Ethical Considerations in Leveraging the Decoy Effect for Marketing in FMCG

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ABSTRACT

This study explores the utilization of the decoy effect as a marketing strategy within the Fast-Moving Consumer Goods (FMCG) sector, focusing on the ethical questions it raises. The decoy effect capitalizes on consumers' cognitive biases by introducing a third product option designed to shift preferences toward a targeted choice without restricting options. Reviewing prior behavioral and neuroscientific research reveals that such tactics effectively shape purchasing behavior and foster brand loyalty. However, potential ethical issues arise, notably the reduction of consumer autonomy and transparency concerns, especially for vulnerable customers. The paper contends that while the decoy effect boosts sales and profits, it is essential to balance these advantages with ethical responsibilities. Through an integrative review of empirical evidence and theoretical insights, the study outlines how marketers can responsibly apply decoy strategies in ways that respect consumers as autonomous decision-makers rather than mere targets for persuasion. Recommendations encourage transparency, fairness, and placing consumer welfare at the forefront to build trust and sustain long-term relationships. Ultimately, responsible application, supported by ongoing research and regulation, can harmonize marketing efficiency with consumer rights, benefiting both businesses and buyers. The paper concludes by advocating ongoing research and the development of regulatory frameworks to ensure that the decoy effect's use aligns not only with marketing goals but also with consumer rights, ultimately benefiting both businesses and shoppers alike.

Keywords: Decoy effect, FMCG marketing, behavioral economics, consumer behavior marketing ethics.

INTRODUCTION

The FMCG (Fast Moving Consumer Goods) industry thrives on innovation and intense competition. Marketers in FMCG sector invest heavily in strategies designed to nudge consumer choices toward the targeted option, often leveraging tools of behavioral economics to stand out from the crowd. One such context that causes preference construction is the introduction of a decoy alternative into a choice set (Farquhar & Pratkanis, 1993; Huber, Payne, & Puto, 1982; Simonson, 1989). It is likely that a newly introduced brand will capture some market share and reduce the market shares of some of the existing brands. However, in some special cases, the introduction of a new brand systematically increases the market share of an existing brand at the cost of other existing brands (Huber et al., 1982). This phenomenon is called the „decoy effect" (Bateson, Healy, & Hurly, 2002; Huber et al., 1982; Slaughter, Kausel, & Quinones, 2011). The attraction effect, the compromise effect, and the phantom decoy effect are the three types of decoy effect. This context-dependent choice-making phenomenon provides evidence against the several axioms that are core to the rational choice theory, such as the regularity condition and the similarity hypothesis. The decoy effect is important for the study of choice theory. It also has various practical implications in marketing as well as in other fields such as pricing, brand management, product line extension, and job/political candidate selection. (Sherlin et al. 2020) shows that decoy effect exists in digital marketplace Shopee and the number of buyers influences the strength of the decoy effect i.e., smaller amount weakened it, bigger amount strengthens it. Studies showed that when a decoy is placed alongside budget options, a significant portion of shoppers gravitate toward the "better" choice, even if that

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wasn't their initial intention. These studies underscore the tangible impact of decoy pricing in FMCG environments. (Sellers-Rubio, 2015) Consumers choose higher-quality national brands due to comparison framing, leading to the decoy effect. Customers who are price sensitive or acquainted with store brands may be influenced by the decoy effect. The human brain's propensity to think in particular ways is known as cognitive bias. "Decoy pricing" is one cognitive distortion that can be exploited to sway a consumer's purchase choice. Decoy pricing is a technique for setting prices that takes advantage of the "decoy effect" to influence consumer choices and boost sales.

Similarly, (Chen, 2025) highlights that the decoy effect influences decisions in both consumer and organizational settings, even though many decision-makers overlook its role. Chen's work digs into the ethical and managerial questions that come with using decoy strategies in areas like behavioral economics, marketing, and negotiation. A clearer understanding of how these decoy options work can help companies, policymakers, and marketers design more effective strategies while still keeping ethical considerations in mind. (Chen 2024) suggests that emotional reactions are key, their empirical study showed that feelings such as excitement or regret amplify or weaken the decoy effect during grocery purchases. The effects of decoy pricing or Decoy strategy can go beyond simply influencing what people buy in the moment, these strategies can actually shape long-term loyalty and satisfaction with certain brands. When shoppers face these tactics again and again, their preferences and habits may gradually shift, leaving a long-lasting impression. While companies see clear marketing benefits in these strategies, there's a growing conversation about whether using decoy pricing is ethical. Some experts believe that these tactics are manipulative, especially since busy shoppers often don't have time to weigh every option carefully before making a decision. This can raise concerns about consumer freedom and the possibility that certain groups are more easily influenced than others. Creating ethical marketing strategies means striking a balance between commercial goals and consumer rights. That's why this review seeks to dig into both sides of the equation not just how the decoy effect works in practice, but what it means for fairness, transparency, and brand trust in an industry that depends on repeat business. The empirical and theoretical insights reviewed here aim to provide a foundation for responsible use of psychological pricing one that respects consumers as decision-makers and not just targets for persuasion.

