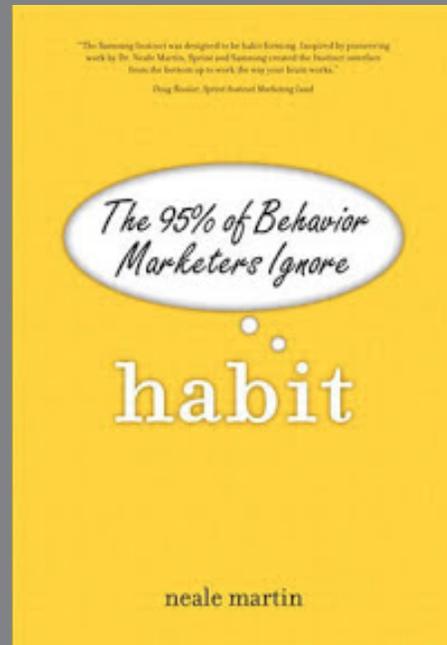
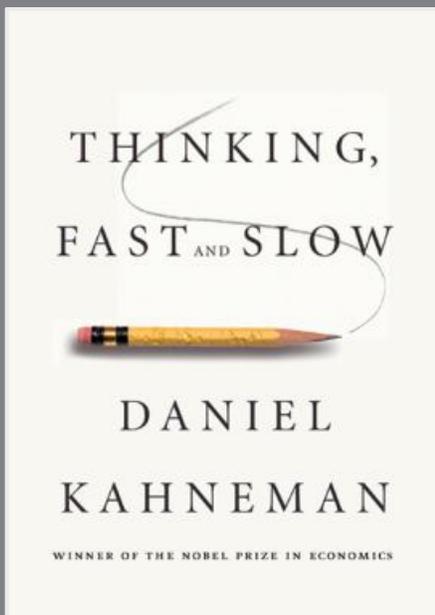


Habit EngineeringSM



VS.



Behavioral Economics



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Habit Engineering vs. Behavioral Economics

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Introduction

Over the course of 2019, ThinkGen has been busy rolling out Habit EngineeringSM (HE) to the pharmaceutical industry. At virtually every presentation on HE, we have very understandably been questioned by clients as to the ways in which our new paradigm is the same as, and different from, Behavioral Economics (BE). Many bio-pharma companies have spent considerable time and effort exploring the application of BE to their marketing and marketing research activities. They are typically still intrigued by Behavioral Economics, but have been frustrated because their attempts to make practical use of BE have failed.

Summarized below is ThinkGen's perspective on the comparison of the Habit EngineeringSM and Behavioral Economics.

SIMILARITIES

Cognitive Efficiency. Both BE and HE recognize that in order to behave efficiently, we need to separate out how we deal with novel stimuli vs. how we deal with familiar situations.

Two Systems. BE uses Kahneman's terminology of System One and System Two to describe how cognitive efficiency is obtained. While System One makes the "easy" decisions and requires little mental effort, System Two is reserved for making more difficult decisions and requires significant mental effort. Most behavior is driven by System One.

HE also recognizes that we rely on two systems to bring efficiency to our behavior. Most of our behavior is habitual, and is controlled by the Habitual Mind. If careful thought is required to determine the appropriate course of behavior, we rely on the Executive Mind.

Heuristics and Biases. BE and HE both recognize that we use decision making shortcuts, called heuristics, to aid us when we are faced with unfamiliar circumstances and need to decide how to handle them. Biases are also recognized by both BE and HE.

But many people who have attempted to apply BE to practical marketing situations have operated under the mistaken belief that heuristics and biases make people do things. They do not. Rather, heuristics and biases are simply labels that describe behavior. Unfortunately, BE makes little or no attempt to discern how these behaviors actually develop, and thus must remain silent in terms of how to go about changing these behaviors. Since marketing is fundamentally about behavior change, BE also winds up being relatively impotent in terms of providing marketing guidance. And most texts on BE make it clear that BE has nothing to say about habitual behavior, since no decisions are involved in such activities. That makes BE inherently inapplicable to the majority of human behavior!

