



When to pop the question?

Firms use consumer surveys to understand their competitive strengths and weaknesses. Based on the lessons from behavioural economics, this Insight argues that surveys give the best results when they mimic the environmental and product characteristics of the market in question.*

Good reasons to use surveys

To understand your competitive strengths and weaknesses, there is no substitute for accurate, actual market data. If such data is available, there is no point asking consumers how they would behave if your offer changed, as their actual behaviour can be observed directly. Nevertheless, there are a number of situations where surveys add significant value.

- » First, actual market data may simply not be available, or may not be of sufficient quality, to enable the desired analysis to be undertaken.
- » Second, even where market data is available, strong assumptions may need to be made in order to make use of it. For example, previous price changes may have taken place (and data exist on them) but the competitive market conditions, the economic cycle, or the financial position of customers, could all have been very different to the current environment.
- » Third, surveys allow for a broad set of scenarios to be examined. Often with existing data, there has only been one, or limited scenarios. For example, there may have only been one price change in recent history, or changes to price/service may only have applied to a single product. Surveys, however, allow for a whole range of price and product scenarios to be tested.
- » Fourth, it may not be possible or desirable to 'create' actual market data by conducting a live 'experiment', as is sometimes done by firms when making a pricing decision. This involves

* This Insight is based on our article recently published in the *European Competition Law Review*.

changing the price offered to a small subset of customers (or potential customers) and measuring how they behave differently. Such a luxury is not always available due to practical or cost reasons. Survey evidence is therefore often the best alternative to actual market data and can provide vital evidence that would otherwise be unobtainable.

For these reasons, consumer surveys are an important tool for businesses to understand their competitive strengths and weaknesses. The degree to which they are able to produce accurate estimates of behaviour depends on how closely the survey is able to mimic the reality of the market, which we discuss below.

Mimic the market

A survey is only useful if it can produce a data set that accurately describes how consumers behave. One element to this is ensuring that the sample is representative of the total population of interest, and is big enough. But the focus of this *Insight* is on the non-sampling factors that influence whether a survey is likely to robustly reflect actual consumer behaviour. In particular, here we focus on the extent to which surveys 'simulate' purchase decisions and are likely to mimic how consumers make decisions in the real world.

A survey typically: has a single decision maker (respondent); displays choices as either text or images; and is completed within 20 minutes. Given these environmental characteristics, some markets are more feasibly replicated in a survey than others. In particular, we think that there are (at least) five environmental and product characteristics of real purchase decisions that mean markets that exhibit them will tend to yield more accurate survey results.

- » **There is a single decision maker.** In terms of environment, some purchase decisions are made jointly between multiple people (typically co-habiting couples). Markets in which this is common include: holidays; cars; and TV subscriptions. It may be that one partner wants to go on an all-inclusive holiday to the Seychelles, whereas the other wants to go on a cruise of the Caribbean. Any decision that is made is a product of discussions and deliberations. In order for a survey to take account of this decision making process, both parties would need to be included in the survey, which for practicality reasons tends not to be possible.
- » **There is no sales person or other outside influence.** Another consideration regarding the environment of a purchase decision is the presence of a sales person. In markets where there is a large degree of informational asymmetry, it is normal for a sales person to be involved in the selling of products. For example, in the purchase of electronics, cars and other specialised products. As a sales person cannot be represented in a survey, markets that typically include a sales person are less suited to a survey than those that don't.
- » **The products are not 'impulse buys'.** In terms of the products themselves, the degree to which they are impulse purchases will influence the accuracy of results. Impulse purchases are highly dependent on the mood and emotions of the customer at the time of purchase and result in a person making an on-the-spot decision. Gibson (2008) shows that consumers can be swayed by simple emotive advertising (in this case placing cans of Coke and Pepsi next to positive and negative images) if they are distracted by an unrelated task. As such, impulse buys are not ideal for surveys, as there are outside factors that influence purchases, which cannot be included in a survey.
- » **Product characteristics can be adequately conveyed with text or images.** In order for a survey to mimic reality, the products need to be easily represented with text or images. For example, researching different utility tariffs will often take place online and so the information that people will take into account when making their decision is easily replicated in a survey. However, tangible products (and specifically those that relate to the senses of touch, taste and smell) are hard to replicate in a survey.
- » **Products can be evaluated in reasonable time.** Surveys typically last 10-20 minutes - any longer and respondents start to suffer fatigue. Although the specifications of products can be represented appropriately to a respondent, the actual decision stage of a purchase journey may, in reality, take much longer than is feasible in a survey. For example, the specifications of a computer can be quite easily conveyed, but it may take a long time for a person to make their

final decision about which to buy. As such, a survey will yield more accurate results if the purchase decision can be taken in a relatively short time – which tends to be related to cost.

Many markets will not conform exactly to the above characteristics. This, however, does not mean that a survey will not be of value. The degree to which the above characteristics are met will determine how accurate the results from a survey will be, if designed well. Two examples illustrate this point.

- » Buying a new car is an expensive outlay, which means that typically it is not an impulse purchase. However, consumers are likely to take a while considering their options so car purchases don't perform as well against the evaluation time characteristic. Furthermore, depending on the type of car, there may well be more than one decision maker and a sales person is likely to be present. Cars are fairly easy to present with text and images, but the test drive element of a purchase decision would be lost in a survey.
- » Home broadband package decisions may also be taken by multiple people, but this is less likely than in our previous example of cars. Typically, a sales person will not be present, as most broadband packages will be bought over the internet. Broadband packages are unlikely to be impulse purchases either, as they are now almost a necessity for a household. Also, like cars, there are common elements to a broadband package (speed, download limit, price), and they are often marketed in an online environment – as such they are easy to present to a respondent. Finally, the decision between broadband providers does not have large implications, or command a high price, and therefore the decision is not likely to take long.

Therefore, on the basis of the environmental and product characteristics outlined above, a survey in relation to home broadband packages is more likely to yield an accurate picture of consumer behaviour than an (equally well designed and implemented) survey in relation to new cars.

Getting the best out of surveys

As demonstrated above, a survey will yield the most accurate results when the characteristics of the market allow it to be mimicked in a survey. With this in mind, there are a number of things that can be done to improve the accuracy of your consumer surveys.

- » First, design surveys to emulate a buying environment. For example, instead of ranking or rating alternatives, present respondents with a product or products, along with price, and ask which one they would buy.
- » Second, design surveys as a 'funnel' that follows the purchase journey. This approach ensures that respondents think through their decisions as they would in reality, and that questions about awareness are not influenced by questions about preferred choice.
- » Finally, behavioural economics teaches us that there are many biases that can lead consumers into making 'irrational' decisions, such as using rules of thumb, basing decisions on comparative judgements, and the framing of an offer. When conducting a survey we want these biases, which occur in reality, to also be present. For example, people will often judge the value of an electronics product in terms of its relativity to other products in the market, rather than calculating whether the benefits are worth the cost. As such, we want to mirror this source of bias in a survey, which can be done by displaying products in a competitive context, rather than by themselves.

Conclusion

Consumer surveys play a central role in understanding competition and are here to stay. The conclusion of this article is that surveys must try to mimic 'real' purchase decisions – this is as important as the well-understood sample size and representativeness considerations.

Economic Insight uses its survey platform – EI Connect – alongside actual market data to help firms understand their competitive strengths and weaknesses and design effective commercial strategies.

Further information

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