Comments on Robert East and Annik Hogg: Advertising for economic change

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Abstract

R. East and A. Hogg [J. Economic Psychol. (2000)] suggest that Governments should use advertising to increase consumers’ product search, price vigilance, demand for quality and complaining in order to increase competition and to improve the state of the economy. Despite their appeal, these ideas are based on set of questionable assumptions. Specifically, East and Hogg assume that: consumers are not sufficiently responsive to the market and that their decisions are often determined by habit, rather than cognition; they are willing and able to devote additional cognitive resources to their purchase decisions; extending product search would be beneficial for the individual consumer; consumers’ decision-making strategies can be modified to suit the needs of the economy at any given point in time. This paper discusses why these assumptions can be challenged and how they can undermine the validity of East and Hogg’s views. © 2000 Published by Elsevier Science B.V. All rights reserved.

1. Introduction

East and Hogg (2000) put forward an interesting proposition: that Governments should use advertising to enhance consumers’ responsiveness to the
marketplace. In particular, the authors argue that if consumers are prompted to be more alert to price and quality differences in the products and services on offer and if they are encouraged to express their complaints to suppliers and to search for alternative products, then competition in the industry will increase. Such increase in competition will ultimately increase the rate of economic growth and lead to positive outcomes, such as lower prices and improved quality.

Despite the intrinsic appeal of these ideas a number of issues need to be considered. East and Hogg’s proposition is based on a set of assumptions that can be challenged and therefore need to be carefully examined. Specifically, they assume that:

(a) consumers are willing and able to become more “responsive” to the marketplace, especially in terms of devoting additional cognitive resources to more extensive product search and selection;
(b) low-involvement consumer decisions are driven exclusively by habit, rather than cognitive processes;
(c) an increase in cognitive effort, e.g. in product search, would be beneficial for the individual consumer;
(d) consumers are not already sufficiently responsive to product differentiation (e.g. in terms of price and quality);
(e) it is possible to modify consumers’ decision making according to the state of the economy at any given point in time.

In the following sections, I discuss why these assumptions can pose a problem to East and Hogg’s views.

2. The consumer as a “motivated tactician”: Optimal decisions versus optimal decision-making strategies

Consumers constantly make decisions regarding the choice, purchase and use of products and services. These decisions are often too complex as consumers are faced with a large number of alternatives which, in turn, possess a large number of attributes. In addition, consumers are often faced with difficult value trade-offs (e.g. price versus quality) and complications caused by the specific circumstances of a decision. For example, the attributes of the alternatives considered might be non-comparable or they might frequently change over time (e.g. due to competitive pressures, technological developments) and decisions might be made under time constraints. Moreover, decisions entail a great deal of information, coming from many different sources
(e.g. advertisements, packages, salespeople, friends and past experience). In addition, this information is often unavailable for on-line processing and consumers have to rely on what is stored in long-term memory.

Given the limitations of human processing capacity, consumers often resort to an array of decision-making strategies that deviate from perfect rationality. The selection of decision-making strategies depends on factors such as the type of available information (e.g. variation in importance weights of the attributes of alternatives, Payne, Bettman & Johnson, 1988) and individual differences in processing ability (e.g. prior knowledge about the product or brand). However, the major factor that determines the selection of a strategy for a specific task is the importance of the task itself, i.e., the possible consequences of an inappropriate decision. For example, for most consumers, there is an enormous difference between choosing a brand of toothpaste and buying a house. In the former case, the decision is often trivial, has relatively few consequences and is made with little effort. In such low-involvement cases, consumers often use simplifying strategies and resort to heuristics (see Bettman, Johnson & Payne, 1991), in order to limit processing requirements. Heuristics can be used alone or in different combinations in order to minimise cost (e.g. computational effort) and to maximise benefit ("correctness" of a decision). Although heuristics do not always lead to rational, optimal decisions, it is important to note that they provide an "adequate" alternative for most of our needs most of the time (Hogg & Vaughan, 1998). Heuristics also have the great benefit of minimising the required cognitive resources and allowing for the allocation of resources to other more important tasks. For instance, a consumer might save resources from the toothpaste selection task and allocate them to the more important decision of choosing a house. In this latter high-involvement decision, the consequences are much greater and the consumer will be willing to devote a great deal of effort and time, searching large amounts of information, soliciting advice and speculating over difficult trade-offs.

