Consumer Behavior

Key Terms: learning, classical conditioning, instrumental conditioning, reinforcement, stimulus generalization, stimulus discrimination, brand loyalty, motives, unconscious motives, buyer decision process, information search, perception, subliminal perception, self-image, perceived risk, attitude, cognitive dissonance, post-purchase (cognitive) dissonance, buyer's remorse, purchase decision process, problem recognition, information search, evaluative criteria, alternative evaluation, consideration set, reference group, beliefs, attitude change, opinion leader, influencer, KOL, word-of-mouth advertising, buzz marketing, Bzz Agent, family, social class, culture, subculture, innovators, compatibility, complexity, divisibility, communicability, relative advantage, and adoption process, homo economicus, behavioral economics, cognitive bias, confirmation bias, rational choice, ultimatum game, (price) shrouding, cognitive reframing.

Consumer Behavior- The relatively young discipline of marketing has a great deal to learn from other fields such as psychology, sociology, anthropology, economics, etc. -- especially when it comes to consumer motivation and behavior. One thing scholars are noticing is the convergence of disciplines. The findings from behavioral economics are especially useful to understanding consumer behavior.

A. Contributions of Psychology to Consumer Behavior

Learning—Two important learning theories are **classical conditioning** (Pavlov) and instrumental conditioning (Skinner). Classical conditioning focuses on contiguity (association) and repetition. Pavlov taught dogs to associate the meat and the bell by pairing the two through numerous trials. Eventually, the dog salivated to the bell without the meat. Advertising can get you to associate a soft drink with good times by showing you numerous ads pairing the drink with young people having fun. Suppose a company wants you to believe that its tissues are soft. Its ads might show the tissues together with clouds, piles of cotton, and/or babies. Question: Why are cigarettes associated with being macho and mature? If the nebs and nerds on TV and in thatmovies were always shown as smokers, would this have any effect on smoking?

Instrumental conditioning focuses on reinforcement. If you want a behavior to reoccur, you reward it. Note that the seal is given a sardine every time he does a trick well. A good product is the best reinforcer. However, premiums (gifts for buying) are also good ways to reinforce a behavior. Marketers might give you a gift for trying a new product. The problem with always rewarding a particular behavior is that you get used to the reward. You want to gradually "fade out" the reward. If you purchase a brand several times and are satisfied each time, you may become **brand loyal**. Brand loyalty is what happens if you have a favorable attitude toward a particular brand and buy that brand all the time.

Stimulus Generalization vs. Stimulus Discrimination: Suppose a dog has been conditioned to salivate at the sound of a bell. The dog is very hungry and a car siren goes off and the dog salivates. This is an example of stimulus generalization. It is more likely to occur when the drive (hunger) is strong. If a dog only salivates at the sound of a particular bell, this is known as stimulus discrimination. There are guard dogs that will only attack if they hear a particular word. No other word will get them to react. That would be an example of stimulus discrimination. Some guard dogs are trained not to eat food from a stranger unless they are first told a particular word. This is done so that burglars will not be able to feed them poisoned meat. A marketer may want you to generalize by using a popular brand name on several different products. This is known as brand extensions. Notice how a successful brand name — e.g., Tylenol — is used on so many different products. They are doing this with successful television programs. There are many television shows with the name Survivor, Law and Order, and CSI. Is there a CSI -Brooklyn yet? :) A successful movie leads to how many sequels? How many Rocky films were made? One day there may be a Rocky 15.

The slot machine, according to a fascinating article which appeared in *The New York Times Magazine* ("How the Slot Machine was Remade, and how it's Remaking America" by Gary Rivlin, May 9, 2004), is "brilliantly designed from a behavioral psychology perspective." It accounts for 70% of gambling revenues according to this article. The target market for slot machines is women over 55-years of age with time and money. Did you know that the machines are purposely designed to pay out more frequently but with smaller amounts? Why? This helps condition the player. In psychology this is known as intermittent (sporadic reinforcement) reinforcement, i.e., infrequent random reinforcement. You win sometimes --not always-- but enough to keep you hooked. Intermittent reinforcement is a way of making a behavior more permanent. If a parent always rewards a child for getting good grades, the child expects the reward and it loses its ability to motivate (always rewarding is known as continuous reinforcement). Never rewarding the child or showing that you care causes the child to stop trying.

Rewarding a child for good grades randomly is more likely to produce a permanent behavior. Psychologists note that continuous reinforcement produces faster learning but when the reward stops it also results in fast extinction (i.e., the behavior stops). If you were to play a slot machine all day and not win anything, you might lose interest in gambling permanently. The problem is that you will win on a slot machine enough times to get you hooked. The lights and sounds are also used to get one hooked. The slot machines are rigged so that the two cherries in a row show up very often. This convinces the suckers that they are getting closer to the big win (three cherries). Did you know that slot machines are referred to as the "crack cocaine of gambling."

Unconscious motives and motivation research — During the 1950's, many marketers believed that the unconscious played a major role in consumer behavior. An entire field emerged called motivation research. Techniques such as depth interviewing, focus groups, and projective techniques were supposed to uncover what is going on in the consumer's unconscious (or subconscious) when s/he purchases a product. The technique was found to lack reliability (i.e., there was a lack of consistency; different researchers would get different results) and today very few marketers believe that the unconscious plays a significant role in consumer behavior. The Rorschach is an example of a projective technique that is popular in psychology. A projective technique that might be used in marketing is sentence completion. For example, in a study of furs, we might have men and women complete the following sentence: "Women who wear mink coats are ______________." Word associations, another example of a projective technique, are also used to penetrate the consumer's subconscious mind.

Perception — We use our senses (sight, smell, taste, touch, hearing) to interpret information and give meaning to what objects around us. Perception is the process by which we organize and select information received through the senses and give meaning to the objects in the world around us. This is done by our brain. We do not always do this correctly. How do you determine whether furniture is durable? Suppose a marketer finds out that you lift it and if it is heavy, you conclude that it is durable. It is quite possible that weight has nothing to do with durability of furniture, but this is your perception. One reason that quiet vacuum cleaners have not been successful is that people assume that the louder the vacuum cleaner, the stronger and better it is. Consumers think a quiet vacuum cleaner has very little suction power. It is no secret that almost all sodas are made out of the same basic ingredients. Why does orange soda seem so different from say, cherry soda? The artificial color and artificial fragrance are critical. This may be a reason that clear colas were not successful. Color is very important in perception. It is important for franks to be red--this is accomplished via nitrates. Colors have symbolic meaning too. Green is often used to suggest freshness and nature. Red is a hot color and blue is cold.

How do you decide whether a store is cheap? Studies indicate that using prices that end in .99 and .95 ("odd pricing') help communicate this message. Many of us love the 99-cent stores for this reason. Do you think that a very exclusive, upscale dress shop prices dresses at $999.99? Somehow I doubt this. I wonder what you would think if tuition at this college was $199.99 per credit.

Getting back to perception, there is something called **selective perception**. The world is very complex and full of information you cannot respond to every single stimulus. Selective perception is the process where you filter the information so that only some of it is noticed, understood, and remembered. This is why two people can watch the same television commercial and notice different things. For example, Jane and Bill are watching television and see a commercial for vacationing in Las Vegas. Jane does not care for gambling and notices all the nice restaurants and shows in Las Vegas; Bill missed that completely but did notice that there are many casinos in Las Vegas.

