The psychology of digital marketing. Rory Sutherland, Ogilvy

now I don't know how many people notice but about three weeks ago man called Richard Thaler won the Nobel Prize for economics I was glad that the Nobel Institute had recognized him because we'd recognized him about nine years earlier when we spotted his work in developing what's effectively behavioral economics which is a very strange form of economics which actually is economics which observes what people actually do in practice as distinct from developing elaborate mathematical formulae for what they should do in a completely imaginary parallel universe which doesn't exist okay so it's basically proper economics it's ridiculous brilliantly Charlie Munger I think it's Warren Buffett's business partner said if economics isn't behavioral I don't know what the hell is the problem you phases marketers and part of the point of this talk is to kind of explain why your finance department hates you okay and the problem you face is that everybody in other parts of your business particularly in operations in finance everybody believes that what they do is a science and their job is to be completely rational okay now they're not necessarily wrong within what they do and the distinction I don't know if anybody remembers the scene from the film airplane I'm entering clear the film this evening where there's a pilot taken severely ill and the only person on the on the plane who can fly the plane is one of the passengers who's a deeply damaged Korean War veteran and he's taken over controls of the plane it's the job of air traffic control on the ground to actually talk him down safely onto the runway of the destination Airport unfortunately the guy who's running air traffic controllers next military guy and there's the one of a line of dialogue which is shouldn't we turn on the runway lights to which he replies no that's exactly what they'll be expecting us to do now there's actually funnily enough behind the joke there's a deeply serious point okay there are areas of life where complete logic we're ignoring people their subjectivity their whims their peculiarities and simply developing objective measures of reality and working on those makes perfect sense I think logistics is one area if you're doing finance it's probably another okay however there are large areas of life where that's the worst thing you can do and the point about that joke is it's the distinction between how to run our traffic control and how to do military strategy I don't know how many people know this but if you do military strategy the first thing you can't be is logical and efficient you know thinking why on earth is that the answer is because if you do that that's exactly what they're expecting you to do so there's actually probably an evolutionary reason why humans can't be completely logical and consistent which is anybody who is logically inconsistent would be predictable and therefore will be a sucker the complete mug you'd walk into every trap that was laid for you yeah so military strategy is one of those errors I'd also argue for example R&D I'd argue marketing I'd argue HR a business disciplines which should stop sucking up to the finance department by pretending to be as logical as they are and simply say what we do is different ok and what I'll tell you here's several ways in which it's different I found it overly changed as a behavioral science specialism within Ogilvy and one of the things we look for is what we call innovation now I mentioned R&D and I mentioned marketing and intriguingly in many ways they're the same thing I think you can ask an R&D and marketing be the same thing let me explain there are two ways you can create new economic value you can either find out what people want and work out a clever way of delivering it to them or you can work out what you can deliver and find a clever way of making people want it and the economic value created by those two things although they may be opposite sides of the same coin the economic value is just as great either way and what we talk about when we talk about innovation you may know that Google alphabet as it's now called the holding company has a single alphabet X and they look for things called moonshots where you take something and you change it by an order of magnitude you make it ten times faster ten times cheaper ten times safer their argument by the way the reason that the driverless car sits within alphabet X is because they believe that driverless car technology will reduce road fatalities by 90 percent so they call it a moonshot because the aim of the driverless car is to make the highways of the world ten times safer okay now the only point I'd make is that there are areas where there is still room for moonshots it's getting harder and harder it's very difficult to make a train ten times faster to make an aircraft ten times faster improving objective reality by a factor of 10 you start to run up against the laws of physics my contention is that actually improving subjective experience by an order of magnitude might be a whole lot easier now I don't have anybody seen my TED Talks I achieved a kind of undeserved weird Fame because of my suggestion back a few years ago when the UK spent 6 billion pounds building high-speed rail tracks from some Pancras station to the coast of Kent to complete the high-speed line from Paris to London I simply said what's the creative opportunity cost here you're trying to improve a journey by making it shorter in other words by the objective use of engineering what are we trying to make it ten times more enjoyable and I said by the way most of that most of those trains still do not have Wi-Fi on them about 15 years later I said if you spent one percent of that money putting really good Wi-Fi on the trains my contention is it would make more difference than reducing the journey time by 40 minutes and a fraction of the cost and then there was the crazy suggestion actually you if you've got a budget of six billion you could just spend 1 billion pounds hiring all of the world's top male and female supermodels getting to walk up and down the train handing out three shattered but roost to all the passengers you'd have saved yourself five billion pounds and people would ask for the trains to be slowed down then and the strangest thing here is that psychological innovation no one ever asks for it it's automatically assumed as soon as government has a problem if business has a problem they get a McKinsey they'll go to well you know one of the large consulting firms they'll go to economists they'll go to engineers they'll get a scientists they won't try and solve the problem psychologically until everything else has been tried and failed and yet my contention is for this very reason psychological problems are easy in that agency I think you know and that that that also in a marketing department in your marketing department my hunch is that you have the mix of talent and consumer insight which could solve ten times as many problems as the ones you're typically asked to solve and being a marketer now because finance kind of hates you it's a bit like running a General Hospital but you've got to sign outside that says cosmetic surgery people assume not that you're capable of solving problems from the get-go they see you as a place to add a little bit of magic dust to the important work that's already been done elsewhere there's a reason why they hate you by the way um they've all done economics 101 they haven't done behavioral economics they've done they've gone to business school they've got a MBA and part of that MBA is how many of you did in the economics course by the way a few you have yeah and what I think you realize as marketers is this is highly attractive and very beguiling because it's persuasive but it's also complete trap but is the assumption of economics in order to make it look mathematically neat they assume that every decision every purchase every exchange arises as a standalone individual utility optimising transaction between two people in a state of perfect information and perfect trust now because they believe they're models of the world assumed perfect information of perfect trust they naturally see marketing as an inefficiency because in their weird fantasy model of the world marketing wouldn't need to exist everybody would already know exactly what they wanted to buy and how much they're prepared to pay for it now the good news for us is one those conditions never exist okay in reality - even if you could create those conditions our brains did not evolve to make decisions in that way we make decisions we perceive the world in very very different ways and that's precisely because of that point I've made which is that we've never you know in most of our evolutionary history we never had more than 10% of the information we needed to make a perfect decision and our evolutionary instincts caused us to make a pretty reliable quick straightforward and non disastrous decision and all of you are descended from people who successfully did that up and to the point in which they reproduced okay now this is the simple thing we can bring to it which is economics doesn't allow for context it doesn't allow for as I said it doesn't allow for trust it doesn't understand perspective it just assumes if you think about it if you had achieve a world of perfect information there's no context there's no perspective everything is just what it is okay you know that when you buy a car in other words you wouldn't you and me interested in the brand you would be interesting the person selling you the car all you be interested in is the objective specifications of the car and that would be adequate information for the purposes of buying a car now what I find fascinating is that once you change perspective in particular once you look at a consumer perspective if you look at something through the eyes of the person themselves rather than looking it through the eyes of a finance director some things become very easy to solve and this is just an example I took to the department for transport in the UK okay we're currently in the UK spending about sixty to seventy billion on another high-speed rail line between London and Birmingham and Manchester which will reduce the journey time to Manchester probably from about two hours ten minutes as is at the presence to about one hour and thirty one hour twenty okay and I said