

Consumer Psychology

Lecture 1: Consumers as Humans

Tuesday 3 Oct 2017

Lecturer: Sam Johnson

Note: This lecture is being recorded

Question: What is the best way to take notes?

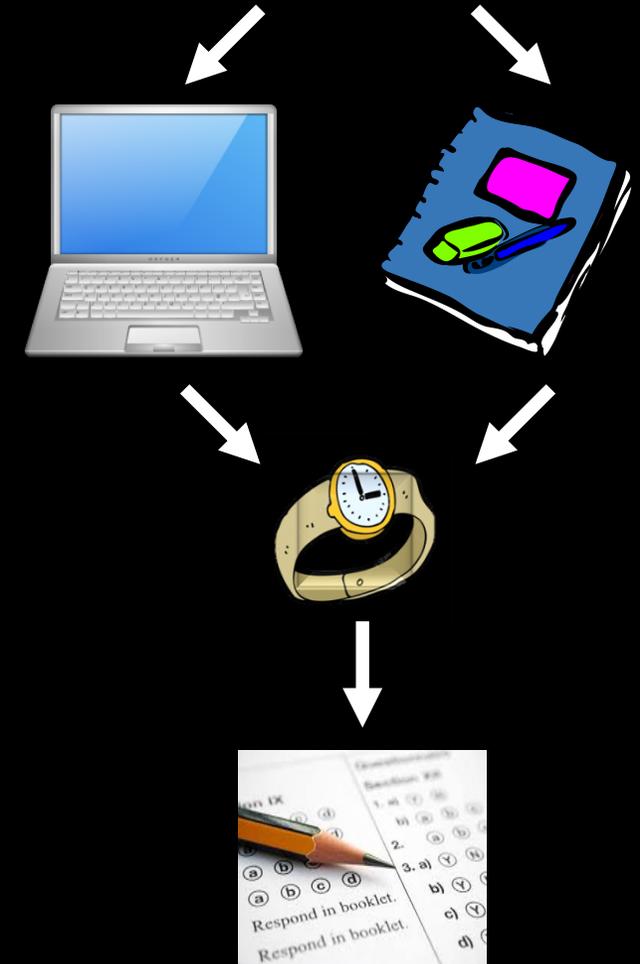


Making this question tractable

- *Operational definition: Which method leads to better test scores after studying some material?*
- What are some approaches to answering this question?
 - *Observational*
 - *Experimental*

How did the study work?

- Students watched 5 TED talks
- Took notes (laptop or longhand)
- 30 minute wait
- Answered questions
 - Factual: “Approximately how many years ago did the Indus civilization exist?”
 - Conceptual: “How do Japan and Sweden differ in their approaches to equality?”



What happened?

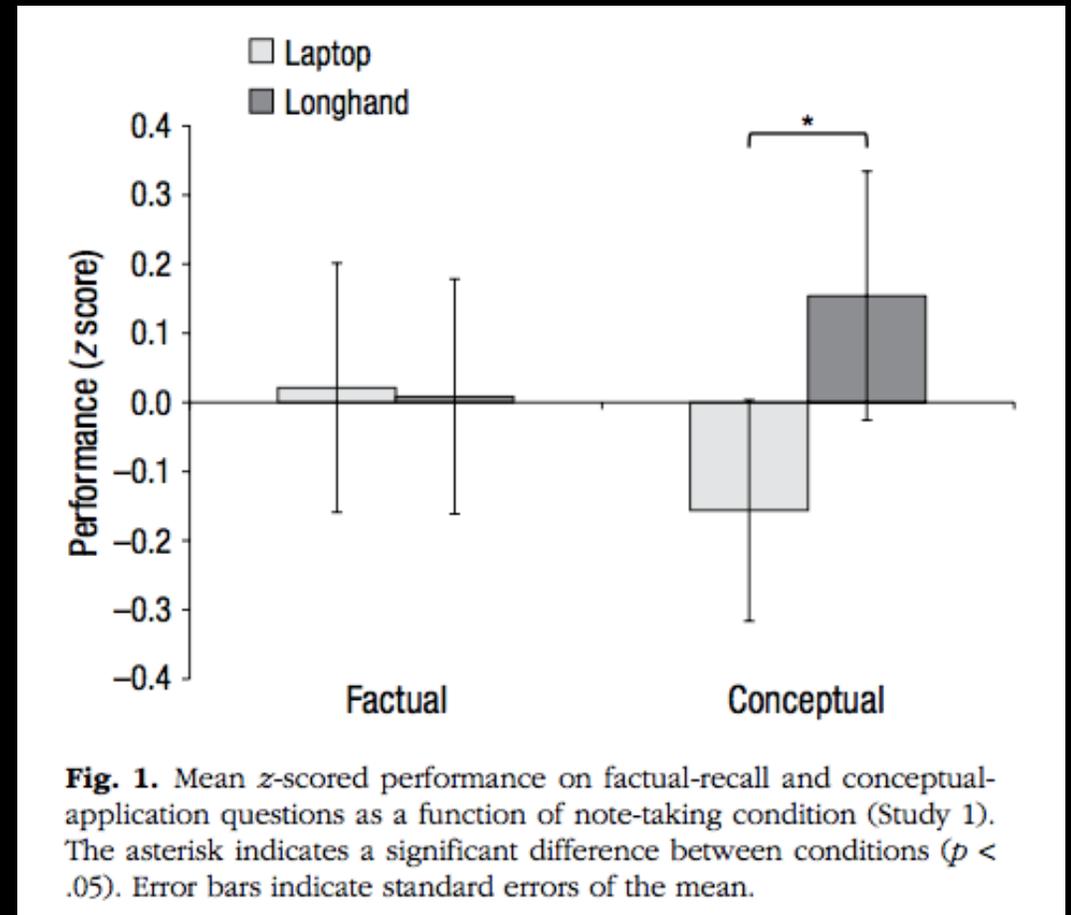


=> Worse performance



=> Better performance

- Longhand group did better than laptop group on conceptual questions
- Performance was similar for factual questions



Why?



=> More words



=> Fewer words

- Overall, students who wrote more words did better on the test
- So, something else must be going on

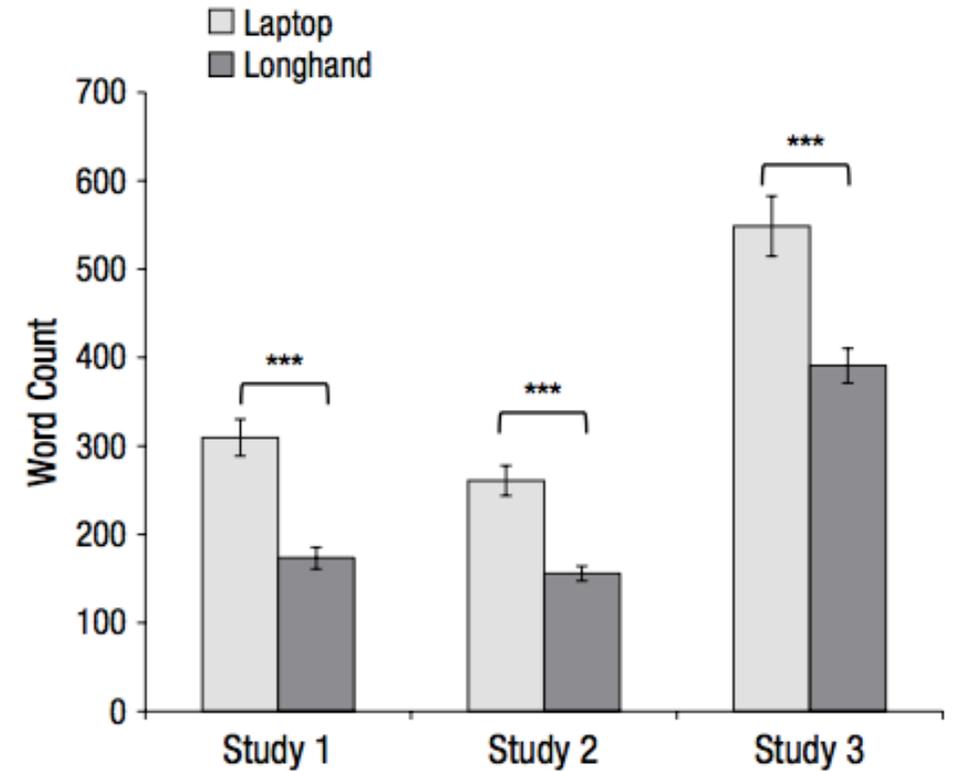


Fig. 2. Number of words written by students using laptops and notebooks in Studies 1, 2, and 3. Asterisks indicate a significant difference between conditions ($p < .001$). Error bars indicate standard errors of the mean.

