Interview: Uri Gneezy, author of Mixed Signals, on why misaligned incentives backfire

MichaelAaron Flicker: [00:00:00] Welcome back to Behavioral Science for Brands, a podcast where we bridge the gap between academics and practical marketing. Every week we sit down and go deep behind the science of some of America's most successful brands. I'm MichaelAaron Flicker.

Richard Shotton: And I'm Richard Shotton.

MichaelAaron Flicker: And today we're sitting with Uri Gneezy, professor of Economics and Strategy at University of California, San Diego, UCSD, and author of two books.

The *Y axis* and *mixed signals*. Let's get into it. Uri, welcome to Behavioral Science for Brands. We are very, very excited to have you join us today. As we were talking about before the show started, Richard and I have made it our little mission to be on the hunt for finding the best applications of behavioral science and bring them to the world of marketing.

And we're super excited for our conversation today. But before we start, if you'll indulge me. I'd like to give our listeners just a little [00:01:00] background on you so they so they can learn a little bit more. You are the Epstein Atkins Endowed Chair in behavioral economics at UCSD. You're the author of two influential books, the Y Axis, which delves into the hidden motives behind our everyday decisions and mixed signals where you explore how incentives can sometimes backfire and how to design them more effectively.

Beyond academia, you've collaborated with lots of organizations on how to apply behavioral insights in real world settings. Helping businesses, policy makers, design better incentives and understand the nuances behind human motivation. We're thrilled to have you on the show today.

Uri Gneezy: Thank you. Looking forward to this.

MichaelAaron Flicker: Wonderful. So our listeners love stories. Can you tell us how did you become introduced to this whole field of psychology motivation? How did you get introduced to to, to [00:02:00] behavioral science overall?

Uri Gneezy: So for some reason, even as a kid, I try to understand why do people do what they do, right? Oh, I always looked for, you know, what, what's their incentives?

I didn't know that. It's called incentives, but why do we do different things, right? So I have lots of examples as a kid that they look and, you know, it's very annoying when people are like that instead of just behaving normally. But I was lucky because that was my passion. And then I learned later on that it could actually be a way of life, right?

I can make a living. Doing research on that, and they still find it exciting. So I'm a lucky guy.

MichaelAaron Flicker: When you were younger looking at the world, is there one thing that you remember thinking back on and saying this is, I see this differently than most people. Can you think of a time where you saw the world differently than everybody else?

Uri Gneezy: So, as a kid growing up in Israel, I wanted to be a fighter pilot, right? That was my, you know, my dream and just, you know, I. My, you know, in [00:03:00] my dreams I would shut down enemy planes and save save the day, right? Top gun kind of thing. And then I started to think, why do they do what, you know, why don't the pilot take off and risk their life and, you know, try to do whatever they do?

So one thing is clear now to, it's your country, right? You do it for that, but another one is. Shooting down enemy planes. Right. That's what they want to do. That's, that's really what motivates them. The, their dreams is to shoot down enemy planes. 'cause that's, that's what they have. I remember reading a, a book and there was a chapter about someone in the six day war that saw to, they were about the Golden Knights.

He saw two enemy planes. And then some other squadron asked him, do you see them? And he said, yes. They're going south, where they actually went north and they chased them. He didn't want to share the prize. Right? He really wanted to do it himself, right? So he was risking his life much more than he had to [00:04:00] just to be the one shooting down and stood at the incentive of this pilot is not just to save the country to, it's also in our, on his desk, that what is going to think about is I shot down three Americans or whatever, right?

That's his identity, right? And that's kind of incentives that I think are really important. So if you. The think about, you know, Richard is in London. Think about, you know, world War II over there, the pilots went out, that's what they thought. So you put in another incentives that doesn't cost you anything, but you know, that's what you talk about and that makes it that makes it work.

And that's an example of how incentives work. And we don't always understand them. But once we do, it's really, it can really help us design the organization. In this case, you know, the Air Force, how do you do it? You make it. Such that you glorify the people who shoot down and in planes and you, you make it salient and it works.

MichaelAaron Flicker: And maybe one of the one of the most [00:05:00] things that resonates most for me in hearing that story is that the incentives can be shared. Lots of young Israeli youth wanted that same vision. It's not just one person, but you can discover the shared vision.

Uri Gneezy: And it doesn't cost any money, right? So first of all, it's not money, it's something else.

It's identity and it's, yo, so it's cheap and it works.

MichaelAaron Flicker: Fascinating. So we've both really admired the writings that you have done, the two books that we talked about in the opening. Your latest book is called Mixed Signals. Maybe you could give everybody who's listening a little bit of an overview of what do you mean by that, and and tell us a little bit about the book.

Uri Gneezy: Every one of us work for, you know, work for our Living, right? There are two. If you take a class in the in, in a Business collect where I teach on incentives, you can have two types of class. One of them will be taught by a psychologist that will tell you, [00:06:00] look, you're doing this. People go to work because they want fulfillment.

They want to feel good about it. This with an economist and that economist will tell you, no, they hate going to work. They just go to work because they have to pay the rent. Now I go to work because I need to pay the rent. Right? I need to earn money. But they also, it's also my fulfillment, right? It's a, it's a combination of these two opposing things came what's called crowding out and they have some research that maybe will get to it later about it that, you know, if I pay you money, I'll proud out the psychological what I'm interested in.

