

## Executive Summaries

*This section provides a concise, nontechnical summary of each article in the current issue of JR focusing on its strategic implications for management.*

### **Organizing Products with Complements versus Substitutes: Effects on Store Preferences as a Function of Effort and Assortment Perceptions**

KRISTIN DIEHL, ERICA VAN HERPEN, CAIT LAMBERTON

What's the best way for retailers to organize their assortments? For example, consider a furniture store. One option is to group substitute products together – to put chairs in one section of the store and tables in another. However, the same furniture store could also present chairs and tables together to form dining room sets, in a format containing complementary sets. The present paper argues that this organizational decision has important implications for retailers. While there may be no universal “best” format, it is possible for managers to anticipate the effects that their choice will have on consumers.

To capture these effects, the authors compare substitute and complement-based organizations in four experiments, using both paper catalogs and simulated online stores. They find that complement-based organizations are always more effortful for consumers than substitute-based organizations. Take for example a clothing store – it is easier to find a pair of pants when these are separated from shirts than when these are embedded in different types of outfits. However, complement-based stores can also be more attractive than substitute-based stores: seeing complete outfits makes us like the assortment better. In some cases, this means that complement-based stores are preferred. For example, in one study, female participants shopping for clothing preferred a complement-based clothing store (presenting outfits) to a substitute-based store (presenting product categories) at a ratio of 67–33 percent. This preference was explained by the more positive perceptions of the assortment in the complement-based store.

This is not the whole story, though. The effects of organization format also depend on the way consumers are shopping. Consumers' shopping focus may be hedonic or utilitarian – sometimes people shop for fun while other times they are directed toward a practical goal.

This can be driven by the type of product they are looking for: looking for a product that's valued primarily for its function (a utilitarian product) is different from shopping for a product in which the sensory factors are primary (a hedonic product).

The difference between these shopping styles was seen in two studies. In the first, consumers searched for either printers (utilitarian products) or rugs (hedonic products.) The same store assortment was arranged either in substitutes (all printers together, all rugs together, etc.) or complements (whole rooms, with each having a coherent matching scheme). When shopping for the more utilitarian printer, people overwhelmingly choose the substitute-based store over the complement-based store. Although the majority of people still preferred the substitute-based store when shopping for the more hedonic printer, a sizeable group of people chose the complement-based store, suggesting that a retailer could specifically cater to this group. Similar results emerge when consumers were asked to shop for the same product (a sofa) but with either a focus on utilitarian or hedonic aspects. Here, consumers would recommend the complement-based store more when focusing on hedonic aspects than when focusing on utilitarian aspects.

As a whole, this research is relevant not only to online retailers, who can offer multiple modes of organization, but also to brick and mortar retailers where only one type of organization can be adopted at a time. Importantly, understanding the drivers of store choice allows retailers to strategically choose assortment organizations that will enhance consumer experience and maximize revisit likelihood. Our findings suggest that complement-based organizations should be preferred in highly hedonic product categories, such as for clothing, as these can boost assortment perceptions and increase store choice. If retailers still want to use complement-based sets in categories for which a hedonic focus is not spontaneously evoked, increasing consumers' consideration of hedonic aspects of these products can make complement-based organizations more palatable.

## **An Analysis of Assortment Choice in Grocery Retailing**

KYUSEOP KWAK, GARY J. RUSSELL

For frequently purchased products such as grocery items, consumers can more easily anticipate short-run preferences than long-run preferences. In order to balance the trade-off between short-term and long-term preferences, consumers assemble bundles of products during each shopping trip. Of particular interest is the product assortment, a bundle consisting of items selected from a single product category. From a choice behavior perspective, assortments allow consumers to buy goods that will be consumed over time. This provides the consumer flexibility in planning for future consumption events and in accommodating the preferences of multiple users in the household.

Recent work in consumer behavior proposes a theory of choice behavior that links assortment size to perceived product quality. This theory is based upon the trade-off between the cognitive effort in evaluating choice alternatives and the desire for more variety. First, cognitive effort by the consumer is assumed to be proportional to the number of items in the assortment, but has no relationship to perceived quality of the items. Second, utility for item variety is characterized by decreasing marginal returns: each new item in the assortment adds less incremental utility. This tradeoff between mental costs and product utility leads to the interesting prediction that consumers will prefer a small high-quality assortment over a large low-quality assortment. Put another way, the theory argues that consumers demand less variety for high quality products.

We assess the evidence for this theory in a real-world grocery retailing setting. Using the multivariate logistic (MVL) choice model, we analyze assortment selection in the yogurt product category. The model implies that the probability of buying an assortment on a shopping trip depends upon the household's valuation of each item in the assortment, adjusted for the demand relationships among the items. Our empirical work demonstrates that consumers treat brand names as strong substitutes, and flavors (within a brand) as weak substitutes and complements. Using price response measures derived from the MVL model, we find that Dannon (a national brand) is perceived to be the higher quality than Nordica (a regional brand). We also find strong evidence in support of the proposed assortment choice theory. As predicted, we find that a typical Dannon assortment has a smaller number of flavors relative to a typical Nordica assortment. Moreover, the impact of SKU deletion depends on product quality. We find that SKU deletion for Nordica (reduction in

Nordica's flavor variety on the shelf) leads to reductions in shares for all remaining Nordica flavors. In contrast, Dannon is considerably more resistant to SKU reduction, primarily because Dannon consumers are willing to substitute across flavors. These empirical facts paint a picture of a consumer who is willing to trade-off variety against product quality in assortment choice.

This relationship between demand for variety and perceived product quality has clear implications for retail assortment planning. Assortment planning is important because assortment (along with pricing policy and store location) drives both store positioning and store choice. The link between product quality and variety implies that high product quality allows the retailer to carry less of the manufacturer's product line. In effect, less variety is acceptable in a product line as long as quality is sufficiently high. Advice to reduce variety within a product line, however, must be interpreted cautiously. Although SKU reduction can improve retailer profitability, managers should always take into account retail competition before making major changes in product offerings. Nevertheless, the fact that product quality moderates demand for variety is a useful insight for retailers.

## **Unraveling the Personalization Paradox: The Effect of Information Collection and Trust-Building Strategies on Online Advertisement Effectiveness**

ELIZABETH AGUIRRE, DOMINIK MAHR, DHARUV GREWAL, KO DE RUYTER, MARTIN WETZELS

Retailers frequently gather consumer data to personalize their service offers and thereby improve their competitive advantage and profitability. Greater personalization enhances sales effectiveness by matching customers' needs better, but increasing evidence suggests it also may heighten feelings of intrusion, causing customers to feel vulnerable and reject the service. This paradoxical outcome may reflect the strategy the firm adopts to collect the information needed for personalization. The increasing uses of such modern data-driven strategies, and the increasing skepticism they invoke among consumers, makes the question of consumer responses to personalized service offerings a timely and wide-ranging issue, of interest to retailers and consumer welfare groups alike.

The present study examines the influence of different data collection methods on consumers' reactions to personalized advertisements. For example, a highly personalized advertisement containing relevant information, such as a product the consumer previously searched for, may serve as a cue that the consumer's data has been collected, without his or her consent. Consumers perceive that they own

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