

decode Science Update 1_2012

Behavioural Economics:

Changing behaviour without changing minds

March 2012

Welcome to the decode Science Update

Why are almost 100% of Austrian adults organ donors? How can we get children to choose healthy food in the school canteen? How do you get people to save more? Until now, the accepted way to achieve this was to inform and educate, in order to change attitudes. We all know this has had limited success: despite knowing better, we do not act on our intentions and we often act contrary to our own beliefs.

The US and UK Governments use a different policy. They use the insights from **Behavioural Economics to change behaviour without changing attitudes**. The British government has managed to increase the number of tax returns filed on time by 15% by claiming in a letter that the majority of one's neighbours had already completed their tax returns. How could something this simple cause 15% of people to change their behaviour?

In this Science Update, we examine the question of how we can change (buying) behaviour by using insights and principles from Behavioural Economics without changing attitudes and preferences.

Enjoy!

Your decode team



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Changing behaviour WITHOUT changing minds

In marketing, we almost always make the following assumption: In order to get someone to buy, we first need to convince them. *Convincing* means that we influence - for example via communications – the *rational* or *emotional* attitude towards a brand and product. For this reason, almost all pre-tests and tracking studies are designed to measure attitudes, preferences and purchase intent. Also, we often segment consumers according to their attitudes towards a topic.

The inherent focus is always on the person and their attitudes and preferences. The underlying model stems from the 1970s and still dominates our thinking in marketing today: The more positive the attitude towards a brand, the more likely it is to be purchased. Behind this lies the assumption that decisions are made in a linear sequence: We process information, form opinions (for example, on a product) and then we either buy or we don't. This is certainly not wrong, and it often works very successfully. But, crucially, we must not overlook the following:

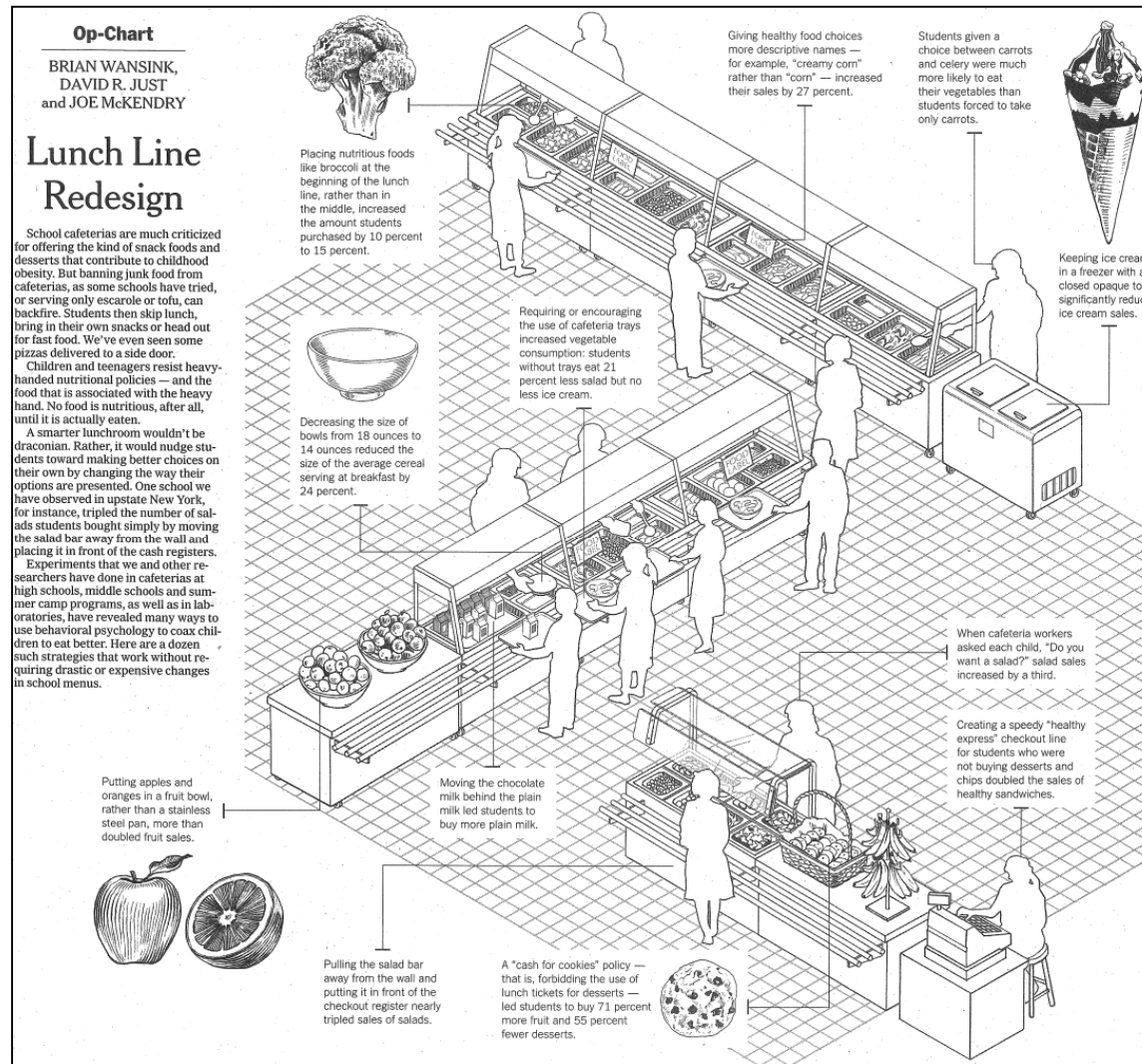
At least as important as attitudes and preferences is the situational context in which a decision takes place; it forms the interface between the customer and the brand. This is the central topic of *Behavioural Economics*. Rory Sutherland, Vice President of Ogilvy and one of the leading protagonists in this area comments:



