Discussion of “Privacy Regulation and Online Advertising” by Avi Goldfarb and Catherine E. Tucker

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Introduction

- In the last decade the use of internet for both wholesales and retail activities has increased: 20.6% of wholesale commerce uses Internet (U.S. Census Bureau Report, 2010).
- Firms are able to earn enormous advantages:
  - eliminating "menu-costs" (Brynjolfsson and Smith, 1999),
  - bundling (Shapiro and Varian, 1998),
  - applying price discrimination (Fudenberg and Tirole, 1998; Varian *et al.*, 2004),
  - an additional and powerful channel for advertising (in US $8 billion spent in 2009).
- New invasive marketing techniques raise privacy and security issues (*Privacy Directive* in EU and *Do Not Track* mechanism in US).

Outline of the paper

- From an economic point of view, public intervention is justified by several issues concerning the flow of information: natural monopolies, piracy, privacy.
- The introduction of privacy regulation yields an important trade-off: consumers right vs. free internet.
- The restriction on data collection affects many of the services that use personalization and rely mainly on revenues from online advertising and marketing.
  - It will have a direct cost for consumers in terms of increased prices for previously free content and services (e.g. search engines).
  - Direct impact on the structure of the economy (e.g. future of online newspapers).
- The authors study how the change in the privacy regime ("Privacy Directive") has affected the advertising performance in five European countries.

How do consumers respond to advertising?

- Although it has been argued that Internet is a fundamentally different marketing environment, there are many forms of advertising on the Web that are similar to traditional advertising (Briggs and Hollis, 1997; Bruner and Kumar, 2000).
- According to the economic theory of advertising:
  - Persuasive: changes the consumer tastes;
  - Informative: provides information;
  - Complementary: to the consumption of the advertised good.

Comments

- The effectiveness of online ads depends on the goals of the advertiser:
  - to attract visitors to a web-site → clicktrough rates of a banner in the actual purchase, number of visitors to a website;
  - to build brand awareness → profit and the brand value.
- In the economic theory advertising has many effects:
  - direct (sales, brand loyalty, market-share stability, etc.);
  - indirect (concentration, profit, quality, etc.).
- Is the correlation between stated purchase intent and the actual purchase strong enough?
- What if the dependent variable is the market share or the actual sales (della Vigna and Gentzkow, 2009).
- A way to understand the actual impact of the new regulation is to see how firms changed their investments in online advertising.

Comments II

- Due to missing details on how data have been collected: self-selection bias problem, and representative sample.
- Data: internet users selection, timing, knowledge of the new regulation, target group selection, etc.
- In the demographic profile of the respondents education should be observed.
- Time span before and after the regulation: if the period after the regulation is too small, we capture the change in behavior of the internet users (intensive margin), but we omit the behavior of new internet users (extensive margin).
- In the long term:
  - the consumer behavior is not constant,
  - the trust effect could change completely the results of privacy regulation.
- Model specification:
  - one fundamental source of heterogeneity is the level of trust in e-commerce (Luo, 2002); products reviews availability (e.g. number of forums) (Zhu and Zhang, 2010); effects of the same campaign on other media.