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**Behavioural Economics**

# **Our Guide to Behaviour Economics**

# Behavioural Economics and the Loyalty Market – Small Tweaks, Big Impacts

**With consumer behaviour constantly evolving, so too must the loyalty market and the study of behaviour.**

When we think about shifts in customer behaviour, we think about consumerism and the cheap and cheerful mentality that China introduced in the 1980's by mass manufacturing items at a lower cost and a lower quality.

We also think about historic big household staple brands like Toys "R" Us, Woolworths, Blockbuster and most recently Debenhams who fell victim to the behaviour changes by not shifting their business model in time to keep up with the changing trends.

So how do companies keep up with the ever-shifting behaviour trends and how can they keep consumers loyal when cheap and disposable is so deeply ingrained in consumer mentality and perceived as greater value above all else?

In the 2010's, brands started to invest heavily in loyalty and applying behavioural economic principles to create a brand conscious audience. Nike Jordan's sell out in minutes. Starbucks sold out of their branded coffee cups in hours. Consumers are known to even go as far as to sleep outside of Apple stores to get the latest technology.

All of these brands have ingrained themselves as the elite; a must have; a social status. They rely on social media and the consumer themselves making the brand more valuable and more desired.



## So what is behavioural economics?

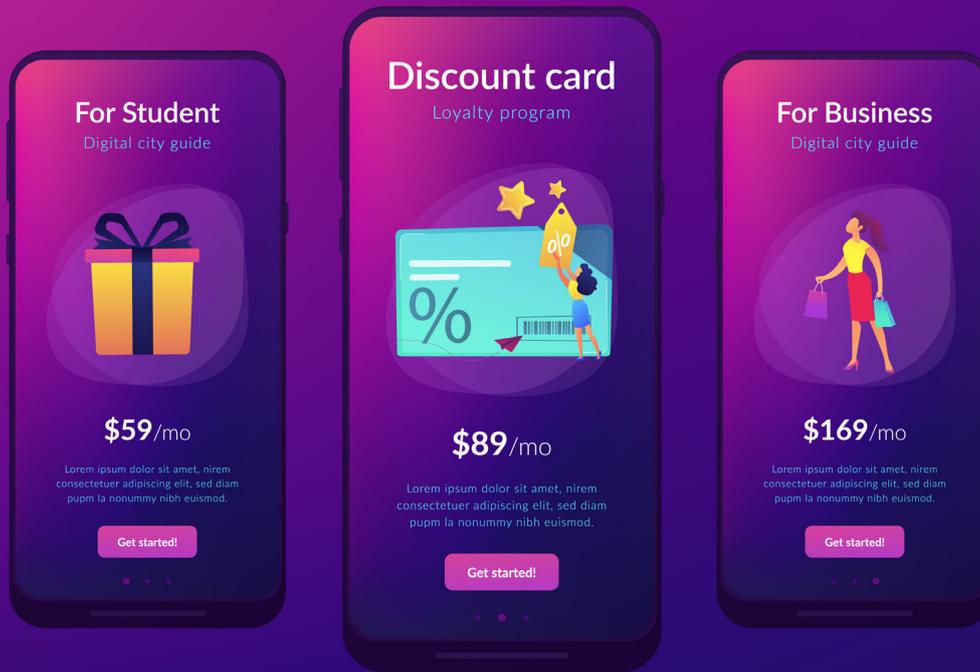
Behavioural economics is the study of human behaviour to explain how/why consumers are motivated to buy products and/or engage with a company.



## The 10 principles of Behavioural Economics:

1. The Say-Do Principle
2. Goal Gradient Theory
3. The Loss Principle
4. The Fairness Principles
5. Idiosyncratic Fit
6. Time Principle
7. Anchoring Bias
8. Choice Architecture
9. Decoy Principle
10. Illusionary Goal Progress

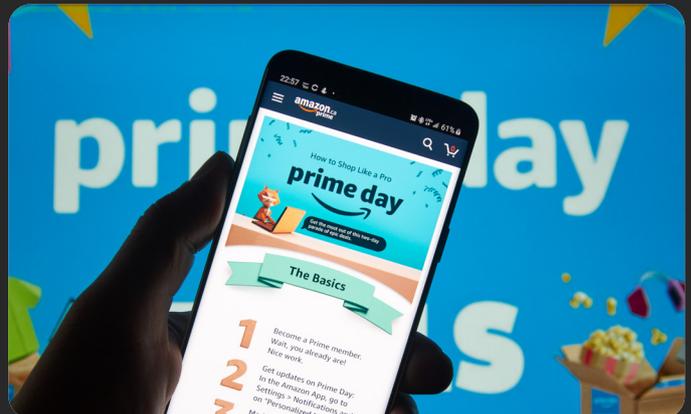
**Later on in this document you will see our tips for how to use these principles in your business to supercharge engagement with your customers.**



