Towards an Adaptive Systems Theory of Consumer Preference Formation

Consumer Learning and the Emergence of Preference

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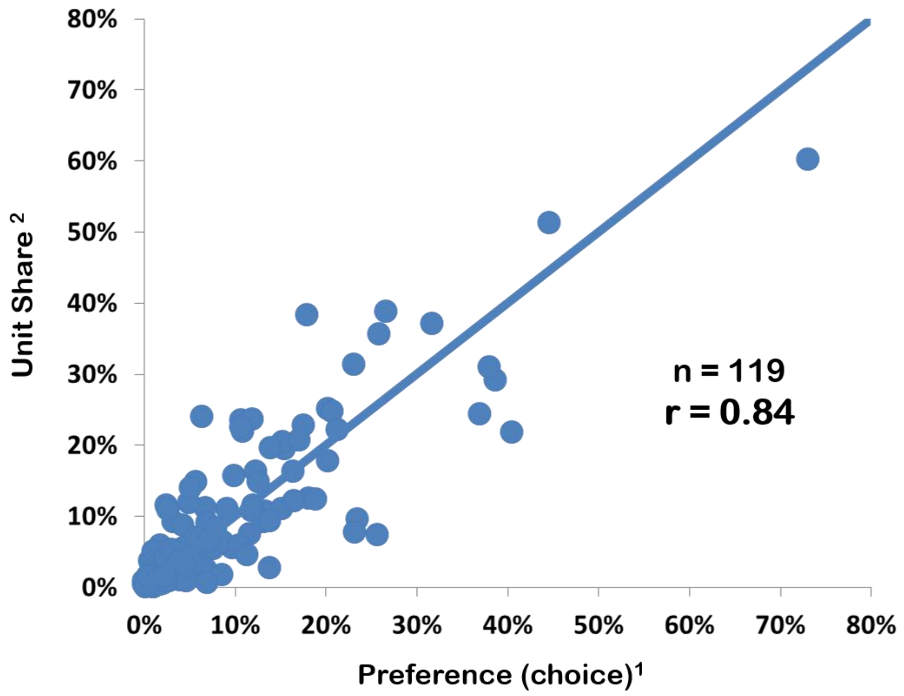
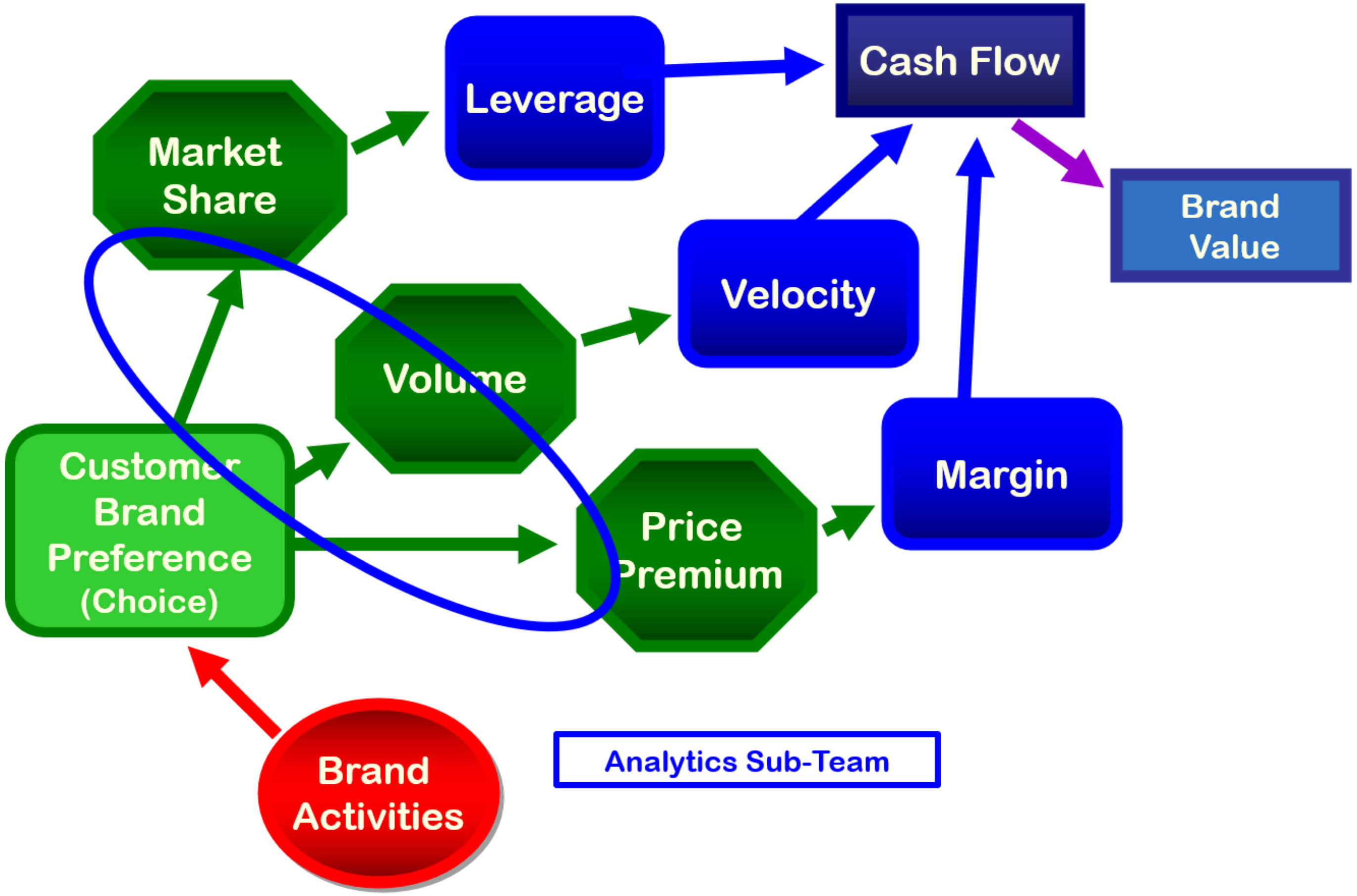
MASB Identified that Preference was the primary driver of Market Share + Brand Value

