UNDERSTANDING THE IRRATIONAL CUSTOMER:

A Q&A with Dan Ariely

PUBLISHED
October 2013

THE **RUNDOWN**

How do people make decisions? And why do they make bad ones? This is Dan Ariely's field of expertise. This behavioral economist studies what motivates our choices, and has revealed many counterintuitive results that factor into decision-making. For example, consumers are more motivated by a $3 latte than three single dollar bills. And they'll think a product is a great deal if it is simply placed next to a more expensive one. Ariely walks us through these remarkable findings and explains the implications for marketers.

We make many decisions — large and small — every day, ranging from what we should eat for lunch to what we should do with our lives. You would think that we approach all of them rationally and logically. But you'd be wrong.

Dan Ariely, a professor of behavioral economics at Duke, has been researching human behavior for more than 20 years. In his best-selling books — which include *Predictably Irrational, The (Honest) Truth About Dishonesty* and *The Upside of Irrationality* — he explores the many ways in which we're not rational when we make decisions, and how this irrationality is often systematic and predictable.

We spoke to Ariely about his research and the lessons marketers can take from it.

What is one of the most surprising findings from your research?

One of them is something we called "coherent arbitrariness." In one experiment, we asked people for the last two digits of their social security number. So, for example, 98. Then we asked them to translate that into dollars, so $98. Then we asked, "Would you hypothetically pay this amount for a whole slew of products?" We showed them chocolate, wine, books and computer accessories.... After they finished, we said, "Okay, now we are going to have an auction, and what we're interested in is how much would you pay."

We then calculated the relationship between the SSN and how much they were willing to pay. What we found is that there is a substantial correlation. ... What this means is that people with a high SSN end up paying much more than people with low SSNs. This tells you something about how difficult it is to make decisions, and how easy it is to follow in your own footsteps.

The implications are really quite disturbing. If you get somebody to behave in a certain way one time, you're not just influencing them that once, but you can actually go on to influence a long sequence of decisions. It tells you how important it is to influence the *first* decisions people make in a certain category.

This makes us think of web services with a "freemium" model. People would use it for free and never decide to use the paid version.

The moment you train people on free, the question is: How much of it can you get back? There are some cases in which the freemium model has worked nicely. But what you need to ask is how much would you have made if you had never engaged in that model to start with.

What insights would you share with a marketer who's trying to change a customer's mind?

One is something called a "default," and it is the path of least resistance. We've shown in many experiments that this is an incredibly appealing decision. It's actually a decision of not making any decision. ... This even applies to big decisions, things like deciding what medications you get and medical treatments to take. All of those decisions are vastly influenced by the path of least resistance. Particularly in the online world, where we can design the decision environment with relatively tight control, we can influence what decisions are easier and what decisions are tougher for people.

Another of the things we find is that in terms of motivation, sometimes things that you could buy with a fixed amount of money are more motivating than the money itself. For example, let's assume you like lattes, and lattes are $3. We find that, if that's the case, I can get you to do things for me more easily for a latte than I can get you to do it for $3.

We'd imagine some people would just pick the dollar amount because then they can use it on whatever they want.

That's what people think. But when we look at what actually motivates people, it turns out that's not the case. If I wanted to get people to sign up for my website or fill out a survey or do anything, the reality is that a concrete thing is represented as being more valuable and people then want it more.

In your more than 20 years of experience, there's been this significant transition to the digital age. What impact has this had on your studies?

With technological changes, there have also been changes to irrationality. We have been bombarded with more information, so making decisions is tougher than ever. Not only that, but we have a strong chance of regretting our decisions. Before the world was digital, you could make a decision, and you would probably never be able to see that your decision was not a great one. Now, if you buy something online, the day after it's a click away to see that the prices have changed and regret can set in. So there's a combination of information overload and a high potential for regret.

Which of your findings do you think is the most *important* for a marketer to know?

The most important one is a finding on relativity. It's the idea that people don't know

how much something is valued, and we try to assess the value by comparing it to things that are just in the environment next to it. So we find that we can get things to feel much more or much less valuable to people not by changing the value of the thing itself, but by changing the value of the things around it.

For example, I'm producing a new type of health monitor device. The question is: How much are you willing to pay for it? Well, what if I have another device that is similar to the first one but much more expensive? Even if nobody wants the new one, it would look much more favorable based on the environment.