

## **Task Factors and Compromise Effect in Consumer Choice**

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### **Abstract**

The compromise effect has received much research attention recently. Much research has been conducted to find out the factors which could weaken or strengthen the compromise effect. So far the research effort and findings could be primarily concluded into two categories - consumer characteristics and product characteristics related factors. While there has been limited research on the effects of task influences. We argue that task factors may significantly moderate the compromise effect in consumer choices. Specifically we hypothesise the influence of two task factors, task focus and task definition on compromise effect. The experimental design to test hypotheses was also proposed. Results will be available in October 2009.

## **Task Factors and Compromise Effect in Consumer Choice**

### **Introduction**

Understanding how a consumer makes choices has received much research interest in recent years. Consumer choice is one of the most common topics in consumer research to assess buyer preferences (Dhar and Simonson 2003). Identifying the best choice is difficult when consumers are uncertain about the utilities of the available options and/or their preference for the utilities. Previous research suggests that when consumers evaluate a focal option, they also consider the characteristics of other alternatives, rather than those of the focal option alone. This complicates the decision process and has led to considerable research attention on how other alternatives in the choice set could influence the consumer decision of the focal option (Simonson 1993). This phenomenon is often known as the context effect. One of the widely discussed context effects is the compromise effect, referring to the fact that “an alternative would tend to gain more market share when it becomes a compromise or middle option in the choice set” (Simonson, 1989, p159).

Recent research primarily concentrated on the factors which could systematically weaken or strengthen the compromise effect. The research could be classified into two categories based on their focus. The first category of research investigated how the characteristics of choice alternatives would moderate the compromise effect. These characteristics include attribute importance and position of decoy brand (Sheng, Parker and Nakamoto 2005), attribute alignability (Gourville and Soman 2007), and product brand information (Sinn et al. 2007). The second research category examined characteristics related to consumers, including consumers' motivation orientation (Mourali, Bockenholt and Laroche 2007) and consumer product knowledge (Sheng, Parker and Nakamoto 2005).

The findings from these research have broadened our understanding about the circumstances under which the compromise effect is more likely or less likely to occur. But they seemed to have omitted factors related to the choice task which may also influence the choice result. Based on previous research, we position our research focus as the third category which mainly investigates how the task factors will influence the compromise effect. Task factors are defined here as important situational influences on consumer decision making. Specifically, we will examine the moderating effect of two task factors: task definition and task focus. We argue that for the same person to choose the same product, the task factors may significantly strengthen or weaken the compromise effect. This paper first provides an up-to-date literature review, and then presents the development of two hypotheses together with two experiment designs.

### **Literature review**

Compromise effect indicates an irrational human choice behaviour that adding an extreme option to the choice set will shift the choice preferences in favor of the compromise option. Compromise effect would be stronger for people who are expected to justify their choices to others and uncertain about their preference toward specific attribute values (Simonson, 1989). This effect has been observed frequently in consumer choice (Dhar and Simonson 2003) and has many practical implications in areas such as new product introduction, positioning strategy, and product assortments (Kivetz, Netzer, and Srinivasan 2004b; Simonson and Tversky 1992).

An early experiment conducted by Simonson (1989) that compromise effect exists in alternative choice. In this experiment, students had to choose between apartments that varied in quality and distance from campus. Apartment  $x$  is of high quality and 11 miles from campus and apartment  $y$  is of medium quality and 6 miles from campus. Other students are given three apartments—Apartment  $x$ , Apartment  $y$ , and a third apartment,  $z$ , that was low in quality and 1 mile from campus. He found that students presented with  $\{x, y\}$  chose Apartment  $y$  50% of the time, while students presented with  $\{x, y, z\}$  chose Apartment  $y$  66% of the time.

The compromise effect has two different antecedents: it can be driven by the relational properties of choice alternatives (relational compromise) or, alternatively, it can be associated with attribute balance (balanced-option compromise) (Chernev 2004). Both of these antecedents can be moderated by a number of variables (for example, Chuang, Hu and Yen 2008). These factors that moderate or reverse the compromise effect can be categorised roughly into two groups – consumer characteristics and product attributes related factors.

**Consumer characteristics.** Consumer characteristics include factors such as consumer knowledge, consumer familiarity with the product, and consumer motivational orientations. Consumers with high knowledge are influenced more by their prior knowledge than information in the choice context (Hutchinson 1983). Having prior knowledge might make it possible to make choices based on value maximization (Mishra et al. 1993). For instance, a person who is knowledgeable about the product category might be able to meaningfully assess the quality of each choice option independent of the information about the other brands in the context.