Link Between Preference and Market Share
Point-In-Time: 12 Categories, 6 Month Averages



[1]Source: MSW•ARS Research Tracking
[2]Source: Nielsen, IRI, Polk/PIN



Taking Preference To Another Level

Measurement

Can Preference be measured?

Law of comparative judgment
Louis Leon Thurston (1927)

Prediction

How accurately can Preference be estimated and predicted?

- Random Utility Models
- Conjoint Analysis
- Choice Models
- Behavioral Economics
- Artificial Intelligence

Valuation

Why does Preference predict brand value?

MASB
Brand Investment & Valuation

Formation

What creates Preference?

The Behavioral Foundations of Preference

How is preference created?

Preference cannot be managed directly. Organizations can only influence the conditions from which preference emerges. Understanding those conditions is therefore essential for improving marketing effectiveness, guiding resource allocation, and strengthening long-term financial performance.

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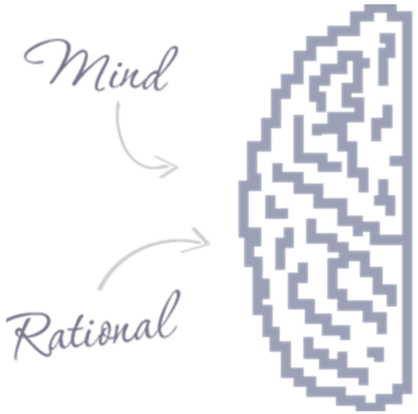
Brand Equity Investigation: 2003

Most research suppliers attempt to measure **Brand Equity** through a series of questions like brand affinity, purchase interest, or claimed purchase behavior…

***"The trouble with market research is that people don't think how they feel, they don't say what they think and they don't do what they say"* – David Ogilvy**



The answer to measuring brand desire… is Preference. Now we need to understand what creates Preference.

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Quantitative Investigation: 2004

Imagery:

Relevance, Differentiation, Uniqueness, Growing in Popularity, Emotional Connection Recommend to my friends, Identify with other users, Good value for money, Worth paying more for, Consistently High Quality, Trust, Responsible for major developments and Superior performing brand

We needed to evaluate the performance of these brand attributes to explain Preference and other Equity measurements.

To perform this evaluation, we created a survey frame of 12 diverse product categories including:

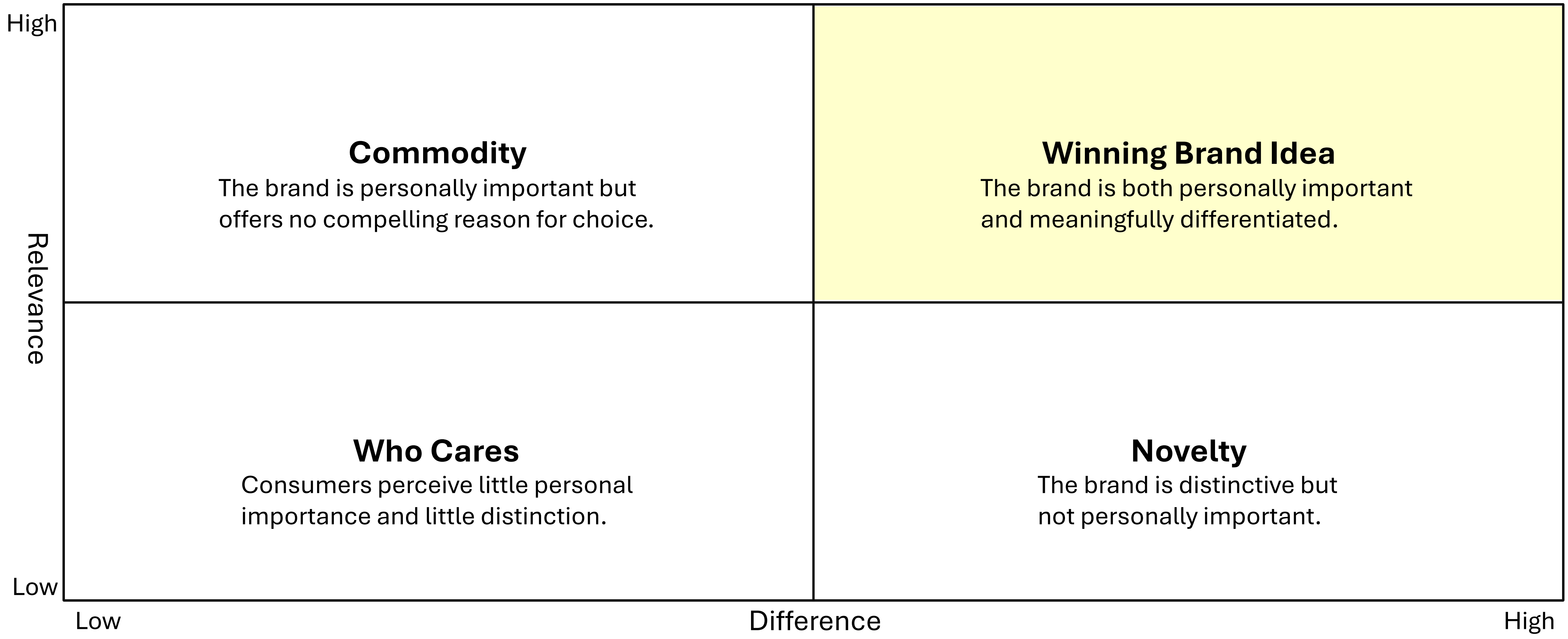
- **Personal Care:** Lipsticks, Shampoo & Toothpaste,
- **Household Products:** Facial Tissues & Floor Cleaners,
- **Food & Beverage:** Frozen Pizza, Beer & Potato Chips
- **Food Service:** Casual Dining & Quick Serve Restaurants
- **Services:** Wireless Telephony & Automobile Insurance

