A Comprehensive Analysis of Consumer Responses in Marketing and Pricing

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Abstract

Finding the right balance between persuasive corporate strategies and individualistic consumer needs is often strenuous. Consequently, firms often experience difficulty in approaching customers with persuasive yet ethical corporate tactics. These firms intend to increase their sales while culminating in a loyal consumer base through the use of efficient marketing and pricing strategies. To maximize the efficient employment of these tactics, it is imperative for marketers, business analysts, and entrepreneurs to apprehensively understand who the consumer base is and how to approach them. By studying sensory strategies inducing positive reactions, varied behavioral perceptions of corporate price policies, and status-signaling behaviors, entrepreneurial experts can devise marketing and pricing strategies that specifically appeal to their desired consumer base.

Introduction

The key to a successful business is understanding customer behaviors; behaviors that enterprises can then use to formulate enticing pricing and marketing strategies that contribute to crafting a loyal consumer base. Understanding these behaviors is the key to ethically turning profits. This paper delves into the marketing and pricing strategies companies can employ in the face of different consumer behaviors including but not limited to the physical and sensory responses individuals feel as they perceive advertisements, the decisions they have to make in the face of differing preset defaults, the mental calculations they account for when making purchases, and their desire to signal their socioeconomic status through the material display of wealth.

The present study will provide a case study[1] to highlight key points and concepts in consumer behavior and marketing. Company A is a small business that has an in-person and online store with ten employees, selling custom handmade cards to families during the holidays. The company then donates its proceeds to charity to make someone else's holiday. Throughout the paper, we will progressively analyze different consumer behaviors, and develop suitable, effective marketing and pricing strategies for Company A. For convenience's sake, Company A will be called Cards for Charity.

Appealing to Consumer Senses and General Advertising

Most people are equipped with the five senses; smell, taste, sight, touch, and hearing. By appealing to and understanding these senses, firms can develop advertisements that appeal to their customers. The "temperature-premium effect" utilizes visual perception and emotional responses to shape initial reactions (Krishna). To illustrate this effect, let's create a scenario in which two individuals meet each other for the first time. John sees Mary in a spacious room with a thermostat. If the room is warm and orange, John will immediately perceive Mary as warmer, with a kinder and more loving personality. Conversely, if the room is cold and blue, John will perceive Mary as cooler, with a more distant and unfriendly personality. Sellers can use the "temperature premium effect" effect to alter or influence a consumer's first-time valuation of a product. By setting up a warmer[1] climate temperature in their store and having homely scents like fresh linen, lavender, vanilla, and coffee, Cards for Charity can positively influence their customers and increase their overall sales.

Additionally, reaching the consumer base by appealing to their senses, firms can stream digital advertisements on popular social platforms such as Snapchat, Instagram, Netflix, YouTube, and even the Super Bowl. Different products require different marketing strategies and sensory appeals. For example, the most effective way to increase the appeal of advertisements in movie theaters is by using visual and auditory cues. “Chewing popcorn in the cinema undermines the effectiveness of advertisements by interfering with subvocalization” which, in turn, reduces “the fluency of motor processes that underlie language-based mere exposure effects” (Krishna et al., 2013). In other words, eating popcorn at the movie theater reduces the impact of auditory theater ads because the chewing disrupts consumers’ “subvocalization”, and the brain finds it harder to process the language-based messages. It’s important for marketers to thoroughly understand their audience so that they can utilize their consumer data and specifically curate advertisements for their audience. By utilizing the physical and emotional senses in marketing strategies, Cards for Charity can use visual appeals such as nostalgic reenactments of childhood memories and auditory appeals such as nostalgic music or pathos-driven messages to increase their customer's' valuation of their product, custom made cards. Additionally, they can make sure to involve their consumer in one sensory experience at a time, so as to not overwhelm the consumer and undermine the effects of the other sensory experiences.

