HOW CORPORATIONS MANIPULATE US USING BEHAVIOURAL ECONOMICS

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ABSTRACT

This paper discusses how mega corporations are manipulating consumers using behavioral economics to push them towards making wasteful purchases & encourages overconsumption, which are harmful for the consumers and the environment in the long term, with the motive of profit maximization. This paper focuses mainly on Amazon and through critical analysis, it provides evidences of pure manipulation. This paper concludes that given the scale of manipulation being carried out, consumer needs to be protected from these unethical practices. There should be strict laws to oversee and restrict what corporations can do and to protect the consumers & their rights.

KEYWORDS

Nudge theory, Amazon, E-commerce, Consumer Behavior, Predatory Pricing.

INTRODUCTION

In our textbooks, we have always assumed man to be a rational consumer but many a times he doesn't behave like one and, this is where Behavioural Economics comes in - it questions these assumptions while helping us understand his decision-making motives and assists in making his economic behaviour more rational. Behavioural Economics combines elements of economics and psychology to provide an explanation for why people drift away from making rational choices, and how they can be subtly put back on track.

Nudge theory is a concept of Behavioural Economics. A nudge is an intervention that influences our behaviour and decision making through positive reinforcements and indirect suggestions to steer us towards a desired action. It was first popularized by Nobel Prize winner American economist Richard Thaler and legal scholar Cass Sunstein in their book Nudge: Improving Decisions About Health, Wealth and Happiness (2008), though their work was mainly based on the research of psychologists Daniel Kahneman and Amos Tversky.

Nudges are heavily used by policy makers and private organisations. This study explores on how corporations use behavioural economics to manipulate consumers and change their behaviour in a way which benefits the company and not the consumers. Through this study one can analyse how multinational companies take advantage of their consumers' cognitive limitations through different techniques of behavioural economics and how consumers react to them. The findings will be a wake-up call for the firms and consumers both. The corporations will be called upon to revisit their current framework or device a new one, a framework that is beneficial for everyone involved.

This paper will be focusing mainly on the manipulation prevalent in e-commerce, and specifically on Amazon as the corporation of choice to narrow down and analyse the different ways in which Multinational Corporations (MNCs) nudge consumers, or, as to say, manipulate us with the motive of profit maximisation and how this incidentally leads to wasteful spending and overconsumption by consumers.

LITERATURE REVIEW

Thaler and Sunstein (2008) defined a nudge as *"any aspect of the choice architecture that alters people's behaviour in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting the fruit at eye level counts as a nudge. Banning junk food does not."*, (Thaler & Sunstein, 2008: 16). Choice Architecture is a design in which different choices are presented to the consumer in such a way that it influences their decision in a desired way. We are beings with cognitive limitations, and nudges are designed to steer our decision-making process in the right direction. Once this motive behind the nudge disappears, this nudge becomes a dark nudge, one that is not meant for our well-being, rather it benefits the one who designed the choice architecture. For a nudge to be ethical, three principles have been proposed: the nudge should be transparent, cheap and easy to avoid and should not be misleading, i.e., it should be in the best interest of the consumer. The nudge is ethical if and only if all three principles apply to the nudge. The nudge theory first came into existence by the name of Libertarian Paternalism, a term coined by Sunstein and Thaler in 2003. Libertarian Paternalism is where you guide the decisions of an irrational consumer (like a parent- paternalism) but there is also freedom to the consumer to choose for himself (libertarian). To quote Sunstein and Thaler (2003), "*libertarian paternalism, an approach that preserves freedom of choice but that authorizes both private and public institutions to steer people in directions that will promote their welfare*", (Sunstein & Thaler, 2003: 6). It has been more than 10 years since this theory came out and thenceforth, it has been adopted by many sellers worldwide and even by the government for policy formulation. But today, many sellers are deviating from the three principles of an ethical nudge and are using behavioural economics for their own benefit. They are manipulating consumers for their profit maximisation. "*Many companies are nudging purely for their own profit and not in customers' best interests,"* Thaler wrote in the New York Times in 2015, (Thaler, 2015, para. 16). Mark Bell, Chief Experience Officer at Dare says that Amazon has been on a hiring spree for behavioural scientists in tech industry (Bell, 2017).

