

## *I n t r o d u c t i o n*

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### Changing people's behavior - it really is possible...

How can you convince 100,000 more people in the United Kingdom to become organ donors in the space of just a year? Easy! All it takes is changing a single phrase on the gov.uk website suggesting that people join the programme.

How can you double sales of a brand of soup on special offer without altering either the price, the in-store placement, the product itself, or the packaging? Again, it's easy. Simply limit the number of products that consumers can buy rather than making it a limitless offer.

These two real-life examples, as well as the many others that we will look at together in the course of this book, illustrate two simple but important facts:

1. It *is* possible to produce significant changes in people's behavior;
2. These deep changes can be achieved as a result of seemingly minor modifications, which are both inexpensive and easy to implement.

The first fact is exciting for all those working in specific target areas. Whether you are an entrepreneur, a marketer, an advertising executive, a political decision-maker, a high-ranking official, the director of a public body or a humanitarian organization, a sales rep or the manager of a sustainable devel-

opment programme, if you aspire to change the behavior of your target you must accept you have a major role to play. Your influence can be huge – without doubt bigger than you think!

The second point is no less thrilling. Not only is it possible to bring about significant changes in behavior but also, even more surprisingly, these changes can be achieved by slight *a priori* modifications that all share one important feature: they come at no additional cost. Changing the phrasing on a webpage or adding a line to the offer on a billboard generates no extra expense. And be it public policy or private enterprise – in this world where we are forced to operate to such tight margins, this is quite a promise to make!

However, the promise comes with a flipside. Altering our behavior, as highlighted by one of the heroes of this book, Professor Dan Ariely, is a major challenge for human beings, who in general don't like change<sup>1</sup>: 'People generally avoid changes, even if there are minor and even when another path is clearly better.' The flipside of this, is the requirement to combine a perfect mastery of both the decision-making process itself and the necessary tools for effectively changing behavior. And as we shall see, it's rare for such a perfect storm to come about.

### **...but the name of the game is failure!**

Facts are stubborn and when it comes to behavioral change, the facts are indisputable. Failure is the norm, and success is the exception. Or, to put it a little more subtly, the correlation between efforts made, resources deployed and effectiveness is weak.

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1. Dan Ariely, 'A Beginner's Guide to Behavioral Economics', online course, 2013.

You're unconvinced? Don't worry – that's normal! As we shall see, you – just like me – are victim to a 'confirmation bias' that makes us extremely attentive and sensitive to evidence which consolidates our belief in ourselves – in our judgment and our actions – and far less receptive to other evidence that calls these into question.

Let's look at the facts.

In the world of public policy, partial success or failure is sadly par for the course. This is true across the board, be it the financial sector, with its frequently recurring economic crises; the environment, with its problems of how to fight for and protect our planet; public health, with the increase in obesity across the western world, as well as high levels of dangerous behavior such as alcohol consumption and smoking; or, even more fundamentally, the failures of the global fight against poverty.

The evidence is equally apparent when it comes to private enterprise. For major global industries with mass consumption and clear evidence of high success rates in launching new products, failure is both widespread and on the increase. All the experts agree about this point. Philip Kotler, the godfather of global marketing and author of the marketing bible, *Marketing Management*, refers to an 80% failure rate for new products. The *French Marketing Review* puts this number at 95% – a figure which has doubled in the past ten years. And while new products are the visible tip of the failure-related iceberg – think, for instance, about the disappearance of Danone's Essensis, Coca-Cola BlāK, or Nestlé's Nesfluid – the phenomenon affects the whole spectrum of marketing activities. Other examples include the failed changes to Tropicana's packaging, or Coca-Cola Bear's promotional pack that died a death in the USA.

These failures, or at least, the difficulties involved in bringing about significant changes in behavior despite the effort made and resources used, suggest an insufficient grasp of the factors really influencing the decisions people take in the course of their daily lives.

## When making decisions, humans do not think like homo economicus

Why is there this broad miscomprehension about how we perceive citizens and consumers and their decision-making processes? Because the premise on which we base them is largely false. Unbeknown to their creators, the vast majority of actions designed to change people's behavior rely on an obsolete view of the factors influencing our decisions. We have all been instilled with the long-dominant theory of decision making, stretching from Descartes to the classical and neo-classical economists: that of the rational man.

