

Using Behavioral Economics Principals to Improve Your Marketing

As human beings, losses loom larger to us than gains. It's one of those proven quirks in the way we think. Understanding this concept, however, can help you enhance your marketing effectiveness.

There are a number of very interesting experiments and case studies showcasing how this idea, also known as Prospect Theory, manifests itself in various situations. It's also related to Loss Aversion, the Endowment Effect and The Status Quo Bias. To sum it all up, we're hardwired to avoid losses. We're risk averse by nature. And once we have something (money, goods, status, etc.), giving it up is a much bigger deal than acquiring it.

THE RESEARCH: Losing \$100 is painful and finding \$100 is good, but losing \$100 is more painful than finding \$100 is good.

WHAT IT MEANS: Say you're selling a cost-savings solution. "You could save \$10,000/month" might not be as motivating as "You're losing \$10,000 every month."

THE RESEARCH: The way losses and gains are framed makes a huge difference in our perception of them. For example, paying a surcharge feels a lot worse than missing out on a discount, even if the price difference is exactly the same. Think about it. Would you rather get a "cash discount" or pay a "credit card surcharge"?

WHAT IT MEANS: Is your pricing structure optimized? As an example, are you charging a lower base price with added fees, or are you offering discounts off a higher base price instead?

THE RESEARCH: Once you own an object, it becomes much more valuable to you. In one experiment, 50% of the people in a room were randomly given a coffee mug. The average mug owner wanted about \$6 to give it up, but people who weren't given the mug were only willing to pay about \$3 to acquire it.

WHAT IT MEANS: Free trials can be very powerful. If you can get your customers to experience what you deliver and feel as if they own it, even for a short period of time, they'll likely assign a lot more value to it.



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The endowment effect, prospect theory, reciprocity, anchoring, scarcity, social proof, relativity, authority, commitment and consistency, the power of “free,” and many other behavioral economics principals can provide powerful insights that can help enhance your marketing effectiveness. First and foremost, of course, you must have something good to sell. This is persuasion, not trickery. Assuming this foundation, understanding the psychology of persuasion and then combining high-impact creative with incredibly efficient execution is the surest way to marketing success.

If you're interested in learning more about these principles yourself and how to apply them to your business, feel free to contact us. You can also check out two of the best books on these topics: *Influence* by Robert Cialdini and *Predictably Irrational* by Dan Ariely.