Title
Status Quo Bias Effect on Consumer Behavior to the Change in Products and Services



Author
Baroi, Joanna

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# STATUS QUO BIAS EFFECT ON CONSUMER BEHAVIOR TO THE CHANGE IN PRODUCTS AND SERVICES

By

Joanna Chelsea Baroi

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APPROVED

______________________________________________
Dr. Thomas Kramer
Department of School of Business

______________________________________________
Dr. Richard Cardullo, Howard H Hays Jr. Chair, University Honors

Abstract

This capstone project is a research-based paper on consumers' behavior to the change in products and services. The paper examines the concept of status quo bias, which refers to the behavior of maintaining the current state of a situation, such as choosing not to switch to alternative products or services. This consumer behavior has impacted businesses and was studied by scholars, such as the New Coke incident, a Harvard University healthcare plan field study, an electricity plan study, and organ donor policies. In addition, this project analyzes the reasons behind status quo bias and how it impacts consumers' decision-making processes. The paper shows how consumer loyalty, explained through cognitive lock-in and deliberate inertia factors, directly affects status quo bias. Uncertainty, cognitive misperceptions such as loss aversion and anchoring effect, psychological commitment such as sunk costs, regret avoidance and control, and default settings are also key influences. On the other hand**,** the paper discusses preference theory to convey how status quo bias does not always dominate consumers' behaviors. Preferences theory argues that individuals actually choose options that provide greater utility and benefits, rather than the status quo. Innovation is also an important strategy for businesses to remain competitive and survive, which proves consumers are not resistant to change, in fact they prefer it. Lastly, the paper provides advices on how consumers can avoid falling prey to status quo bias: they should take their time to make decisions, determine their goals for the product or service, narrow their options, collect and analyze relevant information, evaluate how the options meet their goals, and then select the one that satisfies them the most in terms of their goals and analysis.

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## Introduction

Status quo bias refers to the preference of remaining the current state of a situation or an environment. This phenomenon relates to the behavior of favoring the current baseline, known as the status quo, and rejecting any changes from it (Masatlioglu, 2005, p. 1). This paper explores the concept of status quo bias in terms of how it affects consumer behavior. Consumers reflect status quo bias when they choose not to switch to alternative products, services, or brands; when they disapprove of any changes of the products made by the companies; and when they purchase the initial product they encounter instead of exploring alternative options. Status quo bias can be supported by both rational and non-rational reasons. For example, retaining a status quo position is a rational action when consumers consider the costs, the values of maintaining the status quo, and the risks involved in seeking alternatives. On the other hand, non-rational reasonings are such as consumers' perception of avoiding losses and regrets from changing to alternative products, services, or options (Shi, 2018, p. 867).

The format of this paper is divided into four parts in order to analyze and deconstruct the concept of status quo bias. Part one discusses occurrences and studies that present this behavior. The examples serve as evidences for the existence of status quo bias and they demonstrate how consumers prefer to maintain the status quo, despite greater beneficial alternatives. Part two explains reasons behind the status quo bias behavior and the psychology of it. Part three provides readers with reasons and recommendations to avoid status quo bias. Part four consists of examples of when consumers do not convey the status quo bias behavior. Finally, the paper concludes with an analysis of how the reasonings for status quo bias in part two explain consumers' behaviors in the cases provided in part one.

## Part One: Status Quo Bias Examples

**New Coke**

In April 1985, Coca Cola announced that they were replacing the original coke with a new formula called "New Coke." Creating a new formula was the company's strategy of responding to the "Pepsi challenge" the competitor used to compete against Coke. The Pepsi Challenge consisted of television advertisements presenting taste tests of consumers who preferred Pepsi over Coke. Coke hoped that formulating a new drink would improve their competition. In 1984, before releasing the new formula, Coke spent $4 million to conduct blind taste tests on 200,000 customers to taste the New Coke and old Coke. According to their findings, 55% of cola drinkers preferred New Coke over the old formula, and 53% of loyal Coke drinkers preferred New Coke as well. In addition, 61% of the participants still preferred New Coke when the drinks were identified as "new" and "old" Coke (Schindler, 1992, p. 22). The results clearly indicated that New Coke was more favored. Therefore, the company not only changed the formula, they updated the packaging of the cans with new red and silver graphics in order to intensely market the change to consumers (Schindler, 1992, p. 23).

