

Measuring the Consumer Loss Attributable to Untruthful Marketing Communication

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The Issue

Untruthful marketing communication may harm consumers who, believing the messages received from brand owners, buy those brands. The harm may be limited to the cost of the purchases they have made or it may be far greater if the brands in question cause physical or other harm.

Our concern here is with estimating the size of the monetary damage that can be attributed directly to untruthful communication. The emphasis is on the word “directly” because it is important not to penalize brands for the image or value benefits it delivers that are not affected by the untruthful communication.

We have chosen to deal with the specific situation when the practice is widespread in order to show the workings of the methodology in the most general case. Industries in which only one brand engages in untruthful communication are simple derivatives of the more general case.

The Scenario

Suppose many or all of the major brands in a product category put forth untruthful statements about the key performance characteristics that are associated with their brands. Further, assume that this practice has been going on for years so that by now consumer expectations are reflecting the cumulative effect of those marketing communications inputs creating a de facto standard of performance. Lacking access to disconfirming information, consumers act upon the only information they have.

What would change if consumers were presented with truthful statements? How might their behavior change? And looking at the market as a whole how is the distribution of market shares affected if consumers were provided instead with truthful statements of the brands' performance?

These questions can be answered with precision if they are submitted to empirical research of the kind that is commonly carried out in marketing research. The purpose of this paper is to present a design outline to guide such an undertaking.

The Proposed Design

Population Definition and Sampling Design

A random sample of category users is selected from an online panel. Respondents in the sample are randomly assigned to one of a number of cells. The number of cells is determined by the number of brands making untruthful statements in their marketing communication—one brand per cell.

Interviewing Protocol

Respondents in each cell are exposed serially to two Product Description Cards for a particular brand. The first card represents the current brand positioning, listing all the attributes currently used by the brand in its marketing communication to consumers. The second card repeats the attributes that are thought to be truthfully presented in the current marketing communication and the truthful version of the untruthful attributes used in brand communication. After presenting each card, respondents are asked to use an 11-point scale ranging from 0 to 10 to indicate their purchase likelihood.

The questionnaire includes two additional sections to help in the analysis of results. One section comprises a standard demographic battery; the other collects data regarding brand

awareness in the category, brands considered when making a purchase, user satisfaction with the brand currently used, etc.

Plan of Analysis

As indicated above, the key measurement is a Likelihood of Purchase (LP) Score ranging from 0 to 10 for each Product Description in each of the five cells.

Each cell produces two LPs as follows:

LP(a) -- the score associated with the Product Description representing the actual positioning of the brand.

LP(t) -- the score associated with the Product Description representing the modified, truthful positioning of the brand.

This procedure results in two scores per respondent. Summing over all the respondents in the specific cell yields an average score for the entire sample that has been exposed to the two versions of the same brand. These results are then submitted to a series of comparative tests.

Comparative Tests

The first test seeks to determine whether $LP(a) = LP(t)$. If there is no difference between the two scores, we conclude that the substitution of the untruthful information with the truthful information has no disconfirming effects on consumers and that we should not expect any changes in behavior resulting in market share adjustments.

If we find that $LP(a) \neq LP(t)$, we proceed to the next test to assess the magnitude of the disconfirmation. Let's assume that:

$$LP(a) = 7.2$$

$$LP(t) = 1.3$$

The magnitude of these two scores suggests that when presented with truthful information, consumers' likelihood to purchase the brand declines considerably (from a rating of 7.2 to a rating of 1.3). The difference between the two, $LP(d)$, is then:

$$LP(d) = LP(a) - LP(t) = 7.2 - 1.3 = 5.9$$

Finally, we need to translate this value into a Market Share Gain/Loss Index (GLI) to be able to assess the monetized value of the resulting disconfirmation. The absolute values, e.g., 7.2, 1.3 and 5.9, are of little help because gain or loss is always relative to the starting base, i.e., the current market share of the brand in question.

Incidentally, it is worth mentioning that disconfirmation need not result in an absolute market share wipeout, simply because brand performance promise is not the sole determinant of purchase. Other factors, including: image, price, convenience of purchase, habituation, etc., also play a role in why people choose a certain brand.

The most direct and the simplest method of relating disconfirmation to market share changes is by relating the absolute gain or loss to the actual share which, in this case, is represented by $LP(a)$. Thus:

$$GLI = \frac{LP(d)}{LP(a)}$$

In this particular example,

$$GLI = \frac{5.9}{7.2} = 0.82$$

This is interpreted as a loss of 82% of the market share of the brand in question that is due to the impact of disconfirmation. If, let's say, the current share is 24%, a loss of 82% of that share will reduce it to a share of 4.3%. When shares are converted to number of units sold and the average consumer price per unit is taken into account, the resulting figure is the monetized value of disconfirmation.

Summary

This paper treats untruthful marketing communication in the context of the disconfirmation paradigm¹ that is used in consumer research for dealing with expectations vs. actual performance issues. This foundation lets us develop a methodology for monetizing the effects of untruthful marketing communication that has face validity and intuitive appeal that is due to its simplicity. The proposed design takes fully into account all the forces impacting brand choice while isolating and focusing on the monetary value of performance attributes without disturbing the image and value components of the brand's total equity.

¹ <http://www3.babson.edu/Publications/JR/PastIssues/Volume81Issue1/The-Dimensional-Stability-of-the-Standards-Used-in-the-Disconfirmation-Paradigm.cfm>;
<http://www.istheory.yorku.ca/ect.htm>