10 Choice Rules and the Competitive Process

10.1 INTRODUCTION

In previous chapters I generally carried out the analysis of decision-making processes as though consumers faced a given set of options which might come to appear on their agendas, and as though they faced a given set of market prices (including the price of labour in various employment slots). Implied in that analysis was a particular set of ideas about how, and why, consumers may behave when confronted with changes in product specifications, availability and market prices. This chapter brings these ideas out into the open and examines their implications for policy makers.

Section 10.2 is concerned with consumer reactions to changes in market environments in situations where it seems possible to compute ‘overall implications’ of adopting rival courses of action. Section 10.3 examines consumer responses to price changes, as seen from the standpoint of the characteristic filtering analysis. Section 10.4 extends these arguments to encompass ‘non-price’ aspects of choice in relation to the product lifecycle phenomenon. Section 10.5 draws attention to the implications of these arguments for the product and pricing policies of firms. Section 10.6 adopts an unusual play by way of suggesting that these arguments warrant serious consideration even in advance of systematic empirical work aimed at refuting them. It is shown how the theoretical analysis fits in with some motoring journalists’ accounts of how they reach verdicts on ‘What Car?’ to recommend when they have tested a group of close competitors in the ever-changing automotive market. These accounts have not been chosen according to some rigorous sampling procedure, and I make no claim to be conducting what cognitive scientists (for example, Waterman and Newall, 1971, Huntl982, call ‘protocol

analysis’ (since the journalists were not required to describe in order all the reasoning stages behind their recommendations). But they might be taken as pointing the way forward to a new kind of empirical work, albeit one that in some ways resembles literary criticism. Sections 10.7 and 10.8 are more obviously addressed to public policy makers and concern, respectively, trade policy and attempts to promote risk-taking behaviour.

10.2 OVERALL IMPLICATIONS OF PRICE AND PRODUCT CHANGES

Increases in prices may be seen by consumers as closing off opportunities for action, whereas price reductions and improvements in products or the appearance of new products may open up hitherto blocked possibilities. However, even if consumers construe that their ‘opportunity sets’ have changed, they may fail to change their consumption of the goods whose relative prices or non-price performances have changed. This result is a familiar one from conventional models of consumer behaviour as discussed in Chapter 2, where we saw how price and product changes alter the costs of producing particular combinations of characteristics in an efficient manner. If consumers could usefully be thought of ‘as if’ they can compute the overall implications of market changes for their abilities to predict and control events, an analysis of how they might behave in the face of such changes would lead to the usual conclusions about income and substitution effects and consumer surplus. However, an ‘implications-based’ analysis would not require any restrictive assumptions about continuity of indifference loci and substitution possibilities in characteristics space.

Consider, for example, hypothetical small and large unexpected increases in the price of petrol. Will they lead a consumer to cut her petrol consumption, or will she simply carry on buying petrol as before and make other economies? The question is really one about an appropriate choice of budget: economising on petrol may involve some changes of transport-using lifestyle components (for example, less driving into town in the evenings for entertainment) or changes in one’s transport lifestyle (for example, more use of public transport, or the purchase of a more
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economical, less status-providing vehicle); but a failure to economise will also require some changes (for example, a slower accumulation of savings for new consumer durables, or less 'up-market' leisure expenditure on holidays, eating out and so on). Either way, there will be negative implications for the consumer's way of life, relative to the expectations she previously entertained. These implicational patterns could differ considerably amongst rival budgeting strategies that the consumer considered in each situation (and we would be wise to imagine that in either situation the consumer would go beyond considering a limited set of discretely separated strategies).

Different consumers who happened to consider identical strategies could attach different patterns of implications to them, which would depend on the extent to which they had built up their lives around the expectation of being able to buy petrol at a particular price and run a particular car (see sections 6.5 and 6.6). If a consumer did not attach any positive implications to any of the strategies she considered relative to her former pattern of expectations, we should expect her to rank the strategies in order of the reverse of their rankings in terms of the total negative implications of adopting them as a preferred option. It is possible that a strategy involving no economising on petrol will come out top—the range of convenience of the consumer's predictive system would thus be reduced by other kinds of cutbacks, but by less than if she sought to economise on petrol. With a large petrol price increase, new, more drastic strategies might be considered and one involving some economising on petrol might then seem the least bad option of those evaluated.

Strategies for dealing with such a 'mugging'—whether a small or a large one—might not be without their positive implications relative to the original set of expectations, and these could affect overall rankings by net implications. For example, to change a large 'gas guzzler' for a small, fuel-efficient vehicle might on the one hand seem to have damaging implications for one's self-image, but on the other it might mean that one expected to be more easily able to park in town in rush-hour traffic without embarrassment. On balance, then, the implications for one's self-image might not be all that negative if a switch were made to a smaller car and an implied reduction in petrol consumption.

Where an individual product brand has increased in price, a consumer who could assess overall implications of rival action schemes would essentially behave in a manner akin to that envisaged in the rather 'neo-Marshallian' version of Lancaster's model proposed by Rosen (1974) (see section 2.4). That is to say, she would examine the implications of buying the brand in preference to its new relatively cheap rival, and thus of having less money for other things than she would have done had its price not increased. This examination may not involve her in spelling out to herself in detail what she would be giving up if she parted with more money; she might merely correlate her reduced scope for coping with life with the extent of the generalised purchasing power she would have to forgo to purchase an expensive brand, and then subtract this score from the overall implicational tally for the strategy. (Some implications may be all too clear. For example, if the consumer had been planning to purchase the brand whose price has increased, she may feel stupid not to have acted sooner; if she resists buying the product now, she avoids the implication that she has let herself be mugged—at least, she does so as long as she has not made public her original plans. This kind of behaviour is entirely in keeping with my Kellian analysis of how people make up their minds, but some readers might also recognise it as fitting in neatly with Festinger's (1957) theory of 'cognitive dissonance'.) To the extent that a consumer seems usually to be more sensitive to spending an extra dollar on a low-value item (for example, a gramophone record) than on a high-value item (for example, a 'hi-fi' system), one might seek to explain this 'diminishing marginal utility of money' in a number of ways: (1) by referring to cognitive psychology literature on 'framing effects' (see Thaler, 1980, for some economic applications of this literature); (2) by arguing that it is a manifestation, in the context of compensatory choices, of what I discuss under the heading of 'rip-off avoidance' in the next section; or (3) by noting that the consumer may attach great significance to spending proportionately a good deal extra in order to obtain a slightly better low-value product (for example, 'people would think I'm crazy if I spend a dollar more on a single bar of soap, even if it does lather better'). There is an obvious need for empirical work to uncover the frequencies of use of these (and any other seemingly possible) modes of thought as devices for appraising the significance of relative price differentials.
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With price reductions and product improvements essentially the same `implicational' arguments apply. For a person to change her behavioural intentions she must be able to see that the change in her market environment has opened up possibilities in respect of which the positive implications of change outnumber the negative ones. For example, a fall in the price of petrol might lead a consumer to contemplate widening the range of her experience by driving out more at weekends to see what she can make of particular places and happenings. However, she might see that to do so would leave her with less time available to `stop the garden getting out of control'—an event which she might see as implying a lowering of her neighbourhood standing. The net implicational gain for this strategy of change (if indeed there is one) might be less than that from schemes involving the purchase of a more prestigious but thirsty car, or non-petrol-using means of household production, financed by savings from reduced petrol outlays.

10.3 EFFECTS OF PRICE CHANGES ON CHARACTERISTIC FILTERING PROCESSES

Where bounded rationality drives the consumer to employ non-compensatory decision rules as means of approximating choices which might be arrived at by computing overall implications, price changes impact on consumer choices in a somewhat different manner. In characteristic filtering processes, there seem to be six main ways in which realignments of relative prices may provoke changes in consumer behaviour.

First it should be noted that a general change in prices in a particular commodity category, or a change in price in a particular brand that a consumer knows well and uses as a reference point for an entire group, may impact upon this consumer's choice of budgeting strategy. A consumer's preferred budgeting plan may change if a price cut opens up the possibility that, by reallocating expenditure between commodity classes, she may be able to find a cheaper way of meeting aspirations which she would have been able to meet in any case. This saving, in turn, may permit her the prospect of being able to meet priorities which hitherto she has failed properly to attain and/or improve her attainment levels in respect of other goals where past experience had led her to moderate her aspirations. If a price has risen and her money income prospects have not, a budgetary rethink may enable her to reduce the importance of the priorities whose satisfactory attainments she is now forced to forgo. The price effect for the commodity category in question could be positive, zero or negative, depending on her goals and her perceptions of possible technologies of household production. (A 'Giffeniseque' example would be as follows: suppose someone makes many short-distance journeys and few long-distance journeys each year, and that the price of petrol falls substantially; she could then end up consuming less petrol, even if she increased her number of journeys somewhat, because the considerable savings on her expenditure on local driving enabled her to afford the luxury of flying on long journeys.)

