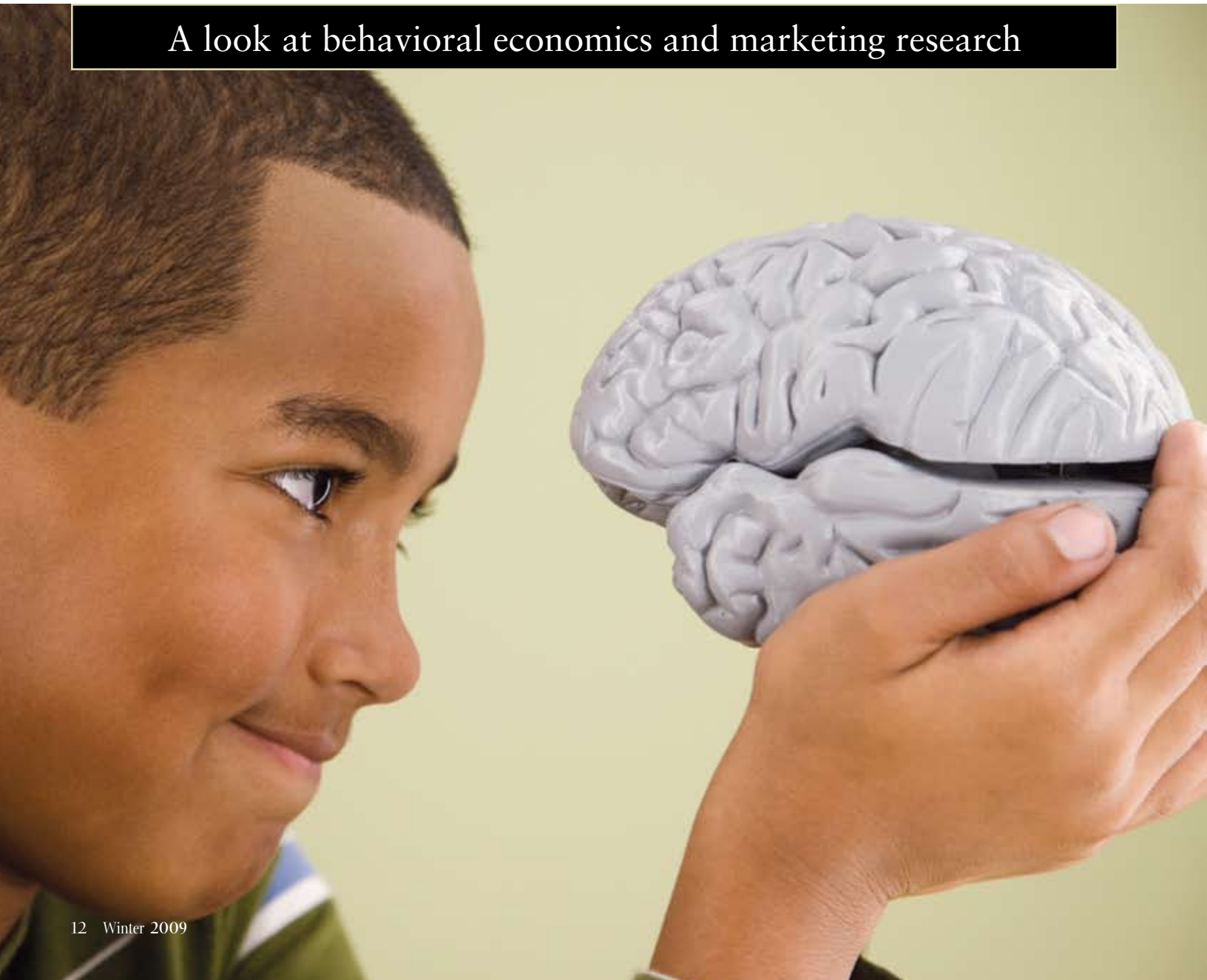


What Really Affects Behavior?