'If I were asked to sum up Behavioural Economics in a sentence, it is this: 'That, in making decisions, conscious or unconscious, big or small, about our lives and what we buy and do, the context, framework, interface, medium and pathways through which we reach decisions may have a greater influence on the decisions we take than the long-term consequences of the decision.'

Let's take a look at some further examples before we comment in more detail on the implications for marketing.

Eating healthily without a change in attitude



How can we get young people to choose healthier options in the school canteen?

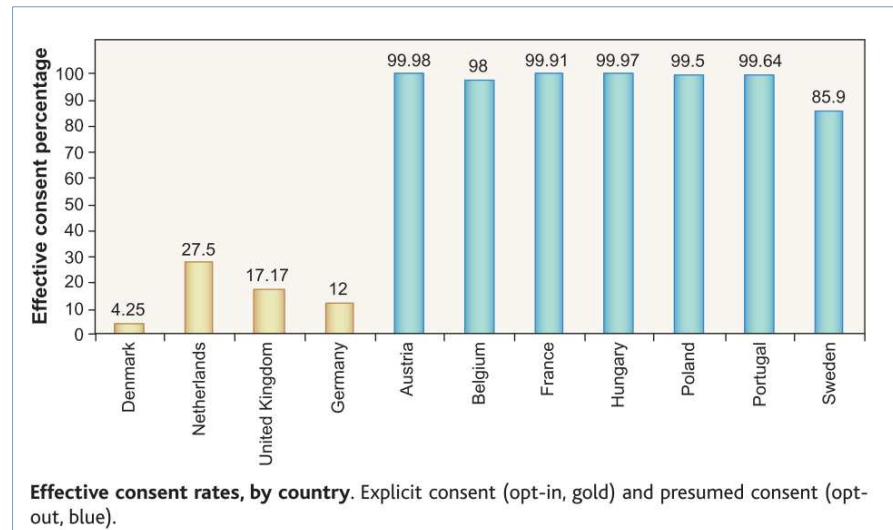
By changing the environment or the situational context, as shown in research by Brian Wansink at Cornell University:

- If vegetables are placed near the beginning of the lunch line, consumption increases by up to 15%.
- The salad bar was moved to the vicinity of the checkout, resulting in a three-fold increase in salad consumption.
- Smaller cereal bowls reduced the amount consumed by 24%.

The students' attitudes towards a healthy diet did not change - it is solely the situational context, the interface, which changed and which caused the change in behaviour.

Most of the students had not even realised that something had changed or that they chose differently.