I'll paying money or giving incentives again, doesn't have to be money. How this can actually reinforce your identity and reinforce the, the fact that you want to, to do the job. However, in many cases in organization, the, the organization tells you the story as you, I don't know Michael, you need we, we care only about quality.

We don't care about quantity, quality. You know, we charge that our customers will be happy. Everything is good, but then they [00:07:00] pay you their. Performance. Right? So they pay you per qu quantity, right? So what's, what are you going to conclude from that, right? I don't know. So I start, when I give a talk about the book, I often start by asking people, are you good at your job now, Richard, are you good at your job?

Richard Shotton: I would claim I am.

Uri Gneezy: You would claim, right?

Richard Shotton: Whether there are other people do is a different matter,

Uri Gneezy: but it took you two seconds, right? Yeah. Yeah. It's kind of a weird question, but, so it's not clear what does it mean to be good at our job? In your case? I dunno, rating might be good, but, or whatever it is, but in my case I can talk about, but it's, it's more than that.

I want to be good, like what my boss thinks that I should do. And if she tells me that I should care about quality, I'll care about quality, but then she gives me an incentive to worry about quantity. That's probably what she really wants, right? So I'm going to, I'm going to give quantity, but I'm not going to do it as well as, as because it'll be faster, right?

So I think, you know, the simplest example is a call center. Imagine that you work in a call center [00:08:00] and your boss tells you care about quality. We don't want the customers to come back, but pays you per call. You just, I'll pick up the phone. The, that person on the other side has a complicated issue Next.

I'll, I, I will not, I, the, the quality will, will be compromised. Right? And there are many examples like that. So think about the team versus individual incentive. Your boss can tell you, look, you should work with other people. It's really important. It's really, you know, try to, but then pay you based on your performance.

Now, I'm not saying that it's better to pay per performance, right? If you want to get the best people they need to be compensated. They would not. But make sure that your message is clear, right? Make sure that you can say, look, Michael, you are the star of this thing. You are paid more and everyone know this, right?

But still, I want you to, to try and work with other people. Or you can say, you know, whatever it is that, that you want, [00:09:00] make sure that the message is the same, right? Either the payment, not either. Both the payment and the message are the same. And many examples like this. Your incentive, send a signal, make sure that the signaling is consistent with what you tell your people.

And could be your consumers, could be your kids, whatever

Richard Shotton: you mentioned like asking people to behave as a team, but then incentivizing them as individuals. You've got a great example in mixed signals, ban or soccer players. I think Manchester United, where that goes disastrously wrong. Could you, could you talk us through that?

Uri Gneezy: Right. So I'm not going to get myself into Manchester United. That's that's a problem. Why? But you know, you have, you have, you have a guy that is really good at scoring balls. You, you get into the team and you pay him say, I dunno, a million dollar T scores. Right? That's, that's great. But now as a team, what you care is not about this guy.

I don't know. Messi, right? It's not, not [00:10:00] about this guy scoring goal. You as a coach, you as a manager, what you care about is the team winning, the team scoring the goal. And in many cases it would be better. You know, few people are running, few players are running towards the goal, and it would be much better if you'll pass it.

But now if you'll pass it, maybe there is a higher chance of scoring, but definitely a lower chance of him getting his bonus. So he will try and go in himself. May score, may not, but the probability of success is lower. But overall, you know. If, if he's successful, you get a million dollar, that's, that's instead of passing, right?

So that's an example where incentives are not great.

MichaelAaron Flicker: So if you have our listeners who are CMOs of brands, owners of brands, maybe M mba, a students who now are in charge of marketing is okay. So far so good. I get that. I need to align my [00:11:00] incentive with the, with the, with the messaging. Where would you take it from there, Ori?

Like, what would you tell them if they buy into that concept? What else is important for them to know?

Uri Gneezy: Well, so first of all, they need to understand what's their message, right? In many cases, they don't align. Align it because they don't think about it. They don't stop and think, what, what is it that they want my employees to do?

What is it that they want my customers to understand with the discount they get? Right? So first of all, understand it yourself, but then you know, strategically, what do you want to, to do? Now, one of the things that they talk about in the, in the book, in the Fed Energy, it's not going to happen. But if I had energy, I would write a book called the Common Sense Officer, right?

So you have C-E-O-C-F-O-C-M-O, whatever. But all these companies don't have a common sense officer. That's the, you know, just put normal person over there, not an MBA. Someone's smart, right?

Someone that will tell 'em, look, this is just a bad [00:12:00] idea. Don't do that. Right. Don't, don't do that. I can, I have lots of examples of that, that, you know, companies that just did it, that did things that if they, if they, if they had someone with common sense with them, hold on, maybe that's not the best they did.

Right. So. Do that. The second important thing is to be humble in thinking that, you know, our incentives are going to work. I do it for a living for many, many years. I, I'm often very, very surprised by the results. What you need to do also is AB testing, right? So you need to go, that's the, the y axis that you mentioned before, the book we journalist from 10 years ago.

