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Competition and Consumer Data: The Good, the Bad, and the Ugly

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Competition and Consumer Data:**The Good, the Bad, and the Ugly****George Norman*, Lynne Pepall*, Dan Richards* and Liang Tan*******Department of Economics****Tufts University****Medford, MA 02155******Department of Accountancy****The George Washington University****Washington, DC 20052****george.norman@tufts.edu****lynne.pepall@tufts.edu****dan.richards@tufts.edu****liang.tan@gwu.edu****Abstract**

Many retailers and social media sites trade their customer data to brokers who use these data to identify relevant market demographics and target segments. This information is valuable to a wide array of industries from trending fashion to health care. For consumers who value privacy however, trading data can be a “bad” and firms that do so may suffer a reputation loss. Our paper investigates whether a self-regulated market operating with transparent privacy policies will lead to an efficient market outcome. Competition in the product market is characterized by both horizontal and vertical differentiation, the latter being affected by the firms’ decisions whether or not to trade their consumer data. We identify market conditions under which, from the perspective of consumers, there is excessive selling of consumer data, but we also identify cases in which both consumers and firms would be better off with stricter privacy legislation or restrictions. We show that there are yet other cases where firms’ concern about loss of reputation leads to too little trading of data and both consumers and firms would be better off if there were more data trading.

1. Introduction

From Adam Smith on, economists have recognized that market data provide informative signals to guide business and consumer decisions. Increasingly in the digital age companies have recognized that not just aggregate quantities but the data from each individual transaction consumers make may have value, and may be pooled with other data sources. Internet and credit card purchases can be tracked to identify individual buying habits and aggregated or pooled with other data to identify

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