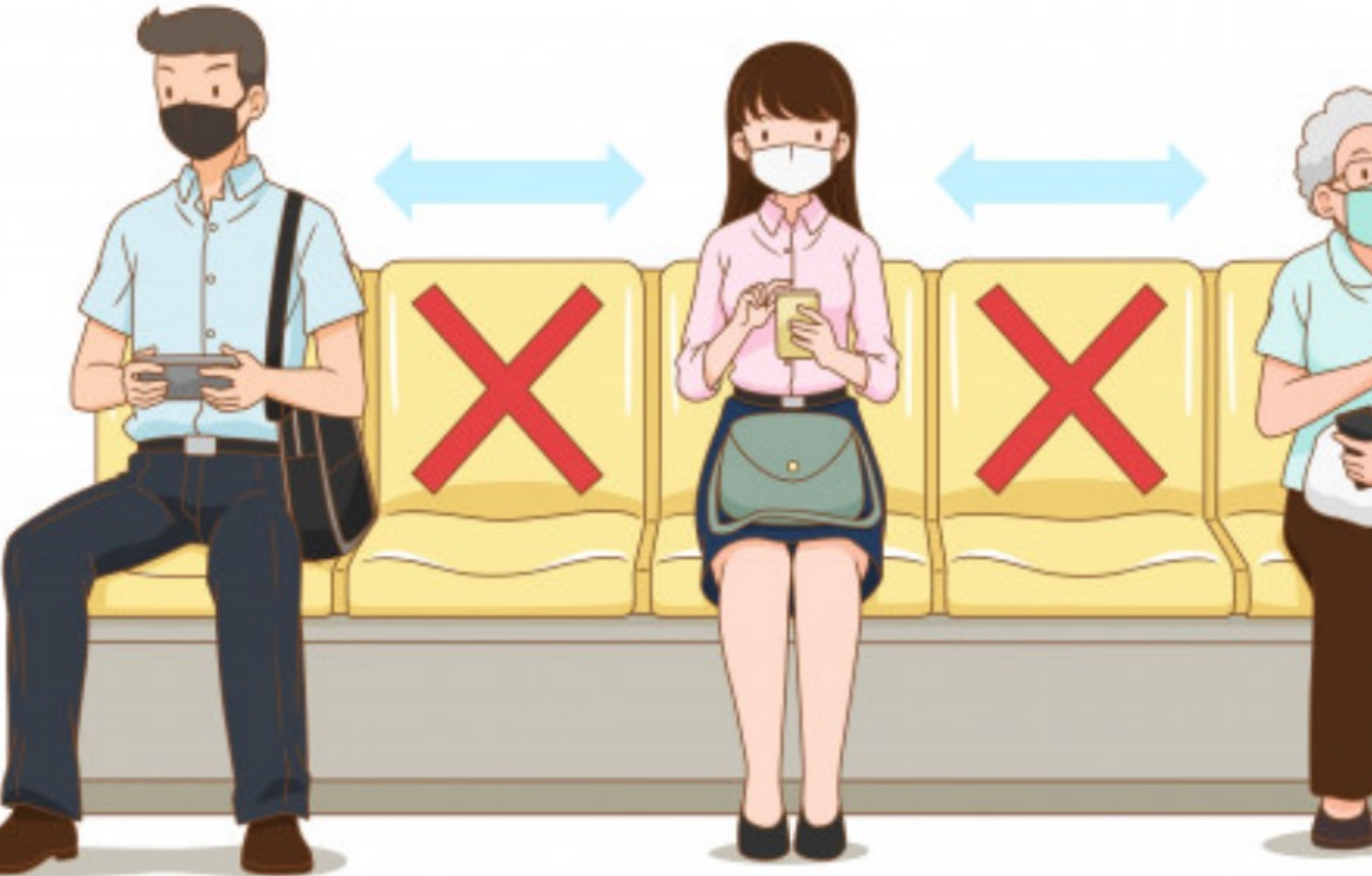
But System 1 thinking is not always bad!



vs.



Gaze heuristics



Solution! Use NUDGES.

- Use the heuristics applied by the consumers to help them to make better choices or pursue a good course of action.
- Why we need them, because just providing information will not change peoples' behavior.

