Viewpoint

What Behavioral Economics Can Teach Marketing Research

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Behavioral economics is the study of how people make decisions. It turns out we are not the coldly rational creatures (*homo economicus*) that economists once thought we were. We think with a blend of our emotions and logic. We are subject to giving different answers to the same questions asked or framed a little differently. We are risk-averse, leading us to walk away from a better deal. Further, we're also overly attracted to short-term reward.

We use simple heuristics (Herb Simon's 1957 concept of "bounded rationality") to make decisions that are "good enough" rather than trading off every possible consideration. (Think about that the next time you ask for brand ratings on 30 attributes!) We exhibit pro-social behavior that does not have an economics rationale. (Think about tipping a cab driver you will never see again.) Behavioral economics lives at the crossroads of economics, cognitive psychology, and anthropology. It helps us understand how and why decision making is filled with shortcuts of which people are only partially self aware.

Marketing research needs to put a little behavioral economics into its game. For that, there are four smart steps that can begin the process.

NUDGE THE RESPONDENT

Nudge: Improving Decisions about Health, Wealth, and Happiness (2008), the best-selling book by Richard H. Thaler and Cass R. Sunstein, is all about the idea that there is no neutral way to frame choices: "… simply by rearranging the cafeteria, Carolyn was able to increase or decrease the consumption of many food items by as much as 25 percent. Carolyn knows she can increase consumption of healthy foods…" The conclusion: Carolyn is a choice architect, and there is no such thing as a neutral design.

Take it to the next step: Are not research teams constructing surveys also choice architects? Survey taking is chock full of decision making. Should I join this panel? Should I click on that link? Answering survey questions involves decision making because people are not opening their brain like it's "a container" and just letting truthful answers pour out of their heads. They are reconstructing memories and opinions in the context of their current mental state, how the question is framed and asked, and how the preceding parts of the survey have brought a respondent to the next question. A practical application: My experience is that brand equity research systematically understates preferences for store brands. Perhaps we should be willing to bend research "rules" to help people access their true feelings and preferences for lower priced alternatives?

More nudging: Research often overstates the incidence of people buying a given brand in a fixed time period (*e.g.*, "Which of the following brands have you bought in the past six months?"). Through research on research, I have found that offering choices that are farther out (*e.g.*, "Which of the following brands have you bought in the past year? Of these, which have you bought in the past six months?") results in lower, more accurate estimates.

HEAT UP THE RESPONDENT

We tend to study preferences at times that are divorced from a respondent being in a need state. Noted behavioral economist George Loewenstein would caution us against this. He describes his research on cold–hot empathy gaps as follows (Loewenstein, Read, and Baumeister, 2003):

> *A … focus is on people's predictions of their own future feelings and behavior. …when people are in a cold state*—i.e., *not hungry, sexually aroused, in pain, angry, etc.—they underestimate the impact of such 'visceral' (hot) states on their own future behavior.*

From a research-protocols point of view, this leads me to wonder whether current concept

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BEHAVIORAL ECONOMICS IN ACTION

Behavioral economists love inventive experiments. Here are a few that might stimulate marketing researchers' thinking about the creatures we are studying and how we should study them.

- **The Ultimatum Game.** Surowiecki cites the case of the "ultimatum game" wherein two people are given $10 to divide between them. One player (the proposer) makes a take-it-or-leave-it offer to the other person. If the responder refuses, neither of them gets anything. If the responder accepts, he gets what is offered, and the proposer keeps the rest. Therefore, no matter what the proposer offers, the rational solution is to accept it, because otherwise the responder gets nothing. Surowiecki concludes:

  In practice, though, this rarely happens. Instead, lowball offers—anything below $2—are routinely rejected.... People would rather have nothing than let their "partner" walk away with too much of the loot They will give up free money to punish what they perceive as greedy or selfish behavior. And the interesting thing is that the proposers anticipate this—presumably because they know they would act the same way if they were in the responder's shoes. As a result, the proposers don't make low offers in the first place. The most common offer in the ultimatum game, in fact, is $5" (Surowiecki, 2004).

- **Loss Aversion.** Amos Tversky and 2002 Nobel Prize winner Daniel Kahneman in 1979 demonstrated systematic reversals of preference when the same problem was presented in different ways. Participants were asked to:

  Imagine that the U.S. is preparing for the outbreak of an unusual Asian disease, which is expected to kill 600 people. Two alternative programs to combat the disease have been proposed. Assume the exact scientific estimate of the consequences of the programs are as follows....

  The first group of participants were presented with a choice between two programs:

  - Program A: "200 people will be saved."
  - Program B: "There is a one-third probability that 600 people will be saved, and a two-thirds probability that no people will be saved."

  Seventy-two percent of participants preferred program A; the remaining 28 percent opted for program B).

  The second group of participants were asked to make a choice between:

  - Program C: "400 people will die."
  - Program D: "There is a one-third probability that nobody will die, and a two-thirds probability that 600 people will die."

