

Harnessing the Power of Behavioral Economics

Introduction

Ever since Daniel Kahneman won the Nobel Prize in 2002 for debunking the myth of the rational decision maker, Behavioral Economics (or BE for short) has been something of a buzzword in the world of marketing and market research. However, as BE becomes increasingly considered in strategy, design, marketing, and market research, it can feel difficult to join the conversation.

For market researchers, understanding consumer decision-making is about understanding the roots and drivers of consumer behavior, and behavior change. Using BE principles simply gives us a different lens through which we can identify and understand these drivers and recognize inconsistencies that obscure powerful truths. Most important to understand is that failing to account for these phenomena can undermine the effectiveness of your research. We all know that people don't do what they say they do, but how about the fact that people don't even know when they're lying?

What is Behavioral Economics?

Behavioral Economics is an approach to human decision-making that contends that we make decisions not through rational reasoning, but rather by using error-prone rules of thumb and faulty, pre-programmed processes.

Humans make decisions using a number of different brain systems, some of which process rationally, some emotionally, and others through habit. Within each of these systems we develop shortcuts and patterns that help us make decisions efficiently (though sometimes irrationally). Behavioral Economists identify these shortcuts as *heuristics*.

As an example of a heuristic: people place more value on something if it has already been in their possession than they would if they were only just going to buy it (an effect you may have experienced first-hand when trying to clean out the garage or closet). This doesn't make any sense in a rational economic model, but the behavior is pervasive, and so behavioral economists have given it a name - the Endowment Effect. The Endowment Effect is just one of many heuristics, the sheer quantity of which can seem overwhelming. Fortunately, using BE doesn't require the memorization of all of these principles, but rather an understanding of the thematic ways in which they alter and direct our behavior. To this end, Galileo has created an organizing framework that distills this mass of heuristics into six key themes in an effort to demystify the principles of BE.

At Galileo, we apply these six 'themes' of heuristics to enhance market research for our clients.

Our framework considers six themes that help to group and categorize heuristics by the ways in which they act on our behavior: Ingrained Response, Justifying Narrative, Potency of Loss, Processing Problems, Commitment Conundrum and Misguiding Memory. Understanding these themes will give you the necessary framework to start incorporating BE into your market research. In the following paragraphs we will explain each theme, give relevant examples, and outline applications for research.

1

Ingrained Response

"Automatic," hard-wired associations and responses that create mental short-cuts, and limit our ability to make reasoned choices.

- Conditioned Responses
- Implicit Associations
- Anchoring Effect
- The Moses Illusion
- Priming



2

Justifying Narrative

Subconscious or conflicting emotions are inaccessible, which leads us to explain behavior using constructed narratives that are not accurate to our true feelings.

- Confabulation
- Introspection
- Consistency Bias
- Prospect Theory



3

Potency of Loss

Fear of loss is a more powerful driver than hope of gain. And when control is lost, the emotional ramifications can be especially severe.

- Loss Aversion
- Learned Helplessness
- Sunk Cost



4

Processing Problems

Our decisions are not based on representative information and rational processing; our processing is faulty and based on our perception of reality as opposed to fact.

- Overweighting of Probabilities
- Attention Bias
- Availability Heuristic
- Apophenia



5

Commitment Conundrum

Decisions do not always reflect our overall desires; but once we have committed to something, we are more likely to stick with it.

- "Cashew" Effect
- Irrational Escalation of Commitment
- Ikea Effect



6

Misguiding Memory

Memories are constructed through neural connections in the brain which are intentionally malleable and highly susceptible to change.

- Retrieval Induced Forgetting
- Convergent Social Memory
- Misinformation Effect



Theme 1: Ingrained Response

Hard-wired associations lead to automatic responses, which can limit our ability to make reasoned or rational choices.

Our brain is built to make associations. However, not all of these associations are accurate, and many are the product of coincidence, bad timing, and even social stigma. The *Implicit Associations* heuristic references the subconscious associations we make between objects or concepts that can be intentionally or unintentionally triggered by external stimuli; these can play a significant role in coloring how an individual perceives stimuli in the world around them – including marketing materials. However, most of these associations exist in the subconscious and cannot be accessed through rational conversation (a person may not be aware they even *have* these associations!). Therefore, in qualitative research it is important to uncover these associations using methods that access our most immediate and unfiltered responses. At Galileo, we use gamified methods and time-pressured techniques to uncover these hard-wired, subconscious perceptions (e.g. our *Metronome Circuits*).

Theme 2: Justifying Narrative

The emotional drivers of behavior are often inaccessible, which leads us to explain behavior using constructed narratives that are not accurate to our true feelings.

We seek to create meaning when we explain our behavior, but don't have access to our full range of motivations, emotions, and memories. Therefore, we create fictional reconstructions based on what we *can* access, which may not express the whole truth. One way in which we do this is through the *Confabulation* heuristic – a phenomenon in which individuals construct false narratives about their lives without consciously realizing it. These fictionalized narratives can be misleading or even 'hyper-rationalized,' and divorced from emotion altogether. This can impose limitations on your research by relegating conversations to the purely rational, or obscuring participants' true emotional reactions.

One tool Galileo uses to help individuals access their emotional reality bilateral stimulation, via our Bilateral Pulse. This technique uses repetitive movements on the right and left side of the body to integrate emotional and rational processing centers, allowing the individual to uncover and reveal deep emotional insights that might otherwise have remained buried.

