Business Book Summaries

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Decoded

The Science Behind Why We Buy

Phil Barden

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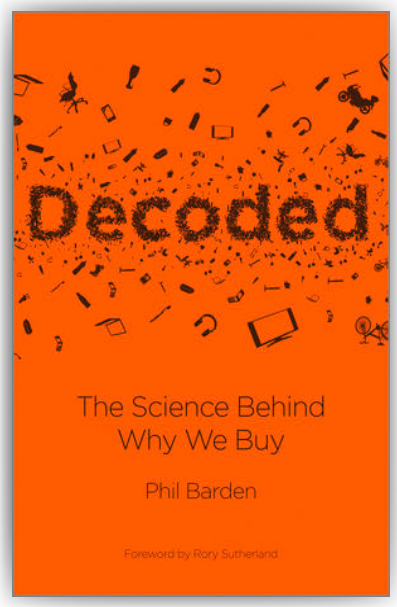

Key Concepts

- Consumers' decision making is based on the equation: *net value = reward – pain*. People want the most possible rewards for the least amount of pain (cost).
- There are two decision-making systems involved in any decision: an implicit system, or an *autopilot*, and an explicit system, or *pilot*. Together these systems determine peoples' perceptions of products and brands and ultimately their purchasing decisions.
- Perception is an active process in the brain that is based on past learning experiences. The signals people send, from colors to shapes to brand logos, are recoded into mental concepts based on learned associations in memory. Purchase decisions are based on these mental concepts.
- Decision interfaces change behavior without changing minds. Decisions can be influenced through decision interfaces using three meta-principles: tangibility, immediacy, and certainty.
- Goal-based valuation is the most sophisticated level of value in the human brain. In order to maximize goal value, brands should appeal to both the explicit and implicit levels.
- A goal-based strategy provides clear guidance for implementation across all touchpoints. The implicit goal level provides businesses with the opportunity to creatively translate their value propositions and differentiate themselves from the competition.

Introduction

Phil Barden's book, **Decoded**, explains the science behind consumers' decision making. Behavioral economics, psychology, and science come together to explain why people select certain brands, products, or services over others. Barden helps marketing professionals decipher the brain's secret codes and gives them a chance to see themselves as brand custodians or architects. Brands have a value beyond the product's actual purpose or functionality. After all, consumers are often willing to pay more for a product that offers them an experience, such as Starbucks

coffee. Understanding how the brain perceives brand equity helps companies refine their marketing and branding techniques.

Merging of Decision Science and Economics

German neuro-economist professor Peter Kenning performed a study on the neural bases of decision making. He showed participants photographs of different brands, some of which included peoples' favorites, and then asked them to select one to buy.

Kenning noticed the reaction was different in the pairings where the favorite brand was included versus when the non-favorites were shown. When the preferred brand was shown, the decision was quick and the brain showed significant activity in the regions linked to intuitive decision making. This activity only occurred for the top option. Even second choices did not ignite such activity. This explains why consumers can walk into a grocery store aisle with dozens of options and select an item in milliseconds.

Daniel Kahneman was the first psychologist to earn the Nobel Prize in Economic Sciences in 2002. He bridged psychology and economics by studying how decisions are influenced by psychological processes. Kahneman created a framework that helps marketing professionals apply scientific principles. The framework's core is comprised of two mental systems that determine behavior.

The quick-moving System 1, *the autopilot*, integrates perception and intuition. This system affects automatic actions that do not require thinking. The slower-moving System 2, *the pilot*, is meant for such deliberate decisions. Though flexible, this system works through every step of a process and thus takes more energy because of the increased effort.

The pilot is responsible for explicit decisions that require thought and flexibility: take off, landing, and emergency situations. Conversely, autopilot is in charge of implicit or automatic decisions. Smart marketers want to activate System 1 so brands are quickly identified and purchased. Buying decisions that are slow and methodical are linked to System 2.

The autopilot is refined over time. Practice makes perfect. For example, when people learn to drive, all decisions are in the explicit pilot mode. People have to learn traffic signals, street signs, and when to brake. With time, concentration shifts. People know how to shift gears without looking and automatically stop when they see a red light. Experience helps people develop their intuition so that the pilot system is only needed in new situations or emergencies.