Conceptual Framework of The Decoy Effect

The conceptual framework of the decoy effect centres on a profound intersection of behavioral economics, cognitive psychology, and consumer decision-making, especially as applied to the fast-moving consumer goods (FMCG) sector. The decoy effect (sometimes termed the attraction effect or asymmetric dominance effect) describes a consumer's tendency to shift preferences between two options once a third, strategically positioned option the decoy is introduced. Rather than acting as a genuine choice, the decoy is designed to be inferior or imbalanced on select attributes compared to the options already present, thus amplifying the attractiveness of the marketers intended target product. At its core, the decoy effect permits violations of the classic independence of irrelevant alternatives principle that underpins rational choice theory. In marketing and psychology, greater preference for one product emerges when a decoy, dominated on all relevant attributes, is presented alongside it; this effect is robust even when the decoy option itself seldom gets selected.

Cognitive Mechanisms

The decoy effect draws upon several cognitive biases and heuristics. When consumers evaluate multiple products, choices are rarely made in isolation. Instead, comparison triggers context-dependent framing, which shapes perceived value and relative desirability. As outlined by recent empirical models, consumers are demonstrably more likely to choose a target item if another item (the decoy) is dominated by that target but not by the competitor, thus shifting the balance of desirability. Neuropsychological studies have confirmed that these effects arise from context-sensitive valuation mechanisms in the brain, as decoy- induced framing alters both attention and reward perception.

Empirical Models of the Decoy Effect

Recent studies illustrate three classical models of the decoy effect in multi-attribute choice space.

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Attraction Decoy -The decoy (Da) is inferior to the target (A) in all respects but only partially dominated by the competitor (B). This increases preference for A.

Compromise Decoy By introducing a more extreme option (Dc) distant from both A and B, the decoy prompts consumers to select A as the compromise option.

Similarity Decoy The decoy (Ds) closely resembles the competitor (B), pulling preference away from the competitor toward A.

Traditional analysis places products along two or more attribute axes (commonly price and quality). Target items A and B may lie on a line of iso-preference, meaning the consumer should be indifferent between them. The introduction of a decoy D changes the perceived value landscape, thus distorting the consumer's initial frame and nudging preference.

Visual Model (Adapted from Contemporary Research)

Imagine a consumer choosing between A (lower price, lower quality) and B (higher price, better quality). Without a decoy, preference is split. By introducing D (high price, mediocre quality), the consumer's attention shifts A now seems more rational, and thus, its selection probability climbs. Recent computational models demonstrate that the strength of these effects varies, but the attraction and compromise effects remain reliably significant (4–6% change in choice share on average), while the similarity effect shows weaker evidence in some datasets. Importantly, the cognitive weighting of product attributes (eg, weighting quality over price) plays a substantial role in how individuals respond to decoy positioning; this effect is both quantifiable and replicable across diverse populations.

Application in FMCG Sector

The decoy effect has become a staple in the marketing strategies of FMCG companies, driving upselling, optimizing product lines, and increasing average transaction values. Its application spans product pricing, bundling, and membership models, enabling brands to shape consumer choices in subtle but powerful ways.

Product Pricing and Tier Strategies

One classic FMCG example is Starbucks' coffee cup sizing tall (small), grande (medium), and venti (large). The grande size frequently serves as a decoy, making the venti appear comparatively more valuable. Though the price jump from grande to venti is modest, customers are nudged to buy the larger size because the presence of the three choices reframes what "good value" means in context. This drives venti sales and lifts the brand's revenue per cup. Subscription models further illustrate the decoy effect's power (YourStory, 2023). The Economist magazine famously offered options for an online-only subscription, a print-only subscription priced identically to a combined print-plus-online subscription, making the middle option a decoy. Research has shown that the decoy dramatically increased the selection of the premium (combined) subscription when compared to a scenario without the decoy The (Strategystory, 2020). In India, Zomato Gold's membership program uses three tiers monthly, half-yearly (decoy), and annual. The mid-term membership is priced so that the annual plan seems a much better value, steering customers towards longer commitments and higher revenues for the company (99cashdeals, 2025).

Bundling and Package Design

Supermarkets and food brands routinely use decoy packaging for snack sizes, beverage bottles, and bundled offers. For instance, a bottle of soda may be available in small, medium, and large sizes, with the medium size designed as a decoy. This makes the large option seem more attractive both per unit price and perceived value, increasing purchases of larger sizes.