At the beginning of the release, there were positive reactions from consumers regarding New Coke. The sales of New Coke were higher than projected. The company's weekly surveys of 900 respondents showed that 53% of them preferred New Coke over old Coke (Schindler, 1992, p. 23). However, despite these positive reviews, there was a large amount of negative reviews on the media and consumers were frustrated by the change. There were protest rallies and boycotts by nearing 100,000 old Coke drinkers fighting to bring back old Coke in the U.S. Coke also received many complaints through phone calls and letters. Consumers even filed class-action lawsuits to attempt to bring back old Coke (Murphy, 2019). The number of dissatisfied consumers continued to increase in July 1985. The company's weekly surveys conveyed that only 30% of consumers preferred New Coke (Schindler, 1992, p. 23).

In order to reduce this outrage, Coke returned the old Coke formula, calling it "Coca-Cola Classic" in July. By the end of September, Coke Classic exceeded New Coke's sales. In fact, 70% of the shares of volume were Coke Classic. By 1990, New Coke's share decreased to 0.6% (Schindler, 23). This marketing failure incident is an example of status quo bias because it shows how consumers were unhappy and unaccepting towards the change, regardless of the positive reviews collected from Coke's research. It conveys that people do not always care for a better product; they do not approve of a change in a product once they are aware of the change. This event demonstrates the extent of consumers' loyalty towards the incumbent product, which influenced their desires to avoid any changes (Murphy, 2019).

**Harvard University Healthcare Plan**

In 1986, Harvard University offered eight healthcare plans to 9,185 employees. In 1980, The Blue Cross/Blue Shield (BCBS) plan, Harvard University Group Health Plan (HUGHP), Harvard Community Health Plan (HCHP), and Multigroup Health Plan (MGHP) were available. In the following years new HMO plans with lower costs were available: Lahey plan was introduced in 1982, Bay State and Tufts plans in 1984, and BCBS low option plan in 1985. In 1980, 62% of the employees were enrolled in the BCBS plan, 31% in the HUGHP plan, and 6% in the HCHP plan. The healthcare plans the employees were initially enrolled in were their status quos (Samuelson, 1988, p. 26).

Records show that by 1986, the HUGHP plan's market share increased to only 37.3% and HCHP's to 13.2%. On the other hand, regardless of new HMOs offers, Bay State's share was only 6.5% and BCBS low option plan was 6.9%. BCBS' share decreased to 30.4%. In addition, the new healthcare plans' shares increased because new employees enrolled in them, not because old enrollees transferred to these plans. For example, the majority of Bay State consisted of new enrollees, and while Tufts plan had an average share of 3%, less than 1% of them were old enrollees. The statistics show that BCBS still held one of the largest proportion of shares, which mostly consisted of old enrollees (Samuelson, 1988, p. 29).

Although the new HMO plans provided equal benefits as the previous plans at lower prices, the amount of transfers to these plans were quite low. The percentages of transfers were 3.8% in 1996 and 3.6% in 1997. The records also reveal that BCBS low option plan included the highest number of old enrollee transfers, who were mainly transferring from the original BCBS plan. In 1994 and 1995, 8.1% of enrollees in BCBS low option plan were transfers, 5% of enrollees were from BCBS. It was expected that there would be a greater number of transfers to the BCBS low option plan because it contains the same features of physician choice at much lower annual premiums and higher deductibles as the original plan. According to the article "Status Quo Bias in Decision Making" BCBS low option plan consisted the highest number of transfers because the process of BCBS plan enrollees switching to the lower option was simpler and easier, since they were the same insurance company, than switching to a different insurance company (Samuelson, 1988, p. 29). The results prove that previous employees were unwilling to switch to the new HMO plans that most new enrollees elected, despite the fact that they offered greater feature and cost benefits, which is a clear indication of status quo bias (Samuelson, 1988, p. 31).

