

Dynamic Preference Maintenance

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Abstract

Consumers' choices and evaluations can sometime; be interpreted as goal-driven attempts to manage some of the internal and external resources and constraints that affect subsequent purchase and consumption choices. For example, delaying gratification involves limiting immediate benefits in favor of better future ones. We refer to this self-management of resources and constraints as *dynamic preference maintenance* and illustrate this concept with a number of marketing examples. We discuss evidence and practical and conceptual implications for marketing.

Key words: Dynamic Preference Maintenance, Intertemporal Judgement and Decision Making, Self Control, Goal-Based View of Preference Construction

1. Introduction

Most of the phenomena addressed in this special issue on "The Dynamics of Consumer Preferences" exhibit or imply some form of dynamic preference inconsistency, if we assume that consumers maximize a set of fixed, exogenous preferences. However, rather than viewing these inconsistencies as violations of normative rules, we invoke the goal-based view of preferences construction which considers consumers' underlying intentions to interpret such phenomena. We further illustrate how such an understanding of how intertemporal purchase and consumption decisions are intended to satisfy consumers' underlying goals may provide marketers with novel opportunities. Moreover, it may cast preference dynamics in a more rational light.

We think of dynamic consumer preferences as frequently directed at the task-goal managing the internal or external resources and constraints under which consumers make purchase and consumption choices. Just like Ulysses had himself bound to the mast so he could hear the sirens sing without wrecking his ship (Elster, 1984), we may sometimes prefer to behave in ways that limit our future options (see Schelling, 1984; Thaler and Shefrin, 1981). We view such self-management broadly-as including both choices that are deliberately directed at achieving this task goal, as well as those choices that appear that way regardless of explicit intention. We introduce *dynamic preference maintenance* as

a concept that captures this process of resource and constraint management. It can encompass a large variety of phenomena that are related to the dynamics of consumer preferences and have long been of interest to economists and psychologists (see Loewenstein and Elster, 1992; March, 1978).

In the rest of this article we first argue that recent research in behavioral decision making allows us to view consumers as reasonable, or perhaps even reasoned actors, rather than as merely cognitively constrained reactive information processors. In particular, it is dynamic environments like the ones examined in this special issue that are rich enough to capture the seemingly reasoned character of behaviors and preferences. We then present *dynamic preference maintenance* as an example of the reasoned view of consumer behavior. Finally, we list a variety of significant implications of dynamic preference maintenance in specific marketing contexts to illustrate its significant relevance for marketing strategy.

2. From violations of normative principles to goal-driven preference construction

Among the key contributions of behavioral decision research are many demonstrations of violations of fundamental principles of rational choice, such as description and procedure invariance (see Tversky and Kahneman, 1986). Research on the constructive nature of preferences has expanded the focus from violations of normative prescriptions to an understanding of how some of them can be accounted for in view of goals imposed by the elicitation task, such as minimizing effort and maximizing accuracy (Payne, Bettman, and Johnson, 1992).

Another task-goal shown to account for a variety of preference discrepancies is that of expressing preferences that are easily justifiable (see Shafir, Simonson, and Tversky, 1993). Carmon and Ariely (1996), and Fischer, Carmon, Zauberaman, and Ariely (1995) extend this goal-based view of preference construction by attributing some well-known preference inconsistencies to goals that appear to be evoked by the particular preference elicitation tasks. Carmon and Ariely show that consumers evaluate transactions as if they intend to protect their endowment and consequently focus on potential losses. Hence, buyers' evaluations differ substantively from those of sellers: buyers focus on money, and sellers focus on the benefits of the good. Furthermore, Fischer et al. find that a variety of response mode differences in the evaluation of alternatives, such as the well-known choice-matching discrepancy, are parsimoniously accounted for by the decision maker's underlying goals in these different tasks (also see Carmon and Simonson, 1996).

Collectively, the contributions to this special issue as well as other work we will discuss give rise to another component of the *goal-based view of preference construction*. We suggest that consumers often behave as though they proactively manage the task of making intertemporal purchase and consumption choices. They appear to do so by taking into consideration not only their cognitive capabilities and limitations and concern with justifiability but also hedonic principles that are not accounted for by standard economic theory. For instance, consumers' choices seem to match their hedonic resources (Gibbs, 1997). They schedule current and future hedonic experiences so as to create complemen-

tarities between them or to protect entire episodes of future experiences from "contamination" by other experiences (Kahn, Ratner, and Kahneman, 1997; Prelec and Loewenstein, 1996, 1997). Once these intentions are considered, choices that conflict with traditional utility maximization may appear reasonable or even rational.

In the next section, we describe these ideas in greater detail, introducing it as *dynamic preference maintenance*.