well hold on a second I said why are you doing that and they said we want to reduce journey time and we want to increase capacity I said I can do that for you actually in six weeks and it'll cost about two hundred thousand pounds and they laughed I said we said okay every time I traveled to Manchester I buy what's called an advance ticket because otherwise it costs a million pounds so I booked a ticket on a specific train and I'd pay for it and was I'm terrified of missing that train because all your money gets pissed up the wall if you missed the train I turn up about 45 minutes early leaving an insanely large margin of error to get to the station in that 45 minutes to earlier trains leave for Manchester one five minutes after I've arrived one 25 minutes after I've arrived I'm not allowed to get on those I have to get on the one 45 minutes after I've arrived I said all you need is an app that just says I'm here now at the station and Virgin Trains who operate the trains and managers say pay five quid and you can actually have seat 30 in Coach G which is empty and you can leave in five minutes rather than 45 you now reduced my journey time by 40 minutes you've also increased the capacity of the network because I don't know how much you know about yield management but if you're an airline or a train you should always allow people who turn up early to travel in the earlier seats because it gives you a second chance to sell the seat that they've vacated to someone who arrives later so by moving people onto earlier into available earlier capacity on earlier trains you basically create more capacity you know easyJet do this if you have if they have three flights to London in an evening and you turn up a bit early they'll let you get on the earlier one okay so you can achieve exactly that same end without any engineering works at all with an app for two hundred thousand pounds all you've got to do is change the perspective through which you look at the problem and one of the simplest things we can do one of the great problems of business is people look at maths and as soon as anything's in numerical form you've won the argument who need is that that basically if you're there as a marketer trying to use words and some other bust and turns up and they've got a spreadsheet you basically lost hvenaer right because the bastard with the spreadsheet always wins the other the other thing is that if anybody suggests cost-cutting that's the easiest argument in business if you ever suggest spending more anything it involves months and months of justification but cost-cutting which can be just as dangerous as spending too much is generally passed through on the knot because finance people trust savings but they don't entrusts an increase in revenue essentially now a really interesting point by the way is that whenever you add numbers together or you multiply numbers you lose information because the only place where one time 7 equals 7 times 1 is in maths when you're generally compiling data most of the time that isn't true let me just explain this I've got a theory that Amazon as a company is hugely overvalued and I think by the way Amazon currently has about 1% of American retail spend Walmart has about 7 or 8 yet Amazon is several times more valuable than Walmart despite the fact that Walmart is more efficient Walmart's more efficient partly because when people shop at beaumart they take the [ \_\_ ] home themselves at their own cost ok they don't demand a van follows them home but there's another reason which I don't think anybody's noticed which is Amazon is a very very good way for eight people to buy one thing but it only is a good way for one person to buy eight things and quite a lot of human retailing activity involves one person buying many things now once you look at aggregate sales those two things are exactly the same and there are loads and loads of areas where you can look at this question and go hold on a second train overcrowding I've told also to railway company here I said you talked about train overcrowding but your model of train overcrowding assumes that 10 people who have to stand 10 percent of the time of the same level of problem as one person who has to stand 100 percent of the time but they're not the same are they and their loads and loads of cases in which this idea that things are commutative that one times seven equals seven times one causes complete confusion and yet because it's maths no one ever questions it do you want to solve train / crack if you've got to stand tenth one people ten percent of the time on your commute kind of [ \_\_ ] you know we can cope with that right it's just a bit of a bummer but it's not a serious problem worthy of expensive engineering take the people you've got annual season tickets and give them twenty first class upgrades a year that they can use and also reserved a couple of carriages occasionally for annual season ticket holders only if you can solve the problem for those worst-affected you've basically solved the problem now because they assume that a person standing is a person standing they don't distinguish between the two the only solution to train overcrowding involves billions spent on more trains longer trains lengthening platforms running more frequent services upgrading the signalling you can solve the problem psychologically nobody ever tries partly because it's seen as cheating and one of the strangest things in medicine the most powerful single thing in medicine with the possible exception of antibiotics is the placebo effect but most scientists spend their time trying to minimize it not trying to utilize it because again making someone better through psychological means is seen as cheating no you have to poison them that's how medicine works so I talk very quickly about three things which mean that one of the problems I think that's happening is as marketing becomes more and more obsessed in with just evaluating existence we're suffering from kind of Stockholm Syndrome where we're taking on the characteristics of our own abusers where we're becoming like the finance function and going it's okay this is all terribly logical which we find except people aren't okay now just to give you problem number one which i think is partly unsurmountable if you want to I mean the weird thing about business is no one ever gets fired for pretending that that for coming up with a logical answer now logic doesn't mean logical answer doesn't mean a good answer it means that answer that's easy to defend okay the brilliant brilliant physicist German physicist who said you're not thinking you're merely being logical okay logic is mainly used in business to provide a kind of alibi for your decision-making so that you can't be fired if something goes wrong as a consequence of it okay it's much much easier to get fired for being illogical than it is for being an imaginative but psychophysics is the first one this is why effectively it's impossible to be completely logical as a marketer and the simple reason is we don't see the world as it really is okay simple as that now because we're humans are at the top of the pyramid tree we tend to assume we have the best visual and sensory mechanisms of any animal on the planet well in many respects our actual eyesight's terrible by the way in our sense of smell is appalling but nonetheless because we're at the top of the tree we tend to assume that what evolution did was to give us sensory mechanisms which gave us an ever closer approximation of reality but the problem is that is that evolution doesn't give a [ \_\_ ] about accuracy it only cares about fitness and if evolution could distort reality and gain a survival advantage that's exactly what it does and it does it all the time ok so this is the problem conventional science by which I mean science in which humans aren't involved basically said will ignore all human subjectivity will ignore how humans perceive the world if we want to build a bridge the only thing that matters is does the bridge stand up and we'll develop measures of strength and tensile strength and all those things that will enable us to actually produce functioning working arches and quite rightly science cosmology and cetera made a huge amount of progress by ignoring what people saw and how people perceived and by developing really good objective metrics of reality and that's a great thing to do if you're an engineer or cosmologist because the only thing that matters is does the bridge stand up now you'd assume that the same science will be used in designing a television wouldn't you do you know the strangest thing about a television it's completely different sort of science because it's species-specific TVs are actually designed for humans now when you go into a samsung shop it doesn't say optimized for higher primates on it but is that recently because nobody else buys televisions that's completely true okay let me explain you this TV this screen here is a complete hack okay when you see I'll give you an example this is just a point when you see yellow on that screen there are no yellow photons being produced the red the green and the blue those are kind of telling the truth because this screen is composed of billions and millions of pixels each one of which can produce red and or green and or blue and why just three color mixing where when the green and the red overlap it you get yellow not a physical phenomenon it's a biological one you're getting weirded out here aren't you right okay if your dog or your cat or your pet parrot looked at that screen looked at your television at home and saw a picture of a jungle it wouldn't go wow that's a jungle just like the one I dream of flying in it would say that picture looks [ \_\_ ] okay now the reason this works for humans as humans have three cones in their eyes okay and that shows this is kind of the light spectrum and that shows the blue cones as you might call them a highly sensitized to light on the blue spectrum the red cones are mostly sensitive to red but they have a strange little bump over their complicated reasons and assuming you're not red green colorblind you also have green cones which are sensitive to the middle of the spectrum and for the relative strengths of input of each of those three cones your brain infers what color you're seeing now here's the interesting thing okay when you see yellow on that screen there are no yellow photons there are yellow photons