



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, Degraha, and Lafontaine, et al. 2015)**



Policy research

- **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**



Policy research

■ 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)**



Policy research

- **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)**



Policy research

■ **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

Based on standard U.S. Government tests

ENERGYGUIDE

Dishwasher Capacity: Standard XYZ Corporation Model CBA-L

Compare the Energy Use of this Dishwasher with Others Before You Buy

This Model Uses 363 kWh/year

Energy use (kWh/year) range of all similar models

Uses Least Energy	Uses Most Energy
194	531

kWh/year (kilowatt-hours per year) is a measure of energy (electricity) use. Your utility company uses it to compute your bill. Only standard size dishwashers are used in this scale.

Dishwashers using more energy cost more to operate. This model's estimated yearly operating cost is:

\$36	\$28
When used with an electric water heater	When used with a gas water heater

Based on four wash loads a week and a 2006 U.S. Government national average cost of 9.81 cents per kWh for electricity and \$1.42 per therm for natural gas. Your actual operating cost will vary depending on your local utility rates and your use of the product.

Important: Removal of this label before consumer purchase violates the Federal Trade Commission's Appliance Labeling Rule (16 C.F.R. Part 205).

2005 Label

U.S. Government

ENERGYGUIDE

Dishwasher Capacity: Standard XYZ Corporation Model CBA-L

Estimated Yearly Energy Use

363 kWh

194 kWh lowest energy use of similar models 531 kWh highest energy use of similar models

\$36	\$28
Estimated Yearly Operating Cost (when used with an electric water heater)	Estimated Yearly Operating Cost (when used with a natural gas water heater)

Based on four loads a week. Your actual operating costs will depend on your local utility rates and how you use this dishwasher. The estimated operating cost is based on a 2006 U.S. Government national average cost of 9.81 cents per kWh for electricity and \$1.42 per therm for natural gas. kWh (kilowatt-hour) is a measure of electricity use. For more information, visit www.ftc.gov/appliances.

Federal law prohibits removal of this label before consumer purchase.

Modified 2005 Label

U.S. Government

ENERGYGUIDE

Dishwasher Capacity: Standard XYZ Corporation Model CBA-L

The More Stars the More Energy Efficient

531 kWh/year Based on a comparison of similar models 194 kWh/year

363 kWh Estimated Yearly Energy Use

\$36	\$28
Estimated Yearly Operating Cost (when used with an electric water heater)	Estimated Yearly Operating Cost (when used with a natural gas water heater)

Based on four loads a week. Your actual operating costs will depend on your local utility rates and how you use this dishwasher. The estimated operating cost is based on a 2006 U.S. Government national average cost of 9.81 cents per kWh for electricity and \$1.42 per therm for natural gas. kWh (kilowatt-hour) is a measure of electricity use. For more information, visit www.ftc.gov/appliances.

Federal law prohibits removal of this label before consumer purchase.

Categorical

U.S. Government

ENERGYGUIDE

Dishwasher Capacity: Standard XYZ Corporation Model CBA-L

Estimated Yearly Operating Cost (When used with an electric water heater)

\$36

\$19 lowest operating cost of similar models \$52 highest operating cost of similar models

363 kWh	\$28
Estimated Yearly Energy Use	Estimated Yearly Operating Cost (when used with a natural gas water heater)

Based on four loads a week. Your actual operating costs will depend on your local utility rates and how you use this dishwasher. The estimated operating cost is based on a 2006 U.S. Government national average cost of 9.81 cents per kWh for electricity and \$1.42 per therm for natural gas. kWh (kilowatt-hour) is a measure of electricity use. For more information, visit www.ftc.gov/appliances.

Federal law prohibits removal of this label before consumer purchase.

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

	<u>Disclosure Form</u>		
	<u>Current</u>	<u>Prototype</u>	<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 well-meaning 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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