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Marketing regimes and its stimulus to impulsive consumers spending

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Abstract

Humanity occupies a society where education, nourishment, and liberty come at a cost, in an economic system where livelihood without merchandise is impracticable. This modern environment, which encourages constant purchases, has led minds to develop cognitive biases when approaching certain goods sold in the market. Whether it is brand fixation or price display, many confounding factors within our daily lives contribute to our buying habits. Although many of these behaviors are performed subconsciously, certain risks are incurred when blindly abiding by the portrayed conventions. Behavioral psychology has proven that producers will often exploit the consumer's mindset by enforcing marketing regimes that are in favor of their sales. By uncovering common marketing techniques being utilized by these sellers, this paper aims to analyze the intrinsic prospects and effects behind cognitive conceptions that contribute to irrational decision-making in the market. Moreover, it further explores the impacts it has on not only the individual but the surrounding environment.

Keywords: cognitive bias, marketing regimes, behavioral psychology

Introduction

In a capitalistic era where businesses compete to sell and the demand for various commodities continually proliferates, the topic of marketing has become distinctively prevalent. Within this field, corporations have started to emphasize subjecting consumers to behavioral analysis and executing commercial plans according to psychological principles. Some examples of commonly implemented marketing strategies are percentage discounts, free shipping/returns, and loyalty points [11]. Although consumers may perceive such deals as nothing but acts of kindness from their retailers, specific costs and liabilities occur when consumers are simply deluded in this mindset. Specific shopping sprees, such as the well renowned Black Friday (accountable for more than 70 billion dollars in consumer spending), act as a paradigm to corroborate the precariousness of sales affecting consumers [3]. Approximately 59% of the Black Friday shoppers solely focus on the product's sale price rather than its necessity or practicality, and 40% impulsively purchase without sticking to their initial intent [13]. Subsequent repercussions of such behavior involve economic inefficiency and overconsumption, as well as environmental damage in many sectors [19]. As could be perceived, miscellaneous marketing regimes

contribute to the consumers' neglect of the procedures of examining the critical components of a deal and their deviation towards the guaranteed satisfaction received from a product consisting of less charge or more quantity. Businesses typically employ numerous marketing regimes relating to multiple essences of human psychology in order to sell and flow their products in the most efficient way possible—often aggravating the environmental situation [20]. This paper aims to decipher these demerits by analyzing key behavioral economic theories and then provide potential policy-based solutions to this issue by discussing various aspects.

Previous Theoretical Research

Some of the most common marketing regimes incorporated today involve psychological notions of Reference Dependence, the Zero Price effect, and Reciprocity. The concept of reference dependence correlates to the idea that people evaluate outcomes relative to a reference [14]. The Zero Price effect, coined by Kristina Shampanier, elaborates on the vulnerability of one's mind when approached with free expense [4]. The principle of reciprocity highlights the human mindset to reciprocate when provided with a favor or gift [7].

Reference Dependence

The research of Tversky and Kahneman suggests that human behavior in a variety of settings is heavily dependent on a reference point [12]. This theory referred to as Reference Dependence primarily consists of two components—internal reference and external reference—and provides vital evidence of how consumers are conditioned to act in the market. The internal reference refers to purchasing practices that are mainly driven by past purchasing experience and memory. For example, a consumer remembering a certain price of a product and basing its subsequent purchases on it would be considered internal referencing. On the other hand, an external reference is a reference triggered by external incentives. Discount percentages, product appearances, and store locations are some of the numerous factors that contribute to an external reference.

In present-day marketing, businesses have been proven to utilize the theory of reference dependence to incentivize customers into making impulsive purchases. For instance, stores will frequently implement market strategies of percentage discounts by exhibiting both the original price (often crossed out) and the discounted price of a certain product. This display allows the original price of the product to act as a reference point for the discounted price and instigates consumers to make their purchases by referring to given criteria [26]. Ultimately, the indicated situation substantially entices consumers to make their purchase because they conceive a greater marginal benefit when buying from a comparison of two prices rather than one. Although low prices are definitely an important trigger for impulse purchasers, the theory highlights how the addition of a reference point further substantiates the deal to be perceived as more lucrative and purchase worthy.

