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Behavioral Economics within Marketing

I. Introduction

Behavioral economics is the study of how psychological, cognitive, emotional, cultural, and social factors relate to and influences the economic decision making of people. To improve consumer engagement and company performance, it is necessary for marketers to understand that customers are influenced by emotion and their purchasing decisions reflect this. As marketers are beginning to understand that consumers do not purchase their products in the carefully analyzed way businesses once thought they did, marketers can use their new understanding of Behavioral Economics to develop different strategies to help companies market products. Overall, as consumers have complex thoughts, emotions and psychological factors play a large role in the decision-making process, with most of the decisions one makes being based on emotion rather than through rational thinking. By analyzing irrational examples of consumer behavior, it will help companies to understand the outside factors that influence a consumer's economic decisions.

II. Definition and Overview of Behavioral Economics

Behavioral economics is a psychological concept utilized in marketing that applies experimentation to consumer behaviors and reactions to determine the best actions to take as a company. It takes a look at the psychological concepts behind a consumer's choices and applies them to their economic behavior regarding purchasing products. In an ideal world, consumers would behave rationally, taking into account quantitative factors relating to their purchase decisions. Through the analysis of price, quality, and how much they need the product, they would be able to rationally determine how much of the product they would purchase and the maximum price they would purchase it for (An Introduction to Behavioral Economics). Concepts like this are taught in Economics courses as Rational Choice Theory, an indication of cost and benefit analysis. This states that if consumers believe that something is a rationally good choice, they are more likely to purchase the product. If the product has a lower price or is higher quality, consumers are more likely to demand the product. Therefore, companies can focus on these qualifications for their products to be competitive within the market.

Conversely, due to the complexity of human behavior, marketers must take a more nuanced approach to product promotion. Instead of focusing on quantitative factors that would increase demand in a traditional sense, such as a decrease in price, marketers have started to understand that human behavior and perception of products plays a higher role in what they choose to buy. Consumers are often influenced by their emotions when making economic choices. Therefore, by modifying slight factors, such as the physical way a product is positioned in a store, the colors used in promotion images, or promoting its popularity in a target audience, marketers can make their products appear more attractive to a market, increasing sales without changing the actual product (An Introduction to Behavioral Economics). Even if the product is not given additional features and its price has not changed, because of its perception in the market, its sales will most likely increase.

In order to capitalize on human behavior, marketers have started to study approaches to Behavioral Economics to determine what factors outside of price and quality have the most effect on consumer purchase decisions. Through experiments conducted in both a commercial atmosphere and through psychological studies, marketers and businesses in general will be able to determine what truly drives human behavior and purchase decisions. After this, they will be able to implement this in their marketing and product promotion, increasing sales and allowing their company to perform better for a longer period of time. Overall, as Behavioral Economics merges the qualitative fields of psychology with the quantitative fields of Economics, it has helped marketers approach product promotion more holistically rather than focusing solely on Rational Choice theory of price and demand.

III. Development of Behavioral Economics Theory

Behavioral economics is an essential component in marketing. Previously, marketers relied on the rational choice theory: the assumption that consumers would make the decision to invest in a product with the lowest opportunity cost as it is the most rational decision. Therefore, any irrational decision consisting of outside influences could not be predicted. Starting in the beginning of the 20th century, economists such as Tversky and Kohneman started to reject the empirical rational choice theory in favor of a more psychologically based economic theory, resulting in the birth of behavioral economics as an economic theory (Laibson). They argued that consumer decisions and the variation from rational decisions were widespread and formulaic, negating the original assumptions made by economists such as Adam Smith. Overall, through their development as prominent figures in economics, the field became more psychologically based, rather than centered around fiscal rationality.

