



# Influencing Customer Behaviour

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**Digital**

## How behavioural economics and data analytics can drive customer insight.

With markets becoming increasingly competitive, more customer touchpoints to negotiate, and greater repercussions if you fail, influencing your customers has never been so important.

Whether you want to lead your customers down a specific channel, deliver a unique, personalised customer experience, reduce costs or optimise profit, the crux of the argument remains – influence your customers and you'll reap the rewards.

### So where do you begin?

In the words of Steve Jobs, you need to “get closer than ever to your customers. So close that you tell them what they need, well before they realise it themselves”.

This isn't a simple thing to do. Organisations have more data on us as consumers than ever before, however few are really harnessing the opportunity it presents. We believe that the organisations who will thrive in the digital age are those who not only understand *what* their customers are doing but also *why* they are doing it, and this involves understanding both the data and the people who generate it.

Data analytics can help us understand *what* our customers are doing and can help to suggest *why*; however it needs to be targeted at the right questions and business challenges to produce actionable insight out of the mass of data organisations hold. Understanding the real reasons as to why customers behave the way they do – their motivations, can be even harder. Professor Robert Cialdini neatly outlined the essential problem, that “people's ability to understand the factors that affect their behaviour is surprisingly poor”.<sup>1</sup> Simply asking customers is not enough. This is where behavioural economics, which explores the factors which affect human decision making, can help.

Combining these two techniques together can deliver both a far more intimate understanding of your customers and the ability to better influence them.

### What are your customers doing? – Insight through analytics

The high number of customer touchpoints in the digital age means that a vast amount of information about consumer behaviour is readily available. This is captured in a number of ways; through sales data, which is increasingly detailed due to loyalty cards and online shopping; through user-generated content such as ratings, peer recommendations and social media posts;

### Understand your Customers

- By understanding that their customers were increasingly looking to watch sport through mobile devices, a leading media company tailored their services and found that their **multi-channel customers spent 27% more time watching TV than TV-only users.**
- Using consumer analytics, a parenthood support company found that 27% of parents of toddlers expect to buy a new home, while parents of pre-schoolers indulge in vacations. **They could then tailor their advertising accordingly.**

and through data from customer service interactions, such as web self-service, social community support, call recordings and records held on customer relationship management systems.



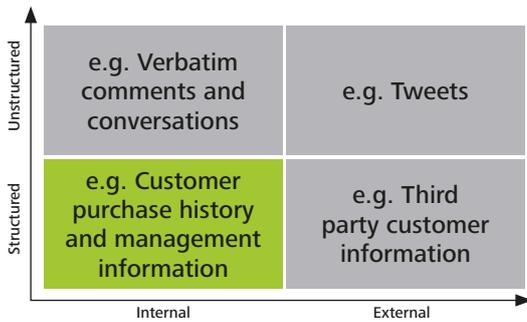
This has given rise to the phenomenon of 'big data'; where data sets have become too large, complex or fast to be processed effectively by conventional tools.

These modern data flows have three defining characteristics – **the three Vs**, which pose significant challenges; the sheer **volume** of data overpowering infrastructure capabilities, the **velocity** of data creation and expected response times, and the **variety** of diverse data sources (for instance, external, internal, structured and unstructured).

Knowing where to start looking is the first challenge organisations face as they try to leverage this vast resource. For most organisations, the best place is their internal, structured data – a goldmine of untapped insight. Helping the business to analyse and present this data themselves through easy-to-use applications is an important first step on the road to becoming an insight-driven organisation and often delivers the most value. Unstructured and external sources are much harder to exploit successfully.

<sup>1</sup> [http://www.influenceatwork.com/wp-content/uploads/2012/02/E\\_Brand\\_principles.pdf](http://www.influenceatwork.com/wp-content/uploads/2012/02/E_Brand_principles.pdf)

## Where to start: prioritising your data sources



As your capability builds, analytics can be used to **Reveal**, **Enrich** and **Model** your data to deliver real benefits:

**Reveal** – use visualisation to present your own information in an accessible, democratic format, helping show past patterns and the relationships between different factors

**Enrich** – complement that view with external data – either paid for third party information such as credit scoring, or open data like the census or tube stop locations