According to this theory, our decisions are the result of a type of balancing act. Blessed with a clear view of our objectives – so it goes – we are able to carry out a rational evaluation of the pros and cons within a spectrum of available choices. We then proceed to choose the option that maximizes our satisfaction based on a set of coherent preferences that are stable over time. To change the behavior of this cold and calculating being who acts solely according to his objective, selfish interests, should hence be enough to add some facts and tip the scales. For example, stop smoking because 'smoking kills'. And yet what do we see? In France, over 25% of doctors smoke.

## The behavioral economics and neuroscience revolution

This image of the rational *homo economicus* has been fundamentally called into question by behavioral economics – a revolutionary discipline combining psychology, sociology, economics, cognitive science, and decision-related neuroscience. As a result of its findings, our understanding of human decision making and behavior is currently in a phase of rapid

increase and radical change. Belief in the rational man has imploded, making way for a contradictory, multi-faceted individual who is both emotional and intuitive, reflective yet constrained – a product of our species' evolutionary journey whose instinctive reflexes, habits and ways of thinking are moulded by their immediate environment. This individual is very different from the long-accepted model. And so, assuming that they want to do their job effectively, a radical rethink is required by those responsible for changing the behavior of citizens or consumers.

The lessons learned from the revolution mean we have to more or less start from scratch. You will have to forget everything you know (or rather, everything you *think* you know) about the human decision-making process. You will need to open your mind completely. Cast aside your preconceptions and convictions. And allow yourself to discover the often surprising and always fascinating insights flowing from the revolution. Using scientific evidence, we will see how unexpected yet extremely powerful action levers can be used to alter people's behavior – although we need to acquire some knowledge first, before we put them into action.

To illustrate the power of these levers, let's return to the two examples mentioned earlier. The question of donating organs in the event of an accident does not seem like a trivial decision. It brings into play some important considerations such as religion, the relationship with our body, our attitudes to death and to other people, in particular our close family. For each and every one of us, this decision should follow a period of deep reflection in which we weigh up the pros and cons of making such a choice. Economists talk about cost-benefit analysis. And it is on these grounds that we base our choice to donate or not donate our organs when presented with the option. And yet, a simple change in the phrasing of a webpage is enough to significantly increase the number of people joining an organ donation programme. Here is the

phrase, as displayed on the gov.uk webpage: ‘Everyday thousands of people who see this page decide to register.’

It was conceived and tested by the Behavioural Insights Team (BIT), or so-call Nudge Unit, a group affiliated to the British Prime Minister, David Cameron. In partnership with several other UK agencies involved in tackling public health, the BIT carried out a five-week study to measure the impact of this additional phrase on the behavior of more than a million visitors to the site. To evaluate the performance of each message being tested, visitors were randomly assigned to one or two of the pages. Seven messages ended up being tested (as well as the control page) by over 135,000 people. The results for the winning phrase were statistically significant and unequivocal: more than 1,300 additional donors signed up during the test period – a potential 96,000 per year. The BIT’s report concluded that<sup>2</sup>: ‘The findings show how small changes in specific public service contexts can have big impacts.’

Why does a modification so insignificant when you consider the serious personal issues linked to the donation of one’s organs have such a major impact? For one simple reason: the Nudge Unit applied an effective lever that pushed visitors to the site from intention to action. When it comes to organ donation programmes, we know that the problem lies in the transition from word to deed, not in the ability to convince people of the soundness of their decision. The gov.uk project showed that over 90% of the British public, are already convinced! Even when we know that we should do something – either for ourselves, for the community, or for the planet – there are many times we still don’t act. We just don’t change our behavior or put our intentions into practice. The question

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2. The Behavioural Insights Team (ed.), *Applying Behavioural Insights to Organ Donation: Preliminary Results from a Randomised Controlled Trial*, Cabinet Office, December 2013, p. 8.

is hence not to convince people – either by publicity stunts or via expensive yet ineffective information campaigns – but to come up with actions based on real levers that ease the passage from thinking to doing. We need to understand both why this transition doesn't happen, and what we should change to ensure that it does. This is what the Nudge Unit achieved by applying social norms – a major lever identified by behavioral economics. Those times we hesitate when faced with a decision, we are highly influenced by other people's behavior. Put simply, the Nudge Unit brought into play the one element it knew would motivate people to act. And it did so thanks to the findings of this new science of decision making and behavior that we are about to discover together.