Image: Marketers believe that image is very important. Some images that have been studied include: store image (think of the images of Walmart, Macys, and Bloomingdales), brand image (Marlboro vs. Winston), corporate image (IBM vs. Apple), political image, and self-image. Images can be affected by price, advertising, packaging, etc. If you want people to see your store as a low-price store, you want cheap fixtures, fliers when you walk in, prices on the merchandise that end in 99, etc. What should you do if you want people to see your restaurant as an upscale, elite establishment?

People have a **self-image**. You may see yourself as being very smart and it may not be true. IQ tests attempt to measure the real self; self-image is the way you see yourself. People tend to buy products that fit their self-image. If you think of yourself as a sexy woman, what brand of perfume will you wear? If you see yourself as a sexy, flashy, kind of guy, what kind of car will you drive? If, on the other hand, you see yourself as thrifty, simple, and frugal, what kind of car do you drive? Self-image affects such things as the wine you drink, the car you drive, the fragrance you use, the publications you read, etc. Donald Trump sees himself as a stable genius. What magazines and journals does he read?

Subliminal Perception — The idea that you can influence consumer behavior by flashing subliminal messages is something that started in the early 1950's. A "researcher" claimed that he subliminally flashed two messages about drinking Coke and eating popcorn during the showing of the film *Picnic* at a movie theater in New Jersey. Supposedly, popcorn and Coke sales rose significantly. There is no evidence that the study ever took place and no one, to my knowledge, has been able to replicate it. It is much ado about nothing. A supraliminal ad, i.e., a regular ad that you can see clearly works much better than subliminals.

Perceived Risk — Some products are perceived as high risk (e.g., sports car, house) and some are seen as low risk (e.g., flour, a deck of playing cards). In general, two factors affect the perceived risk of a product: uncertainty and consequences. If all brands are seen as being alike (what economists call a homogeneous product), there is little uncertainty and you would not have to worry too much. This is the case with most commodities. The second factor is consequences: the consequences of a bad choice are not the same for all products. The consequences of buying a sports car that is a lemon are much more significant than the consequences of purchasing a pencil that does not work well. In fact, there are six consequences that a marketer should study:

Financial risk – sometimes consumers are concerned about losing money if a product does not work well.

Performance risk – you might be worried that the product does not work. Do you worry that salt will not work?

Time risk – You might be concerned that one product may require more time to put together or to get it to work right than another product. Some computers that I purchased took two full days to get them to work properly.

Physical risk – Some products can actually harm you. Do you worry about physical risk from radiation emitted by cellular phones and microwave ovens?

Psychological risk – Sometimes people are concerned that a product may not fit their self-image. This is mainly true for clothing. Did you ever buy a tie or skirt and stop wearing it because it just wasn't you? How many people are upset about a tattoo that they got when they were younger, and now feel is inappropriate for them?

Social risk – Did you ever worry that the product you bought might cause others to laugh at you? Imagine yourself wearing that new tie, the new earrings, or a new bathing suit – and everyone is laughing at you. When you buy a painting for your living room or some exotic furniture you might be afraid of the social risk. There may be social risk when you get a visible tattoo. Imagine getting a tattoo on your neck because you think it is cool and then you find out that all your friends think you are disturbed.

A marketer's job is to find out which types of risk are present and to reduce them for you. For instance, warranties are one way of reducing the financial risk. A celebrity endorsement might reduce the social risk.

Consumers reduce their perceived risk by buying major, well-known brands and/or by engaging in word-of mouth conversations with others before buying to reduce their risk. Alternatively, searching for information on the Web or in publications is a way of reducing risk. **Brand loyalty** is another way of reducing perceived risk. Stick to one brand, a brand that you have tried previously, and you might feel safe.

There is a new kind of risk when purchasing products on the Internet, **privacy risk**. Consumers are afraid that buying products from the wrong website can lead to loss of privacy (people finding out personal things about you) or even identity theft. This is why many websites have assurances that the information is kept confidential and that it is hacker safe.

Attitudes – An attitude is a *learned* predisposition or a tendency to consistently respond in a favorable or unfavorable way towards an object, person, idea, or situation. Thus, you may have a negative attitude towards smoking and a positive attitude towards Brooklyn College. Attitudes have three components: the cognitive deals with beliefs and knowledge; the affective deals with emotion, i.e., likes and dislikes; and the conative, which is more behavioral, deals with actions, motives, and intent. The teacher evaluation scale completed by students every semester measures your attitude towards a particular instructor (it is an attitude scale). It includes items dealing with the professor's knowledge of the subject matter, whether s/he is fair, and whether you would recommend him or her. Attitudes are organized and have consistency. Consumers have beliefs about products and services. For instance, you might believe that Ivory Soap is very mild. Brand **Beliefs** are perceptions or of how a brand or product performs on various attributes**.** You have beliefs regarding how your professor performs on attributes such as teaching ability, fairness of grading, friendliness, general intelligence, expertise in subject, etc.

Brand Loyalty - You are brand loyal when you have a favorable attitude toward a particular product and keep purchasing that brand over a long period of time. If, for example, you really like Marlboro cigarettes and have been smoking them for 20 years (hopefully you do not have lung cancer from them), we would say that you are brand loyal.

Cognitive dissonance theory describes what happens when there is an inconsistency among attitudes or an attitude and a behavior. There is a resulting tension and people try to reduce this tension. One type of dissonance is **post-purchase dissonance**. After making a purchase, a consumer is nervous about the brand choice especially if a great deal of effort and/or money is involved. The consumer will try to reassure herself that she made the right choice. She might pay more attention to the ads of the selected brand than brands she did not buy after the purchase as a means of reassuring herself that she made a good choice. Sometimes, post-purchase dissonance is referred to as **buyer's remorse**. You will find this term used quite a bit on the Internet. For instance, I have noticed that several websites used in the real estate business warn agents that home buyers will often get very nervous after agreeing to buy a house and worry about the decision. There are many risks associated with the purchase of a house; it is not only financial. A buyer may be concerned about the psychological and social risk. A new home means living in a new neighborhood--new friends, new schools, etc. It is not surprising that home buyers will be afraid that they made a wrong choice.

> This is from Reid Trautz's website aimed at lawyers:
>
> **"Buyer's remorse is not limited to the purchases of consumer electronics, homes and automobiles. Many clients also experience second-thoughts about the lawyer or law firm they just hired. They may never voice these thoughts to you, but there is something lawyers can do: To reassure your new clients that they have made the right choice, immediately show a little extra client care: Personally call them within 24 hours to let them know you have commenced work on their behalf. Tactfully let them know this is a courtesy call at no charge." (Source: Reid Trautz, advisor to lawyers, http://reidtrautz.typepad.com/reidmyblog/2005/week8/)**

Choice-Supportive Bias

Choice-supportive bias is related to cognitive dissonance and is a cognitive bias. It is the tendency for a people making a decision to remember their choice as being better than it actually was simply because they made it. Basically, we overrate options we selected and underrate options that were rejected. Post-purchase rationalization is also a type of choice-supportive bias. One who does not want to fall into the trap of choice-supportive bias must constantly check and reevaluate to see whether a decision was correct; one should not defend flawed decisions. After all, everyone makes mistakes.

Purchase Decision Process -- The consumer goes through stages when making a decision about which product to buy.

Stage 1 is **Problem Recognition**. Here is where the consumer perceives a need. This happens when you recognize a difference --one that is large enough to get you to act-- between the ideal state and the actual state. A good advertising campaign may make one aware of a problem. The entire anti-perspirant/deodorant industry was built on advertising that has convinced all of us that perspiring is a problem. Is it? Does every culture care about sweat?

