

Behavioral Economics Design

How Users' Patterns Can Influence
Your Product Growth?

BEHAVIORAL ECONOMICS

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Introduction: What is Behavioral Economics?



Behavioral economics is a field of study that explores how individuals make decisions, taking into account both economic and psychological factors. Behavioral economics has become increasingly relevant in recent years as companies seek to better understand their users and design more responsive products. In this whitepaper, we will explore how behavioral economics can be applied to product design and growth and discuss some practical strategies for designing products that are adaptable to user behavior.

Understanding User Behavior

The first step in designing products that are adaptable to user behavior is to understand the underlying patterns of user behavior. This can be accomplished through a variety of methods, including user surveys, focus groups, and user testing. By understanding how users interact with a product, designers can identify areas where the product is failing to meet user needs and make necessary adjustments to improve the user experience.



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This process can help to ensure that the product is more responsive to the needs of users and ultimately lead to improved user engagement and growth.

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Humans make choices that are not in their best interests since they are emotive and easily distracted beings. According to the rational choice theory, for instance, if a person, let's say Smith, wants to lose weight and is informed about the number of calories present in each edible product, he will only choose food items with a minimal number of calories. But according to behavioural economics, even if Smith decides he wants to lose weight and commits to eating healthier foods going forward, his final actions will be influenced by cognitive bias, emotions, and social factors.

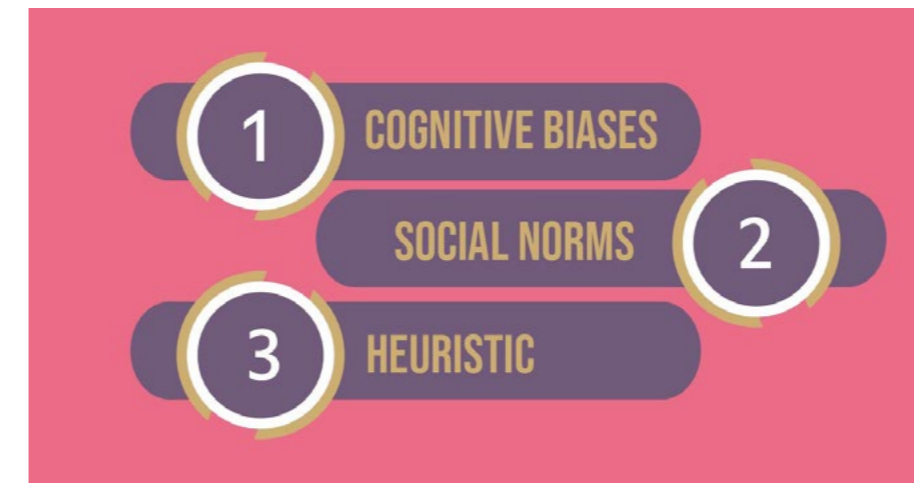
If a television commercial promotes a particular brand of ice cream at a tempting price and claims that all humans require 2,000 calories per day to function properly, Smith might give in to the sweet temptation and abandon his weight loss efforts, demonstrating his lack of self-control.

Ultimately, Behavioral Economics explains that humans are not rational but are instead incapable of making rational decisions.

Applying Behavioral Economics to Product Design

To make products more adaptable to user behavior, designers must consider various psychological factors that influence user decision-making.

These factors include cognitive biases, social norms, and heuristics:



Cognitive biases, for example, are mental shortcuts that individuals use when making decisions. These biases can influence users' perception of a product and ultimately

impact their decision to use it. By designing products that take into account these biases, designers can make products more appealing to users and increase user engagement.

Social norms are another essential factor to consider when designing products. Social norms are unwritten guidelines that govern behavior in a given social context. By designing products that align with social norms, designers can create more intuitive and easy-to-use products, leading to improved user engagement and growth.

Heuristics are another important psychological factor to consider when designing products. Heuristics are mental shortcuts that individuals use to make decisions quickly and efficiently. By designing products that take into account these heuristics, designers can make products that are more user-friendly and increase user engagement.

Behavioral economics is being used by businesses more frequently to boost product sales.

