

Spring, 2016

MKTG 211-003 Consumer Behavior

Instructor: Professor Barbara Mellers

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Office Hours: TBD and by appointment.

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Course Time and Place: Mondays and Wednesdays

Course Description: Good managers understand their customers. They have accurate mental models that allow them to predict what people perceive, what they learn, what they prefer, and what makes them keep coming back. The best mental models rest on psychological principles. This course will give you insights about consumers' emotional and cognitive processes, as well as social influences (reference groups, competition, and tipping points) in the context of business problems. You will also learn about research tools used to understand consumers. Finally, we'll discuss ways to handle practical business problems, such as customer selection, customer complaints, loyalty programs, advertising, and more.

Course Objectives:

- * Examine methods and procedures for learning about consumer preferences. What quantitative and qualitative research tools are available to understand consumer preferences? You will get hands on experience with surveys, experiments, regression methods, and scaling techniques.
- * Gain insights about behavioral processes that help predict and explain consumer behavior including cognitive mechanisms (sensation, perception, attention, memory, and learning) and affective mechanisms (surprise, pleasure, and satisfaction) as they relate to critical business decisions. We will also discuss attitudes, persuasion, and impression formation, as well as social epidemics and tipping points.
- * Explore how an understanding of consumer behavior shapes marketing strategies such as customer selection, customer acquisition and retention, and the lifetime value of customers.

Course Requirements

This course will be a continuing conversation that includes lectures, discussions, cases, guest lectures, and group presentations. I am a firm believer in active learning, so you should expect to be called upon in class, present your ideas, debate with each other, and take a quiz on the material before we discuss it each week.

Your course grade will be determined based on your performance on the following items:

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| Class Participation | 20% |
| Quizzes | 10% |
| In-Class Exam | 30% |

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| Two Writing Assignments | 10% |
| Case Preparations | 10% |
| Group Project/Presentation | 10% |
| Group Paper | 10% |

Class Participation. Come to class having read the papers that are assigned for that date. Participate in discussions by advancing the conversation. Be respectful to others. Take turns. I will call on you if you don't offer your thoughts, suggestions, criticisms, and questions. No laptops or cellphones during class. Copies of lectures will be given out at beginning of each class.

Quizzes: We will have very brief (5 to 10 min) quizzes at the beginning of class each Monday. Questions will be about the readings that were assigned the previous week. Research suggests students learn much more if they have regular quizzes. These are for your benefit and are designed to help you keep up with the material and learn it better.

In-Class Exam. There is one in-class exam based on the all of the material up to that date. It is closed book and closed notes. It will consist of short-answer questions, multiple choice questions, and brief essays.

Individual Writing Assignments. For this assignment, select any two of the six topics and develop your ideas. Your paper should be NO LONGER than 3 pages, double spaced. You can also come up with your own idea for one of the papers, but you must check with me first. State clearly which assignment number you have selected and provide an abstract consisting of one paragraph (executive summary) that gives a brief overview. Possible topics include:

1. Customer Bias. Come up with a new bias or systematic behavior that runs counter to economic theory. Describe how and when it occurs and what the implications for the bias might be.
2. Framing. Find an example of inept framing in the news and fix it. It could be a quote or argument. Simply state how you'd do better and explain why your approach is better.
3. Self-Control. To deal with self-control problems, many people use sunk costs to increase commitments. Examples include large annual health club fees or season tickets at the theater. Can you suggest other products that could benefit from prepayment as a self-control device? Devise a marketing strategy to implement your idea.
4. Customer Complaints. Describe a problem in which customers were unhappy with a product or service. You can find many examples on the internet! State what you would do to fix the problem and explain why.
5. Persuasion. Apply one of Cialdini's principles to a business problem of personal interest.
6. Consumer Information. Make a copy of a bill (credit card, telephone, etc) or a regular statement (financial investments for Fidelity or Vanguard). Do whatever is necessary to make the statement confidential (black out names or amounts) and attach the relevant parts to your paper. Then suggest how this statement could be improved.

