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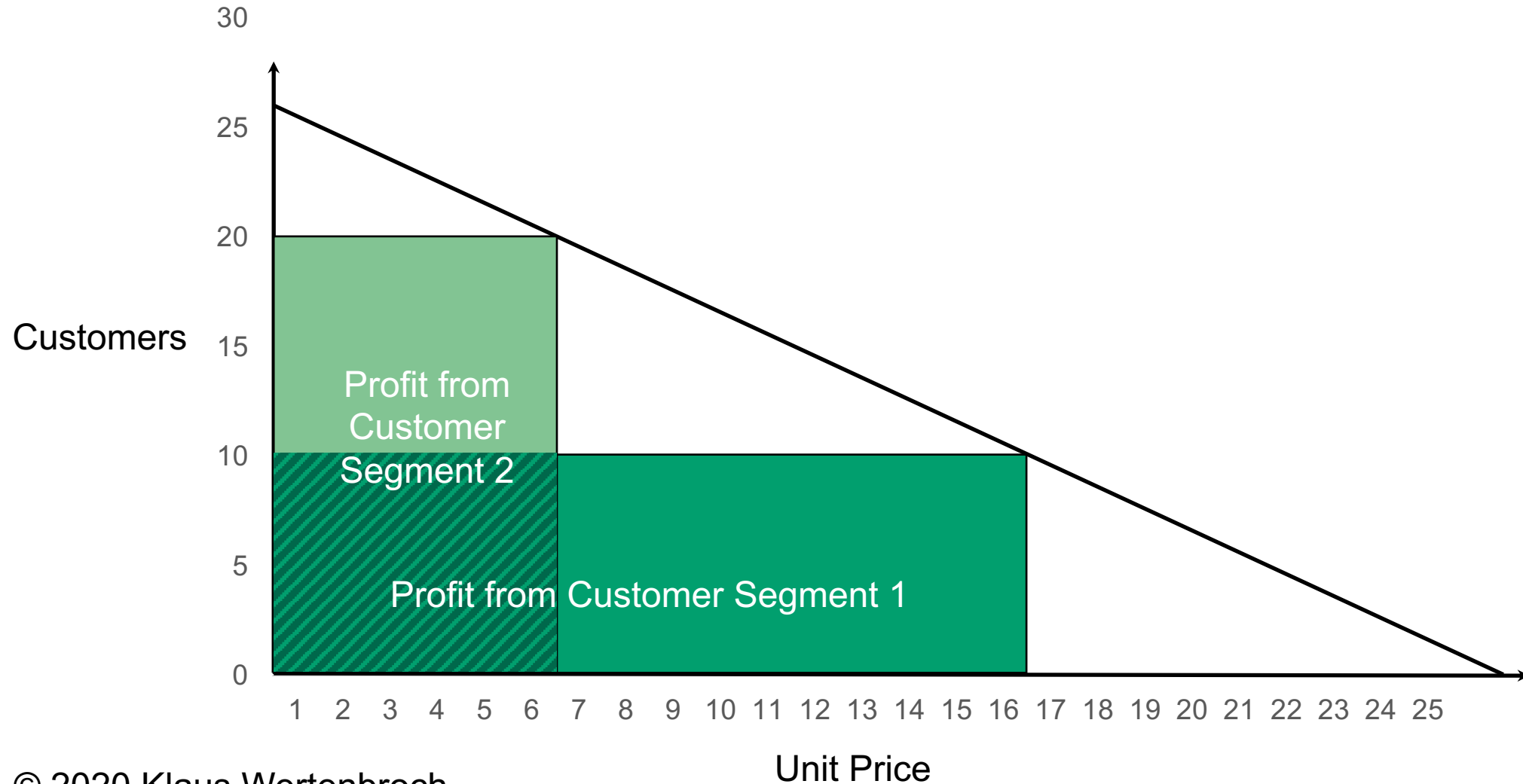
Marketing Utopia or Marketing Dystopia?