Increasing organ donations through defaults



Source: Johnson, E. & Golstein, D. (2003). Do defaults save lives? Science, Vol. 302, p. 1338ff.

- Every year, thousands of people die because they do not receive a donor organ in time. In Germany, the number of organ donors is even decreasing. Politicians and the Medical Council try to counter this trend with awareness campaigns.
- Looking at the consent rates by country (see illustration on the left) shows that some countries have very high rates (e.g. Austria, France), others have very low ones (e.g. Germany, UK).

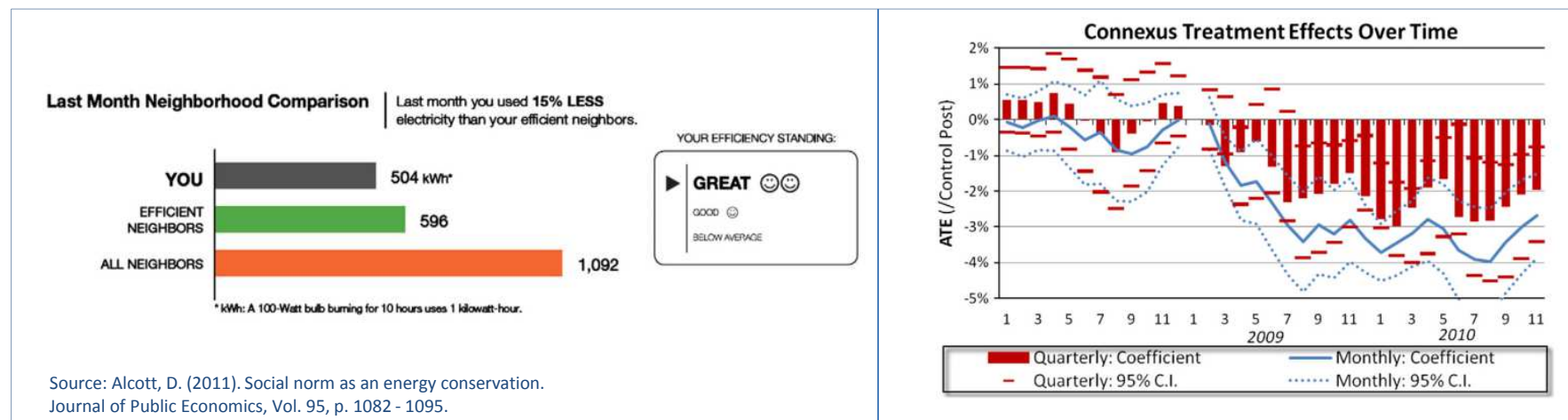
The difference between high and low consent rates is down to the default mechanism, defined by legislature: In Germany, you have to actively register as a donor ('opt-in'). The default, thus, is that you *don't* donate. In Austria, people are donors by default, unless they decide against it ('opt-out').

We know from research that people tend to stick with the default. Furthermore, habitually, we tend to tick something if we agree with it - not if we don't agree. Even with such a sensitive and important issue, it seems that the decisive factor is not about information and attitudes; it's more about the HOW - the architecture of choice - than the WHAT.

This is due to so-called heuristics: implicit decision rules, which are activated by signals in the environment – e.g. a box that needs ticking - and which lead directly to behaviour. This way of decision making is referred to in research as the **Perception-Action Link**. Knowing these principles, it is possible to optimise the design of an interface with the customer.

Saving energy through social norms

In surveys, the majority of Germans say that they would like to save energy. The reality is often different. With refrigerators, for example, it is often the energy inefficient ones that are all the rage, says the head of Bosch-Siemens Home Appliances. **The purchase price of the product seems to play a greater role than the long-term energy-saving potential.** The US company OPOWER shows how you can get people to save energy. Each energy bill shows the customer how his consumption compares to that of his neighbours, intuitively visualised using bar charts and smileys.

