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# Behavioral economics and consumer choice



# Summary

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- Opposition to classic model
- Recent Nobel Prizes
- The Two Systems
- Neuroeconomics and organizations
- Cognitive biases
- When to nudge
- Type of nudges
- Apply Neuroeconomics!

# Opposition to classic model

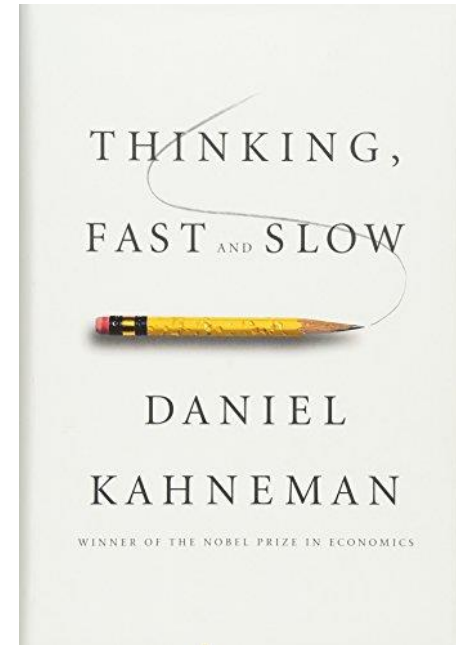
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- Competence is imperfect
- Information is asymmetric
- Consumer cannot decide rationally

# Recent Nobel prizes

## Daniel Kahneman (2002)

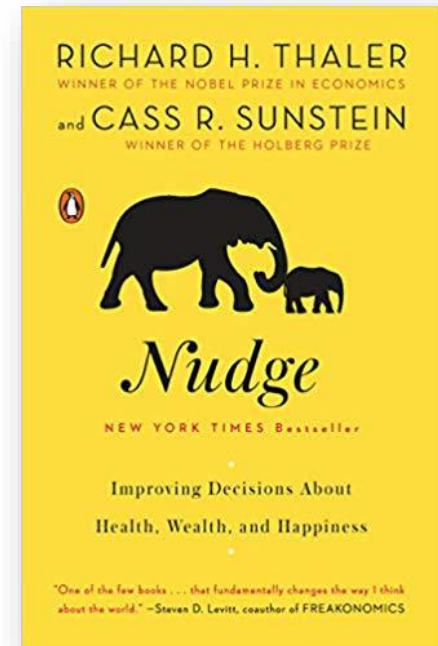
- Finds his study on the existence of "two brains" which collaborate to decide: System 1 or automatic and System 2 or slow.
- We tend to use automatic decision methods (heuristics or shortcuts) that produce biases that go against the classical principle of rationality.
- If we notice these biases, we can improve our decisions. Also, if we detect those biases, we can influence the decisions of others.
- It works in the field of descriptive theory, fundamentally.



# Recent Nobel prizes

## Richard Thaler (2017)

- He is the main disciple of Kahneman and gives a boost to the application of his investigations.
- "If you want people to do something, make it easy."
- His main practical contribution revolves around the concept of nudge, which consists of a help or push to guide the behaviors of others without using coercion, manipulation or costly budgets.
- He calls it libertarian paternalism, heir to British utilitarianism in the 18th and 19th centuries.