So how exactly do you get nudged? Let's see some examples.

Default Options is one such strategy in behavioural economics; in this you're asked to choose/take something from two or more than two options. The provider chooses one option for you in case you don't want to choose and hence that becomes a default option. You're free to choose something else but most of the consumers stick with the default option because it makes their work easy and they have to think less. Given the choice overload consumers face these days, 50 different types of toothpastes, shampoos, candies etc. default options are preferred by everyone. A lot of e-commerce websites use defaults for shipping addresses and payment options. *"When people make decisions with a pre-selected choice option – a 'default' – they are more likely to select that option.*

Because defaults are easy to implement, they constitute one of the most widely employed tools in the choice architecture toolbox", (Jachimowicz et al., 2019: 1). **Price** has a huge effect on our brains as well. In a study conducted, it was found that, the use of $9 ending prices increase demand. To a rational consumer there shouldn't be much difference between a product worth $40 and $39 but surprisingly, prices ending with 9 create an illusion in our brain which makes us think the price is less and that we should buy it (Anderson & Simester, 2003). The same was found in another study which concluded that nine ending prices are perceived to be smaller (Thomas & Morwitz, 2005). Another way to lure consumers using pricing techniques only, is putting two similar products together but with different prices, one cheap and one expensive. This trick usually works in fashion stores and luxury lifestyle as consumers tend to relate high prices to high quality. But what they don't realise is half the price of luxury brands are just for the brand name, the quality is the same. Consumers are paying high prices for the brand name. If you place a watch worth 3000 rupees with a similar watch worth 8000 rupees, consumers will go for the more expensive one. **Scarcity** is another way consumers get manipulated; they are conditioned to react to scarcity with urgency. *"People tend to perceive scarce items as more attractive or desirable"*, (Schneider et al., 2018: 1). This cognitive bias is again taken advantage of by corporations. They display items to be running out of stock in order to increase sale. And consumers, as expected, fall for it.

The **anchoring effect** is a cognitive bias that reflects people's inclination to make judgments based on the first piece of information they are given (the "anchor"), (Staff, 2019). Price Anchoring is a valuing technique that plays on purchasers' innate inclination to depend intensely on a piece of starting data to direct ensuing choices. With regards to pricing, numerous organizations will set an apparent starting cost for an item yet try to show that it's presently being sold at a markdown in order to create an illusion of a chance to save money i.e., discount. Imagine you're selling a skirt worth $29. This will not catch a lot of attention. But what if you priced it at $50 and then give a discounted price of $29? This will definitely attract a lot of buyers. This makes the consumers think they're saving money by buying something being sold at a price less than its actual worth.

A lot of the times consumers depend on "social information", i.e., product reviews posted online by other purchasers (Hu et al., 2011). These product reviews can be in the form of description or a star point rating system or both. The effect of these reviews depends upon the nature of the product, i.e., whether it is a search good or an experience good. "*According to Nelson (1970, 1974),* *search goods are those for which the consumers have the ability to obtain information about the product quality prior to purchase, while experience goods are products that require sampling or purchase in order to evaluate product quality*", (Mudambi & Schuff, 2010: 187). For example, electronic items which can be evaluated in objective terms are considered as a search good, while commodities such as books, movies, etc. which have subjective attributes are considered as experience goods. There can be products which lie between search and experience goods and have the characteristics of both of them.

It is found in earlier literature that while moderate consumer review rating of an experience good is preferred as compared to extreme ratings. In contrast, extreme consumer review ratings are found to be more helpful as compared to moderate ratings in case of search goods (Mudambi & Schuff, 2010). Along with these, there is also a feature in online e-commerce websites where consumers can vote if a consumer product review was helpful or not. According to Chen et al. (2008), this review voting system can reduce the benefits to self-interested parties from manipulating product reviews (Chen et al., 2008).