Basically, it's about, we call, it's called field experiments. Now. It's a fancy world word for a B test. You, you would never go and put, you know, so I work with engineers before they release a printer. They test it like millions of times in the lab, and then they test it another 10 million times with a sub sample of only then they released a [00:13:00] printer.

But in San Poof, some, you know, some board sits and says, oh, let's, let's do that. It doesn't work this way. In many cases, people for example, learn very fast how to game deceased. People are really, really clever at gaming the system.

People may be insulted by people think that the incentive there, there could be many things that happen.

So try to use all the good stuff that we talk about. So, you know, loss aversion, regret and all the good stuff. Try to apply, but then don't think that you got it right the first time. Right? Test.

It might work now, but things may change. You know, the, I don't know, the president change the, whatever your customers learn, the how to game, what you do. You have different types of customers now. Make sure that you keep testing different approaches. So don't think that, oh, I can sit down and that, that goes, that's a very annoying thing [00:14:00] when I talk with, you know, companies and hospitals and everything.

Oh, we tried incentives and it didn't work. It's like saying, you know, I went to a Japanese restaurant and it was bad. Well, maybe you went to a bad Japanese restaurant. It doesn't mean the Japanese food is bad, right? It means that the one you tested, you sampled, you were unlucky. The same is true with incentive.

Don't tell me incentives don't work, incentive work. The only thing that annoys me, I think, professionally is people telling me incentives don't work. They do work what you tried didn't work, which is fine. Or maybe they work in a way that we don't understand, but there are incentives do work.

Richard Shotton: The, I think my single favorite moment for the book, and there were, there were lots of them, was in the chapter around look of humility where people have put incentives in place thinking they, they could work very simply.

And they're being surprised by the backfire effect. And the, the one that made me smile most was the one about Robert of Naples and the taxi he put in [00:15:00] place that led to the truly buildings. Could you, could you talk through what happened there?

Uri Gneezy: Sure. So in polio, which is the hue of the booth in Italy, beautiful place, amazing food.

They have this very strange structure, so it's like, looks like that. And then it has a roof that looks like that, you know, very steep. Which the particular thing about it, you don't find it anywhere else is that people that know what they're doing can take it off in a couple of hours and put it back in a couple of hours.

Why did they do it was, you know, very far away, but. The King of Naples used to send tax collectors from time to time. Whenever they found out that the tax collector is coming. They knew if the structure has a roof, they have to pay lots of taxes because then it's home. If it doesn't have a roof, then it's the word would spread that the tax collector is in town.

Everyone would take off the roofs, the textual error would come and they put it back. Right. Italians are really good at talking about gaming the system. Italians are good at [00:16:00] it, and they were good at it few hundred years ago as well.

Richard Shotton: I just love this idea that people hate tax so much that they're prepared to collapse their roof rather than hand over, you know, a, a Florin or whatever it was in those days.

Uri Gneezy: I have lots of example, you're in London now, right? So there used to be, you know, ships living from, I don't think that it was in the book because it's still, it's still, I know it's a bit of a sad story, but you, English, you used to send your bad people to Australia. So at the beginning they used to put them on the boat, pay the captain per person they put on the boat.

And then, I don't know, huge percentage of them would not reach Australia, would reach Australia debt. So even, even for the, for your countrymen at the time, it was too much. They changed the incentives. Instead of paying the captain, their person that goes award, they pay them per person that actually arrived to Australia.

Huge change right. Archeologists in China a hundred years ago wanted to get sap. So they [00:17:00] paid the, the farmers to collect them. They paid them per piece so they would find a big one and just smash it to small pieces and lots of, lots of examples like that. Thank are really fun.

MichaelAaron Flicker: So we have

Uri Gneezy: sorry, that's a good example that incentives work, but not necessarily the way we thought.

Richard Shotton: In the way that you want.

Uri Gneezy: Yeah. Yeah.

MichaelAaron Flicker: You, since we're on this topic of. Planning incentives, trying to match the message and the incentive, putting it in market and then realizing it was not the plan, it would, you're not getting the, the results you wanted. Do you have any guidance for for business leaders, marketers specifically of how to listen for the outcome?

I mean, how do they know if they're not getting the incentives they want or how can they, meaning how do, what are good things that they should be on the lookout for to know? If they if they are getting that, you know, a hundred pieces smashed instead of 1 1 1 [00:18:00] actual archeological piece.

Uri Gneezy: So first of all, if you would think about it, you would've maybe reached a conclusion yourself or at least look at the data immediately when it shows up.

If you start seeing small pieces, stop immediate, right? So that's the let day be testing part of it. And it's also, by the way, even if your incentives work, it doesn't mean that you're optimizing. You might be able to get more out of that. I worked with a company that did some in some ads for cars.

It would go on their website. You get some information about Toyota Corolla, and then you'd say, okay, I'm ready to buy, put in your zip code. They try, they wanted people to go from their website to the dealer's website, so they gave them $200 discount and it worked. I mean, if you purchased the car through them, you got $200 discount.

That worked. But, you know, $200 out of a $20,000 car, $200 is a lot of money. But out of finding, yeah, you, you, you don't think about it in this. So it worked, but it, we thought that you can make [00:19:00] it better. What we did is said, look, what, what is really painful for people? Paying for gas related to cars.

