

# Musings of a Retail Psychologist

Exploring the need, desire and erratic behavior of consumers and what it means to retailers

By Jim Dion

I have been a retailer most of my life as well as a clinical and industrial psychologist and I can assure you, the abnormal psych classes have been very helpful in some of my customer encounters over the years. But I do have to admit, my son, with a degree in Criminology, now a buyer for Target, may have trumped my background choice!

I would like to spend the next few pages with you by giving you some insights into the consumer that we see everyday in our stores, hear in our call centers and observe on our main and mobile web sites. Sigmund Freud asked over 85 years ago, "What does a woman want"? And he went to his grave with no answer! I am not sure that I will give you a complete answer to what the consumer in 2012 wants, but I am confident that I will come a lot closer than Freud.

First, I want to discuss consumer wants and expectations which, as everyone in the world of retail already knows, are very different than they were even ten years ago, and in many cases very different from even 12 months ago. Then, I want to touch on the dangerous and brave new world of deals that are destroying retail, as we know it. This, along with some insights that I want to share into a very interesting psychological phenomenon known as habituation that may both enlighten and frighten you at the same time and then close with a tip on merchandise presentation and the human brain.

Let me begin with some observations about the changes we have seen in the past four very difficult years.

You have to realize that less money in the consumer's pockets does not mean that they have fewer needs, desires or lower expectations. In fact, consumer expectations and desires have



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been growing steadily over the past 50 years and even the recession has not lowered them. Our customers want greater service, bigger cars, bigger homes as well as new toys and technology every year more and more whether they can afford these or not.

As well you need to understand that in America today, there is no rising tide, no growing economy, no great influx of immigrants or even tourists to fuel huge sales increases. This means that for every winning store there will be a loser. Smart companies are thinking share of the consumer's wallet, not share of their own market. Consumers are trading one product or service for another today and in some cases making some difficult choices. In many markets we are likely competing for that consumer dollar against a romantic dinner, a Caribbean vacation or a new iPad.

Our customers are also increasingly noticing the

deterioration of the Brick & Mortar experience and they are not happy about it. As I like to point out, 15 years ago we were obsessed with making our web sites look like real stores. Now, I believe we had better be even more obsessed with making our stores work as well as our web sites.

What if I asked you to buy a kitchen broom on the web, how long would it take you? About 60 seconds or less if you are using Amazon.com one click function. Now, if I dropped you off in front of Home Depot or Lowes and asked you to buy the same kitchen broom, how long would it take you? 10 minutes to find it, then 15 minutes waiting in line behind a contractor to pay for it. The answer speaks volumes for the work ahead of us.

You see, the bar keeps getting raised by excellent companies. Think Amazon, Ritz-Carlton, Apple, Costco and quite a few others. What earned you a 10 out of 10 in the consumer's mind last

year may only earn you a 7 this year. Competition is relentless and remember, as we will see in a moment, competition is everyone that is offering any product or service to your customer (remember the share of wallet idea that I spoke of just a few minutes ago?).

Increasingly, the customer is in the driver's seat and empowered by mobile and social media and they are not afraid to flex their newfound power. They will scan items right in the store and then put the phone screen right in the sales associate's face with a lower price showing and demanding that the price be met. I am sure you have seen quite a few customers come in, get fitted or examine a product, and then not even wait to leave the store before they were purchasing it on their phones. We all know that this is called 'showrooming' and many retailers are fighting back by enlisting the help of the supplier community to stop discounting

on the web. But, believe me, this battle has just begun and I would refer you to the Leegin case that the Supreme Court decided in 2007 to understand what this all means for your business. In the Leegin case, five of the nine justices threw out a high-court principle that dated back to 1911 which kept manufacturers from enforcing minimum retail prices on their products. If you have not read that decision, authored by Justice Kennedy, I would highly recommend it. It is easy to understand and I believe it is a good decision as it protects good brands and companies by allowing manufacturers to set a retail price that protects the retailer who is offering quality service and environment and not allowing other retailers who do not offer the same service and environment to sell below that price. The problem we now face is that many states are trying to enact laws that would work around the Leegin decision; California and New York are particularly aggressive with this legislation. There is an active movement in Congress to try to get Leegin overturned and that would take convincing Justice Kennedy to change his mind.

