

Marketing Research and Consumer Protection: History, Puzzles, and Opportunities

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Disclaimer

The views expressed today are my own and do not necessarily reflect the views of the Federal Trade Commission or any individual Commissioner



Overview

- My perspective
- Role of marketing research at the Federal Trade Commission (FTC)
- Puzzling recent findings about rare use of consumer research by the federal government to improve information remedies
- Challenges and opportunities for marketing researchers



Perspective

- Consumer protection economics division launched in the 1970s (Pautler 2015)
- Borrow from many fields in economics, including economics of information, law & economics, economics of regulation, economics of the household, experimental economics, econometrics, and behavioral economics
- Borrow from marketing research, often collaborating with marketing researchers

Perspective

- Division blends consumer research skills with more traditional economic skills to assess practical consumer problems
- Eager to continue these collaborations and learn from those working on the cutting edge of marketing science to move consumer protection analysis forward



FTC marketing research history

- Rich history of contributions by marketing researchers at the FTC
 - Series of essays in the Journal of Public Policy and Marketing: Special Section: The FTC's 100th Anniversary, edited by William L. Wilkie (2014)
 - Bureau of Economics contributions highlighted in Pappalardo (2014)



Case research

- Copy test research to assess consumer perceptions
 - Used since at least the 1970s
 - Classic cases analyzed in the marketing research literature

FTC v. Kraft (1991)

FTC v. Stouffer Foods Corp. (1994)



Case research

Surveys

- FTC v. Dalbey Education Institute (2013) evaluating customer success
- FTC v. Trans Union (2000) evaluating consumer attitudes toward the use of information from credit files to compile marketing lists
- See Hastak and Mazis (2014)



Case research

- Empirical analysis of consumer behavior increasingly common with increased data available
 - Finite mixture modeling to identify types of content providers largely responsible for cramming in *T-Mobile and AT&T* (Balan, Degraba, and Lafontaine, et al. 2015)



- Field experiment to test the effect of advertising on price and quality (Bond et al. 1980)
 - Consumers who lived in relatively less restrictive cities paid less for eye exams and eyeglasses without sacrificing quality



Content analysis

- Collaborated with a marketing research academic to use content analysis to assess the historical effect of advertising regulations (Pappalardo and Ringold 2000)
- This experience led to the implementation of another content analysis of health information in advertising (Ippolito and Pappalardo 2002)



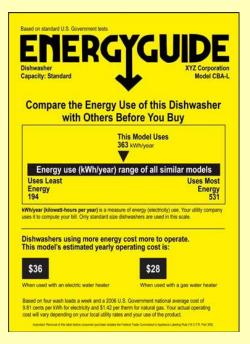
- Surveys and an experiment to study consumer fraud
 - National surveys to estimate prevalence of consumer fraud and characteristics of fraud victims (Anderson 2004, 2007, 2013)
 - Exploratory experiment to examine traditional and behavioral characteristics of those likely to be deceived (McAlvanah, Anderson, Letzler, and Mountjoy 2015)

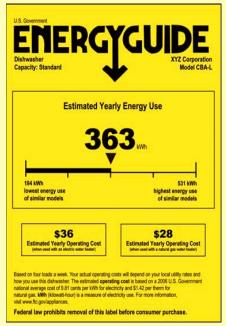


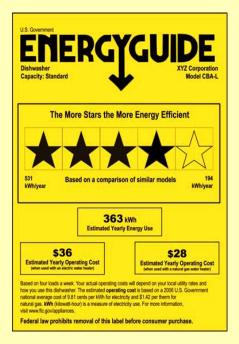
- Controlled experiments to assess disclosures
 - Appliance energy labeling research (See Hastak and Mazis 2014; Farrell, Pappalardo, and Shelanski 2010)
 - Mortgage disclosure research (Lacko and Pappalardo 2004, 2007, 2010)



Energy label options









2005 Label

Modified 2005 Label

Categorical

Operating Cost

^{*} Dishwasher Model L

Energy label findings

- Overly simplistic metrics, such as stars, can hinder understanding
- People like, and understand, the meaning of dollars, more than less familiar terms
 - People think a star for energy efficiency translates into a positive indicator of other product attributes
 - Dollar amount metrics are meaningful



Mortgage disclosure research

- Two part study of current vs. prototype disclosures (2007)
 - In-depth consumer interviews
 - Quantitative, randomized controlled experiment testing the current disclosure against a prototype based on consumer information principles



In-depth interviews

- Many were unaware of, did not understand, or misunderstood key costs or features of their loans
- Disclosures actually created consumer misunderstandings
 - Many believed that the "discount fee" disclosed in the GFE was a discount they had received, rather than a fee they had paid



Prototype improved consumer understanding

	Disclosure Form		
	<u>Current</u>	Prototype	<u>Difference</u>
Both Loans	61%	80%	19 pct points **
Simple Loan	66%	82%	16 pct points **
Complex Loan	56%	78%	22 pct points **

^{**} Difference in percentage of correct answers statistically significant at the one percent level

Disclosure research findings

- Empirical research is often needed to design disclosures that work as intended, and do not confuse or mislead
 - Extraneous information with additional details can confuse consumers leading to worse choices
 - Descriptors can be misleading
 - Controlled, quantitative consumer research can substantially improve disclosures, and may be necessary to avoid inadvertent deception from well-meaning disclosures



Consumer research puzzle

Fraas and Lutter (2016), "How Effective Are Federally Mandated Information Disclosures?" recently published in the *Journal of Benefit-Cost Analysis*



Consumer research puzzle

"Although federal mandates to disclose information underpin a number of flagship regulatory initiatives--and sundry major regulations--we have found only a very few exceptional cases where there is any evidence that the responsible regulatory agencies conducted a quantitative evaluation of their effects on comprehension."

Fraas and Lutter (2016)

Puzzle challenge

- Why is consumer research not a routine part of consumer policy development?
 - Do policymakers not recognize that wellmeaning disclosures can mislead?
 - Do policy makers understand the potential benefits of consumer research but think the costs outweigh them?
 - What are the costs and benefits of alternative methodologies?



Hot research questions

- How to provide reliable estimates of consumer willingness to pay and consumer injury in markets without market prices?
 - Privacy
 - Data security

Hot research questions

How to translate established techniques for advertising and disclosure testing in traditional media to newer media?



FTC opportunities

- Examples of collaborations
 - Collaborate with people within government (Pappalardo and Ringold, 2000)
 - Spend some time at the FTC while on sabbatical (Holt, Ippolito, Desrochers, and Kelly, 2007)



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