This price-induced view of changes of strategy differs from the analysis in the previous section since rival budget plans are appraised here as wholes, not in respect of their conjectured overall implications but according to how far they seem likely to allow the consumer to get down her list of priorities without failing to meet a target. As noted earlier (see section 9.5), the consumer may sometimes be able to aggregate the possible implications of the various components of a possible budgeting plan in respect of a single dimension, mindful of scope for synergy, even if she has trouble computing overall implications for such a plan. Thus she may appear willing to make substitutions despite ultimately choosing her plan with the aid of a non-compensatory procedure.

In selecting a particular budgetary plan, the consumer will be defining price ranges within which she expects to find schemes of action which will make satisfactory contributions towards meeting her priorities. (Monroe, 1979, offers strong empirical support for the idea that consumers cognitively categorise price by breaking it into ranges; see also Gabor and Granger, 1966, and works cited therein.) Here arises scope for a second effect of price on choice: a product's price, or price per unit, will determine whether or not a consumer will be able to include it on her agenda of possibles if she comes across it. A price 'range' is a device for restricting search efforts, so will usually be a double-sided filter: the consumer sets an upper limit reflecting what she might have to spend,
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and what she can afford to spend without jeopardising higher-priority aspirations than those to which the commodity class in question is pertinent; she also sets a lower limit because she believes options priced below this level are not sufficiently likely to fit into the appropriate mould. A product that is outside the price range is debarred from investigation unless the consumer is given admissible reasons why she should take it seriously. (It is quite likely that a consumer would employ such a filter in a non-compensatory manner even if she then proceeded to evaluate the non-excluded brands in a compensatory manner.) Hence a price increase may make a product ‘too expensive’ to be considered further by some consumers and yet expensive enough to be taken seriously by others. If, in the latter case, the product actually dominated then, for the consumers in question, it would be a Giffen good. Similarly, a price reduction may bring a product out of the ‘too expensive’ category in the minds of some consumers, and it might then go on to dominate in other tests of adequacy; but a price reduction might also result in other consumers not bothering to evaluate a potentially perfectly adequate product—in which case we would have another ‘Giffennesque’ example.

Where consumers keep a lower price limit in mind when searching, we can say that information problems are effectively forcing them to judge quality by price (see Scitovsky, 1945, Alcaly and Klevorick, 1970, and Pollak, 1977). The third role of price in the choice process is essentially an extension of this ‘judging quality by price’ idea: for those products which fall within the consumer’s chosen price range, it may well be that, in respect of some dimensions, she allows her conjectures of what they have to offer to be shaped by their prices. A change in price may thus affect, in the same direction, a product’s ability to survive some filtering tests.

Fourth, we should note that a change in the price of a product may affect a consumer’s assessment of its adequacy in terms of ‘value for money’ or, in more modern jargon, whether or not she judges it as a ‘rip-off’. Here my remarks may be of particular interest to Marxist readers interested in ‘value’ and ‘exploitation’. A consumer may be unable to compute the overall implications to herself of choosing any one of the products on her agenda; yet she may be able to perform a kind of usual ‘hedonic’ assessment of these products, by comparing them with each other in terms of their price and non-price ratings, to see roughly what they ought to cost to buy. The consumer might then feel an attempt was being made to exploit her if she concluded that a particular product’s actual price exceeded its ‘hedonic’ price by a considerable margin (see section 2.5 on cost-side interpretations of hedonic equations). I suggest that it would not be unreasonable to expect the consumer to aspire to avoid purchasing products whose actual prices exceeded their estimated ‘values’ by more than a particular tolerable percentage margin. (The extra margin would make sense, given the roughness of the consumer’s estimates of what she ought to have to pay.) Thus although a consumer may be prepared to spend to the limit of her budget, she will not do so if this will involve her in paying an extortionate price—unless all of the options remaining on her agenda at that priority level are felt in some degree to be ‘rip-offs’, in which case she allows the least bad of these to survive this stage in her filtering process. Such a suggestion would not have seemed outlandish to the businessmen interviewed in the famous study by Hall and Hitch. These authors (1951, p. 113) reported that the overwhelming majority of entrepreneurs thought that a price based on full average cost (including and allowance for profit) was the ‘right’ price, the one which ‘ought’ to be charged. The entrepreneurs did not want to jeopardise their goodwill by appearing to act in an unfair manner.

In advancing this ‘value for money’ argument about the role of price in the context of a discussion of characteristic filtering processes, I am not suggesting that a lower price helps a product dominate by giving it a higher overall score; rather, a reduction in its price may bring its actual price near enough to what it ought to cost and thereby prevent consumers from ruling it out as ‘rip-off’. Bounded rationality is forcing such consumers to treat ‘avoidance of paying an unwarranted price’ as a separate goal. But one can also envisage the ratio of actual price to ‘right’ price being included as a separate characteristic score in situations where consumers are able to perform compensatory evaluations and compute overall scorings. Either way, there may seem to be negative implications to finding oneself having to buy something that looks a ‘rip-off’. We might expect a ‘rip-off avoidance’ goal to have quite a high priority (or to carry a non-trivial weight in a compensatory approach to choice), for if one has to pay an
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inflated price, one can hardly claim to be in control in the buying situation, even if one ends up with a useful means towards anticipating and controlling events.

Fifth, and as I have already hinted in the compensatory context, price movements may affect how competent a consumer feels as a decision maker in the market in question. She may feel rather foolish if she buys a product 'too soon after its price has gone up' and consequently may end up adopting a 'sour grapes' attitude to it if she resists it because of this particular problem. This would, of course, be yet another example of what conventional economists would see as an 'irrational' attitude to forgone opportunities (see sections 4.4 and 6.6), but I think we would be unwise not to anticipate that it could be empirically significant. A consumer is also likely to resist buying a product if she judges that its price is 'unduly likely to be reduced in the near future by a significant amount', unless she accords a higher priority to having it right now as a means of household production. If her suspicions are correct, she may not only avoid wasting her money initially; she may also escape losing out due to a fall in the product's second-hand value. These arguments are not without possible significance for firms choosing dynamic pricing strategies through their products' lifecycles — strategies that may embrace introductory 'special offers', subsequent price increases and, later, price reductions aimed at increasing market penetration or warding off competition.

Sixth, and finally, the price dimension may figure in tie-break tests when consumers find that a number of products are adequate in conjunctive terms; hence a change in a product's price may affect whether or not it wins a tie-break. Price is most likely to play this role in contexts where consumers are not connoisseurs and do not approach the evaluation task with a long list of targets in mind and a good idea of how demanding these can be made. The least demanding use of price in a tie-break is simply to choose the cheapest of the tied products. However, as I argued in section 7.6, the 'choose the cheapest' rule might not be employed in choices involving monetary transactions if, during the evaluation process, the consumer has come across additional (new?) product characteristics that seem worth adding to her checklist, or if she attaches positive implications to attainments beyond target levels on her original list of priorities. Here, the consumer is essentially faced with a budgeting question when she thinks of the costs of not adopting the 'choose the cheapest' rule. If she holds back some of the money she was originally quite prepared to spend on the type of commodity in question, she may be able to meet other aspirations served by other kinds of commodities — aspirations which she might decide to rank more highly than the prospect of obtaining at least some of the newly discovered characteristics.

One of the other aspirations might even be 'to have ideally a particular sum of money in reserve', which she had not been expecting originally to meet, yet which was accorded a sufficiently low priority for her to have been prepared to compromise it in working out a budget plan to meet higher-level goals. (A much higher-ranking goal 'to have a particular "bare minimum" of money in reserve' might also have existed separately and might not have been compromised in the original plan.) If the number of tied products is small, and if they are deemed identical in many respects, then the consumer may be able (especially if she uses the additive differences procedure) to assess the overall implications of choosing one 'rebudgeting plan'—and hence one product in the class in question—at the expense of its rivals. We would then be back in the world of the previous section, except that the consumer is only focusing on the conjunctively adequate options from the set she evaluated.

10.4 CHARACTERISTIC FILTERING WITH INCOME AND PRODUCT CHANGES

The considerable attention I have just devoted to possible impacts of price changes on non-compensatory choices marks my work out as unusual against the general run of priorities-based choice models. Other priority theorists (most notably Canterbury, 1979, and Pasinetti, 1981, discussed in section 9.2) are less concerned with brand-level choices. Instead, they attempt to explain changes in the structure of expenditure at the broad commodity level mainly in terms of changes in real income, playing down the significance of substitutions in response to relative price changes. This view accords well with the general findings of Houthakker and Taylor (1970), discussed in section
inflated price, one can hardly claim to be in control in the buying situation, even if one ends up with a useful means towards anticipating and controlling events.

