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Irrelevant Marketing OR Consumer's Revealed Preference?

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Marketers regularly reach out to their consumer base through promotions, telling them what's happening at the store/firm, about the new products launched and generally keeping their brand top-of-mind in one way or another. With email and SMS communication getting cheaper by the day, there is a conundrum in the marketer's mind… the cost of NOT COMMUNICATING to a customer seems to be higher than the cost of communication. The net result – blanket carpet bombing to the entire base.

No secret then why, across categories, retention remains a concern area, lapsation rate is increasing and there are signs of high un-subscription.

The fundamentals of this problem may well be traced to the microeconomic theory of consumer behavior, especially **Paul Samuelson's "Consumer Revealed Preference Theory".**

Say, a consumer has exposure to a bundle of goods (X1,X2) and another bundle of goods (Y1, Y2). Prices are same for the two bundles (P1, P2). The consumer has a budget M.
So, P1X1+P2X2<= M and P1Y1+P2 Y2 <= M (i.e. both the bundles are affordable).
However, the consumer buys bundle (X1, X2). Thus, consumer clearly prefers (X1, X2) over (Y1, Y2).

Therefore, the above theorem states that the consumer always, through his purchase pattern reveals to the marketer his preference. What this implies is that the consumer expects that the marketer would quickly understand this preference and reach out to him with "relevant" communication after incorporating this additional\updated information that he has provided through his purchase behaviour.

It often happen that even after the consumer has "Strongly Revealed" his preference (Strong Axiom of Revealed Preference) in which he has shown many such instances of repeat purchase, the marketer still does not pay heed to his purchase behavior.

Three basic tenets underlying the "**Revealed Preference Theory**" which will be useful here:

1. The consumer has a preference set which is the "consideration set" from which he picks and chooses the items he wants to include in thebundle which satisfies his utility and also optimally meets his budget constraint.
2. All bundles formed with different combination of commodities giving the same utility to the consumer lie on the same curve technically called indifference curve.
3. The consumer thus has the flexibility of substituting any commodity within his optimal bundle of choice with any other commodity from his universal choice set lying on the same indifference curve.

If the marketer of the firm reaches out to the consumer with irrelevant communication even after his repeated "strong preference revelation" the following sequence takes place in the consumer's behavior:

- The consumer throws the firm itself out of his preference set For e.g. if the consumer has been buying blue cotton formal shirts in the last 3 purchases from the store and he gets a communication two weeks later (which is a part of the mass campaign)asking him to buy a new floral print collection at store, the consumer gives up on giving any more 'purchase hints' and throws the store itself out of his selection set
- Obviously, in order to fulfill his utility or technically stay on his indifference curve he has to substitute this with a competitor's shirts
- This shift or substitution does not happen suddenly. The concept of "marginal rate of substitution" (MRS) works here. MRS is the no of units of X that the consumer is ready to give up to buy a single unit of Y in order to maintain the same utility curve.
- In the above example, as the marketer continues to send more and more irrelevant communication to the consumer, the consumer will be ready to give up more and more of the firm's product in order to buy more of competitor's product

So, what should the marketer do right to remain within the consumer's preference set, on his indifference curve and be a part of the optimal consumption bundle given his budget constraint:

1. Understand the consumer purchase pattern from the data and see what the consumer wants to be told about.
2. Avoid sending non-targeted, irrelevant generic campaigns unless for informational purpose only. And even that should be limited.
3. Recommend based on the consumer's revealed preference - similar items which the consumer might like.

Analytical techniques like Next Best Purchase, Recommender Engines, and Segmentation might be tools that the marketers have to adopt in order to win the "Consumer Preference".

The counter-argument to the "Revealed Preference" is however, that consumers tend to make irrational decisions which might not be in line with their rational thought process culminating in "impulsive buying" or "buying outside his preference set". But, as the market becomes mature (players in the market are all alluring the same consumer), its' consumers also get more and more rational in their choices and the consequent risk of irrelevant marketing would increase.

The era when mass marketing was popular, was a time when the consumer's preference set had few commodities to substitute with and the consumer's preference was limited, as he had to maintain himself on his utility curve. So, even if the communication was not in line with the "revealed preference", there was a default loyalty to the product.

With a plethora of options today, the era of irrelevant, non-targeted direct marketing is coming to an end.

The consumer now has a whole spectrum of items to choose from and substitute on the indifference curve. The more he is confident that the firm understands his choices, the more is the firm's chance of being selected over others.

So – Irrelevant Marketing or Consumer's Revealer Preference? The consumer has done his bit. It's finally the marketer's choice…