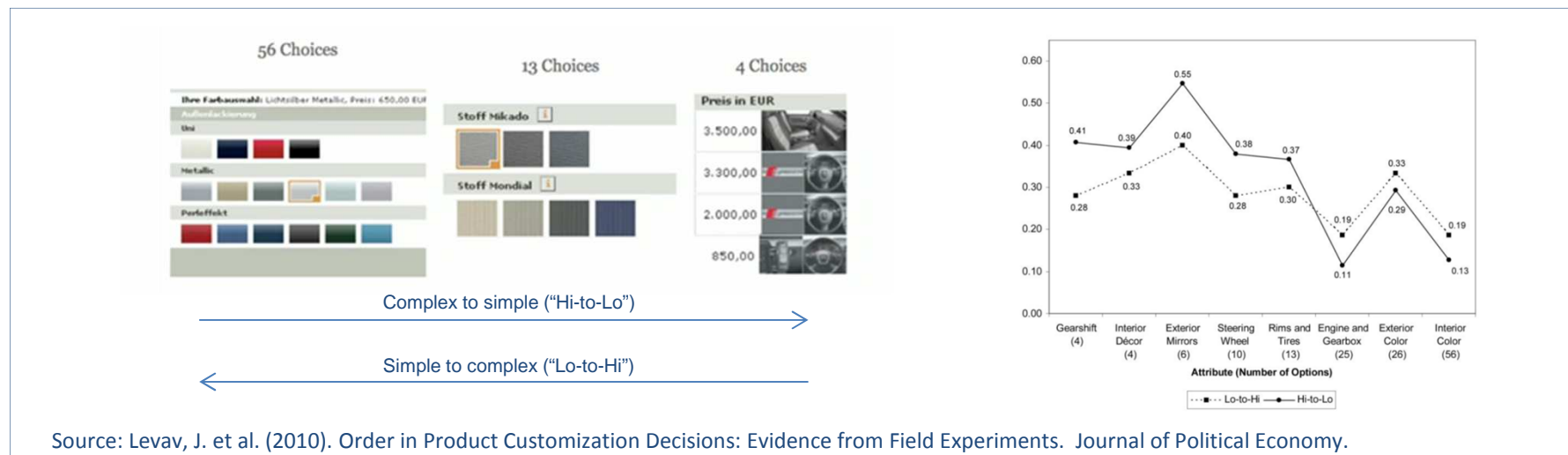


This simple and inexpensive measure had the same effect on energy consumption as a price increase of 20%. Consumption fell substantially (see chart on right), up to 3%. The effect does not wear-off either, as long-term studies show. Again, the approach here is not to convince people through campaigns and information. Instead, what is used in this case, is the realisation that people often follow social norms. We do what others do. This '*program*' was activated by the comparison with neighbours and leads directly to a change in behaviour.

The British government uses exactly this lever to get citizens to submit their tax returns on time: it supplements its standard letter with the phrase 'most of your neighbours have already filed their tax return'. This activates a social norm and increases the number of tax returns made on time by 15%

Selling more through optimal sequencing

It's not only social norms, heuristics, or product placement which affect behaviour. The order in which decisions are made has a clear impact as well. For example, in a car configurator, which is best at the beginning - decisions with few options (for example, engine type) or decisions with many options (e.g. colour with 56 options)? A study at Columbia University recently looked into this question - with very clear results.