The 8GB iPhone was initially priced at \$600 but was immediately discounted to \$400 in 2007. What if the phone's true market worth was \$400? If Apple had priced the phone at \$400, the smartphone industry might have initially responded negatively to the price, considering it to be excessively expensive. However, once the phone

How to Increase Your Conversion Rate Using Behavioral Economics

Everyone is aware of how crucial the user experience is for luring in new clients and fostering loyalty. But nobody has ever said it is simple. Finding the right balance between excellent aesthetics, content accessibility, and easy navigation is crucial for conversion rate optimization. But frequently, it resembles a huge tug-of-war.

Now is the time to recall what you already know: in order to turn people into devoted customers, you must

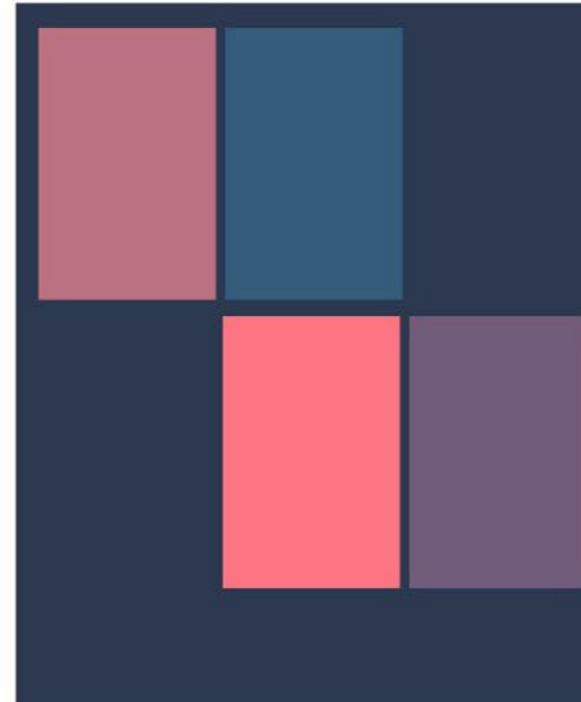
was initially introduced at a higher price and then reduced to \$400, buyers thought they were getting a fantastic deal, and Apple's sales soared.

An effective technique to include behavioral economics into the company's decision-making procedures regarding its internal and external stakeholders may prove worthwhile if done properly as corporations come to understand that their customers are irrational.

comprehend their objectives and behavior. However, you can influence your users' actions if you dig even further and discover the cognitive biases and mechanisms that govern human behavior.

The conversion rate and customer loyalty of your UX can be significantly impacted by the application of behavioral economics principles.

EXCELLENT AESTHETICS



Aesthetically pleasing designs are pleasant to look at because they satisfy our senses and provide us pleasure.

CONTENT ACCESSIBILITY

DO

DON'T

Make a choice of good fonts

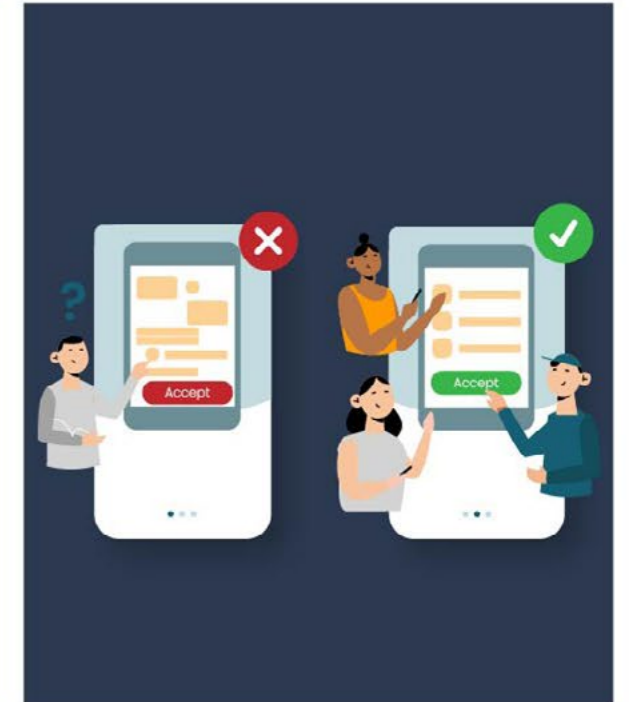
Do not use fonts that are not legible

Your choice of typeface needs to strike a good combination of both legibility and readability, while remaining appropriate for the audience and the message.

