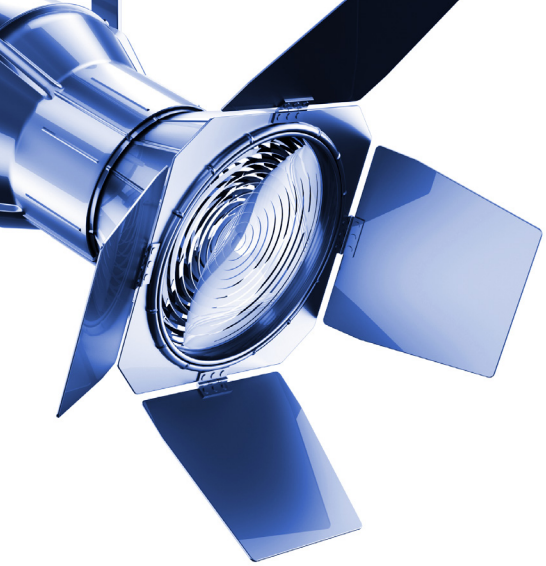


engage research

points of view

BEHAVIOURAL ECONOMICS - HOW WILL IT CHANGE RESEARCH?

Marketers were instinctively deploying 'behavioural economics' long before it had a name. Prices ending in 99p and extended payment plans came into being because they worked, not because of a theory. Now, however, the marketing and advertising sectors are beginning to more formally embrace Behavioural Economics. Even the government is giving it a central place in policy initiatives. So, what is it, how does it fit with current research industry thinking and how can we use it to improve our approaches?

There has been a plethera of books which have brought this previously academic work to a broader audience, and an enormous amount of marketing press on the subject, but what is it all about?

It is a reaction to traditional economic theory that assumes that decision making is based on individuals acting rationally. Behavioural economics shoots holes in this by demonstrating how our behaviour is, to a large extent, unconscious, irrational and socially driven. It attempts to systematically outline how these behavioural factors work so that we can first understand, and secondly can use, these factors to our advantage. We may be dealing with the irrational but it can be predictable (to paraphrase the title of Dan Ariely's book).

The key ideas in Behavioural Economics

- We use rules of thumb to cut through complexity (Heuristics). It would be impossible to make considered, rational choices for more than a handful of items when doing a weekly shop at a supermarket. To make sense of the sheer amount of information we unconsciously adopt coping strategies; if in doubt buy a leading brand because it is must be OK, the expensive coffee must be nicer than the cheaper coffee etc.

- We are hard wired to think relatively . We focus on the relative advantage of one thing over another rather than the absolute. Our opinion of the worth of a particular item can vary wildly depending on the context. The same bottle of wine may look a bargain at £30 in a top restaurant with a stellar wine list, but terrible value at the same price in the local gastropub where it is the most expensive on offer. How something is presented ("Framing") and how our expectations have been set ("Priming") are expressions of the same relativism

- We are heavily influenced by other people. We tend to observe and copy what others do and, generally, like conforming. When sponsoring someone the amount you give will be heavily influenced by what other people have already put down (make sure your first sponsor is generous to set the tone!). Even when we think we are being individual - literally "standing out from the crowd" - our choices are still influenced by aspirational people, experts, people we want to impress etc.

- We think short term and are loss averse. The buy now, pay later bias can affect everything from our choice of sofas to our pension planning and our long term health. We also, strangely, value things we have to a greater extent than things we could have. At the birth of their first child high earning families may have been pleasantly surprised that they even qualified for child benefit, but yet are extremely unhappy about its removal.

Behavioural economics in society

Cabinet Office

Behavioural Insights Team

The creation of a Behavioural Insight Team within the Cabinet Office is evidence that behavioural economics has broken into the mainstream. The government plans to use this approach in order to 'nudge' us (subconsciously) towards any number of decisions. For example, currently only 27% of the population are registered on the NHS Organ Donor Register, despite the fact that surveys consistently show that 65% would be willing to donate an organ. The problem is that at the moment you need to actively 'opt in' to the scheme. This would be replaced with a 'prompted choice', you will have to say whether you will opt in or opt out when completing, say, a driving licence application. It is hoped that the number registered might double, in line with this change in other countries. Paradoxically the government is very overt about which subconscious behavioural buttons it is pressing with each initiative. For example, a planned campaign to reduce levels of student drinking by communicating the actually low average levels, references social norming and heuristics around frequency estimation.

There is always a danger that such manipulative approaches may not have the desired effect. In the USA by the mid 1980s the average CEO pay was around 50 times that of the average worker and the gap had been increasing over time. Regulators made corporations reveal the pay of top executives. The idea being that this information would shame senior executives into reducing their demands. However, the CEOs now had the information to compare themselves with each other. This fierce competition that ensued, not helped by CEO pay "league tables", fuelled even higher demands and now the ratio of CEO to average pay has surged to over 350. The original intention backfired (or to put in Behavioural Economics terms salary is more about peer relativity than social norming).

