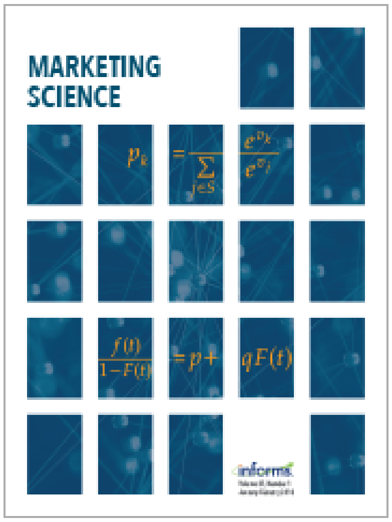

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Pennies for Your Thoughts: Costly Product Consideration and Purchase Quantity Thresholds

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Abstract. Individual demand for consumer packaged goods shows discrete jumps between zero and large quantities, under a marginal change in price. Ruling out multiple alternative explanations, this paper provides evidence from microdata in the yogurt category that these jumps are caused by consumer fixed purchasing costs per product. We formulate and estimate a model in which (1) such fixed costs limit the number of different products considered and (2) consumers use prices to screen a product in and out of their consideration set. Our structural estimation finds that the consumer incurs fixed costs of \$0.81 to consider a product. These costs are increased by 280% if she has not purchased the product for a year and are decreased by 59% when the product is featured in the store; the dependence of fixed costs on information shifters suggests that these costs are incurred because of consideration. Consideration being scarce at the shelf, firms compete fiercely for customers: We simulate counterfactual markups in a world full of feature advertising and find that firms enjoy higher equilibrium markups because the provision of information softens competition for consideration.

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Keywords: love for variety • promotion threshold • consumer fixed costs • limited consideration

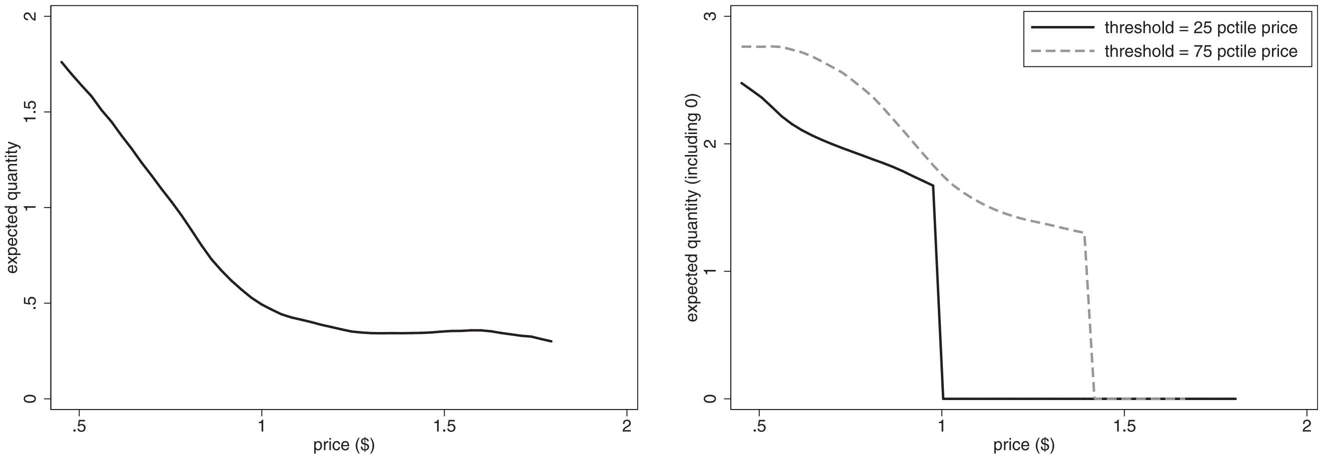
1. Introduction

A widely held belief among practitioners is that small price discounts do not persuade consumers to buy—that is, that consumers have a "promotion threshold." For example, Della Bitta and Monroe (1981) document that many retailers believe that there is a minimum discount threshold of 15% before one can attract consumers to a sale. In the left panel of Figure 1, we plot the demand for a yogurt product using consumer-level purchase data. From this graph, consumers show little to no response to price changes when prices are high, but are very elastic to price changes when prices are low.[1] Furthermore, the possibility that elasticity can be increasing in discount depth cannot be rationalized by commonly used demand functions such as the log-log model or the multinomial logit model. This paper (1) documents that individuals are more elastic at intermediate prices than at high prices, (2) proposes an explanation for such a pattern consistent with the theory of consideration sets, (3) empirically tests the explanation against alternatives, and (4) structurally quantifies the impact of costly consideration sets on consumer behavior and market prices.

Our explanation for this convex aggregate demand curve becomes clear once we decompose it into individual demand curves. To exemplify, in the right panel of Figure 1, we plot demand curves for the same product separately for two groups of consumers having different "price thresholds"—in this case, observed maximum prices for buying at the 25th and 75th percentiles of the overall price distribution. We find (1) that consumer demand features discontinuities at the individual price threshold, (2) that around this threshold the consumer either does not buy at all or buys in large quantities, and (3) that the transition between these two decisions is driven by marginal shocks to price.[2] The convex demand function is thus a linear combination of discontinuous individual demand functions, smoothed out from integration over heterogeneous thresholds.

After ruling out alternative explanations—for example, consumer responses to volume deals, stockpiling, or across-consumer heterogeneity—these jumps in individual demand curves at price thresholds suggest that there exists consumer fixed purchasing costs per product, which are incurred after prices are known. We interpret these fixed costs as the mental costs to collect and process the information needed to make a purchase decision—that is, costs of consideration.[3]

Figure 1. Overall and By-Cohort Demand for Dannon Light



Notes. The left panel pictures quantity demand for Dannon Light (including zeros) as a function of price, pooled over all individuals. The right panel portrays demand by "cohort" defined as consumers whose observed price thresholds (max accepted price) are similar. In particular, the right panel plots demand for two cohorts whose price thresholds are within $0.1 from the 25th and 75th percentile (pctile) of price distribution.

Take yogurt as an example. A consumer with some interest to shop for yogurt not only needs to know the price, but also needs to know, understand, and weigh information about flavor, brand, nutritional content, available fridge space at home, and other information, before she is able to determine whether and which product to purchase and which quantity of it. If significant effort is required to collect and evaluate these nonprice attributes of each product, the consumer will likely restrict attention to a smaller consideration set, and—more importantly—use prices as cues to screen products in and out of the set. Therefore, marginal price changes are able to push a consumer in choosing between zero and large quantities, generating individual demand curves with jumps at the price threshold.

We start the paper by empirically describing individual consumer demand functions, focusing on the yogurt category of the Information Resource Inc. (IRI) Academic Data Set. We show that individual consumers purchase large quantities concentrated in small subsets of available products, but their purchase sets change trip-by-trip depending on how products are priced. These patterns suggest that, if a marginal price change is able to induce the consumer to start buying a product (referred to as a "price threshold"), she buys the product in large quantities, resulting in a discontinuity in her demand function at this price. We formally document that these quantity discontinuities are large, and the magnitude cannot be explained by quantity discounts or product indivisibility. Thus, assuming decreasing marginal utility of consumption, these quantity jumps suggest the existence of a consumer fixed cost to acquire each product. We also test against alternative explanations, in particular, (1) consumer and product heterogeneity and (2) forward buying and storing goods.[4]

Next, through the lens of a structural model, we conjecture that an important part of this fixed cost as associated with the consumer's consideration of each product. In our model, consumers have full information on price, but decide to spend effort to discover match values to products before making the decision of whether and how much to buy. We first construct an illustrative model and show numerically that it implies demand curves that are consistent with our data. Then, we discuss the extent to which this consideration set model can be identified by purchase quantity data. It is difficult to distinguish between lack of consideration and low preferences. Our identification strategy builds on the idea that the mental effort of consideration (in the sense of incurring fixed costs per product) creates scale economies and encourages consumers to either buy large quantities or not buy at all. With variation on price, this mechanism creates jumps in quantity that are not rationalized by a standard model. We provide evidence from Monte Carlo experiments showing that consideration costs in our setup are identified from the observed discontinuities in quantity purchases, without having to resort to exclusion restrictions in promotion and advertising, and even when the functional form of utility is not parametrically known.

We then estimate the model to measure the magnitude of consumer fixed costs, which we interpret as the cost of consideration. Our estimates suggest that, for consumers who have just purchased the product the week before, fixed costs are $0.81 on average. We further infer from our model that these fixed costs increase with interpurchase time and decrease with feature advertising: They are 280% higher for consumers who have not bought the product for a year and 59% lower for products on feature. The empirical dependence of the estimated fixed costs on information shifters supports our conjecture that a large fraction of these costs can be attributed to costly consideration—that is, consumers' effort on information collection or processing. However, the usual caveat applies that the attribution of fixed purchasing costs to consideration is to some extent an interpretation, made through the lens of a structural model.

Finally, we evaluate the role of price discounts in our model. Because consideration is costly, discount strategies help overcome a consumer's consideration barrier. We thus use our model to decompose price elasticities into an effect on inclusion of the consideration set and another effect on quantity choice given consideration-set membership. We find that roughly a third of the overall price elasticities stem from additional consideration rather than increasing purchase quantities. This decomposition implies that a price discount is less effective on quantity choice once a consumer starts to think about the product. Therefore, putting a product on feature decreases the price elasticity in magnitude and alleviates the firm's burden to motivate consumers to consider and evaluate its product by using prices. We use a static supply-side model to find that the consideration cost decrease from feature advertising implies a 5%–9% increase in equilibrium markup.

Our paper contributes to both the descriptive literature on promotion threshold effects and to the structural literature on limited consideration. First, on the descriptive side, the previous literature has long noted that consumers show little response to small price discounts (Gupta and Cooper 1992, Blattberg et al. 1995, Van Heerde et al. 2001, Briesch et al. 2002), but does not provide a deep explanation that relates to rational consumer decisions.[5] Our model of costly consideration contributes to the understanding of this empirical regularity, by providing a rational explanation to it.

Second, to the demand estimation literature with limited consideration (Goeree 2008, Van Nierop et al. 2010, Kawaguchi et al. 2016, Dehmamy and Otter 2018), a key question is whether one can separately identify lack of consideration from lack of preference, when the data only show no purchase. The question is managerially important, because in the former case, a firm can provide information to foster consideration and purchase, whereas the latter case is associated with product design or brand value. Yet identification between these two mechanisms is difficult in general without excluded variables that vary consideration costs independently from preference. Relative to the literature, we provide an alternative identification strategy that relies on quantity jumps from price variations. In particular, our identification strategy relies on observing "price thresholds," that is, the highest price at which the consumer would purchase positive quantities, and the extent to which purchase quantity show discontinuities at these thresholds. Our usage of consumer-level scanner data allows us to obtain a dense empirical support of price, which enables measurement of these price thresholds. We provide strong evidence of discontinuities in purchase quantity around these thresholds. With this identification strategy, we also propose direct tests for costly consideration using standard marketing data, as well as a structural model that can be used to quantify these costs. In addition, substantively, our empirical results give insights into the effects of price discounts and marketing strategies that aim at overcoming consumers' consideration barriers.

