Applying Behavioral Economics to Insights & Marketing: How Small “Nudges” Can Have a Big Impact

Behavioral economics questions the underlying premise that people are inherently rational decision makers. Based on research by Nobel-Prize winners Robert Shiller and Daniel Kahneman, along with other leading academics such as George Lowenstein (Carnegie Mellon) and Sendil Mullainathan (Harvard), it states that our decisions are largely driven by a range of factors (such as impulses, habits and social norms) that operate beneath our consciousness. And to paraphrase Dan Ariely of Duke University, these non-rational forces are both consistent and predictable, which suggests that they can be studied, understood and leveraged.

Behavioral economics is now having a major influence on both marketing and consumer research. Increasingly, marketers and designers have focused on “System 1” communication, while research agencies (including PRS IN VIVO) are integrating non-conscious measurement (via implicit measures, facial coding, EEG, etc.) within our studies.

Today, we’re focused on taking behavioral economics a step further, by applying its principles to actively influence consumers’ decision making. In this article, we’ll introduce “Nudge Marketing,” share some of what we’ve learned so far – and look ahead to how this framework may influence the future of marketing.

What is a “Nudge”?

A “nudge” is defined as:
An “effective little help” that leads people to adopt a desired behavior, either consciously or sub-consciously.

This concept was first popularized by Richard Thaler (University of Chicago) and Cass Sunstein (Harvard University), in their book *Nudge: Improving Decisions About Health, Wealth & Happiness*. As the title implies, their primary focus was on public policy – and how behavioral economics principles could be applied to “nudge” people toward making better choices.

And in fact, there are many compelling examples in which seemingly “minor” changes have had a dramatic impact of people’s behavior:

- In Copenhagen, the introduction of printed footsteps leading to public garbage cans reduced littering by nearly 50 percent: Far more than more traditional or rational appeals encourage people to reduce their littering (via signage, public service advertising, etc.).
• In the UK, referencing others who had donated ("Every day thousands of people who see this page decide to register...") led to an enormous increase in sign-up for organ donation (over 100,000 additional donors).

Neither of these cases involved actively persuading, convincing or changing people’s beliefs. Instead, they encouraged people to act in a certain manner, by leveraging sub-conscious drivers (such as salience, social norms and default) - or simply by making a desired behavior “easier” than an alternative path.

Driven by successes of this nature, many governments (including the Australia, Singapore the UK and the U.S.) have created behavioral Insights teams (i.e. “Nudge Units”). In addition, consulting firms (such as ideas42) are applying behavioral science and “Nudge” techniques to drive positive social impact.

Eric Singler of PRS IN VIVO has been a pioneer in applying behavioral economics and “Nudge” thinking to the world of consumer marketing. In his book *Nudge Marketing: Winning at Behavioral Change*, Eric introduced two important frameworks:

• **The “Drivers of Influence”**

  The “Drivers” are a distillation of 21 of the most powerful and prevalent behavioral economics forces acting upon human decision making, including relatively familiar concepts (such as Framing, Loss Aversion and Reciprocity). Collectively, these drivers provide a foundation for analyzing and influencing behavior.

• **The “NudgeLab” Process**

  “NudgeLab” is a 4-step process for identifying and executing “Nudge” opportunities, rooted in a behavioral economics-driven approach to ethnography and ideation. This process won several ESOMAR awards (upon its introduction and piloting in 2014) — and has now been successfully applied across over 50 “Nudge” initiatives for a wide range of marketers.

**“Nudging” Consumers: What Have We Learned So Far?**

Over the past three years, Eric and our “Nudge Unit” have worked with consumer marketers across many industries, from financial services to pharmaceuticals and foods/beverages. Several recent initiatives have included:

• “Nudging” to facilitate adoption of a new form of pest control (in India)

• “Nudging” to promote new usage occasions for a familiar food product (in France)
• “Nudging” to encourage positive personal health behaviors, including more frequent hand washing and tooth brushing (in Germany and the U.S.)

Through these experiences, we’ve learned a great deal about applying behavioral economics principles in a marketing context. In particular, we’ve identified three (3) underlying principles, which are critical to using “Nudge” successfully:

1. **Nudge is a compliment to – rather than a replacement for - traditional marketing**

   While some people speak of behavioral science as the opposite of traditional economics, we feel that it is best viewed as an “additional dimension.” Clearly, rational thought does play a role in people’s decisions: However, behavioral economics tells us that there are forces beyond rationality that also influence our actions.

   Similarly, Nudge is not a replacement for traditional marketing, which is often focused on needs/aspirations and product features/benefits. In fact, we’ve found that it is nearly impossible to “nudge” people towards actions that they don’t truly want to take. Therefore, marketing is needed to “create the desire” – and then “Nudge” can help facilitate the follow-through (the action).

