SerTech

Blowing Consumers' Minds Using Behavioral Economics

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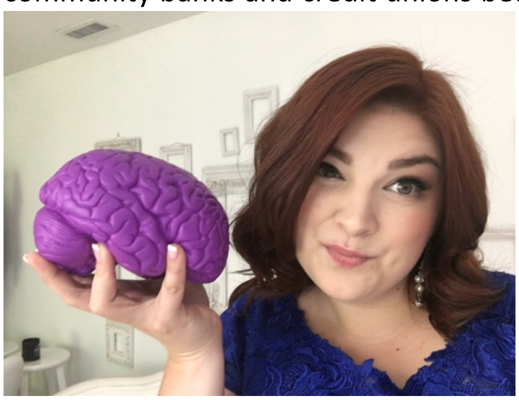
Why do your customers come to you for products and services? Why don't others? What influences consumers during the buying process? Behavioral economics is the field of study that attempts to answer all these questions and more so that businesses can more effectively communicate for success. Ser Tech is partnering with The Brainy Business Founder Melina Palmer on a webcast Jan. 24 titled, "Blowing Consumers' Minds Using Behavioral Economics," to help community banks and credit unions better understand consumers buying decisions and how to capture more share of mind, heart and wallet!



As U.S. consumers begin to shift from car buying and we're possibly facing a recession by this time next year, community banks and credit unions may begin looking more toward refinancing opportunities across the rest of their portfolios, from mortgages to student loans. Behavioral economics can help lenders understand the what, who and when of making offers to the right consumers at the right time.

Click here to register now for "Blowing Consumers' Minds Using Behavioral Economics," Jan 24, at 1 pm CT.

I'm looking forward to hosting the webcast, but first I wanted to sit down with Melina and learn more about the science behind human behavior when it comes to buying decisions. Here's what she had to say:

Q: What is behavioral economics?

Essentially, behavioral economics is they psychology of why people make buying decisions, including services like checking accounts or credit cards, and how they relate to brands. The field came about because there was a problem with traditional economics. You see, its models were built assuming logical people making rational decisions. Unfortunately, that is not the world we live in, so the models did not accurately predict behavior. Economists and psychologists started working together to look for the common threads that could be used to predict behavior more accurately.

The good news is, they found that a better understanding of the brain and how it makes decisions has unlocked all sorts of concepts. While we humans are not logical, we are very predictable. When you understand how the brain makes decisions, you can make small tweaks that make a big difference in driving behavior.

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Q: Why should community banks and credit unions care?

Whether you understand the rules and underlying concepts of the brain or not, it is affecting your financial institution every single day. This is the study of how all our brains work all the time – it impacts change management (want it to be easy to get staff to move desks?), brand loyalty, product launches, loan conversions, perceived wait times in the lobby, website engagement…and everything else.

Often, very small tweaks make a huge difference. For example, in one study, a change in a single word resulted in a 38% increase in sales! You may be thinking, "What's the word?" But it isn't about the word. What is more important is the concept behind the word and how it interacts with the brain of your current or potential customer or member. This is where behavioral economics comes in – knowing which levers to pull at the right time and in the right way to get the desired actions you want people to take.

Q: How can financial institutions implement elements of behavioral economics in practice?

The opportunities to incorporate behavioral economics into your financial institution are limitless – and many of them are quick to change. A few concepts that come to mind right away are framing, loss aversion and overwhelm.

Framing is the way a message is presented. Saying the exact same thing in two different ways can completely change the way it is interpreted by the brain of the consumer. For example, 90% fat free sounds much more appealing than 10% fat. Many financial institutions dwell on bad things and improperly frame messages, triggering the brain to maintain the status quo (and not buy what you are selling).

Loss aversion is an extension of framing. When something is presented as a loss instead of a gain, someone is twice as likely to take an action. And, it takes a $40 gain to make up for the pain felt by a $20 loss. Rewards programs and loyalty cards are too focused on gains, when potential losses can have a much greater impact (but don't worry, it doesn't have to be negative, as I outline in my podcast episode).

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The human brain gets overwhelmed incredibly easily. Almost every piece of material being put out by businesses (and financial institutions are no exception) has way too much information. The brain is lazy, and it makes very quick decisions. When there is too much content on an advertisement or website, and the benefit isn't framed properly, the brain says, "No thanks" or "I'll put this in a safe place and look at it later" – but later never comes. Consider every interaction as an opportunity for someone to take a single, small step. Maybe it is to call, maybe it is to click, or to like you on social media – but it can't be all three. Once you know the goal, point everything possible to that and cut as much copy as you possibly can (and then cut a little more).

Q: When you've worked with community financial institutions, how does their engagement, conversion and ROI improve?

As I've said, simple tweaks make a big difference. To extend the framing example, I help financial institutions update their messaging, making it is more brain-friendly. Financial institutions love to talk rates, but that is not something the human brain can easily calculate to understand the benefit and make a decision. When working with a credit union client last year, I advised them to change their checking account message from: "qualifying checking accounts earn 1.26% APY on up to $25,000" (an all too common message) to "Did your checking account pay you $315 last year?"

It was much more effective and their month-over-month checking account openings went up 60% after the launch. Same product, different frame on the message – huge impact.

Want to learn how to make a huge impact to your bottom line? Reserve your seat for Ser Tech's webcast, "Blowing Consumers' Minds with Behavioral Economics," today!