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De-Targeting: Advertising an Assortment of Products to Loss-Averse Consumers*

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Abstract

We consider product markets in which single-product firms sell differentiated products to consumers through an intermediary. Consumers are interested only in a specific product category, but do not know before inspection which products belong to this category. An intermediary knows each consumer's preferred product category and which products belong to it. It makes personalized product announcements to consumers. Such targeted advertising reduces overall advertising costs and, as a direct effect, maximizes industry profits. However, as we show in this paper, when consumers form reference prices and are loss averse, announcing additional products relaxes competition between firms. As a result, firms may earn higher profits from "de-targeting"; i.e., when the intermediary deliberately informs about some products and their price quotes from outside a consumer's preferred product category.

Keywords: Targeted advertising, Informative advertising, Consumer loss aversion, Reference prices, Contextual inference, Behavioral industrial organization.

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