

As consumers, how do we decide what's 'best' when it's not clear?

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Credit: Institute for Operations Research and the Management Sciences

Imagine you are choosing between two resorts for your island vacation. The factors driving your decision will be "quality" and "price," but "quality" can be more difficult to define. In the end, this will come to represent all factors beyond price, such as service, amenities, proximity to the ocean and other things that are important to you. So, how will you decide?

A new study has found that as [consumers](#) we tend to make these kinds of choices in a "boundedly rational" way. In other words, to simplify and

accelerate the decision-making process, we rely on certain predispositions while at the same time keeping an open mind to strong evidence for making an alternative choice.

The study "Consumer Choice and Market Outcomes Under Ambiguity in Product Quality," will be published in the INFORMS journal *Marketing Science*, is co-authored by Onesun Steve Yoo of UCL School of Management at University College London, and Rakesh Sarin of the Anderson School of Management at the University of California, Los Angeles (UCLA).

"Although quality is the key nonprice consideration driving consumer purchase decisions, consumers often lack knowledge and encounter missing or conflicting information about [product quality](#)," said Yoo, one of the study's authors. "It is also difficult to evaluate the quality of certain products or service prior to purchase, yet the consumer must, nonetheless make a choice."

This is particularly the case when consumers are faced with decisions when product quality is ambiguous.

The article points out, for example, that familiarity or name recognition (favorable predisposition) enables brand-name drugs to command a higher price than generic versions with the same active ingredients. Thus, consumers pay higher [prices](#) for Bayer aspirin, Morton salt, and Windex glass cleaner (than for their generic equivalents) because there is ambiguity in the form of misinformation or doubt about the quality of generics and so the consumer anchors on her predisposition toward familiar, brand-name products.

Fully informed consumers such as doctors, chefs, or professional window cleaners are more likely than the general public to buy generic products in their domain of expertise.

"Consumers do not compute and compare subjective elements of each product before making a purchase," said Yoo. "Instead, they rely on their initial preference for a product based on familiarity, positive associations, affect, prior experience or something else. More often than not, this predisposition will drive decision-making unless and until compelling evidence on product quality is presented to change that decision."

The study used its findings to create a "boundedly rational model of consumer choice" that analyzes the interaction between our predisposition as consumers and the perceived ambiguity or product or service quality. This model encompasses the product or service's price, quality, consumer predisposition and ambiguity.

"One of the more interesting findings of our study is that we have found that while a [predisposition](#) towards a certain product creates a competitive advantage for that product, it can be overturned by evidence," Yoo added. "If a competing product can demonstrate sufficiently higher quality or offer a sufficiently lower price - or some combination - the consumer will often tend to make a rational decision."

For marketers, this reinforces the power of brand loyalty, while at the same time supporting the competitive power of testimonials, case studies and other means to demonstrate product or service [quality](#).

More information: Onesun Steve Yoo et al. Consumer Choice and Market Outcomes Under Ambiguity in Product Quality, *Marketing Science* (2018). [DOI: 10.1287/mksc.2017.1069](https://doi.org/10.1287/mksc.2017.1069)

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