

The Influence of Status Quo Bias in Marketing and Reasons Leading to This Tendency

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Abstract: Status quo bias refers to the emotional preference to the present situation. It could also be defined as the tendency to resist changes, even there are better alternatives being provided. Status quo bias significantly influences individuals' behavior in various fields. This essay mainly investigated the extent of status quo bias, affecting consumers' purchasing preferences in marketing, as well as the reasons behind. Through the study on historic concepts, analysis on typical cases and 2 specially designed experiments, the conclusion reached is that status quo bias is consistently influential in marketing, and reasons include preference to familiar subjects and aversion of loss. Based on the previous theories and studies, typical case (Coca-Cola, 1985) is analyzed and online experiments are designed to illustrate the reasons people choose status quo when facing consumption choices. Results show that status quo bias is consistently influential in marketing, due to loss aversion, cognitive tendency and the rejection of risk and uncertainty. Enterprises therefore could use status quo bias as an effective selling strategy, in order to increase sales and profits.

Keywords: status quo bias, behavioral economics, marketing strategy, loss aversion

1. Introduction

Over the past decades, many economic and financial concepts were based on an essential assumption: that people would act rationally for decision-making [1]. With the research done by Daniel Kahneman and Amos Tversky, who contributed significantly to Behavioral economics, people gradually realized there were several bias and heuristics which might affect individuals' rational behavior [2]. Status quo bias, as one of them, refers to the psychological preference to current situation, even it is the sub-optimal option. The term was first introduced in 1988 by William Samuelson and Richard Zeckhauser. In their essay, the idea was specified and then proved by designed experiments which covered wide range of decision-making situations [3]. Status quo bias is found in multiple fields, especially in investment and marketing. It could lead to the irrational or inconsistent thinking of households, and also be developed into strategy which creates more sales for companies. There is an increasing trend of using status quo bias in marketing situations, and therefore it is valuable to investigate the effectiveness of these strategies, the reasons leading to status quo and possible solutions. This essay firstly discusses the background of Status quo bias and relevant concepts, then gives 2 applications in marketing, which are case of Coca-Cola company 1985, and the selling strategies adopted by enterprises. Relevant experiments and further analysis are also provided. Ultimately, a conclusion about the extent status quo bias influencing individual behavior is reached.

2. Literature Review

2.1. Main Study on Status Quo Bias

The most specific and precise analysis about status quo bias, is provided in the essay from Samuelson and Zeckhauser. Clear and reliable evidences supported the existence of status quo bias in political elections, marketing, investment, and other areas. The application in investment was proved through their experimental tests, additionally with the Chi-square test to ensure the reliability [3]. The only thing which might not be as perfect as the rest, was the conclusion part. It was general and clear enough, but might be too general since such wide range of fields about status quo bias was covered. Besides, after 34 years, the system of marketing and investment has changed significantly, along with more modern applications and influences. A combination of historical view and modern perspective is required for further studies.

2.2. Overview of Status Quo and Related Heuristics

Compared to that, the explanation of status quo bias, provided by Kahneman, D., Knetsch, J. L, and Thaler, R. H., 1991, was relatively more easy to understand and straightforward, because the analysis focused on certain areas, and the explanation of other concepts like the endowment effect and loss aversion, helped to achieve a complementary view [1]. Nevertheless, the overall looking would cause the sacrifice on depth of the evaluation of status quo bias.

2.3. Emphasis on Loss Aversion

The direct study on status quo bias was mentioned briefly in Kahneman's book, 2011, while more focus is on loss aversion. The pain of loss weights much more than the pleasure from gaining mentally, which the measure would be approximately twice [4]. Loss aversion would reinforce the extent of status quo bias when individuals are facing risk and uncertainty. Moreover, risk and uncertainty are the essential components in marketing and investment.