31,052 interviews, conducted with category buyers in April 2004

We use a reaction time measurement to provide certainty around the explicit response.

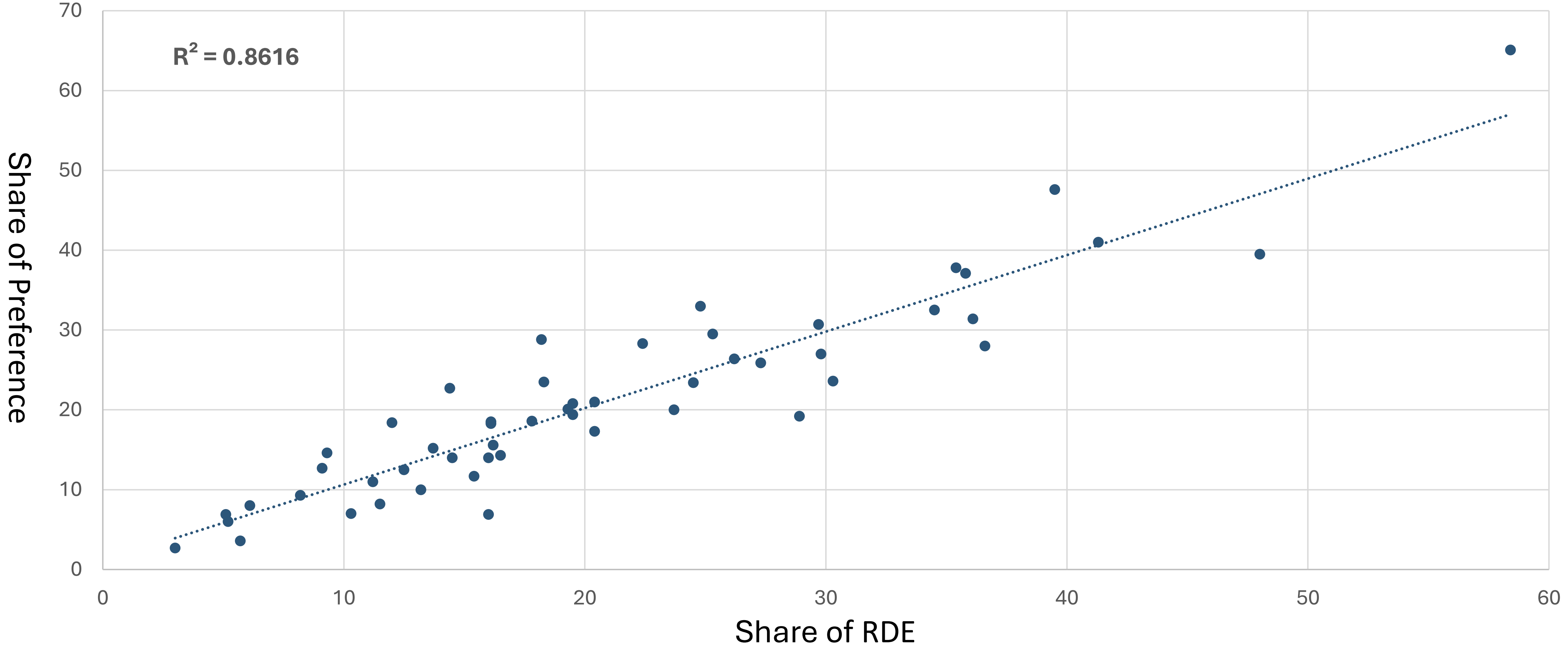
Explicit Opinion + Reaction Time = Certainty

The RDE Framework: The Cognitive Formation of a Winning Brand Idea



In the Original 2004 study, Relevance carried approximately 1.5 times the weight of Difference

RDE strongly predicts Preference within the category



Preference is the result of a sequential cognitive process rather than the outcome of independent Brand Equity dimensions. Relevance establishes **personal importance**, Difference provides **competitive justification** for choice, and Emotional Connection reinforces that choice through **repeated positive experiences**.