One would think that a review posted by another consumer would be authentic but again it is just another cognitive bias for sellers to take advantage of. Sellers on e-commerce websites post **fake reviews** in order to increase sales. Amazon, Google and Facebook are the top three sources of fake reviews according to consumers (Pitman, 2022). 4% of all online reviews are fake (Marciano, 2021).

Whether a producer/firm adopts market manipulation depends on the equilibrium between two effects: firm-centric effect and a rational expectation effect. While the former drives the firm to pursue high level of manipulation since false information would give the illusion of higher quality product, the latter discourages the firm from manipulation as more consumers will discount any information that they receive assuming, they are rational consumers. The relative strength of the two effects determines the total effect and hence the amount of manipulation a firm expends. There is empirical evidence that a higher amount of manipulation is done by low quality producers as compared to higher quality producers. If the consumers are naive and not aware of the presence of fraudulent information, there is a larger chance of negative effect of manipulation on them. (Lee et al., 2014).

DISCUSSION

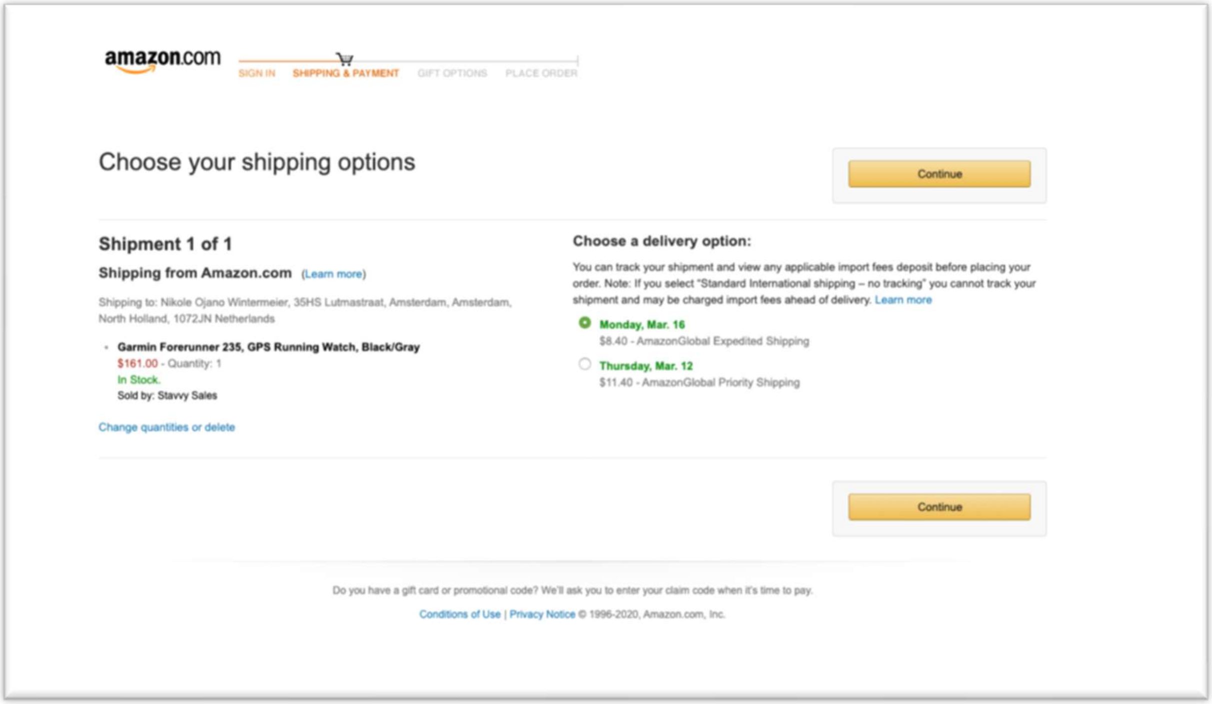
Amazon is one of the largest multinational technology companies in the world. It focuses on e-commerce, digital streaming, cloud computing, etc. This paper only takes into consideration its e-commerce platform. While Amazon is a mega corporation, its e-commerce platform mainly focuses on connecting business to consumers, and providing easy transactions, and home delivery to the consumers at the comfort of their residences.

