

Beyond Theory: applying B.E. to research and marketing

A Bread & Butter eBook



**Do you know how to use
Behavioural Economics?
It's a game changer.**

At Bread & Butter, we have been applying B.E.
to research and marketing for many years,
and we'd like to share our thoughts with you.

This is a preview of our eBook,
'Bread & Butter's Guide to B.E.'

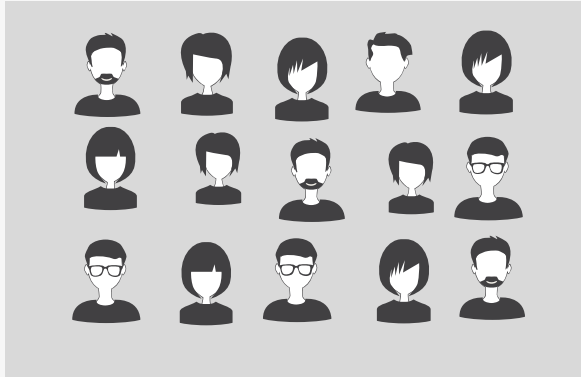
If you would like a free copy of the entire eBook,
please email Margo Cashman
(margoc@bbutter.com.au)



**PART 1:
THE BASICS OF
BEHAVIOURAL
ECONOMICS**



EXPERIENCE TELLS US...



People are NOT just:

- › Self interested
- › Benefit maximising
- › Cost minimising
- › Rational decision makers
- › Whose preferences are always stable
- › Whose decision making is the result of careful deliberation

As the classic economic theory of the 'rational human' would suggest




Rather, people...

- › Live in the moment
- › Resist change
- › Have distorted memories
- › Are affected by physiological and emotional states
- › Are poor predictors of their future behaviour
- › Are social animals with social preferences

B.E. suggests people make choices comparatively rather than absolutely, from available information, and in terms of how this makes them 'feel'



B.E. ALLOWS US TO....

- 
- Help unravel this seemingly complex, often emotionally driven ball of decision making factors
 - Provide a framework for more realistic and therefore reliable research - to understand how and why people make decisions



B&B ON B.E.

- While we will cover some of the core BE principles, our focus is the implications of behavioural economics *FOR RESEARCH*
- As we will see, the underlying philosophy of B.E. has been a fundamental consideration in any good research design
- Qualitative research practices in particular recognise the non-rational nature of much of our decision-making, and take care to avoid falling into the trap of asking people to explain their behaviour in a way that triggers rationalisation
- The development of behavioural economic theory over the last decade, has been a welcome reinforcement of the importance of (what is now known as) "system one" thinking
- The study of BE can only improve how we conduct research (both qual AND quant), and the quality and accuracy of research outcomes



WHAT IS BEHAVIOURAL ECONOMICS?

AND WHAT IS ITS ROLE IN MARKET RESEARCH?



Behavioural economics is the study of the psychological, cognitive*, emotional & social factors that influence decision making

(*memory, perception, judgement)

➤ WHY this is important?

Up until about 30 years ago behavioural thinking was rationally based. The assumption being that consumers would make decisions based on explicit, rational, criteria - which instinctively we all know is not true, what we call 'classic' economics

➤ YET even today...

Many of the common approaches and measures in market research that we take as 'gospel' are still based on this rational thinking.
e.g. awareness and interest measures, intention to purchase, etc.