HE, on the other hand, recognizes that our behavior is largely the result of human instincts, that have developed over thousands of years of evolution, and habits that have been learned through a repetition of action and reward. HE recognizes that behavior can be in one of three modes. In Pilot mode, the Executive Mind is being used to make decisions. Heuristics and biases can be observed in this mode. (e.g., I am

Habit Engineering vs. Behavioral Economics

trying to determine which cola I like better, BUT I want to go with one of the major brands because they are more readily available.) In Co-Pilot mode, habits have started to form, and heuristics and biases are usually employed only to deal with exceptional circumstances. (e.g., I usually drink Coke, but I will buy Pepsi if my grocery store has a BOGO sale.) In Auto-Pilot mode, behavior is entirely habitual. No decisions are being made, so heuristics and biases play no role. (e.g., I always drink Coke. Period!!!)

DIFFERENCES

Decisions vs. Habits. Without a doubt, the most important difference between BE and HE lies in the focus of the two paradigms. In thousands of BE experiments, the focus has been on one-off, one time “decisions.” HE recognizes that most of our behavior is not driven by conscious decisions, and therefore focuses on “habits” that play out over and over again across time.

This difference is key when we attempt to apply each of these paradigms to marketing. In most marketing situations, success is driven by becoming your customer’s “habit,” not by a one time “purchase decision.” Most super markets display between 40,000 and 50,000 items. Nonetheless, we can go in and out having accomplished our necessary shopping in 20 minutes. How? We are making our purchases based on habit. We know what we want and where it is located. We are not taking the time to stop and make product comparisons.

Major purchases, e.g. buying a house or car, constitute clear exceptions to this rule. In such cases, our Executive Mind is fully engaged, and we take all of the time necessary to make a well-reasoned decision.

Theoretical Base. Another key difference between BE and HE is the purpose for which they were created. BE is a largely academically driven exercise designed to debunk Classical Economics. It largely consists of findings of small

scale experiments run by professors in artificial situations. It was NOT designed to be applied to marketing or marketing research, and most of the pharmaceutical companies that have tried to put it to this use have been disappointed.

HE, on the other hand, was developed by applied psychologists working in the real world. It was specifically designed for application to marketing and marketing research challenges, and has been used with great success over the past year in assisting brands in becoming their customers’ habits. As noted above, because HE is rooted in psychology, it can readily be employed in fields of endeavor such as marketing, where behavior change is the desired outcome.

Research Methodologies Employed. BE and HE research methodologies are as different as night and day. Data providing insights into Behavioral Economics, for example, are typically collected by asking randomly recruited respondents, often college students and sometimes even prisoners, to make choices among a few specified options in a laboratory setting. There are several things to keep in mind when interpreting the results of such research. First, this approach assumes that what needs to be studied is human behavior in general, not the behavior of any specific target group. Additionally, the choice options are predetermined by the researchers, and might or might not be meaningful to the respondents, phrased in terminology that they would understand or use, etc. Finally, the respondents in Behavioral Economics research are generally not provided with the opportunity to provide any caveats or explanations for their answers, leaving just the stark “choice” as the only data being collected.

Data for Habit EngineeringSM, on the other hand, is far more real world. Rather than using a randomly recruited sample, all participants are drawn from a specific, relevant target group. If you want to study the habits Mexican mothers display in choosing food for their children,

Habit Engineering vs. Behavioral Economics

for example, you study mothers in Mexico. If you want to understand the prescribing habits of Internists, your only respondents will be Internists. College sophomores and prisoners can't really help you much with either of these projects.

In terms of data collection methodology employed, work with consumers often relies on observational ethnography where possible. There is simply no substitute for watching habitual behavior in action.

In cases where direct observation is impossible, using secondary data such as purchase receipts can also be extremely valuable.