The rest of this paper is organized as follows. Section 2 briefly surveys the related literature. Section 3 presents the data. Section 4 then discusses the model. First, we outline an illustrative model and use it to discuss both identification of and testable implications for costly consideration. Then, Section 5 parameterizes the model and discusses estimation details. Sections 6 and 7 discuss parameter estimates and counterfactual implications. Finally, Section 8 concludes.

2. Related Literature

This paper draws primarily from three strands of literature. First, it relates to the literature on promotion effects. Van Heerde et al. (2001) estimate a semiparametric model using sales and price data, conditional on feature and display, and find that sales is unresponsive to small price changes and is most responsive to moderately large discounts. Briesch et al. (2002) estimate a discrete choice model where the effect of deals is nonparametric and find that utility on deals can be convex for yogurt. We complement their work by providing individual-level evidence and a structural model that explains these findings. To this end, we adjust for consumer heterogeneity, product heterogeneity, and store heterogeneity, and the interaction across these. Using detailed individual-level scanner data, we find clear evidence that an individual is less responsive to price discounts less than 30% off the regular price. We contribute to this literature also in the sense that we provide an explanation that rationalizes this behavior. This explanation further complements the psychology literature that attributes the unresponsiveness to a consumer's innate threshold (Gupta and Cooper 1992).

Second, our work is related to the literature on limited consideration. Among earlier works, Shugan (1980) provides psychological justifications for the existence of a consumer thinking cost and an analytical framework of its implications. The empirical literature teases apart lack of attention (from, e.g., large thinking costs) from lack of preference in several ways. One way is to obtain a direct measure of attention: For example, Roberts and Lattin (1991) and Draganska and Klapper (2011) utilize survey data and directly elicit consideration decisions. Another way is to provide exclusion restrictions that only enter consideration but not purchase: Goeree (2008) assumes that advertising is informative, and advertising expenditure acts as an exclusion restriction in the utility function (given consideration); Ranjan et al. (2016) leverage natural-experimental variations in shelf-space allocation, observed from a retailer's planogram data, to identify the impact of consideration set on consumer choice and store revenue. A third way to test for the lack of attention is to examine consumer behavior that is inconsistent with any full information model: Clerides and Courty (2017) find that consumers continue to purchase large packages in the event that per-unit prices of large packages exceed that of smaller packages; Kawaguchi et al. (2016) focus on variations in product availability and show that responses in consumer choices are inconsistent with a full information model.[6]

The most closely related work to us is Dehmamy and Otter (2018). This paper utilizes the sunk cost property of consideration in a consumer's decision of purchase quantity. Fixed costs do not enter quantity choice because they are sunk. Therefore, they propose that one can test for whether variables (such as the number of facings) affect consumption utility directly, by testing whether they affect quantity choice conditional on purchase. In their experimental application, they provide evidence that the number of shelf facings and the location on the shelf only affect consideration and therefore are good excluded variables from utility. However, their methodology requires data on shelf facings and planograms, which are not always available.[7] In our framework, we highlight the discontinuity in quantity choices due to fixed consideration cost and endogenous consideration decisions. Our model implies that prices (and potentially other product characteristics) affect these decisions and generates a quantity jump at the price acceptance threshold. We provide reduced-form tests that uses standard data sets and propose an alternative structural model that takes consideration as a first-stage decision.

Furthermore, our work is related to the literature on variety seeking (McAlister 1982, Kahn et al. 1986) and multiple discrete choice. Hendel (1999), Kim et al. (2002), and Dubé (2004) model a consumer's product and quantity choice and make simplifying assumptions to isolate the choice from quantity decisions. Although this approach eases computation burden, it abstracts from competition for consideration set membership. In our paper, we assume that the consumer takes into account the expected gain from purchase when she decides which product to include in her consideration set. Our model is in line with our proposed tests for limited consideration, but can also serve as an alternative model to characterize multiple discrete choice, when quantity decisions are isolated from choice. In addition, the model allows for the presence of nonlinear prices (quantity discounts) and discrete quantities (cf. Allenby et al. 2004).

Finally, Gilbride and Allenby (2004) discuss estimation issues related to two-stage decision models with decision heuristics. Our model falls into their characterization of a compensatory screening rule, where the utility of an alternative must exceed a given threshold. Their paper proposes a model and related estimation strategies, whereas our paper focuses on rationalizing the existence of such thresholds. Dzyabura and Hauser (2011) study consideration heuristics using machine learning methods.

3. Data and Descriptive Statistics

3.1. Construction

We use the 2001–2003 Behavioral Scan panel data from the Information Resource Inc. Academic Data Set (Bronnenberg et al. 2008).[8] We focus on the yogurt and yogurt drink categories. A "store visit" is recorded when a household purchases yogurt or yogurt drink in a trip. The data records, at the universal product code (UPC) level, the number of units the individual purchased in a given store-week, the total amount paid for the purchase, store-level weekly data on the total units sold, and revenue received on the given UPC, as well as product characteristics such as package size.

At the UPC level, prices are defined as store-level revenue divided by units sold. Regular prices are defined as the 95th percentile of prices for an item in a given store-year. Discounts are defined as either absolute or percentage changes of prices from the regular price.[9] The data set also records whether the product is on feature advertising, on in-store display, or on both.

Next, we aggregate the UPC-level data to the level of a "product," defined as all UPCs with a specific name recorded by the data regardless of the flavor or package size. For example, "General Mills Colombo Light" is considered as a "product," whereas "General Mills Colombo Light, berry flavor, 8 oz" is a distinct UPC.[10] We consider the same product with different package sizes as different quantity options of a homogeneous product. To this end, we find the minimum *available* package size of a product in a given trip and define "equivalent units" as total purchased volume divided by the minimum package size. For example, for a product with the minimum package size of 8 oz, an individual who purchased 1 unit of 8 oz and 3 units of 16 oz ($8 + 3 \times 16 = 56$ oz), is considered to have purchased *7 equivalent units* ($7 \times 8 = 56$ oz). Because few consumers bought noninteger equivalent units,[11] we characterize quantity choice as discrete and round the noninteger choices to the nearest integer.

We average feature advertising and in-store display incidence to the product level, as sales-weighted averages in a given store and week from the UPC-level data. We use the same approach to aggregate discounts to the product level, which we use in our descriptive analysis only. We characterize price for a given quantity as follows. Starting with prices for each available UPC of a product, we find for each possible purchase quantity the least expensive combination of different package size that achieves it. For example, price of two equivalent units is the less expensive of buying two units of the smallest package, or one unit of the twice-as-large package, of the same product. This captures discounts due to bulk purchase, frequently observed in this category.

As stated in the introduction, we subset the sample and only focus on trips with yogurt purchases. This condition assures that the consumer has been at the yogurt section and likely rules out costly price search.[12] When we later discuss alternative explanations to consumer fixed costs, this condition also rules out travel costs to the store and across different sections in the store (Seiler and Pinna 2017).

Finally, to manage the computational burden of the structural analysis, we restrict our attention to products with a minimum package size smaller than 1 pint (16 oz). This precludes 24 out of 84 product but only removes 1/6 of the category sales volume. We also focus on the top 10 product (among the remaining 60), ranked in terms of sales volume, in order to maintain consistency between the reduced form and structural analysis. Table 1 summarizes the set of products in our analysis.

3.2. Summary Statistics

3.2.1. Demographics. There are 8,397 households in the 2001–2003 sampling period. Taking a cross-section for the year 2003 (which consists of 6,558 unique households), we find that these households have an average size of 2.5 members, an average age of the household head of 53.7 years, and an annual income of $44,114. Household characteristics in other years are very similar.

3.2.2. Trips. On average, a household is observed for 56.5 weeks between the first and the last recorded trip containing yogurt purchases at a given retailer. In this period, there are 9.5 weeks on average with yogurt purchases. Within those 9.5 weeks, 5.3 weeks are associated with purchase of the top 10 products, and 3.0 weeks are with the top 4 products.

3.2.3. Products, Prices, and Concentration. We compute in-sample market share, based on the shares of total consumer expenditure in yogurt, and find that concentration is moderate: Overall, the top 10 products represent 61% of category sales. Among the top 10 products, average per-volume price is 0.14 dollar/oz, with a standard deviation of 0.07. The most popular sizes are 6 oz (51% of purchase occasions) and 8 oz (41%). The remaining 8% purchase occasions involve sizes of 1 or 2 pints.[13]

3.2.4. Discounts, Feature, and Display. The use of feature and display is infrequent in the yogurt category. 8.4% of all product-store-week combinations have 50% or more of the UPCs on feature.[14] At 1.8% of all observations, displays are less common.

Figure 2 shows the distribution of price discounts separately for products on and not on feature or display. Discounts are frequently aligned with feature or display. That is, 80% of the products on feature or display are on a discount with no less than 5% price drop. On the contrary, conditional on being on feature or display, the discount distribution is bimodal: Over 20% products are priced at regular prices, whereas the products on discount have a mode discount of around 30%. Still, discounts are widely spread and a large fraction of discounts are between 0% and 30%.

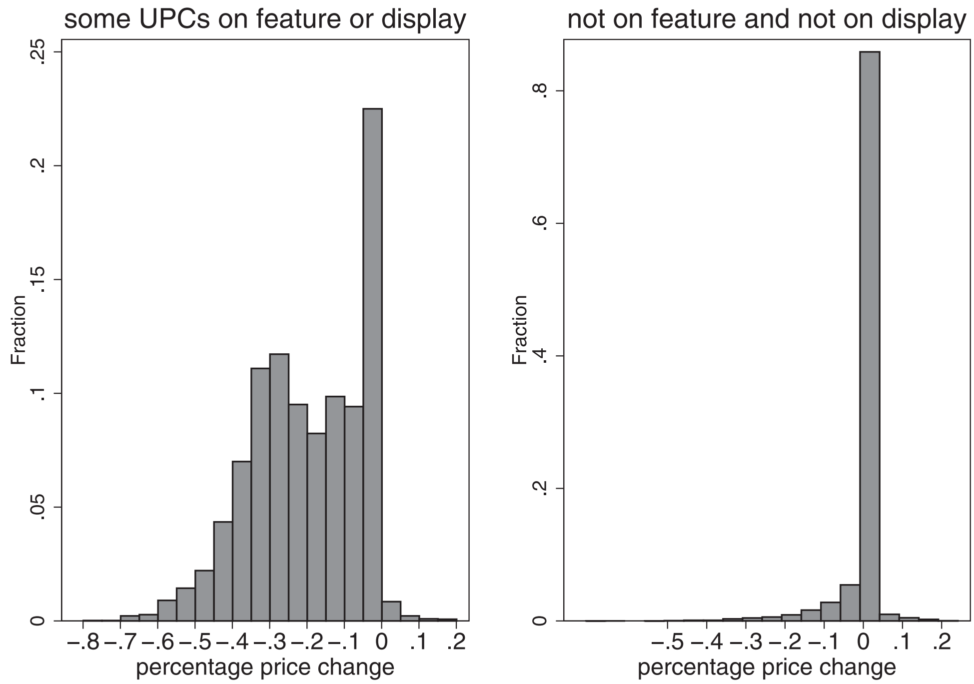
We also report, in the online appendix, that there are differences in the frequency and depth of discounts offered to different package sizes. Smaller pack-sizes (12 and 16 oz) are offered more frequent and deeper discounts than larger ones.

