STICKY BUSINESS

USING BEHAVIOURAL ECONOMICS AND NEUROSCIENCE TO DRIVE HABIT-FORMING BEHAVIOURS

by Peter Burow, Misha Byrne, Anna Byrne and Phil Slade

The race is on. The market is changing and it’s being driven by a tidal shift in consumer behaviour. Customers are no longer ‘hunting and pecking’ their way through a long, considered purchase process. Instead, they’re tapping, typing and buying, sometimes barely knowing what they’ve bought. The ability for a marketer to attract (with positioning and ‘sizzle’) and then persuade (with ‘the steak’ of features/benefits) has been eroded and replaced by a faster, more impulsive cycle. And as marketer’s classic 1-2-punch fails, it’s the masters of brain science and behavioural economics whose efforts are rising to the top.

Steve changed everything

 Whereas in the ’50s the Mad Men executives focused on creating needs and promoting features and benefits, Steve Jobs changed the world and it will never go back.

 His relentless drive for ‘focus and simplicity’ gave rise to a whole new generation of user-focused experiences. This paradigm gave rise to a way of thinking, where adding more features and benefits and selling the Unique Selling Proposition (be it at a rational or emotional level) gave way to buzzwords like ecosystems, platforms, stickiness, customer experience, cycle times and gamification.

 Thanks to Steve, from the customer’s perspective, complicated hand wringing purchases have been replaced by fast, intuitive need/desire-driven ‘automatic need satisfaction’ that barely hits the brain’s conscious radar. And, most surprisingly, this is true not only for the small habitual purchases, but also, increasingly, for the major ones (like banking, insurance, health and legal services).

 In 2016, we’re still at the beginning of the transition. The winners will be those who can turn their products into platforms, and whose economic value directly reflects the strength of the habits they create in their consumers.

 Figure 1. The science behind Steve’s magic

• Our ‘elephant’-like emotional intuitive brain (System 1) makes most of our decisions and the rational conscious brain then explains them
• Our ‘elephants’ are quick to decide, love simple, low-effort solutions, and are constantly moving us towards pleasure and away from pain
• Elephants use mental ‘shortcuts’ that make some products stickier than others
routines and emotions of your customers.

Some products and services that people access daily (like news sites, Facebook, Twitter and Instagram) are standouts in this area. For example, industry figures suggest that in 2016, the average user spends 57 minutes on Facebook per day.

Their consumers come back many times a day, principally because the app or website’s primary behaviour is simple enough to quickly satisfy an internal emotional trigger.

For example, when someone feels lonely, within seconds and just two taps, they can see what their friends are doing, be reassured of their network and distracted by the novelty of social content. These habit-forming, addictive products have fundamentally changed customer expectations from the products they buy.

‘Hooked’ on motivation

In Hooked: How to Build Habit-Forming Products, Nir Eyal explores at length the emerging field of gamification: motivating customers to the habits that help your business.

Not surprisingly, in trying to explain the winners and losers in a Web 2.0 world, Eyal stands on the shoulders of decades of behavioural science research. Notable amongst these is the work of Prof B.J. Fogg (Director of the Persuasive Technology lab at Stanford University) whose ‘MAT’ model helps define what drives our actions and gives product strategists practical insight into how to design products, platforms and ultimately ecosystems.

To get a ‘behaviour’, you need a Motivation to do it, the Ability to do it and a Trigger. Fogg’s first insight is to challenge every marketer to be incredibly clear on the behaviour we’re looking for from our customers and then, importantly, to be equally clear of what motivates the behaviour - be it the motivation to: 1) seek pleasure and avoid pain; 2) seek hope and avoid fear; or 3) seek social acceptance and avoid rejection.

Far from the utilitarian world of features and pragmatic benefits, these motivations (drawn directly from Fogg’s research) are primarily emotional in nature.

From ‘innovation pain-points’ to baseline expectations

As outlined in Figure 2, Fogg’s research brought a science to something that we all intuitively know: the harder something is to do, the more you have to want it. Digging down, behavioural economics and neuroscience can give us physiological insights into the consistent elements of simple, habit-forming products and behaviours that, when missing, act as barriers to becoming ‘hooked’.

The brain is energy-hungry - even hungrier than the body in fact. So the brain is constantly on the look out for ways to reduce energy by making this habitual and unconscious. This means new products have to actively overcome the ‘energy barrier’ in the brain required to use them.

