

Decision bias: Consumer behaviour influenced by bias

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Abstract. This essay will explain the impact of decision bias on everyday consumer behaviour. Firstly, the meaning of decision bias will be explained and then examples of the behavioural processes by which consumer behaviour is affected by it will be presented. Next, the processes by which consumer behaviour is affected will be specifically analysed by introducing four types of bias, confirmation bias, valuation bias, loss aversion, and overconfidence. Finally, the complexity and importance of the study of decision bias in practical decision making is further discussed using the example of consumers buying and firms selling financial products. This article will be used to illustrate how businesses use the impact of biases on consumers to gain additional benefits by gaining a deeper understanding of their target audience, and how consumers can identify and avoid falling into decision-making traps once they are aware of these biases. Businesses and consumers make better economic decisions that lead to more beneficial and sustainable economic interactions.

Keywords: Decision making, Bias, Consumer behaviour.

1. Introduction

Consumers' economic decisions, such as shopping, saving and investing, are influenced by a variety of psychological and behavioural factors. In recent years, much attention has been paid to the impact of decision bias on consumers' economic decisions. As Kienzler et al point out, decision bias refers to systematic deviations in judgment and decision making that can lead to decisions that deviate from rational choices [1]. For consumers, understanding these biases can be transformative. By being aware of these inherent biases, consumers have an opportunity to make better decisions. For instance, if one knows they tend to be impulsive in their purchases due to certain triggers, recognizing and countering those triggers can lead to more judicious spending.

Businesses, too, are increasingly realizing the power of these biases. Recognizing them allows companies to tailor their marketing and sales strategies more effectively. By aligning their pricing, storytelling, and product presentation techniques with consumers' biases, companies can resonate more deeply with their target audience. Such strategies, rooted in understanding and leveraging biases, can result in enhanced sales and improved brand loyalty. In the chapters that follow, It will be delved deeper into specific decision biases, exploring their origins, effects, and implications both for consumers and businesses.

2. Conceptual discourse and reflective discussion

2.1. Decision bias and behavioural economics

Decision biases and behavioural economics play a significant role in shaping consumer behaviour. Behavioural economics is a unique discipline that merges psychology with economics to interpret why people make certain financial choices. It has observed that human beings do not always behave rationally, and their actions are not always in line with their best financial interest. In simple terms, people don't always make the smartest money decisions. Abideen, et al argued that, decision biases, on the other hand, refer to mistakes in thinking that affect the decisions and judgments people make. These mistakes can be small but can have a big impact on how people spend their money. For instance, in the financial markets, although investors use financial instruments and programmes to assist them in their decision-making, these data programmes do not take into account psychological factors such as people's emotions, experiences, preferences, and so on. Some of these psychological factors may

introduce decision-making biases, and the decision-making biases of investors in the market are interrelated and may affect the financial market as a whole [2]. According to Banerji et al, different kinds of biases interact and correlate with each other, thus influencing human choices and behaviour [3]. For example, when companies have 'sales' or 'limited time offers', they know people don't want to lose out (this is called loss aversion), so they use this bias to sell more. As a result, company can gain more revenue by studying decision-making bias and developing strategies to change sales by guiding consumers step-by-step through the psychological aspects of behaviour to buy the product. At the same time, for consumers, being aware of these biases can lead to more thoughtful spending. By understanding these concepts, consumers can make more informed decisions and potentially avoid falling into decision-making traps.

2.2. Influence of different types of decision bias on consumer behaviour

The experiments of Kienzler et al. demonstrate that it is possible to influence consumer behaviour by moderating several factors that would have an impact on decision bias [4]. Their findings suggest that by altering specific factors, it's possible to shift consumer behaviour by leveraging these biases. Such biases, though they might operate subtly in the background of our choices, wield a considerable influence over the way we perceive and interact with products and services.

For consumers, recognizing the presence of these biases is the first step towards mitigating their influence. Understanding that they are operating under the influence of these biases offers a pathway to make more informed and rational decisions. By stepping back and evaluating their choices, consumers can ensure they genuinely align with their needs and preferences. For companies, by aligning their strategies with these insights, they can craft marketing campaigns, design products, or frame their services in ways that resonate with these inherent consumer tendencies. By doing so, they not only enhance their appeal but also deepen their connection with their consumer base.

Therefore, the four decision biases exemplified will be specifically analysed next to illustrate the impact that decision bias can have on consumer behaviour through these four areas, discussing the direction in which companies can adjust their strategies and the ways in which consumers can avoid their own behaviour being induced.