**Model** – build on your understanding, using specialist skills to model future performance and customer behaviour

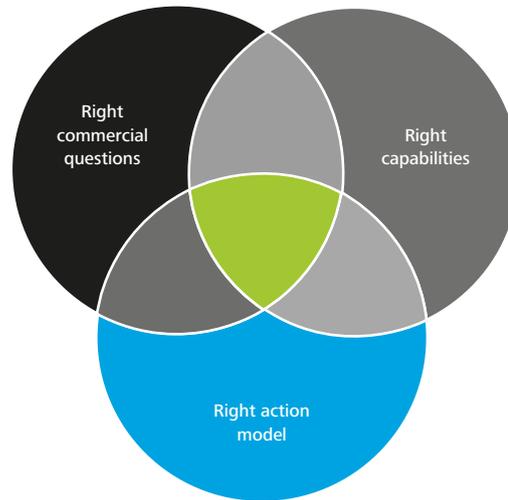
Advanced data analytics techniques are capable of generating increasingly personal insights and, with enriched data and modelling, can begin to answer increasingly complex questions about individuals. The capability to go beyond segmentation, to look at the customer as an individual rather than a member of the group, is an incredibly powerful tool in understanding how they behave and deciding on how best we can influence them. While segmentation is still a useful communication tool to inform the organisation's strategy, the ability to build this from a 'bottom up' view of your customers offers organisations opportunities to personalise experiences and gain a far more intimate understanding of the individual.

Becoming insight-driven helps organisations to make faster and more frequent decisions and become highly effective at executing them, improving financial performance and competitive positioning. Getting there is challenging, however, and is as much about building the right organisation, culture and skills as it is about building the technical capability.

The most successful organisations ask the **right commercial questions**, embed the **right capabilities** and skills in their organisation, and ensure that they have the **right action model** to act on insight and make high quality decisions.

### Right commercial questions

It is key to keep a laser focus on strategic business goals, and clearly prioritise your needs according to the value and risk.



### Right capabilities

It's also crucial to get the right people in place – people with the right blend of business acumen and technical skills, people who are able to analyse data as well as articulate what it means to the business. This is not the traditional profile for a 'data analyst'.

### Right action model

Finally, acting on the insight relies on the business working together, breaking down organisational silos across Sales, Marketing, Service and IT and beyond.

Value-adding data, advanced analytical techniques and organisational enablement are being brought together within the most successful companies to deliver valuable insight into their customers.

## Why are they doing it? Behavioural Economics

If analytics helps us to understand how our customers are behaving, behavioural economics can help us understand more about why and what we can do about it.

Behavioural economics is the study of **how and why we make choices**, straddling the intersection between psychology and economics in order to make sense of the seemingly irrational behaviours which standard economics fails to explain.

Although we like to believe that we are rational and in control of our behaviour when making purchasing decisions, time and time again history proves us wrong. Without necessarily being aware of it, contextual factors such as emotional state, presentation of options and opinions of peers can influence our behaviour.

Behavioural economics research, through controlled experiments, has helped decipher the true motivations behind purchase decisions. By understanding these, we can align business incentives more strongly with the desires of consumers and reap the rewards.

The Behavioural Economics Guide 2015<sup>2</sup> outlines how the field can deepen our understanding of consumers, and the opportunities this opens up for companies. Practitioners have worked to simplify the complex field into a set of general frameworks and models, based on heuristics (mental shortcuts we use to solve problems), biases, relationships, and behaviour change processes, to create a flexible toolkit that can be used to identify problems and design solutions. These tools can be used to 'nudge' customers towards certain behaviours.

The psychological aspect of behavioural economics can mean companies feel reticent to employ these techniques, suspecting that they may be unfairly manipulating customer behaviour against their will. However, this is a common misconception, as behavioural economics reveals what consumers really want – employing these techniques brings substantial benefits to consumers by making companies more customer-centric.

They can also transform public policy. For instance, the Behavioural Insights Team, or 'Nudge Unit' as they are commonly known, has trialled over 100 policy tweaks worldwide based on behavioural insights in order to improve public services, with impressive effects. For example, the government in Singapore increased the prompt payment rate of taxes by 3-5% by simply changing the colour of the tax return form to pink, typically used for debt collection, which subconsciously compelled citizens to return their taxes on time due to the association with punishment and lateness. Beyond monetary gains, these techniques can have further benefits for the community. A new law came into effect in Wales on 1 December 2015 around "deemed consent" for organ donation, which means that unless you specifically opt-out of being an organ donor, you are automatically assumed to be one. People are less likely to break consensus with their fellow citizens and explicitly opt-out, so this 'soft opt-out' system is likely to vastly increase the number of life-saving organs available to patients, with very little change needed to create a huge impact.

There is undoubtedly much to be gained from applying behavioural economics ideas to customer relationships, and they can be used as a critical lens to add value to data analytics insight. Understanding why your customers behave in certain ways can inform how you design a service, helping you to get it 'right first time'. Using the insight gained through behavioural economics and combining it with data analytics highlights patterns and areas of potential competitive advantage.

## Using behavioural insight to Influence your customers – some examples

Once you've developed a good understanding of your customers, you need to use this insight to influence their behaviour. There are a number of practical methods that are used every day to impact the way we, as customers, behave.

