

WHY DO CONSUMERS GET OVERWHELMED WHEN THERE ARE SO MANY CHOICES?

Inaayat Passi

Wellington College, UK

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ABSTRACT

People are currently living in a world with a variety of options to choose from. Now people are forced to choose between careers, places to live, holiday destinations, and a number of other consumer products. While traditional economic models assume that large choice sets are beneficial for consumers, research from behavioral economics has found that consumers frequently avoid making choices in high choice set environments. In this paper, I review choice overload and choice aversion.

Introduction

Rational choice theory, in the field of economics, assumes that economic actors are rational decision-makers who perform a cost-benefit analysis when deciding which option is best for them. When it comes to assumptions about consumer behavior, consumers are assumed to desire access to a full spectrum of options for every possible decision that they would have to make. After all, the more choices that are available and the greater the flexibility in decision-making, the higher likelihood of achieving a desirable outcome. However, this theoretical scenario is rarely preferred by consumers in reality. In practice, consumers often get overwhelmed when presented with a large choice set, sometimes even avoiding making a decision entirely. These phenomena, known as choice overload and subsequent choice avoidance, occur more often than we realize, and in circumstances ranging from financial planning to taking medical treatment decisions.

Main Body

What are choice overload and choice aversion? Why are these problematic and detrimental to the decision-making process? Choice overload, also known as overchoice, choice paralysis, or the

paradox of choice, describes how people get overwhelmed when they are presented with many options to choose from. Choice overload can cause us to delay our decision-making process because considering the many options available to us is so taxing on our cognitive systems. Having more options also leads to increased or decreased satisfaction and lower confidence in our choice, as well as a higher chance that we will regret our decision.

The Augustan poet Alexander Pope once said, “Blessed is he who expects nothing, for he shall never be disappointed.” As we have all experienced at some point or the other, high expectations can be toxic: the higher we have set the bar, the easier it is for us to be let down when reality doesn’t measure up. Large assortments of options may also increase expectations. If we walk into an ice cream store, for example, and there are twenty different ice cream flavors in front of us, it’s likely that we will walk out of the store without any ice cream. Why? Because too many options challenges us as we imagine every possible outcome, weigh our likes and dislikes, and the risk if we choose one flavor we might like, over another we know we like. It just becomes too much to process, and ultimately leaves us confused, dissatisfied and, very possibly, without any ice cream. If, on the other hand, there were only 5 flavors of ice cream to choose from, suddenly our choice becomes much easier. There are far fewer scenarios and outcomes for us to consider, and we can more quickly arrive at a satisfactory conclusion. This shows how too many choices is not necessarily a good thing; in fact, it may be a bad thing. When presented with too many options, we are more likely to feel drained by the experience and choose nothing or to put off making the decision entirely, because we feel so overwhelmed.

From a practical lens, offering consumers a large variety of options to choose from can both benefit and hinder choice. The greater the number of options in the choice set, the higher the chance that consumers can find a close match to their desire. But research has shown that consumers may delay their purchasing because they are uncertain of what they want after having a look at so many options

In Iyengar and Lepper’s study, researchers set up two different tasting booths for exotic jams (one had 6 different kinds of exotic jams and the other had 24). They found that the larger display of exotic jams with 24 choices attracted more attention than the smaller display of jams with 6 choices. However, a much smaller percentage of customers bought one of the jams from the large assortment (3%) than in the small assortment (30%). Reducing the size of an assortment increases the likelihood of purchasing that item from that assortment; consumers were more likely to make a purchase when presented with an assortment comprising 6 flavors of jam than with an assortment comprising 24 flavors (Iyengar & Lepper, 2000)

While most retail product suppliers have provided hundreds of choices with the belief that it benefits both consumers (utility maximization) and suppliers (profit maximization), numerous other research studies ((Iyengar & Lepper, 2000; Iyengar, Wells, & Schwartz, 2006; Scheibehenne, Greifeneder, & Todd, 2009) have indicated otherwise, with the consensus being that as the number of alternatives increase, people may actually become less satisfied with their chosen alternative or make no choice at all. This phenomenon seems to contradict the general belief that it is always better to have more options (Schwartz, 2004).

When it comes to choice overload, two types of indicators can be identified: process-based indicators, which describe the subjective state of the decision maker; and outcome-based indicators, which reflect the decision maker's observable behavior. As a subjective state, choice overload is seen by changes in consumers' internal states, such as decision confidence, satisfaction, and regret. Higher levels of choice overload are likely to produce lower levels of satisfaction and higher levels of regret. Those individuals experiencing choice overload are (1) less likely to be satisfied with their decisions (Botti & Iyengar, 2004), (2) less confident that they have chosen the best option (Haynes, 2009), and (3) prone to more post-decision regret (Inbar, Botti, & Hanks, 2011).

Behavioral consequences of choice overload, on the other hand, include factors that capture consumer actions such as the likelihood of deferring choice. Those individuals experiencing overload are (1) less likely to make a choice from a particular assortment (Iyengar & Lepper, 2000), (2) more likely to reverse their initial choice (Chernev, 2003b), (3) less likely to display a preference for larger assortments (Chernev, 2006), and (4) more likely to choose an option that can be easily justified (Sela et al., 2009).

In another experiment conducted by Iyengar and Kamenica (2010), they analyzed how the size of a choice set influences individual selection. Research assistants randomly approached passers-by on or near the Columbia University campus and requested their participation in completing a brief one-page questionnaire. 90% of the people agreed to participate. After completing the survey, the subjects were offered a set of gambles, from which they chose one as compensation. The subjects assigned to the Extensive condition were offered a set of 11 gambles, while those in the Limited condition were offered a subset of 3 gambles out of the original 11. They found that those in the Extensive condition group were more likely to choose the sure bet (a degenerate gamble of \$5 guaranteed) than those in the Limited condition, who were more likely to choose one of the riskier options.

As a second part of their research, Iyengar and Kamencia analyzed data from the Vanguard Center for Retirement Research to understand the investment and retirement plan decisions of over 500,000 employees in 638 firms. Though the data from this latter analysis was less conclusive, it was suggested that, when presented with a large variety of investment options, employees tend to invest in fund categories they're most familiar with (i.e. company stock funds). The researchers concluded that a larger choice set increases the appeal of simple, easy-to-understand options.

However, other research has shown that choice overload does not always have negative effects. One important precondition is lack of familiarity. Chernev (2003) showed that people with clear preferences prefer to choose from larger assortments, hence their satisfaction is higher. Similarly, Mogilner et al. (2008) found that a negative relationship between assortment size and satisfaction exists only for a few people who are less familiar with what they want.

Another precondition for choice overload is time pressure. If a person cannot decide within a fixed time period, he or she will stop trying to choose and move on due to increased opportunity costs. What this means is that when an individual is given a large assortment in a very short time, they would think it's best to defer the choice altogether (Jessup et al., 2009).

Conclusion

Research has indicated that as the number of alternatives increase, people may actually become less satisfied with their chosen alternative or make no choice at all. This phenomenon seems to contradict the widely held axiom that it is always better to have more options. However, for well-versed customers with more time at their hand, this isn't always the case. Offering consumers a large variety of options to choose from can both benefit and hinder choice. The greater the number of options in the choice set, the higher the chance that experienced consumers, with more time on their hands, can find a match that most closely meets their desire. However, overwhelmingly the research has shown that consumers may delay their purchasing when presented with too many options, because they are cognitively overwhelmed and uncertain of what they want. Thus, when it comes to consumer choice, it can be said that this is one of those scenarios where less truly is more.

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