WHEN CAR RENTAL AGENCIES INCLUDE insurance unless you specifically decline it, or software vendors recommend that you click “next” for a quick install, they’re choosing default options for you – covertly or overtly guiding your choices. Well-designed product or service defaults benefit both company and consumer by simplifying decision making, enhancing customer satisfaction, reducing risk, and driving profitable purchases. Ill-conceived defaults (or, simply, defaults no one thought much about) can leave money on the table, fuel consumer backlashes, put customers at risk, and trigger lawsuits – costing companies dearly.

Consider these cases:

■ In 2007, Facebook launched a program that displayed members’ purchases by default, unless they actively opted out. Suddenly, people’s purchases – clothing, movie tickets, even a would-be-surprise diamond ring – were posted where all their friends could see them. Reaction was swift and severe: Users responded by creating a group called “Facebook, stop invading my privacy!” which amassed 50,000 members within days. Advertising partners retreated as the blogosphere erupted with often hostile commentary. Nine days after the program’s inception, Facebook changed the default so that users would have to actively choose to participate, and the company ultimately issued a public apology. A class action lawsuit was filed in August 2008 targeting Facebook and eight advertisers.

■ A large national railroad in Europe made a small change to its website so that seat reservations would be included automatically with ticket purchases (at an additional cost of one
to two euros), unless the customer unchecked a box on the online booking form. Whereas 9% of tickets included reservations before the change, 47% did after, earning the railroad an additional $40 million annually. This substantial boost in revenue was produced with only a small fixed cost in programming and infrastructure.

- AT&T initially chose printed, itemized bills as the default billing option for the Apple iPhone. A month after launch, some users were taken aback when they received bills up to 300 pages long listing each of their thousands of data transmissions under the carrier’s unlimited plan. Given the outcry from customers, and no doubt the expense of preparing and mailing such massive bills, AT&T soon changed the default so that customers received only a brief summary report.

In their recent book *Nudge*, Richard Thaler and Cass Sunstein put forth the idea that choice architecture, or the design of environments in order to influence decisions, is pervasive and unavoidable and can lead to both good and bad choices. Defaults are the building blocks of this architecture. Knowing the merits and limitations of defaults can help firms better serve a variety of customers – those who wish to make active decisions, those who prefer to rely on the expertise of the company to guide them, and those who don’t want to be bothered making choices at all.

We’ve studied defaults for more than a decade, working with dozens of companies across industries in the United States and Europe. We’ve conducted research with thousands of consumers on how to present choices and on the effects of presentation on decision making. We’ve published academic articles, advised governments, and served as legal experts on defaults. On the basis of this work, we’ve developed a taxonomy of default types. It serves as a primer for managers on which defaults companies commonly must consider, how to apply each type for maximum advantage, and how to avoid the pitfalls of ill-considered defaults.

**IDEA IN BRIEF**

- Companies pay inadequate attention to designing the default versions of their products or services – the basic form customers receive unless they take action to change it. This oversight can cost companies dearly.
- With the help of a defaults taxonomy and decision tool, senior managers can select default settings for virtually any product or service that provide the most benefit for all stakeholders.
- Choosing the right default enhances customer satisfaction and increases profits while reducing risks for both the company and customers.

**A Field Guide to Defaults**

In all too many companies, management pays little attention to defaults, leaving the determination of default settings for a new offering to a forms designer or a programmer. But setting defaults is complex, requiring companies to balance an array of interests, including customers’ wishes and the company’s desire to maximize profits and minimize risk. Because of their powerful effect on customer behavior, default policies ought to be examined at the highest levels in the organization.

Consider the ability of default policies to affect organ donation, a topic we have studied extensively. Many people avoid making an active choice about being a donor, passively accepting the default option – whatever the state or national policy may be. For instance, in Germany no one is an organ donor by default; citizens must actively opt in to the donor pool, and only 12% of Germans have joined. Next door in Austria, all citizens are placed in the donor pool by default and can easily opt out. Surprisingly, 99.98% of Austrians have stayed in the pool. In other pairs of culturally similar countries, we see the same staggering difference. As important and personal a decision as organ donation is, national or individual attitudes are apparently not as powerful in guiding people’s donor decisions as is the prevailing default policy. Our web experiments that randomly assign people to an opt-out or an opt-in default for organ donation show the same effect, providing evidence that it is the default and not only the culture or effort that makes the difference.

At a basic level, defaults can serve as manufacturer recommendations, and more often than not we’re happy with what we get by accepting them. When we race through those software installation screens and click “next” to accept the defaults, we’re acknowledging that the manufacturer knows what’s best for us. Most companies also strive to set defaults in ways that align with customers’ preferences. In their online auto configurators, companies such as Audi and Daimler preselect the most popular color as the default. In some cases, however, defaults that might be desirable from a customer’s perspective aren’t necessarily best for the company (for example, airline passengers might like to choose from the full range of available meals, including vegetarian, but are given a limited choice for business reasons).

