behavioral incentivization 2.0

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b2b behavioral incentivization 2.0
5 behavioral economic principles you can't afford to ignore

We have come to understand what behavioral economics is, as well as the more modern behavioral incentivization, which is an application of behavioral economics (BE) itself.

If you are reading this and want a refresher on behavioral economics and behavioral incentivization (BI), check out our first paper called Behavioral Incentivization 101

What are behavioral economic principles?

Through the years of studying the impact of behavioral attributes on economic decision-making, economists have developed a number of BE principles. Each principle gives a high-level description of how individuals and institutions typically behave under specific purchase-decision circumstances. When applied in the real world, these principles can help you better understand and help change behavior by leveraging BE principles that relate to particular situations.

Here are the top 5 BE principles that you need to understand. These principles can be applied to numerous of B2B, B2C, and B2E scenarios, but for purposes of edification, this paper will put it into context using B2B examples.

1 goal gradient effect

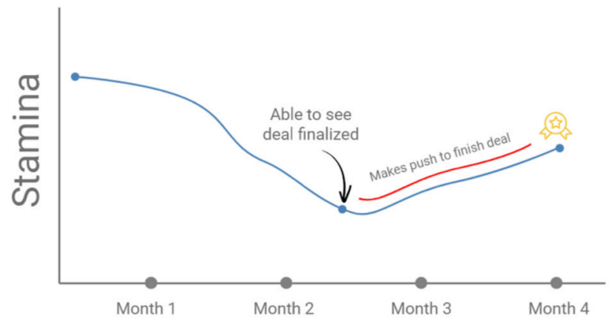
People will work harder to achieve a goal as the goal gets closer.
Have you ever been in a competition or race? Did you find yourself pushing harder towards the finish line or deadline as it approaches?

If so, then you have inadvertently demonstrated the goal gradient effect. The goal gradient effect principle suggests that as a goal gets closer to being achieved, people will naturally work harder to achieve it.

Various research has demonstrated that humans and other animals will increase their efforts towards a goal as they approach reaching that goal. Rats will speed up as they approach a food reward, and humans will apply more effort as they approach the threshold for a reward such as free products, gift certificates or goals such as visual cues like finish lines.

Putting it into context.

The goal gradient effect is especially applicable for sales teams that have longer opportunity closing periods. Let's say your sales team takes an average of 4 months to close an opportunity, there will be a gradual decrease in stamina as the opportunity progresses through stages. However, as the illustration below shows, your team will regain momentum as they see signs of the opportunity closing, and stamina and energy will increase



2 intention-action gap

People don't always follow through on what they intend to do.

I'm sure at one point or another, you have come up with a great New Year's resolution that you are dead set on accomplishing.

> *"I'm going to lose 20 pounds by the end of March"*
> *"I'm going to cut my smartphone usage by half"*

How often do you actually follow through on these intentions? It shouldn't surprise anyone that the gym is packed in January and deserted by April.

These are examples of intention-action gaps. In simple terms, the intention-action gap refers to the difference between what people plan to do and what they actually do.

Research from Ideas42 looked deeper into the intention-action gap but focused on how nudging people towards making more sustainable decisions influences decisions.

> *"Behavioral science tells us that people often do have good intentions to choose the right option; instead, there may be something in their surroundings, or a feature of the choice itself, that is preventing these intentions from becoming real."*

Putting it into context.

Intention-action gaps occur frequently in the business world. As yearly and quarterly targets are set, employees and channel partners will be given goals and performance targets to reach. In order for larger goals to be accomplished, it is important to break them down into measurable, actionable milestones that will ultimately lead to the long-term goal being met. It is critical to identify key behaviors and actions needed to be successful and nudge your employees and channel partners to follow through on their actions and form good habits. Rewarding smaller "stepping stone" achievements in the context of a bigger goal will help their actions keep pace with their intentions.

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3 hyperbolic discounting

The tendency for people to want an immediate payoff rather than a larger gain later on.

