

pointofview

Breaking Up Is Hard To Do

Behavioral Economics and
New Product Success

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Connecting What's Now to What's Next

When Neil Sedaka wrote the song “Breaking Up Is Hard to Do,” little did he know that he had written a treatise for the modern shopper, perfectly capturing consumer sentiment when it comes to their relationships with ...the products and services they currently use. Wow, it's not as romantic when you put it that way.

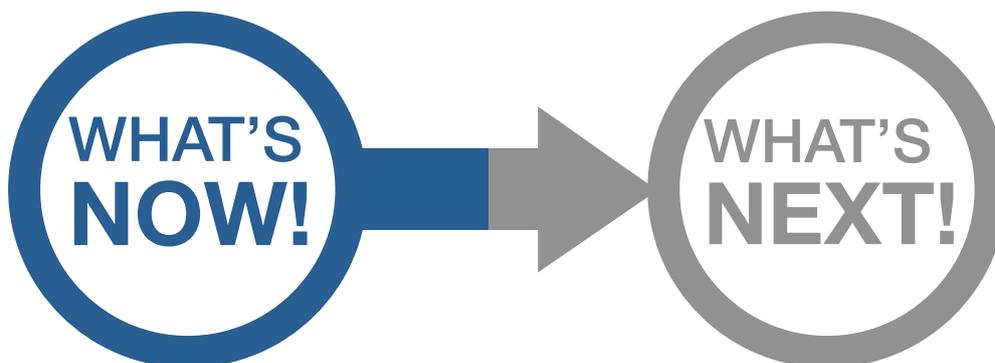
The central tenet of innovation has long been that if you build a better product and communicate the benefits, consumers will flock to that new introduction (assuming you effectively execute the 4 Ps of marketing). As a result, and not surprisingly, companies have focused their innovation efforts on the development, optimization and communication of those new product benefits.

What's missing from this equation is a consideration of what the field of behavioral economics (BE) refers to as the status quo bias – that people tend to take their current situation as a reference point, resulting in any change being felt as a loss and creating a preference for doing nothing or maintaining prior decisions (e.g., Kahneman, 2007). Neil Sedaka is a bit more eloquent when he sings “Instead of breaking up I wish that we were making up again.” But you get the idea. It's difficult for consumers to leave the past behind – whether the relationships are with people, or products and brands.

This problem is exacerbated as products move from core to more transformational innovations. In their paper “As Time Goes By: Warm Intentions and Cold Feet for Really New versus Incrementally New Products?” (Alexander, Lynch, & Wang, 2008), the authors note that consumers are four times more likely to intend to buy a “less new” than a “really new” product. This difference carries into actual purchase behavior as well, where it was noted that acting on those purchase intentions is half as likely for the really new products when compared to those that are less new. Change is hard, and big changes are even more difficult.

As we seek to connect what's now to what's next, this paper will demonstrate several core ideas:

1. To predict the likelihood of consumer adoption of a new product or service accurately, we must do a better job of understanding their relationship with their default (current) option.
2. Maximizing the adoption of new products is not simply about accentuating the positives of the new product; we need to consider people's status quo bias.
3. Integrating this knowledge into how we write new product concepts will result in concepts that are more appealing to potential consumers.
4. Behavioral economics can also guide a transformation in concept testing surveys, with specific changes required to reflect how consumers actually make decisions.



Our goal in this paper is to communicate the relevance of behavioral economics to new product adoption and the way we approach research to gauge interest in new products. We use case studies to show how abstract psychological concepts such as the status quo bias can be captured via text analysis of open ended responses to new product concepts; we provide guidance as to how concepts should be written to motivate consumers to change; and we offer specific changes to the concept testing survey to evaluate consumer acceptance of new products. The ultimate goal is to leverage this information to conduct better new product research and improve new product adoption rates.

Although we use the term “new product” throughout this paper, we would like to mention that the term actually encompasses any new offering in the marketplace, such as insurance, banking services, cell phone plans, and so on. We would also like to make a brief note on the usage of open-ended questions to capture psychological concepts before proceeding further. There is a belief that behavioral economics (and System 1 in particular) is only about the unconscious. Kahneman, however, explains that System 1 includes quick, automatic and involuntary thoughts that consciously come to mind (e.g., “2+2=?”, “the capital of France is ?”). Certainly, behavioral economics and System 1 include the unconscious, but are not exclusively about the unconscious. When we are presented with concepts of new products, we often have quick, automatic and involuntary responses to them that are conscious. Using open-ended questions allow us to capture these easily.



A Behavioral Economics-Based New Product Adoption Framework

In integrating the sometimes disparate topics of new product adoption and behavioral economics, we propose a new BE-based product adoption framework that incorporates elements from both academics and practitioners who have examined this topic (e.g., Gourville, 2006).