# The Two systems

SESGOS

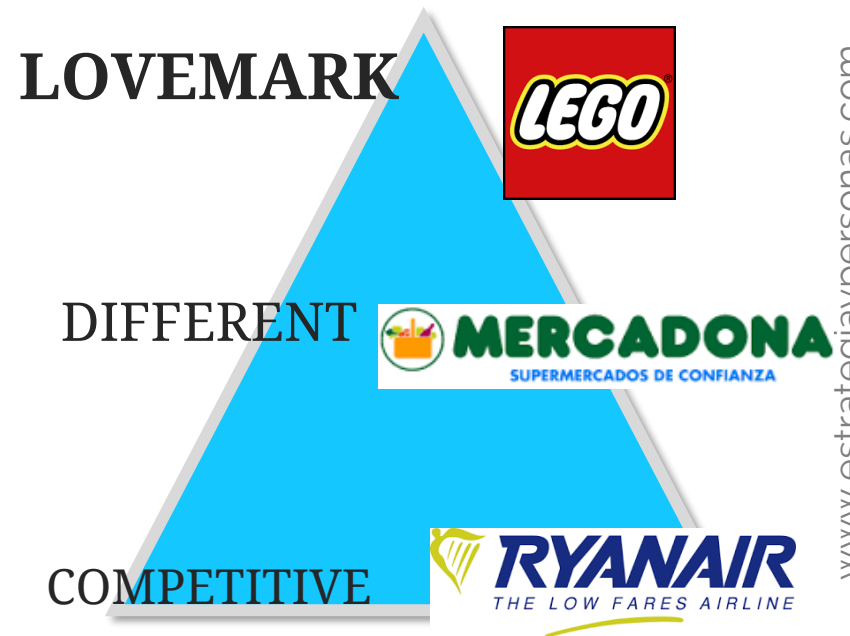
HEURISTICS

Table 1.1  
Two cognitive systems

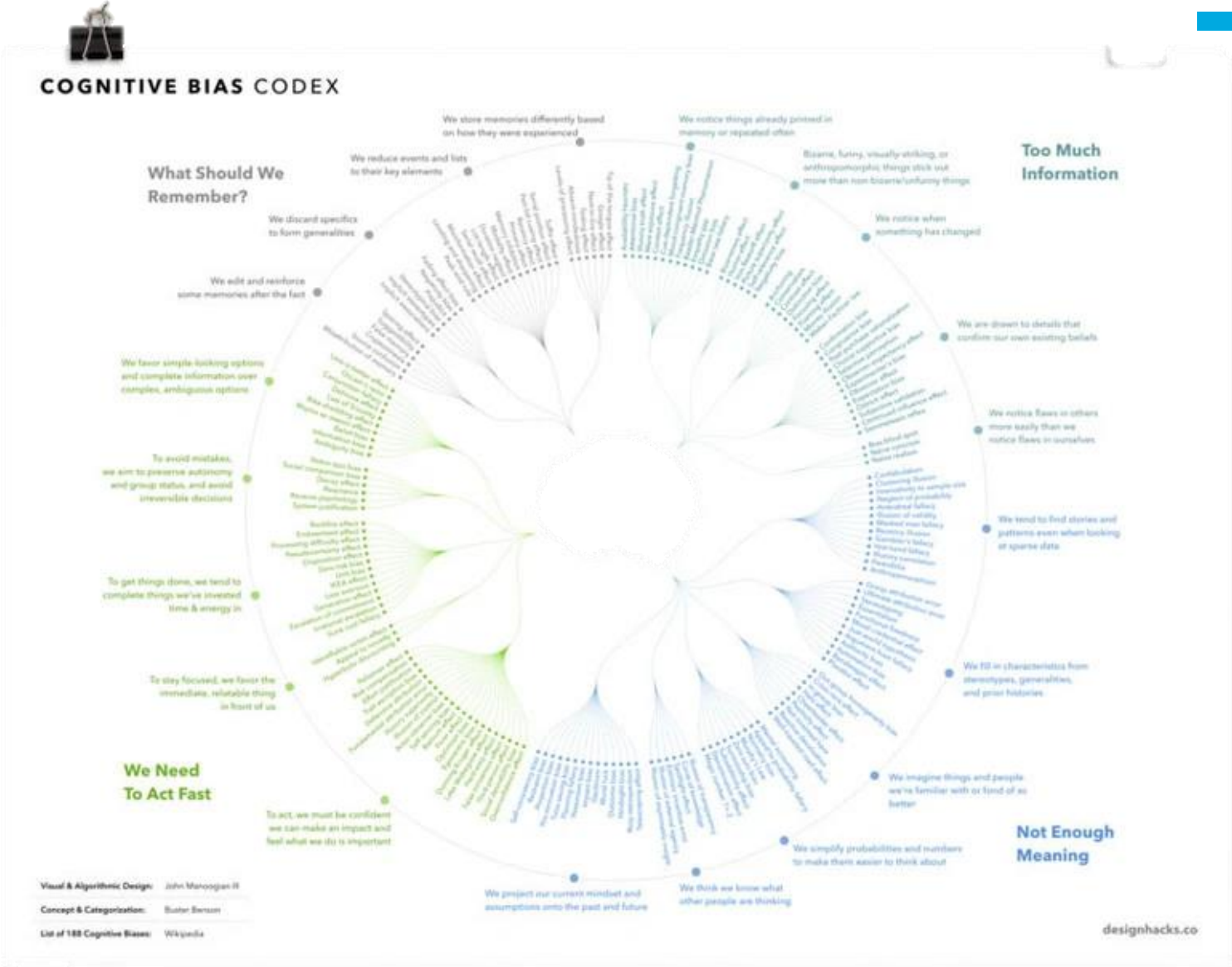
<i>Automatic System</i>	<i>Reflective System</i>
Uncontrolled	Controlled
Effortless	Effortful
Associative	Deductive
Fast	Slow
Unconscious	Self-aware
Skilled	Rule-following

