15. BEHAVIOURAL ECONOMICS: USE FOR MARKETING

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The paper has a purpose to present the concept of behavioural economics. The way in which behavioural economics bridges marketing and traditional economics is considered. The use and correlation between behavioural economics and marketing are explored.

Economists intend to develop models of consumer behaviour and interactions in markets and other economic settings. But humans behave in complex ways. In order to build useful models, economists make simplifying assumptions. A common and fruitful simplification is to assume that agents are perfectly rational [1]. This simplification has enabled economists to build powerful models to analyse a multitude of different economic issues and markets. In a conventional economy, the assumption of rationality means that in everyday life people compare all the alternatives that appear to each other, and then choose the best one [2].

Nevertheless, economists and psychologists have documented systematic deviations from the rational behaviour assumed in standard neoclassical economics. Incorporating insights from psychology into traditional economic analysis has spawned the field of behavioural economics, a prosperous area of research with significant impact on many subfields of economics [1].

Today, the researchers in behavioural economics have significantly expanded opportunities thanks to modern technologies. These technologies allow tracking consumer behaviour on websites and pinpointing the exact stage at which consumers make specific decisions. Despite the fact that information technology and behavioural economics are making it easier each year to stimulate targeted consumer actions, consumer behaviour itself is also changing under the influence of this development. Consequently, progress in behavioural economics needs to outpace and anticipate shifts in consumer behaviour. This is where behavioural economics bridges marketing and traditional economics.

By incorporating new observations insights from human psychology into economic analysis, Richard Thaler, Nobel Prize Laureate, has provided economists with a richer set of analytical and experimental tools for understanding and predicting human behaviour. As mentioned previously, people don't always make rational decisions. It can be attributed to a multitude of factors, the list of which could be quite lengthy. It is believed that this irrational behaviour should be leveraged in marketing, as it helps the seller subtly convince the consumer of the necessity and correctness of the desired action.

Marketers have long known that endowing inanimate objects with human qualities helps to make products more appealing to potential buyers. They conducted a study to investigate this phenomenon. Through observations of consumer behaviour, they discovered that bananas on the bunch sell better than “lonely” bananas broken off from the bunch. Over a period of time, signs were displayed near the bananas featuring a “cheerful” banana with the inscription: “We – cheerful, single bananas also want to be bought!”, a “sad” banana with the inscription: “We – sad, single bananas also want to be bought!”, and a third, unemotional version with the inscription: “Single bananas also want to be bought.” The experiment revealed that “sad and lonely” bananas sold 58 % better than the neutral version. The “cheerful version” only increased sales by 5.4 %. [3] As it turned out, the sad variant worked more effectively because it evoked feelings of empathy in people. Numerous sources indicate that single bananas are a major source of food waste in retail. Therefore, the results of this experiment have practical significance, as they point to an effective way for supermarkets to increase sales and reduce the amount of discarded produce. Thus, it exemplifies the practical applicability of behavioural economics, including its role in marketing. This example helps us to understand how people make their choice and in which situations this choice is irrational. It proves the use of behavioural economics.

To summarise, behavioural economics is the base for marketing which is built on the researches of consumer behaviour. The researches in the fields of psychology, behavioural economics and information technologies give new possibilities not only for economists but also for marketers. Modern technologies enable researchers to track consumer behaviour, allowing to create targeted marketing strategies. The results of the study with the product presentation discussed above prove that an emotional factor significantly influences consumer behaviour concerning purchasing decisions. They also demonstrate that behavioural economics is connected with marketing providing new frameworks for understanding and predicting economic outcomes.

References:

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