Stage 2 is **Information Search**. There is a great deal of research on studying when consumers will decide to do extensive searches. Clearly, if you are going to purchase salt in a supermarket, you are not going to spend days doing research. On the other hand, if you decide to buy a car, you might spend months on information search. Why? Searches may take the form of an internal search -- you search your memory. Previous experiences will play a major role in this kind of search. Another kind of search is known as external search. You might turn to friends and relatives (personal sources), magazines that rate products such as *Consumer Reports* (public sources), and/or salespeople in stores, ads, company websites, or information on product labels (marketer-dominated sources).

Stage 3 is **Alternative Evaluation** -- When you buy a product, you are actually purchasing a bundle of attributes. Think of the different attributes you must consider when purchasing a car: mileage, power, price, prestige, style, roominess/comfort, etc. These factors are called **evaluative criteria**. The evaluative criteria represent both objective attributes of a brand or product (e.g., price, length of warranty) as well as attributes that are subjective (e.g., reputation, stylishness, "coolness"). A company that understands marketing will do research to determine which are the important attributes in choosing a product. The goal is to promote attributes that are important to your target market and which your brand excels in.

Suppose ABC College finds that the three most important criteria for choosing a college are college reputation, tuition cost, and course offerings. They discover that the competition has a reputation that is just as good and offers the same number of programs and courses. However, ABC College has a much lower tuition than the competition. If this is the case, the ads for ABC College should stress the lower tuition. An organization should promote evaluative criteria that are *important* to its target market; however, the organization has to select evaluative criteria on which it rates significantly better than the competition, i.e., performs better. This technique is sometimes referred to as Importance/Performance Analysis.

It is interesting that several resources are now available to people looking to select the best college for the money and one that would accept them. Several resources that are popular include MeritMore (free), Moore College Data (not free), College Tables (free), and College Kickstart (not free).

To the ladies in the class: What are the evaluative criteria you use in selecting a soul mate? I would guess a sense of humor, good looks, ambition, wealth, intelligence, and a prestigious occupation. Did I miss anything? Once you decide on the evaluative criteria in your mind, then you decide which people are possibilities. In marketing, we refer to the brands you consider as acceptable as the *consideration set*. Of course, there are brands that you will never consider and they are sometimes called the *inept set*. Brands you never heard of are called the *inert set*.

Stage 4 is **Purchase Decision** -- Two key decisions you have to make is when to buy and where to buy. Nowadays, many manufacturers use multiple channels. Supposed you decide to purchase a HP Printer. You can buy it at Staples (retailer) or online from Amazon or possibility directly from HP on the company website. In a later chapter, we will discuss why many manufacturers are using several channels of distribution to sell their products. A key reason is to reach their target market effectively. Many consumers do not want to purchase products from stores since they do not have the time to go shopping. It is much more convenient for them to buy products online. Also, a company may be trying to reach several different target markets.

Stage 5 is **Postpurchase Behavior.** Customer satisfaction is what the marketing concept is all about. One way we measure satisfaction is by determining actual performance of a product with expected performance. The value of (Actual Performance - Expected Performance) is a good measure of satisfaction. A product that performs better than expectations will produce a great deal of customer satisfaction. Satisfied customers will tell others about their positive experiences. What happens if a product performs below expectations? You then have a dissatisfied customer. Studies show that an unhappy customer will complain to many people If the unhappy customer has access to the Web, s/he may complain to thousands of people. I have noticed that dissatisfied students will use the ratemyprofessor website to complain about professors. A large number of students use that website to acquire information about professors before registering for a course (see Stage 2-- information search).

Even a company that makes good products will occasionally have some that do not work well. A smart company is concerned about dissatisfied customers and will make sure that they have a complaint department that honestly tries to resolve complaints. By the way, if you take care of an unhappy customer by resolving her complaint, you will now have a very loyal customer who will tell a large number of people how nice your company is. The goal is to resolve complaints so that you retain your customers. This is why every company should have toll-free numbers so that unhappy customers know whom to call. Firms should be happy to make exchanges or give refunds. The employees working in complaint departments (nowadays they call them customer satisfaction departments) need special training on how to convert an unhappy customer into a satisfied one. I once had a problem with a product and the employee said: "Mr. Friedman, we will not be happy until you are happy." Guess what? I have been buying from this company for years and so do my children. By replacing a $45 item, they have a loyal customer. The cost of an unhappy customer is too high. Moreover, marketing is about being ethical; it is the right thing to do to resolve complaints.

Attitude Change -- Marketers use several approaches in order to try to change the attitudes of consumers. As was noted above, the attributes of a product play an

important role in the consumer decision-making process.
Suppose a toothpaste manufacturer -- let's call its toothpaste Brand Q-- finds that its target market believes that preventing gum disease is an extremely important attribute and Brand Q performs poorly on this measure. Brand Q, however, performs very well on the attributes of whitening teeth, price, and naturalness. Research shows that price is an unimportant attribute; naturalness is not used as an evaluative criterion in choosing toothpaste.
(a) The company can attempt to change the **beliefs** consumers have about how well its brand performs on a particular attribute(s). The company could use advertising to change consumer beliefs and convince the public that Brand Q actually does a very good job of preventing gum disease. Please note that **beliefs** are a perception of how good or bad a job a particular brand will do on each of the attributes. For instance, how good a job does Crest toothpaste do on the attribute of preventing cavities? The attribute of freshening breath? The attribute of whitening teeth? The attribute of keeping your gums healthy? We had this problem at Brooklyn College. Students thought that only Baruch offered a decent business program. About 15% of graduating high school students want to go to a college that has a good business program. One strategy thought up by a previous Provost was to offer a BBA (Bachelor of Business Administration) degree. When word got out that Brooklyn College offers a BBA degree as well as a B.S. in Business, Management, and Finance, beliefs about Brooklyn College changed. Brooklyn College was no longer perceived as a school that is only great for liberal arts.
(b) The company can change the importance rating of attributes. Perhaps they can convince the public (or at least the target market) that having white teeth is very important. Ads can show people with dull teeth doing poorly in social situations. Commercials might show someone a manager not getting a job promotion because her teeth are yellow.
(c) The company can create a new attribute for a product. The ads work to convince the public to use naturalness as an attribute in deciding which brand of toothpaste to buy.

Let us investigate how habits are formed and how to break them. Think of the following sequence: Cue--Routine --Reward. For example, Turn on your computer at work, eat a jelly doughnut while the computer turns on, sugar rush = reward. You have to break the loop to break the habit.

Brand loyalty is a habit; it is very difficult to change people's buying habits. Once people are set in their ways, they are unlikely to change. There is a time, however, when people are willing to make big changes and brand loyalty is not so strong. That is when they are having a baby (also when people get divorced or move). This is why marketers (the article by Duhigg is about Target) will do anything to target women in the second trimester. That is when women will purchase such products as prenatal vitamins and maternity clothing. Target assigns every one of its customers a unique code; they refer to it as the Guest ID number. This is a database of everything purchased by the customer as well as all kinds of demographic information (age, marital status, number of children, where you live, types of credit cards, estimated income, etc.). Target also purchases additional information about its customers -- ethnicity, job history, what you talk about on the Internet, magazines read, when you purchased your home, etc.

Target used predictive analytics to determine a "pregnancy prediction" score based on what people purchased. Women who are pregnant are more likely to purchase such products as unscented moisturizing lotion, hand sanitizers, scent-free soap, cotton balls, calcium supplements, etc. Products purchased are used to predict the likelihood of someone being pregnant.