2.2.1 Confirmation bias

The first bias is "confirmation bias". This is when people focus only on information that supports what they already think or want to believe and ignore anything that doesn't. This bias isn't just a theoretical construct, its effects ripple through consumer decisions, especially in the context of shopping. Several studies have found that confirmation bias affects consumers' shopping decisions. Confirmation bias is the tendency to search for, interpret, and recall information that confirms existing beliefs or assumptions. Tan et al found that disclosing some of the product information through advertisements helped to steer consumers towards a purchase choice. Consumers were more likely to click on information that supports their decision to purchase a product [5]. This finding illustrates the subtle power of confirmation bias in guiding consumer actions.

In addition, representativeness bias also affects shopping decisions. Ziano and Villanova argued that, representativeness bias makes people rely on limited information to make an assessment [6]. For example, consumers may judge product quality based on product advertisements, and Tan et al found that consumers overestimated product quality based on limited positive information in advertisements [5]. From a business perspective, these insights present a valuable opportunity. Companies, by crafting compelling advertisements and selectively presenting positive product information, can harness these biases to steer consumer behaviour. Such strategies can enhance product visibility, increase disclosure and increase sales. For consumers, the knowledge of these biases is empowering. While advertisements are designed to entice, it's essential for consumers to remain grounded. Recognizing these biases allows consumers to approach advertisements with a measured perspective, ensuring their purchasing decisions aren't overly influenced by selective information. Consumers can lower their expectations when confronted with advertisements and think calmly about not having high

expectations. By managing their expectations and critically evaluating the information presented, consumers can make choices that truly align with their needs and desires.

2.2.2 Valuation bias

The second is valuation bias. Valuation bias is an intriguing aspect of consumer behaviour, especially in the digital age. As Guo et al. highlighted, when shopping online, people often place a certain valuation on products based on just pictures and text descriptions. Because they can't touch, feel, or try the product, they sometimes value it more than its actual worth upon receiving it [7]. In other words, without hands-on experience, customers might perceive a product's worth differently than its real value. This could perhaps be combined with confirmation bias as having an impact on the judgement of consumers making online purchases increases purchases. For example, online shopping is booming, and it comes with the combination of valuation and confirmation biases. Here's how it works: online platforms showcase products using high-quality images and persuasive descriptions. A consumer might already be leaning towards buying a particular item, and the online presentation only fuels that inclination. In essence, the way a product is portrayed online can amplify a shopper's perceived value of it, making them more inclined to click that 'buy now' button.

Furthermore, Guo et al. argue that additional services, such as home delivery in lieu of assembly, can be used to add value to the product and increase customers' willingness to purchase [7]. This leads to the likelihood that customers will not realise until after they have received the product that the actual valuation of the product is hardly up to the value derived from observing the information online, and that it is only because of the value added to the product by the additional services that the consumer's willingness to buy is created. As a result, perhaps customers need to explicitly consider the value added by additional services separately when assessing the value of a product when making an online purchase. Consider clearly whether the valued value of the product would still be the same as before without the value added by the additional services. On the other hand, the company can increase the aesthetics of the product images and the textual description of the product information on the web page by designing the advertisements and, to the extent that this does not result in false advertising, by adding additional services to the product. Moreover, additional services can be added and advertised in order to attract and guide consumers to make a purchase. Offering additional services is an excellent strategy to increase appeal, but it should complement the product's inherent value, not overshadow it. By keeping these principles in mind, businesses can foster trust and ensure repeat business from satisfied customers.

2.2.3 Loss aversion

The third decision bias is loss aversion. Loss aversion stands out as a dominant factor in people's decision-making processes. It's a well-established fact in behavioural economics, and Nagaya's research shines a light on this phenomenon. Nagaya found that in the face of risk and uncertainty, people deviate from the reference point for making decisions relative to the value of the ultimate benefit, and that a loss has a greater value in people's minds than a gain of equal value. Losses have a greater impact on people's arousal in the face of equally valued losses and gains. Loss aversion leads to numerous irrational behaviours, each of which has an impact on valuation, preference formation and purchasing behaviour. Loss aversion is a research point that has a place in behavioural economics [8]. Specifically, when faced with choices that involve potential risks or uncertainties, people weigh losses more heavily than equivalent gains. Imagine being offered a gamble where you could either lose \$50 or gain \$50. Even though the amounts are the same, the prospect of losing that money feels much more significant, more jarring, than the potential joy of gaining it. This innate human tendency to avoid losses more vigorously than pursuing gains affects how we evaluate opportunities and make choices.

