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Management Knowledge

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The business school that thinks and lives in the future

Using consumer informedness as an information strategy

By Ting Li, Robert Kauffman, Eric van Heck, Peter Vervest and Benedict Dellaert

Consumer informedness describes the degree to which consumers are aware of the specific attributes of products or services offered in the marketplace. Understanding how this level of informedness can amplify consumer behaviour provides firms with the opportunity to develop information-based strategies that can encourage their target segment make purchases.

People buy a product only after they decide that it meets their needs – either because of its particular features or because the seller offers a competitive price, and generally some combination of both.

The internet hasn't changed that, but it has changed the amount of information people learn about a product before they buy it. This is their level of "consumer informedness". Marketers have known for more than a decade that consumers tend to sift through more information before they buy than they once did. More informed consumers should be happier customers, but until now, not much research has been done about the impact that the additional information they acquire has on their choices.

To find out, we decided to test whether there was any difference in how price-conscious customers respond to different levels of price and product information compared to product feature-conscious customers using a series of choice experiments. We surveyed customers of two different kinds of services: train trips and hotel rooms. We presented our participants with different choice scenarios in which alternative options were

displayed with different levels of price and product information. We then asked them to select one alternative in each scenario based on the relative importance of different characteristics.

For the train trip study, we asked 2,000 people to rate how much they cared about six different attributes, including the price, time validity, internet access, seat reservation, customised offers based on travel history, and the availability of real-time update and delay information. For the hotel room study, we asked 614 people to weigh the relative importance of eight hotel attributes, including the price, location, facility, customer reviews, hotel theme, style, payment mechanism, and cancellation policy. We told the participants to imagine they would be making a holiday trip to Bruges in Belgium and needed to book a hotel.

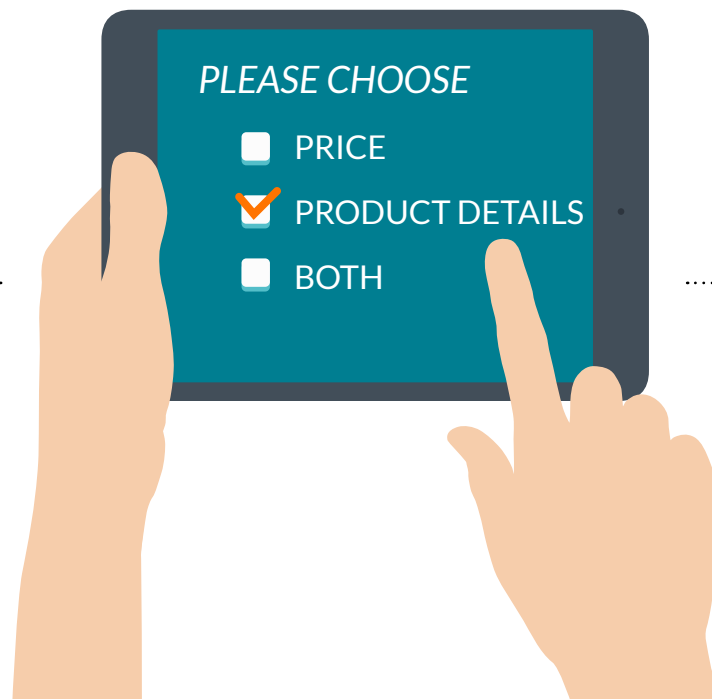
Reinforcing behaviour

As we expected, we found that different types of consumer informedness amplify different consumer behaviours in specific consumer segments. Giving consumers more access to the kind of information toward which they already had a predisposition seemed to reinforce that behaviour.

If they were price-conscious before, pricing information made them more price-conscious; if they were feature-conscious, feature-related information made them more feature-conscious. Interestingly, more price information did not matter much to the feature-conscious customers, nor did more product information matter to the price-conscious customers.

In light of these conclusions, what should firms try to do differently? First, they should have an *information-based* strategy. Rather than tell everybody everything, companies should offer each segment more of the kind of information that will encourage their particular target to buy. For example, if a company knows – based on a customer's past behaviour – that a particular customer is more cost-conscious than feature-conscious, the company should tailor promotions that focus largely on price. Sometimes this differentiation actually means offering less information – which may seem like a bit of a paradox.

For the price-conscious customers though, information that fosters price comparisons may be compelling and yet not result in higher sales. These customers want "price transparency" – to have access to as much information on prices as the market has to offer – but encouraging them to focus on price can discourage them from buying at all. In that case, offering more feature information may be a better strategy. By helping the customer to focus on the value that is delivered rather than the price, marketers can encourage the consumer to buy a niche product.



Past behaviour

Our findings also suggest that firms should look at customers' past behaviour to predict their sensitivity to different information strategies. This will permit them to decide on what and how much information to reveal and to whom. This requires firms to develop deeper intelligence from their big data for innovative and targeted information strategies. To an extent, some companies already do this: for example, travel intermediary Orbitz uses software to detect whether people browsing its site are using an Apple or Windows computer. Orbitz has discovered that Apple users tend to choose pricier hotels, so it recommends these better ones to them first (*The Economist*, 06 June 2012).

Finally, marketers should remember that consumers are only rational within limits. They have a wide range of attitudes toward fairness and risk. We need to conduct more research to understand how those traits affect the messages consumers hear and the purchase decisions they make. Our evidence opens up the possibility of using consumer experience in making inferences about consumer informedness sensitivity, providing a richer source of information for target marketing

Marketers should also keep in mind that, although we have focused on two segments, the big data revolution means they can identify many different potential market segments. They can also alter the products that they make available to meet a particular segment's needs, and tailor appropriate information for that segment.

The increased availability of online, social, and mobile micro-level data is already changing the nature of consumer decision-making. It seems inevitable that it will change the nature of consumer persuasion as well. ■

This article is based on the paper *Consumer Informedness and Firm Information Strategy*, written by Ting Li, Robert Kauffman, Eric van Heck, Peter Vervest and Benedict Dellaert and published in the journal *Information Systems Research*, 25, 2, June 2014, 345-363. <http://dx.doi.org/10.1287/isre.2014.0521>

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