

# A FEW BEHAVIORAL ECONOMICS INSIGHTS FOR SOCIAL MARKETERS

By Michael L. Rothschild

Advances in biomedical sciences, mass immunization, and sanitation have resulted in a decrease in the incidence of infectious diseases. The health status of the population in economically developed countries now has less to do with acute illness than with life style issues such as lack of exercise, excessive drinking, unhealthy diet, or the use of tobacco products.

The goal of this paper is to introduce behavioral economics as a conceptual paradigm that can assist social marketers in managing the health behavior life style choices made by individuals. The benefit of "long-term health" is offered in a marketplace where there are many alternative choices with short- and long-term benefits competing for individuals' scarce monetary, time, and energy resources. If managers are unable to show that a long-term health benefit has greater present value than do the benefits of the competitive options, then the desired behavior may not occur.

Individual choices generally are made based on intuitive and implicit judgments concerning short-term and long-term costs and benefits associated with "long-term health" and the many competitive options available. This is often an unconscious process that is not explicitly formulated by the individual in the manner described in this paper, but the issues discussed here are, at some level, considered.

## THE WILLIAM D. NOVELLI AWARD

*The William D. Novelli Awards for Innovation in Social Marketing were presented at the Seventh Annual Innovations in Social Marketing Conference 2001 in Washington, DC.*

*The winning paper for Outstanding Contribution to Social Marketing Theory was written by Michael L. Rothschild and was titled "A Few Behavioral Economics Insights for Social Marketers."*

*The winning paper for Outstanding Contribution to Social Marketing Practice was written by Karen G. Fleischman Foreit and James R. Foreit and was titled "Using Simple Survey Techniques to Set Prices for Social Products and Services."*

*All poster and oral sessions presented at the ISM conference are eligible to compete for one of the two William Novelli Awards, conferred each year at the discretion of the awards committee. Prizes of \$750 are available to the author(s). The award is named in honor of social marketing pioneer and Porter Novelli co-founder, Bill Novelli.*

Social marketing, behavioral psychology and economics have a significant amount in common. Each considers how people respond to stimuli and how appropriate rewards can lead to and perpetuate desired behaviors. Behavioral economics has been defined as "the combination of microeconomic concepts, principles, and measures along with concepts, principles and experimental methods developed by behavior analysts" (Madden, 2000, p.6). It differs from economics in that the strict constraints on "rational thinking" are relaxed to allow rationality to include emotion, cultural influence, poor judgment, and many other topics of psychology, sociology, and anthropology, only some of which are observable. The process is still rational because the individual is trying to make the best decision within a set of constraints and limited processing capabilities.

Behavioral economics offers a formal framework often neglected by marketing. The key dependent variables are consumption and spending. These are traditional measures of consumer behavior that are equally relevant to the more pathologic behaviors related to smoking, drinking, eating, and exercising as they relate to public health issues such as heart attack, stroke, high blood pressure, or cancer. People consume products that lead to good or poor health, and they spend scarce monetary and non-monetary resources in doing so.

The key independent variables that influence consumption and behavior are:

- **The delay between the behavior and the reward, which is considered in terms of the discounting of future value of the reward.** For many public health decisions, the alternatives are the "bad" behaviors

that yield short-run benefit and long-run cost (e.g., not exercising) and the "good" behaviors that yield short-run cost and long-run benefit (exercising). Individuals intuitively discount the future based on their judgment as to its attainability. They evaluate alternative options with respect to current and future cost and benefit. When people can't see much future cost or benefit of an action, they discount these values to a higher degree and choose based on immediate benefits and costs; those who perceive they actually will receive future value will discount less.

- **The alternative choices available at the time of the behavior.** In a free choice society, individuals always have alternative choices that may or may not lead to the manager's desired behavior and/or to reduced externalities.
- **The price of the behavior.** Every choice has a price, and the price needs to be considered in terms of monetary, time, personal energy and health units.
- **The income, or resources, of the individual.** Scarce resources are used to acquire benefits of varying cost. Resources also need to be considered in terms of monetary, time, personal energy and health units.

The management of consumption and spending is the essence of social marketing. Long-term health can be seen as a benefit offered by many commercial and non-commercial products and services; each offering has short-term and long-term cost and benefit (Bickel & Vuchinich, 2000).

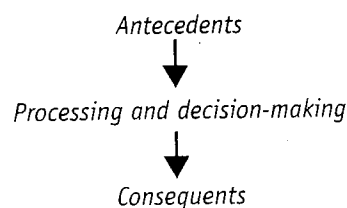
One of the most frustrating aspects of public health social marketing is that targets regularly choose short-term over long-term rewards, even when it is clear to them that the small short-term benefit is accompanied by a large long-term cost. Conversely, the large long-term benefit generally is accompanied by a short-term cost that often is seen to outweigh the present value of the long-term benefit.