IN B.E. BEHAVIOUR IS KING



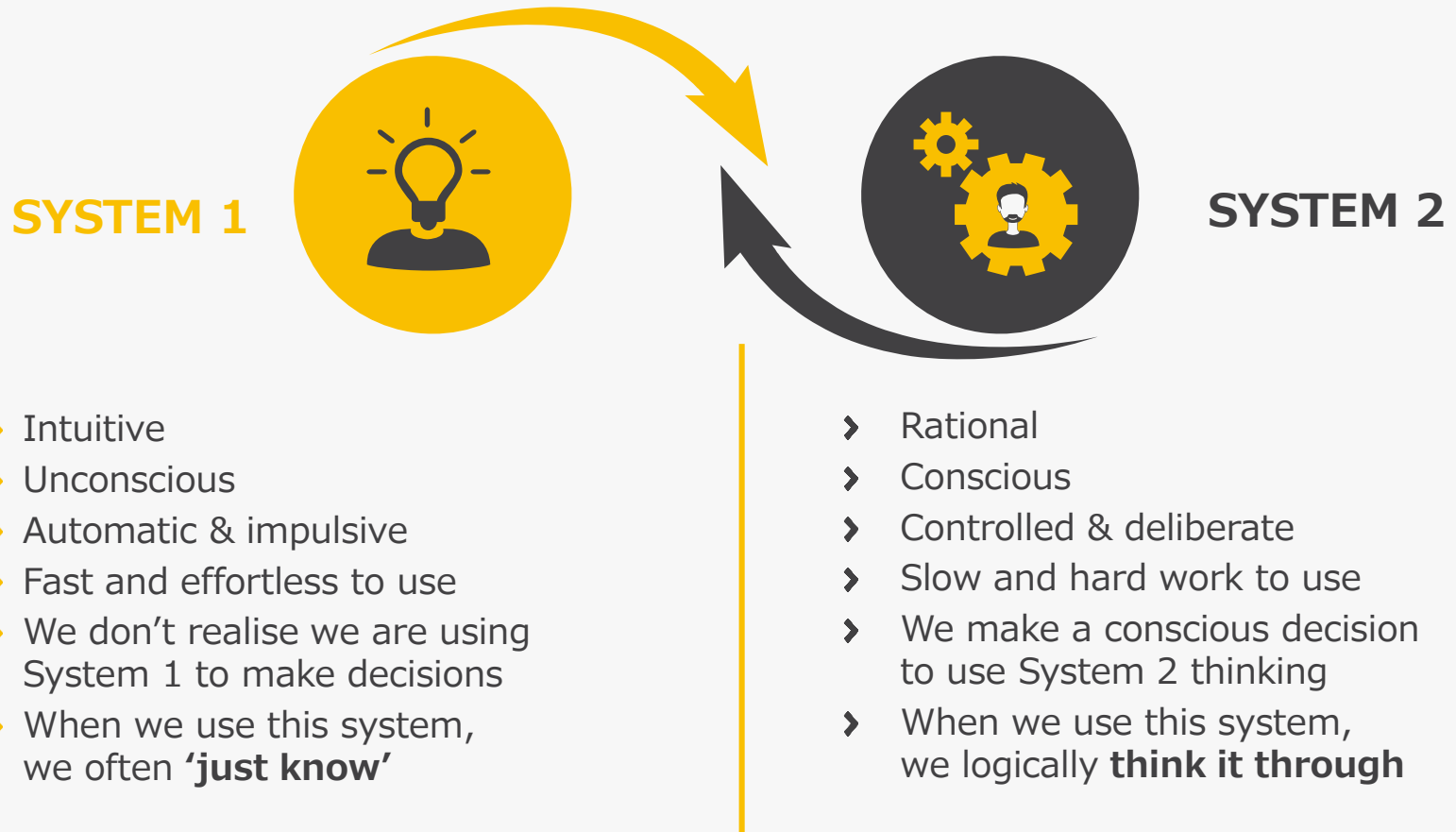
People's intentions, e.g. to lose weight, to save more, to get healthier, etc. are not valid evidence that behaviour will follow – because it usually doesn't

B.E. focuses on how to change behaviour rather than attitudes



THE BASICS

DECISION MAKING IS THE INTERACTION BETWEEN TWO SYSTEMS



HOW OFTEN DO WE USE EACH OF THESE SYSTEMS?

DECISIONS ARE MAINLY MADE BY SYSTEM 1 THINKING



SYSTEM 1

- › Not surprisingly, **MOST** of the decisions we make use the fast, effortless system
- › Like a long haul flight, most of our decision making is done using our decision making 'auto pilot'



SYSTEM 2

- › We only use the slow, effortful System 2 thinking **WHEN WE NEED TO**
- › The System 2 pilot is only engaged when they need to be in the cockpit
- › There is no way that all our decision making could be done as the System 2 pilot – we would get too tired and crash!



HOW THESE SYSTEMS WORK TOGETHER

Most of the time...standard operating procedure



SYSTEM 1
I 'think'...

SYSTEM 2
Fine...

System 1 starts the process by generating suggestions for System 2



Most of the time System 2 agrees!