Famous examples

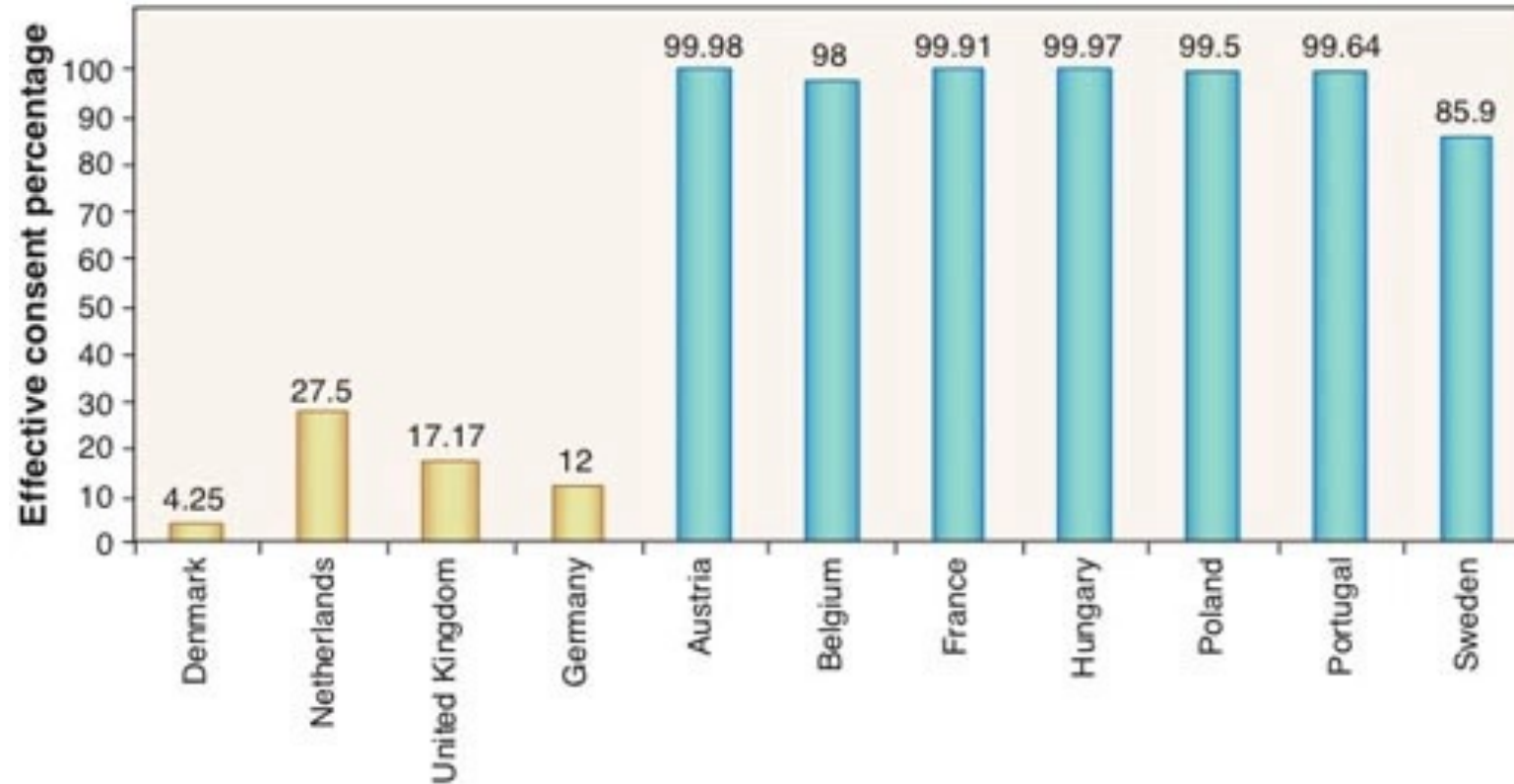


Some nudges are not good!