Brand Loyalty and Strategic Upselling

Case studies of Apple and Netflix show how tech and entertainment brands take advantage of the decoy effect. Apple, for instance, positions multiple storage options for iPhones and iPads, where the least popular storage variant acts as a decoy. The presence of the decoy nudges consumers into choosing the option with the highest profit margin, benefiting the company and simultaneously giving customers a “smart” reason for their decision. A 2023 study on insulated water flasks confirms that brand equity and perceived trust further amplify the impact of decoy pricing in real-world purchase scenarios; FMCG brands with higher equity saw stronger decoy effects, demonstrating how consumer psychology and marketing reputation work together.

Empirical Evidence from Food and Retail

Experimental research in the food sector (chicken and pork products) has revealed measurable increases in selection rates for target products when decoy options are included (Chen et al., 2022). Calculations show that the addition of decoy attributes such as cleanliness labels and price points can raise target purchase shares by 10–13%, statistically proving the practical impact of the decoy effect on FMCG buying behaviors. Wine retailers, cinema chains offering popcorn sizes, and even fast-food combos use the decoy effect to raise average sales amounts. A UK case study found that by positioning mid- range wines as decoys, premium sales increased, and average transaction values for popcorn in cinemas rose by up to 15% when medium sizes acted as the decoy. The decoy effect’s versatility in FMCG demonstrates why it remains one of the most effective tools for guiding consumer choice its applications, from pricing tiers to bundling and loyalty programs, provide strong commercial advantages while raising important questions about consumer awareness and autonomy.

Ethical Issues in Decoy Strategies

The use of the decoy effect in FMCG marketing, while commercially effective, brings a range of ethical questions to the forefront. As brands design product bundles, tiers, or pricing models to subtly shift choices toward targeted product, the line between helpful guidance and manipulation often blurs.

Manipulation of Consumer Autonomy

One primary ethical issue is the manipulation of consumer choice. By exploiting cognitive biases, companies can nudge shoppers toward decisions they might not have made otherwise, often without the consumer’s full awareness. The decoy’s very purpose is to shift preference using comparison rather than intrinsic product value, raising concerns about the freedom and authenticity of the consumer’s decision-making process.

Transparency and Trust

Another core concern involves transparency. Many shoppers remain unaware that the choices presented to them are structured to drive selection of a particular option. If a brand’s use of decoys is detected and perceived as deceptive, it risks eroding consumer trust, leading to long term damage to the brand’s reputation even if sales increase in the short term. Studies emphasize that the ethical use of the decoy effect requires all options to be legitimate and that features or benefits should never be exaggerated or unclear.

Potential for Consumer Regret and Reduced Loyalty

When the decoy effect leads to purchases primarily motivated by comparison, consumers may later experience regret if their expectations aren’t met especially if the decoy exaggerates the target product’s perceived value. This “buyer’s remorse” can diminish satisfaction and reduce the likelihood of repeat purchases, ultimately threatening long-term loyalty and customer retention.

Vulnerable Populations

Ethical risks rise further for vulnerable groups, such as children, the elderly, or those with limited financial literacy, who may be more susceptible to marketing nudges and less capable of critically evaluating product differences. For these audiences, the line between guidance and exploitation is especially thin, making it crucial for brands to act with heightened responsibility.

To address these ethical challenges, experts recommend several measures Ensure all choices, including decoys, offer genuine value and are not purely manipulative. Maintain honesty in all aspects of product description, pricing, and comparisons. Be transparent with consumers about what makes each option different, enabling informed choice. Regularly review and adjust decoy strategies with an eye on customer feedback not just sales metrics to avoid long-term fallout from perceived manipulation.

Balancing Effectiveness and Ethics

The decoy effect offers FMCG companies a way to navigate the tensions between driving sales and maintaining ethical standards in consumer interactions. Its appeal lies in the commercial uplift it delivers increased sales, higher profit margins, and effective upselling yet this boost often brings ethical concerns to the fore. Striking the right balance requires recognising both where business goals and consumer benefits overlap, and where they diverge.

Points of Convergence and Conflict

There are distinct areas where the aims of marketers and the interests of consumers are aligned. Effective decoy strategies can actually assist consumers in making choices that better match their preferences by simplifying complex decisions and highlighting relevant product differences. For example, when decoys are used to clarify the value proposition of a mid-tier product against higher and lower alternatives, customers may end up making better-informed and more satisfying purchases. However, this alignment fades when the decoy is designed purely to manipulate, pushing consumers into higher priced or less suitable products through ambiguous comparisons or misleading framing. In such cases, businesses may achieve short- term sales gains, but these come at the expense of consumer autonomy, future trust, and brand reputation. The greatest conflicts arise when decoy tactics exploit cognitive biases to steer choices in ways shoppers wouldn’t freely make if fully aware of the architecture behind the offer.