The notion of consumer involvement as a motivational factor that moderates the allocation of cognitive resources to a specific task is compatible with the sociocognitive view of the individual as a motivated tactician: "a fully engaged thinker who has multiple cognitive strategies available and chooses among them based on goals, motives and needs" (Fiske & Taylor, 1991, p. 13). Sometimes the individual selects a strategy in the interest of accuracy and sometimes a strategy that minimises processing requirements.

Consumers, as motivated tacticians, depending on the importance of their decisions and in order to cope with the demands of everyday life, sometimes
select strategies that ensure optimal decisions and at other times strategies that economise on their cognitive resources. East and Hogg do not take this perspective into account when they argue that consumers should become more responsive to products available in the market. In particular, they do not specify how consumers would be motivated to invest additional resources to decisions they perceive as unimportant and where the extra cognitive resources required for more thorough product search and selection would come from. Although processing motivation is a difficult problem to overcome, it is easier to deal with the problem of cognitive requirements. For instance, assuming that Governments and policy makers would want to interfere in such a direct way in competition in an industry, they can facilitate and improve the quality of decision making by imposing regulations that force retailers to display in-store comparative product information. The availability of information for on-line processing during decision making and the ranking or rating of bands and products across attributes would make decisions easier and more accurate.

3. Habit versus cognition

The distinction between high- and low-involvement decisions does not mean that even routine, low-involvement purchases do not involve quite complex cognitive processes, even though such processes do not always reach the level of conscious awareness (Fazio, Powell & Williams, 1989; Janiszewski, 1990). For example, Fazio et al. (1989) found that subjects’ choice of (trivial) products was strongly determined by their product attitudes. However, the entire process through which attitudes influenced subjects’ decisions was unintentional and unconscious. Although involvement determines the amount of cognitive effort expended on decision making and the process through which attitudes influence decisions and behaviour, it seems that attitudes are influential even under low-involvement conditions (Sanbonmatsu & Fazio, 1990).

A large body of research indicates that consumer choice consists of two separate stages: the formation of a consideration set; the selection of a brand.

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1 This however, was true only for highly accessible attitudes, i.e., attitudes that were easily retrieved from memory and capable of automatic, unintentional activation. In such, high attitude accessibility conditions, external factors such as the physical prominence of the products (i.e. their position in the shelf) did not affect actual choice.
from those included in the consideration set. Recent research indicates that habit might affect purchase behaviour by determining what alternatives are included in the consideration set, rather than the selection of alternatives within the set. For instance, Bronnenberg and Vanhonacker (1996) found that it was the recency of the last purchase of a brand that determines whether it will be included in the consideration set. The brand that was purchased on the previous occasion is more salient and therefore more likely to be included in the consideration set. That might provide an explanation for the effects of habit on purchase behaviour. However, once a brand is included in the consideration set, there is evidence of active attribute comparisons between the brands, even in the context of trivial purchases (e.g. Hoyer, 1984). These views contradict East and Hogg’s assumption that consumers’ choices are passively determined by established habits. Instead, it seems that consumers are quite thoughtful in their selection of decision-making strategies and rely on their cognition even when the stakes of a decision are low.