Case Preparations. On the day of each case discussion, you should submit your write-up at the start of class. Make a copy for yourself. Case preparation questions will be posted on the

website. Your write-up should be about 2 pages double-spaced, and NO MORE than 3 pages double spaced. No late write-ups will be accepted (for obvious reasons).

Cases include: 1) Product Red, 2) Making stickK Stick, 3) Retail Promotional Pricing: When is a Sale Really a Sale?, 4) Coke Vending Machine and 5) Customers' Revenge

Group Project/Presentation: Helping Customers Make Better Choices. You will form groups of 3 students (you can choose your own groups) and work on a project together. Everyone is expected to work hard. If someone is not pulling his or her weight, please let me know right away. When the project is over, I'll also be asking each team member to assess the value of all other team members, and if a problem is occurring, I will know about it.

How can you make an important, constructive difference in the lives of consumers, both present and future generations? Define some behavior you would like to address. Topics could include (but are not limited to) tobacco consumption, excessive alcohol consumption, drugs, (either by themselves or coupled with actions such as machine operations or driving), overeating, exercising, unprotected sex that could lead to AIDS, sexually transmitted diseases, or unwanted pregnancies, gambling, savings, charitable donations, or recycling. Then define a population you wish to help. It could be the general population, segments (or one segment) – such as children, adolescents, elderly, illiterate, disabled, etc. You should have a good explanation for why this is an important segment to target.

After you chose the population and behavior, assume that you are a consultant and are hired by an organization that attempts to change human behavior. Your task is to advise the organization how to help consumers to make better choices using any of the principles we have discussed in the class or new ones if you wish. Make sure your project includes the following sections:

1. The current situation related to the behavior. For example, if the behavior you chose is savings and the population is Americans, track the saving rate in the US, read about the causes for the trends you see in the data and lay the ground for the problem. To what extent is there really a problem? What seem to be the causes of the problem? Your data sources could be governmental reports, census data, NGO data, newspapers (such as the NYT or WSJ), or more. Make sure your data come from a respectable source, and NOT from obscure websites.
2. When analyzing secondary data, identify the weapons of influence that may have helped create the problem (e.g., persuasive techniques of tobacco ads). Discuss methods of influence and how companies have contributed to the problem (e.g., fast food industries and overeating). You should also discuss cultural, socio-economic, and peer factors that play key roles in shaping the problem. The depth of the analysis in this section is very important.
3. Now suggest ways to solve the problem. I realize that the problems I listed are difficult to solve, so start small. How can you make a difference in the lives of a segment of consumers? Or how could you help some charities or organizations? Think about becoming a choice architect, what options would you present to people and how would you present them? You can look at book, *Nudge* by Thaler and Sunstein, as well as the book *Simpler* by Sunstein, to come up with ideas. Note: the behavior or problem you chose and your solution cannot be one that was discussed in the book. You must come up with your own ideas on how to improve consumers' lives and choices. You must explain your rationale regarding why your solution is good and how it will operate.
4. Now examine reactions to people using a survey format. Ideally you would interview 15 to 20 people from your target population. Do not use people from the course in your population. You don't need to perform any statistical analyses. Simply use simple measures

such as proportions, means, medians and variance to argue that your solution is better than the status quo. For example, you might report the percentage of people who said they would increase/decrease their behavior following your solution. Note that you should not tell people directly what you are doing. Simply ask them to imagine the solution and see how they react. For example, show them ads that you designed to change behavior, give them scenarios to evaluate etc. You can (and should) be creative at this point. For example, you might interview party goers (probably towards the end of the party) to learn about the effects of alcohol. When you report this part in your write-up, discuss your sample, and clearly explain how you obtained the data and what data was obtained.

5. Based on the data you gathered, make adjustments to your solution, and present your final recommendation. While the cost of your solution is not part of this project, try to think about a solution that will not be excessively expensive. With infinite money we can do much more, but when the money is finite, we need to allocate it smartly. Note the limitations of your work is encouraged and expected! What could you have done better as you conducted your research? What biases might you have had that influenced your conclusions?