Strangely familiar

To an extent the research industry has been applying some of the Behavioural Economics principles for a long time, albeit not by name. Some examples;

1. Addressing the gap between what people say in research and what they do in reality:

- Through predictive quantitative techniques that have sophisticated adjustments for over-claiming purchase interest, adjusting for inertia, risk aversion etc.
- Interpreting this gap is second nature to skilled qualitative practitioners

2. By building the 'everything is relative' principle into research designs e.g.

- Asking value perceptions for a test brand in the context of priced competitors
- 'Priming' separate groups of respondents with different information to gauge the varying impact
- Using trade off and choice techniques that are routed in comparison

3. Accounting for social influence e.g.

- Accessing viewpoints other than at the individual level e.g. friendship pair depths, the interactions between members in online communities, deliberative techniques
- Including social factors such as acceptability (happy to be seen with), endorsement (was recommended, would recommend) and aspiration (used by people I admire) into brand assessments

However, these are all ways of taking the mainly rational, conscious responses we get when we ask questions and trying to accommodate the influence of the irrational, unconscious elements in behaviour. It is essentially an attempt to isolate the bits we can measure and worry about the complexity of the real world later. In other words, the process is far from perfect, but we have learnt to put in 'fixes' to make it serviceable.

In the qualitative world there are two "traditions" that address the discrepancy between what people are aware of and what actually drives their behaviour, at least at the data collection stage. Firstly the ethnographic tradition which, simplistically prioritises observed behaviour over claimed. And secondly the psychoanalytic tradition (qual's roots) which tries to surface the underlying, unconscious drivers of behaviour.

The counter-argument is that Behavioural Economics has undermined the notion that our actions can be usefully predicted at all through direct questioning. Much better, the argument follows, to cut out the rational bit and just observe actual behaviour, collect sensory experiences and record brain activity.

These areas of research will undoubtedly grow in importance, particularly as the technology develops to make them more accessible. However, my bet is that question based survey research will still be required to put in the 'why?' and provide a link between the unconscious and conscious mind.

Using Behavioural Economics to develop better approaches

How will these new insights into psychology and behaviour help us do better research?

1. Triangulation

The emphasis on relativity and context suggests we should get away from thinking that there is a single optimal way of unearthing consumer perceptions and intentions. This will increasingly mean that we combine approaches to look at a problem from different angles. This will not just be 'qual' with 'quant' but using survey techniques with ethnographic / observational approaches, actual consumer input via forums, as well as sensory and brain science.

Also, within a single approach we can play with framing and priming to look at issues in different ways. For example, a manufacturer of contraceptives had the challenge of communicating reliability of their product to potential customers. Clinical tests had shown it to have a 4% failure rate. We know that people are generally poor at evaluating risk, so the research was designed to test different ways of presenting this information, the extreme positions were:

- If told that the contraceptive offered a 1 in 25 chance of becoming pregnant the majority of women thought it 'extremely risky'.
- If told that the contraceptive was 96% reliable the majority thought it 'extremely safe'

What does this tell us? The key point is that neither of these results are 'the truth'. However, both provide very useful perspectives. If you launch a contraceptive and market it on the basis of being 96% reliable you will attract women who are looking for an extremely safe method. Conversely, don't be shocked if the women who do fall pregnant are first, surprised and, second not very happy about it.

A more complete Behaviourial Economics approach would, of course, wish to explore the role of healthcare professionals as communicators, the impact of friends and family etc.

2. Improved measurement and frameworks

To be really useful the application of Behavioural Economics theory needs to be systematic. Whilst a lot of the literature uses compelling examples, many of these are small scale or anecdotal. The key questions that might emerge are;

- How can we build models that usefully incorporate these learnings?
- How do these behavioural impacts play out on different brands or categories?

A first step is to view the problem in hand and possible research solutions through a Behavioural Economics lens.