B. Contributions of Sociology and Anthropology to Consumer Behavior

Reference Group – This can be a group that you identify with. Notice how many people wear Yankee or Met baseball caps. It could also be a group that you aspire to join or a group that you actually belong to. People who are members of a gang tend to dress alike and buy the same brand of beer and cigarettes. Reference group influence tends to be stronger for conspicuous products that are expressive and have meaning to people. For example, reference group influence is probably much stronger for wine, beer, tattoos, cars, hats, eyeglasses, earrings, nose rings, and hairdos than for salt, toilet paper, detergent, and canned peaches. You might avoid a product because you do not like the group that it is associated with—this would be a negative reference group. Suppose you are a young woman and you would like to become an accountant or surgeon, would you get a tattoo of a fire-breathing dragon on your neck? Why not? How about if you were interested in being a rock star?

Opinion Leader – Before seeing a film, do you ask anyone for advice? If a number of people turn to the same individual for advice, s/he may be an opinion leader. Opinion leaders have social influence over others and can influence them by suggesting what clothing to buy, which movies to see, what kind of car to purchase, etc. Some movies are "platformed" i.e., start in a few theaters to give the film a chance to build up appeal through word of mouth. The strength of **Word of mouth** has been enhanced by the Internet. **Buzz** is a term used to describe popularity and excitement that results from consumer word of mouth. An alternative to word of mouth is relying on online reviews but those may be manipulated.

Many consumers rely on online reviews of products and services. The FTC settled with Sunday Riley Skincare. The FTC found that the company made its employees write false reviews of its products. This is why the online star rating system is imperfect because you are not sure that the reviews are trustworthy. One study conducted by Pattern, an e-commerce consulting firm, found that sales could rise by 26% from a one-star increase in a review (see NYT 11/29/2019 – “The online start rating system is flawed...”).

There was an interesting article on "Buzz Marketing." According to the article, marketers "seek out the trend-setters in each community and subtly push them into talking up their brand to their friends and admirers." Word-of-mouth supposedly helped the film *The Blair Witch Project*, Harry Potter books and Razor scooters become such huge successes. Word-of-mouth spreads very quickly today because of the Web. The trick is to find the trend-setters who will spread the word about a company's product. If you want to learn more about buzz marketing, you should read Malcolm Gladwell's book, *The Tipping Point: How Little Things Can Make a Big Difference*.

An increasing number of marketers organize large numbers of hired 'trendsetters' or 'influencers' to implement what is known as 'seeding programs,' 'viral marketing,' or 'guerrilla marketing.' BzzAgent has about 60,000 volunteers in its network. They are ordinary people who volunteer to serve as agents and talk to friends about various products. Tremor, another company, has 240,00 teenagers who volunteer to spread word of mouth about a variety of products. People volunteer to be BzzAgents not for the prizes, but because they enjoy telling people what to buy, i.e., they enjoy being opinion leaders. It also gives them a chance to try new products and also makes them feel important. Many are only willing to talk about products they truly like and will not promote products they dislike. Indeed, BzzAgents are not required to push products they do not care for. BzzAgents feel that they are providing an "honest opinion" about a product since they are not really paid for this.

These companies try to choose individuals who are the most likely to be the trend spreaders and early adopters. These are people who have many friends, and like to talk.

You can go to the BzzAgent website (http://www.bzzagent.com/) if you want to become a BzzAgent and participate in word-of-mouth programs. In the company's words, "**Start Bzzing today!**"

Mark Zuckerberg once said, "People influence people. Nothing Influences people more than a recommendation from a trusted friend – the holy grail of advertising".

Procter & Gamble has a network of 600,000 mothers to promote P&G products as well as other company's products using word of mouth. The mothers enroll in Vocalpoint; the job of the Vocalpoint moms is to push products and distribute coupons. P&G finds the mothers by using banner ads on various Internet sites such as iVillage.com and also through referrals. What the moms get for doing this is free product samples and a feeling of empowerment.

Influencer— sometimes referred to as a social media personality or an internet personality is someone who has developed a reputation on social media such as YouTube, Facebook, or Instagram. These influencers might have a few million followers on social media. Their followers might listen to the advice they give to their followers on

which products to purchase. You can find a list of the top 100 social media influencer at the following website:
https://www.searchenginejournal.com/top-social-media-influencers/475776/

Key Opinion Leader (KOL) – Sometimes KOLs are confused with influencer. KOLs are true experts in a specific area (very important in healthcare) and are more credible sources than influencers. They developed their expertise by long-time experience and doing a great deal of research in an area. They might not even use social media very much.

Family Influence – There are different roles that family members play in the buying decision. Some important roles individual family members play in the buying decision are: information gatherer, influencer, decider (or decision maker), purchaser, and user. Suppose the baby has a bad cold. Who in your family does the research (information gatherer) as to which brand of cold medicine to purchase? A decision may be made not to buy any cold medicine and to have the infant drink tea with honey. Who buys the cold medicine (purchaser). We know who the user will be in this case.

A key role is the product and brand decider. Marketers want to know who makes the decision to buy the generic product and the particular brand. Who decided to buy the brand of cereal you ate today? Who decided whether you should buy hot cereal, cold cereal, or simply have eggs and toast? In a nuclear family consisting of a husband, wife, and children we tend to find the following:

The husband tends to make the decision as to which insurance to buy.
The wife is more likely to make the food and detergent decisions.
A joint (**syncratic**) decision is made for vacations, homes, and cars. Try to imagine planning on a vacation without consulting with your spouse or significant other. If I tried that, I would find myself going alone :). Try to imagine buying a house or car without having your spouse present. However, husband and wife may be interested in different things. A wife might be more concerned with the color and style of the car and the husband might care more about the horsepower. In general, women are more concerned with aesthetics than men. Sometimes, it works out that in half of all households it is the husband who made the decision, and in the other half it is the wife. We call this **autonomic**. This means that a marketer has to advertise to both men and women. This is the case with clothing (e.g., shirts and ties) for men and wine. Some shirt companies advertise men's shirts in women's magazines for this reason. Question: When a man and woman go out, who decides what film to see? [usually the man]
This may interest the women in the class. The more educated the woman, the more likely she will be involved in joint decision-making with her husband. Approximately 60% of the students in college are women. This may be why we are seeing much more joint decision-making in the US.

Social Class – This affects the kind of restaurant at which you eat. Who is more likely to eat at McDonald's or Beefsteak Charley, a successful attorney or a plumber? Social class affects the kind of publications you read (*Wall Street Journal* or *Star Magazine*), where you shop, and what you do with your leisure (go to wrestling matches or to tennis matches). A simple way of determining an individual's social class is by finding out his/her occupation and level of education completed. Marketers sometimes get an idea about your social class from your zip code. Please note that social class difference is not the same as an income difference. A plumber might make as much as a college professor (probably a lot more), yet they are of different social classes. One way of classifying social class is as follows:

Upper Upper (UU) – Elite with old wealth, e.g., a Rockefeller.
Lower Upper (LU) – Newly wealthy, e.g., very successful lawyer or doctor.
Upper Middle (UM) – Professionals, e.g., college professor, CPA. This is the social class that is well educated and career-oriented.
Lower Middle (LM) – White-collar workers, e.g., bank clerk, owner of small store. They tend to be conservative and conforming.
Upper Lower (UL) – Blue-collar workers, e.g., truck driver, sanitation worker, factory worker, coal miner, etc.
Lower Lower (LL) – Often on welfare

Culture – Remember that culture is a learned way of life. Your culture, for example, determines what is a pet and what is food. Sociologists and anthropologists study the American culture. Attitudes and beliefs associated with culture tend to change slowly, but they may change over time. This is why there are trend experts who try to predict trends. Are Americans becoming more religious? Are Americans becoming more interested in marriage and children? More or less materialistic? A cultural shift can affect your product. For instance, if our culture frowns on showing off and materialism, how do you market a super luxury car? As Americans become more concerned with ecology, how will this affect your business? The fur industry has been devastated by the concern for animal rights.