Why?



=> More *verbatim* note-taking



=> More *paraphrasing*

- Overall, students who paraphrased did much better on the test
- Paraphrasing is important enough that it more than made up for the smaller number of words

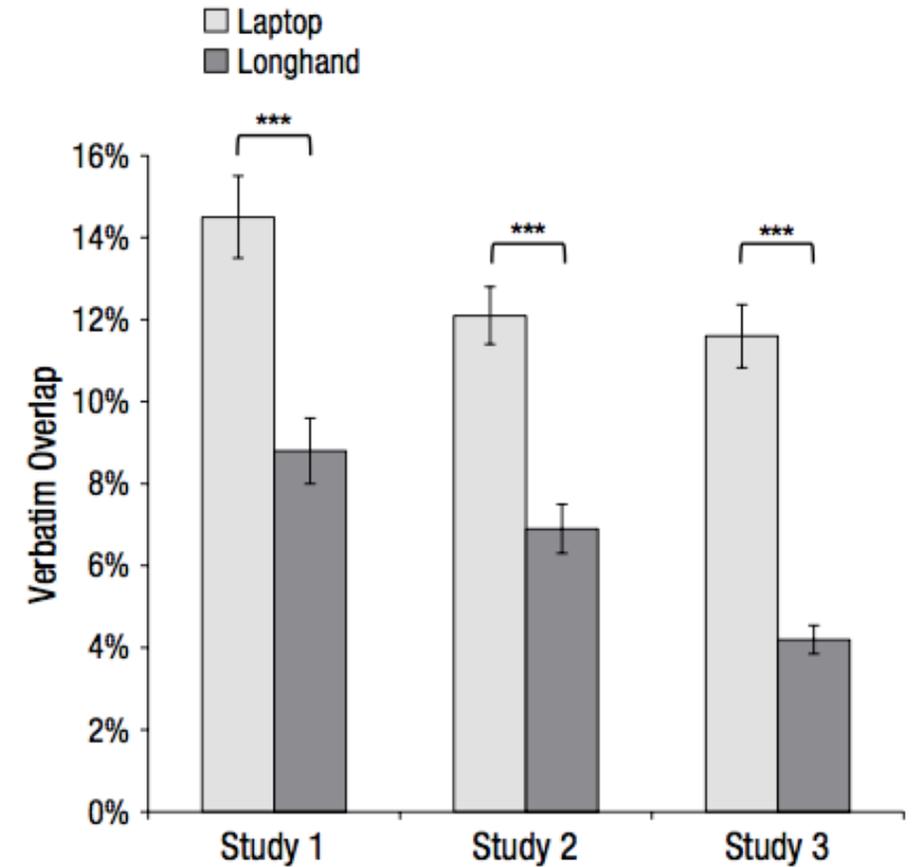


Fig. 3. Percentage of verbatim overlap between student notes and lecture transcripts in Studies 1, 2, and 3 as a function of note-taking condition. Verbatim overlap was measured using 3-grams (i.e., by comparing three-word chunks of text in the student notes and lecture transcripts). Error bars indicate standard errors of the mean.

Behavioral experiments

- Allow us to pose questions (and clarify what we mean)
- Sometimes the answers are surprising
- These methods can tell us not only *what* is true, but also *why*
- These experiments can have important practical implications

Behavioral experiments

- Applied to a huge range of questions in business and policy
 - Why does a consumer buy one product over another?
 - How do investors choose how to allocate their portfolio?
 - How can managers motivate their employees?
 - When are citizens more or less likely to follow the law?
 - How can a parent convince her child to eat her vegetables?
 - How can we live happier lives?

This course

- *Consumer psychology*: Behavioral science applied to consumers
- You will learn:
 - Psychological theory characterizing how humans are the same
 - Psychological theory characterizing how humans differ
 - A framework for thinking about human decision-making
 - Empirical results that can inform business and other life choices
 - How behavioral scientists produce knowledge

Why take this course?

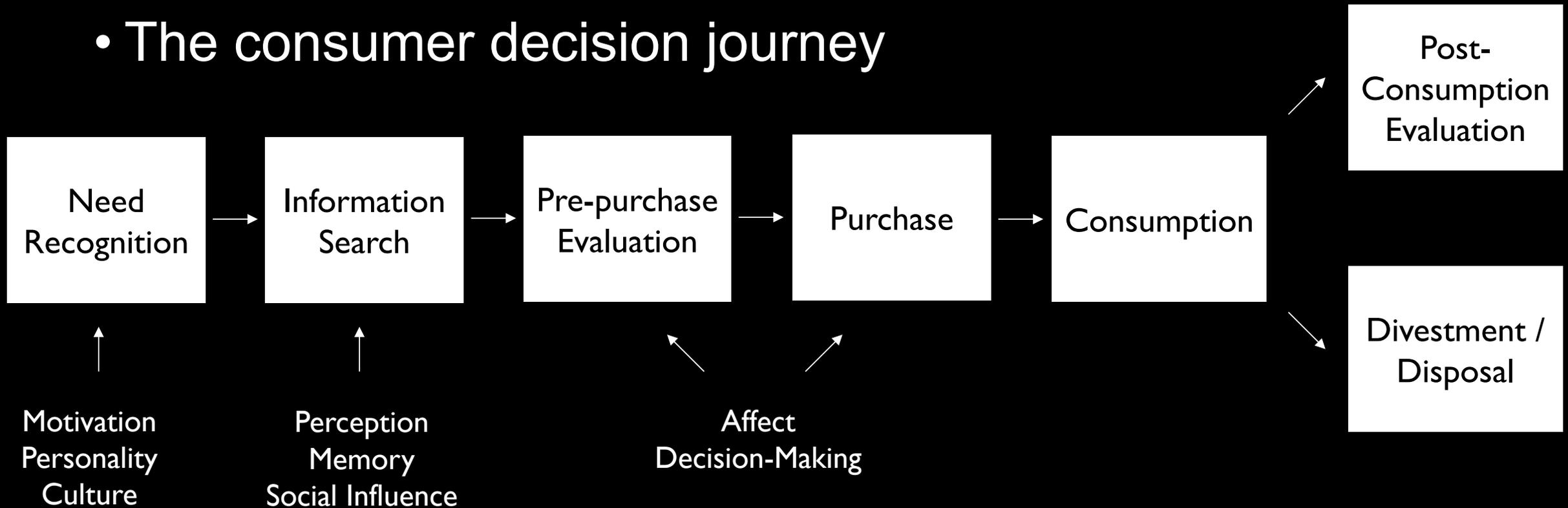
- Behavioral science is *really interesting*
 - It's about how things work – and the things are *people*
 - It's about what is hidden beneath the surface – it will change the way you think about yourself and others
 - Science is always evolving, but uses reliable methods – you can have *open-minded confidence* in its conclusions

Why take this course?

- Behavioral science is *really useful*
- Remember the 5 Ps?
 - Product: *How do customers decide what they need?*
 - Price: *How do customers respond to price changes?*
 - Place: *How do customers move through a store?*
 - Promotion: *What kinds of ads are most persuasive?*
 - People: *How can your company form a relationship with customers?*

Why take this course?

