



Ministero dell'Istruzione, dell'Università e della Ricerca
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ARTICOLAZIONE RELAZIONI INTERNAZIONALI PER IL MARKETING

ITIR – ISTITUTO ECONOMICO INTERNAZIONALE QUADRIENNALE
ARTICOLAZIONE RELAZIONI INTERNAZIONALI PER IL MARKETING

Tema di: LINGUA INGLESE

PART 1: Reading Comprehension

Consumer behaviour: Top tips on sales to irrational shoppers

Behavioural economics explains how people make decisions and its lessons are increasingly being applied in the luxury world. Research has repeatedly found that, while we believe humans are rational, their behaviour is consistently the opposite.

The Affluence Collaborative, a New York based research consultancy, recently recruited a behavioural economist to join its team of quantitative and qualitative researchers, strategists and marketers.

Meanwhile, the London-based Institute of Practitioners in Advertising has a Behavioural Economics think-tank to advise on best practice and offer training sessions to members.

Beyond the luxury arena, Match.com, one of the world's biggest dating sites, has developed algorithms to improve the probability of successful matches by observing that, although people say they are looking for certain qualities in a partner, in fact they repeatedly look at profiles of people without those qualities.

Dan Ariely, author of *Predictably Irrational*, teaches at Duke University and founded the Centre for Advanced Hindsight. He signs his emails "irrationally yours" and says behavioural economics research has important implications for the watch and jewellery industry. Prof Ariely had his first brush with luxury goods at a Harper's Bazaar anti-counterfeiting conference.

"I gave a talk to the 100 best dressed women I'd seen in my life. When they gave me a Prada bag as a thank you, I wasn't sure whether to wear the logo on the outside or against my leg so that only I would know I was wearing Prada. I ended up wearing it against my leg but realised I still felt more fashionable," remembers Prof Ariely.

"Jewellery, watches and fashion are about signalling, both to ourselves and to others – like a peacock's tail that signals virility, through them we tell ourselves what kind of people we are. The internal signalling is sometimes even more important than the external signalling."

Prof Ariely and others, including Robert Cialdini, author of *Influence, the Psychology of Persuasion*, offer lessons about building and protecting luxury brands, that have applications for pricing newly discovered or less-known coloured gemstones, launching new brands, crafting shop window displays, planning advertising campaigns and testing products before investing heavily in manufacturing and distribution.

Commonly in the market for goods and services, consumers do not know the value of things, imbuing marketers with more control. Our decisions are often based on relative valuations. Prof Ariely points to the foresight of Harry Winston as a classic application of behavioural economics.

"When black pearls first came on the market, they did not sell well. But jeweller Harry Winston began placing black pearls in his shop window alongside rubies, sapphires and diamonds. He took out fancy advertisements and priced black pearls higher than white pearls. From then on, they became very desirable and black pearls became more – rather than less – valuable than white



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pearls,” he says. The professor maintains that the price at which products are introduced has implications for long-term prices.

He cites Apple’s iPhone – initially it was hard to know how much it was worth paying for the new touch screen technology.

40 Originally introduced to the American market at \$600, it soon dropped to \$400. Prof Ariely says this made the \$400 price tag look like a steal.

“Apple established a relative price and anchored a comparison. Smart marketers reconnect the relativity to something that serves them and this way give us a sense of the value of the products we’re examining,” he says.

45 Somewhat reassuringly for consumers, an experiment called the split dollar test confirms that consumers walk away when a deal or a price is unfair – even when it is irrational for them to do so.

Pairs were given the opportunity to split a quantity of money as they wished and then divide the sum as agreed, or they could reject the split and get nothing.

50 Rationally, any split is beneficial as something is always better than nothing. But on average, people start to walk away at a split of approximately 70 to 30.

Prof Ariely preaches humility, given the many lessons yet to be learnt about consumer behaviour.

55 “Whether it’s a decision about investing 19 per cent of gross domestic product in healthcare, introducing new pricing schemes for luxury products or creating new services, decision-makers need to understand how little we know and be willing to do more experimentation and testing before making significant investments,” he says.

On the advertising front, behavioural economics sheds light on a paradox surrounding the perennial appeal of scarce and exclusive luxury goods, says Nick Southgate, a behavioural economist with a PhD in the metaphysics of personal identity.

60 A consultant to the Institute of Practitioners in Advertising, the most he has ever spent on a watch is £100 (\$159) but he can confidently reel off the names of Switzerland’s best known high-end watchmakers. “While advertisers normally target audiences who will buy a product, luxury brands must invest in making their brand desirable to many who will never buy it,” he says.

[815 words]

Claire Adler, “Consumer behaviour: Top tips on sales to irrational shoppers” *Financial Times*.

Available on line <https://www.ft.com/content/8ff6668a-0488-11e1-ac2a-00144feabdc0>

Accessed on 3 April 2018

Refer to the text to answer the following questions. Use complete sentences and your own words.

1. What research-based assumption lies behind the theory of behavioural economics?
2. How can we understand from the passage that both the business and the advertising world are becoming increasingly aware of the growing importance and breadth of applications of behavioural economics?
3. What example offered in the text shows how on-line dating conforms to the behavioural economic pattern of irrational choice?



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4. What is internal and external signalling and why is the internal signalling “*sometimes even more important than the external signalling*”? (Line 23)
5. What gives marketers wider control over consumers particularly in regard to the pricing of luxury goods and services?
6. According to the article, how does pricing affect consumers’ perception of value?
7. What is the importance of the Harry Winston example for the argument in the text?
8. In what way does the “split dollar test” mentioned in the text support the argument that people act irrationally when it comes to money?
9. What wise and desirable attitude should be adopted by decision makers before making significant investments?
10. At the end of the article it is stated: “While advertisers normally target audiences who will buy a product, luxury brands must invest in making their brand desirable to many who will never buy it”. (Lines 62-63) What interest might important high-end brand producers have in consumers who will never be able to purchase their products?

PART 2: Writing

Choose either **A** or **B**. Clearly mark your choice on your exam paper by writing “A” or “B”

A. ‘Rise’ is an organisation of young entrepreneurs who promote product innovations and design new business models. You have been contacted to write a review on their latest app “TNS” (*Thrifty-Nifty Shopper*). This is meant to deliver better shopping deals to customers through customisable and discrete notifications. Write a review of about 250 words featuring the new product and describing how it reflects and caters to new consumer buying and social behaviours.

Or

B. An international market research agency has commissioned you to write a report on the advertising industry in your country. The agency would, firstly, like you to highlight the most common approaches to advertising and how consumers respond to them. Secondly, you are asked to suggest potential innovations which you believe would make advertising more effective. Write your report in approximately 250 words.