Klaus Wertenbroch

The Novartis Chaired Professor of Management and the Environment

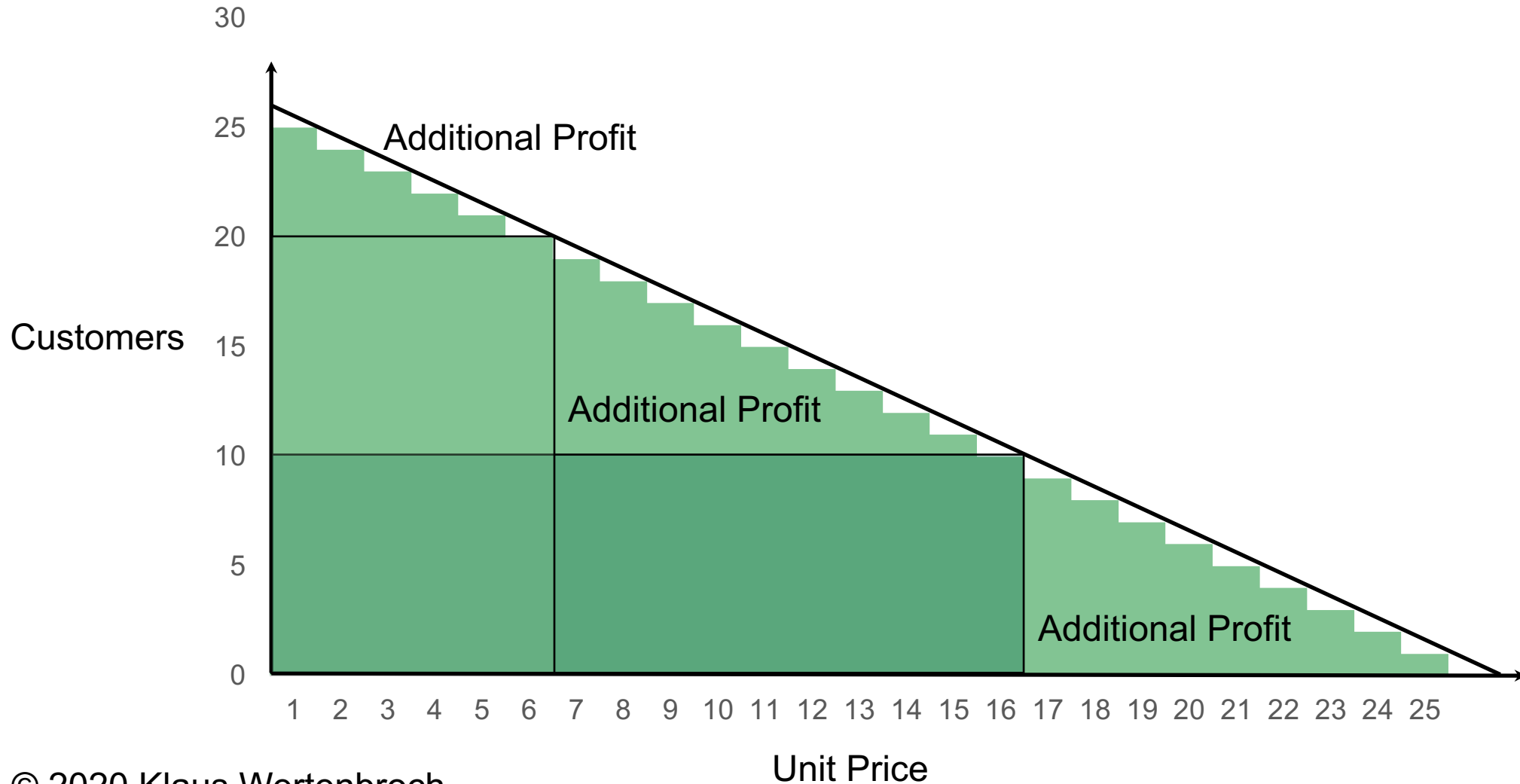
Professor of Marketing

Segmentation: Price Discrimination between Segments



Machine Learning Algorithms and AI Enable Transition from Segmentation to Personalization

Personalization: Price Discrimination between Individuals



Personalization: Marketing Utopia or Marketing Dystopia?

Loss of privacy poses (at least) three **risks** to consumers that firms should manage:

1. Economic: Consumers forgo **surplus** and suffer from **market failures**.
2. Psychological: Consumers forgo **perceived autonomy**.
3. Ethical: Consumers forgo **equality of opportunity** and surrender to “**black-box**” decisions.

Are Consumer Decisions about Privacy Rational?

The “Privacy Paradox” and the Value of Privacy



Do companies adequately compensate customers for the data they reveal about themselves?

How can we tell?

Privacy Paradox Experiments

(from Tomaino, Wertenbroch, and Walters, research in progress)



Results from six pre-registered experiments:

- Consumer preferences for privacy can be intransitive, suggesting that markets for privacy are not efficient and not working properly.
- Consumers undervalue their privacy when they *exchange* private data for goods/services online, compared to when they *sell* their private data for money.

Policy conundrum?

- **Market power** from hoarding consumers' private data because of market failure.
- When markets fail, regulation must curb market power and create **competition**.
- BUT: Competition = sharing data ⇒ even **less privacy** (?)

Without Privacy: Forgoing Perceived Autonomy and Free Will?

Recommendation (= Prediction) Algorithms



Do you like recommendation algorithms?

Do you like being predictable?

Personalized Prediction Algorithms and Free Will

(from Schrift, Wertenbroch, & Zwebner, in progress)



Marketers' goal: personalization and price discrimination

Consumers don't want to be predictable

- Perceived predictability of one's choices may threaten one's sense of free will
- Choose **non-preferred (!)** options to restore sense of free will

(Preliminary) implications of personalized prediction algorithms?

- For marketers:
 - Frame predictability as consistency
- For consumers and policy makers:
 - (When and how) will consumers rebel?

How Can Companies Explain the Unexplainable?

How to Explain Algorithmic Decisions to Your Customers



Should companies explain the decisions, which their algorithms make, to their customers?

How to Explain Algorithmic Decisions to Your Customers

(from Tomaino, Abdulhalim, Kireyev, & Wertenbroch, 2020 working paper)



Follow-up lab experiments show that teleological explanations imply **perceived fairness** of algorithmic decision.

Implications for companies?

1. **Explain** your algorithm's decision to your customers!
2. If you do not want to, or cannot, explain its mechanism, explain its **purpose!**

Ethical implications of providing teleological explanations?

Fair goals may entail unfair, discriminatory mechanisms (e.g., Apple credit card, Amazon hiring algorithm).

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