they exist it's there on the spectrum from ultraviolet to infrared there's yellow what your brain sing is a mixture of red and green and it goes oh I getting a mixture of red and green there see where the yellow is underneath well okay if I'm getting red and green that's normally the sensation I experience when I see something that's yellow so your brain produces yellow but the TV is completely specific to higher apes if you wanted to produce a TV for a different species you'd have to produce a completely different TV Marketing is like that okay there's no point in marketing things as if you're building a bridge okay by using some sort of logical thing about you know well what is the real price all that matters is how do they perceive the price because that's all they can act on and if perception doesn't map to reality perfectly you might be researching completely the wrong thing let me just go a bit further okay that's what we might see almost on a TV screen if it was made for a different species that would particularly be a birds TV because birds can detect ultraviolet um we're distilled by the way purple doesn't exist you know what there are no purple photons doesn't exist on the light spectrum it's entirely a psychological creation so what happens is that if you get red and blue now normally what the brain should do is say where it's halfway between red and blue so it must be green I'm getting a lot of stimulus in the red I'm being quite a bit on the grew in the blue halfway between red and blue is green okay but you've also got a green sensor in the middle and the green sensor because it's picking out red and blue isn't picking up anything at all so the brain I mean your brain could go fuzzy and say system error because in one sense in a physical sense there are no purple photons purple doesn't exist okay it's entirely created in your head what the brain does is it essentially has invented a color purple which essentially represents not green okay it's a color to represent the weird unexplained absence of green but in physics it doesn't exist so this is my point here which is that most what's done this worries me about big data it assumes that you have objective reality on the left humans see it and that's what and they behave in that way if they see that reality they behave in that way they see that reality they behave in that way it's a kind of perfect neat mapping but the problem is human perception is so weird it doesn't work like that at all you can have two things which are identical that looked different you remember the argument about that dress right and nobody could agree on what color it was and that was because the brain was compensating for the context in which the dress was displayed the background color and different people's brains seem to compensate in different ways the same thing two different things can produce an identical behavior just as there are colors we can't see and can't distinguish between and your behavior you know things can be produced in the head we don't exist in reality at all now I know it sounds really weird and geeky and so forth but it's a really important point because most of what people are trying to do when they develop all these kind of you know regression algorithms and they're looking at big data is they go what happens when you drop the price and they drop the price from 20 pounds to 15 pounds they go ah look there's a new behavior the problem is if you are looking at an objective 15 pounds the human doesn't see an objective 15 pounds 15 pounds is not the same price as 15 pounds brackets reduced from $29.99 15 pounds if you pay for it on a contactless card feels about 15% cheaper than if you pay for it with chip and pin if you have to pay for it with cash it'll feel more expensive so the idea that objective reality ie price maps onto behavior without any intermediate ating sort of translational context is basically a false assumption so we've got to be really really careful about this stuff so I'll cruise on very quickly just to show you how weird this effect is because obviously you know in some respects you know I mean reality and perception you know are they aren't completely randomly connected obviously you know otherwise we live in a kind of surreal dream world and in some respects they're sim they're similar enough to deceive us that what we see is objectively true actually what's going on is much weirder than that wine tastes better when you pour it from a head a bottle okay painkillers are more effective if they're branded painkillers are more effective you tell people they're expensive chocolate tastes sweeter if the blocks of it around rather than if they're square Cadbury's gotten to a lot of trouble everybody claimed they'd changed their formulation they just changed the shape of the blocks and the bar your car drives better after you've had it cleaned okay I don't just mean it's cleaner it actually feels quieter smoother just a better car altogether and that's because weird weirdest of all human perception is leaky we think we can separate what we see from what we hear from what we smell from what we tastes nope can't do it at all I'm not one of the few people are they I really complain about the fact that you can't get expensive aspirin anymore it's all this bloody generic crap okay but I haven't got a 79p a headache I've got a three pans 90 headache okay secondly if you wonder if you want to get any economists even more upset you can increase demand by putting the price up okay that economic assumption of everyone in the economics that if something isn't selling you drop the price well that may well work it works more often than putting the price up but it is a hell of a lot more costly by the way in price 50% extra free seems a lot better value than 33% off despite the fact that there notionally the same okay the way in which you give someone something whether it's a bonus or a bribe in economic terms is indistinguishable there's no difference between I'll give you this if you buy that and to thank you for buying that I'm giving you this the way humans perceive it is totally different and so if you just watch this film you'll see how just how weird the way the black box inside our head effectively represents all those things just as purple is entirely created basically to fill a space in our head this is what happens when what you see and what you hear conflict and anyone who we are being bombarded by sensory information our brains do a remarkable job of making sense of it it seems easy enough to separate the sounds we hear from the sights we see [Music] [Music] the illusion occurs because what you are seeing clashes with the illusion what we see overrides what we hear so the mouth movements we see as we look at a face can actually influence what we believe we're hearing if we close our eyes we actually hear the sound as it is if we open our eyes we actually see how the mouth now any evolutionary terms what matters you think about it is having a decisive view of the world on which you can act and so to me like error-correction NIT we're hearing bar but we're seeing far brain just goes beyond our control our awareness it just goes well it's more likely I'm pterosaurs premier's it I'll get to turn it off I thought it was off I'm so sorry but exactly but Tim I'll them what them they're here and saw that one off I'll take that one just in case and what actually happens you see is that it knows it's more likely I've miss seen it I've misheard that I've miss seen so I'll just overwrite that B sound with an F and the brain is doing that all the time whenever it looks at anything it's effectively going I'm just going to make any sort of a usable cycie view of this thing contrast is much more important in survival detecting a contrast between colors than actually having an absolute measure for colors so you see those alternating spirals of green and blue they're the same color they're both green okay they're actually both exactly the same color now they're the green that you see at the far right but what the brain does is it exaggerated the difference in one direction or the other because if you're trying to spot a predator or to find some prey noticing a small difference and exaggerating it is much more important to our survival than actually carrying around a Pantone reference book in our heads if you look at this thing it looks like a white thing hinged to a grey thing right now if you hold up your fingers bring them closer to or three fingers bring them closer to your eyes so you cover up the join between the top of the bottom what you'll see is that the top of the bottom of the thing are objectively exactly the same color that are exactly the same color on the screen the difference is produced in your head now the same way our perception of price is completely relative if you've got an espresso machine if you had to buy an espresso coffee in a jar like Nescafe okay for an equivalent kind of caffeine dosage a jar of Nespresso coffee should such a thing exist will cost about 45 pounds okay and you look at that price you get that is totally insane right but we don't know what an individual Nescafe costs so when we put a twenty nine pea pod into an espresso machine our frame of reference isn't Nescafe its Starbucks it's your local coffee shop and you think we'll twenty nine P for an espresso here that would cost me two pounds thirty at Starbucks this machine's practically making me money okay Rolls Royce and Maserati stopped exhibiting their cars at car shows because they're expensive cars so they started exhibiting them at Yacht an aircraft shows if you've been looking at Lear Jets all afternoon a 300 thousand pound car is an impulse buy okay that's like putting the sweets next to the counter right I've decided not to buy a Learjet this year I'll have a couple of those right now the Greeks understood this is fascinating thing there is not a single straight line in the Parthenon and the floor bows upwards the the columns are fatter in the middle than at the top and the bottom I'm sorry I turned it off sorry I'm really sorry yeah if it happens again I think that's gone off now the the floor curves outwards it's not a pure rectangle that's just it's not designed to be perfect it's designed to look perfect so it counterbalances the distortions of human vision and actually creates something that looks perfect wrote the rolls-royce radiator grille does the same thing with