Paying for gas is very painful. Now. $200 for gas, that's a lot of money. I can, I can fill it up a couple of times, you know, and each time I feel, well, I, I got a good deal. Right. So we changed. Instead of $200, we gave you the same credit card. We sent you the same debit card, but this time we said for gas, just renamed it.

That worked much better than the $200 cash, right? Because $200 is 1% of $20,200 in gas. That's few weeks of fuel in the Just renaming.

Richard Shotton: That's an amazing study. Lots of practical implications when you are trying to unpick why it was so successful. Do you put it down to the fact that paying for gas is painful, paying for gas 200 pounds will cover it.

Dollars will cover three or four visits where it's a tiny percentage of the 20,000, or is [00:20:00] pushed just too abstract, whereas a trip to the gas station is very concrete and visualized.

Uri Gneezy: It's a combination of everything. So it's called in the, in, in our literature, it's called mental accounting. Right. So mental accounting basically means that money is not tangible.

It should be tangible, right? So it should be, I don't care if I, how I earned this $10, I should treat it the same, but $10 that I'll earn. Say that at the end you'll say, wow, we did a great job. We'll send you $10. That would be one type of $10, and it's going to be different than $10 that I find found on the street.

I'm more likely to buy some fun stuff with it if I worked very hard and suffered like here. I treat it differently, right? So the $10 have different thing, which is mental accounting based on mental accounting. The, the, our brain really categorize stuff. So I have stuff for going to restaurants and they have stuff for paying the bills, and it's not the same.

I don't treat it as the same money. [00:21:00] Now, if that the, the overarching rule is look for something that people really have pain. So it could be you go to a restaurant, here's an example. You go to a restaurant. And I don't have a problem buying a glass of Wine for $20. I hate paying $20 for parking. That's really painful for me.

Right? So if you want to gimme a discount, don't give me glass of wine. Give me free parking. Right? That's, that's the kind of things that you should think about. What is it that you know, with the same amount we can get rid of something that people really hate. I go to the airport sometimes with few luggages.

Here in San Diego, we have to pay $5 for the trolley for like a minute of the trolley. That's really annoying. Really, really annoying. I think that they're taking advantage of me. It should be free. So I don't do it and I, you know, I go like I need it. Then I go to Starbucks and the coffee of their costs $12.

Right? It's at the, but it's really crazy. But they don't care. [00:22:00] So that that's, you know, just make sure that you target something that people really hate paying for.

Richard Shotton: Yeah, that's, that's a, I think that's a lovely question that Mal has composed themselves. And what is it in your setup that people hate? And then think about using that as the incentive.

So maybe shipping could be one thing. I'm always aggravated by shipping.

Uri Gneezy: Yes, yes. Free shipping could be a great thing. If I don't like paying for shit or tax or whatever it is, make sure that you're doing good. Shipping, by the way, is example where you can do the opposite and offer you a free return.

If you buy it, you can return it within 30 days, but then I charge you enormous amount for shipping. 'cause the shipping will be, I will not, you will not get the money back. Right. So that's another form of mental accounting in which. You pay a hundred dollars for the item that you [00:23:00] bought and $20 for shipping and you can return it whenever you want.

So you pay the hundred and 20 bucks altogether. Now if you return it, you get back only a hundred bucks. So that's also something that some companies do.

MichaelAaron Flicker: That's interesting. One of the chapters in the book talks about how price signals quality, and maybe you could talk a little bit about that. 'cause it connects to this concept that we're talking about.

Uri Gneezy: So we had this experiment in which we went to a winery near San Diego, and the guy wanted to know how to price his wines, the, the wine owner. So there, you know, you, we all, we've all been to wine tasting, I guess, right? You go there, you get the list, you know, printed page with the list. Usually it starts with the white, with the light whites, and you go to the, to the heavier red, right?

And you pick say four wines to drink and then you decide whether potass and you decide whether to buy. The first thing that we did was with this, he had the Cabernet Souvignon that he was interested in. In selling. We doubled the [00:24:00] price, so I don't remember. Instead of $10, it was $20. And what we saw that actually more people bought it after tasting.

Right? And the idea is that I don't know what the quality of the wine, you tell me that it's a $20 wine. Must be a good wine. And I'm here at the winery. I might as well get a good wine. Right. So think about, say that usually you drink a $20 bottle of wine. Now it's, you're celebrating something. You go and ask the, the store, can I get, you know, I'm looking for a $50 bottle of wine.

'cause we associate price with quality, right? And in many cases, in negotiation, I teach negotiation. Here in San Diego we say that the, the asking price, if you'll make it high enough, one of the things that you got is that the perception of the other side will be that what you're selling is actually good.

Right. So that's the, that's the idea and that that works over there, right? So we, when we start with a high price, we get outta side to think, well, that must be a good product if if is charging lots of money, right? [00:25:00] In some cases it's not going to work, right? So there are things that they know the price and you want full, you know, the quality precisely, but.

In cases. So the Peloton was a good example. There, there is a quote from the CEO of Peloton that said, look, we introduced the, the bike now that when they started and we wanted, we wanted people to buy it. So we offered the discount, we sold it for, you don't know, 800 bucks. People said, well, $800 can be really good.

