The Decoy Effect: A Deal or Deception? A Case Study of JioSaavn, iPhone 14 and Netflix India

Kashish Talwar

Master of Arts (Economics)

Abstract: ***When you buy a cup of coffee, you might have noticed that of the three size options – small, medium and large – the medium - sized serving often costs almost as much as the large. Given the apparent bargain, have you ever opted for the biggest and most expensive option? If yes, you have been deceived into believing that you have made a smart decision. The decoy is a cognitive bias strategy opted by the marketing analysts to feed on the week decision making power of people. So, the actual result was that you ended up overspending even when you could have done with a small coffee. Alternatively, the cafe just sold the pricier product.***

Keywords: Marketing strategies, Decoy effect, Upselling, nudge, asymmetric dominance

1. Introduction

Upselling - Upselling is a sales strategy of the seller to lure the buyer to purchase a pricier version of the same product or buy add ons with the item purchased. It is a technique that sways the customer towards an expensive offer or premium good and satisfies the producers aim of increasing profits and average sales. It is particularly useful for FMGC companies who can target existing customers and create brand loyalty by offering discounts and incentives.

With upselling, you do not sell lateral items to the consumer, rather simply make the existing product worthier by charging a higher price.


Compare Echo devices

	Echo Flex	Echo Dot	Echo	Echo Plus	Echo Studio
Price	From: $24.99	From: $39.99	From: $99.99	From: $149.99	From: $199.99
Ratings	(7,854)	(336,354)	(28,017)	(12,969)	(3,836)
Alexa built in	✓	✓	✓	✓	✓
Speakers	0.6" mini speaker	1.6" speaker	0.8" tweeter and 3" woofer	0.8" tweeter and 3" woofer	1" tweeter, three 2" mid-range speakers, and 5.25" woofer
Line in/out	3.5 mm line out	3.5 mm line out	3.5 mm line in/out	3.5 mm line in/out	3.5 mm or mini-optical Toslink line in
Dolby technology			Dolby audio	Dolby audio	Dolby Atmos
Built-in Zigbee smart home hub				✓	✓
LED clock display		Featured on Echo Dot with clock			

Cross selling – Crossselling means encouraging the buyer to purchase something in conjunction with the primary item. The strategy is to focus on the additional, complementary goods that the consumer would have otherwise also purchased. For example, Lenskart may offer to sell the lens for Rs 1500 and the lens cleaner for Rs 799 individually. But an offer of both sold together would be priced at Rs 1899. This way the average sale of lens cleaner will increase. If the offer was not valid, the customer would have purchased a cheaper lens cleaner elsewhere.

Cross - selling is prevalent in every type of commerce, including banks and insurance agencies. Credit cards are cross - sold to people registering a savings account, while life insurance is commonly suggested to customers buying car coverage.

Difference between Upselling and Cross selling - The terms are often used interchangeably, but the approaches for them are different. A classic example of MCDONALD'S burger can be taken.

Upselling the burger would include adding toppings or cheese at a higher price.

Cross selling the burger can include offers of Meals with fries or cold drinks at an increased price.

Advantages of Upselling and Cross selling – A successful strategy of Upselling or cross selling can boost the overall revenue of the firm. Delivering services that are in accordance with the customers needs can cause higher customer satisfaction. Knowing that they were given the best deal, makes the consumers more receptive to the brand. **More importantly, it neutralises the emotional buying quotient of the customer by placing forth the logical deal argument for buying a pricier item very systematically in the picture.** However planning an upsell ineffectively can cause potential risks. Aggressive strategy can make buyers perceive a business as too salesy, and this may erode their trust in the brand. Also, promoting products or services beyond the customer's means or out of pocket can lead to frustration. This can feed into the decision - making process and make the customer abandon the buying process altogether.

The decoy effect - Also called the **attraction effect** or the asymmetric dominance effect, the decoy effect is a market strategy used by sellers to induce the consumers to switch to a choice that is more expensive and hence more profitable to the seller.
Consumers change their preference, when a new option is added to the range. The third option is thus called the decoy or "**asymmetric dominant**". The decoy option aims to make one of two previous options i. e. the more pricier one, slightly more attractive than the other. It becomes more dominant in terms of price, quality, quantity, extra features etc. The consumer is convinced that he has made a rational choice and nudged towards the target product. The effect was first explained by John Payne, Joel Huber and Christopher Puto in 1981.

The **target** is the choice a business wants you to make.

The **competitor** is the option competing with the target that you might want to make.