Fifth, and as I have already hinted in the compensatory context, price movements may affect how competent a consumer feels as a decision maker in the market in question. She may feel rather foolish if she buys a product 'too soon after its price has gone up' and consequently may end up adopting a 'sour grapes' attitude to it if she resists it because of this particular problem. This would, of course, be yet another example of what conventional economists would see as an 'irrational' attitude to forgone opportunities (see sections 4.4 and 6.6), but I think we would be unwise not to anticipate that it could be empirically significant. A consumer is also likely to resist buying a product if she judges that its price is 'unduly likely to be reduced in the near future by a significant amount', unless she accords a higher priority to having it right now as a means of household production. If her suspicions are correct, she may not only avoid wasting her money initially; she may also escape losing out due to a fall in the product's second-hand value. These arguments are not without possible significance for firms choosing dynamic pricing strategies through their products' lifecycles—strategies that may embrace introductory 'special offers', subsequent price increases and, later, price reductions aimed at increasing market penetration or warding off competition.

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the late 1970s, Chrysler Australia introduced a luxurious ‘SE’
version of its Australianised Mitsubishi Sigma/Galant and then
saw the Sigma range as a whole quickly become the top-selling
car in its local segment. As Wright (1985, pp. 88-9) observes, the
SE:

attracted many buyers who would never otherwise have contemplated a
Japanese four... You could almost lay at the Sigma SE’s wheels res-
ponsibility for escalating the equipment race. It offered such diverse
items as a standard five-speed gearbox, cloth trim, a three-position
reclining rear seat squab, an interior boot release, tilt and lumbar
adjustment on the driver’s seat and rather stylish hubcaps colour-keyed
to the exterior. Simply, its specification made everything else look off
the pace. It proved Chrysler was serious about the Sigma and un-
doubtedly helped the sales of the cheaper Sigmas.

A second effect may be ascribed to social interactions amongst
consumers (see Bain, 1964, Marris, 1964, Chapter 4, and Iron-
monger, 1972). People who initially carry on buying a particular
product because it fails to meet an important priority which
newly available rivals fail to attain, may come to rerank their
priorities after observing the fortunes of others who have already
defected. For example, if quality control standards of domestic
products remain irritatingly inadequate and a cause of anxiety,
motorists may eventually abandon their patriotic principles and
buy an imported model; their friends’ experiences with imported
vehicles may not merely prove there is no need to tolerate
domestic quality levels, they may also make them feel less guilty
about defecting.

Third, a product which previously has enjoyed healthy sales
may lose its position as a result of suffering a lapse in perform-
ance in respect of an attribute that many would-be buyers rank
highly. In the UK car market in 1971-4, for example, delivery
times for many domestically produced models became unaccept-
able long as a result of the combination of poor productivity
levels, industrial disruption and an unprecedented increase in car
demand arising from the Heath/Barber reflation (see Dunnett,
1980, pp. 122-7). Thus consumers who, having decided to replace
their cars, accorded a high priority to having a new car ‘there and
then’ would have been driven to reject many UK models on the
ground of non-availability, regardless of how well they performed
2.2. However, it ignores the possibility that, wherever a particular want may be served (and/or dis-served) by a variety of kinds of commodities, increases in real income caused by changes in relative prices could result in somewhat different patterns of choice than might be observed if real income increases were produced by rises in money incomes.

Despite raising this qualification to the work of Canterbury and Pusinetti, I feel their reasoning in terms of priorities may provide the basis for a very useful perspective on the relationship between increasing affluence and the product lifecycle phenomenon. A product that serves relatively low-ranking wants may initially be thought of as a luxury because only a small part of the population can afford to purchase it without compromising higher priorities. However, rising affluence may enable the product to acquire a mass market, its sales rising until saturation is reached, whereupon demand falls to replacement levels. Further increases in affluence may result in the product becoming an inferior good for those consumers who are able to revise upwards their budget ranges for the commodity class in question. Higher-grade products/brands thus find places on their agendas and these commodities may enable them to achieve new goals without being unable to meet any of the aspirations served by the product they had hitherto favoured. However, this product may, for a time, later come back into its own as a way of meeting yet-lower-ranking priorities. For example, a consumer may replace a black and white television with a colour one, but later be able to afford a black and white portable for secondary use (see the empirical findings of Hebburn and Pickering, 1974, p. 91); in time, this, too, may be replaced by a colour set. Whether or not, and when, the product becomes an inferior good at the level of the market as a whole depends on the balance of these saturation/up-market shift/secondary use tendencies.

Products may also enter the decline phases of their sales profiles owing to the new-found ability of acceptably priced, but not necessarily newly launched, brands to dominate in non-price characteristic filtering tests. Here I will note four effects and illustrate them with automotive examples.

First, a product/brand may be introduced within the budget ranges of increasingly sophisticated consumers, offering them the ability to meet new goals. As an example we may note how, in the late 1970s, Chrysler Australia introduced a luxurious 'SE' version of its Australianised Mitsubishi Sigma/Galant and then saw the Sigma range as a whole quickly become the top-selling car in its local segment. As Wright (1985, pp. 88–9) observes, the SE:

attracted many buyers who would never otherwise have contemplated a Japanese four... You could almost lay at the Sigma SE's wheels responsibility for escalating the equipment race. It offered such diverse items as a standard five-speed gearbox, cloth trim, a three-position reclining rear seat squab, an interior boot release, tilt and lumbar adjustment on the driver's seat and rather stylish hubcaps colour-keyed to the exterior. Simply, its specification made everything else look off the pace. It proved Chrysler was serious about the Sigma and undoubtedly helped the sales of the cheaper Sigmas.

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in terms of other, lower-priority targets. In fact, a sample of 16,000 new-car buyers in the period mid 1973 to mid 1974 were questioned about the reasons behind their choices and it transpired that 'almost 30 per cent of the people considering buying British cars decided not to do so because of unacceptable delivery dates... Long delivery times ranked second only to price as a reason for not buying a particular model' (CPRS, 1975, p. 95, emphasis in original).

Fourth, and finally, it is necessary to note another possible instance of the 'mould-tightening' phenomenon. Decision makers may become aware that even if recently introduced rival products in their price range do not offer any extra attributes, they none the less open up possibilities for higher attainments in respect of some existing goals without requiring standards to be compromised elsewhere. For example, executives who have hitherto found Mercedes or BMW luxury saloons entirely adequate are likely to have had their aspiration levels raised in some dimensions if, in August 1983, they happened to read in latest issue of Car Magazine the following remarks in a report on the revised Audi 200T:

> Passing other cars is merely routine for the 200T in all but rutified 110 mph-plus speeds.

That's the problem with the 200T—you have to redefine the old saloon performance parameters. Previously a car in this class capable of cruising at 120 mph in quiet and comfort was regarded as exceptional, but the lower-priced Audi makes this look easily achievable, even mundane. Mercedes and BMW's next big saloons will have to take 130 mph-plus cruising into their stride and be capable of reaching high into the 140s if they are to top the 200T. Ultimate top speed is still a relevant factor in Germany...but in Britain a 150 mph capability is of academic[sic] interest. What is important on this island's crowded roads is that the Audi can provide all the performance that's sensible within the bounds of the road conditions, without the slightest strain on itself and with spectacular economy.

In short: product obsolescence may occur because a new rival model sets new standards of feasible attainments in respect of existing goals, even though it has nothing fundamentally new to offer in terms of attributes.

### 10.5 Implications for Pricing and Product Strategies

The discussions in the previous two sections indicate how important it may be for firms to conduct market research to discover why sales patterns are changing in particular ways. If a product is losing its market share for non-price reasons, a price-based policy may be disastrous, and vice versa. (In Earle, 1984, pp. 145–8, I have discussed how entrepreneurs as shrewd as Henry Ford and William Morris made expensive mistakes of the former kind.) However, we should not forget that it may be possible to use the two competitive weapons in a complementary manner: if price cuts are unprofitable for a particular product, given anticipated demand conditions and the ratio of variable costs to total costs of production, it may be possible to change the situation by removing some of the product attributes not commonly included in consumers' lists of priorities—the impact upon total costs may be less than on sales revenues at lower prices. Such a ploy seems to have been tried by, for example, Ford and Austin Rover in the UK 'super-mini' market in the period 1980–2. When the newly produced Austin Metro base model undercut the basic Ford Fiesta, Ford reacted by offering an even more basic Fiesta, the 'Popular'. Austin Rover then retaliated with the sparsely trimmed 'Metro City'. By keeping the more up-market models in production and/or making the omitted features available as options, companies can seek to make price competition profitable by non-price means without needlessly losing revenue from consumers who would have paid the higher price to get better-equipped models.

