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Marketing Ethanol: How insights from behavioral science can help make ethanol a natural choice

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While there is some doubt whether Ralph Waldo Emerson actually said “If you build a better mousetrap, the world will beat a path to your door,” there is no doubt that the sentiment is simply not true. Unfortunately, creating a better, cheaper, even more environmentally friendly product does not guarantee that your product will become a natural choice.

History is littered with products and services that provide an advantage over the status quo offering, but have simply not managed to overcome human inertia for change. Indeed, experts estimate that between 40% and 90% of all new products fail.

This seems to be a particularly relevant issue for marketing ethanol-based fuel products. On paper, the product advantages seem robust, so choosing ethanol should be a pretty natural choice for people; experience and research show, though, it is not as straightforward as that.

In this piece we will suggest some of the reasons this may be the case, and offer some starting thoughts as to how ethanol marketers could make their offerings align more naturally with how humans choose.

How do we choose?

How humans choose is a complex matter, affected by many factors. One is how culture or the spirit of the times provides a back drop to our choices – individuals from the generation that came of age during the Great Depression are often said to have continued frugal behaviors and embraced a saving mentality for the remainder of their lives. A second is individual differences – be they genetic or learned – that mean we don’t all make the same decision in similar circumstances. Third, context matters – small tweaks to a situation (if people are made to feel in a hurry, for example) will lead an individual to change his or her choices quite dramatically (what I am referring to as tweaks here are often called primes in the world of behavioral science). But the purpose of this paper is to look at a fourth area – perhaps the most fundamental – which is how our innate human nature affects our choices. Science has revealed a significant amount about this aspect of choice over recent decades.

Perhaps the biggest insight from the work of neuroscientists and experimental psychologists (particularly an area known as behavioral economics¹) is how much of our choices are formed by mental shortcuts that mostly happen at a non-conscious level. In his best-selling book, *Thinking, Fast and Slow*, Nobel-prize winning psychologist,² Daniel Kahneman popularized the idea that we have two systems that guide our decision

¹ Behavioral economics is an area of psychology that explores how humans behave and make choices by studying the differences between how we should act from a rational, economic perspective and how we really behave.

² Even though Kahneman is an experimental psychologist, he won the 2002 Nobel Prize for Economic Sciences for his work on *prospect theory* with his research partner Amos Tversky.



making. One, referred to as *System 1*, operates at an intuitive level, and uses quick and efficient mental shortcuts. *System 2* is when we consciously think about something or use *deliberative thinking*. The intuitive system is sometimes called *reflexive* and the deliberative one *reflective*. In *Thinking, Fast and Slow*, Kahneman tells us:

“...The intuitive system is more influential than your experience tells you, and is the secret author of many of the choices and judgments you make.”

This intuitive system provides the platform for much of our decision making. In plain speech, you might call it gut instinct. We then use deliberative thinking as a cross-check if our initial instincts don't feel quite right, or often to provide a rationale for the choice we are making when they do. These initial instincts drive our choices, big or small, whether we are generals contemplating battle strategy, people defaulting to habit and choosing their normal brand of toothpaste in a supermarket, or gas shoppers faced with a new or different choice at the pump.

Understanding how these shortcuts affect different choices in various contexts is an area modern marketers must master. Fortunately, the revelations from fields like behavioral economics and neuroeconomics give us insights that can help us do this, and construct our marketing and product offerings in ways that align with how people naturally choose. In the next few pages we will deal with specific shortcuts that could relate to people choosing – or not choosing – renewable fuels.

1. Losses loom larger than gains

One of the fundamental principles of the field of behavioral economics is the phenomenon of *loss aversion*. The essence of this is that the prospect of a loss has a greater effect on our behavior than the prospect of an equally sized gain. In fact, a wide range of behavioral research shows that a potential loss has about *twice* the impact of a potential gain.

This principle applies beyond just economic losses and gains; it is seen as one of the main reasons why people favor the safety of familiar choices and existing behavior. An intuitive concern about the risks of changing behavior and trying new options makes moving away from the status quo instinctually uncomfortable for people.

Our preference to not move away from the status quo is, predictably enough, called the status quo bias, and is defined thus:

Status quo bias is a cognitive **bias**, a preference for the current state of affairs. The current baseline (or **status quo**) is taken as a reference point, and any change from that baseline is perceived as a loss.