Neuropsychology has shown that the brain is constantly building associations. Regular occurrences or patterns are remembered. Thus, the brain notes that such incidents are likely to happen again. Autopilot picks up on such patterns. A decision that was once ruled by the slow pilot system transfers to autopilot.

The autopilot is always processing information. Barden calls this the "cocktail party effect." Even at a loud event where a person is talking to guests, he or she will still notice if someone mentions his or her name.

Intuitive knowledge enables quick decision making. Barden says that gaining new experiences and understanding them is like walking across a field and leaving fresh footprints. The more a person walks across these paths, the more trodden they become and the easier they are to navigate.

Further Information

Information about the author and subject:
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The brain organizes information into neural networks. Thus, key pairings, or *associative memory,* are important. People who experience freshly brewed coffee paired with loved ones gathering might quickly link that smell with a feeling of companionship. Such pairings do not happen after one or two incidents. Barden estimates that the autopilot needs approximately 10,000 hours of experience before intuition is full-fledged.

Autopilot: Framing the Human Experience

Everything from unique scents to the shape of a jar affects consumers' decisions. Whether they realize it or not, consumers pick up on the most subtle of differences, and this influences their buying decisions and the perceived values of products.

For example, consumers end up paying more for Starbucks coffee, even if blind tests show that the actual coffee samples are identical. Barden describes an experience at Starbucks as a "short holiday" rather than a pit stop. Consumers want the warm interior, exotic smells, and world music in the background. They are willing to pay for an experience or a brand. The premium price customers are willing to pay for Starbucks's products and atmosphere is called the brand's *equity*.

About the Author

Phil Barden is a proven marketer with more than 25 years of experience, including senior and international roles at high-profile companies, such as Unilever, Diageo, and T-Mobile. Fascinated by the insights of decision science and by the value it can bring to marketing, he has immersed himself in this field. He is now one of very few experts to combine a practitioner's perspective with a profound knowledge of decision science, making him in demand among clients and conference organizers alike.

Brand signals are processed by consumers' autopilot systems in a matter of seconds. Thus, it is important to have a reliable product to sell and solid marketing to promote it.

People are not always aware of the implicit drivers of buying decisions. For example, Barden cites surveys in which consumers explain in great detail why they decided to buy a specific type of shampoo. However, though true, these responses relate only to the pilot system, the explicit part of the decision.

In marketing, our goal is to influence purchase decisions. But what drives those decisions? Decision sciences help to answer this crucial question by uncovering the underlying mechanisms, rules, and principles of decision making.

The Neuro-logic of Purchase Decisions

A marketing professional's focus is to influence consumer behavior. Knowing everything that affects buying decisions helps shape the branding process. Experiences with brands—using them, watching others use them, or watching advertisements – influence associative memory. Thus, certain brands have a certain perceived value.

Neuroscientist Brian Knutson and his colleagues at Stanford University discovered that when the prices of different boxes of chocolates are shown, the brain's insula is activated. Normally activated when people experience pain, the insula records price as pain because consumers have to give away money in exchange for desired products. Knutson and his colleagues discovered that if the relation between the reward and pain exceeds a certain value, then a person will make the purchase. The brain thus calculates if the net value is high enough for buying.

Marketing professionals need to increase the net value of products based on their expected rewards and prices. Barden explains that this is why some people will pay thousands of dollars for designer sunglasses: the brand triggers an expected reward, which increases the brain's sense of value. Though the price of the sunglasses is high, the expected reward is also subjectively increased.

Other ways to increase perceived value include paying attention to the signals that packaging sends. Fluency

in design language can transform simple products like a bottle of water. Similarly, smart marketers will also consider social context. Understanding the value–cost relationship on an explicit and implicit level heightens a marketing professional's power to influence.

Language and Price Affect Value

The higher a product or service's quality, the higher the price can be. Barden uses German neuro-economist Hilke Plassmann's wine experiment to demonstrate how price tags signal value. Participants drank wine while their brain's signals were monitored. Though different prices were attached, people were drinking identical glasses of wine. Plassman's research showed that people not only said the higher-priced option tasted better but that brain activity co-signed this with increased action in the reward center.

Framing explains how brands influence purchase decisions; Brands operate as the background, framing the perception and, with it, the experience of the products.