As marketers and enterprises explore different sensory appeals for marketing purposes, it is imperative to recognize that human cognition is rooted in the sensory experiences that arise from purposeful interactions and goals. It is important to conduct research on the consumer base and have a strong idea of what the company’s image looks like. After making a firm decision on the image of the brand, marketers must stick to it and stay consistent with the ideas they portray to the world. By analyzing the consumer base, marketers can develop campaigns that specifically target their customers and develop effective and efficient ad campaigns based on their consumer’s bodily actions. For example, if Cards for Charity is targeting an older adult care home, where many individuals may use wheelchairs, they can add sitting elements such as a senior citizen reminiscing about his childhood memories while sitting on a comfortable wooden rocking chair and listening to wistful music.

Capturing the Essence of the 3 E’s: Pricing and Tips

The three E’s of marketing encompass endorsement, endowment, and ease. Responsible for creating profound outcomes on consumer decisions, they are used in policy-making and gently nudge consumers to act a certain way. When used correctly, the 3 E’s can have positive impacts on sales, increase the probability of being tipped, and increase consumer trust in purchases by appealing to their behavioral responses. There are three different types of policies that employ the 3 E’s–the opt-in policy, the opt-out policy, and the default policy.

The opt-in policy is when the user has to put in extra effort to be a part of a certain decision. For example, a user would have to put in extra effort to subscribe to a website or

[1] Vanshika Sahu, “Custom Holiday Cards,” Wixsite, June 20, 2024. https://vanshika13sahu.wixsite.com/custom-holiday-cards

receive emails or newsletters. The opt-out policy is when a decision is automatically set and a consumer would have to put in extra effort to remove themselves from the preset decision. For instance, the user would have to put in extra effort to unsubscribe from a website so that they stop receiving emails and newsletters. The default policy is when no decision has been made and a user has to put in extra effort to actively make a decision. In this paper, we will be focusing on the opt-in policy and opt-out policies. By utilizing the 3 E's, choice architecture that operates on consumer responses, we can make the most effective use of these policies.

The first of the 3 E's, Endorsement, is when a public figure promotes or supports a product. In the context of this paper, endorsements are "defaults that are seen as conveying what the choice architect thinks the decision-maker should do" **(**Jachimowicz et al.**).** For example, when a social media platform such as Snapchat has the location-sharing setting automatically on, users who trust Snapchat are more likely to keep sharing their location data. However, if the user distrusts Snapchat, then they are more likely to turn the location-sharing setting off in this case.

The second of the 3 E's, Ease, is when a customer chooses the easiest option for themselves. For example, if an individual has a Facebook account and wants to close it: in order to close the account, consumers have to undergo a lengthy process in which they will be banned from all of the other accounts associated with the Facebook Login, like Spotify and Pinterest. Additionally, to recover those accounts, they would have to contact each affected site directly and embark on another lengthy process of customer support. Additionally, it takes 30 days for the account to be permanently deleted. Instead of going through this lengthy process, individuals may decide to keep their account and simply reduce usage. This, in turn, allows Facebook to attempt to win their unhappy customers back by sending them messages such as "Your friends just posted a new picture! Check it out now!" The harder it is to switch away from the default, the higher the default efficacy and the greater the effectiveness of a policy. However, it is important to be careful to not violate the ethical balance between corporate interests and individual freedoms while gently nudging consumers towards making a certain decision.

The third and the last of the 3 E's, Endowment, is when a default represents a status quo or the current state of affairs. It is how closely associated a consumer feels with a particular choice. If the option has been in place for a considerable amount of time, the consumer may feel closer to it, increasing the efficacy of this default. For example, in some countries, the default to being an organ donor is set to opt-out on a driver's ID. Suddenly, this default changes and this option is now entirely up to the individual. Individuals who have been aware of this status quo for a while may feel more endowed with the idea of choosing to be an organ donor. Endowment has the most impact on default efficacy (Jachmowicz et al., 2018).