Through the combination of psychology and economics, Tversky and Kohneman developed economic theories centered around two major premises: The Three Heuristics and the

Prospect Theory (Laibson). These theories could accurately predict consumer behavior both qualitatively through the understanding of which factors influenced consumer behavior to a high degree and quantitatively through the development of a graphic representation of consumer purchase behavior. For instance, the Three Heuristics described that economic rationality within consumers is systematically violated rather than on an irregular basis like originally believed. To illustrate, consumers have three major qualitative categories they rely upon for information regarding a product: representativeness, availability, and anchoring. Representativeness is essential for consumers to understand a product as consumers are more likely to obtain information about a product if the information is relevant and available within a market. If the product is not adequately developed or has not successfully penetrated the market, it will be unable to target consumers to a high degree. Further, a product must be available within the market in order for consumers to think about it. Availability revolves around if it is mentioned among peers or not (An Introduction to Behavioral Economics). When purchasing a product, consumers will often purchase one that is discussed and mentioned rather than one that is not thought about. Without availability in the market and remaining in a consumer's conscious thought, the product will be less successful within the market even if it is objectively the best rational choice for purchase. Finally, products that have a relevant anchor point for consumers have a higher purchase rate. An anchor point means that consumers are able to link a product to their memory or a previous experience. If consumers are able to successfully anchor a product to a memory they have or past experience they have to something, they are more likely to relate to the marketing of an object, resulting in it being more commercially successful. Therefore, if consumers have a higher emotional connection to the product, either through a personal anchor point, through reviews from friends and family members through availability, or the product having a high representation in the market, they will be more likely to buy the product, resulting in a higher profitability for companies. Overall, the three heuristics represent three major psychologically based categories that result in an increased selection rate for consumers.

Moreover, Kohneman and Tversky developed the Prospect Theory: a quantitative summary of risk and risk aversion consumer behaviors to measure the relationship between qualitative, behavioral categories and choices and the quantitative, objective benefit for companies. While previously companies researched the effect of monetary security and its effect on a consumer's risk aversion behavior, Kohneman and Tversky studied the risky choice anomalies present in consumers. They studied the way people dealt with risk as it related to currency, and if people would be more likely to make risky decisions if it would cause them to gain or lose money. For instance, in 1979 they performed an experiment on two groups of consumers (Laibson). One group of subjects was given $1000 and the other was given $2000. Subjects starting with $1000 were given the risk-aversion option of gaining $500 and the risk-seeking option of a 50% chance to gain $1000. The group starting with $2000 was given the risk-aversion option to lose $500 or the risk-seeking option of a 50% chance to lose $1000. In both cases, the risk-aversion option would allow subjects to leave with $1500 while the risk-seeking option would give subjects a 50% chance to leave with $1000. While a majority of subjects with $1000 decided to participate in the risk-aversion option, most subjects starting with $2000 participated in risk-seeking behavior. While the two scenarios have identical payoff odds, the starting economic security of the subject influenced their behavior, modifying this from the purely quantitative approach to economics that was previously accepted within the market. Therefore, this allowed Kohneman and Tversky to conclude that consumer's emotions and the way they perceived the money had more of an effect on the decisions they made rather than the actual sum of money they could gain or lose. This resulted in them needing to find a way for the psychology of consumers to be measured as well as the quantitative benefits.

Instead, the idea of Prospect Theory was developed, stating that consumers participated in an editing and evaluation phase of every decision they make. Instead of the one-dimensional analysis companies thought consumers went through, consumers have more complex thoughts when making purchase decisions. Within the editing phase, consumers make decisions relating to a decision's gains and losses, allowing them to decide if it is a good or bad decision to participate in. When moving to the evaluation phase, consumers subconsciously impose a probability function that relates the probability of the risk-averse option to the risk-seeking option: $\pi(p)v(x) + \pi(q)v(y)$ (Laibson). First, the overweighting of small probabilities implies that decision-makers will make risks-seeking choices when offered low probability, high-reward lotteries. Second, the extreme underweighting of high probabilities makes complete insurance very attractive. Overall, this experiment allowed Kohnerman and Tversky to develop a quantitative relationship for a subject's thoughts when relating to lottery and chance behavior, negating traditional economic rational choice theory, starting the transition and imposition of behavioral economics within marketing.

