UNIT 7: DECISION MAKING

QUESTION #7.1: How are most purchase decisions made?

SHORT ANSWER: most decisions are made by a referral to a quick heuristic such as routine, randomization, authority or affect.

Most people do not spend a lot of time pondering over most of the decisions that they make. Rather than using a complex **algorithm** that will lead to the best possible decision, most people employ a quick **heuristic**.

http://www.youtube.com/watch?v=bYwzBI44Wxw

The majority of decisions about which brand to buy are not the result of much conscious deliberation. Perhaps the most widely employed heuristic is known as **routinized** behavior. This is where the consumer has become **brand loyal**. Each time that he runs out of his supply of the project, he simply refills his order with the same brand. He does not regard the need for a refill as an occasion to rethink he previous decision, or to see what the competitors have been doing in the meantime. Therefore, the goal of marketers is to build brand loyal customers that will ignore the advertisements, price cuts, and product improvements of the competitors. Having such a brand loyal customer gives you a de facto monopoly, with the implication that you can impose monopoly pricing.

Remember that most people are risk adverse, and live by the motto “If it ain't broke, don't fix it." Their dedication to a certain route for getting to work, or shopping at a certain grocery store has been based upon past experiences, and careful reasoning. Unless something major changes in their own priorities, or in the ability of that brand to meet those priorities, the subjects will continue to meet their priorities by sticking to that brand. The strategy in keeping these customers brand loyal is to make sure that the products retain whichever attribute initially attracted the customer (and hope that the customer’s priorities do not change).

Approach	Routinized Behavior
What it is	Repeat purchase of same brand
Example	I have been buying Crest toothpaste for twenty years.
Advantage(s)	Saves time comparison shopping, AND Assures consistently acceptable results.
Disadvantage	May miss out on new alternatives that are superior.

External referral is another cautious way to make decisions (or as some might say, avoid making decisions). The individual decision maker "passes the buck" or "follows the book." This may be the wisest strategy when it is important to get the approval of someone else.

One example where this is an appropriate strategy is with young children. We parents want them to come to us when they want to purchase something at the store, so that we can approve or disapprove, and hope that our disapproval will be a final veto not to be over-ridden.

Another example would be in the context of a household where one member defers to another's greater expertise or stake in the outcome. For example, when I receive an email about a sale on sewing machines, I inform my wife and she makes the decision about whether it is appropriate to purchase another sewing machine (since she is the only one in the household who sews). Similarly, whenever there is a new offer for bundled internet/phone/cable service, I hope that she will refer that decision to me, since I have a greater stake in internet speed.

Much decision making in organizations also follows this type of referral. When I receive announcements about the publication of new books, I refer them to the librarian, who understands the bigger picture of how such a book would fit into the budget constraints, as well as the configuration of the existing collection.

Approach	Referral to Authority
What it is	Let someone else decide
Example	What color shall we paint the house? Let my wife decide.
Advantage	She won't complain about the color later on.
Disadvantage(s)	She may choose a color I hate, OR She may want the most expensive color.

Random sampling means that every subject in the population has an equal chance of being selected into the sample. **Randomization** of alternatives means that each has an equal chance of being selected. Flipping coins are often used for yes/no decisions, while rock/paper/scissors can be used to decide between two people, and some kind of lottery or drawing straws can be used when there are more than two competitors.

The most frequent occasion on which I employ this is when I have a houseful of pre-teen nieces and nephews. There is something they all want (e.g., riding one of the bicycles) and we don't have enough for everyone. So, we get out the roulette wheel and decide who gets to ride the bikes on the first go around. The reason I employ this technique is that it is perceived by all to be fair. If I just picked six to come with me, the others would not only be disappointed, they would be upset with me.

Another reason for employing this technique, especially in a competitive situation, is that my opponent is unable to predict my strategy. So, if I am in an athletic, business, or military situation, and it is my side's turn to develop an offensive strategy, randomizing the selection of the alternatives makes it impossible for my opponent to say "In this situation he usually does that" and make preparations to counter my strategy.

The implication for marketing is that we have to figure out who is the real decision maker. One member of a family or organization may be the gate-keeper, allowing the promotion for a

product or service, but someone else may be the real decision maker, and that is the person who has to be targeted and convinced.