3. Method

3.1. Application 1: Coca Cola's Selling Strategy

In 1985, a "new coke" was unveiled by the Coca Cola company, which had adjusted formulation and taste compared to the classic one. The new product was supposed to win them more market shares, because Pepsi was in hot pursuit. Coca Cola spent 4 million dollars for field research, inviting approximately 191000 citizens to taste the Coke Classic and New Coke, without labeling them. The result showed that 60% people preferred New Coke to Coke Classic, and therefore Coca Cola invested huge amount of money for new assembly lines and advertising. However, when the New Coke was officially launched in market, consumers' preference turned out to be Coke Classic and New Coke was strongly resisted in many regions. The New Coke was eventually obsoleted in 1992 [5].

The case may suggest that consumers prefer the goods being familiar to them, even they might actually once have thought, the alternative to status quo has higher quality (better taste of Coke in this case) [6]. For those people who didn't attend the "blind test" of Coke Classic and New Coke, loss aversion [4] could partially explain why they chose status quo. No doubt, people would try best to avoid the risk of getting regretful when they make a choice about purchasing. However, the cost of a bottle of Coke, approximately 2\$, is not a great expenditure for most of people. The loss aversion should be more influential when the cost of purchasing is higher. Moreover, it couldn't logically explain why a majority of people preferred the new taste during "blind test", but later chose status quo.

So the assumption is that, people's preference might be influenced by curiosity, but ultimately it would slide back to status quo which being accustomed to people [7]. In other words, curiosity could possibly be a factor which reduces the extent of status quo bias.

In order to investigate further, an online experiment was designed and presented on 1st of August, 2022. Subjects were asked to think from the perspective of Coke Classic supporters, and answer if they would like to try a "new Coke" with different formulation (price and volume remained unchanged). The number of samples was 580, and the majority of subjects was students from high school. The experiment was carried in the form of online questionnaire, the options were

A. Yes

B. No (Option B. No is considered as status quo option in this case.)

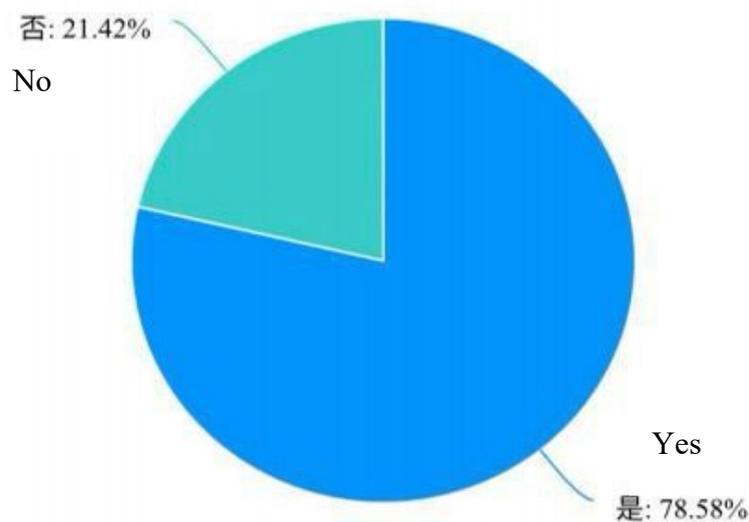


Figure 1: Consumers' attitude towards new coke flavor.
Note: data from personal investigation, 1st of August, 2022.

The result was different from the market situation in 1985, as 78.62% subjects were willing to try the "new Coke", 21.38% of them chose status quo. The factor leading to the result could be the changing attitude to Coke Classic over another 37 years. People might have been bored with the classic flavor and thus desire new product. Another reason is the range of subjects chosen are limited. Seeking innovation is one typical characteristic of younger generation, Pepsi also used it successfully to attract consumers, competing against Coca Cola in 1980s. Despite there are more possible reasons, several subjects clearly stated they chose to try New Coke because of curiosity. Overall, the experiment provides insufficient evidence to support the hypothesis, since multiple influential factors exist and the question design is relatively too simple. A more complete and precise experiment, including specific questions on costumers' curiosity, will be carried out soon.