Therefore, considering the impact of loss aversion, for example, in financial products, companies should avoid products with too high benefits, because high benefits are accompanied by high risks. Customers may forego the benefits that they may gain by considering the high risk that exists at the same time, which may result in a large loss with long term implications. However, as a consumer,

one should think dialectically about the impact of losses and benefits, and one should not stop thinking about the assumption that losses may have long-term effects just because one is thinking about avoiding the effects of loss aversion. Over-focusing on potential losses can keep them from seizing valuable opportunities. While it's prudent to be wary of risks, entirely sidestepping opportunities due to fear of loss isn't always the best course of action. It's like avoiding investments because of market volatility; while the concern is valid, one might also miss out on potential growth. Loss aversion profoundly shapes our decisions, both as consumers and in businesses. Companies can tailor their strategies, ensuring they align with these psychological inclinations. At the same time, consumers need to recognize this bias in themselves, allowing them to make more balanced and holistic decisions.

2.2.4 Overconfidence

The last decision bias to be discussed is overconfidence. According to Bouteska et al., overconfidence can be interpreted as overly positive misjudgements, such as misvaluing the social situation, self-competence, and the value of a project out of optimism [9]. On the other hand, overconfidence can give an advantage over competition [9]. Therefore, overconfidence may be the result of a consumer's optimistic assumptions about a product and the ease with which he or she can make a purchase decision based on that information.

This may be a good outcome for the company but should be avoided at all costs for the consumer. From a consumer's perspective, this could translate to overestimating the benefits of a product, based on a limited set of information or personal beliefs. This can lead to snap decisions that may not always be in the consumer's best interest. For instance, a person might buy a gadget believing they can use it to its fullest potential, only to discover later that they can't, leading to buyer's remorse. For businesses, having consumers with an overconfident mindset can work to their advantage. An overconfident consumer might not dwell too long on purchase decisions, potentially leading to quicker sales. They believe in the product's value or their ability to use it, so they dive in headfirst. Balancing this against the potential dangers of loss aversion, overconfidence can serve as a counterweight. While loss aversion might deter someone from taking risks due to the fear of negative outcomes, overconfidence might spur them on in the belief of positive returns. Bouteska et al. suggest that the benefits of overconfidence may outweigh the losses associated with overcautiousness [9]. While it's essential to be aware of the risks associated with both biases, it's equally crucial to find a middle ground. Thus, in the case of financial products, for example, consumers may also appropriately weigh the benefits against the risks when making decisions.

2.3. Complexity and Decision Bias in Financial Product Choices

A specific intriguing facet of decision bias can be seen when consumers are faced with choosing complex financial products. Basu and Dulleck conducted an experimental study highlighting the behavioural underpinnings behind consumers' choices when investing in hybrid securities [10]. Their findings suggested that consumers often gravitate towards these intricate products not solely due to their potential financial returns, but also because of certain inherent biases. For instance, some consumers might perceive complex products as more sophisticated or rewarding, even when simpler alternatives with similar returns are available. This could be seen as a form of overconfidence, where the consumer believes they have a unique understanding or ability to leverage these complex tools, even if they might not fully grasp their intricacies.

From a company's perspective, adding complexity to products can be both good and bad. On one hand, some customers might find complex products appealing because they seem advanced or sophisticated. On the other hand, some might feel overwhelmed by products that seem too complicated. For this reason, it's important for financial companies to explain their products clearly and provide enough information. This helps customers feel more confident in their choices. For people looking to buy these products, it's always a good idea to take the time to understand what they're getting into. By doing this, they can make better decisions and avoid potential money troubles in the future.

3. Conclusion

In conclusion, understanding behavioural economics and decision biases can help both companies and consumers make better choices. For businesses, this knowledge is invaluable. By aligning marketing strategies with these inherent biases, they can effectively resonate with consumers, driving purchasing decisions and enhancing customer engagement. For consumers, recognizing these biases isn't just about understanding oneself better; it's about empowerment.

By being aware of these inherent tendencies, consumers can navigate the marketplace more astutely, sidestepping potential pitfalls and making choices that align more closely with their true needs and desires. Further research into these areas can help us understand consumer behaviour better and create a more beneficial marketplace for all. Ultimately, understanding these forces can lead to better decision-making in economics, guiding both businesses and consumers towards more rewarding and sustainable economic interactions.

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