# How do brands utilise the 10 principles to encourage loyalty?

Loyalty is ultimately gained when a consumer feels that the products are costed fairly, they feel positive by engaging with a brand, and, if they have a membership, they feel that they are gaining something extra by participating.

Amazon, Tesco and Next for example all offer rewards to consumers that are part of a loyalty programme. In some cases, such as Amazon and Next, you have to pay or spend a certain amount in order to gain access to those VIP benefits. The benefits that they receive though, to the consumer, far outweigh the costs that is needed to participate. The costs also comes with no indulgence guilt.



Big brands also tailor their programmes to have an idiosyncratic fit to the individual consumer. Amazon looks at your viewing behaviour and suggests similar items that you may be interested in. Spotify creates personalised playlists. Next makes you a VIP for spending X amount a year.

If the consumer feels like the programme or brand is tailored to them and they get a distinct advance by participating, they are more engaged, motivated and satisfied.



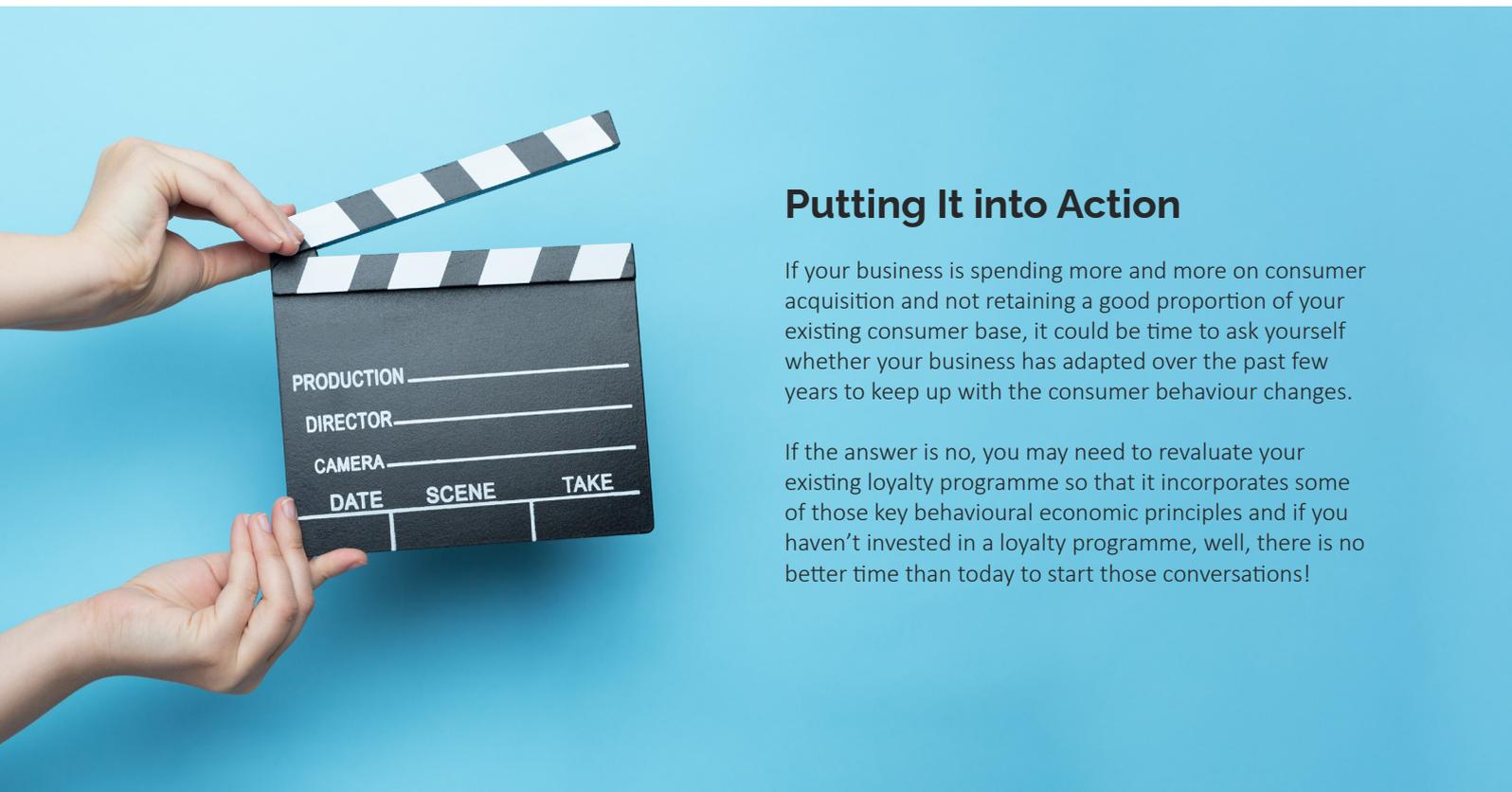
Another key factor to consider with a loyalty programme is time principles. These principles state that when running a loyalty programme, immediate low cost rewards are better received than less frequent, but higher value rewards. Example- if a brand offered a consumer an immediate £50 to complete 10 surveys that day or £100 in a year to complete 1 survey every three months, most consumers would elect for the more time consuming task for the immediate reward.