BY TERRY H. GRAPENTINE AND DIANNE ALTMAN WEAVER

A look at behavioral economics and marketing research



Behavioral economists are turning their dismal science into a type of beacon by casting new light on human motivation and behavior. Their books are numerous, often topping the nonfiction bestseller lists:

- *Freakonomics* by Steven D. Levitt and Stephen J. Dubner (William Morrow, 2006)
- *Predictably Irrational: The Hidden Forces That Shape Our Decisions* by Dan Ariely (HarperCollins, 2008)
- *Nudge: Improving Decisions About Health, Wealth, and Happiness* by Richard H. Thaler and Cass R. Sunstein (Penguin, 2009)
- *The Tipping Point: How Little Things Can Make a Big Difference* (Back Bay Books, 2002) and *Blink: The Power of Thinking Without Thinking* by Malcolm Gladwell (Back Bay Books, 2007). Strictly speaking.

Respect for this field was certainly uplifted in 2002, when the Nobel Prize in economics was awarded to a psychologist—Daniel Kahneman, the Eugene Higgins Professor of Psychology at Princeton University—based on the work he did in behavioral economics.

Behavioral economics (BE) studies how and why people make the choices they do. Unlike classical economics, however, it does not assume that decision-making follows strict economic models. Rather, BE finds that emotions, context and situational factors influence consumer choices and that often people use heuristics to simplify decision-making.

First, an Experiment

You are a server at a bar, giving a free sample of beer to your patrons. On Monday night, whenever you approach a table, you read a list of five beers and ask each customer to state his preference. At the end of the evening, you tally the distribution of your customers' choices.

The next night you do the same thing, except this time you distribute a written list of the same beers and tell your customers to check, with the pencil provided, which free beer they want to sample. You explicitly tell them not to announce their choice to the group.

After the last call, you make the same tally, compare the distributions between Monday and Tuesday evening and discover something interesting: They are different.

Why? A subsequent experiment reveals that, on Monday night, customers who had a relatively high propensity to express their individuality in social settings avoided selecting a beer that someone else at their table had chosen. On Tuesday night, this did not happen because all customers made their choices privately.

Would a marketing researcher have discovered that the need to express one's individuality was a critical factor influencing brand choice? Probably not.

The Economics of Behavior

Keep it simple, stupid. An underlying characteristic that many BE concepts share relates to decision heuristics—rules of thumb or ways in which consumers simplify the decision process. In an ethnographic study that one of us conducted for a national cell phone manufacturer, the research uncovered that the amount of time many consumers spent selecting a cell phone was significantly less than consumers had reported in focus groups or that customer-satisfaction tracking studies suggested. Confused by all the alternatives available, many consumers simply purchase the phone a store representative recommends. Therefore, if the manufacturer did not adequately educate the sales rep on its products, sales were hurt.

Additionally, the most difficult decisions for consumers to make are among equally appealing options. Marketers would do well to make it easy for consumers to choose their brands over a similar competitive brand by offering something meaningful that the other doesn't or by pointing out a competitor's defect. If, for example, your brand's serving size is 25 percent more than the competitor's, and thus a better value, point it out to consumers at the shelf or on the pack itself. Mid-cap displays also make it easy for consumers to choose your brand by drawing their attention to your products within the aisle.

Marketing research advice

Observe consumers shopping your category and making a product purchase, then interview them after their purchase to gain insights on the factors influencing their decision. Understand consumers' decision hierarchy and ways to simplify it. A national luggage manufacturer examined consumers purchasing luggage in department stores. It discovered that its product information placards, located by luggage displays, were too wordy and so busy that consumers passed over its brands in search of other, less complicated ones. As a result, the manufacturer redesigned the placards and reduced the number of words on a placard by 70 percent.

Theory of relativity/decoys. Dan Ariely, MIT professor and the author of *Predictably Irrational*, actually

Executive Summary

Products succeed in the marketplace largely based on a healthy level of competition and consumers' response to the quality of the marketing mix. At least that is what classic economic theory and traditional marketing principles would have us believe. Behavioral economics, however, reveals that the context and situation surrounding product choice, decision heuristics and how consumers react to risk can sometimes trump the marketing mix.

conducted the beer experiment discussed earlier, and dozens more like it, to demonstrate how people seem to be irrational but are in fact reliably predictable in their choices.

