

Consumer Decision-Making Models, Strategies, and Theories, Oh My!

By Michael Richarme

How do consumers make decisions? This question is at the core of much of marketing examination over the past 60 or 70 years. As marketers manipulate the various principles of marketing, so do the consumers they seek to reach—choosing which products and services to buy, and which not to buy, choosing which brands to use, and which brands to ignore. The focus of this paper is to examine the major decision-making models, strategies, and theories that underlie the decision processes used by consumers and to provide some clarity for marketing executives attempting to find the right mix of variables for their products and services.

Three Decision-Making Models

Early economists, led by Nicholas Bernoulli, John von Neumann, and Oskar Morgenstern, puzzled over this question. Beginning about 300 years ago, Bernoulli developed the first formal explanation of consumer decision-making. It was later extended by von Neumann and Morgenstern and called the *Utility Theory*. This theory proposed that consumers make decisions based on the expected outcomes of their decisions. In this model consumers were viewed as rational actors who were able to estimate the probabilistic outcomes of uncertain decisions and select the outcome which maximized their well-being.

However, as one might expect, consumers are typically not completely rational, nor consistent, nor even aware of the various elements that enter into their decision-making. In addition, though consumers are good at estimating relative frequencies of events, they typically have difficulty translating these frequencies into probabilities. This Utility model, even though it had been viewed as the dominant decision-

making paradigm, had serious shortcomings that could not be explained by the model.

Nobel Laureate Herbert Simon proposed an alternative, simpler model in the mid-1950s. This model was called *Satisficing*, in which consumers got approximately where they wanted to go and then stopped the decision-making process. An example of this would be in the search for a new apartment. Under the Utility Theory, consumers would evaluate every apartment in a market form a linear equation based on all the pertinent variables, and then select the apartment that had the highest overall Utility Score. With Satisficing, however, consumers might just evaluate apartments within a certain distance to their desired location, stopping when they found one that was “good enough.” This theory, though robust enough to encompass many of the shortcomings of Utility Theory, still left significant room for improvement in the area of prediction. After all, if a marketing executive couldn’t predict consumer behavior, then what use would a decision-making paradigm be? Simon and others have extended this area in the investigation of the field of bounded rationality.

Following Simon, additional efforts were made to develop better understandings of consumer decision-making, extending beyond the mathematical optimization of Utility Theory and the somewhat unsatisfying Satisficing Theory. In the late 1970s, two leading psychologists, Daniel Kahneman and Amos Tversky, developed the *Prospect Theory*, which expanded upon both the Utility Theory and Satisficing Theory to develop a new theory that encompassed the best aspects of each, while solving many of the problems that each presented.



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Two major elements that were added by Kahneman and Tversky were the concepts of *value* (replacing the utility found in Utility Theory) and *endowment*, in which an item is more precious if one owns it than if someone else owns it. Value provided a reference point and evaluated both gains and losses from that reference point. Additionally, gains and losses had a marginally decreasing increase from the reference point. For example, there was a much greater value for the first incremental gain from the reference point than for subsequent gains.

Seven Decision-Making Strategies

What this all led to was the development and exploration of a series of useful consumer decision-making strategies that could be exploited by marketers. For each product, marketers needed to understand the specific decision-making strategy utilized by each consumer segment acquiring that product. If this were done, marketers could position their product in such a manner that the decision-making strategy would lead consumers to select their product.

The first two strategies are called *compensatory strategies*. In these strategies, consumers allow a higher value of one attribute to compensate for a lesser value of another attribute. For example, if a consumer is looking at automobiles, a high value in gas mileage might compensate for a lower value in seating space. The attributes might have equal weight (*Equal Weight Strategy*) or have different weights for the attributes (*Weighted Additive Strategy*). An example of the latter might be to place twice as much importance on gas mileage than seating space.

The next three strategies are called *noncompensatory strategies*. In these strategies, each attribute of a specific product is evaluated without respect to the other attributes, and even though a product may have a very high value on one attribute, if it fails another attribute, it is eliminated from consideration. From Simon, the first of these is *Satisficing*, in which the first product evaluated to meet cutoff values for all attributes is chosen, even if it is not the best. The second of these strategies, *Elimination by Aspects*, sets a cutoff value for the most important attribute, and allows all competing

products that meet that cutoff value to go to the next attribute and its cutoff value. The third strategy, *Lexicographic*, evaluates the most important attribute, and if a product is clearly superior to others, stops the decision process and selects that product; otherwise, it continues to the next most important attribute.

The next two strategies are called *partially compensatory strategies*, in that strategies are evaluated against each other in serial fashion and higher values for attributes are considered. The first of these strategies is called *Majority of Conforming Dimensions*, in which the first two competing products are evaluated across all attributes, and the one that has higher values across more dimensions, or attributes, is retained. This winner is then evaluated against the next competitor, and the one that has higher values across more dimensions is again retained. The second partially compensatory strategy is called *Frequency of Good and Bad Features*, in which all products are simultaneously compared to the cutoff values for each of their relevant attributes, and the product that has the most “good” features that exceed the cutoff values is the winner.

There are other expansions upon these seven basic consumer decision-making strategies, but they are generally captured as shown above. However, two major areas of marketing theory also help to provide additional explanatory power to these strategies.

Two Marketing Theories

The first marketing theory is called *Consideration*. In this theory, consumers form a subset of brands from which the decision-making strategies are applied. For example, if asked to enumerate all the restaurants that one could recall, the list might be quite extensive for most consumers. However, when a consumer first addresses the question of where to dine that evening, a short list of restaurants that are actively considered is utilized for the decision-making process. Multistage decision-making models were summarized by Allan Shocker, in which the increasing complexity of a decision produces more steps in the decision process. In essence, more cognitive effort would be expended in evaluating mem-

bers of the consideration set and reducing that number to an eventual choice.

The second marketing theory is called *Involvement*, in which the amount of cognitive effort applied to the decision-making process is directly related to the level of importance that the consumer places on acquisition of the specific product. For example, there is rarely a significant amount of decision-making applied to the selection of a pack of chewing gum at the grocery store checkout counter, but there is a much greater amount of decision-making effort applied to the purchase of a new cell phone. This degree of involvement is not necessarily a function of the price, but is more related to the perceived impact on the quality of life of the consumer. The quality of life can come directly from the benefits supplied by the product, or can come indirectly from the social accolades or sanctions provided by members of the peer group.

Summary

Application of the three decision-making models, the seven decision-making strategies, and the two marketing theories can be seen in current efforts by marketing practitioners and academicians to tease apart the complex decisions made by consumers. For example, choice models and conjoint models are multivariate analysis techniques based on these understandings. Consumers are presented with choices in controlled environments that, hopefully, control for other

confounding variables, and then the choices are decomposed to understand both the conscious and unconscious elements driving the consumers' choices.

One caveat for practitioners is important to address at this point. When one is attempting to manipulate marketing variables such as price or promotion, or even conduct research into consumer decision making, it is critical that a solid theoretical base be used. Without this base, the surveys have the potential of producing contradictory or misleading answers, and the attempts to manipulate the variables at hand may produce less than satisfying results.

In summary, this area of investigation is complex and uncertain, though extremely promising. The fields of economics, psychology, sociology, and marketing are all deeply involved in trying to move this research forward, with often

conflicting research streams and terminology. However, the end result—gaining a better understanding of how consumers make decisions—is of great theoretical and practical value to all involved. As such, it will continue to be a major research area in all the above fields.

Note:

Both information and insights were provided for this paper by Dr. Daniel Levine, Professor of Psychology, University of Texas at Arlington.

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