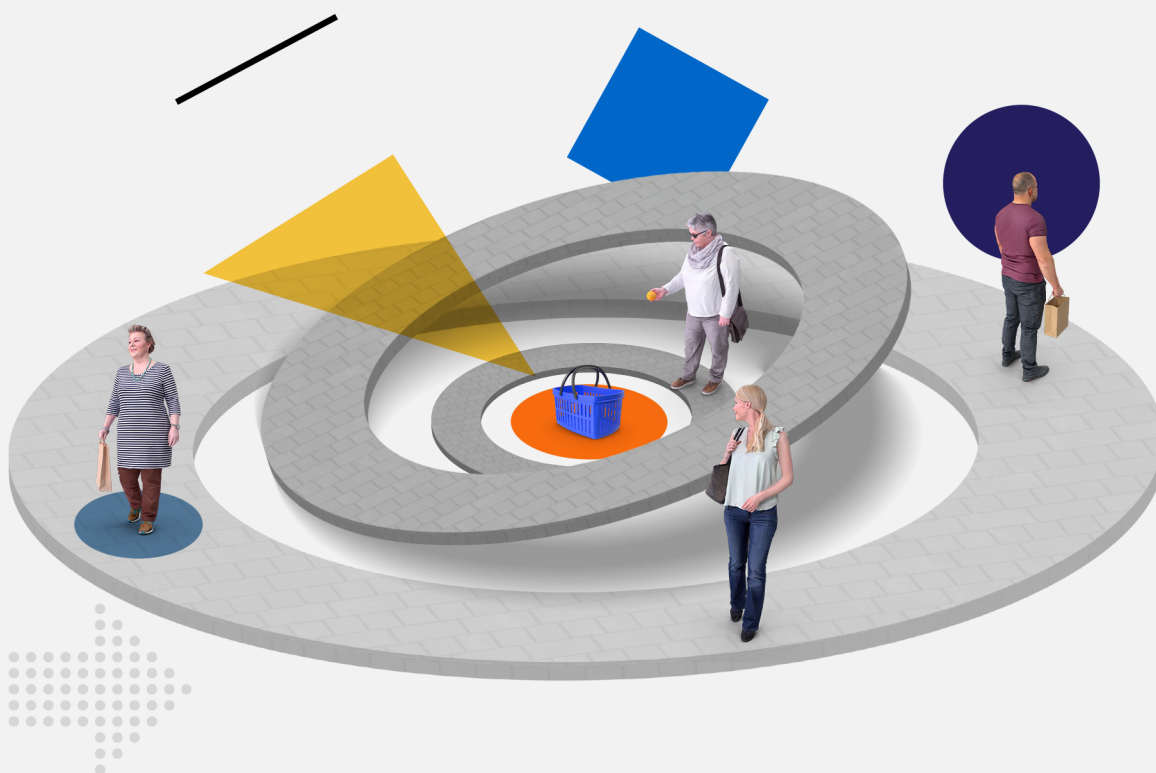




**BE**works

# Customer Acquisition & Retention:

Using **Behavioral** Science  
to Close the Gap





## What's the deal with customer acquisition and retention?

Customer acquisition and retention are ongoing challenges and, indeed, form the KPI bedrock for companies across all industries. Whether marketing a new product or service or an existing one, questions about how to get more customers and keep the ones we already have are always relevant.

The specific challenge statement may vary depending on the customer base and the service or product—whether it is a new patient treatment or a customer digital platform—but at the core, it's all about creating and maintaining market demand (i.e., adoption and sustained usage) for the thing we are offering to the world.

## This is an age-old problem with existing solutions – but those solutions don't always work as expected

Solutions for customer acquisition and retention are not new, and arguably have existed since the concept of “business” was first invented.

To uncover the exact problem or market need, businesses rely on various methods to understand what customers want. If we asked a customer, what would they say they want or need? Answers can come through focus groups, surveys, or other market research methodologies.