If you think this experiment conducted by an ivory tower professor is too theoretical to have any application in real life, consider the following real-world example that Ariely highlights at the beginning of his book. *The Economist* ran an advertisement offering three alternative yearly subscription offers: online access only for \$59; print only for \$125 and print + online access for \$125.

Ariely tested this offer among a group of students at MIT's Sloan School of Management. He ran a second test among another group of students, this time omitting the print-only option at \$125. In the first group, subscription preferences were 16 percent for online only; 0 percent for print subscription only and 84 percent for print + online. In the second group, 68 percent chose online only, and 32 percent chose print + online. For the first group, the print-only alternative—what Ariely calls the decoy—makes the print + online option appear more attractive. Clearly, *The Economist* has behavioral economists on its staff.

Marketing research advice

Creating a decoy may not be feasible in all situations. When it is, consider testing a decoy vis-à-vis *The Economist* example. Another idea to consider is to test package claims or options that cast a competitive product on the shelf as the decoy. For example, two competing products are nearly identical except that one—yours—has an added feature or claim.

Fundamental attribution error. Malcolm Gladwell elaborates at length on the idea of fundamental attribution error (FAE) in his book, *The Tipping Point*. He explains that FAE “is a fancy way of saying that, when it comes to interpreting other people's behavior, human beings invariably make the mistake of overestimating the importance of fundamental character traits [e.g., attitudes and beliefs of individuals] and underestimating the importance of the situation and context.”

Marianne Bertrand, Sendhil Mullainathan and Eldar Shafir corroborate this view in their article, “Behavioral Economics and Marketing in Aid of Decision-Making Among the Poor,” which appeared in the Spring 2006 issue of the *Journal of Public Policy & Marketing*. “The fundamental attribution error,” they state, “a central construct in modern social psychology, refers to the tendency to overestimate the influence of internal, personal attributes when interpreting behavior, and to underestimate the influence of external, situational forces.”

As researchers, we understand that these situational or context effects occur but how often do we explore or measure the extent to which they do?

Marketing research advice

Observational research followed up by one-on-one interviews to help uncover situational influences may be helpful. Clearly, some of these hidden factors will be difficult to identify, such as the role of expressing one's individuality in Ariely's example of giving customers free samples of beer. Consequently, researchers should familiarize themselves with publications such as the *Journal of Consumer Research* and the *Journal of Consumer Psychology*, which examine product choice and consumption as an expression of individuality. Doing your own research on research will also make you more aware of hidden psychological factors motivating consumer choice. There is some truth in the statement that a good researcher is a good psychologist.

Anchoring/re-anchoring. This is a common practice in retailing. The suggested retail price serves as the anchor for the price at which a product should sell. The anchor serves as the relative price against which consumers will make comparisons and ultimately a purchase decision.

In fundraising, for example, charity and political direct mail solicitors typically offer contribution options such as \$50, \$100, etc. These anchors serve as nudges to influence potential benefactors to give more than they would if no options were suggested.

Alternatively, solicitors and retailers can re-anchor prices to reset consumers' relative price perspective. Perhaps the most famous example of re-anchoring in Ariely's book is that of Starbucks, a brand so differentiated from other coffee shops (e.g., Dunkin' Donuts) that it set an unprecedented premium price anchor and consumer experience. Starbucks not only serves up European café ambiance, but also pastries, a unique selection of artisan coffees and a completely new nomenclature.

Marketing research advice

There is a saying in psychology that “perception is relative.” No object can be viewed in isolation, totally independent of other (especially related) objects. In exploratory research, when respondents make an overall judgment of like or dislike about a product, probe respondents to better understand their reference points. Use follow-up probes that encourage the respondent to tell a story, such as, “What other products or experiences have you had in the past that make you feel that way about Product A?”

Availability bias. Consumers assess the probability of risks associated with products based on the salience of like or similar product failures or successes. “A good way to increase people’s fear of a bad outcome is to remind them of a related incident in which things went wrong; a good way to increase people’s confidence is to remind them of a similar situation in which everything worked out for the best,” say Thaler and Sunstein in *Nudge*. Insurance companies tend to promote both messages in their advertising—unexpected tragedy followed by great claims service.

