Consumer Choices Across Seemingly Disparate Product Categories

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CONSUMER DECISIONS ACROSS SEEMINLY DISPARATE CATEGORIES:
LATENT-TRAIT SEGMENTATION

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ABSTRACT

This research takes a first step in modeling latent processes that govern consumer decision making by examining consumption across seemingly disparate categories. Marketing activities today are coordinated in a variety of categories and in a variety of formats, and consumers naturally shop around a globe of unrelated product categories that are beyond the traditionally defined “shopping basket”. We propose a hierarchical multinomial processing tree model to empirically examine the driver, which is defined as the “latent trait”, which governs consumer choices across five seemingly disparate product categories: media consumption, automobile purchases, financial investments, soft drinks and cell phone plans through a dataset consisting of 5,014 consumers in the United States. We further investigate how consumer behavior systematically varies from one category to another and finally suggest new approaches to segment and profile consumers based on latent traits across multiple categories. In doing so, this paper contributes to the consumer decision literature in three ways: 1) theoretically, the latent-trait approach provides rich support in examining the underlying psychological processes; 2) methodologically, the relative merits of models with continuous versus discrete representations of consumer heterogeneity are discussed; and, 3) substantively, new insights on targeting and profiling based on latent processes rather than observed behavior are presented with respect to managing across seemingly unrelated product categories.

Keywords: Seemingly Disparate Categories; Segmentation; Latent Trait
1 INTRODUCTION

“To look at a leopard through a tube, you can only see one spot.”

-From Ancient Chinese Idiom (422 AD)

The task for marketing managers today is increasingly complex and customer-oriented. Traditional practice involves brand managers planning and organizing marketing activities around individual brands, then shifting towards category managers who coordinate purchasing, merchandising and prices of a set of brands within a category (Zenor 1994) and occasionally across categories within the “market basket” (Bell and Lattin 1998; Seetharaman et al. 2005). Most recently, as marketing practice embraces customer orientation and customer management, managers note that consumer purchases are never just limited to a few brands, or grocery shopping basket. In fact, consumers naturally shop around a globe of disparate product categories that are more complex and diverse than the traditionally defined market basket in retailing research. Here, the term “disparate” is similar to “non-comparable” (Johnson 1984), which describes the degree to which choice alternatives can be represented by the same attributes, but offers a broader and more generalized description of categories that are utterly dissimilar and difficult to compare with each other than merely a function of the number of common and distinctive features associated with alternatives as in comparability (Tversky 1977). For example, consumers drive certain cars and listen to certain radio channels; they prefer certain soft drinks and behave in certain ways when it comes to financial investments. These categories have typically been studied in isolation, but they collectively reflect a more complete and realistic picture of consumer demand rather than steady snapshots for consumer behavior as in previous
This research aims to examine consumer choices across seemingly disparate product categories in order to specify a fuller model of the consumer demand problem.

Insights from understating behavior across seemingly disparate categories would be increasingly relevant in today’s retail context for customer valuation, segmentation, cross-sell and resource allocation (Reinartz and Kumar 2003; Shah and Kumar 2008). Marketing activities are coordinated in a variety of categories and in a variety of formats. Supermarkets such as Wal-Mart make assortment decisions for product categories that are not closely related, including consumer electronics, furniture, apparel, grocery and many others. The rewards from loyalty programs such as Air Miles can be accumulated or redeemed in many outlets, ranging from gasoline services and package holidays to supermarket shopping. Brand extension efforts make Virgin Group a conglomerate that builds presence across different business areas. Moreover, due to the growing ability to track consumer purchase patterns cross categories using CRM and web-based tools, Internet retailers (such as Amazon and Groupon) and platform providers (such as Facebook) are proactively managing across a wide assortment of categories and having access to a rich database of consumer behavior that was not able to be tracked traditionally. Managers are urged to embrace the challenge of creating a broader and richer description of customer behavior and understand the deeper underlying process of consumer decision making.

Identifying and assembling purchase patterns from individual categories can assist in segmentation and targeting. To date, behavioral-based segmentation focuses primarily on “what consumers did” rather than “why they did it”. The objective of this research is to help managers get at the “why” question by studying and inferring the latent processes from observed behavioral data that are accessible to today’s firms (rather than incurring the additional cost of augmenting with experiments, survey data or brain scans). The genesis is that consumers are
alike because they share similar thought processes, not because they display similar observed
behavior as assumed in traditional segmentation approaches. Nevertheless, one reason that
previous research on cross-category behavior often restricts to related categories is due to data
availability. It is difficult to get access to customer purchase data across a wide range of
seemingly disparate categories and infer consumers’ underlying processes based on observed
behavioral patterns. Our goal is to build a theory-driven model that helps managers to understand
and measure the impact of the underlying processes that explain systematic co-variations across
seemingly disparate categories based on behavioral data.

In fact, the process of aligning decisions across seemingly unrelated categories occurs
naturally and bilaterally. Consumers constantly make choices for every aspect of their lives, from
complex decisions such as which car to purchase, in which stock to invest, and to which cell
phone plan to subscribe, to more routine ones such as which soda to drink and which television
channel to watch. There could be many types of underlying processes that explain co-variations
across categories. One famous example in the marketplace, originally to illustrate the power of
data mining (Financial Times of London, Feb 7th, 1997), is of “Beer and Diapers”. It is observed
that beer and diapers, two categories which appear to be unrelated, tend to be purchased together
simultaneously by male customers. Traditional models on multi-category choice behavior would
only capture this phenomenon through demographics and random errors, and fail to recognize
the deeper rationale that male customers seek convenience when making shopping trips. Another
example is that we may observe certain consumers tend to be “innovators” of many categories as
they always prefer the latest new products or services, ranging from apparel and cell phones to
automotives. We may also observe that certain consumers are more inclined to purchase or hold
multiple types of products, either because of the need for variety-seeking, or because of a limited
capability to reach a single decision (Dowling and Uncles 1999). In this case, people are alike not only because they coincidentally display similar observed behavior but also because they share similar latent decision processes. While traditional segmentation research attempts to group people of similar observed outcomes together and explain their behavior with a same-response coefficient, assuming that “birds of a feather flock together” (Desarbo et al. 2004; 2006; Heilman and Bowman 2002), this research provides a first step in categorizing customers as a set of value-based process parameters for theory-driven segmentation and profiling exercises.

This research contributes to the literature in three ways. First, it takes a first step in modeling a complete picture of consumer decision problems by examining consumption across seemingly disparate product categories. Second, it investigates the latent processes that govern consumer decision making across decision stages and across categories to advance our understanding in both dimensions of customer behavior: the breadth of their consumption portfolio, and the depth of their latent decision processes. Third, it provides richer insights on targeting and profiling based on continuous latent processes rather than discrete observed behavior. Specifically, we propose a hierarchical multinomial processing tree model to empirically examine the underlying processes, which are defined as the “latent traits” that govern consumer choices across five seemingly disparate product categories: media consumption, automobile purchases, financial investments, soft drinks and cell phone plans through an asyndicated dataset consisting of 5,014 randomly selected consumers in the United States.

The model is estimated using Bayesian methods with weakly informative hyperprior distribution and a Gibbs sampler based on two steps of data augmentation. While the latent process structure remains the same across these categories, we further investigate how consumer behavior systematically varies from one category to another and finally suggest new approaches

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1 I will explain the selection of categories in the data section.
to segment and profile consumers based on collection of continuous latent traits (rather than discrete observed behavior) across multiple categories. Lastly, we compare the latent-trait approach with the latent-class approach and identify conditions under which they may yield in similar or dissimilar results from a data-driven perspective.