Then, solutions are typically matched to customers' responses. This can include providing information, persuasive messaging, incentives, loyalty programs, and other tactics embedded across the “7Ps” (promotion, people, produce, process, place, price, physical evidence).<sup>1</sup>

There is no doubt that these solutions work. After all, many businesses are thriving and continue to grow. But on occasion, clients reach out to us with a head-scratching problem: “*These solutions have worked for us in the past (or we expected them to work), but they aren't now. Why is that?*”

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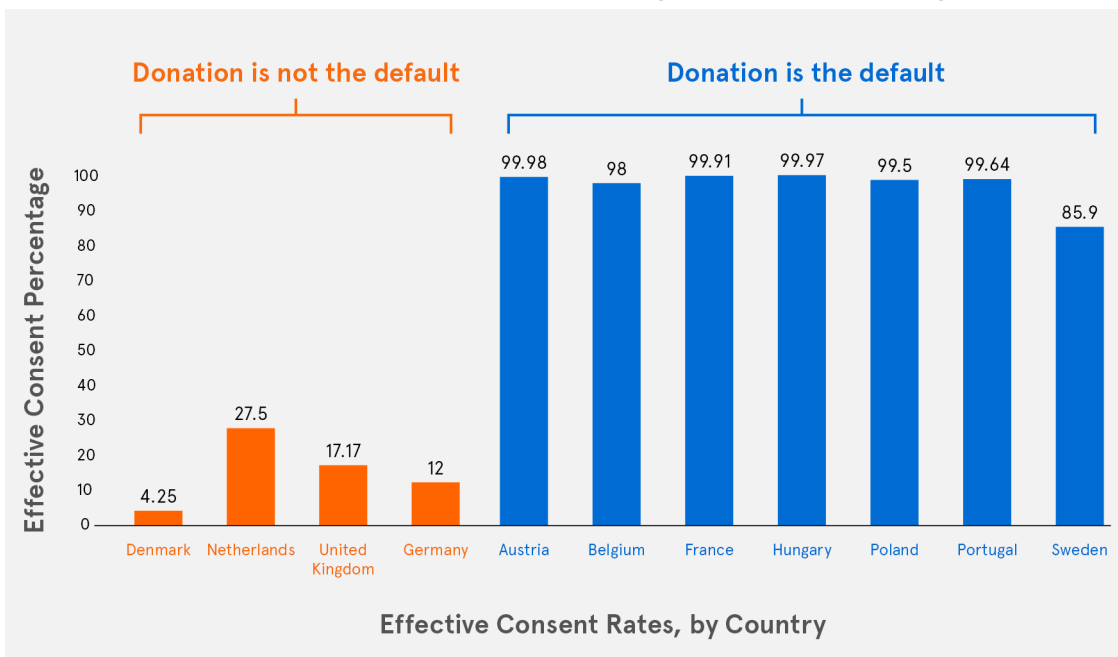
<sup>1</sup> Rafiq, M. & Ahmed. P.K. (1995). Using the 7Ps as a generic marketing mix: An exploratory survey of UK and European marketing academics. *Marketing Intelligence & Planning*, 13(9), 4–15.

## What's missing?

Why don't the so-called "traditional approaches" work 100% of the time? What is the gap, and how can we close it?

From our standpoint as behavioral scientists, the reason is that there is a difference between what people *say* versus what people *do* (known as the 'say-do gap').<sup>2</sup> Moreover, people are good at telling us what they *think* they need, but that doesn't always match what they *actually* need or want when they are outside a research setting.<sup>3</sup>

A classic example of this is organ donation. When asked, a majority of people will say that they are supportive and willing to donate their organs.<sup>4</sup> But depending on which country they live in, their propensity to have signed up for organ donation can be either very high or very low (see graph below).<sup>5</sup> The reason for this mismatch? Despite what people say they want to do (i.e., donate their organs), they often simply choose the easy path: If organ donation is the default option, then most people will be signed up to donate their organs (orange bars in graph). Alternatively, if organ donation is *not* the default option, then most people will *not* be signed up (blue bars in graph).



