
PROLOGUE

Of all the books you could be reading right now, you chose this one. Why did you choose to read this book instead of one of the other books out there? We'd all like to believe that we're reading the book we're currently reading because its content is interesting; after all, you specifically selected this book because it best suits your current wants and needs, and it was the best quality–price trade-off you could find.

Similar reasoning applies to all the other product purchases we've ever made: my current shoes are fantastic value for money, and my car is the best I could afford. But when I think about my T-shirt, I have a minor problem: I'm currently writing this introduction as I sit on the couch wearing a Vans T-shirt, and I cannot help but notice that this particular T-shirt (dark blue with white letters that say 'VANS'), purchased for \$25 in an outlet near San Jose, is probably not the absolute best value for money. Don't get me wrong: I love this shirt, and I love the brand. But I'm convinced that it should be possible to find the same quality dark blue T-shirt with a number of meaningless white letters for a lower price. These observations sometimes make me doubt my own choices: Why did I end up paying \$25, instead of a possible \$7, for a fairly plain T-shirt?

WHO AM I?

Before we delve into the product choices I've made, it's only fair to introduce myself briefly. For more than 10 years, I've been study-

ing consumer decision making. Consumer: that's you every time you buy something. My academic research focuses on the reasons for specific purchases, and I have meticulously studied the motivations behind seemingly trivial economic choices. In this book, I focus primarily on the choices made by people who are not clearly driven by the price–quality trade-off. Basically, I'm interested in why I bought the VANS T-shirt. However, in recent years, I've become convinced that motivations that go beyond price and quality affect *all* purchases and many other aspects of human behavior. Hence, I've conducted research on a variety of economic and lifestyle decisions from a psychological perspective.

At the start of my academic career, I studied economic psychology: the psychology behind economic decisions. I focused primarily on fads, and I wondered why some products that are virtually useless are suddenly purchased by almost everyone. Perhaps you remember the Tamagotchi...

After studying fads, I started studying online consumer behavior. Initially, I studied usability, simply put: Where should the 'buy now' product be located so that people can find it easily? And for the last five years, I've examined the use of psychological sales techniques in e-commerce.* Through research at the Technical University of Eindhoven (the Netherlands), as well as at Stanford University (USA) and the Aalto School of Economics (Finland), I've tried to understand, and ultimately predict, why people do or do not buy certain products. I have primarily studied online purchases because in online commerce, we can directly measure people's behavior. Using current technologies, we can monitor consumers continuously and this allows us to structurally study their behavior. Our recent ability to track people's online activities provides a surprisingly useful research tool for studying consumers' decision-making behavior. The Internet, and specifically

* My own research is not limited to the use of sales techniques in e-commerce. I have been studying more broadly how people can be influenced (or persuaded) by interactive systems. However, this book focuses primarily on e-commerce not because this is the only interesting human behavior but because the infrastructure of e-commerce makes studying people's behavior extremely easy.

online commerce, can be regarded as a telescope or microscope – whichever you feel is more influential in physics – through which human behavior can be studied.

Based on my own research, and that of many others,^{*} it's easy to conclude that consumer behavior is not driven solely by the price–quality trade-off. You might have bought this book just because a colleague recommended it; or perhaps you bought it because it's is a bestseller, indicating that many other people have already bought it. But, then again, perhaps none of these applied: You might have just bought the book because it was on a very special one-day sale. This last argument is probably why I bought my VANS T-shirt.

We like to believe that these 'extra' bits of information (the product is a 'bestseller,' 'special offer,' or 'popular with friends,' etc.) contribute to our informed rational choice. The fact that a product is a bestseller is a sign of quality (why else would so many have bought the product before?), and special discounts change the price–quality trade-off: As the price goes down and the quality remains the same, we're clearly winning.

However, recent psychological research shows that if one randomly adds this kind of information to products, the effects remain the same. If we pitch a book to consumers, asking them how much they are willing to pay for it, and we subsequently pitch the exact same book to another group of similar customers, stating that it is 'almost out of stock,' we find that people in the latter group are willing to pay a higher price.** And, surprisingly, the message does not even have to be true! It seems that we automatically respond to the extra bits of information surrounding the product without necessarily contemplating their effects on the price–quality trade-off.

