

Designing policy to influence consumers

Briefing note 4: consumers and their cars

When designing policy to influence the way in which people choose new cars, it is important to consider the numerous factors that influence consumer choice at each stage of the purchasing process. A reliance on a view of consumers as purely rational may lead to ineffective policy.

For example, consumer choice can be strongly influenced by the way that information is provided in-store and online, and consumers rely heavily on the opinions and advice of other people. The cost of buying and running a car is large but future costs are not always well considered. People are also heavily motivated by emotional factors, and by what they think a new car says about their personality. Policy must take into account all of these different factors if it is to effectively influence consumer choice.

When designing policies that influence the purchasing of new cars, remember that consumers...

- **... fail to adequately consider future costs.** People do not weigh up immediate costs against long-term running costs. Measures that help consumers to meet any additional up-front costs of new fuel efficient vehicles, such as interest-free loans, can be effective at influencing consumer behaviour.
- **... in many countries are attracted to things that are 'free'.** A car that is tax-free, or free from some other up-front or long-term cost, will be much more attractive than an option with an extremely small rate of tax or cost. Removing the tax on vehicles with the lowest levels of CO₂ emissions will be more motivating to consumers than very low tax rates.
- **... rarely use all of the information available to them when shopping.** Consumers are more likely to read information when they perceive a benefit from them doing so. Rather than highlighting fuel efficiency, labels may be more effective if they translate this efficiency into costs or savings.
- **... dislike losses more than they like gains.** Highlighting the costs associated with fuel inefficient cars will have more of an impact on consumer behaviour than efforts that highlight the benefits of a fuel efficient car. Requiring consumers to pay a visible additional cost when purchasing cars with high fuel consumption is likely to be more influential than offering incentives for the purchasing of cars with low fuel consumption.
- **... have pre-informed judgements over-turned in car showrooms.** Consumers' judgements about price can be heavily influenced by in-store marketing or by other prices they might encounter while shopping. Work with retailers to encourage price promotions and other in-store marketing that promote environmentally-preferable vehicles.
- **... often accept the standard model.** Consumers often assume that the standard vehicle mode (for example, the model they get if they do not add any optional extra features) is preferable. Encouraging manufacturers of fuel efficient vehicles to make the most efficient vehicle the standard model will improve take-up rates. Similarly, in situations when both a hybrid and non-hybrid model of the same vehicle is available, the hybrid model should be described and sold as the standard.

Help consumers make more informed decisions by...

- **... reassuring them that new technologies are proven and reliable.** Consumers are often misinformed about or misunderstand new technologies, such as electric vehicles. One of the best ways of providing reassurance of their quality is by giving consumers a chance to test drive vehicles. Encouraging retailers to give their customers this opportunity is crucial in helping to overcome misplaced perceptions about the performance of new technologies.
- **... making the researching of vehicle purchasing easier.** People are increasingly using the Internet and consumer guides to research the purchasing of cars. Easy-to-understand price comparison sites that enable consumers to compare future and lifetime costs, or other ways of helping consumers compare product options, can highlight potential savings and encourage replacement. Consumers need to trust these sources. Policy has a role in validating the authenticity of these sources and working with independent providers of consumer information to improve the presentation of future costs to consumers.
- **... recognising the important role of intermediaries.** Intermediaries, such as sales people in car showrooms or mechanics, play a very influential role in car purchasing. Working with retailers and trade associations to ensure their staff and members are well-informed about the advantages of fuel efficient vehicles and new technologies will increase the chances of these messages reaching consumers.
- **... allowing them to change their mind.** Although sales representatives are known to be very persuasive, this can also lead some consumers to treat their recommendations with caution or to feel pressured into buying a product that they would not normally buy. These problems can be overcome through measures which allow consumers to change their mind about a car post-purchase. So called 'cooling-off' periods provide consumers with the opportunity to carefully consider the costs and benefits of a decision, away from the pressure of a sales environment.

Finally, remember that...

- **... people buy cars to make a statement about their personality.** While some consumers might want to be seen driving 'green' cars, others may not. Encourage manufacturers to design vehicles that appeal to a wide variety of consumer aspirations and to make environmentally preferable vehicles available in models that are both conspicuously and inconspicuously 'green'. Policy should also consider how the example set by government influences consumers' perceptions of vehicles. Set a good example through increased procurement of low carbon vehicles.
- **... all consumers are different.** Gender and income levels both impact on new vehicle choice, while the way in which consumers research their purchases will also vary; while some people carry out extensive information searches prior to shopping, others will decide in-store or rely on the advice of a sales person. No single policy intervention is likely to change the behaviour of all consumers. Instead, a mix of different policies will be the most effective way of influencing different consumers.
- **... policies should be informed by specific consumer research.** Make sure you know how consumers will react to different formats of your policy instrument. Consumers often make choices automatically, or with little thought. This means it can be difficult to correctly identify their reasons for purchasing a product. Policy needs to be based on research that explores vehicle purchasing in different contexts.



How do consumers think about different vehicle attributes?

- **Price and future costs.** For most people, cars are complex products bought on an infrequent basis. This makes it difficult to make a fully informed judgement about their price. This is particularly the case with new technologies, like hybrid technologies. To make decision-making easier, we tend to rely on mental ‘short cuts’ to help us. When judging the price of a car, an individual will not always consider the value they are getting for their money. They compare the price to the cost of their last car, or their neighbour’s car, or even a recommended retail price (RRP) that is advertised in-store. In addition, the presentation of information, including price, can have a major impact on how it is interpreted and acted upon. For example, we put a higher value on loss than we do gain, even if the loss and the gain are of the same amount. This means that consumers respond more to being told that a car with a big engine will cost them an extra €400 in tax, than they would respond to being told they would save €400 by buying a car with a smaller engine.