The **decoy** is the option the business adds to nudge you towards choosing the target.

How the decoy affects the decision -
Most of us function in environments that are not optimized for solid decision - making. We work with organizations of all kinds to identify sources of cognitive bias & develop tailored solutions. **The decoy effect can make us spend more money than we actually want to as per our need. It works in a way that steers the human brain to not think according to what it 'needs' but what is more advantageous among the available choices.** *Decoys are used widely in the fast moving consumer goods market of tea, coffee, cold drinks, namkeens etc. where attractive offers are put forth to lure the buyer towards an expensive item with a slightly premium deal. The aim of this is to increase the sale of items which because of health reasons would not have attracted much attention.*

The classic example of popcorn in the PVRs explains the cunning decoy strategy effectively. Two friends go to watch a movie in a theatre and plan on buying a popcorn box.

The small box costs Rs 325. A medium is for Rs 590. A large popcorn with one small cold drink costs Rs 790. The consumer is made to think in this way - the difference between a small and medium is 265 bucks, and between a medium and large is 200 bucks with a cold drink as well. A rationally thinking consumer would go for the larger box.

Here, the medium popcorn works as a decoy, nudging more buyers towards the target large popcorn as against the small one. This way the sellers aim of maximising profit is achieved. In the absence of the medium box however, more people would have chosen the small box than the large one.

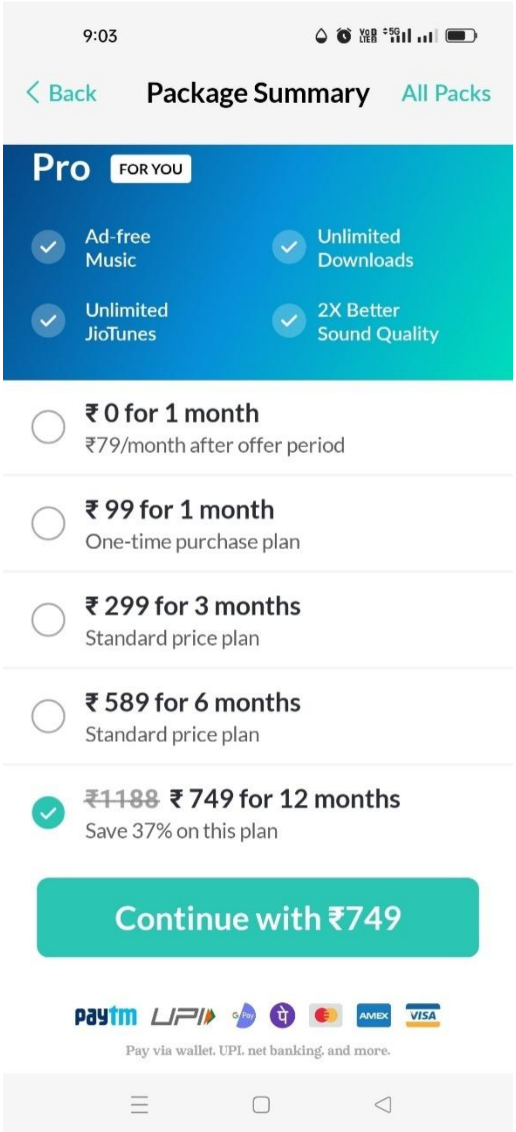
This example rightly explains the decoy effect and cross selling strategy of the marketer. In reality **the consumer ends up being deceived into buying more than his need thinking he made a more profitable decision or a smarter choice. In the moment, it feels like a good deal, but eventually it is not. Overtime, getting steered to buying more hits up the finances.**
Dan Ariely, Professor of psychology and behavioral economics at Duke University has explained this pricing strategy by *The Economist.*

Decoy is also seen in medical checkups. A CBC test costs Rs 150, thyroid test ranges from Rs80 - 550. And a health checkup package costs Rs 899 in a pathology offering CBC, TSH, T3, T4, lipid profile and others. Naturally the patient would be tempted to buying the package which includes more services at a slightly higher price.

Decoy strategy is also used in digital subscriptions.

Case study of JioSaavn -

JioSaavn is a well established music platform for music lovers. It offers a basic tier for free that gives access to songs online only with advertisements and no features for caller tunes. A **Pro** version of the app is a paid service for No ads, unlimited downloads, unlimited caller tunes and 2x better audio quality.