1.1. Application 2: Company's Soft Selling Strategies

Many companies are good at using consumers' status quo bias to increase sales of their products. Offering consumers a free trial used to a very popular approach, especially for online tradings. Consumers are likely to keep the product, even they are not completely satisfied with it. Few of them choose to return back, as long as there is no functional problem. Status quo bias is typical in this case.

The main reason behind is that people try to avoid the tiring mailing process and extra time spent on searching alternatives [8].

With the development of online payment, people’s expenditure on software, apps and websites has increased significantly. The auto-renewal subscription, another selling strategy based on consumers’ status quo bias, is now widely used by software companies. Usually when users are charged for a membership or other relevant services, a few options would be listed. Except monthly or yearly payment, the auto-renewal subscription is also provided, and often occupies the most obvious position on screen. There might be two situations for the auto-renewal subscription option. The first one is a very low price will be given, following by a small line of words: “Back to normal after the first month”. Default is not allowed until the fee of the second month being charged, so actually consumers are paying for at least a cheaper month plus a normal month). YouTube membership is a typical example. The other form is a 20~30% discount compared to normal subscription [9]. Developers would gain benefit through either way, because for most of the software services, there is no marginal cost. The best way to increase profits is to attract more users and prolong their time of subscribing [10].

A majority of the consumers would be attracted by the auto-renewal subscription. And later they are likely to behave as status quo, even they might once consider about stopping subscribing. This is the consequence which developers expect.

Aiming to investigate the extent of status quo bias and the reasons why people didn’t eventually cancel the subscription, an online experiment was designed and presented on 1st of August, 2022. Handing out in the form of online questionnaires, 582 subjects participated and were asked to answer the following questions:

Table 1: Online experiment about auto-renewal subscription.

Question/Options	A	B	C	D
1. Have you ever had the intention to cancel auto-renewal subscription for any app?	Yes (73.88%)	No (26.12%)	/	/
2. Did you cancel it eventually? (subject who chooses No in question 1 will not meet the following 3 questions.)	Yes (77.67%)	No (22.33%)	/	/
3. If not, what’s the reason? (Subjects who chooses Yes in question 2 will not meet the following 2 questions)	Forgot to cancel (37.25%)	Because of laziness (60.78%)	Technically don’t know how to cancel (10.78%)	Others (16.67%)
4. How often do you use the app	Every day (15.69%)	2-3 times per week (34.41%)	Sometimes (45.10%)	Hardly ever (4.90)

Firstly, 73.9% of subjects once considered about canceling the auto-renewal subscription service, and 22.3% of them didn’t do it at last. Secondly, among these subjects, “because of laziness” was the most popular answer, which has the proportion of 61%. 36% subjects forgot to cancel and only 10

percent of them chose “technical problem”. Thirdly, the most common frequency of using the app is moderate, from 2-3 times per week to sometimes, which reaches almost 80%.

The real value indicating status quo was lower than the expected one. The limitation on range of subjects chosen might be a dominant factor, because over 85% of subjects were juveniles around 18 years old. They are more likely to act decisively and realize developers’ strategy. Similarly, the low rate of choosing “technical problem” could be explained. In contrast, laziness was the main reason why subjects stayed in status quo, as expected. Together with the moderate using frequency, these factors suggest that, in this case, a sense, a condition like “not to matter” possibly leads to status quo bias.

Overall, the research and this experiment could support the existence of status quo bias in choosing auto-renewal subscription. The selling strategy used by software developers should be considered as successful.

4. Conclusion

To conclude, through the analysis on case studies and designed experiments, it is reasonable to suggest that status quo bias consistently and strongly affects consumers’ decision-making, and should be classified as a successful selling strategy in marketing. The factors leading to status quo bias are multiple, and would vary in different cases. The reasons could be aversion to loss, trying to avoid risk and uncertainty, preference of familiar alternatives, or a state of “not to matter”.

As the self-reflection, the experiment designs were limited, for the depths of questions and the range of subjects being chosen. Whether the curiosity of consumers would reduce the extent of status quo bias therefore were not yet proven. The adjusted experiments will be released soon and relevant evaluation would be given.

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