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The Missing Layer

Marketing theory has traditionally focused on either:

1. **Marketing activities**: product development, pricing, distribution, and communications
2. **Marketing outcomes**: awareness, Preference, loyalty, market share, and enterprise value

Less attention has been devoted to the enduring consumer characteristics that connect the two.

Marketing activities create **Consumer Experiences** that Consumers **Interpret** into **Behavioral Assets**.

These Behavioral Assets shape consumers' evaluations of Relevance, Difference, and Emotional Connection, from which Preference emerges. Preference influences repeated choice, and repeated choice underpins future cash flows ultimately enterprise value.

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Adaptive System of Consumer Preference Formation

1 **MARKETING**

Firms design and execute activities that create experiences for consumers.

Marketing Activities

Products, pricing, distribution, communications, service, packaging, and other brand touchpoints

↓

Consumer Experiences

Direct and indirect experiences with the brand across multiple contexts and over time

Creates experiences

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Adaptive System of Consumer Preference Formation

2 CONSUMER LEARNING

Consumers interpret experiences and build enduring Behavioral Assets through adaptive learning.

Consumer Interpretation

Consumers assign meaning through existing assets, perceptual filters, involvement, and social and cultural context

↓

Behavioral Assets

Enduring cognitive, emotional, behavioral, and social structures stored in memory

Interprets and builds Behavioral Assets

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Adaptive System of Consumer Preference Formation

3 COGNITIVE EVALUATION

Behavioral Assets shape cognitive evaluations that create a Winning Brand Idea and foster Emotional Connection.

Relevance × Difference
Consumers evaluate the brand as personally relevant and meaningfully different from alternatives

▼

Winning Brand Idea
The brand is seen as relevant and different, forming a compelling proposition in memory

▼

Consistent Positive Experiences
Ongoing positive experiences reinforce and strengthen the Winning Brand Idea

▼

Emotional Connection
Repeated positive experiences build an enduring emotional bond with the brand

▼

Strong Brand
A brand with a compelling idea and strong emotional connection

Evaluates, connects, and builds strength

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Adaptive System of Consumer Preference Formation

4 OUTCOME

Preference emerges as the downstream consequence of this adaptive process.

Preference

An enduring tendency to choose this brand over alternatives when choice is available

Emerges as the outcome

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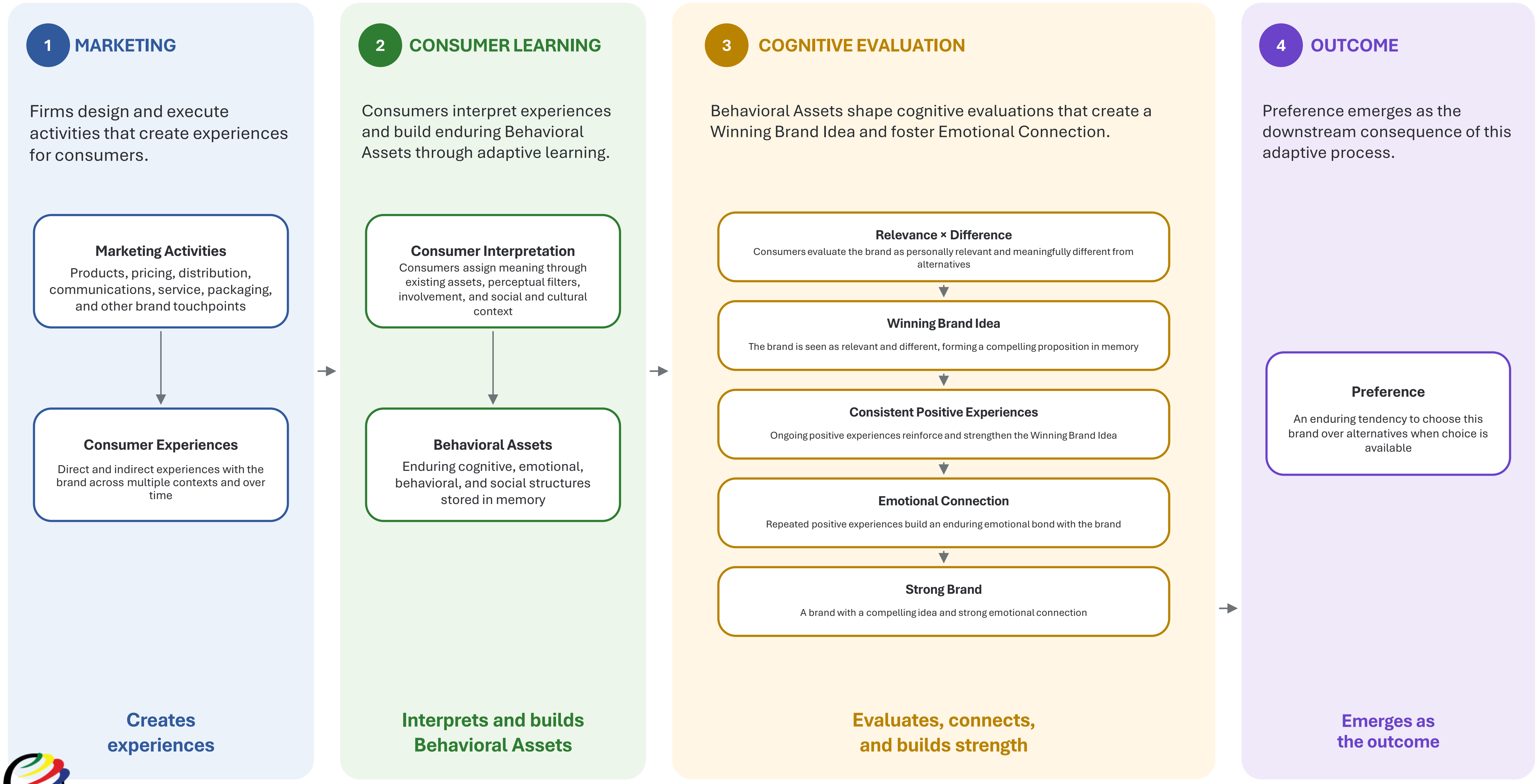
Adaptive System of Consumer Preference Formation



