



**Copenhagen
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INSTITUT FOR AFSÆTNINGSØKONOMI

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Velkommen til den syvogtyvende udgave af 'Nyhedsbrevet om Forbrugeradfærd'. I dette nummer af Nyhedsbrevet bringes en spændende artikel af fhv. professor Christian Knudsen, som beskæftiger sig med the 'peak-end rule'. Det vises bl.a., hvorledes denne 'regel' kan bidrage til vores forståelse af, hvordan vi som forbrugere husker de indtryk, som vi udsættes for i kunderelationen.

Memory...

Ved siden af denne artikel indeholder dette nummer af nyhedsbrevet også en meget kedelig nyhed. Det er med stor tristhed, at vi i påsken modtog nyheden om, at vores kære kollega gennem mange år, lektor Marcus Schmidt, pludselig var gået bort. Vi bringer mindeord om Marcus Schmidt i begyndelsen af dette nyhedsbrev.

IN MEMORIAM



Lektor Marcus Schmidt

Af

*Redaktørgruppen – Nyhedsbrevet om Forbrugeradfærd
Instituttleder Adam Lindgreen*

Lektor Marcus Schmidt er pludselig død, og en højt skattet kollega er dermed taget fra os her på Institut for Afsætningsøkonomi. Marcus var en meget dedikeret forsker og lærer, som ikke mindst interesserede sig for anvendelsen af kvantitative metoder til undersøgelse af forbrugeradfærd. Marcus var i sin tid toneangivende i udbredelsen af 'conjoint' analysen i Danmark, og han talte ofte med dedikation i stemmen om professor Paul Green (ofte refereret til som grundlæggeren af 'conjoint' analysen), som han havde mødt i USA, og som ikke mindst havde vækket Marcus' interesse for teknikken.

I de senere år var Marcus' store interesse navnlig metoder til kvantificering af kvalitative data og strukturelle ligningsmodeller, som han meget gerne udvekslede erfaringer og synspunkter om med andre interesserede, ligesom han rundhåndet delte af sin store indsigt til kolleger og til studerende. Marcus bidrog med sine mange forskningspublikationer markant til at øge vor forståelse af disse områder, og han var herudover en fremragende forskningsformidler, hvilket blandt andet bogen Marketing Research - An International Approach (med Sven Hollensen) og hans mange og kvalificerede bidrag til aviser, radio og TV vidner om. Herudover bidrog Marcus både som medredaktør og som forfatter af adskillige gode artikler til vort Instituts formidlingspublikation Nyhedsbrevet om Forbrugeradfærd.

Marcus var meget efterspurgt som vejleder af studerende, der ønskede at nyde gavn af hans store og brede viden om ikke mindst kvantitative metoder. Mange studerende er gået ud i verden fra CBS med Marcus' gåde råd og vejledning om håndteringen af disse metoder i bagagen. I de senere år blomstrede Marcus ikke mindst som fagansvarlig for Instituttets undervisning i afsætningsøkonomi på HA-almen studiet på CBS. Han var her meget optaget af at sikre, at de studerende fik en så bred indsigt i faget som muligt, og han var altid til rådighed for

gode råd til de mange lærere, som gennem årene har undervist på faget. Marcus var meget respekteret af sine kolleger for sin store hjælpsomhed, hvilket blandt andet gav sig udslag i, at han flere gange blev valgt som tillidsmand for Instituttets adjunkter og lektorer, som han repræsenterede på bedste vis. Dette var en post, Marcus bestred frem til sin død. Marcus var ægte sønderjyde og var meget stolt af dette. Han berettede glad og gerne om sin opvækst i Løjt Kirkeby og om de mange gode minder, han havde med sig fra denne del af Kongeriget. Han viste stolt maleriet af den fædrene gård frem for de gæster, der var så heldige at nyde godt af hans kone Anettes og hans egen store gæstfrihed. Inden Marcus kom til CBS, var han i flere år ansat som lektor på SDU i Sønderborg. Marcus var levende interesseret i historie, og hans fremragende tyskkundskaber tillod ham at læse digre historiske værker på dette sprog – en gave, som han meget ofte benyttede sig af. Marcus var kendt og anerkendt i store dele af det politiske miljø i Danmark og nød den store tillid i mange år og helt frem til sin død at være medlem af Europa-Nævnet.