There is interesting research regarding the importance of cultural competence in the fields of medicine and psychology. One scholar makes the point that what Westerners might call major depression could be interpreted as a "good Buddhist" in some Eastern countries. Psychiatrists might diagnose someone in mourning who sees visions of the deceased as hallucinating but this might be quite normal for some American Indians. This is why doctors and psychiatrists need cultural competence to work in the United States which has a great deal of diversity. (Elizabeth Carpenter-Song and Jeffrey Longhofer, 2007).

Subcultures – A subculture is a segment of a culture. These are groups of people --a part of the national culture-- who share distinctive patterns of behavior, life experiences, and/or beliefs, i.e., shared value systems, ideas, and attitudes. Sometimes subcultures have their own slang, jargon, or way of dress. A culture often contains many different subcultures. After all, subcultures are **subgroups** within the larger or national culture. Subcultures include religions, ethnic groups, nationalities, and different age groups. You may have heard the term "youth culture" but the big market today is mature consumers (the over 50 crowd). They are increasing in number and have a great deal of money. The gay market is also a subculture with their own value system and they are also being targeted by many companies.

Three very important subcultures to marketers are African-Americans, Latinos, and Asian-Americans. There are minority agencies who specialize in these groups. For instance, The Bravo Group specializes in the Hispanic market and Solomon Advertising specializes in the Chinese market. Ethnic marketing is a big business. Latinos now make up approximately one-sixth of the population of the United States.

The Latino/Hispanic market actually consists of several major subgroups: Puerto Ricans, Cubans, Mexicans, and South Americans.
The Asian-American market consists predominantly of Chinese, Filipino, Korean, and Vietnamese people.
Did you know that the New York Times changed the color of its vending machines in Chinatown from blue to red since blue is the color of mourning in China? The number 4 implies death in various Asian cultures so that you would not want to run an ad with the number 1-800-444-4444.

About 16% of New Yorkers are Asians. The number of people identifying as Asian has increased dramatically all over the United States. Brooklyn has two large Asian enclaves -- a huge Chinese community in the Sunset Park area and a Bangladeshi community in Kensington.

There are two important reasons for studying subcultures: (1) a subculture might be a good target market for your product. Or, you might have to promote your product differently to one subculture than to others. For instance, one cooking oil company stresses taste to Latinos and health (no cholesterol) to the Anglo population. Hispanics fry a great deal and taste is a more important benefit than health. In the past, ads stressing lack of caffeine have not done well with Hispanics since they do not care about caffeine. (2) Many innovations start with subcultures. Think of foods that have become immensely popular that were originally eaten by various subcultures, e.g., tacos, salsa, pita, falafel, etc.

The information below is from the official US Census Website (https://www.census.gov/library/stories/2021/08/2020-united-states-population-more-racially-ethnically-diverse-than-2010.html)

> *Prevalence rankings illustrate the percent of the population that falls into the first-, second- or third-largest racial or ethnic groups in 2020 (Figure 1):*

- *The most prevalent racial or ethnic group for the United States was the White alone non-Hispanic population at 57.8%. This decreased from 63.7% in 2010.*
- *The Hispanic or Latino population was the second-largest racial or ethnic group, comprising 18.7% of the total population.*
- *The Black or African American alone non-Hispanic population was the third-largest group at 12.1%.*

I co-authored a paper (you can see it on the syllabus) that deals with a very large subculture-- the disabled.

One subculture that may be of interest to many of you is the American Muslim. Did you know that 59% of Muslim adults residing in the U.S. have college degrees? The median family income of this group is considerably higher than that for other Americans. Monem Salam, an immigrant from Pakistan, runs a mutual fund that abides by *Shariah* (Islamic law). Islamic law frowns on investing in companies whose main business deals with pork, pornography, or alcohol. The fund also stays away from companies that are in the gambling business. Banks are also an issue since *Shariah* does not allow the payment of interest. Salam asserts that he is "more at peace, doing something to help Muslims and doing it in a way [with which] God would be happy."

Diffusion of Innovations –

Innovators (first 2.5% to try something new), Early Adopters (next 13.5%), Early Majority (next 34%), Late Majority (next 34%), and Laggards (last 16%).

Innovators are venturesome, *i.e*., willing to take risks. They are not bound to tradition; this is why they are open to new things. Since they are not tradition-bound, they are willing to take advantage of specials. A good way to reach them might be to send them samples of a new product (marketers call this sampling). Innovators tend to be more educated and have higher income than those that adopt products after them. The laggards (the last 16% to try something new) are dogmatic, close-minded, and afraid of change. Innovators tend to be more cosmopolitan (wordly) than the others and have more contacts outside their local community. They tend to be heavier users of the product. You are unlikely to be an innovator for a product that you rarely use.

Late majority individuals are skeptical and will wait to adopt an innovation only after a majority of people have tried it. Laggards are the last ones to try an innovation. By the time they finally adopt the innovation it is probably on the verge of being obsolete.

What are some factors that affect the adoption rate of products?
Everett Rogers came up with 5 critical factors: Compatibility, Complexity, Divisibility (or Trialability), Communicability (or Observability) and Relative Advantage. Other factors

identified by marketers include availability, fulfillment of felt needs, price, perceived risk, and immediacy of benefit.

Compatibility -- how well does the innovation fit with existing traditions, culture, values, needs, and past experiences. When Quaker oats was first introduced, people were skeptical of the product since they thought oats were for horses.

Complexity -- if a product is perceived as being very complicated (e.g., computers in the days of DOS), it will not be accepted so readily.

Divisibility/Trialability -- marketers should always try to ensure that new products can be tried on a small scale (e.g., trial size of new foods or cosmetics). People prefer trying something out on a small scale when it is new.

Observability/Communicability -- innovations that are used in public and thus have great visibility usually have faster adoption rates than innovations that are consumed in private. This, in my opinion, was a major advantage in spreading the use of cellular phones.

Relative Advantage -- clearly products that offer a significant advantage over what they are replacing will be adopted more readily. Does a digital camera offer a major advantage over 35 mm cameras?

A marketer will try to convince you that a product is user friendly. If people believe that a new product is too complex, it will be hard to get them to adopt it. How do you convince the public that a product is very easy to use? [Use children in the ads]
What problem would you have trying to sell worm burgers to the public? [Compatibility- since, in our experience, worms are not food].
Why do marketers sometimes allow you to try out ("test drive") a new product for a weekend and then decide on whether or not you wish to buy it? [Divisibility/Trialability at work].

Stages in the New Product Adoption Process:

Awareness -> Interest -> Evaluation -> Trial -> Adoption

A marketer's job is to determine whether there are any bottlenecks in the process. Sometimes, a marketer discovers that there is a bottleneck between evaluation and trial. In other words, many people are considering the new product but they are not trying it out on a small scale. One way to overcome this is by sending them a free sample or by giving them a gift for trying out the product. AOL became a great success by mailing millions of free trial offers (100 free hours on the Internet) to the public.

Rational Choice Theory: Are Consumers Rational?

One idea that you have been taught in basic economics is that consumers use rational and logical calculations to maximize their self-interest (utility). People are concerned with achieving the greatest satisfaction and benefit possible because they have limited resources (e.g., money and time). Homo economicus (economic man) is the person depicted in many economic models -- the hypothetical person who is entirely rational and only cares about maximizing his/her own utility. What do you think? When you make decisions, are you only interested in yourself? Some feel that home economicus sounds like "sociopathic man."

