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What Consumers Want: Behavioral Economics and Customer Behavior Online

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ACR Doctoral Consortium, 7 October,
2004

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Agenda:

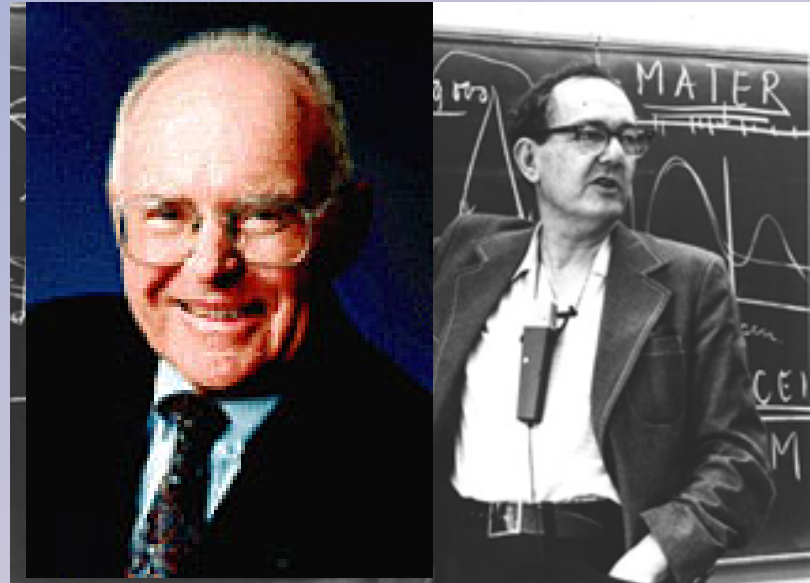
- Make relevance of theory “obvious”
 - Cognitive Search Costs
 - Constructive Preferences

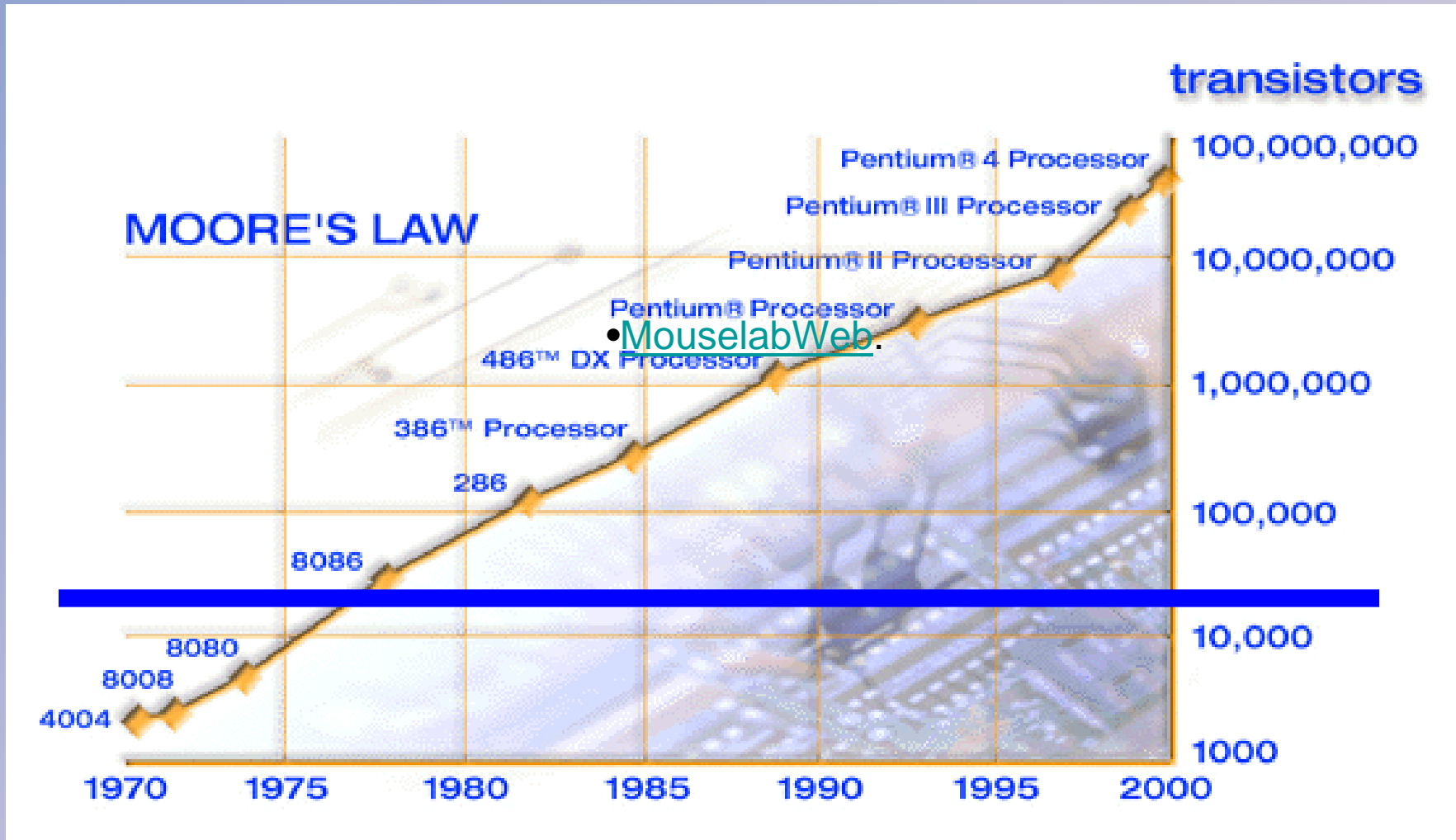
“There is nothing more useful than a good theory”
- Kurt Lewin 1935

