

Consumer Behaviour, Preferences, Vulnerabilities, Learning and Literacy

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Over the past nine years, Derek Ireland, an associate of Delsys Research, has been a senior consultant and advisor on consumer research, policy and law to the Office of Consumer Affairs and the Industry Sector of Industry Canada. His consumer and related research for Industry Canada has emphasized how the insights from behavioral, institutional, innovation and other economics literatures, which relax and go beyond the perfectly informed and rational agent model of conventional economics, can increase our understanding of consumer behaviour, preferences, decisions, vulnerabilities, learning, and literacy, and the contributions that consumers make to regulatory compliance and performance.

The topics addressed in the consumer research and studies conducted for Industry Canada include:

- i) The strengths and weaknesses of Canada's highly devolved, decentralized, and distributed governance model for consumer protection law and regulation – which is one of the most decentralized consumer protection regulatory regimes in the international economy.

This consumer protection regime encompasses: numerous laws, regulations and regulators at the federal, provincial and in some cases the municipal level; various codes of conduct and other forms of industry self-regulation; numerous comparatively smaller consumers associations and other civil society groups with consumer interests that are distributed widely across the

country; and significant responsibilities and burdens devolved to individual consumers and households to protect their own interests – with no major and dominant federal law and regulator and nation-wide consumers association to turn to when seeking consumer redress and other assistance.¹

- ii) The role and importance of consumer behaviour, preferences, decisions and welfare in the design and enforcement of competition policies and laws in Canada and other OECD and emerging market economies.
- iii) Interactions between consumer protection, competition, intellectual property, innovation and other policies and laws and what these interactions mean for consumer preferences, satisfaction, decisions, welfare, and contributions to regulatory compliance and performance.
- iv) The role of the boundedly rational but willing to learn and proactive consumers in driving competition and innovation and determining the market acceptance of more advanced transformative technologies, new more innovative products and production processes, and organizational innovations.

¹ Research on Canada's consumer protection law and regulation model was later used in preparing the following published article: Derek Ireland and Kernaghan Webb (2007) "Chapter 14: Consumer Protection through Free Markets, Small Government and Individual Responsibility?" in G. Bruce Doern Editor *How Ottawa Spends 2007-2008: The Harper Government – Climate of Change* Montreal and Kingston: McGill Queen's University Press 87-108

- v) The role of information asymmetries and the bounded rationality of all regulatory actors, from consumers/mortgage borrowers through to financial regulators, in explaining the meltdown of the American subprime mortgage market and the subsequent global financial crisis and economic recession from 2007 to 2009.²
- vi) Integration of consumer and competition modules into the analytical frameworks used to assess the impacts, benefits and costs of new and amended regulations in Canada.
- vii) Implications for consumers, competition and industry competitiveness of recent changes in North American product safety laws.
- viii) Consumer literacy, vulnerability, detriment, disadvantage and empowerment, and the coping skills and strategies used by more vulnerable consumers with limited literacy skills and related market experience.

The final two studies in this listing were conducted with Delsys Research and their consultants and other associates.

In all of these various assignments and studies for Industry Canada, Dr. Ireland has applied the insights from recent advances in behavioral, information, new industrial organization, innovation, institutional, evolutionary and other non-conventional economics literatures. The following summarizes some of the major insights and lessons from this consumer research that are especially relevant to regulatory reform, efficiency, compliance and performance in Canada and other countries.

Whether and the extent to which the behavioral biases, flawed heuristics, literacy challenges and resulting purchasing errors of final consumers lead to substantial consumer dissatisfaction and detriment depend on:

- i) the product (e.g., search versus experience and credence goods);
- ii) how frequently the product is purchased (e.g., bread versus a new motor vehicle);
- iii) the context and location for the transaction (e.g., the corner store versus a funeral home);

² Which later was developed into the following published article: Derek Ireland and Kernaghan Webb (2010) "Chapter 5: The Canadian Escape from the Subprime Crisis? Comparing the U.S. and Canadian Approaches" in G. Bruce Doern and Christopher Stoney Editors How Ottawa Spends 2010-2011: Recession Realignment and the New Deficit Era Montreal and Kingston: McGill Queen's University Press 273-294

- iv) the marketing, advertising and selling strategies of producers, vendors and service providers (e.g., high pressure versus helpful); and
- v) the interests and behavioral attributes of different consumers – creative consumers and consumer leaders versus average and more vulnerable consumers that are more influenced by their time, information, willpower, and cognitive constraints.