Thus, if you are selling product warranties, ask your customers if they had problems with the same or similar products in the past. Show them statistics calling to mind how much it costs to get the product fixed for common problems (accidentally dropping a GPS when removing it from your car was the example a Best Buy representative used with one of these authors).

Marketing research advice

A major application of availability bias for the researcher is in testing alternative marketing messages. The focus on this research is to test how alternative marketing messages trigger consumers to recall previous experiences that may affect consideration of your offer—such as the cost of fixing a product if you don’t purchase the extended warranty. This kind of research may also help you motivate consumers to trade up to a more expensive model, brand or feature. For example, having consumers imagine or recall the cost and inconvenience of cleaning stains in a carpet may motivate them to purchase a more expensive carpet.

Sensation transference. Says Gladwell in *Blink*, “This is a concept coined by one of the great figures in 20th-century marketing, a man named Louis Cheskin ... who was convinced that, when people give an assessment of something they might buy in a supermarket or a department store, without realizing it, they transfer sensations or impressions that they have about the packaging of the product to the product itself.”

This explains why, several years ago, a little known upstart brand, E&J, upstaged Christian Brothers, the market share leader in inexpensive brandy. All that E&J did was package its product in a decanter-style bottle—a container that one typically sees for expensive glassware or slick ads for expensive brandy. Christian Brothers’ packaging, in contrast, looked like a standard wine bottle. What is most fascinating about this example is that, in blind taste tests using different “bottles,” consumers always preferred the brandy in the decanter over the wine bottle, regardless of which product was in it.

Ariely, in *Predictably Irrational*, also explains a similar concept in which expectations can influence our experience with a product or service either positively or negatively. For example, food presentation at a restaurant can affect the sensory experience with the food itself. A meal served on an elegant plate with garnish will likely be perceived as more tasty than the same food served on a paper plate.

Marketing research advice

This is perhaps one of the best reasons to conduct conjoint or choice-based modeling. Does changing the color or shape of the package or other product attribute affect product preference? If only Christian Brothers had conducted such research!

Gains and losses. Consumers are loss averse. “People hate losses. Roughly speaking, losing something makes you twice as miserable as gaining the same thing makes you happy,” write Thaler and Sunstein.

Some strategies designed to maximize perceived gains and minimize perceived losses are to offer free trials and/or money-back guarantees. Free trials offered on value-added services, in particular for example, free HBO and Starz for a month with a new cable subscription, are perceived as a maximum gain. And, after the trial period, subscribers are often willing to pay for the premium channels because they don’t want to experience the loss after having had these services.

Minimizing perceived losses and maximizing potential gains is exactly what US Airways did not do last year. *The New York Times* reported (Aug. 1, 2008) that “the US Airways Group will be the first major American airline to charge for coffee and sodas.” It would have been better to increase the price of a ticket a few dollars, which would not have been noticed, versus making the public relations blunder. In contrast, if you are going to give something away for free or at a discount, itemize each component of the offer as BMW does in its Ultimate Service guarantee of free maintenance for four years or 50,000, whichever comes first.

Marketing research advice

When developing and testing marketing messages, keep in mind the golden rule of behavioral economics: Be liberal in identifying your product’s strengths and be stingy when having to identify weaknesses. Instead of simply listing product features, list the benefits with which they are associated. Exactly how this is executed to optimize the impact would be the focus of a research study perhaps incorporating test and control groups where different test groups see unbundled benefits in different ways.

The price of zero. This is related to the gains and losses example provided earlier, but zero price deserves its own category because of the raw power it wields in affecting consumer choice. In *Predictably Irrational*, Ariely recounts a delicious experiment exposing the power of “free.” He set up a chocolate kiosk at the MIT campus to sell gourmet Lindt Truffles and Hershey Kisses for 15 cents and one cent, respectively. Approximately 73 percent chose the Lindt truffle and the remainder, the Kisses.