Now the big question is, as a giant corporation, is Amazon maintaining its integrity in business dealings? Is it following up on its social obligations? Is it honest to its consumers?

The answer is no. Amazon uses certain techniques to nudge its consumers and it takes advantage of their cognitive biases for its own profit maximisation. The following is the evidence. The paper will focus on nudges identified above in the literature review and also give evidence of other nudges used by Amazon.

DEFAULT OPTIONS

Like many other e-commerce sites, Amazon too has Default Options in the shipping address and payment option section. Amazon uses defaults as they help the consumer make fast decisions and not back out of the transaction. There is no place for second thoughts for the consumer. If the consumer wants to reconsider what they are buying and what for they are buying, then there is a chance that they might just return to their cart and delete some products which will lead to a loss for the companies. The *buy now with 1-click* option has the same effect. It makes the transaction process swift and easy but at the same time it makes it difficult for the consumers to refer back to the cart once they have started their transaction process.



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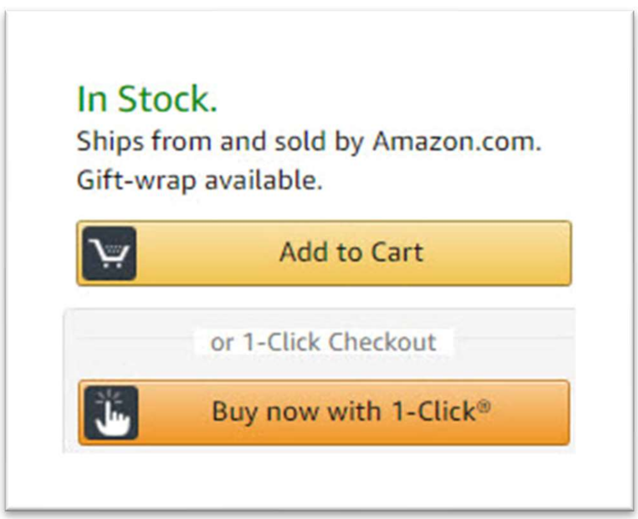

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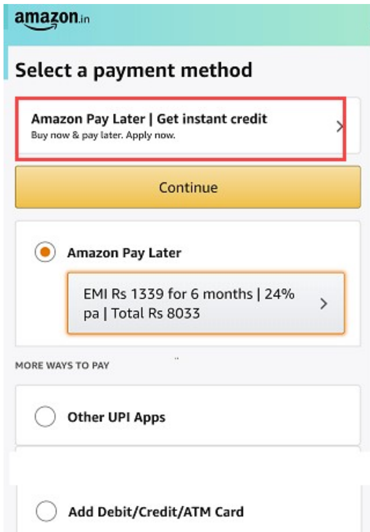
RETURN POLICY

One of the factors that contribute to the success of their company is their return policy. They provide easy 10-day return option for most of their products, unless mentioned otherwise in the products description, for a complete refund. This no-questions-asked policy gives consumers the illusion of control, that they in charge of their expenditure and consumption. This nudges consumers to make wasteful and unnecessary purchases as they feel that if the product is unsatisfactory, they can always return it. However, what happens due to this is, the consumer becomes lenient with what they think is worth their money. As mentioned in the literature review, there is a cognitive bias of consumers where they do not prefer to take additional steps to change something and would rather stay in the default setting, what happens subsequently, is that the consumer would much rather keep the product than to return it, if they are found to be indifferent towards the said product.

BUY NOW, PAY LATER

One of the policies that Amazon offers is ‘Buy Now Pay Later’ option. This provides the consumer to pay for their products in instalments rather than in one go. While this is a great policy for people who are a little tight on their budget, it more or less nudges the consumers to purchase products which are out of their budget. It encourages consumers to buy more since the total value of the product is blurred, and they only see the amount of money they have to spend a month at a time. If the consumers are not careful about what products they purchase, they might find themselves in debt, as, especially in these unprecedented times when job security is endangered, the same as none.