**Electricity Plan Study**

The article "Consumer Rationality and the Status Quo" discusses a study conducted by collecting surveys from customers of Pacific Gas and Electric Company (PG&E) to identify the presence of status quo bias. The surveys were collected from two stratified groups based on their electricity service reliability (Hartman, 1991, p. 143). One of the groups experienced approximately "three outages of two hours duration per year," while the other group experienced about "fifteen outages of four hours duration per year." The surveys presented six electricity plan rates as options, including both the alternative plans with different reliabilities and the customers' existing service plans known as their status quos. It should be noted that both of these groups had different status quo plans (Hartman, 1991, p. 149). The rate options were categorized by the expected number of outages and their expected duration annually. Customers were given the options to purchase lower reliability plans at lower prices or higher reliability plans at higher prices. The study measured the customers' WTP, which represents their "willingness to pay to avoid additional service disruption" (Hartman, 1991, p. 143). The results conveyed that both groups preferred their status quo options, even though the options were two different status quos. In both groups, about 60% of the customers preferred their status quos and 85% accepted the rate and reliability establishment (number of outages and their duration) of their status quos. This study suggests that despite what the customers' status quos were, they still favored maintaining the status quo (Hartman, 1991, p. 153).

## <u>Organ Donation Policies</u>

Status quo bias plays an important role when it comes to organ donation policies. Countries either have "opt-out" or "opt-in" policies regarding organ donation. Opt-out policies include organ donation as the default option by law in the event of a fatal accident, therefore, individuals are required to state their unwillingness to participate as an organ donor in order to leave the default option. Whereas, in countries with opt-in policies individuals are initially non-organ donors as the default option, thus, those willing to become organ donors must indicate it.

Data conveys that people are more likely to register as organ donors in countries with opt-out policies, such as Austria and Belgium, where more than 90% of the population are organ donors. On the other hand, counties with opt-in policies, such as Germany, have less than 15% of the population who are registered as organ donors. The default option is reflected as the status quo of people's state towards organ donation. Therefore, since the majority of the population in these countries have settled for the default option, it is a clear indication of status quo bias (Davidai, 2012, p. 15201).

In fact, studies show that people in opt-in countries view organ donation as a charitable act, rather than an obligation. For example, the article "The Meaning of Default Options for Potential Organ Donors" discusses studies that indicate that people compare organ donation as donating 50% of one's estate to charity rather than only 5%, or it is more like participating in a political campaign than like voting for a major. However, these are not requirements, likewise, people do not feel the need to become donors. On the other hand, people in opt-out countries perceive the act of unwillingness to be organ donors significantly more negatively than people in opt-in countries. For example, the article states that people in opt-out countries compare not becoming an organ donor like ditching your child's graduation than missing your child's baseball game. It should also be noted that Germany and Austria have similar ethnic heritage and culture. However, participants in Germany, which employs an opt-in policy, view not being an organ donor as normal and being an organ donor as a charity and substantial. Whereas, participants in Austria, which employs an opt-out policy, view being an organ donor as the regular behavior and as something everyone should be (Davidai, 2012, p. 15203).

## Part Two: Reasons for Status Quo Bias

### Consumer Loyalty

The article "Consumer Loyalty Towards Smartphone: The Determining Roles of Deliberate Inertia and Cognitive Lock-in" presents studies that have investigated the connections between the individuals' status quo bias and consumer loyalty. Consumer loyalty is defined as the consumers' "deeply bonded relationship" to a brand, and their intention to continue repurchasing and using the brand's products or services (Shi, 2018, p. 867). It is their unwillingness to switch brands, regardless of similar products provided by competitors. The article argues that this behavior, especially common with information and communication technology (ICT) products, such as smartphones, stems from the behavioral concept of cognitive lock-in and deliberate inertia. The article states that consumers often use rational reasonings to stick to the status quo when it comes to decisions on brand change, version up-grading, and product switching for ICT. These rational reasonings include consumers' emotional attachment to the ICT products, amount of usage, or the positive value the products offer to the consumers, despite social pressures to switch brands or similar products offered by competitors (Shi, 2018, p. 868).

