KEY LEARNING SUMMARY

How to Nudge Your Customers Without Pushing Them Away

A HARVARD BUSINESS REVIEW WEBINAR FEATURING

Mary Steffel

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How to Nudge Your Customers Without Pushing Them Away

OVERVIEW

Research has shown that defaults are an effective way to nudge, but not force, consumers to act in certain ways when they are choosing between options. Although marketers and policymakers can leverage defaults to improve consumer wellbeing, defaults are very influential and must be selected carefully. To use defaults ethically, organizations should disclose the nature and intent behind defaults. This generates trust among consumers, but doesn't reduce the effectiveness of defaults. It is also essential to safeguard consumer welfare. Different approaches include regulation of defaults, consumer warnings, and prompts to consider options in a balanced way.

CONTEXT

Mary Steffel shared best practices for effectively and ethically influencing others' decisions, based on insights from behavioral sciences and her own research.

KEY LEARNINGS

Nudges help change consumer behavior.

Marketers, managers, and policymakers are in the business of changing people's behaviors. For example, marketers may want to convince competitors' customers to switch to their product or persuade current customers to upgrade to a better product version. Managers might want employees to sign up for retirement and health benefits. Policymakers may want to encourage citizens to pay their taxes on time or sign up to be organ donors.

In all cases, a balance must be struck between pushing consumers to act in a desired way and preserving consumer autonomy to make decisions. It is important to build relationships based on trust and loyalty. The key is designing decisions in ways that nudge, but don't force, consumers to make a particular choice.

Richard Thaler and Cass Sunstein popularized the term "nudge." It refers to designing choices in ways that alter behavior in a predictable way, without forbidding any options or significantly changing the financial incentives. Nudges are interventions that are easy and cheap to avoid. An example of a nudge is putting healthy food at eye level.

CONTRIBUTORS

Mary Steffel
Assistant Professor of Marketing, D'Amore-McKim School of Business, Northeastern University

Julie Devoll (Moderator)
Marketing Communications Director, *Harvard Business Review*

Defaults are an effective way to nudge consumers toward a particular option.

Defaults are one way to nudge consumers by automatically enrolling them in an option, unless they make an active decision to opt out. Alternatively, nudges can dissuade people from options by requiring them to actively opt in. Examples of defaults in action are:

- **Organ donation.** Only 28% of Americans are organ donors, even though 85% say they would like to be. In the United States, people are assumed not to be organ donors by default. They must opt in if they want to be a donor. In other countries, people are organ donors by default, unless they opt out. In both instances, people have the same options about organ donation, but the default biases them toward a particular choice. Organ donation rates are dramatically higher in countries where donation is the default.

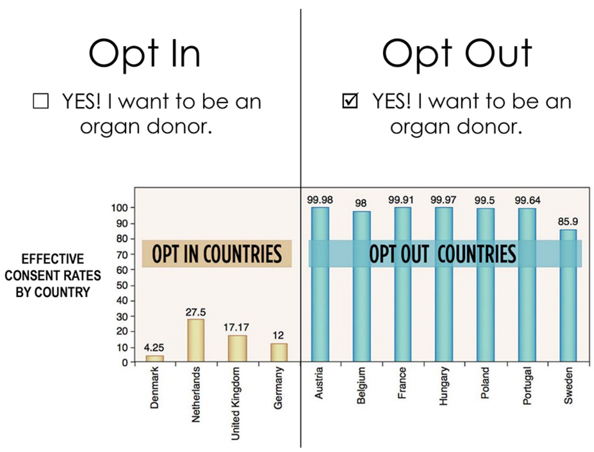

Figure 1
Organ Donor Participation Rates in Opt In & Opt Out Countries

Source: Eric J. Johnson and Daniel Goldstein (2003), "Do Defaults Save Lives?" *Science*, 302 (5649), 1338-39.

- **Retirement savings.** Around two thirds of people (68%) save less than they intend for retirement. Automatically enrolling employees in a retirement plan, rather than requiring them to actively opt in, can make people more likely to enroll. Vanguard reported that automatically enrolling new employees more than doubled participation rates.

Since defaults are highly influential, they must be selected wisely.

Defaults influence decisions for three reasons:

1. **Endorsement.** Defaults imply that the option designated as the default is the best or most popular option.
2. **Effort.** Defaults provide an easy way to avoid the hassle of researching available options and enrolling in a different option. Switching costs may include acquiring, completing, and mailing paperwork.