Of course, defaults can be nefarious as well. They have caused many of us to purchase unwanted extended warranties or to inadvertently subscribe to mailing lists, for example. In recent years, American and European courts have heard a number of cases about default settings, especially those that can lead to violations of privacy or cause unintended purchases. Given the power of defaults to influence decisions and behavior both positively and negatively, organizations must consider ethics and strategy in equal measure in designing them.

Let’s now take a closer look at the taxonomy of defaults, which we place into two broad categories: mass and personalized. Although these stand-alone designations might seem to be mutually exclusive, some companies combine features of two or more categories. The taxonomy is intended not to be rigid but to serve as an organizing framework. (For a
discussion of alternatives to defaults, see the sidebar “When No Default Is Your Best Option.”

**Mass Defaults**

Mass defaults apply to all customers of a product or service, without taking customers’ individual characteristics or preferences into account. A common example would be an online retailer’s using standard shipping unless the customer actively chooses rush delivery. Mass defaults by their very nature give some customers a version of the offering that wouldn’t be their first choice. Still they are very useful when the majority of customers can reliably be expected to prefer one basic configuration or to benefit from the seller’s recommendations. In cases where the seller lacks information about customers’ profiles or preferences, mass defaults may be a company’s only option.

**Benign defaults.** These represent a company’s best guess – absent preference information – about which product or service configurations would be most acceptable to most customers, and would pose the least risk to the firm and the customers. For example, the shoulder straps on Maxi-Cosi car seats can be threaded through either of two sets of holes, a lower set for newborns or a higher one for older children. Which setting should be the default? Using the higher strap setting could endanger a newborn, as the straps won’t hold her securely. Yet the lower one would be uncomfortable for an older child. Here the benign default is obvious. Most customers purchase this type of car seat for newborns. What’s more, the safety risks of loosely fitting straps are more serious than the risk of discomfort from tight-fitting ones, and while parents are likely to adjust the product when the fit is too tight, they might not notice when it is too loose. Not surprisingly, Maxi-Cosi sells the seat configured for newborns.

In seeking a good default for all customers, firms will find that no simple formula applies to all cases. However, to arrive at a benign default configuration

**When No Default Is Your Best Option**

Sometimes companies require would-be customers to make active choices or be denied use of the product. We call that a forced-choice alternative to defaults. For example, software customers often have to accept a user agreement before proceeding with an installation. Such contracts are also common in many recreational settings: Vacationers who want to go white-water rafting or horseback riding, for example, typically must sign a liability waiver in advance – or forgo the activity. Forced choice is appropriate when it is wiser for the company to deny access to a product or service than to accept the potential costs that customers who fail to agree to the terms of use might generate. Forced choice may also make sense as an alternative when the best choice of default isn’t obvious. For example, some carmakers, such as BMW, require customers to actively pick an engine or exterior color without any guidance from defaults.

But forced choice has a downside: A customer may make ill-informed choices when first engaging with a product. (Who actually reads the text of a license agreement?) The customer might even be scared off by the requirement that he make a choice at all, or because he doesn’t understand the options.

Whether forced choice or a default setting is the better strategy depends on the company’s goals. Forced choice may increase the risk that customers will forgo or regret a purchase (research shows that the act of choosing raises the likelihood of post-purchase regret), whereas defaults can alienate some customers by making a product seem very different from what they had in mind.
A Decision Tree for Setting Defaults

This tool can help companies design defaults that align with customers’ preferences and support good decisions, although it can’t provide definitive recommendations. Companies’ decisions about defaults should take into consideration the implications for profits, liability, customer satisfaction, and social welfare.

---

**Mass Defaults**

Can you tailor your product or service default settings for individual customers?

---

**Personalized Defaults**

Do you have data on individual customers’ past preferences for a given product or service option, and is it safe to assume the customer would choose this same option again?

---

Do you have demographic, geographic or other profile information on the customer, and can you safely assume which product or service option would best fit each profile?

---

Do you have data on individual customers or customer segments that can be used without raising privacy concerns?

---

---

Is this setting the lowest risk (in terms of potential harm to customers and liability)?

---

Could any of the settings cause more harm or greater liability than another?

---

Could you discover customer preferences by testing multiple settings?

---

Could customers best served if information about one or more alternative options is hidden from them, and does the benefit outweigh the cost should the alternative option be revealed?

---

Are customers best served if a best-guess setting that most customers would prefer?