#### *Cognitive Lock-In*

Cognitive lock-in leads consumers to develop the resistance to switch to new products. It is when prior use of the incumbent products causes consumers to misperceive switching as losses. Cognitive lock-in refers to the cognitive appreciation or preoccupation that a consumer may develop for an incumbent product from having consumed or used the product repeatedly. The repeated use of an ICT product or brand results in a behavior called "personalized brand-specific training." This is when consumers spend time and effort learning to use a product, therefore, they develop personal knowledge and skills in using it effectively in ways that benefit themselves. As a result, consumers intuitively and automatically know how to operate and perform tasks on the incumbent product from being accustomed to it. According to the cognitive load theory, “information processing relies on the working memory (Shi, 2018, p. 868).” Working memory is a cognitive system that contains short-term memories. As consumers familiarize themselves with an ICT product by using it repeatedly, the automatic response of completing tasks on the product bypasses their working memory. On the other hand, consumers process more information and rely more on their working memory when they operate an unfamiliar ICT product. It would require them to spend the same amount of time and effort to learn to use the unfamiliar product as it would have when first learning to use the incumbent product. It becomes difficult for them to transfer the knowledge and skills gained from the incumbent product to the alternative product (Shi, 2018, p. 868).

### ***Deliberate Inertia***

The research collected by surveys and questionnaires in the article “Consumer Loyalty Towards Smartphone: The Determining Roles of Deliberate Inertia and Cognitive Lock-in” suggests that cognitive lock-in is a key factor that leads to consumers’ deliberate inertia of using the incumbent ICT products. Deliberate inertia refers to consumers’ behavior of intentionally and persistently maintaining the status quo, regardless of other similar or better products by competitors, or even if there are strong incentives and convincing reasons to switch brands (Shi, 2018, p. 869). The study indicates that deliberate inertia is the most effective determinant, compared to the commitment and trust determinants, to consumers’ loyalty to a brand. In addition, cognitive lock-in fosters deliberate inertia as consumers prefer to maintain using the incumbent products to avoid difficulties and troubles learning new products. They develop the tendency to only trust and become highly dependent on and committed to the products they are "locked-in," because they already developed the habit of using them. Thus, they lack the motivation to search for alternative products, attempt to learn them, and switch to them, causing status quo bias (Shi, 2018, p. 872).

**Rational Decision-Making: Uncertainty**

The concept of uncertainty in reference to status quo bias represents situations when consumers search for and analyze information about products and services in order to make better decisions, but they are unable to access the information. Consumers tend to compare the benefits and disadvantages of the alternative products to the products they already own to decide whether to purchase the new products or to maintain the status quo. However, this becomes difficult when it is not possible for consumers to acquire sufficient information to assess the likely outcomes of their options. When they do not know the risks of switching to alternative products, they tend to estimate the change as a high risk and costly (Lee, 2017, p. 739). In addition, uncertainty triggers anxiety in consumers. They often find it a stressful situation to make decisions when they do not know what to expect due to the lack of knowledge. Therefore, they prefer to take no action in order to avoid any unknown risks and reduce their stress from making decisions, which leads them to resist change and choose the status quo (Lee, 2017, p, 740).

The concept of uncertainty is a common occurrence when consumers decide to purchase new electronic devices. Not only do cognitive lock-in and deliberate inertia may affect their decisions, consumers may not know enough about alternative products to identify uncertain costs and risks. Therefore, they are more likely to remain with the products they are already comfortable with (Lee, 2017, p. 741). For instance, Apple iPhone users may not switch to

Android phones when upgrading to new phones. They may be comfortable and accustomed to using the IOS system. They may have not used later versions of Android software systems that they lack knowledge about Androids. Therefore, they are not aware of advantages Android phones may provide to them. They may fear that switching to Androids will be too much a risk because they do not know how to operate them. As a result, it becomes an easy choice for the consumers to upgrade to the later versions of iPhones, rather than switching to different brands.

## Cognitive Misperceptions

### *Loss Aversion*

Loss aversion is defined as consumers' tendency to "weigh losses greater than gains." In order words, it is when individuals believe the costs or disadvantages of switching to an alternative option has greater impact than the benefits of it. They tend to view the costs to be much higher than the gains. For example, instead of considering the advantages of upgrading or switching to new ICT products, consumers may perceive replacing their incumbent products to be more difficult and costly. The disadvantages may be transferring personal information from one device to another, learning the new system, or the financial loss they incur (Lee, 2017, p. 741).