4. The cost of product search

East and Hogg further suggest that consumers should search for more products, i.e., increase the consideration set, before making a selection. However, they do not seem to take into account the cost that such an increase would entail for the individual, relative to the benefits that it might bring. Economic search theory implies that if there are \( N \) alternative brands available in a market, and the consumer considers only a subset \( n < N \), the utility of the chosen alternative increases with \( n \) (Hauser & Wernerfelt, 1990; Ratchford, 1980; Stigler, 1961). However, in terms of the benefits of search, there are strong diminishing returns. As additional alternatives are examined, the potential increase in benefit that is gained by the next alternative is small. At some point the consumer terminates the search for additional alternatives. In Hauser and Wernerfelt (1990) model, the size of the consideration set on a given occasion reflects a trade-off between the cost of searching for and evaluating more alternatives and the increase in utility that can be expected from such an increase in the consideration set. Therefore, the benefits of

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2 This is true only when the choice behaviour is of reinforcing type. When choice behaviour is of the variety-seeking type, recently purchased brands are less salient to consumers (McAlister, 1982).
extending product search can only be assessed in relation to the costs of such an extension.

5. The responsive consumer

East and Hogg argue that consumers are not sufficiently responsive to price and quality differences. Yet, the evidence they cite provides strong support for the opposite argument. For instance, Seiders and Tigert’s (1997) finding that Texan shoppers responded to the lower prices and other sales promotions of the new supermarkets in their area and switched their main store shows that they were responsive to price competition. In contrast, the fact that the Chicago shoppers did not switch their main store and did not refer to price considerations in their selection of supermarket can be attributed to the lack of such competition. When price (or any other product attribute) is not sufficiently differentiated across alternatives it is less salient and hence less likely to be considered. Intense price competition makes consumers more price vigilant. For instance, Mela, Gupta and Lehmann (1997) showed that price promotions increase consumers’ price sensitivity. As East and Hogg argue, the emphasis of the American supermarkets on price and other sales promotions explains why price is more important to American consumers compared to British consumers. However, when price competition is minimal consumers are likely to ignore marginal price differences.

Although consumers do not always pay attention to the price of brands within a consideration set, it seems that whether a brand falls into the consumer’s price range is an important determinant of whether it is included in the consideration set (Bronnenberg & Vanhonacker, 1996). Whether price or any other attribute is taken into account in consumer decision making depends not only on the differentiation of available alternatives, but also on a consumer’s specific needs. For instance, budget limitations increase price vigilance. East and Hogg present evidence that supports this argument: during recession, price became an important consideration for both American and British consumers’ choice of supermarket (East, 1997).

East and Hogg also argue that consumers should become more responsive not only to price, but also to quality differences between alternatives. However, given the trade-off that usually exists between price and quality (presumably due to cost differences) it seems unrealistic that one can maximise on both. The weight attached to each product attribute depends on the specific consumers’ needs. On a certain occasion, consumers might not be particu-
larly concerned about the price of a product and in fact they might be willing to pay a premium price for a better quality alternative. In other purchase contexts, consumers might start with price as their main consideration and might not be interested in obtaining the best possible quality, but rather a merely “satisfying” alternative.

6. The effects of modifying consumer decision making

Macro-economic phenomena depend to a large extent on aggregate individual expectations, attitudes, decisions and behaviours. However, the exact ways in which such psychological variables influence the economy is a complicated issue. East and Hogg suggest that increased price competition can reduce inflation, but can also damage investment in an industry. Quality vigilance can increase employment if improved quality requires more labour. However, if the competition is fierce it can actually decrease employment by narrowing the market and excluding manufacturers and providers that cannot cope. Depending on the state of an economy, changing public attitudes and modifying consumer decision making can have desirable effects at one time and undesirable at another. How can such effects be cancelled, given that such changes are bound to be relatively stable and persistent? The potential effects of manipulating consumers responsiveness and their underlying mechanisms need to be clear before Governments and policy makers adopt East and Hogg’s ideas. It might be preferable for Governments to directly stimulate price or quality competition by issuing regulations according to the needs of the economy. For example, Governments can directly increase quality competition by raising quality standards. They can also increase the rate of complaining by tightening regulations related to consumer protection in case of product failure. As East and Hogg argue, although complaining behaviour is influenced by several factors, the possibility of redress is also important.

7. Conclusion

Although East and Hogg’s proposition is quite interesting and certainly deserves further consideration, the issues raised in this paper need to be addressed. In particular, it remains to be shown that consumers can and want
to change their decision-making strategies and that such a change would be beneficial both for them and for the economy.

References