Table 1. Set of Products in the Analysis

	Vol share	Share sold on disc.	Reg price	Price on disc.
Dannon Light N Fit	0.13	0.09	1.53	1.04
Yoplait Original	0.13	0.06	0.89	0.72
Colombo Classic	0.07	0.05	1.09	0.83
Colombo Light	0.07	0.02	0.82	0.55
Yoplait Light	0.07	0.03	0.83	0.68
Dannon Regular	0.06	0.03	0.81	0.53
Yoplait Thick	0.05	0.02	0.72	0.48
Dannon Stonyfield Farm	0.04	0.02	2.48	1.77
Wells Blue Bunny	0.03	0.01	0.65	0.56
Coolbrands International Breyers	0.03	0.02	0.76	0.54

Notes. This table presents the set of products, their in-sample sales volume share, and share of volume sold on discount (defined as occasions when prices are 5% or more below the regular price). It also reports regular price and price given discount. These products are used both in descriptive and structural estimates. Disc., discount; reg, regular; vol, volume.

Figure 2. Distribution of Price Changes



Notes. This figure plots the distribution of percentage price changes. Regular price is defined as the 95th percentile of prices within product-retailer-quarter. Feature and display are defined as at least half the UPCs for a given product are on feature or display, respectively.

3.2.5. Variety and Quantity per Trip. Within-trip expenditure is heavily concentrated. In 76% of all shopping trips, consumers buy more than one (equivalent) unit of purchase, and 23% buy more than five equivalent units. Note that equivalent units are defined such that unit 1 is always available. However, consumers are not willing to spread the expenditure across different products. Across all trips with purchase, a consumer buys *one or two* products 97% of the time. This pattern agrees with the literature on soft drinks (Dubé 2004, Chan 2006).

In sharp contrast to the concentration of products within a trip, we find that the total number of products purchased in the entire sample duration is much higher. Focusing on households who we observe between 20 and 40 trips that involve yogurt purchases,[15] we find that, on average, a household purchases 1.2 distinct products per trip, while purchasing no less than 7.9 distinct products overall.[16] The large difference between these numbers suggests that a household does not focus on a narrow set of products in any given trip because of time-invariant preferences, which is in line with our theory where per-trip fixed costs will limit the amount of varieties in the short run. However, it could also be explained by variations of product characteristics such as price, feature, or availability.

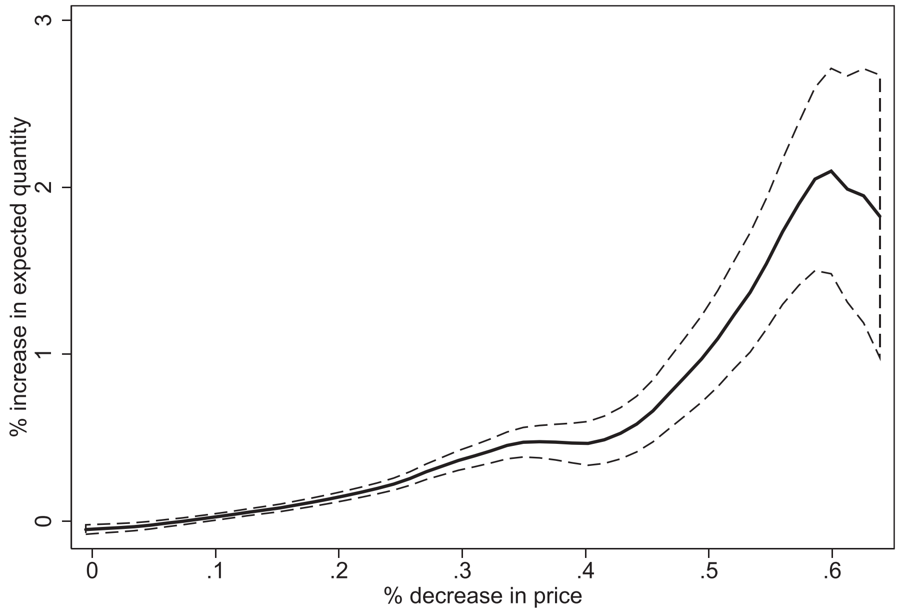
3.3. Aggregate Price Response Curves

In this section, we formalize that demand is more responsive to large discounts. With individual-level data, we first calculate the average purchase quantity, $\bar{q}_{ij}$, of an individual for a given product j (in a given store), when prices are within 15% of the regular price. We then compute the percentage change of demand in each given trip, $q_{ijt} - \bar{q}_{ij}/\bar{q}_{ij}$, and, likewise, percentage change in price from the regular price. We then adjust for year and month fixed effects for the relative quantity measure we constructed, and for price, and plot the two variables against each other.[17] Figure 3 presents local polynomial fit of such relations, pooled over all products and all occasions where the focal product is not on feature or display.

Because the axes represent percentage changes in quantity and price, the slope of the polynomial fit can be viewed as the point elasticity for a given price drop from the regular price, and the average slope of the figure can be viewed as average elasticity. We find that the unweighted average price elasticities is around −3.4, measured by the slope of a line cutting through (0.02, 0) and (0.6, 2). When we examine price elasticities conditional on discount depth, however, we find that the average price elasticity is −0.85 below 20% discount, −1.60 between 20% and 40% discount, and −8.02 between 40% and 60% discount. This comparison of elasticities shows that demand is “log-convex” in the sense that price elasticity can be increasing in the depth of discounts.

Figure 2 shows that the discounts offered by retailers are often “shallow.” In particular, given that the

Figure 3. Convex Response to Discount



Notes. This figure shows the observed relationship between price and quantity in the yogurt category. The horizontal axis shows discounts from the regular price (in US dollars). The vertical axis shows the corresponding average increase in purchase quantity compared with the average purchase quantity under regular prices. We construct the figure conditioning on the (lack of) provision of additional price information (i.e., no feature or display) and normalizing the changes in quantity relative to the average quantity within consumer-store-product. We further control for year and month fixed effects.

product is not on feature or display at all (which is the same condition generating Figure 3), we find that 84% of the discounts offered are below 20%,[18] that is, in the inelastic region of the individual price response curve. This finding suggests that the retailers in our sample might have considered the empirical consumer discount response when setting discounts.

It is also useful to highlight that such increasing elasticity patterns are not shared with typical demand system such as log–log or multinomial logit. A log–log regression implies constant elasticity or a linear relationship in Figure 3. A multinomial logit model on product (but not quantity) choice implies that elasticity is $-\alpha \cdot price \cdot (1 - share)$, where $-\alpha$ is the price coefficient.[19] This means that logit elasticity is decreasing in market share, and the relationship in Figure 3 should be concave.[20]

4. Illustrative Model and Identification

4.1. Overview

Figure 3 shows that consumer demand is increasingly responsive to price discounts. In this section, we first construct an empirical model of endogenous consideration set formation that rationalizes this pattern. In our model, the consumer costlessly observes prices of a product, but needs to incur costs to "consider the purchase"—i.e., to acquire other information before the purchase decision. Because the consumer decides on quantity after consideration, such consideration costs are fixed to quantity. This makes consideration more likely at high discounts, because of the potential to purchase multiple units in such occasions. We numerically illustrate that such a model with endogenously determined consideration sets after observing prices can accommodate the convex demand function, similar to Figure 3.

Next, we provide a testable implication from the model: A consumer would rather not consider at all than considering the product and buying a very small quantity. This is because a small purchase quantity does not generate sufficient utility to justify the consideration cost. We test this hypothesis by reporting the purchase quantity distribution at each consumer's maximum accepted price, and find that the purchase quantity has a median of four units when the choice of one unit is feasible. In addition, in Online Appendix C, we numerically illustrate that with large fixed costs, the purchase probability (incidence) will drop to zero at high prices, but the average quantity given purchase remains high. We also empirically find that, controlling for full consumer heterogeneity, individual consumer demand shows the same discrepancy between incidence and quantity.

Then, we show that the model can be identified when the only source of variation is price. The intuition is that incidence and quantity respond differently to price changes, and the response pattern resembles a model with fixed costs. We run Monte Carlo simulations to show that parameters are very precisely estimated when we use the correct parametric model. When we do not know the correct consumption utility functional form (but instead approximate it by finite order polynomial), we show that key parameters including fixed costs can be estimated precisely. This suggests that consideration costs can be identified from price variation alone.

4.2. An Illustrative Model: Setup

In this section, we present a simplified model that characterizes the purchase decisions of a given product for a representative consumer. We simplify the model in order to illustrate key testable implications of it, as well as to show how parameters of the model are identified. We extend the model to incorporate multiple varieties in Section 5.

An individual i wishes to purchase at least one unit of yogurt and travels to the refrigerated product shelf in trip t. To convey the essence of our argument, it suffices to focus on the purchase decisions of a single product. The consumer first observes the unit price of the product and decides whether it is optimal for her to consider the product for purchase. From this, she discovers her match value to the product but incurs effort costs. Upon consideration, she can then choose what quantity to purchase, q_{it}, with the possibility of $q_{it} = 0$ symbolizing the choice of "other varieties" (the outside option).

The consumer solves the problem backward. Given consideration, we specify her indirect consumption utility as

$$c_{it}(p_t, q_{it}) = \beta \log(q_{it} + 1) - \alpha p_t q_{it} + \mu_{it}(q_{it}), \tag{1}$$

where $\beta \log(q_{it} + 1)$ captures that consumption utility is increasing in quantity and that marginal utility is decreasing, $-\alpha p_t q_{it}$ captures the disutility on expenditure, and $\mu_{it}(q_{it})$ captures other product characteristics or match value that are unobserved to the researcher, and unobserved to the consumer prior to consideration. For analytical simplicity, we model these match values as quantity-specific utility shocks that are type I extreme value with scale parameter σ_μ.

Match values $\mu_{it}(\cdot)$ are revealed through effort or costly consideration. For example, consideration might involve picking up a product and evaluating its caloric or dietary content. Alternatively, consideration might involve planning ahead on which days in the coming week to consume yogurt. Yet differently, it may involve comparison with substitute products or categories. The effort involved in consideration is a fixed cost $f + \Delta\varepsilon$, and the decision is rational in the sense that the consumer weighs the expected net consumption utility against this fixed cost. Specifically, the consumer observes prices and expects to receive total utility

$$u_{it} = \underbrace{\mathbb{E}\left[\max_{q \in Q}(c_{it}(p_t, q)) | p_t\right]}_{\text{option value from consideration}} - \underbrace{(f + \Delta\varepsilon_{it})}_{\text{fixed costs}}, \tag{2}$$

if she considers the product, or zero if she does not consider. Note that the expectation term integrates over potential information on μ—unobserved prior to consideration—therefore also the optimal consumption quantity.