This framework is built around the key premise that in order for a new product to be adopted, an existing product or behavior will almost always need to be replaced. If so, a successful new product launch is not simply about attracting consumers to the new product, but also about *overcoming the psychological barriers* that cause people to stay with existing products. Put simply, there are positive forces that draw people towards new products and there are negative forces that keep people with their existing products. Our framework is illustrated in Figure 1.

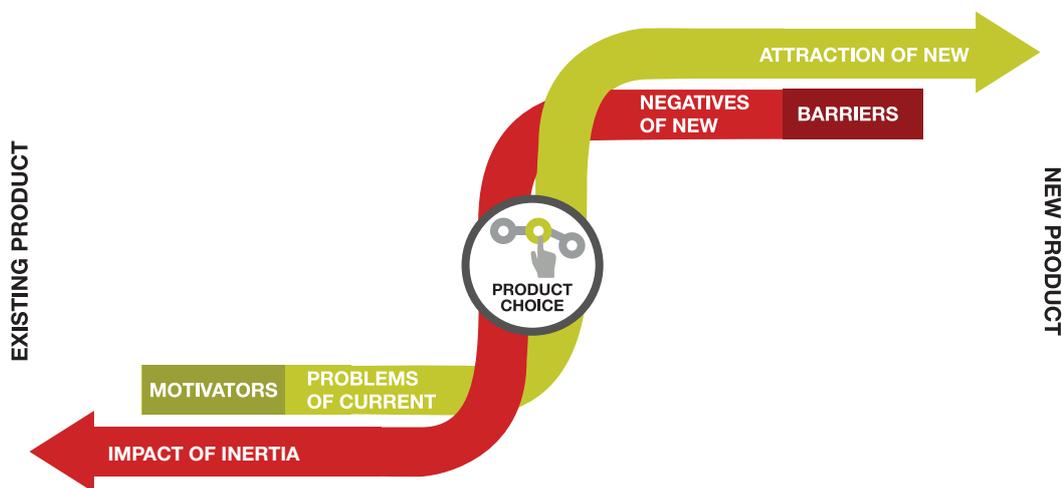


Figure 1: Adoption Equilibrium Framework

While most companies address the positive forces that move consumers toward new products, many neglect the negative forces that result in consumers staying with their existing products. We go into a brief description of the positive and negative forces in our proposed framework and then dive into a series of case studies to bring the framework to life.

Breaking Up vs. Staying Together

In general, there are two primary motivators that lead people to purchase a new product. The first comes from a sense that things are not quite right (“problems of current”) and thus, a desire for a better solution. This is the feeling we get when our laptop battery runs out in an hour or when there is a stain on our clothing that we just can’t seem to remove. Motivators grow from the problems we experience with existing products and the gnawing feeling that there just has to be a better way.

The second motivator that pulls us towards new products is what most companies focus on: the benefits and/or features of a new product (“attraction of new”).

This motivator can occur independently of the first, or the existence of a new product can trigger feelings of inadequacy directed toward the original solution. In other words, even if we don’t recognize issues with existing products, the bells and whistles of a shiny new product may be enough to attract us.

Companies’ intense focus on new product optimization has not been lost on the market research industry, as evidenced by the sophisticated research tools developed for new product optimization, such as conjoint/discrete choice methods. Most companies have a product development pipeline full of these types of products, what the author Youngme Moon labels augmentation-by-addition and augmentation-by-multiplication (Moon, 2010).

Most companies fall short in addressing the barriers that cause consumers to stay with existing products even in the face of appealing new benefits (“negatives of new”). First, consumers’ may perceive drawbacks in the new product that manufacturers did not anticipate. While manufacturers often see only the incremental benefits offered in their new introductions, consumers see a tradeoff. This barrier captures the construct of loss aversion in behavioral economics literature. People have a strong bias to prefer avoiding losses, even at the expense of acquiring gains.



A second barrier that inhibits switching behavior is the strong tendency of consumers to stay with what they already have (“impact of inertia”). This has been termed the status quo bias, although the endowment effect has often been used to explain the status quo bias. While this bias can often be explained as “what I have is good enough,” there is likely also an emotional attachment to existing products, whether stated or latent. To address the impact of inertia, we need to focus less on the product itself and more on the impact the product has on the life of the person faced with a switching decision. Drawing again on the work of Ms. Moon, she suggests that the most successful new products (a) offer something that is hard to come by, (b) reflect a commitment to a big idea, and (c) will be intensely human. We would term this type of introduction as augmentation-by-idea as a way of combining all of these elements into one. An example of augmentation-by-idea is Chobani yogurt, which created a market for a new type of yogurt in the US, is built around the promise that “to love this life is to live it naturally,” and is positioned as much around how it makes people feel as it is any product attributes (which are mainly secondary).