The second example – a promotional offer from the consumer goods sector – is deliberately taken from a very different field. A team of American academics<sup>3</sup> conducted an experiment comparing sales of Campbell's soup during a promotional campaign in which prices were cut from 89 to 79 cents per can using the following three methods:

- ◆ alongside the offer price, it was stated that there was no per-person limit to the number of cans that could be purchased;
- ◆ a maximum limit was set at 4 cans per person;
- ◆ a maximum limit was set at 12 cans per person.

The resulting sales figures were telling: 3.3 cans per person were purchased in the first instance; 3.5 in the second; and 7 in the third – more than a twofold increase. And the reason? The 12-can limit acted as a reference point for potential buyers seeking to gain maximum benefit from the offer. The introduction of a limit hence brought about a significant

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3. Brian Wansink, Robert J. Kent and Stephen J. Hoch, 'An Anchoring and Adjustment Model of Purchase Quantity Decisions', *Journal of Marketing Research*, vol. 35, February 1998, p. 71-81.

increase in the number of cans purchased. In behavioral economics, this psychological phenomenon is known as ‘anchoring’. In the course of our daily decisions, we often act according to a series of reference points – anchors – which, consciously or otherwise, we use to make comparisons and take decisions. And the presence of these anchors can have a strong influence on our behavior.

## The Nudge revolution: how to change people’s behavior effectively

In 2008, Richard Thaler and Cass Sunstein published a book<sup>4</sup> entitled *Nudge*. This seminal work gave its name to an approach, which, drawing on the lessons of behavioral economics, seeks to design effective actions aimed at encouraging behavioral change. These changes may be to the benefit of the individuals themselves, to the wider community, or to the planet.

My intention here is to carry on the work of the authors of the trail-blazing *Nudge*. At the same time, I will provide a deeper understanding of both the approach itself and the behavioral economics theory on which it is based. By re-examining landmark cases from the past five years, I will arrive at a methodology. That is, an action plan for creating effective ways to produce desired behavioral change – the ‘Nudge marketing’ of the title – in the fields of public policy and private enterprise.

In a nutshell, this is what Nudge marketing means for me: a type of knowledge, a state of mind, and a method for mastering strategies to change people’s behavior.

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4. Richard Thaler and Cass Sunstein, *Nudge: Improving Decisions about Health, Wealth and Happiness*, Yale University Press, 2008.

The aim of this book is hence to allow you to go about your professional life with greater effectiveness. This may entail real-life behavioral changes, or simply an improved understanding of the mysterious, enchanting world of decision making and human behavior.

The first two sections of the book will furnish you with a detailed understanding of the behavioral economics revolution and its key lessons:

- ◆ In Part one, I will give a brief history of the revolution. This will involve a quick-fire portrait of its key figures, as well as a description of its major milestones and the tools it has employed.
- ◆ In Part two, I will describe, via a range of experiments both astonishing and informative, how ordinary people such as you and I go about taking real-life decisions. We will examine the ways in which our ‘illogical selves’, our emotions, our relations to others, and the context of our decisions all affect our eventual behavior.

Armed with this new information, you will be ready for action. The third and fourth parts have an identical objective applied to two distinct worlds – public policy and private enterprise. These parts are both centred on the same basic question: How can we come up with effective strategies for changing people’s behavior?

- ◆ Part three will address the following problem: What is the best way to apply these important findings to public policy? How can we use our knowledge of levers governing people’s behavior to more effectively produce the desired changes? The aim is to understand how the Nudge revolution might assist policymakers, public administrations, humanitarian groups, or those promoting sustainable development to succeed in modifying people’s behavior. The beneficiary may be the individuals themselves or the wider community.

- ◆ Part four will address the same question as applied to the world of business and marketing: What new mental framework does the Nudge marketer have to adopt in order to be more effective? How can the lessons drawn from behavioral economics be practically applied to marketing? It's a question of understanding how behavioral economics and the Nudge approach can assist marketers in overcoming their greatest challenges. These include such things as launching a successful new product; coming up with convincing publicity material; designing a website or social networking page that really connects with its target audience; creating successful brand architecture; or producing appropriate pricing strategies.

Parts three and four will also include:

- ◆ studies involving real-life examples;
- ◆ general findings aimed at identifying the key factors for success;
- ◆ suggested action plans.

The ultimate aim of the book is both simple and highly ambitious: to be more successful in changing people's behavior, and to improve the return on investments for actions undertaken.