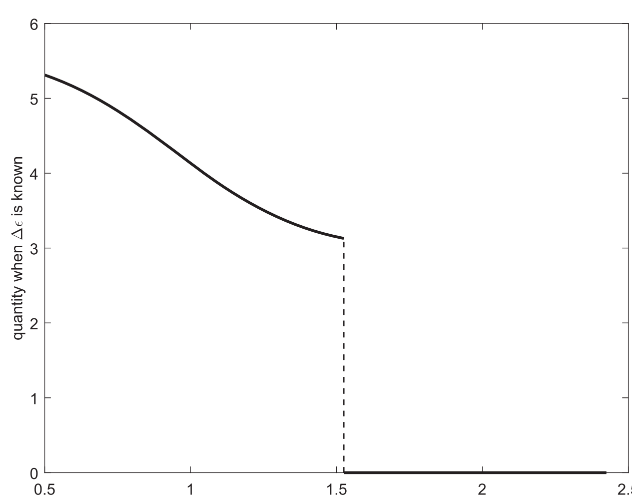
The consumer chooses to consider the product if she gets positive expected total utility—that is, $u_{it} > 0$. Given consideration, she chooses quantity that maximizes Equation (1).

4.3. Testable Implication: Quantity Jump at the Threshold Price

We present and test the key implication for our model. For a consumer with a given draw of fixed cost shocks, $\Delta\varepsilon_{it}$, consideration reduces to a threshold price rule in the sense that the consumer will consider with certainty when prices are below a threshold $\bar{p}$. This threshold price property eliminates small quantity demand, because the expected utility from consumption at high prices does not justify spending the fixed cost. Our model implies that the consumer's purchase quantity distribution at the maximum "accepted" price, as a proxy for the threshold price, will be bounded away from low values.

To numerically show this, we simulate optimal quantity choice from the model defined in Equations (1) and (2) at parameters $\beta = 3$, $\alpha = 1$, $f + \Delta\varepsilon_{it} = 4$, and $\sigma_\mu = 2$, and allow quantity choices to take values in $Q = \{0, 1, \ldots, 12\}$. We take 100,000 draws of μ_{it} and prices and plot the average purchase quantity conditional on price in Figure 4. The figure shows that there is a discrete jump in quantity at the threshold price because quantity demands at higher prices are

Figure 4. Quantity Jump at the Threshold Price



Notes. The solid curve illustrates the average purchase quantity at different prices, from simulation exercises where demand is implied by Equations (1) and (2). We take $\beta = 3$, $\alpha = 1$, $f + \Delta\varepsilon = 4$ and $\sigma_\mu = 2$. Choice set is discrete with $Q = \{0, 1, \ldots, 12\}$.

"suppressed"—as they do not generate high enough expected consumption utility to justify the consideration fixed costs. Therefore, if the researcher knows the threshold price $\bar{p}_t$ for each consumer-trip, she can then test for the presence of a consumer fixed cost f, by testing whether the quantity at a price *slightly* below $\bar{p}_t$—that is, the threshold quantity $\bar{q}_{it}$—is significantly larger than zero.

Taking this intuition to our data, we construct the threshold price $\bar{p}_{ij\tau}$ as the maximum accepted price—that is, the highest price at which we observe individual i making a purchase of product j within the given year τ. We do this by conditioning on observing at least five purchase occasions for a given product within the year, and we take the highest purchase price among the five or more occasions. We compute the threshold discount level by taking regular price minus the threshold price, in order to be able to compare across products having very different price levels. Thus, the threshold discount is the price discount that just makes a consumer buy. Next, we characterize the purchase quantity distributions for each individual and product, at different threshold values, given that the discount level is within 2.5 cents difference to the consumer's discount threshold, and that the individual purchases at the current discount level. Recall that quantity is measured in multiples of the minimum available package size. Therefore, a quantity of one is available by definition for each product in each trip.

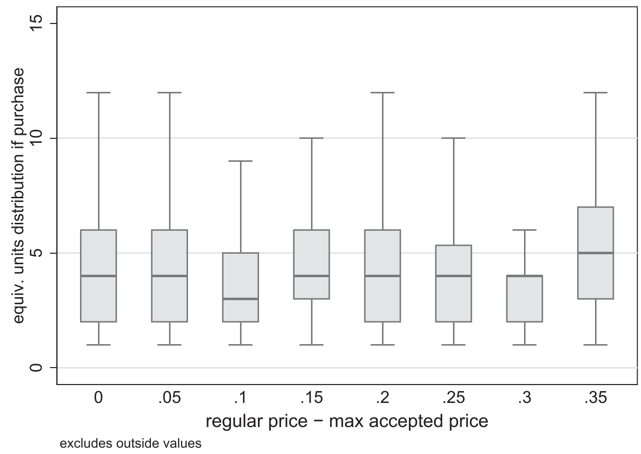
We plot the quantity distribution at the threshold discount across combinations of individuals and products with different discount thresholds, resulting in Figure 5. This figure shows that median purchase quantity at the discount threshold is three to five times the minimal available package size. The 25th percentile is two or three, and the 75th percentile is mostly five, six, or seven. This figure clearly documents the prevalence of quantity jumps at the discount thresholds. These jumps are consistent with a theory of (endogenous) costly consideration.

4.4. Identification

4.4.1. Intuition. Figure 4 shows that, when the fixed cost is deterministic, the researcher observes under which threshold price the consumer considers the product with probability one. Therefore, below the threshold price, consumption utility is identified by the distribution of purchase quantities as a function of prices. Furthermore, at the threshold price, consideration cost equates the total expected value from consumption. Therefore, the location of threshold price identifies the size of consideration cost.

When there are random components in the consideration costs ($\Delta\varepsilon$), these costs generate a gap between quantity given purchase and purchase probability. Specifically, when prices are high, purchase incidence is low, despite that quantity given purchase is high. In our simple model, the only element that explains this gap is a positive consideration cost f. A high f results in most consumers not thinking about the product when prices are high, therefore lowering the purchase probability considerably while not changing quantity at purchase.

Figure 5. Quantity Response to Price for the Marginal Consumer



Notes. On the horizontal axis, we plot the difference between regular price and the maximum accepted price of a consumer, for a given product-retailer-year. On the vertical axis, we plot quantiles in the purchase quantity distribution, given that the consumer purchases at prices that are within \$0.025 of the max accepted price. The grey box represents 25th and 75th percentile, the center bar represents the median, and the outer range represent 5th and 95th percentiles. Equiv., equivalent.

4.4.2. Monte Carlo Simulations. We run Monte Carlo simulations to confirm that we can uniquely pin down consumption utility parameters and fixed cost parameters separately (see the online appendix for details). We first simulate choices of quantity under different prices by a homogeneous set of individuals, under the same model and parameters that generate Figure 4. We find that all parameters can be estimated precisely and without bias, implying that consideration cost is identified by price variations being the only excluded variable from the fixed costs. That is, one does not have to resort to additional exclusion restrictions such as advertising.

We further confirm that our results are not driven by specific functional form assumptions, by estimating models with a more flexible utility function than our data-generating process. Our results confirm that one can reliably estimate model parameters when consumption utility functional form is unknown but approximated by a polynomial. These results are presented in the online appendix.

4.5. Alternative Explanations

4.5.1. Stockpiling. If the underlying product is storable, and if consumers are dynamic optimizers with correct beliefs about the arrival of discounts, their demand might follow a threshold rule such as the one in Figure 4.

We therefore test for stockpiling in our yogurt data. Specifically, we regress purchase incidence and quantity given purchase, either on time since last purchase or on the past two weeks of prices, controlling for current prices, individual fixed effects, and flexible specifications of time dummies. Consumers who take advantage of a price discount to stock up will purchase less in the near future; therefore, past prices should have positive effects on current sales if stockpiling is a concern. Similarly, consumers who stock up should purchase more in time elapsed since last purchase. We estimate linear specifications both at the category and the product levels, shown in Table 2 and the online appendix, respectively. Our results do not support stockpiling behavior.[21]

4.5.2. Unobserved Individual and Product Characteristics. In Figure 3, we measure the consumer response to price discounts by purchase quantity deviations from their means within consumer-store-product. This normalization absorbs, in a multiplicative way, time-invariant heterogeneity at the consumer-store-product level. One might in addition worry that the figure pools over consumers with different price sensitivities or products (or time periods) with different price elasticities. In the online appendix, we flexibly test the average price elasticities within the same retailer-product and within a set of similar consumers and find robust evidence for log-convex demand.

4.5.3. Seasonality. Another alternative explanation to Figure 3 is that demand and prices are both seasonal. If low prices are set in seasons with high price elasticity (e.g., if pricing is counter-cyclical, as in Nevo and Hatzitaskos 2006, Haviv 2015), we will see a log-convex relationship between quantity and price. Although we do control for seasonality in Figure 3, we further examine the presence of seasonality in demand level, price elasticity, and prices, presented in the online appendix. We find that although there are some seasonality in the demand level, price elasticity does not display seasonal changes. At the same time, there is no economically significant seasonal variation in prices. Thus, we conclude that Figure 3 cannot be generated from seasonality in our data.

4.5.4. Quantity Discounts. The final alternative explanation is associated with different promotion strategies across package sizes. If large packs are discounted heavily such that consumers mainly buy large packs and do so when they are on sale, one might find that some consumers buy much higher volume at slightly reduced average (across package size) prices. Whereas our structural model fully controls for this explanation through flexible functions of price on quantity, we

Table 2. Test for Consumer Stockpiling: Category Level

	Incidence	Incidence	logVolume	logVolume
Months since last purchase	−0.03***		−0.03***	
	(0.00)		(0.00)	
Squared	0.00***		0.00***	
	(0.00)		(0.00)	
log Price	−0.21***	−0.17***	−0.41***	−0.34***
	(0.01)	(0.02)	(0.02)	(0.04)
Past week		−0.02		0.03
		(0.02)		(0.04)
Past two weeks		0.01		0.01
		(0.02)		(0.04)
Years since 2001	0.05***	0.05***	0.02***	0.01
	(0.00)	(0.00)	(0.00)	(0.01)
Apr–Jun	−0.02***	−0.01*	−0.02***	0.02
	(0.00)	(0.01)	(0.00)	(0.01)
Jul–Sep	−0.03***	−0.02***	−0.01***	−0.01
	(0.00)	(0.01)	(0.00)	(0.01)
Oct–Dec	−0.03***	−0.02**	−0.04***	−0.04***
	(0.00)	(0.01)	(0.00)	(0.01)
Individual FE	Yes	Yes	Yes	Yes
Observations	152,631	26,361	126,312	22,087

Notes. Category-level evidence for stockpiling both in the extensive and intensive margin. Standard errors are reported beneath the parameter estimates. FE, fixed effects.
**p* < 0.1; ***p* < 0.05; ****p* < 0.01.

further examine the discount depth and frequency between small and large pack sizes. We find that smaller sizes are on discount more frequently and are discounted more heavily when so. They are also put on feature and display more frequently.[22] The differences between promotions across package sizes do not support the aforementioned alternative explanation to our descriptive evidence.