In the discipline of economics, rational choice theory has been challenged by so many researchers – especially after the Great Recession of 2008 – that it has become evident to many scholars, including Daniel Kahneman, Nobel laureate, that the theory is incorrect . Daniel Kahneman felt that Alan Greenspan, the then-chairman of the Federal Reserve, did not foresee the financial crisis of 2008 because of his mistaken belief in the rational man theory. Nouriel Roubini, a prominent economist, known as Dr. Doom for predicting the housing market collapse in 2006, stated, "The rational man theory of economics has not worked." What is surprising is that Greenspan had already questioned the rational man theory several years earlier because of the Enron crisis. In the wake of the Enron debacle, Greenspan, the then-Chairman of the Federal Reserve (from 1987-2006), voiced his concern at a meeting about how easy it was for CEOs to "craft" financial statements in ways that could deceive the public. He declared: "There's been too much gaming of the system. Capitalism is not working! There's been a corrupting of the system of capitalism."

Behavioral economics uses psychology to demonstrate that people often make irrational decisions. Various cognitive biases result in people behaving in a manner inconsistent with classical economic theory. Thaler and Mullainathan (2008, para. 3; *The Concise Library of Economics*. Retrieved from http://www.econlib.org/library/Enc/BehavioralEconomics.html) assert: "The standard economic model of human behavior includes three unrealistic traits—unbounded rationality, unbounded willpower, and unbounded selfishness—all of which behavioral economics modifies." Unbounded rationality is fallacious because people do not have unlimited abilities or time to process information correctly. They, therefore, use rules of thumb (heuristics) as shortcuts to make decisions, which often involve irrational choices or judgments. Hence the notion of bounded rationality.

The second imputed but unrealistic character trait is unbounded willpower. Many individuals often realize that they lack complete self-control and therefore act in ways that may not be rational. For example, they may purposely pay more taxes to ensure they receive a tax refund. Of course, this is not logical behavior. However, people know that they do not have "unbounded willpower" and prefer this form of saving even if it means that they forego interest.

Although the economic theory that stresses self-interest may not ignore altruism, it does not pay much attention to it. But evidence supports the view that human beings are boundedly selfish. Thaler and Mullainathan provide numerous examples of how people act selflessly. Most people give money to charity and do volunteer work. People who have the chance to free-ride will only do this moderately and not take full advantage of the opportunity. Most people behave in a way that suggests that more is at play than pure self-interest (e.g., fairness). Pay-it-forward behaviors demonstrate that people often act unselfishly.

Thaler & Mullainathan describe how in experiments involving "ultimatum" games, we see evidence that people do not behave as traditional economic theory predicts they will. People will act "irrationally" and reject offers they feel are unfair since they care about fairness and justice:

> In an ultimatum game, the experimenter gives one player, the proposer, some money, say ten dollars. The proposer then makes an offer of *x,* equal to or less than ten dollars, to the other player, the responder. If the responder accepts the offer, he gets *x* and the proposer gets 10 − *x.* If the responder rejects the offer, then both players get nothing. Standard economic theory predicts that proposers will offer a token amount (say twenty-five cents) and responders will accept, because twenty-five cents is better than nothing. But experiments have found that responders typically reject offers of less than 20 percent (two dollars in this example) (Thaler & Mullainathan, 2008, para. 8).

The ultimatum game is evidence that greed, which usually is excessive, can backfire and result in less, not more, for the avaricious individual.

Behavioral economists have discovered that the pain of losing something we own outweighs the joy of winning by as much as two to one. This is why if outcomes are framed as losses rather than gains, people are more likely to take risks and invest greater effort. Many other examples demonstrate that consumers behave in unexpected ways that economic theory does not predict.

It is quite possible that when economists make the claim (probably false) that free riding is rational behavior, they are not educating students but persuading and proselytizing. Indeed, López-Pérez & Spiegelman (2012; https://econpapers.repec.org/paper/uamwpaper/201204.htm) conducted a study on truthfulness and found that the least honest college majors were those in economics and business (23% honesty rate vs. slightly greater than 50% for humanities majors). It is quite possible that by teaching students *homo economicus* (rational man), we inadvertently teach that values such as helping others are unimportant. Generosity may actually be entirely logical given that studies demonstrate that people who are generous and benevolent will live a life that is mentally and physically healthier than those who are selfish and self-centered.

COGNITIVE BIASES

Ariely (2008) uses the latest research to demonstrate that people are predictably irrational; they use heuristics or rules of thumb to make decisions. Heuristics may be seen as "cognitive shortcuts" that humans utilize when there is much-required information to collect to make a correct decision, but time and/or money are limited. Using rules of thumb may help a person make quick decisions but might lead to a systematic and predictable bias. Many of these biases interfere with constructive negotiations. To have productive discussions, one must be aware of the various cognitive biases that interfere with rational decision-making. The following are just a few examples of relevant cognitive biases.

Certainty Bias/Overconfidence Bias

Kolbert (2017) highlights that "People believe that they know way more than they actually do." This overestimation of the knowledge we possess is known as the overconfidence effect. Sloman & Fernbach (2017) also speak of the "knowledge illusion"; we do not understand how little we actually know. With certain kinds of questions, answers that people think are "99% certain to be correct" turn out to be incorrect 40% of the time (Kasanoff, 2017).

Burton (2008a, 2008b), a neurologist, believes that human beings cannot avoid certainty bias —a "potentially dangerous mental flaw" — but can moderate its effect by realizing that feelings of certainty are not based on logic and reasoning. These feelings result from "involuntary brain mechanisms" that have little to do with the correctness of a belief. This is why intuitions, hunches, premonitions, and gut feelings must be empirically tested. Critchley (2014) relates the concept of uncertainty to a tolerance of others and attributes the existence of Auschwitz to certainty bias. Lloyd (2017) also feels that moral certainty is dangerous and a threat to humankind. It should not be surprising that expert predictions usually turn out wrong (Kahneman 2011, pp. 218-219, Tetlock, 2005).

Confirmation Bias

Once people form an opinion, they tend to only listen to information supporting their preconceptions and reject information not in conformity. People may have the ability to see flaws in their opponent's arguments, not their own opinions. Given the enormous amount of research available to scholars, it is not difficult for a researcher to cherry-pick the literature and only reference studies supporting a particular opinion (confirmation bias) and exclude others. Even if individual studies are done correctly, this does not guarantee that a researcher writing a state-of-the-art review paper will write an accurate, undistorted synthesis of the literature. Indeed, Celia Mulrow demonstrated that many review articles were biased (Goldacre, 2011).

Fundamental Attribution Error

The fundamental attribution error refers to the tendency of a person observing another person's behavior to attribute it to internal factors or personality and to underestimate the effect of situational causes (i.e., external influences). Their own behavior, however, is attributed to external situational factors. In other words, we believe others do what they do because of their internal disposition. Thus, if you see someone fighting with another person, you will probably attribute it to the fact that the person has a violent temper, not that he is being mugged.

Loss Aversion

The pain of losing something we own outweighs the joy of winning by as much as two to one. Thus, for example, the pain of losing $1000 that you currently have is about double the intensity of the joy you would experience getting $1000. Thus, individuals are more willing to engage in risky behaviors or even act dishonestly to avoid a loss than to make a gain.

