Consumers want companies to offer choices, just not too many

| By Bill Salokar

Freedom of choice. On the surface it sounds like a good thing, and in marketing research studies, respondents unequivocally say they prefer to have choices. But with choice comes complexity.

Anyone who's shopped for a car knows this all too well. Diesel, gas, electric or hybrid? Full-size, mid-size, compact or subcompact? Which makes or models are best? And then there's exterior and interior color, entertainment, communication options and so on.

This dizzying array of options in cars – and just about every other product and service today – creates a decision dilemma: Consumers find it difficult to choose and even fear making the wrong decisions. Paradoxically, freedom of choice and the complexity it brings can be paralyzing.

So, in a market full of choices, how can a brand optimize a product or service to give consumers the freedom to choose without creating decision dilemmas, while also benefiting the bottom line?

Concepts of choice

In the design of marketing research, specific questions about product mix and pricing depend on the understanding of someone's concept of choice. The S.T. Lee Professor of Business in the management division at Columbia Business School, Sheena Iyengar, is one of the world's leading experts on choice, and she argues that cultural factors are essential to understanding both basic marketing principles and specific research findings.

Consumers only consider choice to be valuable when they can meaningfully distinguish between the options being offered. Being permitted, or compelled, to choose among a vast selection of things that seem essentially similar might inhibit choice or even lead to the rejection of the opportunity to choose.

This precept took on added meaning for Iyengar after a research meeting with a group of Eastern Europeans accustomed to very little consumer choice. When presented with a selection of seven sodas, these consumers interpreted their choice as binary: soda vs. no soda. The differences between these products were far less meaningful to them than the qualities they shared. Where a Westerner might see this offering as thoughtful (or even unremarkable), this group found the choice artificial to the point of meaninglessness.

Unsurprisingly, Iyengar's research has found that Americans believe the primary focus of choice is the individual. In one study, Anglo-American children completed more puzzles more accurately when permitted to choose the puzzles. By contrast, American children of Asian immigrants performed better when they believed that their mothers had chosen the puzzles.

The act of choice implies the workings of an individual mind, but for some people, the choice to accede to the preferences of others is a way to establish or strengthen relationships. When individuals conceive of their choices and the outcomes of those choices as connected to the actions of others, they may decide to choose collectively. These individuals will not welcome opportunities to choose independently and may consider the idea to be socially disruptive.

Freedom of choice vs. predefined packages

Let's look at a case study example involving a telecom company. The company offers phone, Internet and TV in simple, predefined packages or bundles, as is typical of the telecom industry. Each bundle is tiered for level of performance or features and price. The lowest tier provides basic Internet, phone and TV; the mid-tier provides more robust service; and the highest tier provides customers with very fast Internet, unlimited calling and lots of TV channels.

This range of only three options was easy for customers to assess. However, the company was considering offering more freedom of choice by letting customers assemble their own bundles. For example, a customer could choose the fastest Internet, mid-tier phone and basic TV.

How might this increased freedom impact the company's revenue? With predefined packages, some customers were paying for a level of TV or phone they might not want in order to get a desired Internet speed. Customers might embrace their increased freedom by spending less per month. On the other hand, if people prefer choice as much as they say they do, could the company use expanded options to win over customers from its competitors?

Unraveling the issue

To get at the answers the telecom company needed, several things had to be determined. First, would there in fact be a preference for customizing? When presented with predefined packages and the ability to customize their own bundles, respondents clearly favored customizing. Next, would customizing reduce the average monthly expenditure compared with the company's current offering? The results showed that it would.

At first glance, it doesn't seem to make sense for the company to offer this much choice to customers. But this is not the whole story, as consumers have preferences not only for products but also for providers. To understand the offer's effect on overall market share, it had to be presented in a competitive landscape, not in isolation. So a study was conducted using a model that randomized the offerings (predefined packages only, freedom of choice only or both) among providers. The results showed that the company could nearly triple its sales – and revenue – with freedom of choice.

Offering choice was a good move for this telecom company, not just because it satisfied consumers' preferences without overwhelming them but because improved understanding of those preferences led to a positive effect on the company's revenue.

Dependent on the market

Whether increasing choice is the right move in another market depends on what's happening in that market. Are consumers pushing for more alternatives or more simplicity? Many companies are trying to strike a balance between the two by figuring out the best way to bundle certain options. The ultimate balance any company should aim to strike is the one between the ideal portfolio structure for consumers and its impact on sales and revenues. That takes asking the right questions for the specific market and arriving at actionable answers through sound research methodology.

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