Marcus var meget glad for at være i selskab med venner, bekendte og kolleger og var - som det meget tænksomme menneske han også var - 'berømt' på den allermest positive måde for sine mange anekdoter og oplevelser fra sit virksomme liv. Men set fra vor side var Marcus først og fremmest en rigtig god kollega. Han vil blive savnet, og vore bedste tanker er hos Anette. Ære være hans minde.

Ikea and the Peak-End Rule: How to Secure that Last Impressions are Lasting Impressions

Af Christian Knudsen, fhv. professor, Institut for Afsætningsøkonomi

Introduction

Many of you have probably been shopping in IKEA in order to furnish a new home or making some home improvement project. You have probably also experienced that it hurts a lot when you have to pay the final bill for the furniture you have bought and now is on your way home to put them together. But just when you have left the cashier you cannot avoid being met at the exit of IKEA with some very low offers for hotdogs, coffee, sodas, ice creams, Swedish kanelbullar, etc. And after having enjoyed some of these ultra-cheap offers you may even go home in a much better mood and partly have forgotten some of the heavy losses you just encountered at the cashier. Your memory of IKEA as a reasonable cheap place to shop therefore seems to stick in your mind despite the heavy losses you just suffered. And after some time you may even be ready to return to IKEA for another shopping experience because you still consider IKEA as a reasonable cheap store for buying furniture.

This little story opens for a discussion of a much more general problem of how our general experiences of different brands are in fact formed in the minds of consumers. That is, we are interested in understanding what kind of experiences are in fact influencing how consumers think about brands and how loyal they will be to these in the future.

The anticipating, the experiencing and the remembering self

The IKEA way of influencing how consumers remember them is very difficult to understand if we view it from the perspective of the standard neoclassical theory of consumer behavior. An important reason for this is that this mainstream theory of consumer behavior builds upon the concept of utility and assumes that it is only the experienced pleasure and pain that the consumer will take into account when buying decisions are made. However, according to the Nobel Prize winning psychologist Daniel Kahneman (2011) this framework gives us a limited understanding of how decision makers such as consumers are actually making their choices. In his study of pleasure and pain, Kahneman (2000) suggests that we need to operate with a much broader framework that not only discuss how we experience utility (pleasure and pain) as in mainstream economic theory, but also how we anticipate utilities before we make choices and how we remember utilities after we have made our choices. As argued by Daniel Kahneman there is often major gaps between how a person anticipate pleasures and pains, how he or she experiences them and how these experienced pleasures and pains are later remembered. Kahneman suggests that we are in general very bad at predicting how we will experience pleasures and how we will later remember them. Just think of how your experiences of some of your holidays may differ from the anticipation of them as well as how your memory of your holiday may differ from your actual experience of it.

The difference between the anticipating self and the experiencing self has traditionally been studied within self-control models (and dual process theory) such as Shefrin & Thalers (1981) model of the consumer. In this model the consumer behavior is determined by an eternal fight between two different selves: the planner (the anticipating self) and the doers (the experiencing selves). The planner in the consumer is the self that formulates the long term plans for the individual. However, since the consumer also consists of a set of 'doers' that are only interested in their experiences here and now, the doers will not always follow the planner. That is, there will often be what economists call a 'dynamic inconsistency' between the planner and the doers (Laibson 1977), where the long term interests of the planner are in conflict with the short term interests of the doers. If the consumer also is what economists call a 'sophisticated agent' he or she will be aware of these inconsistencies and the planner may therefore try to set up different external commitment strategies that either will make the short term alternative non accessible to the doers (as in the case of Ulysses that let his men bind him to the mast so he could hear the song of the Sirens without jumping into the water and

being killed by smashing into the cliffs) or at least make it more expensive relative to the planner's long term alternative. As an alternative to using such external commitment arrangements the planner may also use different internal (personal) rules to bind the doers to choose the long term alternative by sheer will power.