If we were to ask people afterward why they chose to sign up or not, they might tell us a whole host of reasons (for example, they procrastinated, they forgot, they were too busy, they don't care, they don't trust doctors, they have concerns about an organ black market, etc.<sup>6</sup>). Yet many of these explanations would not touch upon the true root cause of their behavior: they were nudged by defaults.

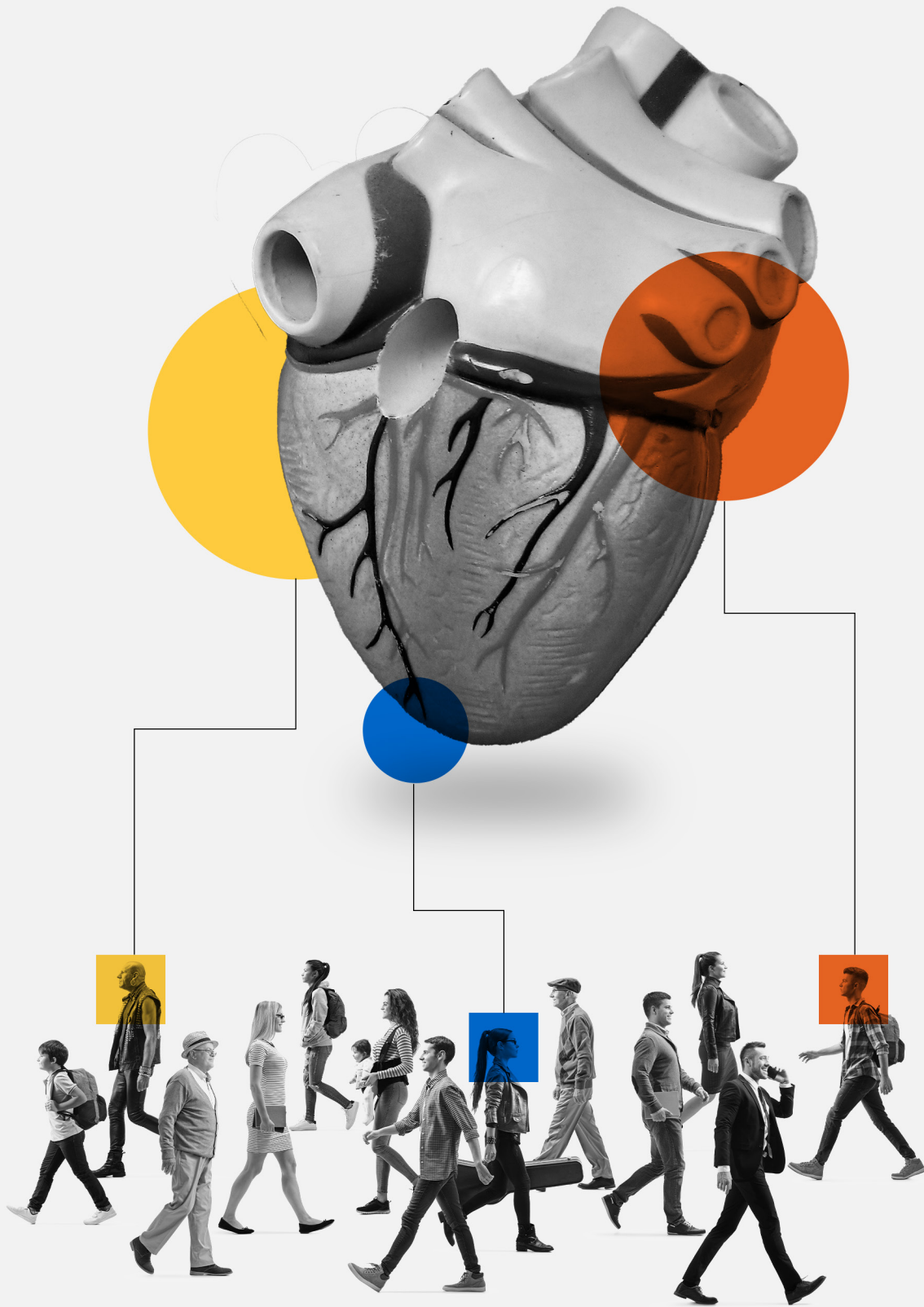
<sup>2</sup> Sheeran, P. & Webb, T. L. (2016). The intention-behavior gap. *Social and Personality Psychology Compass*, 10(9), 503–518.

