Inferred Informational Cascades and Their Effects on Choice: the Relative Stocking Level Effect

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We present evidence that consumers use the relative stocking level of available alternatives to infer the popularity of those alternatives and then use the inferred popularity as an input in making choices. We suggest that even though consumers do not directly observe the behavior(s) of their predecessors, they use this information to direct their own actions; a process we call an inferred informational cascade. The relative-stocking-level effect is found to be robust in the presence of brand and quality information and also occurs in contexts which might elicit extremeness aversion.

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EXTENDED ABSTRACT

Consumers use multiple heuristics in making (sometimes non-optimal) choices. Here we introduce another heuristic, the relative-stocking-level effect, which consumers use to choose among similar alternatives. Specifically, we present evidence that consumers use the relative stocking level of available alternatives to infer the popularity of those alternatives and then use the inferred popularity as an input in making choices, leading them to select the less stocked alternative. We suggest that even though consumers do not directly observe the behavior(s) of their predecessors, they use stocking levels to infer it, ignoring other information (e.g., brand and quality) and potential extremeness aversion; a process we call an inferred informational cascade. In other words, this paper investigates informational cascades as an input in making choices, leading them to select the less stocked alternative. Specifically, we present evidence that consumers use inferred popularity to direct customers to more profitable private labels. It appears that the optimal choice is not the most stocked alternative, but the one perceived to be most popular. If a quality inference is driving the relative-stocking-level effect, then participants’ choices should be random when the products are of equal quality. However, even when both alternatives were of equal quality, 78% to 85% chose the lesser-stocked product, replicating the findings of study 1. The lesser-stocked alternative was of higher quality, 93% of participants preferred it. Most interestingly, when the lesser-stocked alternative was of lower quality, 27% of participants still preferred the lesser-stocked alternative. Thus, the relative-stocking-level effect is not dependent on quality inferences.

Taken together, the four studies present evidence that a relative-stocking-level effect exists and that it is robust in the face of extremeness aversion and brand and quality information. That participants choose the alternative they believe to be most popular, and do so despite information suggesting this might be suboptimal, supports our contention of the presence of an inferred informational cascade.

This type of consumer behavior may have significant practical implications for managers such as optimal stocking quantity and restocking timing. Further, retailers could potentially use this information to direct customers to more profitable private labels. It also suggests consumer welfare may be decreased when consumers utilize the “relative-stocking-level” heuristic. Finally, our findings suggest that consumers do not have automatic negative reactions towards either the brand (e.g., “This brand must not be good if they don’t keep it in stock.”) or the store (e.g., “This store is disorganized.”) when a product is not fully stocked. Instead, it seems that consumers find imperfect stocking levels to be positive information.