Loss aversion occurs because it is "an expression of fear" as humans are afraid to experience losses. This is the reason individuals often focus on the setbacks rather than the progresses. According to Daniel Kahneman, a Nobel Memorial Prize winner psychologist and an economist, losses negatively impact people's emotions twice more than the same amount of positivity they may experience. For example, he argues that people would be more disappointed by "losing $10 than happy about finding $10". Likewise, people naturally weigh the losses as a more painful experience than the pleasant emotion from the benefits they may encounter when switching to alternative products, therefore, they are resistant to changes (Heshmat, 2018).

### ***Anchoring Effect***

Anchoring effect signifies the tendency of consumers to judge either the status quo or an alternative option based on previous experiences or their initial impression of the option. When consumers would like to replace their current products, they may form expectations of the new products based on their experiences or knowledge on the incumbent products. For example, this is especially the case when consumers develop a habit of utilizing their incumbent products, so they may assess the alternative products more critically. In fact, developing consumer loyalty towards the incumbent products causes consumers to form a bias. In addition, consumers may have access to only a small sample of information about the products, which could lead to negative expectations of adopting the alternatives. It influences their evaluation of the benefits and costs of switching in ways that consumers view more benefits in continuing the status quo (Lee, 2017, p. 743).

According to the article "The Anchoring Effect and How it Can Impact Your Negotiation," published by the Program of Negotiation Harvard Law, anchoring effect is common in retail settings with sales or deals. Consumers tend to decide to invest in the initial product they explore, considered as the status quo, after they encounter a decreased price of the same product from the original price they see. In this case, they may not consider other alternative options because they believe the initial product has a great deal. However, consumers may not realize the sale price may be more reasonable and represent the actual worth of the product compared to the initial price. Retailers take an advantage of the anchoring effect by setting sales that represent the actual worth of the products after setting high prices. For example, a consumer may choose to purchase one of the first cars he has desired because it has a sale from the original price has seen. This appears to be a smart investment because of the price decrease. Therefore, he may not explore any other car brands or types of cars that may offer lower prices with more suitable features that meet his needs (2019).

## Psychological Commitment

### *Regret Avoidance*

It is a social norm and human nature to avoid making decisions that individuals believe they would regret from possible losses. This enhances psychological commitment to the incumbent products because the possibility of regret prevents risk-taking behaviors and triggers the fear of failure. Consumers desire to not make the wrong decisions when switching to alternative products, therefore, regret becomes a vital factor. In addition, regret avoidance closely correlates to the concept of uncertainty because the lack of unknown knowledge about the risks and costs of changing leads consumers to settle for the status quo, which appears to be the safe choice in order to avoid making the wrong decisions. Also, the act of commission (switching from the status quo) produces greater regret, if the decision turns out to be a mistake, than the act of omission (sticking to the status quo) when it provides less benefits. This is because switching cultivates greater fear due to uncertainty, so the decision maker regrets taking the risk, whereas maintaining status quo is still perceived as the safe choice (Lee, 2017, p. 745).

Furthermore, social norm is also a factor of regret avoidance because individuals are likely to continue following common social behaviors and customs. They believe the options representing social norms must be better than alternatives because they are implemented by the majority of the surrounding communities. For example, if consumers recognize that other consumers have negative opinions of an alternative option, they are likely to not accept it. As a result, they avoid taking the risk of implementing the alternative option that is not common to the social norms to minimize any regrets.

***Sunk Costs***

From an economic perspective, sunk cost refers to the consumers' investments and money spent on the incumbent products that cannot be recovered. Future outcomes are considered irrelevant because they will not impact the consumers' ability to regain the money they have spent (Lee, 2017, p. 744). According to the article "Status Quo Bias in Decision Making" sunk cost can be presented as a psychological commitment to the incumbent products because money is a valuable commodity that they have already spent on the products that they will not receive back. Sunk cost fosters deliberate inertia as consumers decide to continue implementing the incumbent products that they invested on rather than to purchase new products because purchasing replacements are seen as a waste of the original investments (Samuelson, 1988, p. 37).

From a psychology perspective, cognitive lock-in is also a form of sunk cost because consumers perform a classical cost–benefit analysis based on the time and effort they have spent on learning the incumbent products. They would view switching to alternatives as a waste of the time and effort spent on the previous products, therefore, those experiences become sunk costs. This then reduces the value of new products; hence, it increases the resistance to change (Lee, 2017, p. 745). The difference between cognitive lock-in and sunk cost is that sunk cost also involves the transaction cost of money, whereas cognitive lock-in is based only on the learning experiences.