IV. The Utilization of Behavioral Economics in Marketing

This basic understanding of psychologically based consumer behavior has translated to the utilization of behavioral economics in modern marketing through practices such as nudging in order to influence subconscious consumer behavior. Nudging was developed by Richard Thaler, an economist, in 2017, and it centers around the idea that marketers can influence or nudge quick thinking, consumer behavior without eliminating any options. As explained by Kohnerman and Tversky, the power of free or lottery-based behavior often makes consumers irrational, providing the opportunity for marketers to implement subtle changes in their campaigns in order to provide a seemingly more preferable option to consumers. For instance, an example of nudging in modern society "examined how people can be nudged toward healthier eating. Researchers found that employees who poured their drinks at a beverage station 6.5 feet from a snack bar were 50% more likely to grab a snack than those who filled their glasses at a beverage station 17.5 feet away from the snack bar. For male Google employees, 11 feet of proximity correlated with gaining one pound of fat per year" (Conick). Even when employees were given the same option for snacks and beverages, their behavior would be influenced by something as insignificant as the distance between the two locations, proving that no variable is truly negligible when trying to provide a uniform framework for irrational consumer behavior.

While nudging may resemble one's perception of marketing, the introduction of behavioral science to establish a common language for consumers differentiates its application for businesses. For example, the introduction of nudging to consumers demonstrates to marketers that consumers engage in quick, intuitive decisions rather than careful examination of products. Until recently, marketers imposed careful consumer research to test how they would react to products. Through focus groups, questionnaires, and careful consideration of important factors to consumers, marketers believed a majority of consumers were rational consumers who make choices carefully. However, while marketers may spend up to 70 hours a week thinking about a product and trying to understand how a consumer perceives it, a customer may spend less than 7 seconds making a purchase decision (Conick). These abrupt and immediate decisions create a new challenge for marketers who need to start to examine consumer thoughts and behavior within the first 7 seconds of perception rather than over the course of rational examination. Therefore, the introduction of behavioral economics processes such as nudging are essential for businesses to impose in order to capture the short-attention span of consumers. In summary, the introduction of nudging into modern marketing is important for marketers who need to shift from examining long-term consumer behavior to how customers react to subtle environmental changes.

V. Example of Positive Nudging in Marketing

Nudging can be an effective tool to help consumers make decisions that physically benefit them as well as helping companies to achieve capital gain. One example of utilizing nudging to help consumers is to help influence children in school districts to eat healthier. As schools are responsible for multiple meals in a child’s day, resulting in school aged children consuming a high quantity of lunchroom food, they are often where administration, parents, and government programs look to minimize childhood obesity (Just). Therefore, schools have pressure from parents and health departments to eliminate unhealthy or high-calorie items from school lunches and introduce a higher number of “whole-grain”, “vegan”, or “vegetarian” options.

While this may physically benefit the students that choose these options, schools have to remain conscious of students who may avoid these options. For instance, as students may be used to traditional lunchroom food including sodas, burgers, french-fries, and other fast food, they may react negatively if their options are limited to primarily healthy options, deciding to bring their lunch from home rather than purchase lunch from the school cafeteria. This would eliminate any benefit students have from consuming this food because they would choose an unhealthy option rather than purchasing an option that would physically benefit them. Further, healthy lunchroom food often costs more than traditional lunchroom food (Just). As schools have a tight budget before introducing more expensive lunchroom food, they would need to ensure students eat the new lunchroom options in order to remain fiscally responsible and obtain maximum benefit from their budget. While students are less likely to purchase healthy food because fast food tastes better, schools need to find a way to make students consume the food in order to make buying it worth it and satisfy parents and health departments.

Because of this, schools have looked to Behavioral Economics in order to find a way to influence healthy eating for students. By determining behavioral triggers for healthy eating while finding the ways lunchrooms subtly discourage healthy eating, schools can find ways to help students develop healthy eating habits so they will choose healthier options for themselves without a lunchroom forcing it upon them. A major way to influence healthy eating for students is to introduce healthy options without taking away unhealthy foods and making healthier choices more convenient and attractive for students so they choose them on their own.