In addition, initial purchasing intents of consumers are proven to hold a substantial factor of human susceptibility towards referential dependent deals. Studies have found that planned purchases tend to get less affected by reference prices than impulse purchases because planned purchases have an already devised basic strategy of purchase in mind [24]. Although planned purchases are ideal rationally, studies show that 38 to 50% of the purchases made in the market are impulsive purchases heavily dependent on reference [25]. The characteristics of impulse purchases dependent on various product types have also yielded intuitive findings. Past studies show that impulse purchases are remarkably common in some product areas. For instance, fashion and jewelry products account for 62% of the consumers purchasing impulsively. Conversely, other categories, such as medical products, show a low impulse purchase ratio [33]. When analyzing this observation, we are able to discover that most impulsively purchased products are feasibly replaceable and disposable, adding to the detriment of environmental

sustainability. Again, this psychological notion is extremely precarious because our cognitive biases can deviate into catching deals containing references more "appealing," especially in situations where we are conducting our purchase without any initial objective.

Zero Price Effect

The notion of free expense is exceptionally influential and has become an additional stimulus for consumer enticement. The zero price effect, coined by economist Kristina Shampanier, supports this idea's cogency by stating that a product's inherent value suddenly increases in the eyes of a consumer when the price is reduced to zero. [4].

Experiment Methodology

In a famous experiment validating consumer activeness in a zero-price environment, sixty participants were asked to pick between 1¢ Hershey's, 26¢ Ferrero chocolate, and nothing. The experiments were repeated with a 1¢ decrease and increase in each chocolate price respectively in order to measure the effects of price fluctuation. The motivation behind the 2¢ & 27¢ condition was to contrast the impact of a 1¢ price reduction that does not include a reduction to 0¢ with a 1¢ price reduction that does.

Results

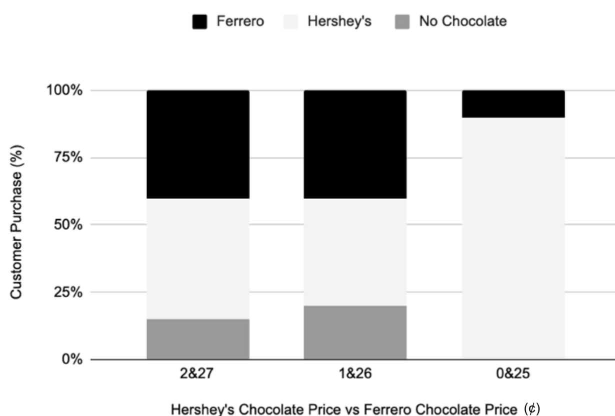

FIGURE 1. The percentage of customers' purchase of chocolates with respect to price fluctuation.

The experiment concluded that when the Hershey's were either 1¢ or 2¢, only about 40-45% of the participants would purchase the chocolate (15-20% purchased nothing). Conversely, when the Hershey's was free, the results showed that 90% of the participants took the chocolate consisting of no cost while 0% purchased nothing (Figure 1). Although the price changes were controlled, results indicated that consumer behavior suddenly changed when prices were set to zero. By understanding the results of this experiment, we are able to examine how free goods prompt consumers to approach a deal and acquire it without absolute necessity subconsciously.

Utilizing the fact that humans are allured by the exposure to zero price in market interactions, a vast number of producers have also implemented marketing strategies of in-store free samples. Studies in the analysis showed that 92% of consumers prefer to be presented with a free sample over a percent coupon while purchasing, 70% will try an in-store sample if given some, and the majority of the free sample promotions resulted in a boost of over 500% product revenue [10] [14] [15]. Although marketing with the utilization of zero price has definitely bolstered business sales, it has concurrently exacerbated the "over-consuming phenomenon" as it encourages more consumer spending.