  In this decision frame, 78 percent preferred program D, 22 percent opting for program C.

  Programs A and C are identical, as are programs B and D. The change in the decision frame between the two groups of participants produced a preference reversal: When the programs were presented in terms of lives saved, the participants preferred the secure program, A (= C). When the programs were presented in terms of expected deaths, participants chose the gamble D (= B).

- Role of **subconscious emotion** in decision making. Antonio Damasio (1996) is a brilliant cognitive scientist who has demonstrated the workings of subconscious elements in decision making. In the Iowa gambling experiment, 16 players were given four decks of cards; there were financial payoffs (or penalties) depending on the cards turned up. Players could turn up cards from any of the four decks they chose. Unknown to the participants, two decks were unfavorable; the other two had safe, small, and winning cards. It took 50 cards for subjects to articulate that they thought two of the decks were unfavorable. Well before that, however, they had started turning up cards from the more favorable decks. Most interestingly, biometric response—in particular, a monitor for skin sweat—had started to show changes. This experiment proves the role of emotion and decision processes that people are not cognitively aware of (and, therefore, would not be able to articulate in a survey).

- Experiment about **arbitrary coherence**. Dan Ariely asked MIT students to bid on a variety of items that were non-commonplace (hence, current market prices would not be known). He asked people to write down the last two digits of their social security number next to each bid. He observed: "In the end, we could see that students with social security numbers ending in the upper 20 percent placed bids that were 216 to 346 percent higher than those of the students with social security numbers ending in the lowest 20 percent." When asked directly whether their social security numbers had any effect on their bids, they said, "No way!" They were not aware of what was proven. Ariely concluded that there is a myth regarding setting prices as a by-product of supply and demand (Ariely, 2009).

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testing does enough to "put people in the mood," especially if the idea is innovative and might create its own category.

REFLECT THE DECISION HEURISTICS PEOPLE USE

Except for shopper-insights research, we researchers tend to study relative preferences for things rather than people's decision processes. German psychologist Gerd Gigerenzer (1999, whose work was referenced in Malcolm Gladwell's *Blink: The Power of Thinking Without Thinking* [2005]) talks about "simple heuristics that make us smart." In that context, what fast and frugal heuristics does the shopper use?

I hypothesize that people often are subconsciously rank-ordering choices and taking the first alternative starting at the top of their mental list that is good enough—a choice that simply meets their criteria. This satisficing strategy suggests that preferences do not guarantee a sale; in fact, all they do is get a product or service high up on the mental list before more powerful shopper heuristics take over. It is conceivable that the priming effects of search and display are underestimated at simply priming a brand to be "higher on the list." This might explain why a highly preferred brand is not always bought. By their nature, priming effects must be determined from an experiment rather than a direct questioning approach.

Influences of the tribe: Copying from people we connect or relate to is another heuristic that people use in real life and certainly is central to the concept of fashion. Hence, new tools and ideas related to social influence, herd behavior, and the like are very interesting to me (again, it is the intersection of anthropology and economics). Most survey research makes each respondent answer a survey in isolation, like it's a closed-book exam in what has become an open-book exam world.

CREATE SOCIAL CONTRACTS

Dan Ariely's *Predictably Irrational, Revised and Expanded Edition: The Hidden Forces That Shape Our Decisions* (2009) raises another important insight about social versus monetary contracts, as this example demonstrates:

> *My good friends Uri Gneezy [a professor at the University of California at San Diego] and Aldo Rustichini [a professor at the University of Minnesota] provided a very clever test of the long-term effects of a switch from social to market norms. A few years ago, they studied a day care center in Israel to determine whether imposing a fine on parents who arrived late to pick up their children was a useful deterrent. Uri and Aldo concluded that the fine didn't work well, and in fact it had long-term negative effects.*
>
> *Why? Before the fine was introduced, the teachers and parents had a social contract, with social norms about being late. Thus, if parents were late—as they occasionally were—they felt guilty about it—and their guilt compelled them to be more prompt in picking up their kids in the future. (In Israel, guilt seems to be an effective way to get compliance.) But once the fine was imposed, the day care center had inadvertently replaced the social norms with market norms. Now that the parents were paying for their tardiness, they interpreted the situation in terms of market norms. In other words, since they were being fined, they could decide for themselves whether to be late or not, and they frequently chose to be late. Needless to say, this was not what the day care center intended (Ariely, 2009).*

The Advertising Research Foundation (ARF) has embraced the quandary of discovering the implications of incentivizing respondents to join panels and take surveys. Further, the ARF's Foundations of Quality Research program proved that those who are motivated by a social contract (*i.e.*, "Giving my opinion is the right thing to do") rather than receiving cash incentives has led to more diligent survey taking behavior (Walker, Pettit, and Rubinson, 2009).

A behavioral economist might offer, "It's not your survey that's a delicate instrument, it's the human mind!" The challenge to producing consistent and reliable marketing research data is only partly one of sample representativeness.

We need to think more like behavioral economists. JAR

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