FEBRUARY 2015

Irrational consumption: How consumers really make decisions

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The emergent field of behavioral economics is opening opportunities for companies to build stronger relationships with their customers.

There is an attractive simplicity to the notion that consumers choose what they most prefer, that they are logical decision-makers with abundant time and complete insight into the factors determining the choices they make.

But consumer decision-making does not unfold like a game of Pac-Man: systematic digestion of information pellets en route to the optimal choice. Numerous factors—many completely unrelated to the core issue under consideration—can exert powerful influences on choice and consumption. And while most marketing leaders recognize this complex reality, they nonetheless often work from a linear and simplified—a "Pac-Mannish"—view of the consumer decision journey.

The well-documented emergence of behavioral economics (BE) has dramatically deepened and broadened our understanding of consumer decision making. Many marketers, for example, are familiar with "nudges"— small changes in how options are presented that influence consumers' choices. As companies invest billions of dollars into advanced insights technologies and capabilities, we believe that companies can build stronger relationships with their customers through a more thoughtful application of BE.

The bedrock of belief

A shopper's mind is not a clean slate. Information and experience are refracted through the lens of belief. Information that's inconsistent with those beliefs is likely to be rejected. Even experience is malleable—we know that for many people the same glass of wine tastes better when poured from a $100 bottle than from a $10 bottle.

A deeper understanding of how beliefs work can help marketing leaders overcome some common marketing challenges. Take the food-and-beverage market. Consumer beliefs that healthy food is unpalatable are a significant barrier to purchasing it. If these beliefs are top-of-mind during consumption, they can also diminish the perceived satisfaction of that food and diminish chances of a repeat purchase. The problem is not that the product is bad; it's that consumer beliefs are so strong that they override personal experience. In such situations, the *timing* of disclosure is essential. In this health food case, that would mean getting people to have the new experience first, then describe the health claim. Another option is to alter *how* information is presented. Flavor claims on the front of a snack food are relevant to all buyers. In some cases, it may make sense to locate health claims on a side panel, where they are accessible to highly involved and deliberative shoppers but less prominent to consumers who shop intuitively.

These insights can also create new opportunities for influencing consumers. For instance, consumer beliefs about the association between packaging and product can be very influential. Great chocolate comes in fancy boxes; large pack sizes and simple containers strongly signal value. Packaging is just one option. Communicating information about product origins, manufacturing processes, and specific ingredients can also alter consumer perceptions, not just of quality but of taste. For retailers, concrete flooring (vs. tile) leads consumers to perceive their products are better deals. For brand marketers, messaging that makes people feel guilty about a product can enhance product perceptions because consumers associate guilt with pleasure.

For these reasons, BE-based marketing should begin with inquiry into where beliefs originate and how they guide consumer behavior. A simple step companies can take to uncover these beliefs is making greater use of relatively simple observational research to uncover gaps between what customers say they believe about a product and how they actually behave. These gaps often reveal unstated beliefs the company needs to address. And because consumers generally aren't aware of how incidental cues affect them, traditional customer interviews and focus groups are unlikely to reveal these opportunities.

Accounting for goals

Marketers should rethink the notion that customer needs are relatively fixed and stable over time. While consumers do have particular needs, their relative strength and influence can vary dramatically, depending on what goal a consumer is actively focused upon, e.g. being a good parent, getting in shape, making a good impression. Active goals directly affect what information consumers pay attention to, and much advertising is wasted because it isn't focused on the right goal.

Consider how a media company used goal alignment to increase sales of digital content subscriptions. Visitors to the company's website were allowed free access to a certain amount of content each month, beyond which a paywall restricted further access. It turned out that many consumers hit the paywall in the morning, but presenting subscription offers at that time was suboptimal, because most people are focused on more immediate goals like getting kids to school or getting organized for the day. By delaying subscription offers to later in the day, when customers weren't as distracted by other goals, this company was able to significantly increase conversion rates.

Marketing based on goals can also drive choice in ways that we are only now beginning to understand. Activating exercise-related goals will increase the purchase of sports drinks, for example, even if one has no immediate plans to work out. Importantly, activating goals is not the same thing as appealing to them, and helps you discover more opportunities. Appealing to goals focuses attention on the product and the message. Activating goals opens the door to many other situational factors that can change a customer's mindset (e.g., by looping sports-related background music or displaying an inexpensive fitness tracker in the beverage aisle).

Consumer pressures

New research is clarifying when (and how strongly) different biases are likely to exert themselves. For instance, people make choices differently when they have just made a series of other (even unrelated) choices—a product of so-called decision fatigue. Consumers also make very different decisions when under time pressure.

Marketers can't manage customer fatigue or time pressure, but understanding their effects can open opportunities for finding value. The manufacturer of an iconic consumer product was considering a substantial product redesign in light of new products introduced by low-price competitors. An initial round of research observed customers as they "shopped" for this product in a controlled setting. The results were not promising: every single customer chose a competing feature-rich, lower-priced product. Yet this was puzzling—in real stores, the company still commanded substantial market share. What accounted for the discrepancy?

The answer was simple: time constraints. In real stores, shoppers in this product category choose quickly. They generally start with the iconic product and consider others only if the first proves unsatisfactory. This insight radically changed the company's category strategy. Embellishing the iconic products as a way to attract more consumer attention emerged as a risky option, given the potential for reducing its "recognizability" and associations. Instead, the company adopted a two-pronged approach: defending their share of iconic products by making small internal design changes to fix a known pain point users encounter in use, and then redesigning other low-cost products in their portfolio to compete against lower-priced brands.

Capturing the value

Taking advantage of the full scope of BE-related interventions requires a number of commitments. Only by testing real products with real consumers in real-world situations can companies hope to understand how their customers behave. While many companies view this kind of experimentation as prohibitively expensive and complex, it's often possible to scope initial efforts around tractable problems that unearth important insights, establish credibility in the process, and pave the way for more ambitious efforts. Only when companies embrace this level of commitment to behavioral economics will they be able to capture its benefits. □

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