voucherify

Building Digital Promotions for DTC

The Psychology of Incentives

voucherify.io

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With the move to digital over the past decade, consumers are spending more and more time on their phones. This creates a huge opportunity for brands to be closer to consumers than ever before. At the same time, the sheer number of new direct-to-consumer companies popping up all over the place, spending tons on customer acquisition raised the bar for keeping customers loyal.

Figuring out a way to develop and maintain relationships with the consumer is challenging on many levels, including data collection, software integration, communication, and promo budget calculation. That's why introducing or reintroducing digital promotions can get expensive very fast and fail to create value for the company.

Designing any sales promotion should start with creating value for the consumer and for you. It boils down to leveraging the gaps between a consumer's perceived value of something and your cost to provide it. The marketing psychology insights collected in thie ebook will help you identify these gaps and create offers that consumers value but cost you very little.

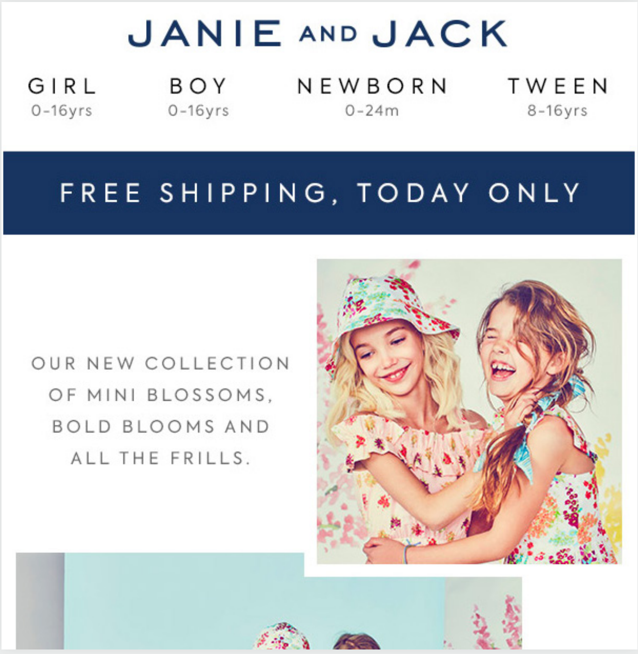
How free shipping affects customer behaviour?

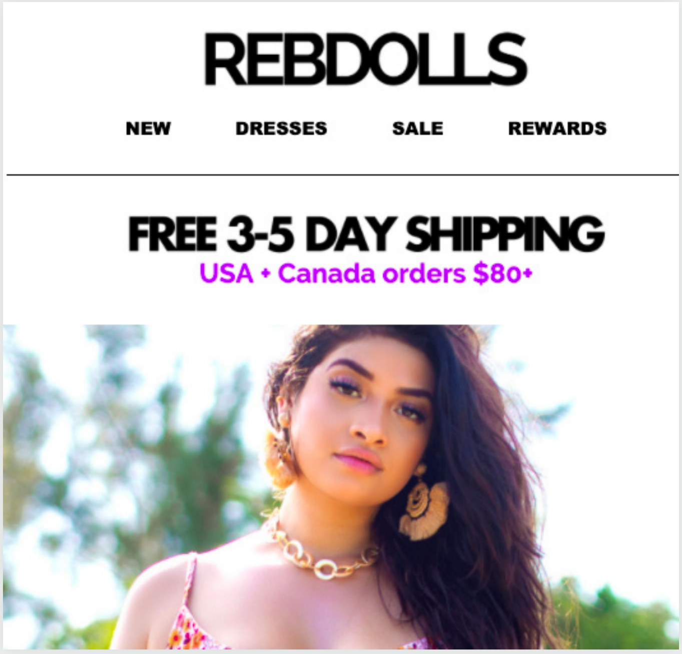
You might get your customers to pay more if you put FREE in front of their minds and play with their perceptions of goal velocity.

When people see something free, two things happen:

- They forego the mental cost-benefit analyses usually associated with making a purchase.
- They actually perceive the benefits of a free product as higher than they really are. In other words, people overestimate the positive qualities of a free product, and this is true even when the freebie is the shipping.

People love the word FREE even more than you might expect. The more you can claim something is a freebie, the more motivated your customers will be to get it.





Tip!
Be mindful of how your promotions will naturally split your customers into different types. While high spenders see free shipping as convenience, low spenders perceive it as a compelling incentive to get their cart up to the target price.

Goal Velocity and Free Shipping

If we start thinking about the free shipping threshold as a goal, the next step would be to identify ways to increase the likelihood the goal will be achieved. If you want your customers to reach a price threshold, make them feel like they are closer than they really are (or are getting there faster) in the beginning, but don't be afraid to make them work for it a little at the end.

There are two main concerns about free shipping as a goal:

- If customers come to you to buy only one cheap thing, then shelling out the extra money to get to a free shipping threshold may seem too costly or too "psychologically distant" in their minds.
- If customers' carts are already very close to the threshold, they may resist buying anything that puts them too far over (i.e. they impose a price ceiling on themselves).

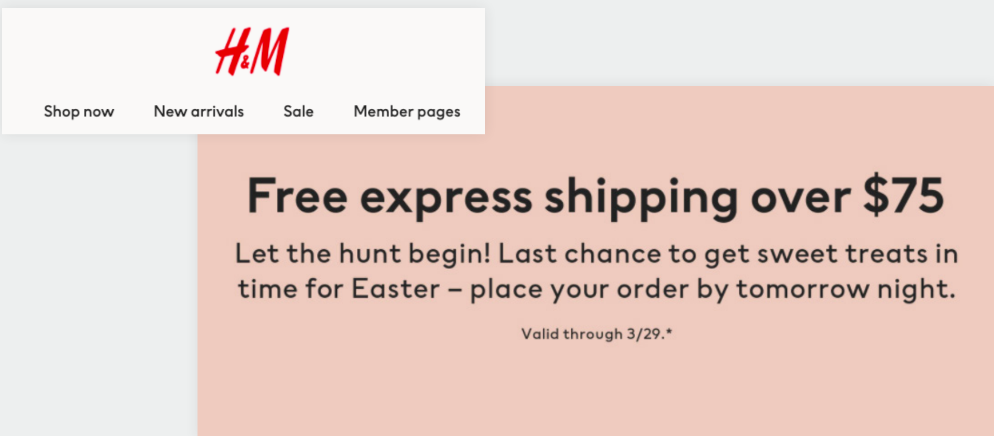
If the path to free shipping can be presented in a way that minimizes these two concerns, it will be more successful.