Even traditional marketers know that time and money represent two barriers to purchase. This, of course, is amplified online, where the incremental cost of delivering services is low and so many providers have now moved to zero-cost, single-click sign-ups for their services.
**Figure 3.** Beyond first purchase: the anatomy of habit-forming experiences

1. **TRIGGERS** - Can be internal or external; Habit-forming products move the trigger from external to internal over time
2. **ACTION** - Easy and preferably unconscious. So, in this way, Facebook is like an electronic pain killer and interestingly enough has the same physiological impact on the brain
3. **REWARD** - By removing a negative emotion
4. **INVESTMENT** - Encourage the customer to invest (time, content etc.) in the use of the product to enhance the experience in the next cycle

But emerging insights highlight four more ‘brain barriers’ that will also scare your customer’s elephant away:

1. **Anything out of the normal routine**
2. **Physical effort**
3. **Anything that could cause conflict with their tribe (social deviance)**
4. **Cognitive load (making elephants think too hard)**

But the important shift in mindset here is that, whereas in traditional marketing these areas have been seen as pain points for innovation and competitive advantage, in today’s environment each of these are active battlegrounds for consumer purchase and loyalty.

Put simply, it’s not enough to be solving one or even a handful of these pain points. You need to be solving all of them and doing it well, because market leaders across a range of product categories have rapidly set a baseline expectation that things can be done in just one click, on demand, for marginal upfront cost. These aren’t differentiators anymore — they’re part of your right to play.

**Pain killers and vitamins**

In the world of Design Thinking and human-centred design, we always start with the problem or ‘pain point’ that needs to be solved.

But not every pain point will give rise to a sticky, successful product. What makes the difference between a product that flops and one that succeeds?

Here the venture capitalists have a useful yardstick: Invest in the ‘pain killers’ not the ‘vitamins’. The reason, they argue, is that consumers rarely reach out and involuntarily buy a vitamin at 7am when they’re on the way to work and anxious about a headache brewing.

They reach for the pain killer.

Whereas a vitamin is linked to an aspiration (being ‘healthy’) and solves a poorly defined need (How do you know if your vitamin was effective after you took it?), with a pain killer you know exactly why you’re taking it and you’ll know pretty quickly if it’s worked.

Habit-forming pain killers tend to sell themselves.

**The brain on pain**

Leaders around the world are faced with the daunting challenge of picking winning ideas for their organisations to pursue in the race to innovate. As Tesla disrupts the private car industry, for example, it’s no secret that Germany’s greatest institutions are racing to find ways to deliver not just an enhanced product, but also a stickier, more engaging experience for their customers.

By seeing themselves as a technology company first and manufacturer second, Tesla has been fundamentally changing the underlying assumptions of the industry. For example, when Tesla’s customers reported their frustration that the new Model S wouldn’t ‘creep’ at a stop sign when they took their foot off the brake (making for a jerky start from standing quite unlike the experience they were used to in their old car), Tesla responded quickly. How? With a software update patched through over a built in WiFi chip. Deployed in a fraction of the time that most auto makers run, Tesla’s users woke up one morning to be advised that the…

© NeuroPower Group 2016
software was installed and the new option for a ‘creep’ mode could be turned on with a couple of taps.

Novelty? Sure, but also a powerful response to make sure that every frustration for the customer’s elephant was removed. The jarring of the customer’s expectations at every stop sign (set up through a lifetime of driving traditional vehicles) could have rapidly eroded Tesla’s delight factor. So they removed it.

We were exploring this case study with 300 German leaders at the YOtX Digital Disruption conference in Munich, all of whom were embedded within traditional ‘institutional’ organisations, and all struggling to get the buy-in needed from their colleagues to start the transition to a digital world. One of their leaders posed an interesting question: “If it’s all about removing pain points, why is it that Facebook and Snapchat are so successful. There’s no obvious, ‘pain killer problem’. What exactly are they solving? Isn’t Facebook the vitamin of online platforms?”

This is where neuroscience has powerful things to say. For example, Matt Lieberman at UCLA discovered that social exclusion has the same impact on the brain as physical pain (ramping up activity in a part of the brain called the anterior cingulate cortex). In many instances, Facebook is having the same impact on the brain in resolving social exclusion, as having a paracetamol has on the physical body.

(In fact, Lieberman et al. later looked at the impact of taking an aspirin for people suffering the pain of social exclusion and found it had the exact same impacts as CBT and other therapies.)

The point here is that emotional pain, including anxiety, social exclusion and loneliness, depression, future pain (just to name a few) are just as real, just as impactful and, importantly, a lot more prevalent in everyone’s lives. And if buying vitamins in some way addresses these emotional pains, it sells in exactly the same way. It turns out vitamins and pain killers both sell by addressing exactly the same part of the brain, just in very different ways.