- Argue that online research matters
- Convince you to do this: Why process data and technology will make you famous while having fun.

Certain CPU's have not gotten faster

- Gordon Moore vs. Herb Simon
- Behavioral Economics suggests that people do well, just not perfectly.







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Cognitive Search Costs: The Adaptive Online Decision Maker.

What is scarce when information is plentiful? I think we all know the answer from personal experience: when information is plentiful, time to attend is scarce. Attention is the scarce factor in an information-rich society (Simon 1997, p. 173).

“despite the increase in computing speed touted by Moore’s law, a particular CPU has not changed its capacity: that of the human decision-maker” (West et al., 1999, p. 286).

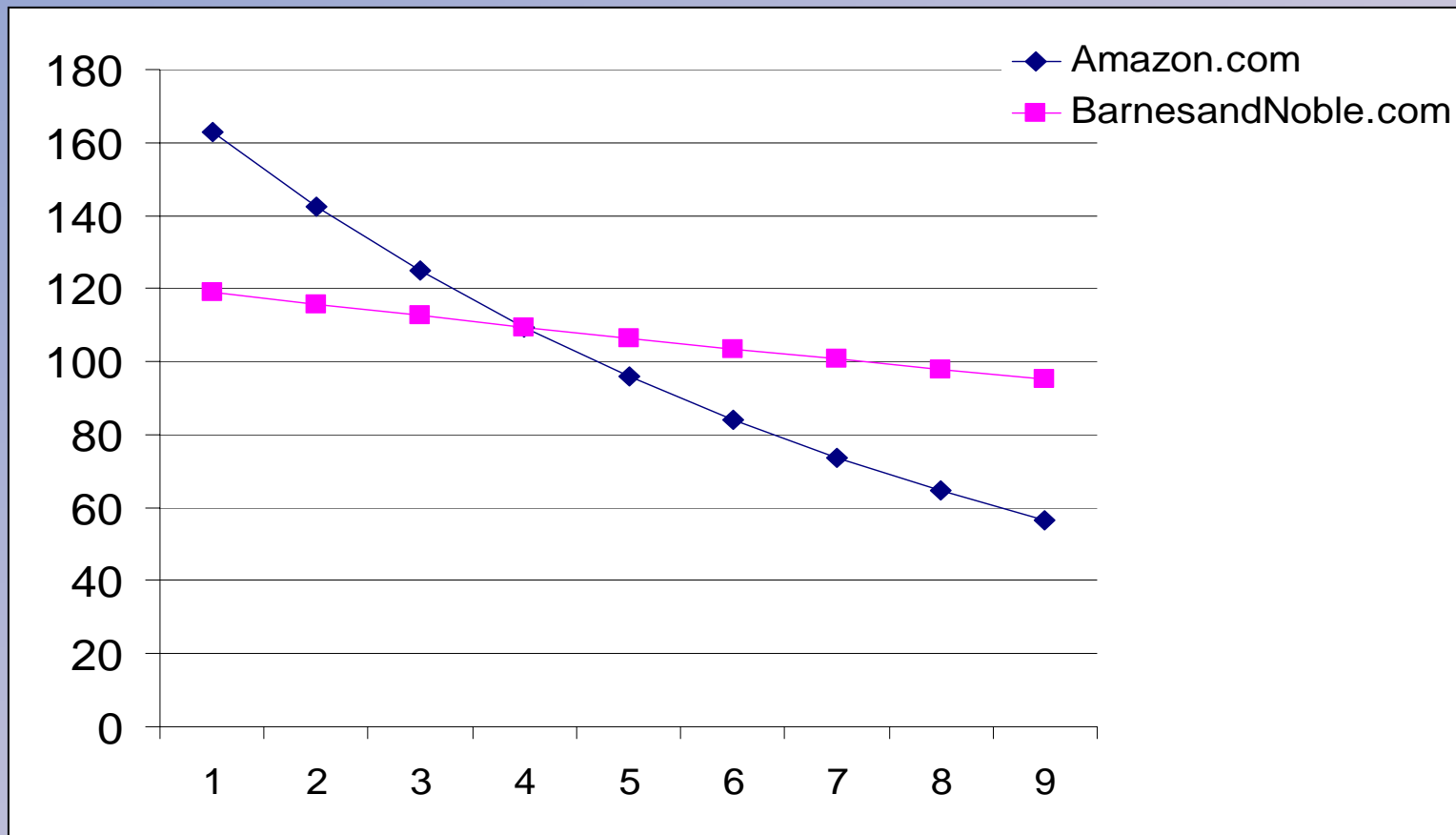
Changing Environments Changes Costs

- People choose strategies as a function of their accuracy and effort.
- Changing environments changes costs
- Manipulations:
 - Organization of Information.
 - Tools which 'cut' costs.
 - Sorting
 - Eliminators