Quality-conscious firms may find it hard to face up to the idea of competing in this way when they find the market shares of their relatively expensive products deteriorating. Here we may draw a lesson from Hesselman's (1981) study of the UK market for automatic washing machines. She found that, in the changeover from twin-tub to automatic machines, British firms had lost their market share to imported brands despite the fact that, in terms of a 'hedonic' analysis, their machines offered greater value for money. The problem was that British machines offered comparable spin speeds to those available in the dryers of twin-tubs, but could only do so at prices far higher than those of, for
in terms of other, lower-priority targets. In fact, a sample of 16,000 new-car buyers in the period mid 1973 to mid 1974 were questioned about the reasons behind their choices and it transpired that 'almost 30 per cent of the people considering buying British cars decided not to do so because of unacceptable delivery dates... Long delivery times rank[ed] second only to price as a reason for not buying a particular model' (CPRS, 1975, p. 95, emphasis in original).

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example, Italian brands that dried clothes much less effectively. British consumers were increasingly living in centrally heated homes that would permit indoor drying and they therefore opted for driers for the cheaper machines that ‘UK manufacturers thought to be more appropriate for sunny Naples than cloudy Birmingham’ (Hesselman, 1981, p. 24). The UK manufacturers would have done better had they seen washing machines as components of evolving integrated household production systems and hence realised the need to create cheapened models by ‘downgrading’ their drying capabilities.

In terms of my characteristic filtering analysis, a firm can be said to be poorly competitive in non-price terms, despite offering its products at ‘competitive’ prices, if it achieves few sales because its products do not frequently survive far enough down consumer filtering processes for their prices to be brought to bear in their favour as a tie-breaker. Where a firm’s market performance is indeed deteriorating for non-price reasons, it has the choice of producing a new model and marketing package, or of making a defensive investment (see Lamfalussy, 1961) in a new sales campaign and/or facelift of the original model. Either kind of investment will be mistaken in this situation if neither (1) remedies the perceived deficiencies of the product/brand in the eyes of target consumers, (2) brings about a reranking of customer priorities and/or a revision of aspirations conducive to the rejection of the threatening rival products, nor (3) permits a profitable price cut through the repositioning of the product/brand ‘down-market’ in a lower budget segment where it can dominate in non-price terms. In my earlier (1983c, p. 110) work, I criticized the Citroen and Lancia car companies for their past non-price performances, so it is perhaps appropriate at this juncture to examine from the priority perspective their more recent policies aimed at improving their competitive positions.

In the 1970s, Citroen sold their cars very largely on the basis of innovative styling and suspension systems. The latter made their cars very safe in the event of a ‘blow out’ and offered an outstanding ride quality. However, partly as a result of the complexity of these systems, the cars acquired a reputation for being very expensive to maintain and this severely affected their trade-in values. Citroen seemed to believe that the merits of their technical achievements could offset their cars’ pecuniary penalties.

But, on a priority analysis that noted the high ranking most consumers give to matters of reliability and running costs (see the Cranfield study referred to in section 7.5), I argued that ‘unless the Citroen company can succeed with their sales campaigns in persuading people to raise both their safety aspirations and priorities, they would do better to devote their resources to simplifying their cars to make them cheaper to service’. With the Citroen BX, the firm seems at last to have come round to a similar way of thinking, for the BX, as Citroen advertisements have been at pains to point out, ‘loves driving, hates garages’. With characteristic ingenuity, Citroen’s designers have produced a car with an individual image, and the best ride and handling quality in its class, yet one which requires a mere 108 minutes a year in servicing attention (as the advertisements say: ‘such uncomplicated engineering that it spends less time in the service bay than a Ford Sierra’).

Lancia’s poor reputation, by contrast, has arisen mainly because of very bad rust resistance in its mid-price Beta range (see section 5.2.2), but the firm has enjoyed a high reputation for performance and style. Instead of trying to demonstrate conclusively that it had been able to solve the rust problem (for example, in the way tried by Fiat in the early 1970s, with pictures of its car bodies placed on salt-swept road surfaces with and without rust proofing treatments), the Lancia company initially responded to its collapsing sales by introducing fuel injection and supercharging into its Beta engines and by highlighting its past racing successes. In other words, it emphasised and improved upon its strong points. Its new, slightly less expensive Delta/Prisma range was also sold on driver appeal when first introduced. For example, an advertisement in the Observer Colour Supplement (11 September 1983) was built around the slogan ‘the new Lancia Prisma: it needs you to make it complete’; nowhere was durability mentioned, despite the fact that the car actually came with a six-year antirust warranty. Lancia’s UK market share continued to fall.

From a compensatory standpoint, it would seem not unwise for Lancia to concentrate its efforts where it had a comparative advantage: superb performance could compensate for its credibility gap in respect of durability (and, to a lesser extent, as a result of less well-known yet monumental problems in its up-
example, Italian brands that dried clothes much less effectively. British consumers were increasingly living in centrally heated homes that would permit indoor drying and they therefore opted in droves for the cheaper machines that ‘UK manufacturers thought to be more appropriate for sunny Naples than cloudy Birmingham’ (Hesselman, 1981, p. 24). The UK manufacturers would have done better had they seen washing machines as components of evolving integrated household production systems and hence realised the need to create cheapened models by ‘downgrading’ their drying capabilities.

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market Gamma range, in respect of reliability). From a priority-based perspective, however, the strategy could make little sense. If Lancia's cars could not survive high-priority durability tests set by 'typical' customers—in other words, if the 'basics' were inadequate—they would be condemned to appeal to a small minority, with attendant consequences for the firm's unit costs. The majority would remove Lancia cars from their agendas at an early stage, even at the cost of finding themselves with a final choice between cars that were rather uninspiring but expected to be sufficiently reliable and durable. Unless a performance-oriented campaign succeeded in making buyers re-rank their priorities and forget the dimensions that were in question, it would amount to little more than a device for reinforcing the opinions of the converted and winning a few sales from its similarly troubled Italian rival, Alfa Romeo.

With its 1984-5 campaigns, Lancia's new UK distributor adopted in some advertisements an eye-catching theme with much more promise in priority terms: 'the 121 mph Tank' (Car Magazine, July 1984). No one would normally call a frisky Lancia Delta Turbo a tank—in the car world, the term is usually reserved for durable Volvos! And sure enough, the smaller print tells the reader not merely about superlative performance, but also about 'double-thickness primer cataphoretically bonded to every part of the body', the superior ability of the car to survive a persistent salt-spray test, and '74 lb of corrosion-proofing material distributed round its vulnerable parts'.

The central message of a priority analysis is that the secret to mass-market success is to offer products in which a surplus of performance in one dimension is not achieved at the cost of what will commonly be regarded as substandard attainments elsewhere. Since the product which gets furthest down customer priority lists dominates, products should not only be at least competent in all major respects, they should be made available with all the characteristics offered by rival brands (a policy which will also work where customers use elimination by aspects). Insofar as it is not possible to offer all the minor features at a price within the target budget range, the sensible policy is to give consumers as many option combinations as possible. That is to say, consumers should be permitted to create products that fit their own particular moulds of tolerance; firms should not

presume that compulsory characteristics can compensate for absent ones, or that extra characteristics will always justify a higher price.

10.6 WHAT CAR?—AN ANALYSIS OF SOME RECOMMENDATIONS

Having presented very many motoring examples in this chapter (and elsewhere) by way of illustrating theoretical concepts at work, I feel it may be instructive to examine at least a handful of instances in which expert testers explain their rankings in multiple tests of groups of cars. The question of which decision rules they seem to be employing is one that can make for lively classroom discussions in marketing courses, and it is natural to raise it if one is pursuing a behavioural methodology. In selecting cases for discussion, I have tried to find ones that looked 'short enough' given my self-imposed length budget for this section. It should be noted that they all come from a monthly—Car Magazine—which is oriented in favour of the performance-seeking motoring connoisseur. Each case compares models that seem obvious rivals, and this in itself should immediately suggest in readers' minds a preliminary discrimination on non-compensatory lines.