Approach	Referral to Random selection
What it is	Using chance to select the alternative
Example	Flip a coin to decide between two brands
Advantage(s)	Saves time in decision making, OR Perceived as fair by those who support one side, OR Unpredictable by opponents
Disadvantage(s)	The alternative selected may be the worst by a more objective criterion.

After routinization, the most common way of making decisions is by affect. That terms means emotion, and sometimes we even make big decisions by impulse or emotion (e.g., first marriages). However, the majority of **affect** referred decisions are small, such as whether to purchase that package of new gum displayed at the supermarket checkout stand.

In cases of affect referral, there is usually a strong drive condition produced by an aroused motive or unmet need: you are hungry or thirsty and so you don't care about the prices at the convenience store. Frequently, that drive condition is the result of very effective advertising that strikes the right tone and evokes curiosity or exploration.

Approach	Referral to Affect
What it is	Selecting an alternative based upon impulse or emotion
Example	Seeing a new coat in a display window, and must have it, regardless of the price
Advantage(s)	Saves time in decision making, OR Satisfies an intense drive or impulse immediately
Disadvantage(s)	The alternative selected may be the worst by a more objective criterion.

QUESTION #7.2: What are some rational, algorithmic approaches?

SHORT ANSWER: the best decision will be found by identifying the key criterion (criteria) and using that to evaluate the attributes of each alternative.

An **algorithm** is a formal, systematic approach. A **heuristic** is quick, but an algorithm is more comprehensive. A heuristic may give a quick estimate, but an algorithm will give a more precise answer.

In making decisions, especially of the type made by the consumer confronted by several alternatives, the key is to figure out what is most important. We call this most important thing a factor or criterion. In affect referral the most important thing was satisfying an impulse, but the formal, systematic approach of an algorithm looks for things of more enduring importance.

In the **lexicographic** approach, we start by identifying the one key criterion. I then look at the attributes offered by each alternative and choose the best according to that criterion. Suppose I am going to purchase a new car. I have just accepted a new position in downtown Los Angeles and will have to make a long commute each day. So my key criterion is fuel efficiency: I want a car with high gas mileage so that I can save money at the pump. Having identified this as my criterion, I know look at the array of alternatives: the automobiles offered by Ford, Chevy, Fiat, Nissan, Hyundai, Kia, Honda, Mazda, and Toyota. The attribute that gets my attention is reported gas mileage. Whichever vehicle model has the lowest gas mileage will be the one I will purchase.

Approach	Lexicographic
What it is	Identify one criterion and best alternative for meeting it.
Example	I want the warmest coat I can find.
Advantage(s)	Focuses comparisons on one criterion AND Guarantees the most important concern is met.
Disadvantage	Ignores other important criteria.

As the purchase becomes more important or costly, we usually realize that there is not just one key criterion, but several criteria which should be satisfied. Sure, we want a car with good gas mileage, and maybe that is our most important criterion, but it is not our only criterion. The challenge is to properly weight all of the different criteria. For example, we may also want a car that is mechanically reliable, is comfortable, carries five passengers, is easy to park, and is stylish. I can more about how well the car runs than how good it looks, so I will give a higher weight to gas mileage and mechanical reliability, and lower weights to styling.

http://www.youtube.com/watch?v=ejy2r4qpuHk

One mathematical algorithm for finding the best solution when we have multiple criteria and multiple alternatives was developed by an 18th century Scottish mathematician named **Bayes** and a 20th century professor of marketing named **Fishbein**. We give each criterion a numerical weight (say, 0 to 10 with ten being the greatest possible importance). So, in the above example, our weightings are

Criterion	Weight
Gas mileage	10
Mechanical reliability	9
Comfortable	5
Carries five passengers	3
Easy to park	3
Stylish	2

Those weightings mean that I am willing to trade off style in order to get something else that is more important, and I would trade off comfort for mechanical reliability, etc. Of course, we also have to ask how much of a trade off is it. Would I be willing to drive a really ugly car just to get one mile per gallon more? We also have to consider the attributes of each alternative. Just how stylish is each? Just how easy to park is it?