- Wine online (Ariely and Lynch)
- Häubl and Trifts.
- Changes in revealed preferences are due to strategy change.
 - What is the status of the stated preference?
 - What are the mechanisms?

Dynamics of Cognitive Costs

- Cognitive Lockin:
As people learn a site, time to use it is reduced.
 - User skills
 - Shows a lack of foresight on the part of the consumer (Zauberman).
- Newell 1990,
Newell and Rosenbloom's Power Law of Practice
- $T = BN^{-a}$ or a log-log law of time as a function of number of trials.

Books



Case Studies/Predictions

- Windows XP SP2 and firewalls.
- Defaults can be good
 - Basis of customization
 - Spam: Default is the bulk bin....



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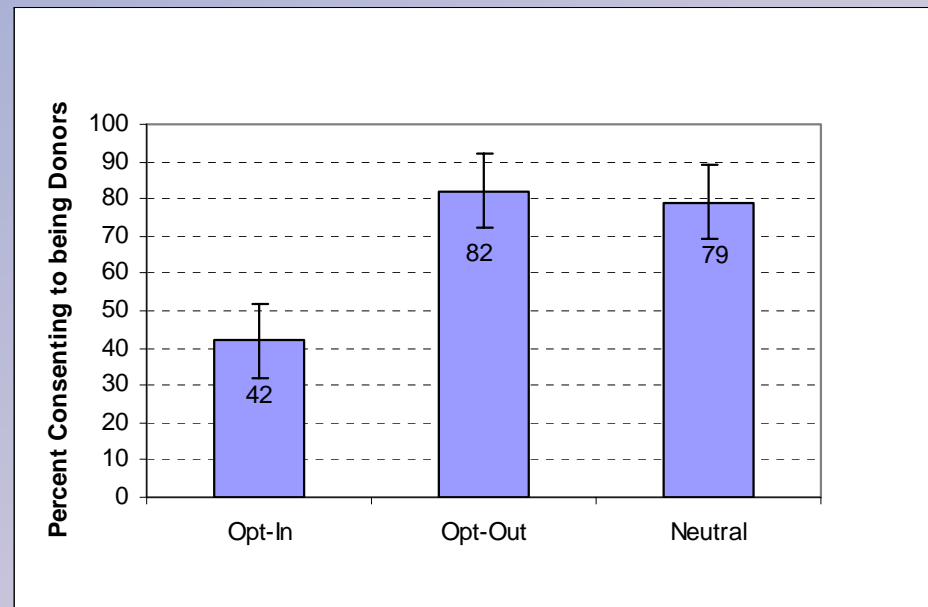


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Constructive Preference Approaches

Questionnaire Study

- n=176 Web participants
- “You are moving to a new state. In that state, everyone is (is not) a organ donor unless they choose not (choose to) be. [Click here to change...](#)”
- Neutral Condition: You must make a choice.