5. Structural Model and Implementation

5.1. Overview

We generalize the model in Section 4.2 to be able to (1) accommodate more products in the choice set, (2) allow for choice of multiple products at the same time, and (3) account for observed characteristics and demographics as covariates. This section provides details on parametrization of each part of the model, the solution to the consumer problem, and implementation in estimation.

Consumer i maximizes utility by choosing quantities, denoted $\mathbf{q}_{it} = (q_{i1t}, q_{i2t}, \ldots, q_{iJt})'$. To choose any product, the consumer has to first consider it, and we denote the (endogenous) consideration set as $K_{it} \subset J$. Not choosing any of the J products means buying from the outside option, which contains all other products in the yogurt category. Recall that because of the way we construct the sample, all individuals purchase some yogurt products in the trip.

In our empirical implementation, we limit dimensionality by restricting the total number of products in the consideration set to be at most two—that is, $||K|| \leq 2$. Recall from our data description that this still captures 97% of all trips with yogurt purchases. Limiting the consideration set size to two is therefore not far from reality in our context and greatly reduces computation burden.

5.2. Parameterization

5.2.1. Consumption Utility. We specify the (indirect) consumption utility as

$$c_{it}(\mathbf{q}_{it}, \mathbf{p}_t) = \sum_{j\in K_{it}} \mathbf{x}'_{ijt}\beta_i \log(q_{ijt}+1) + \gamma \prod_{j\in K_{it}} \log(q_{ijt}+1) + \alpha \sum_{j\in K_{it}} p_{jt}(q_{ijt}) \cdot q_{ijt} + \mu_{it}(q_{ikt}, q_{ilt}), \tag{3}$$

where the consumption subutility is specified in log and defined on discrete quantities $q_{ijt} \in \{0, 1, \ldots, \bar{q}\}$. The functional form of consumption utility is similar to Kim et al. (2002) and Dehmamy and Otter (2018). The log specification in quantity implies decreasing marginal utility and is consistent with love-for-variety preference. To make the model less restrictive, we allow for additional love for variety captured by γ multiplying interactions between (log) utility of different products. A positive γ means that love for variety is stronger than implied by the "sum of log quantity" specification, whereas a negative γ implies weaker love for variety preference—that is, a negative γ captures the degree of substitutability between products. Finally, as a matter of definition, when the choice set is singleton, one of the log-quantity terms becomes zero, effectively setting the interaction effect to zero.

$\mathbf{x}_{ijt}$ is a *vector* of indicators of product characteristics, individual characteristics, and time. Specifically, it contains a vector of four brand dummies, an indicator for the characteristic "light," household size, and a linear time trend. The product $\mathbf{x}'_{ijt}\beta_i$ captures the marginal utility for percentage increases in quantity. For example, Dannon Light has characteristics "Dannon" ($x_{j1} = 1$) and "light" ($x_{j5} = 1$), and therefore the marginal utility for log quantity is $(1, 0, 0, 0, 1, hhsize_i, t) \cdot (\beta_{i1}, \beta_{i2}, \beta_{i3}, \beta_{i4}, \beta_{i5}, \beta_6, \beta_7)' = \beta_{i1} + \beta_{i5} + \beta_6 \cdot hhsize_i + \beta_7 \cdot t$. Note that demographic and time coefficients are constant across households.

Prices affect decisions via the indirect utility function. We allow the per-product expenditure $p_{jt}(q_{ijt}) \cdot q_{ijt}$ to be nonlinear in quantity, to capture the potential quantity discounts that consumers could benefit from, by buying in large quantities. Recall, $p_{jt}(q_{ijt})$ is the *lowest* (across different quantity combinations) per-unit price one could get when choosing total quantity q_{ijt}. α is the price coefficient, held fixed across households.

The consumer also receives random consumption utility shocks, $\mu_{it}(q_{ikt}, q_{ilt})$, unobserved by the researcher, which capture taste shocks that favor, or oppose, purchasing a specific quantity combination of products k and l. We assume, for a particular combination of quantity (q_1, q_2), that $\mu_{it}(q_1, q_2)/\kappa$ is independent and identically distributed (i.i.d.) type-1 extreme value distributed, where κ is a scale coefficient. We make the i.i.d. assumption for model tractability: In presence of the computation burden in estimation, this simplifying assumption is crucial, as in this way we can explicitly solve for the inclusive value from quantity choice rather than resorting to simulation. Gentzkow (2007) uses a similar specification of utility shocks over combinations of newspapers.[23] With this assumption, one should interpret the μ's as shocks to match value, rather than unobserved product characteristics.[24] We also assume that μ_{it} is realized *after* the consumer forms consideration set K_{it}. One can interpret the fixed costs F_i, specified next, as the costs of drawing utility shocks.

5.2.2. Consideration Costs. The consumer also incurs a consideration cost, $F_{it}(K_{it})$, as a function of her consideration set. Denote M_{ijt} as the number of months since the consumer purchased j last time and A_{ijt} whether a product is on feature advertising. In addition, we denote $\mathbf{M}_{it}$ and $\mathbf{A}_{it}$ as the vector of M_{ijt} and A_{ijt} over all products, and we adopt the convention that

$M_{ijt} = \infty$ if the consumer has not purchased j prior to t. Now, we parametrize the fixed cost as

$$\begin{aligned} F_i(K_{it}, \mathbf{A}_{it}, \mathbf{M}_{it}) = \sum_{j \in K_{it}} [& f_{i0} + f_M \cdot \log(M_{ijt}+1)\,\mathbf{1}(M_{ijt} \neq \infty) \\ & + f_N \cdot \mathbf{1}(M_{ijt} = \infty) + f_A \cdot \mathbf{1}(A_{ijt} = 1)] \\ & + f_2 \cdot \mathbf{1}(|K_{it}| = 2) - \varepsilon_{iKt}, \end{aligned} \tag{4}$$

where f_{i0} denotes the baseline per-product consideration cost for individual i, which is common across products. f_M is the change in fixed cost in log months since purchase of the product, f_N is the additional fixed cost for consumers who never purchased the product before, f_A is the increase (negative means reduction) in fixed cost when the product is on feature, and f_2 is the additional total consideration cost when considering two products.

The consumer also incurs an unobserved (by the researcher) cost shock ε_{iKt}, specific to set $K = K_{it}$, which are independent type-1 extreme value random variables, across individual, trip, and all potential sets $K \subset J$. In addition, for tractability, ε_{iKt}'s values are independent of $\mu_{it}(q_{ikt}, q_{ilt})$.

5.3. Solution of Optimal Choice Rules

5.3.1. Quantity Given Consideration Set. The consumer maximizes expected utility and solves the consumer problem backward. In the second stage, given that the consumer decides to consider products in set K_{it}, she reveals consumption utility shock $\mu_{it}(.)$ and chooses the quantity combination within K_{it} that maximizes utility in Equation (3). In other words, she chooses (q_{ikt}, q_{ilt}) given $K_{it} = \{k, l\}$ ($l = 0$ in case of a single-product consideration set). Note that fixed costs and the cost shocks are sunk and are irrelevant to the purchase decision once the consideration set K_{it} is fixed.

Given the type I extreme value assumption on μ, to the econometrician, quantity choice is multinomial logit on combinations of quantity. Denote $\bar{c}_{it}(q_{ikt}, q_{ilt}) = \sum_{j=k,l} \cdot(\mathbf{x}'_{ijt}\beta_i \cdot \log(q_{ijt}+1) - \alpha \cdot p_{jt}(q_{ijt}) \cdot \gamma \cdot \prod_{j=k,l} \log \cdot (q_{ijt}+1)$, choices over discrete quantity sets follow a multinomial logit probability

$$\Pr(q_{ijt}, q_{ikt} | K_{it}; \theta_i) = \frac{\exp(\bar{c}_{it}(q_{ikt}, q_{ilt})/\kappa)}{\sum_{(q'_k, q'_l) \in Q^2} \exp(\bar{c}_{it}(q'_k, q'_l)/\kappa)}, \tag{5}$$

where θ_i denotes all relevant parameters. Because the quantity support Q includes zero, the set Q^2 of possible quantity combinations includes buying *nothing* or buying from only one product.[25]

5.3.2. Choice of the Consideration Set. Consideration is costly, and the set K_{it} is a choice. On the one hand, the consumer spends effort considering products in a given set K_{it}, incurring cost $F_i(K_{it}, \mathbf{A}_{it}, \mathbf{M}_{it})$ as defined in Equation (4). On the other hand, before considering the product and revealing μ_{it}, the consumer does not perfectly predict her optimal choice and evaluates the expected option value from a given consideration set in terms of the following "inclusive value" term, which is the expected maximum total utility from set K_{it}. Denote state $\mathbf{S}_{it} = (\mathbf{p}_t, \mathbf{A}_{it}, \mathbf{M}_{it})$ for notational simplicity. Combining the expected gain from consideration and the expected fixed cost, the net expected utility from considering a set K_{it} is:

$$\begin{aligned} \bar{v}_i(K_{it}, \mathbf{S}_{it}) + \varepsilon_{iKt} = {} & \mathbb{E}[\max_{\mathbf{q} \in Q^2}(c_{it}(\mathbf{p}_t, \mathbf{q})) | K_{it}, \mathbf{p}_t] \\ & - F_i(K_{it}, \mathbf{A}_{it}, \mathbf{M}_{it}), \end{aligned} \tag{6}$$

where $\mathbf{q}$ can have at most two positive elements because we restrict the size of consideration set K_{it}. Note that from the generalized extreme value assumption on μ, one can derive that

$$\begin{aligned} \bar{v}_i(K_{it}, \mathbf{S}_{it}) = {} & 0.577 + \kappa \cdot \log\left(\sum_{(q'_k, q'_l) \in Q^2} \exp\left(\frac{c_{it}(q'_k, q'_l)}{\kappa} \right) \right) \\ & - F_i(K_{it}, \mathbf{A}_{it}, \mathbf{M}_{it}), \end{aligned} \tag{7}$$

where 0.577 is the Euler constant. Then, given the type I extreme value cost shocks ε_{iKt}, we can express the probability of choosing a consideration set K_{it} as:

$$\Pr(K_{it} | \mathbf{S}_{it}; \theta_i) = \frac{\exp(\bar{v}_{it}(K_{it}, \mathbf{S}_{it}))}{\sum_{K' \in \mathcal{K}} \exp(\bar{v}_{it}(K', \mathbf{S}_{it}))}, \tag{8}$$

where $\mathcal{K}$ is the set of all possible consideration sets (up to the size limit of 2)—including $\emptyset$.