Similarly, descriptive labels are an important piece of modern marketing. Brian Wansink's study highlights how consumers are willing to pay more at restaurants when the menu includes specific labels, such as "Traditional Cajun Red Beans" versus a generic description like "red beans with rice." Barden explains how the flowery titles activate value expectations.

Though the explicit level of cost is a product's price, this can be reshaped. Barden recommends using color and flashy fonts to lower the perceived cost. Bold, black-and-white lettering makes items feel more expensive than they are.

Anchoring is another useful tool for marketing professionals. Barden uses Steve Jobs and the iPad to demonstrate this mechanism's effect. Instead of comparing the iPad to other netbooks in the market, Jobs cited pundits' estimated values for the new product: $999. He let this sit in for a few moments and then the screen suddenly flashed to $499. This changed consumers' reference point for the product's pricing and performance. The second price was evaluated based on the first anchor.

Time and Behavior Affect Cost

Waiting time perceptions can also be reshaped. Smart businesses give people something to do while they wait. Barden explains how many garages offer drinks, snacks, televisions, and reading materials to keep people occupied and content. People dislike uncertainty. This is why consumers should always know the reason behind a wait: it removes the unknown. Most people do not mind waiting nine minutes for a train if the train actually arrives within that time frame.

Consumers want business to be easy. Behavior costs relate to the effort it takes to find or invest in a product. Barden recommends that businesses remove any barriers in the way of purchase. For example, consumers should not be required to register with a website before making a purchase. Listing this as an option that could speed up future purchases empowers consumers and removes a barrier.

Value–cost relationships are relative to situations. For example, a warm Coke is valuable when a person is thirsty on a hot summer day. However, if the Coke is sold next to a cold beer, the Coke loses value. Consumers make decisions based on contrasting options in different situational contexts.

Smart marketing professionals also identify specific occasions that increase a product's allure. Barden uses ice cream to explain this concept. Parents on the go may need a different type of dessert than a couple looking to share a sundae. New products often penetrate markets when companies think about specific times of year or occasions. This increases innovation and fulfills consumers' needs.

Perceptions Directly Influence Sales

The eye is not a camera. The brain subjectively shapes what is understood. Only a small piece of any scene or image is in sharp focus whereas the rest is blurred. The brain scans to see what is most pertinent. Thus, marketers need to maximize peripheral perception so people detect one brand over others. Thus, when driving, consumers will still pick up on a billboard's message. Strong brands are recognizable even when they are blurred or in the background.

Products' values increase when the brain can quickly identify the item. Recognition happens in the blink of an eye. At first, items are only lines, colors, and shapes. Since there is no image library in a person's head, the brain is flexible to recognize different brands. Brands are recognized when they reflect high diagnostic values: certain colors, shapes, fonts, and more.

Companies can test the power of different elements by tinkering with them. For example, a caricature is not a photo, but people can still recognize its subject if key characteristics are in place. For Coca Cola, the font and color of the logo are important. If changed, a consumer may not quickly recognize the soda.

Brand recognition is also context sensitive. If a person sees an old coworker in a casual setting like a sauna, it might take longer to recognize him or her. Our memories not only store a person's characteristics, but also the context in which he is normally seen. Similarly, the brain assigns meaning to different objects. For example, a rose is often associated with romantic relationships and related occasions.

When updating a logo or rebranding a product, it is important that key diagnostics or details are not changed. Too much too soon could reduce brand recognition. Barden recommends that people follow the MAYA Principle, which stands for ***M**ost **A**dvanced **Y**et **A**cceptable.* This calls for consistency on the meaning level but allows for something new on the signal level.

Marketers need to understand what triggers consumers' attention. The autopilot is constantly scanning for value. If a product or service matches a need, then it has a high value based on the situation, the person, and the brand's message. Value thus drives a person's attention. To stand out, companies should manage the amount of contrast on a grocery store shelf to stand out amongst the other products. Advertising experts call this "cutting through the clutter."

Perceptual fluency drives consumers' attention and increases a product's value. Familiarity requires less effort. Thus, it pays to note that capital letters are harder to read or the fact that peoples' faces are rewarding and automatically looked at. Celebrities are used in marketing to increase recognition. Similarly, Barden explains that a price's presentation is equally important. The Weber-Fechner law says that the higher the numbers, the more closely they stay together. A company makes a deal feel valuable if the sale makes a perceived difference.