### *Control*

A reason why consumers resist change is that they may feel like they lose control by it, not necessarily because they disapprove of the actual change. Studies show that individuals value the feeling of being in control because it imposes self-efficacy and a sense of authority for making decisions for themselves. However, when changes occur that are implemented by others, individuals subconsciously perceive them as threatening their sense of control (Lee, 2017, p. 746). As a result, consumers may be outraged by changes that businesses execute. This is because they believe the changes are not what they want since the changes are not the consumers' choices. Thus, they desire the status quo of the original products and services (Lee, 2017, p. 747).

## **Defaults**

Individuals tend to stick to default settings or default policies. This is because having to change from defaults imposes cognitive, physical, and emotional costs since it requires additional measures to change. In other words, it is much simpler and easier for people to keep default settings because it avoids completing extra steps. In addition, people tend to perceive defaults as suggestions by the policy makers or companies imposing the default settings. They view it as the "recommended actions," therefore, they receive the impression that defaults are the best options. Furthermore, people believe defaults represent the actions and decisions of the majority of the population. Therefore, similar to regret avoidance in terms of social norms, they choose to stick to defaults as they prefer to follow the social norms since they appear like the most appropriate and acceptable choices (Davidai, 2012, p. 15201).

An example of defaults causing status quo bias is the lack of changes from default settings in Microsoft Word by users. In 2013, Microsoft researchers revealed that 95% of users did not change from default settings in Microsoft Word. The application includes a useful "AutoSave" feature that allows users to automatically save any changes made to their documents, rather than having to manually save the files. However, although this feature was most likely preferred among the users, most people did not turn it on because the default settings had it off (Arthur, 2013).

## Part Three: Recommendation for Overcoming Status Quo Bias

### Reasons to Avoid Status Quo Bias

Status quo bias has negative impacts on both individuals and societies. This behavior reflects individuals' tendencies to avoid and disapprove of changes, even when the changes may provide greater benefits. For example, in the case of Harvard healthcare plan study, employees continued subscribing to their initial insurance plans regardless of better insurance being offered (Samuelson, 1988). New Coke arguably had a preferable taste than Coke Classic according to Coca Cola's research and records, however, people refused to accept it, which is an irrational behavior (Schindler, 1992). Most people do not turn on the "AutoSave" feature on Microsoft Word documents, although the feature can clearly benefit (Arthur, 2013). Status quo bias from consumer loyalty, especially in ICT products, prevents consumers from switching products and brands that may contain improved and more advanced features and technology (Shi, 2018). These examples illustrate how people need to be aware of their status quo bias to make rational and better decisions.

Furthermore, status quo bias can develop issues in societies. For example, according to the article "Organ Donation Statistics," by the Health Resources and Services Administration, in March 2020, there were more than 112,000 people on the national transplant waiting list in the U.S. 20 people die from waiting for organ donations every day. In addition, "one person can donate up to eight lifesaving organs," meaning one organ donor can save up to eight lives. Regardless, due to the opt-in policy in the U.S., there are not enough people donating to save these lives. 60% of the population are organ donors in the U.S., though this is lower than the 90% rate in opt-out countries (2020). Although, it can be argued that the authorities should adjust policies to create changes for the better of the public, individuals can make a difference by preventing status quo bias from influencing their decisions. In this case, they can leave the status quo and choose to become organ donors in order to have a positive impact. Another example of how status quo bias causes issues is the New Coke incident. Communities participated in protests and boycotts that they harmed Coca Cola's earnings. However, considering the positive reviews from research and data collected from surveys at the beginning of the launch, it would have not been a significant conflict to society if people did not allow status quo bias to influence them (Schindler, 1992).