the vertical at the vertical spars there actually it's called in ASIS they're fatter in the middle at the top of the bottom in order to look parallel the Chile loads and loads of plants are essentially hacking our perception there's nothing hot about Chile there's nothing cool about menthol yet if you go all the way around the world to people who speak different languages who've never encountered Chile before a menthol before they'll describe menthol as cool and chilly as hot now the Chile didn't want mammals to eat it it likes parrots eating it because they actually spread the seeds further and the seeds germinate it doesn't want rodents and other things to eat it produces a chemical called capsaicin or capsaicin which which creates the illusion of heat because it triggers senses sensors in our skin and sensors in our mouths which are normally triggered by temperatures of 109 degrees or above and this chemical effectively just hacks them and so here you have this fantastic thing where nature for millions of years has essentially be going I can't actually produce a hot fruit because that would be really really difficult but I don't need to I don't need to produce an objectively hot fruit I just need to produce a fruit that feels hot okay now that's the point which is that there's the thing and there's the perception of the thing and the only thing that matters in behavior is the perception of the thing and the connection between the perception of the thing other thing itself is not exactly this is the Austrian school economist and Austrian economist Ludwig von Mises who makes this point he is explicit the Austrians are unusual unlike conventional economists Austrian school economists believe that value is entirely subjective and therefore they're very well disposed to marketing and advertising because they understand the value of it but his argument here by the man who sweeps the floor he means advertising and marketing there's the food itself the objective thing and there's the context in which it's consumed if you have a michelin-starred meal but it's in a restaurant that smells slightly of sewage no one will like the food okay and so there is no actual perceived objective thing in the human mind because everything you actually perceive is mediated by context and environment and setting everything that said is affected by who says it paying attention to something changes the nature of the thing and the kind of attention we pay to something changes the way we look at the thing so then idea that you can have this kind of completely objective scientific marketing thing as though humans were effectively no different from weighing scales and light meters is a complete false start so let me just give an example of this I always wanted to prove that point by saying what have you take a brilliant product you know which objectively is a fantastic product and marketed in a terrible way you know find a way literally and I thought well no one's going to agree to an experiment like that other brilliant product but just call it the wrong thing there's one except no one here from Philips is that there is excellent the Philips airfryer I think is one of the best products you've ever made but you made the mistake of calling it an air fryer okay because of course it doesn't fry the food it cooks the food as low it were fried but it uses no fat at all now what's the solution to this and someone said it's really simple if you know if you name that product in French and called it the air Souter's okay people would have been queuing around the blocks but by putting the word fryer in something the very people who'd normally buy it yeah well people like us don't really eat fried food do we dare and it's it's by the way in most of the retail outlets it sits next to the deep fat fryers we're the kind of people who'd want to buy it won't even look in the first place but here's a much more extreme case of a case where however good the product is objectively if you market it badly it's worthless okay and it was magically performed by two melbourne comedians they get arguably the hottest musical act in the world and then they market him terribly this is what happened and that was fair enough cuz we dressed famous a barely shady-looking spruiker in charge of getting customers I got you Sharon it wasn't here do you think my channeling I don't think it's gonna be a brave soul I wouldn't even come into if there was a dude with a baby of the house but it since it was right this was going to be tough doing a peep at Ed Sheeran you all wondering right there big fella but it's you in India beautiful GG a man sitting on a stool what do you reckon takeoffs good edge here and just sit on a story baby want to back to back to our base think about it it's actually pretty good Ben are you despite trying we'd have a total lack of interest for over 50 minutes it's basically we should have got you a more comfy chair this year is it singer yeah that is not I think one of the big problems is people thinking Sheeran's a code word for a new drug that's gonna you guys like it share it to us to knots for 30 second thing they just say dead she think I'm dead sheep hey hey we gonna save us so you can take away crossing too long and that's why we don't get a table coming in if someone actually does think it's a pager I might quickly give you the go-ahead to take away your clothes you willing to do that drinking a lot of beer recently all right you know a couple of months ago maybe but I'm shameless just to show that the same time two hours here me and anguish with getting bored it's pretty it sure is literally sitting in a on the stage waiting for two dollars we were feeling in this world but just one thought is davina children waste everyone's side pockets here along this year two bucks each other it's good I'm sitting on stage in it up to that's two months get back inside hey we got into your Big Shot he's a - we've done all right your choice don't you need this mouthing it walks away I'm psychic you gonna go they see me there by himself would probably a busy later on cheer up 30 seconds anybody can come if you want to cheer my turn everything's about bullet I can assure you absolutely not like I guarantee whatever but yeah baby ducks and after 2 hours 23 minutes including some final hesitation we finally found people brave enough to join me hello welcome to the picture your title stop [Music] [Music] [Music] now what's interesting here is that that by the way is pretty much what it's like being in the financial services industry it doesn't matter how good your product is no one trusts you okay so I mean you know that's more or less that have fought the default approach to a financial services offering now is pretty much the same as someone on the street trying to walk you something and I think bober's interesting also to notice that the two things that finally got the couple in were behavioral science tricks scarcity bias he's only there until midday it's gonna get pretty busy later on you both can come if you like okay you know that trick that airlines play only four seats left at this price works every time essentially and what's interesting is if reality maps onto perception in completely messy ways you can often create the same thing the same emotional reaction with a different reality and you can often have the same reality and create a different emotional reaction now anybody here involved in appointment setting with sort of engineers gas board people okay so there's this huge debate about you know everybody wants one-hour time slots for when the guy's going to come to install their broadband okay and we said you've actually got this wrong because first of all it's really difficult and expensive to get engineers to time up turn up in a specific hour because they don't know how long the previous jobs going to take and we said what you're doing is you're looking at objective scientific metrics like duration of you know in other words time window available preciseness of appointment and of course everyone in research people in research the thing about you've got to remember researches if people are annoyed about something or upset about something there sincere about being upset their reasons for being upset a [ \_\_ ] okay there just reach off the shelf and go and find a plausible post rationalization for their emotional state right okay people people have emotions and the reasons they give to explain those emotions they don't know themselves why they feel that way and they'll basically cobble together any plausible explanation to describe it it's amazing how many really bad TripAdvisor reviews of restaurants start with the words we had booked a table for my mother-in-law's birthday right okay and the guy's in a really bad mood cause he didn't want to go he wanted to watch Champions League on the TV now it's his mother-in-law's birthday so he's getting her into a restaurant because it's his mother-in-law he'll have to go to a fancier restaurant than the one he would have chosen and it's her birthday so he's gonna end up paying so he's in a really pissy mood okay then he has a bit of difficulty parking right now you're in a restaurant you're in a bad mood as far as you're concerned it's a [ \_\_ ] restaurant nothing the restaurant has done has contributed to this emotional state but you're then leave and you'll leave a really grumpy review because we don't know evolution when it press apply to us with emotional reactions to things like a fear of snakes okay it wasn't necessary to actually furnish an explanation to go along with the actual emotional instinct secondly evolution finds emotional reactions much more reliable than rational reactions why because emotions can be inherited whereas reasons have to be taught so it's much safer from evolutionary perspective just to make us hate snakes than to rely on every generation to teach its offspring to avoid green slithery things okay but this is the really exciting opportunity for marketing so I said if you're selling appointments I said you've got it wrong everyone is saying I want one-hour appointments oh I really hate it you just say I can come and install your broadband in the morning or the afternoon it means I've got to take a whole day off work they say now a small amount of cynicism your brain does nothing ever occur to you that people love taking a day off work right okay if you had an excuse to take a day off work the