He reproduced the experiment by dropping the price of each product one penny. Now, 69 percent of the students chose the Hershey Kisses and a minority 31 percent selected the luxurious Lindt. What gives? “I believe the answer is this. Most transactions have an upside and a downside, but when

something is FREE! We forget the downside,” says Ariely. “The real allure of FREE! is tied to this fear. There’s no visible possibility of loss when we choose a FREE! item,” writes Ariely.

Marketing research advice

What can you include in your marketing mix that is free? There may be several actions you can take—free extended warranty, one free service checkup, “2-for-1” and so on. Use marketing research to uncover the optimal way to spin “free” into your marketing mix and to determine how it affects actual store sales or purchase intentions in a research study. “Free” test versus control cells will allow you to measure the lift of the free offer.

Framing. How you frame a consumer decision can affect consumer choice. If a doctor tells you that a procedure is 95 percent effective, you are probably inclined to go forward with it. However, if he tells you that out of every 100 procedures, five patients die, you might have second thoughts.

Linguistic research with which we are familiar suggests that consumers prefer a bank that says they will earn 5 percent on their savings vs. one that pays 5 percent on these accounts. Instead of telling consumers you have increased fuel efficiency by 10 percent, tell them how much they can expect to save over a certain period of time given typical usage or how many more miles they can drive on a tank of gas. Recently, rail corporation CSX launched a new advertising campaign in which it touts that it can move one ton of goods 436 miles on just one gallon of fuel.

Framing is related to accessibility, which is “the technical term for the ease with which mental contents [e.g., constructs] come to mind” (Kahneman, Daniel (2003), “Maps of Bounded Rationality: Psychology for Behavioral Economics,” *American Economic Review*, December, 1449-1475). This is a focal point of BE because many decisions people make reflect quick, intuitive judgments. Proper framing, therefore, will increase the likelihood that marketing messages quickly tap retrievable emotions and mental contents in consumers’ minds associated with motivation. This is especially important when marketing stimuli have a high likelihood of being viewed briefly, such as billboard advertising.

Marketing research advice

The primary application of framing revolves around the development of marketing messages and product and package designs. As a researcher, you need to encourage your client to test several framing strategies, that is, test different ways of saying the same thing or test subtle changes in the design of a product or its packaging. Changing a few words (pay vs. earn) or adding certain graphics to a package can change how consumers frame your offer.

Priming. Priming is similar to framing in that it involves setting up the context, or priming the situation, so as to persuade purchase. Priming that activates the senses can affect shopping behavior. For example, playing slow vs. fast background music in a grocery store will increase the time spent

in the store shopping. In another experiment, when French background music was played in a wine shop, customers purchased a greater percentage of French wines vs. control. Conversely, when German background music was played, a greater percentage of German wines were purchased vs. control.

Marketing research advice

Priming invites experimentation in developing your marketing mix. The most fertile area for study is in-store research—test alternative merchandising displays, shelf layouts, in-store promotions, sampling and the like to discover how to nudge consumers over to your brand.

Social Influences

Connectors. How does a brand of shoe (Hush Puppies) go from selling 30,000 units per year to more than 1.6 million units two years later? A great tag line, a massive increase in advertising, price cutting? In *Tipping Point*, Gladwell explains that what sparked this phenomenon had nothing to do with the brand’s marketing mix and everything to do with “connectors”—people who know many people, and the right kinds.

“Could this be one of the reasons Hush Puppies suddenly became a major fashion trend?” asks Gladwell. “Along the way from the East Village to Middle America, a Connector or series of Connectors must have suddenly become enamored of them and, through their enormous social connections, their long lists of weak ties, their role in multiple worlds and subcultures, they must have been able to take those shoes and send them in a thousand directions at once—to make them really tip.”

Many marketing consulting companies have sprouted up lately to help organizations identify and influence Gladwell’s connectors, including influential bloggers and consumers who can spread word of mouth. Procter & Gamble’s tremor.com makes use of highly active, highly social and highly influential networkers to develop social media plans for its own and non-competing brands. These socialites help to increase brand sales through word-of-mouth influence.