Theme 3: Potency of Loss

Fear of loss is a more powerful driver than hope of gain. And when control is lost the emotional ramifications can be especially severe.

Imagine your boss tells you that you have two options for your bonus next year:

- i. You receive the largest possible amount for your bonus at the beginning of the year, and at the end of the year some portion of this is taken back depending on your performance.
- ii. You receive your bonus, as is customary, at the end of the year based on your performance.

In both of these scenarios, you will still receive the same amount by the end of the year (your performance does not vary); however, for most people, the first option seems risky and off-putting, even if they believe that they will receive the highest bonus anyway (and no money will actually be taken away from them!).

This is an example of the *Loss Aversion* heuristic in action: individuals weight potential loss more highly than potential gain, and as a result tend to choose actions with little perceived risk, even if this is not in their best interest. One way this emerges in marketing and market research is in the framing of messages; it is important to be mindful of whether a statement is framed as a potential loss or potential gain, or to test both for greater clarity (e.g. 25% of all individuals will experience vs. 75% will not experience). This is applicable for statistical framing, framing of side effects, positive vs. negative framing of survey questions, and framing of events and opportunities.

Loss aversion also has implications for high stakes categories such as healthcare, luxury, and financial services. For these categories, the meaning of 'loss' extends beyond the purely economic to incorporate wellness, identity, and security - amplifying this effect. When Galileo uses our Decisional Force Field technique for behavioral analysis, we make sure to identify where loss aversion may be driving behavior, as this may pose a significant barrier to the desired outcome.

Theme 4: Processing Problems

Our decisions are not based on representative information and rational processing - rather our processing is faulty and based on our perception of reality as opposed to fact.

The world offers us an overwhelming amount of information, but we have a limited capacity for processing these inputs; this is in part because we can only retain and manipulate a fixed amount of information. As a result, we rely on processing shortcuts that are themselves based on incomplete sets of inputs. The *Attention Bias* heuristic occurs when our brain filters out information it feels we do not need; because of this, we are only aware of a limited portion of the world around us, even if we believe we are seeing, hearing, and feeling everything. Attention bias is not a new phenomenon for market researchers, but its effects are easy to misunderstand: attention bias doesn't filter out neutral parties, it identifies the most glaring ones. Stimuli compete to be noticed, and although a strong stimulus can block other elements around it, these elements may still contain emotionally laden connotations that can significantly affect our perceptions and motivations.

This bias has strong applications for testing visual brand communications: one very negative element can easily prevent an individual from processing anything else, and one very positive element can shield a great deal of latent negativity. One method for circumventing attention bias is to de-compartmentalize advertisements into their different components, and test each separately (e.g. separating copy from visuals). Regardless of the approach, it is important to call attention to seemingly neglected elements of the stimulus to ensure they are not obscuring potent emotional reactions.

Theme 5: Commitment Conundrum

Decisions do not always reflect our desires or desired commitments; however, once we have committed to something, we are more likely to stick with it – even if this is against our best interests.

We all know how hard it is to commit – but once we do, we can become stubbornly determined in ways that can ultimately be harmful. However, harnessing the power of commitment effectively can lead to more productive and powerful conversations. One way of increasing the level of commitment is to utilize the *Ikea Effect* heuristic: we place more value on things we have partially created, or had a hand in creating. When we engage with an output ourselves, we feel an attachment to it, and become invested in its success or failure.

In research, Galileo takes advantage of this effect by asking participants to painstakingly craft their stories using handpicked or hand-made images – e.g. Archetypal Storytelling. By asking them to commit to their individual story in this way, we increase their engagement with the conversation, allowing us to get richer insights. This technique can also be used internally or with clients; ideation sessions and co-creation workshops can help increase overall levels of involvement from teams that might otherwise have divergent goals. Taking time to gather diverse insights may not initially seem productive, but the very participation in these sessions generates commitment to the larger goal.

Theme 6: Misguiding Memory

Memories are constructed through neural connections in the brain, which are malleable and highly susceptible to change.

Our memories are not fixed representations of events; they are highly suggestible and can be altered by external influences. The instability of memory may seem frightening at first; however, our memories are changeable by design: they reshape to become more ‘true’ to the environment, even if they are not accurate to the original event. For example, as we share memories with others over time, we have a tendency to adopt pieces of others’ stories – converging on a single collective memory that is accurate for the group, but perhaps not for each individual (you may have experienced this at your last family reunion).

At Galileo, we ensure that we are getting at the most accurate versions of a memory (especially when working in a group context) to force participants to commit to their authentic, individual memory before sharing. Gamified exercises that distract the conscious mind help participants retrieve authentic memories; sensory grounding techniques can also help to root participants in their experience through visceral cues. In a group context, having participants commit to these memories through writing or drawing can help them remain true to their individual experience.

How to incorporate Behavioral Economics into your market research plan:

We often work with clients who are looking for fresh and accessible ways to incorporate Behavioral Economics into their research. We would be delighted to start a conversation with you.

- ➔ Click [here](#) to **schedule a conversation to help your team apply BE to your upcoming market research projects**
- ➔ Click [here](#) to **schedule a Behavioral Economics Workshop**
- ➔ Click [here](#) to review our **toolbox** and **services**