

Society and the Marketplace

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Social Intelligence → Marketplace



The Procuress
(Vermeer)

<http://essentialvermeer.20m.com/catalogue/procuress.htm>

Marketplace Metacognition Wright 2002

Consumers beliefs about

- How the marketplace works and
- How the marketplace should work

In contrast to

- How the marketplace actually works
- Source of insight for understanding and improving consumer welfare

Backdrop

- American tradition of free-market capitalism; close association with political freedom and democracy
- Western faith in democratic capitalism
- but what beliefs underlie this “faith”?
- Focus on the marketplace and how (American) consumers believe the marketplace works and/or should work
 - Address the gap between product-level and market-level consumer knowledge in our literature

So how “intelligent” are you? 😊

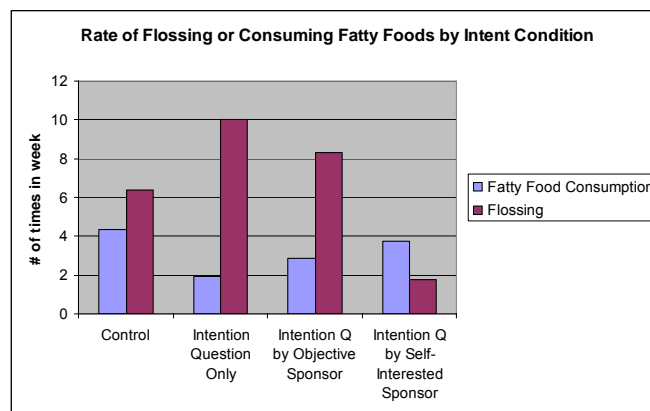
1. When a website has a privacy policy, it means the site will not share my information with other websites or companies False
2. When I give personal information to a bank, privacy laws say the bank has no right to share that information even with companies the bank owns False
3. It is illegal for sellers to charge different people different prices at the same time of the day for the same product False
4. For each \$100 a grocery store makes in sales, how many dollars do you think are left over in pure profit after the store has covered all of its costs? 2-3%
5. What is the difference between a drug and a supplement? It's complicated

Example 1: Promotions

- Persuasion Knowledge Model - consumer knowledge about, and how to cope with, persuasion agents' goals and tactics (Friestad & Wright 1994)
- Lay beliefs about advertising and persuasion (Friestad & Wright 1995)

Intention Questions as Persuasion Appeals

Williams, Fitzsimons & Block 2004



→self-interested sponsor activates persuasion knowledge and mere measurement effect is attenuated

Example 2: Pricing

- Business Week/Harris Poll:
How Business Rates: By the Numbers (Business Week 2000)



- Why are consumers dissatisfied with the price/profit relationship?

Consumer Perceptions of Price (Un)Fairness

Bolton, Warlop, & Alba 2003

- reference points (past prices, competitor prices, costs) drive unfairness perceptions
- what is "fair" to the marketer doesn't seem "fair" to the consumer
 - e.g., promotional and other costs are seen as unfair
 - e.g., many legitimate reasons for higher prices (e.g., risk, customer base, margin vs. volume strategy) are seen as unfair – with the exception of quality
- profit perceptions are extreme!

PRICE AND PROFIT ESTIMATES FROM A PROBABILITY SAMPLE: EXPERIMENT 0

Question	n	Mean (\$)	SD (\$)
If a fancy department store pays \$40 to a manufacturer for a woman's blouse, what would be a fair price for the store to charge you?	593	58.16	17.12
If a fancy department store pays \$40 to a manufacturer for a woman's blouse, what would be a fair price for the store to charge you, keeping in mind the store must cover such costs as rent and payroll?	524	62.04	21.87
If a fancy department store pays \$40 to a manufacturer for a woman's blouse, how much do you think the store charges you for the blouse when it is not on sale?	491	76.58	33.78
For each \$100 a fancy department store makes in sales, how many dollars do you think are left over in pure profit after the store has covered all its costs?	775	33.09	20.18
... for a discount store . . .	538	30.24	20.36
... for a grocery store . . .	671	27.52	20.52

Consumer Response to Retailers' Use of Partially Comparative Pricing

Barone, Manning, & Miniard 2004

FIGURE 1
Representations of Pricing Stimuli: Study 1

A. Comparative Pricing



TABLE 1
Cell Means for Relative Price Beliefs: Study 1

Product	Noncomparative Pricing	Partially Comparative Pricing
Cranberry juice ^a	5.44 (1.95)	7.73 (1.77)
Cup-of-noodles ^a	5.85 (2.60)	7.37 (2.03)
Pickles ^b	5.15 (1.75)	4.60 (2.20)
Potato chips ^b	5.48 (2.10)	4.48 (2.78)

^aComparatively priced product in the partially comparative pricing condition.

^bNoncomparatively priced product in the partially comparative pricing condition.

Notes: Standard deviations are in parentheses. Product-belief measures (how likely it is that Johnston's has a lower price than comparison store) are 1 = "unlikely" and 9 = "likely."

→ consumer suspicion about why comparison pricing is partial

Example 3: Privacy

- Open to Exploitation: American Shoppers Online and Offline

(Turow, Feldman & Meltzer 2005)

	Agree	Disagree	DK
14. When I give money to charity, by law that charity cannot sell my name to another charity unless I give it permission. <i>72% wrong</i>	47	28	25
15. When I give personal information to a bank, privacy laws say the bank has no right to share that information, even with companies the bank owns. <i>73% wrong</i>	55	27	18
16. When a website has a privacy policy, it means the site will not share my information with other websites or companies. <i>75% wrong</i>	59	25	16

N=1500, bold answers are correct

→ Most consumers do not understand common marketing strategies...