2. **Nudge is about creating new “habits”**

   An important underlying truth of behavioral economics is that many human behaviors are a function of our ingrained habits. As explained by Charles Duhigg (in his book *The Power of Habit*), these daily habits serve as “triggers” to certain activities, while simultaneously creating “micro-barriers” to adopting new behaviors. For example, many of us truly want to eat healthier. But our ingrained habits (such as picking up fast-food on the way home) often overcome our desired behavior.

   In our experience, the true strength of “Nudge” lies in applying “drivers of influence” to help overcome inertia - and establish new habits. For example, in several recent cases, we’ve helped companies develop “reminder systems” to reinforce desired behaviors.

   Given that “Nudges” often work in this manner, we’ve found that they are best-suited to impact “category-level” behavior – such as adopting a new product form or promoting compliance to a medication – rather than driving brand preference. To put it another way, a Nudge may encourage someone to cook at home, but Marketing is needed to have them choose your brand of spaghetti sauce.
3. “Nudging for Good”

Consistently, we’ve found that the best “Nudge” opportunities come at the intersection of what’s good for both companies and individuals. In other words, they promote healthy or desirable behaviors that are also financially beneficial for marketers. And these intersections are actually quite common, as we’ve seen successful cases of:

- Nudging children to regularly apply sunscreen (via “sunburned” dolls)
- Nudging people to drink more water (via packaging with built-in reminder systems)

Interestingly, we’ve also found “win-win” opportunities in less obvious situations: For example, portion control (for snacks, candies, beverages, etc.) is potentially desirable for consumers and more profitable for marketers.

Certainly, Nudge techniques can also be used to promote excess consumption – and perhaps towards purchases that are beyond their means. But as noted above, these tools are most effective when supporting behaviors that people want to do – and “tricking” people into misguided purchases is not ethical, nor is it in the long-term interest of most companies.

**Looking Ahead: Three Areas of Opportunity**

Clearly, we are still only beginning our efforts to apply behavioral economics to consumer marketing. However, based on our learning to date, we see three emerging opportunities...

1. “Nudging” Digital Adoption

As a society, we are clearly in the midst of a massive transition from physical to digital, across many areas of our lives. And the “digital transition” is ideally-suited for Nudge approaches, as:

- It provides benefits (of convenience, cost, etc.) for both consumers and marketers
- It is a transition that many people want to make, yet some are held back by inertia and ingrained habits

Thus, we’ve been working with several companies to help customers “create new habits” in the digital realm. While web-based shopping (vs. brick-and-mortar stores) is one obvious area, we’ve also applied “Nudge” principles to encourage people to use a digital app for customer service issues (rather than going to their local telecomm store) – and to purchase financial services online (as opposed to working through a broker or insurance agent).
2. Impacting Shoppers in the Aisle (or On-Screen)

Our initial focus with Nudge has been “digging deeper” into people’s lives to help them make behavioral changes and develop more positive habits. However, it is clear that the “drivers of influence” also apply at the first moment of truth (FMOT), when people are making purchase decisions.

- For example, in one well-known case, the addition of a small sign (“No more than 12 cans per customer”) actually doubled shoppers’ average quantity of soup purchases, by effectively “anchoring” their decision process.

Thus, we know that there is a significant opportunity to apply behavioral economics thinking to develop more effective packaging, pricing and shopper marketing. For example:

- We recently conducted a Nudge study in Thailand to help a leading hair care brand reassure (and retain) its loyal users in the midst of major packaging change.

- In the U.S., we held a ideation session with a Pet Food marketer, with the objective of “nudging” more “dry” shoppers to also purchase wet dog food

Along these lines, we see an opportunity to “apply a behavioral economics lens” to address two challenges common to nearly all retailers: Driving incremental purchases (within categories) – and “nudging” shoppers to visit additional product categories.

3. Educating Marketers

Finally, perhaps the largest opportunity lies in moving beyond individual “Nudge” initiatives, towards the “education” of the marketing community.

Increasingly, we are being asked to teach marketers about behavioral economics. We are helping them to think about “drivers of influence” and to utilize “Nudges” as a complement to their more traditional, rational approaches. In a recent European workshop, managers created their own “first little Nudge,” as an important step to immersing them in this new way of thinking. Ultimately, we envision that “nudging” will become a regular item in “the marketing toolbox,” alongside “the 4 Ps” and other levers for impacting consumer behavior.

Shifting the Paradigm

In a world of overwhelming choice and increasing product parity, marketers are recognizing that they cannot differentiate effectively through traditional features, benefits and claims – and that persuasion does not necessarily lead to action.
Instead, many are exploring new ways to grow – and finding it easier to help people follow-through on their intentions (as opposed to convincing them otherwise.) More importantly, they are finding it more profitable to impact underlying behavior (to “create new habits”), rather than fighting for brand share.

Nudge holds the potential to “shift the paradigm,” by helping marketers to systematically apply a new way of thinking – and point them towards more effective ways of changing consumer behavior.

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