idea that you got it's terrible I gotta take a whole day off work [ \_\_ ] people love that right what they're complaining about is different thing and they don't voice it they just go I wish you had won our just say you can come between 3 o'clock and 4 o'clock don't need to do that what they hate isn't the fact there isn't the one-hour delivery window it's the uncertainty okay if you said we'll come sometime in the morning and we'll text you 45 minutes before we arrive people we just as happy as if you went to the huge expense of delivering a one-hour delivery window the problem with her saying will come in the morning is it's like being under house arrest you can't have a shower you can't go ahead and get a pint of milk you can't do anything for five hours because you know the second you climb into the shower that's when the guards gonna turn up right so you're essentially a prisoner for half the day if the guy just says do what you like as long as you're within twenty minutes to the house I'll text you 45 minutes before I arrive people are just as happy the most successful thing London Underground did to improve passenger satisfaction wasn't faster more frequent more comfortable later running trains it was dot matrix displays on the platform okay people would rather wait nine minutes for a train knowing it's going to come in in nine minutes than wait four minutes for a train in a state of uncertainty okay so the really exciting thing about the weirdness of human perception is you can create high levels of customer satisfaction without high levels of expenditure you just need to know what really floats their emotional boat you know if you've been a literalist about this you go to the research they say I want one-hour delivery you know times you'll end up it'll cost you a fortune okay and it'll end up breaking the system and the people will still be a bit pissed off to be honest so let me give you the simplest ever example of what I call an innovation which is innovation not by changing physical reality but by changing what's in the head or by understanding what's in the head so there's this company in the Midwest and everybody's complaining the lifts or the elevators are too slow so they go to Otis the elevator company who say that for a few million dollars we can replace the cabling replace the winding gear put in new motors and lift cars and we can speed up your elevators and just before they're about to spend two million dollars someone says don't bother they said before you do that just try putting floor-to-ceiling mirrors between the left doors on the walls on every floor and every reason what the hell are you talking about I said what they're saying is the lifts are too slow what they really mean is I get bored waiting for the left so they put floor-to-ceiling mirrors in between the doors and whereas before the same people who've been jabbing impatiently in the button and getting furious once they had mirrors the time was occupied in grooming or mild voyeurism and all the complaints stopped okay so this is what I mean by an innovation actually psychological insight is just as valuable as technological advance if you've got a better insight into what really moves the people and why they're doing what they're doing it's a much more I would I would go further and say that actually most really successful companies although they don't know it are based on a really weird property of human perception we forget this but when Google started every single tech company thought you had to create a portal do you remember that you know you had to have sports scores and weather and news reports and everything else and a bit of search functionality and Google comes along and all it is is a single bar with search and I'm feeling lucky right and the reason for that is that instinctively as humans it's a bit like the jack-of-all-trades juristic we think that's something that only does one thing is better at that thing that's something that tries to do lots of things it's an automatic human instinct so I'll give you a few other examples queueing okay what tends to happen in the world where everybody's obsessed with spreadsheets is they go we need to have numbers because we can't make a decision without numbers but there are only a certain proportion of the really important variables are actually available in numerical form yep there's a numerical value of time of waiting time but there isn't a numerical value for lots of the other things that make a queue either enjoyable or annoying so let me give you a few examples of what makes a queue pleasant or annoying if the end of the queue is out of sight it is much more stressful than if the end of the queue is visible yes it's true that shorter cures are less annoying the longer queues I'm not saying it's completely different but they're about three other factors cubing end of the queue be out of sight really maddening okay Disney very cleverly put little signs that say five minutes to go four minutes to go three minutes to go as a marker of progress that makes a queue although objectively the length of the duration of queuing is exactly the same it makes it much less frustrating if you really want to make a queue really annoying put another queue alongside that's moving faster than your queue that drives people practically insane but there isn't a numerical measure for those things there's just a measure for time so everybody focuses on the thing that's expressible mathematically and ignores all the other stuff because it's psychological and messy even though it's cheaper to change the other stuff as Disney does than it is to actually reduce the queuing time so by trying to improve your business objectively rather than subjectively you may be spending a huge amount of money changing exactly the most difficult part of the equation to actually change their various other things with call centers around that as well I'll give you a fantastic example of how again understanding psychology can have huge effects we had a client who had a call center where you had to choose between three options on the phone and their kind of abandoned basket rate was immense we added a single human queue which was you can choose a B and C most people choose B but if you like you can have a and C once we under the single few words most people choose B the conversion rate went up about two and a half to three times although we think we look at the thing and we choose social proof is enormous ly important in human behavior by default we love doing things that we think well I'm kind of a typical person we use humans as the measure of I mean if you don't know much about cars okay and you go to buy a second-hand car you don't actually solve the car problem because that would take weeks and weeks or years of studying engineering what you do is you substitute a different question which is do I trust the person who's selling me in this car and so the way in which we choose is so different from the way in which economists and logical people think we should choose that in many cases you know a lot of the things that economists think that humans do which are irrational are actually really really clever because if you trust the guy who's selling you a car it's probably not gonna be that bad a car now here are a few just other suggestions very quickly okay if you want people to finish their course of antibiotics don't give them 24 white pills give them 20 white pills and four blue ones and say when you finish the white pills take the blue ones the pills can be absolutely identical chemically but more people will get to the end of the course do not do understanding how human perception coca-cola did anybody notice this for a time they put red caps on diet coke if you're a regular diet coke drinker the red cap makes the drink almost undrinkable I said that I actually rang the people who handle coca dogie and said can you please tell them they are big [ \_\_ ] insane okay I said it will only be a matter of months before they revert because everything that we're basically colour effects taste I mean that is it's as strong as that you know basically is someone who's been drinking diet coke for five or six years diet coke with a red cap tastes disgusting it's as Extreme as that you can actually transform something from being bad to good by changing what people pay attention to I've been flying for years and every time the plane was met by a bus everybody on the plane had the same reaction oh [ \_\_ ] it's a bus okay yeah we paid for this they can't even get us an air bridge where's gonna be a bus and then years of doing this an easyJet pilot said I've got bad news and good news he said the bad news is we won't be able to get you an air bridge because there's a plane blocking the gate but the good news is that the bus will take you all the way to passport control see where and how far to walk with your bags each other's up that's always been true hasn't it but nobody ever told us so we automatically just assumed by default god the buses [ \_\_ ] isn't it with the second we realized there was actually an upside really going I've got that as a bus actually there's a whole load of psychological stuff about if you give people a bad thing and mix it with a good thing they will divert their attention voluntarily to the good thing to avoid experiencing regret they'll do a whole load of post rationalization to go actually to be honest I rather prefer this to that okay and if you've ever had your holiday moved slightly by a travel company people will basically go well we originally asked to go there and then they moved us here but come to think of it we're quite glad and that's done actually as a way of synthesizing kind of contentment and minimizing regret um uber I mentioned the thing about the London Underground now uber is not a disruptive technology you've been able to use a phone to order a taxi since about 1903 right the really significant thing is psychological that waiting for a mini cab when they claimed it's going to arrive in ten minutes and it doesn't arrive is really really frustrating watching a car approach on a screen is really really reassuring you know instead of going oh is he out there now maybe he's already left is that him part round the corner which is an uncertain and undignified activity and unpleasant you just get oh look he's stuck at those traffic lights I'll have another pint whatever does anybody else do this by the