

The colourful, intriguing world of behavioural economics

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One of the reasons that behavioural economics have become so widely influential is that they are a lot more colourful, intriguing and, let's face it, fun than the neo-classical approach to economics that largely dominates our world.

While we might previously have imagined having a rather robust idea of what takes place during certain familiar shopping scenes, we now know that an unseen landscape of contextual and unconscious factors are at play, which have the potential to sway consumers' choice. The playing field of choice is by no means level - and we can't resist the challenge of working out exactly how it might be slanted.

Fun with behavioural economics

Behavioural economics has focused marketers and governments alike on the importance of fast and frugal heuristics, and the contextual triggers with which they interact in driving much of human choice and behaviour.

However, behavioural economics is as much a debate as it is a conclusion, not that it is any less scientifically established or credible. That said, the insights it puts forward resonate far more strongly than those of the neo-classical approach, which views human decision-making as a rational, calculable and predictable exercise.

Choose your heuristics

To begin to use behavioural economics in order to understand human choice and behaviour, we could start by looking at the fast and frugal heuristics - the mental rules of thumb our brains use to guide decision-making. They are the product of our own experiences, as well as psychological, social, cultural and market influences. The reality of which heuristics we follow in different circumstances is often as individual as we are.

Such heuristics are classic examples of bounded rationality in action, wherein we deliberately simplify choices to make them more manageable. This differs from having to weigh up all the options in the style of a wholly rational neo-classical economist. If weighing up our choices according to the first rule of thumb in our hierarchy produces a clear winner, there is no need to consider any further.

Minding the rationality gap

An appreciation of heuristics and bounded rationality brings us significantly closer to understanding why many human decisions do not fit with what we might expect if we worked out likely courses of action according to the neo-classical economic model, or took brand tracker surveys at face value and expected people to make the choices they say they will. Heuristics are accessed at the moment of decision, by our experiencing self that deals with day-to-day life, rather than by our remembering self, which evaluates and explains it afterwards. As such they help to explain why consumers themselves cannot always accurately predict what they will do.

A healthy dose of context

Behavioural economics also teaches us to be alive to the contextual factors at play in each situation. For example, the need to adjust one's own buying preferences to those of others often exerts huge influence over purchases. Other contextual factors include cultural norms, traditions and expectations, which may easily override the heuristics mentioned earlier. Some of these cultural contexts are stable and enduring, creating certain conventions that may take precedence over other factors. However, such enduring cultural influences can be challenged by momentary or new contexts that may be less

predictable, such as current trends, social influence or even physical environment.

Contextual triggers

All sorts of subconscious phenomena, defined and described by behavioural economics experiments, are at work when consumers are making a purchasing decision. Transaction utility describes how we are predisposed to pay more for something that we visualise in an expensive setting; priming helps to explain how we enjoy things more when we are told that they are more expensive (through their being sold in an upmarket store in an upmarket location or simply commanding the highest price tag); and anchoring shows how unrelated numbers can affect our judgments, (if a jewelry store stands next to a display of expensive sports cars it may dispose us to pay more for the jewelry in front of us); The role of visceral mood states is also integral in swaying decisions: the types of day that we have experienced is a form of context that could exert significant influence over our choices.

Distinction bias and affect

Studies of distinction bias suggest that human beings tend to over-estimate the value of something that can be quantified, whilst under-stating the value of something that cannot. When faced with a choice between a stimulating and fulfilling job paying R600,000 a year and a tedious one paying R700,000, it seems that we are predisposed to go for the bigger paycheck. This might lead us to conclude that consumers may hold back from spending more on a purchase simply because it makes them happier than a less extravagant choice might. However, there are additional forces at play. Behavioural economics experiments also point to the influence of affective value (the extent to which things align with our deepest personal motivations and desires) over the monetary decisions that we make - and behavioural economists are well aware of the phenomena of loss aversion, whereby the threat of loss is weighted far more heavily than the promise of gain.

Reaching a decision

It is at this point that the risks of interpreting consumers as merely the sum of potential behavioural impulses become apparent. True clarity can only come to the picture when we integrate the importance of our own consciousness in directing our decisions. Consciousness provides us with the ability to delay and deliberate, to put gratification on hold by trading something good now for something better later.

Many interpret the lesson of behavioural economics as being that humans are inherently suggestible, that we are the plaything of contextual triggers that can be used to nudge us in one direction or another. Behavioural economists themselves rarely think this way. The fast and frugal heuristics that they describe form a highly effective means of consistent decision-making when faced with complexity, pressure and uncertainty. It is a system that is highly individual, composed and shaped by affective memories, motivations and by our own rational, considered choices. For a complete, holistic view of human decision-making, we need to respect human beings as individuals, and focus the insights that behavioural economics provides on the many and varied ways in which those individuals make choices.

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