- Behavioral science is *really useful*
- The consumer decision journey



The team

s.g.b.johnson@bath.ac.uk

e.b.schweiger@bath.ac.uk



Sam Johnson
(Unit Convener)



Yvetta Simonyan



Debbie Desrochers



Haiming Hang



Elisa Schweiger
(Seminar Leader)

Lectures

Introduction (W1)
Perception (W2)
Memory (W3)

Attitudes (W5)
Decisions (W6)

Social Influence (W8)
Culture (W9)

Motivation (W7)
Personality (W10)

Neuroscience (W4)

Readings

- Textbook: *Consumer Behaviour: A European Perspective* (6th Ed.)
 - This week's reading: Chapters 1 and 3
 - Next week's reading: Chapter 4
- Supplementary readings will be posted to Moodle
- For now, course materials available on my website:
www.sgbjohnson.com

Assessment

- No exam!
- Two types of assessments:
 - Data-driven insights project (50%)
 - Application exercises (25% x 2 exercises)
- Due date: Friday, 15 December at noon to Moodle

Application exercises

- One topic per lecture; choose two topics
- Examples:
 - Visiting a store and studying its layout choices
 - Analyzing two advertisements in terms of their memorability
- Deliverables: PowerPoint (up to 5 slides; max 750 words)

Data-driven insights project

- Form teams of 4–6 in Week 2 seminar
- Projects will address a marketing question
 - Can be related to any topic in class
 - Must be motivated by psychological theory or studies
 - Must have potential to deliver consumer insights
- Projects will involve data collection
 - Can be qualitative (interviews, focus groups, observations) or quantitative (survey, experiment)
- Details in Weeks 2 and 4 seminar (guidelines, examples)
- Project pitches in Week 6 seminar

Data-driven insights project

- Assessment: Individual write-up
- Should address:
 - What is your research question?
 - How does your question build on previous research?
 - What is your hypothesis?
 - What did you do?
 - What did you find?
 - How does it inform real-world marketing questions?
- Deliverable: PowerPoint (up to 15 slides; max 2000 words)

Today

- Economics and psychology:
Is there room for two social sciences?
- Consumers as humans, Lesson 1:
Consumers have human bodies

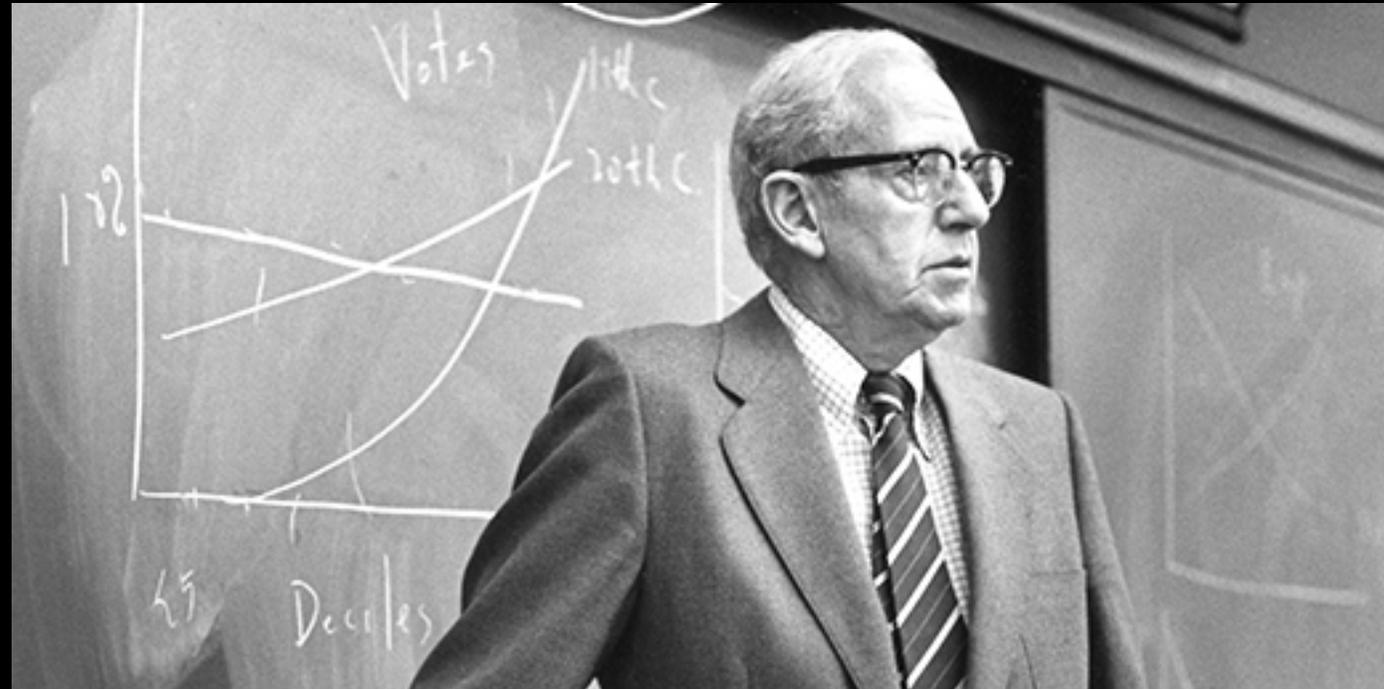
Economics and psychology:

Is there room for two social sciences?

Do we need another social science?

“There is only one social science and we are its practitioners”

- George Stigler (1911–1991)
1982 Nobel Laureate



Economic explanations of behavior

- Assume that consumers (and investors, employees, managers, politicians, etc.) are rational and selfish
- How far can we get with such explanations?

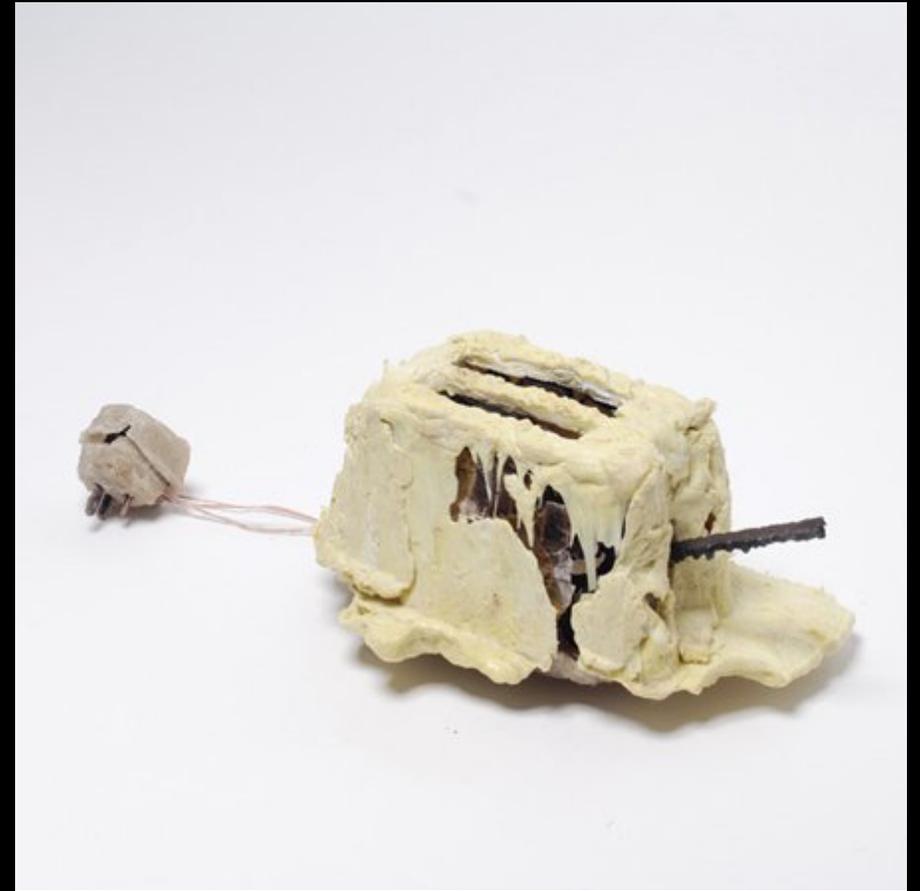
Core ideas in economics

- The division of labor enhances productivity
- We gain from trading with other specialists
- Prices allow coordination among producers and consumers
- Profit-and-loss accounting incentivizes efficiency
- Competition among producers spurs innovation

Thomas Thwaites made his own toaster



Price: £5.00



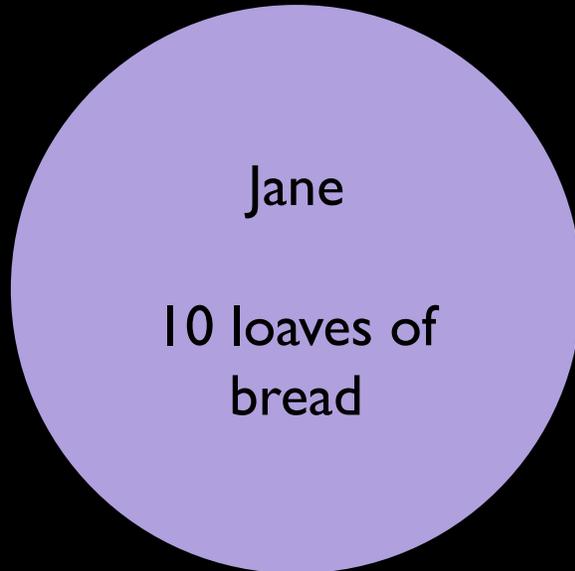
Cost: £1187.54 + 9 months of work

Self-sufficient



Society has:
2 loaves of bread
6 firewood logs

Specialized



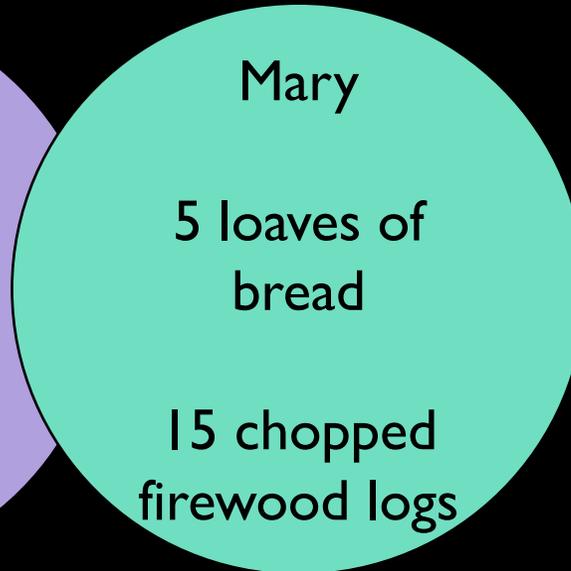
Society has:
10 loaves of bread
30 firewood logs