When creating policies such as digital tipping options, marketers must keep the 3 E's in mind. It is important to create policies that are beneficial to both the buyer and the seller. For instance, a dine-in restaurant has a digital tipping option in which there is a checkbox that is automatically set to 18% or 19%. This may persuade the customer to proceed with the tips without changing the pre-selected amount which in turn would benefit the customer—as libertarian paternalism, the moral compromise between individuals freedoms and corporate ambition, is respected and they are gently being nudged towards making a certain decision. This is better than setting up an opt-in policy as consumers are less inclined to tip well.

Mental Accounting and Potential Pricing Strategies

Mental accounting entails the cognitive practice of individuals mentally categorizing numerical values as gains or losses relative to a reference point, often the status quo. For example, when a person budgets $1,000 on Apple products and suddenly, they find themself in a situation where they spend $1,500 on a 12-inch Macbook, they may perceive the excess $500 as a loss unless they highly value the Macbook. Similarly, transactions are often evaluated in isolation instead of in conjunction with other transactions, discerned with individual values. For instance, the loss felt by overspending on a Macbook is separate from the loss felt by overspending on an Apple TV. The second feature of a mental account is that "both the gain and loss functions display diminishing sensitivity" (Thaler, 1999). For instance, the difference between $5 and $10 is perceived as greater than the difference between $5,000 and $5,005. This reflects the Weber-Fechner law, the law that states people's perception of stimuli is not linear, but instead logarithmic. In other words, human perception of stimuli exponentially changes with time instead of changing at a constant rate. Furthermore, this connotes that the gain function is concave and the loss function is convex. Additionally, decoupling methods, like prepayment and credit cards, reduce perceived costs by disassociating the purchase from the payer's mind. When money is digitally being transferred, the individual doesn't have to interact with it physically, however, if the money is being transferred physically via cash payments, the payer would touch, hear, feel, and see the money leaving, resulting in a greater perception of monetary loss.

The last and debatably the most important feature of a topical mental account is "loss aversion," which means that a loss hurts more than an equivalent gain. The formula for this feature is defined as $v(x) < -v(-x)$ and bearing a loss makes an individual more sensitive to the next one. A purchase is more likely to happen if it is not assigned to a mental account with a relatively recent, prior sunk cost. To combat loss aversion, enterprises can employ hedonic framing which is the attempt to reduce pain from losses and increase the pleasure from gains. Some hedonic strategies include:

- "Segregate gains (because the gain function is concave)": For example, Cards for Charity can create two sets of cards, the first set contains an expensive card with an elaborate design, sold at $20; while the other set presents consumers with the opportunity to design multiple cards at a lower price, $5. The first option increases the brand's perceived value, setting the pretext for the second option which harvests increased consumer pleasure by crafting several distinct cards consistent with the concave nature of the gain function. Specifically, the gain function refers to a mathematical formula predicting the psychological pleasure consumers procure from their purchases and concave describes how customers experience increased contentment as the gain function, or the price, decreases.
- "Integrate losses (because the loss function is convex)": For example, Cards for Charity still has a premium card for $20 but now they also have a bundle of three premium cards for $30. Each card is priced at $10 and has a unique design. If the customer messes up writing one card, they still have a chance to do well on their second card. They integrate their losses and the pain it causes is significantly reduced. This is due to the convex nature of loss functions. Specifically, convex describes how the perceived value of losses increases rapidly as the customer makes more artful mistakes.
- "Integrate smaller losses with larger gains (to offset loss aversion)": For example, Cards for Charity can mimic Starbucks' reward program. Starbucks's digital reward system

gives customers stars for every purchase they make, and on special occasions, allows customers to earn double stars. However, when consumers use their stars or points to purchase a drink or miss a special occasion, they experience small losses. By integrating smaller losses with larger gains like redeemable rewards and status upgrades, Starbucks helps offset loss aversion.
- “Segregate small gains… from larger losses”: For example, Cards for Charity has a referral program where customers can gain points if they tell a family member or a friend about the website. These are small gains. A small loss would be if their accumulation of points expires after a certain period of time.