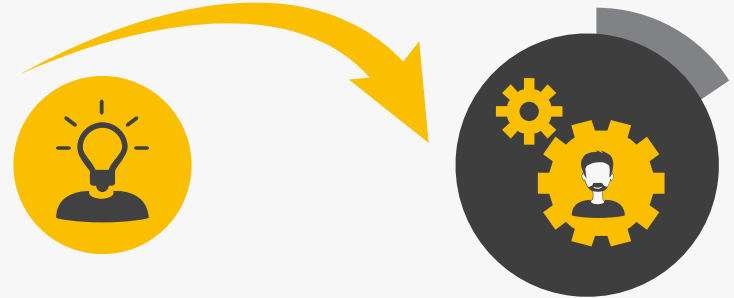
These suggestions are in the form of impressions, intuition, beliefs and feelings



Therefore impressions turn into beliefs, and impulses turn into voluntary actions

Which through familiarity reinforces System 1 thinking forming a habit loop

Some of the time...when doing something different



SYSTEM 1
I'm not sure...

SYSTEM 2
I'll decide...

System 2 is activated when an event is detected that violates the System 1 model of the world, therefore intuitively we are no longer sure...?

We then have to make an effort to rationally, deliberately work through the options to make a conscious decision



PART 2:

**ASSOCIATION AND
FAMILIARITY
VERSUS
RATIONALISATION
AND JUDGEMENT**



EACH SYSTEM



...works by
ASSOCIATION

...Which is
driven by
FAMILIARITY

WORKS DIFFERENTLY

How System 1 thinking works

- › The associative process that drives System 1 is called 'cognitive activation'
 - During this process ideas trigger other ideas – which starts a cascade of activity in your brain
 - System 1 weaves all these associations into a cohesive story ~ a personal perspective, a narrative
 - The associations evoke memories, which evoke emotions, which in turn evoke reactions

- › Acceptance of this personal story is based on **FAMILIARITY**
 - In System 1 thinking, if an answer feels familiar it's probably true, because you have experienced it in the past (hence it is familiar)
 - As a result you are more comfortable with the decision (and experience cognitive ease)



WHERE WE SEE THIS SYSTEM 1 PROCESS AT WORK

This associative process is how a brands memory structures are built

- When a brand is cued in the consumers mind, e.g. hearing the brand name or seeing it on shelf, etc., brand associations, which have been built through familiarity over a period of time, are subconsciously triggered
- What is interesting about System 1 thinking, is that it does not question these associations - if it feels familiar, it must be true!
 - So consumers don't question, or may not even know, the source of these associations
- These associations are then woven into a brand story - again this happens in an instant and is subconscious
- What comes to mind is an overall impression of that brand (positive or negative) often expressed as a feeling or a 'knowingness' about the brand
- This short cut is what marketers describe as a 'brands image' the overall impression of a brand (a summation of all the associations that a consumer has with that brand)



SYSTEM 2



...is our
questioning ~
problem solving
mode of thinking

...It is more
judgemental, it
works on
something being
true or false

WORKS VERY DIFFERENTLY

How System 2 thinking works

- ▶ You are consciously thinking, you are deliberately controlling your attention to focus on a problem/decision
- ▶ In this thinking mode, you work your way through a problem/decision in a more linear way
- ▶ Which is why System 2 struggles to do multiple things at once
- ▶ It is a slower, more deliberate way of thinking
- ▶ Because System 2 takes so much more effort it has limited capacity – since consumers have a limited amount of concentration to expend

“ The often used phrase ‘pay attention’ is apt: you dispose of a limited budget of attention that you allocate to activities and if you try to go beyond the budget, you will fail”

Kahneman





WHERE WE SEE THIS SYSTEM 2 PROCESS AT WORK

Unfortunately too much in market research!

As researchers we need to be consistently aware of respondents in 'System 2' mode

- Ideally we want to understand if a product proposition /positioning/pack/etc. works at both
 - At a emotional, (System 1)
 - AND at a more rational, (System 2), mode
- It is useful to explore reaction in both these thinking modes to understand
 - The underlying emotional appeal
 - And how consumers would (rationally) justify their emotional decision
- The danger is that in groups, indeed research in general, we have an over representation of System 2 thinking
- If we want respondents to stay in System 1 thinking mode, we need to adapt our methodology to ensure respondents are not forced into engaging their questioning, rational, judgemental mind.