Hyperbolic discounting is the tendency for people to choose a sooner-smaller reward over a later-larger reward. When offered to receive a larger reward in exchange for waiting a longer period of time, people act less impulsive (i.e., willing to wait longer for better rewards) the further out in the future the reward is. Described another way, people would rather take small rewards sooner, but will be more willing to wait longer if the reward is big enough. Hyperbolic discounting can be applied to a wide range of scenarios.

An example of this would be airlines' frequent flyer miles. It can be very frustrating to wait months, if not years, to actually collect enough mileage points for a trip. That is why airlines decided to offer alternatives like cash back, as well as rewards like events and merchandise that can be redeemed for a fraction of the mileage points needed for a trip.

Putting it into context.

Many companies strategically employ both a tier/level program and an incentive program to drive both long-term and short-term goal attainment. For example, an insurance carrier might enroll their agents into an incentive program that allows them to earn points for their short-term sales milestones, which can be redeemed for rewards. In addition, agencies might also accrue points over a number of short-term incentive programs that enable them to advance in tier status (e.g., from Bronze to Silver, or Silver to Gold), which entitles them to progressively greater privileges.

4 attribute priming

Being introduced to ideas first can sway you to identify with them.

Stating it simply, being introduced to information can ultimately influence your decision-making abilities based on that information, consciously or subconsciously.
A study mentioned in a Forbes article demonstrates the point. The methodology involved talking to consumers about certain attributes of a product and see what would make it more attractive to that consumer. They approached customers in an electronics store who were looking for laptop computers. The researchers didn't use language that could be construed as advertising, nor did they recommend one product over another. They just engaged random customers and asked them specific questions. Half of the customers were asked questions about their processor-speed needs, while the other half were asked about their memory needs. As it turns out, those who had been asked questions about their memory needs ended up purchasing a laptop with more memory. Likewise, those that were asked about processing power ended up buying computers with faster processors.

Putting it into context.

It's okay to be skeptical of the claim that B2B buyers are 57-75% of their way through their decision process before they would engage with a salesperson. For high-value first-time B2B purchases, this is rarely true. The salesperson who does the early-stage work to educate and shape the vision of the prospect emerges with a huge competitive advantage.

Qualifying sales opportunities used to be framed around a model called BANT (budget, authority, need and timeframe). It encouraged the disqualification of early opportunities that are not yet formal projects. This turns out to be the wrong conclusion to come to: Through the research done at Forrester, it was found that 3 out of 4 purchase decisions were made because vendors had shaped the prospect's vision of a solution.

5 loss aversion

People try to prevent losses more than they try to make gains.

Have you ever heard a politician use a phrase like, “If my political opponent wins, the first thing they are going to do is get rid of (insert an important government benefit you don’t want to lose)”. This is a very powerful political strategy to implement; you can see it being used to invoke a strong emotional reaction.

Interestingly, research has shown that the feeling of loss can be very different from the feeling of gain, even referring to the same subject or item. In fact, decision-makers were 2-3 times more likely to take decisive action in response to the threat of loss than they were in response to the opportunity for a gain. In other words, the negative feelings associated with the loss are much stronger than the positive ones seen coming from the gain.

Putting it into context.

Loss aversion is a staple in the B2B world. Many contracts come with clauses that stipulate penalties that equal or exceed the value of the contract itself. This principle can also be applied to incentive programs. Imagine an incentive for your sales team to close a deal in less than three months. If they close the deal within 3 months, they earn 20 points for every day under, but if they go over that threshold, they lose 2 points for every day over. The gain is seen as having less importance than the loss, so point allocation is adjusted accordingly to balance them out.

apply the principles

There are more principles that BE entails, but these 5 are the most important in regards to incentivization.

A successful incentive program will address one or more of these BE principles in some form or fashion. But in order to be truly effective, take time in the planning phase to understand the behaviors you want to incentivize as well as what motivates your team or channel partners.

To know more about how to develop and apply an incentive program around these 5 behavioral economic principles, the third installment of our B2B Behavioral Incentivization series will give you a great starting point.

If you are looking for information on how Incentive Automation can enable you to design an incentive program employing these principles, provide your contact information ***here*** *or go to* ***www.fielo.com****. Fielo is the first end-to-end Incentive Automation platform built to reward partners and customers, not just for purchases and sales, but for the behaviors that feed those outcomes.*