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CFL Wal-Mart Case Study

Wal-mart cares about CFLs generally because of the following two reasons: CFL adoption is becoming a part of Wal-Mart's public image and it is important to keep up with time and stay close to the Energy Star program launched by the U.S. government; CFL also has a huge potential market in the future, it is important for Wal-Mart to seize the opportunity and hold the market share while CFL is still a new-emerging product. In the article, Andy Barron helped Wal-Mart achieve the 100 Million goal on Oct 2007 and doubled the sales in the next year which is 2008. Although it could be considered a great success in the CFL market, while we set the sight back to the entire light bulb market, the CFL share of the household lamp are only reached 24% back in 2008, which means there is still huge potential and progress that Wal-Mart could make to achieve their public images and making a profit. Besides, CFL products have a considerable market to Andy Barron's plan for Wal-Mart's new sustainability program. Since Wal-Mart is the type of brand featured in its cost-effective and daily household supplies, CFL could be a really great cutting point for them to enter the basic hardware markets.

On the consumer side, CFL is also a great product since it actually lowers the cost of electricity and let them achieve the goal of protecting the Earth's environment with almost ZERO effort. Besides, consumers could also get a real money deduction of up to \$1500 from the new American Recovery and Reinvestment Act that just passed in

Feb 2009. By this chance, consumers are enjoying actual lower cost while taking tax credits back at the end, this means consumers could be conscious of getting free CFLs and their relevant costs while making a contribution to United States' environment.

Nevertheless, the eco-friendly CFLs do not replace the original incandescent bulbs as Barron expected, and there are lots of misperceptions that consumers are holding right now due to different reasons. First of all, the similarity heuristic will make consumers more willing to choose the same brand of the product instead of attempting the new eco-friendly light bulbs. Just like Russell Leslie pointed out about consumers, "they generally bring habit, rather than intelligence, to their light bulb purchases," People are familiar to incandescent bulbs for their entire life and it is hard to switch to a new product although it is more cost-effective.

At the meantime, the Availability bias and Anchoring heuristic will take a double action to consumers. Lack of authoritative reports will prevent consumers from understanding the benefits of CFL bulbs, simultaneously, the combination of plenty of bad memories about old CFLs from the last century, e.g. wired shape bulbs, harsh fluorescent lighting, long warm-up time, and buzzed or flickered. Let alone a few negative reports that leave fearful information to consumers that provide negative availability to consumers. Due to media reports and echoed public worries, people recalled the negative information easily before making their decisions, rather than the information that is impartial and symmetric. Anchoring heuristics then turns the misperceptions brought by Availability bias into consumers' first impressions, and this is hard to be refurbished.

Thirdly, CFL is 6x more expensive than traditional incandescent bulbs. Although it is not a huge difference between \$3 and \$0.5, people usually act consistently for purchasing light bulbs. It will then become very costly to switch the light bulbs for the

entire house from incandescent bulbs to CFLs. The price of incandescent bulbs will generate a reference point to the CFLs when consumers purchase light bulbs, and it will become a problem of losing money if consumers pick the more expensive CFL bulbs: e.g. it cost me \$25 more if I chose CFLs, and I certainly need to save more than \$50 on electricity to balance my loss aversion. In this case, loss aversion became an issue for consumers to spend their current money for the potential benefit in the future.

Last but not least, besides the issue of loss aversion, there is also a present bias that brings the dynamic inconsistency to consumers from their present and future value: estimating their savings on purchasing an incandescent bulb vs. the total saving a CFL bulb could bring in the future, especially for the cheap goods: from hyperbolic discounting we know, people usually need a higher discount rate for the goods with a lower amount. In the article, the research shows that people that consist of incandescent bulbs are the households with lower levels of income, short rent, etc. These types of consumers are less willing to sacrifice their present but enjoy immediate gratification because they have no other choices.

In furtherance of the problem and worries that are met by consumers, Wal-Mart could raise feasible actions including: Promotions for only CFLs to by using the endowment effect and attract returned consumers, cooperating and advertising CFLs with the government to exhibit its advantages, and applying the decoy effect to the pricing strategies.

Research shows that people are more willing to purchase as returned consumers. Wal-Mart should have some exaggerated promotions such as buy-one-and-get-one-free to get more consumers to the CFL bulbs, by utilizing endowment effects. In addition, Wal-Mart could also put displayed advertisements (banners) to demonstrate the total cost of electricity per month or per year for each type of bulb. Since CFLs

could really save electricity charges for consumers, it is a good strategy to make use of promotions and bring consumers our misperceptions and behaviors.

By cooperating with the government, Wal-Mart could present its global influence to the next stage while generating more profit. They could cooperate with the electric power companies that operate by the government, providing free Bulbs for those stubborn incandescent light users.

Besides, the Decoy effect could solve the problem with higher CFL prices. Wal-Mart could have more decoy options by providing expensive LED bulbs and putting them nearby the CFLs bulbs. This strategy allows consumers to make the comparison by themselves and select the second most expensive bulbs with the lowest total cost by calculation (which is the displayed advertisements). While Wal-Mart has offered more choices, consumers will be more likely to select the most cost-effective product which is CFL, which could bring a huge improvement in energy efficiency while having a sufficiently lower price.