Latent trait models have a long history in psychometric studies of psychological constructs such as verbal and quantitative ability (see, e.g., Lord and Novick 1968; Langeheine and Rost 1988) but have not received much attention in the marketing field. Essentially, any person-level difficult-to-observe continuous parameters, whether well-defined or undefined, goal-oriented or heuristic-based, can all be considered as latent traits. It can take place at many levels of decision making. For example, at the product category level, need for convenience is the latent trait that explains the phenomenon of beer and diapers. It is highly likely that male consumers would exhibit the same trait when choosing brands and products, such as choosing the most accessible diaper brand on the shelf, or choosing the beer that they are most familiar with. Furthermore, decision processes can often be casted into a tree model in a natural and principled manner, and latent traits can be best viewed as the branches that lead to decision nodes at each stage. Depending on the firm’s interest in key decision variables and availability of data, the tree structure can be adapted in a specific setting. For example, if managers are interested in the impact of “need for convenience” on store and assortment choices, then the tree will start from a consumer who chooses between the more “convenient” stores (i.e., stores within a certain distance) and less convenient stores, then chooses between more “convenient” assortments (e.g., shelf allocation in the case of beer and diapers). At each stage, the latent trait of “need for convenience” determines the consumer’s paths in taking upper or lower decision branches. If a firm’s interest lies in capturing the latent trait of “innovativeness” in category and
brand management, then the decision tree will start from a consumer choosing between the newer (more innovative) and more established product category, followed by decisions in brands, and finally in products.

As noted earlier, many types of latent traits may affect consumer decision making and this research is at best offering a process for studying the impact of latent traits. For exposition and without loss of generality, I examine one specific type of latent trait, which is defined as “polygamy”. Polygamous loyalty has been documented in the literature to describe the behavior of “divided loyalty” among a number of brands (Dowling and Uncles 1997; Bowman 2004). Polygamy is the tendency of individuals to seek multiple types of products, services, or brands, as opposed to holding to a single one. It is an idiosyncratic trait that a consumer has and, when manifested, it can lead to interior solutions where their constrained utility is maximized on the budget constraint with strictly positive quantities of two goods (i.e., multiple goods are chosen from the alternative set). It is noteworthy to distinguish polygamy from variety-seeking behavior, which can be viewed as a subset or outcome of polygamy that describes the switching behavior among brand/product/service alternatives, as opposed to loyalty (Khan et al. 1986). While consumers engage in variety-seeking activities merely as a result of satiation (Kim et al. 2002), they may seek polygamy for various reasons such as sensation, diversification, convenience, security, complementarity and/or inability to reach a single decision. Polygamy may take place at many levels of the decision process. For example, at the product level, investors may hold different stocks as a portfolio; at the brand level, diners may order different brands of wines at one occasion; at the product-type level, consumers may want both a laptop and a desktop; and finally, at the product-category level, consumers almost always hold multiple categories. In addition, depending on the product category, consumers are likely to experience a satiation effect
or “heavy-user” effect when moving across layers of decision processes. For example, if consumers purchase multiple types of automobiles, they may be less likely to purchase multiple brands within each type. Nevertheless, for media consumers who enjoy the large variety of website choices that Internet offers, it is more likely that they will also subscribe to multiple television channels at a time. Such variations across levels of decision processes and product categories allow better identification when estimating the parameters and enrich potential insights that latent trait can generate.

In summary, by testing one specific latent trait of “polygamy”, this research takes the first step to empirically investigate the continuous latent processes that govern consumer behavior across seemingly broad and disparate product categories and across different decision-making stages to advance understanding in both dimensions of customer behavior: the breadth of their consumption portfolio and the depth of their latent decision processes. Specifically, this research addresses: 1) whether latent trait has an impact on consumer decision making and the magnitude of such impact, if any; 2) how a latent trait is manifested across different levels of decision making; and 3) how the effect of a latent trait varies across seemingly disparate categories. In doing so, this research contributes to the consumer decision literature in three ways: 1) theoretically, the latent-trait approach provides rich support in examining the high level processes; 2) methodologically, the relative merits of models with continuous versus discrete representations of consumer heterogeneity are discussed; and 3) substantively, by providing new insights on targeting and profiling with respect to managing across seemingly unrelated product categories.

The remainder of this essay is organized as follows. Section 2 reviews related streams of literature and our general approach to modeling consumption across seemingly disparate
categories. This is followed by the empirical model in Section 3, a description of the data (Section 4), and estimation and results in Section 5. We then conduct a latent-class segmentation analysis ex-post based on the first stage latent trait parameters in Section 6, and conclude with a discussion of key findings, implications for management, limitations and directions for future research in Section 7.

2. LITERATURE REVIEW

Marketing research on consumer choice across seemingly disparate categories and latent traits is scarce. Nevertheless, related literature on cross-category models of consumer choice and decision making processes has been popular. Consistent with the shift in practice, marketing research has progressed gradually towards examining the full picture of decision problems. The literature on cross-category behavior evolves from standard single category choice models with homogenous demand specifications and independent category decisions (McFadden 1980; Guadagni and Little 1983; Bucklin and Gupta 1992; Berry 1994) to models addressing correlations between two or three related, by and large complementary product categories (Erdem 1998; Manchanda et al. 1999; Heilman and Bowman 2002; Chung and Rao 2003), and most recently to multi-category choice models (aka market basket models) that describe purchase behavior in typically eight to ten categories within grocery shopping trips (Ainslie and Rossi 1998; Bell and Lattin 1998; Seetharaman et al. 2005; Mehta, 2007). In doing so, this stream of research uncovers the correlations in cross-category purchase outcomes and marketing mix sensitivities from complementarity, consumer heterogeneity, state dependence and coincidences. The genesis is that if sensitivity to marketing mix variables is a common consumer trait, then one should expect to see similarities in sensitivity across multiple categories (Ainslie and Rossi 1998). For example, a low-income household might be price sensitive in many product
categories. However, the categories studied are usually within the grocery shopping basket and are, by nature, closely related (e.g., toothbrush and toothpaste). The reality is that consumer purchases are never limited to a grocery context and customer behavior is likely to vary systematically across product categories as a function of more than the sources of cross-category variations listed above. For example, the joint purchase of beer and diapers would have been incorrectly picked up as mere coincidences by previous research. Hence, research that examines consumption across seemingly disparate categories would provide a more realistic and generalized approach in studying cross-category behavior. In order to study behavior in such a broad and comprehensive consumption context, managers need a more sophisticated approach that describes and provides a deeper understanding on consumers’ underlying preferences or processes that govern choices.

There are many approaches, such as attitudinal or behavioral, that one can use to study disparate categories. Decades ago, researchers typically looked at choices at an aggregate level. Attitudinal research and survey studies on consumer “Values, Attitudes, Lifestyles” (VALS, VALS2) have long been interested in addressing such problems. While this stream of research often suffers from implementation difficulties such as smaller sample sizes, greater collection efforts, and sometimes self-report bias, they provide an intriguing angle to understanding person-factors (though mostly on attitudes and aggregated discrete segments or labels) from consumers’ perspectives. On the behavioral side, techniques such as grouping or conglomeration are available to analyze data from aggregate responses and decompose the tabular frequencies into a set of latent classes or segments (Desarbo et al. 1993; Wedel and Kamakura 2000). A limitation of such an approach is that it relies on brute-force statistical fits rather than a utility-maximizing framework, and therefore is less theoretically realistic (Wedel et al., 1999). Furthermore, it
imposes a fixed number of latent classes and assumes each person to be a member of one latent class. This is often too restrictive and difficult to interpret. In many applications, a continuous distribution of a parameter value that accommodates heterogeneity across consumers is more realistic (Andrews, Ainslie and Currim 2002; also see Andrews, Ansari and Currim 2002).

Most recently, there is a growing interest in understanding psychological processes that contribute to decision making (McGuire 1976). Over the past thirty years, a large stream of experimental studies show that consumer decision making is a highly complex process that challenges the assumption of a well-defined preference structure (or utility function) in modeling literature (Bettman 1979). New developments in neurosciences such as CAT scans and fMRI illustrate that different parts of the brain are active during different parts of mental life (including consciousness, emotions, choices and morality) and exact brain regions can be pinned down for certain types of decision making (Hedgcock and Rao 2009; Weller et al. 2009).

Despite the critical role of high-level latent processes in consumer decision making, there is little empirical research examining its impact on consumer choice with behavioral data. Incorporating these difficult-to-observe process parameters into well-defined quantitative models requires a continuous distribution of the latent variables. This can be achieved through latent trait analysis, which has received considerable attention in psychometrics and mathematical psychology. There are a few early marketing applications discussing latent or unobserved variables in survey research (Balasubramanian and Kamakura 1989), coupon redemption (Bawa et al. 1997) and cross-selling of financial services (Kamakura et al. 1991) in a single category context. Operationally, latent trait is the “person parameter” that has been defined in item response theory. It represents the strength of an attitude and captures parameter heterogeneity due to individual differences between persons, as opposed to parameter homogeneity in latent
class approach. It has two unique advantages over traditional models: to the extent that marketing is applied psychology and applied sociology, the latent trait approach is more theoretically grounded by investigating the underlying decision process that impacts consumer choice; and empirically, a continuous distribution of person parameters usually leads to better fit.

