

# CONSUMER LEARNING, BRAND LOYALTY, AND COMPETITION\*

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### ABSTRACT

In several markets consumers can only gain further information regarding how well a product fits their preferences by experiencing it after purchase. This could then generate loyalty for the products being tried first. The paper considers a model where consumers learn in the first period about the product that they buy, and then make choices in the second period about the competing products given what they learned in the first period. The paper finds that if the distribution of valuations for each product is negatively (positively) skewed a firm benefits (is hurt) in the future from having a greater market share today, the brand loyalty characteristic. With negative skewness two effects are identified: On one hand marginal forward-looking consumers are less price sensitive than myopic consumers, and this a force towards higher prices. On the other hand, forward-looking firms realize that they gain in the future from having a higher market share in the current period and compete more aggressively in prices. For similar discount factors for consumers and firms, the latter effect dominates. The paper characterizes also the effects on the market outcome of the importance of consumer learning.

**KEYWORDS:** Consumer learning, brand loyalty, dynamic competition, experience goods, lifetime value of customers, forward-looking consumers, forward-looking firms.