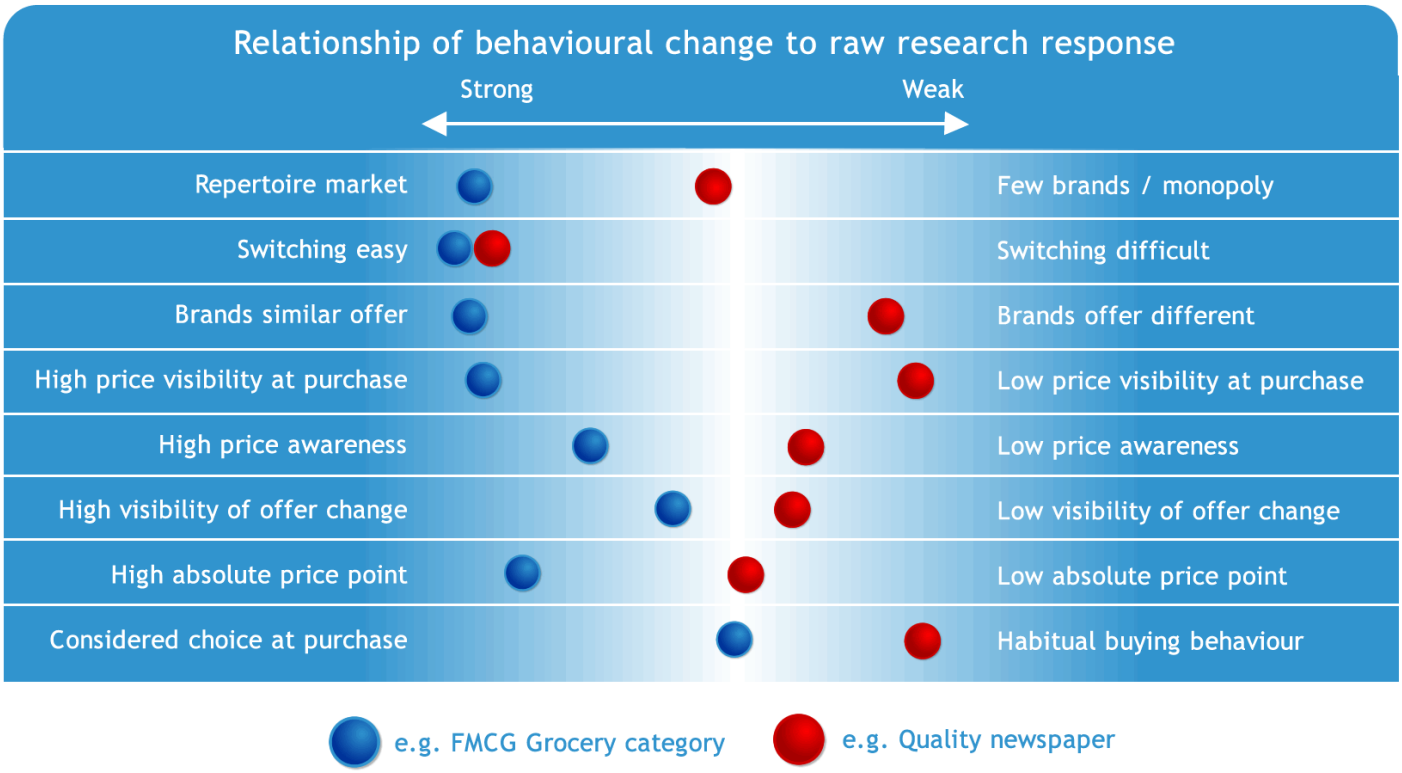
Take, for example, newspaper pricing. The publisher wants to change price strategy and understand what would happen to their brand at a number of price points. A live test market is out of the question. A classic approach would be to conduct a conjoint exercise. Now, conjoint is a highly artificial process, whilst it obeys our rule of relativity, it is essentially a 'game' where we are highlighting price and the fact that it is changing by exposing people to multiple exercises. But, we also know that at the point of purchase, price awareness is actually weak, the prices themselves have low visibility and purchase is very habitual. So, it is no surprise that the raw uncalibrated results from the research over-predict price elasticity by a large margin.

However, by a careful assessment of the behavioural factors at play a framework can be built that helps to explain consumer behaviour and is predictive of sales.

Behavioural Impact Framework

Broadly speaking the further the category plots to the left the closer the relationship between the raw research findings and real movements, the further to the right the more research tends to over-estimates real movements.

An FMCG category will tend to more like a pure 'market' while some of the factors on the right can mean that research will produce a "protest vote" that doesn't follow



through to behavioural change. Key barriers are; difficulty in switching (e.g. bank accounts), differentiation in product offerings (e.g. you might say in outrage you would stop buying the Guardian if the price want up but do you want the alternative?) and markets which act like monopolies (e.g. category driven price movements such as fuel).

Of course having a framework and being able to use it effectively are different things. How important is each different factor? Which work together? How do these work at the individual level? Much work is required to produce the powerful models needed.

A catalyst for change

Behavioural Economics is shining a light on the subtle and complex mechanisms that influence our actions. It is one thing to identify these mechanisms, but quite another to understand and measure them well enough to provide truly effective insights and accurate predictions. If we are up to the challenge of doing this, it could be a game changer for the research industry.

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