Utility is sometimes constructed.

- Framing, response mode, display effects.
- Do displays change preferences?
 - Priming
 - Default effects
 - Organ Donation: Johnson and Goldstein, Science, 2003
 - Privacy Policies (Bellman, Johnson and Lohse, CACM, 2002)



Back



Forward



Reload



Home



Search



Netscape



Print



Security



Stop



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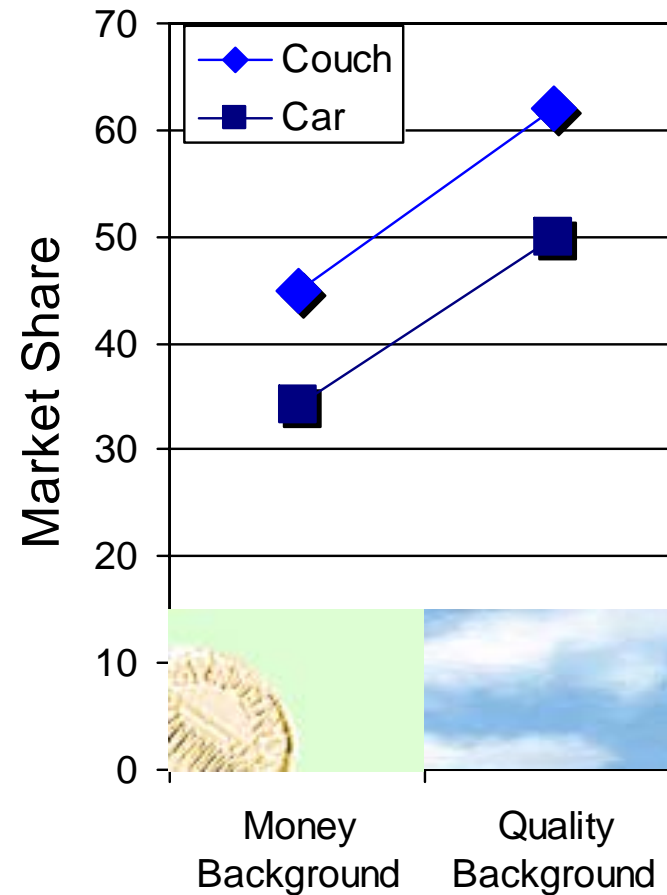
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Document: Done

Page Background Matters

- Changes
 - What people search
 - What people say they prefer.
 - With 'real people' we find a 15% increase in preference





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Tools

Two tools for studying online customer behavior

- Online panel data
 - Individuals shopping with a camera strapped to their heads.
- Experiments
 - People randomly assigned to a website
 - Can vary multiple factors

MouselabWeb

- [MouselabWeb](#).
- See www.mouselabweb.org

Why go online

- More variation in the independent variable.
- Apparent validity of non-student subjects
- Reach is global
- Reach 'special' populations
- Gathering process data is inherent in the task
- The Store is the Experiment.
- "I'm running a study right now"

Papers: Cebiz.org

- Johnson and Goldstein (2003) Science
- Johnson, Moe, Fader, Bellman and Lohse, (2004) Management Science
- Johnson, Bellman and Lohse (2003) Journal of Marketing
- Mandel and Johnson (2002), Journal of Consumer Research
- Johnson "Digitizing Consumer Research" JCR 2001.

- Bellman, Johnson, Mandel and Lohse, (in press) Journal of Interactive Marketing.
- Johnson, Bellman Kobrin and Lohse, (in press) The Internet Society
- Johnson, Bellman and Lohse, (2002) Marketing Letters
- Bellman, Johnson and Lohse (2002) Communications of the ACM
- Morwitz, Greenleaf and Johnson (1999) Journal of Consumer Research
- Thaler and Johnson, (1991) Management Science

Do Defaults Make a Difference?

- Users like to be able to make choices
 - But they don't want to have to make choices
- Result: Defaults make a difference.
 - 401(k) programs
 - Organ Donation
 - Privacy

