A CLOSER LOOK AT BEHAVIOURAL ECONOMICS AND CONCEPT TESTING FOR CPG

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TWO SIDES TO CONSUMERS

Since Daniel Kahneman, the 2002 Nobel economic prize recipient, published *Thinking, Fast and Slow* in 2011, marketing and research professionals have been paying closer attention to consumer behaviour. Kahneman's own take on the role of formal reasoning in behaviour shows how people form impressions, develop perceptions and make decisions relying in priority on mental processes that are fast, intuitive, heavily dependent on past experiences and often laced with emotion (a.k.a. System 1). System 1 can be described as our default operating mode, as opposed to System 2 which is a slower and more logical thinking mode that we are usually unwilling to engage.

Behavioural Economics and Concept Testing

One view put forward by a surface reading of behavioural economics (insights and experiments from psychology to better understand economic choices and decision making) suggests that traditional concept testing uses inadequate tools to capture consumer behaviour because:

1. Consumers operating under System 1 are irrational.
2. Surveys force consumers to think too much in their response to new products and in ways that are not consistent with System 1.
3. Emotion is a metric which somehow better captures the true behaviour of consumers compared to other concept test metrics.

However, a closer look at the assumptions above reveal that they don't truly reflect consumer decision making and that emotion is not a magic metric that can predict trial.

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Are Consumers Irrational?

Consumers and shoppers are purposeful and will more likely act consistently with their underlying preferences and motivations. This is what makes consumers neatly or broadly rational. Rationality does **not** assume consumers are conscious of their preferences, motives and decision processes. Consumers operating under System 1 may not always make the most consistent choices but that doesn't make them in essence irrational consumers. For example, relying on our gut-feel – a typical System 1 strategy – is an effective way to avoid making poor choices. At the end of the day, if the premise is that consumers are irrational, neither measuring perceptions nor emotions nor purchase intentions related to a new product could ever be used to forecast in-market behaviour.

Do Surveys Bias Consumer Response to New Concepts?

Consumers don't spend time thinking hard whether or not a new product is addressing a need or is relevant to their life. Consumers 'thin slice' like most people who develop particular forms of intuitive judgment – they hit their keyboard or screen fast to respond to concepts through quick thinking and feeling.

Is Emotion the Magic Metric for New Concepts?

The idea that a direct measure of emotion is the 'magic metric' and somehow more closely related to what consumers will actually do in-market is fanciful. In a concept test, emotion is not the best predictor of CPG purchase any more than purchase intention is. Relying on a direct measure of emotion actually creates the same bias in measuring the underlying appeal of a concept as purchase intention does: an R&D test of 100 concepts conducted by Ipsos six years ago showed that purchase intention is very sensitive to executional quality because it is excessively coloured by how consumers feel.

IPSOS' RED APPROACH FOR CPG IN LIGHT OF BEHAVIOURAL ECONOMICS INSIGHTS

Ipsos' approach is to measure Relevance, Expensiveness and Differentiation (what we refer to as the RED measures) for the concept as well as for each consumer's Most Often Purchased Product. This approach is consistent with behavioural insights into decision making:

- Reference points (e.g., the Most Often Purchased Product) are typical components of judgment and decision making situations (whether or not consumers are on auto-pilot or evaluating products with their eyes wide open).
- Relevance (and to some extent Expensiveness) are the building blocks of motivation and avoid the distorting effect of relying only on emotion.
- Differentiation is a key component of concept evaluation (using a process of similarity and dissimilarity contrasts) and impacts the consumer's evaluation and decision.

Consumers spend little effort at the shelf both in terms of visual attention or thinking of brands, past experience, visual cues, etc. The result is that consumers go through the aisles in auto-pilot mode and make quick RED-based decisions without thinking really hard.

Besides, marketers need basic diagnostics to take action on disappointing concept results. Purchase intention or emotion does not go very far to help, except for go/no-go decisions. RED diagnostics enable marketers to turn a concept with narrow appeal into a mass-market winner or realise that consumers see their innovation as a me-too (since differentiation is a matter of perspective).

Finally, predicting in-market success for new concepts requires more than supposedly getting close to consumers' automated self. Unless one goes through the hoops of translating concept response into at least trial potential and preferably adjusting for likely availability, estimating repeat (e.g., using panel components) and projecting volume, it is hard to see all the way to market success from the standpoint of a metric of emotion or intention.

AVOIDING THE SYSTEM 1 STEREOTYPE

Behavioural economics deepens our perspective into how consumers make decisions. It also shows how brand advertisers can best align with the motivation and the mechanism of consumer behaviour. Lastly, it sheds new light on the strengths and weaknesses of research tools and methods to understand behaviour and its factors. However, stereotyping consumers as System 1 decision makers should be avoided as it does not reflect how consumers can and do engage in both System 1 and System 2 thinking in their purchase behaviour. While consumers do not think very hard about CPG purchases, they do make quick decisions which are well captured by their impressions of relevance, expensiveness and differentiation of a product. The same holds true for their thought processes regarding new product concepts – hence, focusing too much on emotions in concept testing does not allow for predictions about in-market success.

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Pascal Bourgeat, Ph.D. (Consumer Behaviour) is Director of Behavioural Science at Ipsos in Australia. He designs research and works with private and public sector clients and Ipsos teams on a range of behaviour-related issues: CPG consumers and shoppers, customers of service sectors, users of public sector services like health and transport, patients and healthcare professionals and more.

For further reading, please download Pascal Bourgeat's White Paper "Concept Testing and the Tale of Two Systems" at www.ipsos.com/innoquest or contact your Ipsos representative.

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Ipsos Marketing is a specialization of Ipsos, a global market research company with offices in 86 countries. Ipsos delivers insightful expertise across six research specializations: advertising, customer loyalty, marketing, media, public affairs research, and survey management.

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