

Behavioural Economics in Live Streaming Commerce

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Abstract

This article introduces the basic concepts of behavioural economics from five aspects, including Prospect theory; framing effects; status quo bias; paradox of choice; The Intrinsic motivation. It also analyses the behavioural economics and the five concepts in the live streaming business Performance. Finally, three suggestions are put forward: (1) Improve Consumers' Perception of Service Quality; (2) Improve Perception of Product Quality; (3) Focus on Platform Experience and Reputation; (4) Strengthen Supervision and Management to Protect the Rights and Interests of Consumers.

Keywords: Behavioural economics; Live streaming commerce; Prospect theory; Framing effects; Status quo bias; Paradox of choice; Intrinsic motivation

1. Introduction

1.1 A Brief introduction to Behavioural Economics

A key assumption of most economic models is unbounded rationality, or the idea that people know their preferences and are able to evaluate their options completely, even for goods and services that they have never experienced. When economists analyze decisions, people are assumed to be capable of performing complex mental calculations involving time preferences, probabilities, and the expected utility of the outcomes. Behavioral economists, however, suggest that our preferences are not always consistent or well defined (Camerer & Loewenstein, 2004); Consumer choices often depend on their contexts or on how they are framed.

Behavioral economics is a burgeoning field that encompasses a broad range of theories and concepts and does not yet have well defined boundaries. Similar to Huriya and Jabbar(2011), this paper emphasizes five concepts from behavioral economics-- including prospect theory, framing effects, status quo bias, paradox of choice, and intrinsic motivation--and applies these five concepts to a few issues in live streaming commerce.

Table 1. Concepts in Behavioral Economics

Concept	Brief Definition
Prospect theory	People behave differently when faced with probable gains as opposed to probable losses in uncertain situations
Framing effects	The presentation and context of choices influence decision making
Status quo bias	People tend to prefer the status quo, even when more attractive options are available
Paradox of choice	A large menu of options can cause consumers to behave strangely
Intrinsic motivation	Internal drive or interest motivates people in addition to extrinsic or external rewards

1.2 Development of Live Streaming Commerce

Live streaming is increasingly used by individuals and small sellers worldwide as a new interactive direct sales channel for selling products that range from clothing to electronics to furniture, jewellery, and food (Chen, 2017). A growing number of survey research found that consumers are attracted to live streaming shopping because they perceive utilitarian value (real-time communication and information), hedonic value (enjoyment), and social value (a sense of belonging) which in turn can enhance a consumer's experience and attitudes towards sellers/products, and thus affecting purchase intention (Ang et al., 2018; Wang & Wu, 2019; Wongkitrungrueng & Assarut, 2018).

Despite such promise in influencing a consumer's intention to purchase, the effect of live streaming adoption on actual business outcomes (e.g., leads, sales) is under examined (Chen et al., 2019; M. Zhang et al., 2019). Would live-stream selling generate more sales leads and engagement? If so, more importantly, why do some sellers attract more audiences and engagement than others, given that the real-time advantage of live streaming is offered to everyone? Little is known about how sellers attract customers, build relationships with them, and close sales in the live streaming context.

In China, live streaming is gaining widespread popularity, with more than 4 million live streaming events on e-commerce platforms in the first quarter of 2020, according to the data from the Ministry of Commerce. However, 37.3% consumers complain of problems in live streaming shopping. An investigation also shows that 60.5% of consumers do not shop by this means for fear that there is no guarantee for the product quality, and 44.8% worry about the after-sale service.

Therefore, methods to attract more consumers to choose live-broadcast shopping while fully protecting the rights and interests of consumers and promoting the healthy development of the live broadcast industry--is a topic worthy of study. This paper discusses the influencing factors of live-streaming commerce from the perspective of behavioral economics.