WIDER IMPLICATIONS

1

Many of the research techniques used today call for System 2 rational, critical thought...rather than emotional, intuitive thinking

We think there are two reasons for this

- ✓ Many of the research techniques used pre date BE, they are based on earlier rational models of decision making
- ✓ It is easier to understand and measure explicit, conscious, rational thought because consumers appear to 'explain' it to us

It is seen as more difficult to understand and measure implicit, intuitive thinking that consumers are generally unaware of

Yet we know most real world decision making is System 1 based, and hence is more valuable to understand



WIDER IMPLICATIONS

2

We need to be conscious of the behavioural change we are trying to elicit

For example a few common behavioural change scenarios

- ✓ Are we trying to reinforce System 1 thinking (e.g. reinforce loyalty?)
- ✓ Or break the habit loop associated with System 1 (e.g. convert consumers to our brand at the expense of another?)
- ✓ Are we trying to understand changes in System 1 and System 2 thinking (e.g. understanding the reasons behind consumers lapsing?)
- ✓ Are we trying to create or change System 1 memory structures when it comes to launching a new brand or repositioning an existing brand?

It is important we think about what we are trying to understand both in terms of

- 1. Developing the right research methodology**
 - 2. Developing the right solution to the issue**
-



KEEPING OUR PERSPECTIVE

There is a danger in taking a myopic approach towards behavioural economics, as being the only reliable and valid lens to understand consumer behaviour (just as it would be limiting to think only in terms of the 'rational consumer' paradigm)



The sensible approach is to think of to interacting systems, which depending on the category, the individual, the nature of the decision, and the point in the decision-making process...may be relevant to varying degrees.



PART 3:

HOW TO EXPLORE SYSTEM 1 THINKING IN MARKET RESEARCH



EXPLORING SYSTEM 1 THINKING

- As in life, research respondents naturally want to stay in their System 1 thinking mode, because it's just easier
- So as researchers, we have to ensure we use research techniques that are compatible with how System 1 operates
- If our techniques don't fit with the nature of System 1 thinking, we may 'shift' respondents to System 2 thinking



AS RESEARCHERS (AND CLIENTS) THE SYSTEM 1 CHALLENGE IS...

TO UNDERSTAND, WITHOUT ASKING ABOUT THE 'WHY'



- As researchers we want to ultimately understand the what *and* the why
- 'What' they think in System 1 is true - because it is familiar, it is part of the world that they have created, it is their perception of reality
- If we ask them 'why' they think that way, we run the risk that this may be interpreted as asking them to 'explain', to perhaps 'rationalise', and at worst to 'justify' their intuitive thinking
- Overtly exploring the 'why' switches respondents to system 2 mode
- Indeed if we understand their version of reality, and therefore how they frame the category and brand in the context of their world, we can usually understand the 'why' without having to ask them to 'explain'



THE UNRELIABLE 'WHY'

THE 'WHY' CAN LEAD TO OVER RATIONALISATION



- People generally choose based on what feels easy and automatic
 - using 'rules of thumb' (known as heuristics) to make their choice easier
- However most people are completely unaware of the heuristic that influenced their decision
- They're neither silly, nor secretive - the 'why' is simply unavailable to conscious recall - people don't always understand why they do what they do
- In research, when consumers try and recall the rational reasons why they bought a brand they can often struggle, so many of their answers reflect the biases/heuristics involved
 - It's just habit I suppose?
 - It's what I bought last time
 - I don't know
 - I just like the colour of the pack
- Therefore we have to be very careful in probing the 'why' of any decision making process
- Respondents may rationalise their decision, focusing on reasons that are extraneous to real life



CAUTION: GOING TOO FAR UP THE 'LADDER'

- Researchers are traditionally taught how to 'ladder,' or continuously probe to bring subconscious decision making criteria to the surface
- The danger is that this probing can deviate into rationalisation – System 2 thinking
- While it is interesting to understand the System 2 decision making perspective, to explore the relevance of the rational justification, we strive to prioritise the less structured System 1 decision making- as this drives most of respondents choices

We have to:

1

Keep respondents in System 1 thinking, so as to interpret/observe the underlying reasons 'why'

2

Be continually aware of the biases/heuristics at play, and know how to work with them



KEEPING RESPONDENTS IN SYSTEM 1

Examples of some classic projective techniques, used to engage System 1 thinking

BY USING RESEARCH METHODS THAT ALIGN WITH SYSTEM 1 THINKING

STORYTELLING

- Tell me the story of you and brand X - what's your history, what are the main events in it's life, what's the moral of it's story
- Your timeline with X category or brand

GAME PLAY

- Pretend you are the product on the shelf, get into character, I'm walking along what are you going to say 'buy me because...'