5.4. Construction of the Likelihood Function

5.4.1. Matching the Observed Choice Probability. We have characterized the choice probability of consideration set K, and the probability distribution of purchase quantities given K. In our data, we observe the choice probabilities for specific quantity combinations. We treat these as the empirical realizations of the following probabilities from our model:

$$\begin{aligned} \Pr(q_{ikt}, q_{ilt} | \mathbf{S}_{it}; \theta_i) = \sum_{K' \supset \{k,l\}} & \Pr(q_{ikt}, q_{ilt} | K', \mathbf{S}_{it}; \theta_i) \\ & \cdot \Pr(K' | \mathbf{S}_{it}; \theta_i). \end{aligned} \tag{9}$$

5.4.2. Likelihood with Random Coefficients. Given that each time series of choices by one individual is generated under each individual's independent realization of random coefficients, we can write the likelihood across the individual trips as

$$\mathcal{L}(\theta) = \prod_i \left(\int_{\theta_i} \left(\prod_t \Pr(q_{ikt}, q_{ilt} | \mathbf{S}_{it}; \theta_i) \right) dG(\theta_i; \theta) \right), \tag{10}$$

where (q_{ikt}, q_{ilt}) are observed quantities. The solver then minimizes $-\log(\mathcal{L}(\theta))$ with respect to parameter θ.

5.4.3. Simulated Maximum Likelihood. Whereas the choice probabilities at the individual level exist in closed form and are exact, the integral over θ_i is not analytical and needs to be approximated by simulation. To implement the simulated maximum likelihood method, we first take D draws of random coefficients *shocks* on β_i and f_{i0}, denoted $\hat{\beta}_d$ and $\hat{f}_{d0}$ for draw d. Each dimension of the random coefficients is first independently drawn from standard normal distribution $\mathcal{N}(0,1)$ and then adjusted in scale and location by model parameters. For example, the d^{th} draw of fixed cost parameter is $f_{d0} = \bar{f}_0 + \sigma_f \cdot \hat{f}_{d0}$, where $\bar{f}_0$ and σ_f are mean and standard deviation of the coefficient. We restrict the interaction term coefficient γ and price coefficient λ to be homogeneous across individuals.

We then maximize the likelihood function with respect to the parameters—that is, the mean and standard deviation of random coefficients—taking the draws as given. For a given parameter value, the empirical counterpart of the likelihood function is given by

$$\hat{\mathcal{L}}(\theta) = \prod_{i=1}^{N} \left(\frac{1}{D} \sum_{d=1}^{D} \left(\prod_{t} \Pr(q_{ikt}, q_{ilt} | \mathbf{S}_{it}; \theta_d) \right) \right). \tag{11}$$

5.5. Other Details

5.5.1. Construction of the Subsample. To restrict computation burden at a reasonable level, we implement the structural model on a random subsample of 5% of individuals in the data (422 households),[26] over all their in-sample trips. Because of dimensionality concerns, we focus on the 10 products that generate the highest overall sales (which consist of 56.2% of the total in-sample sales volume) and treat the rest as outside options. The set of products, with their respective share of sales volume, are listed in Table 1. Finally, as previously indicated, we only characterize consideration sets of sizes zero, one, or two.

5.5.2. Construction of the Quantity Set. We measure purchase quantity by volume in pints, so that consumption utility can be compared across products with different package sizes. Because the set of quantity available is not continuous, we define choice set to be multiples of the minimum package size, q_j^{min}—which is specific to the product but constant across trips. In the data, large-quantity choices are scarce, but they should be allowed in the model. To balance computational burden and a realistic range of quantities, we discretize large-quantity choices to coarse grids, so that the set of quantity one can choose from is $Q_j = q_j^{min} \cdot \{0, 1, 2, 3, 5, 8, 12\}$, where we bundle choices of 4–6 units into quantity 5, 7–9 into quantity 8, and 9–20 units into quantity 12.[27]

5.5.3. Product, Household, and Time Characteristics. Given the choice of product set, we choose to focus on four characteristics—three brand indicators (Dannon, Yoplait, and Colombo), an "other brand" indicator,[28] and the indicator for characteristics "light." We conjecture that demand for quantity depends on how many members consume yogurt within a household. Therefore, we include household size as a key predictor of the marginal consumption utility. We also include a (linear) time trend into the utility function. Given the mixed evidence for seasonality in demand, we do not add seasonality in the consumption utility.

5.5.4. Distribution of Number of Products and Purchase Quantity. We find that the distribution of the number of products in the subsample closely represents that in the full sample. In particular, 0.95% of our subsample purchased more than two different products.[29] Allowing for three products in the consideration set will increase the number of alternatives (consideration set–quantity combinations) from 1,680 (10 single-product cases and 45 duo-product cases, each product allowing for 6 quantity levels) to 27,600 (adding 120 triple-product sets, each with 6^3 quantity combinations), and the 0.95% observations cannot justify the additional computation burden. As a side note, zero products indicates purchase of another yogurt not in the set of interest—so we condition on category purchase.

5.5.5. Choice-Based Sampling. We find that there are many observations with no purchase and few observations with two-product purchases.[30] However, the model structure demands rich information in quantity choice given purchase, in particular, multiple-product choice. Relatedly, the "no purchase" observations are not very informative of the consumption utility functional form. In light of this, we undersample these observations to gain computation speed and correct for the stratified sampling approach in the likelihood function, in the way proposed by Manski and Lerman (1977).

Specifically, within the 5% subsample, we draw 30% random sample among observations with no purchase (of inside goods) and 80% random sample among single-product purchase occasions; at the same time, we keep all observations with two-product choice sets. This reduces the sample size used in estimation from 6,816, to 4,472, saving approximately 1/3 of the original computation time.

6. Estimation Results

6.1. Consumption Utility Estimates

Table 3 reports all parameter estimates. The $\bar{\beta}'s$ capture the marginal consumption utility for log-transformed quantity, which depends on brand, light versus regular, household size, and a linear calendar time trend.

By defining random coefficients on product characteristics, we capture the within-consumer correlation in demand, so that, for example, consumers who like Yoplait products will have higher choice probabilities on both Yoplait Original and Yoplait Light. The mean brand coefficients suggest that, on average, consumers have a slightly higher marginal utility for Yoplait products or products from "other brands," than for Dannon and Colombo. The "light" coefficient is insignificantly different from zero: This means that low-calorie or organic products are approximately equally favored. Expansion of household size results in higher consumption utility. The effect is not statistically significant, plausibly due to lack of variation of household size within a household. The time trend estimate suggests a small negative trend in quantity demand.

Using the log-transforms of quantity restricts the curvature of consumption utility for a single product, which implies love-for-variety. In addition, parameter γ captures how purchase quantity of multiple products substitute one another, conditional on consideration. The magnitude of γ suggests that products are close substitutes.

6.2. Fixed Consideration or Purchasing Costs

$\bar{f}_0$ captures the baseline purchasing or consideration cost. Given the way we set up the cost structure in Equation (4), the baseline represents fixed costs for consumers who just purchased the same product in the previous week, when the product was not under feature, and when the consumer only considered one product. Using the estimates for the baseline (money metric) fixed cost, $\bar{f}_0/\lambda$, we find that the average fixed costs are \$0.81 for consumers who just bought the product in the past week. This magnitude is close to a quarter of the average per-trip expenditure on a single yogurt product.[31]

However, for a consumer who is less familiar with the product, the fixed costs to include the product in her consideration set are estimated to be much higher. For new consumers who never purchase a given product, the fixed cost is $(\bar{f}_0 + f_N)/\lambda$, or \$5.16.[32] This is more than six times the consideration cost for a regular consumer. For those who purchased a while ago, their fixed cost is in between the two extremes: For example, the fixed cost for consumers who have not purchased the product in a year is \$3.08 on average,[33] which is 280% higher than when the consumer's memory is fresh. Finally, putting the product on feature decreases consumer fixed costs by \$0.48, or 59% of the baseline fixed costs.[34] In addition, the second product to be considered incurs very small additional fixed cost, a form of scale economy when buying multiple products. Together, these findings suggest that variations in information—either from past experience or from retailer provision in the form of feature—reduce consumer fixed costs. In turn, these findings imply that a large part of the fixed costs estimated here are related to costly consideration or evaluation.

We also contrast the distribution of consideration and purchase set sizes. On average, 90% of consumers consider two products, 9% consider one, and almost no consumer does not consider any product. In contrast, 30% of consumers purchase two products, 59% purchase one, and 11% does not make a purchase.

It should be emphasized that these results are produced under the restriction that consideration set sizes do not exceed two.[35] With this constraint, consideration of two products incurs additional opportunity costs because it precludes consideration of other products. Therefore, our estimates of consideration or purchasing fixed costs are conservative estimates.

Table 3. Parameter Estimates

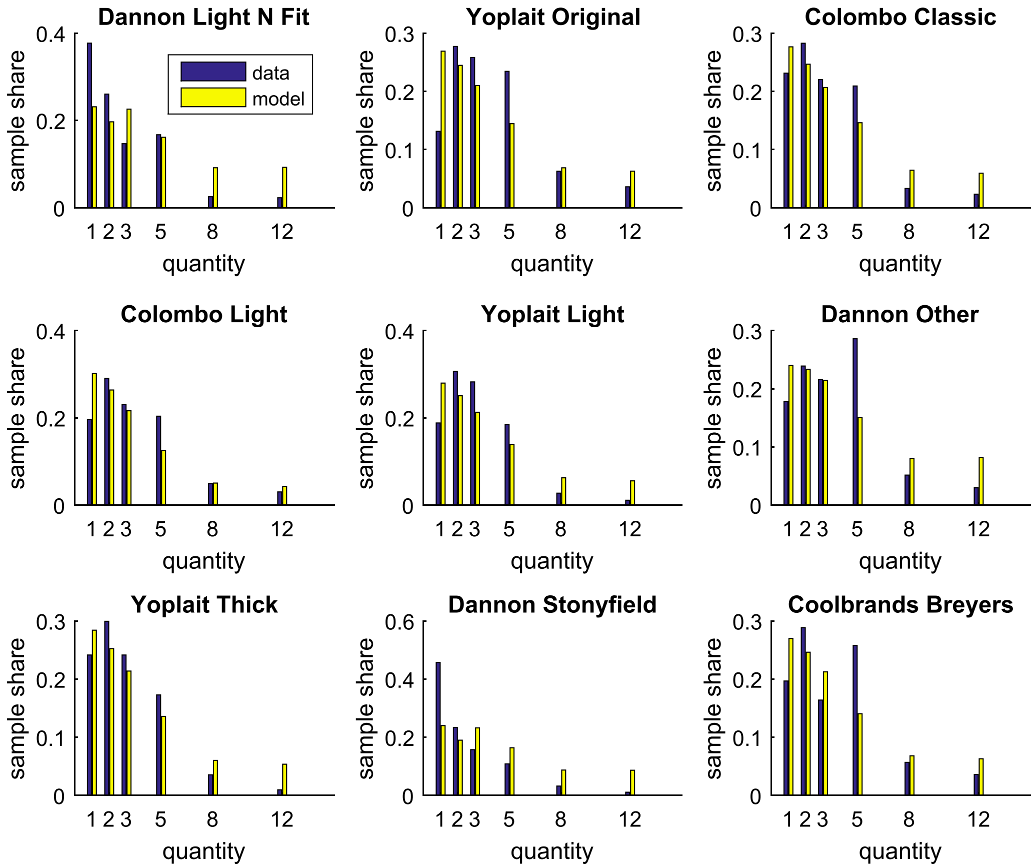
	Parameter estimate	Standard error
Utility coef. for Dannon ($\bar{\beta}_1$)	4.61	0.38
Utility coef. for Yoplait ($\bar{\beta}_2$)	4.85	0.39
Utility coef. for Colombo ($\bar{\beta}_3$)	4.84	0.39
Utility coef. for Other Manufacturers ($\bar{\beta}_4$)	3.59	0.38
Utility coef. for Light ($\bar{\beta}_5$)	−0.09	0.13
Utility coef. for household size ($\bar{\beta}_6$)	0.10	0.07
Utility coef. for (100×)weeks ($\bar{\beta}_7$)	−0.01	0.00
Interaction term in utility (γ)	−4.66	0.55
Price coef. (α)	−1.76	0.12
Baseline consideration cost ($\bar{f}_0$)	1.43	0.35
Changes in consid. cost under feature (f_A)	−0.84	0.19
Changes in consid. cost in log(months-since-purchased + 1) (f_M)	0.56	0.05
Changes in consid. cost if never purchased (f_N)	7.65	0.24
Changes in consid. cost for two products (f_2)	−1.22	0.46
Scale of utility shock (κ)	2.01	0.16
Standard deviation of brand coef. ($\sigma_{\beta,1}$)	1.02	0.08
Standard deviation of characteristics coef. ($\sigma_{\beta,5}$)	0.12	0.26
Standard deviation of mean consid. cost (σ_f)	1.40	0.11