3. The Empirical Model

In this research, I adopt a hierarchical multinomial processing tree model with Bayesian methods to examine the impact of polygamy on consumer choice while incorporating heterogeneity. Multinomial processing tree (MPT) models have been extensively used in cognitive psychology for memory testing, perception research and reasoning (see an overview by Batchelder and Riefer (1999)). MPT models are discrete choice models that are developed exclusively to explicitly measure and disentangle the impact of underlying or latent cognitive capacities with panel data resulting from multiple and confounded processes (Ansari, Vanhuele and Zemborain 2007). The “structural” parameters represent underlying psychological processes. Each MPT model is a re-parameterization of the decision outcome probabilities of the multinomial distribution, with each branch of the tree representing a different hypothesized sequence of processing stages and leading to a specific decision outcome. Hence, assumptions about the psychological processes in a given experimental paradigm can often be cast into the form of a processing tree structure in a natural manner (Klauer 2010).

Consistent with the choice modeling literature, the tree structure begins with a consumer choosing among categories (or types or channels), followed by brands and products. However, unlike choice models which rely on conditional probabilities to reach to the bottom of the hierarchy (i.e., product choice), our latent-trait MPT approach explicitly lets the latent trait determine the path to follow in traversing the tree structure. In addition, the latent trait for
polygamy is active during every stage of the decision tree. We code polygamy separately for channel/type ($\theta_c$), brand ($\theta_b$) and product ($\theta_p$). Figure 1 shows the structure of the multinomial processing tree. Each product category is modeled by separate subtrees of the multinomial model. For a given product category, a consumer will first decide whether to choose multiple types/channels or a single one, then decide whether to choose multiple brands, and finally whether to choose multiple products\(^2\). Therefore, there will be up to a total of three latent trait parameters and eight mutually exclusive decision outcomes (end nodes) for each product category. Our model building can be viewed as a three-step hurdling process: as illustrated in Figure 1, the model starts with observed individual level decision outcome frequencies, with the paths leading to the outcomes governed by the latent processes; then, it employs a Probit-link to transform individual parameters to population/prior, which is further specified using a hyperprior. Lastly, data augmentation is used for easier empirical estimation.

3.1 Person-Level Model

Specifically, for product category or subtree $k$, $k = 1, \ldots, K$, $j = 1, \ldots, J_k$, and consumer $t$, $t = 1, \ldots, T$, the decision outcome/node $C_{kj}$ is mutually exclusive and has a frequency $n_{kjt}$, which follows a multinomial distribution with parameters $p_{kjt}$, $j = 1, \ldots, J_k$. For product category $k$, let $N_k$ be the fixed number of responses. Across product categories $k$, the data are assumed to be distributed stochastically independent for each consumer $t$. In Table 1, an overview of the most important symbols is given for easy reference.

Let $p_{kjt}$ denote the choice probabilities of reaching the end node decision outcome $C_{kj}$ by means of $S$ structural parameters $\theta_s$, $s = 1, \ldots, S$, each $\theta_s$ being probabilistic and free to vary in $(0, 1)$ (Ansari et al. 2007; Klauer 2010):

\(^2\) We conducted robustness checks on the sequence of decision making process (e.g., product first, then brand and lastly type) and the results do not vary significantly.
Here, \( \theta_t \) is the vector of consumer \( t \)'s parameter values \( \theta_{st}, s = 1, \ldots, S \). It represents a sequence of latent binary events which determine the path followed in traversing the tree. The choice probabilities \( P(C_{kj}|\theta) \) sum to 1. We can use a simple EM algorithm for maximum-likelihood estimation of the model parameters (Hu and Batchelder 1994). This form can be characterized by means of the model’s representation as a processing tree (e.g., Figure 3). Let the number of paths ending in decision outcome \( C_{kj} \) of subtree \( k \) be \( I_{kj} \), and let the \( i \)th such path be denoted by \( B_{kji} \). The probability that path \( B_{kji} \) is followed by consumer \( t \) in traversing the tree is given by:

\[
p_{kj} = P \left( C_{kj} | \theta_t \right), \tag{1}\]

where \( a_{skji} \) and \( b_{skji} \) are the number of branches on path \( B_{kji} \) that are assigned to parameter \( \theta_s \) and its complement \( 1 - \theta_s \), respectively. The probabilities for a given node are then computed by adding the probabilities of all paths that terminate in the respective decision outcome:

\[
P \left( C_{kj} | \theta_t \right) = \sum_{i=1}^{I_{kj}} \prod_{s=1}^{S} \theta_{st}^{a_{skji}} (1 - \theta)_{st}^{b_{skji}}, \tag{2}\]

The vector of person-level decision outcome counts \( n_t = (n_{11t}, \ldots, n_{1J1t}, \ldots, n_{K1t}, \ldots, n_{KJ1t}) \) is modeled by a vector-valued random variable \( N_t \) that follows a product-multinomial distribution:

\[
P \left( N_t = n_t | \theta_t \right) = \prod_{k=1}^{K} \left( \binom{N_k}{n_{k1t}, \ldots, n_{kjkt}} \prod_{j=1}^{J} \left[ P \left( C_{kj} | \theta_t \right) \right]^{n_{kj}} \right) \tag{3}\]

The model from Equation 19 defines the person-level model. In the next sections, we will specify the prior distribution, hyperprior distribution, and the Gibbs sampler required for the analysis.

### 3.2 Prior Distribution

Ansari et al. (2007) use a logit link to transform parameters from the interval \((0, 1)\) to the real line and to model the transformed parameters by a multivariate normal distribution with
arbitrary mean $\mu$ and arbitrary covariance matrix $\Sigma$ to be estimated from the data. Klauer (2010) employs a similar approach through a probit link and a less informative hyperprior distribution with a Gibbs sampler.

Specifically, the person-level model is re-parameterized by means of new population-level parameters $a_{st}$ linked to the original personal-level parameters $\theta_{st}$ via $a_{s} = \Phi^{-1}(\theta_{st})$, $s = 1, \ldots, S$, $t = 1, \ldots, T$, where $\Phi$ is the cumulative distribution function of the standard normal distribution. Let us collect the parameters $a_{st}$ in the vector $a_t$. Across individual consumer $t$, the parameter $a_t$ is assumed to follow a multivariate normal distribution with mean vector $\mu$ and covariance matrix $\Sigma$:

$$a_t \sim N(\mu, \Sigma).$$ (5)

That is, the person-level model is the multinomial-processing tree model with probit-transformed model parameters. It allows for separate parameter estimates for each person, but the population-level model constrains the individuals’ parameters to be distributed according to a multivariate normal distribution with mean and covariance matrix to be estimated from the data.

### 3.3. Hyperprior Distribution

In the Bayesian framework, a hyperprior distribution is required for the population-level parameters of the prior distribution with mean $\mu$, which is assumed to follow an independent normal distribution with mean zero and variance $p = 100$, and a covariance matrix, which is assumed to follow a scaled Inverse–Wishart distribution. Using a new set of scale parameters $\lambda_s$, $s = 1, \ldots, S$, they decompose $\Sigma = (\sigma_{kl})$ as follows:

$$\Sigma = \text{Diag}(\lambda_s)Q\text{Diag}(\lambda_s)$$ (6)

where $Q = (q_{kl})$ and $\sigma_{ss} = \lambda_s^2 q_{ss}$. Whereas the correlations $\rho_{kl} = \sigma_{kl} / \sqrt{(\sigma_{kk}\sigma_{ll})}$ are determined only by $Q$, that is, $\rho_{kl} = q_{kl} / \sqrt{(q_{kk}q_{ll})}$. Assuming an Inverse–Wishart distribution for $Q$ with $S + 1$
degrees of freedom and scale matrix set to the identity matrix $I$ therefore maintains the desirable uniform distribution for the parameter correlations. The parameters of interest are $\alpha_t, \mu$, and $\Sigma$.