This method of habit-education relies on two major psychological principles involving children: reactance and self-attribution (Just). When students feel as though their options are limited, they often react negatively towards the singular choice they are presented with. In order to avoid this reactance, lunchrooms should mitigate the amount of options they eliminate in order to bring in new, healthier foods. If students feel like they are not given the same number of options, they are more likely to react negatively to lunchroom food and instead bring unhealthy options from home. As schools have the responsibility to educate students on healthy eating habits, students choosing to bring food from home rather than eating food from the cafeteria eliminate the school's ability to do this. Therefore, mandating that students do not consume unhealthy options may make it more likely for them to consume unhealthy options. Moreover, students are more likely to develop healthy habits that last for an extended period of time if the product they select is self-attributable. If options are limited, students are more likely to react negatively, however, when given the chance to decide, students are more likely to learn from this behavior and make similar decisions in the future. Therefore, if schools can find a way to make healthy options attractive to consume as well as purchase, students are likely to choose these options again in the future, as they made their original decision willingly. By guiding student's choices and nudging them in a way they do not react negatively to the subtle changes being made, schools can ensure long-term success of a student's healthy eating, helping to reduce childhood obesity (Merrell). Overall, nudging is a positive way that schools can influence students eating healthy options in cafeterias rather than consuming traditional lunchroom food like pizza and french-fries.

Schools have started to do this by increasing convenience of healthy options for students while not eliminating unhealthy options. For example, some schools have reduced the ways that students are able to purchase unhealthy options. While students may be able to use a debit card or a pin number to make purchases of school lunches on an account, to reduce the number of students deciding to consume unhealthy desserts, lunchrooms trying to influence healthy eating habits have started to only allow students to purchase desserts or unhealthy items with cash (Just). The physical act of paying money for an additional item of school lunch deters students from purchasing dessert without eliminating the option completely. Therefore, while students have the illusion of choice of if they wish to spend additional money on dessert, many of them will not choose to do so because of the lack of convenience (Just). Furthermore, lunchrooms can implement physical arrangements that increase the likelihood that students will decide on a healthy option. By making a salad bar more accessible or by introducing fruit to the end of the lunch line, near the cashier, while also moving vending machines or high-calorie dessert farther away, students are more likely to utilize healthier options because of their convenience. According to research done in schools, even by closing the lid of the ice cream freezer reduces the number of students that choose to consume ice cream from 30 percent to fourteen percent (Just)! Again, while this may not be taking away any unhealthy options, by enacting subtle changes that increase the student's perception of healthy options while making unhealthy options seem less attractive, schools can help students build healthier eating habits, effectively increasing their physical health.

Therefore, schools are able to educate students on how to eat healthier options while not eliminating unhealthy choices. By educating students rather than forcing them to eat a certain diet, schools prepare students to make healthier decisions outside the lunchroom as well, mitigating the number of cases of childhood obesity. Not only does this add value to students who feel the positive physical effects of eating healthier diets throughout their childhood, parents and government organizations are more likely to support schools that they see making a positive difference for students, resulting in higher funding and an increase in government grants. Overall, not only will influencing students to eat healthier help the schools support their budget, it will also help to support the health of the students, a positive effect on the community. To summarize, nudging and behavioral economics may be used to help consumers, such as through the effective introduction of healthy options to students in a cafeteria.

VI. Negative Example of Nudging in Marketing

While there are examples of behavioral economics being used for the objective good of the consumer, such as through influencing students to eat healthier lunches, behavioral economics can be used in other ways, to influence consumers to make decisions that they would not rationally make. For instance, behavioral economics is utilized in Multilevel Marketing Companies to make their businesses seem more attractive to those they are recruiting even when they are often not focused on the wellbeing of the consumer (Lin). Therefore, consumers are unable to make a rational decision when it comes to their participation in an MLM, leading to a greater number of consultants. Overall, to justify the irrationality of participating in a MLM, companies have to work to nudge consumer decisions and override their rational thoughts, resulting in nudging that is not used for the good of the consumer.