Our framework clearly illustrates that if we want consumers to buy a new product, it is not simply about telling them the new product is better and how it will help solve problems. We need to understand what negatives consumers see in the new product or what they “lose” when they stop using their current product. We need to also determine the emotional energy consumers have attached to existing products. Only when both motivators and barriers are addressed will we maximize a new product’s adoption rate.

As we move into case studies designed to illustrate these points, we should make it clear that we are not advocating less effort be directed toward motivators. Addressing the positive forces is essential to delivering a successful new product. However, an exclusive focus on motivators to the exclusion of overcoming barriers has the potential to cripple the success of a new product.



Case Study #1 – The Why Behind Wi-Fi Enabled Appliances

In this study, consumers were shown a concept for a Wi-Fi enabled household appliance with a retail price of \$650, and asked for their purchase interest (on a closed-ended basis) and the reasons for their response to the purchase interest question (on an open ended basis). The major themes from the open-ended responses were extracted using text analytics and are presented in Figure 2.

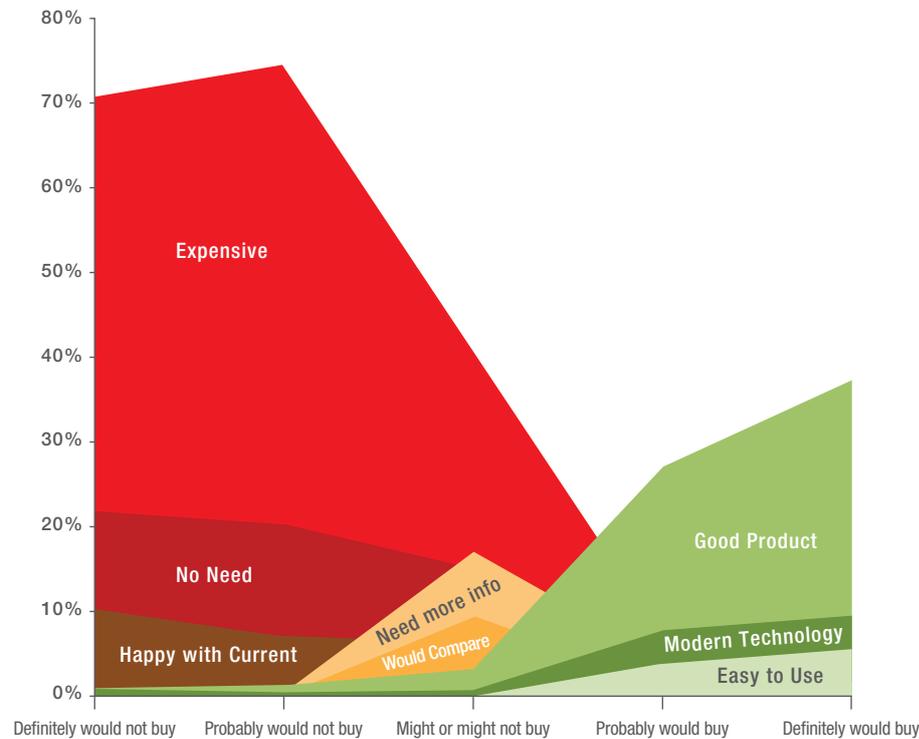


Figure 2: Text Analysis Results for Wi-Fi Enabled Appliance

While the price of the product is clearly a negative, what is more interesting are the themes “no need” and “happy with current [solution].” Both themes reflect the impact of inertia (note that in this paper we use this term interchangeably with status quo bias) as they indicate consumer satisfaction with current solutions. While this bias is intuitive and sometimes acknowledged by researchers and manufacturers, we often do nothing about it. So, for example, while “happy with what I have” is a primary theme often captured when verbatims are manually coded, we are often unclear on how to act upon this information.

We also point out the themes “need more information” and “[would] compare with other brands/products,” both of which fall toward the mid-point of the purchase interest scale (i.e., might or might not buy). These themes indicate the presence of thoughtful, rational, System 2 thinking. Though behavioral economics would have us believe that our thinking is dominated by automatic, quick, System 1 reactions, when it comes to large ticket items consumers frequently present reactions as a balance between System 2 and System 1. We cannot assume System 1 thinking dominates in all new product adoption, though experience would suggest it is more prevalent in lower-priced or more routine purchases.

After the themes were extracted, we statistically quantified the impact of each theme on purchase interest (see Figure 3).