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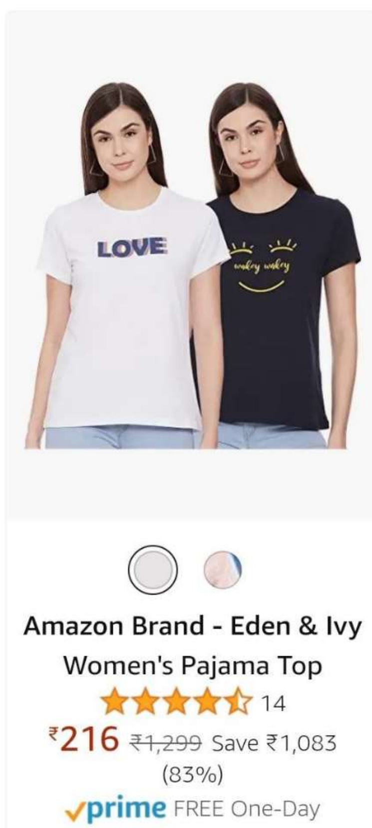
PREDATORY PRICING

Though it has become such a household name, Amazon itself doesn't hold much brand value to their consumers. This is because they offer to the consumers' competitive prices for the quality of their products. But, is it a little far-fetched to say that they give competitive prices since the prices are far lower than the prices prevalent in the market? Predatory pricing is a scheme where the seller deliberately keeps prices low in order to eliminate competition with the goal to recover the losses afterwards by charging supra-competitive prices, (Emch & Leonard, 2009). This is exactly what Amazon does. The pricing strategy of Amazon is extremely interesting. Amazon checks which of its products are most popular among consumers and sells them at a price lower than all other sellers, which in turn, attracts a bunch of buyers (a herd of buyers?) and to cover up the loss it sells other items at a higher price which are not so popular and expensive. For example, consider a television set worth $100. It is a new product in market and very popular among consumers. To attract buyers, Amazon will sell it at $85. The psychology of discounts come into play here. As stated before in this paper, discounts are popular among buyers because they create an illusion of receiving something at a price less than what it is worth; everyone wants to save money. Now, think of a product that goes along with the television set. A HDMI Cable Wire worth $15. Consumers who buy the television set might consider buying that too. Amazon will sell it at $30. The logic in play here is, a television set is a much bigger and more expensive commodity than a

HDMI cable wire. A consumer will compare prices of a television set provided by different sellers on different platforms but few will compare a HDMI cable wire and since they're already buying the tv from Amazon, why not the HDMI cable wire too.

Amazon uses this same trick to sell products of its own. Solimo, AmazonBasics, Symbol, Presto, etc. all are brands of Amazon. The products of Amazon brands are sold at a very high discount in comparison to the same products sold by other companies. The discounts are so high that it becomes quite difficult, to say no to.

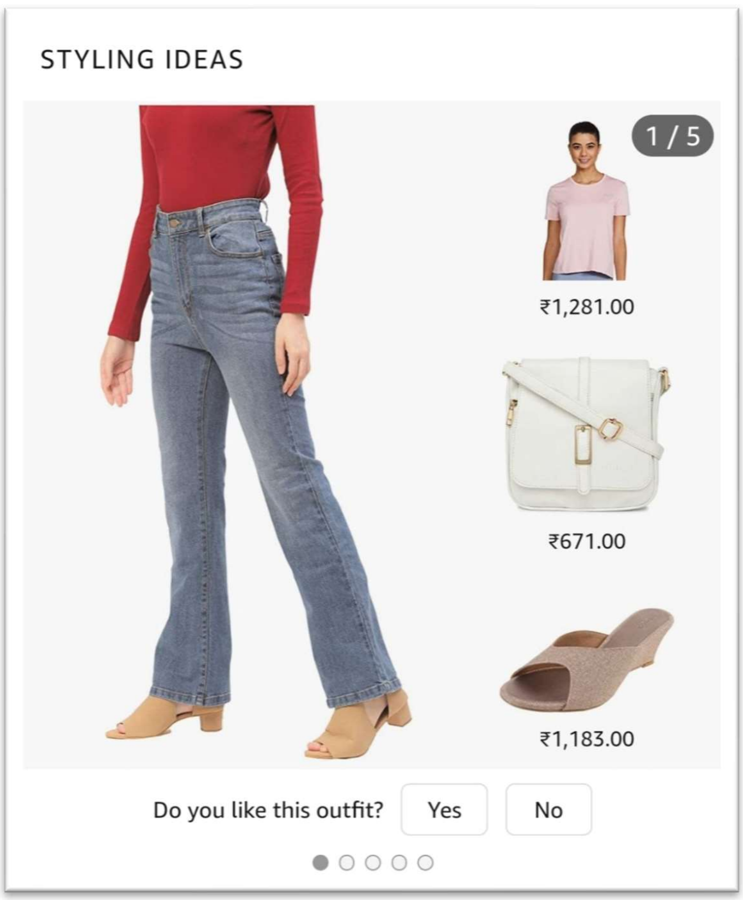
In an investigation ran by Reuters, it was found that Amazon is creating knock-off goods and rigging its search results to boost the sale of products of its own brands in India, (Kalra & Stecklow, 2021).



