b2b behavioral **incentivization 1.0**

If You're Not Incentivizing Behaviors, You're Missing The Boat

fielo

imagine this **scenario**

You have two cars that you are interested in, a fast car and a safe car. The manufacturer of the second car, the safer option, offers you rebate points to apply towards the purchase of its car if you watch car-crash safety videos. Your behavior (watching car-crash videos - i.e. learning), induced by the second manufacturer's incentive, not only instills in you a sense that safety is more important than speed, but it also has given you more financial incentive to buy with the rebate points you already earned. That has tipped the scale and you choose the safe car.

This is a form of behavioral incentivization and it happens to us every day without us noticing.

what is behavioral incentivization **and where did it come from?**

It really all started back in the late 18th century when Adam Smith, an economist, came up with some very forward thinking views on economics and what drives capitalism. In a nutshell, he concluded that individuals and businesses act out of self-interest and, in doing so, actually produce the best outcome for everyone. His concepts became widely accepted and would become what is known today as, classical economics (CE).

As time passed and economic theory matured, different areas of expertise started to form, one of which is behavioral economics (BE). The main difference between BE and CE is that it applies psychological insights into human behavior to explain economic decision-making. Generally speaking, psychological, cognitive, emotional, cultural and social factors would all be factors that could greatly change a decision compared to what CE would conclude. In fact, some suggest that economic decisions are made based on 70% emotional and 30% rational. In general, most people make decisions based on one of three themes:

Marketing inefficiencies
These are situations that could be advantageous and could be based on mis-pricing or non-rational decision making.

Framing
Anecdotes and stereotypes become mental filters that individuals use to understand and respond to situations.

Heuristics
These are mental shortcuts that make 95% of our decisions. The term `rule of thumb´ is one example of this.

Now, to take it a step further, behavioral incentivization (BI) is an application of behavioral economics. BI proposes that people can be influenced or pulled toward certain actions or behaviors that are tied to a positive consequence or outcome and are pushed away from other behaviors that may have a negative consequence or outcome. The key to BI is identify the right behaviors.(i.e., behaviors that contribute to business goals).

how behavioral incentivization can **help**

Since research has shown that people's decisions aren't always based on facts or rationale, it can be challenging to have individuals or businesses align with your goal. BI can help influence people to make favorable decisions based on business goals, whether that is to boost performance, choose one product over another, or help increase sales.

Businesses that integrate behavioral incentivization into their B2B and B2C channels can realize significant financial returns, not only with their customers but with their employees as well. In fact, Gallup, an analytics company, studied a group of 10 companies that used behavioral economics principles and showed they outperformed their peers by 85% in sales growth and more than 25% in gross margin during a one-year period. The key to unlocking this financial performance is for leaders within a company to accept and work with human nature rather than against it. They must throw away outdated views of human nature and recognize that human rational isn't as clear cut as classical economic theory once thought.

It is important to mention that not all incentives are equal and each person or business may look at the same reward differently. Furthermore, what motivates one person may not motivate another. In the example at the beginning, maybe offering a points system for car servicing and maintenance would be more interesting to some. Physiological, social and cognitive factors can help influence incentives and motivation.

what's the **bottom line?**

Behavioral economics plays a large role in understanding why people and companies make the investment decisions they make. More importantly, incentivising certain behaviors - using a flexible and scalable incentive automation platform like Fielo - can have a huge impact on business performance and profitability. Leaders that embrace BE principles and structure their programs to incentivize and reward guided behavior and performance will have an edge on their competition and that will show on the bottom line.