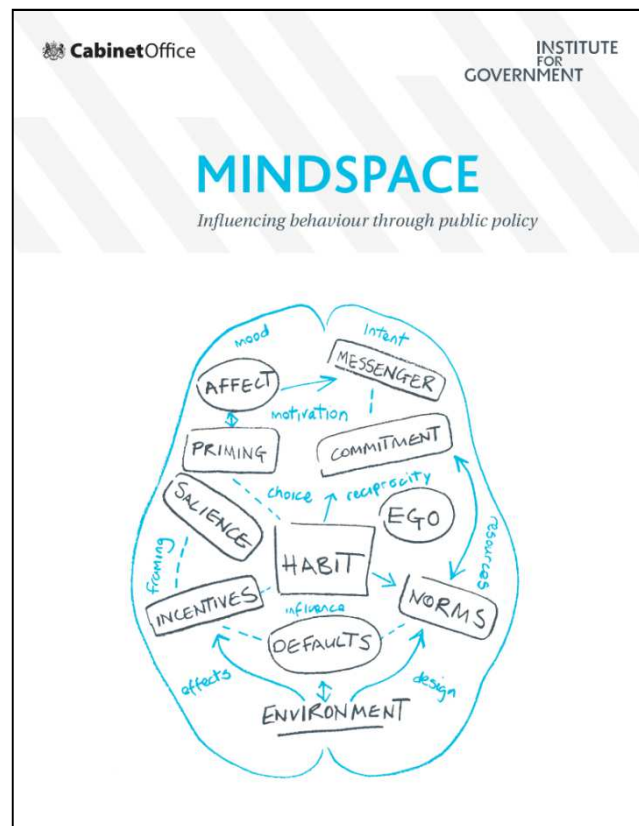


Customers spent \$1,480(!) more when they started with 'complex' decisions than when they started with 'simple' decisions. Objectively there should be no difference, because it's only the order that has changed, not the content. In fact, complex decisions at the beginning of a process lead to many customers not making an active selection, but instead accepting the default product properties and simply clicking 'Next'.

The order in which decisions are taken, therefore, has a significant influence on consumer buying behaviour regardless of preferences or attitudes towards particular product characteristics.

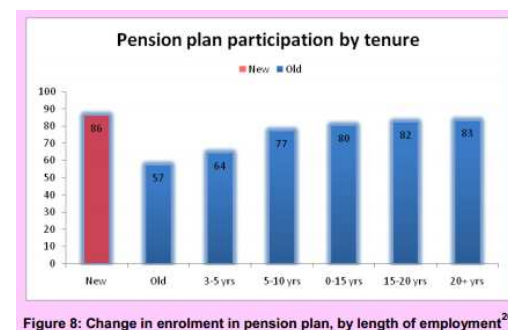
How the British government uses Behavioural Economics

Before we turn to the implications for marketing practice, we want to show a particularly well-developed project, in which the findings of behavioural economics have been implemented in political practice: the so-called **'Nudge' unit of the Cameron government**. This department has had some great successes by relying on implicit decision rules rather than on education and attitude change to guide the conduct of citizens in health care, welfare, taxes, etc., in certain directions.



An example is the Pension Act 2008, which comes into force in 2012 and uses the default principle, which we have already seen in the example of organ donation. The default for participating in pension plans is changed from opt-in (default: one does not participate) to opt-out (default: one does participate). The government estimates the value of this conversion for the welfare state to be €65 billion.

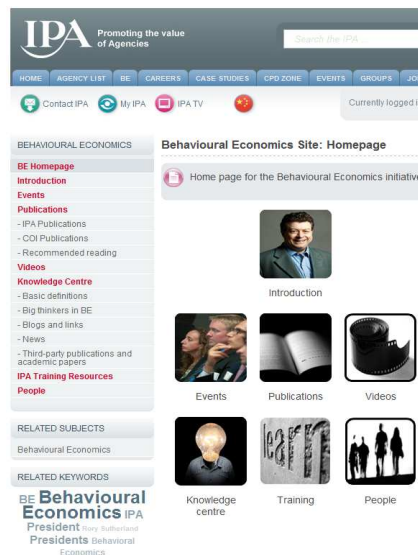
In private sector companies which implemented this change the participation rate increased by up to 66%.



Source:
Madrian and Shea (2001) The power of suggestion: Inertia in 401(k) participation and savings behaviour. Quarterly Journal of Economics 116:1149-118

Behavioural Economics in marketing practice

Many of the findings of behavioural economics are not new – this research goes back to the 1960s. What is new, is that the approach has migrated from academic research to marketing. For example, the influential IPA, the UK Institute of Practitioners in Advertising, has launched the *Behavioural Economics Initiative*, in which leading agencies and brand manufacturers participate. Companies such as IKEA and Domino's Pizza are using these findings in their marketing activities.



Making better decisions: The role of behavioural economics
Rory Sutherland and Nick Southgate
Institute of Practitioners in Advertising
from Advertising Works 18, 2010



AdAge CMO STRATEGY

Why Marketers Need to Quit Acting Like Real People

They Resist Behavioral Economics Because of, Well, Behavioral Economics

Marketing



Home News Domino's to integrate behavioural economics

Domino's to integrate behavioural economics

by Andrew McCormick, 05 May 2011, 10:30am

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Domino's Pizza has become one of the first brands in the UK to use behavioural economics in overhauling its consumer marketing strategy.