Multilevel Marketing Companies are often focused on sales and recruitment of candidates, with participants making money from both their personal commission with the company and their ability to get more participants involved. Because of their structure, they are often compared to illegal entities such as Pyramid Schemes. While Multilevel Marketing Organizations are not illegal, they often resemble Pyramid Schemes, differentiating themselves by providing direct sales commission to consultants, rather than consultants receiving their income primarily from recruiting others (Lin). Furthermore, Pyramid Schemes require consultants to buy in a significant amount, with a large initial investment. Therefore, not only do Multilevel Marketing Organizations need to work to convince consultants to join, but they must also work to differentiate themselves from Pyramid Schemes, which consultants may choose to stay away from because of their illegal association.

Furthermore, rational participants often examine the risk versus reward of an opportunity. For instance, participants looking to join a Multilevel Marketing Organization will look to examine the startup cost and initial investment of their personal finances, the amount of time for training, and the time they must spend selling products as compared to the amount of commission they will make. Because many consultants often make a low amount of money through participation as an independent salesperson, Multilevel Marketing Companies often possess low economic gain for consultants. Therefore, it is against rational thought for consultants to participate in the Organizations.

However, through the utilization of behavioral economics and the analysis of which psychological tactics will work the best to convince consultants to commit to joining a Multilevel Marketing Organization, MLMs can create an alternate to a Consultant's rational choice. For example, MLMs rely upon imperfect disclosure, recruitment events with personal connections, and enhancing a consultant's identity to gain a commitment from them for an extended period (Lin). As Multilevel Marketing Organizations often have stringent rules that influence the commission of a consultant to a high degree, they rely upon imperfect disclosure, not disclosing all information regarding their corporation, when a consultant is signing up for the organization. Through the omission of certain aspects of the business or through brief disclosure of sales commission contracts, Multilevel Marketing Organizations can make their business seem more attractive to those they are recruiting. Therefore, as consumers may believe they are more likely to earn back their original investment, they are likely to commit to the organization.

Moreover, Multilevel Marketing Organizations utilize a series of recruitment events to build a personal connection with consultants. Therefore, while consultants may not achieve additional information regarding the company, they are likely to commit to the organization because of the people they connect with. As consumers are more likely to purchase products they have intimate knowledge about or products their friends or family members purchase, MLMs utilize a similar tactic in their recruitment events (Lin). If consumers feel optimistic about both the company and their connections within the organization, they are likely to commit to the organization as well as recruit other participants regardless of economic gain. Overall, even if consultants are losing money within the organization, they are likely to participate for a long time as well as earn the organization money from recruiting other consulting even if the individual themselves is not obtaining economic gain or able to earn back their initial investment.

Finally, Multilevel Marketing Organizations enhance a consumer's identity to influence their participation as a consultant. For instance, MLMs often use a tone resembling a religious atmosphere when trying to recruit participants (Lin). Through the utilization of vernacular and diction such as "blessed" and "God", Multilevel Marketing Organizations appeal to a demographic of consultants who are more traditionally religious, helping to ease their transition into the organization through words and phrases they hear in other organizations they are already a part of. Therefore, through the enhancement of the identities of these individuals and the marketing to this target audience specifically, Multilevel Marketing Organizations make their companies more attractive to users without changing any of the rules or policies within it.

After the utilization of nudging in Multilevel Marketing Organizations, companies often have high consultant retention regardless of if consultants can earn back their initial investment or not. This is prevalent in organizations because of their emphasis of qualities such as Grit and Independence. As they emphasize these qualities of a consultant, those that join the organization are likely to believe they possess the ability to become a high-level consultant regardless of if they currently are one or not. Because of this, consultants are less likely to leave the organization because they may believe their abandonment of the organization negates the qualities the MLM emphasizes of them. Further, while in an MLM, a consultant may not be looking for their next career opportunity, resulting in a lack of knowledge of what their next steps to look for a career will be. Therefore, it is more attractive to stay within the Multilevel Marketing Organization to practice loss-averse practices of trying to reobtain their initial investment and make their time within the organization worth it. Overall, through the emphasis of qualities where a consumer believes they have a high sense of self while within the Multilevel Marketing Organization, they are less likely to abandon the organization in pursuit of other career options.