Sunk Costs → Potential Pricing Strategies

Sunk costs are purchases that are perceived as less valuable than settled purchases. For example: converse shoes bought at $120 are seen as less valuable compared to Jordans priced at $120 due to brand labeling, which convinces the buyer that they missed out on a superior deal and that the settled purchase was a sunk cost. Sunk costs are potential threats to sales as they “influence subsequent decisions,” so, it is important to make it seem as if the purchase is valuable and is not later perceived as a “sunk cost” (Thaler, 1999). The more memorable and valuable the customers’ first experience with the product is, and the more luxurious and royal the products are, the less likely a consumer is to perceive their cost as sunk. Other factors can influence the perception of a cost but those may not be in the control of a marketer. For example, Cards for Charity could create a lottery system where a consumer may win a limited edition collectible that complements the features of their custom card like a mini Christmas ornament and a small congratulatory letter with the consumers’ Christmas cards. A factor that marketers are not able to control is if the customer buys a Christmas card for his girlfriend but breaks up with her on Christmas Eve. Depending on how much he invested in the card, he is more or less likely to throw it out rather than keep it in a storage room. To increase sales, marketers and professional analysts can increase their sales by using particular pricing plans such as:
- “Penetration pricing”: Attracting customers to a new product or service by setting lower prices. This strategy is risky as customers might not switch due to brand loyalty and producers may have to sell at a loss for the first few months
- “Price Skimming”: Setting high initial prices and skimming or reducing it over time.
- “Premium pricing”: Differentiating products from its competitors by setting a permanently higher price and promising a value or trademark.
- “Psychological pricing”: Basing prices off of the psychological behavior of the consumers. This pricing strategy encompasses charm pricing, bundling, anchoring, etc. For example: Cards for Charity could set their card price to $4.99 instead of $5.00 “Competitive Pricing”: Creating prices relative to the competitors’ prices.

If financial experts or consultants are planning on using these strategies, it is imperative that they do elaborate research on their customer base and have extensive knowledge of the actual evaluation of the product. By having a clear idea of the market, corporations can focus on making their customers happier. After all, customer service is vital to a company’s livelihood. The better the service, the more customers the company will retain. This would, in turn, establish a long-lasting loyal consumer base and allow the company to thrive. While it is important to make sure that the consumers are happy, it is also important to make sure that the employees and clients are happy.

When celebrating a hard-working employee or welcoming a new client, giving them the right gift can go a long way. Fortunately the “Art of Gift Giving” is easier than it seems. Firms would buy people goods that they would not buy for themselves in the self-control industry. First, identify what self-control habits the employee engages in such as not buying alcohol or tobacco or a collection of purses. Second, learn the most they are willing to spend on their self-control product. Last, go above and beyond their maximum spending and gift them the product. This becomes a “luxury” gift. For instance, if a celebrated manager spends $30 on average for a bottle of wine, and on rare occasions is willing to stretch that price to $50, a “luxury” gift for him would be a bottle of wine worth $200. Luxury gift-giving is more common than it seems, and Cards for Charity could benefit from employing these strategies as they market themselves as a luxury brand.