The following hyperprior distribution results:

\[
\begin{align*}
\mu & \sim N(0_S, 100I), \\
Q & \sim \text{Inverse–Wishart}_{S+1}(I), \\
\lambda & \sim N(1_S, 100I),
\end{align*}
\]

where $0_S$ and $1_S$ are vectors of dimension $S$ with zero and one, respectively, in each cell.

3.4 Data Augmentation for the Gibbs Sampler

The proposed model includes two steps of data augmentation that are required for the Gibbs Sampler. First, we augment the decision outcome frequencies $n_{kij}$ by the path frequencies $m_{kij}$ and collect all path frequencies in the vector $m$. Second, a different random variable $Z$ is assigned to each node. As shown in Figure 2, as the tree is traversed, the upper branch emanating from a given node is taken if the associated $Z > 0$ and the lower branch if $Z \leq 0$. Let $Z$ follow an independent normal distribution with mean $\alpha_s$ with $\alpha_s = \Phi^{-1}(\theta_s)$ and variance 1. From a theory point of view, the decision outcomes nodes can be viewed as binary choice points with choices driven by unobserved latent variables $Z_{slt}$ exceeding a given threshold or not. For example, the choice may indicate whether a consumer’s polygamy is triggered and activated. Since each node is assigned to one of the processes postulated by the multinomial model, and the outcome of the process determines which choice is made in moving through the processing tree, they provide a substantive underpinning of latent processes beyond mere technical convenience.

Specifically, each person runs through $N_k$ trials for product category (or subtree) $k, k = 1, \ldots, K$. Each such trial $x, x = 1, \ldots, N_k$, defines $R_k$ random variables $Z_{kxr}, r = 1, \ldots, R_k$, where $R_k$ is the number of nodes or decision outcomes in product category $k$. The vector $Z$
collects all \( Z_{ksr} \) in a fixed order. Each node indexed by \( k \) and \( r \) is assigned one of the person-level parameters \( \alpha_s \). Let the number of nodes associated with parameter \( \alpha_s \) in subtree \( k \) be \( o_{ks} \). Across subtrees \( k \), there are \( n_{st} = \sum_k N_k o_{ks} \) random variables \( Z \) per consumer with mean \( \alpha_{st} \), consumer \( t \)’s value on parameter \( \alpha_s \). An alternative way to index the \( \sum_s n_{st} \) elements of \( Z \) is therefore as \( Z_{slt} \) with \( Z_{slt} \) being the \( l \)th element of those elements of \( Z \) that are assigned parameter \( \alpha_{st} \) as its mean.

Furthermore, it turns out that all conditional posterior distributions that are needed for the Gibbs sampler, other than the conditional posterior distribution of the individual \( Z_{slt} \), do not depend on the order in which the paths occurred, nor on the order in which the \( n_{st} \) values of \( Z_{slt} \) were observed for each \( s \) and \( t \) (Klauer 2010). Therefore, we can work with order statistics \( Z_{0st} \), in which the \( n_{st} \) variables \( Z_{slt} \) appear in ascending order. Let \( Z_o \) be the vector that stacks the order statistics \( Z_{0st} \), \( s = 1, \ldots, S \), \( t = 1, \ldots, T \). The double data augmentation procedure by path frequencies \( m \) and by \( Z^o \) allows the posterior distribution of the model parameters to be expressed as a standard hierarchical linear regression with the given \( Z_{0st} \) as the data, and therefore facilitates straightforward adaptation of the well-understood Gibbs sampler for analyzing standard hierarchical linear regression models in a Bayesian framework (e.g., Gelman and Hill 2007). Thus, the remainder of the model can be analyzed as though it was the following linear model:

\[
Z_t \sim N(X_t \alpha_t, I),
\]

\[
\alpha_t \sim N(\mu, \Sigma),
\]

with \( (\mu, \Sigma) \) distributed according to the hyperprior specified above and \( X_t \) as a design matrix containing zeros and ones that simply assigns \( \alpha_{st} \) as mean to each \( Z_{slt} \), \( l = 1, \ldots, n_{st}, \ s = 1, \ldots, S, \ t = 1, \ldots, T \).
To summarize, the double data augmentation and the probit link have two advantages. Technically, they allow replacing observed categorical responses by continuous data with an underlying linear Gaussian structure (Albert and Chib 1993). More importantly, they provide a substantive underpinning of latent processes.

### 3.5 The Gibbs Sampler

A Gibbs sampler is a Monte Carlo–Markov chain algorithm for sampling from the posterior distribution of the model parameters given the data \( n \). Let us then re-parametrize the parameters \( \alpha_t \) as follows:

\[
\alpha_t = \mu + \beta_t, \\
\beta_t = \text{Diag}(\lambda_s) \gamma_t.
\]  

(9)

The parameter \( \mu \) is the prior mean of the parameters and the parameters \( \beta_t \) are the individual-specific systematic deviations from it. The parameters \( \lambda_s \) are the scale parameters of the scaled Inverse–Wishart distribution and the parameter \( \gamma_t \) is an unscaled version of \( \beta_t \). Let \( \gamma \) be the vector that stacks the vectors \( \gamma_t, t = 1, \ldots, T \). The Gibbs sampler cycles through blocks of parameters. For each block, one sample is drawn from the conditional distribution of the parameters of the block given the data and the remaining parameters. The parameter blocks for the Gibbs sampler are \( Q, (Z^0, m), \gamma, \lambda, \) and \( \mu \). The detailed conditional distributions are given below.

**Conditional Distribution of \( Q \)**

The conditional distribution of \( Q \) given the data and the other parameters depends only on the parameters \( \gamma_t \). Let \( S \) be the sum of cross-products of the \( \gamma_t \):

\[
S = \sum_{t=1}^{T} \gamma_t \gamma_t^\prime,
\]

then

\[
Q | m, Z^0, \gamma, \mu, \lambda, n \sim \text{Inverse–Wishart}_{T+S+1}(I+S),
\]

(10)

**Conditional Distribution of \( (Z^0, m) \)**
The conditional distribution of \((Z^o, m)\) is sampled from by sampling the conditional distribution of \(m\) with \(Z^o\) integrated out, followed by sampling from the conditional distribution of \(Z^o\) given \(m, n\), and the other parameters.

The conditional distribution of \(m\) given the data and the other parameters depends only on the data \(n\) and the parameters \(\gamma, \mu, \lambda\). For each person and decision outcome \(C_{kj}\), the path frequencies \(m_{kji}, i = 1, \ldots, I_{kj}\), follow a multinomial distribution with parameters \(n_{kji}\) and \(p_i, i = 1, \ldots, I_{kj}\), as defined in Equation 7 (note that \(\theta_{st} = \Phi(\mu_s + \lambda_s \gamma_{st})\), hence \(p_i = p_i(\mu, \gamma, \lambda)\)). Thus, \(m\) follows a product-multinomial distribution:

\[
m | Q, \gamma, \lambda, \mu, n \sim \prod_{t=1}^{T} \prod_{k=1}^{K} \prod_{j=1}^{I} \text{Multinomial}(n_{kji}, (p_i(\mu, \gamma, \lambda))_{i=1, \ldots, I_{kj}}),
\]

Consider next the conditional distribution of \(Z^o\) given \(m, \gamma, \lambda, \mu, Q, \) and \(n\). To derive this distribution, consider first the conditional distribution of the (unordered) \(Z\). Let \(P\) be a sequence of paths, \(P = (P_{kxt})_{kxt}\), path \(P_{kxt}\) being a path of subtree \(k\) assigned to individual \(t\) ’s trial \(x, t = 1, \ldots, T, k = 1, \ldots, K, x = 1, \ldots, N_k\). Let \(\xi_m\) be the set of sequences of paths \(P\) consistent with path frequencies \(m\), that is, with \(m_{kji}\) \(it\) being the number of trials \(x\) with \(P_{kxt} = B_{kji}\) for each \(k, j, i, t\). By definition of conditional probabilities, the density of \(Z\) is:

\[
f(Z | m, Q, \gamma, \lambda, \mu, n) = \sum_{P \in \xi_m} f(Z | P, m, Q, \gamma, \lambda, n) \prod (P | m, Q, \gamma, \mu, \lambda, n),
\]

The conditional distribution of \(Z^o\) given the data, the path frequencies \(m\), and the other parameters need to be generated only to the point that it is consistent with the path frequencies \(m\), and the order information is not required. Let \(n^{+}_{st} = \sum_{k=1}^{K} \sum_{j=1}^{I} \sum_{i=1}^{I_{kj}} a_{skji} m_{kji} \) normal variates \(Z^{+}_{st}\) with mean \(\alpha_{st}\) truncated from below at zero, \(n^{-}_{st} = \sum_{k=1}^{K} \sum_{j=1}^{I} \sum_{i=1}^{I_{kj}} b_{skji} m_{kji} \) normal variates \(Z^{-}_{st}\) with mean \(\alpha_{st}\) truncated from above at zero, and \(n^{+}_{st} - n^{-}_{st}\) nontruncated normal variates \(Z^{tt}_{st}\) with mean \(\alpha_{st}\). It is sufficient to generate \(n^{+}_{st}\) and \(n^{-}_{st}\) truncated normal variates with mean \(\alpha_{st}\) and variance one truncated at zero from below and above, respectively, as well as \(n^{+}_{st} - n^{-}_{st}\).
$n_{st}$ unconstrained normal variates with mean $\alpha_{st}$ and variance one for each parameter $s$ and individual $t$.