In summary, Multilevel Marketing Organizations often use psychological tactics resembling behavioral economics to influence people to join their organization. Regardless of if the corporation believes the person will be able to make their money back or become fiscally successful within the company, the organization is focused on recruiting them and making them an active part of their organization, leading them to recruit other consultants as part of a cycle. Through the nudging tactics of making an emotional connection with future consultants and using familiar words that the consultant can relate to on a personal level, organizations make consultants less likely to leave even if they are not able to make any economic gain. To conclude, because of the emphasis of nudging within the recruitment process of consultants although most consumers will not make back their initial investment, Multilevel Marketing Organizations are an example for how psychology within marketing and behavioral economics in general is used in a negative sense.

VII. Ethical Implications of Behavioral Economics

The process of companies and marketers using nudging to help consumers has become more common, creating an ethical dilemma for those involved. If companies are utilizing the study of human behavior to help consumers make marketing decisions, is it ethical to do so even if consumers are unaware? For instance, one example of ethically ambiguous nudging is using priming to influence future consumer decisions. When using priming, a company could flash an image such as a happy face on a screen for a shorter time than a consumer's eye can process in order to influence their mood. While a consumer may not be able to consciously process this image, they are unconsciously influenced to make a different decision. Because they are unaware of this influence, the company is making a consumer decision for the subject, decreasing the subject's ability to resist the advertisement, and making their product more appealing (When Government Nudging Is Ethical). Therefore, participating in marketing techniques centered around priming a subject's mind brings into question whether a business should do this. For example, companies such as Uber have been known to nudge drivers to work longer hours in less profitable locations. This form of nudging allowed for less wait times for customers, but lower working conditions for drivers. Therefore, companies utilizing nudging as a marketing technique may receive criticism from those negatively affected as it can be considered immoral to utilize a subject's unconscious mind to influence their conscious behavior.

Conversely, if companies are using nudging to improve consumer's physical and emotional wellbeing, it may be more socially acceptable for consumers. For instance, companies such as Pepsi-Cola have worked with behavioral science specialists to draw consumers to its healthier snack lines. As this would objectively improve the health of the consumer, the utilization of this nudging technique would be seen as ethical by many consumers who purchase Pepsi-Co Products (When Government Nudging Is Ethical). Furthermore, pharmaceutical companies impose nudging to convince consumers to routinely pick prescriptions up on-time, keeping consumers healthier and utilizing their medication. While neither of these scenarios market products that are considered harmful to the consumer and objectively improve the wellbeing of those marketed to, because the consumer is unconscious and unaware of the nudging taking place, businesses are assuming responsibility for the consumer without their consent. Therefore, if businesses utilize nudging for capital gain rather than for the good of the consumer, this is immoral and unethical. In this case, businesses would violate the trust consumers have for their brand and the organization in general. As nudging is a growing tactic in marketing however, if a company uses it for the objective good of the consumer to influence behavior that has benefits for consumers as well as businesses, it can be considered a positive market influence. A greater number of positive options will survive, benefitting the consumer as well as the market in the long run. Further, for a nudge to remain ethical for the consumer, it must remain as transparent as possible. If a consumer does not know about the marketing tactics, their purchase decisions have become the company's manipulation of both consumer behavior and consumer thoughts. While this may improve the capital gain of the company, they will be less trustworthy in the market and consumers will no longer be inclined to purchase from the company. Overall, nudging can be used in an ethical way in order to objectively improve a consumer's health, but if a company is not transparent with their intentions, regardless of their intentions, they are making decisions for and manipulating consumer behavior, providing an unethical solution for capital gain.

VIII. How Companies Can Use Behavioral Economics Effectively

To not only utilize behavioral ethics to influence consumer decisions in an ethical manner, but also expand consumer relations and improve customer experience, it is important for companies to note how to utilize nudging effectively. To do this, they must consider the motivations of those they are trying to target. When making a quick decision, consumers make decisions based on their emotions and snap judgements revolving around a product. The most influential behaviors that create consumer biases are social proof of a product, loss aversion, the endowment effect, default, choice overload, framing, and the decoy effect (Staff).