way where you time your arrival on the pavement to coincide exactly when the car drawing up because he makes you it's a huge ego boost you know you feel like you effectively I feel like that guy at the end of the usual suspects or like louis xiv you know you walk out of a building and a car pulls up the alternative which is is that my car over there so uber is as I mentioned about Google I could mention the same about about five other companies a lot of their success is actually due to a really interesting psychological hat dyson by the way the fact that it's bagless isn't really an advantage it is however more satisficing of satisfying cleaning a floor when you can see the dirt appearing in your thing because you feel you're making progress now you could have produced those things as bagless high suction vacuum cleaners if you'd made them beige and a Paik no one would have bought them okay he thinks it's engineering it's more psychology than it is engineering now you can also solve really big problems by understanding the properties of the human brain if you want to create a more diverse workforce hire people in groups and you'll automatically choose a far wider group of people than if you get different people hiring one person at a time when somebody hires one person a time I explain why this is later on when someone has one person at a time their main preoccupation it may not be sexism racism prejudice actually it's just the more boringly like me this person looks the more boringly like us this person looks ok the less I'll get blamed if something goes wrong and we're always asking that question may the mainactivity of businesses ask covering with value creation as a small secondary sideline ok and if you make a boring logical totally unremarkable decision if something goes wrong you're unlucky if you make an eccentric decision it may be a better decision in every way but if something goes wrong now it was your fault because your decision was visible ok it's a really important but no one ever got fired for buying IBM was the cleverest business-to-business advertising slogan of all time that's why there are only four big accounting firms right I'm sorry I probably in the room are they but you know your point PwC or an Stern yang right if anything goes wrong everybody blames PwC ok if you appoint a small boutique accounting firm it may be cheaper and better but if anything goes wrong now they blame you ok so blame dispersal is a really strong thing if you hire people in groups people actually go well one of these ten isn't going to work out anyway so I'm not so paranoid now so let's go a bit wider let's increase the variance so anyway essentially marketing do not become more and more and more logical as a way to defend yourself against finance because really marketing and particularly marketing that gives you a competitive advantage is the science of knowing what logic is wrong about as this I think perfectly illustrates right now imagine right you're in a meeting and you want to compete with coca-cola which for a hundred and forty years has been the most popular cold non-alcoholic drink in the world right what is everybody in the room get a say they're going to say right we to produce a drink that cost less than coke tastes nice some coke and comes in a really big can so people get great value for money I'm sure and no one is ever getting it fired for suggesting that because it's completely logical the most successful attempt to compete with Coca Cola in 150 years comes in a tiny can cost a fortune and it tastes disgusting okay Sarris the Austrian China it's your leading export but there but but nonetheless um there is something that psychology by the way that's species-specific perception and this attempt to be logical by creating rules that are not species specific as if it's physics that's where it all goes wrong because everything in marketing depends on the perceptual mechanisms and emotional reactions of the species you're actually talking to why by the way why so successful I think there's a really big reason that if you want people to believe something has medicinal or psychotropic powers it has to taste a bit weird okay you said I mean if someone told you that actually orange Fanta was you know also gave you eternal life you wouldn't believe them right wheatgrass yeah that makes sense because there's no other reason why I'm bloody drinking the stuff is that right now interestingly in quite a lot of medicinal or tonic wines the last ingredient they add is an unpleasant tasting chemical because people then believe it's actually medicine you also by the way in order to make it believable Diet Coke has to taste slightly less nice than coke because otherwise if people don't perceive a sacrifice they don't actually believe it I'll give you the strangest example where marketing and economics will be at complete loggerheads right imagine you have two products one better than the other and or objectively apparently better on the other it has more specifications better you know better spec etc and the better product is also cheaper now to an economist that is the easiest decision in the world everybody will buy the better cheaper product in reality people look at that and they go that doesn't make sense okay anybody from Nestle here nobody there selling two of the new you know the new nest Nespresso type machines whether the pods rotate they're selling two of them the manual and automatic version all over Europe at the same price okay now if you can't make sense of a choice you can't make the choice okay because what would confuse people if you had a better product and it was cheaper people go this doesn't make sense because even I had a better product I'd charge more for it so why would you have a superior product and charge less for it than an inferior product that doesn't make any sense so I'm not gonna buy either of them okay that's why low-cost airlines when they launched had to make a lot of noise about what you didn't get do you remember that you don't get a pre pre-allocated seat you don't get checked in luggage you don't get a meal you got to pay for your coffee you know you don't even you know and they made a little noise about what you didn't get now that sounds really weird doesn't any marketing tips why would you make a lot of noise about your weaknesses and the reason is it makes the low cost believable you can I get it I'm saving 40 quid on the other airlines because I don't get all these things which I don't that much care about so now the whole decision makes sense if you'd said if you'd launched Brian and said we're just as good as British Airways but we're half the price people will go now doesn't make sense that probably means you don't service your engines and your pilots are on day release from prison okay so sometimes the role of marketing isn't actually to justify our higher price it's to D stigmatize a low one now I realize I've taken a lot of your time much easier to get fired for being illogical than for being imaginative economic logic assumes and we all day by day pick up more of these assumptions assume that human behaviors trusting proportional agogic I would explain it's complicated status free context free individualistic all of these things are different anybody here from the airline or travel industry okay airline industry you are killing yourself and I'll explain why the airline industry is being killed by a behavioral problem which needs to be solved and I'll explain it very quickly if you run a restaurant you want people who come into your restaurant to buy wine because wine is insanely profitable far more profitable and food far more profitable than bear than spare anything else why is it so profitable because no one knows what a bottle of wines supposed to cost you can't charge 40 quid for a glass of Johnnie Walker because people know what a bottle of that cost in the shop but you can buy in a case of Chateau tube scure 1995 for sort of 6 euros a bottle sell it at 70 and everybody goes on a marvelous hint of BlackBerry's right so you can see if you sell people wine you can scam them rotten right this is how restaurants sell you wine you go into the restaurant there are already wine glasses on the table that sets the social expectation that you're supposed to drink wine here ok then they bring you a drinks list but it isn't called the drinks list is it it's called the wine list ok now if you look at the choice architecture of the wine list there are about 460 different kinds of wine and then there's that really sad back page for the people who'd actually prefer to drink beer which is the better drink in my opinion or gin and tonic which is also a better drink in my opinion anyway ok but then they do something even cleverer still which I only noticed a few years ago they're really clever they only bring one wine list and they hand it to one person at the head of the table now what is so clever about that is there is only one alcoholic drink you can share so if there's only one wine list what does the guy at the head of the table do he turns to the table he says red and white red or white at which point it's game over for anybody who wants to drink anything else now you think you've chosen to drink wine in fact you've been maliciously hacked into doing it by a whole series of really really dodgy engineered choices which I mean I suppose you could say tequila slammers all round but with that single exception if you've only got one drinks menu there's only one drink you can have that's how crafty it is by contrast the airline industry has done a disastrous thing well it's not really their fault entirely all airline comparison websites only allow you to choose on price and so the only discriminator between one flight or another flight becomes how much it costs now what you've got to start doing is to do other things like say this one's the you know this one's the least crowded flight of the day and then put the price up you know I was saying you know one of the flights I went on it was the cheapest flight of the day but it's a brand new 787 I said you've just spent a hundred and fifty million pounds on an aircraft okay and you don't even tell your customers that they can choose it so when the only variable is price people even rich people right now I've done this where I choose the bloody 7:00 a.m. flight because it's 5 pounds cheaper per person than the blasted flight that goes at noon because