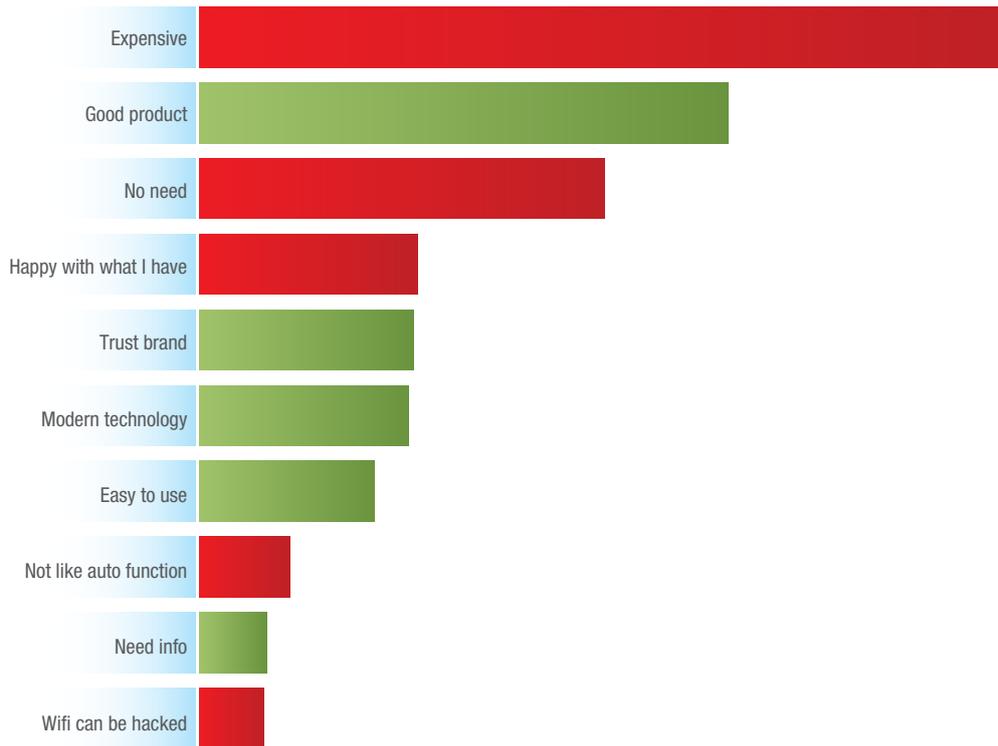


Figure 3: Relative Impact of Themes on Purchase Interest

Not surprisingly, price (as represented by “expensive”) was the largest driver of purchase interest, weighing negatively. The more surprising finding is the relative impact of status quo as captured by “no need’ and “happy with what I have.” Hence, the status quo effect was essentially the third and fourth largest driver of purchase interest. This demonstrates that we cannot afford to ignore the impact of inertia. At minimum, we need to understand the people most heavily impacted by that bias, and to examine ways to persuade these consumers.

As text analytics is done at the respondent level, we must identify those consumers, understand what it is that makes them happy about their current solution, and devise strategies for overcoming this position. In this study, we found that females were more likely to exhibit the status quo effect than males. This gender effect could be a result of the appliance in question generally being considered a male's responsibility. One option might be to focus marketing efforts on males. We also saw that even though consumers mired in the status quo claimed they were happy with their existing solution, a proportion reported not liking the noise their current appliance made. This provides an opportunity for the manufacturer to address noise when positioning the new product, maximizing the chances of converting this group. These findings do not mean that the price barrier is to be ignored; rather, it suggests that concerns about price are more easily ameliorated for those consumers for whom the status quo bias can be overcome via positioning.

Finally, we'd be remiss if we didn't address in this concept optimization exercise the negatives of the new, those items that were perceived by the manufacturer to be a positive but seen by at least some respondents as a negative purchase driver. One such negative theme was a worry of the Wi-Fi being hacked. Another was the perception that the "auto" option that performed a function without the need for manual intervention was considered a loss as consumers wanted to feel they had the ability to choose whether that action should be taken or not. Both these themes illustrate how the features manufacturers consider as benefits may paradoxically be perceived as negatives/losses.



Case Study #2 – Bringing Life Insurance to Life

Similar to the first case study, consumers were shown a concept for a new product (in this case, a life insurance product), and asked their purchase interest and (on an open ended basis) the reasons for their response to the purchase interest question. The sample in this study included only consumers who had previously indicated that they were receptive to purchasing life insurance within the next two years. As such, these consumers likely did not have life insurance currently or, if they did, were still open to buying additional coverage. As before, the responses to the open-ended question were text analyzed to extract the major themes. The themes extracted are shown in Figure 4.