2. Application of Behavioural Economics in Live Streaming Commerce

2.1 Prospect Theory: Limited Time, Low Price, Hungry Marketing

Some studies have found that among the factors influencing consumers' purchase intentions, price preference has the greatest impact, which is basically consistent with the "lowest price in the whole network" price promotion of e-commerce live broadcasts at the present stage. The most direct stimulus for e-commerce live-streaming platforms to attract consumers to watch and buy exists in the time-limited low price, which is far lower than the regular price and limited inventory for hungry marketing, so as to quickly attract consumers' attention. In particular, large brands can offer price discounts of more than 50% in e-commerce live streaming.

In online education, we often see platforms promoting free open courses or releasing some content for free and some content for pay; this method attracts users' attention and then converts them into paying users. Free open courses refer to the method of attracting potential users to try to learn by releasing multi-chapter free courses or sharing free open courses on Internet platforms, to improve a user's understanding as well as the understanding of courses and teacher resources. At present, most online education platforms or courses adopt the marketing model of free open courses and test-learning, and open courses have formed the basic characteristics of the whole industry.

2.2 Framing Effects

In the process of the live broadcast, anchors may compare the performance or advantages and disadvantages of products of different brands and types. Although these comparisons may not be comprehensive and in-depth, the conclusion of the framework of the comparison will highlight the advantages of the products sold, so as to stimulate consumers to purchase them.

Demonstrative selling refers to the strategy in which sellers aim to enhance their product presentation by telling a product story, talking about points of difference from competitors, and giving a product demonstration to show product features, usages, and benefits, as well as prove a product's effectiveness (before and after). This strategy is important not only for complex products, but also for others such as fashion, cosmetics, and even food. (Wongkitrungrueng, et al., 2020) found that with the popular Asian e-commerce platforms, Taobao and Lazada, sellers utilize live streaming in a more professional but rigid manner and are limited from going beyond transaction-based and persuasion-based approach compared to Facebook Live. The sharing of useful content is limited to the product they offer and is usually part of the transaction-based approach.

2.3 Status Quo Bias: Eliminate Perceived Risks and Enhance Consumer Trust

According to the theory of behavioral economics, people tend to stay with the status quo even when there are more attractive options. The basis for maintaining the status quo is based on trust, and the risk of making similar decisions is low. Therefore, for existing consumers, businesses should encourage consumers to repeat purchases and enhance their stickiness and loyalty by providing stable product quality and good service. For potential consumers, the reasons for maintaining the original status quo should be analyzed, and targeted strategies should be adopted to establish new trust with consumers and encourage them to make new purchase decisions. Among them, reducing perceived risk and enhancing mutual trust are among the most important foundations.

It is widely known in related literature that trust in a merchant reduces the perceived risk of an online transaction. However, there are theoretical reasons to postulate that the perceived risk acts as a barrier to consumer trust. Furthermore, existing studies suggest that trust is an important predictor of purchase intention. Given the mixture of unmediated, as well as mediated effect of perceived risks on purchase intention, the paper concludes that efforts, made by online merchants, to lessen certain types of risk will first improve consumer trust, and then, ultimately, increase consumer's intention to buy online. (Ilyoo B. Hong & Hoon S. Cha, 2013)

In order to improve a consumer's purchase intention, it is necessary to improve consumer trust. Studies have proved the negative impact of perceived risk on consumers' purchase intentions. Reducing perceived risk can effectively improve consumers' purchase intentions. E-commerce live-streaming platforms can use platforms with high consumer trust to

publicize and show the authenticity, reliability and practicality of e-commerce to consumers; establish a good image of the platform; and enhance consumer trust. In e-commerce live broadcasts, anchors can increase their interaction with consumers, increase emotional communication, provide consumers with a sense of belonging, and gain consumer trust. E-commerce live-streaming platforms should establish a sound return and exchange mechanism to eliminate consumers' perceived risks, meet consumers' after-sale needs and protect consumers' rights and interests, so as to form the brand effect of live-streaming, encourage consumers to repeat purchases and enhance their stickiness and loyalty.