# Neuroeconomics and organizations

- Neuroeconomics is a multidisciplinary field, a line of research influenced by psychology, sociology, informatics and different disciplines of medicine.
- Regarding branding, in 2004 the largest study on the Pepsi challenge was carried out, in which people preferred Pepsi in the blind test (prefrontal cortex) over Coca-Cola in which it allowed to see the marks (hippocampus).
- It demonstrated the power of branding to generate the purchase impulse.
- More recently, Jurgen Klaric, using similar techniques and tools, investigated the purchase algorithm based on the physiological variables of consumers and relating it to the behavior of sellers.



# Cognitive biases



# When to nudge?

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- When Homer Simpson is stronger than Sheldon Cooper (human weakness)
- Facing uncertain future consequences of current decisions
- Facing complex decisions
- In rare dilemmas
- When feedback is not evident
- Externalities



# Types of Nudge

## DEFAULT

- Automatic renewals
- Opt-out VS opt-in

- This week you lost 500 grams and walked 100,000 steps
- In 2019 you have consumed 3200Kw of green energy avoiding a footprint equivalent to 14 thousand plastic bags

## FEEDBACK

## ERROR

- “Look right”
- Gmail “attach your file”
- Right fuel?

- 9 out of 10 people who undergo surgery are alive 5 years later VS  
1 in 10 people who undergo surgery have died 5 years later

## FRAMING

## INCENTIVE

- Philippines “Quit Smoking program”
- Thermostat that measures consumption

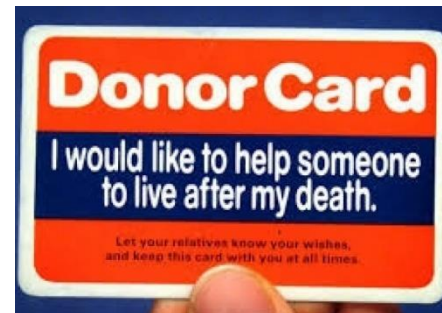
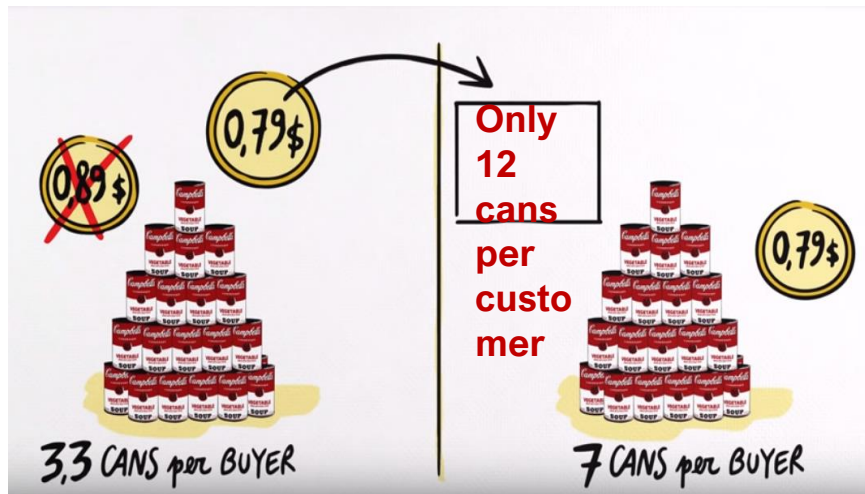
- Playlists
- People also bought...
- Similar website

## INFO RELOCATION

# Examples of visual nudges



sonas.com



# Lose weight!

**EXTRA!**

- Super down size when you go to serve
- Use small plates
- Delimit rations previously
- Be the first to choose when you eat with friends
- Communicate to your loved ones that you are on a diet
- Monitor your exercise
- Put fresh natural foods at your fingertips
- You make the purchase
- Set a goal for short time frames
- Have near an image of you in which you find yourself attractive

# Apply neuroeconomics!

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1. Extend your knowledge on the subject by consulting bibliographic sources that I propose
2. Email me if you have any questions, queries or anything interesting to tell me
3. Know your clients very well, their customer journey, the biases to which they are exposed and the heuristics through which they usually decide without the need to mobilize System 2
4. Experiment with the nudges you consider
5. Evaluate the response

**We all are architects of decisions**

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