Status Quo Bias

Status quo bias is a cognitive bias that occurs when people favor the familiar and prefer that things remain the same rather than opting for change. It also manifests itself when inertia results in people continuing with a previously-made decision rather than trying something new; inaction is easier than making decisions. People are more upset by the negative consequences of a new decision than by the effects of not making any decision (Kahneman and Tversky, 1982).

Scholars highlight several ways to reduce these biases, which can result in poor decision-making. First, one must be aware of the different types of biases, and by studying and understanding them, one can reduce their impact. Second, he asserts that collaboration is probably the most powerful tool for minimizing cognitive biases. Kahneman speaks of "adversarial collaboration," which means bringing together two researchers who disagree and having them conduct an experiment jointly as a way to reduce confirmation bias. This is why it is crucial to have diverse groups (groupthink is also a bias) to work together to make a decision.

More on Behavioral Economics

There is a new area of economics known as behavioral economics that attempts to understand how people make decisions. One book that is especially fascinating is *Nudge: Improving Decisions about Health, Wealth, and Happiness* by Thaler and Sunstein. The authors discuss how government can use "choice architecture" to gently push (i.e., nudge) people to make the right choices. The traditional belief of economists that we are all "rational" and behave in a rational way that maximizes self-interest is simply not true. Another book that you will find interesting is *Predictably Irrationa*l by Dan Ariely.

As you will see, marketers can learn a great deal about consumer motivation by studying the work of the behavioral economists. Marketers never did believe that consumers act in a rational manner. The following notes are from *Nudge*. When you have time, I hope you will read the book.

A key idea in the book is that we have two interrelated cognitive systems that influence the way we think: an *automatic system* and a *reflective system*. Many decisions we make use the automatic system, which is unconscious, fast, uses associative reasoning, and requires little brain effort. It relies on rules of thumb and searches for patterns. Of course, the automatic system is often wrong. The reflective system is deductive, conscious, slow, and tries to solve problems. It also makes mistakes but at least the individual is attempting to think things through and come up with a good decision.

This example is from *Nudge*:

"If it takes 5 machines 5 minutes to make 5 widgets, how long would it take 100 machines to make 100 widgets?" Did you say 100 minutes? Don't feel bad about being so wrong. That was your automatic system. If you use your reflective system and reflect on the correct answer, you will get it right ---- 5 minutes.

Thaler and Sunstein describe how our brains work and why we make so many mistakes. We tend to use three heuristics (rules of thumb) to arrive at quick decisions and they tend to give us the wrong answer.

(1) **Anchoring**: Thaler and Sunstein provide the following example of how this works: If I ask you to guess the population of Syracuse, you will have no idea. Suppose I have two groups (subjects were randomly assigned to the two groups or the experiment would not be valid) Group A is first told that NYC has 8 million people and then asked to guess the population of Syracuse. Group B is told the population of Monticello, NY is 6,600. What will happen is that Group A will make a much higher guess than Group B. The reason is that the first number they are given is used as an anchor and then adjusted. Group A will adjust the 8 million downward knowing that Syracuse is much smaller than NYC. Group B will adjust upward knowing that Syracuse is larger than Monticello, NY.

Here is another example of the anchoring effect from Nudge: Two questions in a survey: (a) How happy are you? (b) How often are you dating? In this order, the correlation between the two questions is a very low .11. However, if the order is reversed and (b) is asked before (a), then the correlation is .62. In marketing research we call this **priming**. It is an easy way to bias a study. You can use the first question to make the subject angry about something (e.g., the number of children in the US who live below the poverty line) and then you ask subjects to rate the performance of the president.

Lawyers use anchoring to establish a number in a lawsuit. The lawyer will ask for $10 million in damages knowing very well that there is no way the jury will award this kind of number for a, say, a libelous story in the paper about the client. However, she might get her client a few million dollars since the $10 million will be used as an anchor. Retailers might use phony markdowns (original price $500) to anchor a price and get customers to overpay for a product.

Oh! you want to know the population of Syracuse, NY. It is about 160,000.

(2) **Availability**: Do you know why we are more worried about being killed with a gun than drowning in a pool? Or, we think more people die of homicides than suicides. According to Thaler and Sunstein, people "assess the likelihood of risks by asking how readily examples come to mind." Risks that we are familiar with (e.g., those that are reported in the media) are more frightening to us than those that are not familiar. Many of us, for example, are more afraid of being killed by a terrorist attack (especially after 9/11) than dying from smoking or in a car accident. According to Thaler and Sunstein: "easily remembered events may inflate people's probability judgments." It works both ways. Events that we cannot bring to mind, will have lower probabilities of occurring. Of course, a marketer can make you remember events by showing them in ads. Run an ad showing many communities hit with tornados and you might convince people to get tornado insurance.

(3) **Representativeness (Similarity)**: When people try to judge the likelihood of an event occurring, they do so by finding something similar and then make the assumption that the two probabilities will be very similar.

This is why we believe in "lucky streaks" or "hot hands." Fluctuations that are random will often be perceived by the public as having a causal pattern.

In one experiment conducted by Tversky and Kahneman and discussed in *Nudge*, subjects were presented with the following description:

Linda is 31 years old, single, outspoken, and very bright. In college, she majored in philosophy; as a student she was deeply concerned with issues of discrimination and social justice and also participated in antinuclear demonstrations. Subjects then ranked in terms of probabilities (most likely to least likely) eight possible futures for Linda: The two choices that were of interest in the study were (4) Linda is a bank teller. and (5) Linda is a bank teller and is active in the feminist movement. The majority of respondents ranked (5) as more likely than (4). Of course, this is logically impossible. Every feminist bank teller is a bank teller; not every female bank teller is a feminist.

Thaler and Sunstein come up with 6 ways to nudge people to make choices. These techniques can be very helpful for choice architects to ensure that people make better choices. Of course, marketers can use these techniques to manipulate consumers.

(1) INcentives

Price is a very powerful incentive. If you want people to use more of a product, make it less expensive and vice versa. Studies show that the high price of cigarettes is very effective in keeping young people from deciding on smoking. The high price of gasoline is a disincentive to drive. It is important, however, for the incentive to be salient, i.e., consumers should notice it. Raising the price of electricity will not be as effective as having a thermostat that shows you the cost of keeping it at say, 73 degrees rather than 69%. The reason the high price of gasoline has caused so much consumer discontent (the cost of health care is much higher) is partially due to the fact that you see the cost going up every time you fill up the car. Those moving numbers as the tank fills, are impossible not to notice. Exercise bikes that show you how many calories you are burning up are more effective in getting people to exercise than those that do not provide feedback.

(2) Understanding "Mappings": From Choice to Welfare

Thaler and Sunstein call the relationship between choice and welfare (here it means health, satisfaction, happiness, and well-being) a mapping. Sometimes consumers have difficulty making a choice because there are too many options. For example, a credit card has many different fees: annual fee, interest rate, fees for buying in other currencies, etc. Most consumers do not know how to compare different credit cards on cost. The same is true of cell phone plans, mortgages, and many other products and services. Government can help here by regulating what has to be disclosed and make sure that it is disclosed in a way that consumers can easily comprehend the differences among brands. This would make it easy, for example, for consumers to compare the cost of different cell phone plans.

Note that government does this with appliances. If you want to purchase a refrigerator or air conditioner, there is one simple number provided by all manufacturers-- the annual cost of operating the appliance. It is also easy to compare the mileage of different cars by examining the mpg ratings for city and highway.

