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BEHAVIORAL ECONOMICS

How to Nudge Your Customers Without Pushing Them Away

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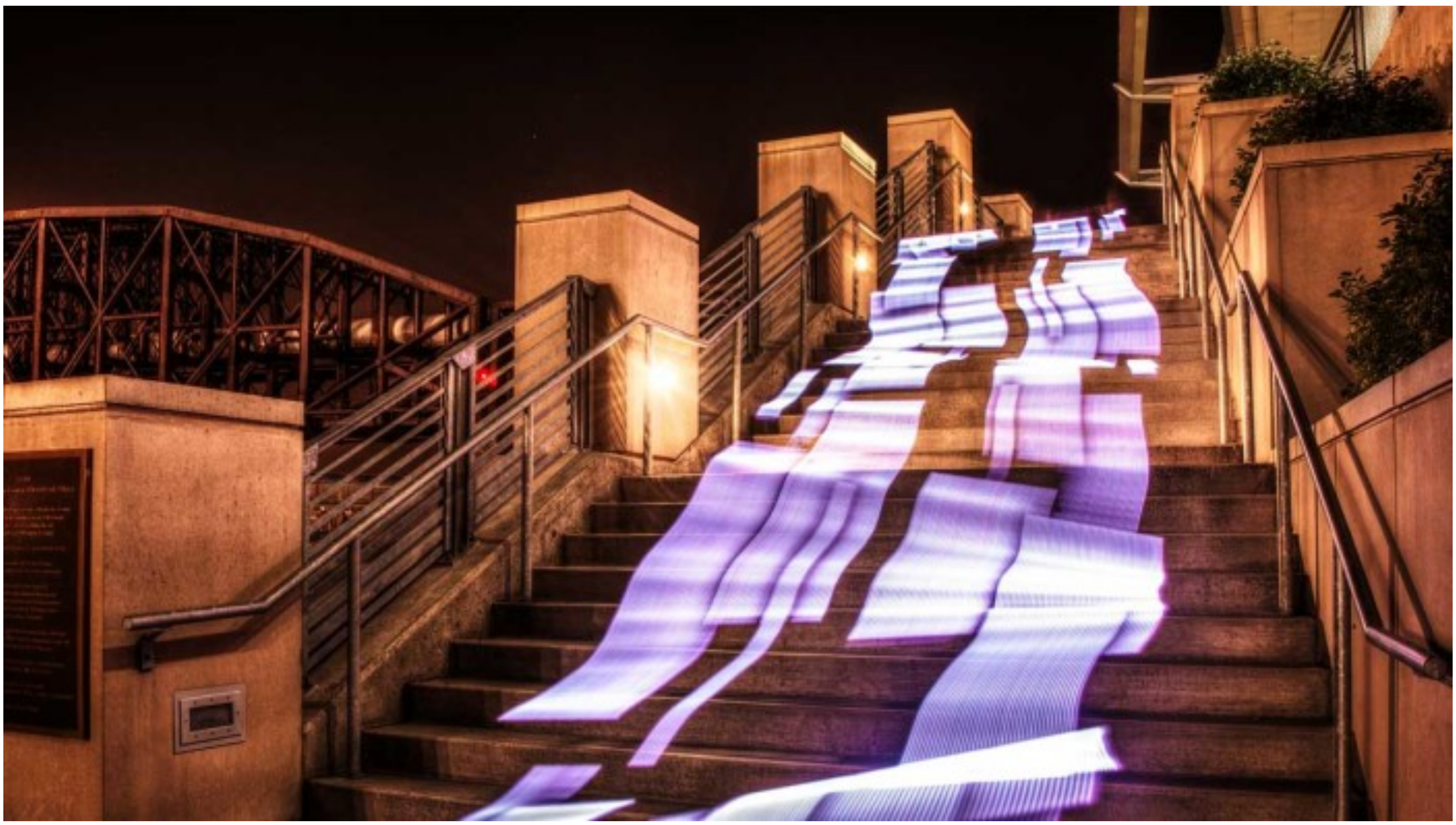

People don't always make choices in their best interests. There are many examples: On average, Americans weigh 16 pounds more than their target body weights; 68% of people save less for retirement than they intend to; and although 85% say they would like to be organ donors, only 28% are.

Designing decisions in a way that nudges but does not force consumers to make better choices offers a way to alleviate many of society's problems. Defaults are one way to nudge consumers. They can automatically enroll people in a designated option unless someone makes an active decision to opt out, or they can nudge people away from an option by requiring them to actively opt in. They work because of people's well-established bias for choosing default options.