**Conditional Distribution of $\gamma$**

The different $\gamma_t, t = 1, \ldots, T$, are conditionally independent, so that they can be sampled one after the other for a sample from the conditional distribution of $\gamma$. For each person $t$, the conditional distribution of $\gamma_t$ can be derived as a Bayesian regression with data $\lambda_s^{-1}(Z_{slt} - \mu_s), s = 1, \ldots, S, l = 1, \ldots, n_{st}$, that are independently normally distributed with mean $\gamma_t$ and variance $\lambda_s^{-2}$ and with a normal prior for $\gamma_t, \gamma_t \sim N(0, Q)$. Thus, the conditional distribution of $\gamma_t$ given the data and the other parameters is multivariate normal with mean $g_t$ and covariance matrix $G_t$ given by

$$g_t = G_t \text{Diag}(\lambda_s)u_t,$$

$$G_t = (Q^{-1} + \text{Diag}(n_{st}\lambda_s^2))^{-1},$$

where $u_t$ is the vector of the sums $\sum_{l=1}^{n_{st}}(Z_{slt} - \mu_s), s = 1, \ldots, S$.

**Conditional Distribution of $\lambda$**

The conditional distribution of $\lambda$ can be derived as a Bayesian regression with data $\gamma_{st}^{-1}(Z_{slt} - \mu_s), s = 1, \ldots, S, l = 1, \ldots, n_{st}, t = 1, \ldots, T$, that are independently normally distributed with mean $\lambda_s$ and variance $\gamma_{st}^{-2}$ (and with a normal prior for $\lambda_s, \lambda_s \sim N(0, pI)$, where $p$ is the variance of the hyperprior of $\lambda_s$ (i.e., $p = 100$). Thus, the conditional distribution of $\lambda$ given the data and the other parameters is multivariate normal with mean $h$ and covariance matrix $H$ given by

$$h = Hv,$$

$$H = \text{Diag} \left(p^{-1} + \sum_{t=1}^{T} n_{st} \gamma_{st}^2 \right)^{-1},$$

where $v$ is the vector of the terms $p^{-1} + \sum_{t=1}^{T} \gamma_{st} \sum_{l=1}^{n_{st}}(Z_{slt} - \mu_s), s = 1, \ldots, S$.  


Conditional Distribution of $\mu$

The conditional distribution of $\mu$ can be derived as a Bayesian regression with data $Z_{slt}$, $s = 1, \ldots, S$, $l = 1, \ldots, n_{st}$, $t = 1, \ldots, T$, that are independently normally distributed with mean $\mu_s$ and variance one, and with a normal prior for $\mu$, $\mu \sim N(0, pI)$. Thus, the conditional distribution of $\mu$ given the data and the other parameters is multivariate normal with mean $u$ and covariance matrix $U$ given by

$$ u = U w, $$

$$ U = \text{Diag}( p^{-1} + \sum_{t=1}^{T} n_{st} )^{-1}, $$

where $w$ is the vector of the sums $\sum_{t=1}^{T} \sum_{l=1}^{n_{st}} (Z_{slt} - \lambda_s \mu_s )$, $s = 1, \ldots, S$.

3.6 Implementation

Rough initial estimates of the parameters $\mu$ and $\Sigma$ are obtained by means of the Monte Carlo EM (MCEM) algorithm. For the expectation step, the conditional distribution of $\beta_t$, $t = 1, \ldots, T$, is sampled via a Gibbs sampler for given $\mu$ and $\Sigma$ and given the data. The Gibbs sampler samples from the relevant conditional distributions specified above with $\mu$ and $Q$ fixed at their current estimates, and with $\lambda_s$ fixed to one, $s = 1, \ldots, S$, so that $\Sigma = Q$ and $\beta_t = \gamma_t$. In the maximization step, $\mu$ is then estimated as the mean of the sampled $\beta_t$, and $\Sigma$ as the covariance matrix of the sampled $\beta_t$. Initial overdispersed values of parameters $\beta_t$ and $\mu$ are then obtained by sampling from multivariate $t$-distributions with three degrees of freedom with mean given by $0_S$ and the MCEM estimates of $\mu$, respectively, and covariance matrix given by the MCEM estimate of $\Sigma$ and by $\Sigma/T$, respectively. Initial values of $\lambda$ were sampled from a uniform distribution on the interval $(0.5, 1.5)$, and initial values $\gamma_t$ were set to $\gamma_{st} = \beta_{st}/\lambda_s$, using the initial overdispersed values of parameters $\beta_t$.

4. DATA
The data needed for this empirical study are categories that are seemingly disparate, or rather, snapshots of consumer life experiences that cover a wide range of product categories. One suitable dataset is the National Consumer Survey. Therefore, I use the Simmons National Consumer Survey, which is filled by a nationwide sample of 5,014 individuals in the United States in 2006. It is considered one of the broadest and deepest surveys of American consumer behavior available. Consumers were asked to report their product purchases and brand preferences for a wide range of categories. The selection criteria for the categories used in this essay are: 1) the product category is among the top 10 TNS/Kantar most advertised categories, 2) data in the category is complete, and 3) the combinations of the product categories pass the pretest of “disparateness”\(^3\). The categories that satisfy the criteria above are: Financial Investments (including fixed income, equity and others), Soft Drinks (including carbonated diet, carbonated non-diet, noncarbonated diet and noncarbonated non-diet) Automobiles (including SUVs, compact, midsized, full-sized, sports, pickups, vans, luxury cars.), and Cell Phone Plans (including pre-paid, family-share and individual-monthly). Note that these categories cover durable, high involvement, long purchase cycle options as well as nondurable, low involvement, FMCG options, thereby giving greater variations in degree of dissimilarity and distinctiveness (i.e. truly disparate). In each category, respondents report the up to four most recent purchases with respect to types, brands and products. Similarly, I further trim the data to include individuals who at least have one purchase in each respective category. Although the number of observations in these categories is as many as we would want to have, the consumer survey is, by far, the only study available in the field that captures consumption patterns across a variety of

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\(^3\) The pretest asks a random sample of 30 respondents to rate how similar or dissimilar they think the product categories are on a 1-7 scale. The combination of categories chosen has an average of 1.83 (with 1 being most disparate).
disparate categories. It allows greater examination of underlying psychological processes without compromising statistical power.

To ease the concern of a limited number of observations, we use a media diary that is filled by the same 5,014 individuals during the same time when the National Consumer Survey was issued in 2006. The media diary is from Universal McCann’s Media in Mind Diary 2006 and consists of self-reported media activities -- i.e., computer (including Internet), television, radio, or print (newspapers and magazines). This media diary is conducted annually with a randomly-selected, nationwide sample in the United States, and is considered the largest survey on consumer media consumption conducted by any media agency. The timing intervals in the diary are defined by half-hour time slots. Thus, at any given time, a panelist could consume one or a combination of these alternatives (i.e., multiplexing). Respondents report their activities for each media channel every half hour for seven consecutive days, except for the time periods from 1AM am-3AM and 3AM-5AM, which are each recorded as two individual observations. We further trim the diary to include 1,775 individuals who consumed media activities at least once during any half-hour slot in the observation window. A sample data structure is presented in Figure 5. For each respondent, we also have selected demographic information including age, gender, household income, household size, and location information such as whether the respondent is from an urban or rural area.

