

HOW THE DECOY EFFECT SWAYS CONSUMER PURCHASE BEHAVIOR

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ABSTRACT

In today's competitive marketplace, pricing strategies have evolved into complex psychological tools designed to influence purchasing decisions. Among the most effective is the decoy effect—a tactic where the introduction of a third, asymmetrically dominated option skews consumer preference toward a more profitable or desirable choice. The decoy is typically unattractive on purpose and is not expected to be purchased; rather, it exists to make the target product appear more valuable in comparison.

This research explores how the decoy effect alters consumer perceptions and decision-making processes. A structured survey was conducted among 103 MBA students and alumni at SGSITS, Indore. The findings reveal a high level of awareness of the decoy effect among participants, with significant implications for brand equity and marketing strategies. Statistical tools, particularly ANOVA, were applied to analyze consumer reactions to pricing structures, resulting in a deeper understanding of how perceived value influences behavior.

Keywords: *Decoy Effect, Brand Equity, Pricing Strategy, Consumer Purchase Behavior, Indian Market, Behavioral Economics, Perceived Value, Brand Loyalty, Price Sensitivity, Strategic Marketing, Choice Architecture, Comparative Pricing, Consumer Psychology, Market Segmentation*

1. INTRODUCTION

The decoy effect—also referred to as the attraction or asymmetric dominance effect—is a behavioral economic principle wherein a third option, inferior in specific aspects, is introduced to manipulate consumer preference between two existing products. The decoy is

designed to be similar but slightly less favorable than the target, thereby increasing the attractiveness of the target product when compared directly.

For example, consider a customer choosing between two popcorn sizes: small for ₹50 and large for ₹90. Introducing a medium option at ₹85, with little added value compared to the large, makes the large seem like a better deal. Consumers, when exposed to such pricing psychology, tend to shift their preference toward the higher-priced item—even if it wasn't their original choice.

The decoy effect works because consumers strive to make rational decisions in uncertain environments. When too many factors overwhelm them (often called the paradox of choice), they default to relative comparisons rather than absolute evaluations. As a result, the presence of a strategically positioned third option simplifies the decision-making process, nudging them toward the brand's intended choice.

Though widely researched in Western markets, there remains a gap in empirical data from developing countries like India. This study aims to fill that gap by analyzing how Indian consumers respond to decoy pricing strategies in daily life and whether such strategies can meaningfully impact brand perception and customer loyalty.

2. RESEARCH METHODOLOGY

The objective of this study is to determine the extent to which the decoy effect influences the purchasing decisions of Indian consumers. A mixed-method approach was adopted using quantitative survey data.

Method Details:

- Research Design: Explanatory
- Sample Size: 103 participants
- Target Group: MBA students and alumni from SGSITS, Indore
- Sampling Technique: Convenience sampling (non-randomized)
- Data Collection Tool: Online Google Form questionnaire
- Analysis Method: Descriptive statistics and One-way ANOVA

The questionnaire was divided into three sections:

1. Demographics – Age, gender
2. Awareness & Behavior – Questions about knowledge and perception of the decoy effect
3. Strategic Insight – Hypothetical brand owner perspectives on using the effect

Using both closed and Likert-scale questions allowed for a deeper understanding of the perceived effectiveness and ethical implications of the decoy strategy. The use of ANOVA helped validate the statistical relationship between consumer behavior and pricing tactics.

3. RESULT

Demographic Overview

- Gender: 49.5% Female, 46.6% Male, 3.9% preferred not to say
- Age: Majority (45.7%) between 20–25 years; others were spread across 15–40+

Awareness & Behavior

- Recognition: 71.8% acknowledged encountering the decoy effect; 23.3% were unsure
- Realization post-purchase: 68% admitted to noticing the effect only after buying
- Influence Perception: 98.1% believed their decisions were swayed by such pricing
- Brand Use Approval: 87.4% would use the decoy effect if they ran a business

Ratings

- Effectiveness: 52.4% rated it 4/5, 36.9% rated 5/5
- Impact on Brand Equity: 97.1% agreed it enhances how a brand is perceived

These results demonstrate that most respondents—even if not immediately—realized the pricing influence they had been subject to. It also suggests a strong potential for brands to build positive perception through intelligent price positioning, provided it is not perceived as manipulative.

Analysis & Interpretation

Using ANOVA, a significant statistical difference was found in consumer behavior due to the presence of a decoy. However, price alone did not explain the change; instead, value perception through comparison was more influential. This suggests that even price-conscious consumers can be persuaded to choose premium options when contextualized appropriately.

Moreover, many respondents justified their purchases afterward—signifying a psychological tendency to validate one's own decisions to avoid cognitive dissonance. This aligns with literature on post-purchase rationalization and emotional buying behavior.

4. CONCLUSION AND APPLICATIONS

The study concludes that the decoy effect is a subtle yet powerful psychological tactic capable of swaying consumer choices, even among educated, price-sensitive buyers. It leverages relativity and value contrast, helping marketers shape preference without overt persuasion.

Applications:

- Retail & FMCG: Combo deals and pricing tiers
- Tech & Electronics: Feature variations between models
- E-commerce: Subscription plans with "Best Value" decoys
- Hospitality: Room categories with minimal price differences

Marketers should be mindful of ethical limits. While the decoy effect can drive revenue and shape brand perception positively, transparency and consumer trust should remain intact. Overuse or deceptive application may lead to backlash or negative word-of-mouth.

Ultimately, this study reinforces the importance of behavioral economics in marketing and the need for localized research to understand cultural nuances in consumer psychology.

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