So, we will score each alternative's attribute according to its ability to meet a specific criterion. Suppose there are five automobiles that I am taking a serious look at: A,B,C,D, and E. Of course, there are many more possible alternatives (F through Z) but in the real world, many alternatives are immediately rejected for one reason or another, and are known as the **inept set**.

I have now scored alternative according to each criterion, and the scores are in red (where 0 indicates that it completely fails to meet that criterion, 10 indicates that it perfectly satisfies that criterion).

Criterion	**Weight**	**A**	**B**	**C**	**D**	**E**
Gas mileage	10	**4**	**6**	**6**	**5**	**8**
Mechanical reliability	9	**7**	**9**	**9**	**4**	**3**
Comfortable	5	**8**	**5**	**5**	**5**	**2**
Carries five passengers	3	**8**	**2**	**3**	**3**	**0**
Easy to park	3	**5**	**5**	**5**	**5**	**9**
Stylish	2	**5**	**5**	**7**	**5**	**3**

Umm. Alternative E has the best gas mileage, and would be the easiest to park, but it is an ugly, uncomfortable little car that will probably break down. Is it worth it? The Bayesian approach has us multiply the scores (in red) times the weights (in black) to get the expectancy value (in green).

Criterion	**Weight**	**A**	**B**	**C**	**D**	**E**
Gas mileage	10	**4** **40**	**6** **60**	**6** **60**	**5** **50**	**8** **80**
Mechanical reliability	9	**7** **63**	**9** **81**	**9** **81**	**4** **36**	**3** **27**
Comfortable	5	**8** **40**	**5** **25**	**5** **25**	**5** **25**	**2** **10**
Carries five passengers	3	**8** **24**	**2** **6**	**3** **9**	**3** **9**	**0** **0**
Easy to park	3	**5** **15**	**5** **15**	**5** **15**	**5** **15**	**9** **27**
Stylish	2	**5** **10**	**5** **10**	**7** **14**	**8** **16**	**3** **6**
TOTAL EXPECTED	X	**192**	**197**	**204**	**151**	**150**

Now, to find total expected value, just add each alternatives column of green numbers, and we get our totals in blue. Now we have a numerical confirmation of what I had feared: alternative E is worst alternative, even though it is best on the most important factor. If I really do care that much about the other criteria, then I must reject alternative E. If I still want to choose alternative E, then I must convince myself that these other factors do not deserve the weights I provided above.

Approach	Bayesian
What it is	Weight, Score, Multiply, Sum
Example	I have three criteria and five alternatives.
Advantage	Maximizes expected gain.
Disadvantage(s)	Assumes appropriate weights and scores, AND The process involves calculations

Very few individual consumers or households go through the elongated numerical procedure above that the Bayesian analysis requires. It is mostly organizations that use this approach for very expensive investments (e.g., where to build a warehouse).

The approach used by most consumers when it comes to the big decisions in life (e.g., which house to buy) is conjunctive. It looks at the multiple criteria as a series of minimum requirements, and rejects those alternatives most seriously deficient. For example, if you are purchasing a single family residence, you probably have three criteria: location, size, and cost. Here are you weights for those criteria.

Criterion	**Weight**
Close to job	5
Big enough for family	7
Affordable payments	9

What these weights imply is that you are willing to accept a longer commute in order to get a bigger, more affordable home further out. Let's suppose your job in Irvine, and you have looked at three homes. Here is how you would score their attributes. Laguna Niguel is close to Irvine, but the townhouse there is too small and too expensive.

Criterion	**Weight**	**Laguna Niguel**	**Long Beach**	**Moreno Valley**
Close to job	5	**8**	**5**	**2**
Big enough for family	7	**1**	**5**	**10**
Affordable payments	9	**1**	**7**	**9**

Here is what we would get with the Bayesian approach.

Criterion	Weight	Laguna Niguel	Long Beach	Moreno Valley
Close to job	5	**8** **40**	**5** **25**	**2** **10**
Big enough for family	7	**1** **7**	**5** **35**	**10** **70**
Affordable payments	9	**1** **9**	**7** **63**	**9** **81**
TOTAL EXPECTED	X	**53**	**123**	**161**

Moreno Valley is the clear winner (but only for someone who is willing to do that long commute).