<sup>3</sup> Palmer, M. (2021). *What Your Customer Wants and Can't Tell You: Unlocking Consumer Decisions with the Science of Behavioral Economics*. Mango Media Inc.

<sup>4</sup> Ipsos Survey. (2006). <https://www.ipsos.com/sites/default/files/publication/2006-07/mr060711-1.pdf>

<sup>5</sup> Johnson, E. J., & Goldstein, D. (2003). Medicine. Do defaults save lives? *Science*, 302(5649), 1338–1339.

<sup>6</sup> Morgan, S. E., Harrison, T. R., Afifi, W. A., Long, S. D., & Stephenson, M. T. (2008). In their own words: the reasons why people will (not) sign an organ donor card. *Health communication*, 23(1), 23–33.





## Behavioral science helps to close the gap

Behavioral science goes a layer deeper than what people say and illuminates the hidden drivers of customer behavior. It provides a sharper lens into why a customer might not want to purchase or adopt a product, or why a customer might want to leave one company for a competitor. Critically, identifying these psychological root causes allows us to pinpoint an appropriate solution to the problem.

Here are the 3 main steps in a behavioral approach to help close the gap on customer acquisition & retention:

- 1) Break down exactly what we mean by customer “acquisition” or “retention”: What are the specific set of behaviors that we want to change or create? (E.g., sign up for email updates on our product launch, followed by purchase of a starter kit, etc.)
  - a) Identify the root cause of the actual or expected problem: What are some unexpected barriers that get in the way? (E.g., customers do not see immediate value for the product because they are present-biased and do not care about something that benefits them 10–20 years down the road.)
  - b) Find the solution: What are interventions that could overcome these barriers? Sometimes the solution is not the most obvious one (see example below).

Using a behavioral approach allows us to generate out-of-the-box interventions that produce significant impact. For instance, a study conducted in 2016 by Dan Ariely and his colleagues looked at how to help workers in Kenya save money through a pension program.<sup>7</sup> The crux of the problem was that people were impulsive in their spending