We doubled the price and then suddenly it was high quality bike that everyone wanted to get into. Right. So that's, that's a great example. I.

Richard Shotton: And can companies kinda get the best of both worlds? So obviously, you know, someone's disposable cash comes into it and they'll be, occasionally they just can't afford a very high priced item.

But if a company had to say two items, it adds on a super premium one, no one ever buys it, will that spill over into quality perceptions of the other [00:26:00] items? Does it have this gonna pay off?

Uri Gneezy: So you go to restaurants very often and you see, you know, the $20,000 bottle of wine. I really want to ask the waiter, you know what, today we're celebrating, can I get the whatever chatteau de la something from 1985?

Right? And they probably don't have it on the, on the menu. Right? But like you said, you look at the wine list and you see, wow, they have up to 15, $20,000 bottle of wine. They, they must know what they're doing. Right? So it's signals something that signals the quality, how deep your wine list is and the quality.

So. In other cases it could be some kind of price discrimination, right? So you can have people that can pay lots of money and just want the best, right? So you have people that enter, enter the restaurant and gimme your best champagne. We also eat in movies, right? And most people go and affordable champagne, right?

So you have, you have one for this and one for that.

Richard Shotton: Those are lovely [00:27:00] commercial examples, but I know you also do an awful lot of work with charities. One of the studies that I found fascinating was where you talked about overhead aversion. Thought that was something it would be lovely to discuss.

I think quite a few listeners might be able to apply that principle. Could you, could you take us through that study?

Uri Gneezy: Sure. I love that stuff. So let, let me start by, by a setup. In many cases, people who work in charities don't get, don't pay, don't get paid a lot. So the probability that you fly business going on a 12 hour flight, if you work for a bank versus charity, we know which one is more likely to fly.

And in many cases, the right choice is actually to fly your business because if you go to for two days over there, if you fly business, you'll be functional. If not, you're not. I ask my students outside that Michael is an MBA student, and Richard is an MBA student. Michael went to work in as a [00:28:00] financial advisor and now he's making $5 million a year.

10 years out, he's making $5 million a year. And they are all, you know, salivating. That's what I want to be. I want to be Michael when I grow. Then I tell them, Richard went to work for a charity. He's making $5 million a year. They are all you know, that's not right. That's that's bad. Right? So the people that.

You know who is a better person without telling them the salary. They'll said, Richard is better. And Michael, he is working for charity, right? But if Richard will get paid a lot of money, they will be upset, right? So for some reason we don't want to pay a charity organization, charity people, lots of money.

We don't want them to fly business. We don't want them to have nice offices because we think that that's wasteful. Or how, how can we get the best people to work over there? So if imagine that you have these two options, you can grow up to be. The Michael example or the Richard example, it might be better to be the Michael Example and give a [00:29:00] million dollar to charity.

If you are so much into charity, just give, give some of your money to charity and, and you've done better to do. Right. And it's very hard for them to, first of all, get the best people. They have people that are devoted, but sometimes, you know, they, they could have had, they could have done better. They lose people.

They don't have the infrastructure that they want in many of these things. And the reason is that when we give money to charity. We want our money to go to the, so if I want to give money to kids, say whatever, in in Liverpool, I want all money to go to these kids, right? I don't want Richard to fly business with that money.

Right? So that's the overhead, right? I don't want to pay over it. That's something that really hurts me. Now, the question that we asked, okay, I don't want to pay over it, but. You can think about two big picture. You can think about two things. I just don't like organizations that have lots of overhead 'cause [00:30:00] they think they're not efficient or even corrupt and they just, or I myself, I don't want to pay for the overhead.

So we, we ran an experiment in which we had the same company, right? So the, the story was about the same company. You had to choose where to give the money in one case. So compared two companies, in one case, a. Company B did not have overhead. Most of the people chose company A, you know, charity A. Then we say Charity A has 40% overhead.

Everyone wanted to give their money to charity B, and then we said that the more most important one was Charity A has 40% overhead, but someone else already paid for it. Your money is going to go directly to the custom. They love that. Right. So if you have the high overhead, but you are not the one paying it, if the charity has it, someone pays it.

That's really great. And the implication is, you know, if you are, if you're talking with someone like me that [00:31:00] can give you a hundred dollars, don't but just try to get me something without overhead. But if you go to someone that can give $10 million, try to convince them, look, you can pay for another wing at the hospital.

Or you can pay, some of the money can go towards overhead. Such that we can offer the Uber of the world that can give a hundred dollars, we can offer them overhead free donation. And we found, and Pullup also found that that's, that could be really helpful, right? So if you go to people, if I have $10 million there, people also that will go into this and will locate it and will reach at, convince these people, look, pay for overhead pay for the organization.

Make sure that we have the best there. Computer system that can actually get we can, we can purchase the, the data that we need, whatever, and then go to the smaller donors and just tell, you know, we got a very generous donation. The pay rate will, every dollar that you give will go to the child that, that you want.

So if you pay for [00:32:00] lunches for kids in San Diego that need it in schools, every that you give, I can tell you how many, how many meals it eat without any, anything at the end. And if I start explaining to you, look. We want to get the meal to the schools in in some, you know, in schools. But we need a truck.