- When people are far away from achieving a goal, their main concern is whether they can make it all the way. When the goal is far away, people are more motivated to reach it if they believe they are already making a lot of progress.

- When people get close to achieving a goal and become confident that they can reach it, their concern shifts toward getting there as quickly and smoothly as possible. Because their focus is now on completing the goal as soon as possible, people will actually be more motivated (and will try harder) to reach that goal if they feel like it is further away.

So if you're thinking about offering free shipping, you just might get your customers paying more than either of you would have expected if you put FREE in the front of their minds and play with their perceptions of goal velocity.

Read the full article on the psychology of free shipping.



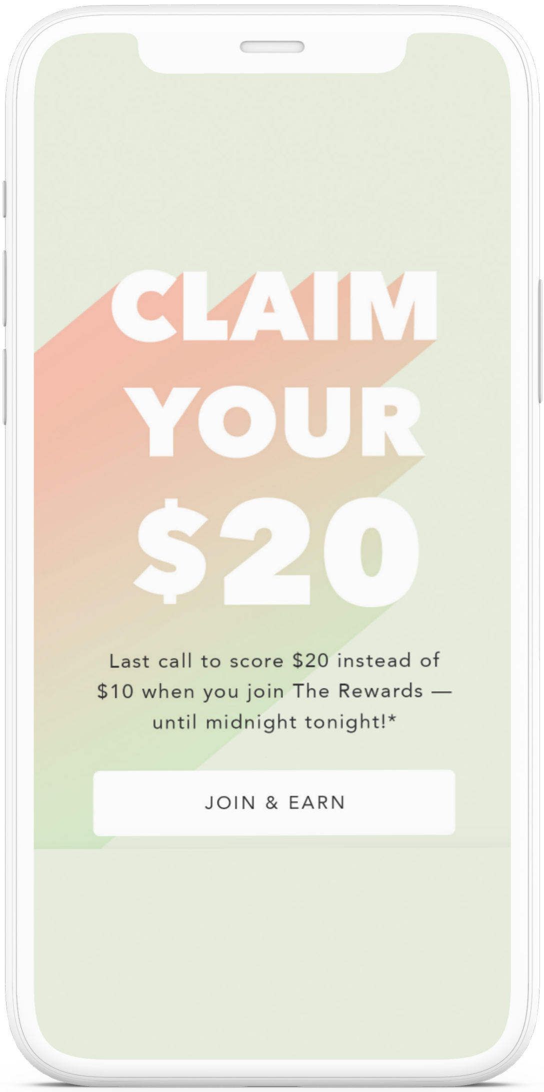
The Endowment Effect

Customers value things more when they feel they own them, give them a sense of ownership over coupons and promotions. The Endowment Effect describes the fact that people value something more when they perceive themselves to be its owner.

Retailers are in the business of giving things to their customers. These may include coupons, gift cards, or sometimes even small gifts. In online spaces, this giving tends to be fairly costless, and the hope is that a customer will take that coupon and use it. But how do you encourage customers to want to make use of the incentive you give them? Keeping with our theme of "giving," the behavioral economic phenomenon known as the "Endowment Effect" offers a few ideas.

Brands already give coupons to their customers, so do customers feel that they are "endowed" with them? Probably not: the nature of a coupon is that it is given, used, and never seen again. For it to be Endowed, it needs to feel more permanent. This suggests offering a coupon that behaves or feels more like a savings card.

The most direct way to implement this idea would be to give customers a "permanent X% discount" for creating an account, and it would be made clear (by using personal codes) that "this is your discount," something that is theirs to keep for as long as they want.



Also, a gift card sounds more permanent than a fleeting coupon. Tell them, "You're entitled to a $25 gift card!" or "We've added a $25 gift card to your cart! Add $75 to keep your $25." As customers shop, remind them about their gift card. You can update them on how much they still need to spend to keep their gift card, or you could leverage the power of loss aversion and give them a time limit and countdown.

Learn more about the Endowment Effect.

The Decoy Effect

If you can compare your product favourably against a competitor's product, then you should definitely do it. Similarly, it is not uncommon to see a brand or a store offer a product that exists only for the purpose of making another product look better, or simply to adjust the products on their shelves to highlight certain items over others. The decoy effect happens when consumers change their preference between two options when presented with a third item, called the "decoy."

For example, the high priced iPhone 5s ($199) can make a more moderately priced iPhone 5c ($99) look like a bargain. Alternatively, the 5c might also look like a great purchase if it were next to an older iPhone with fewer features. In both of these cases, the set of product choices can have a meaningful impact on what a customer chooses. But things start to get interesting when we have three alternatives to choose from.

Suppose that in addition to the iPhone 5s and 5c, Apple had also released another iPhone 5 variant (let's call it the 5x) which was identical to the 5s in every way (including price) except it has a lower quality camera. How will this affect customers' choices of iPhone?

The first result is obvious: no one will buy the 5x because it is strictly worse than the 5s. The second effect may be more surprising – sales of the 5s will likely be higher than if the 5x was never an option.

Read more about the Decoy Effect.