Self-sufficient



Society has:
2 loaves of bread
6 firewood logs

Trading



Society still has:
10 loaves of bread
30 firewood logs

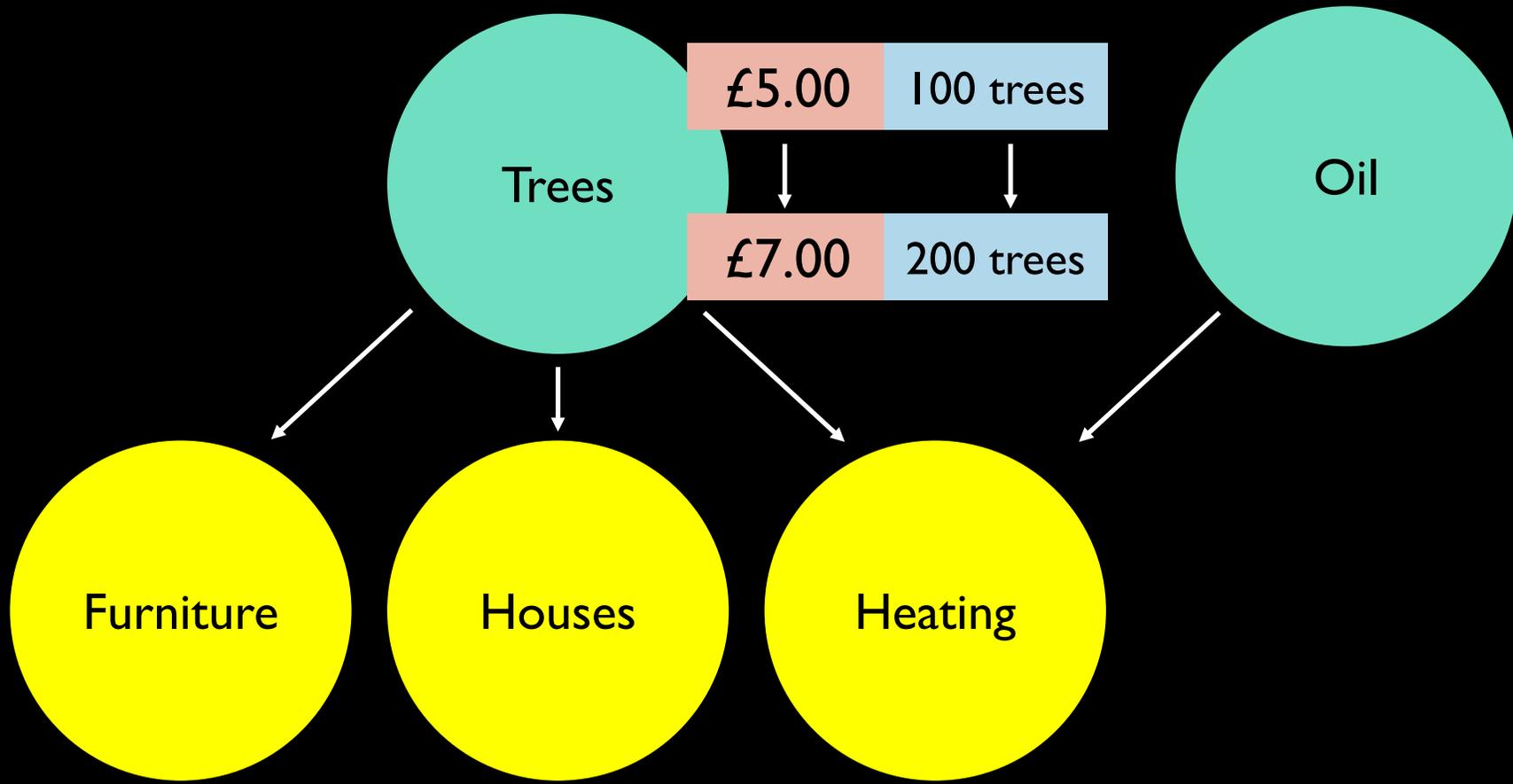
But Jane and Mary
both better off

Specialization

- “The division of labor is limited by the extent of the market” (Adam Smith)
- Lesson for marketing: Larger markets => more specialization
 - More specialized products (carving out market niche)
 - More specialized supply chains (reducing costs)

Trade

- Bill purchases a shirt for £12.00 from Jack's store
- Who benefited from this trade?
 - Jack, because the shirt only cost him £9.00
 - Bill, because he would have been willing to pay £16.00 (WTP)
- *Consumer surplus*: $WTP - price$ (£16.00 – £12.00)
- *Producer surplus*: $Price - costs$ (£12.00 – £9.00)
- Lesson for marketing: You need to produce something that people want – otherwise the price will not cover costs



Prices

- *The invisible hand*: Feedback loop among supply, demand, price



- Prices allow *coordination*
 - Nobody knows how to make a toaster!
- Lesson for marketing: Consumers are price-sensitive
 - More true for some products than others (*elasticity of demand*)
 - More true for some consumers than others

Profits

- A business should not exist unless it produces outputs that have greater value than its inputs
- A business *cannot* exist if it does not make a profit
- *Consumer sovereignty*: Consumers determine what is produced by voting with their dollars
- Lesson for marketing: If your business is not profitable, it is not adding value; equivalently, the greater your profits, the more value your business is adding to society

Innovation

- Jane is not the only baker and Mary is not the only woodcutter
 - Competition on price
 - Competition on quality (innovation)
- Innovation is challenging because you must think of needs that consumers may not even know about
 - Henry Ford: “If I had asked people what they wanted, they would have said faster horses.”
- Lesson for marketing: Sometimes you can't just ask consumers what they want

Core ideas in economics

- The division of labor enhances productivity
- We gain from trading with other specialists
- Prices allow coordination among producers and consumers
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Please take a 5 minute break

Visions of human nature (in caricature)