Your choice of typeface needs to strike a good combination of both legibility and readability, while remaining appropriate for the audience and the message.

Look at the above two examples. Where does your typeface choice fall between these two extremes? While the one on the left is easy to read, the one on the right is hardly legible.

EASY NAVIGATION



Users should be able to understand where they are and where they can go by having well-labeled and signposted navigation.

How to Make Design Adaptable to User Behavior

It takes both art and science to design a seamless and appealing user experience for digital platforms. However, you can develop into a “choice architect” by looking beyond the aims of users and into their mental processes. By carefully planning the user interface, content, and flow, you can lead users exactly where you want them to go. Additionally, you may make instructing the users simpler than ever with the aid of additional digital solutions.

4 Behavioral Economics Principles UX designers Should Know:

1: Decision Paralysis

The phenomenon of decision paralysis can occur when a user is presented with too many options. This happens on busy websites and mobile apps with an excessive

amount of buttons, tabs, photos, and text. Your user is dealing with too many issues. Where do they begin? A crowded interface can be off-putting and result in “choice overload” even if a visitor arrives on your website with certain intentions. The potential outcomes are decision fatigue, automatically selecting the default option, or delaying a decision completely. In other words, if you overwhelm your visitors with information, they’ll probably quit your page in search of something easier.

The secret to preventing decision paralysis is to leave your user with an easy path to follow. To do this, you must first create user journeys based on distinct client profiles. You will have a better understanding of how to satisfy your users’ needs while advancing your own after finishing this stage. Artificial intelligence and automation-based digital solutions can also assist you in avoiding decision paralysis.

Let’s take the scenario where a visitor comes to your website looking for a particular product. A chatbot may come and ask him what he is looking for rather than depending on him to locate it. As a result, let your users get to their target without any searching or decision-making.

2: Defaults

Many people choose the default choice in order to avoid complications. A default is a planned course of action that takes place if the decision-maker (the user) doesn’t make a conscious decision. Setting defaults can be a potent tool for influencing people to make the choice you want them to.

For instance, organ donation rates are far higher in countries where it is the default option (i.e., individuals must actively choose not to donate their organs).

People don’t always act, whether it’s due to decision paralysis or something else. This is a fantastic UX opportunity since you can provide a default that quickly guides your user toward your desired choice. (to make a purchase, sign up for your newsletter, download a free trial, whatever it may be). How do you actually implement a default on your website or app? Digital solutions that analyze a user’s behavior and intentions by using context-sensitive elements are some of the tried-and-true techniques.

Such digital solutions can set up an effective default in the form of personalized pop-ups that send your visitor directly to the appropriate landing page by analyzing numerous user parameters. For example, the pop-up can show when a user has been inactive for a predetermined period of time, eliminating the need for them to take action or spend time surfing your website.

3: Anchoring

A cognitive bias known as anchoring leads people to concentrate on and use the first piece of information they notice as a point of reference when making decisions.

It is frequently used by businesses in sales. A buyer might use the initial price of a T-shirt (\$35), for instance, as their anchor. Even if the client wouldn't have purchased the garment for \$25 in the first place, they are more likely to view the \$25 price reduction as a wonderful deal since they are comparing it to the initial price.

When designing your UX, it's critical to keep the idea of anchoring in mind because the facts, images, and content that your consumers encounter first will stick with them in their memories.

The entire interface on the front page of your website or app should be created with the most crucial references

to you, depending on your main objectives. Prices, details, and other information for featured products should be carefully and purposefully chosen.

4: Friction costs

Even seemingly insignificant obstacles can cause a lot of friction and ultimately keep someone from finishing a task.

Your users will be much less likely to take the required activity if the "friction costs" are excessively high.

Friction costs associated with bad UX are high. Unintuitive or difficult-to-navigate interfaces increase friction costs.

