

{Thought in Action} *faculty minds*

• What are you thinking about?

• A: CONSUMER BEHAVIOR AND SOCIAL NETWORKS

Marketing professor **Puneet Manchanda** focuses his research on building empirical models to address such strategic marketing issues as the role and use of social media, resource allocation, word-of-mouth marketing, and customer relationship management. His most recent work has focused on marketing strategy problems in the online media, pharmaceutical, high-tech, gaming, and insurance industries. Manchanda is an associate editor at *Management Science* and *Quantitative Marketing and Economics*, and he is on the editorial boards of several marketing journals. In a recent survey published in the *Journal of Marketing*, Manchanda was named one of the most prolific marketing scholars from 1992-2006.

What are you thinking about? I'm focusing on online interactions, typically lumped under the umbrella term "consumer-generated media," to better understand consumer behavior and derive implications for companies.

Why is it interesting to you? Companies cannot just use a one-way communication strategy anymore. Today consumer reaction/involvement plays an important role in shaping communication, product design, and perhaps even market share, sales, and profits.

But we don't have much clarity about whether there is a change in market outcomes based on consumers' changing roles (in terms of media creation and dissemination). And if there is a change, how should we measure it and act on it? I'm working with Ross doctoral students Hiroshi Ohnishi, Grant Packard, and Adithya Pattabhiramaiah to answer these questions using novel data and models.

We asked, "Do blogs matter?" (not just in terms of activity but also in terms of outcomes). We looked at product launches in three Japanese markets (bottled green tea, movies, and cell phones) and found the volume of blogs post-launch is predictive of actual sales. We also found that the pre-launch use of traditional media (i.e., TV advertising) increases blog volumes but has no effect post-launch. In other words, company actions prior to launch get consumers talking and influencing each other on electronic media, leading to a strong relationship between blog volumes and sales. We believe this is the first study that relates blogging activity to market outcomes and documents the relationship between "old" and "new" media (TV ads vs. blogs).

Another interesting finding from a different analysis suggests that an individual's online network is essentially a replication of his/her offline

network. That is, electronic media only seem to facilitate the sustenance of physical networks rather than act as a conduit for consumers to build broader and richer networks.

What implications do you see for industry? Take the role of online brand communities: It is never clear whether these communities play a causal role in influencing outcome behavior. We looked at data from one of the largest entertainment and media product websites in North America. We found that just becoming part of the brand community seemed to causally increase the amount spent by brand community participants by about 25 percent. We now are digging into the exact mechanics of the increase so we can compute the social multiplier, which represents the free benefit to companies via amplification of social entities influencing other entities. Then we can advise the company on the best use of resources.

Sometimes firms try to use or manipulate social media without understanding the impact of their actions. We studied one brand community in which some of the firm's employees joined the community and recommended products. They did so in a completely transparent manner. Even so, their recommendations had a modest negative effect on sales. This was very surprising since the anecdotal evidence from the firm was that recommendations from employees in the offline world generally influenced sales in a positive manner.

Companies would do well to invest in systems to track and analyze consumer-generated media. The "holy grail" is the detection of a link in which members in a network causally impact other members' behavior. If this link exists, companies can use the data to come up with the social multiplier and allocate their resources in a more optimal fashion.

✦ —Deborah Holdship



A: 401(k) 101 *Looking at your 401(k) statement these days can be a downer. During the good times it's easy to forget that linking retirement savings to the gyrations of the market carries risk. But the law hasn't really caught up to that reality, says **Dana Muir**, the Arthur F. Thurnau Professor of Business Law at Ross. She was a delegate to the first and second White House/Congressional National Summits on Retirement Savings and has served as a Congressional Fellow. As the government mulls an overhaul of financial regulations, Muir would like to see laws that make it easier for 401(k) participants to receive investment advice.*

What are you thinking about? Increasing numbers of 401(k) plans at firms automatically enroll new employees. People can opt out, but the tendency to stick with the status quo means most workers stay. That increases the number of people saving through these plans. Those individuals usually are defaulted into a diversified investment option. So arguably they are in a more suitable investment vehicle than they might have chosen for themselves. More participation and better investment allocations mean the system is making progress.

But another factor that could make a difference for many participants would be increased access to investment advice. Some participants won't want auto defaults. The theory of 401(k) plans is that the money in the accounts is the participants' money. They assume the responsibility and all the associated risks in accumulating enough to fund their retirement. With that responsibility and risk comes the right to decide how much and what types of risk to accept — if they want to make those decisions. Many people will want investment advice to help them make good decisions.

Currently the law discourages many investment advisers from giving advice on assets held in 401(k)-type accounts. In 2001, the Department of Labor partially addressed the problem and the availability of advice increased. But Congress and the Department of Labor have been struggling with how to regulate the ability of financial institutions (such as mutual fund families) to provide investment advice regarding their own products.

Why is this interesting to you? The financial crisis reminded everyone just how much risk employees and retirees have taken on in 401(k)-type plans. The news reports are full of stories of retirees going back to or looking for work and of employees delaying their retirement dates. At the

same time, Congress is considering severe restrictions on financial institutions' ability to provide advice, which would significantly reduce the availability of advice just when people need it most.

The role of regulation is to assist in making good decisions without being overly intrusive. We owe it to those people who want assistance in making 401(k) plan investment decisions to get the law out of their way.

What implications do you see for industry?

The most important implication is that better investment decisions mean higher accumulation levels for employees and thus more retirement assets for retirees. Good investment choices will be very important as the financial markets recover. Some people moved into more conservative investments, and they could miss the upswing. Other participants could benefit in different ways from investment advice.

Better investment decisions also are good for the employers who sponsor plans because those employers have an interest in ensuring the money they spend sponsoring plans translates into the highest possible compensation for employees. In addition, there are implications for mutual funds, which are the primary investment product held in 401(k) plans. More thoughtful choices of mutual funds would mean increased investments in funds that have strategies appropriate for retirement accounts, have low costs, and perform well within their category. Most broadly, higher accumulation levels in plan accounts will result in fewer pressures on government support for baby boomers as they reach retirement. This is especially important given the longer-term funding challenges faced by the Social Security and Medicare programs. ✦

—Terry Kosdrosky

