

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Consumers are always right (even when they are wrong)

Key elements of economic theory rest on the concept of the voluntary exchange that takes place between the buyer and the seller. And no concept is more rooted in the nature of that exchange than the concept of consumer sovereignty. This concept is often distilled in sales manuals which give the rules for successful selling:

- Rule number one, customers are always right (even when they are wrong).
- Rule number two, when in doubt, see rule number ONE!

Associated with the concept of voluntary exchange is the idea that both the buyer and seller have full information about the items to be exchanged, though this is often not fully true, it represents the ideal. Sellers want to know about the nature of the demand and thus the price for the item they are about to sell, while in addition to this information, the buyer wants information about the product they are about to purchase.

To move our discussion from the theoretical realm to everyday life, let us look at the case of a customer who is in a used car lot looking to make a purchase. Some of the information the customer is looking for is obvious: the car's age, make, model, color, interior, and the mileage on the odometer. For this last item the buyer must rely on laws which prohibit sellers from adjusting the odometer to show fewer than the actual miles the car has been driven.

Other pieces of information are not visible: the car history; the repair history of cars of that particular make, model, and year; whether or not the car has been repaired as the result of an accident or totaled out by the insurance company; the expected mileage for cars of that make, model, year, and engine size; and the price range for cars of that make, model, year, and mileage.

The history of the car can be found by going to a website like Carfax.com, though many salespeople provide the potential customer with a computer printout that provides that information. If it is a rebuild that has been totaled out, that information may be printed on the title as well as included on the computer printout of the car history. The potential purchaser can read the Car Buying Guide put out by Consumer's Union to see the repair experience of owners of cars of that make, model, and year. Pricing information can be accessed by using Kelly Blue Book, the NADA Guide (National Automobile Owners Association), and local newspapers.

Some customers will do all of that work before they set foot on the car lot or after they identify a car they are interested in purchasing. Other consumers will look at a couple of the items, while will others will do none of that. They see a car they want and purchase it.

But whether they want all of the information or not, what is important is that the information is available to the customer.

But for most car buyers, this information is not sufficient to determine which car they purchase. Each customer has individual preferences and tolerances and those preferences don't have to make any sense to the salesperson. That being said, an attentive salesperson will want to discover as much about the customer's car preferences as possible so they can show the customers the cars that come as close to meeting all of the customer's preferences as possible; like the customer the salesperson wants as much of the "not visible" information as possible.

There may not be an intrinsic difference between a car of one color and one of a different color, but if the customer wants a red car, then they may not even consider a blue car of the same make and model with lower mileage. For other customers the important consideration is the price while for others in may be the car make or how the driver's seat feels or "sits."

The fact that one model has a lower repair rate or a higher resale value may not be important at all to some customers. It may not matter that one car has scientifically been shown by the Institute for Highway Safety to be a top safety pick, if the customer's heart is set on a particular car. Car purchases are often not about science and ratings but are rather decisions of the heart.

Preferences do not have to be scientifically valid; they are simply preferences.

In the long-run, customers will find a way to see that their preferences are fulfilled. Henry Ford had his reasons for limiting the number of models his company made and painting them black. Black paint dried faster than paint of other colors and limiting the number of models and using common elements in all those models made the time required to produce a car shorter and thus less expensive.

But some customers wanted other choices and found their way to manufacturers who would pay attention to their preferences. Other automobile manufacturers found that by paying attention to the 5 percent of customers who wanted a different color or features, they could increase their market share at the expense of Ford. And over time, they found a way to do it at a competitive price, attracting additional customers.

In the long-run customer demand for items that meet preferences different from those of items currently being offered in the marketplace will eventually make openings for sellers willing to supply items that fulfill those heretofore-unmet preferences or spawn legislation that reflect preference changes.

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In our analytical model, we pay attention to the concept of consumer sovereignty.

Harwood D. Schaffer is a Research Assistant Professor in the Agricultural Policy Analysis Center, Institute of Agriculture, University of Tennessee.

Daryll E. Ray is Emeritus Professor, Institute of Agriculture, University of Tennessee, and is the former Director of the Agricultural Policy Analysis Center (APAC). (865) 974-3666; Fax: (865) 974-7484 ; hdschaffer@utk.edu and dray@utk.edu; <http://www.agpolicy.org>.