The **conjunctive** approach would arrive at the same conclusion, but with fewer calculations. Look for deficiency patterns between what we require (criteria) and what the alternative provides (scores). While the Bayesian approach strives to maximize total expected gain, the conjunctive approach promises to minimize total expected risk, making it a more cautious approach.

Criterion	Weight	Laguna Niguel	Long Beach	Moreno Valley
Close to job	5	**Ok**	**Ok**	**Moderate deficiency**
Big enough for family	7	**Major deficiency**	**Minor deficiency**	**Ok**
Affordable payments	9	**Major deficiency**	**Minor decifency**	**Ok**

Laguna Niguel is still clearly rejected, but now the comparison with Long Beach is more obvious. Long Beach has two minor deficiencies (it is a little smaller than we want and a little more expensive) and Moreno Valley is a long commute. The question that you have to answer is whether that daily long commute to Irvine is worth that extra square footage and mortgage savings.

Where the conjunctive model is really useful is in the type of situation where the alternatives are not all presented at the same point in time, allowing for such a direct comparison. In other words, the consumer is likely to accept the first alternative that minimally satisfies the most relevant criteria.

The way that many house searches go is sequential. This week you see the house in Laguna Niguel. You compare it to the three criteria, and it is clearly rejected on two. So, instead of putting down an offer on that house, you decide to keep on looking. Next week you head to

Long Beach, and the decision you have to make is whether to put down an offer, or keep looking.

Herbert **Simon**, a Nobel Laureate in economics, referred to this process as satisficing. Most people in this situation are not going to wait to be completely satisfied (i.e., with a large, affordable house next to work) but will settle (satisfice) for a good enough alternative which meets most of the important criteria, or at least presents only minor deficiencies that can be tolerated.

Most people use this approach with other major decisions in life when the alternatives are sequentially presented, e.g., finding a job, finding a mate. We want a job (or a mate) now and will put up with some imperfections. But as time goes on (and perhaps as our criteria evolve or our evaluations of attributes change) we may be on the market again looking for something better.

Some people do have very high standards, criteria that are so elevated that no alternatives satisfice. That's why some home hunters remain renters, why some employment seekers remain unemployed, and some people in the dating scene remain single.

QUESTION #7.3: What happens when there are several individuals who are participating in the decision made by a household or organization?

SHORT ANSWER: each individual's role in that decision must be clarified

It was easy when there was only one decision maker, and every body else in the household or organization would refer to that authority. But suppose the other people want some role in the decision?

Rarely does the deciding body form a perfect democracy where each person's vote counts equally. The conjunctive model applies in the situation is where each person has a veto and can block a given course of action. So, as a marketer, the task would be to minimally satisfy each of the decision makers.

The most common situation in which there are multiple decision makers is a matrix in which each has a defined role. One may be the leader in the sense that he or she must get the decision making process going, and probably has to handle the details as a follow through. Several others may have veto power: if their consent is lacking, then an alternative cannot be purchased. A lower level of input might be the right to be consulted and give input before a decision is made, even though it is possible that the decision will go against one's advice. The lowest level of would be for those individuals who are merely to be informed of a decision, after it is made.

The marketer needs to identify who has what role. For example, suppose you are selling a used car. You have the family in your office. They have already test driven the car, and gone back

and forth on the price, but they could walk away from the deal, or sign a check for a down payment and drive the car off the lot. Here is the family breakdown.

Family member	Concerns about the car	Role in decision making
Father, 42 years old	Price, mechanical reliability, gas mileage, resale value	Leader
Mother, 38 years old	Gas mileage, safety, carries enough passengers & cargo	Veto
Boy, 16 years old	Would like to learn to drive, have it some weekends	Consult
Girl, 8 years old	Can go to soccer practice without being embarrassed	Inform

The salesperson must definitely please both the father and the mother or the deal will be lost.

QUESTION #7.4: How can marketers influence the decision making process?

SHORT ANSWER: there are many things that can be done at each phase of the consumer's decision making process

Most consumers are not yet at the point where they are ready to make a decision between alternatives. Advertising has to start them in this process by building an awareness of need. Once that motive has been activated, then we have to guide them through their search of various alternatives. (Too many companies are not even in this search because their products are "invisible" and do not appear in the customers set of plausible candidates that will be included in the search.