when all you can choose on is price you choose the lowest price I then realize two days before we have to travel there's no anger to get the kids out of bed at 4 o'clock in the morning we end up bloody staying in a hotel the night before wiping out five times the saving that I made with this pathetic ticket but something's got to be done about this because essentially it's killing the airline industry because it makes it too easy to choose by price and too difficult to choose now interesting we don't book hotels that way you know we don't go I want a weekend in Barcelona what's the cheapest hotel in Barcelona because you'd end up in a rat-infested [ \_\_ ] all right but flights we're effectively a forced to adopt the behavior because there's no other information to encourage you to choose differently and it's really really damaging and like you know I think there are things by the way I mean don't always make it money take a flight and say something like kids go half-price try different offers something else but if you just make it price it's really really cuz then everybody else want to get on the other flights because but if you just make it price it's really really hard to choose by any other dimension and people who don't care about 5 quid will still take the the cheaper one so that means you have to discount more to change behavior than you would do if you used information instead free Wi-Fi on this flight for example keep the price the same that sort of stuff anyway how long have we got about four minutes five minutes okay two other things you need to know I've talked about psychophysics that we don't perceive the world objectively and that actually you can create the same emotion with different real things or you can create different emotions from the thing okay things aren't even good or bad independent of how they're perceived that's how extreme it is if you buy a Ferrari okay you have two choices apparently they'll either deliver your Ferrari to your local Ferrari dealership which is free okay or you can pay 500 pounds fly down to Maranello at your own expense have a tour of the factory and drive the car home now that if you notice that but by framing it as tour of the factory they've got you to pay them for collecting your own bloody car okay so depending on how we look at things the same thing can be good or bad entirely depending on the context images framed now there's a few very quick things I'll just make a point about most decision people assume that a decisions like darts that by aiming for the highest score you're also going further from the low score there's no strategy it's like in archery in archery there is no strategy except aim for the bull's eye right aim for the middle that's what archery is a very boring televised sport you know if you imagine what it's like being an archery commentator so what do you think he's gonna do now Barry I think he's gonna aim for the bull's eye like he's done on all previous four thousand previous [ \_\_ ] occasions but it's not a very interesting sport to actually commentate real-life decisions and these are the decisions we've evolved to make a much more like darts now I'm really apologetic the only French people here because I gave this presentation a few weeks ago in France only discover the France there has many fine qualities he's not a great darting nation it has to be said their understanding of darts is basically zero so anyway anybody had totally baffled I'm really sorry about if you are anyway you the best score on the board is triple 20 but right next to it is the worst score on the board which is one okay if you're not very good at darts you do something which in decision science is called satisficing you aim for 19 because 19's nearly as good as 20 but if you go for the southwestern quadrant of the board you might miss badly and get 16 which is still pretty good okay so all decisions that are made by real-life humans who are making a real decision that's a real decision now they actually have have to suffer the consequences not a theoretical decision involve two dimensions not one it's not what is the best score I can get because the best score is the best it's what's the what's what's this decision like this consequence like on average because a higher average is better but what's the degree of variance do you get what I mean by the distinction which is very simple explanation okay you know that's a low variance that's a high variance okay so something might be much better on average but has the chance of being terrible michelin-starred restaurants are pretty much like that I mean you know you know you might have the best meal you've ever had in your life but you can equally go to them and actually they're really really crap they've already done that I mean just totally disappointing and rubbish or you know you eat something that's disgusting now what we're wired to do in evolutionary terms is to avoid disaster more assiduously than we seek perfection okay so we're always asking this question when in doubt play it safe when in doubt minimize the variance now just to give an example you can do this at home with your cat if you want to put a cucumber just behind your cat outside its field of view and wait for it to notice now if you think about this the cat doesn't really think it's a snake but it thinks why take the risk okay because cats that didn't do that tended to exit the gene pool the cats which went oh gosh look at the lovely cucumber oh [ \_\_ ] it's a snake they didn't leave many descendants so most cats has ascended from paranoid cats and this is what they do [Laughter] now just to be clear about that that what's the worst that can happen I know as a Brit I'm in no position to lecture on taking penalties and so forth but when players take penalties even to decide a World Cup final semi-final quarter-final they will be more likely to score if several of the players actually kick the ball straight down the middle to where the goalkeeper standing in the middle because the goalkeeper nearly always dives left or right very very few players do it now the reason isn't they're less likely to score they're more likely to score no the reason they don't do it is you look much stupider if you fail if you kick the ball left and the goalkeeper goes that way you look unlucky okay keep the ball right and the goalkeeper saves it by diving that way you've been unlucky kick the ball straight down the middle he's less likely to save the shot you're more likely to hit the target but if he happens to save it you look really crap okay so understanding that thing that everybody's asking to questions they're asking kind of the question which is what's it's going to be like on average but also how bad could it be if things went really went really wrong it's a thing to understand that there's often a trade-off I talk very politically incorrect are you will apologize to this very politically ignorant like marrying a redhead okay it's probably better on average but if things go wrong you come home and find your houses on fire you know the name you know there's things which are actually pretty good nearly all the time so in evolutionary terms we have to make this trade-off because you could climb another hundred feet up the tree to get better fruit but if it comes with a 3% chance of death it's probably not worth the improvement you know on average yes it's gonna be better but actually if the worst-case scenario is is is really bad now I've got a contention by the way which is quite interesting McDonald's is the classic case of low average low variance okay McDonald's is the most successful restaurant the world because it's very very good at not being terrible okay now you can criticize it as much as you like but the fact is you're never disappointed that's what as the food is always identical okay so you're never disappointed you're never ripped off you never feel cheated but most important of all you never get ill okay so essentially it's food with an amazingly small number of downsides lower average than a michelin-starred restaurant but much much lower variance my contention is is that first of all this explains why people copy other people but if you do what everybody else does it may not be the best thing to do but it's unlikely to be terrible if you think it's your romaine if you have to move to Jamaica tomorrow and you needed to buy a car without knowing what's the single best question you can ask is probably what's the best selling car in Jamaica now no may not be exactly the car you want but the fact is the best selling car in Jamaica is going to be a pretty good car to have in Jamaica okay not the best necessarily but it won't be awful okay now similar that explains why we heard together that also explains why we tend to be influenced by habit these things are deep evolutionary instinct which make no sense if like an economist you assume that people are trying to optimize they make fantastic sense if you discover that what people are trying to do is to actually minimize the variance minimize the chance of an extreme disappointment now my contention is that's mainly why people pay for brands okay you pay $200 extra for a samsung tv compared to a television from someone you've never heard of not because you think the television is actually better but because you think it's less likely to be crap because instinctively you know that someone who has a lot of reputation or skin in the game has much more to lose from selling a bad product than someone who you've never heard of and that's why reputation money spent on advertising all those things essentially allow you to command a price premium because it's actually a form of insurance when you insure your house it doesn't make it a better house what it does is it reduces the chance that your life is made awful because the house burns down to the ground and when you buy a brand you're not necessarily getting an objectively better product but you're reducing the probability that you end up with one of those you know a television where everything goes wrong or as a friend of mine had a television where if you lose the remote control it becomes complete the unused the vault has anybody else had that okay when you buy a Samson you kind of know that [ \_\_ ] isn't gonna happen and I think understanding that people buy brands more for reassurance and variance reduction than for the belief that they're absolutely perfect is just