Notes. Estimates for all parameters. Quantities are measured in pints. Standard errors are asymptotic (numerical). Coef., coefficient; consid., consideration.

6.3. Model Fit

Figure 6 upper panel presents the fit of our model with respect to the empirical distribution of quantity given purchase.[36] The model fits the empirical purchase probabilities to within 1% for most products. Given purchase, the model-predicted quantity distributions resemble similar shapes to those of the data. However, there are spikes in the data distribution of purchase quantities that the model does not rationalize. A potential explanation is that our model contains a continuous consumption utility function, and any particular spike in our data (that breaks smoothness) can only be rationalized by a particular low unit price at that quantity.

Figure 6. (Color online) Model Fit: Purchase Probability and Quantity



Notes. The first set of graphs compares the model-predicted quantities conditional on purchase with empirical distribution of purchase quantity, for 9 of 10 products. Note that the quantity distribution is reweighted by quantity grid width; for example, the sample frequency of choosing quantity five is one-third of the frequency of choosing four, five, or six. The second set of graphs plots model-predicted average purchase quantity against average quantity in the data, conditional on price.

In the lower panel of Figure 6, we predict price response separately for each product, by calculating the average purchase quantity given price. We find that the model predicts the convex price response reasonably well.

6.4. Price Elasticities and Decomposition into Consideration and Choice

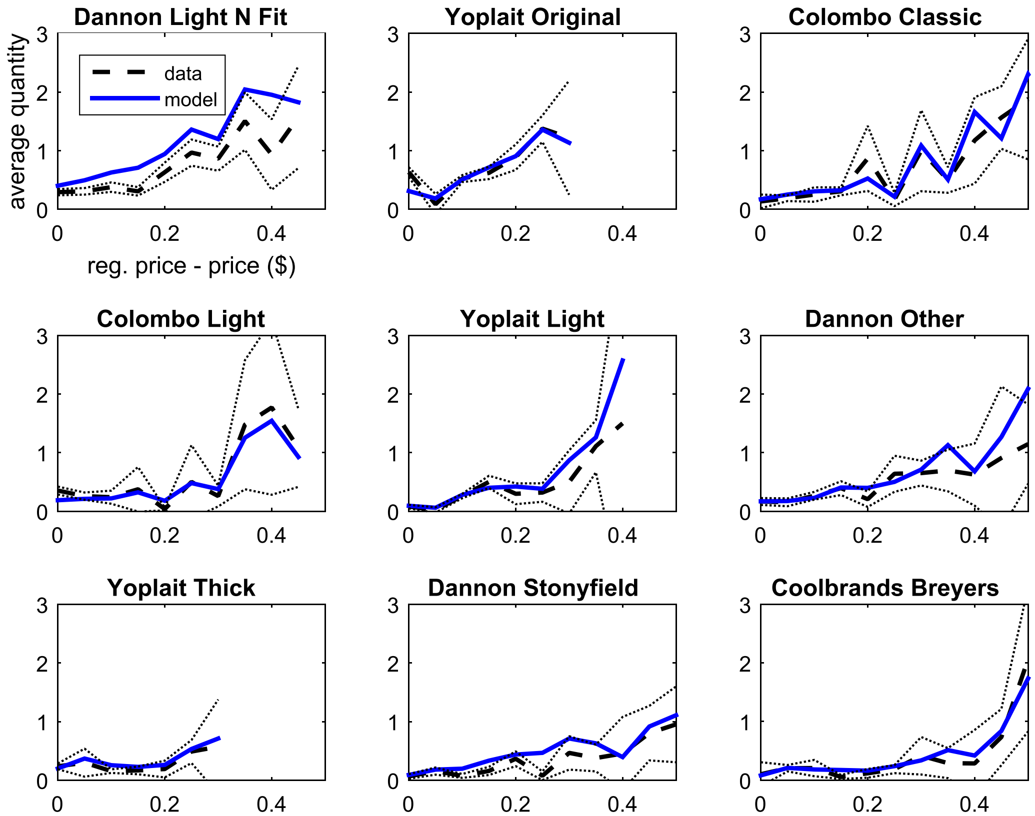
We next present the price elasticities implied by the model computed as arc-elasticities. That is, we reduce, one at a time, prices for each of the 10 products by 15% and compute the changes in choice shares. To integrate out heterogeneity, we compute quantity choices based on each of 20 draws in the random coefficient and then average them across draws.

We summarize price elasticities in the main text and present the full table in the online appendix. Own and cross-elasticities are conventional, and the magnitude is intuitive. For example, the own price elasticities across all products are in the range [–3.2,–2.2]. Under the assumption that retailers act as monopolists over shoppers in the store, these elasticities imply a sizable markup, of roughly 30%–50% for most products. These are consistent with the literature on yogurt. For example, Villas-Boas (2007) finds markups to be around 40% in most settings.[37]

Cross-elasticities show higher substitution for products that are closer in characteristics. For example, a change in price of Yoplait Original has (relatively) large impact on the market shares of Yoplait Thick and Yoplait Light, and vice versa. This is driven by the random coefficients interacted with product characteristics.

In Table 4, we decompose price elasticities into consideration incidence elasticity and quantity elasticity given consideration set. Specifically, for each product, we simulate the probability of which it falls into the consumer's consideration set and measure the elasticity of such incidence with respect to a 15% change of the own price. We also simulate purchase quantity conditional on each product falling into potential two-product consideration sets (weighted by the corresponding consideration probabilities) and use it to measure the elasticity of purchase quantity given consideration. We find that roughly a third of the total demand response to a price change can be attributed to consideration incidence, the rest to quantity choice given consideration.

Figure 6. (Continued)



This result offers a different view of incomplete information. Although costly information of price (e.g., Diamond 1971) will attenuate price response and soften competition, costly information of other product characteristics after the consumer knows price can intensify price response. In our setting, prices are incentives for a consumer to incorporate a product into the consideration set, and we show that removing such incentive (through complete removal of the extensive margin) reduces price elasticities by roughly a third.[38]

6.5. Semielasticity to Feature

We compute the differences in consumer purchase quantities while placing, in turn, each of the 10 products on and off feature, for all trips in the sample. The results show that having a product on feature increases sales by 25%–38%. Because the effect of feature goes through consideration costs, these results imply large consideration cost sensitivity.

7. The Role of Costly Consideration on Demand and Prices

7.1. Counterfactual: All Consideration Costs Changed by Feature

From our estimates, we find that feature reduces consideration costs by 0.84 in utility terms, or \$0.48 in monetary equivalence if weighted by the price coefficient. In this section, we switch feature for each product on and off simultaneously to study the impact of feature-driven consideration costs on consumer demand, price elasticities, and implied markups.

7.2. Impact of Consideration Costs on Demand

Comparing two worlds where all products are on and off feature at the same time, we separate the effect of feature on purchase incidence of a given product (extensive margin) and quantity choices conditional on purchase (intensive margin). We find that feature advertising increases the share of consumers buying two products and decreases the share of those buying zero or one, and as a result increases the total number of chosen products by 1.7%. This is a small effect compared with when there is only one product on feature (Section 6.5), showing that feature has strong business-stealing effects but small category-expansion effects on demand given category purchase.

7.3. Impact of Consideration Costs on Market Prices

In the classical search literature (e.g., Diamond 1971), limited information on price attenuates price response and increases equilibrium price. Differently, in our model, consideration sets are smaller when fixed costs

Table 4. Elasticities of Overall Quantity, Consideration Incidence, and Quantity Given Consideration

	Overall	Consideration	Quantity if consider
(A) Dannon Light N Fit	−2.38	−0.95	−1.40
(B) Yoplait Original	−2.77	−0.96	−1.60
(C) Colombo Classic	−2.94	−0.71	−1.12
(D) Colombo Light	−3.15	−0.81	−1.11
(E) Yoplait Light	−3.07	−1.09	−1.67
(F) Dannon Other	−2.62	−0.59	−1.60
(G) Yoplait Thick	−3.17	−1.07	−1.68
(H) Dannon Stonyfield	−2.67	−0.48	−1.58
(I) Wells Blue Bunny	−2.24	−0.18	−1.33
(J) Coolbrands Breyers	−2.69	−0.47	−1.51

Notes. The left column is own price elasticities of total demand. The middle column is consideration incidence elasticities measuring percentage changes in the probability that each product falls into the consideration set, to a change in price. The right column is elasticities measuring percentage quantity change conditional on consideration set membership, which is operationalized as quantity given a product is in each of the 10 possible two-product consideration sets, weighted by the probability that each of the 10 sets occur.

increase. Because consumers in our model use price information to make decisions about investing time considering the product for purchase, firms will intensify price competition to fight for costly (and thus scarce) consumer attention. Therefore, fixed consideration costs per variety or product lead to more intense competition for consideration set membership and put downward pressure on equilibrium prices. Conversely, lowering such costs (for example, by feature) will increase market prices. In this section, we study the impact of setting all products to feature on static equilibrium prices. Although it is unlikely in reality that all products feature at the same time, our counterfactual experiment can be considered as simulating an information shock that lowers consumer fixed cost by \$0.48.