VISUAL EXERCISES

- Picture decks - tell me the story of this person and why they use the brand
- Collages, picture pulls, drawing exercises
- Timed responses to packs - so that they react emotionally, not rationally

PERSONAL ASSOCIATIVE EXERCISES

- For example when I say 'X' what comes to mind - what do you think of?

ASSOCIATE PROJECTIVE TECHNIQUES

- Archetype-style exercises: What kind of relationship do you and brand X have? Is brand X a stranger, a second cousin, mother, brother, etc.
- If brand X was a fashion label, etc.

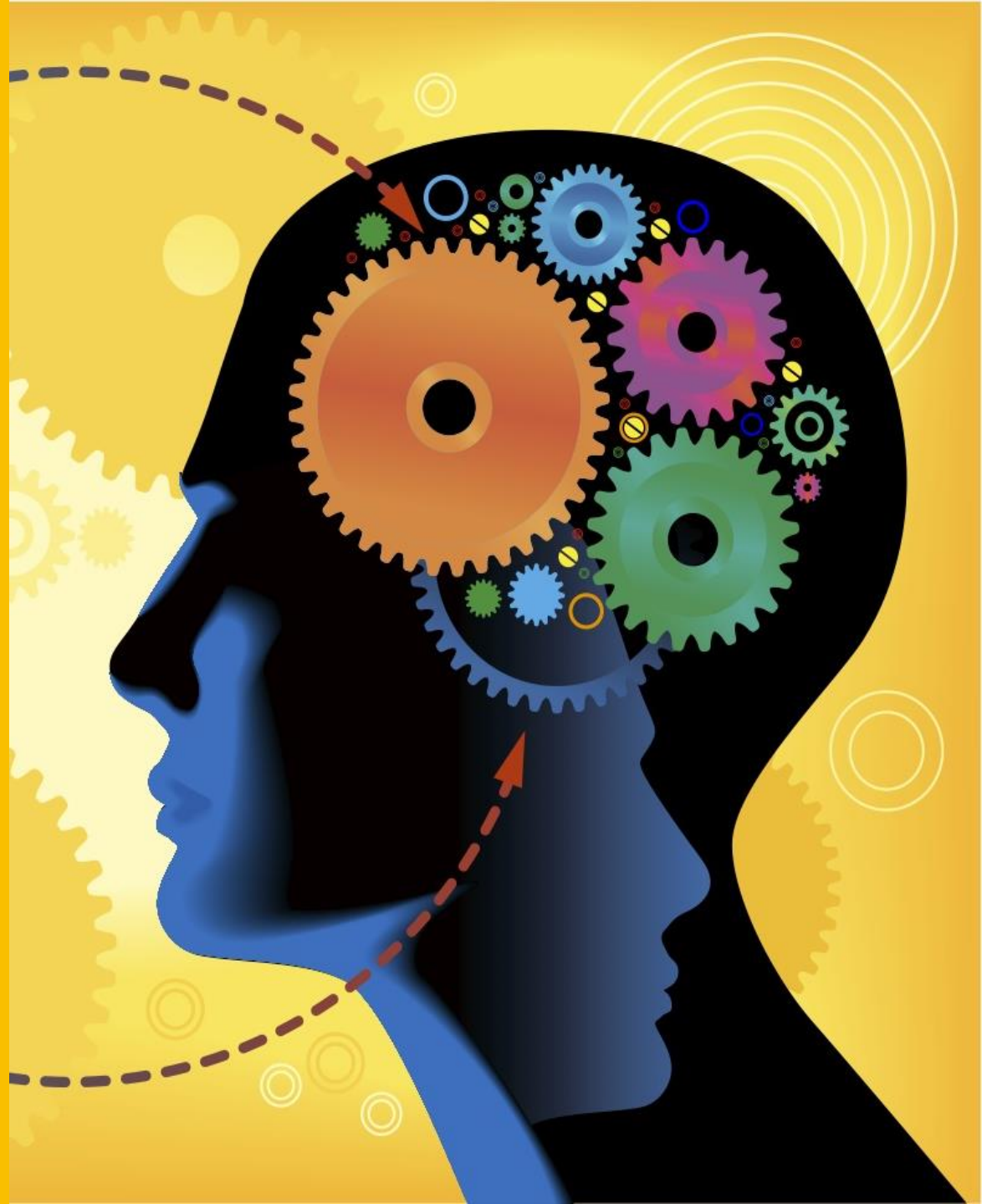
System 1 methodological requirements

Emotionally based

Focused on making connections, exploring associations, telling us stories, all of which are comfortable System 1 activities

Ideally more visual and verbal

PART 4. THE HERO HEURISTICS



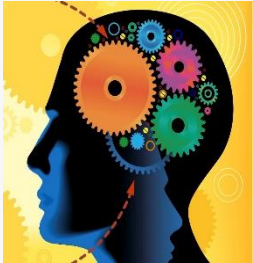
WHAT ARE HEURISTICS?



- System 1 thinking features many short cuts and rules of thumb that our mind uses to make things easy
- These heuristics are in-built, but predictable biases and limitations in our System 1 thinking
- As they are predictable, we can anticipate them occurring and work with (and where necessary work around) them, using specific research techniques
- In this way, we can gain a more accurate picture of the underlying System 1 motivations, and be better able to predict likely future behaviour
- At the beginning of each project/methodology we need to think about which heuristic(s) we are likely to encounter, and how we deal with them



17 HEURISTICS



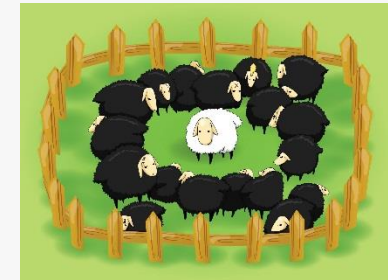
GENERAL HEURISTICS (& OTHER KEY BE CONSIDERATIONS)

1. Fast & frugal decision making
2. Loss aversion
3. Endowment effect
4. Availability biases
5. Confirmation bias
6. Status quo bias
7. Nudging
8. Priming
9. Anchoring
10. Framing
11. Optimism bias