Economics

Calculating

Unlimited

Selfish

Competitive

Agents

Psychology

Emotional

Limited

Altruistic

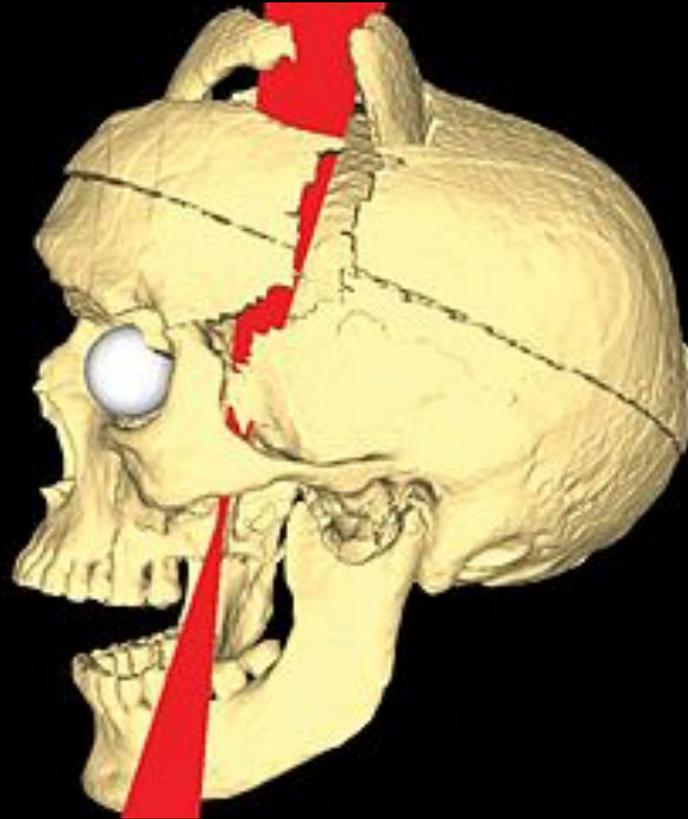
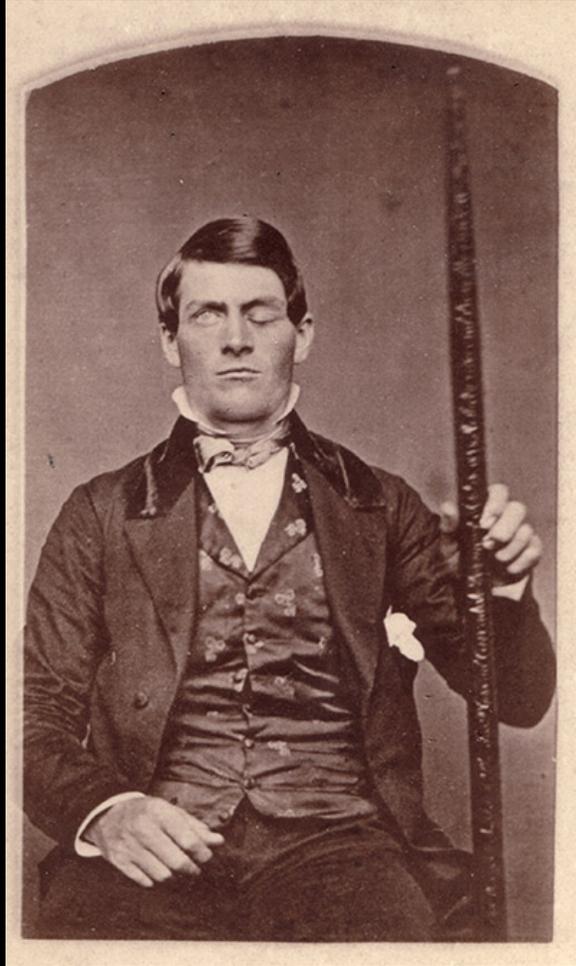
Cooperative

Animals

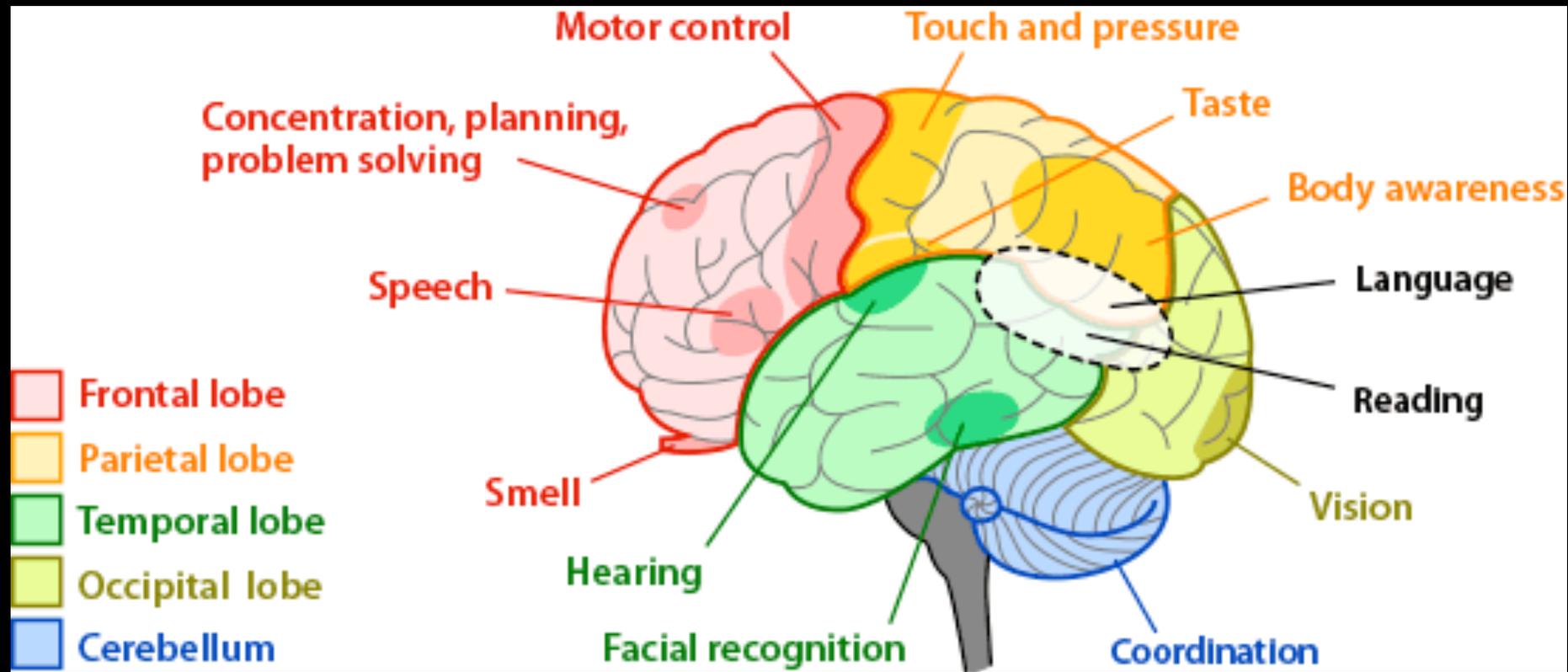
Core ideas in psychology

- Humans are finely-tuned pieces of meat
 - Thinking happens in the brain
 - The brain evolved over millions of years
- Humans are multiply motivated
- Emotions are crucial to decision-making
- We face cognitive limitations
- We simplify problems using heuristics

Finely-tuned pieces of meat

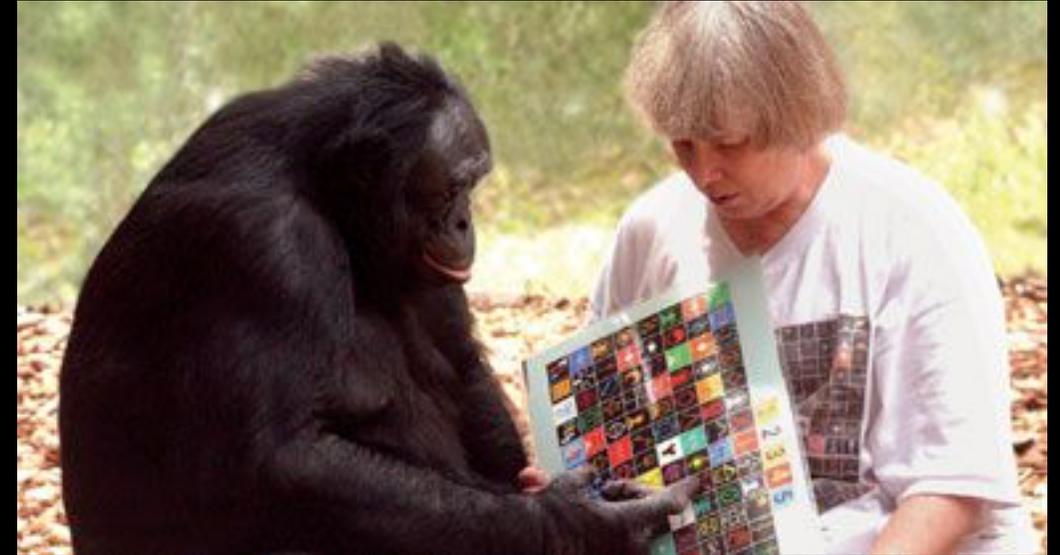


Finely-tuned pieces of meat



Finely-tuned pieces of meat

- Uniquely human qualities:
 - Language
 - Imagining the future
 - Culture and sophisticated tool use
 - “Mindreading”
 - Extended social cooperation