3. Dynamic preference maintenance

Consumers can enable themselves to maintain the quality of their experiences over time by affecting the internal or external resources and constraints under which they make their choices: they engage in dynamic preference maintenance, or behave as though they do. For example, delaying gratification from immediate benefits often provides consumers with better opportunities to satisfy their future preferences.

3.1. Internal resources and constraints

Consumer choice is constrained by the availability of internal resources (such as physiological, cognitive, or emotional ones) that consumers bring to the purchase or consumption task. For instance, consumers make choices subject to their hedonic resources (see Gibbs, 1997), to a "satiation capital" built up through prior choices (see Kahn, Ratner, and Kahneman, 1997), or to mental budgets (Heath and Soll, 1996). At the same time, their choices can affect these resources. Chemical mood stimulants and appetite suppressors are examples of products that are consumed to manipulate one's subsequent preferences.

Empirical evidence for the idea that consumers appear to manage their internal hedonic resources comes from Gibbs (1996), who shows that consumers directly modify their preferences as a function of whether they expect repeated exposure to hedonic stimuli and as a function of the cost of avoiding aversive stimuli. For example, people who expected to taste a bitter liquid twenty times found the first exposure to that liquid less aversive than people who expected this first exposure to be the only one. Heath and Soll (1996) provide evidence of mental budgeting, showing that consumers restrict the fungibility of their financial resources by imposing individual spending constraints on different consumption categories to limit their overall spending.

Kahn, Ratner, and Kahneman's (1997) findings suggest that consumers may make suboptimal choices to allow themselves to extract greater utility from subsequent choices. Indeed, Hoch and Loewenstein's (1991) idea of "pleasure management" proposes that consumers may deliberately put themselves in states of discomfort or deprivation to enable a pleasure-inducing transition to a state of greater comfort (see Scitovsky, 1992).

3.1. External resources and constraints

Consumer choice is also subject to external resources and constraints (such as physical, financial, or social ones). For instance, purchase decisions are subject to real budget constraints and the availability of alternatives found in the store. Consumers can shape these external constraints so as to control time-inconsistent preferences via precommitment (for example, Rachlin, forthcoming). For instance, mere proximity to stimuli that satisfy visceral drive states can induce cravings that are virtually irresistible (Loewenstein, 1996), but people seem aware of these potentially harmful situations and try to limit their ability to give in to such cravings (see Schelling, 1984; Thaler and Shefrin, 1981). Thus, occasional gamblers will often self-constrain their liquidity by leaving most of their cash at home. It is common for people to ask family members or friends to hide sweets or other particularly desirable foods from them. Smokers who announce publicly that they are quitting impose the social costs of a public embarrassment on failing to kick their addiction.

Empirical evidence of self-imposed external constraints in consumer goods markets is scant. But, Wertenbroch (1996), demonstrates the operation and pricing and profit implications of consumption self-control in consumer markets using experimental, field, and scanner data. He shows that consumers ration their purchase quantities of "vices" (for example, calorie-rich products) compared to those of "virtues" (such as diet products). Thus, many smokers try to avoid buying cigarettes in cartons but rather buy them in single packs, although the latter are priced at a premium. Vice buyers' demand is relatively price-insensitive so that price promotions (such as via quantity discounts) are less effective for vices. Because of vice buyers' self-imposed constraints on their purchase quantities, sellers can price-discriminate against them by charging significant premiums for small package sizes of alcohol, cigarettes, and calorie-rich food.

4. Marketing under dynamic preference maintenance

As this work shows, opportunities to control their own preferences may be of value to consumers, and knowledge of consumers' defenses against overconsumption can provide marketers with opportunities to offer greater value, or extract additional consumer surplus. For instance, vacation resorts can indirectly charge premiums for accommodations that do not provide guests with telephones or television sets. These guests will pay to avoid the temptation of using such devices for the duration of their vacation. Or consider consumers, who have a preference for limited selections of goods (because they know that they tend to oversearch beyond the point of positive marginal returns) and limit their ability to search by shopping at stores with limited variety.

Frugal or even ascetic consumer behavior can be interpreted as another example of dynamic preference maintenance. Such self-inflicted deprivation presumably serves the higher goal of feeling as if one is leading a simple, less materialistic life. A recent Wall

Street Journal article (Graham, 1996) suggests that consumers are willing to pay marketers premiums for products that offer fewer tangible benefits and, hence, allow consumers to appear as though they refrain from excessive consumption.