Defaults have been used to promote individual and societal well-being by encouraging choices in favor of retirement savings, pro-environmental practices, and healthy eating. They have also helped businesses profit from consumers by encouraging enrollment in costly overdraft protection, subscriptions to email lists and magazines, and disclosure of personal information to retailers.

Instances like these have led critics to argue that deploying defaults without informing consumers is unethical and that people should know how defaults are designed to influence their behavior. Some consumer advocates — among them the Electronic Privacy Information Center and the House of Lords — have proposed that increasing transparency could help protect consumers from being manipulated by defaults. Their assumption is that informing consumers of their options and what will happen if they take no action will help people identify the right option for them. Yet those who use defaults to guide consumers' decisions have cautioned that disclosing how defaults are intended to affect choices could make them less effective and undermine the potential good they could do.

Can defaults effectively guide behavior even when their intended influence is disclosed?

In our research, recently published in the Journal of Marketing Research, we found that consumers appreciate transparency — and that disclosure does not make defaults any less influential. In a series of studies, we presented 3,678 people with choices framed as either opt-in or opt-out, told half of the participants about the default's intended influence, and examined how the knowledge influenced their attitudes and decisions.

In one study, participants imagined moving to an apartment where they could opt in or out of several energy-saving amenities. Some participants learned that the landlord had designed the choice as opt-in to make them less likely to install the amenities; others, that the format was opt-out to make it more likely. In another study, participants imagined joining a new social network for which they could opt in or out of sharing personal information. Half the participants read that the social network designed the choice to make them either more or less prone to share this information. In a third study, we gave away hot chocolate that came with or without whipped cream by default to see how transparency affects decisions about healthy eating. We informed half of participants that we designed the choice to encourage them to get a more indulgent drink or a healthier drink.

In all of these studies, the results were the same: Regardless of disclosure, people were much more likely to choose something if it was the default. They got twice as many energy-saving amenities, shared 33% more personal information, and topped their drinks with whipped cream 90% of the time when those outcomes were the default. This was true even when people were forced to slow down and put more thought into making a decision; even when the default served the interests of the default-setter rather than the consumer or society; and even when the default-setter's motives were explicitly to put money back in their own pocket.

Nevertheless, disclosure did have important benefits. Overall, up-front disclosure improved people's perceptions of the fairness of the default, their perceptions of the ethicality of the default setter, and their willingness to work with that person again in the future. These effects were strongest when the default was designed to nudge people toward an option that benefited society, but the benefits of transparency held even when the default-setter's motives were explicitly selfish.

But why, we wondered, doesn't disclosure make defaults less effective? One of the most powerful reasons that defaults are effective is they serve as reference points for other options, making people more likely to focus on the advantages of the default and the disadvantages of switching to something else. Most people have little awareness of or control over this tendency. Disclosure doesn't matter because once people view a default as a reference point, they don't understand what to do to counter its influence.

What can be done to protect consumers from being exploited by defaults?

Reducing the influence of defaults requires an active intervention that encourages consumers to shift their focus away from the default and toward its alternative. When we instructed participants to think about why they prefer the default or the alternative and to write down what was important to them before they chose, people were less prone to focus exclusively on the advantages of the default. This more balanced and less biased consideration of both options made people less likely to stick with the default.

Our research offers insights for how marketers and policy makers might leverage defaults to improve consumer well-being. First, setting a recommended option as a default is a powerful way to nudge people to make choices that are in their own or society's best interests without forcing them to do so. Second, being transparent about the intent and potential influence of defaults likely won't reduce their positive benefits. Doing so may allay concerns about the ethicality of deploying defaults and enhance their attitudes toward the organizations setting the defaults. Third, transparency doesn't protect consumers from choosing default options that are not in their best interests. Policy makers and other consumer advocates can encourage consumers to consider why they prefer the default or its alternative before making a decision — especially in situations where marketers are likely to set defaults to benefit themselves at consumers' expense. This can diminish the biasing effect of defaults and enable consumers to make choices they themselves deem to be in their best interests.

Mary Steffel is an assistant professor of marketing at the D'Amore-McKim School of Business at Northeastern University and a fellow on the White House Social and Behavioral Sciences Team. Her research examines social judgment and decision making, inclusing when people recruit others to help them make decisions, what are the barriers to choosing effectively on behalf of others, and how to help people make better decisions for themselves and others. Follow her on Twitter at @steffel_mary.

Elanor F. Williams is an assistant professor of marketing at the Kelley School of Business at Indiana University. Her work examines decision making in social contexts, including how people make choices with others and for others, and how people come to know themselves and other people.

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