April 25, 2014: Our Ninth Annual Mays Marketing Research Camp continued the tradition of informative and enjoyable scholarship on a wide range of topics.

Under the leadership of Venky Shankar, the daylong Research Camp was conceived as an opportunity for our PhD students (along with faculty and other invited guests) to hear about cutting edge marketing research from the researchers themselves. This year’s lecturers were Z. John Zhang (Wharton School, Univ. of Pennsylvania) who spoke about the value of unprofitable customers; S. Sriram (Ross School of Business, Univ. of Michigan) who lectured on rising prices and the U.S. print newspaper industry; Juanjuan Zhang (Sloan School of Management, MIT) who spoke on product labeling; and TAMU Department of Marketing’s own Caleb Warren who shared his latest research about what makes things cool.
Z. John Zhang, "The Value of Unprofitable Customers in the Age of Big Data"

In the age of data explosion from several hundreds of sources, interest in how to carefully manage customer base has increased. Most customer relationship management (CRM) studies maintain that firms should focus on high profit potential customers and de-emphasize those with low profit potential. However, Dr. Zhang argues that bad customers can benefit firms under some market conditions, and thus those customers should be included in the customer portfolio.

This research addresses the question of what a firm’s optimal customer portfolio looks like in a competitive setting and how it varies with customer characteristics and competitive conditions. Most past research has shown that fire unprofitable customers is in the firm’s best interest. However, he shows that while it might be beneficial for a firm to only cater to good customers when the competition is weak, it may be optimal to have some unprofitable or bad customers when the competitive forces are strong. This is because firms that purify their base are more likely to face more poaching from competition. The theory rests on the assumption of information asymmetry about a firm’s customer base, between the firm and its competitors.

Questions & Answers / Comments

- The revenue side is clear but how well can companies assign incremental cost to individual customers? It would be very difficult. It is relative to the person who is looking at the problem.
- There is a referral value of every customer. Hence bad customers can bring good customers.
- Scales of economy might be lost and that might change the cost structure a lot.
- If profit margin is a signal of purity, wouldn’t companies with higher profitability be signal to other firms that you have a pure base and hence they might poach? The story is actually more complicated. The reason is, in the model you also have how efficient you are at serving the customer. If you are more efficient you can have more reasons to have more bad customers.
PhD candidates Scott Davis and Michael Lowe discuss ideas during a break.

The buffet lunch was excellent.

At left: PhD student Nooshin Lotfi and research camp event organizer Spring Robinson break for coffee in the Cocanougher Center.

At right: Manjit Yadav, S. Sriram, and Venky Shankar

Below: the rapt audience.
Government policy intervention plays a significant role in impacting public choice and improving social welfare. From the consumers' perspective, the policy enactment can be a chance to infer the policy maker's internal information about the extensive research related to the public policy because consumers may not have enough expertise and knowledge about it. Dr. Zhang calls this the inference effect. She addresses that the conventional wisdom saying that mandatory disclosure increases consumer welfare is not always true when we take the inference effect into account, and thus the policy makers should consider the inference effect to avoid unintended consequences of the public policy.

In her research paper titled "Policy and Inference: The Case of Product Labeling," she examines the inference effect and its policy implications in the context of the mandatory labeling of genetically modified organisms (GMOs) in food products. Some people who support GMO labeling emphasize that consumers have the right to know the content of food to make healthier choices by reducing information asymmetry. On the other hand, others oppose genetic modification labeling because of its high cost of implementation and uncleanness of GMO hazard, and it could be possible that consumer may have negative perception about genetically modified foods even if the foods are clearly safe when the mandatory GMO labeling is implemented. In this sense, there are two informational effects of the mandatory disclosure policy, the transparency effect and inference effect.

To theoretically explore her argument, she introduces a one-shot game between a policy maker and a consumer who decides whether to adopt a product. In the setting, product content can be either innocuous or risky, and consumers cannot observe product content unless the policy maker decides to disclose it. Also, the policy maker's goal is to maximize social welfare, and he or she chooses whether to mandate the disclosure of product content and knows the risky product's quality. Dr. Zhang considers two scenarios to unravel the transparency and inference effect. In the first case (the benchmark case), consumers observe the risky product's quality. As expected, the results show that there is a positive effect of mandatory disclosure on consumer welfare and the policy maker should always mandate disclosure if its implementation is costless. Moreover, there is a negative relationship between the implementation cost and the scope of risky products. In the second case, consumers do not observe the risky product's quality. Interestingly, she found that the mandatory disclosure does not always benefit consumers, and the policy maker should not always mandate disclosure even if the disclosure is costless. Also, the effect of disclosure implementation cost on the scope of mandatory disclosure can be positive.
Most past literature seems to suggest that emotional concealment leads to higher perceptions of coolness. At the same time, there is also work which shows that concealing emotions leads to fewer relationships and is considered antisocial. In the same vein, many studies suggest that expressing emotions is related to desirability and that desirability is associated with coolness. Hence there seems to be these two competing theories about whether or not expression or concealment of emotion leads to higher perceptions of coolness. Across three studies testing expression and concealment of happiness, sadness, anger and fear, we consistently found that emotional expression led to higher perceptions of coolness and this relation was mediated by higher likeness for the individual expressing emotion.

In summary, Zhang’s study argues that mandatory disclosure exacerbate other forms of information asymmetry due to the inference effect even though it improves transparency.
S. Sriram, "Rising Prices under Declining Preferences: The Case of the U.S. Print Newspaper Industry"

As the Internet is becoming popular, various alternative sources of news are available. Since these internet and mobile based news media are cheaper and easier to subscribe than traditional newspapers, many customers have mitigated to the alternative sources of news. As can be expected, circulation of daily newspapers in the U.S. declined between 2006 and 2011. However, surprisingly, the subscription prices sharply increased during the period. Dr. Sriram focuses on this counterintuitive phenomenon in his research paper and asks the following questions: (1) Is the decision of increasing subscription prices optimal in the face of the decline in circulation? (2) What are the factors that drive the subscription price increases? In this paper, he argues that the two factors, heterogeneity in readers’ willingness to pay and a declining preference among advertisers for newspaper advertising, have a decisive effect on the subscription price increases. In addition, he investigates whether increasing subscription prices is optimal.

Dr. Sriram uses data from a top-50 U.S. local print newspaper to estimate models of readership and advertising demand. It contains individual readers’ subscription history for three types of bundle and advertising revenue for three types of advertisement on newspaper. He explains the rationale behind the increment of subscription fee and decline in advertising rate in two ways. One explanation is that the newspaper companies want to discriminate high-valuation consumers from low-valuation ones. Thus, firms increase more for prices of daily based subscription than they do for Sunday only options. Then, only high valued customers are left on daily bundle and many people move to Sunday only option. Another explanation is that the reduced ability of newspaper companies to subsidize readers at the expense of advertisers, owing mainly to a declining preference among advertisers for newspaper advertising. The results also find out that the increasing subscription prices and decreasing advertising rates are optimal for newspaper firms.

In summary, this paper explains the pricing strategy for different actors in newspaper industry, an example of two-sided market, according to the change of the market environment.
PhD student Nooshin Lotfi and Caleb Warren

Rajan Varadarajan, PhD Candidate Wonjoo Yun, and S. Sriram

MJ Kim, Joon Ho Lim, JJ Chen, and Shruti Koley take a break

The crème brulee cheesecake was very popular.