> "Setting a recommended option as a default is a powerful way to influence people's decisions, while respecting their individual autonomy. Choosing defaults wisely can benefit businesses, consumers, and society at large."
>
> – MARY STEFFEL

3. **Bias.** Defaults serve as reference points to which other options are compared. This biases people to focus on the default's advantages and the disadvantages of switching to something else.

Since defaults are so influential, it is important to use them wisely. One approach is to choose the option the organization or its consumers would consider to be the best. The best option may be what most people prefer, the least risky alternative, or the most profitable approach. Choosing the most profitable option is acceptable if there is no conflict of interest between what is best for the company and the customer. If conflicts exist, choosing the most profitable option can damage consumer trust, satisfaction, and loyalty.

If no clear best option exists, it may be better to encourage people to make an active choice. Alternatively, the default option could be chosen at random. This is advisable if organizations don't want to show preference for a particular option and none of the options is riskier or better than the others.

If sufficient data exists for customization, organizations may tailor the default to each customer. Examples of personalized defaults include:

- **Persistent default.** This is based on the option the person chose in the past.
- **Smart default.** This is based on the option best suited to the person's traits.
- **Adaptive default.** This is based on the option that fits with the person's other choices.

People typically accept nudges, but the intent of the default matters.

One reason nudges are popular is because they promote behavioral change without taking away options or making certain behaviors costlier.

- **The more effective an intervention is, the more acceptable people perceive it to be.** A recent poll found that 71% of Americans would support a federal mandate requiring large employers to automatically enroll employees in retirement plans. Employees would have to actively opt out, rather than opt in.
- **People prefer informational nudges to nudges that more directly affect behavior.** For example, people prefer calorie labeling to plate sizes designed to change portion sizes.
- **The intent of the default matters.** People are less likely to support defaults that sign them up for email marketing than defaults that guarantee they will save for retirement.

Disclosing the nature and intent behind defaults creates transparency, without reducing defaults' effectiveness.

Marketers, managers, and policymakers can create transparency by disclosing the nature and intent of defaults. Disclosure may improve default setters' reputations. Research has revealed two important insights:

- **Consumers appreciate transparency, but disclosure doesn't make defaults less influential.** Regardless of disclosure, people are still more likely to choose a default option. Disclosure of a default's intent and effects matters to consumers, but doesn't affect their choices.
- **Transparency has positive effects on perceptions of defaults and the default setter.** Upfront disclosure improves people's perceptions of the default's fairness and of the default setter's ethics. These effects are strongest when the default is designed to benefit society, but the benefits of transparency hold even if the default benefits the default setter.

> "The intent and potential influence of defaults can be disclosed without reducing the positive benefits of defaults."
>
> – **MARY STEFFEL**

Disclosure alone, however, isn't a sufficient means of consumer protection.

Active interventions are needed to safeguard consumer welfare. Various options are:

- **Regulate defaults.** When business and consumer interests aren't aligned, it may be useful for policymakers to regulate defaults and enforce standards for when businesses must obtain consumers' explicit consent.
- **Require warnings.** One intervention might be to require warnings that alert consumers to the effect of the default.
- **Lower switching costs.** If the physical or cognitive effect of switching contributes to default effects, one option is to lower the switching costs. This could be accomplished by reducing burdensome forms and paperwork or eliminating limits on registration periods.
- **Prompt consumers to consider options in a more balanced way.** When researchers instructed study participants to think about why they preferred the default or the alternative, they were less likely to focus exclusively on the default's advantages. This more balanced and less biased consideration of options made people less likely to stick with the default.

BIOGRAPHIES

Mary Steffel

Assistant Professor of Marketing, D'Amore-McKim School of Business, Northeastern University

Mary Steffel is an Assistant Professor of Marketing at the D'Amore-McKim School of Business at Northeastern University. She received her Ph.D. in psychology from Princeton University in 2009 and her Ph.D. in marketing from the University of Florida in 2012. Her research is dedicated to the study of consumer judgment and decision-making. Her research examines when people call upon others to help them make decisions, what are the barriers to accurately gauging others' preferences and effectively choosing on their behalf, and how to help people make better decisions for themselves and others.

Julie Devoll (Moderator)

***Marketing Communications Director,* Harvard Business Review**

Julie Devoll is Marketing Communications Director for *Harvard Business Review* where she leads integrated marketing campaigns for HBR Press books including media relations, social media, and digital marketing. She is also co-leader of HBR's Social Media team overseeing promotional campaigns for the HBR brand, products, and subscriptions. Prior to *Harvard Business Review*, Julie was a Product Manager at MediaMap, now Cision.