This bias was demonstrated in a behavioral experiment³ in which students in one group were given a choice between a coffee mug and a bar of Swiss chocolate. In a second group, students were given a mug, but were given the opportunity to exchange their mug for a chocolate bar a little later. A third group of students were given the chocolate bar, and later allowed to exchange it for the mug. Of those in the choice condition (the first group), 56% chose the mug and 44% chose the chocolate bar. While this shows some preference for the mug, it is still a pretty even choice between the two options. So you might expect that, when given the chance, around half of those originally given the mug would have traded it for the chocolate bar, and half of those given the chocolate bar would want to trade it for the mug. But this isn't what happened. Just 11% of those given a mug wanted to trade it for a chocolate bar, and only 10% of those given a chocolate bar decided to trade it for a mug.

Harvard's John Gourville believes this effect accounts for the failure of many new products.⁴ Those developing the products simply underestimate the powerful inertia created by the status quo bias, and believe the benefits they offer over the status quo will win the day. And in consumer research (when they are thinking deliberately rather than intuitively), respondents will very often tell you they will buy the better mousetrap if you were to bring it to market. But while the innovation may be "better," what might be given up leads to an intuitive feeling of loss and resistance to the new product. As Ronald Heifetz of the Harvard Kennedy School has said:

"What people resist is not change per se, but loss."

Understanding what you are asking people to change, and particularly what you are asking them to give up by adopting an innovation or choosing a different product and thus moving from their status quo, is a critical but often unasked question.

Rather than just pitching products on the basis of benefits, ethanol marketers should also consider how to mitigate the feelings of potential losses that may arise when moving from the status quo choice. How can you make them feel that a new choice is not as different from the status quo as they might think?

2. The (intuitive) wisdom of the crowd

We intuitively take other people's behavior and signals we pick up from them as a guide to how we should behave or make decisions. By and large, it is a pretty good strategy – following "the crowd" is a quick and efficient rule of thumb for our brains, and often leads us to choices that are safe and acceptable in terms of physical and social consequences. And the likelihood of us following the crowd increases when we are uncertain how to behave.

³ Knetsch, Jack, (1989), The Endowment Effect and Evidence of Nonreversible Indifference Curves, *American Economic Review*, 79, issue 5, p. 1277-84,

⁴ Gourville, John T., The Curse of Innovation: A Theory of Why Innovative New Products Fail in the Marketplace (June 2005). HBS Marketing Research Paper No. 05-06.



Two things, social norms – which are expectations of appropriate behavior – and social biases such as the bandwagon effect – which is the behavioral impact of what others are doing – drive this. These underpin existing behaviors and provide keys to unlocking behavioral change.

As Robert Cialdini, author of *Influence: The Psychology of Persuasion* says:

“We view a behavior as more correct in a given situation to the degree that we see others performing it.”

Cialdini is an expert in this area and references his own work and that of other researchers to demonstrate the power of social proof. For example, in one famous experiment,⁵ cards in hotel rooms informing occupants “almost 75% of guests reuse their towels” replaced the normal cards that tell us that by reusing our towels we are doing our part to save the planet. The new cards created a social norm for reusing towels, and significantly increased the number of guests who adopted that behavior.

Cialdini also points to an experiment in China that showed that if a restaurant manager puts on the menu “These are our most popular items,” those items immediately become 17%–20% more popular as a choice.

The lesson for marketers? Make the example of others adopting the behavior change you desire visible to the people whose behavior you want to change. Even a simple statement like, “Most people of your age/in your area are doing this,” or “More and more people are doing this” is effective.

For ethanol, marketers might consider making messages about how many cars are powered by ethanol, how many miles are driven, or simply how many people have chosen ethanol-based fuels more prominent. To paraphrase Cialdini, the more people see others choosing ethanol, the more correct a behavior it seems for them.

3. Long-term benefits – nice to have, but far from a must-have

A fascinating area of behavioral insights is how timeframes affect people’s choices. This is shown through research that reveals the effect of a phenomenon known as *hyperbolic discounting*,⁶ which captures people’s intuitive desire to opt for a smaller reward now instead of a bigger one in the future. For example, when given the choice, people are intuitively more likely to choose \$50 now rather than \$100 in a year’s time. At a visceral level, we want our rewards now.