We need a truck driver. We need to pay for gas. We need to, I don't want to hear this. Don't tell me how much, you know, how 50% goes just for the truck. I don't want to pay for a truck. I want to think about the kid that eats lunch today because they give the money.

MichaelAaron Flicker: And is the, and and, and thinking about marketers who are listening to this and saying, oh, I can see how it applies, like how I can use this for my business and brands.

Would you say that would you say that the way that you discovered the tension for people about not wanting to pay for overhead. Was again, back to the beginning of our conversation, listening to the motive, the [00:33:00] motivations and the incentives or how, how would you guide folks to think about how to uncover the true hidden tension that exists for them?

Uri Gneezy: So one of the nice things about being in academia is that we have this very long horizon, right? So if I'll talk with someone now about the paper, it'll be published in five years. People in the real world don't have this. You know, if you go back to your, day job and say, well, thank you for asking the question.

It's really interesting. I'll be back to you in, you know, October 2028. That's, I, I can do that, right? So we could sit and think, look, this overhead really kills companies, right? So we, we can look at it, our examples, why does it happen? And then, you know, thinking about it, try to analyze, say, look, we can think about two reasons, right?

This two reason said, okay, how can we, how can we distinguish between these two reasons that I mentioned? Right? I just don't like companies with overhead or I don't like to [00:34:00] paint myself. It sounds very simple, but it takes time. This process takes time and, and you know, you make lots of errors, but then at the end, so a good design, a good experimental design, a good understanding of the world is very, very simple in retrospect, right?

I don't, I'm not doing physics right. I don't need to write long math equations in one. A good design a is something that is really smart. If you look at the contribution of behavioral science things that after someone, no, that that's clear. That's, that's how we should do it. It takes time. Right. And the, one of the advantages of being academic is that you can spend lots of time thinking about this.

You know, I work on the beach here in San Diego and about stuff and that's, and talk with my colleagues and together we come up with the things that right. I, I think that even if you work with the, with the speed of, of the real world in which you need to find a solution, within days thinking about it a bit more is always good.

Right? And never don't be satisfied. One of the things [00:35:00] I'm trying to, don't be satisfied with what you found. Even if it works, I can think about whether you can make it better.

MichaelAaron Flicker: I think that's very, it's very helpful to hear you go through and and I, and I, and I think it doubles down on this concept that whatever.

We have today is, should be the worst version of what we can have. We can always make it better. We can always improve it. In our latest book, Lori, we Hacking the Human Mind. Richard and I have been working on for two years. It's coming out later this year. I'm glad. Thank you. We covered your research into regret lotteries and to us this was really insightful and really helpful.

For brand marketers to think about how they can use this. Can you tell listeners a little bit about the work you did with the Bill and Melinda Gates Foundation and, and, and, and about regret lotteries?

Uri Gneezy: Sure. Let me start with regret in general. So that's, we're talking about, you know, stories as a kid, right?

So my grand, I came to [00:36:00] Israel in 19 14, 7 48, and he wasn't a rich person, but he bought the lottery ticket, the state lottery. It was, I think it was seven numbers at the time. Seven digits, I don't know, from one to 40. I don't remember the, the details. Right. He had the same seven numbers for 40 years until he passed away.

If you, if you go on vacation, he would ask someone to buy these numbers, right? So he was sure and it was, you know, he wasn't the gambling person or that, that was his, his thing. Now. Why did you, why, why couldn't he stop? Because imagine that you stop, you go on vacation, you know, you go to away for a week and these numbers come right?

And regret is huge. Some companies actually make money designing lotteries like this. So in the, the most famous one, I think is the postcode lottery in the Netherlands, they postcode is a zip code. Zip code is like five houses over it. Now [00:37:00] imagine that Martin and Richard, your neighbors, the same zip code.

One of you is smart and doesn't buy the lottery, and the other one is stupid and buys the lottery. And then you listen and you, you hear on the TV that your zip code came up. Now the smart person is going to be really, really upset, and if that smart person is also married or has, you know, relationship with another person, that person will have lots of explanations.

And that person will be very happy now anticipating this. So one of the things that they give, to make it worse, they give you a brand new BMWI. Each time you go in the morning to work, you'll see you're going to your Toyota and your neighbor, your stupid neighbor will drive a fence in being loved, right?

So the regret that you anticipate having is really going to cause you to actually buy the ticket. That's the, the lottery ticket in this example, right? So by the way, the work with the [00:38:00] Bill Melinda Gates, I did not do, I wanted to do, oh, it didn't have, they didn't want me to, to do it, unfortunately. But if someone else wants to do it, think about parking, right?

Imagine that you work in Bill Melinda Gates, or you know, HP or somewhere like that. There is a parking lot. A thousand people work over there. There's a parking lot for 500 cars. In general. So the Billman, Inda Gates was interesting because Seattle was worried when they built a new campus that too many people will use their private cars instead of public transportation.

So yeah, what they, what what you can do. I, it's not what they did because they didn't do this version. They did something, but not merely, let's say, with fantasy. Fantasy is always more exciting. So you can pay people, you cannot, you can charge people for parking. They're not, it's, it's going to work, right?

