Yuxin Chen (New York University)
“The Impact of Online Product Enhancement on Consumer Demand: Findings from the Console Video Game Industry”

A growing number of firms are using the Internet to enhance their products and services. In this paper, we examine the impact of online product enhancement on consumer demand in the context of the console video game industry in which firms have provided gamers the opportunity to play certain video games online. The central research questions we address are: how does online product enhancement affect the sales of video games? What factors influence a firm’s decision to enable a game to be played online?

To address these questions, we adopt a “discrete-continuous” approach to modeling both a firm’s decision to offer online gaming capability and the impact of online capability on game demand. Using a sample of video games launched from August 2002 to September 2004, we estimate a joint model that controls for price endogeneity using instrumental variables.

Our empirical analysis reveals that online product enhancement has multiple impacts on demand. While online capability generally enhances demand for games, it can also have four negative impacts: consumers tend to be more price sensitive to online games; online games tend to “wear-out” faster than their offline counterparts; the normally demand-enhancing effect of being a sequel is reversed for online games; and the diffusion effect of games can either be enhanced or reduced by online capability depending on the genre of the game. Beyond demand effects, our analysis also reveals contrasting patterns in publishers’ choices of online capability. Large publishers are more likely to make their games online-enabled for the Playstation 2 than for the Xbox, while the opposite holds for small publishers, which are more likely to make their games online-enabled for the Xbox than for the Playstation 2.
Priya Raghubir (The University of California at Berkeley)
“Processing Graphical Information”

This paper examines how consumers process graphical information. Aspects examined include: digital versus graphical information (Studies 1 and 2); X-axis choices (Studies 3, 5, and 6), presence of reference indices (Studies 4, 5 and 6), and the salience of local maxima and minima (Studies 7-9). Results converge to a theory that consumers process visual graphical information by sampling salient data points to assess the trend and noise of a price series, which biases estimates of risk and return. Theoretical implications for the processing of visual information, and practical implications for the communication of financial products and consumer welfare are discussed.

Joel Huber (Duke University)
“Task and Context Effects in Valuations from Iterative Choices”

This article examines the influence of reference and starting point effects on stated preferences using a sample of over 4,000 respondents who make a series of choices trading off better water quality against lower cost of living increases. First, we examine whether respondents demonstrate diminishing marginal utility with respect to improvements in the percent of good lakes and rivers. We find that diminishing valuation is only significant when respondents are told that 65% pass that standard nationally. As predicted by prospect theory, the 65% national figure acts as a reference point, increasing the value of unit improvements below it, while decreasing unit values above it. Second, we show that the iterative choice procedure also generates reference effects that produce greater responsiveness to improving the less preferred alternative over degrading the chosen alternative. This result is consistent with prospect theory if the item changed in the iteration becomes the reference alternative. Finally, we demonstrate that the initial tradeoff presented to respondents creates a strong starting ratio effect. We assess the relative impact of these reference effects and suggest ways of dealing with them for valuation of non-market goods.
Greg Allenby (The Ohio State University)
“A Model for Trade-Up and Change in Considered Brands”

A common theme in the marketing literature is the acquisition and retention of customers as they trade-up from inexpensive, introductory offerings to those of higher quality. Standard models of choice, however, apply to narrowly defined categories for which assumptions of near-perfect-substitution is valid. In this paper, we extend the non-homothetic choice model of Allenby and Rossi (1991) to accommodate effects of advertising, professional recommendation and other factors that facilitate the description and management of trade-up. The model is applied to a national study of an over-the-counter health product.