Sheng, Parker and Nakamoto (2005) further examined the impact of product familiarity on the compromise effect from two perspectives. The more familiar an individual with the product, the less likely he or she will choose the compromise option in the choice set. This is because a consumer with high product familiarity may gain more information from both the shopping environment and their own memory before making a decision. With more information related to the judgment tasks, a high-familiarity consumer may generate a more comprehensive evaluation of the product, and thus is less likely to be influenced by the compromise rationale.

Mourali, Bockenholt and Laroche (2007) examined the influence of consumers' motivational orientations (regulation focus) on their susceptibilities to context effects. The size of the compromise effect will be greater for prevention-focused consumers (those who are concerned with protection and safety) than for promotion-focused consumers (those who are concerned with advancement and accomplishment). Prevention-focused consumers who favour vigilant strategies of making correct rejections and avoiding mistakes are expected to avoid extreme options. This is because the choice of an extreme option increases the risk of potentially making a poor choice (i.e., by betting on the wrong attribute). Instead, these vigilant consumers should favour the "safer" compromise options, which offer intermediate levels of all attributes and thus minimize the risk of making a mistake. In contrast, promotion-focused consumers use an eager strategy for achieving hits and ensuring advancement, they should be more sensitive to the dominance heuristic. That is, they should be more likely to view the presence of a dominant brand as an opportunity to be captured and not to be missed.

**Alternative characteristics.** Alternative characteristics refer to the features, attributes and information attached to the alternative. A number of factors have been found to influence the compromise effect, including attribute importance structure, assortment alignability, brand

names, and country of origin of the brand. Sheng, Parker and Nakamoto (2005) posited that the more asymmetric an individual's attribute importance of a product, the less likely he or she will choose the compromise option in the choice set. This is because when having a symmetric attribute importance structure, a consumer is faced with a relatively difficult decision, as an option's relative advantage on one attribute is offset by its disadvantage on the other attribute. When an individual's attribute-importance structure is asymmetric, the brand with the highest value in the more important attribute tends to dominate, diminishing the probability of the compromise effect.

According to Sinn et al. (2007), in choice scenarios where alternatives consist only of product attributes without real brand names and no option is dominated by another, relative position may be an influential cue to reduce risk. When alternatives are presented with real brand names, the addition of the brand name cue reduces consumers' reliance on relative position to reduce risk. This could lead to a violation of the compromise effect when the compromise brand is relatively less familiar than its extreme competitor (given that all brands have positive associations). Compromise brands that are more familiar than extreme brands are preferred, whereas, compromise brands that are less familiar than extreme brands are less preferred. Similar results were found by Chuang and Yen (2007) who explored how valence of country-of-origin (COO) influences the magnitude of the compromise effect. The results of four experiments demonstrate that when a product's COO denotes a negative image, the compromise effect decreases.

Gourville and Soman (2007) examined the influence of the alignability of product attribute assortment on the compromise effect. They defined an alignable assortment as a set of brand variants that differ along one or more compensatory attributes, such as price, quality, and size. For alignable assortment, each variant has a specific quantity of those attributes. A non-alignable assortment, by contrast, entails a set of brand variants that vary along one or more discrete, non-compensatory attributes, such that one alternative may possess one set of desirable features, while a second alternative may possess a different set of desirable features. They found that consumers would display extremeness avoidance (another term for the compromise effect) for alignable assortments, but systematically and predictably display extremeness seeking for non-alignable assortments.

**Situational influences and the compromise effect.** Consumer choices are susceptible to situational influences. The literature indicates that person-, context-, and task-specific factors cause consumers to utilize different decision strategies. Researchers have just started to look at the effects of situational influences on compromise effect. For example, Lin et al. (2008) explores the effect of time pressure on the compromise and attraction effects. They found that the compromise effect is smaller when consumers are under time pressure. They argued that, in binary set  $\{a, b\}$ , the option to choose depends on personal preference; while in trinary set  $\{a, b, c\}$ , with time pressure, the compromise option is likely to lose a relatively large share to the non-compromise option because increasing time pressure makes decision makers inclined to use a non-compensatory decision rule to form attitudes or make choices based on values of important attributes. Therefore, when consumers are facing time pressure, they tend to focus on either price or quality, which leads to the prediction that the non-compromise options will be chosen more often than the compromise option. However other situational variables such as task related factors have not been examined in the context of consumer choice. In fact, decision research indicates that people make inferences and decisions through task-contingent strategies (Payne, Bettman, & Johnson, 1988). The following section proposes two task related hypotheses in relation to compromise effect.

## Hypothesis development

**Task definition and compromise effect.** In a consumer behaviour context, a task definition comprises the set of goals a consumer forms to resolve needs deriving from a specific situation (Marshall, 1993). It can be broadly defined as the orientation, intent, role, or frame of a person through which certain aspects of the environment may become relevant for consumers to buy or consume a product or service (Belk 1975).