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Note. As Behavioral Assets evolve, they influence future interpretations, experiences, and evaluations, creating a dynamic cycle over time.

What this Theory Adds

The individual components are not new. The contribution is their integration into one system:

- Behavioral Assets provide the missing middle between marketing activity and Preference.
- Consumer Interpretation explains why identical experiences produce different effects.
- Existing Behavioral Assets influence how subsequent experiences are interpreted.
- Preference becomes an emergent outcome of recursive consumer learning.

These are **one accumulated asset class operating within a recursive system.**

Marketing creates experiences. Consumers create meaning. Meaning accumulates as Behavioral Assets.

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Why do we call them assets?

1. **Accumulate through investment**
   They develop through repeated experiences, not isolated activities.

2. **Persist, appreciate and depreciate**
   They remain after campaigns end. Strengthen through repeated positive experiences and consistent reinforcement. Weaken through neglect, inconsistency, or negative experiences.

3. **Influence future choice**
   They affect future judgments, expectations and behavior.

4. **Create future economic value**
   They increase the probability of choice, cash flow and brand value.

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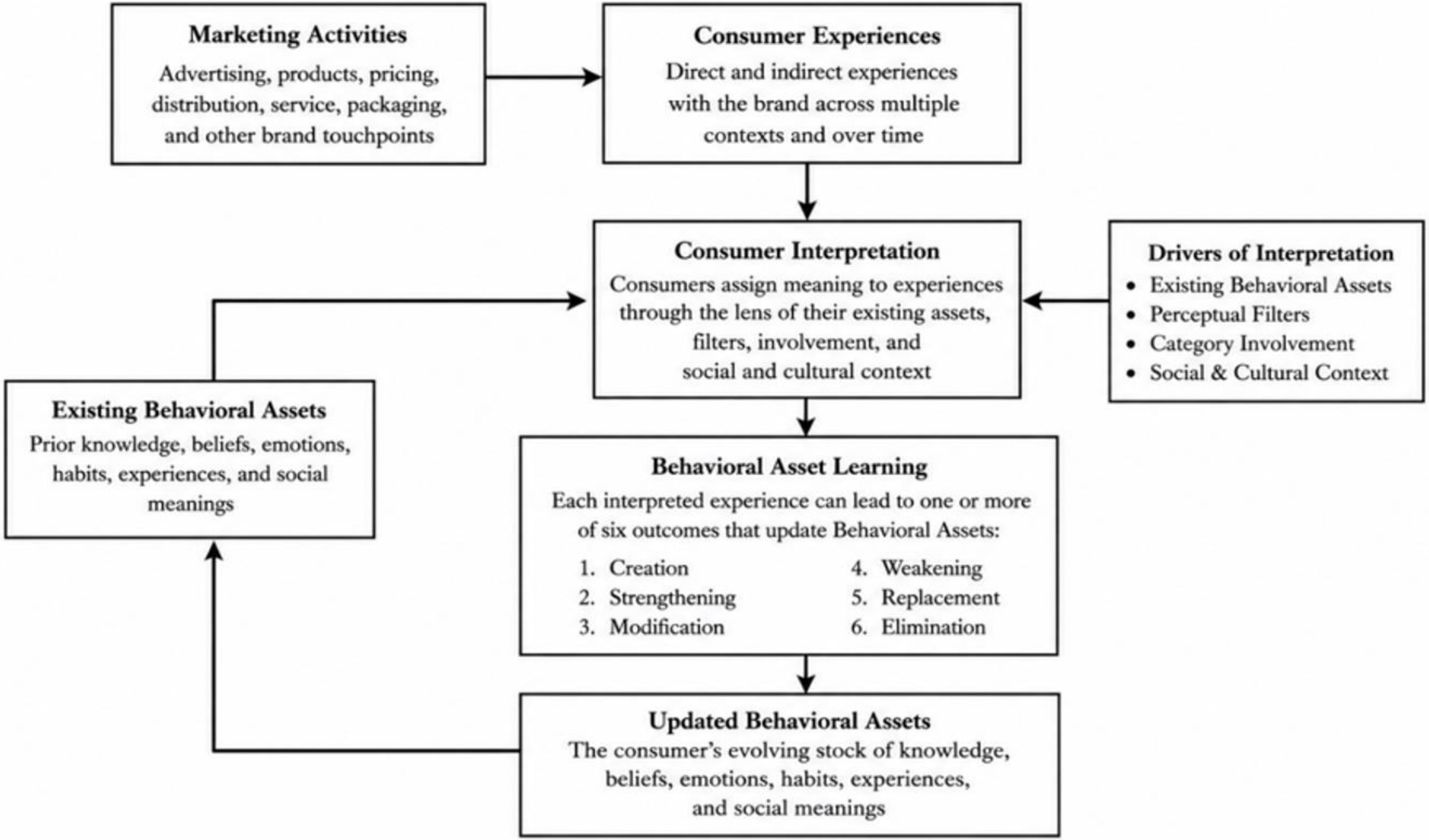
Supported by an Adaptive Learning System



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How Brand Mechanisms become Behavioral Assets

Amazon designs mechanisms. Customers learn responses.