In many countries, though not all, consumers are also attracted to things that are ‘free’. If a product is ‘free’, or comes with ‘extras’ or features that are free, consumers will often find it more attractive than alternative choices. For example, a car that is tax free will be more attractive to consumers than a car in a very low tax bracket, even if the level of tax seems insignificantly low.

Finally, when faced with two similarly priced cars, consumers may also become heavily swayed by variations in vehicle features that are of little value to them. When we judge new products, we nearly always do so in relation to other, easily comparable products. Imagine a situation where a consumer has to choose between two similar cars of similar prices but which have engines of different sizes. In this instance, the promise of getting something bigger for the same amount of money may lead the consumer to favour the car with the bigger engine, regardless of differences in running costs. All of these things mean that, when it comes to actually buying a car, people can be swayed by special offers and in-store marketing.

The value people place on their cars may also vary over time, and may even increase the longer that they own the car for. The longer that someone has a car, the more emotional attachment they might have for it as they think fondly of the journeys that they have made in it. People who feel emotionally attached to their cars value them more than people who consider their vehicles solely as a mode of transport. This can impact on the price that they need to be paid to part with an old car, for example through a ‘trade-in’ scheme

- **Information and labelling.** Information provision is generally taken to be beneficial to consumers and to lead to more informed choices, but too much information can actually confuse consumers. In addition, consumers tend to only read information if they perceive some personal benefit from doing so. Information provision can be improved through greater consideration of all of the different points at which consumers receive information about a product. In the case of car purchasing, discussions with friends, family and acquaintances have a major influence on vehicle choice. We often consider our peers to be more trusted, independent and credible sources of information than retailers, manufacturers or government. Relying on recommendations reduces the effort required to make a decision.
- **‘Extras’ and choice.** When presented with the opportunity to add ‘extras’ to a vehicle (for example, an air bag), consumers are heavily influenced by the way in which the extra options are presented. For example, if individuals are presented with a ‘full model’ car (for example, a car with a full suite of ‘extras’) and provided the opportunity to remove attributes, they will end up with a car with more attributes than someone who is given the chance to add ‘extras’ to a basic model that does not have them. This is because consumers are more reluctant to suffer the ‘loss’ of the extra attributes than they are willing to pay for the benefits of them. Similarly, if consumers are faced with a choice between vehicles with features that are very difficult to compare, they are much more likely to just settle for the standard model.

- **Brand and design.** Cars say a great deal about the people who drive them. The main reason that consumers reported buying one leading hybrid vehicle was not because of fuel economy or low emissions but because they saw the car as making 'a statement about me'. In this instance, what was unique about the vehicle was that it was not available in a conventional (non-hybrid) version so the car made a clear statement that its driver was green and innovative. For manufacturers and retailers, marketing cars is as much about the values that people attach to their cars as it is about convincing them of the car's performance and quality. The important finding for policy is that the way in which people relate to cars on an emotional level plays a critical role in consumer decision-making. Similarly important is the influence of social norms and the way in which consumers believe it is normal to behave. When it comes to car purchasing, social influence – for example, the types of car your neighbours drive - is very powerful.
- **Technology and innovation.** The attractiveness of new technologies to consumers varies. For some people, being seen to be driving the most technologically advanced vehicle (regardless of whether or not it is fuel efficient or not) is a priority that will dominate decision-making. For others, new technologies are treated with uncertainty or generate negative connotations. In the case of electric cars, consumer judgements might be based on early prototype electric cars which performed poorly, leading to misinformed judgements about new technologies.

Vehicle replacement: choosing when to buy a new car

People are often reluctant to sell their old cars even if a new vehicle would be more cost-effective in the long-term. Although 'buy back' and 'trade-in' schemes are effective ways of encouraging less efficient vehicles to be taken out of use, they will only be effective if they take into account the different ways in which people value their cars. For example, if a consumer is emotionally attached to their old car, they will need more encouragement to trade it in than someone who is not emotionally attached to their old vehicle

Many consumers own a car even when the full costs of depreciation, parking, insurance and maintenance that accompany ownership actually outweigh the benefits. Efforts to encourage car-sharing and membership of car pools would benefit from increased information about the overall costs of car ownership and fixed monthly or annual car-pool membership fees.

Vehicle use: choosing where to drive

People are not good at taking into account the incremental or non-visible costs of car journeys, particularly depreciation and maintenance costs. Increasing the visibility of the costs associated with car journeys is one way of helping consumers consider these costs. Much of our travel takes the form of routine, daily journeys. The more often we make such journeys, the more likely they are to become habitual, which means we often make them without really thinking about it. This is problematic because it can lead people to choose to drive when alternative methods of transport might be more cost-effective or rewarding. Although it is very difficult to change travel habits, there are many ways in which people can be encouraged to change their car-use behaviour. For example, free bus passes or trial passes are good incentives to encourage people to try a new form of transport and have proven effective. Policy must recognise that all consumers are different and what influences one person may have no effect on another so a range of sustainable travel policies is the most effective way of influencing consumers.

The briefing provides a summary of evidence from behavioural economics and marketing relating to the purchasing of new vehicles. Full references for all of the evidence presented here can be found in the full project report 'Designing policy to influence consumers' from which a series of briefs has been produced, including an overview of consumer behaviour and product policy (Briefing note 1).