Case 1 ('Giant Test', Car Magazine, May 1983, pp. 106-10) Saloons for Senior Executives

Saab 900 CD Turbo (£14,995); Jaguar XJ3.4 (£14,855); Mercedes Benz 280 SE (£18,602)

The Journalist's Conclusion

Sadly, the easiest of these three to dismiss is the Jaguar. It still does some things superbly. It rides the best, it is the quietest and at the very limit, it handles best too. That is a substantial catalogue of virtues against which must be set its inferior performance and economy in this company. and a catalogue of minor drawbacks like the poor heater system, cramped luggage space and badly planned minor controls. Together, they are too much to give away to either of the rivals.

The Saab's overwhelming virtues, apart from the excellent and efficient performance conferred by the APC turbo, are those of space and sheer value for money by the standards of this class. In one were truly rational, the Saab would be the one to pick—the CD fully maintains
market Gamma range, in respect of reliability). From a priority-based perspective, however, the strategy could make little sense. If Lancia's cars could not survive high-priority durability tests set by 'typical' customers—in other words, if the 'basics' were inadequate—they would be condemned to appeal to a small minority, with attendant consequences for the firm's unit costs. The majority would remove Lancia cars from their agendas at an early stage, even at the cost of finding themselves with a final choice between cars that were rather uninspiring but expected to be sufficiently reliable and durable. Unless a performance-oriented campaign succeeded in making buyers rerank their priorities and forget the dimensions that were in question, it would amount to little more than a device for reinforcing the opinions of the converted and winning a few sales from its similarly troubled Italian rival, Alfa Romeo.

With its 1984-5 campaigns, Lancia's new UK distributor adopted in some advertisements an eye-catching theme with much more promise in priority terms: 'the 121 mph Tank' (Car Magazine, July 1984). No one would normally call a frisky Lancia Delta Turbo a tank—in the car industry, the term is usually reserved for durable Volvos! And sure enough, the smaller print tells the reader not merely about superlative performance, but also about 'double-thickness primer cataphoretically bonded to every part of the body', the superior ability of the car to survive a persistent salt-spray test, and '74 lb of corrosion-proofing material distributed round its vulnerable parts'.

The central message of a priority analysis is that the secret to mass-market success is to offer products in which a surplus of performance in one dimension is not achieved at the cost of what will commonly be regarded as substandard attainments elsewhere. Since the product which gets furthest down customer priority lists dominates, products should not only be at least competent in all major respects, they should be made available with all the characteristics offered by rival brands (a policy which will also work where customers use elimination by aspects). Insofar as it is not possible to offer all the minor features at a price within the target budget range, the sensible policy is to give consumers as many option combinations as possible. That is to say, consumers should be permitted to create products that fit their own particular moulds of tolerance: firms should not presume that compulsory characteristics can compensate for absent ones, or that extra characteristics will always justify a higher price.

10.6 WHAT CAR?—AN ANALYSIS OF SOME RECOMMENDATIONS

Having presented very many motoring examples in this chapter (and elsewhere) by way of illustrating theoretical concepts at work, I feel it may be instructive to examine at least a handful of instances in which expert testers explain their rankings in multiple tests of groups of cars. The question of which decision rules they seem to be employing is one that can make for lively classroom discussions in marketing courses, and it is natural to raise it if one is pursuing a behavioural methodology. In selecting cases for discussion, I have tried to find ones that looked 'short enough' given my self-imposed length budget for this section. It should be noted that they all come from a monthly—Car Magazine—which is oriented in favour of the performance-seeking motoring connoisseur. Each case compares models that seem obvious rivals, and this in itself should immediately suggest in readers' minds a preliminary discrimination on non-compensatory lines.

Case 1 (Giant Test*, Car Magazine, May 1983, pp. 106–10)

Saloons for Senior Executives
Saab 900 CD Turbo (£14,995); Jaguar XJ3.4 (£14,855); Mercedes Benz 280 SE (£18,602)

The Journalist's Conclusion

Sadly, the easiest of these three to dismiss is the Jaguar. It still does some things superbly. It rides the best, it is the quietest and at the very limit, it handles best too. That is a substantial catalogue of virtues against which must be set its inferior performance and economy in this company, and a catalogue of minor drawbacks like the poor heater system, limited luggage space and badly planned minor controls. Together, they are too much to give away to either of the rivals.

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Saab's image as the thinking man's car. Why, in that case, do we pick the Mercedes as the front-runner?

It is simply that the Mercedes feels so perfectly engineered as an entity. Nothing lets it down. It is rather faster than the Saab and just as economical despite being much heavier. It may not be as roomy, but if you can seat four in genuine comfort, who cares? Most of all, the 280 SEL impresses with its chassis engineering. Its natural handling balance, the feeling that the car will do exactly what was intended, is quite extraordinary. The ride is a superbly chosen compromise for modern European conditions. Then again, there is the visible purity of the design approach. Around the driver, the aim has been utter simplicity rather than showroom appeal. The most expensive of the trio it may be, but it is also the all-round best, as thorough a piece of engineering as ever graced the Mercedes range.

Discussion

An orthodox economist would immediately note that the tester's verdict begins with remarks that fall neatly into a compensatory perspective: it is not a single failing that leads to the rejection of the Jaguar but a catalogue of relatively poor performances taken together, despite it being best in some respects. However, one could also see it as having failed a conjunctive test on a number of counts as a result of the more modern vehicles having set superior standards in respect of acceleration, economy, space and general ergonomics. It is in these areas, not in respect of the high standards of ride, handling and quietness offered by all three vehicles, that the tester's attention is focused.

Precisely why the Saab is rejected looks mysterious at first, for it is not reported as having failed on any particular count, and it is a good deal cheaper than the Mercedes as well as more roomy. The justification for the verdict in favour of the Mercedes seems essentially to turn on the overall excellence of its design; it is as though the tester sees its whole as being 'greater than the sum of its parts', owing to the parts being brilliantly integrated. Clearly, one might argue that this is a compensatory verdict, with superior design quality offsetting the Mercedes' premium price and interior space disadvantages. But in terms of a characteristic filtering analysis, one can also argue that the experience of testing the Mercedes against its rivals seems to have left the journalist with a firm idea of the mould of tolerance into which such a car should fit, and that the Mercedes fits this ideal perfectly: 'nothing lets it down'. The new mould is too tight for even the Saab to fit.

Case 2 ('Giant Test,' Car Magazine, July 1983, pp. 110-19)

Up-Market Coupes

Alfa Romeo GTV6 (£10,600); Audi Coupe FSi (£9,592); Ford Sierra XR4i (£9,492)

The Journalist's Conclusion

All three of these cars have a certain appeal; equally, all have certain drawbacks which could be argued more or less convincingly. The Alfa is remarkably quick, with the added benefit of handling which is both safe and easily exploited by the expert up to its very high limit. Against that the GTV6 sacrifices space to the other two—it is certainly the one you would avoid if you wanted a full four seater, for instance. You suffer from that awful gearchange and driving position. What a shame, we have to say yet again, that a car which gives the keen driver so much on the one hand should take so much away.

Then we have the Sierra: a full and comfortable four seater, just as fast as the Alfa, save for that imperfect handling close to the limit—and a couple of other things. One of those things was that the more we drove it, the more we felt the XR4i styling was too much over the top; people stared at it, certainly, but some seemed to frown and the hay-raker accusation could be seen in some eyes. The other drawback lies in comparing like with like: you have to look at the Ford option list to see what the XR4i really costs. Our test car, for instance, came with central locking, sunroof, electric front windows, headlamp wash, rear-seat sunblinds and tripcomputer multi-function clock: all desirable, but all extra cost options. A fully specified Sierra would come closer in price to Alfa than Audi.

That leaves the Audi, which is the hardest to argue against and thus turns out the winner. Slowest it may be, but slow is a very relative term in this context. Besides, it offers the compensating advantage of best fuel economy. It may not handle best, but compared with the Alfa we are talking of differences only a skilled driver would appreciate, and then only close to the limit. If you set against that the Audi's relaxed yet wholly competent air, its roominess, the precision of its controls, there is too much going for the German car. In the final analysis, the appeal of the Audi is that it allows its driver to tour sedately or press on elegantly. The Alfa and the Sierra practically require their drivers to press on all the time: a tribute to their character in one sense, but hardly a recipe for long-term satisfaction. Any car should be servant, not master, and the Audi’s perfectly trained butler is far more liveable with in the long term than Alfa's eccentric genius or Ford's slightly caddish 'buddy'.

Discussion

Once again, we have a report which begins with 'compensatory-sounding' remarks yet which lends itself to interpretation within the characteristic filtering framework. In terms of handling, the
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The Journalist's Conclusion

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The Ford is more obviously a 'good all-rounder' than the Alfa, but there are three respects in terms of which its ability to pass tests is somewhat ambiguous, whereas the Audi's capability is not in question. At the limit, the handling of the car is very tail-happy and, as the text of the report notes, 'the result is fairly fast but very spectacular: too much so for most passengers, certainly for anyone coming the other way. For the Sierra, the limit is set not by the roadholding of those wide low-profile tyres, but by the driver's ability to control the beast'. It also seems a source of potential embarrassment due to its styling (and a priori one would expect a self-image aspiration to rank very highly indeed), while it seems open to rejection on grounds of cost—in a pricing tie-break with the Audi, a well-equipped Sierra would lose.

