

The Impact of Status Quo Bias on People's Choices

Ziyang Cheng^{1,a,*}

¹*Birmingham Business School, University of Birmingham, Birmingham, UK, B15 2TT*

a. 1828983687@qq.com

**corresponding author*

Abstract: In behavioral economics, status quo bias is a cognitive bias that refers to when people are faced with the choice of maintaining the status quo versus making changes. People tend to maintain the current state rather than take actions to change it. The existence of status quo bias challenges the traditional economic hypothesis that people are rational. In this essay, we show the impact of status quo bias on people's decision-making, and its possible impacts through three experiments, namely, beverage manufacturers' new products, elections, and food preferences. Our analysis proves that managers need to fully consider people's preferences for the status quo when launching new products, and then appropriately reduce their estimates of expected profits to ensure the accuracy of forecasts.

Keywords: status quo bias, cognitive bias, decision-making, behavioral economics, risk aversion

1. Introduction

Behavioral economics tells us that people do not necessarily follow rational principles when making decisions, and many cognitive biases will affect people's decision-making behavior, which in turn makes traditional economic predictions deviate from reality. In reality, we often observe that people make irrational choices. For example, when people are already involved in a project, people may not choose to switch other projects even if the other project has slightly higher benefits than the project. Because any change will bring switching costs, which may reduce the actual benefits that people can get. In behavioral economics, loss aversion, prospect theory and some other theories have been well known, and the main theory we will discuss in this article is status quo bias. This bias mainly occurs when people need to make decisions about whether to switch to a new project. Research by some famous scholars has found that people tend to assign higher subjective value to the projects they already have, even if the actual value of the existing projects is less than that of the alternatives.

In this paper, we set up three case studies to demonstrate how status quo bias affects people's decision-making. The first case involves consumers' choice of different flavored beverages, the second shows the status quo bias in presidential elections, and the third shows people's preference for the old menu. Through case analysis, this paper shows the application scenarios of status quo bias in real life, and provides reference for future decision-making.

2. Status Quo Bias

Samuelson and Zeckhauser proposed the term "status quo bias" in their paper published in 1988. In their paper, an experiment was done: experimental participants could inherit a sum of money. For

people in the baseline group, they were only told that they had received money and were free to make investment choices, while for the participants in the treatment group, they were informed that the money had been invested in a specific way. The results of the trial showed that when a status quo was present, more participants would choose to stay with the status quo, and that the status quo would be more popular as alternative options increased. Status quo bias is a cognitive bias that describes how, when given the choice between maintaining the status quo and making changes, people prefer to maintain the current state rather than make changes [1]. This situation is very common, especially when people are faced with many different project choices [2] and the choices are more complicated [3], status quo bias is stronger. But it can also happen even when the project is big and switching costs are very small.

Psychologists have explained the causes of the status quo bias through several different principles. First of all, loss aversion tells us that when an individual makes a decision, they always pay more attention to the possibility of losses than the possible benefits of the decision. Secondly, since status quo bias occurs when people make decisions between new projects and original projects, it means that individuals have often invested a certain amount of resources in the original project, and these sunk costs will make people abandon the new project. The more investment in the original project, the more likely status quo bias occurs. Finally, because people already have a certain understanding of the original item, they will tend to choose the projects they are already familiar with, greatly increasing the probability of the original item being selected.

Status quo bias needs to be focused on in life; otherwise, many predictions will deviate greatly from the actual situation, causing serious losses to people. For example, when launching a new product, some managers only rely on traditional economic theories, and believe that the new product has better technical content and can bring greater benefits to consumers. Therefore, they ignore the investment in market promotion and promotion of the new product. But in fact, these managers will find that even if the new product has better performance, it is difficult to be accepted by consumers, which can lead to the failure of the new product in the market. Therefore, when analyzing economic activity, we must clearly recognize the status quo bias and fully understand its impact.

