

# Designing policy to influence consumers

## Briefing note 3: consumer behaviour and electronics

**W**hen designing policy to influence consumers, you must take into account the way in which people make choices.

Consumer choice is strongly influenced by mental short-cuts and emotive factors – it is not just a rational assessment of information on quality and price. Often these short-cuts lead to biases, which mean consumers do not always buy the best product for them. Effective policy must work with these mental short-cuts and account for the many factors that influence consumer choice.

### When designing policies aimed at influencing the purchase and use of consumer electronics, remember that consumers...

- **... are strongly influenced by unusual prices and offers.** The visibility of these prices is very important: a key factor in consumer choice is whether an individual believes they are getting some kind of reduction in price. If they believe this, they are more likely to buy it as they see themselves as making a 'profit' on the purchase. Something 'half price' or in particular 'free' (for example 'tax free') can be even more appealing. Work with retailers, for example through voluntary agreements and codes of conduct, to promote energy efficient products.
- **... are very averse to loss.** People want to avoid loss even more than they value additional gains, so use policy that imposes visible losses – like extra tax - even if quite small relative to the price. This is more influential than a similar-sized positive incentive, so can be used to make policy more effective at a small policy cost. The same is true for describing relative qualities. For example, labelling that highlights the additional running costs of less efficient product (compared to the most-efficient product) will have a bigger impact than labels that highlight the savings potential of a more efficient product.
- **... find it easier to compare differences between products.** When consumers evaluate new products, it is nearly always done in relation to another product and decisions are more likely to be influenced by the differences between products than the similarities. For example, when faced with similarly priced televisions which have different screen sizes, consumers will almost always choose the larger screen TV, regardless of need or use. Promoting the product feature which has policy relevance will mean that consumers are more likely to be influenced by this product feature.
- **... are resistant to change and base judgements on their experiences.** People get attached to products they know and may have outdated feelings about the qualities of new products. Encourage retailers to provide consumers with opportunities to trial products so they can personally experience improved product quality, or offer no-query money back guarantees.

## Policy aimed at influencing the purchase and use of consumer electronics should make choices easier...

- **... by using recognition.** Recognition of a brand or label can be as important an influence on consumer choice as the information on the label. Make environmental labelling easily recognisable and promote it in a way that ensures labels are widely recognised.
- **... through the use of standard models.** Rather than choosing to upgrade product models, consumers often rely on the standard model (known as the 'default') when shopping. Ensuring that the policy preferred option is the standard option would likely promote its uptake without restricting choice.
- **... by standardising choice.** Consumers do not always understand the meaning of product features or the benefit to them. Describing prices, features and packaging of products in standardised, easily comparable ways makes it easier for consumers to make informed decisions.
- **... through 'editing' some choices.** People think it is acceptable for government to restrict the sale of the least preferable consumer electronic products and often assume that this is already being done. Setting tough minimum product standards, to ensure environmentally damaging products are removed from the market, is acceptable to many consumers. This needs to be focused on removing the least environmentally preferable products from the market, thereby 'editing' rather than restricting choice.



## Tailor your policies...

- **... by ensuring they are based on specific consumer research.** Make sure you know how consumers will react to different formats of your policy instrument. Consumers often make choices automatically, or with little thought. This means it can be difficult to correctly identify their reasons for purchasing a product. Policy needs to be based on research that explores behaviour in different contexts.
- **... by recognising that all people are different.** Consumers buy different products for very different reasons, which mean that a policy that motivates some people will not motivate others. Identify the different ways in which different groups of people will react to policies, and do not assume that one policy will change the behaviour of all consumers. A mix of policy options is likely to be required to achieve widespread changes in consumer behaviour.

## Introduction

The factors that influence consumer choice vary according to the consumer themselves, the product they are buying and the circumstances under which the choice is made. For example, if a consumer is in a rush, or feels confused by too much information and choice, they may make decisions more quickly and rely more on emotional considerations. The purpose of this briefing is to highlight some of the main influences on consumers' choice of electronic products.

## The value placed on appliances

A number of behavioural factors impact on the perception of whether someone should buy a new appliance. For example:

- **Aversion to loss.** Our aversion to loss can lead us to overvalue things that we already own because giving up the object is seen as a loss. Loss aversion also leads us to favour the status quo in any given situation. When we evaluate a decision or change in state, we do not evaluate the advantage and disadvantages equally. Instead, we place greater emphasis on the disadvantages with a proposed change (for example, the time it will take to learn how to use a new product) than we do any advantage – therefore we have a bias for sticking with the status quo.
- **Mental valuation.** The value that we place on different items at different times can change significantly. Once someone has owned a durable product for some time, use of the product tends to be thought of as free. For example, if a person buys a new home printer they may simply think of it as 'an investment'; once they have the printer, they are unlikely to think about its cost every time they print photos. Instead, they think of the printing as free. In this way, a consumer may not properly consider the costs of a product but simply justify spending as 'an investment'. This effect is enhanced when we feel emotionally attached to a product because we are less likely to think of the product in terms of just the utility it provides.
- **Social influence.** More often than not purchases are heavily influenced by others. We subconsciously take in the behaviour of others to learn how to behave. In the case of consumer electronics, disparities exist between European, Japanese, and American consumers based on cultural and social factors. For example, Japanese consumers highly value new technologies and technology, whereas European consumers are less drawn to new technologies and tend to favour the social value of frugality. However, cultural observations are often generalised. In reality, cultural influence varies greatly within countries and changes continuously.

