Chapter 17

Consumer Information Integration at Pre-Purchase: A Discrete Choice Experiment

M. Deniz Dalman
Dogru ledik International Transportation Co., Turkey & Ozdogru ledik Custom Clearance Co., Turkey

Junhong Min
Michigan Technological University, USA

ABSTRACT

During the pre-purchase stage, consumers look for information in the external environment to verify marketers’ claims, and by doing so, they are likely to encounter some reliable independent information such as consumer reports or technical reports. Using a Discrete Choice Experiment, this chapter shows that consumers use marketers’ claims as reference points and record the independent information they encounter as either gain or loss. Moreover, consistent with Prospect Theory, losses loom larger than gains. However, the valuations of losses/gains do not differ for brands with different strengths.

INTRODUCTION

Consider a consumer choosing between two cell phone service providers. These two providers will make specific claims about their different attributes (e.g. less dropped call rates, coverage area etc.) through their advertising. Consumers then generally will look for information in the external environment to verify those claims and by doing so; they are likely to encounter credible independent information regarding these claims -such as consumer reports or technical reports. In this research, we investigate:

1. How consumers integrate and evaluate these different types of information before making a purchase decision, and
2. If this process is different for Well-Known vs. Less Known Brands.

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Specifically, we argue that in situations where brands make claims on some experiential attributes, consumers use companies’ claims as reference points. Later, when consumers find out about the independent third party information, they compare the new information to their reference level and record it as either gain or loss with losses having greater impact than gains on choice. However, the effect of gains vs. losses does not differ among brands with different strengths.

The objective of this chapter is twofold. Managerially, it investigates how consumers integrate different information they encounter at purchase stage. Methodologically, it offers a relatively new method for this context, i.e. a choice experiment.

BACKGROUND

Brands use attribute claims as signals of their quality (Kopalle and Lehmann, 2006), and consumers want to verify these claims before they make a purchase decision as consumers generally possess disbelief towards these claims (Obermiller and Spangenberg, 1998). In order to verify these claims, consumers engage in external search (e.g. through consumer reports, word of mouth, technical reports etc.). Attributes whose claims can be verified before purchase are called search attributes (e.g. size or color of the phone) and whose claims cannot be verified before the consumption are called experience attributes (e.g. coverage area or signal strength of the phone) (Jain, Buchanan, and Maheswaran, 2000; Nelson, 1970). Therefore, for experience attributes, consumers face with uncertainty even after external search. When faced with uncertainty, consumers evaluate the potential gains and losses of their choices and this evaluation is based on a reference point (Kahneman and Tversky, 1979). Since consumers use claims to set their expectations regarding the product performance (e.g. Goering, 1985; Kopalle and Lehmann, 1995), we argue that the claims serve as reference points when consumers make decisions. When consumers encounter highly credible independent information during external search, they will not only use claims to set expectations but also use them along with independent information they find as a shortcut to evaluate potential gains and losses of the alternatives. This will occur, as the third party information will have less uncertainty than company claims. Specifically, we argue that consumers will use product claims as reference points and then they will compare them with the high credible independent sources’ information. If the independent source points out more than what brand claims, consumers will record this as a gain and if the independent source points out less than what brand claims, consumers will record this as a loss and both gains and losses will affect their buying likelihood. Moreover, consistent with the prospect theory (Kahneman and Tversky, 1979), we argue that the absolute value of losses will be more than the same size gains. Finally, consistent with prior research, we show the advantage of high equity brands over low equity brands in terms of buying likelihood but the evaluation of gains vs. losses for brands with different strengths does not differ.

This chapter contributes to the literature on Information Integration by offering a new context for investigation, as this research is first as to explain the phenomena from the advertising claims vs. third party information (TPI) perspective to our knowledge and it is the one of the few studies to incorporate the Prospect Theory into the pre-purchase stage of decision-making. Methodologically, this research is also one of the few studies that investigate the issue using a Discrete Choice Experiment.