Principle of Reciprocity

The principle of reciprocity substantiates how consumers run the risk of making illogical financial decisions when provided with a "premium." The idea is, when a favor is done to individuals, they feel obligated to return the favor with equal or more costs [7]. Situations of this phenomenon can vary from purchasing an ice cream when offered a free scoop deal to giving a more generous tip to the waiter when provided with a short message after the meal [2].

Experiment Methodology

An experiment conducted within a restaurant chain in New York showed an intuitive correlation between restaurant services and customers' tipping rate [6]. In the observation, the diner's waiters were arbitrarily assigned to ninety-two discrete dining parties to perform their conventional dinner services. Upon completion of the banquet, one group of waiters served nothing

along with the bill, while the other provided small chocolate (the waiters were not told if they were going to provide the chocolate or not until the very end of the meal). Subsequent to the departure of their guests, the waiters recorded the total value of the guest's check.

Results

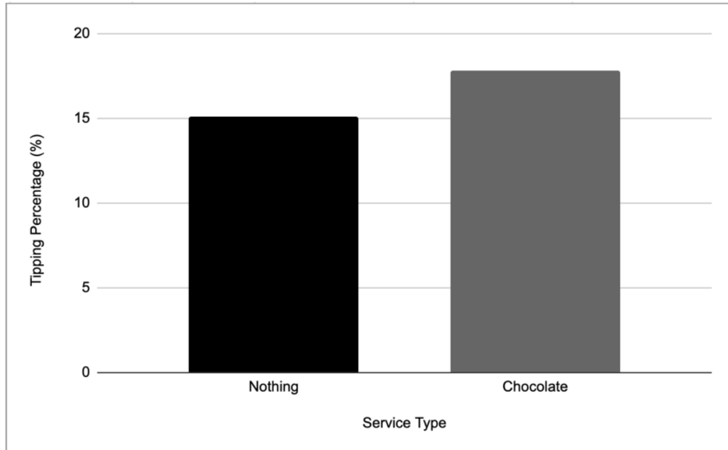

FIGURE 2. The Relationship Between After Dinner Service and Restaurant Tipping Percentage.

As shown in Figure 2, when the customers were served with a free sweet subsequently to their dinner service, their tipping rate on average was approximately 2.5% higher compared to when they were not. Considering that the monetary value of the incremental tip is considerably more than the monetary value of the sweet, we are able to examine human susceptibility towards unexpected acts of generosity and the uneconomical procedures that it takes in order to alleviate the discomfort of not repaying—in this case tipping at a higher rate. Similar experiments subsequently proved the effectiveness of "restaurant courtesies" even in alternative situations where the after-dinner service contained no materialistic value (unlike the chocolates, which contained material value).

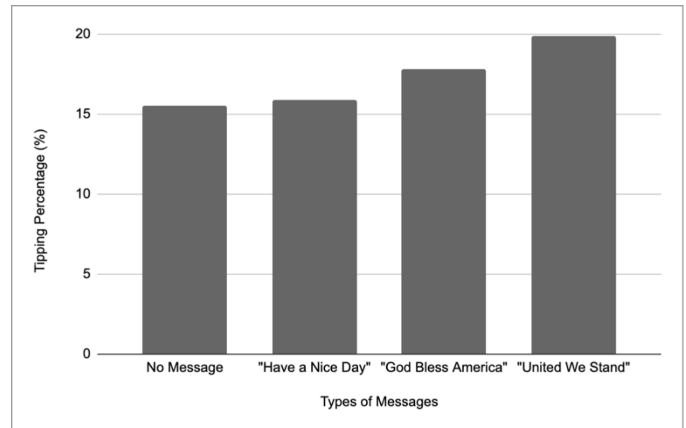

FIGURE 3. The Relationship Between Short Messages and Restaurant Tipping Percentage.