Task definitions are generally believed to have an important influence on an evaluative criterion's salience (Miller and Ginter, 1979; Dickson, 1982). Shepard (1964) suggested that a person might adopt different mind frames that are each related to a unique set of attributes and their weights when facing different task. In the fast-food restaurant decisions, Miller and Ginter (1979) discovered that different choice criteria were used according to four different usage situations. Simonson and Tversky (1992) claimed that attribute importance weights were sensitive to purchase situations (Green and Krieger, 1995).

Consider the impact of a task definition on the compromise effect when information about two other product attributes, quality and price, is also available. When consumers are uncertain about their preferences, they tend to choose a compromise option, an all-average alternative that is interpreted as secure and less criticised (Simonson 1989). However, when the product is associated with a more important task for example buying it as a gift for a significant other, low price is likely to indicate low in quality and inferior function, and will be evaluated unfavourably. Thus, it is reasonable to argue that the compromise option is then no longer a safe and justifiable alternative and cannot compensate the impact of important task. Thus, we hypothesise that:

**H1: The effect of compromise effect will be weaker when the product is purchased as a gift than when it is not.**

**Task focus and compromise effect.** The mental accounting theory suggests that people set up different accounts in their mind to manage incomes and expenditures (Thaler 1985). Mental accounting makes it easier for people to weigh up costs and benefits (Linville and Fischer 1991). As consumers spend money, they assign their expenses to appropriate accounts and periodically recompute the amount of money remaining in their budgets. When the budget for a particular account is depleted, they resist further expenses on items in that category (Heath and Soll 1996).

When a consumer has a budget to assign on a particular purchase, he often tends to trade off between the price and product quality. In other words, he has to decide to whether to pay a high price for a high quality product or a low price for a presumably low quality product. When a consumer only focuses on the current purchase task, he/she may only consider his/her preference of product quality and the acceptable price for a given quality level. However, when consumers extend the purchase consideration from current task to other tasks, their feeling of limited budget becomes stronger. Therefore, saving some money on the current purchase task to support other purchases will bring consumers a feeling of achieving value maximization (Mishra et al. 1993).

In addition, when feeling the limited budget, consumers are motivated to make more rational decision. Simonson (1989) pointed out that the choice of a compromise alternative will be perceived as easier to justify and less likely to be criticized. Because the compromise

alternative combines both attributes and therefore becomes a rational choice. Therefore, when consumers are encouraged to consider other purchase tasks, choosing the compromise option in the current purchase will look more rational. Therefore, we posit the following hypothesis: **H2: The compromise effect is expected to be stronger if individuals extend their purchase consideration focus from current task to other tasks.**

### Proposed methodology

Two separate experiments will be used to test the hypotheses. The first experiment will use a 2 (choice set: binary vs. trinary)  $\times$  2 (task definition: gift-giving vs. non-gift-giving) between-subjects design while the second consists of a 2 (choice set: binary vs. trinary)  $\times$  2 (task focus: current task focus vs. additional task consideration) between-subjects design. The choice set is either binary or trinary. Each alternative will be described according to two attributes: quality and price. The design of the binary set consisted of one “all-average” option (B) and one “low price-quality” option (A) with advantages on pricing and disadvantages on quality, with the trinary set containing one additional option (C) of high price-quality.

In the task definition study, participants will be randomly assigned to four experimental conditions and asked to make purchase choices of cookies. Each alternative will be described on two attributes: percentage of butter and price. We predict that the percentage of butter contained in the cookie is positively associated with taste. As a result, high percentage of butter is linked to high price. In the task focus study, the experiment procedure will be similar. Participants will be randomly assigned to four experimental conditions and asked to imagine they will rent an apartment. Each alternative will be described on two attributes: price and distance (referring to the shortest time they could get to the working place). We anticipate that the choice percentage of option B will systematically change when people shift from non-gift giving situation to gift giving situation and when they extend the consideration from current task to additional tasks. The results of these two experiments will be available and discussed at the conference.

Table 1: Purchase Choices of Cookies

Product	Group 1	Group 2	Group 3	Group 4
Butter Cookies	Binary set, non-gift giving	Trinary set, non-gift giving	Binary set, non-gift giving	Trinary set, non-gift giving
A, 4% butter, 24 RMB	*	*	*	*
B, 9% butter, 36 RMB	*	*	*	*
C, 14% butter, 48 RMB		*		*

Table 2: Choices of Apartment rental

Product	Group 1	Group 2	Group 3	Group 4
Apartment	Binary set, current task focus	Trinary set, current task focus	Binary set, additional task consideration	Trinary set, additional task consideration
A, 1000 RMB, 40-minute distance	*	*	*	*
B, 1500 RMB, 25-minute distance	*	*	*	*
C, 2000 RMB, 10-minute distance		*		*

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