But what sets this report most convincingly in a priority mould is the comment that 'in the final analysis, the appeal of the Audi is that it allows its driver to tour sedately or press on elegantly'. The conventional form of this kind of comparative test forces appraisal against a conjectural mould, but after considering the good and bad features of the cars in question the tester comes to a conclusion based on a single test—'does the character of the car unduly determine how it seems necessary to drive it?'. The comments at the start of the paragraph on the Audi can, of course, be taken in compensatory terms, but the 'final analysis' cannot. The initial compensatory remarks about the Audi reveal that it fails nowhere and can, except in the extremes of performance, set standards which the others, in differing dimensions, cannot match. However, it is the failure of the Audi's two rivals to meet the demand that a car should not make undue demands upon its driver which is sufficient to ensure that the Audi dominates in the mind of the journalist called upon to make the recommendation. If this single characteristic filter is enough to reject both rivals, it must rank above the other characteristics in terms of which their different shortcomings were analysed. The other characteristics, in terms of which the Audi succeeds where its rivals fail, can be thought of as desired bonuses, but unless they affect the 'servant/master' rating they do not, in the final analysis, determine the verdict.

Case 3 'Giant Test.' (Car Magazine, February 1985, pp. 98-109) Executive Cars
Volvo 740GLE (£10,798); Renault 25GTX (£10,395); Rover 2300S (£10,828)

The Journalist's Conclusion
We liked the Rover. It has about it an air of tasteful, opulent luxury that the other two cars lack. Superior refinement and smoothness too, with its six cylinder engine. On top of that, it handles well and is pleasant to drive. Its Achilles heel is the combination of poor performance and heavy fuel consumption. As a company car with someone else paying the bills, we could make a case for the 2300S. For the private buyer we could not.

The four cylinder Volvo lacks the quiet smoothness of the Rover when accelerating, but it cruises very peacefully in overdrive top—a valuable additional gear the Rover badly needs. There is very little wrong with the solid, durable Volvo, and a great deal that's right. It's big, imposing, roomy, well made and agreeably mannered. In this confrontation, though, it's beaten by the Renault 25.

The French car's technical superiority—in particular its light weight and slippery shape—is the clincher. To outperform its two rivals so comfortably, and return a better fuel consumption (significantly better than the Rover), is an impressive feat. On top of that, the 25 has on its side fine looks, spaciousness, versatility and ample comfort, even though it is mechanically less refined than the Rover. The dash decor is not to everyone's taste but it's a small price to pay for so many good qualities.

Discussion
This verdict fits very neatly into the characteristic filtering framework. It makes no sense in a compensatory model to single out a particular failing as the Achilles heel of a product and fail it on that ground. Yet this is precisely what we observe in the case of the Rover: it drinks too much petrol for a private buyer and yet offers inadequate (albeit smooth) performance whilst doing so. Interestingly enough, the wording used seems to suggest that, in this test, the journalist is prepared to treat performance and economy as a potentially compensatory pair of attributes, the combined score for which would be allowed to face a single test
Lifestyle Economics

Choice Rules and the Competitive Process

Alfa dominates over the winning Audi, but both cars handle adequately. But the Alfa has some fatal flaws: the tester would reject it as not being a proper four-seater if he or she sought that kind of car; and the gearchange and driving position are both inadequate. Any one of these factors seems sufficient to ensure its rejection.

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Volvo 740GLE (£10,798); Renault 25 GTX (£10,395); Rover 2300S (£10,828)

The Journalist’s Conclusion

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Discussion

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of adequacy, provided that running costs are not excessive. However, the Renault seems to have demonstrated to the tester that there is no need to make a trade-off in this performance/economy dimension; by the end of the test, a new mould of tolerance seemed to have emerged in the person's mind.

The Volvo seems legitimately to be regarded as able to pass a conjunctive test of the form the tester initially had in mind: in the text of the report, the 'little that's wrong' with the Volvo seems to entail points that do not prevent it from meeting aspirations—things such as seats that were rather firm for long journeys (its rivals' seats had different problems and 'on balance' the Rover's were liked best, rather implying a compensatory rule being used within a single dimension in terms of which each car seemed adequate), and an awkwardly high loading lip for its large, deep, well-shaped boot. It seems that the Renault beats it in a tie-break mould-tightening process by setting higher standards in performance and economy due to technical superiority, and because of its more attractive styling and hatchback versatility. However, some readers might wish to argue that the additive differences procedure was used to resolve the choice, since the tester does mention the dash decor of the Renault as a minus point. My reading of the whole text of the report makes me doubt this possibility: in 'summing up', the tester fails to hark back to the other areas where the Volvo beats the Renault (rear cabin space, braking, and driving position); my suspicion is that the dash decor is mentioned because, in terms of overall interior refinement (and particularly in respect of the dashboard), the Renault barely came within the 'acceptable' category for this class of car, for the tester describes it as 'brash to the point of being vulgar'.

Citroen BX19RD (£6696 as tested, £6314 without power steering); VW Golf 1.6C Diesel (£6310); Ford Orion 1.6GL Diesel (£6329)

The Journalist’s Conclusion
If all these cars were powered by the same diesel engine, the choice would be narrowed down to their widely different style and accommodation. You could then decide if you like the Citroen dynamics more than the luxury of the Orion GL interior or the proven quality of the Golf. As it stands in a market segment where the engine and the consumption it returns are paramount, the different driving characteristics rule supreme.

Despite its solid feel, undoubted fuel efficiency and very desirable list of good quality fittings, the Orion is the first to be rejected. It fails to appeal because of its primary responses—driving it is too much like hard work.

The simple choice between the Golf and the BX isn’t so simple. On price, there’s a premium to pay on the Citroen, for without power steering it simply isn’t the same car at all. But whichever way you look at it, the BX is far more car than the VW—on size, on comfort, on equipment, on style, especially on performance and, surprisingly on fuel economy. So provided you can live with its quirks, the BX must win.

Discussion
This verdict is particularly interesting. On the one hand, we have the tester in effect saying that, if these cars had identical engines, it would be possible to choose in a compensatory manner. But on the other hand, the reality of the situation seen by the tester produces an obviously priorities-based choice: the well-equipped Ford is rejected because it fails to come up to performance aspirations; economy has been achieved at the expense of excessive sluggishness when extensive use is not made of the gearbox. I think we would also be wise to see the remarks about the Citroen’s steering as implying that, if power steering were not available, or if one’s budget could not stretch to the amount necessary to include it, then the BX would be rejected solely on that ground, letting the VW through to victory. Another tester, in What Car? (October 1983), awarded a victory to a petrol-engined BX with unassisted steering but added the proviso that ‘the one glaring fault—the appallingly heavy steering for parking—will rule it out of court for any sensible town-bound buyer’.

With a heavier diesel engine in the BX, such a problem would be all the more acute.

The choice between the Golf and a BX with power steering can be seen in a variety of ways. From a compensatory standpoint, one could argue that the BX wins because its areas of dominance over the Golf outweigh its price differential and idiosyncrasies. However, one can also see this tester as finding both cars able to survive a conjunctive test in non-price terms. The tester does not find the BX’s quirks intolerable and elsewhere in the report says
of adequacy, provided that running costs are not excessive. However, the Renault seems to have demonstrated to the tester that there is no need to make a trade-off in this performance/economy dimension; by the end of the test, a new mould of tolerance seemed to have emerged in the person's mind.

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Case 4 ('Giant Test', Car Magazine, September 1984, pp. 140–7) Decidedly Different Diesels
Citroen BX19RD (£6696 as tested, £6314 without power steering); VW Golf 1.6C Diesel (£6310); Ford Orion 1.6GL Diesel (£6329)

The Journalist's Conclusion
If all these cars were powered by the same diesel engine, the choice would be narrowed down to their widely different style and accommodation. You could then decide if you like the Citroen dynamics more than the luxury of the Orion GL interior or the proven quality of the Golf. As it stands in a market segment where the engine and the consumption it returns are paramount, the different driving characteristics rule supreme.