---

Consider Hidden Option

---

Consider Benign Default

---

Consider Random Default

---

Use the simplest/lowest cost/lowest-risk default

---

Consider Persistent Default

---

Consider Smart Default

---

Consider Adaptive Default

---

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO

YES NO
that will provide the greatest good to the greatest number, the questions a firm should ask include: What default would the majority of customers be most likely to prefer? What configuration would we recommend to someone without a preference? Can we save our customers time or effort with a given default? If a default setting carries a potential danger for some customers, what alternative default configurations can reduce that risk? Of course, one-size-fits-all defaults are not ideal when the potential for harm is great. (Forced choice or smart defaults are better alternatives in such situations.)

Companies can design mass defaults in ways to maximize profit without being deceitful or jeopardizing customer satisfaction. Many auto manufacturers, for example, set their online order-taking software to present customers with the least expensive, stripped-down models of their cars. Customers then upgrade features such as the engine, entertainment system, or upholstery one by one. In our research experiment with a leading European carmaker’s customers, we found that when we changed this default so that customers were initially offered cars loaded with features – options they could then decline – they chose vehicles with more features, raising the sales price by over $1,500 without decreasing customer satisfaction.

Random defaults. When customers are assigned arbitrarily to one of several default configurations, the selection is called a random default. The U.S. government, for example, relied on random defaults in assigning senior citizens to one of many prescription drug plans. That default strategy had its critics, but others like it can be useful when an organization lacks information about individual or majority preferences, feels that none of the configuration options is the clear benign choice, and believes that none would cause harm.

As experimental tools, random defaults can help companies to uncover customers’ preferences, allowing them to migrate from using mass defaults to creating personalized ones. For example, when online marketers send e-mail, they must choose HTML or plain text as the default setting. In the absence of information about customers’ preferences, many companies opt for a best-guess benign default. To make a more informed default choice, a firm could randomly send half its e-mails as text and half as HTML, with links that allow recipients to switch. By monitoring how many people switch from each default, and determining which browsers and operating systems they are using, the company can deliver future e-mails in the default setting that current customers prefer and can make informed guesses about which default new prospects are likely to want.

Hidden options. When a company uses hidden options, the default is presented as a customer’s only choice, although hard-to-find alternatives exist. The computer industry, for one, commonly uses hidden options. Diverse programs such as media players and computer games come with default sounds and visual interfaces (skins) that can be changed, but often there is no indication of alternatives in the users’ manual. Locating the instructions for changing these defaults typically requires deep digging on the manufacturer’s website. Similarly, Microsoft Windows XP users can download an unadvertised set of tools called PowerToys, many of which alter the default system configuration – if customers can find them. And Dell sells computers with either Windows or Linux operating systems, though the Linux option does not appear in the main product configurator, where most customers select the features they want; it’s accessed only through an obscure link on the site.

Often hidden options are a simple expedient for companies and cause no harm to them or their customers. For example, such policies can prevent confusion among novice users or minimize the use of products that are in development or whose availability the company wants to limit in order to minimize costs.
When hidden options appear to intentionally obscure choices that customers may value, companies risk a customer backlash. Airline meals typically have beef or chicken as the default; yet other, hidden choices exist. Airlines have their reasons for not publicizing the choices (primarily cost and efficiency), but customers who know or suspect the existence of the hidden option are inconvenienced by having to hunt for it, and other customers can become annoyed when they discover after the fact that a different option was available. As airlines struggle to manage growing customer dissatisfaction, they should be mindful that using hidden options may add fuel to the fire.

Dell’s customers haven’t responded angrily to the hidden Linux option, but they’ve turned out in force to challenge it. As of September 2008, nearly 30,000 Dell customers had cast votes, on the company’s IdeaStorm website, urging the firm to add Linux to the main list of operating system options. Dell is actively considering the change.

**Personalized Defaults**

Personalized defaults, as the label implies, reflect individual differences and can be tailored to better meet customers’ needs. Let’s examine three of the most common types.

**Smart defaults.** These defaults apply what is known about an individual customer or segment to customize settings in a way that is likely to be ideal for the customer and the company—or at least is a better fit than a mass default would be. The data that smart defaults use include demographic or geographic variables, or even measurements taken by a product itself. For example, smart defaults can take age and income into account when determining investment allocations for new employees who are joining retirement plans; they can fill in the country code on an online order form based on the customer’s IP address; or they can adjust to a passenger’s weight in real time to enable an airbag to deploy with just the right force to save her life. What makes these configurations defaults, and not simply customized settings, is that customers can opt out—for instance, by rejecting smart default investment allocations in favor of a different mix.

