Utility Blindness: Why Do We Fall For the Deal?

Maggie Wenjing Liu, Rotman School of Management, University of Toronto, Canada
Dilip Soman, Rotman School of Management, University of Toronto, Canada

Utility blindness refers to the phenomena that under limited information processing, consumers would base their purchase decision solely on transaction utility (gains from the deal) rather than total utility. When the deal is attractive enough, people would buy the products even though the total utility is negative; on the other hand, an unattractive deal might decrease people’s purchase likelihood when the total utility is unaffected by the promotion. A series of studies provided evidence for the existence of utility blindness, with information processing focus as the underlying process. Transaction utility salience and cognitive load are identified as the moderating factors.

[to cite]:
Maggie Wenjing Liu and Dilip Soman (2007), "Utility Blindness: Why Do We Fall For the Deal?", in NA - Advances in Consumer Research Volume 34, eds. Gavan Fitzsimons and Vicki Morwitz, Duluth, MN: Association for Consumer Research, Pages: 630.

[url]:
http://www.acrwebsite.org/volumes/12634/volumes/v34/NA-34

[copyright notice]:
This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at http://www.copyright.com/.
Utility Blindness: Why Do We Fall For the Deal?
Maggie Wenjing Liu, University of Toronto, Canada
Dilip Soman, University of Toronto, Canada

EXTENDED ABSTRACT
Although often viewed as a suboptimal consequence of price competition by many academics and marketers (Chandon, Wansink and Laurent 2000), sales promotion is not readily to be replaced by other sales policies such as everyday-low-price. Over years consumers and retailers seem to have an unceasing interest towards products in a deal. However, the fundamental question in promotion research—why consumers respond to the deals, has always been a controversial one. Behavioral literature on promotions is generally focused on either consumer demographics, or economic benefits from the deal (Chandon, Wansink and Laurent 2000). The psychological process under consumers deal responses are often either neglected or oversimplified. The present research addresses consumers’ response to promotion from the information perspective and explores its underlying cognitive process.

Classical economics theory stresses maximization of utility under the assumption that consumers are rational buyers who maximize the economic gains from a purchase transaction. Richard Thaler (1985) came up with the theory of acquisition-transaction utility that consumers evaluate transaction by total utility, which is the sum of acquisition utility (utility derived from the purchased good minus the price paid for the good) and transaction utility (internal reference price minus the purchase price). The idea that consumers base their purchase decision on total utility has been widely accepted and applied to marketing research, especially in the sales promotions area (e.g., Grewal, Monroe, and Krishnan 1998; Lichtenstein, Netemeyer, and Burton 1990).

However, in the real life consumers often seem to disobey the principle of total utility. As indicated by the phenomena that nearly everybody’s house contains something we bought in a deal but seldom or never use, consumers might fall for an attractive deal even when the total utility from the purchase is negative. There could be many reasons accounting for such blindness to utility, including consumers’ deal proneness, overestimation of their consumption, etc. However, deal proneness alone cannot fully explain why a consumer would buy worthless things when the total utility is zero or negative, but reject an unattractive deal even if it does no harm to the total purchase value (Simonson, Carmon and O’Curry 1994).

The present research tries to address consumers’ response to promotion from an information processing perspective, as well as explore the underlying process for consumers’ deal reactions. In this paper we propose the notion of utility blindness, which claims that under limited information processing, consumers would base their purchase decision solely on the perceived gains from the deal (i.e. transaction utility) rather than total utility. When the deal is attractive enough, people would buy products even when the total utility is little or negative; on the other hand, an unattractive deal would decrease people’s purchase likelihood even when the total utility is not affected by the promotion.

Three lab studies are described to test the existence and underlying process of utility blindness. In the first study, utility blindness is showed to exist even in knowingly “rational” groups like PhD students of economic/business major. When the deal is attractive enough, they would fall for the deal despite that buying the product would lead to little or negative total utility.

In study 2 we not only identify the salience of transaction utility as a moderator of utility blindness, but also demonstrated two sides of the coin: when people perceive positive transaction utility in a deal, they are willing to buy the product regardless the total utility; while when they perceive transaction disutility (negative transaction utility) in the deal, they are not likely to buy the product even though total utility remains the same.

In a third study, we demonstrate that utility blindness occurs when people process the deal information in a limited manner. Priming subjects with different information focus (focusing on either benefit only or both benefit and cost) in a preliminary task should change their information focus, hence the tendency to fall for utility blindness. Effect of utility blindness is moderated by cognitive load, since it impairs people’s capability and resources in information processing. People are more likely to fall for utility blindness when they are under cognitive load and when the transaction utility is salient. Such blinding effect of a deal is in spite of individual differences in deal proneness, mood, involvement, prevention/promotion focus, risk attitude, and need-for-cognition.

Contributions, managerial implications, and limitations of the present research are summarized in the conclusion section. For future research utility blindness could be extended into bad-deal-good-product scenarios, other economic contexts (time, money and effort) and social relationship problems.