In this book, I will refer to these 'extra' bits of information, in

* For a good introduction, see Cialdini, 2001. Also of interest are the articles by Gretzel and Fesenmaier, 2006 and Eisend, 2008. However, this is only the tip of the iceberg with regard to the social psychological research that shows that our behavior is driven by more than a rational price–quality trade-off.

** An example of this effect can be found in Verhallen and Robben, 1994. I will further detail this study in one of the later chapters.

line with other researchers who have studied purchasing behavior,* as ‘persuasion principles’. Some researchers, managers, and marketers have different names for these bits of information; they call them influence principles, sales strategies, persuasive messages, or sales tactics. However, in all cases, we are considering these ‘extra’ information. Persuasion principles refer to information about a product or service that is not a direct property of the product or service itself. If a product is ‘almost out of stock,’ which could be caused by poor stock planning on the part of the seller and might have nothing to do with the product itself, this fact still influences our willingness to buy it.

Persuasion principles are not new; they have been studied and used for hundreds of years by good sellers, debaters, and other professional influencers. What is new is the structural use of these principles in online communication to influence and persuade customers while they browse the Internet. This book will detail how this is done.

SELLING ABOUT 20 YEARS AGO

Not so long ago – about twenty years or so – we would go to a physical store every time we wanted to buy something, a few nutty mail-order consumers excluded. After finding and entering the store, it wouldn’t be very long before we bumped into the seller – an influencer by nature. We would start talking, and within minutes, the first persuasion principles would enter the conversation. For example, we would be alerted to the fact that our neighbors owned the exact same vacuum cleaner that we were examining and had never experienced any problems. A few minutes later, we would walk out as the happy new owners of a shiny vacuum cleaner, only to find out later that the neighbors didn’t even own a vacuum cleaner.

This seller, a great influencer, would be able to persuade a small number of customers per day to make this purchase; they would likely be pretty costly for the consumer electronic store to employ;

* For an example of this, see Cialdini and Trost, 1998 and Fogg, 2002. Many more examples exist, but these provide useful introductions.

and not all the customers would appreciate the little sales talk.

Luckily, we have recently entered an era of online shopping. We no longer need to leave the comfort of our homes, we do not need to get wet when it's pouring, and we do not have to talk to sellers. Likewise, the consumer electronics company does not need to employ sellers and can now sell to more people at once. Just to illustrate: A shopkeeper in South Dakota would previously have served his whole town, about 50 families. Today, using the Internet, the same shopkeeper can sell to virtually anyone. We can't deny that selling has changed.

At first, this change sounds good, efficient, and enjoyable for both the customer and the seller. It also sounds almost too good to be true and, in all honesty, is not true. While we currently do sell online, we are actually very bad at selling online. In physical stores, conversion rates – the percentage of customers who enter the store and end up buying something – ranged from almost 100 percent (the supermarket) to about 12 percent (the electronics store). However, the average online merchant would be delighted with a conversion rate of about 5 percent. On average, current online conversion rate runs between 0.5(!) and 2.5 percent.* So while we reach more people, thanks to the advent of e-commerce, we seem to be losing our ability to sell them something. Apparently, we are getting worse at convincing individual customers to make purchases.

WHO SHOULD READ THIS BOOK?

This book describes the things we forgot in our fairly rapid transition from offline to online sales. The book highlights one of the reasons why online conversion rates are surprisingly low compared to offline ones. It also looks at how recent scientific studies, those examining the use of persuasion in particular, can directly contribute to an increase in online conversion if those studies are applied well. This book, at its core, shows how we went from a large

* Note that estimated conversion rates differ tremendously between branches, studies, and countries. However, the main point is almost always replicated: Offline conversion is much higher than online conversion.

impact with small reach – the seller was a good influencer but could affect only a limited number of people – to a gigantic reach with only limited impact.

To put the impact back into online marketing this book describes ‘persuasion profiles’* profiles that, for each individual customer, describe which psychological persuasion principles are most effective. Persuasion profiles are the next step in increasing the impact of online marketing.

While this book is especially useful if you are trying to sell things online, or intend to in the future, it’s even more significant for consumers; which we all are! It is useful to know how persuasion principles are used to influence your behavior. It is valuable to understand why you are specifically offered certain products, news articles, status updates, etc. while your colleagues and friends are offered completely different promotions. With knowledge about the different ways in which you are actively being persuaded while you browse the web, you, as a consumer, can guard against the developments that I describe. Persuasion profiles will impact the future of online marketing, customer relations and multi-channel campaigns – my apologies for the marketing jargon. If you know how these profiles are created, and how their use affects you, you will be able to better protect yourself against unwanted influence.