As a brand-new education model, online live-streaming education is also a new business model. The traditional view is that offline education is more interactive and effective, so people are more inclined to choose an offline education mode. In fact, the essence of education is the transmission of knowledge, which is a long-term and arduous task. The key is to choose a suitable way to learn. Online and offline education are complementary to one another. The advantage of offline education is the knowledge satisfaction and deep teaching experience of teachers and students. The advantage of online education is cost saving, including economic cost and time cost. If you don't have a lot of time to participate in long-term training, online education is suitable. Students can participate in live online learning at any time and anywhere, or they can watch online videos by examining the education and training institutions' apps or websites. Online education is limited by the network and time, and the teaching interaction is poor. Supplementary work can be done in offline education. For example, students do not have a thorough understanding of a certain knowledge point, so they need to consult and interact with the teacher offline, or the teacher needs to organize interesting activities to promote mutual communication and sharing among classmates. Therefore, it is suggested that online education can fully draw on the advantages and experience of offline education, improve course design, enhance the interaction between teachers and students, as well as between students and students, and enhance the immersive experience, so as to attract more knowledge seekers to choose live online education.

2.4 Paradox of Choice: Return to the Consumption Scene, Live Accompanying Consumption

According to the theory of behavioral economics, the abundance of options can lead consumers to behave strangely. Chang & Wildt (1994) empirically tested the relationship between price perceived quality found in previous studies, and they further showed that when there is a large amount of direct product information, the impact of price on perceived quality is weakened. Finally, the results show that the trade-off between perceived price and perceived quality leads to the generation of perceived value, and perceived value is the main factor affecting purchase intention. Therefore, in order to encourage consumers to make choices among various commodities and win stable customer flows, live-stream platforms can drive consumers to experience the perceived value deeply and comprehensively through targeted guidance strategies.

Live-streaming platforms can make use of good interactivity to transform anchors into trusted shopping partners of consumers, to attract users to become loyal buyers, to establish sustainable development of scene-accompanying consumption, and to win stable passenger flow. In the traditional e-commerce mode, consumers' consumption mode is shelf shopping, and it is easy to lose goods in the environment of buying goods, resulting in the rupture of the shopping chain. E-commerce live broadcasts not only solve the information shortage of an intuitive experience, but also enable consumers to choose the people who accompany them shopping through the help of the entertainment via the live broadcast. Due to a consumer's active choice, anchors have an obvious traffic aggregation effect and interactive positive feedback mechanism. Consumers can truly feel the purchase intention of others, so as to participate in the group buying spree.

2.5 Intrinsic Motivation

First of all, more interesting functions should be added technically, such as sending personalized gifts and interesting list functions in the live broadcast room, so that consumers can have more functional designs to express their emotions and further enhance the entertainment experience of consumers. In the interaction between anchors and consumers, consumer labels should be enriched, such as iron fans can get anchors' marks and purchase lists in live broadcast rooms, so that consumers can feel a sense of honor and enhance consumer stickiness. In optimizing the shopping experience, we should improve the richness of product display information, show consumers more information that can help them make decisions, make consumers more compatible with the product, and eliminate the information difference for consumers. Secondly, users with different characteristics have different value orientations for products, so personalized recommendations and discovery functions are needed for different consumers to help them find more suitable products. Furthermore, the way of information display should be optimized to provide consumers with visual, real, easy to understand, interesting, high-definition, smooth information, more intuitive and real information display. Finally, in optimizing the construction of the platform, the transaction process should be simplified to make it easier for consumers to get started and fully meet their personalized needs. In addition to shopping information, it can also meet consumers' needs for self-expression and emotional communication.

Operators of e-commerce live broadcasts should improve the professional quality of anchors, dig out professionals who really understand consumer needs, provide consumers with more experience information during live broadcast, help consumers choose commodities better, enhance emotional communication with consumers, for example, remember consumers' names, so that consumers can identify with them. By doing so, we will comprehensively increase a consumer's inner driving force and real demand for purchases.