In your presentation, there should be no reading or use of note cards. Relate to the audience, focus on scanning the room, and maintain eye contact. Generate enthusiasm about your topic. The information you present is very important but also use visuals, ads, etc. as appropriate to make the topic interesting to the class. You can have access to PowerPoint if you choose to use it. Please submit your presentation materials on the day of your presentation. You are welcome to get comments from me beforehand. Your presentation will presumably be NO LONGER than 10 minutes, but times could vary depending on class enrollment. I will let you know how much time you have well before your presentation is due. Use creative ways of keeping the audience involved.

Group Paper. Your group paper should be NO LONGER than 10 pages double spaced, excluding title page, charts, tables, appendices, and references. Make sure the reference list includes all the work you cited. This project should include an executive summary of your report (1-2 paragraphs of key findings), also not included in the 10 page maximum.

Other Useful Information

Academic Integrity. In order to ensure fairness, students suspected of cheating will be referred to the Office of Student Conduct. The Office of Student Conduct will determine if there was cheating and if so, what punishment will be administered. There are no exceptions to this policy under any circumstances. Please familiarize yourselves with the University Code of Academic Integrity: <http://www.upenn.edu/academicintegrity/>

Writing. All writing completed for the course should be carefully proofread and free of grammatical and typographical errors. Although I am not explicitly grading you on your writing, I really can't help but grade you on your writing as well as the content. It has an enormous influence on the overall impression of a paper.

Course Materials. All course documents will be available on Web café.

<https://webcafe.wharton.upenn.edu/eRoom/mktg/222->

Accounts. Students who are enrolled but do not have Wharton computing account can create one on this site: <http://accounts.wharton.upenn.edu>

Lunches. I am available for “take your professor to lunch.” You can sign up on Web café. This is a good way for me to get to know you on an informal basis outside of class. It is completely optional and has no bearing on your grade.

Topics and Assignments (All Reading Assignments Due before Class)

1. Wednesday, Jan 13th Which Customers? Market Segmentation

Reading: Managing the Total Customer Experience by Leonard Berry, Lewis Carbone, & Stephan Haeckel, MIT Sloan Management Review, SMR082 (Spring, 2002).

Reading: Rediscovering Market Segmentation by Daniel Yankelovich and David Meer, Harvard Business Review (February, 2006) R0602G

2. Wednesday, Jan 20th Behavioral Research Methods

Reading: Analyzing Consumer Preferences by Robert Dolan. Harvard Business School 9-599-112 (December, 2001).

Reading: Boost your Marketing ROI with Experimental Design by Eric Almquist and Gordon Wyner, Harvard Business Review, (October, 2001). R0109K

3. Monday, Jan 25th Exposure, Attention, and Perception

Reading: Analyzing Consumer Perceptions by Robert Dolan, Harvard Business School 9-599-110 (December, 2001).

Reading: Stealth Marketing: How to Reach Customers Surreptitiously. California Management Review, CMR 288 (August, 2004).

4. Wednesday, Jan 27th Guest Speaker 1

Speaker Preparation: Turn in 3 questions 24 hours before class. I will sift through them and give the best to our speaker.

5. Monday, Feb 1st Thinking

Reading: Chapters 1 and 2, Thinking, Fast and Slow by Daniel Kahneman.

6. Wednesday, Feb 3rd Information Search and Memory

Reading: Want to Perfect your Company’s Service? Use Behavioral Research

7. Monday, Feb 8th Beliefs: Risk Confidence and Heuristics

Reading: Why Do Good Managers Choose Poor Strategies, Harvard Business School 9-391-172 (March, 1993).

Reading: Hindsight Bias and Strategic Choice: Some Problems in Learning from Experience, by Terry Connolly, Academy of Management Journal, 1988, 31, pages 628-641.

8. Wednesday, Feb 10th Attitudes

First Writing Assignment Due

9. Monday, Feb 15th Persuasion

Reading: The Science of Persuasion by Robert Cialdini, Scientific American

Reading: Chapter 1 and Epilogue, Made to Stick by Chip Heath and Dan Heath, Random House.

10. Wednesday, Feb 17th Guest Speaker 2

Speaker Preparation: Turn in 3 questions 24 hours before class. I will sift through them and give the best to our speaker.