SOURCE: AMAZON

CROSS-SALES

Cross-selling is the practice of selling related or complimentary items with the sale of one product. Amazon revealed in 2006, that 35% of its total revenue came from cross-selling, (Smale, 2016). Cross-selling works wonders because it allows the seller to increase his influence over an already nudged consumer. Once the wallet is already open, it doesn't take much to open it wider. To identify cross-selling, look out for terms like "frequently-bought-together", "you-might-also-like", "customers-who-viewed-this-also-viewed", etc.

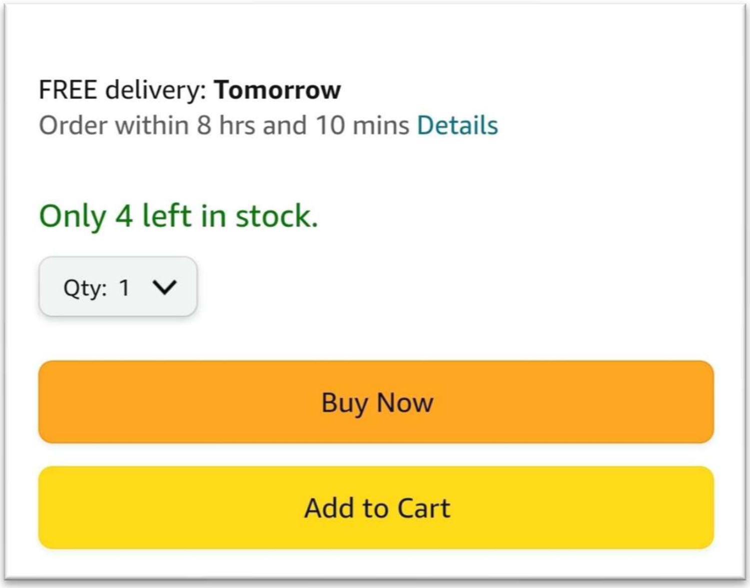


SOURCE: AMAZON

SCARCITY

As discussed before, scarcity creates an urgency which helps in converting window shopping into actual sales. A lot of the time you see the words – “Only 4 Left in Stock”, “Running Out Fast”, or, “Limited Time Deal”, and all of these announcements create a false sense of urgency in consumers which makes them buy the product. If the consumer ever had a doubt about whether they wish to purchase something or not, the scarcity nudges them into buying the product then and there.

SOURCE: AMAZON



SOURCE: AMAZON

CONSUMER REVIEWS

Consumer reviews are a great way for consumers to get to know about the product especially in this digital e-commerce era since it is quite difficult to know the quality of the product through the product description and to decide if it is worth their money or not. But it has now lost the most of its credibility, since a lot of these reviews are either fake or paid. This misguides the consumer, as, now these reviews are biased or doesn't give the correct picture of the product they want to buy.