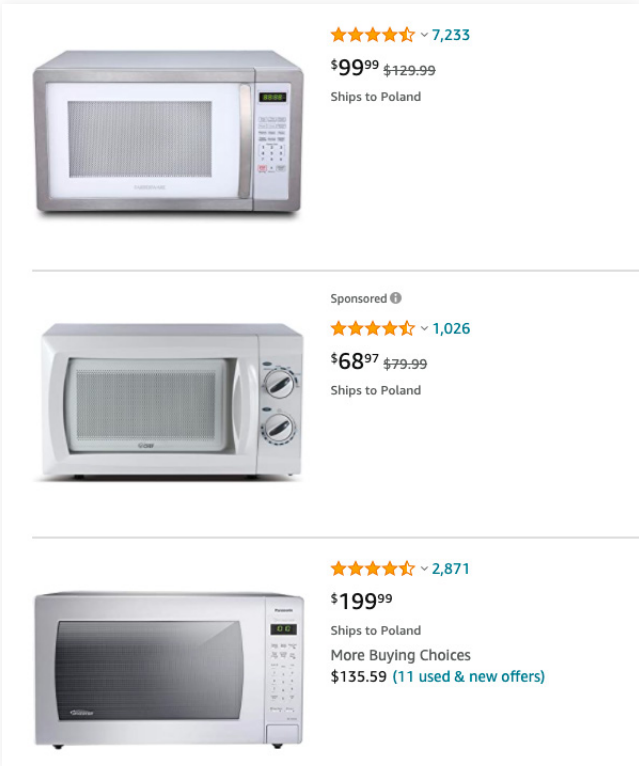
Tip!
People are attracted to products that are seen as compromises between other options, especially when they are committed to buying something from that product category.

The Compromise Effect

Another favorite finding in behavioral economics is called the "Compromise Effect," which also emerges when customers are faced with three options.

The psychology underlying this effect is essentially that people either dislike or get tired of making mental trade-offs between products. Deciding which features are important, how much they are worth, which product has the right combination can be mentally taxing, and people tend to prefer to simplify the process as much as possible (sometimes consciously, and sometimes without realizing it).

The Decoy and the Compromise Effects highlight the importance of paying attention to all of the options you put in front of customers. On one hand, that means you need to consider how customers will make trade-offs between products, and whether you may already have items acting as decoys or compromise options. On the other hand, it suggests that if you don't have decoys or compromises, you might want to create some.



Decoys are probably easier to create as you simply need to offer a less desirable variant of an existing product or promotion. Unlike the iPhone 5x example, it does not need to be exactly the same as your target product except with one shortcoming, but it should be immediately obvious that it should be directly comparable. Remember that the key function of the decoy is not only to make your product look good, but to draw attention to it. So strip out a feature or raise the price to make it slightly less attractive.

The Licensing Effect

How to encourage your customers to splurge? Use the power of behavioral marketing and reciprocity for your e-commerce strategy.

Researchers found that people who were given the chance to prove that they were not sexist or racist were later more likely to act in ways that were sexist or racist. For example, they had a female experimenter approach men and ask them to complete a survey. Some of the participants were given an extra first page – they were asked to agree or disagree with a series of blatantly sexist statements. Naturally, the more strongly sexist the remark, the more likely the men were to disagree with it. Later, respondents read a description of a small construction company that suggested that it was a place where men would work. They were then asked to choose whether they felt that it was more appropriate for the company to hire a man or a woman.

If the men had first been given the chance to say that they disagreed with the sexist remarks, they were at least twice as likely to indicate that a man was a better choice for the job. This is a consequence of the "Licensing Effect": because the men had "proved" they were not sexist, they did not feel any moral misgivings about upholding a sexist stereotype.

How does this idea that "doing good means I can do bad" apply to a marketing context? Suppose a consumer has just done something "good" and they feel really great about themselves because of it. Will this affect their purchasing decisions?

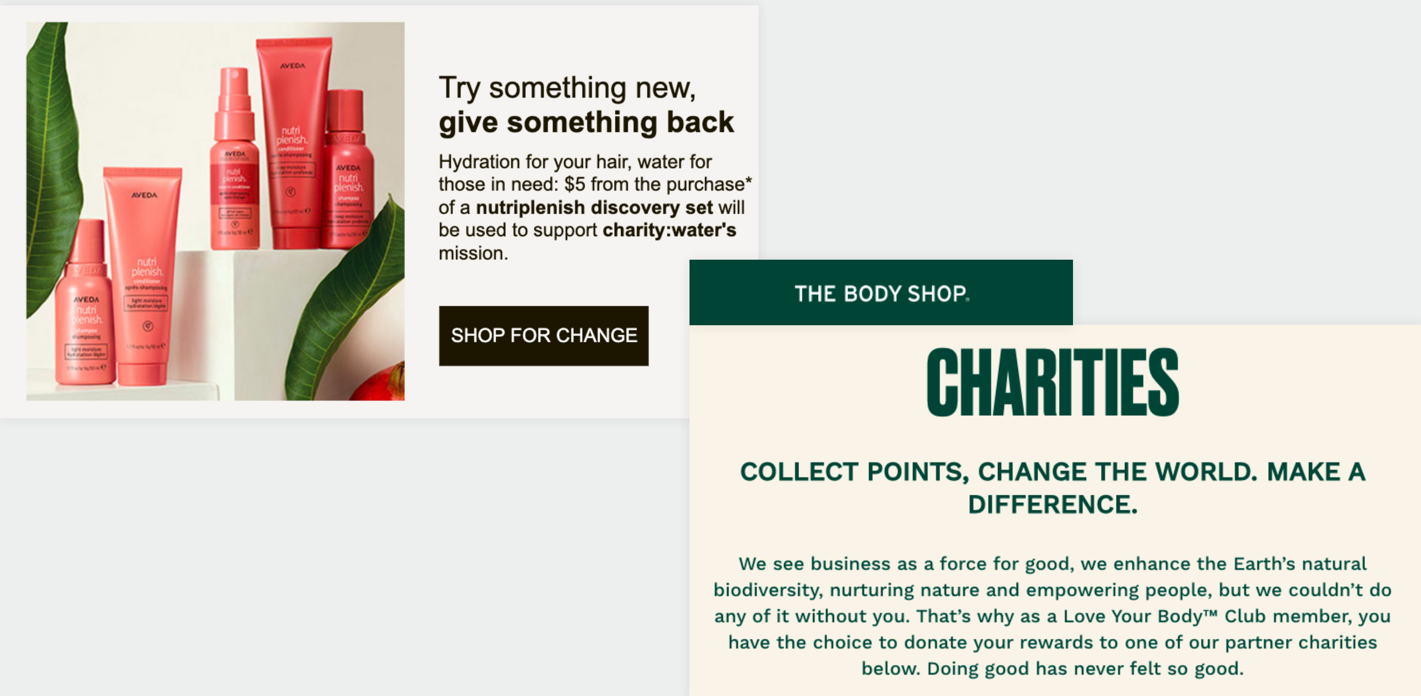
The answer is a surprising yes. It was found that when people indicated they were interested in doing something good, they were subsequently 50 to 100% more likely to want to buy something expensive or frivolous (like designer jeans or overpriced sunglasses).