From purchase to habit: creating embedded customers

So we know that purchase behaviours need to be quick and easy, and motivation needs to be clearly defined before our chosen trigger can kick start our target behaviour. But how do we get from one-off behaviours to embedded, sticky customers?

As outlined in Figure 3, Nir Eyal’s Hooked cycle has powerful insight for marketers. From the kinds of triggers to the qualities of rewards that are most successful (hint - the economic rewards usually won’t get you there!).

Tracking the trends

So what does all this mean for a modern marketer? As outlined in Figure 4, these shifts can be summed up into five major transitions.

1. From Product to Platform

Habits are formed over time and repetition, so not every product lends itself easily to a Hooked approach by itself. It’s hard, for example, for most of us to get into the ‘habit’ of buying a house!

But what about the purchases we make intermittently? And what about the vendors who have more than one product? How can you hook customers? It starts with the
shift from selling products to creating sticky ‘platforms’ where customers come, engage and interact. Facebook, Twitter, Amazon, iTunes - each of these platforms brings their customers back again and again by applying habit-forming, sticky features. Making it work: How can you build valuable, sticky platforms that integrate your product into the daily life of your customers?

### 2. From Choice to Trusted channels

The second move is from trying to create options and variety for choice to focusing on building trust and credibility with customers. Amazon, for example, sees its success through its traffic, not its sales. It even goes so far as to advertise offers from other sellers on its pages. Madness? Not at all. Sure, they might lose the odd sale to a competitor, but in providing data on what’s around on the web, they emphasise their role as the ‘go-to’ place for finding the best deals. It emphasises their transparency and says they have nothing to hide.

**Making it work**: As a business, what can you do to build greater trust through demonstrated proof points of transparency, values alignment, and integrity?

### 3. From Features to Experience (Baseline + Delight)

The third move is from focusing on selling features to focusing on the customer experience. Relentless drive to simplify online experiences using Fogg’s dimensions (page 2) can go a long way to removing the frustrations and improving conversion rates. But beyond this, looking at the customer’s life cycle is critical to dropping churn rates and giving your product or service the runway it needs to form habits.

It’s critical here to understand the difference between a client’s baseline expectations and what will delight them. Satisfying baseline needs and being ‘delighted’ show up differently in the brain and have very different impacts on customer behaviour. An expectation that’s unmet loses you much more goodwill (and costs you far more in NPS and loyalty) that you can gain from exceeding and delighting. In fact, from the brain’s perspective, you only earn the right to delight a customer when their baseline expectations have been fully met!

Deep customer research to tease out what’s baseline and real-time EEG tracking to spot moments of frustration and delight are powerful emerging tools in this space to help deepen our insights and drive better product and platform preference.

**Making it work**: How well

---

**Figure 5.** From Features to Experience: Baseline and Delight in the brain

---

**In a nutshell**

- Satisfying baseline needs earns the right to delight
- Small errors in delivering these baseline needs trigger strong negative reactions that overshadow most positive emotions
- The key is to satisfy baseline needs by proactively shaping customer expectations and creating processes and tools for service delivery that drive consistent outcomes

---

© NeuroPower Group 2016
4. From Discounts to Gamification

There’s now enough research evidence and enough real-world proof points to know that money really doesn’t drive everything. And whereas the early web spurred a wave of price wars as traditional business models were disrupted and prices removed, as the web matures we’re seeing an alternative battle ground for repeat customer purchase: gamification.

Once you’re clear on the behaviour you want, how can you incentivise that behaviour for the customer?

Making it work: How can you change your motivators from being purely ‘rational’ (linked to features and benefits) to addressing one or more of the three underlying motivators:
1) to seek pleasure and avoid pain
2) to seek hope and avoid fear
3) to seek social acceptance and avoid rejection.

5. From Transaction to Sustainable relationship

Interestingly, although you can use techniques like these to migrate people into repeated, ‘habitual’ purchases that are nowhere near as price sensitive, and where people are nowhere near as analytical, it’s important to remember that nothing’s lost on the internet.

The system has a habit of keeping itself honest, with transparency at higher levels than ever before. Social media sites and dedicated forums are giving customers very public channels to vent exactly how they feel when what they think they’re buying and what they actually get don’t line up.

This means that a strong ethical framework is needed, and companies need to be equally committed to ensuring that their products are delivering real value to their customers in both the short and longer term.

Making it work: How clear are we on the value our products add to our customers when they actually use them? What could we do to tangibly increase the value we deliver as a proof point for customers of our ongoing customer focus?