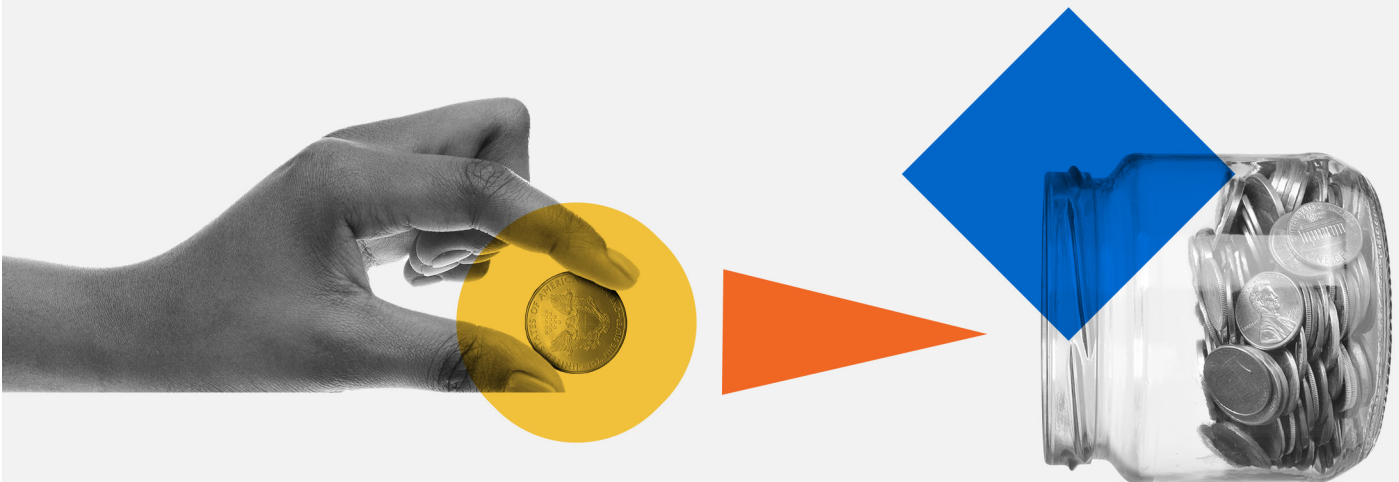
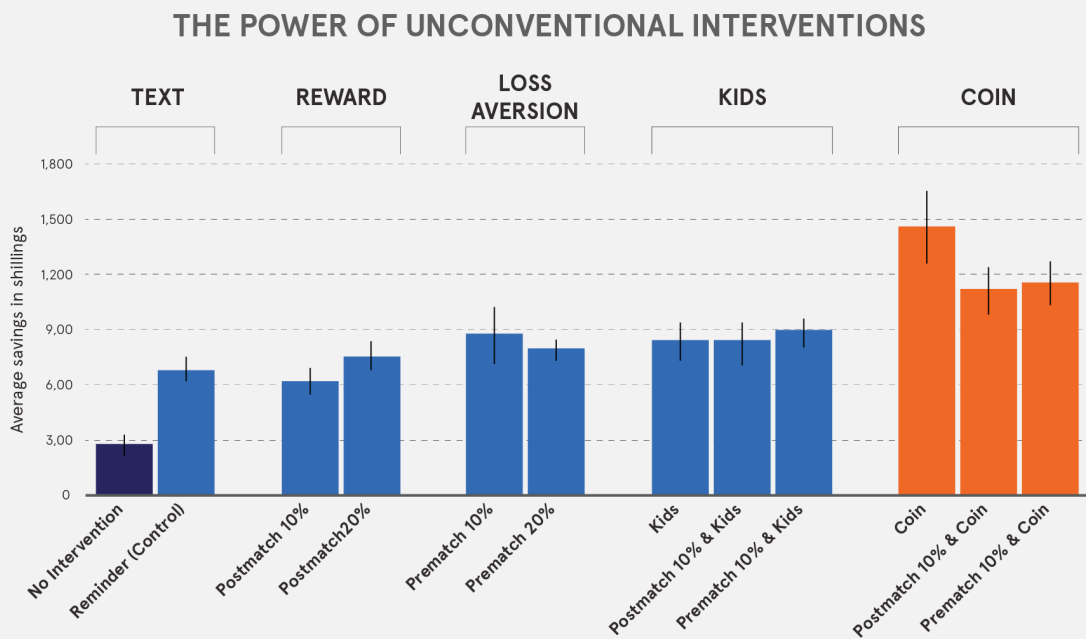



<sup>7</sup>Akbas, M., Ariely, D., Robalino, D. A., & Weber, M. (2016). How to help poor informal workers to save a bit: Evidence from a field experiment in Kenya. *IZA Discussion Papers, 10024*. IZA Institute of Labor Economics. <https://www.iza.org/publications/dp/10024/how-to-help-poor-informal-workers-to-save-a-bit-evidence-from-a-field-experiment-in-kenya>

Many of these are typical interventions (for instance, reminding people and providing incentives to motivate people to save).

One intervention, however, was particularly interesting: the gold coin. This was a physical metal coin that users could scratch to track whether they saved money each week. This coin aimed to create a tangible and appealing representation of saving behavior, and therefore create a sense of accomplishment among savers, boosting their motivation.

In the end, the gold coin was the winning intervention (see graph below). All traditional





interventions worked to some extent, but what's interesting here is that the gold coin conferred an *additional* advantage. Gold-coin savings were almost double some of the other traditional interventions and almost 5 times more effective than no intervention at all.

## Behavioral science in action: Case studies

Here are some other examples of the behavioral science approach as demonstrated through our work.

### On customer acquisition: Increasing subscribers for a streaming service

#### We broke down what our client meant by customer "acquisition":

We worked with a major streaming service to improve their subscription rates, focusing on mobile channels because this is where a majority of customers sign up.