### Sales and Marketing Strategies

There are many simple sales and marketing methods that can be used to influence customers. For example, **anchor pricing** is often used to help customers perceive value. Presenting a less expensive product after a premium product helps us perceive that we are getting a good deal. The initial price the consumer sees becomes the baseline to which they compare everything.

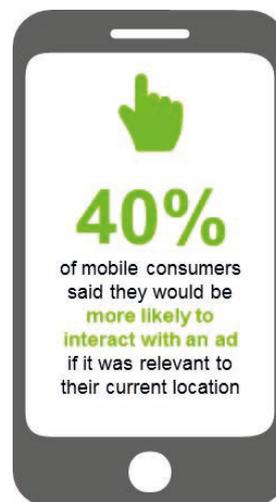
**Discount pricing or Buy-One-Get-One-Free** strategies are often used in retail specifically to influence purchase decisions. Informing customers of the **scarcity of your product**, and how many customers are looking at it can help drive interest. People are subconsciously more attracted to scarce products according to Professor Robert Cialdini.<sup>3</sup> They also value ratings and peer recommendations for purchase decisions, so organisations harness **Social Proof** to influence them.

### Service Strategies

While sales and marketing strategies are fairly common, altering your service strategy to influence your customers is often under-utilised as a technique.

Understanding the root causes of demand for services through analytics enables you to make changes based on what customers actually need, and ensures that you **develop a beneficial service channel journey**, both for customers and the business.

Organisations can identify customer groups (based on their channels, contact frequency, demographic information and reason for contact) and target them with specific treatments to influence which channels they use and when via **'service marketing' campaigns**. These tailored communications which apply the principles of behavioural economics offer customers informed choices about how best to use the organisation's services, and influence their choice to maximise the value and minimise the cost (where appropriate) of the interaction.



<sup>2</sup> <https://www.behavioraleconomics.com/the-behavioral-economics-guide-2015/>

<sup>3</sup> [http://www.influenceatwork.com/wp-content/uploads/2012/02/E\\_Brand\\_principles.pdf](http://www.influenceatwork.com/wp-content/uploads/2012/02/E_Brand_principles.pdf)

Four examples of customer treatments which can influence service channel selection are:

- **Educate and incentivise** – educate about functionality and incentivise usage to encourage higher levels of self-service. Getting the incentive aligned with the customer’s motivations is key to success here.
- **Fix** – identify broken processes which hinder channel usage and prioritise and fix them. Customers value the path of least resistance – make things easy for them.
- **Create** – identify common obstacles and design new or adapted channel solutions. Designing your channels around specific obstacles for customer groups will encourage use.
- **Upgrade** – your most valuable customers should feel valued, and implementing an **enhanced service option** for these customers can improve customer retention.

Sometimes changing customer behaviour can be as simple as changing the wording in a customer communication. One private sector organisation achieved a significant improvement in customer satisfaction with the solutions they were offering to issues by training their agents to use more **positive language**, telling customers more about what they could do for them than what they couldn’t. Customers felt they were being offered something rather than denied it.

**Structured choice** can also be used to encourage certain behaviours. Individuals are more likely to make a particular decision based on the order in which they are presented.<sup>4</sup> For example, **London 2012 organisers drove 80% of contact online by using a hierarchy of contact options within the website, starting with a ‘virtual agent’ and progressing through to a call for those contacts that could not be resolved online.** This subtly influenced behaviour without annoying customers.

Understanding your customers should allow you to design services which meet both customer and organisational needs. It also helps develop service campaigns, specifically targeted at particular groups and individuals with tailored communications utilising behavioural economics techniques, to drive change in how your customers use your services.

## Conclusion

The digital world offers a wealth of opportunity to positively influence your customers, benefitting both the customer and the organisation. Using the right blend of quantitative, qualitative and psychological analysis will help deliver the benefits that this opportunity affords, and the most successful organisations will be those that understand both the data and the human being behind it.

While the opportunity is significant, taking advantage of it is not easy. Organisations need to think carefully about how they employ different techniques and how they build the technical and organisational capability to deliver them.

To find out more about Deloitte Digital’s experience of designing and delivering insight-driven campaigns to influence customer behaviour, please contact the following people:

### Contacts



**Duncan Barnes**

Partner – Private Sector  
+44 7711 580875  
dbarnes@deloitte.co.uk



**Louise Brett**

Partner – Financial Sector  
+44 7836 365015  
lbrett@deloitte.co.uk



**Joel Bellman**

Partner – Public Sector  
+44 7881 834335  
jbellman@deloitte.co.uk



**Daniel Dunleavy**

Director – Customer Analytics  
+44 7900 405287  
ddunleavy@deloitte.co.uk



**Richard Keay, Author**

Senior Manager  
+44 7818 858382  
rkeay@deloitte.co.uk

Kate Kilgarriff: Contributor

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