Figure 3 provides a snapshot of our data structure and Table 2 reports detailed descriptive statistics for each product category. In the Cell Phone Plan category, almost zero percent of consumers hold multiple types of plans, which is sensible because consumers rarely belong to both an individual plan and a family plan. Polygamy happens more at the brand level and product/service level (e.g., ring tones, caller IDs, etc.). Note that Financial Investment is a

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4 The Media Consumption category is also pre-tested for “disparateness” with other product categories.
special category because information on brands and products are confidential. Nevertheless, respondents report detailed investment sub-types/formats. For instance, fixed income includes six formats: treasury bills, savings bonds, U.S. government bonds, municipal bonds, money markets and corporate bonds. Equity includes three formats: company stocks, common stocks and equity mutual funds. Others include four formats: other securities (e.g., futures and derivatives), investment collectibles, international investments, and trust funds. Specifically, 37.8 percent of the 3,014 respondents hold multiple types of financial investments, with an average of 2.17 types. 44.9 percent of the respondents hold multiple sub-types/formats, with an average of 3.06. Clearly, there is a considerable group of single-type investors exhibiting polygamy for different investment formats. Furthermore, we observe significant variation in polygamy across product categories (trees), and across tree levels. For example, in the Soft Drinks category, there are four major brands (Coco-Cola, Pepsi, Dr. Pepper and other brands) as in Dubé (2004) and 96 products/SKUs (23 Coco-Cola products, 20 Pepsi, 27 Dr. Pepper and 26 other brands). 76.5 percent of all 4,452 consumers purchase multiple types within the last seven days, with an average of 2.42 types, 72.8 percent purchase multiple brands with an average of 2.79, and 89 percent purchase multiple products with an average of 7.69. In a nutshell, summary statistics suggest that this data is sparse with large variations across categories (trees) and across decision stages (tree levels). It is also sensible and reflects reality (that less polygamy happens for specialty retailing products such as Cell Phone Plans, and more so for convenience products such as Soft Drinks).

5. RESULTS

5.1 Model Selection and Goodness-of-Fit Measures

The deviance information criterion (DIC) is a Bayesian analogue of information measures such as Akaike’s information criterion in that it comprises a term quantifying lack of
model fit and a term penalizing model complexity. The latter term, $pD$, is of interest in its own right in that it is interpreted as the effective number of parameters. It is smaller than the actual number of parameters to the extent to which the model parameters are constrained by dependencies in the data or the prior. DIC can be computed on the basis of the output from the Gibbs sampler. A point estimate of the parameter estimates $\theta_i$ is also required, and I used the maximum likelihood estimates from separate analyses conducted for each individual $t$. The model with the smallest DIC value strikes the best compromise between fit and complexity in the metric defined by DIC. I will report DIC in Section 6 where I compare the latent trait approach with the latent class approach.

5.2 Parameter Estimates

We obtain parameter estimates for each individual across all product categories (except for media) and summarize them in Table 3. Table 3 shows the posterior percentiles for the parameters (on the probability scale) and the posterior medians of the Probit-transformed parameters. The rows present the product categories or subtrees, whereas the columns present the latent trait parameter $\theta_i$'s at different levels of the tree. A high $\theta$ (close to 1) denotes a high level of polygamy. Several aspects of Table 3 are noteworthy. First, the posterior medians are able to reproduce the underlying population means with little bias. Second, there are variations of the magnitude of polygamy across tree levels, as well as across trees (product categories). Third, the relatively high standard deviations suggest evidence for large individual differences in the impact of polygamy. Let us take three real data records for illustration purposes: ID 1227670 is a young female from Los Angeles with all of her parameters close to 1 (e.g., 0.5, 0.7, 0.8, 0.7, 0.9,…). This suggests that she is a “Polygamist” that would love to enjoy offers of multiple products, brands and types. Managers should label her as a desirable candidate for cross-selling and attempt to provide a large assortment for her selection. In contrast, ID 1162260 is a senior male from New York City with low parameter estimates (e.g., 0.0,
0.1, 0.2, 0.1, 0.3, ...). He is a “Monogamist” that exhibits high inertia in purchase patterns across consumption scenarios. Managers may want to avoid going through expensive cross-selling efforts but rather deepen a strong long-term relationship with him with just one type of product or service.

Most consumers are like ID 1357204, who is being a “Wanderer” that is polygamous in some situations, but not in others (e.g., 0.1, 0.3, 0.5, 0.8, 0.9, ...). Our individual-level results on latent traits not only offer an empirical-based, theory-grounded process for understanding individual variations in cross-category decisions, but also provide a new basis for segmentation and profiling to generate important managerial insights on coordinating across categories and across different types of customers, as discussed in Section 3.6.

5.3 Model Comparison: Latent Trait versus Latent Class

We now compare the results from the latent-trait model with the results from the latent-class MPT model. The latent-class version of the multinomial processing tree is given as follows:

\[ p_{kjt} = p_{kj}(\theta_t), \]

where \( \theta_t \) is the vector of the \( S \) parameter values by person \( t \). Allowing for different parameters for each person \( t \), the vector of person-wise category counts \((n_{1t}, \ldots, n_{Jjt}, \ldots, n_{K1t}, \ldots,n_{KJkt})'\) is still modeled by a vector-valued random variable \( N \) that follows a product-multinomial distribution

\[
P (N_t = n_t|\theta_t) = \prod_{k=1}^{K} \left\{ \left( \begin{array}{c} N_k \\ n_{k1t} \ldots n_{kKt} \end{array} \right) \prod_{j=1}^{J} \left( P_{kj}(\theta_t) \right)^{n_{kjt}} \right\},
\]

Let the model parameters follow a distribution with probability measure \( \mu \), then

\[
P(N = n) = \int P(N = n|\eta)d\mu(\eta),
\]

where \( P(N = n|\eta) \) is given by the right side of Equation 16, in which the fixed values \( \theta_t \) are replaced by the variable of integration, \( \eta \), and \( n_t \) is replaced by \( n \). Therefore, for \( T \) consumers, we have:

\[
P ((N_1, \ldots, N_T) = (n_1, \ldots, n_T)) = \prod_{t=1}^{T} \left\{ \int P(N_t = n_t|\eta)d\mu(\eta) \right\},
\]

(18)
Let $\mu$ be distributed over a finite number $C$ of fixed parameter vectors $\theta_1, \ldots, \theta_c$. If $\lambda_c = \mu(\{\theta_c\})$ is the size of class $c$, the model equation simplifies to:

$$P \left( (N_1, \ldots, N_T) = (n_1, \ldots, n_c) \right) = \prod_{t=1}^{T} \left( \sum_{c=1}^{C} \lambda_c P \left( N_t = n_t | \theta_c \right) \right),$$

(19)

This means that each consumer $t$ is assumed to belong to one of the $C$ latent classes of proportional sizes $\lambda_c$. In a latent-class multinomial model, the category counts jointly follow a mixture of product-multinomial distributions, and each category count considered individually follows a mixture of binomial distributions. Furthermore, it is well known that mixtures of binomial distributions with parameters $p_c$ and $N$ and mixture coefficients $\lambda_c$ are identified if and only if $N \geq 2C - 1$. A simple EM-algorithm can then be devised for the maximum-likelihood estimation of latent-class multinomial models.

Table 4 shows the model fit statistics for both the latent-trait model and the latent-class model. Smaller DIC values suggest that the proposed model outperforms the latent class model significantly. Following Klauer (2006), two test statistics, termed M1 and M2, are considered for mean structure testing, and another two test statistics, termed S1 and S2, for variance-covariance structure testing. All four statistics are asymptotically distributed as $\chi^2$ when the degrees of freedom are larger than zero. Table 5 shows the detailed results from the latent class model. Parameter estimates for the Cell Phone Plans and Media Consumption category are not identified in the latent class framework because the probability is trivially close to zero (or one) so that there is not enough variation in the data for the model to distinguish multiple segments. In addition, not surprisingly, all the other categories seem to have two distinct classes: the polygamous class, and the single class. While we observe significant differences across tree levels and across trees, there are quite a number of places where the latent-class approach is not able to accurately capture the coefficients to reflect the true population mean (as indicated by the
zero values), indicating a poor job of capturing underlying distribution with the discrete representation of consumer heterogeneity.