Appealing to The (Sub)conscious Desire for Status through Wealth → Luxury Goods

Status is defined by the evidence of wealth or the ownership of luxury (Han et al., 2010). People are divided into 4 social categories: Proletarians, Poseurs, Parvenus, and Patricians (Han et al., 2010). At the top of this social hierarchy, the patricians rank with the most significant wealth. They “pay a premium for inconspicuously branded products” that are minimalistic or subtle so that only other high-wealth and status individuals can recognize them (Han et al., 2010) . They separate themselves from other social classes by engaging in behaviors that do not have a high consuming need. This serves as a “horizontal signal” to other patricians **(**Han et al., 2010**).** The second class of consumers is the parvenus. Parvenus possess significant wealth, but relatively less in comparison to the patricians. They acknowledge and are aware of luxury goods and their symbols. For instance, a Gucci symbol on a Gucci purse is synonymous with luxury. Unlike the patricians, however, they have not been associated with luxury enough to notice its subtle details. For instance, they would not be able to notice the subtle details about a Bottega Veneta bag. “[T]hey crave status.. and are concerned… with dissociating themselves from the have nots while associating themselves with the other haves,” including both the patricians and the parvenus (Han et al., 2010). The third class of consumers is called poseurs. These individuals do not have significant wealth and cannot necessarily afford authentic branded goods unless they save up for a considerable amount of time. They crave status, even more than the parvenus, and are eager to “disassociate themselves from other less affluent people” which in turn, makes them “especially prone to buying counterfeit luxury goods” (Han et al., 2010). The most popular counterfeit branded goods are the ones that are loud, conspicuous, and obviously display the brand—just like the ones that the parvenus favor. This is how poseurs strive to achieve financially unattainable status. Additionally, this form of signaling status through material wealth may explain the Veblen effect, the phenomenon where goods defy the classic law of demand and supply, and instead, demand grows as prices grow (Corneo). The high prices are associated with luxury and prestige and therefore appeal to conforming behaviors seeking to establish their prominence in society. The fourth and last social class is the proletarians. They simply do not care about status signaling, lacking the financial liberty to concern themselves with such trivial matters. Instead, they’re focused on budgeting their funds to survive in their day-to-day life.

Conspicuous consumption is the high expenditure of wealth to signal a high social status and is used to associate or disassociate oneself from a bigger group of people. “[G]reater expenditures are generally associated with higher incomes" (Han et al., 2010). Although patricians tend to spend a considerable amount of money on luxury goods, they engage in non-conspicuous behaviors to signal their status so that they identify themselves with the other patricians. Patricians, those at the top of the socioeconomic class, buy extremely expensive luxury goods with simplistic designs. Parvenus, second to the top of the socioeconomic class, spend a considerable sum of money on flashy, conspicuous luxury goods. Therefore, luxury brands tend to focus their marketing and pricing strategies on the preferences of those who have more—the patricians and the parvenus.

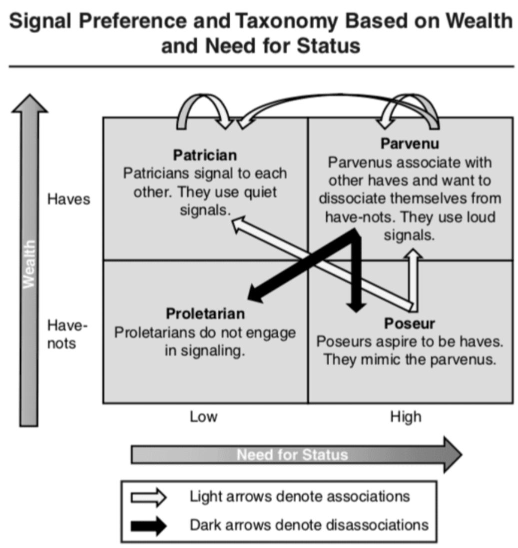

Figure 1: Signal Preference and Taxonomy Based on Wealth and Need for Status

When attempting to signal status, people engage in both (non)conforming behaviors—consumer decisions made to comply with, or, separate from societal norms. Conforming behaviors are a result of conscientious approaches individuals have to societal norms and the need to fit in. In contrast, nonconforming behaviors are when individuals have a high need for uniqueness and deliberately try to stand out from societal norms. Nonconforming behaviors may do a better job of suggesting higher social status and competence than conforming behaviors. For example, “high-status individuals may choose to dress informally in business settings,” or patricians and high parvenus, engage in nonconforming behaviors (Belezza et al., 2013). The reason they engage in these types of behaviors is because they have enough power and autonomy to act out and separate themselves from social norms. Instead of utilizing conspicuous behaviors to signal status or wealth, “[high-status individuals] seek alternative ways to differentiate themselves from lower-status individuals” (Belezza et al., 2013). Individuals who have a high need for uniqueness exhibit high levels of autonomy. They do not necessarily have to be patricians. As long as nonconforming behaviors are seen as intentional, they signal status; however, when it is “perceived as unintentional, it will no longer be associated with status, competence, and autonomy” (Belezza et al., 2013). For example, in The Red Sneakers Effect paper, the researchers conducted an experiment where students were supposed to judge the status and competence of two teachers based on their clothes. They found that “students perceive an unshaven professor who wears a T-shirt to have higher professional status and competence than a shaven professor who wears a tie” (Belezza et al.,2013). This exemplifies the ‘Red Sneaker Effect’, the pursuit of breaking social norms, seeking to signal high status. In conclusion, four key factors affect a consumers' purchases—“their own [social] group”, “those they aspire to be like”, “those with whom they want to avoid being associated with”, and whether or not they have conforming behaviors (Han et al., 2010).