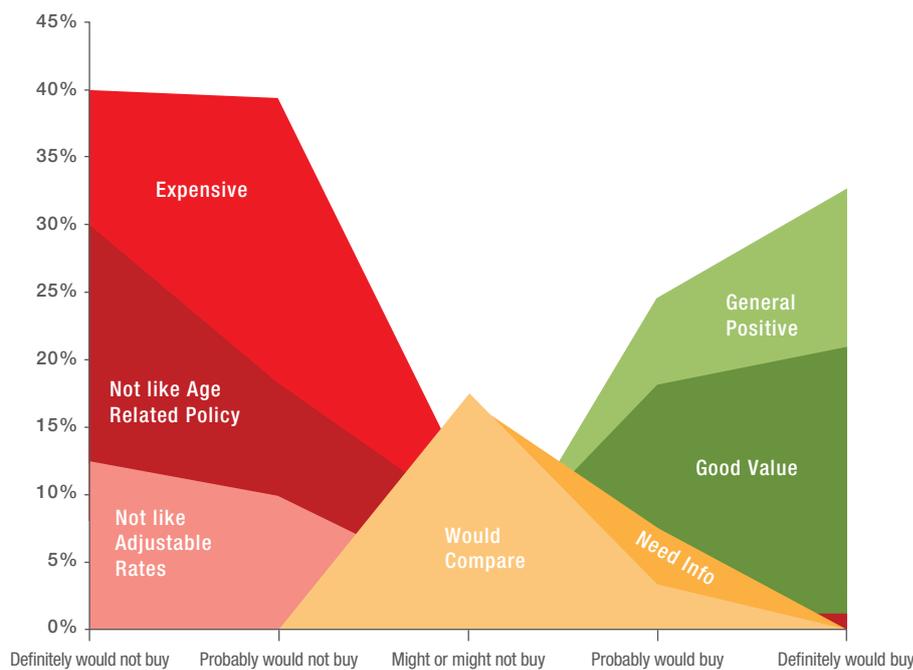


Figure 4: Text Analysis Results for Life Insurance Product

We again observed that price is a major negative barrier. The status quo effect was smaller in this study as most of these consumers presumably had no life insurance. What stands out, however, was the presence of two major negative themes: “[do] not like age related policy” and “[do] not like adjustable rates.” We also note the presence of System 2 thinking as evidenced by the two themes “would compare” and “need more information.” Given the complexity and importance of life insurance, it makes sense that consumers would engage in thoughtful consideration before committing to a purchase.

As before, we used the themes that emerged to predict purchase interest and those results are shared in Figure 5.

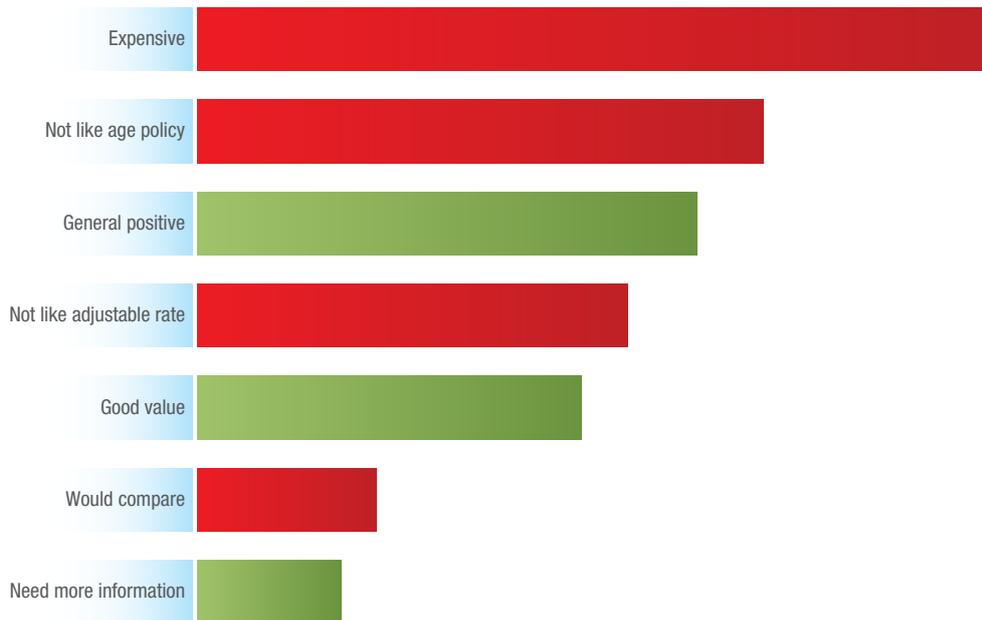


Figure 5: Relative Impact of Themes on Purchase Interest of Life Insurance Product

It is striking that about half of the drivers of purchase interest are negative. This shows the importance of examining negative forces that move consumers toward staying with existing solutions (or in this case avoiding the problem altogether) in addition to looking at the positive forces. We see that the two negative themes “[do] not like age policy” and “[do] not like adjustable rate” are the second and fourth largest drivers.

