

How behavioural economics is turning traditional marketing inside out

 By [Diane Charton](#)

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To be truly successful in marketing and advertising, we need to understand human motivation and behaviour at a deep level so that we are more able to influence it.

Yet the marketing industry has clung to the same frameworks for modelling the ways that people evaluate information and make decisions for decades.



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A new school of thought

That picture is changing quickly as thinking from the worlds of economics and psychology creep into marketing. A discipline called behavioural economics, in particular, is challenging many of our old assumptions and helping us to think about how our customers behave in totally new ways.

Behavioural economics is pioneered in marketing through thinkers like Rory Sutherland, Vice-Chairman, Ogilvy & Mather UK and co-founder of OgilvyChange. Marketing and Advertising lecturer Peta Broomberg recently set up a series of lectures to the Red & Yellow students which included a Skype lecture from Rory. The discipline holds that people don't always make decisions and act as rationally as conventional wisdom might suggest.

Instead, they are influenced by a range of irrational and often unconscious factors - stereotypes, common sense, rules of thumb and other cognitive filters and short cuts - on the pathway to making a decision. Though the decision-making process may be irrational at times, it is based on a set of principles that are consistent and predictable.

This is an insight that challenges many of our traditional practices in marketing and gives us the ability to better predict (and thus influence) human behaviour. As Sutherland says: "The emergence of behavioural economics, at last provides the marketing industry with a framework fit for purpose for the next century."

Behavioural economics is about modelling choice architectures so that we can develop products and marketing messages that appeal to our customers. Some of the key principles of behavioural economics may seem counter-intuitive, but offer some real insights into how we should design, sell, price and market products.

Behavioural economics outlines five cognitive biases worth thinking about in marketing:

1. Loss aversion

Given the choice, most people would rather avoid making a loss to acquiring a gain. Why? Because they attach more value to something they already have as opposed to something they don't.

It may work better, for example, to talk about a surcharge for late payment of an account than a discount for early payment.

2. Paradox of choice

The more choices people are given, the less likely they are to choose between the options. In practice, people may buy more if there is a choice of three jams on a supermarket shelf than if there are fifty options.

3. Anchoring

People's purchasing decisions are influenced by previously introduced reference points and data, even if these are irrelevant and irrational. On a restaurant's menu, the second most expensive dish will look like a bargain compared to the most expensive item if there is a price differential.

4. Short term bias

People will usually opt for instant gratification rather than a long term reward. They're more likely to act to lock in a short term gain or avoid an immediate penalty, even if it means sacrificing a larger reward further down the line.

5. Social influence

People are deeply influenced by the behaviour of other people. For example, an Eskom campaign that shows that 95% of consumers are switching off their geysers at night might be effective in persuading people to do the same to conserve electricity.

Closing words

When making decisions, people are influenced by context, their past experiences, their biases and a wide range of other factors, conscious and unconscious. But in the past marketers have not really paid enough attention to these factors.

Studying how people actually behave, rather than how they behave in theory, could help us as marketers become far more effective in doing our jobs. This is a shift that is arguably overdue for our discipline.

ABOUT DIANE CHARTON

As managing director of Red & Yellow, Diane Charton steers the strategic direction of the business. She strives to empower and educate the SA marketing communications industry through a myriad of traditional and digital educational platforms. With a unique combination of marketing, leadership and engineering experience, Charton brings a multifaceted approach to using marketing trends and insights to innovate and empower the industry as a whole. Follow @DCharton on Twitter.

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