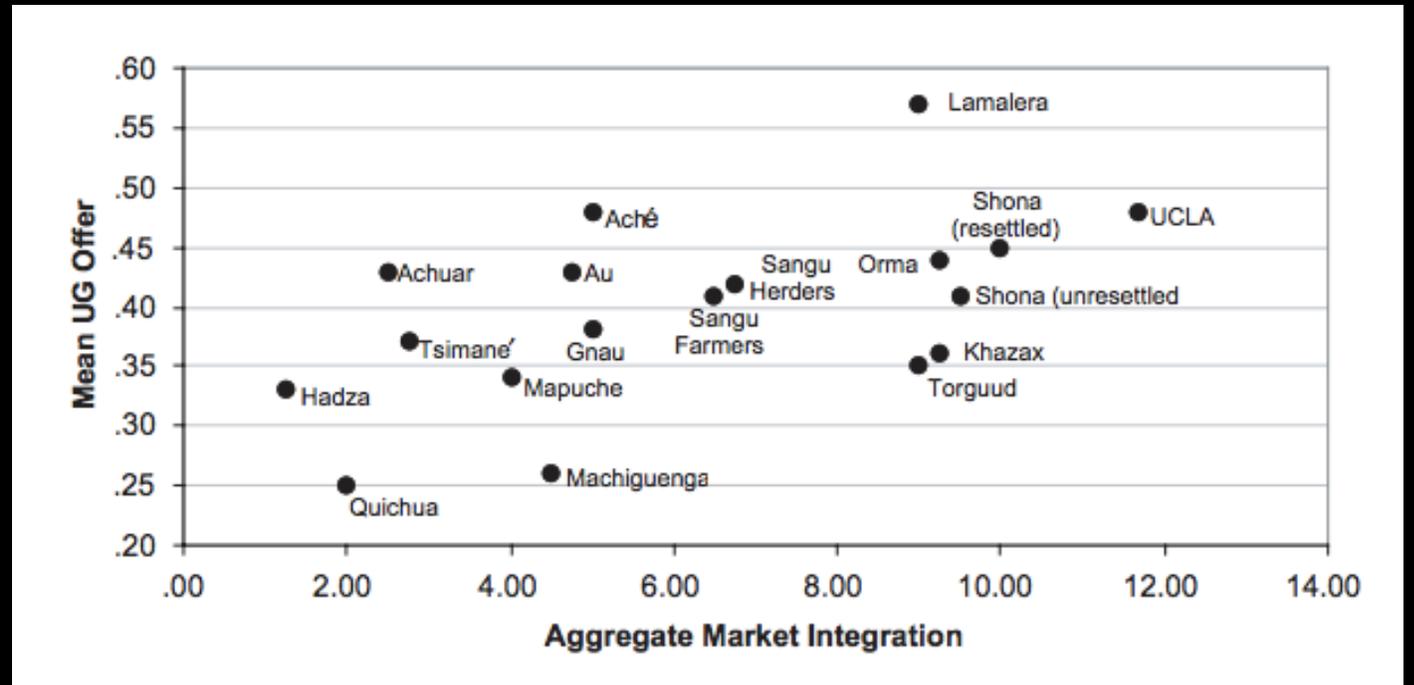
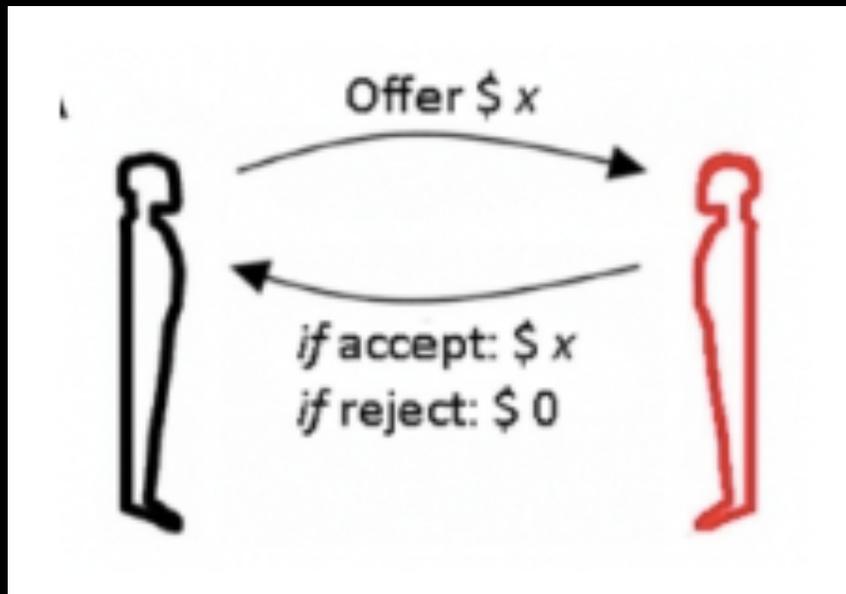


Motivation

- Adam Smith: *The Wealth of Nations*
 - “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”
- Adam Smith: *Theory of Moral Sentiments*
 - “Man naturally desires, not only to be loved, but to be lovely”

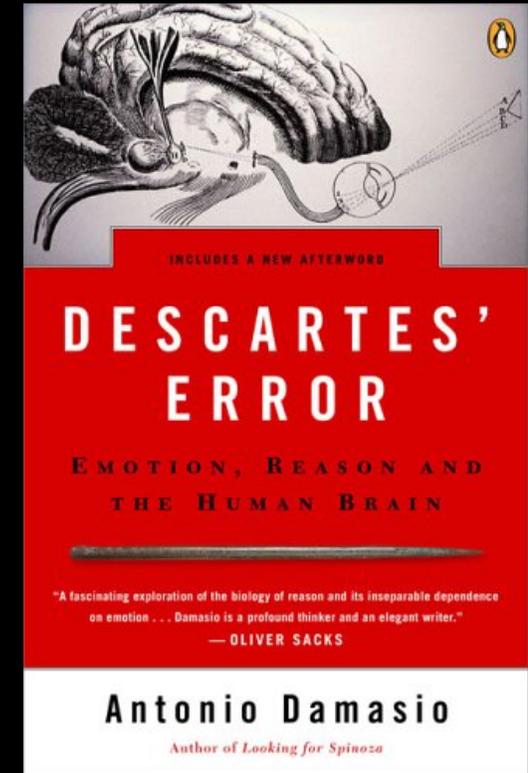
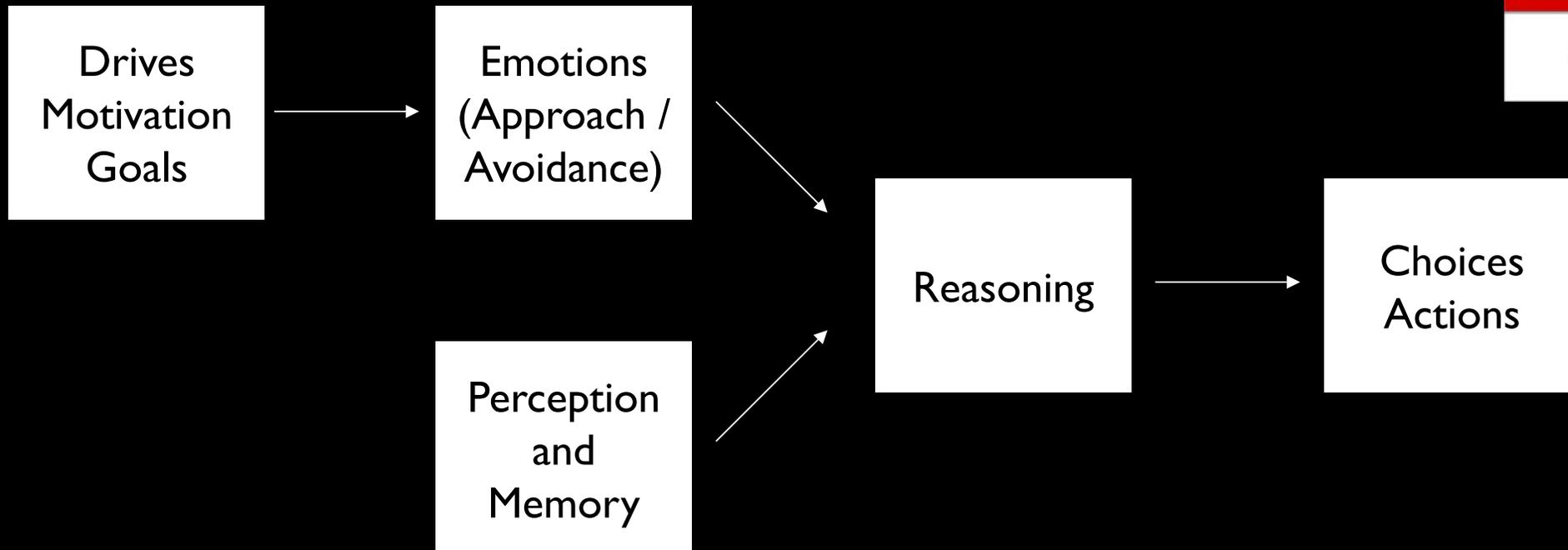
Motivation