Putting licensing to use simply requires giving your customers a reason to feel moral (or morally superior). Brands that have some form of social conscientiousness built into them should be sure to prominently display this fact – "By shopping with us, you are doing X good thing!"

Tip!

You could present your customers with the easy moral choice as soon as they arrive on your site. This could range from offering a free product ("Click here for a FREE reusable grocery bag!") or simply a chance to express how moral they are ("Click here to join our petition to end X bad thing!").

Learn more about the Licensing Effect.



Mastering Demographics

How to target customers based on psychology, behavior and identity?

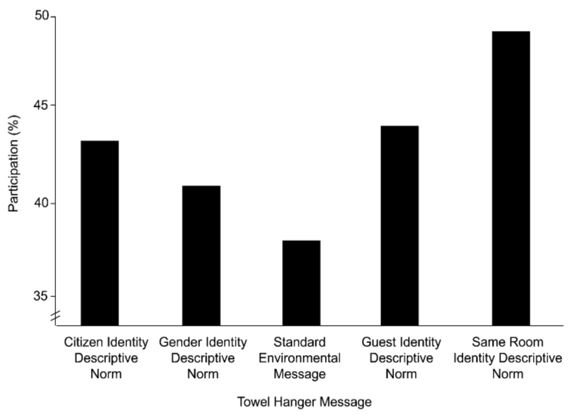
The goal of the identity demographics approach is to move away from “You might prefer X” and arrive at “People like you prefer X.” With surprisingly few exceptions, people like to feel like they belong, and they tend to prefer to behave as typical members of whatever relevant social group. There are a couple different reasons why, but typically it involves a desire to have a coherent identity or to appear acceptable to others.. This is why public service advertisements that make claims like “4 out of 5 people do X” tend to be relatively successful.

Demographic data allows you to construct similar appeals – “4 out of 5 men prefer X” or “2 out of 3 San Franciscans like Y.” This type of targeting will be much more persuasive than simply addressing men from San Francisco with canned ads for X and Y. Rather than simply targeting a demographic, this tactic is now targeting customers’ identities.

A nice example comes from a 2008 study. Robert Cialdini set up a series of experiments in hotel rooms in which they aimed to promote bathroom towel reuse. You may have noticed signs in hotel bathrooms encouraging you to reuse your towels in order to save water and energy. The authors manipulated what these signs read in order to appeal to different levels of guests’ identities.

FIGURE 4

TOWEL REUSE RATES AS A FUNCTION OF SIGN IN ROOM (EXPERIMENT 2)



How to use your demographic information to persuade customers in your marketing strategy?

- Activate or strengthen your customers' affinity for a given demographic.
- Use that demographic to endorse a product, promotion, or advertisement.

The second point is perhaps more straightforward – targeted messages such as "X% of San Francisco men prefer Y" can fulfil this purpose, but the key is satisfying requirement #1 by making sure your target customer identifies strongly enough as a San Francisco man.

One method is to have your customers actively endorse a demographic identity. For example, displaying a question such as "How long have you lived in San Francisco?" already does the work, but if you can entice your customers to actually answer it, their commitment to being a San Franciscan on your site will be much stronger. Answering questions, endorsing statements, or even the process of filling out demographic information to make an account may all be able to play into this approach.

Tip!

You can use coupons, gift cards, or loyalty points to incentivize responses.

Read more about targeting customers based on demographic information.

Reference Pricing

People love to get good deals. Or at least they love to feel like they are getting good deals.

According to Richard Thaler, people tend to be almost as interested in “buying” a deal as they are in buying the associated product. In other words, when customers are deciding whether or not a product is worth the price, the value they place on the purchase itself (“Am I getting a good deal?”) can be as powerful as the value they place on the actual product (“Am I getting good shoes?”)

The most direct way to influence perceptions of a transaction is through careful use of reference prices.
It is important to present your customers not only with the price they will be paying, but also with a relevant price that makes the real one look good by comparison. This is the purpose of posting the original price during a sale. The obvious takeaway is that whenever your product is discounted, make sure your customers can see what the price was before you slashed it. Don’t just tell them “It’s X% off!”

Another fruitful approach is to use the prices of similar or related products to make the price of your target product look good. For example, even if they are not on sale, a $125 pair of shoes look like a great deal next to a $190 pair of shoes.

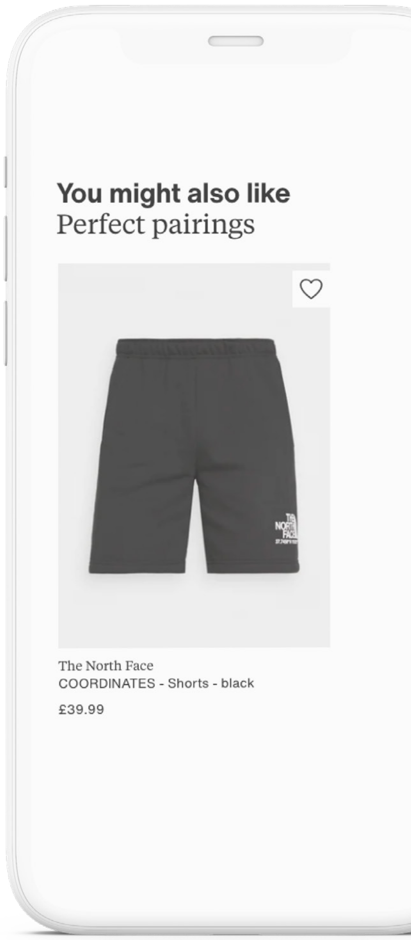
Learn more about the Reference Pricing.

The Foot In The Door Technique

The foot in the door effect occurs when customers have done something small for you, which leads them to be more willing to do something bigger later on.

The foot-in-the-door technique is a well-known and widely used tactic in everything from auto sales to telemarketing (where it dramatically increases people's likelihood to stay on the phone). However, using it in an online context poses some unique challenges.

