Since the typical consumer evaluates only a small fraction of available products, online intermediaries with information about her tendencies often direct her attention toward products she is more likely to purchase. We analyze the implications of such “steering” for a consumer’s welfare when she is “fallible” in that she makes mistakes in evaluating products and fails to account for the steering going on. The welfare effect depends on the interaction of three factors: (1) the type of information used for steering, specifically whether the information pertains to the consumer’s true values for products, her mistakes, or her perceived values; (2) the “strength” of steering, i.e., its ability to find products the consumer is most likely to purchase; and (3) the “reasonability” — a relaxation of full rationality — of the consumer in buying and refraining from buying. Strong mistake-based steering is typically harmful, sometimes extremely so, and under specific circumstances, the other types of steering can also hurt the consumer. We argue that much real-life steering — for instance that guided by extensively used randomized marketing experiments called “A/B tests” — is or will soon be strong and mistake-based, raising the scope for a broader regulation of steering practices.

Paul Heidhues is a Professor of Behavioral and Competition Economics at Heinrich Heine University Düsseldorf. Paul is a member of DG Competition’s European Advisory Group on Competition Policy, of the UK’s Competition and Markets Authority’s Academic Panel, and of the German Antitrust Authority’s (Bundeskartellamt) Arbeitskreis Kartellrecht. He is a Research Fellow of the CEPR Programme in Industrial Organization, a Research Fellow of the CESifo Network in Behavioral Economics, and an elected member of the Standing Committee on Industrial Economics as well Economic Theory of the German Speaking Economic Association (Verein für Socialpolitik). Currently, he serves as an elected member on the Executive Committee of the European Association for Research in Industrial Economics.