Using introspection and focus groups, you can discover how the customer might end the decision making process before deciding on your product. Think of all these ways

1. The customer can't get information about the product because you gave out a phone number and website while he was driving, and could not copy them down.

2. The customer can't figure out how to navigate your website and find your local store

3. The customer found your store, but decided it was too far to drive

4. The customer is willing to drive the distance to your store, he just doesn't want to go there because it is in a geographically undesirable area.

5. When the customer arrives in the strip mall looking for your store, he can't find it due to lack of signage

6. When the customer arrives at the store, he cannot find a place to park

7. When the customer comes into the store, he is immediately repelled by the music and displays

8. When the customer tries to find sales help, they are no where to be found

9. When the customer has selected the items for purchase, he looks at the long lines and puts the merchandise down and leaves

10. When he gets to the cash register, he realizes that he does not have enough money and your store will not accept personal checks

11. When the customer sees the product, he realizes that he could not carry it home (e.g., it is too bulky or it might need refrigeration)

Reframing means to present a situation in a slightly different way so that new priorities are now emphasized. When the customer is actually in the process of making a decision, salespeople can reframe the decision into something in which the array of the alternatives clearly point to the one to be sold.

http://www.youtube.com/watch?v=GZvFhgXKR7Q

If the customer balks at a twenty year mortgage on a timeshare, he might be told, compare it to the price of a hotel, and remember that hotel prices will go up over the next twenty years, while this property will have a stable cost and will be building equity.

If the customer is comparing what you want to sell to a cheaper alternative somewhere else, switch the comparison to a higher priced alternative and show how it has many of the same features, but at a lower price.

If the customer has already spent quite a bit, just a little bit more (e.g., on undercoating for a new car) can be seen as a small amount protecting a larger investment.

Even after the sale is made, the marketer's job is not over. The ongoing task is to keep the customer as a brand loyal repeat buyer, and someone so enthusiastic that he will buzz to all of his acquaintances.

UNIT 7: DECISION MAKING

Flashcards & matching games

http://www.quia.com/jg/2533156.html

Jumbled words

http://www.quia.com/jw/470574.html

Summary paragraph

http://www.quia.com/cz/467596.html

UNIT 7 TERMS: decision making

AFFECT: refers to emotions, feelings, mood; the affective component of attitudes can refer to values and priorities

ALGORITHM: a structured, rigid approach to problem solving that guarantees the one best answer

BAYESIAN: a quantitative algorithm for decision making based upon the perceived probability of a product attributes and the consumer's relative priorities; while business purchases are frequently based on this technique, few individual and household purchases are

BRAND LOYALTY: when consumers become habitual repeat buyers of a specific brand, such that they do not still engage in a thorough comparison of competing brands, but repurchase has become automatic (routine)

BUYER'S REGRET: immediately after purchase, some consumers may now doubt the wisdom of the alternative that has been selected; wise advertising and effective customer service can prevent buyer's regret

BUYING UNIT: the individual, household, or organization that purchases and consumes the product

FISHBEIN: author who studied consumer decision making, especially the Bayesian approach

HEURISTIC: a problem solving technique good for a quick estimate

HIERARCHICAL: decision techniques (e.g., lexicographic, conjunctive, Bayesian) that evaluate different alternatives according to their abilities to meet some criterion (or multiple criteria)

INEPT SET: brands that are immediately rejected from active consideration (e.g., I may want to buy a used car, but I won't even look at a Yugo)

LEXICOGRAPHIC: a decision making heuristic in which the consumer compares several alternatives according to one criterion, and then selects the best alternative

RANDOM: in research, selection or assignment that is left to pure chance (such as a lottery)

REFRAMING: a creative revisioning of a problem that suggests a new solution

ROUTINIZED: when customers repurchase the same brand without going through another thorough decision process

SATISFICE: Simon's theory that consumers, especially when presented with alternatives in a sequential pattern, will reject alternatives with great deficiencies between attributes and criteria, but will accept an alternative (although obviously imperfect) if it minimally satisfies the important criteria

SIMON: the theory of satisficing, that consumers, especially when presented with alternatives in a sequential pattern, will reject alternatives with great deficiencies between attributes and criteria, but will accept an alternative (although obviously imperfect) if it minimally satisfies the important criteria