## Shortcuts during decision-making

We use mental shortcuts to reduce the time and effort required to make a purchasing decision. Below are some of the decision-making shortcuts that are known to affect consumer purchases, together with information on how marketing uses these short-cuts to its advantage:

- **Anchoring.** When we need to estimate the unknown value of something, we often speed up decision-making through a process known as 'anchoring and adjustment'. The process involves starting with a mental fix or anchor – a number that is known or about which a reasonable estimate can be made – and then adjusting the judgement in an appropriate direction. Although this is a useful way of making a reasonable judgement about an unknown, it is

problematic if irrelevant or biased anchors are adopted, or if people fail to adjust their estimations over time. For example, consumers are continuing to pay large amounts for large flat-screen televisions despite the current economic downturn. When shopping for a new flat-screen TV, consumers are presented with significant price cuts over recent years; on average, in 2007 an LCD TV cost €771 compared to €1214 in 2004. Consumers tend to ‘anchor’ to previous prices and compare new prices to these old, higher prices. They therefore perceive flat-screen televisions to be relatively cheap (compared to the anchor price they recall) and so favour them over cheaper, more energy efficient TVs. Similarly, in-store advertising that draws attention to a difference between a recommended retail price and the actual sale price can become attractive. This may be the case even though the consumer would not have been willing to pay the sale price without seeing the advertisement.

- **Framing effects.** The way in which consumers interpret information or the presentation of different options is affected by the way in which the information or options are ‘framed’. The same piece of information has been framed in different ways in Box 1, below.

**Box 1: The effect of information framing**

- A. Buying this energy efficient microwave will save your household, on average, €40 per year in energy bills
- B. Buying a less energy efficient microwave will mean that, on average, you spend an extra €40 per year in energy bills

Even though the statements convey the same information about energy saving, statement B will be more effective than statement A. The reason for this is that individuals are naturally ‘loss averse’. This means we tend to value gains less than we do the costs associated with loss. The differences between the statements capitalise on this fact. While statement A emphasises the benefits (or gains) from purchasing an energy saving microwave, statement B emphasises the costs (or losses). In this instance, because people are naturally much more averse to loss than they are gains, the phrasing of B will be a more effective product marketing campaign than A.

- **The decoy effect.** When consumers evaluate new products, it is nearly always in relation to another product. When faced with a choice of electrical items that are similarly priced but have one noticeably different feature, consumers will be influenced by the variations in this one feature. For example, when faced with identically priced televisions which have different screen sizes, consumers will almost always choose the larger screen TV regardless of whether they actually want or need a bigger screen. In relative terms, the bigger screen size is immediately perceived as a ‘better buy’, despite the fact that picture quality and the practicality of its size might say otherwise.
- **Existing judgements.** When assessing the risk or likely impact of a course of action, consumer judgements are affected by previous experiences and judgements. The energy saving light bulb provides an example where existing judgments based on previous poor experiences of the product acts as a barrier to uptake despite considerable improvements in the technology. These previous experiences bias consumers against change, even where more up to date information highlights the product’s improved quality at the point of sale.

- **Default options.** Default options are the option that a consumer receives if they do not explicitly choose an alternative. In the case of consumer electronics, a 'default' might be the standard product model that a consumer receives if they choose not to add any extra features. Consumers often rely on default options when shopping, particularly when people are faced with difficult decisions or feel that they have insufficient information. In this way, default options are linked to loss aversion – by relying on a standard model, consumers avoid the risks associated with making a choice so avoid potential losses. There is also a tendency for people to assume that a default option is the default for a reason; a standard product model might, for example, be assumed to be the one that most closely meets the needs of the average consumer, or be interpreted as the most basic model (to which additional features can be added). By choosing this option, they act to reduce their chance of buying something worth less than they pay for it or to reduce the risk of suffering some other type of loss.
- **Recognition and branding.** The recognition of known brands, logos or labels, has a major effect on the consumer electronics markets. In situations where consumers are unable to consider properly the advantages of different options, they tend to buy products they have bought before, or a product that they recognise in some way. This is the case even if we remember nothing about the relative qualities of the product itself – recognition of the label (as opposed to the information it conveys) can be sufficient to make someone buy something.

## Consumers and complexity

- **The effect of too much choice.** People have difficulty making decisions when faced with too much choice. Both satisfaction and the ability to make decisions are reduced by choice. As choice increases, making decisions becomes more difficult for consumers. Once the number of choices becomes excessive (for example, if someone has to choose between ten different but similar products) consumers consider fewer product options, process less of the information available to them (for example, in store), and evaluate information differently. Furthermore, consumers may be less happy with a decision when they consider their options more closely, as they become attached to the different options during deliberation. Close consideration of a suite of options can lead consumers to feel loss for the options not chosen.
- **Information provision.** Too much information has been found to confuse consumers; in the case of consumer electronics, consumers do not always understand the meaning of product features or the benefit to them, and are unlikely to read and process information unless they perceive benefits from doing so. Different forms of information will be sought at different points during the purchasing decision-making process. For example, consumers seek product information via consumer reviews and price-comparison websites, mass media and commercial advertising, and word of mouth from friends and family.

*The briefing provides a summary of evidence from behavioural economics and marketing relating to the purchasing of consumer electronics. Full references for all of the evidence presented here can be found in the full project report 'Designing policy to influence consumers' from which a series of briefs has been produced, including an overview of consumer behaviour and product policy (Briefing note 1).*