**Persistent defaults.** When an airline automatically assigns aisle seats to customers who have previously chosen them, it is using a persistent default. The assumption is that a customer’s past choices are the best predictor of future preferences. Hotels use a similar strategy when they make smoking rooms the default for customers who have requested them in the past. Using persistent defaults whenever possible is an easy way to enhance customer satisfaction and loyalty. The principal downside is that customer preferences can change (for instance, if the smoking-room customer has kicked the habit). In those cases, the persistent default can become an annoyance. A sensible work-around for companies that use persistent defaults is to make opting out simple and transparent.

Another tactic is to use reverting defaults, which automatically change back to a mass default setting after some period of time. These defaults may annoy some customers, but they can effectively induce customers to explore alternative offerings that they might not otherwise discover.

**Adaptive defaults.** Adaptive defaults are dynamic: They update themselves based on current (often real-time) decisions that a customer has made. This is particularly helpful in online environments, where a customer makes a sequence of choices. In web-based automobile configurators, for example, early decisions can inform later ones. Buy-

![Adaptive defaults can serve as advisers, helping people identify desirable sets of features.](image)

German PC retailer Hardwareversand uses adaptive defaults to help customers avoid mistakes as they configure their computers. Visitors to its website can combine hardware components as they are guided through a sequential configuration process. At each step, the remaining options are automatically screened; those that are not compatible with the customer’s evolving system are omitted from further options, simplifying the customer’s choices and eliminating the possibility of compatibility errors.

Dell, which gets more than 35 million visits to its website per week, frequently changes its default tactics. Despite this, the company’s basic default strategy has not changed much over the years, using a combination of forced choice and adaptive defaults to help customers make their purchases. For instance, customers may initially choose a protection package, such as DellCare Premium, Plus, or Value, which results in several pre-selected defaults for the subsequent choices. This approach avoids alienating price-sensitive consumers with the sticker shock of high initial prices. At the same time, it spares price-insensitive business customers the hassle of upgrad-
ing numerous options to get the comprehensive support they need.

Personalized defaults are a good choice when customer information is readily available, as they’re more likely than mass defaults to satisfy customer needs. Companies using personalized defaults, however, need to be aware that they, too, can sometimes backfire. For example, personal video recorders such as the popular TiVo system make use of the owner’s history of recorded TV shows as well as the community’s recording patterns to automatically record shows it deems the owner might like. While pleasing most users, this personalized default has also led to customer complaints when television recorders have mistakenly selected content some owners found objectionable.

When companies get defaults right, they and their customers benefit. Consider, as a final example, the impact of defaults on Americans’ retirement savings. Until recently, the default salary contribution to company 401(k) plans was zero; as a result, many Americans accepted the default and saved nothing. Changing the default to a minimum contribution of a few percent, as many companies have done, has had a dramatic impact on retirement savings: When one firm raised the default contribution from zero to 3%, for example, the percentage of new employees saving anything toward retirement rose from 37% to 86%. Compared with other strategies for encouraging savings, such as education or tax incentives, changing defaults is an effective and low-cost way to improve decisions that benefit all stakeholders—employees, their companies, and the financial services firms that manage retirement savings.

It’s true that some unprincipled companies can (and do) use defaults to exploit customers. Not only is that unethical, and sometimes illegal, but it often prompts customers to look elsewhere for their next purchase. It takes careful research and experimentation to align defaults with both the company’s and customers’ long-term interests. Firms that manage defaults strategically and ethically can expect to be paid back with loyalty and trust.

Daniel G. Goldstein (dgoldstein@london.edu) is an assistant professor of marketing at London Business School. Eric J. Johnson (eij3@columbia.edu) is the Norman Eig Professor of Business and director of the Center for Excellence in E-Business at the Columbia Business School in New York. Andreas Herrmann (andreas.herrmann@unisg.ch) is a professor of marketing and director of the Center for Business Metrics at the University of St. Gallen in Switzerland. Mark Heitmann (heitmann@bwl.uni-kiel.de) is a professor of marketing at Christian-Albrechts University in Kiel, Germany.

Reprint R0812H
To order, see page 135.

ENGAGE Your Resources.
STRENGTHEN Your Strategy.
IMPROVE the Way You Do Business!

UPCOMING PROGRAMS AT DARDEN

Financial Management for Non-Financial Managers
February 15–20, 2009

Leading Innovation: Thinking Like America’s Greatest Inventive Genius
March 22–25, 2009

Managing Individual and Organizational Change
April 14–17, 2009

Leading High Performance
April 26–May 1, 2009

ADDITIONAL OPTIONS
• Custom Programs
• Learning and Development Center Partnerships
• Industry-Specific Partnerships
• Certificates of Specialization

2009 program information available online.
Visit us at www.darden.virginia.edu/exed

PHONe: 877.833.3974 U.S./Canada
434.924.3000 Worldwide

EMAIL: Darden_Exed@Virginia.edu