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that 'if you don't [sic] care about a car's character, so long as it goes well and keeps on running reliably, you might choose the Golf from this bunch. There's absolutely no tangible reason to reject it because it does everything so goddam well'. In matters of price, though, the tester then seems to suggest that the Golf is something of a rip-off: 'VW pricing is high, though, which means you only get C-level trim for G5, money'. Paradoxically, by paying a little extra for the BX with power steering, one avoids paying over the odds and gets a car that fits a tighter mould of tolerance: it looks stupid not to pay the premium for the BX.

Case 5 ('Giant Test', Car Magazine, November 1984, pp. 142–9) Under-1600 cc Family Saloons
Rover 213S (£5,999); VW Jetta Formel E CL (£6,022); Fiat Regata 85 Super (£6,095)

The Journalist's Conclusion
Though the three are close on price, they are way apart on performance, temperament and equipment. Like can't strictly be compared with like anyway, for the economy Regata is nearly £500 less or there is a near £1,000 jump to the next model Jetta. VW's choice of small-engined Jettas does seem very curious—there are just the very spartan Jetta C and Formel E—a model that for all its good features is obsessive in the pursuit of economy at the expense of all-round enjoyment. A well-equipped 1.3 Jetta without the economy encumbrances would surely be a very nice car indeed but, as things stand, the Formel E gives up too much drivability for gains in mpg that are not always realised.

Both the Jetta and Regata can teach the Rover lessons in almost every department. Passenger space, luggage space, handling and ride—most of all—are all inferior in the 213. Perhaps its interior is tolerable, though it is all Honda and no Rover. Its ride is not, though, and buyers are best advised to wait and see the outcome of Rover's already-promised suspension revisions. Even with new suspension, it is still hard to reconcile the saloon with the Rover name or traditions. One searches in vain for red class.

The Regata would make no claims to Rover-like status but in its skilful execution it's become something close to what the 213 would like to be. It's enjoyable to drive, thoughtfully finished and good value. It's the car to go for in this bunch.

Discussion
Given that the cars are similarly priced yet very different in non-price terms, one might expect the tester to try to weigh up their advantages and disadvantages. But nothing in this verdict seems to indicate the use of a compensatory choice heuristic to decide overall scores and hence rankings. Rather, the verdict can be seen as suggesting that neither the Jetta nor the Rover are adequate in conjunctive terms, whereas the Regata is adequate in every respect. The Jetta's problem is that, in trading performance for economy, its designers have produced a product which falls short of the tester's aspirations for drivability. The Jetta that the journalist would like to have tested simply is not available: to get a well-equipped Jetta that goes adequately, one must go outside the price range set for the test (see the end of section 10.5). The Rover, by contrast, is ruled out decisively because of an intolerably bad ride. So, in priority terms, whether or not the Rover beats the Jetta for second place depends on whether drivability is ranked above ride quality. However, it is clear that the Rover would have been trounced by the Regata had things come to a tie-break. The Rover falls behind in terms of space and handling, and its claims to be a small executive-standard car—as opposed to a British-made, badge-engineered Honda Civic saloon—are shown up as pretentious by the Regata which, as the report elsewhere notes, 'also comes with such niceties as electric front windows, central locking and tinted glass, which none of the rest could provide'.

This section has been an exercise in trying rival theoretical templates for their fit on a very restricted set of examples that in no way purports to be a representative sample. Each case can be matched up with the characteristic filtering framework but, in most cases, one can at least partly try to make them compatible with orthodox compensatory ideas. Within the larger reports from which the conclusions have been taken, it is fairly clear that the testers often work out overall rankings for particular dimensions of choice that subsume a variety of characteristics, and that these assessments are often made in compensatory terms. However, when these 'dimensional' performances are brought together in the conclusions, it gets harder to make them fit a compensatory approach. In terms of the orthodox framework, it is difficult to understand why a tester should single out any particular characteristic performance of a product as being the reason for its rejection—yet this is precisely what we observe in cases 2 to 5. It is also evident that the cars in question are being
that ‘if you don’t [sic] care about a car’s character, so long as it goes well and keeps on running reliably, you might choose the Golf from this bunch. There’s absolutely no tangible reason to reject it because it does everything so goddam well’. In matters of price, though, the tester then seems to suggest that the Golf is something of a rip-off: ‘VW pricing is high, though, which means you only get C level trim for GL money’. Paradoxically, by paying a little extra for the BX with power steering, one avoids paying over the odds and gets a car that fits a tighter mould of tolerance: it looks stupid not to pay the premium for the BX.

Rover 213S (£5999); VW Jetta Formel E CL (£6022); Fiat Regata 85 Super (£6095)

The Journalist’s Conclusion
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asked to meet particular standards of sophistication, which differ
between categories. The use of such reference standards has no
obvious tie-in with the models reviewed in Chapter 2 but, to be
fair, one should note that it is not at odds with the 'characteristics
cutoffs' expectation value choice heuristic discussed in section
7.3. I hope that these cases will serve, with Chapter 9, to
promote more open-minded attitudes amongst theorists; I am not
trying to claim that it is impossible to find other cases in similar
tests where it is very difficult to make a non-compensatory choice
heuristic seem plausible.

10.7 TRADE POLICY WITH NON-COMPENSATORY
CHOICE RULES

A priority-based analysis of choice offers a distinctive perspective
on policy options that a government might consider when poor
performances of domestic firms in international markets arise
from poor non-price competitiveness. In this situation, price-
based trade policies (devaluations, export subsidies and import
tariffs), will only change relative quantities sold in so far as they
reduce real incomes in the home market and/or are large enough
to enable domestic firms to reposition their products successfully
in lower-income segments of export markets where consumers set
less-demanding tests of adequacy. Such policies would not work,
in a world of predominantly priority-based choices, by changing
relative prices within budget ranges where products are presently
positioned. Importers whose products were already highly com-
petitive in non-price terms could raise their prices to maintain
their profit margins in the face of currency depreciations or
tariffs; they would not lose sales unless these increases took their
products outside would-be buyers' budget ranges. Domestic firms
would be foolish not to follow it uncompetitive in non-price
terms; thereby they would improve their profit margins whilst
maintaining the price differentials that enable them presently to
win sales from the small proportion of customers who make
lower non-price demands and use price as a tie-breaker. In the
long run, however, the domestic firms' enhanced profit margins
might help them develop more competitive products and offer
more employment.

This analysis poses some difficulties for the arguments of
Cripps and Godley (1978) in favour of a policy package that
would combine price-based import controls with a general
reflation, as a means of reducing unemployment without: (1)
further worsening the UK balance of payments; (2) exporting
unemployment to the rest of the world by reducing imports, for
this would provoke retaliation by other nations; (3) reducing
domestic real wages in the course of changing relative prices of
imports and exports, for this would provoke retaliation by organ-
ised domestic workers; and (4) running into problems of bureau-
cratic complexity and evasion that one might encounter with non-
market-based trade policies. The package rules out a squeeze on
real incomes by assumption, so its ability to stop the balance-of-
payments haemorrhage is open to question if non-price factors
are very often decisive in choice processes.

A rather more promising package (problem (4) aside) would
be one which combined reflationary policies with import quotas
and 'red tape' (for example, the kinds of official design require-
ments, relating to emission controls, that Australia uses to pro-
tect its environment and its car industry from the impact of
imported vehicles). If the physical quantities coming into the
economy are restricted, many consumers will find that imported
products with superior non-price properties—except, now, in
respect of delivery—have effectively been removed from their
agendas of possibilities. They then have four options: (1) to bid
the sought-after imports that are available away from other buyers,
by offering higher prices; (2) to go without for the present and
join appropriate waiting lists; (3) to buy domestic substitutes and
fail to meet some of their non-price aspirations; or (4) to use the
benefits of any reflation-induced tax reductions to move 'up
market' and purchase domestic output that is satisfactory in non-
price terms, yet which they previously would have found too
expensive. Provided tax cuts and the availability of 'up-market'
domestic output are such that, if (1) is unattractive, (4) can be
pursued without any need to flog lower-priority consumption
that would otherwise have taken place, the reflation/non-price
import controls' package keeps an increase in demand within the
economy without upsetting those workers who were already in
employment. However, if the prices of imported up-market
substitutes now under controls were marked up, the prices of
asked to meet particular standards of sophistication, which differ between categories. The use of such reference standards has no obvious tie-in with the models reviewed in Chapter 2 but, to be fair, one should note that it is not at odds with the 'characteristics cut-offs expectancy value' choice heuristic discussed in section 7.3. I hope that these cases will serve, with Chapter 9, to promote more open-minded attitudes amongst theorists; I am not trying to claim that it is impossible to find other cases in similar tests where it is very difficult to make a non-compensatory choice heuristic seem plausible.