Within that, you must be mindful that the task and the reward are either balanced or that the reward is perceived to be worth more than the time required to earn it. If you offered a consumer £10 to complete 10 surveys that take 10 minutes each, most consumers would decline the £10, or even £20, as £20 is not worth over an hour of their time.

If, however you offered a free main course and dessert at a restaurant e.g. Pizza Express, which would still be a reward of £20, the consumer would be more likely to engage and complete the survey as they would perceive the value to be far higher than £20. This also ties into hedonic rewards and consumers valuing experiences/merchandise over money or cash equivalents.

Brands also greatly utilise choice architecture. For example, if they have excess stock of a cheap item e.g. pringles, they would put that item at the front of the store and by the tills or if it were an online store, they would put it on their homepage advertising the sale – even if that sale is only 50p off.

Choice architecture states that consumers make decisions based on the layout, sequence and way that choices are presented to them. Your environment shapes your choice. This principle is best utilised for quick decision making where there is no feeling of financial loss or a potential loss of control.



## Putting It into Action

If your business is spending more and more on consumer acquisition and not retaining a good proportion of your existing consumer base, it could be time to ask yourself whether your business has adapted over the past few years to keep up with the consumer behaviour changes.

If the answer is no, you may need to reevaluate your existing loyalty programme so that it incorporates some of those key behavioural economic principles and if you haven't invested in a loyalty programme, well, there is no better time than today to start those conversations!



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# The 10 Principles

## The Say-Do Principle

**What someone says motivates them vs what actually does motivate them is very different.**

Users will often say cash is the most motivational reward but research into this shows that experiences and merchandise are the best rewards for producing long lasting brand association. Unless a cash sum is life changing the joy of receiving it is short lived whereas the memories from an experience last forever.



### Using the principle:

Put experiences at the top of the reward list and tie in emotional reasoning. Use lifestyle hero imagery to show how the experience can make someone feel. Use video or testimonials to show how it made others feel.

# The Fairness Principle

**People are influenced by a sense of fairness. If something is perceived as unfair or unequal in regards to reward, people won't want to take part in earning it.**

This is most important in staff or team programmes. Your team are much more likely to feel they are being treated unfairly in comparison to other members of the business so you need to ensure the messaging is clear and that the metrics work for everyone in the business.



## Using the principle:

Make sure you have calculated your metrics correctly. It is good practice to segment customers/audience so that they are being awarded loyalty fairly and it is ok to encourage people to strive for more. Ensure you are clear about the campaigns your customers/audience are in and why, how they earn and how they redeem.



# Idiosyncratic Fit

**When people perceive that a programme is tailored to them, they are more engaged, more motivated and more satisfied.**

Personalisation is more than just a buzz word, think about the brands or programmes that you feel an affinity to. The likelihood is that they have similar values to you, they present a lifestyle you feel is similar to your own or you aspire to. You feel a personal connection to the brand.



## Using the principle:

Have a look at all your touchpoints and think about how you can personalise the users experience. It isn't as simple as putting their first name on the email comms, try to think about how you can personalise the on-site content, the campaigns, the rewards and the channels of communication.