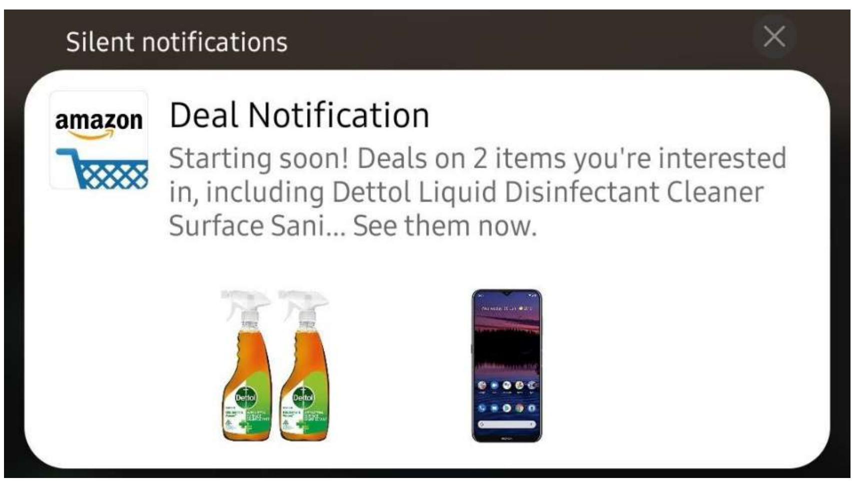
Along with this Amazon itself distinguishes some of the products with 'Amazon's Choice' badge, which serves the purpose of verifying the retailer and recommends the said product. While this would be helpful in the decision-making process of the consumer, it raises some questions on the credibility of Amazon since it doesn't specify if it is a paid advertisement or not. The lack of information regarding how those products are selected for its special mention is unethical as the consumer doesn't get an unbiased review of the product. (Pietsch, 2019)

SOURCE: AMAZON

SOURCE: AMAZON

CLICK-BAITS & POP-UP NOTIFICATIONS

Shopping has become a way of escape for so many people today. It is an antidote to boredom. The pleasure of shopping is so great but only for a while. It sure does release dopamine in your body, but it also burns a hole into your wallet. One point to note is that a lot of people are addicted to shopping nowadays and corporations are aware of this. Amazon is always sending the consumer notifications regarding a discount on an item or a running-out-of-stock-hurry in order to get their attention. This constant state of awareness is intentionally created so that the consumer continuously thinks of what they might need or will need. Sometimes, even if the consumer is not particularly interested in buying anything, they might get tempted to do so in order to get the product at a bargain. Due to this, a lot of consumers give in to their urge and/ or get an urge to buy the product (scarcity/ discount). They are nudged towards making a purchase.



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All the nudges that are discussed above, they manipulate consumers into making purchases that they otherwise wouldn't have made. So many times, people purchase the products which they later regret buying. Not only does this take a toll on their wallet, but it also adds to the ever-growing pile of waste that comes from the same discarded products which people throw away without using. So, who's to blame? The people? No. The corporations, that mould the psychology of their customers in a way that they are forced to buy their products. It is a company's social responsibility, to do right by their consumers, since this is completely unethical and unfair. Strict action is required against such activities, for without it, no real change will ever occur. There is need for consumer protection against manipulation by the corporations. There should be laws restricting and overseeing retailers and their activities.

What the corporations do not realise is that human beings learn. Being nudged again and again towards purchases which they later regret, consumers will develop a conditioned response and eventually stop giving in to the impulses and illusions the nudges create. They will get aware of the tricks. The consumers will also shift towards brands and sellers who do not manipulate them which, in turn, will result in long-term losses for Amazon and other corporations which focus only on their profit maximisation.

CONCLUSION

The paper concludes that all nudges discussed above, they have the same motives – convert indecisiveness into transactions, transactions which usually benefit the one who designed the choice architecture, and in our case, Amazon/Other corporations. Amazon has been questioned several times regarding its shady activities, but it always denies all the allegations and never changes anything. Many other corporations do the same thing. This sort of unethical and unfair practice robs the consumers of their rights to make their own decisions. By shedding light to these practices, it gives power to the consumer to make informed choices and helps them to be more cautious and vigilant of any such future manipulations.

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