And we should not forget the concept of horizontality, which states that consumers do not silo their shopping experiences into the nice neat vertical categories that we tend to operate our businesses and view our competitors in. The consumer simply views shopping as shopping, so do not be surprised that they compare how they felt in their last visit to the Gap, Victoria's Secret, Amazon, Zappos and Trader Joe's to the experience that they are getting in your store. Every amazing retailer and service provider out there is setting your customer's expectations and you are being compared to the best of the best every day. It is quite frightening when you think about it.

You see, human beings are not logical animals. Some of us will drive ten miles out of our way to save 5 cents on a gallon of gas while others will think that that same ten mile trip to save \$20 off of a \$60 printer is a good deal, yet pass on \$20 off of a \$799 iPad which is also ten miles away.

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It's the same \$20. Do not ever forget, we are emotional first and especially when we are dealing in the present, the here and now experiences are controlled by emotion, not logic.

So, in a nutshell, what do our customers expect of every retailer reading this?

First and foremost, that old seven letter word that we are all so fond of saluting, but not so fond of really providing, SERVICE – fast, efficient consistent and competent customer service. What makes service so difficult to deliver is that it means different things to different consumers and even at different times of the day or of the week, month or year. To some consumers, service means 24/7 access to your products. Some people like to shop at 4 am (I don't think you want to keep your store open 24/7; yes some retailers do but most find it way too expensive). Some customers like to shop on holidays, some like to shop at work, some like to shop at home and yes, some even like to shop naked and believe me, you do not want very many of this group in your store. Do you realize that almost 30% of consumers admit to using their phones or tablets to shop when they are on the toilet? Now there is a really disturbing picture.

Consumers also want information, real information, the more the better but well categorized and easy to find. They love product reviews (thank Jeff Bezos of Amazon.com for that innovation). Customers want to know what other customers think of a product or service. It is at the core of human nature to care about what others think not only about us, but also about our decisions. Product reviews help reduce that pesky

cognitive dissonance, or buyer's remorse that Leon Festinger, a fellow Industrial Psychologist described over 50 years ago, and can help dramatically reduce product returns.

And guess what? As I predicted more than 15 years ago, the web has enabled total transparency: price, information and opinion transparency which means that everything is out there for every customer to see. As PT Barnum once said "you can fool some of the people some of the time, but you cannot fool all of the people all of the time".

Transparency means that we have to be up-front, open and honest with our customers. Not a bad idea, even without the threat of transparency!

### **Curated**

If one concept in 2012 should enter your vocabulary, that would be the concept of "curated" (which stems from the Latin, curare, which means to take care). You are already seeing and hearing more and more of that word, from Pinterest, which has been described as "the web, curated."

As well, there are many other great companies that are leading the consumer by 'curating' their assortments for them. This, as we will see, ties perfectly into the concepts of "DIFM" (Do It For Me), habituation and the paradox of choice, which I will also discuss later on in this article.

DIFM is a huge trend that even

Apple is not very good at. Just ask any iPad or iPhone buyer if they were even asked about where or how they were going to use the devices and how many of them walked out with a case, a spare charger, an additional battery, a car charger, a Bluetooth speaker etc. Apple is simply not good at DIFM. Unlike, the Microsoft stores which are really great at selling complete solutions, the ultimate DIFM.

Peace of mind and guarantees and easy returns are also uppermost in consumers' minds today. One only has to look at the success of Zappos to see how crazy loyal consumers can be if a brand convinces them that they cannot make a mistake in dealing with them thanks to their extremely liberal return policies. Remember, humans will expend twice as much energy to avoid a loss, as they will to gain a win. We fear losing and reward companies who minimize that feeling for us.

### **Price and Deals**

Apparently the biggest issue on most consumers' mind today, one which we retailers by the way, are not only guilty of inventing but also of continuing to over emphasize and lament, is the whole issue of price and deals. Remember, as terrible as it sounds, it is true that retailers eat their young, and the race to the bottom has been a self-inflicted wound. We have been like pushers feeding our customers sale heroin to the point that it now takes some of the deal junkies 70%





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off of a mythical retail price to get their shopping buzz, and remember what I said earlier about shopping being emotional? It is commonly reported that almost one third of all deals go unused - these deal junkies don't even eat what they kill.

Don't get me started on "anchor pricing" which all too many retailers have discovered in the past few years. What anchor pricing is all about is quite simply that humans, when they don't know the price of something - which is true of pretty much everything that is sold today - will respond to almost any number that "anchors" them to what they believe is the right price. So, gone are the days of MSRP (Manufacturer Suggested Retail Price) and welcome to the days of 'was \$800 now \$300' whether it was ever actually sold for \$800 (\$800 is the anchor that makes customers believe that at \$300 they are getting a real deal).