In the case study of Figure 3, patriotic messages on the bill proved to be just as effective as providing chocolates at the end of the meal (in the United States). The results of these reciprocal marketing strategies manifested financial irrationalities amongst the consumers when they were left with a limited number of reciprocation methods they can offer (repayment with money). As mentioned above, unexpected courtesies from corporations, however trivial in portion, stimulate the consumers to feel the desire to reciprocate [7]. When this situation is put in place, it leads to the consumers hankering to purchase the product as it is one of the only methods to reimburse the business for its favor. As derived from this phenomenon, rather than the quantitative equality of the repayment, the consumers are indoctrinated into prioritizing the procedure of reciprocation itself. These circumstances of reciprocation that enforce "unintended spending" stimulate economic inefficiency as consumers spend solely to ease their psychological discomfort. Research corroborating this behavior has also found that customers are substantially more likely to purchase from a retailer whom they had previously purchased from rather than a third-party seller [8]. These conducts, primarily caused by the stimulus of interpersonal and corporate reciprocity, have further led to the neglecting of quality as well as quantity of their purchased product, subverting their initial intent of spending.

Discussion and Analysis

This section will highlight through three different approaches why impulsive spending is unfavorable for consumers. These approaches are individual effects, environmental effects, and human capital effects.

Individual

Consumers' impulsive spendings often lead to financial instability and guilt. According to an observation, 6% of Americans are considered compulsive shoppers who seek instant gratification without concern for the financial consequences [27]. These shoppers are stated to perform such purchase customs often with subconscious mindsets, which adds to their vulnerability against corporate regimes aiming to indoctrinate the human mind [29]. The outcome of these continuous behaviors is often the exorbitant misuse of their credit cards along with an increase in their aggregate debt (55% of all Americans have credit card debt) [30]. Sadly, past studies have also indicated that the populations with lower income have a higher tendency to impulsively spend due to their limited capacity for financial decision-making [27]. This reality validates a detrimental cycle of poverty established by the corporate marketing schemes' excessive consumer enticement. Additionally, a survey targeted towards consumers in the e-market indicated that the majority of the shoppers who have made impulsive purchases in the past highly regret those decisions [16]. This is primarily due to their initial purchase intentions being factors such as the repairment of self-worth and recognition from the surrounding environment that is not in correlation with individual preference [31].

Environmental

Impulsive purchases are detrimental to the environment because their innate cycle encourages early disposal due to preference and purchases exceeding the necessitated quantity [20]. According to National Geographic, excessively acquired goods during holiday seasons such as electronic devices and clothing leave significantly large footprints when disposed of in large quantities. Their study notes that only about 20% of electronic wastes are recycled and that they contain toxic materials such as lead and mercury that can be lethal when accumulated within the human body. Additionally, the study highlights how discarded clothing products take roughly 200 years to biodegrade, a time during which they will release noxious gasses [19].

Moreover, Amazon, a company responsible for $4.8 billion worldwide sales on impulsive spending holidays such as Black Friday and Cyber Monday, has further aggravated the environmental situation through their delivery service [21]. According to the United States Postal Service, the boom in popularity of Amazon, especially prime delivery, has caused a decrease in the number of packages delivered per mile and an increase in the number of trucks on the road. These deliveries create a carbon gas emission rate that is up to 35 times greater than conventional fully-loaded deliveries [22].

Human Capital/Rights

When consumers impulsively spend to purchase more products, it incentivizes the producers to increase production. The consequences of this phenomenon, especially in the product market, are that companies yearning to remain in the free market will attempt to lower their product prices by cutting down manufacturing fees in the labor sector of underdeveloped countries. Currently, Bangladesh, an emergent nation popular for its manufacturing industry, holds its minimum wage at approximately $102 per month: a wage that is severely inadequate regarding their working conditions, long hours, and minimal living conditions [18].