But let’s start where it all began: the physical store...

* It is not just online selling that is likely to be affected by the use of persuasion profiles. It is likely that in the near future the application of these profiles will reach far beyond selling. However, we will discuss the possible applications of persuasion profiles in later chapters.

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WHY THIS BOOK?

'Is this all?' asks the cashier. I say 'yes', put the book The Philosopher and the Wolf on the counter and grab my credit card. This happened about half an hour after I walked into the bookstore looking for a book for my upcoming trip to a scientific conference in Hawaii. While purchasing a book may seem trivial, many things happened in that half hour before the book changed owners and it went home in a plastic bag. And we need to understand all these events, all the steps in the sales process, to figure out why conversion rates are much lower online than offline.*

The question 'Why this book?' therefore requires a detailed answer: the idea that this is the 'best' book for the 'best' price is not sufficient. There are so many books; could it ever be possible to make the absolute 'best' choice from among all of them. While I love to make good choices, and might be fairly intelligent, I simply do not have the time for an elaborate analysis of the pros and cons of each book. Luckily, there are lots of other reasons why I had just purchased *The Philosopher and the Wolf*. To understand these, I need to recap the events in the half hour before I got to the checkout counter.

Let's put things in perspective: The day I bought *The Philosopher and the Wolf* was the day before I began my next plane trip.

* That weekend I would fly off to Hawaii for a conference called HICSS 2013: The life of an academic can be hard, but surely is not on those days.

The trip would take more than twenty hours, and I was sure that it would be relatively boring, without any form of entertainment. This thought was quite annoying, so I decided I needed a new book. Although I often buy my books online – I generally do not like conversations with physical salespeople – I knew this was not going to happen this time: two books had already got delayed en route from the distribution center to my house, and I really wanted something new before I left.

So, I put on my coat and walk to the bookstore. Now I do have a favorite bookstore, and I know how to get there. However, please note that if I had not been able to find the store, or had no idea of the existence of book stores in general, I would never have made it to the final check-out stage: paying for the actual book.

After entering the store, I walk straight past the novels (these are generally not my taste), the spiritual books (also not quite my taste), and head for the science and philosophy section, way back on the left side of the store.

I know my chances of finding a good book in this section of the store are good, as I already own more than half of the books on display here. I know my way around the shop and do not have to spend time wandering all over the store to find the right section. It is not too large and has a great layout, making it possible to oversee its entire selection. This enables me, and other customers, to quickly get to the selection of books that we want. But obviously, this is not always the case: it does happen that I cannot find something in a store, even though the item is actually in stock.*

So let's recap, up to now I have found the store and located the selection of books that interests me. Next, I have to select the 'best' book from the roughly forty books that remain. Fortunately for me, a helpful sales associate approaches: 'Looking for a gift?' Wearing my T-shirt and sweatpants, I apparently do not appear as

* For me IKEA is a store where this happens frequently. Every time I go there I am unable to find anything I like. However, I often visit friends who seem to buy great stuff there. I just can't find it myself.

a credible buyer of popular scientific or philosophical books. ‘No, it’s for me,’ I answer.

‘Then I can recommend this book,’ says the sales associate as he picks up *Philosophy for Dummies* from the display table and shows it to me. ‘Just this week alone, I have sold four copies of this. It is a real bestseller in this genre and it is an easy read.’ I look somewhat concerned and suspicious. First of all I perceive the choice of that book to be an underestimation of my intelligence, but the sales pitch troubles me even more: Do I really look like someone who buys bestsellers?

The seller quickly notices that this choice is not for me and looks around for an alternative. He slowly walks to the leftmost display table: the specials. ‘Perhaps this is something for you?’ And he points to the book *I Feel, Therefore I Am* by Antonio Damasio. ‘Already have it,’ I reply. Nevertheless, that is a far better choice by the sales associate. He probably sees my face clearing a bit.