A content-based approach is adopted by more advanced sellers who put effort into creating and delivering useful content and services that are relevant to customers' interests, worth

following, and not easily imitated. These provide customers epistemic value, which is evoked when a product/service stimulates curiosity, generates novelty and/or satisfies a desire of knowledge (Sheth et al., 1991), which in turn increases the chance a consumer revisits and engages with the brand. To provide such value, sellers need to develop customer knowledge, gain an understanding of customers' interests, and develop advanced technical and consultative skills. When the seller offers customer benefits that cannot be easily obtained from other sellers, customers may respect, trust and depend on sellers more as they are perceived to be experts (Hibbard et al., 2001; J. Z. Zhang et al., 2016). A content-based video is treated as a separate broadcast from selling videos, and this service is provided free of charge, so customers may feel grateful and inclined to purchase products that support the sellers (i.e. reciprocal behaviour).

3. Conclusion

Based on the above analysis of the influence of behavioral economics on live broadcast consumption, the author suggests promoting the healthy development of the live-streaming commerce through various ways.

(1) Improve Consumers' Perception of Service Quality

The above studies show that the professional quality of live broadcast content, the charm of anchors, and the trust of users all have a positive impact on consumers' final purchasing behaviors. First of all, the platform should strictly review the live broadcast content of anchors, establish a set of standardized review processes, avoid the occurrence of inferior content as much as possible, and improve the proportion of high-quality content in the live broadcast. Furthermore, the platform should pay attention to the charm of anchors, create personal brand images, and consider the long-term brand image benefits.

(2) Improve Consumers' Perception of Product Quality

Promotional activities and product information displays have a positive influence on consumers' final purchasing behaviors. The preference of commodity prices and related promotion methods in the process of e-commerce live broadcasting, such as lotteries and purchase gift, are one of the most important factors for consumers to choose the new shopping mode of live broadcasting. Therefore, it is suggested that the platform can give more benefits to attract consumers in the initial stage. At the same time, when anchors show commodities live, the platform should assist anchors to introduce product information. For example, artificial intelligence and other technologies can be used to collect consumers' high-frequency homogenous questions synchronously and remind anchors to provide relevant answers in an appropriate way, so as to deliver more comprehensive information to consumers efficiently and intelligently.

(3) Focus on Platform Experience and Reputation

Platform experience has a positive impact on consumers' final purchasing behaviors. First of all, the platform should pay attention to consumer experience in the whole purchase process and quickly deal with the problems encountered by consumers in the process of using the platform. Secondly, we should pay attention to the maintenance of the platform's reputation and carry out positive publicity on the characteristics of the platform from multiple channels and all aspects.

(4) Strengthen Supervision and Management to Protect the Rights and Interests of Consumers

Operators of e-commerce live-streaming platforms and anchors should strengthen platform management, clarify responsibilities of all parties, improve internal supervision, and protect consumers' rights and interests. Anchors, as well as branded products that are trusted and loved by and sold to consumers, belong to the category of advertising spokespersons. Therefore, such anchors are not required to advertise falsely, not to recommend products that they have really used, not to exaggerate, and not to deceive and mislead consumers. E-commerce live-streaming platforms should supervise the operation of merchants and anchors on the platforms, punish false publicity, ranking, and unfair competition in accordance with the law. E-commerce live-streaming platforms should establish a sound return and exchange mechanism, improve after-sales services, protect consumers' rights and interests in accordance with the law, and protect consumers' personal information and other privacy. E-commerce live-streaming platforms, anchors and businesses should strengthen internal supervision, be strict and self-disciplined, strictly abide by laws and regulations, and protect the legitimate rights and interests of consumers. Internal supervision and legal supervision should be carried out simultaneously to escort consumers' online shopping.

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