In addition to charging premiums for the provision of constraints, marketers often try to lift (self-imposed) constraints on overconsumption. Free trial periods for impulsive goods or services (such as free cable TV for the first thirty days of subscription) temporarily lift consumers' budget constraints and work against self-induced restrictions. One of the pervasive characteristics of today's U.S. consumer markets, readily available financing, also seems aimed at exploiting impulsive preferences by lifting liquidity constraints. As an extreme example, casinos often not only accept credit cards and offer cash machines but also allow trade-ins of items with cash value and accept IOUs in an attempt to make it easier for the consumer to overcome such constraints.

Some consumers respond to temptation by imposing rather arbitrary and seemingly suboptimal rules on themselves, such as carrying only cash, or paying with a debit card instead of a credit card, to limit their spending. These consumers willingly forego the temporary (during the grace period) free credit associated with credit card usage and sometimes even pay their banks hefty cash withdrawal fees. Like other tug-of-wars between marketers and consumers, this process is continuous. Marketers attempt to both initiate and respond to trends (for example, frugality and debt aversion) in consumer markets in a variety of creative ways. For instance, by offering credit card discounts or imposing cash surcharges.

Another manifestation of dynamic preference maintenance is the self-manipulation of tastes (see Gibbs, 1996). People who are concerned about being overweight may "teach themselves" to like frozen yogurt as a substitute for ice cream. Some even learn to enjoy the option that is "good for them" more than the one that is not. Teaching consumers such skills provides additional marketing opportunities (Murphy, 1997). Marketers indeed try to help consumers counter their impulsive and undesirable preferences. Successful diet foods, for instance, emphasize their great taste, not their weight control benefits. Research into consumers' ability to manipulate their own preferences to control their consumption would be of great interest both from a theoretical as well as a practical perspective.

If consumers make purchase and consumption choices at least in part to maintain the quality of their hedonic experiences, knowledge about their hedonic and economic intuitions is instrumental in coming up with new hypotheses about consumer behavior and ideas about how to better serve customers. Snell, Gibbs, and Varey (1995) have shown that consumers' hedonic intuitions do not necessarily match their true experiences. Much work remains to be done to advance our understanding of these intuitions as input into dynamic preference maintenance.

Overall, dynamic preference maintenance can give rise to a host of paradoxical behaviors. There are many examples that consumers are clearly willing to pay premiums for products and services that indirectly assist in controlling and limiting their resources. On the other hand, they may be reluctant to pay a price premium for such assistance directly. For instance, while a weight-conscious consumer may willingly agree to pay high prices at restaurants that offer smaller portions, the same person would probably resist directly being charged more (or even the same price) for a smaller portion of the same food at the

same restaurant. Thus, smaller portions are preferable but only as long as the cost implications of this preference (paying more for less) aren't made obvious to the consumer.

There may be other opportunities for profiting from dynamic preference maintenance that are contingent on creative framing by the marketer. Thus, consumers may pay more to exercise in a gym that offers them small token rewards (of negligible monetary value) to help them achieve their exercise goals. Some may be willing to pay a premium for products and services that actively limit their own consumption. For example, we would predict that equipping cable TV or Internet interfaces with a built-in rationing device may attract market segments that don't currently consume these services (for fear of overconsumption) or may allow charging a premium for this device (with creative framing of the benefit). More generally, consumers often appear to know what is good for them and are willing to pay more for it, as long as the premium is framed appropriately. Fluency in the rules that govern such framing can be key to the success of ventures that seek to capitalize on dynamic preference maintenance. Investigations of these rules provide particularly interesting opportunities for future research.

4. Conclusion

We have argued that consumers manage the resources and constraints under which they make choices to maintain the quality of their hedonic experiences over time. But we do not regard dynamic preference maintenance as being at odds with a traditional view of utility maximization per se. In principle, normative preference theory may well be able to accommodate the phenomena addressed by dynamic preference maintenance (see Stigler and Becker, 1977). For examples of respecifying normatively oriented models to incorporate subjective hedonic effects, see Wathieu (1997) and Carmon, Shanthikumar, and Carmon (1995).

More importantly, rather than addressing the debate about rationality, dynamic preference maintenance may provide marketing researchers with a richer understanding of consumer choice, because it allows behavior to be motivated by a broader set of principles and goals. Viewing consumer preference formation as a dynamic process that involves resource and constraint management allows us to subsume and organize a variety of related arguments about such diverse problems as precommitment and self-control (for example, Gibbs, 1996; Wertenbroch, 1996), pleasure management (Hoch and Loewenstein, 1991), mental budgeting and accounting (Heath and Soll, 1996; Thaler, 1985), and variety seeking (McAlister, 1982; Menon and Kahn, 1995). Moreover, we have illustrated that the concept of dynamic preference maintenance may inspire new opportunities for delivering value to consumers.

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