The primary cause of the issue is that multinational companies forcefully order production at a considerably low price for the acquisitive consumers. [17]. In such situations, the outcomes can be hazardous for not only the workers but the surrounding environment as well. Precedents such as the Rana Plaza Disaster, an incident of a garment building collapse in Bangladesh that killed more than 1000 people caused by excessive cost cuts, have proven competitive capitalistic environments and

impulsive purchasing behaviors to be devastating [23].

Prospective Solutions

Having addressed the unfavorable effects of impulsive spending on various groups, this section will explore some limitations in my analysis and recommend prospective solutions to the issue of overspending and wastefulness.

Contemporary Solutions

The theory of loss aversion can be implemented to prevent improvident consumer purchases [1]. This concept proposed by Kahneman states that humans have a cognitive bias that makes them prefer avoiding losses than acquiring equivalent gains. By effectively utilizing this socioeconomic behavior, government regulations can involve taxing the original price of the incremental unit acquired freely in a product deal and charge the consumers discreetly for its tax. To elaborate, let us imagine a "buy x, get y free" deal scenario within a country that has a 10% consumer tax. The deal consists of two shirts A and B; when shirt A that costs $20 is purchased, it comes with an additional free shirt B— initially costing $10—. Although conventionally, one would only need to spend $22 for this deal, if this system were to be implemented, there would be a need to pay $22 and the tax portion of Shirt B costing $1, which would bring the total to $23. This taxation system's results could be speculated to deprive the inessential economic incentive of the consumers prior to their purchase because they would feel a loss for having to pay for the tax of the commodity they were initially going to receive for no expense [34]. Referencing the Hershey chocolate experiment, we could view this regulation as a reasonable solution to "extravagant consumer behavior" as a price increase in product, especially from zero, is substantially proven to decrease consumer buying behavior [4].

Future/Long Term Solutions

To tackle extravagant consumptions in the long run, changes in demographic purchase customs may become a crucial component for a populace. For instance, Japan, a leading developed nation globally, has significantly decreased aggregate merchandise waste and increased individual savings in recent years by steadily cultivating a mentality that demotes unnecessary acquisitions and purchases [35] [36]. From governmental taxing of household disposals to municipal limitations of outdoor advertisements, stringent and systematic ordinances have played a big role in the country's long-term success [37][38].

Countries suffering from excess consumption can consider implementing regulations that prohibit predatory advertising and taxing disposal. These solutions, while confirmed to be practical in Japan, can substantially decrease the incentive to acquire goods superfluously and normalize the culture of minimal spending. As explained above, future implementations of such declarations could contribute to the alleviation of negative individual and societal consequences.

Limitations/Future Research

The paper is centered around research and data obtained in the United States, thereby denoting that there is no certainty that all of these theories mentioned in this paper will be universally applicable. When conducting future research, it is necessary that the experiment be completed in different demographics and regions due to numerous factors and variables that can change depending on the research environment. Furthermore, when considering the solution provided in the paper, one must keep in mind the product's elasticity and the quantitative value of the tax, respectively. This is because when tax regulations are too severe or too weak for a particular product market, it leads to excessive fluctuations in the GDP, potentially causing unrelated negative externalities. Finally, long-term changes in cultures are vital to alleviating the current overconsumption problems; however, they must be executed appropriately depending on the locality because societal values may differ. In other words, revolutions that had impacted Japan positively may not always be practical in other regions due to ethnicity, location, religions, etc.

Conclusion

Consumers should aim to decipher the intrinsic value and holistically view a product deal rather than approaching it impulsively. When this notion of "lateral thinking" is implemented prior to our commitment, it could further contribute to the betterment of our living standards and prevent us from becoming influenced by the economic measures propelled by corporations. Although often, our instinct consists of practicality and accuracy, it may not be the case during consumer activity. Humans are vulnerable to irrationality; as Kahneman reveals, human cognition is automatic, unconscious, and error-prone. When we are self-aware of this notion and heuristically develop our own favorable purchase customs, that itself may be enough to prevent us from yielding to captivating marketing schemes.

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