## Recommendations

It is recommended that people do not make decisions immediately or rush into their decisions. They could improve their decision making by delaying making immediate choices and taking the time to evaluate alternative options from the status quo. Studies suggest that people tend to choose default options when they are required to make quick decisions. According to the psychologist Niels van de Ven's research for the Tilburg Institute for Behavioral Economics Research, 82% of the time the participants of the study selected the default option when they were asked to make the decision immediately. On the other hand, they selected the default option only 56% of the time when they were given some time. Postponing on making decisions allows consumers to analyze their decisions. It is also suggested that people make decisions when they are well rested because fatigue can negatively impact individuals' moods to make quick decisions, thus they choose the status quo as the easy and straightforward option (Frick, 2010).

While people are analyzing the situation, it helps to narrow the field of options to establish the top choices. According to the psychologist Barry Schwartz, people are not only confused by having an excessive amount of alternative choices, but they are overwhelmed, demotivated, and stressed by it. Consumers get discouraged by a large number of options because it takes more effort and time to consider all of them (Schwartz, 2004, p. 20). In addition, people should first determine their goals for the products or services and evaluate the importance of the goals. Then they should collect and evaluate relevant information about the narrowed amount of options (Schwartz, 2004, p. 47). They should identify advantages, benefits, disadvantages, and costs of the options when they are evaluating (Schwartz, 2004, p. 53). Lastly, they should assess how the options meet their goals and choose the one that best meets their goals. These steps will help them identify better alternative choices, rather than sticking to the status quo (Schwartz, 2004, p. 56).

## Part Four: Absence of Status Quo Bias in Consumer Behavior

### Preference Theory

The article "Rational Choice with Status Quo Bias" argues that individuals do not irrationally choose to maintain the status quo, and that they select options that provide higher utility, thus matching their preferences. They choose the status quo when they are given two equally beneficial options (Masatlioglu, 2005, p. 2). This is called the endowment effect, which suggests that people are more likely to retain and value what they own, in this case the status quo option, than switch to a different option that provides the same utility as the status quo (Masatlioglu, 2005, p. 13). On the other hand, they will choose the alternative option that appears superior to the status quo, which means the alternatives would be chosen regardless if there is a status quo or not. Therefore, the status quo is irrelevant to the situation (Masatlioglu, 2005, p. 6).

The article provides hypothetical examples to illustrate the preference theory. The hypothetical situation presents an individual who recently graduated from UPenn and received job offers at Cornell, NYU and UCSD for a professor position with equal salaries and benefits. In this case there is no status quo, therefore she may select NYU. On the other hand, if she was already employed at Cornell, indicating as the status quo, according to the endowment effect she would stay at Cornell, and it would automatically be her preference. Another situation portrays that NYU offers a higher salary and benefits than both Cornell and UCSD. NYU would dominate as her preference because they provide higher utility and benefits, regardless of whether she just graduated or if she was already employed at Cornell (with or without status quo) (Masatlioglu, 2005, p. 6).

## Innovation

Innovation is the transformation of new concepts or inventions into a "product, process, or business model" that facilitates businesses to gain revenues and profits. Inventions are creations of new products, services and concepts. Innovation is crucial for businesses to gain a competitive advantage because it allows them to deliver value to consumers in new ways. This may involve businesses to improve their products and services or to invent a completely new and unique methodology of providing value to consumers to meet their wants and needs. It is argued that consumers prefer innovation, including changes in products and services, because the changes provide them with higher quality of products and services (Dyer, 2016, p. 197). Therefore, status quo bias does not have a significant impact on consumers, since consumers generally desire changes for the best.

***Netflix vs. Blockbuster***

In 2000, Netflix was an online DVD rental company and gained a revenue of $5 million. Blockbusters rented out VHS at retail stores and earned $4.5 billion in revenue (Saini, 2019). During this year, the founder of Netflix, Reed Hastings, proposed a partnership deal to the CEO of Blockbuster, John Antioco. Netflix suggested that they could operate Blockbuster's movie products online and Blockbuster could promote Netflix in their stores. However, Antioco rejected this proposal because Blockbuster was already successful and dominated the industry without Netflix. On the other hand, Netflix was not as successful because DVD players were expensive, and so their service attracted a niche market (Satell, 2014).

However, in 2001, DVD players became more affordable to regular consumers. Therefore, Netflix started gaining greater profit and received one million subscribers. In 2004, Blockbuster realized Netflix was becoming a greater competition and aimed to sustain their competitiveness. They modified their business model to rent DVDs online, similar to Netflix. In 2005, the number of internet and online service users was rapidly increasing. Thus, customers began to prefer renting DVDs online, rather than visiting retail stores. As a result, Netflix's revenue continued to increase, while Blockbuster's revenue started decreasing (Saini, 2014). This is the first case demonstrating how Netflix's ability to innovate has attracted a greater number of customers, as opposed to Blockbuster that resisted the change.

