Economic View

How Consumers Can Resist Companies' Market Power

By Austan Goolsbee

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A basic rule of economics is that the price depends on how willing consumers are to buy something else.

The less consumers pay attention when they buy — and the more they just follow a set shopping pattern — the greater the market power possessed by the seller, and the more that seller can charge.

Modern companies know this very well, and they do what they can to improve their advantages over unwary consumers.

I've unwittingly been caught in consumer traps myself.

About 15 years ago, for example, my wife and I decided to send out holiday cards using an online photo service rather than writing them out and sending them by hand. We picked Shutterfly, which did a good job. And we're still using it, largely because after we had typed 100 addresses into the

Shutterfly site, it would have taken a heck of a deal to persuaded us to type them in again somewhere else.

So the truth is we haven't bothered to shop around much. We've just stuck with Shutterfly, and that is undoubtedly costing us money.

Economists have thought a lot about markets like the one exemplified by Shutterfly — those with significant "switching costs" and "lock-in effects."

In such markets, companies should be extremely generous up front trying to earn your business, knowing you will be stuck with them. And, in theory, you will think about their future market power carefully when you first decide whether to sign up. That's what a rational, forward-looking consumer should do.

But that theory might not describe the actual marketplace that well. When my wife and I chose Shutterfly, we didn't really think about what competitors might exist 14 years later or how the prices might change once they got us signed up in 2004.

We probably should have thought about all of that, realizing that, down the road, cloud storage prices would become immensely cheaper and we could get better deals if we maintained our flexibility. Instead, we bumbled our way into giving a company the power to monopolize us.

That kind of thing happens a lot these days. People make quick shopping decisions that have long-term consequences.

Let's say you bought an Alexa to help with tasks around the house. Did you know that Alexa would also consistently try to steer your purchases to Amazon's house brands when you asked her to order something? Maybe not, but you gave Alexa market power the moment you plugged her in.

Big companies know that the more convenient they make their product or service, the less you will shop around and the more market power they will have. Plus they've gotten good at tailoring products to certain consumers to get them to give up comparison shopping altogether.

In a fascinating new analysis, the economists Brent Neiman and Joseph Vavra at the University of Chicago Booth School of Business studied data on 700 million purchases in grocery and big-box stores for 160,000 households over more than a decade to determine how specialized American consumers have become when they make purchases.

The researchers (who are, incidentally, my friends and colleagues) found that while companies sell many more products than before, as individuals we are increasingly buying only our one favored product in a given category. In other words, we are not comparison shopping or forcing companies to compete for business.

Take the case of tortilla chips. Fifteen years ago, Tostitos dominated all other chip makers, but sometimes consumers would buy Mission chips or a local brand if they were cheaper or the mood struck them.

Today, Tostitos is still the dominant brand but has expanded into 13 specialized varieties like Tostitos Hint of Lime, Tostitos Bite Size and Tostitos Multigrain. It also has five party sizes, four Simply Tostitos organic or sea-salted varieties and three different Tostitos Cantina styles.

Today, the same consumer tends to go into the store looking just to buy one of the specialized varieties of Tostitos: She really loves Hint of Lime or is intent on buying Tostitos Scoops (chips in the shape of tiny taco bowls). People don't try alternatives the way they used to. They act as if they are locked in.

On the one hand, consumers shouldn't complain about this. After all, Tostitos (or Frito-Lay, the Pepsi subsidiary that owns Tostitos) created lots of new products that people like better. That's innovation. Good for them.

But this innovation comes with a downside. The more specific consumer tastes get, the more the companies can exploit their ability to cater to those tastes without competition. The Neiman and Vavra study shows exactly what you would expect: The more specialized the demand, the higher the prices people pay and the greater the market power possessed by a company.

Creating specialized demand is an intriguing way of locking customers into a product. Another method is selling a discount subscription — cable, magazines, pest control — that automatically renews at a higher price. Consumers have to remember and make the effort to cancel if they want to shop around. Companies offer convenience, but they make the consumers pay for it.

These behavioral traps may seem far removed from the macro-level discussions of market power that dominate economic analysis such as the staggering increases in corporate earnings and profit margins and the simultaneous stagnation of wages. Economists often argue whether the underlying causes of these phenomena are lax antitrust enforcement, rapid technological development, globalization, declining unions or other factors.

But even as we debate these larger notions, let us not forget the ways in which we, consumers at the very base of the economy, increase corporate market power with the ways we shop.

That isn't meant to deny the importance of conventional macroeconomic factors in the rise of market power. And it certainly isn't meant to play down the role that could be played by government policy like more aggressive antitrust enforcement, consumer protection or regulation.

But beyond the effects of government or technology or globalization, individual choices matter. Companies don't want you to comparison shop, which could force them to compete for your business. They want you to develop regular shopping habits. The more people do that, the higher the prices everyone will pay.

I try to remember that when I shop now. I remind myself not to just buy the first thing listed on a website or displayed on the rack at the checkout aisle. When I take a ride-hailing service, I will check both Uber and Lyft before choosing. Sometimes I check the price of things online without logging in or shift my browser to private mode to see if a company is offering better deals to new customers.

For an individual shopper, these actions are a bit of a pain, and they may not do much to improve matters over all. But if enough people behave this way — keeping companies guessing and making them work for our business — these small acts of consumer resistance can help keep corporate market power in check.

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