TIME BASED HEURISTICS

12. Present bias
13. The empathy gap
14. Forecasting & memory

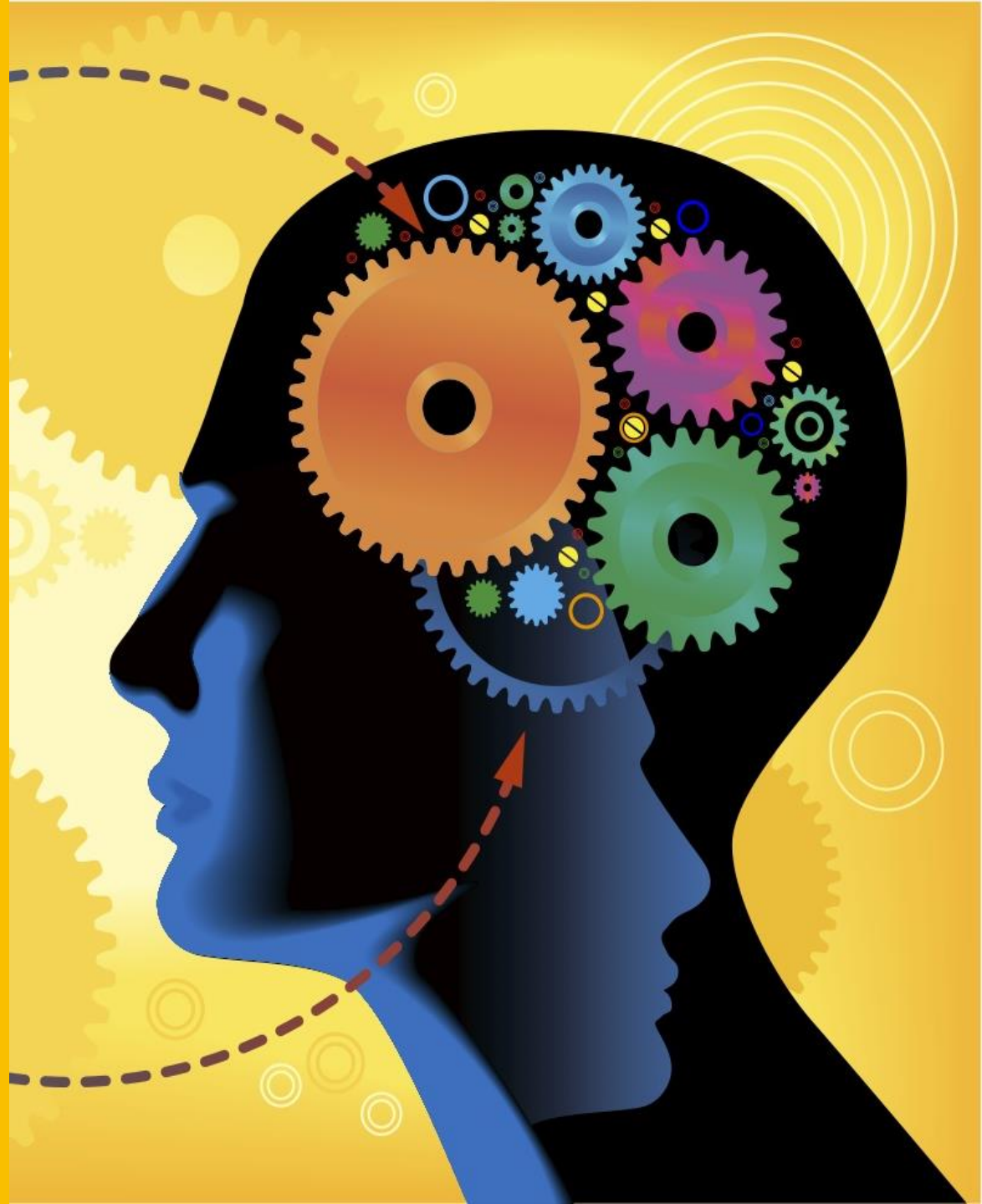


SOCIAL HEURISTICS

15. Social norms
16. Fairness & Reciprocity
17. Trust & dishonesty



2. LOSS AVERSION



2. WE ARE 'LOSS ADVERSE'

SO PEOPLE ARE HESITANT TO TRY NEW THINGS

LOSS AVERSION



People experience more pain from losing than pleasure from gaining something, therefore they are more loss adverse.

(Loss Aversion is part of a broader **Prospect Theory**)

MARKETING IMPLICATION

- There is a risk associated with trying new products
 - For example – *what if the kids don't like it, and I have to cook them dinner all over again!*
 - *Or all my mates may not like that type of beer, I better get something safer (familiar)*
- The level of perceived risk is determined by many factors
 - The nature of the category
 - Confidence with that category
 - The context of the decision (e.g. private v 's social situation, their feelings at time of purchase)
 - Where consumers naturally sit on the adoption curve
- For example when you go to McDonald's (or your favourite take away) how many times do you just stick to your favourite – lots I bet!
- Loss aversion is the reason why Big Mac's, Quarter Pounder's and KFC's chicken still dominate many people's take away agendas, as most of the time they don't want to risk the disappointment of trying something new



2. WE ARE 'LOSS ADVERSE'

SO PEOPLE ARE HESITANT TO TRY NEW THINGS

LOSS AVERSION



People experience more pain from losing than pleasure from gaining something, therefore they are more loss adverse.

(Loss Aversion is part of a broader **Prospect Theory**)

RESEARCH IMPLICATIONS

- In context of a research group the 'risks' can appear inconsequential, but in the real world the reality of that loss can be quite different
 - E.g. *'I'd give it a try'* (it would seem the sensible thing to do based on what we've said)
 - versus the reality of *'I really don't feel like the risk of trying a new product'*
- For example, you would think a new flavour of pasta sauce, wouldn't be that risky, but pasta sauce is meant to be a easy, 'no thought' meal, therefore do I really want to risk a new flavour, like olives or parmesan, when the kids might hate it?
- The challenge for research is to create the right context and mood/feelings to genuinely assess reaction to a new products
- When thinking about barriers and triggers to adoption, the nature of loss aversion ~ risk factors should be a key consideration



Thanks for reading!

**If you are interested in understanding the
marketing & research implications of the
other 16 heuristics listed**

**Please email Margo Cashman for a
free copy of the entire eBook**

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