Repetition turns those responses into durable Behavioral Assets that make future peference and choice more likely.

BRAND	COMPANY MECHANISM What Amazon does	CONSUMER LEARNED RESPONSE What people learn to do	BEHAVIORAL ASSET CREATED The durable, brand-linked expectation or routine	BUSINESS IMPACT What it drives
amazon	**One-Click & Prime** Frictionless ordering and fast delivery	**Order with little deliberation** Expect it. Do it. Move on.	**Expectation of effortless immediacy** Get what I want, easily and quickly.	More orders, higher frequency, greater loyalty
	Wide Selection Millions of items with available choice	**Search Amazon first** Start there for almost every need.	**Expectation of endless choice** Whatever I need, Amazon has it.	Bigger baskets, more categories, higher spend
	Personalized Experience Recommendations and relevant offers	**Rely on "for you"** Discover what I need before I look for it.	**Expectation of personal relevance** Amazon understands what I want.	More engagement, longer sessions, repeat visits

THE TAKEAWAY

Behavioral Assets are learned expectations and routines that live in the consumer. They reduce friction, simplify decisions and make Amazon the easy, natural choice.

Mechanisms are designed by Amazon.
They shape the experience.

Responses are learned by the customer.
They become automatic.

Assets are earned through repetition and consistency.
They create durable advantage.

Results compound over time.
More growth, more resilience.

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Amazon Distinctive Brand Assets vs. Behavioral Assets

Distinctive Brand Assets help retrieve the brand. Behavioral Assets are the learned content that retrieval activates.

Behavioral Assets are the enduring, learned expectations, meanings, emotions, habits and social associations that consumers accumulate through experience and that increase the probability of choosing the brand in the future.

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From Conceptual Framework to Empirical Test

1. Changes in interpreted consumer experience should precede changes in Behavioral Assets.
2. Behavioral Assets should mediate the relationship between consumer experience and RDE.
3. RDE should mediate the relationship between Behavioral Assets and Preference.
4. Repeated consistent experiences should strengthen Behavioral Assets; inconsistent or negative experiences should weaken, modify or replace them.
5. Changes in Preference should subsequently predict changes in choice and financial performance.

We have identified six possible learning outcomes:

Creation, Strengthening, Modification, Weakening, Replacement or Elimination

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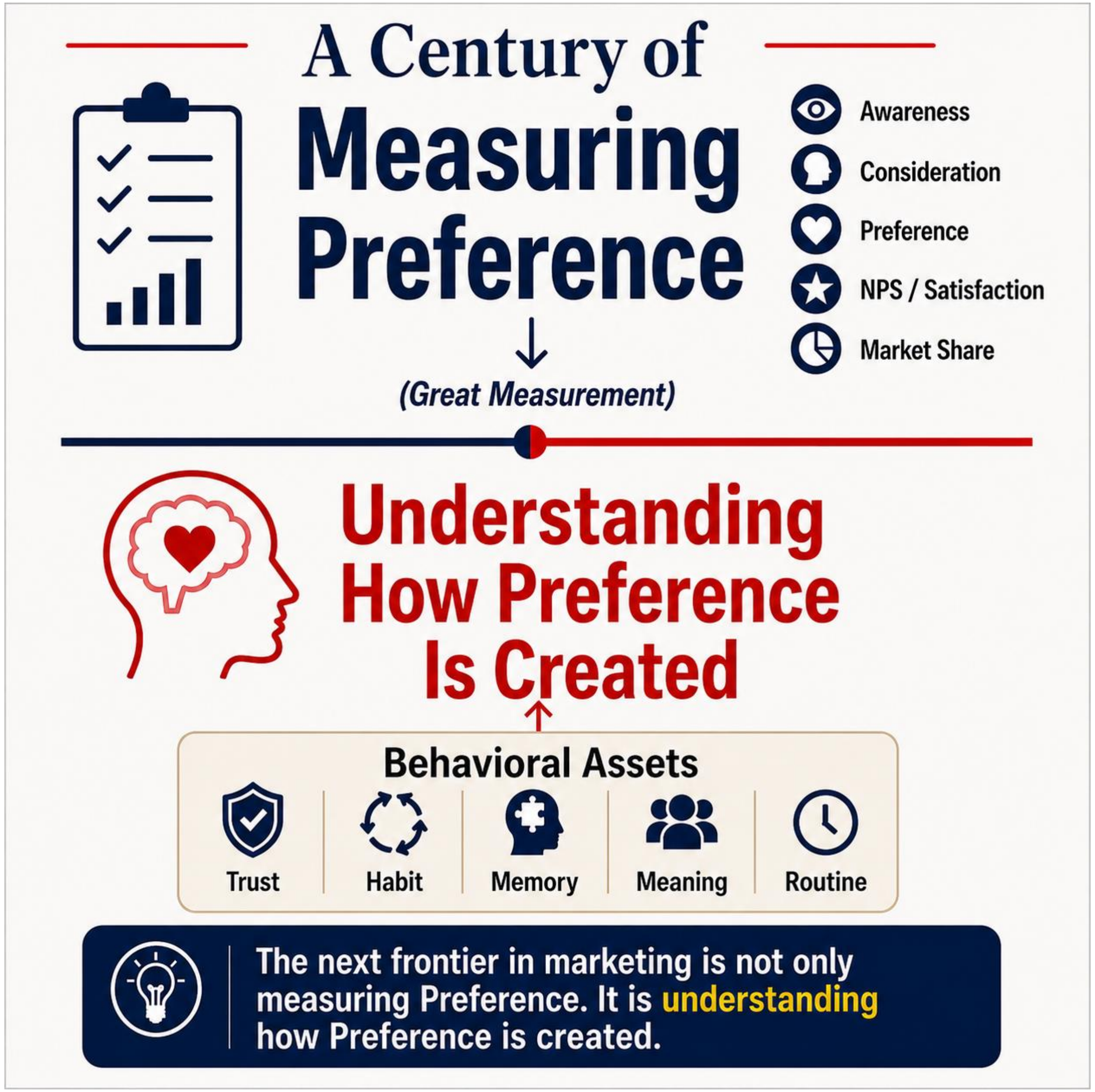
The MASB Opportunity