There are a lot of factors that can drive the foot-in-the-door effect depending on the context, but at its core lies the commitment and consistency. Essentially, a customer's first action serves as a point of commitment to a behavior or attitude. When it is time to make the second decision (e.g. to place a large sign on your lawn or to purchase something online), the fact that your customer has already committed (even in a costless way) to the first action leads them to feel a need to be consistent with that commitment.



Tip!

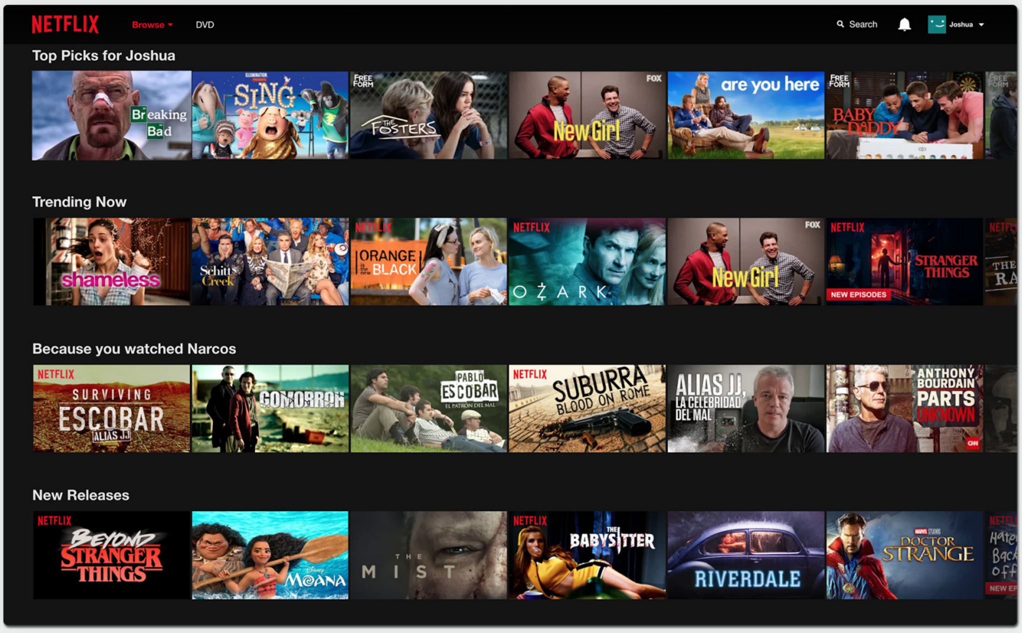
The first action must be voluntary – if a customer is forced to do something, it will not serve as a foot-in-the-door technique because they do not feel a need to be consistent with it.

Because past behavior is such a strong first step for a foot-in-the-door effect, anything that draws customers' attention to relevant past actions has the potential to open the door. One of the most obvious implications is that reminding returning customers of their previous purchases can be very powerful. This can come in a couple of forms:

- List of previously purchased products.
- "Customer who bought X, also bought Y" messages.
- "Choose a free gift" offers.

Foot-in-the-door effect can be created by prompting visitors for input other than purchases – getting them to tell you what they like (or want) may also serve to achieve a foot in the door effect.

Read more about the Foot in The Door Technique.



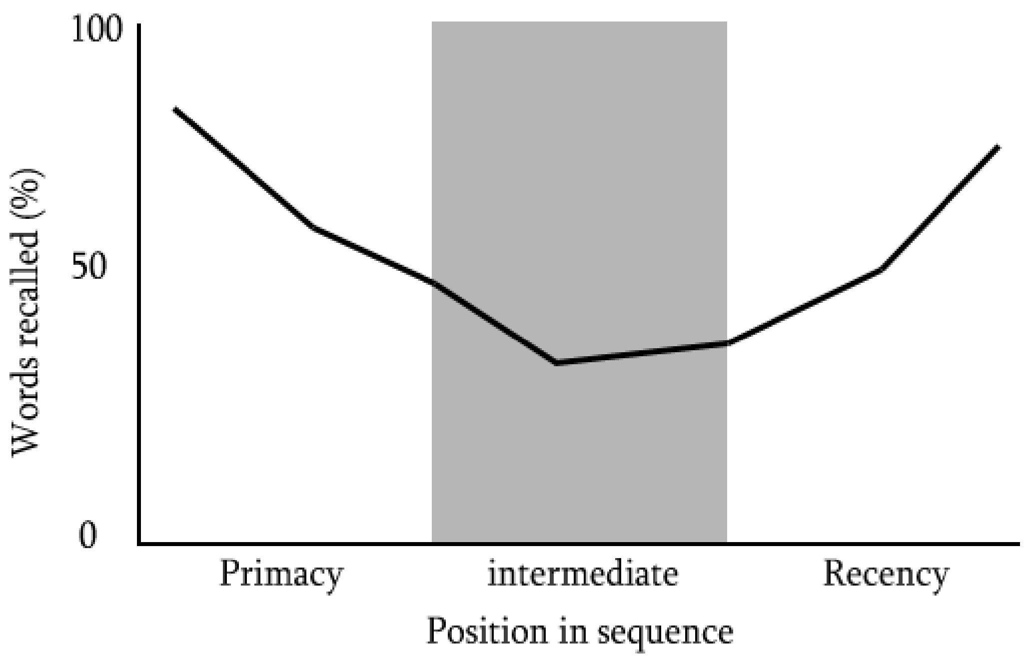
The Primacy and Recency Effect

Does the order matter? Yes, order matters. In fact, order matters for a lot of things.

There are two separate effects of order. “Primacy,” when people pay more attention to the first thing they read or hear. “Recency,” when people are (surprise!) better able to remember more recent information.

While Primacy and Recency both occur for memory, this is not always the case for decision making.

When people are choosing from a list, they often display a strong Primacy Effect. In other words, if something is earlier in the list, people are more likely to choose it. It doesn’t matter if the list is ordered top-to-bottom or left-to-right, and it also (usually) doesn’t matter if people see the whole list at once or one item at a time. If you want people to click on something, put it earlier in the list.