a really useful way to explain and justify brand preference and just to explain that that instinct even more one of our our insights into it is that when people are asking what's the worst that can happen working with dodgy oh no man will ever order a cocktail in a bar unless the drinks menu contains a picture or illustration of the glass in which it sold because if the male brain thinks there's a naught point oh one percent chance it turns up in a pineapple he'll order a beer instead now this understanding moment explains why nobody ever moves Bank yes on average you'll be much better off moving a bank current account but there's a 1% chance it's a living hell we avoid those things all the time someone came to us with a very interesting company called blahblah car which is a kind of car sharing thing and again I said the problem you've got there most of the time is that people go it's a brilliant idea because I can have someone in my car who shares the cost of the petrol with me you know it's actually cheaper than going by train or bus and I get to go in a car everything about it's brilliant except for that 2% of what's the worst that can happen and anybody who's seen the film Hitcher is probably aware of that right finally I'll end on this I wish had more time but they're always limitations it's not true to say that seven people buying one thing are the same as one person buying seven things one of the other procurement one of the things procurement doesn't understand is they don't understand time procurement thinks that seven optimized transactions in other words a series of seven optimized transactions is an optimal series of transactions it isn't when we engage in relationships with people with every subsequent transaction the nature of the relationship changes and our whole approach towards the people we do business with both on a personal level and in a business level depends on to what extent we think the relationship will be enduring and repeated okay so if you think about it this is game theory if you believe that you're going to be doing business with each other a lot you will be highly cooperative you'll add value in ways that were on a score because it's an investment in the long term relationship if you think the contract comes up for tender every two years and your past performance has no influence on your likelihood of having your relationship extended you'll basically start to behave like a crook or a psychopath okay and I mean in some cases I think dodgy behavior by suppliers is partly explained by the fact that why would you I mean it you there's no point in doing a favor for an amnesiac right you know if the person hasn't got the memory or the capability to reciprocate now in an advertising context for example the most valuable things you can do for your clients are often unasked-for and not even paid for the reason you do those things is because you see it you see the reward coming in the extension of the relationship the prolonging of the relationship if that isn't possible on the part of the person you're doing business with you stop doing those nice things so long-term selfishness is almost indistinguishable from cooperation short-term selfishness is almost indistinguishable from conflict okay the extent to which we play fair and we're decent and we add value depends on the probability of repetition does that make sense so the distinction would be if you're a tourist restaurant before TripAdvisor came along your best strategy was to rip people off basically because they were never going to come back anyway were they okay they'd had their meal overlooking the pathan and they're going to fly back to Luton Airport the next day what was the point of giving them a let you know a load of extra you know treats or free chocolates there wasn't the best approach was to overcharge them a bit and hope they survive long enough to write the check right if you're a local restaurant where you rely on repeat business you patently have to be generous because if you tried that strategy your business will be dead because there aren't a new flow of suckers coming along every minute some - I'm working with evolutionary biologists on this which is anything a business does that signals investment in a relationship tends to inspire trust and so continuation probability is what evolutionary biologists call let me just explain a few things okay that is basically an advertisement okay an engagement ring is upfront expense as proof of long-term commitment because it's a reliable signal to the person you're proposing to marry that you have genuine faith in the endurance of a relationship is the extent to which you're prepared to spend money on that kind of thing okay because if you're just expecting a one-night stand it you know it wouldn't really pay okay so it's a reliable signal of serious long-term intent and I think a hell of a lot of marketing activity the extra fries they give you at Five Guys anybody experienced that when you you already paid for the thing and they give you an extra scoop of fries that is they filled up your cup of fryers already but they give you an extra scoop that you don't even have to pay for anything a bit now the problem with those things is they're the hardest things to measure because they happen after the transactions been paid and I think there's a danger that when companies start to engage in kind of highly automated behavior what they'll stop doing is they do the really easy stuff before the purchase because it's easy to justify because the feedback loop is really really closed and quick whereas acts of generosity fantastic examples the upmarket retailer in the UK Selfridges where you've ordered the stuff okay and for all you know just arrived in a plain cardboard box I mean there's no obligation on them to do anything better than that and it arrives wrapped like this now then it costs them about probably 20 pence more to do this but the fact that you do it now this all comes from a whole area of science called costly theory has anybody come across signaling theory okay the essential thing is that the commitment this is where we've got to be really careful about digital marketing because the thing that makes digital marketing so appealing to finance people is the fact that it's cheap what we fail to realize is that the fact that it's cheap and the fact that it's known to be cheap may make it ineffective now the sincerity of an engagement ring depends to some extent on the cost on what it costs you to buy now cost needn't be financial it could be time effort Talent you know or whatever when you send a wedding invitation the most efficient way to convey the information will be by email but I don't think anybody's sending it wedding invitation no one will go anyway then assume there's gonna be a cash bar right so when you send a wedding invitation you not only send the information about so-and-so requests the presence of X of such-and-such a place you put it on card you put a first-class stamp on it you put it in really thick paper envelopes because the seriousness of the intent the and now people perceive the importance of a message as not just to be about what it says but how much it cost you to say it because something that's costly to say is sincere and something that's easy to say may not be and no one's looked nearly enough of this question that one of the reasons why television is still 40% of ad spend you know 40 was it 25 years ago it was 40% today it's 40% is because TV achieved something by dint of being perceived to be expensive so think about it okay if you've got a friend who owns a racehorse and they say to you you say what's your horse gonna do on Saturday and they go it's gonna win definitely that's meaningless isn't it because they haven't got skin in the game everybody says that if they say come along with me and they put 5,000 pounds on their own horse at the casino at the bookmakers you know they expect that horse to win to a gambler that serious information because it's actually backed with a bet advertising that costs money is a reliable signal in the manufacturers confidence in their product because if they didn't think the product was going to be repeatedly and widely popular they wouldn't risk the money digital advertising I don't think does that and so there's a huge danger that by thinking of advertising as merely messaging not signaling in other words we just think it's all about the content and not about the cost of delivery we fail to understand how advertising really creates confidence it's a really important point I work with a very good account man called Steve Barton once and he said we want to do a great creative idea for this very big product launch to a very small number of people and we really want these people to think this is the most significant IT event to happen all year said come up with a brilliant idea if you can and make it pretty expensive if you can't come up with a brilliant idea here's what we're gonna do we're gonna write a nice letter and we're gonna send it out by FedEx and he understood this completely she said I mean there's something arrived by FedEx you cannot discount it because something that has cost someone eight pounds to say patently needs to be said an email that you might get in in your spew no your spam filter every morning can be safely discarded and we attach importance and also conviction to messages in proportion to the difficulty expense or cost of communicating them and that's why wedding invitation looks like that it doesn't look like an email and the danger of all these algorithms is it misses this effect entirely so I think that's me thy final bit of advice the great value of this stuff is a lot of it doesn't appear to make sense at first it's only when you're adding an unpleasant tasting chemical to a drink right doesn't seem to make sense putting the price up when something isn't selling doesn't appear to make sense you know making the last four pills blue doesn't appear to make sense but the great advantage of testing things that don't make sense is your competitors aren't doing those things so when you find out one of them that works you've got a real source of competitive advantage be weirder and don't let the finance people insist that everything you do is logical because everybody else is doing logical things that's exactly what they'll expect you to do as the man said thanks very much indeed thank you [Applause]