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Peer Pressure and Other Pitches

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(See Corrections & Amplifications below.)

More businesses are using behavioral economics to appeal to customers, seeking to capitalize on the notion that people don't always act in their economic self-interest.

Behavioral economics is popular among academics, particularly since two of its early theorists won the 2002 Nobel Prize in economics. Now businesses are applying the concepts in new ways.

Since April 2008, the Sacramento Municipal Utility District has told 35,000 customers in their monthly bills how their energy use compares with neighbors', and with the district's most-efficient customers. Customers who received the additional information cut their energy use by 2%, compared with a similar group of users who didn't get comparison data.

Last month, the district expanded the test to cover 50,000 households. Ali Crawford, a district project manager, says officials want to see if the comparison approach reduces energy use more than direct appeals to consumers' wallets, such as offering rebates on the purchase of energy-efficient appliances.

The preliminary findings support research by Robert Cialdini, an emeritus professor of psychology and marketing at Arizona State University, showing that people are more likely to reduce energy use to keep up with peers than to save money. Mr. Cialdini approached the district with the idea on behalf of Positive Energy, a start-up where he is chief scientist.

"Taking a behavioral approach completely changes the way you view the consumer," says Richard Thaler, a behavioral science and economics professor at the University of Chicago's Booth School of Business.

Economists typically "assume that the consumer sorts through all the possible options and picks the one that is best for them," Mr. Thaler says. "That ignores the complexity of sorting through all of those options."

Behavioral economics isn't completely new to business. Marketers have long tried to appeal to non-economic motivations, such as class status or prestige. But Dan Ariely, professor of behavioral economics at Duke University, says businesses now approach the subject more rigorously, and use behavioral experiments to influence product designs, among other things.

Vitality Inc., a Cambridge, Mass., start-up, wants to apply behavioral economics to prompt people to take prescriptions. Vitality's GlowCaps use lights and sounds as reminders. The caps also contain a radio transmitter that sends email to doctors, relatives and others about how often the cap is opened.

Mr. Ariely says people are more likely to take medicines as prescribed if they believe others are watching -- an idea not addressed in typical economic theory. "Why should you care about what other people do? It's irrelevant," to a classical economist, Mr. Ariely says. But not to a behavioral economist.

Vitality President Josh Wachman hopes to market the GlowCaps to drug makers, pharmacies, insurers and patients, arguing they will improve compliance and save money by preventing more costly health problems.

Pharmacy-benefits manager Express Scripts Inc. tried to overcome behavioral issues to boost enrollment in home-delivery services. Last November, Express Scripts contacted 63,000 Lowe's Cos. employees and dependents with continuing prescriptions, asking them to accept or decline home delivery and offering to complete required paperwork and contact physicians. Use of home delivery has since risen to almost 40% of eligible workers, up from about 14% last year.

Bob Nease, chief scientist at Express Scripts, says the initiative sought to overcome enrollment barriers for users who recognized that they could save money on co-pays by ordering fewer, but larger, batches of drugs. "You see these things as being trivial transition costs, but psychologically they loom really large," Mr. Nease says.

Consulting firm Diamond Management & Technology Consultants Inc. created a practice for behavioral economics four years ago to help clients cut costs and gain competitive advantages, says Paul Blase, who heads the group.

He worked with an auto insurer that was struggling to sell extra services, such as roadside assistance. Mr. Blase suggested the company offer policy holders one free extra. Of those who accepted, 64% purchased one or more additional extras, he says.

Mr. Blase says he sought to take advantage of consumers' tendency to over-value things that are free. Too often, he says, businesses only target the empirical, left side of the consumer brain, while the quirkier right side is just as influential in decision-making.

Mr. Ariely, the Duke professor, agrees that "free" is an important element of behavioral economics. In his book, "Predictably Irrational," Mr. Ariely says Amazon.com Inc. boosted sales by offering free shipping for orders over $25, as some consumers bought more items to qualify for the free shipping.

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Corrections & Amplifications
Diamond Management & Technology Consultants Inc. maintains a consulting practice in behavioral economics. A previous version of this column incorrectly called the company Diamond Perspectives.

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