Contrast these results with how concept tests are typically set up in market research. The norm is to ask respondents to rate concepts on a list of positive attributes, usually product benefits manufacturers want to communicate. While these positive attributes are useful in determining whether the concept effectively communicates its benefits, such an approach results in a failure to capture perceived negatives in the new product. Using only positive attributes to evaluate a concept would equate to developing a statistical model to predict purchase interest with only the green bars in Figure 5.

Case Study 3 – Finding the Beauty in Skin Care

We have looked at two cases where consumers were presented with a concept and asked for their interest in purchasing a new product. In both, we saw that while product benefits can increase the likelihood of purchase, there are also negative forces that move consumers toward staying with existing solution, such as impact of inertia, unintended negatives of the new product.

Let's now look at the results from a case study for a beauty brand that is long-established in market. The objective of this study was to understand why consumers have yet to try the brand. Respondents who had not tried the brand in the past year were asked why using an open-ended question. The verbatims from this open-ended question were text analyzed and the major themes presented in Figure 6.

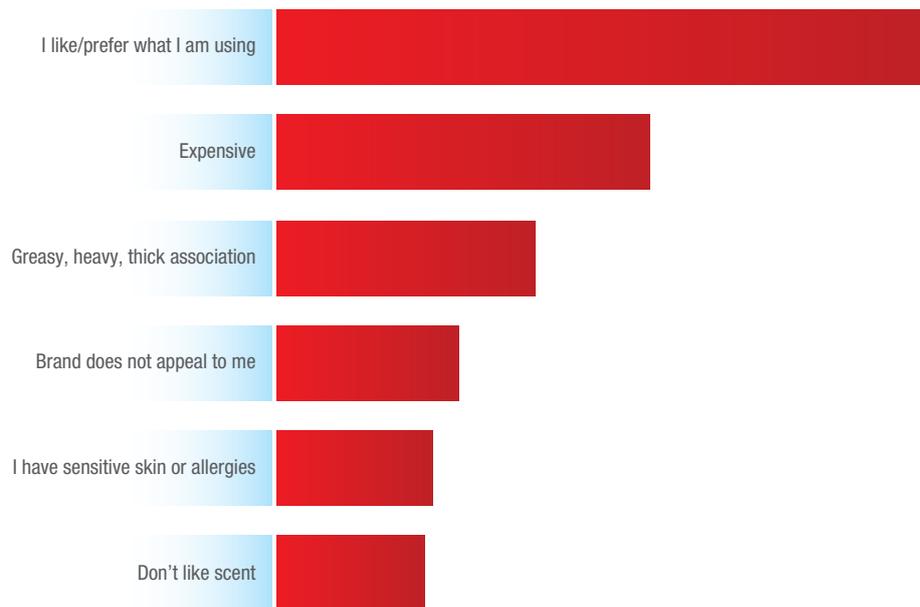


Figure 6: Major Themes of Why Not Try Beauty Brand in Past 12 months

Given that we are now looking only among consumers who have not tried the brand, the themes are all negative. The impact of inertia is the largest barrier. Consumers like or prefer what they are currently using. There is also a perception that this brand is greasy, a concern emerges with trying the brand because of worries about sensitive skin conditions, and a dislike of the scent of this brand is called out.

With the greasy association, sensitive skin worries and dislike for the scent, there are clear actions the manufacturer can take to address these negatives, assuming they can do so without losing appeal among current customers. For example, the manufacturer could address the greasy concerns with appropriate marketing communications and/or product innovation.

What to do with the status quo effect, however, is more challenging. Given that this is the largest effect, we cannot ignore it. So we dived deeper into understanding these consumers. Specifically, consumers who reported the status quo effect were compared against those who did not. The results, while likely applicable only to this category, are highly illustrative and informative. Consumers who exhibited the status quo effect were more focused on functional needs whereas consumers who did not report the status quo effect were driven more by emotional needs (see Figure 7). These findings help explain the status quo effect. Functional needs are relatively more easily satisfied than are emotional needs. If consumers' needs are primarily functional and they have already found a product that meets these needs, then it would make sense that they would choose to stay with their current product. Emotional needs, however, are more difficult to satisfy so consumers who have stronger emotional needs are less likely to exhibit the status quo bias.

In general, the findings tell us that getting consumers to try a new brand and pay a premium in beauty care may be more about appealing to emotional than functional needs. For the brand in this study, that suggests an evolution toward a more emotionally oriented positioning and marketing message.