Primacy Effect arises for customers who aren't sure exactly what they want, and in this case one of two things can happen:

- Customers may not be interested in making the decision and will simply choose the first thing presented to them because it is easier.
- Customers may examine options to make a good choice, but will naturally get cognitively tired as they go. Because they start with the first option, they end up thinking about the first option more than any other option. This leads them to feel like they understand the first one best, and it becomes the most comfortable choice.

Equally as important as controlling the order of options is controlling the order of information. It is not uncommon to see an advertisement present its strongest argument in the biggest letters for this exact reason – if people notice it first, they will process it first and give it more weight.

Learn more about the Primacy and Recency Effects.

Tip!

If you want more customers to choose a specific item (out of a list, choice set, or anything else they are reading), put that item first in line.

The Shopping Momentum

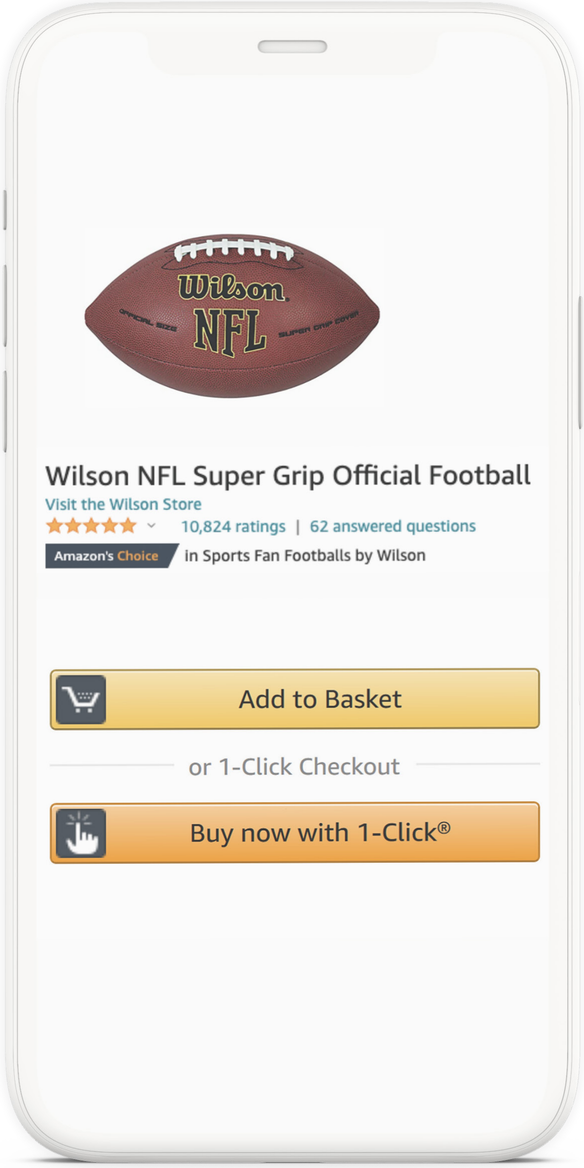
Why is it that regular customers tend to spend more than new ones?

The Shopping Momentum Effect describes something that most impulse buyers may already suspect to be true – consumers who choose to make a purchase are subsequently much more likely to make another, unrelated purchase. In one experiment, participants first chose whether or not to buy a light bulb, and then chose whether or not to buy a keychain. If they did not buy the light bulb, there was a 31% chance that they would choose to buy the keychain, but if they did buy the light bulb, then the likelihood of them buying the keychain more than doubled to 67%!

In another example, researchers compared the Shopping Momentum to the effect of giving customers a gift. Participants were either given a pen as a gift or asked if they wanted to buy a pen, and then they were given the chance to buy a keychain. If they received the pen as a gift, 53% chose to buy the keychain, which is not bad at all. However, if they had the opportunity to buy the pen, 78% chose to buy the keychain!

Tip!

Your customers are much more likely to buy something if they have already bought something else. This is because they are more likely to buy something if they are thinking about following-through with a purchase rather than thinking about the pros and cons of a purchase.



The Shopping Momentum Effect can be applied to retail strategy at two different levels.

The first strategy is to apply Shopping Momentum as simply the effect of buying something. Deals, promotions, or strongly tempting loss-leaders can serve as ways to get customers to buy something, which in turn will make them more likely to buy something else. Offering little things for a dollar that you could have otherwise given to them as a gift might also work, although the uptake will probably not be high.

The second strategy is to play with the underlying cause of the Shopping Momentum – the implementation mindset. One way might be to highlight the steps needed to purchase a product in the space where customers might normally expect to see product information (with that information moved further down the page). By putting this implementation information front-and-center, your customers will be more likely to start thinking in these terms. Any wording that encourages your customers to think about how they can buy your product may make them more inclined to do so.

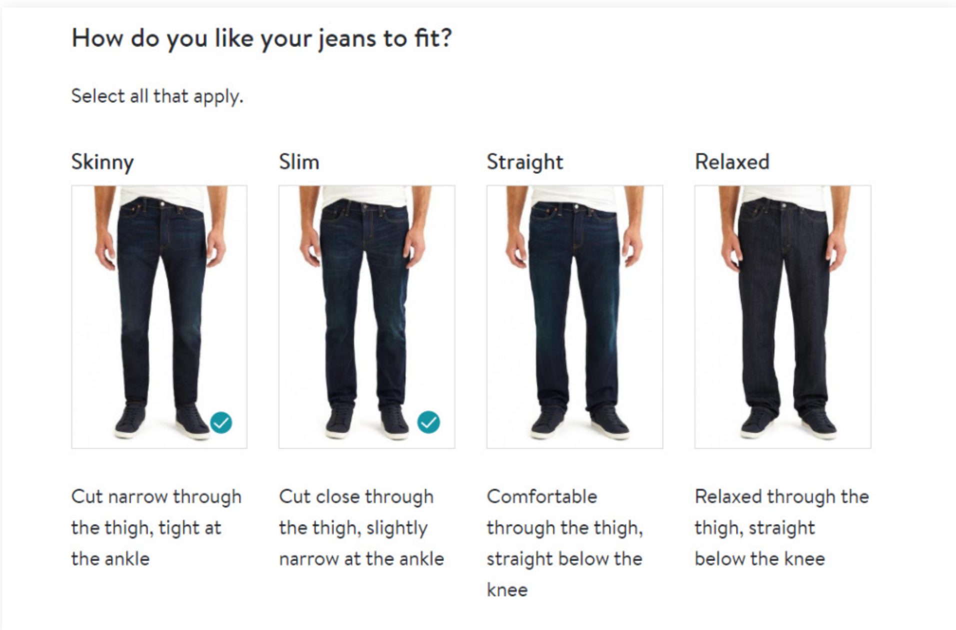
Read more about the Shopping Momentum.

