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Comparison investing: Why are consumers more willing to take risks when they can compare products?

March 5 2013

Consumers are more willing to take risks and accept delays in exchange for greater benefits when they are able to compare products, according to a new study in the *Journal of Consumer Research*.

"Rationally speaking, consumer preferences should be the same whether their product choices are presented side-by-side and evaluated comparatively or presented one at a time and evaluated in isolation, but it makes a remarkable difference in consumer decision-making," write authors Christopher K. Hsee (University of Chicago Booth School of Business), Jiao Zhang (University of Miami), Liangyan Wang, and Shirley Zhang (both Shanghai Jiaotong University).

Consumers regularly face decisions such as whether to buy a current iPhone model today or wait six months for a newer and better model (a time preference dilemma), or whether to invest retirement money in a risk-free savings account or a risky mutual fund with higher expected returns (a risk preference dilemma).

In one study, consumers had to choose between two internet service plans. One featured a higher speed but wouldn't be available for three months; the other featured a lower speed but was available immediately. When both options were presented side-by-side, consumers were willing to pay significantly more for faster service with delayed installation. When they were presented with only one of the two options, there was a stark "preference reversal" and consumers were willing to pay significantly more for slower service with immediate installation.

Consider a financial services company offering both safe (lower expected return) and risky (higher expected return) investments. All investment options should be presented side-by-side to allow comparison if the company wants to encourage investors to choose riskier products with higher expected returns, while options should be featured individually to encourage investors to choose safe products.

"When consumers can compare products, they tend to prefer delayed or riskier options with greater potential benefits, but tend to value certain and immediate benefits when product comparison is not possible," the authors conclude.

More information: Christopher K. Hsee, Jiao Zhang, Liangyan Wang, and Shirley Zhang. "Magnitude, Time, and Risk Differ Similarly between Joint and Single Evaluations." *Journal of Consumer Research*: June 2013.

Provided by University of Chicago