We simulate the equilibrium markup, following Berry et al. (1995), under the assumption that a retailer acts as a monopolist when setting prices for each of the products it carries. Specifically, we consider the static pricing decision of each retailer r trying to maximize flow profit Π_{rt} at week t, from all the products in its assortment J_r:

$$\Pi_{rt} = \sum_{j\in J_r}(p_{jt} - mc_{jt}) \cdot sales_{jt}(\mathbf{S}_t), \tag{12}$$

where state $\mathbf{S}_t$ includes all prices and other observables.[39] Take first order conditions on Equation (12), and we have

$$\frac{\partial \Pi_{rt}}{\partial p_{jt}} = sales_{jt}(\mathbf{S}_t) + \sum_{k\in J_r}(p_{kt} - mc_{kt}) \cdot \frac{\partial sales_{kt}(\mathbf{S}_t)}{\partial p_{jt}} = 0. \tag{13}$$

The above can be rewritten in vector form over all products in a time period:

$$\mathbf{p}_t = \mathbf{mc}_t + \Delta^{-1}(\mathbf{S}_t) \cdot \mathbf{sales}_t(\mathbf{S}_t), \tag{14}$$

where $\Delta(\mathbf{S}_t)$ is the ownership matrix defined as

$$\Delta_{jk} = \begin{cases} -\dfrac{\partial sales_{kt}(\mathbf{S}_t)}{\partial p_{jt}} & \text{if } j \text{ and } k \text{ are sold by the same retailer} \\ 0 & \text{otherwise.} \end{cases} \tag{15}$$

We first simulate the impact of the counterfactual change in fixed costs on own-price elasticities for all products. These are presented in columns 1 and 3 in Table 5. We find that own-price elasticities are dampened in magnitude, by about 5%, when feature advertising lowers the fixed costs by \$0.48.

We also simulate equilibrium markup, across the two scenarios with different consideration costs. In line with our intuition and the elasticity calculations, it is not surprising to see that implied markup increases in a market with lower fixed costs—that is, when every product is on feature. Specifically, a \$0.48 decrease in fixed costs increases markup by 5%–9% depending on the product.

8. Concluding Remarks

In this paper, we quantify the consumer's time or mental cost of considering and selecting a product. These costs generate scale economies in consumers' quantity choices and encourage purchase of larger quantities instead of many varieties. They also explain the existence of a quantity threshold and, relatedly, why consumers are unresponsive to small price discounts.

With many observations at the individual consumer level, we demonstrate how the existence of quantity thresholds—under price discounts that are just enough to convert them to purchase—can be used to empirically disentangle consideration from preference. That is, without costly consideration, consumers would gradually reallocate their expenditure in response to gradual price changes, rather than switching in larger quantities from one product to another in a manner consistent with the presence of price thresholds. We demonstrate how one can test for the presence of these thresholds using standard marketing scanner data, without imposing a structural model.

We then estimate a two-stage structural demand model. In the first stage of this model, consumers select which products to consider for choice as the outcome of the trade-off between utility from variety and disutility from investments in decision effort. In the second stage, consumers make variety choices and subsequent quantity choices. Estimating this model using data from the yogurt

Table 5. Own-Price Elasticities and Implied Equilibrium Markup

	No feature: elasticity	Markup	All feature: elasticity	Markup	Percent diff
(A) Dannon Light N Fit	−2.39	0.55	−2.30	0.59	0.08
(B) Yoplait Original	−2.80	0.51	−2.67	0.55	0.09
(C) Colombo Classic	−2.98	0.41	−2.89	0.43	0.06
(D) Colombo Light	−3.23	0.36	−3.13	0.38	0.06
(E) Yoplait Light	−3.10	0.34	−2.99	0.36	0.08
(F) Dannon Other	−2.66	0.39	−2.60	0.41	0.05
(G) Yoplait Thick	−3.25	0.34	−3.12	0.37	0.08
(H) Dannon Stonyfield	−2.69	0.38	−2.59	0.41	0.06
(I) Wells Blue Bunny	−2.24	0.27	−2.16	0.29	0.05
(J) Coolbrands Breyers	−2.79	0.32	−2.71	0.34	0.06

Notes. The first two columns present own-price elasticity and implied markup—$\Delta^{-1}(\mathbf{S}_t)\cdot \mathbf{sales}_t(\mathbf{S}_t)$—setting all products *off* feature. The third and fourth columns present elasticity and markup setting everything *on* feature. The last column calculates percentage differences in markup, setting the on-feature markup as baseline. Diff, difference.

category, our results indicate that consumers have large consideration costs associated with purchasing a product. These costs are even larger if the consumer has not purchased the product for a long time, or ever. Our estimates suggest that inertia in product choice is partly due to informational frictions. Price discounts act as incentives to invest time into overcoming these frictions. We also quantify the role of feature advertising and past-purchase experience in this framework.

Our model is manageable with a small number of varieties, but is still computationally intensive. Future work may focus on developing computational methods to estimate larger versions of our model. A substantive limitation of our paper is that it models the supply side in a simple way. A richer supply-side model can formally address whether consumer fixed costs (and their discrete price response) can explain the way firms switch between regular price and deep discounts. We relegate this to future research.

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Endnotes

[1] This pattern can also explain why price discounts are infrequent but large (Blattberg et al. 1995). An analogy on advertising response threshold is discussed in detail by Dubé et al. (2005).

[2] We find similar patterns across the top four products as shown in Online Appendix Figure 11.

[3] In this paper, we view this terminology as interchangeable with costly evaluation or costly thinking.

[4] We condition on category purchase, and this likely rules out price search as well as travel costs within the store.

[5] Della Bitta and Monroe (1981) and Gupta and Cooper (1992) relate this phenomenon to reference point theories in psychology.

[6] Relatedly, Caplin and Dean (2015) propose a theory where agents rationally trade off information acquisition costs with probabilities of ex-post mistakes.

[7] Ranjan et al. (2016) use planogram data to identify consideration costs, but do not utilize variations in quantity.

[8] In earlier versions, we checked to make sure that our reduced form and structural results were robust when adding data from 2004 to 2007.

[9] In an earlier version, we also defined regular prices as max price in the last four weeks. We also distinguished between "temporary" price discounts, where prices drop in one week but revert back to their previous regular prices in the following weeks, and "permanent" ones which are associated with a long-lasting price change. We do not find results to be different.

[10] In earlier versions of the paper, we defined a "product" as a combination of item name and flavor and reported similar descriptive results.

[11] A total of 89% of nonzero quantity choices involve integer equivalent units.

[12] We use the argument in Seiler (2013) that such consumers can find price information easily, compared with the consumers who did not buy products in the yogurt section.

[13] Mostly from Dannon Light and Stonyfield. We adjust for availability of smaller sizes both in reduced form and structural analysis.

[14] The percentage of feature is calculated as a sales volume weighted average.

[15] This selects a subsample of between median and 75th percentile in the trip distribution.

[16] For a full distribution of within- and across-trip variety, see the online appendix.

[17] We regress each of the percentage changes of quantity and price against year and month dummies, for the part of the sample where the percentage decrease in price is between [0.02, 0.6]. We then take the residuals and adjust each by a constant so that Figure 3 goes through the origin.

[18] The standard definition of discount in the IRI data are that the discount is at or above 5%.

[19] Under the condition that utility is linear in price.

[20] Nevertheless, it is necessary to point out that the baseline logit model does not involve quantity choice. It is possible to generate log-convex demand patterns if the consumer can also choose product quantity.

[21] Columns 1 and 3 are similar to tests in Hendel and Nevo (2006), who find weak evidence for stockpiling in the yogurt category compared with laundry detergent and soft drinks. Our evidence is opposite to what a stockpiling model would predict, but suggests that consumers with stronger category preference buy more frequently. In earlier versions, we instrument interpurchase time by past preferences and did not find any effect on current purchase decisions either. Product-level evidence tells the same story.

[22] See Online Appendix Table 6 for detailed results.

[23] As in Gentzkow (2007), we model utility shocks as bundle-specific to allow for a flexible specification of substitution or complementarity in consumption. Our approach allows one to characterize choice probabilities directly instead of first-order conditions and therefore can be used to estimate fixed costs. An alternative approach to modeling quantity choices is Kim et al. (2002), who model marginal utility shocks as error terms to quantity choice. Although easier to interpret, estimation of their model relies on first-order conditions on the optimal quantity, which cannot be used to estimate fixed costs. In addition, their model is less flexible in capturing nonsmoothness in the quantity distributions in the data.

[24] In an earlier version, we controlled for product fixed effects both in $c_{it}(\cdot)$ and consumer fixed costs and obtained similar results to the ones reported below.

[25] For singleton consideration sets, the quantity support reduces to the one-dimension support Q.

[26] In earlier versions, we compared model estimates on this sample and on a sample with 10% households and found that they are essentially the same.

[27] In the likelihood, we compensate for the width of quantity grids; for example, the observed probability of the (continuous) quantity falling into $[4, 6)$ is three times the model probability of choosing (discrete) quantity five. In other words, our model treats the world as if there are only six possible quantity levels (plus zero quantity).

[28] That is, those top-10 products that are not produced by the aforementioned three brands.

[29] See the online appendix for details.

[30] See the online appendix for details.

[31] The mean (and median) expenditure given purchase is \$3.26 (and \$2.56) per product.

[32] The estimates in f_N suggest that consumers who never purchased the product have much higher fixed cost. However, this pattern might be explained by unobserved heterogeneity in the product tastes beyond the individual random effects. We do not rely on this causal interpretation in our counterfactual exercise.

[33] We arrive at this number by $(1.43 + 0.56 * \log(12 + 1))/1.76$.

[34] Our model excludes feature in the consumption utility because there is no clear economic mechanisms for feature to drive the intensive margin given consideration. In an alternative version, we allow feature to enter consumption utility as well as fixed cost. We confirm that feature in fact does not drive the intensive margin in a statistically significant way, and the rest of the parameter estimates are similar.

[35] Without such restriction, the computation burden makes the model intractable.

[36] Note that in the upper panel of Figure 6, the choice probabilities for large quantities—say, quantity 5—are computed as the average of choosing one quantity in its interval (say 4, or 5, or 6). In this way, it matches with the model predicted choice probabilities according to the choice set {1, 2, 3, 5, 8, 12} in the model.

[37] The consumer's own elasticity estimates are larger and cross-elasticities are smaller. The difference might come from that she models choices on the product-flavor level while we focus on the product level.

[38] For the top five products, the elasticity in the extensive margin represents between 24% and 40% of the total elasticity.

[39] We compute sales quantity given observed states as the sum of expected choice probabilities, $sales_{jt}(\mathbf{S}_t) = \sum_i \Pr(q_{ikt}, q_{ilt} | \mathbf{S}_{it}; \theta_i)$.

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