11. Monday, Feb 22nd Case: Product Red

Reading: PRODUCT RED by Youngme Moon, Michael Norton, and David Chen, Harvard Business School, 9-509-013 (February, 2009).

12. Wednesday, Feb 24th Wants and Needs

Reading: Why Consumers Don't Buy: The Psychology of New Product Adoption by John Gourville, Harvard Business School 9-504-056 (April, 2004).

Reading: The Endowment Effect, Loss Aversion, and the Status Quo Bias by Daniel Kahneman, Jack Knetsch, and Richard Thaler, Journal of Economic Perspectives, 5, Winter, 1991, pages 193-206.

13. Monday, Feb 29th Preferences

Reading: Get Closer to Your Customers by Understanding How They Make Choices Itamar Simonson, California Management Review (Summer, 1991).

Reading: What Marketers Misunderstand About Online Review, Harvard Business Review, (January, 2014). F1401A

14. Wednesday, Mar 2nd Frames and Nudges

Reading: Nudge Your Customers Toward Better Choices by Daniel Goldstein, Eric Johnson, Andreas Herrmann, and Mark Heitmann, Harvard Business Review, (December, 2008). R0812H.

Reading: Mental Accounting Matters by Richard Thaler, Journal of Behavioral Decision Making, 1999, 12, pages 183- 207.

15. Monday, Mar 14th Predicting Consumer Preferences

Reading: Forecasting with Regression Analysis, Harvard Business School, 9-894-007 (August, 1996).

Reading: The Robust Beauty of Improper Linear Models by Robyn Dawes, American Psychologist, 34, Pages 571-582.

16. Wednesday, Mar 16th Time Inconsistent Preferences

Reading: Self-Command in Practice, in Policy, and in a Theory of Rational Choice by Thomas Schelling, American Economic Association Papers and Proceedings, May, 1984.

17. Monday, Mar 21st Case: Making stickK Stick

Case: Making stickK Stick: The Business of Behavioral Economics, Harvard Business School, 9-514-019 (June,2015)

18. Wednesday, Mar 23rd Money and Pricing

Reading: Pricing and the Psychology of Consumption by John Fourville and Dilip Soman, Harvard Business Review (September, 2002). R0209G

Second Writing Assignment Due

19. Monday, Mar 28th Case: When is a Sale Really a Sale?

Case: Retail Promotional Pricing: When is a Sale Really a Sale? Harvard Business School, 9-591-111 (June, 1992).

20. Wednesday, Mar 30th Fairness

Reading: Fairness as a Constraint on Profit Seeking: Entitlements in the Market by Daniel Kahneman, Jack Knetsch, and Richard Thaler, The American Economic Review, 76, 728-741.

Reading: Perceptions of Fair Prices by James Heyman and Barbara Mellers, Handbook of Consumer Psychology, 2007.

21. Monday, Apr 4th In-Class Exam

22. Wednesday, Apr 6th Case: Coke Vending Machine

Case: Coca Cola's New Vending Machine: Pricing to Capture Value or Not? Harvard Business School, 9-500-068 (December, 2000)

23. Monday, Apr 11th Satisfaction and Loyalty

Reading: Learning from Customer Defections by Frederick Reichheld, Harvard Business Review, (March, 1996) R96210

Reading: Mismanagement of Customer Loyalty by Werner Reinartz and V. Kumar, Harvard Business Review, (July, 2002). R0207F

24. Wednesday, Apr 13th Case: Customer Revenge (R0712X)

Case: The Customers' Revenge by Dan Ariely, Harvard Business Review, (December, 2007), R0712X

25. Monday, Apr 18th Innovation and Tipping Points

Reading: Chapters 1 and 2, The Tipping Point by Malcolm Gladwell.

26. Wednesday, Apr 20th Presentations

27. Monday, Apr 25th Presentations

28. Wednesday, Apr 27th Reflections and Connections

Reading: Co-opting Customer Competence by C.K. Prahalad and Venkatram Ramaswamy, Harvard Business Review, (January, 2000) R00108