	Agree	Disagree	Neutral	DK
It's OK if an online store I use charges different people different prices for the same products during the same hour	11	87	1	1
Websites should be required to let customers know if they charge different people different prices for the same products during the same hour.	84	14	1	1
It would bother me to learn that other people pay less than I do for the same products.	76	22	1	1
If a store I shop at frequently charges me lower prices than it charges other people because it wants to keep me as a customer more than it wants to keep them, that's OK.	26	72	2	--
The information I give online stores about myself will often determine the prices they will charge me.	21	67	2	10

→ ... and, if known, would judge those strategies as unfair

Example 4: Health Remedies

- How Does Drug and Supplement Marketing Affect a Healthy Lifestyle?

(Bolton, Reed, Volpp, & Armstrong 2007)

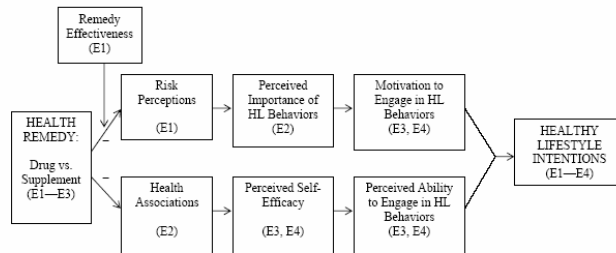
TABLE 1: CONSUMER DEFINITION OF DRUG AND SUPPLEMENT (EXPERIMENT 3)

COGNITIVE RESPONSE	DRUG (%)	SUPPLEMENT (%)
Illness/disease	55.1	1.3
Work with/enhance other body function	9.0	68.0
Alter body function	21.8	5.1
FDA	18.0	2.6
Prescription	19.2	0
Natural substance	0	47.4
Non-natural chemical	15.4	7.7
Effective	11.5	0
Risky	15.4	5.1

Note: Percent of participants ascribing each cognitive response to the drug or supplement. Three participants (out of 81) were omitted who did not answer the question.

Consumer perceptions ~~X~~ regulatory differences

- These misperceptions have damaging consequences
- → drug marketing undermines a healthy lifestyle



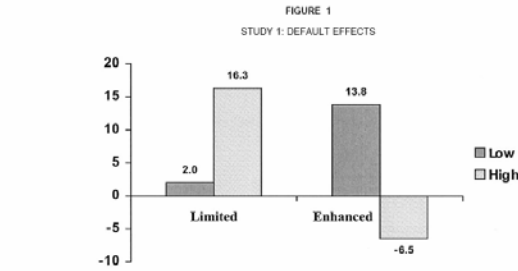
Example 5: Defaults and Choice



New York Times 12 Apr 07

The Skeptical Shopper: A Metacognitive Account for the Effects of Default Options on Choice (Brown & Krishna 2004)

- The default option as a “carrier of meaning”

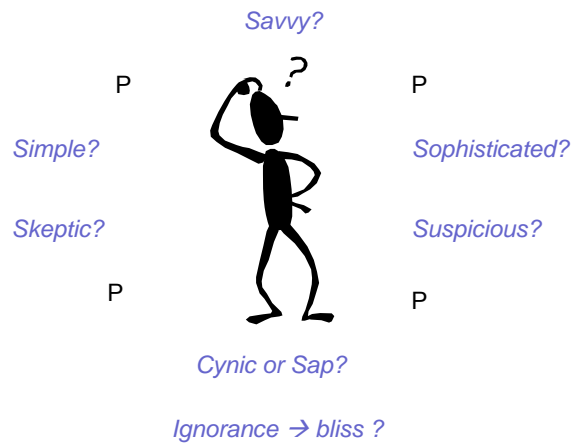


Note.—Bars indicate the size of the default effect, defined as the likelihood of choosing a default option relative to its undifferentiated control; for example, the percentage of participants in the limited information condition choosing the high option was 16.3 higher than the percentage choosing this option in the control (no-default) condition.

Default effect = increased choice of a default alternative

→attenuated when default is higher-priced and marketplace meta-cognition is activated
 →designating a default can backfire on the seller if buyers are skeptical

Marketplace Metaconfusion



So what?

Understanding how consumers think the market does and should work...

1) Identifies sources of (dis)satisfaction and (reduced) consumer welfare

- e.g., dissatisfaction with prices
- e.g., risky behavior on the internet
- e.g., health consequences
- e.g., suboptimal choices

So what?

Understanding how consumers think the market does and should work...

2) Identifies remedies to improve consumer welfare

- e.g., leverage this understanding to create effective corrective interventions
- e.g., Better information? More choice? Incentive policies? (Lynch & Wood 2006)

Future Research?

1) How does this understanding of the marketplace develop?

- children and advertising
- economic socialization (e.g., Webley), the meaning of money (e.g., Furnham)



"Allowance 2.0"
WSJ 6 Jan 07

2) What about the rest of the world?

- Russia, China, emerging markets...
- also sub-markets (e.g., swap meets, virtual worlds)



"Why China is Raiding
The Piggy Bank?"
Time 22 Feb 07

3) What are the consequences of marketplace metacognition?

Discussion/Questions