Nudging and choice architecture tools



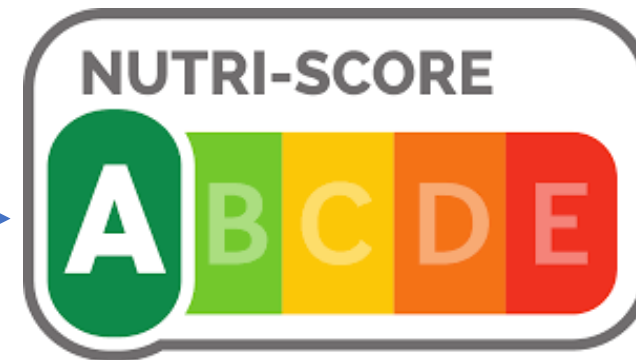
Defaults



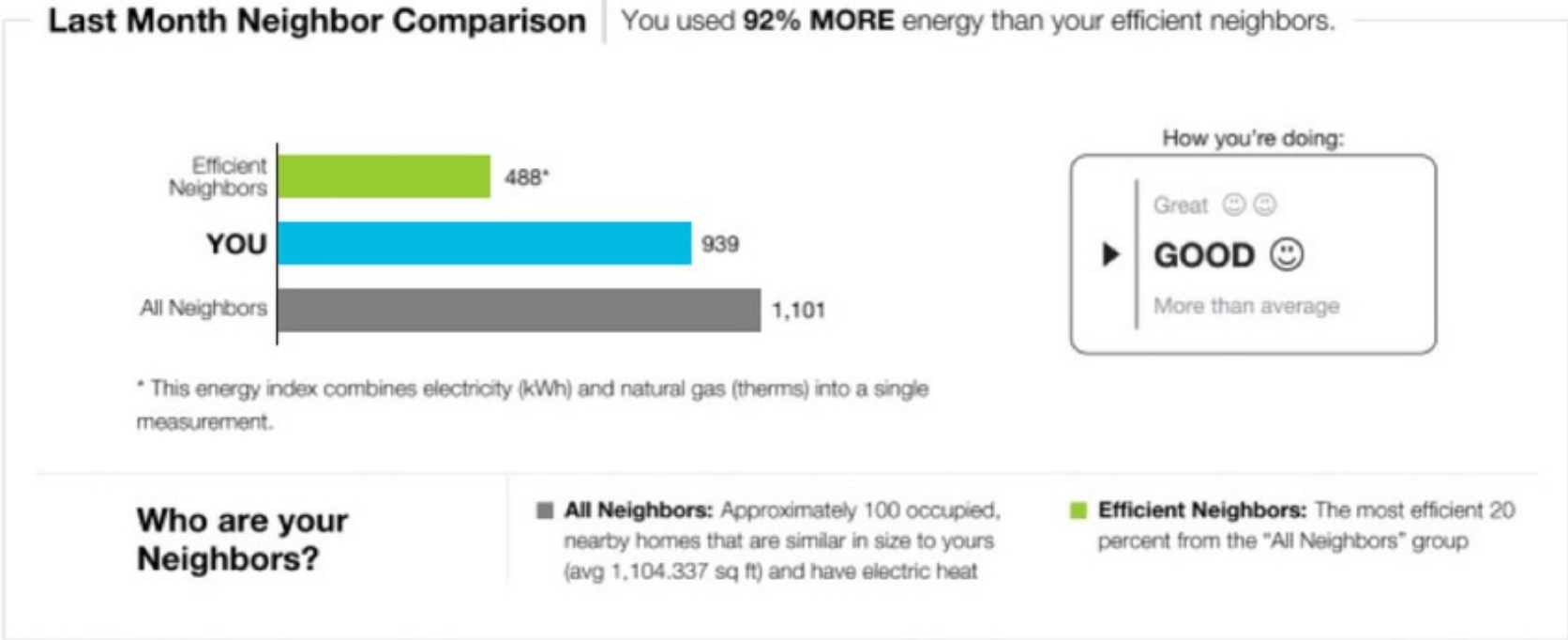
Effective consent rates, by country. Explicit consent (opt-in, gold) and presumed consent (opt-out, blue).

Simplification

Nutrition Facts	
Serving Size 2 CUPS (30g)	
Servings per Container VARIED	
Amount per Serving	
Calories 150	Calories from Fat 70
% Daily Value*	
Total Fat 7g	11%
Saturated Fat 1.5g	6%
Cholesterol 0mg	0%
Sodium 120mg	5%
Total Carbohydrate 20g	7%
Dietary Fiber 4g	15%
Sugars 9g	
Protein 1g	
Vitamin A 0% ● Vitamin C 0%	
Calcium A 0% ● Iron 2%	
* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs:	
	Calories 2,000 2,500
Total Fat	Less than 65g 80g
Sat Fat	Less than 20g 25g
Cholesterol	Less than 300mg 300mg
Sodium	Less than 2,400mg 2,400mg
Total Carbohydrate	300g 375g
Dietary Fiber	25g 30g
Calories per gram:	
Fat 9 ● Carbohydrate 4 ● Protein 4	



Social norms



Increase ease and convenience



Order of presentation of food did influence participants food choice! But not in the long term though.