Equally, we want to delay any pain or sacrifice into the future.

⁵ Goldstein, N. J., Cialdini, R. B., Griskevicius, V., & John Deighton served as editor and Mary Frances Luce served as associate editor for this article. (2008). “A Room with a Viewpoint: Using Social Norms to Motivate Environmental Conservation in Hotels.” *Journal of Consumer Research*, 35(3), 472–482.

⁶ Green, L.; Fry, A. F.; Myerson, J. (1994). “Discounting of delayed rewards: A life span comparison.” *Psychological Science* 5 (1): 33–36



We've all agreed to an onerous task several months out, only to curse our stupidity for doing so as the day nears. When we contemplate our future self, he or she is a model of virtue, easily able to overcome the short-term temptation our present self falls victim to. Our good intentions are often “sized” for our future self, not for our fallible present self. People will often believe – and will tell market researchers – that behavior will be consistent with their intentions. But the reality is that short-term rewards will win the day.

There are two insights for those marketing renewable fuels in this. First, even though people may tell you they will make a choice that yields future benefits – particularly environmental ones – this will seldom be their primary motivation. Messages about these should probably be secondary rather than primary ones.

Second, framing benefits in the present is important. So to communicate the benefit that ethanol-based fuels are cleaner, think about how that can be made visceral and immediate. A classic example comes from Pepsodent, created in 1917.⁷ For many years onwards, their advertising encouraged people to run their tongue over their teeth to feel the film of plaque. Their focus wasn't long-term oral health, or even the avoidance of future pain. It was about something much less dramatic, but that could be felt in the moment.

4. (What) shall I compare thee to?

A final area of insight from behavioral science that may be useful to ethanol marketers is that of *anchoring or reference dependence*. Humans find it very difficult to make decisions without a point of comparison. Broad comparisons are more intuitive and less cognitively taxing than deliberative analysis of options. It's as if our intuitive system asks, “How is this thing I am evaluating like other things I know?” But often the role of that comparison is not about finding differences, but about providing the comfort of similarities.

An interesting illustration is Apple. Apple became famous as a challenger of the status quo. First it set out its stall as a disruptor with the memorable “1984” Super Bowl commercial 32 years ago that compared the effective monopoly of IBM/Microsoft Windows to the totalitarian world depicted in Orwell's novel, and offered Apple as a way to break free from this. Then in 1997, it launched a campaign with the tagline “Think Different,” with a TV commercial that began “Here's to the crazy ones...” and showing a montage of archive footage of people from Einstein to Gandhi to Maria Callas who had achieved great things by being contrarian. The message was clear. Apple was a bold

⁷ The story of Pepsodent and how it created a tooth-brushing habit in America is told in Charles Duhigg's best-selling book “The Power of Habit.” The creators of the idea were the superstar ad men of the day, Albert Lasker and Claude Hopkins, key executives at Lord and Thomas, the forerunner to Foote, Cone and Belding (FCB) the global agency of which the Institute of Decision Making is part.



choice for people who identified with those who had changed the world. And this strategy created a beachhead of devoted loyalists.

But a decade later, Apple wanted to make more serious inroads into the PC market. And their thinking couldn't have been more different than "Think Different." Instead of suggesting they were above comparison and changing the world, Apple showed us how they fit in. They effectively encouraged comparison with Microsoft with the "Mac vs. PC" campaign. By making Windows its frame of reference, Apple didn't really say Macs were better than PCs. It did something that was probably more important for Apple's growth at the time. It made Apple seem more similar to PCs than people thought. Of course, Mac was good at all of those creative kinds of things that seemed uniquely Apple, but now a Mac seemed as good or better than Windows at all of the things that Microsoft does well. In telling people how *similar* Mac was to the status quo choice, they released PC users from the prospect of loss, from the risk of an unfamiliar operating system, and left them free to choose different, if not to think different.

Where possible, it would seem to be a smart move for ethanol marketers to do the same. While it is tempting to focus on differentiators, it may be more important to seem more similar than different to the status quo options. Whether it is at the physical environment of the pump, or in the naming of products or in general marketing, reducing the impact of cues that suggest difference, and increasing the impact of those that suggest similarity, may help make ethanol-based products a choice that aligns with how humans naturally make decisions. Which could, in turn, make ethanol-based products a natural choice.

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