In situations where direct observation is not possible or practical, e.g. in studying physician prescribing habits, we rely on a Data Collection EncounterSM or DCE's. Unlike an interview, that depends largely on the accuracy of what we ask, a DCE depends on listening. More specifically, rather than asking a long series of questions, a DCE simply requests that the respondent "talk to us about..." the area under study. An Internist might be asked, for example, to "Talk to me about how the treatment of hypertension fits into your practice. What kinds of patients are you seeing, what are you doing for them, and why?" The respondent is then encouraged through appropriate probing to keep on talking until she has told her story thoroughly. During that monologue, we listen carefully for information as to what behaviors are being managed by the Executive Mind versus the Habitual Mind. More specifically, we listen for consistency of cues and behaviors, with high consistency being an indicator of habit. We also ask for frequency of a behavior, with more frequent behaviors providing the opportunity for stronger habits to develop. Longevity of behavior is also important. A behavior that the doctor has been displaying "for years" or "since medical school" has likely had the opportunity to become a strong habit. Social

validation is also important. A habitual behavior that the respondent believes is the norm for doctors practicing good medicine is likely to be made stronger by that validation.

The researcher conducting a DCE has at his disposal a full toolkit of probes to use to elicit the **Context** in which a habit occurs, the **Cue** that triggers the habitual behavior, the nature of the habitual behavior itself, the **Behavioral Expectations** that the respondent has about the likely outcomes of the habitual behavior, what kinds of **Feedback** the respondent gets when the behavior is performed and what **Investment** the respondent has made in the habitual behavior.

An important note to make here is that when possible, DCE's are video-recorded for later analysis. The respondent's expression while telling her story can provide important cues as to whether the story is coming from the Executive Mind or the Habitual Mind.

SUMMARY

As the information presented above has hopefully made clear, Behavioral Economics and Habit EngineeringSM are designed to accomplish different things. Where one studies isolated decisions under artificial circumstances with ordinary "people", the other studies ongoing behavior in real world circumstances as demonstrated by carefully targeted groups of strategic relevance.

A thorough review of the major books on BE reveals that if there is any practical applicability to Behavioral Economics, it resides in understanding "one time" decisions like choosing whether or not to be an organ donor, and in "nudging" people to make the right choice. For the vast majority of marketing situations, on the other hand, Habit EngineeringSM is the appropriate paradigm to use to guide marketing and marketing research efforts.

About the Author

Dr. Richard Vanderveer has been a recognized leader in the field of pharmaceutical marketing and marketing research for over four decades. The origins of his career began at Temple University, where he received a Ph.D. in Industrial and Organizational Psychology. While at Temple, he honed his formal survey research skills as a Project Director for the University's Institute for Survey Research, which conducted large scale survey research for the Federal Government and other clients." Dr. Vanderveer then moved into the private consulting sector, becoming Director of Custom Research at IMS. A series of business roles followed. He is perhaps best known for his role as the founder of Physician *MicroMarketing* Inc., where he developed processes for pharmaceutical companies to use in targeting and customizing

their promotional efforts to the specific mindset of the individual physician. His organizational career culminated in his role as CEO of GfK US Healthcare, where he directed and inspired a group of 225 marketing research professionals to leadership in his chosen field. In parallel, Dr. Vanderveer's efforts rapidly took on an international scope. Since retiring from his post at GfK, Dr. Vanderveer has had the luxury of studying the healthcare marketing scene at large, looking for "the next big thing" in pharmaceutical marketing. With his colleagues at ThinkGen, Dr. Vanderveer has been developing the ThinkGen Habit EngineeringSM Model.

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About ThinkGen

ThinkGen is leading the way in healthcare marketing research. We believe that effective marketing is about creating customer habits, not just influencing decisions. Our research

helps clients create plans for behavioral change. We are global in scope, led by highly experienced researchers, psychologists and the leading expert on Habit Marketing

More information can be found on ThinkGen's website: www.think-gen.com