3. Case Study

3.1. Case One

As a beverage with many loyal consumers around the world, Coca-Cola has always been loved by people because of its unique formula that is clearly different from other Cokes. However, Coca-Cola tried to introduce a new formula in 1985, which was believed by the managers of Coca-Cola at that time would be a huge success in the market. Although the Coca-Cola Company made this new Coke accepted by some people through a lot of marketing at the beginning, more people showed dissatisfaction with this change. Consumers still preferred the old formula to the new formula, which led to a significant decrease in Coca-Cola's sales over the following year, and its large market share was occupied by its competitor Pepsi. The new formulated product was discontinued in 1992[4]. Samuelson and Zeckhauser pointed out that the failure of Coca-Cola's new formula reflects the status quo bias. Before the release of the new formula, market research showed that consumers preferred a sweeter cola, so Coca-Cola introduced the new formula [5]. However, the fact that the old formula was more popular with consumers as a status quo was not recognized by managers, making the status quo bias the cause of Coca-Cola's innovation failure.

A similar experiment is also conducted in this paper. In China, there is a drink, Pulse that is loved by a large number of young people. However, this brand not only has the classic flavors that are sold all year round, but also launches drinks with different flavors in different seasons. Our researchers chose this product as the experimental objective, and selected 30 consumers who frequently consume

this brand as participants in the experiment. The respondents are asked which you are more likely to choose between the classic flavors and the new flavors of the season that you have not tried. Twelve consumers said they would try new flavors, while the other 18 said they would still choose classic flavors. Participants who were willing to try new flavors said they would make the same choice again after trying them, and would still buy the classic flavors in the future if they were not used to the new. Participants who opted for the classic flavor indicated that their previous attempts had failed and, therefore, they preferred the classic flavor because it would not go wrong. A week later, those willing to try the new product had all tried the new product, and now the number of willing participants to buy the new product had dropped to 6. We can see from this experiment that when faced with the choice between new products and old products, status quo bias will always appear, and people will prefer old products.

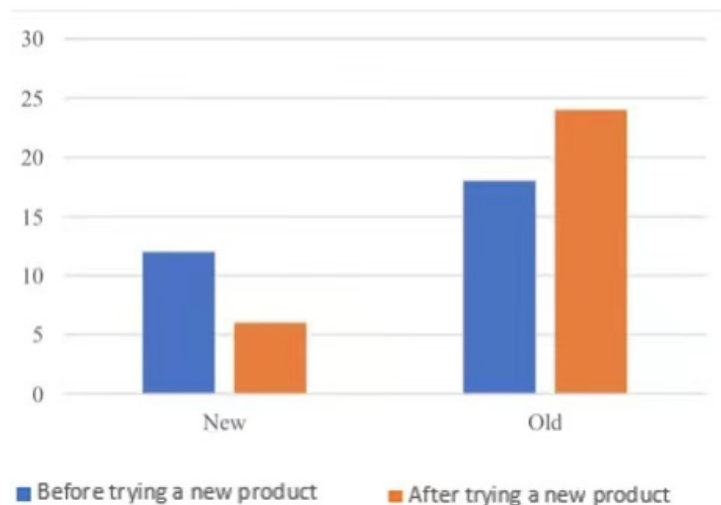


Figure 1: Participants' choice of beverages.

And why “Pulse” will continue to launch new products? It can be explained from two main aspects. On the one hand, it can consolidate the status of classic models in the hearts of consumers and ensure the stability of its market share. On the other hand, when the seasonal new product innovation is implemented for several years, it will also become a status quo in the minds of consumers, so that consumers also have the willingness to try new products, which is conducive to the development of new market shares.

3.2. Case Two

Another simple election experiment is also tried in our research.

Another scenario where status quo bias is evident is elections. Of the 45 presidents in U.S. history, only 10 failed to be re-elected [6]. Even presidents with seemingly insignificant accomplishments may gain an advantage in their re-election campaign. This is mainly due to the fact that people will show a higher preference for presidents seeking re-election. On the one hand, due to the differences in the governing concepts of the two parties, if the president is replaced, it is necessary to bear certain risks and costs of policy changes, which makes some voters more inclined to choose the current incumbent president to reduce the cost of switching. On the other hand, it is often more common for some voters with no apparent preference to choose a president they are more familiar with. As a result, without considering the influence of other factors, presidents seeking re-election often have relatively higher initial approval ratings.