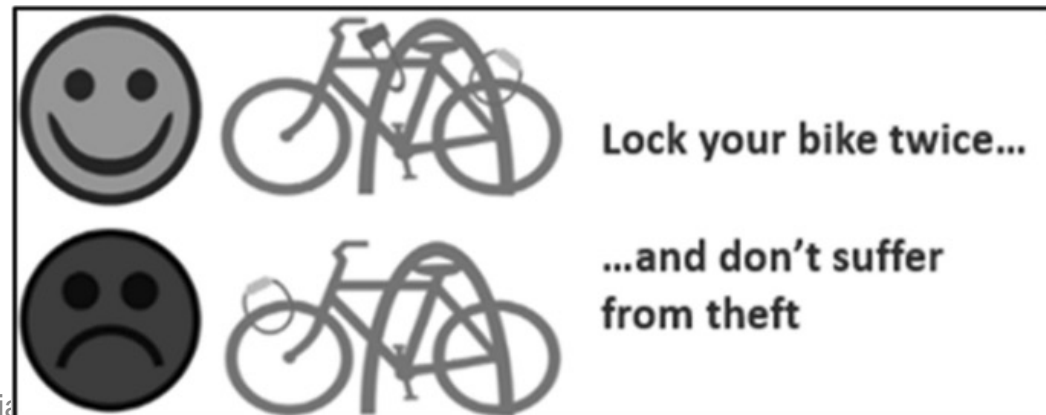
Balachandar Kaliappan M.Sc (TUM) | Scientific Staff |
Department of Marketing

Disclosure

- - Disclosing the full cost of the policy, credit cards, or environmental costs.



Warnings, graphics (not always work)





Pre-commitment strategies

- Informing your friends about your goals.
- Committing yourself to a work or presentation.
- Signing up for a retirement plan at an early stage of your career.
- Posting your plan on social media.

Reminders



<i>Control Condition</i>	<i>Date Plan Condition</i>	<i>Time Plan Condition</i>																														
<p data-bbox="369 606 879 671">[Company Name] IS HOLDING A FREE FLU SHOT CLINIC.</p> <p data-bbox="369 792 879 849">Flu shots will be available on site at the [location of relevant free flu shot clinic] at the following times:</p> <table data-bbox="369 871 879 999"> <tr> <td>Monday, October 26th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Wednesday, October 28th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Friday, October 30th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Tuesday, November 3rd</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Thursday, November 5th</td> <td>7:00 am – 3:30 pm</td> </tr> </table>	Monday, October 26th	7:00 am – 3:30 pm	Wednesday, October 28th	7:00 am – 3:30 pm	Friday, October 30th	7:00 am – 3:30 pm	Tuesday, November 3rd	7:00 am – 3:30 pm	Thursday, November 5th	7:00 am – 3:30 pm	<p data-bbox="1006 606 1516 671">[Company Name] IS HOLDING A FREE FLU SHOT CLINIC.</p> <p data-bbox="1006 678 1541 756"> Many people find it helpful to make a plan for getting their shot. You can write yours here:</p> <p data-bbox="1006 778 1516 828"> <input type="text"/> , <input type="text"/> <input type="text"/> </p> <p data-bbox="1006 835 1516 863">(day of the week) (month) (day)</p> <p data-bbox="1006 871 1516 928">Flu shots will be available on site at the [location of relevant free flu shot clinic] at the following times:</p> <table data-bbox="1006 949 1516 1078"> <tr> <td>Monday, October 26th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Wednesday, October 28th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Friday, October 30th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Tuesday, November 3rd</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Thursday, November 5th</td> <td>7:00 am – 3:30 pm</td> </tr> </table>	Monday, October 26th	7:00 am – 3:30 pm	Wednesday, October 28th	7:00 am – 3:30 pm	Friday, October 30th	7:00 am – 3:30 pm	Tuesday, November 3rd	7:00 am – 3:30 pm	Thursday, November 5th	7:00 am – 3:30 pm	<p data-bbox="1643 606 2153 671">[Company Name] IS HOLDING A FREE FLU SHOT CLINIC.</p> <p data-bbox="1643 678 2178 756"> Many people find it helpful to make a plan for getting their shot. You can write yours here:</p> <p data-bbox="1643 778 2178 828"> <input type="text"/> , <input type="text"/> <input type="text"/> at <input type="text"/> </p> <p data-bbox="1643 835 2178 863">(day of the week) (month) (day) (time)</p> <p data-bbox="1643 871 2178 928">Flu shots will be available on site at the [location of relevant free flu shot clinic] at the following times:</p> <table data-bbox="1643 949 2178 1078"> <tr> <td>Monday, October 26th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Wednesday, October 28th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Friday, October 30th</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Tuesday, November 3rd</td> <td>7:00 am – 3:30 pm</td> </tr> <tr> <td>Thursday, November 5th</td> <td>7:00 am – 3:30 pm</td> </tr> </table>	Monday, October 26th	7:00 am – 3:30 pm	Wednesday, October 28th	7:00 am – 3:30 pm	Friday, October 30th	7:00 am – 3:30 pm	Tuesday, November 3rd	7:00 am – 3:30 pm	Thursday, November 5th	7:00 am – 3:30 pm
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The location, dates, and times of the influenza vaccination clinics were personalized in each mailer

Implementation intentions and informing consequences

- Are you not voting today?
- Do you plan to vaccinate your child?
- Are you on a diet?
- Cost of your action!
- Explicitly saying how electricity you consumed last month.
- How much spent on restaurant last month.