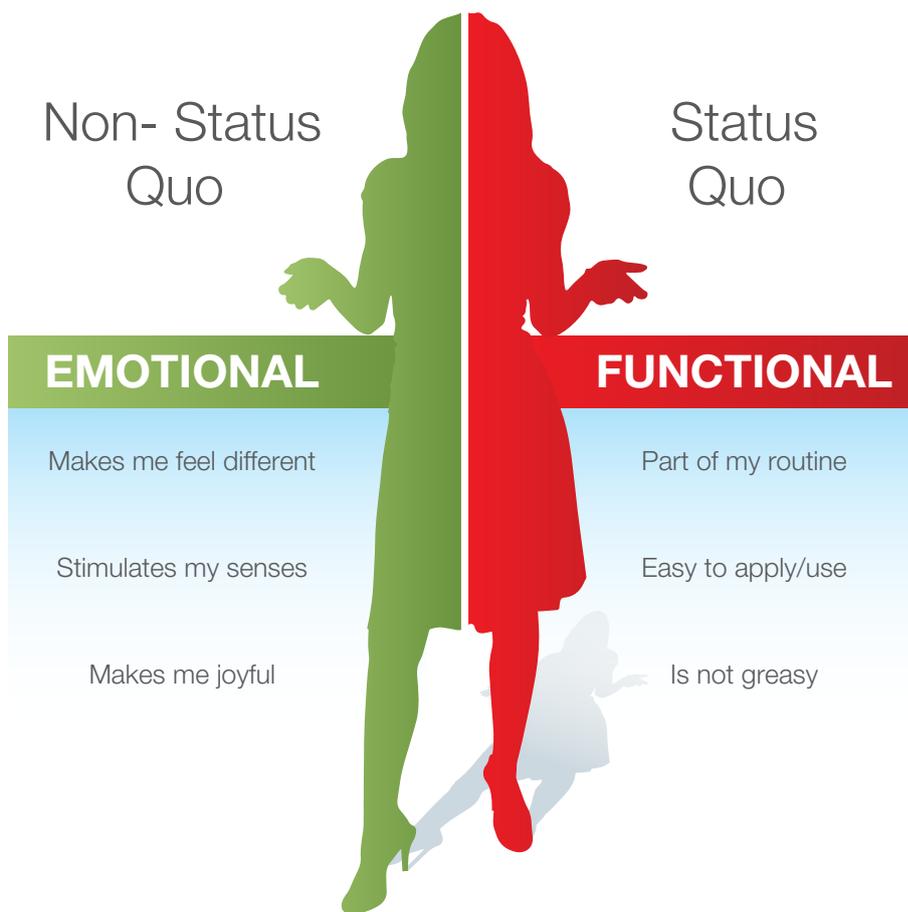


Figure 7: Comparing Consumers Who Exhibited the Status Quo Effect Versus Those Who Did Not

Case Study 4 – Avoiding the Cereal Killer

In this final case study, respondents were shown a cereal concept, asked their purchase interest and asked an open-ended question about the reasons for their response to the purchase interest question. The verbatim responses for the open-ended question were text analyzed and the major themes shared in Figure 8.



Figure 8: Text Analysis Results for Cereal Product

As in the first two case studies, we note the presence of substantial negative reactions to the new product. This new cereal was positioned as having an ingredient that was not only tasty but also healthy for consumers. The results are quite polarizing. While there were respondents who did view the cereal as healthy, a larger proportion considered it unhealthy. Similarly, while there were respondents who liked the highlighted ingredient, a larger proportion did not want the highlighted ingredient in the cereal.

There are a few other findings that are worth contrasting to the previous case studies. Even though “expensive” is present, it is a much smaller barrier for this product. This makes sense given the lower price (\$3.99) versus the products in the other three case studies. There is also no status quo effect for cereal. For cereal, most consumers eat a number of cereals and variety seeking is fairly common. The absence of the status quo effect, therefore, makes sense. Finally, we note also the absence of System 2 thinking in the middle of the purchase interest scale that we saw for the household appliance and life insurance product. In its place instead is the mention that the availability of coupons or a sale would tip respondents towards trying the product. For a fast moving consumer good like cereal where the purchase cycle is short, variety seeking is common, and the price is low, it makes sense that consumers would rely more on heuristics to make decisions (e.g., healthy or not, coupon available or not).

Finally, we used the themes extracted to predict purchase interest and share the results in Figure 9.