Another simple election experiment is also tried in our research. There is an economics study group with ten students. In this group, they have a leader Wang, who usually organizes our activities and arranges the work of each of us during group work, and he also keeps the funds raised by our group. One of the members, Liu, our trial participant, asked the other eight members if they would support her if she wanted to replace Wang as the new group leader. She showed her strengths to the members and proposed new ideas to move the group forward. Wang also focused on the results he led the group and his own abilities. In the end, seven of the eight team members supported Wang to continue as team leader, while only one team member who was closer to Liu chose she as the new team leader. When the researchers asked the members why they chose Wang, five of them said that Wang had done so well for the past six months that they could not be sure if Liu was the right leader, even though her presentation was very good attractive. They were reluctant to make a change that might put our group at extra risk. The experimental results also show that in the process of election, in the presence of status quo, a new challenger tends to face greater difficulties, because there is often reluctance to make too many changes to the status quo.

However, we will also see that in the history of the United States, there are still 10 presidents who failed to seek re-election. This is often due to their poor performance during their term of office, and they have already drawn a majority of the opposition in their first term. These presidents become the “negative status quo”, and candidates who are more attractive than them gain an advantage. In addition, Sheffer also showed an interesting finding that different genders are different in the possibility of status quo bias [7]. Compared with male politicians, female politicians show more preference for status quo policies, which may also explain the reason why many female politicians are conservative.

3.3. Case Three

In China, KFC has many dishes that are different from other countries. One of the dishes, “Nenniu Wufang”, is loved by many consumers, but it was discontinued a few years ago. In 2020, KFC announced that this dish was back on the menu, which caused a lot of discussion for a while. Some people said the dish was a long-standing memory they had been missing since it was taken off the shelves, and any subsequent dishes are not as good as this one. However, after the real return of “Nenniu Wufang”, different voices appeared. They believed that with the development of the times, this dish no longer meets the needs of people today, so it should no longer appear on the KFC menu. In the end, the return of “Nenniu Wufang” did not achieve the desired effect, and it left KFC’s menu three months later.

Bergeron et al. conducted a study of dessert orders in a real restaurant environment, and their experimental shows the impact of menu settings on people's choices. They set healthier food defaults in their experiments, and used a menu without automatic defaults as a control group. Their study showed that consumers who were given the default option menu were more likely to choose this healthier food combination over other high-calorie desserts. This study shows that status quo bias is beneficial in helping companies drive sales of a specific product mix without compromising satisfaction [8].

This case shows us that for a company, launching a new product often requires that it can be superior to the old product in all aspects, otherwise in the comparison of status quo, people will magnify the shortcomings of the new product, making it difficult for the new product, to enter the market. On the other hand, companies can also use the method of combined sales to allow new products to enter the market subtly without affecting consumer satisfaction, so that consumers have a better potential awareness of new products. If a company has a good understanding of the status quo bias, it can be used by the company to bring higher profits to the company.

4. Conclusion

Behavioral economics challenges the assumption of rational people in traditional economics and creates many new economic theories. Through the introduction and application analysis of status quo bias, we can see that people are often not completely rational when making choices, and psychological factors will also affect people's final decisions. Therefore, policymakers need to fully consider the psychology of people preferring the status quo. After the case study, we obtained three main conclusions in this paper. First of all, when launching new products, companies cannot rely solely on market research. Consumers' preferences for old products need to be taken into account, which means that for companies, the expected benefits of launching new products should be correspondingly decrease. Secondly, in elections, competitors seeking re-election often have higher natural advantages. Therefore, challengers need to make more efforts, and at the same time, they need to fully consider their natural disadvantages in competition. Finally, when launching a new product, companies often need to invest a lot of marketing expenses to make the market accept the new product. But companies can take advantage of consumers' status quo bias, and increase consumers' acceptance of new products by bundling products. Due to space limitations, this paper only considers three application scenarios of status quo bias, and in the future, this cognitive bias can have more application cases worthy for study.

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