How consumers discriminate

August 10 2011

A forthcoming paper in the American Marketing Association's *Journal of Marketing Research* by Professor Sheena Iyengar, S.T. Lee Professor of Business, Management; Marco Bertini, Assistant Professor of Marketing at London Business School; and Luc Wathieu, Associate Professor at McDonough School of Business, Georgetown University, provides evidence on the impact of the size and quality of an assortment has on a consumer when they make purchasing decisions. When consumers are confronted with a proliferation of options, they will sharpen their appreciation of quality, and a switch to superior products will become more enticing. Subsequently, a switch to inferior products will become less tolerable. The research was inspired by the phenomenon that for many upscale goods, such as wine, while variety available to consumers has increased, prices have also increased – contrary to economic models that find competition leads to lower prices. This is the first paper to illustrate the effect of choice and quality on a consumer's willingness to pay.

The researchers conducted three controlled experiments and observed one natural experiment to come to their findings. In one of the controlled experiments, two different groups of participants were shown displays of different dark chocolates. The researchers distorted a single factor, assortment density, in this study. One group saw a selection of 21 chocolates, the other just five. Participants were told that the chocolates were ordered from left to right according to their "premium rating" used in the industry to gauge quality. A small label indicating the name and rating accompanied each piece. Consumers were asked what they were willing to pay for one of the chocolates, and on a scale of 1 to 7, how much they agreed with the statement: "Buying good quality is always important, but it is particularly important when it comes to chocolate."

The researchers found that participants offered the greater choice set were prepared to pay 40 percent more for high-quality chocolate than their counterparts who bid on the same piece in the sparse assortment. Those presented with more choices also reported higher scores on the importance of quality in their purchase decision. Further, the group with 21 choices offered to pay 33 percent less for a low-quality chocolate than the group with five choices. The researchers conducted an additional experiment with wine to rule out the possibility that the relationship between density and willingness to pay was caused by different perceptions of the range of qualities offered or by a simple demand effect. Consistent with the outcome of the first study, participants presented with 27 alternatives were prepared to spend significantly less on a Sauvignon Blanc picked from the cheapest price tier than their counterparts presented with 9 alternatives. The same group of participants, however, were prepared to spend significantly more on a Sauvignon Blanc picked from the average price tier.

Sheena Iyengar explains the significance of the study's findings. "When the product is desirable instead of functional, consumers flooded with a range of choices will focus on quality, and not price. The choice set size should not be dictating what you are willing to pay, and yet it does. To avoid paying more just because assortment s large, think about what it is you're going to be using the product for, and then decide what is more important – quality or price – in that specific case."

The researchers found supporting evidence of this conclusion in the field through the auction market. They examined 63 wine auctions conducted by a leading global auctioneer in London between January 2006 and June 2009. Multiple wine bottles were auctioned off at each event, although the exact number varied from event to event. The researchers found that at events with a denser assortment of wine, people paid more for the bottles with high appraisals and less for the ones with lower appraisals. Furthermore, participants started bidding more for the high-end wines and offering lower prices for lesser vintages when a catalog contained 40 or more different price categories.

Provided by Columbia Business School