To appeal to all admissible consumers, it is imperative that businesses develop a griffe, a set of special signatures that accurately represents a brand. For example, to entice patricians, Cards for Charity could create an exclusive griffe, in which customers opting for the more expensive, inconspicuous holiday card designs would have access to special QR codes linked to exclusive content such as behind-the-scenes making of the card, personalized gratuity messages from the co-founders, and even future prospects for consumers to import their own personalized messages, codes discreetly integrated into their designs. In order to charm the Parvenus, Cards for Charity could utilize conspicuous, flashy card designs that unmistakably display the brand name and could palpably craft a big list expressly displaying all the top buyers. Lastly, to tempt the poseurs, the brand would have to focus on its marketing and establishing its status as a high-end luxury brand while maintaining its core aspects, donating to charity, and highlighting its significance as a status for wealth.

These griffes must consider advertising to all customers so that everyone is exposed to them; however, if advertised too much, the brand and its logo may lose value and conversely, become a dissociative status signal. It is important to “resist the urge to leverage the brand by popularizing its trademark” (Han et al., 2010). There is a “negative correlation between price and brand prominence—the extent to which the product advertises the brand by displaying the mark in a more visible or conspicuous manner” and as… price[s] go up, brand prominence goes down” (Han et al., 2010). A brand's consumers are integral to a brand's image. This supports the idea that cheaper products are more likely to be bought by poseurs—who save up—and parvenus, while the more expensive, subtle, products are more likely to be bought by patricians. It is equally important to refrain from reinventing too tightly as this may make it irrelevant and limit its value to the poseurs which is unattractive to parvenus who aim to conspicuously display.

Conclusion

Assessing consumer behavioral responses is vital to creating efficient marketing and pricing strategies. Marketers and business owners need to develop griffes, maintain a balanced mixture of conspicuous and inconspicuous products and/or services, develop an efficient and effective customer service system, create effective tipping and pricing policies, utilize the 3 E's when creating policies, find the perfect amount of advertising, and develop advertisements that specifically appeal to the consumer senses. It is not necessary for every company to employ each of these strategies–they are simply tools to be utilized to suit each company's unique strategies, objectives and corporate needs. The research has its limitations and corporations need to identify what type of organization they are and what strategies would work best for them. By identifying and analyzing consumers' behaviors, companies can identify both the consumer's mindset and their own long-term strategy.

Utilizing the aforementioned strategies, Cards for Charity could effectively develop marketing and pricing strategies to scale their business further while accumulating loyalty within their consumer bases. Specifically, they can develop griffes such as using high quality paper and reusable materials that align with ethical media trends. They can maintain a large variety of card designs ranging from cheaper, conspicuous cards to inconspicuous premium-priced cards.

Creating opt-out tipping policies using endorsement by celebrities, easy access and endowment with the company's transparency and highly engaging pricing process, as well as employing oratory advertisements pertaining to the consumers' nostalgic emotions can benefit cards for charity as they scale their business and seek to accumulate loyalty within their consumer bases.

Fortunately these strategies are not limited to any one company and can be employed by all firms seeking to thrive in the entrepreneurial world. By analyzing the consumer base, developing a strong brand image, and conducting ample research on the product's retail worth, firms can develop effective marketing and pricing strategies to promote their product, build consumer loyalty, and increase both their profits and their sales. However, it is imperative to acknowledge that each business differs and strategies need to be adopted to each firm's unique needs.

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