You see the problem with some of these prices is what over four hundred years ago a British Financier, Sir Thomas Gresham (1519 - 1579), described as the phenomenon of 'bad money driving out good.' What he meant by that is that in order to have low prices, we must lower the quality of our products which in turn makes quality items appear too expensive for the consumer, thus lowering their sell thru and making them disappear. I believe it to be a crime what some brands are offering in their off price or clearance stores that they lead the customer to believe is first quality marked down

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merchandise. These actions by some retailers are fueling this ever-faster race to the bottom.

Do not ever forget that the consumer is a "civilian" they don't know our world of keystone or keystone plus ten and they vastly overestimate the margins and profit that most retailers make. If you want to conduct a sobering experiment, try this. Select an item from your store, try to find an item that is at your average margin, let's say for example a woman's running skirt that retails for \$100, now ask a regular off the street customer what they think that you paid for that skirt, and the majority will say "oh, about \$20 or \$25" if not less. Now, yes, there may be some retailers who can command a 75 or 80% margin, but trust me, the vast majority of retailers are very happy to earn their "keystone" and if you are Best Buy, Amazon or Costco, on that 58" Plasma TV, you are happy to get 14%! So, where did our consumer get this idea that we have such high margins? From us of course! From all those retailers who sell day-in and day-out at 50% or even 60 to 70% off (yes, Groupon has helped spread this

belief like a disease).

And can someone please explain to me how I can buy a diamond that is guaranteed to be appraised at twice what I paid for it? Are the appraisers in on the scam too? It is not hard to see today that we have produced our own worst nightmare: the "educated consumer" but unfortunately we have taught them all the wrong lessons.

### Habituation

And finally, I want to discuss what I feel to be a major issue facing marketers today, and yes it relates back to deals of the day, consumer emotions and the difficulty of reaching today's smarter, better connected, more educated and fussier consumer.

But first, humor me.

First question: do you believe that all behavior is learned and we are the sum total of what our parents and society have taught us? Or, is part of who we are instinctual, that is, part of our genetic makeup, like fear of lions and tigers and bears or fear of the dark?

Are we born as the Jesuits, Sigmund Freud and B.F Skinner "Tabula rasa" or blank slate? (I can assure you that this is the only article you will ever read those three names in the same sentence!) Are we born with nothing in our minds and all our knowledge is coming from our experience and our perception? Or, are we the sum of thousands of years of evolution and genes that impart behavior or tendencies to behavior that cannot be explained by experience

or perception? Does instinctual behavior exist in humans? Now, as a psychologist, and one educated in the early years by Jesuits, I can attest that my Freudian and Behavioral Psychology classes did not prepare me for that singular event that ultimately changes every Freudian and Skinnerian into a believer in genetics. I had a child, well ok, not me, technically my wife did. Everyone reading this article, who has experienced kids knows what I am talking about; there is stuff in those kids that you simply did not put there! And by the second child, you are completely convinced of it!

Now, keep that belief in instinct in mind as I ask you a second indulgence, I want you to think of your great, great, great, great, great, yes keep going, your grandparents that lived two hundred years ago, and their grandparents going back thousands of years. Think for a moment what life was like for them, how many people do you think they saw in a day? How about how many in a week or even a year?

The fact is, that for thousands of years most people on this planet were born, lived and died within a few mile-area. Yes, there were nomadic tribes, but even they did not see that many other humans in all their wandering years. Now, think of your average day, how many other human beings do you see after you wake up in the morning? How many on the way to work? At work? On lunch? On the way home? At the mall?

The answer is that you see more people in one day than most of your ancestors saw in

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their entire life! The average human living in any first world country today is experiencing more sensory input in single days than thousands of years of our ancestors ever did in their entire lifetime. Simply put, we were not built for the life we are living today. If we tried to attend to everything that was going on in our environment, our brain would simply melt down. Anyone who tells you the old wives' tale that we use a small portion of our potential brainpower is simply not up to date on brain science. The stress of paying attention or as we call it, attending to everything that is going on every second of every day would so overload our circuits that we could not function. So what we do to survive is what psychologists call habituation, or desensitizing ourselves to the sensory input by simply ignoring it. This, I believe is one of our instinctual behaviors that is common to all humans and profoundly affects their behavior.