#### We identified the root cause of the problem:

We first mapped out the psychological barriers that customers face when signing up for a streaming subscription. By auditing the sign-up experience, we discovered that customers face a whole host of barriers, some of which included:

- 1) Low saliency (of content): *"I don't know what I'm getting."*
- 2) Choice overload (of plans and options): *"There are too many options, I don't know what is best."*
- 3) Choice paralysis: *"Do I really need another service? Maybe I'll just stick with what I have."*

Overall, these barriers are compounded by the fact that we have very little time to communicate with customers. When looking for a subscription service, most people will decide based on the homepage. And most people don't scroll.

#### We found (and tested!) the solution:

The solution, then, is not to jam as much information as possible onto each screen. The solution is to figure out what people need to feel confident in their choice. Much of this involves providing people with the right information at the right time and keeping in mind that *less is more*. Critically, the solution needs to answer a key customer need: *"Will I find something I want to watch?"*

That is the core question the homepage of a streaming service needs to answer. We therefore designed 6 new homepages that involved different sets of interventions and tested them with over 3,000 customers in a randomized controlled experiment. Consistent with our hypothesis, we found that winning homepages were ones that (1) showed examples of



program content available at this streaming service, and (2) highlighted the value of the service by emphasizing 3 primary features of the streaming service. Interestingly, other homepages we tested that used popular interventions such as social proof, reciprocity, and personalization did not perform any better than the control (current state homepage)

## **On customer retention: Prompting customers to reuse inactive savings accounts**

### **We broke down what our client meant by customer “retention”:**

We worked with one of North America’s most prominent banks to figure out how to get customers who have inactive savings accounts to start using them again.

### **We identified the root cause of the problem:**

Our analysis uncovered that customers stopped using their savings accounts for a variety of reasons. Some reasons were trust related: 60% of savings accounts were created as part of a bundle deal, and customers felt skeptical about why they were given an account that they didn’t ask for. Other reasons revolved around perceived value: customers were unclear about what the savings accounts had to offer, and at the same time, they were aware of other, better rates from other banks.

To overcome these barriers, we created interventions that helped foster feelings of trust, satisfaction, and perceived value, which are known key levers in increasing people’s feelings of loyalty to a company.<sup>8</sup>

### **We found (and tested!) the solution:**

Our interventions were created in the form of email communications, for ease of in-field testing and data collection. Over 2,500 customers were randomly assigned to one of 11 email conditions and answered questions relating to the particular email they saw (which included a battery of loyalty questions). Going into the test, all of the interventions felt equally promising. But, ultimately, the experiment revealed which ones performed best, which ones did not, and why.

Of the 11 email conditions tested, two sets of conditions are particularly noteworthy. First, the “Loss Aversion” emails allowed customers to “warm up” their inactive savings account by receiving a one-time lump sum gift of \$15 or \$25 (if they did not take advantage of this offer, they lost the gift.) Second, the “Savings Challenge” emails asked customers to build a savings habit by participating in a 30- or 60-day savings challenge that involved setting a weekly savings goal, tracking their progress against other Canadians, and getting the chance to win prizes.

Our data showed that the Loss Aversion email condition outperformed all other email conditions. The loss-framed incentives created the highest willingness to save and feelings of loyalty (e.g., trust and satisfaction). And similar to the streaming service case study above, we saw unexpected results with the other conditions. Namely, although the Savings Challenge email conditions performed well in increasing people’s willingness to save, people had difficulty understanding the Savings Challenge (it was too complicated). Not only that, but the Savings Challenge emails did not outperform the other emails in creating feelings of loyalty. Lastly, any conditions based on small formatting tweaks (e.g., moving the call to action) were not sufficient to change people’s willingness to save or feelings of loyalty. Larger-scale interventions such as loss-framed incentives were necessary to create change.

