MARKETING SCIENCE INSTITUTE

MSI Webinar: Using Choice Architecture to Design Better Decisions

July 11, 2023 | Virtual | 12:00 pm – 12:30 pm EDT

Speaker:

Eric Johnson - *Director of the Center for Decision Sciences, Columbia Business School, Columbia University.*
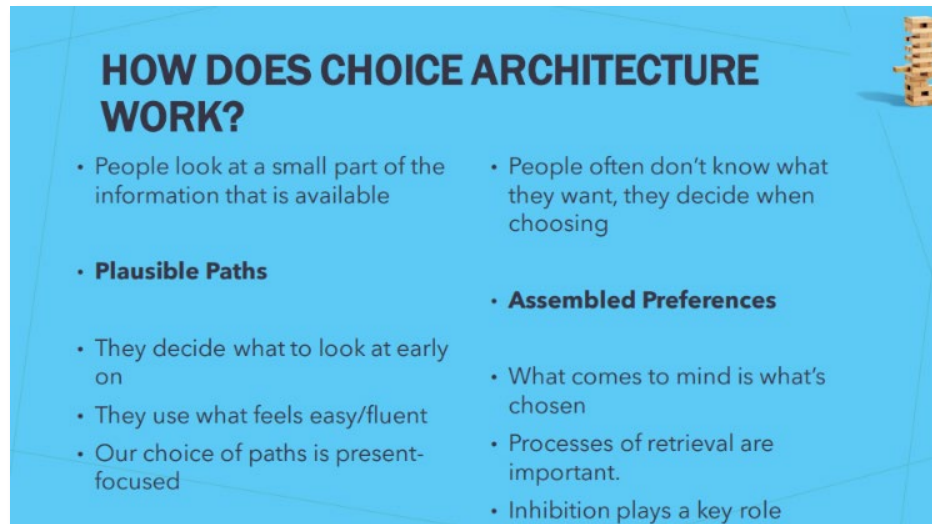
Overview:

Eric Johnson (Columbia University) explored choice architecture, how it can affect and influence people, and considerations when planning scenarios where choice plays a role. Referencing his book, *The Elements of Choice: Why the Way We Decide Matters,* Johnson demonstrated some of the foundations that make choice architecture such an influential tool to leverage. Beginning his presentation, he pointed to the illusion of choice and noted that "every choice you make, you have a hidden partner. Somebody you don't know influencing you." He exemplified environments where choice architecture comes into play through a variety of interfaces such as a plane cockpit, online dating sites, search engine defaults on an iPhone, electronic health records defaults for generic medications and electronic payment interfaces in taxi cabs. Johnson argued that all choice architecture works by changing plausible paths through ease of choice and assembling preferences to influence and guide decisions. Additionally, he noted that "defaults are the poster child of choice architecture" and work best when both channels are used in conjunction (plausible paths and assembled preferences).

Takeaways:

Defaults

- Defaults in choice architecture like the one shown on the iPhone Safari search engine, which defaults to Google, have huge economic consequences.

- Researchers found a way to boost the doctors' choice of generic medications in electronic health records from 46% to 90% by making the default the generic version, even when typing the name-brand version of the drug.

HOW DOES CHOICE ARCHITECTURE WORK?

- People look at a small part of the information that is available

- **Plausible Paths**

- They decide what to look at early on
- They use what feels easy/fluent
- Our choice of paths is present-focused

- People often don't know what they want, they decide when choosing

- **Assembled Preferences**

- What comes to mind is what's chosen
- Processes of retrieval are important.
- Inhibition plays a key role
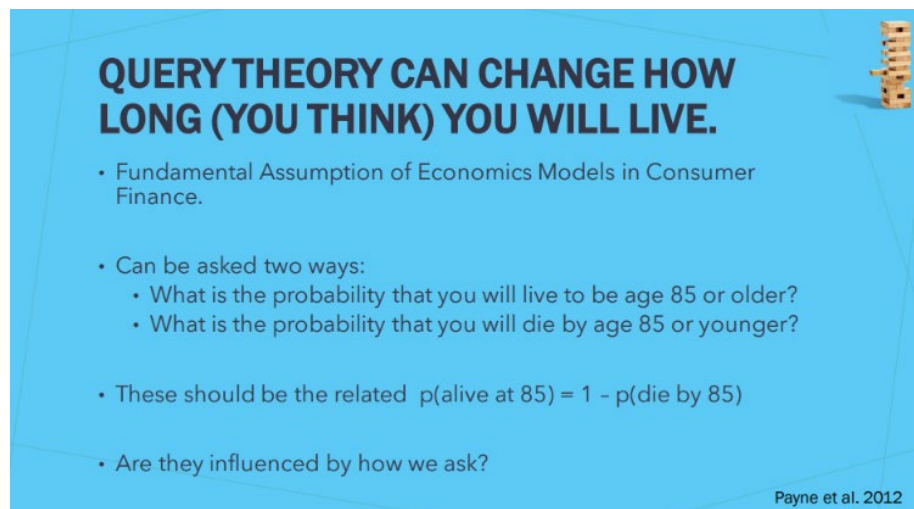
Goals for Choice Architecture

- **The goal for choice architecture** should be based on the following:

  o Does it give the user what they need? Does it give them the information in a way that is intuitive, unambiguous and easy to understand? **If choice architecture does not conform to these standards it is just clutter.**

Plausible Paths

- In terms of **plausible paths,** what is easy to do is what users pay attention to. This can be exemplified in tipping behavior using electronic displays in taxi cabs to **influence tip amounts.**

Assembled Preferences

- Choice architecture changes what we retrieve by the way preferences are assembled. "**By changing how we label attributes we change what comes to mind** (and what is chosen)."

QUERY THEORY CAN CHANGE HOW LONG (YOU THINK) YOU WILL LIVE.

- Fundamental Assumption of Economics Models in Consumer Finance.

- Can be asked two ways:
  - What is the probability that you will live to be age 85 or older?
  - What is the probability that you will die by age 85 or younger?

- These should be the related p(alive at 85) = 1 – p(die by 85)

- Are they influenced by how we ask?

Payne et al. 2012

Defaults

- **"Defaults are the poster child of choice architecture."**
  - o Defaults work through multiple mechanisms such as plausible paths (It is easy to choose the default) and endowment or assembled preferences (Users think more about the endowment that is the default). Defaults function best when all channels are used.

Sources:

The Elements of Choice: Why the Way We Decide Matters.
Source: Johnson, E. J. (2022). *Riverhead Books*.

Beyond nudges: Tools of a Choice Architecture.
Source: Johnson, E. J., Shu, S. B., Dellaert, B. G. C., Fox, C., Goldstein, D. G., Häubl, G., Larrick, R. P., Payne, J. W., Peters, E., Schkade, D., Wansink, B., & Weber, E. U. (2012). *Marketing Letters, 23*(2), 487–504.