The ultimatum game



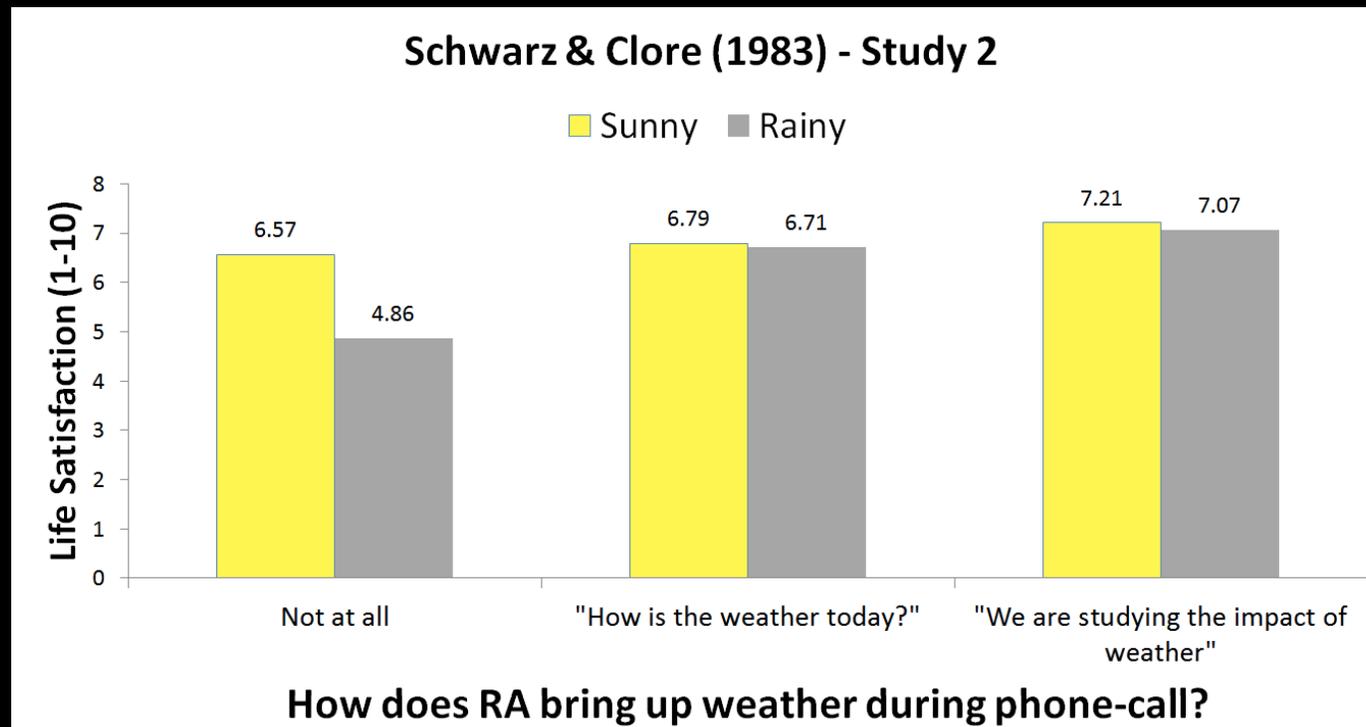
Emotion

- David Hume: “Reason is and ought only to be the slave of the passions”



Emotion

- But emotion can also lead us astray



Bounded rationality

- Herbert Simon: bounded rationality
 - Humans are limited in our calculating ability

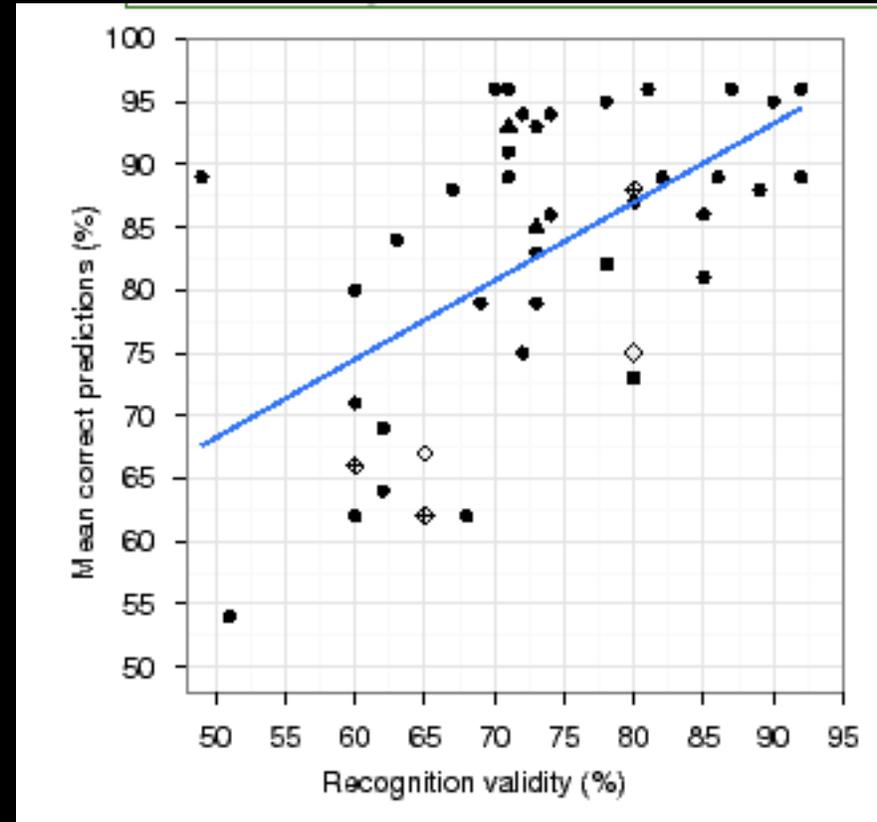
*Lexicographic
Decision Rule*

Quality	Flat A	Flat B
Price	Quite Expensive	Bargain
View	Pretty Good	Nonexistent
Stairs	Lots of Stairs	Ground Floor
Location	Moderately Convenient	Very Convenient
Transport	Very Good	Excellent
Kitchen	Excellent	Acceptable

Bounded rationality

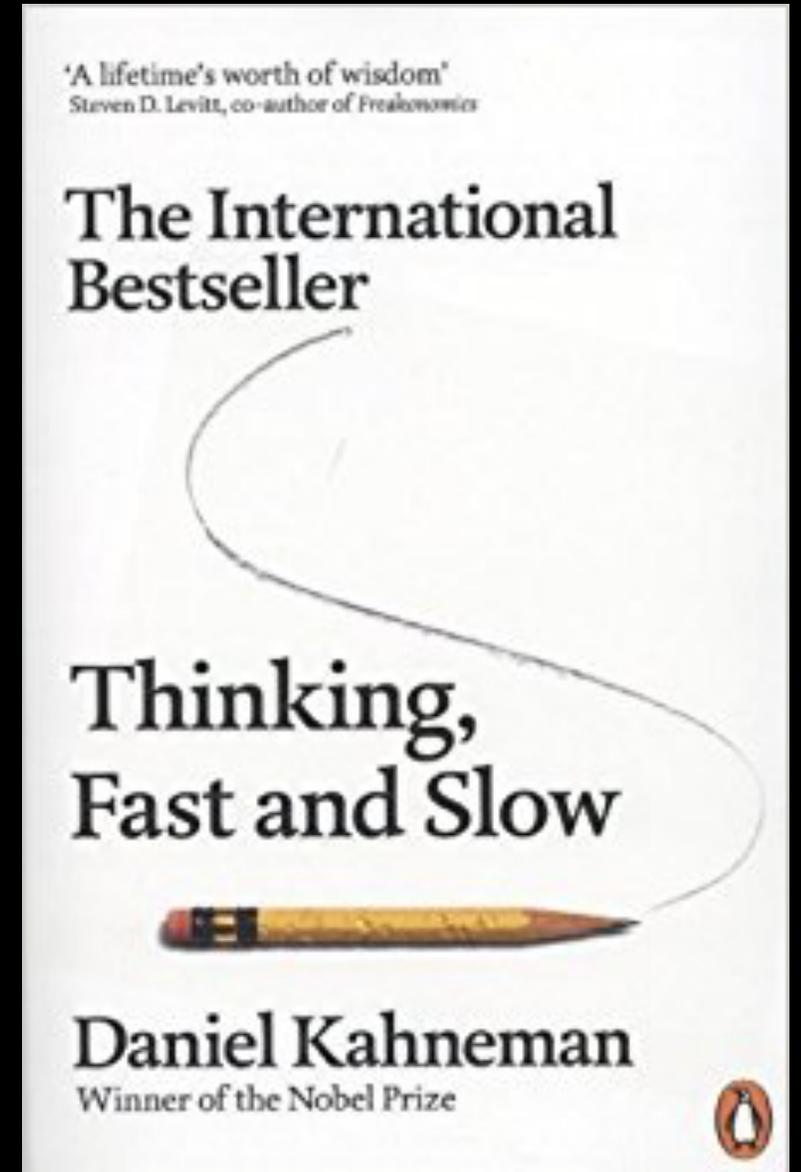
- Sometimes these limitations actually lead to better answers