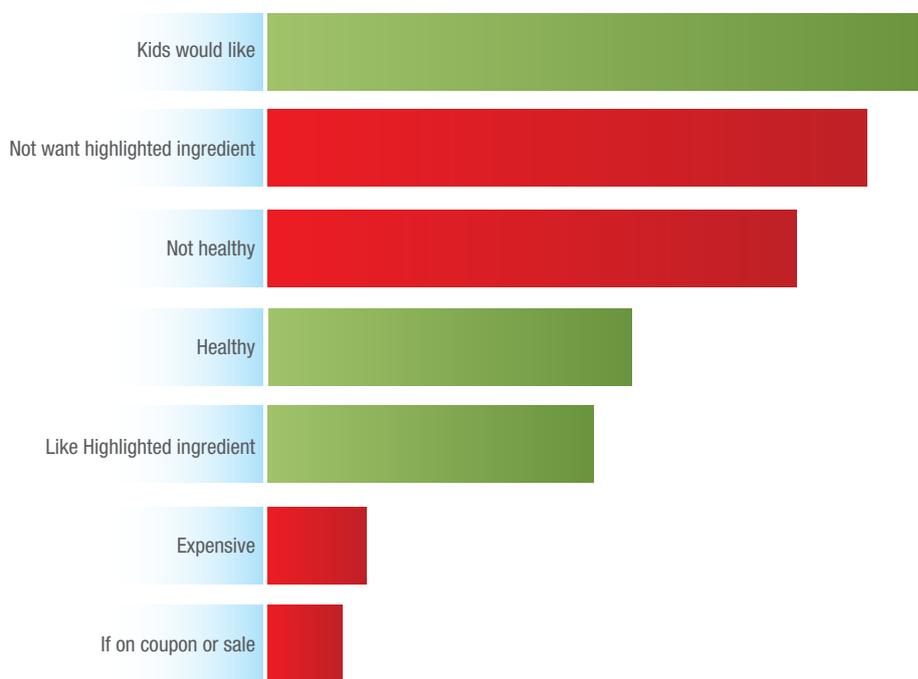


Figure 9: Relative Impact of Major Themes on Purchase Interest

As in the other three case studies, we note that negative themes are major drivers of purchase interest. When we compare positive and negative themes along the same dimension, we see clearly the stronger effect of the negative themes. For example, if we look at the relative impact of “not healthy” versus “healthy,” we see that “not healthy” is a stronger driver of purchase interest. Similarly, if we look at the relative impact of “[do] not want highlighted ingredient” and “like highlighted ingredient,” we see that “[do] not want highlighted ingredient” is the stronger driver. The results here are consistent with what has been observed in the behavioral economics literature: negative perceptions have a larger impact than positive perceptions.

Applying the Learning From Behavioral Economics to New Product Research

It should be clear by now that getting consumers to adopt a new product is not just about emphasizing the benefits and positives of the new product. Accentuating product motivators ignores key barriers to new product adoption. We have to address the negative forces that keep consumers with their existing products. Specifically, the impact of inertia and any negative perceptions of the new product have to be addressed.

The four case studies show that the magnitude of the status quo effect will vary depending on the category into which the new product is entering. In categories where people tend to use only one product and stick with it for a long time (e.g., household appliances), the status quo effect is likely to be larger – academic studies have shown that the status quo effect tends to increase with time. In categories where people switch from one product to another more freely (e.g., cereal), we see the status quo effect to be muted.

Similarly, we have also seen evidence that whether System 1 or System 2 thinking dominates when it comes to new product adoption depends on the product category and price tag. Big ticket purchases like household appliances or technology products are likely to encourage more System 2 thinking than lower-cost purchases such as fast moving consumer goods. The bottom line is that we cannot apply the concepts of behavioral economics indiscriminately.

This leads to very specific steps we should be taking within our marketing research to reflect how people make decisions and to devise ways to maximize the appeal of new products and overcome the bias toward existing products. These include:

- Particularly for durables / longer term purchases, pretesting concepts qualitatively via online communities (or other similar iterative, low-cost tools) then text analyzing the consumer response to optimize concept language to address both motivators and barriers.
- Particularly in fast moving consumer goods, focusing our surveys around direct comparisons to products used currently, rather than relying on a traditional normative database.
- Making specific choices about whether to engage consumers in System 1 or System 2 thinking in writing concepts, depending on the nature of the product being tested.
- Leveraging natural consumer language coupled with text analytics to a much greater extent than we do currently to understand drivers of and barriers to concept success, to be used in creating the brief delivered to ad agencies in crafting final messaging.

We strongly believe that a new product adoption model that incorporates both motivators and barriers will maximize the chances of new product adoption. With open-ended questions and text analytics, a system that examines both positive and negative forces can be implemented in any concept testing system. And rather than Mr. Sedaka's lovesick lament, marketers will have consumers singing one of his other songs: "You Mean Everything to Me."

Appendix

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Footnote

We would like to note two points. **First**, while we have presented the status quo bias, inertia, and negative emotions as separate concepts, in reality these can interact and blur together. For simplicity, these interactions are not considered in this paper. The primary point in our paper is the need to consider and overcome psychological barriers to maximize new product success.

Second, it should be mentioned that the Constructive Consumer Choice Process (Bettman, Luce and Payne, 1998), a consumer psychology framework, also explains the findings of the case studies brought up in this paper. This framework, consistent with behavioral economics, posits that people have a desire to avoid negative emotions, seek good outcomes and minimize effort. Behavioral science frameworks, in general, can help us more broadly understand how our choices are influenced (e.g., by social effects) (Cialdini, 1988).



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