Ego Depletion

How can you use the Ego Depletion phenomenon for your business?

The most popular scientific model of self-control and willpower is that of a limited resource. In essence, whenever you choose to exercise self-control (for example, by choosing to skip dessert or to read a book instead of watching a TV show), it uses up some of your “cognitive resources.” This means that the more you exercise your self-control, the harder it will be to exert your willpower later on. If you choose to eat healthy instead of unhealthy all day, and to exercise instead of sitting around, you’re more likely to lose the self-control battle to a piece of cake later that night. And because willpower is a single resource, this also means you’ll have a harder time resisting a tempting impulse purchase.

This idea of self-control was originally championed by Roy Baumeister, and he refers to this process of draining your cognitive resources as Ego Depletion. As consumers make choices, they experience Ego Depletion and subsequently have a harder time exercising their self-control.

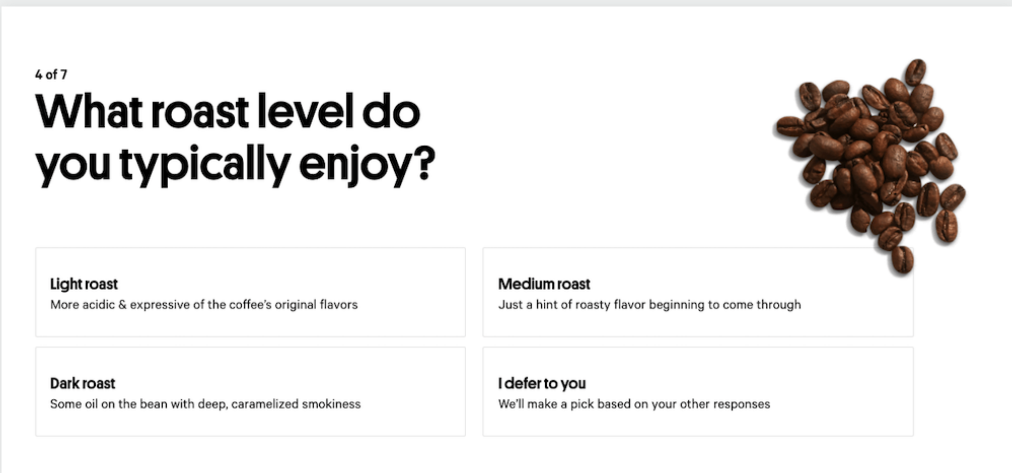


When customers' egos are depleted, they are more likely to indulge and more likely to make a purchase. They are also more susceptible to nudges in their environment, so they will experience things like the Foot-in-the-Door Effect, the Decoy Effect, or the Primacy Effect. As marketers, this leads us to ask: when and how do customers become depleted?

One opportunity is to present your visitors with gamified choices requiring them to make difficult product trade-offs by presenting them with a pair of products and asking them which they like more. Using metadata, you can tailor these survey questions to increase the level of interest for individual customers, and thus increase the likelihood of them spending the cognitive resources necessary to answer.

And when are consumers most likely to have low willpower? The research suggests that the Ego Depletion Effect will be the most prominent later in the day, before a meal, and when they have been working or thinking hard. While each piece can be used to target different parts of the day, taken together we would predict that the end of the workday is when people are most susceptible to the urge to splurge.

Learn more about Ego Depletion.



The Blemishing Effect

Include a small con in order to bolster customers' positive evaluations of your products.

Little bit of negative information actually makes consumers more likely to buy your product. The first and most essential thing to take into account about the Blemishing Effect is that it only works when the negative information is encountered after some stronger positive information. The mere process of thinking about it and coming to the conclusion that the product is still good will makes customers like it more. After all, when people arrive at a judgment on their own, they hold that belief much more strongly.

Other than listing product attributes, there are two ways to blemish a product. One strategy is to call attention to a (mildly) unflattering product comparison. For example, having "two colors" as options for a pair of hiking boots is not necessarily seen as a negative until it is relabeled as "only two colors."

The second and perhaps simplest approach is by scuffing the packaging, or (in the case of an online retailer) you might experiment with the unintuitive strategy of using lower quality or less professional product photos.

Tip!

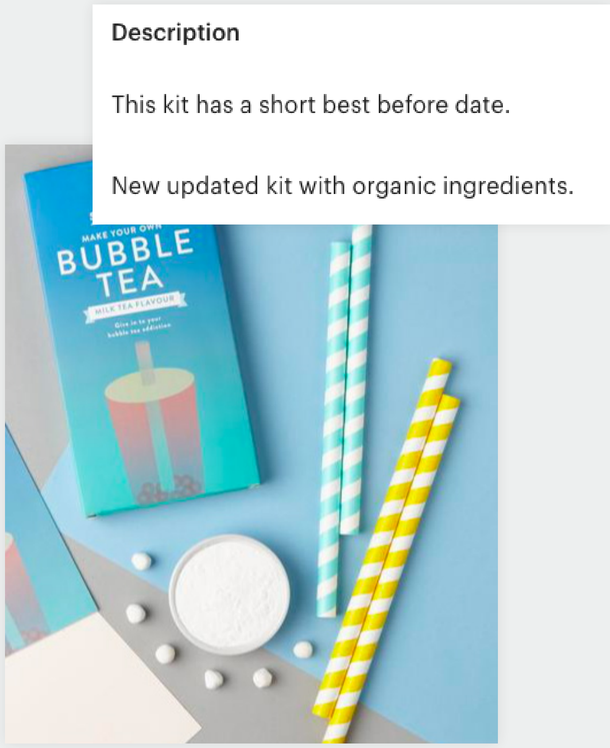
Positive information needs to come first thanks to the Primacy Effect – arguments that customers encounter first will be more persuasive to them. This means customers can be made to develop a positive impression based on the initial positive information.