Domino's: using behavioural economics in its marketing

The added value of this approach is to shift marketing's focus onto **three key topics** and to provide practical guidelines for implementation based on scientifically sound principles : **(1) focus on behaviour** (rather than attitude), **(2) focus on the customer interface** and **(3) focus on the context** of behaviour (situations, channels, etc.). Let's take a closer look at this.

Implications for marketing practice (1):

Focus on behaviour

Rather than aiming at attitudes, preferences or intentions, focus on the behaviour of customers. What does this mean? An example is **Morrison's** successful *Let's Grow* campaign. Instead of trying to win market share through a change in attitude towards Morrison's, the brand created the opportunity for customers to do something: to enable schools to plant vegetables with their children. For every £10 spent on shopping, customers received a coupon which they could give to a school. The schools could then exchange these coupons for gardening tools. In the first year of the campaign, **85% of all primary schools** registered, **39million coupons** were redeemed, and the *Let's Grow* campaign generated a **payback of £21.57 for each £1 invested**. The campaign also won the Grand Prix of the IPA Effectiveness Awards.



This campaign conveys that Morrison's knows about local, fresh and quality products. To communicate these attitudes and associations via a classical campaign would have been significantly less profitable, compelling and differentiating. By focussing on the behaviour path, the campaign achieves relevance and long-term success (it is now in its fourth year).

Sample TV advert: <http://www.youtube.com/watch?v=kB05cXTV-Kk&feature=related>
Background on the campaign: <http://www.youtube.com/watch?v=9DGQbbMR7TY>

The concept of behavioural costs is key; i.e. what are the barriers to the desired behaviour? Many products, promotions, websites and services are designed without taking the implicit rules of customers into account and they consequently result in high behavioural costs: **The customer often experiences unnecessary effort in order to achieve a goal**. So it's all about breaking down barriers.

An e:commerce provider managed to increase turnover by more than 300% by putting the registration step *after* the purchase step, rather than before it. Another example of minimum behavioural cost is **Amazon's 1-Click purchase button**.

Implications for marketing practice (2): Triggering behaviour through interface

The perception-to-action path of behaviour depends strongly on the interface. Implicit decision rules are activated by signals, be that a form, an energy bill, packaging or a website. It's about systematically linking these key contact points in the buying process with the implicit decision rules - or creating new interfaces which are specifically designed to trigger behaviour. A bank, for example, was able to increase the amounts that customers saved by enabling them to save money via a simple app. **What is the interface with the customer, what is perceptible and which heuristics are activated?** Currently, the vast majority of interfaces, both on- and off-line, do not take this into account. In other words, there are huge opportunities to make marketing even more effective – often at little cost.

Westpac-Bank's **Impuls-Saver**

With this App you can transfer a defined amount (e.g. £5) into your savings account.



An example of the '**Process Endowment**' effect:

Increasing completion rates through signals (e.g. stamp), which communicate that the 'process has already begun'.



+79%

The '**Anchoring**' effect:

Increasing sales through optimising the interface of discounts and price display.

WAS £8.00
NOW £5.99

WAS £8.00
NOW £5.99

+25%

An example of '**Nudging**':

Triggering behaviour through signals.

