2019

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ABSTRACT

Consumers belong to various social groups and their social identity plays an important role in their purchase decisions. By buying products that are associated with their social group, consumers can show who they are and which social group they belong to (e.g., iPhones rather than android phones for "cool" professionals, t-shirts with sports logos rather than with hipster logos for athletic teenagers, and Tesla rather than BMW for environmentally-conscious moms). Consuming a product identified with its social group yields a consumer a benefit in being able to show to both in-group and out-group consumers which group she belongs to. There is also evidence that when a consumer deviates and chooses a product that is not identified with its social group, it bears some ostracism cost from its non-deviating group members.

This paper examines the strategic implications of these features of consumer behavior in a model in which competing firms face such consumers. Specifically, we model a market in which consumers belong to one of two social groups of possibly different sizes, and each social group is associated with a particular product. Besides caring for price and product features, consumers also care about the effect their product choice has on their social identity. Consuming a product identified with its group yields a consumer a benefit in being able to show to both in-group and out-group consumers which group she belongs to. On the other hand, if a consumer deviates and chooses a product that is not identified with her social group, she suffers "ostracism" from a subset of her group -- from those members of her group who buy the product associated with their group and do not deviate.

This setup allows us to examine the effects of relative social group sizes, inherent differences between social groups, and importance of social identity on market prices, firms' messaging strategies, and profits. In particular, we show market conditions under which such identity considerations intensify price competition and reduce market prices, and when these identity considerations allow firms to raise consumer prices. Further, based on the idea that situational cues and explicit messages can prime whether and which social identity becomes salient for a consumer in a particular purchase situation, we use our results to suggest some normative implications for firms' messaging strategies. In particular, we suggest when and which firm can benefit from using communication that focuses on product features; that primes some social identity that is shared by competing firms in the product category (e.g., a loving mom giving breakfast to kids); or that primes a social identity that is unique to the focal firm (e.g., showing "cool" uses of iPhone in social settings).

ABOUT THE AUTHOR(S). Hyewon Park is a PhD candidate in marketing at University of California, Irvine. She is interested in using theoretical and experimental economics to examine the effects of behavioral phenomena on market outcomes.

Rajeev Tyagi is a professor of Marketing at University of California, Irvine. He received his Ph.D. from The Wharton School at University of Pennsylvania. His research focuses on the economics of marketing strategy. He develops quantitative models to examine competitive marketing strategies, distribution channels strategies, and new product introduction strategies. His research has been published in journals such as Management Science, Marketing Science, Journal of Marketing Research, Journal of Industrial Economics, and Economics Letters.