Have you ever had the experience of driving your car and forgetting the last 40 or so miles that you just drove? What you experienced was what is called habituation, or as I call it, you were on auto-pilot. Your body was driving the car and you would have immediately responded if there were any danger, a stopped car, a pedestrian in the roadway or anything that was not supposed to be there. As you were driving, your body was being controlled by your central autonomic nervous system (read brain stem)

and you were breathing, seeing, and feeling the pressure of the gas peddle and steering wheel. Your conscious mind however, was in Barbados, solving a problem or enjoying something else while your central autonomic nervous system was driving the car. What you were experiencing was pure habituation. When you get a chance, pick out a bench at your local shopping center, sit down and observe the behavior of most of the shoppers, (not the tourists, they are easy to spot even without cameras because they are looking everywhere!) Really look at the locals, you will believe that zombies really exist if you do! They are not looking side to side, not looking at store windows, not looking at other shoppers passing them by, they are only looking straight ahead with an unfocused, glassy look in their eyes. They are bored with a capital B. The average shopper today in North America, Europe, Asia and the Middle East attends to less than 1% of their environment at best, the rest they don't even see. How many of you have walked into a store near where you live and asked the store how long they have been there and were surprised to hear that they were open for the last year and you never noticed! Believe me, as retail psychologists we were worried about this phenomenon over 25 years ago and now with the addition of personal digital media it has become twenty times worse. Forget texting while driving! Think how many times

in just the past week were you almost walked over by someone texting and walking? Personal digital media is not only increasing environmental habituation, it is also leading to social isolation despite what the pundits tell you about social media.

These two factors must be addressed by any smart marketer today. How do I break through these two very pervasive tendencies? Well, the answer is somewhat simple, yet complex. Remember the example of driving the car? When I told you that if the environment changed you would have responded? Well, we know that change is the only thing that breaks through habituation yet too much change is exactly what habituation is meant to combat! Too much change will make you sick and crazy (just download the stress test from our web site and you will see how change can lead to physical illness and why habituation is our natural defense to keep us healthy). This almost paradoxical or catch 22 problem can be solved by intelligent application of environmental changes. This means web sites have to change on at least an annual basis – a more frequent change could trigger overload and cause the customer to tune out and less frequent change can cause them to simply habituate because it is boring. Now, I do not mean that you should keep the same product on the site for a year! I mean the basic navigation and layout and colors should be stable for about a year and yes the product had better change! The same is true of your windows and store environments. We do not advocate monthly re-sets of entire stores, that would upset the customer to no end, but what we do prescribe is frequent movement of items on a display. Displays in the window and products especially around the POS area should be moved daily, even a few feet or simply turning displays works in tricking the customers eye into really attending to your store. Your associates should also try to truly engage a customer by looking them in the eye and forcing a human encounter despite the fact that the customer may be doing

everything in their power to avoid just that! And finally, remember the real antidote to habituation is simplification. Keep your presentations, your messages, everything you do that the customer sees, simple. With life so crazy customers are more and more gravitating to companies that keep it real, keep it simple and Do It For Me (DIFM).

This is also true for your employees. Make no mistake, what you put in your Kool-Aid will determine your ultimate success or failure in any business.

### **The Paradox of Choice**

The last tip I would like to leave you with is what psychologist Dr. Barry Schwartz touched on in his book on the Paradox of Choice almost ten years ago. Quite simply, what Dr. Schwartz observed is that if given too many choices humans will simply not be able to choose. Many experiments over the years have confirmed this phenomenon and it remains the Achilles' heel of the web and a huge advantage to Brick and Mortar retailers, if they learn how to use it to their advantage. The paradox of choice does not mean that we should carry only five choices in any category, which by the way, is the upper limit of what we have found the human brain can effectively handle when processing differences between choices, but it does mean that our store associates can be much more successful in closing a sale if they quickly narrow choices to five or less; three is actually ideal. There are a few web companies that use very complex algorithms to return three to five choices based on needs to customers on the web, but most retailers have ignored the technology and use search technology that returns hundreds of choices.

The lesson? Offer choice but as quickly as possible narrow it down to as few as possible. Remember the concepts of DIFM and complete solution selling.

So, in conclusion, I trust that I have given you some insights into this very complex world today and some things to think about and act upon. We have to stop now. ●