Information that is unavailable causes friction. Friction is increased when lengthy forms or numerous clicks are required to perform a task.

To increase conversion rates and delight your consumers, it's important to reduce these obstacles and streamline the user experience as much as you can.

By streamlining their journey, digital solutions that take your consumers by the hand and lead them through processes on your website or app instantly remove friction. Contextual guidance tools evaluate a user's persona and behavior to proactively distribute support prompts and walk them through a task from start to finish, step by step.

Conclusion :

DECISION PARALYSIS

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Prospect Theory and Loss Aversion

How Users Make Decisions & How User's Patterns Can Influence Your Product Growth

People avoid losses and aim for guaranteed wins when weighing their options because the agony of losing is greater than the pleasure of making an equivalent gain. UX designs should, as a result, appropriately frame choices (i.e., queries or options presented to users).

Let's take an example. There's a person named Tom, who has just adopted a kitten, so he has to decide whether to get pet insurance for his new furry friend. The cat was unable to provide any information on the health of her family, so the likelihood of her having a problem remained unknown: it was impossible to foresee when

or if something may arise and become a significant expense. The choice was made more challenging by the uncertainty: Tom could forgo using his insurance funds in the hopes that his cat would remain healthy, but if a problem did arise, he might have to shell out astronomical sums of money for treatment.

After much deliberation, Tom finally decided to get his cat her own insurance. One of the prime examples of the prospect theory at work is purchasing insurance plans.

HOW USERS MAKE DECISIONS & HOW USER'S PATTERNS CAN INFLUENCE YOUR PRODUCT GROWTH

To understand what Prospect Theory means, let us look at its definition.

The prospect theory explains how people choose between several possibilities (or prospects) and how they assess the perceived chance of each option in (sometimes biased or wrong) ways.

Let's understand Loss aversion

Loss aversion refers to a phenomenon where a real or potential loss is perceived by individuals as psychologically or emotionally more severe than an equivalent gain. For instance, the pain of losing \$100 is often far greater than the joy gained in finding the same amount.

Psychologists Daniel Kahneman and Amos Tversky first presented the prospect theory in 1979, and Kahneman later won the economics Nobel Prize for it in 2002.

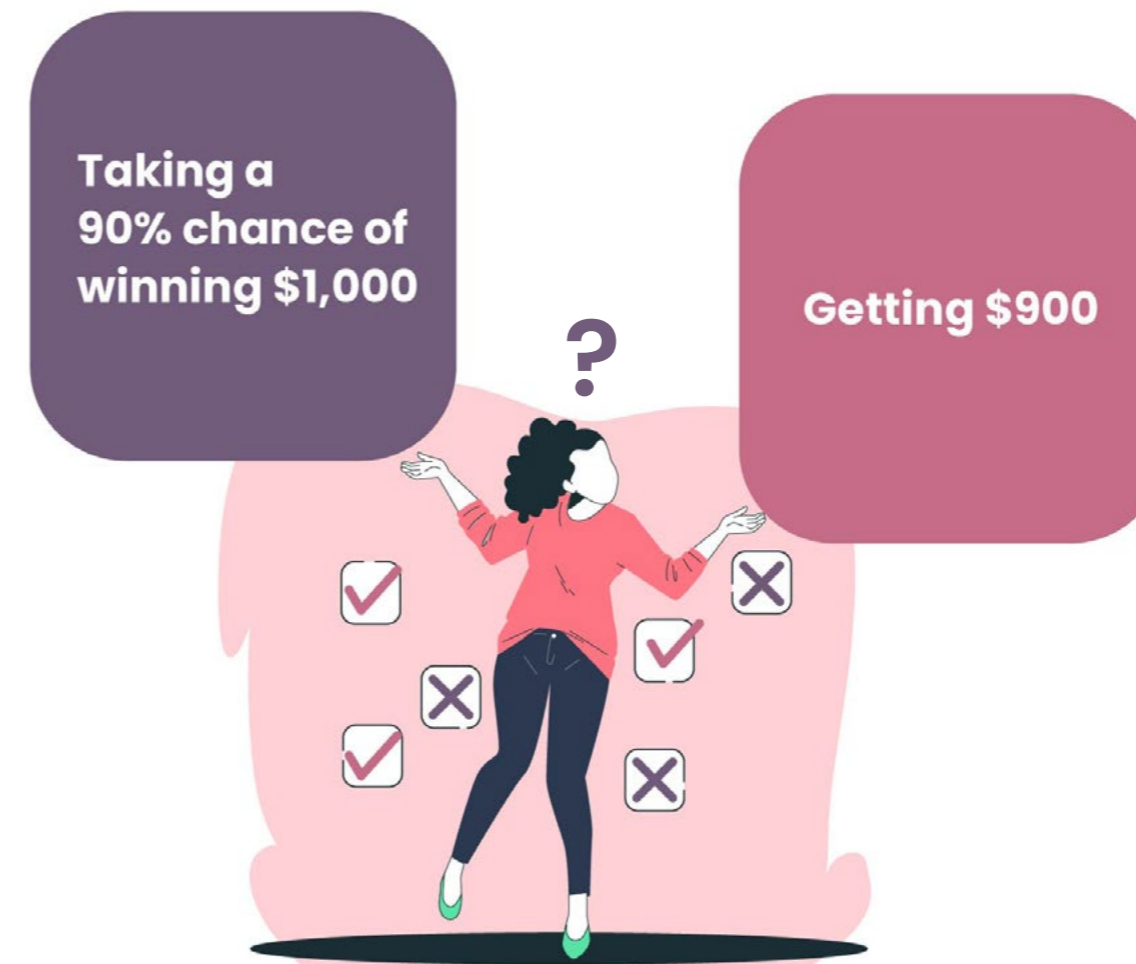
Loss aversion is one of the biases that influences people's choices. As in the insurance example above, this bias causes people to give more weight to small probability than they should in order to avoid losses.

