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

Janis K. Pappalardo, Assistant Director
Federal Trade Commission
Marketing Science & Federal Trade Commission
Economic Conference on Marketing and Consumer Protection
Washington, DC
September 16, 2016
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
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
  - 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
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
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
  - 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)
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

<table>
<thead>
<tr>
<th>Disclosure Form</th>
<th>Current</th>
<th>Prototype</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both Loans</td>
<td>61%</td>
<td>80%</td>
<td>19 pct points</td>
</tr>
<tr>
<td>Simple Loan</td>
<td>66%</td>
<td>82%</td>
<td>16 pct points</td>
</tr>
<tr>
<td>Complex Loan</td>
<td>56%</td>
<td>78%</td>
<td>22 pct points</td>
</tr>
</tbody>
</table>

** 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
“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)
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?
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)
References


References


References


- *Trans Union Corp. v. FTC* (2001) 245 F. 3d 809 - Court of Appeals, Dist. of Columbia Circuit.