If they'll charge you $50 a day for parking, you won't come. But that's not what your [00:39:00] employees will like, right? You don't want your employees to be upset. What they decided, and many other companies decided is, look, every day that you don't come will give you, I dunno, $5, right? So then they had, you know, you can do this.

Now, imagine that instead of that. Five days, times $5. That's $25. A thousand people. That's $25,000. At the end of the week, you're going to pull up a name by chance, you know, out of the thousand employees we pull up a name, char. Oh, but you parked this week. Sorry. Let's pull another one. Michael, you didn't.

Here's 25, right? That would be Richard would think twice before coming with the car next time. Right. So anticipating this regret, and you can, you know, if you do this as a public lottery, you can make it fun. You know, everyone is around the whatever, that you can [00:40:00] really get to much more. Basically the idea is that you anticipate a regret and you're doing stuff in order to prevent your understand.

Regret is one of the strongest negative emotions that we can have in a company to design its incentives, right? It could be very annoying. I'm not saying that you should do it, but you know. The, the zip code lottery, for example, I think is a really, really ugly thing to do. Right. I don't think that it should be done, but it, it works.

Right. So, and that's, by the way side note on this, people often ask me, you know, about incentives that, you know, it could be used for bad things of course. Right? So we can use incentives to sell cigarettes to, to get 10-year-old kids addicted to cigarettes. Or you can use incentives to get people to stop smoking.

Right. So it's a tool. It's not something good or bad in itself. The zip code lottery is, I think, is a bad use in the sense that it gets people something that they don't want

Richard Shotton: and, and then, [00:41:00] and there's kind of different ways of looking as well. So you've got in the regret lottery with the companies. So not, you know, forget Dutch Post got for a while, but even within an organization.

In the short term, a re regret lottery is gonna be very effective because of that regret and that negative emotion. I guess sometimes it might be hard to actually apply it because you worry, people will be so annoyed. I, I've encouraged them to stop parking, but now I've got loads of

Uri Gneezy: Right, right, right, right.

Imagine that they need to take my kids to school in the morning, so I cannot take public transportation. And, and you have this story, I'll be, I'll be upset with you. Why are you discriminating against people with kids? And, you know, you can think about lots of examples like that. So what's your book going to be about?

My turn to ask questions. What's

MichaelAaron Flicker: so we in this podcast we really become attuned to looking at successful companies. [00:42:00] And then revealing the behavioral science that we can observe, revealing the biases they either recognize and and activate against, or things that maybe they didn't even know they were doing.

But we can see has been part of their success. So 17 different companies, all of them. We wrote a chapter each on and we reveal some of the most pre prevailing, prevalent behavioral science biases behind them. And and Richard we've we've, we've been on this hunt. It was it was a discovery of sometimes we think they knew what they were doing, and a lot of times I think we were explaining why some of the things that they were doing really worked.

Uri Gneezy: They were lucky to stumble on something to work, right,

MichaelAaron Flicker: where they had human intuition that got them that answer, even if they didn't have the academic backing of why.

Uri Gneezy: They didn't know to call it, they didn't know that it's [00:43:00] called metal account, but they, they use metal accounting.

MichaelAaron Flicker: Right.

Uri Gneezy: That's great.

Richard Shotton: So what, so for example, one of the studies we talk about is this lovely study from Elliot Aaronson at Harvard 1966 called the Pratfall Effect, where he shows that people or products are more appealing if they exhibit a small floor.

He did that in 1966, but there was an amazing creative director of Navy School, DDB, bill Burback, who in 1959. Came up with the line. Ugly is only skin deep for VW In 1962, by one of his team came up with the line, we are number two. So we, Troy Hoer. And he used to, he, he wasn't just, these weren't random. He said a small admission gains.

A large acceptance said, it's one of those fascinating examples where someone who had never, you know, I had a psychological background or an academic background, he, he'd, he'd observed human behavior. Notice the power of being very open about a problem. And that came like seven years before the, the research showed that this wasn't [00:44:00] just a empty perspective claim.

They were actual dating. Yeah.

Uri Gneezy: Have in mind, you know, Don Draper in madman, you know, coming up this that's my that's great. Actually. It's interesting because successful companies, when I give, I consult, usually the successful companies are the one that benefit more. So if your company's failing. You are already kicking and you know, you're trying to do everything you can in order to make it work.

But if your company works, then you say, okay, everything works. Don't change it. And there are many examples, you know, blockbuster and you know and you know, lots of, lots of others that just didn't. They understand that the fact that it worked now, it's not necessarily going to work forever and you can improve.

Looking forward to reading your success stories.

MichaelAaron Flicker: Thank you very much. So because we have this interest in marketing, can you think of any biggest mistakes you've seen marketers make when it's come to incentives? Is there any [00:45:00] examples or of like where you've felt marketers use incentives but maybe not the right way?

Uri Gneezy: So in many cases marketers give incentives and you talk with the people later and they don't even realize that they got the incentives. Right. So, and there, there are many, many examples of that that's clearly bad. If the p if your customers don't understand that, you give them incentives, that's not the case.

Another example is, and on, that I can give you millions of examples. Think about Singapore and Singapore, they have good public transportation, but it's very crowded. Good train system, but it's very crowded. So they wanted people to come before 7:45 AM but they, they devoted $10 million to make it free before 7 45.