I look around the specials while the sales guy wisely keeps some distance. *The Philosopher and the Wolf* catches my eye. I remember that a year ago this book was recommended to me by a friend, and now it is right here on sale.* Unlike the first attempt by the seller – recommending a bestseller – the recommendation of my friend seems to influence me: I know he often reads books that I can appreciate. Therefore, his recommendations matter to me. And to be honest, I don’t mind a bargain.** So, my decision is an easy one.

‘Thanks for your help,’ I call to the clerk, while I walk over to the checkout desk and place the book on the counter.

THE ONLINE SALES PROCESS

Obviously I have a reason for writing about my recent book purchase in such detail – a book I can recommend by the way. The bookstore I just described has a ‘conversion rate’ of twenty eight

* Thanks Dr. Joris Janssen for recommending the book to me!

** I buy discounted products fairly often. However, I am quite aware that discounted products are often not really cheaper: often sellers increase prices just before offering the product at a ‘discount’. In online commerce price fluctuations can be huge. For examples of this see www.camelcamelcamel.com.

percent: more than 1 in 4 people who enter that store leave with a book.* The most successful online bookstores such as the international giant Amazon.com achieve conversion rates of only around 10 percent, if they are lucky. That is not even half the rate of their physical counterparts, and, what is even more striking, is that 10% is the envy of most competitors in other online segments.

My purchasing process for *The Philosopher and the Wolf* would not have differed much online from what took place offline. Online, I also need to first find the actual store. If I know a store, it's simple: I just type in the address in my browser. And if I don't, I go to a search engine and find the store that offers the product (a book) that I want.

This first step is finding the store. This is very important for online sellers, although it is often not included in the conversion figures. After all, if you can't find the store you can't buy anything! Therefore, the first attempts to increase the success of online stores mainly focused on increasing the 'reach' of a store. The current online marketer is known for trying to exploit the new medium to increase the store's reach as much as possible: they focus on higher rankings in search engine results, more links to the shop, and catchy easy-to-remember names,

After finding the online store, step two of the sales process is quite clear as well: the consumer searches product categories or views the recommendations. When I digitally look for a book, I ignore the novels and 'walk' towards 'the corner' of the online store where books about science and philosophy are on display. Much of the attention of web engineers is currently focused on this second step: online stores test their layout to make sure that people can find the categories they are looking for easily. Because many online vendors have a range of stock, many times greater than the offline stores, this step is crucial in online selling.

In addition to offering products in different categories, many smart online stores use formulas and algorithms to actively offer

* Here again, estimates of conversion differ greatly. This one is based on a day of counting at my own local bookstore.

specifically targeted products. These ‘recommendation systems’,* for example, keep track of what you were looking for when you entered the shop, for example: ‘Novel: Dean Koontz’. Their formulas ensure that you are offered a number of books by Mr. Koontz. And it does not stop there. People who read Dean Koontz also read Stephen King, and hence the store will offer books by that author too. Where the live salesperson tries to select a book for me, mathematical formulas do it online.

Once the selection of products has been reduced to a manageable number, then it’s up to me to make my choice, throw the book in my virtual shopping cart, and check out.** This is similar to the fourth step of the offline sales process described above.

What we often miss online, however, is step three: the conversation with the sales person. While web technology is already capable of making a selection of products for us, it often ignores an important part of the process; interaction with the seller. Of course, many people would gladly forgo this part, as avoiding real contact with the seller is a popular reason to buy stuff online. Yet, I believe this third step, the active influencing – or ‘persuasion’ – by the salesperson, partly explains the current conversion gap between online and offline sales. They not only recommend a product – which is what the ‘recommendation engines’ from Amazon and the like also do – but they use persuasion principles to actively convince me: ‘This book is a bestseller’ and ‘This book is on sale now!’ These types of arguments are still often omitted online.

More importantly perhaps, the seller was able to analyze my lack of response to ‘This book is a bestseller’ and adjusts his persuasion strategy accordingly. This active and dynamic use of psychological persuasion in the sales process is a natural given for

* Recommender systems, the technology behind these digital recommendations, are a hot topic of research. See for example: Gretzel & Fesenmaier, 2006; Ochi, Rao, Takayama & Nass, 2010; Ricci, Rokach, Shapira & Kantor, 2011. In Chapter 4 I will describe ‘recommender systems’ in more detail.

** The check-out process in online shopping has proved non-trivial. Many customers fail to buy products that they put in their shopping carts. This is a very active area of user studies: how do we make sure the check-out process is simple enough?