Here are some things to remember:

- The positive information must outweigh the negative information.
- The positive information must come before the negative information.
- Consumers should not be too invested in the purchase decision.

While Blemishing is a relatively delicate effect, some takeaways from the research are still universal to all kinds of products. Notably, most products have features or attributes that are less appealing than others, so you should always list these attributes after you have listed some strong positive attributes. Putting the positive information first will still have the effect of making your customers' first impression be something good.

Read more about the Blemishing Effect.



Mental Accounting

Mental accounting happens when customers place money in mental budgets based on subjective criteria.

Everyone makes and keeps mental budgets, and the fact that many consumers feel at least a little compelled to divide their money into different categories has some interesting implications. Because consumers have this tendency to form different mental budgets, it leads them to assign purpose to their money in predictable ways, often without realizing it.

An understanding of how and why customers may sort and spend their money based on mental budgets can help to motivate them. First and foremost, removing the sense that purchases are all coming out of the same mental budget can reduce some of the resistance that customers may feel towards buying more than one item.

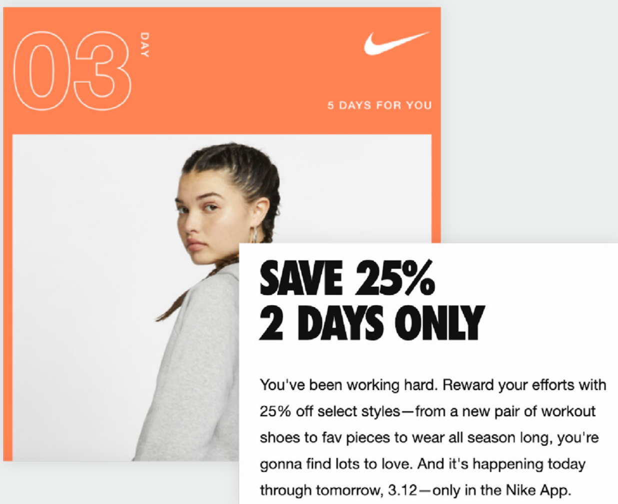
For example, if consumers are thinking about the money they make from their job (a serious source of income), they are more interested in spending it on necessities (a serious purchase). However, if they get some windfall cash, then they prefer to spend it on something more frivolous. For example, if you found $20 on the ground in a supermarket, you would likely be more motivated to buy an extra treat than to buy extra home supplies.

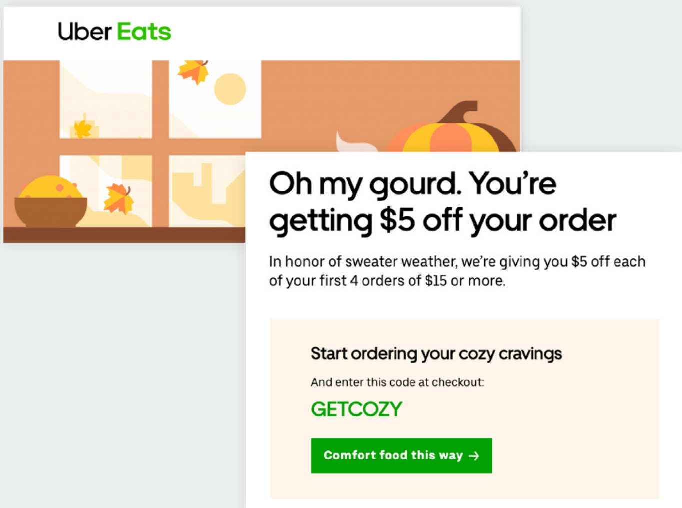
Learn more about Mental Accounting.

If you have a wide array of products, particularly spanning the spectrum of “serious” to “frivolous” or from “necessities” to “for fun,” offering a mix (or forcing them to view a mix) can encourage purchasing across categories. Alternatively, if you don’t have a wide array of products, a similar result might be accomplished using some simple variety manipulations to give the sense that products are more varied than they may actually be. One simple approach which leverages a common online practice is by providing a wide array of product category key-terms on which to sort items.

Beyond having implications for your product offerings, recognizing mental budgets can help you optimize your coupon or gift card offerings. If your products tend to fall more into the necessities category, tell your customers that they have “earned” coupons, because the act of earning makes it seem like a more serious source of income.

In contrast, if your products are more frivolous, try to cast your coupons as a surprise or as having been given to them because of luck or random circumstances (such as weather conditions). You might even have coupons with variable values that only become known when the customer accepts it.





Valuation and Devaluation Effects

Appeal to customers' relevant goals in order to make your product more attractive.

In one of the studies, researchers offered to sell raffle tickets to college students. They approached students and presented them with one of two raffles:

- Half of the students were asked how much they would be willing to pay to enter a raffle for $1000 in cash.
- The other half was asked how much they would pay to enter a raffle for $1000-off their university bill.

If they were offered the $1000 cash raffle, the students were willing to pay only about 93 cents for a ticket, but if they were offered $1000 off their student bill, they offered about $1.52 on average. That's a 60% increase simply by telling the students that the prize money would address a relevant goal.

Read more about the Valuation and Devalutation Effects.

Tip!
Customers focus on the goals that are most obvious or most relevant to them at any given moment. Just because they have a long term goal doesn't mean they will act on it unless they are reminded of it.

These findings demonstrate the Valuation Effect. Consumers will value a product more if they feel they have a greater need for it. When students feel like they need to pay their bills, then they see money earmarked for those bills as more valuable than plain cash.

A strategy for leveraging the Valuation Effect is to identify patterns or times when customers are more likely to be thinking about the target goal, and to appeal to them during these periods. More importantly, however, is that the Devaluation Effect (undervaluing things that don't help us achieve that goal) suggests there may be negative consequences to presenting an advertisement at a time when consumers are thinking about goals not relevant to your product.

With regards to money (such as in the raffle studies above), the Valuation Effect also helps to explain why people actually really like gift cards. Even if a $50 gift card seems like just a restrictive version of $50 in cash, customers may find gift cards more subjectively valuable because the "goal" of the money is made very clear.

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Learn how Voucherify can help you leverage marketing psychology and launch sales promotions efficiently.

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