# Time Principle

**Immediacy and the value of time play an important part in how engaged a person is going to be.**

There are two aspects to this principle. The first is that an immediate reward is more desirable than a reward that is attainable in the future. The second is that the user needs to perceive the reward and the activity required to be worthwhile of their time.



## Using the principle:

You could try running some instant win campaigns to assess the appeal to your audience. You could also have a look at the data you have on your customers and see if you can assess the value your users might assign to their time. Make sure that if you are asking customers to do something for you, that you make it clear what the benefit is to them.



# Anchoring Bias

**Anchoring bias occurs when people subconsciously take in information and use this as a way to determine the value of something.**

Think about two items of clothing made out of exactly the same material. The item with a designer label and the higher price tag will be perceived by the majority of users to be of better quality because that is how we are conditioned to think.



## Using the principle:

Have a look at associations and partnerships and how can you build extra value in your programme through the use of well known brands. The easiest way is often through the rewards you make available to your users.

# Goal Gradient Theory

**As users get closer to the end target, their behaviour changes. The closer they get, the quicker they act.**

Think about how often in a race you see runners pushing themselves, sprinting the last mile to achieve their goal. However long the race is, once you get closer to the finish line the drive and desire to achieve overtakes other feelings.



## Using the principle:

Look at how you can award your audience with points for signing up or registering an interest or completing their profile. Progress trackers give clear visuals of how close they are to their goal. Making sure your messaging highlights their nearness to the goal will also help speed up their achievement and activity.



# The Loss Principle

**People are motivated by the fear of potentially missing out.**

Think about how well this can be used in retail environments where you can see the number of people who have an item in their shopping baskets or the messaging saying that tickets are selling out fast. Scarcity breeds desire.



## Using the principle:

Think about how you could bring scarcity into your rewards. Could you have higher value rewards but only a few of them to encourage people to try and aim for them quicker?

# Choice Architecture

**People make decisions based on the layout, sequence and way that choices are presented to them. Your environment shapes your choice.**

Good user experience is as important as the content. If the signposting, messaging and layout isn't right then the user may never understand the value of your programme.



## Using the principle:

The environment in which your users are going to interact with your programme is vital to understand. They may interact in store, online via mobile, desktop, table, via an app or in person. Make sure that the choices that are presented to them are accurate and that the journey they take is simple, clear and engaging.



# Decoy Principle

**When you present a list of options with a(n) asymmetrical decoy(s) to drive the person to select the option you would prefer.**

This moves away from the personalised experience as this is driving your preferences over that of the user however in some instances that may be the best option for the users and the programme.



## Using the principle:

Think back to the Say-Do principle and how experiences are the most memorable and best for retaining loyalty but most users would initially choose cash. Put the cash and gift card choices at the bottom of the reward list so that users are presented with the experiences first.

# Illusionary Goal Process

Building upon goal gradient theory, illusionary goal progress gives people an illusionary head start which motivates them to act quicker as they are already on their way to the goal.

A coffee store that gave users a bonus 2 stamps on a 12-stamp card for their first coffee versus a coffee store that didn't but only had a 10-stamp card was significantly more successful. The number of coffees required was the same for both stores, but users felt they were closer to the goal for the first store because they already had stamps.



## Using the principle:

Think about how you can get customers to perceive their route to the end goal differently. This could be done visually with your progress trackers or by awarding users with an initial boost before they have even had to complete an activity.



## About the Authors



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Jessica has a passion for behavioural economics and loves working with clients to find ways of making small tweaks that have big impacts on programmes.

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**We love talking about all things loyalty – if you fancy a loyalty chat, we'd love to hear from you!**

# About Stream

Stream are passionate about loyalty – we are the experts after all!

As a tech-enabled consultancy, we seek to understand your business challenges and your audience and work with you to craft a loyalty solution that delivers value. We are both consultants and implementers and use our extensive expertise and software capability to deliver proven, lasting results.

Loyalty is not 'one size fits all' and our team of commercial experts work to ensure that your loyalty strategy is right for you.

Whether you need to increase revenue, grow breadth of spend, or create a referrer programme, we have the experience to help sculpt the right solution. Our proprietary loyalty software- LoyaltyStream® helps to: retain customers, change buying behaviours, build brand loyalty and drive referrals.

Our LoyaltyStream® software is deployed globally, helping our clients to build trust that delivers brand loyalty and commercial rewards.

We guarantee to be able to help you Keep, Grow and Win customers for life.



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