6. SEGMENTATION ANALYSIS

We conducted a finite mixture analysis to segment the consumers based on the collection of individual $\theta$ parameters ($\theta_c$, $\theta_b$, $\theta_p$) across categories, with $\theta$ being free to vary between (0,1). Such continuous representation of consumer heterogeneity allows one to achieve value-based segmentation where consumers are grouped based on their decision processes rather than binary observed behavior, 0 or 1. It both provides richer theoretical support and better empirical fit with continuous distribution. Table 6 summarizes the segmentation results. The three segments “Polygamist”, “Monogamist” and “Wanderer” roughly each represent 20 percent, 10 percent and 70 percent of the data respectively. Profile analysis shows group differences are significant. As illustrated in the previous example in Section 5.2, the Polygamist segment shows high $\theta$s across decision tree stages and categories, whereas the Monogamists show the opposite. The $\theta$s for the Wanderer segment lie in between.

Next, we perform two types of out-of-sample predictions: customer-based and product/category-based. For the customer-based prediction, the idea is to find customers that behave similarly and use their parameters to predict the decisions of the holdout sample (15 percent). For product/category-based prediction, the assumption is that customers may exhibit similar behavior across multiple categories (Ainslie and Rossi 1998). For example, if a customer is price sensitive in the toothbrush category, then he may be sensitive to the toothpaste category, or even the clothing category. Specifically, we use parameters from three of the five categories to predict outcomes of the other two categories and report the average hit rates. Table 7 shows hit rate by segment using both types of prediction. In summary, while the latent trait model is
not designed for prediction (but rather for assessing the underlying processes), the hit rates still seem reasonable (more than 60 percent), although it is much harder to predict decisions of the Wanderer segment as compared to the Polygamist and the Monogamist segments which exhibit more consistent behavior across categories. In addition, customer-based prediction yields better accuracy than product/category-based prediction. This finding relates back to the intuition that getting at the “why consumers did it” by looking at the underlying processes provides greater conceptual and empirical support as compared to the “what consumers did” question in the traditional behavioral segmentation approach.

7. DISCUSSION AND CONCLUSION

Much of marketing has focused on a consumer’s choices and preferences in individual product categories or a set of closely related product categories. The reality is that consumers shop around a globe of categories that are much more diverse and complex than the traditionally defined “market basket”. This research takes a first step in modeling a complete picture of consumer decision problems by examining consumption across seemingly disparate product categories to advance understanding in both dimensions of customer behavior: the breadth of their consumption portfolio and the depth of their latent decision processes. While traditional research on multi-category choice models and latent class suffer from data and modeling limitations that prohibit deeper investigation of the underlying process that governs consumer decision making, this research empirically examines consumer choices across seemingly disparate product categories using a latent trait hierarchical multinomial processing tree model. In doing so, this paper contributes to the consumer decision literature in three ways: 1) theoretically, the latent-trait approach provides rich support in examining the high level processes; 2) methodologically, the relative merits of models with continuous versus discrete representations of consumer heterogeneity are discussed; and 3) substantively, new insights on
value-based targeting and profiling are presented with respect to managing across seemingly disparate product categories.

The power of the latent trait model lies in its ability to infer and assess the impact of underlying processes using behavioral data without necessarily augmenting survey or experiments on consumer attitudes. Segmentation and prediction analysis suggests that the approach of categorizing consumers as collections of latent process parameters provides better theoretical and empirical support for value/process based segmentation and targeting exercise.

The idea of modeling individual latent processes is not bound by a particular context, but is applicable to a broader phenomenon that is generally manifested across a wide range of settings and situations. It would be especially intriguing to study the impact of latent processes in the online world where firms may have access to large-scale behavioral data across categories and situations. Future research can look at how firms can improve current recommendation systems based on inferred consumer preferences across categories, and how brand constellations are formed in social media (e.g., a consumer may “like” many seemingly unrelated brands on Facebook).
REFERENCES


<table>
<thead>
<tr>
<th>Symbol</th>
<th>Meaning</th>
<th>Number&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Dimension&lt;sup&gt;b&lt;/sup&gt;</th>
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<td>$J_k$</td>
<td>Number of categories for subtree or category system $k$</td>
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<td>Category $j$ of subtree or category system $k$</td>
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<td>Data: Number of times person $t$ responded with category $C_{kj}$</td>
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<td>$n_t$</td>
<td>Vector containing the $n_{kjt}$ for person $t$</td>
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<td>$I_{kj}$</td>
<td>Number of paths ending in category $C_{kj}$</td>
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<td>$B_{kji}$</td>
<td>$i$-th path ending in category $C_{kj}$</td>
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<td>Augmented Data: Number of times path $B_{kji}$ was followed by person $t$</td>
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<td>1</td>
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<td>Number of branches on path $B_{kji}$ assigned to $\theta_s$</td>
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<td>$b_{skji}$</td>
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<td>Population-level (prior) covariance matrix of $\alpha_t$</td>
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<td>$\lambda$</td>
<td>Vector of scale parameters</td>
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<td>$Q$</td>
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<td>$n_{st}$</td>
<td>Number of nodes labeled $\theta_s$ across trees traversed by person $t$</td>
<td>$T \times S$</td>
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<td>$Z_{st}$</td>
<td>Random variate associated with a $\theta_s$ node in one of $t$'s tree traversals</td>
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<td>$\sum_{s=1}^{S} n_{st}$</td>
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<td>$Z_t$</td>
<td>Vector containing person $t$'s random variates $Z_{st}$</td>
<td>$T$</td>
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<td>Number of $Z_{st}$ constrained to be positive for $\theta_s$ and person $t$</td>
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<tr>
<td>$n_{st}^-$</td>
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<td>Person-specific deviation of $\alpha_{st}$ from the population-level mean $\mu_s$</td>
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<td>$\gamma_{st}$</td>
<td>Unscaled version of $\beta_{st}$</td>
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<td>$\beta_t$ and $\gamma_t$</td>
<td>Vectors containing person $t$'s $\beta_{st}$ and $\gamma_{st}$, respectively</td>
<td>$T$</td>
<td>$S$</td>
</tr>
</tbody>
</table>

<sup>a</sup>Number of different elements of this kind.

<sup>b</sup>Dimension of vector or matrix where applicable.
### TABLE 2: Summary Statistics for Product Category Consumption

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample Size</th>
<th>No. of Types</th>
<th>No. of Brands</th>
<th>No. of Products</th>
<th>% of Type Polygamy</th>
<th>% of Brand Polygamy</th>
<th>% of Product Polygamy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cell Phone Plans</td>
<td>3,327</td>
<td>3</td>
<td>9</td>
<td>12</td>
<td>0.0%</td>
<td>3.7%</td>
<td>76.7%</td>
</tr>
<tr>
<td>Financial Investments</td>
<td>3,014</td>
<td>3</td>
<td>13</td>
<td>-</td>
<td>37.8%</td>
<td>44.9%</td>
<td>-</td>
</tr>
<tr>
<td>Automobile</td>
<td>3,646</td>
<td>8</td>
<td>42</td>
<td>477</td>
<td>50.8%</td>
<td>49.8%</td>
<td>61.3%</td>
</tr>
<tr>
<td>Soft Drinks</td>
<td>4,452</td>
<td>4</td>
<td>4</td>
<td>96</td>
<td>76.5%</td>
<td>72.8%</td>
<td>89%</td>
</tr>
<tr>
<td>Media Consumption</td>
<td>4,218</td>
<td>4</td>
<td>4</td>
<td>-</td>
<td>93.1%</td>
<td>95.8%</td>
<td>-</td>
</tr>
</tbody>
</table>

### TABLE 3: Parameter Estimates from the Latent Trait Model

<table>
<thead>
<tr>
<th>Category (Tree)</th>
<th>$\theta_c^{(a)}$ (PM)</th>
<th>SD$^b$</th>
<th>$\theta_b^{(a)}$ (PM)</th>
<th>SD$^b$</th>
<th>$\theta_p^{(a)}$ (PM)</th>
<th>SD$^b$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cell Phone Plans</td>
<td>.042</td>
<td>.057</td>
<td>.048</td>
<td>.098</td>
<td>.840</td>
<td>.201</td>
</tr>
<tr>
<td>Financial Investments</td>
<td>.242</td>
<td>.193</td>
<td>.345</td>
<td>.165</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Automobiles</td>
<td>.537</td>
<td>.235</td>
<td>.515</td>
<td>.257</td>
<td>.731</td>
<td>.239</td>
</tr>
<tr>
<td>Soft Drinks</td>
<td>.884</td>
<td>.713</td>
<td>.872</td>
<td>.293</td>
<td>.948</td>
<td>.246</td>
</tr>
<tr>
<td>Media Consumption</td>
<td>.912</td>
<td>.925</td>
<td>.957</td>
<td>.938</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: $^a$PM = Posterior Median (mean across simulated data sets).

