

# Decoding buyer's regret, and its effect on business competition

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New research from Olin Business School faculty shows that when it comes to big purchases, competing companies need to be aware of the risks, and rewards, of invoking buyer's regret. Credit: Washington University in St. Louis

The retail industry is ever-evolving, with a constant stream of new

products and fancy upgrades to tempt consumers. Do you really need that built-in vacuum in the new minivan? The ability to clean on the go is certainly convenient. Then again, it's much cheaper to use the vacuum you already have at home. In the long run, will you regret it if you don't get that pricey upgrade?

Invoking such buyer's regret has long been a marketing strategy for companies as they attempt to influence purchases. However, researchers at Olin Business School at Washington University in St. Louis have found it can be both risky and rewarding for a firm's profits.

In research forthcoming in *Management Science*, Olin's Baojun Jiang, assistant professor of marketing, and Chakravarthi Narasimhan, the Philip L. Siteman Professor of Marketing, along with co-author Ozge Turut from Sabanci University in Istanbul, Turkey, developed an analytical framework, based on well-established consumer behavior regarding regret, to model a market with two types of businesses: one with an established product and the other with a product that has a new, improved feature.

They then examined the concepts of switching regret (when a consumer switches brands or firms, then regrets the choice) and repeat-purchase regret (when the consumer opts for the familiar product and then regrets not getting the newer higher-quality one).

"If firms know that these different segments of consumers exist, how would they compete?" Narasimham asked. "Depending upon the possible magnitude of the anticipated regret, we show that firms don't have to be so aggressive in competing."

The research, he said, changed their initial assumptions. "Initially our thought was these firms are invoking regret, which means they will be competing on price more aggressively," Narasimham said. "Our research

found, under some cases, they would not. The key insight is if it appears to be that the market is more segmented, then you have your own set of customers that you can care about and you don't have to aggressively compete with the other firm.

"That's when it's a win-win situation," Narasimhan said.

On the other hand, the researchers found that invoking buyer's regret—or even attempting to address a new customer's concerns—can also trigger risk. It depends on how the customer base shifts toward the new product or feature, and how much competing firms are willing to sacrifice to welcome new buyers.

"If a firm tries to invoke anticipated regret in customers to gain market share, the distribution of consumer preferences may shift in a way that makes the market less segmented than before," Jiang said. "This can make the competition become more intense, inducing both firms to lower their prices, which makes both firms worse off.

"Similarly, the new firm might not want to alleviate switching regret as much, if doing so would make the market less segmented," Jiang said. "Put differently, though stronger switching regret makes consumers less likely to buy the new firm's product, it can make the consumer segments more separated, which can benefit, rather than hurt, the new firm because both [firms](#) will have less incentive to drop the prices to poach each other's customers."

The bottom line: Competing companies should carefully consider both the risks and rewards of invoking buyer's [regret](#). The strategy could have big payoffs, but could also backfire, depending on the customer base and the segmentation of the [market](#).

"In very small-priced items, it's not that big of a deal," Narasimhan said.

"Take chewing gum. What is your cost? Ultimately, a few cents. If you don't like it, you spit it out and that's that. Where it matters is where the consumer's cost is high. That's where these kinds of effects would play out."

Provided by Washington University in St. Louis

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