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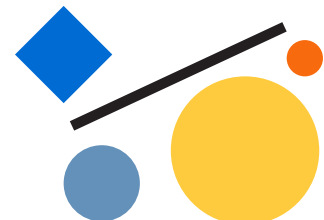
<sup>8</sup> BEworks Loyalty Model, which draws on scientific research including, but not limited to, the investment model of relationships and models for loyalty, trust, and brand attachment. See Rusbult, C. E., Martz, J. M., & Agnew, C. R. (1998); Li, X., & Petrick, J. F. (2008); Aurier, P., & N’Goala, G. (2010); Balaji, M. S. (2015); and Whan Park, C., MacInnis, D. J., Priester, J., Eisingerich, A. B., & Iacobucci, D. (2010).

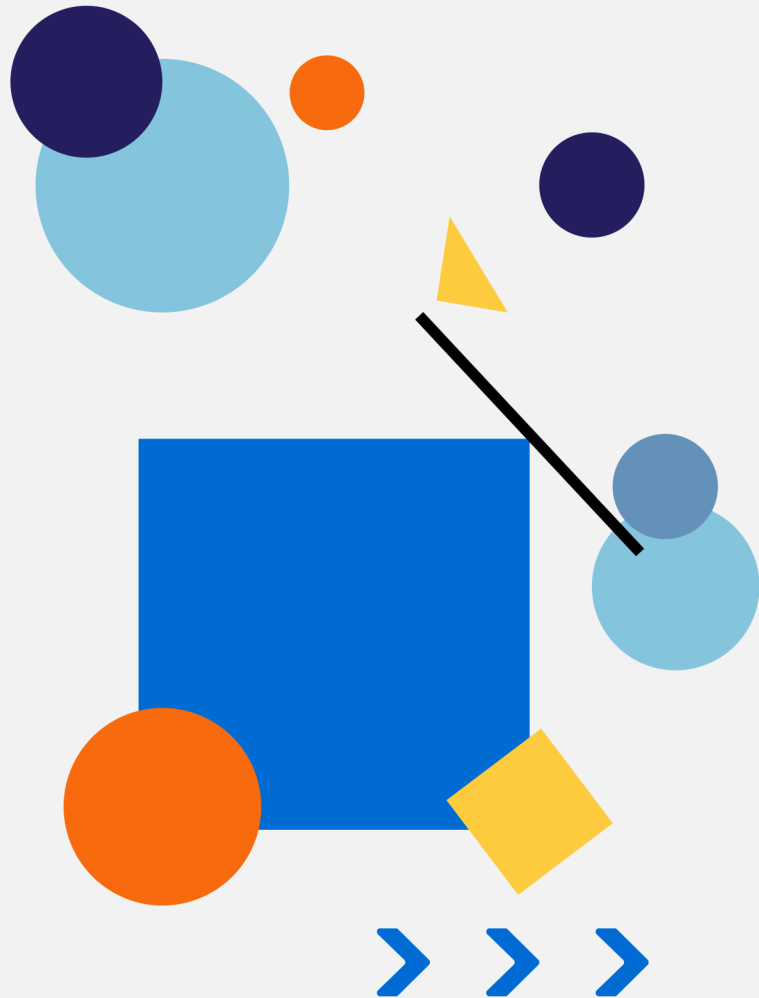


## *Getting started* using a behavioral approach

To help you add the behavioral approach to your customer acquisition and retention strategies, here are a few questions that can get you started:

- 1) What is your challenge?
- 2) Is it a customer acquisition or retention challenge? Or both?
- 3) Is this for an existing or new product/service?
- 4) How big is the problem? Is this a problem that you are trying to solve for, or is this a problem that you are anticipating?
- 5) Who is the target customer? What is the behavior you want to change in the target population?
  - a) What methods were used?
  - b) What did you find?
  - c) Were there any gaps in insights with this prior research?
  - 4) What are some outstanding questions you have?
- 5) What hypotheses do you have about the psychological needs of the target customer? Why are they not engaging in the behavior you are hoping for?
- 6) What interventions have you already tried to solve the problem? What worked, what did not? Why?





**BE**works

For more information:

T: 416-920-1921

E: [info@BEworks.com](mailto:info@BEworks.com)

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