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A rather more promising package (problem (4) aside) would be one which combined reflationary policies with import quotas and 'red tape' (for example, the kinds of official design requirements, relating to emission controls, that Australia uses to protect its environment and its car industry from the impact of imported vehicles). If the physical quantities coming into the economy are restricted, many consumers will find that imported products with superior non-price properties—except, now, in respect of delivery—have effectively been removed from their agendas of possibilities. They then have four options: (1) to bid the sought-after imports that are available away from other buyers, by offering higher prices; (2) to go without for the present and join appropriate waiting lists; (3) to buy domestic substitutes and fail to meet some of their non-price aspirations; or (4) to use the benefits of any reflation-induced tax reductions to move 'up market' and purchase domestic output that is satisfactory in non-price terms, yet which they previously would have found too expensive. Provided tax cuts and the availability of 'up-market' domestic output are such that, if (1) is unattractive, (4) can be pursued without any need to forgo lower-priority consumption that would otherwise have taken place, the reflation/non-price import controls' package keeps an increase in demand within the economy without upsetting those workers who were already in employment. However, if the prices of imported up-market substitutes now under controls were marked up, the prices of
domestic substitutes might also be increased, and in this case workers would feel disgruntled to find themselves having to choose (2) or (3)—though they would have the benefit of any tax reductions to spend on meeting additional, but lower-priority goals. In the event, they might not feel squeezed overall by the policy package, despite the fact that ex ante they may act as if the loss of a high-ranking attainment is not compensated for by the gain of several lower attainments.

10.8 INCENTIVES AND RISK TAKING

Having begun this book by noting the hazards of being a consumer in a turbulent world, I feel it is appropriate that my final piece of analysis should concern policies with respect to risk-taking. Suppose a person is declining to undertake a particular activity because it seems 'too risky'. In terms of the conventional probabilistic approach to hazardous choices, one can usefully seek to break the person's resistance by highlighting possible desired outcomes or offering a higher gain-side payoff (for example: a higher-interest yield on unsecured finance company stock, which the consumer is considering as an alternative to holding her savings in a bank deposit); it is not necessary to reduce her assessments of downside risks. However, from the standpoint of the analysis in sections 8.3 and 8.5, such a means towards changing behaviour seems potentially futile. In the mind of the consumer, 'too risky' may mean excessive downside risk, as in Blatt's drug-smuggling example, and/or an insufficiently plausible prospect of an adequate gain-side outcome. Before offering policy advice, a Behavioural theorist would want to know from the decision makers themselves whether they see 'too risky' in the former or latter way, or in both ways. If gain-side prospects were seen as entirely adequate, but downside ones were not, it would be pointless to devote resources to improve gain-side prospects: what the consumer wants is a better guarantee, more security, not the chance of an extra bonus. (Even as I write, a major local used-car dealer is offering buyers a chance to win a family trip to Disneyland as an extra incentive to buy its products, yet its advertisements make no mention of the terms of warranties, if any, that it offers.)

This non-compensatory view of risk taking suggests that Right-wing policies aimed at raising economic activity by increasing incentives to try to earn high incomes (that is, by cutting direct taxes and by reducing incentives to be unemployed) could be hopelessly misplaced. The policy would look somewhat problematical even from the standpoint of probabilistic views of choice, since higher expected post-tax values on the gainside might be cancelled out by higher expected loss values on the downside. But, in non-compensatory terms, it would be natural to argue that if the previous high tax/high safety-net environment was, for many, only just about tolerable on the downside, then the implementation of the Right-wing policy package could easily result in more people being inclined to play safe. (Note: downside income-seeking risks need not pertain merely to the loss of one's job or life's savings, or to the prospect of bankruptcy; for many people they should more realistically be thought of as concerning loss of status and easy promotion prospects as a result of attempting to be enterprising—relative positions matter.) Such a possibility is made all the easier to believe by the fact that the policy is being implemented against a background of demand-reducing expenditure cuts by the public sector, and by monetary restraint—further core components in Conservative philosophies—that make failures look less surprising, and conceivable pre-tax returns of a given size look more surprising, in prospect.

The analysis I have proposed is not without relevance to debates in monetary theory between Post Keynesians and neoclassical theorists about the transmission mechanisms of monetary policy. In these debates, one often sees Post Keynesians stressing the significance of possible breaks in the 'chain of substitution' between rival ways of storing wealth (cash, bank deposits, liabilities of non-bank financial intermediaries, short-dated government stock, perpetuities, corporate debentures, equities, durable physical goods). Neoclassical theorists claim that an increase in the money stock will spill over into a demand for all other forms of wealth and hence into a demand for labour. However, some kinds of wealth may look 'too risky' to take on even if yields are falling on other assets with acceptable downside risks: banks may prefer unused lending capacity to consumers that seem altogether too likely to default; and consumers may prefer continued liquidity, despite a reduced interest yield on
domestic substitutes might also be increased, and in this case workers would feel disgruntled to find themselves having to choose (2) or (3)—though they would have the benefit of any tax reductions to spend on meeting additional, but lower-priority goals. In the event, they might not feel squeezed overall by the policy package, despite the fact that ex ante they may act as if the loss of a high-ranking attainment is not compensated for by the gain of several lower attainments.

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10.9 CONCLUDING THOUGHTS

The joke about the policy maker who sought to hire a one-armed economist so as to avoid being given advice taking the form 'on the one hand, this; but on the other hand, that' is well known. But whoever was originally responsible for it cannot have been very well acquainted with the economics profession. Economists certainly do disagree amongst themselves, but the kind of open-ended approach to analysis that this book carries over from my (1984) work, to the realm of consumer theory, is very rare. Look around for books by economists on consumer behaviour that emphasise the multiplicity of ways people have for forming expectations—including expectations about what they could, and should, do with their lives—and for ranking rival schemes of action: you will be hard pushed to find very many. But you will find shelves and shelves of books and articles that treat consumers 'as if' they are clones who 'know what they want and know how to get it'. To the lay reader this might well imply that economists—if not policy makers—will be highly receptive to the analysis I have put forward. But I would be surprised to see most economists reacting to it in a positive manner: the vast majority are neoclassical theorists who have never grown more than one theoretical arm and who would never dream of suggesting to policy makers that a variety of models may be useful, in different ways and to different extents, as means towards anticipating and controlling events.

Such theorists are free to construe this book, like any other event, however they wish. I expect that many will seek to ignore inconvenient things that I say about, for example, the significance of psychological inputs and non-compensatory choice heuristics, and will argue that Lifestyle Economics is not relevant or adds nothing to their area of interest. I would not be surprised to find some of them wanting to reach the same conclusion about this book as one reached by a referee of the Economic Journal in a negative response to an attempt (Earl, 1985) I made to 'test-market' some of the ideas in a highly compressed form. The referee claimed that 'if we regard the protected core [of constructs] as being a given set of basic tastes, and if positive and negative implications are simply the relative advantages and disadvantages of each commodity in terms of its various characteristics, we would appear to be quite squarely in familiar and orthodox territory'.

I would also expect to see attempts to justify resistance to Lifestyle Economics in which reference is made to my incomplete coverage of 'the literature', notwithstanding the following statement of coverage or the fact that the kind of literature I highlight is largely ignored in orthodox work. I do not claim to have referred in the present book to every other deviant theorist whose ideas overlap with my own. (For example, in a longer work, I would certainly have taken up a good deal of space discussing the present century-old ideas of Thorstein Veblen, that failed to have enough of an impact to stop marginalist economics from coming to dominate the profession in the way that it has.) Nor do I claim to have referred to absolutely every attempt by an orthodox economist to extend the neoclassical paradigm in a way that tries to confront some of the issues I have sought to address. (For example, I am well aware, from Elster (1984, pp. 76-85), that the (1977) paper by Stigler and Becker on endogenous changes of preferences is by no means the sum total of orthodox thinking in that area; it just happens to be the one that most people seem to mention and as it also has some interface with my own emphasis on the role of competence in choice it is natural that I devote some of my limited space to discussing it at the expense of other contributions.) And I certainly do not intend to suggest that the theoretical ideas and research methods of personal construct psychology comprise the only psychological material that economists might find useful. Constructs in the area of consumer theory, as in life generally, are not costless to collect or make use of, and I have adopted the risky but synergy-rich strategy of exploring and integrating a limited number of them in a rather obsessive manner as a means of dealing with the subject matter.
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These closing remarks may sound somewhat tinged with paranoia, but theorists who are not used to working with a variety of tools are to be expected to be hostile to a work that threatens their claims to be going about ‘economic science’ in the right way. So if I succeed in opening the minds of at least a few neoclassical economists, instead of merely satisfying fellow deviants, I shall be well pleased, for even this would come as something of a surprise. But, then, life is full of surprises.

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