Even while there may be a very little chance that a costly catastrophe would occur, we would rather accept a lesser, certain loss—in the form of an insurance payment—than take a chance on a significant expense. This is so because the perceived possibility of a serious health issue is higher than the likelihood that it will actually happen.

We all want to think of ourselves as rational decision-makers. For instance, in the area of user experience, we frequently discuss how users consider the predicted usefulness of various options when deciding what to do or where to go next.

However, people are particularly subject to cognitive biases and frequently don't make the rational option when making decisions like whether to buy something, give money, or choose a quality of service.

What would you prefer, for instance, getting \$900 or taking a 90% chance of winning \$1,000 (and a 10% chance of receiving nothing)?



Even if the predicted outcome is the same in both situations, most people choose to take the \$900 rather than take the risk. However, if I gave you the option of losing \$900 or accepting a 90% probability of losing \$1000, the majority of you would likely choose the latter option (with the 90% chance of losing \$1000) and would thereafter engage in risk-seeking behavior in an effort to limit the loss.

These kinds of behaviors are difficult to explain using the expected-utility approach. The probability multiplied by the expected win yields the same (+/- \$900) expected benefit for both of these scenarios. However, most people like one choice over the other.

The biases that humans employ when making these decisions are explained by prospect theory:

Certainty

Isolation effect

Loss aversion

User Biases

1-Certainty

People frequently favor certain options over uncertain ones and are risk-averse while seeking advantages. Instead of taking a chance to win more, we would prefer to receive a definite, smaller win. (but also risk possibly getting nothing). Contrarily, when faced with specific losses, people behave in a risk-seeking manner in an effort to mitigate a greater loss.

Consider utilizing the certainty bias to your advantage to urge users to act: consumers prefer to accept a little but assured reward over a mere chance at a larger gain.

Consider offering all reviewers a coupon for 10% off their subsequent purchase, for instance, if you offer an incentive for people who submit product reviews.

This voucher would be more enticing and useful than sweepstakes for \$1,000, which would be a huge but extremely unlikely prize. It would only cost you money if they came back to buy additional goods.

This bias could also be the reason why customers frequently stick with a certain brand of goods, services, websites, or other resources. We can either take a chance to employ a different approach that might be superior to our existing one or stick with our tried-and-true tool.