Because of these differences, consumers learn from each other; and government interventions that emphasize consumer vulnerability and vulnerable consumers and ignore consumer learning, creativity and leadership, can prevent these and other consumers from learning from their own experiences, mistakes and successes and from consumer leaders that are more creative, experienced and interested.

The information and behavioral challenges and limited market experience of boundedly rational consumers, business customers, service providers and regulators are making major contributions to explaining why the introduction of greater competition into previously highly regulated sectors such as the energy, transportation, telecommunications, and financial sectors, have often generated consumer competition, competitiveness, and innovation benefits that fall well below the expectations and predictions of regulatory reform and deregulation proponents within and outside government.

Competition and consumer welfare deficiencies and related market failures regarding the performance of post-deregulation and other markets are often exacerbated by the intentional strategies of confusopoly, obfuscation, complexification, shrouding and related unfair trading practices. These practices are designed and implemented by producers and vendors in order to capitalize on, exploit and manipulate the inexperience, information and behavioral challenges and flawed heuristics of final consumers, business customers, regulators, and other market participants.

The risks (probability and consequences) of sub-standard regulatory compliance and performance outcomes are much higher when the information, time and cognitive limitations, behavioral biases, flawed heuristics and resulting errors, risks and uncertainties of consumers and other regulatory actors, including regulated companies and regulatory departments and agencies, are ignored when planning, designing, and assessing a regulatory proposal.

More vulnerable consumers with below average literacy skills, educations, market experience, and household incomes – as well as so-called average consumers when faced with complex purchasing decisions and difficult market contexts – learn coping skills and strategies that help them to reduce and minimize their purchasing errors and to receive greater satisfaction from their purchases.

Producers and vendors that help more vulnerable consumers to acquire and learn from these positive experiences from their market transactions, and to quickly and easily provide redress when the consumer is not satisfied, can significantly increase customer loyalty, expand their customer base, and enhance their revenues and profits.

The information challenges, behavioral biases and social norms and preferences of final consumers and business customers are major factors in explaining the success or failure of advanced transformative technologies, new more innovative products and production processes, and organizational innovations. As a consequence, crowdsourcing and related methods for engaging and empowering final consumers, business customers and other stakeholders in the innovation process are now being employed by more innovative companies in order to:

- i) learn from consumer leaders, more creative consumers, and other final consumers, business customers and other users of their technologies and innovations;
- ii) reduce the costs and improve the quality of their innovation processes through capitalizing on the creativity of their consumers and customers;
- iii) promote shared information, learning and mental models and generate “debiasing” benefits that will enhance the innovation decisions of sponsoring companies as well as the innovation, purchasing and related decisions of their consumers and business customers; and
- iv) thereby increase the potential for market acceptance and decrease the risk of innovation failure.

Regulatory departments and agencies and their officials are influenced by many of the same information challenges, behavioral biases, flawed heuristics, and resulting errors as consumers and other market participants. Greater understanding of consumer biases, heuristics, social norms and preferences, and coping strategies acquired through consumer impact assessments and more frequent interactions with consumers and their representatives will:

- i) improve the design, implementation and effectiveness of regulations,
- ii) reduce the risk and appearance of regulatory capture by business lobbies, and
- iii) generate important debiasing benefits that will further improve the decisions and decision making processes and capacities of regulatory departments, agencies and officials.

Greater competition in product markets not only expands consumer choice, satisfaction and welfare in the short to medium term, but places greater competitive pressure on producers, vendors and other companies to be more innovative and to comply with laws and regulations over the longer term. Greater competition expands the voice and exit opportunities of final consumers and business customers, and better allows the social preferences and norms of consumers and customers to discipline the pricing, product quality, innovation, competition, fair trading and compliance decisions and strategies of regulated companies, industries, markets and supply chains.

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