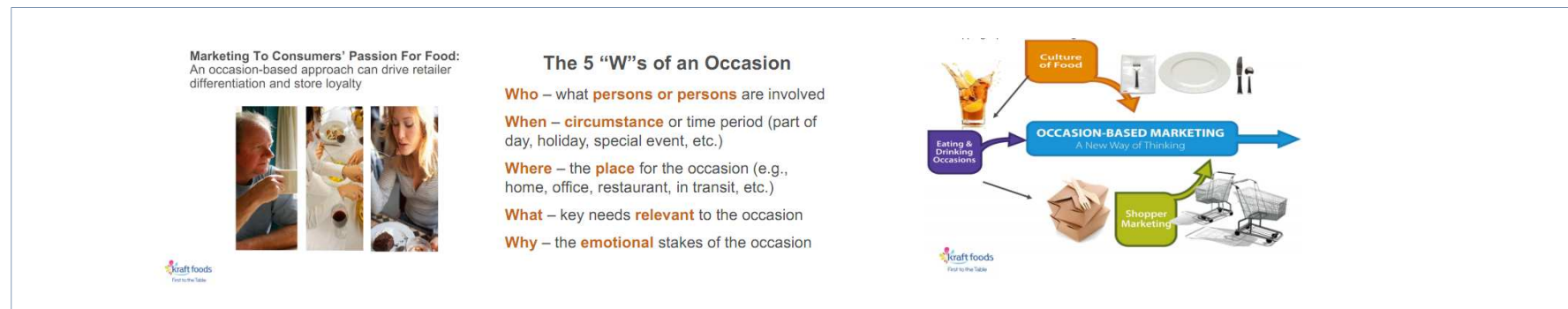


Implications for marketing practice (3): Situation matters

We should complement marketing's current, and predominant, focus on the individual and their preferences by adding a focus on the situation in which buying behaviour occurs - since behaviour often only arises out of a situation.

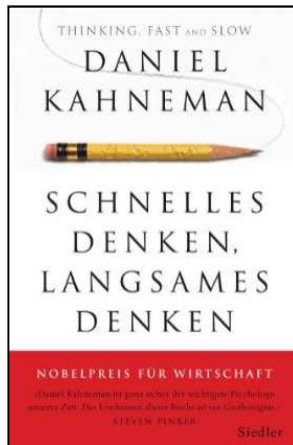
This results in the following questions, which present new perspectives:

- **How can the market be segmented according to situations and purpose?** One example of this is *occasion-based* marketing. Here, segmentation is according to intended usage instead of according to attitudes. Kraft Foods, for example, has begun to use this approach in food marketing.



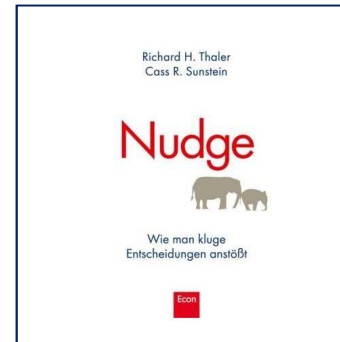
- **When, and in what context, is my message the most relevant?** This is about selecting the optimal channel for an offer or a message. Cheap flights, for example, only got to be of interest to business people once they could be booked on the web. Often, the channel plays a crucial role.
- **In what situations and context should my brand be top-of-mind?** Instead of asking with which properties the brand is associated, we can (e.g. in tracking) ask which situations activate the brand. The well-known marketing consultant Byron Sharp writes: *'Attitudes are about evaluating the brand (do you think it is a good brand?), whereas salience is largely about having a chance of being thought of (are you likely to notice or retrieve the brand in that buying situation?)'*

More tips & further reading



The first popular science book by Nobel Prize winner and Behavioural Economics pioneer **Daniel Kahneman**.

Clearly explains all the important principles and effects.



Richard Thaler & Cass Sunstein advise the British government and the Obama administration respectively.

The book has significantly contributed to the dissemination of the BE approach.

Rory Sutherland lecture:

http://www.ted.com/talks/rory_sutherland_sweat_the_small_stuff.html

Further topical videos:

<http://www.ogilvychange.nieku.com/videos/>

A personal note

We are very proud to be able to welcome **Dr. Björn Held** as a decode partner.



Dr Bjorn Held did his PhD in the field of Cognitive Psychology. After post-doctoral work on unconscious control mechanisms at the University of London (1996), he applied his scientific expertise to Marketing practice by joining Unilever as a behavioural scientist. Working in England and Germany, he developed the first implicit testing methods to be applied successfully to consumer research. Bjorn worked for Beiersdorf AG from 2005 to 2011, including four years as Head of Market Research for Germany.

<http://www.decode-online.de/ueber-uns/bjoern-held/>

Welcome to the Dialogue

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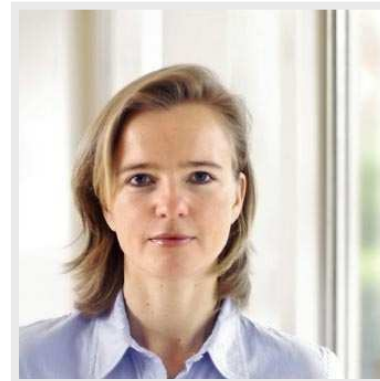
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