Marketing research advice

We have two suggestions: (1) Conduct a research study to better understand how social networks are influencing consumers in the markets you serve. What role do sites such as Facebook, LinkedIn, Myspace and Twitter play in affecting brand choice? To what extent do bloggers influence your consumers’ perceptions of brands? (2) Copy Malcolm Gladwell by conducting post-mortem research on a product that failed in your industry or a case study of a successful product to understand the role that connectors, social networks and word of mouth play in affecting the success or demise of products in your industry. This would be particularly useful in the electronics and entertainment industries where word of mouth is critical.

Peer pressure. People conform to be accepted by others, to reduce purchase risk and to not stand out or be perceived

as odd. This likely has an evolutionary basis because group membership for our ancestors was a necessary condition for survival.

It is this basic need to be among and accepted by others that Mark Earls leverages in his book, *Herd: How to Change Mass Behavior by Harnessing Our True Nature* (John Wiley & Sons, 2007). Earls suggests that evolutionary forces that shape our social behavior—our human need to be validated by others, to be members of groups, to have social lives and so on—affect much of human behavior and brand/product choice.

To appreciate fully Earls' thesis, one needs to understand the concept of a meme, a term coined by Richard Dawkins, who is most widely and controversially known for his book *The God Delusion* (Houghton Mifflin, 2006) and is less well-known in his role as an evolutionary theorist at Oxford University. A meme is anything that people replicate in a society. It can be an idea such as the belief in democracy, a

Use marketing research
to uncover the optimal
way to spin “free.”

fashion statement such as hooking one's pants below the waist or a product such as the Toyota Prius. Dawkins introduced the concept of a meme in his book, *The Selfish Gene* (Oxford University Press, 1976).

One key to marketing success, therefore, is getting your product linked to a self-replicating meme in society—an idea or object that is replicated by transmission between members of a society or culture. Consider the following two examples.

Busch Stadium in St. Louis is the home of the St. Louis Cardinals. This venue is a veritable meme-generating machine for Anheuser-Busch beer brands. Here's how it works: People gather to share a social event—a professional baseball game. People come with their friends and relatives to share a social experience. For adults, this social experience is enhanced by Budweiser beer. This meme of sharing time with others is made more pleasurable by the Budweiser product, especially if the Cardinals win. The brand is now associated with a pleasurable meme.

Marketing research advice

Read Earls' book. Additionally, this is an excellent example of how using projective techniques can provide insights into how peer pressure and social acceptance may affect consumer behavior. In a study of a cell phone target to younger “hipper” men, projective techniques found that the target market associated that phone more often with images of male peers in social settings than they did with

a second more conservatively designed phone, which was associated more with images of older, mixed couples in social settings.

Social versus economic exchange. This idea is somewhat different from those mentioned previously in that, between people or between companies/brands and consumers, a social exchange builds a stronger bond than a monetary exchange. For example, if you offer to watch a neighbor's pet for free while he goes on vacation, this forms more devotion or loyalty between him and you than if you had been paid for the service.

Similarly, companies can engender more loyalty with consumers by offering social exchanges and not merely monetary ones. While this seems exploitive, it does work in both parties' interest. For example, Allstate's Accident Forgiveness and Hyundai's Assurance program, which pays your car payments for six months in the event of income loss, create a bond on a more personal level than a mere monetary exchange would. These types of offerings build loyalty and can be more effective and less expensive than a relationship built only on economic exchange.

Marketing research advice

Brainstorm with consumers to develop your own social-exchange concepts. Then conduct quantitative research to examine how your best ideas might engender brand loyalty. Additionally, research how others in your category (or related categories) have successfully or unsuccessfully adopted social-exchange programs to promote their brand.

In summary, factors beyond the marketing mix—the context and circumstances surrounding a decision—may play a greater role in consumers' purchasing decisions than we think. As researchers, we need to look to the behavioral economics literature and consumer psychology as a map. This article serves as your starting point. Keeping abreast of the developments in these fields that seem most relevant to your products, markets, and customers will provide the compass. When conducting marketing research—ethnographies, experimental designs, concept tests, whatever is appropriate—overlay your findings with insights that shed light on how context, situation, and consumer psychology may have played a role in the outcome. ●

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