$^b$25 Posterior Percentile

$^c$75 Posterior Percentile

$^d$Standard Deviation of posterior (mean across simulated data sets).
### TABLE 4: Model Fit and Comparison

<table>
<thead>
<tr>
<th>Category</th>
<th>Latent Trait DIC</th>
<th>Latent Class DIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Investments</td>
<td>3907.75</td>
<td>5307.94</td>
</tr>
<tr>
<td>Automobile</td>
<td>2953.54</td>
<td>9063.23</td>
</tr>
<tr>
<td>Cell Phone Plans</td>
<td>3384.22</td>
<td>4665.33</td>
</tr>
<tr>
<td>Soft Drinks</td>
<td>5422.93</td>
<td>10822.35</td>
</tr>
<tr>
<td>Media Consumption</td>
<td>5821.31</td>
<td>10239.43</td>
</tr>
</tbody>
</table>

### TABLE 5: Parameter Estimates from the Latent Class Model

#### Financial Investments (2 classes)

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Class 1, Weight 0.579</th>
<th>Class 2, Weight 0.421</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient 95% CI</td>
<td>Coefficient 95% CI</td>
</tr>
<tr>
<td>$\theta_1$</td>
<td>0.000 [-0.049 0.049]</td>
<td>0.893 [0.878 0.908]</td>
</tr>
<tr>
<td>$\theta_2$</td>
<td>0.043 [0.038 0.047]</td>
<td>1.000 [0.941 1.059]</td>
</tr>
</tbody>
</table>

**Goodness-of-Fit statistics:**

- M1: 0, M2: 0

#### Automobile (2 classes)

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Class 1, Weight 0.600</th>
<th>Class 2, Weight 0.400</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient 95% CI</td>
<td>Coefficient 95% CI</td>
</tr>
<tr>
<td>$\theta_1$</td>
<td>0.847 [0.831 0.864]</td>
<td>0.000 [-0.052 0.052]</td>
</tr>
<tr>
<td>θ₂</td>
<td>0.830</td>
<td>[0.813 0.847]</td>
</tr>
<tr>
<td>-----</td>
<td>-------</td>
<td>----------------</td>
</tr>
<tr>
<td>θ₃</td>
<td>1.000</td>
<td>[0.957 1.043]</td>
</tr>
</tbody>
</table>

**Goodness-of-Fit**

| M1   | 0     | M2   | 0.000 |
| S1   | 0.774 | S2   | 1.508 |

**Soft Drinks (2 classes)**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Class1, Weight 0.741</th>
<th>Class 2, Weight 0.259</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>95% CI</td>
</tr>
<tr>
<td>θ₁</td>
<td>0.885</td>
<td>[0.87 0.9]</td>
</tr>
<tr>
<td>θ₂</td>
<td>0.982</td>
<td>[0.957 1.007]</td>
</tr>
<tr>
<td>θ₃</td>
<td>1.000</td>
<td>[0.958 1.042]</td>
</tr>
</tbody>
</table>

**Goodness-of-Fit**

| M1   | 0     | M2   | 0.002 |
| S1   | 0.149 | S2   | 0.832 |

**Cell Phone Plans (Not Enough Variations to Distinguish Multiple Segments)**

**Media Consumption (Not Enough Variations to Distinguish Multiple Segments)**
### TABLE 6: Results from Latent Trait Segmentation

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Class 1: Polygamist (19.2%)</th>
<th>Class 2: Wanderer (71.5%)</th>
<th>Class 3: Monogamist (9.3%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\theta_{1\text{._cell}}$</td>
<td>0.803</td>
<td>0.466</td>
<td>0.041</td>
</tr>
<tr>
<td>$\theta_{2\text{._cell}}$</td>
<td>0.763</td>
<td>0.393</td>
<td>0.038</td>
</tr>
<tr>
<td>$\theta_{3\text{._cell}}$</td>
<td>0.872</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>$\theta_{1\text{._auto}}$</td>
<td>0.863</td>
<td>0.469</td>
<td>0.304</td>
</tr>
<tr>
<td>$\theta_{2\text{._auto}}$</td>
<td>0.885</td>
<td>0.469</td>
<td>0.284</td>
</tr>
<tr>
<td>$\theta_{3\text{._auto}}$</td>
<td>0.892</td>
<td>0.552</td>
<td>0.000</td>
</tr>
<tr>
<td>$\theta_{1\text{._finance}}$</td>
<td>1.036</td>
<td>0.478</td>
<td>0.165</td>
</tr>
<tr>
<td>$\theta_{2\text{._finance}}$</td>
<td>1.115</td>
<td>0.489</td>
<td>0.210</td>
</tr>
<tr>
<td>$\theta_{1\text{._softdrinks}}$</td>
<td>1.182</td>
<td>0.571</td>
<td>0.000</td>
</tr>
<tr>
<td>$\theta_{2\text{._softdrinks}}$</td>
<td>0.896</td>
<td>0.637</td>
<td>0.000</td>
</tr>
<tr>
<td>$\theta_{3\text{._softdrinks}}$</td>
<td>0.948</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>$\theta_{1\text{._media}}$</td>
<td>0.917</td>
<td>0.566</td>
<td>0.341</td>
</tr>
<tr>
<td>$\theta_{2\text{._media}}$</td>
<td>0.964</td>
<td>0.593</td>
<td>0.238</td>
</tr>
</tbody>
</table>

### TABLE 7: Out-of-Sample Prediction Results

<table>
<thead>
<tr>
<th>Segment</th>
<th>Polygamist</th>
<th>Wanderer</th>
<th>Monogamist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer-based Prediction</td>
<td>74.7%</td>
<td>61.2%</td>
<td>65.9%</td>
</tr>
<tr>
<td>Product-based Prediction</td>
<td>65.4%</td>
<td>52.0%</td>
<td>63.3%</td>
</tr>
</tbody>
</table>
FIGURE 1: Multinomial Process Tree Representation of the Latent Trait Model

FIGURE 2: Multinomial Process Tree Representation of the Latent Trait Model with Augmented Data
FIGURE 3: Sample Data Structure (Media Consumption Category)

<table>
<thead>
<tr>
<th>full_day</th>
<th>full_time</th>
<th>id</th>
<th>multiplex_1</th>
<th>multiplex_2</th>
</tr>
</thead>
<tbody>
<tr>
<td>74</td>
<td>2</td>
<td>pm430</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>75</td>
<td>2</td>
<td>pm500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>76</td>
<td>2</td>
<td>pm530</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>77</td>
<td>2</td>
<td>pm600</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>78</td>
<td>2</td>
<td>pm630</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>79</td>
<td>2</td>
<td>pm700</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>80</td>
<td>2</td>
<td>pm730</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>81</td>
<td>2</td>
<td>pm800</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>82</td>
<td>2</td>
<td>pm830</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>83</td>
<td>2</td>
<td>pm900</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>84</td>
<td>2</td>
<td>pm930</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>85</td>
<td>3</td>
<td>am100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>86</td>
<td>3</td>
<td>am1000</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>87</td>
<td>3</td>
<td>am1030</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>88</td>
<td>3</td>
<td>am1100</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>89</td>
<td>3</td>
<td>am1130</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>90</td>
<td>3</td>
<td>am1200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>91</td>
<td>3</td>
<td>am1230</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Disaggregate Choice Data

<table>
<thead>
<tr>
<th>id</th>
<th>Channel Polygamy</th>
<th>Brand Polygamy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1128380</td>
<td>11</td>
<td>24</td>
</tr>
<tr>
<td>1128381</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>1128396</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>1128397</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>1128406</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>1128407</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>1128417</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1128427</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>1128497</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>1128498</td>
<td>16</td>
<td>26</td>
</tr>
</tbody>
</table>

Aggregate Count Data