Guidelines for Ethical Decoy Strategies

When it comes to judging whether decoy strategies are ethical, several key perspectives from philosophy and consumer research help us find the answer. These frameworks guide us in understanding when nudging consumers is a helpful aid or an unfair manipulation.

One major approach is the utilitarian view, which asks, "Do decoy strategies increase overall well-being?" If these tactics help people make decisions that truly benefit them like clarifying choices or highlighting better options then they can be seen as ethical. But if they push customers to spend more than intended, regret their buys, or lose trust in brands, the harm outweighs any short-term gain (Botti & Iyengar, 2006; Thaler & Sunstein, 2008). So, it’s about balancing immediate sales with the long-term happiness and trust of consumers.

Another important perspective is the deontological, which is all about doing what’s right regardless of outcomes. Here, honesty and transparency take centre stage. Decoys should be real options, with their strengths and weaknesses clearly explained. Creating fake or deliberately inferior choices just to trick buyers goes against respecting them as autonomous decision-makers (White & Simpson, 2013). It’s a call for treating customers with dignity, not as pawns in a marketing game.

Respecting consumer autonomy also ties closely to ideas about informed consent. Decoy strategies are part of what’s called "choice architecture," meaning the way options are shown influences our decisions (Thaler & Sunstein, 2008). Ethical marketing means keeping these nudges transparent and aligned with people’s real goals, so they can recognize their best choice rather than being subtly pushed toward one without knowing. When consumers aren’t aware or feel misled, their freedom to choose is diminished (Sunstein, 2015).

From the lens of nudging theory, decoys can be ethical tools if used thoughtfully to help people navigate complex decisions. For example, encouraging more sustainable or healthier purchases can be a positive use. But crossing the line into exploiting cognitive biases purely for profit, especially targeting vulnerable groups, is where ethics fail (Loewenstein, Brennan, & Volpp, 2007).

Finally, it’s not just philosophy many companies and regulators insist on guidelines to ensure decoy strategies don’t backfire. Monitoring customer feedback, ensuring options have genuine value, and complying with consumer protection laws help sustain trust and ethical standards in the long run (Haws & Bearden, 2006).

Alternative Approaches to Enhance Choice

Marketers’ intent on maintaining both business performance and consumer trust may choose complementary approaches such as “nudge” strategies or value-based tiering. Nudge tactics gently steer choices (for example, by highlighting bestsellers or most- reviewed products) without obscuring other options. Value-based tiering can help customers evaluate products by highlighting concrete benefits per price point rather than using a decoy to anchor one as superior. Some brands experiment with consumer education providing decision guides, product demos, or trial offers, letting shoppers experience and compare options directly. Such practices help people make choices aligned with their genuine needs, not just with the marketer’s profit motive. Ultimately, the most sustainable approach for FMCG brands is one that recognizes both the sophistication of modern consumers and the ethical expectations of the contemporary market. Balancing effectiveness and ethics ensure not just strong commercial outcomes, but also resilient consumer relationships built on trust, transparency, and respect.

Future Research Directions

While the decoy effect is well-documented in FMCG and other sectors, significant gaps remain in our understanding. Recent systematic reviews and meta-analyses call for More longitudinal studies that track long-term impacts on consumer satisfaction, trust, and brand loyalty, especially regarding repeated exposure to decoy tactics. Cross-cultural research to determine whether decoy effectiveness and ethical perceptions differ across markets. Experimental work examining the decoy effects boundaries, including product types, choice set complexity, and contexts where the strategy might backfire or lead to regulatory scrutiny. Deeper investigation into how vulnerable populations recognize, respond to, or can be protected from potentially manipulative use of decoy strategies, particularly in food and health-related FMCG settings. Ethicists and industry leaders also call for collaborative efforts between academics, policymakers, and businesses to develop universal guidelines, incorporating both behavioral insights and consumer protection imperatives.

CONCLUSION

The decoy effect is a potent tool within FMCG marketing, driving sales and shaping consumer preference through subtle comparison and choice architecture. Yet the same psychological levers that power its effectiveness create ethical challenges around manipulation, transparency, and trust. As the marketplace becomes more regulated and consumers more discerning, it’s vital that marketers adopt transparent, customer- focused practices aligned with both legal standards and ethical principles. Ongoing research, regulatory vigilance, and a commitment to genuine consumer benefit will ensure the responsible use of the decoy effect enhancing not only commercial outcomes but also consumer welfare and long-term brand strength.

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