However, in this article our focus will not be on the interaction between our anticipating and experiencing selves, but rather on the relationship between our experiencing selves and our remembering self. The experiencing self is the self that at each moment of time experiences either pleasures or pains on line, while the remembering self is the self that retroactively tries to remember an experience that has lasted for some time and build a coherent picture/story about these experiences. When an individual therefore tries to learn from the past in order to find out what to do in the future (as is the case of reinforcement learning) it will typically not come from the on line experiencing selves, but rather the remembering self that uses retrospective experiences. For instance, when you are to take a decision about whether to go on holiday where you were last year, you will probably not have any direct on line experiences, but have to rely on a global evaluation made after the event in your memory. But since such a global evaluation consists of a very condensed set of experiences, we may expect that the remembering self is exposed to a whole set of biases and that this may upset our learning-processes. For instance, strong emotional and very vivid experiences may be given too much weight in our remembering self and therefore bias our decisions.

In order to investigate how gaps between anticipation, experience and memory of pleasure and pain may differ over time Kahneman ran some highly interesting experiments in the 1980s at University of British Columbia and Berkeley University that may be of some interest for businesses more generally. In one set of experiments Kahneman let his subjects put their arms into buckets of cold water. The experiments differed in terms of how cold the water was and how long the subjects had their arms in the water. Asking the subjects after the experiments revealed interesting gaps. In most cases people's memory of pain was different from their experience of it. They had a clear memory of when the pain was at its worst (peak) and they had an even clearer memory of the moment when the pain was over. On the other hand most subjects had in general very little experience of how long the pain had been going on.

In one experiment people first had their arms in ice cold water for 3 minutes, but in the last minute the water was slightly warmed before they left the lab. In the second experiment people had their arms in the cold water in 3 minutes before leaving at the moment when the pain was at its worst. Most people clearly remembered experiment 1 much more positively than experiment 2 where they had to leave at the moment with maximum misery. And when asked which one of the two experiments they preferred they chose experiment 1. So it

seems that people are in fact ready to endure more pain as long as the experience ends more positively. It was this counter-intuitive prediction that what we best remember is when the pain peaks and how much pain we have at the end of the experiment, while we do not have any clear idea of how long the pain has lasted. This is what Kahneman called the peak-end rule.

Figure 1: The End and Peak Rule

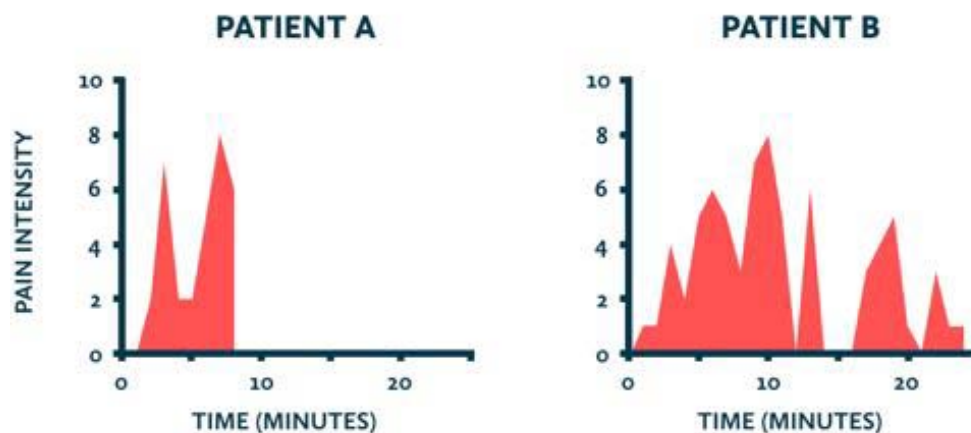
The End and Peak Rule:

1. The most extreme experiences (High or low pleasure or pain) have a disproportionate influence on peoples' retrospective evaluations.
2. The experiences at the End have a disproportionate influence on peoples retrospective evaluations.
3. The duration of pleasures and pain have no or only an insignificant effect on peoples retrospective evaluation.