The subscription offers are as follows:
§299 for 3 months
§589 for 6 months
§749 for 12 months

As per the study, the most availed package was the annual package. Owing to factors like a regular user would not like to renew the package every 3 months. Also it would be costly as it will cost the subscriber §1200. Therefore, a once and for all subscription of §749 would be beneficial.

Case study of iPhone 14:

An example of the release of the iPhone 14. We assume that it is a no brainer that we will buy the Pro Max version if we can afford it. It is only §10k more than the Pro.

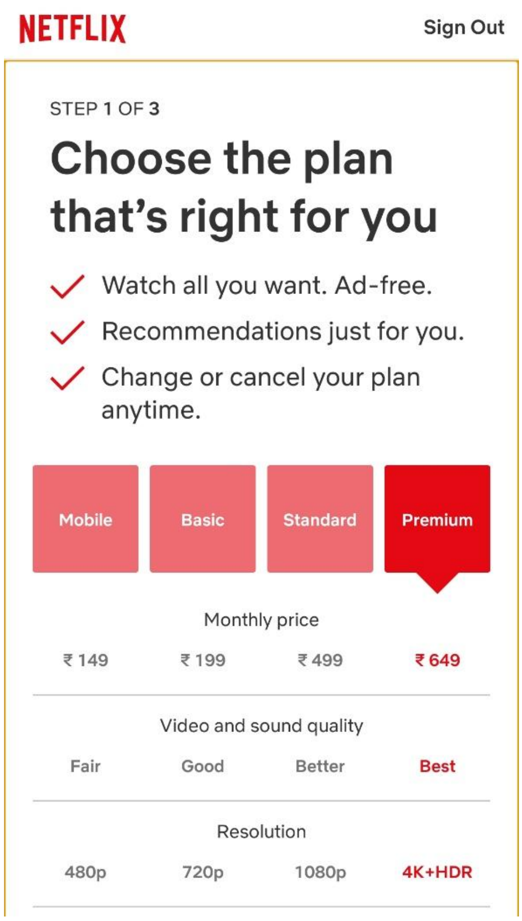
iPhone 14 Pro is the bait or the decoy. We use it as the center product of comparison. We use it for the Pro Max above it, and the Max below. Compared to it, the Pro Max seems like a bargain. And the reason we see this §10k extra cost as "reasonable" is only because of its §50k difference when we compare it down to the Max.

What it means is that this third option is partially inferior to the targeted option (in this case, the Pro Max), but superior to the competing option (the Max). This shows that the buyer who can afford an apple will go for a superior option due to the working of the Veblen effect and Demonstration effect. Clearly he chooses between Pro and Pro Max now. And among the 2 also, more people go for Pro Max. Hence the strategy works for Apple. inc.

Case study of Netflix India

The monthly subscription of Netflix costs Rs 199, Rs 499 and Rs 649 for a basic, standard and premium versions respectively considering the streaming quality.

The most availed is the best quality video streaming of Rs 649.



Manipulation works in the sense that the **consumer does not like to consume an inferior item.** Hence the low quality basic plan gets eliminated. Now the standard plan would be the best choice. But it has a twitch. It allows only one screen. The consumer could have done with the good quality screen quality in comparison to the best quality. But additional restrictions of one screen makes the plan slightly inferior to the Premium plan with 4 screens and best video quality. Hence the subscribers feel satisfied even after spending way more than they could have with the basic plan and Netflix sales surge.

Conclusion– The decoy strategy is a choice architecture that intervenes the subconscious to sway from certain alternatives towards certain others. The nudge does not force you to choose the target rather it leverages certain aspects of human behaviour as emotional buying or ego boost. We rely on excuses to justify our purchase without realising that we're being tricked. Also the psychological principle loss aversion or fear of missing out works for the sellers as people feel losses more than gains.

Decoy also capitalises on the *PARADOX OF CHOICE. With a wide range of options open for the consumers, uncertainty of preference poses a problem for them. Hence they prefer an option with the sound rationalle attached to it. They shift their frame to higher quality and price.*

To avoid the decoy strategy, one must make rational decisions and not intuitive ones. Planning your actual needs and sticking to them is a must to not overspend. And more importantly, be aware of sets of three.

For further studies –In certain cases the decoy strategy works in more than three options. Research and experiments can be done for testing the hypothesis.

References

[1] ZugaRoguska: Uncovering the power of decoy effect, February 2023
[2] Hendricks, K. (2018, December 7). The decoy effect: Why you make irrational choices every day (without even knowing it). Kent Hendricks.
[3] Robson, D. (2019, August 1). The trick that makes you overspend. BBC Worklife.