MASB could support the independent testing and validation of the **Adaptive Systems Theory of Consumer Preference Formation and its Behavioral Assets construct** by:

1. Testing the proposed causal pathway longitudinally
2. Evaluating measures of Behavioral Asset strength and change
3. Examining the relationship between Behavioral Assets, Preference, cash flow and brand value
4. Helping establish common measurement standards for applying the theory.

Behavioral Assets and the Adaptive Systems Theory of Consumer Preference Formation were developed by Steven Jagger and MSW Research.



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Appendix

How Brand Mechanisms become Behavioral Assets

Amazon designs mechanisms. Customers learn responses. Repetition turns those responses into durable Behavioral Assets that make future preference and choice more likely.

BRAND	COMPANY MECHANISM What Amazon does	CONSUMER LEARNED RESPONSE What people learn to do	BEHAVIORAL ASSET CREATED The durable, brand-linked expectation or routine	BUSINESS IMPACT What it drives
amazon	**One-Click & Prime** Frictionless ordering and fast delivery →	**Order with little deliberation** Expect it. Do it. Move on. →	**Expectation of effortless immediacy** Get what I want, easily and quickly. →	More orders, higher frequency, greater loyalty
	Wide Selection Millions of items with available choice →	**Search Amazon first** Start there for almost every need. →	**Expectation of endless choice** Whatever I need, Amazon has it. →	Bigger baskets, more categories, higher spend
	Competitive Pricing Everyday low prices and great deals →	**Buy with confidence** Trust the value and the price. →	**Expectation of great value** The right product at the right price. →	Higher conversion, price tolerance, stronger margins
	Personalized Experience Recommendations and relevant offers →	**Rely on "for you"** Discover what I need before I look for it. →	**Expectation of personal relevance** Amazon understands what I want. →	More engagement, longer sessions, repeat visits
	Secure & Reliable Safe payments, trusted returns, dependable service →	**Shop with total confidence** Easy returns. They stand behind it. →	**Expectation of safety and reliability** It's safe, easy, and they make it right. →	Lower returns risk, stronger trust, lifetime value

THE TAKEAWAY

Behavioral Assets are learned expectations and routines that live in the consumer. They reduce friction, simplify decisions and make Amazon the easy, natural choice.

Mechanisms are designed by Amazon. They shape the experience.

Responses are learned by the customer. They become automatic.

Assets are earned through repetition and consistency. They create durable advantage.

Results compound over time. More growth, more resilience.

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Starbucks designs mechanisms. Customers learn responses. Repetition turns those responses into durable Behavioral Assets that make future preference and choice more likely.

BRAND	COMPANY MECHANISM What Starbucks does	CONSUMER LEARNED RESPONSE What people learn to do	BEHAVIORAL ASSET CREATED The durable, brand-linked expectation or routine	BUSINESS IMPACT What it drives
STARBUCKS	**Rewards & Starbucks® Rewards app** Points, personalization and easy mobile ordering	**Order ahead, earn and save** Expect it. Do it. It's worth it.	**Expectation of personalized recognition & reward** Starbucks knows me and makes it worth my while.	More visits, higher frequency, greater basket size, stronger loyalty
	Consistent quality & handcrafted drinks High standards and trained baristas	**Trust the experience** Expect great taste and consistency every time.	**Expectation of quality I can count on** I know what to expect and it will be good.	Stronger trust, repeat purchases, premium pricing power
	The "Third Place" experience Welcoming stores, comfortable spaces, free Wi-Fi	**Stay, relax, get things done or connect** Make it my place in my day.	**Expectation of a place that fits my mood** A space to work, recharge or connect.	Longer visits, more occasions, stronger emotional connection
	Seasonal innovation & limited-time offers New flavors, collectibility and anticipation	**Look forward, try what's new** Check what's new. Don't want to miss it.	**Expectation of new & special moments** There's always something worth looking forward to.	Traffic spikes, trial of new items, higher engagement
	Values & social impact leadership Ethical sourcing, sustainability, community investment	**Feel good about choosing Starbucks** Aligns with my values. Feel proud to support.	**Expectation of a brand that does good** Starbucks stands for what matters to me.	Stronger brand preference, advocacy, resilience in challenging times

THE TAKEAWAY

Behavioral Assets are learned expectations and routines that live in the consumer. They reduce friction, simplify decisions and make Starbucks the easy, natural choice.