Choice architecture technique

	CAR A	CAR B
Price	Rs. 6,00,000	Rs. 7,25,000
Mileage	23 kmpl	26 kmpl
Fuel cost per year	Rs. 65,000	Rs. 50,000
Total cost/ 10 years	Rs. 12,50,000	Rs. 12,25,000

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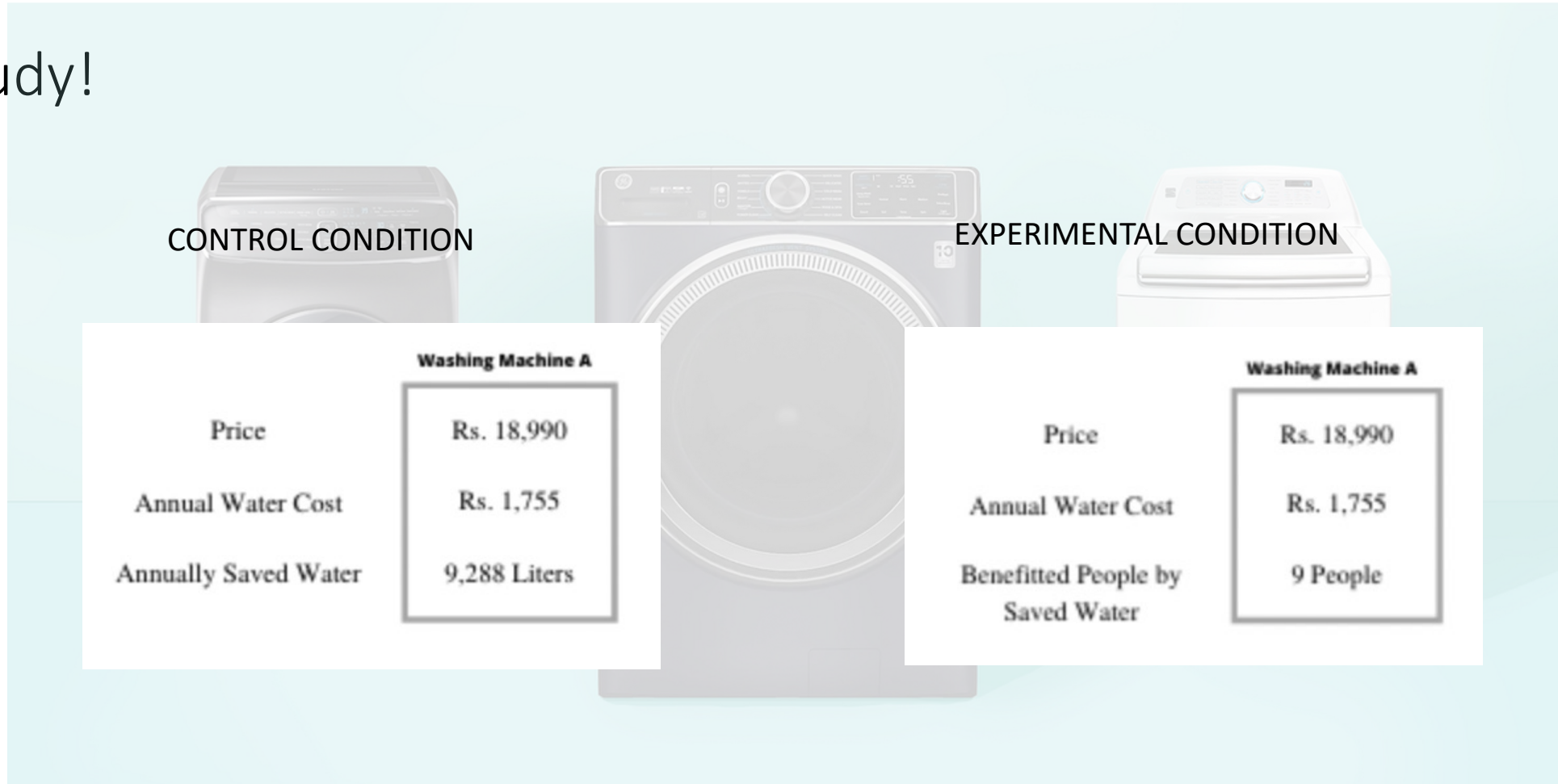
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Our study!



Result