In 2007, Netflix recognized the potential market for online video streaming services. They innovated by completely changing their business model to an on-demand video streaming service. Their service allowed customers to pay a monthly subscription fee for access to a large number of movies to stream online. On the other hand, Blockbuster failed to change their business model and further innovate. Blockbuster filed for bankruptcy in 2010, whereas Netflix had a total revenue of $20.15 billion in 2019 (Satell, 2014). This example proves how consumers are not opposed to changes, rather they would prefer changes when they serve greater value. Consumers favor the benefits and convenience of Netflix's online video streaming service, a change from Blockbuster's brick-and-mortar business model, which shows that consumers do not always desire to maintain the status quo.

## Conclusion

Consumers are affected by status quo bias when they resist change and favor to remain the same state or position. For example, status quo bias is shown when they are dissatisfied by a change in a product made by the company, even if it offers greater benefits or is a better option. Consumers convey status quo bias when they decide not to switch to better products, services, or options. These behaviors can be explained through consumer loyalty, uncertainty, cognitive misperception, psychological commitment, and defaults.

In the case of New Coke, consumers may have been affected by their intense consumer loyalty towards the original formula and the factors of control and regret avoidance as psychological commitment. Due to their consumer loyalty, they were already heavily committed to the original coke and refused to switch to other brands or products. In addition, when the company released the new formula, they were outraged by the change because they believed they did not want the change since it was out of their "control" and decision. Furthermore, the company received positive reviews about New Coke in the beginning, however, they were flooded with negative reviews after the intense media coverage conveyed the dissatisfaction. This behavior correlates to regret avoidance because consumers' perspectives may have been altered by the social norm and social acceptance. As a greater number of consumers realized that others were displeased by the change, they felt as if it was the right behavior to also be displeased by New Coke because they may regret the change later.

The status quo bias identified in the Harvard University healthcare plan and electricity plan studies can be explained through the concepts of cognitive lock-in, deliberate inertia, loss aversion, uncertainty, and regret avoidance. Firstly, the customers may have already been comfortable and accustomed to their current plans, which shows cognitive lock-in. As a result, they saw more difficulty in transferring to different healthcare plans even if the plans offered greater value. This is proven by the fact that most customers who transferred were transferring from the original BCBS plan to the BCBS low option because it was a simple and easy process. This is a sign of deliberate inertia because they wanted to avoid the time and effort it would take to switch plans. It also portrays loss aversion because they weighed the difficulty of transferring higher than the gains. In addition, the customers may have not had sufficient knowledge to assess the risks of switching their plans, which created uncertainty. Hence, they retained the status quo to avoid any regrets that may have occurred from unknown risks and disadvantages.

For organ donation policies, the status quo bias correlates to the behaviors discussed under “defaults” and “regret avoidance.” Firstly, the responses from the study conducted in the article “The meaning of default options for potential organ donors” convey that people in opt-in countries perceive not being an organ donor as a normal act, whereas people in opt-out countries have negative opinions towards it. This demonstrates that their social norms and views are influenced by policies. Default policies are seen as suggestions from the authorities; therefore, the public tends to believe the default policy is the best option. In addition, by sticking to the default individuals do not have to take extra steps to opt-in or opt-out from organ donation, which is easier and simpler for them. Furthermore, this behavior of status quo bias relates to defaults and regret avoidance because the majority of the population follows the social norms, and default policies clearly influence the social norms.

Although this paper explores cases of status quo bias and the reasons behind this consumer behavior, it is also argued that status quo bias does not always impact consumers. In fact, the preference theory suggests that consumers are more likely to select options, products, or services that provide greater utility and benefits. The case of Netflix and Blockbuster indicates how consumers react positively to innovation and beneficial changes. Because Blockbuster resisted to change, they failed as a company, while Netflix continued to develop and succeed due to their innovations. This suggests that status quo bias is not a dominating behavior, although it can occur in certain situations.

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