*Recognition
Heuristic*



Heuristics and biases

- Daniel Kahneman & Amos Tversky:
 - *Heuristic*: Simple rule-of-thumb
 - *Bias*: Systematic mistake caused by a heuristic



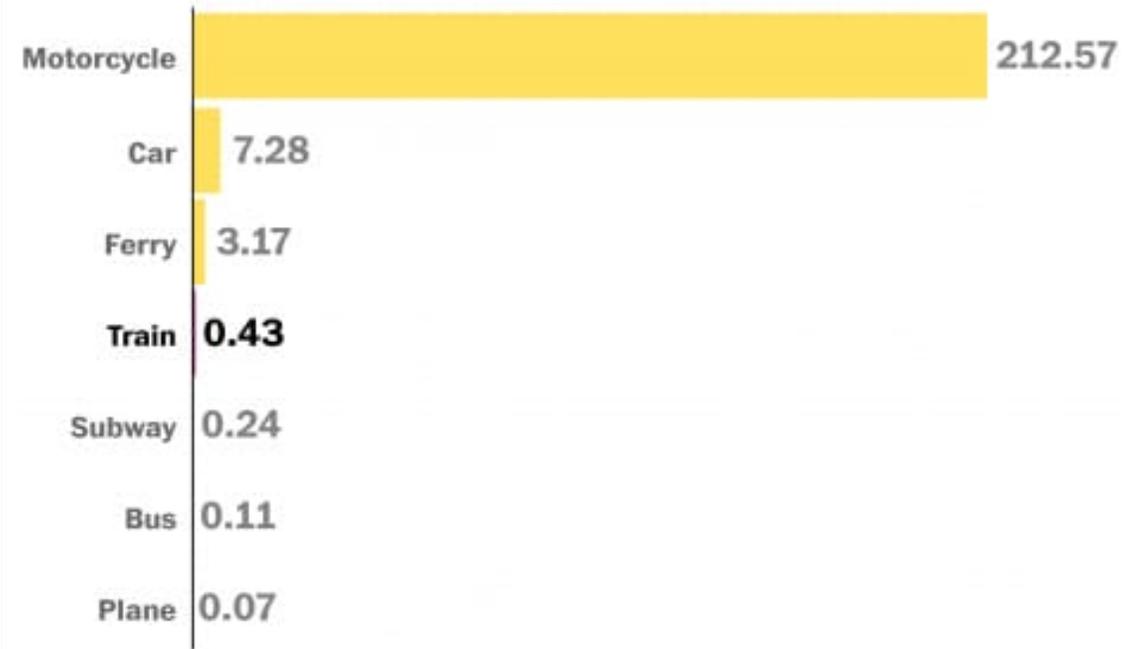
Heuristics and biases

- Which is safer?



Availability heuristic

Passenger deaths per 1 billion passenger miles, 2000 to 2009.



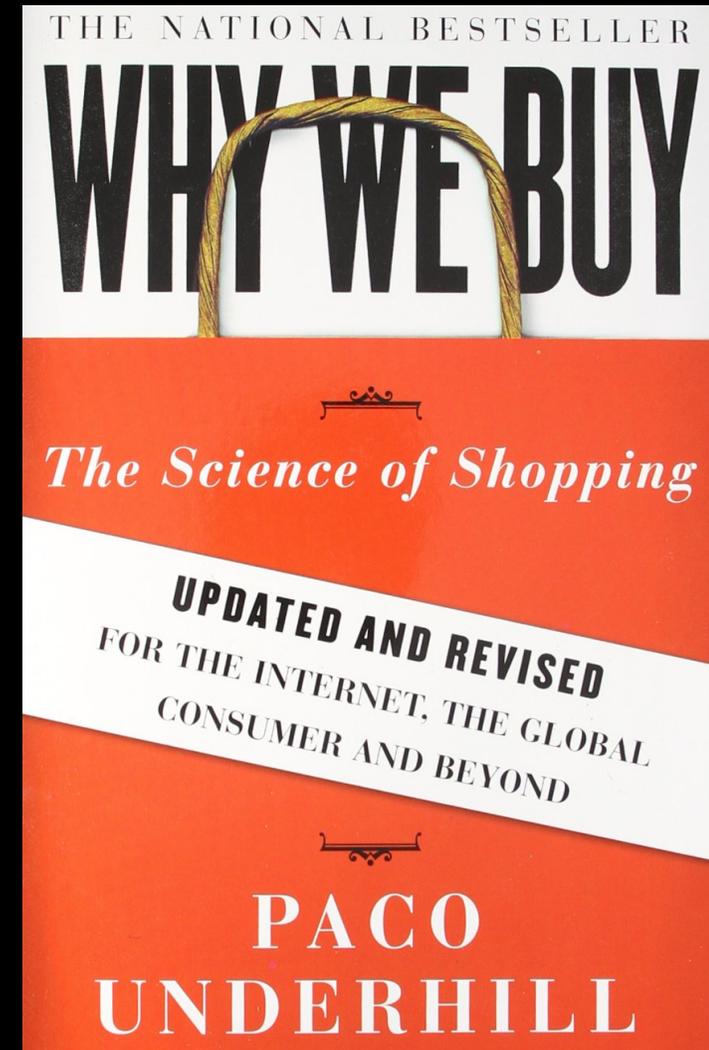
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Consumers as Humans, Part 1: Consumers Have Human Bodies

The human body

- *Environmental psychology*: How humans behave in environments such as stores, offices, etc.
- Retail environment must be sensitive to the human body:
 - Height
 - Hands
 - Walking
 - Eyes
 - Children



Height

- The vast majority of adults are 140–190 cm in height
 - Men on average 12 cm taller than women
- Carefully consider shelf placement of items
 - People cannot reach very high shelves
 - People do not like bending over to reach low shelves
 - Example: Underwear sizes
- *Demographic segmentation*: Sometimes products can be marketed differently to different groups
- Example: Who buys dog treats?

Hands

- Hands are critical for holding purchases and for examining new products
- You only have two!
 - This is a bigger problem in some stores than in others
 - Example: News stand
- Most people are right-handed
 - Some environments are asymmetric (e.g., drive-thru, check-out)
 - Right-handed people more likely to brush something to their right

Walking

- People walk and look forwards
 - This is why merchandise gets much more attention at the end of the aisle
- People in most countries have a rightward walking bias – but leftward in the UK
 - Beware of what is to the immediate right of the store entrance
 - Consider clockwise vs. counterclockwise order around perimeter
- The “decompression zone”
 - Not an ideal area for promotions
 - People will not necessarily take a basket here
 - Size can be manipulated by marking a change in environment

Vision

- Signs
 - Most important factor isn't what it says, but *where it is*
 - Think about where customers are moving vs. waiting
 - Signs should capture attention and reveal information systematically
- Visual impairment
 - Especially among older people
 - Important issue for *high-involvement* products for which people read the fine print (e.g., drugstore)
 - Typefaces should be large and high-contrast

Children

- Parents (both fathers and mothers) are likely to shop with their children
 - Stores must be child-friendly (no sharp corners, room for strollers)
- Children *love* to touch things
 - An opportunity for strategic shelving
 - A liability if parents become annoyed
- *Efficient adjacency*: Strategically placing items near one another in a store
 - Placing children's sections next to areas their parents are likely to shop

Application exercise: Week1option

Choose a store in the town of Bath.

Using the principles of environmental psychology, analyze three features of the store – two that do a good job of accommodating the human body and one that does a poor job. Try to supplement your presentation with pictures.

What can other stores learn (both what to do and what *not* to do) from this analysis?

Next week

- Read Chapters 1 and 3 of the textbook
- Seminar on Monday
 - Critical to attend because you will form your project groups
- Lecture on Tuesday (Sensation & Perception)