It worked in the sense that 10% more people actually shifted from after to before. Now, is that a success? Yes. But think about it, you give $10 million, you gave [00:46:00] out of the, out of this 90% of it, so $9 million went to people that would've ride the train before 7:45 AM anyway, only a million dollar went to the targeting audience.

That's not what you want to do. It's like. Going to a company and saying, okay, we'll we are going to give you, everyone, we're going to test you. And everyone who doesn't smoke will get a thousand bucks. That's great, but if only 5% of your people are smoking, that's not targeting the right people. Now, the there is some furnace issue for this, right?

So if I, if I take the mon, the, the company's budget and give it to people that behave badly like smoking or don't exercise or overweight, and they, that they want to change. The skinny people, the annoying people don't have bad habits, will be insulted by that, right? Will be, will think that it's unfair.

So you need to find a way to do it in a smart way. But if you want to get people to ride a train earlier, target the people that ride it later. If you want to use smoking cessation incentives, [00:47:00] give it to people that actually smoke and find, find a way to compensate data people such that they will not be upset with you.

MichaelAaron Flicker: That would be at the core of all base marketing knowledge is make sure you're targeting the right audience. And then, and, and, and to your point,

Uri Gneezy: well that's you, you just summarized everything we said, right? All the principles that we know for marketing. For some reason, we gets to incentives. We don't, we don't do it.

Target the right people, use what they want, try to find out what they want, try to see whether it works. So, you know, focus group is one thing, but, you know, do a b testing. All the things that you do with. When you launch your product, do it here as well. Within inside

Richard Shotton: the ad. Because the, the obvious business example where there's that problem that you've got at Singapore is, let's say a company gives away a a $10 discount.

They give it away far too regularly to people who are gonna buy anyway. And I think some of this comes down to poor measurement. It's very easy to see the redemption of the discounts. [00:48:00] What's hard to see is, well, were those people gonna buy anyway?

Uri Gneezy: Or the marginal customer that you got, right. With the, with Singapore, you know, if you are a public policy person, you can say, well, we increase the number of people that ride it by 10%.

We are happy with this. You should be happy. It's not a bad outcome, but think about it. Right? Can you do better?

Richard Shotton: Yeah.

Uri Gneezy: Right. So exactly what you said. You give a discount to people that are actually coming with the discount. You see an increase. But you don't think about people that would've bought it anyway and are not trying, right?

How can I give you incentives to switch from another brand? You know, I'm trying to sell you toilet paper. How do I get you to switch? I don't. Right? And I don't want to annoy my customers early on. Amazon had this very early on, so we talking now, 20 years ago, they would know, they know everything about you, right?

So say that the two of you are buying books, Richard, you go and just buy on Amazon because you. You have course of time, Michael, you [00:49:00] go and search before, right? So price discrimination would mean that Amazon should offer Michael better deals. Problem was that, you know, two students sit in a class and one of them says, I bought it for $20.

The other one said, oh really? I got it for 17. And you know that, that, that's very annoying, right? But that, that was their idea. This kind of price discrimination saying, look, if you're a regular, we don't want to give you discount. We want to. Shop around with people that are not our customers. And there are ways to do it, but it's kind of, you have to be careful.

MichaelAaron Flicker: This was a great conversation, Uri. Really interesting. We covered really important topics for our listeners. Before we, we say thank you, any final thought on maybe your favorite? Application of behavioral science in the world. Something that you just, when you think about it, you say, this is just, I love to, I love to think about [00:50:00] this, or I love to share this, something that you think would be helpful for people as they, as they come to the end of the episode.

Uri Gneezy: So how to incentivize yourself. That's, that's a great thing. Right? So for me, for example, I try to walk a certain amount of steps every day, and I have my eye up for this. And if I don't reach my goal, I will keep walking and I will not walk. If I don't have my phone with me, I mean, no way. I will not waste steps on right.

Example of, you know, gamification. You want to be on the elliptical machine, allow yourself to, to watch Netflix only when you're on the elliptical, right? So think about ways to incentivize yourself. That's, I think, the most fun. Right? And that's a good a very good, way of thinking about incentives.

Well, what would make me actually be better? Right? Because like I said, we all have bad habits. We all prefer to sit on the couch and I don know, drink and eat instead of exercise. Not all, but most of us, many of us, right? How can we get us to go? I [00:51:00] think that your insight basically everything that you do with marketing with the new product, think about incentives the same way.

How do I market this to, how do I make it more attractive? How do I test this? That's. If that's the takeaway, I think that's a good takeaway.

MichaelAaron Flicker: Thank you very much for being with us today. For everyone who's listening we will take the examples and the studies that Uri mentioned, put them in the show notes.

You can find the show notes and the transcript of today's conversation at the consumer behavior lab.com, and you can stream this podcast anywhere where you listen to podcasts. Until next time, I'm MichaelAaron Flicker.

Richard Shotton: And I'm Richard Shotton.

MichaelAaron Flicker: Thank you, Uri, for being with us today. Such a pleasure.

Uri Gneezy: Thank you. It was a lot of fun. Really enjoyed it.