By the way, companies often do everything possible to confuse consumers when it comes to price. "Shrouding" is a term coined by Prof. David Laibson of Harvard University. It is a strategy used by businesses that charge customers additional fees that the customer might not want to pay but hide them deep in the fine print. Of course, they attract the consumer to the product or service by promoting low prices. For example, some hotels run ads touting very low prices (e.g., only $90 per night). What you are not told is that you will have to pay a fee for parking the car, using the pool, using the Internet, room service, using the safe, etc. The one night stay in the "cheap" hotel ends up costing you $150. You might be better off in a luxury hotel. Companies that sell printers also do this. The printer may be very inexpensive but the cost of a toner cartridge that only makes, say, 1,000 copies, could be double that of a more expensive printer with cheaper cartridges that make 5,000 copies. Banks also hide many of their add-on fees from customers in the fine print (e.g., use of ATM fees, fees for bouncing a check, fees to stop a check, etc.).

(3) Defaults

Default options are very important in choice architecture. Mail order book clubs offer a large number of free books to get you to join a club. Once you join, there is a monthly club selection. If you do nothing, you get the book (and have to pay). This works very well for the book clubs since many people are too lazy to send back the form indicating they do not want this month's selection. This is known as negative option billing -- the default is you get the book. Thaler and Sunstein believe that you will get more people to donate organs if the default is that you have opted in and will be donating your organs upon death. The way it currently works, the default is that you are not donating your organs unless you check the box on your license, i.e., you have to opt in. More organs are donated if you have to opt out and the default is that you are opting in.

(4) Give Feedback

Feedback that tells us when we are doing something right or wrong is very helpful. Thus, digital cameras enable the user to see the image before taking a picture. The fake "shutter click" provided by some cameras is also very important so that the user knows that s/he has taken a picture. Batteries in smoke detectors make annoying sounds when they are weak. Otherwise, very few people would check the batteries and change them.

(5) Expect Error

A good choice system assumes that people will make errors and builds this in. Take the little piece of plastic connecting the gas tank cap to the car. Without it, millions of people leave the gas tank caps behind after filling up with gas. How many times have people driving older cars left their lights on? The newer cars turn them off automatically. How many times did you forget to lock your car? Or leave the keys inside the car? One feature I like is the panic button on my keys. This happens quite frequently to older people. We forget where we parked the car.

(6) Structure Complex Choices

Sometimes it is very difficult for consumers to make a decision. The product/service has too many attributes which to evaluate. One brand may be do well on two attributes but poorly on another. Even selecting a college is not easy. Think of how many attributes you must consider (tuition, reputation, quality of faculty, number of majors offered, social life, availability of parking, etc.). The same problem exists when it comes to buying a house, selecting a health plan, choosing a restaurant, etc. People will use some type of simplifying strategy in order to make a choice. For example, a consumer might first look at the most important attribute and establish a cutoff. Those brands that do not meet the cutoff are eliminated. This narrows things down to, say, 20 brands from 50. The consumer then considers the next most important attribute and establishes a cutoff. This narrows things down even further to, say, 10 brands. The third most important attribute is used with a cutoff to keep reducing the number of brands, until a choice can be made.

Of course, if the consumer is helped by the manufacturer or retailer via a simplified structure, this will make it easier to choose. One example is the paint wheel used in paint stores. You can see the numerous shades of colors and then choose the exact color you want. Collaborative filtering used by Amazon and others is also very helpful. When you go to the Amazon website, a program that examines what people who have similar tastes (based on your past purchases) have purchased recommends books and movies.

Behavioral Economics vs. Traditional Economics (see "Economics Behaving Badly" by George Lowenstein and Peter Ubel, *NY Times*, 7/15/2010, p. A31)

Obesity problem in US. Behavioral economics approach -- focus on more information -- calorie labeling. NYC has been posting calories in fast food restaurants. Effects very minimal. Obesity may not be due to lack of information but other factors. Traditional Economics approach-- focus on price. US subsidizes corn, thus corn syrup is very cheap. Corn syrup used in many products because it is very inexpensive (check ingredients of can of soda). Traditional economics solution: Stop subsidizing unhealthy products; tax them instead. Make junk food expensive.

Energy use: Behavioral economics approach -- focus on providing more information. Inform consumers how their use compares to neighbors. This results in small reduction in electricity consumption. Traditional economics approach = carbon tax. This would raise the price of energy and result in new solutions to generate green energy. Gasoline use: behavioral economics approach focuses on information. Provide consumers with information regarding gallons-per-mile rather than miles per gallon. Effect is minimal. Traditional economics approach says increase the gas tax to make large vehicles such as SUVs very expensive.

Conflicts of Interest in Medicine: Research shows that gifts given to doctors by the pharmaceutical industry result in poor decisions (expensive too). Behavioral economics solution: publicize the information so the public is aware of the gifts. Traditional economics approach would ban them. Same problem with health care reform. The behavioral economics approach focuses on preventive medicine. Teach consumers how to stay healthy and reduce health care costs that way. Incentive programs to reward consumers for behaviors that keep them healthy work but very minimally and do not save the government much money.

Book by Daniel Kahneman, *Thinking, Fast and Slow,* may be of interest to many of you.

Questions: (A) Why will shoppers purchase more cans of soup if the retailer places a sign on the shelf stating, "Limit of 12 cans per customer"? (B) Why do Israeli parole boards grant parole to 65% of prisoners seen in the hour after eating a meal (normally only 35% of prisoners will get parole).

Kahneman believes in "adversarial collaboration," i.e., the best way to solve problems is to work with individuals with whom you disagree. This will avoid problems such as groupthink.

You might be interested in watching the following video dealing with expectations and happiness. It also explains many of the principles of behavioral economics.

https://www.ted.com/talks/dan_gilbert_the_surprising_science_of_happiness?language=en

Cognitive Reframing

Cognitive reframing is a cognitive change strategy. Psychologists have found that the reason many people suffer from depression and severe anxiety is because of negative thought processes. Many of us suffer from cognitive distortions which are irrational, flawed negative thought patterns. The goal is to shift these thought patterns/mindsets to more realistic and positive ones. Nothing good comes from perceiving the world using a distorted, illogical lens. Once a person views relationships or situations from a more logical perspective, his/her mental health will improve. For example, many of us suffer from *magnification* which means that we exaggerate the significance of some minor event. Thus, Jane Smith might conclude that she is stupid because she could not get into Harvard Business School. Another cognitive distortion is known as *overgeneralization* which means that one might conclude that he is stupid because he got a C in calculus. Realistically, smart people might receive a poor grade in a particular course and understand that this does not mean that they are fools. *Blaming* every problem on one person or cause is also the result of distorted reasoning. *All-or-nothing thinking* means that one sees the world in extremes (e.g., “nothing good ever happens to me”). *Catastrophizing* is when one jumps to the worst possible conclusion and assumes that the most dreadful outcome will happen (e.g., “I will never find a good job”).

Framing is relevant to business ethics as well as mental health. Employees who are framed to think in terms of maximizing profits will act differently than those framed to think in terms of acting in an ethical manner. A corporate lawyer who sees her job as protecting the organization from employees will not act the same as one who believes that her job is to safeguard that justice prevails. Doctors working in hospitals who feel that their job is to protect their employer from malpractice lawsuits will treat patients differently than those who are only concerned with maximizing the health of patients.

Question to think about: Jack Welch, former CEO of GE, was famous for the leadership principle of firing the bottom 10% of employees (the C players) each year in order to guarantee that a firm is continuously improving. Welch asserted that a firm will generally consist of 20% A players = the most productive, 70% B players = who work at an adequate level, and 10% C players = nonproducers. Framing things this way to managers will have what effect on employee morale? With the right kind of motivation, can’t the C players be transformed into A players?