Let us assume that the following economic model is reasonable:

*consumption, spending = f(discount rate, choice, price, resources)*

Now, let us add to it the full spectrum of psychology models leading to behavioral psychology (Thaler, 1980), and, finally, let us acknowledge an expansion to include sociology and anthropology. The result is the current paradigm of behavioral economics.

The result is a model that proposes that all people process and make choices in similar ways. The difference in the resulting choices, though, is due to the intuitive discount rate selected by each person and the antecedent conditions that exist in each environment.



Marketers need to manage the antecedents of choice by creating opportunity and removing barriers. They also need to reinforce the consequences of choice by providing the most favorably perceived cost-benefit package in order to achieve long-term behavior.

In behavioral economics, antecedents such as history, culture, and environment, as well as individual resources and individual perceptions of the general antecedents, determine the discount rate, consumption and spending. This discount rate determines the expected value of long-term health, which is intuitively calculated by combining the perception of the value of long-term health and the perception of the probability of achieving long-term health.

Note that the rate is influenced by both the actual and the perceived environment and culture, which leads to decisions based on the "framing" of choices (Tversky & Kahneman, 1981). Kahneman and Tversky (1979) have shown that people tend to overweigh the value of the present versus the future, and to overweigh unlikely events (dying in a plane crash) versus more likely events (dying from heart disease caused by poor diet).

Consumption and spending are the consequents of processing and choice making. Using scarce resources to maximize short-run benefit is rational when the future is highly discounted in favor of the present. This discounting results from both accurate and exaggerated assessments of the environment but is rational within the bounds of imperfect decision-making. In this model, smoking, drinking, taking drugs, eating poorly, and not exercising can be rational outcomes of processing (Becker, 1976).

The discount rate influences decisions across many health issues and within the same issue over time. The former can be seen in the observation that the same basic demographics describe those suffering from health disparities across many health issues.

These groups are underserved in the society, and their members manage by making the best decisions possible given their own worldview.

The discount rate also can influence a continuous stream of decisions on a specific issue, and this has been termed "the tyranny of small decisions" (Bickel & Marsch, 2000). For many health issues, individuals make a series of short-term decisions that maximize continued short-term self-interest to the detriment of long-term benefit. People promise themselves that they will change their diet tomorrow, but with each tomorrow they violate their promise to work toward long-term health. For example, they eat another doughnut, which provides immediate benefit, and they resolve to begin dieting tomorrow.

Rothschild (1999) has proposed that for any issue, individuals can be placed on a continuum bounded by "prone to behave as we wish" to "resistant to behave as we wish." Those who are prone may be more likely to assess their current and future status with optimism about the future and use a discount rate that shows value for delayed gratification and long-term health. This group can be made aware and reminded of the merits of the long term through education. On the other hand, those who are resistant may be more pessimistic about the future and choose to maximize current benefits and neglect long-term health. If the short-run decisions made by this group lead to societal externalities, then the force of law may be necessary to manage behaviors. People who are neither prone nor resistant populate the mid-range of the continuum; they are open to inducements, and marketing can be of value here.

For marketers to manage behavior requires changing the perception of either the costs and benefits of long-term health or the costs and benefits of competing offerings. Alternatively, managers can change the environmental and cultural forces that lead to pessimism and discounting the future, or they can change the discount rate used by the target in making choices. To change the balance of the long term and short term may call for more promotional style tactics that add short-term benefits to choices that typically pay out in the long term. The role of marketing is to change the perceived value of a package of benefits so that its present value exceeds that of all competitors.

People tend to overspend and undersave resources in the short term, which leads to long-term debt. Poor health can be seen as a long-term health debt. To overcome this, marketers must continuously make an appropriate reward available at each behavior opportunity.

People live in difficult environments with poor information; they are prone to error, emotion, and self-interest, and often fail to maximize their own long-term best interests (as seen through the lens of social marketers). The resulting choices are still rational, but to understand them we need to understand why they occur. Behavioral economics offers a paradigm that shows the rationality of short-term maximization and gives direction to social marketers for appropriate strategic responses.

### ABOUT THE AUTHOR

**Michael L. Rothschild, Ph.D.**, recently retired from the faculty of the School of Business at the University of Wisconsin so that he can devote himself more fully to working on social marketing issues. He is currently working on a variety of social marketing projects, such as reducing driving after drinking, inhibiting smoking in children, and moderating binge drinking on college campuses. He has written two textbooks in the areas of advertising and marketing communications, as well as over 50 journal articles and book chapters, and is an Associate Editor of the *Social Marketing Quarterly*.

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