Optimizing the Path to Purchase

Value and decision making are influenced by how items are presented. Placing fruit into an attractive bowl reframes it and increases its appeal. Barden explains how Google shifted its canteens so that sweets were in opaque bins that were harder to reach whereas the salad bar was moved so it was the first thing spotted when employees entered. Presentation matters if marketers want to optimize the path to purchase.

Often, consumers repeat or curb behaviors based on past experiences. Called *self-herding,* this provides people with implicit guidance. For example, if a man's favorite team wins the World Series, he will be in a great mood. That night, he may impulsively decide to buy his mother-in-law flowers because of his happiness. Weeks or months later, this man may do the same thing because the memory is strong. Over time, this becomes a routine action. Consumers repeat key actions because of this ritual, which increases the brand's value.

As with value, there are two levels of price perception: explicit and implicit. The explicit price is the objective price point. The implicit price is determined by how the price is presented.

Loss aversion is important. People are more likely to change behaviors if they can avoid losing money. For example, when an energy company explains that $200 is lost when people do not use energy-saving modes will be more memorable than a message about gaining $200. This is why many people do not change brands or invest in innovative products that are untested.

Marketing professionals can influence decision making through different interfaces by keeping three meta-principles in mind:

1. *Tangibility*. The longer a person touches a product, the more likely they are to buy it. Allowing consumers to see finished products or try on watches sparks action.

2. *Immediacy.* Autopilot systems are strongly influenced by the present. Instant gratification is important to decision making. Small immediate pay-offs influence consumers.

3. *Certainty.* People want to know what to expect, which is why they turn to reliable brands when traveling abroad. The more certain the perceived reward, the more motivated the buyer is. Similarly, limited edition items are coveted because of their scarcity (i.e., consumers are not sure when they will appear again).

Goal Value—The Driver of Motivated Behavior

Consumers choose products based on their dominant goals in any given situation or environment. Hungry people will pay more for items than people who are satiated. The more relevant a product is for a present goal, the higher the expected reward and perceived value of the item. Barden calls this concept the *goal value* of a product.

Goals are always changing. After all, what we need at home or work varies. Smart marketers understand that products need to create experiences that deliver consumers' goals. This means thinking about different tasks or jobs people have to accomplish.

Any brand that owns the dominant explicit goal will lead the market. Underlying implicit goals relate to two psychological drives:

1. *Promotion*—gaining something or moving forward.

2. *Prevention*—avoiding loss and protecting one's self.

Shampoos that fulfill the same goal can reach people on an implicit level by claiming to add shine or avoid color loss.

Execution and Implementation

Once a product is born, it is time to implement it across touchpoints. However, this is easier said than done. Marketing professionals have to figure out how to optimally convey the item's benefits. One of the biggest mistakes a group can make is focusing on the internal objectives rather than on the consumers' explicit and implicit goals.

Focusing on a product's goals guides implementation. For example, if a product is supposed to convey that something is light, then it makes sense to position the item toward the top of an advertisement. Marketing professionals need to recognize different items' cues when developing advertisements or logos.

Successful marketing means understanding people, not markets. By linking science, behavioral economics, and psychology, companies and marketing professionals alike can better shape consumers' ideas and behaviors. Instead of jargon-filled theories, Barden explains the science behind strong branding that communicates on both implicit and explicit levels.

Features of the Book

Estimated Reading Time: 5–7 Hours, 288 pages

Phil Barden's book **Decoded** reveals the connection between science and marketing. By deciphering the brain's codes for different products and services, marketing professionals can better shape their brands.

Filled with case studies, charts, and easy-to-understand language, **Decoded** makes science accessible for marketers, web designers, and advertising professionals. It is perfect for marketing professionals, CEOs, entrepreneurs, scientists, economists, and consumers who are interested in learning more about branding and marketing. Some professionals may be most interested in specific concepts like how to make products stand out, rebranding tips, or how to implement a product across desired touchpoints. End-of-chapter lists summarize the main points. Additionally, there are take-away points for marketing professionals who want to implement these ideas.

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