

# Changes in Consumer Behaviours and Firm Strategies due to Digitalization

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Cite as:

Zhang Xu, Lambrecht Anja , Gardete Pedro, Bronnenberg Bart (2021), Changes in Consumer Behaviours and Firm Strategies due to Digitalization. *Proceedings of the European Marketing Academy*, 50th, (102344)

Paper from the 50th Annual EMAC Conference, Madrid, May 25-28, 2021



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## Abstract

Increased digitalization has influenced various business strategies and thus affects consumers' preferences and behaviours. These changes on businesses and consumers provide new opportunities and challenges for marketing researchers to rethink about efficient decision-making. From four different perspectives, this special session focuses on unexplored changes due to digitalization and their impacts on firms' marketing strategies. Specifically, the first paper explores how digital markets lead to polarization changes of information accessed by consumers. The second paper characterizes how the recommendation system in digital markets affects the non-informational aspects of consumer search and their implications on seller strategies. The third paper explores the changes in consumers' brand preferences and loyalty across generations due to the digital communication. And the last paper investigates how the network effects in online two-sided markets affect firms' bargaining power and strategies. This session brings various industry contexts together and employs a wide range of methods and data to look at this topic. We first provide below an overview of the four major objectives of the session. We then present the extended abstracts and author information on the respective papers.

**Down the Rabbit Hole? Investigating Product Echo Chambers on YouTube** The potential for digital technologies to deliver a personalized experience to users and the ability of firms to customize their offering online through algorithmic optimization is often seen as a major advantage of the digital economy. At the same time, there is growing concern that the personalization of information consumers access via online platforms can lead to the creation of so-called 'echo-chamber'. For example, in politics, these echo chambers are thought to contribute to increased polarization. However, there are little insights into whether such echo chambers can be beneficial for firms. 'Product echo chambers' that repeatedly expose consumers to information by the same firm could create valuable earned media impressions. In the context of charitable organizations on YouTube, we investigate whether recommendation algorithms can lead to such product echo chambers.

**A Good First Impression Goes a Long Way: Customer Engagement and the Dynamics of Product Discovery** A central assumption of the search literature developed in Economics and Marketing is that consumers search to acquire information. In this paper we propose that, beyond matching products to buyers, the fact that consumers also derive utility during search has implications for product recommendation policies used by sellers. By analyzing a detailed dataset of browsing behavior for used cars, we find that the classical role of recommendation systems – of matching products to buyers – generates the most sales initially, but also generates early consumer churn. In contrast, the first-best policy starts out by suggesting alternatives with lower match values but higher engagement, which translates to longer search sessions. After only a few consumer clicks, both policies exhibit similar purchase rates, the first-best policy benefitting from a larger consumer base. We see these results as a first step in characterizing the non-informational aspects of consumer search and their implications to seller strategies.

**Millennials and the Take-Off of Craft Brands: Preference Formation in the U.S. Beer Industry** We study the sudden growth of small-scale craft beer brands, a shift that industry experts attribute to the theory that Millennials have fundamentally different preferences than older generations. We test this hypothesis against the alternative that differences in purchase patterns are driven by exposure to different availability of craft beer in young age. Using a structural model of demand with endogenous consumption capital stock formation, we find that 85% of the generational share gap between Millennials and Baby Boomers is from exposure to different craft beer availability in young age.

**Network Sizes and Bargaining: Empirical Evidence from Healthcare Platform** We study the bargaining between a business-to-consumer (B2C) two-sided platform and the business side of the platform. Conventional wisdom suggests that bargaining power is influenced by firm sizes. However, unlike a traditional firm, a two-sided platform's size cannot be easily measured, as it can either be represented by the size of the consumer side or the size of the business side or both. The direct and indirect network effects on the two sides of the platform further complicate the determinants of bargaining power. In this paper, using data from a healthcare platform, we investigate how the bargaining power of the platform evolves as the consumer and business network sizes grow and how the change in bargaining power is reflected on both price bargaining outcomes and non-price bargaining

outcomes."

**Keywords:**

**Track:**