Mechanisms are designed by Starbucks. They shape the experience.

Responses are learned by the customer. They become automatic.

Assets are earned through repetition and consistency. They create durable advantage.

Results compound over time. More growth, more resilience.

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DISTINCTIVE BRAND ASSETS

Help consumers recognize the brand.

Starbucks siren logo
The iconic logo is instantly recognizable worldwide and signals quality.

Green & white color palette
A consistent color combination that stands out and signals Starbucks.

Store design & atmosphere
A distinctive look and feel that is instantly associated with Starbucks.

Starbucks® Rewards branding
A distinctive symbol that signals membership, benefits and belonging.

Frappuccino® wordmark
A unique, ownable wordmark that identifies a signature Starbucks product.

Seasonal cups & limited editions
Unique designs that create anticipation and signal moments and occasions.

BEHAVIORAL ASSETS

Influence what consumers expect, feel and do.

Expect quality & consistency
I expect my drink to taste great and be made the same way every time.

Expect a moment for me
I expect Starbucks to be a moment to pause, relax and recharge.

Expect a welcoming "third place"
I expect a comfortable place to work, connect or spend time.

Expect to be recognized & rewarded
I expect to earn rewards and feel valued as a member.

Expect to feel good
I expect Starbucks to reflect my values and make a positive impact.

Expect it to be part of my routine
I expect Starbucks to be my go-to choice whenever I want it.

Coca-Cola designs mechanisms. Customers learn responses. Repetition turns those responses into durable Behavioral Assets that make future preference and choice more likely.

BRAND	COMPANY MECHANISM What Coca-Cola does	CONSUMER LEARNED RESPONSE What people learn to do	BEHAVIORAL ASSET CREATED The durable, brand-linked expectation or routine	BUSINESS IMPACT What it drives
Coca-Cola	**Iconic brand & visual cues** Distinctive script, red & white color, and contour bottle.	**Notice and recognize instantly** Spot it quickly. It stands out from other brands.	**Expectation of a trusted, familiar choice** Coca-Cola is the real thing.	Higher brand preference and market share
	Moments of joy together Advertising and sponsorships link Coke to happiness, celebration and connection.	**Reach for it to feel better** Choose it when I want a lift or to enjoy the moment.	**Expectation of happiness and togetherness** Coca-Cola makes moments better.	More occasions and higher consumption
	Refreshing, great-tasting product Consistent, crisp and refreshing taste.	**Expect real refreshment** Trust it to quench my thirst and taste great.	**Expectation of refreshing taste** It will quench my thirst and deliver great taste.	Premium pricing power and strong margins
	Always available Everywhere — in stores, restaurants and vending machines around the world.	**Look for it wherever I am** Seek it out as the default soft drink option.	**Habitual reach** Coca-Cola is my go-to soft drink, again and again.	Larger baskets and consistent repeat purchases
	Personalization & variety Share a Coke, diet and zero options, and flavor extensions.	**Make it part of my life** Choose the Coca-Cola I like and share it with others.	**Emotional connection** Coca-Cola fits my lifestyle and feels like a brand made for people like me.	Greater loyalty and long-term brand value

THE TAKEAWAY

Behavioral Assets are learned expectations and routines that live in the consumer. They reduce friction, simplify decisions and make Coca-Cola the easy, natural choice.

Mechanisms are designed by Coca-Cola.
They shape the experience.

Responses are learned by the customer.
They become automatic.

Assets are earned through repetition and consistency.
They create durable advantage.

Results compound over time.
More growth, more resilience.

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Coca-Cola Distinctive Brand Assets vs. Behavioral Assets

DISTINCTIVE BRAND ASSETS

Help consumers recognize the brand.

Spencerian script logo
The iconic script is instantly recognizable around the world.

Contour bottle silhouette
A timeless shape that is unique and distinctive on the shelf and in hand.

Red & white color palette
A powerful, consistent color combination that signals Coca-Cola everywhere.

"Open Happiness"
A signature brand idea that captures an emotional promise and point of view.

The Coca-Cola swirl
A dynamic visual cue that adds movement and reinforces brand distinctiveness.

Coca-Cola sonic identity
A distinctive sound (and feel) that makes Coca-Cola instantly recognizable.

BEHAVIORAL ASSETS

Influence what consumers expect, feel and do.

Refreshment & thirst relief
Coca-Cola is expected to deliver refreshing taste and quench thirst.

Happiness & optimism
Coca-Cola is associated with positive feelings and lifting your mood.

Sharing & togetherness
Coca-Cola is part of moments shared with others and bringing people together.

Part of life's special moments
Coca-Cola is expected at celebrations, milestones and everyday moments that matter.

A trusted, familiar choice
Coca-Cola is the go-to option consumers reach for again and again.

Always there for me
Coca-Cola fits seamlessly into my routine whenever I want it.