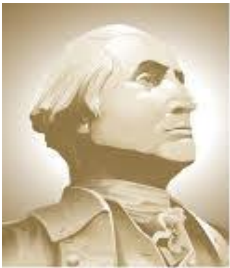


Discussion

“Behavioral Advertising and Consumer Welfare” (by Alessandro Acquisti)



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Online behavioral advertising (OBA)

- Policy debate
- One claim of online behavioral advertising: win-win situation for consumers, advertisers, publishers. It is online behavioral advertising that funds the free internet. Is this true?
- Such claims are often cited to counter regulatory intervention

Tension between consumer privacy and economic benefits

- Online behavioral advertising: Do consumers get the economic benefits?



Assess consumer welfare effects of behaviorally targeted ads

- Are consumers better off or worse off?

Uniqueness of the research

- Unique literature space
 - Most research focuses on firm outcomes instead of consumers
- Unique approach
 - Collect naturalistic behavior “globally” – not tied to a specific platform
 - Measure price and vendor quality – as opposed to ad effectiveness
 - Counterfactual analysis

Experiment design (both study 1 and study 2)

- 1st stage: online participants are asked to browse randomly selected websites from their own computers.
 - Submit URL for ad landing page
- Interstage phase: scripts are used to search online for products **competing** with those advertised products.
- 2nd stage (one week after 1st stage): each participant is shown...
 - Ad condition: products from ads that are displayed to them
 - Search condition: competing products from organic search
 - Untargeted condition: random ads targeted to others

Experiment design (both study 1 and study 2)

- DV:
 - Objective metrics: prices of products, third-party data on vendor quality
 - Self-reported measures: purchase intention, product quality, price fairness, relevance, novelty, brand, vendor

Results and implications

- Behavioral advertising leads to lower quality vendors and potentially higher prices
- Small vendors may benefit from behavioral targeted advertising
- Contrary to the industry's claim, consumers do not get a big share of economic benefits
- Inform policy debate around data and privacy

Limitations and future direction

- How to define consumer welfare?
- Only focus on Desktop Chrome users. Future research should consider:
 - Mobile
 - Social network users
 - Location-tracked users

Backup slides

Study 1 ($N_{\text{participants}} = 477$; $N_{\text{products}} = 2,056$)

- Both targeted ads and organic search results were dominated by a minority of vendors
- Targeted ads, however, were more likely to be associated with lower quality vendors
- Targeted ads were associated with higher prices compared to search results
 - On average, prices for products in ads were 8.5% higher than those for comparable competitor products found in search

Study 2 ($N_{\text{participants}} = 493$; $N_{\text{products}} = 2,370$)

- Association between targeted ads and lower-quality vendors selling at higher prices
 - F-rated vendors were significantly more likely among ads than search results
 - Product prices in ads were on average 25% higher than those in search results
- Targeted ads' higher relevance and higher purchase intentions were driven by participants reporting to have previously searched for the advertised product
 - Raises questions around the extent to which targeted ads meaningfully reduce consumer search costs.
- Targeted ads increase surplus with respect to randomly picked products in the untargeted condition but decrease it with respect to online searches.