In the late 1980s Kahneman got a chance to investigate this rule in a real world experiment. At that time colon cancer was killing almost 60.000 people in the US a year. Many of these persons could have survived if the cancer had been detected earlier. However, a lot of people felt at that time that their colonoscopy investigation was so painful that they never turned up for a second investigation. And this was one of the main reasons for the high death rate among colon cancer patients. Therefore, Kahneman in collaboration with the medical doctor Redelmeier wanted to investigate if it was possible to alter the patients' memory so that these cancer patients might forget how unpleasant their first colonoscopy experience was and that more patients would come for a second investigation.

In order to do so Kahneman and Redelmeier ran an experiment with more than 700 people. One group of patients, group A, had a colonoscopy that was very short, but with lots of pain intensity.

Figure 1: The two groups of patients in Kahnemans and Redelmeiers experiment



The other group of patients, group B, had a colonoscopy which was much longer, just as painful at its peak and involved overall much more pain intensity. But in comparison to patients in group A, the patients in group B had lower pain intensity at the end of the experiment. Just as predicted by the peak-end rule the patients in group B reported that they had a better experience than the patients in group A, since the average intensity at the peak was the same and lower at the end. Therefore the memory of the pain intensity of the colonoscopy in group B was lower than in group A, even if they suffered for a longer time.

So just by letting the colonoscopy go on for a little longer but with less pain intensity at the end, the patients in group B was more likely to return for another colonoscopy, even if the average pain intensity was higher in group B than in A.

Implications for management and marketing

What can we learn from these behavioral experiments that can be valuable for business in general and in marketing specifically? Let me try to answer this question by returning to the IKEA case from the introduction. As our IKEA case shows companies may sequence the pleasures and pains that the customers experience in such a way that they remember the pleasures and forget the pains. That is, by sequencing the pleasures and the pains customers receive, a company may in fact change the customers perception of the services by exploiting Kahneman's peak-end rule to influence how customers will remember their experiences and therefore how loyal they will be to the brand of the company. In particular, it is extremely important that a company at the end of a consumer experience tries to lower the pain intensity that a consumer may feel. When IKEA decided to start selling ultra-cheap sausages, ice-creams, kanelbullar, etc. after you had paid your bill at the cashier, it was a way to secure that you did end your experience with IKEA on a very positive note by storing a very positive image of the firm in your subconscious memory. Or as we

may say: “Last impression may be lasting impression” (Lewis, 2017, p. 236).

In the IKEA case it is rather unlikely that the founder of the firm, Ingvar Kamprad (IK), in fact was aware of Kahneman’s peak-end rule. It is much more likely that he as an extremely price-conscious person himself unconsciously knew how important last impressions were for consumers and how to build their loyalty to the firm and its brand. It is probably also one of the main reasons why IKEA is making sure that when the customers return home to assemble their furniture, they are able to find all the screws and parts necessary for the assembly. Nothing will probably be more damaging for IKEA’s brand if the consumer’s very last impression was very negative. It is the same bias in human perception that have got hotel chains to eliminate the need for their customers to stand in line at the time of checkout by getting all their payment information when they check-in. And in some airlines such as Cathay Pacific the stewards and stewardesses are learning all the names of the first class passengers in order to give them a personal greeting when leaving the aircraft.

But while last impressions are very important for how customers will remember your business and brand, Kahneman’s peak-end rule also tells you that consumers like the colonoscopy patients afterwards will have a rather vague memory of the length and pains of the whole shopping experience they have to go through. This implies that firms do not need to optimize on all dimensions in order to create positive customer experiences, but must build a strategy that lay out the sequence of the pleasures and pains in accordance with the peak-end rule in order to optimize the customers’ positive memory and minimize their negative memory. And this implies for instance that you may give the customers some pains or negative experiences when they are less likely to remember them. In the IKEA case customers feel pain when they are more or less ‘forced’ to go through a whole IKEA shop from one end to the other. However, since this experienced pain may not be remembered that well by the customers it may be a pain that may be quite acceptable in a marketing strategic plan.

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