As consumers are constantly looking to gain acceptance from others in society, products that have a high social proof are more initially attractive for customers deciding between multiple options. 90% of consumers read reviews for local businesses, with the average consumer reading 10 reviews before deciding on whether they should trust the business or not (Staff). Therefore, to effectively market a product to consumers in a way that will gain their trust, they should market positive reviews surrounding it in order to provide proof their product is relevant in the market. Further, consumers are constantly looking for a way to avoid loss. Therefore, to keep the attention of consumers and make their products seem as attractive as possible, marketers should highlight the pleasures of their product while mitigating any negative aspects. By marketing their products as a way for consumers to improve their lives and avoid losses they already incur, consumers are more likely to purchase and invest in the business. Moreover, as consumers rely on their initial emotions when purchasing a product, they often make positive snap decisions when confronted with a product they have an emotional attachment to. If a business establishes the endowment effect of the product by assigning ownership of it to a consumer, it will be more successful in the market. To do this, businesses can employ customizable features, such as websites where consumers can design their own products or provide personalization techniques to give consumers more autonomy (Staff). If consumers believe they own the product before even purchasing it, it becomes more valuable within their lives than similar products they know others own.

To continue, businesses can use default options in order to influence consumer actions. By imposing default options, businesses can influence consumers to stay with the default options of a business. While a business needs to be sure to not abuse this ability in order to avoid taking advantage of consumers, a business can opt consumers in to receive emails surrounding a product, persuading customers to take advantage of their sales and benefits. Further, businesses can implement a nudging technique by imposing a limited number of choices. If consumers are faced with a wide variety of choices, consumers may feel overwhelmed with options, giving them less of an ability to make a definitive decision regarding a product. Therefore, to mitigate this and make a higher number of sales, businesses can impose a smaller product depth, making choices easier for consumers. Next, businesses can implement framing to make their products seem more valuable. If marketers and businesses frame their products in a positive setting, with promoted products being put at the forefront of what is available to consumers, businesses can use consumer preference to make more sales of their products.

Moreover, businesses can implement decoy products into the market to influence consumers to purchase an original product. If consumers are confronted with multiple options that are beneficial to their wellbeing and an option that is seen as less desirable, consumer opinions can be shifted. Therefore, if businesses want to nudge consumers to purchase a different product than one they are originally drawn to, through the implementation of a similar, less desirable product, consumers will have a higher perception of the product the business is effectively marketing (Staff). Finally, anchoring is an important point of purchase decisions from consumers. As discussed previously, consumers often rely on their outside knowledge of the products and the market in general. For instance, a clothing company may choose to initially price their clothing at a higher price to influence consumer’s opinion that it may be a luxury brand. Even after imposing a discount to make their product seem more economically attractive to consumers, they will remain anchored that the brand is a luxury as it was originally priced higher. Overall, when implementing nudging into marketing, behavior tactics such as social proof, loss aversion, the endowment effect, default, choice overload, framing, the decoy effect, and anchoring are essential to predict consumer behavior and gain insight as to what will allow the business to succeed to a higher degree.

IX. Conclusion

As consumers have complex thoughts that are not always rationally based, emotions and psychological factors often play a large role in their decision-making process. Most of the decisions one makes are often based on emotion, rather than rational thinking. Therefore, behavioral economics is an important field to study for companies to study to not only help their profitability but help them to understand their consumers to a higher degree. Not only will this allow them to improve their products and help their bottom-line, but their understanding of their consumer will help to increase their ability to target customers. Through tactics such as nudging, companies will need to remain ethical in their utilization of psychological factors in marketing. Though it can be used for good, such as through the nudging of school-aged children to choose healthier options in their school cafeteria, companies may also use it subconsciously against consumers. While this may improve their profitability, consumers not understanding the psychological factors that are influencing their behavior to purchase the company’s product is not ethical. Further, through the utilization of behavioral economics in organizations such as Multilevel Marketing Companies, consumers, and people in general, can be influenced to make decisions to join corporations that they may not otherwise decide to. Overall, Behavioral Economics is a field of marketing that analyzes irrational examples of consumer behavior to help companies understand the outside factors that influence a consumer’s economic decision.

Through its study and its development within the industry, corporations can not only become more profitable, but consumers will be targeted better, resulting in better marketing and consumers buying products that are more suited to their psychological needs.

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