2-Isolation Effect

The isolation effect describes people's propensity to ignore any aspects of either option that are similar to the other to emphasize the differences.

It only makes sense to concentrate on the differentiators because remembering all the specifics of each individual alternative would put too much of a cognitive strain on the brain. Discarding common components eases the stress of comparing alternatives, but depending on how alternatives are presented, it can also result in inconsistent decisions.

Two hypothetical situations were given to participants by Daniel Kahneman and Amos Tversky. In both cases, people were given an initial sum of money, and they then had to decide between two options.

Scenario 1:



\$1000



\$1000



\$1000



\$1000



\$1000

Each participant received **\$1,000**. They then had a choice between—

Option A

Winning \$1,000
with a 50% chance
(and winning \$0 with
a 50% probability)

or

Option B

Winning an additional
\$500 with certainty

Scenario 2:



\$2000



\$2000



\$2000



\$2000



\$2000

Participants started out with **\$2,000**. They then had a choice between—

Option C

Losing \$500
without a doubt

or

Option D

Losing \$1,000 with a
50% chance of doing so
(and losing \$0 with a
50% chance)

It turns out that the two circumstances were equivalent because the initial amounts were different in each case. Whether they selected option B in the first scenario or option D in the second, they would ultimately have the same amount of money. (Options A and C are likewise equivalent.) But in the two cases, respondents made the opposite decisions: most of them opted for Scenario 1's loss-averse Option C and Scenario 1's risk-averse Option B.

People arrived at a different conclusion after reframing the issue (by altering the initial gift and the available options accordingly).

When writing something to urge readers to do a particular action, think about how it is framed. When messages are presented in a negative light, people can react considerably differently than when they are presented in a favorable light. Would you rather utilize a service that has a 95% satisfaction rating or one that has a 5% complaint

rate, for instance? The negative formulation encourages people to act in a way that anticipates the potential "loss" or undesirable result.

Additionally, you should think about how information is presented to users so they can spot recurring themes that can be trusted to be ignored in favor of salient points of differentiation. Consider the difference between offering a product configurator and allowing consumers to select various products individually. Prospective clients may make a different choice (or become overwhelmed and give up the work) if they are shown every final combination of products or services as opposed to being shown one or two products and then given a chance to customize them by adding features.

Presenting crucial information side by side rather than only on each product page is another technique to aid in the simplification process of product comparisons. As long as consistent amounts of detail are presented for all items, comparison tables that show discrepancies are effective. Users frequently compare and select from a variety of items and services when using the internet, so it is crucial to support this task correctly.

3- Loss Aversion

Even though there is a very small chance that they will occur, most people will act in a way that minimizes losses since they weigh heavier than profits. In terms of gambling, getting \$100 and then losing \$80 makes it feel like a net loss, even though you are technically ahead by \$20. This is because losing hurts. People's responses to loss are more ferocious than those to gains. (The sequence is crucial here; if we lost \$80 first, then won \$100, it would change our frame of reference and appear to be a net gain!).

The information on websites might appeal to people's prejudices in order to influence them to buy something or do another action. For instance, insurance websites usually present a lengthy list of expensive but unlikely outcomes that we might experience if we choose not to get insurance. This list encourages us to prevent these substantial losses and distracts us from the modest but ongoing payments we would have to make indefinitely to ensure insurance coverage.

We can persuade consumers to act in certain ways by comprehending their inhibitions for goods or services that do not naturally protect against significant losses. Through user research, we may learn about people's worries and then give them information to help them get over their fears or objections. For instance, potential users can be reluctant to start an online application process because they think it would take too long or demand complex information. If a website is aware of this perception, it can try to change it by, for example, noting how long the application typically takes and what details are required to finish it.

Protect Users from Negative Experiences

It is also possible to apply the prospect theory to users' entire user experiences. When we experience moments of loss, such as dissatisfaction or uncertainty during an interaction with a website or an app, we respond more forcefully. People view things as normal when they go according to plan.



Practical Strategies for Designing Adaptable Products

There are a variety of practical strategies that designers can use to create products that are adaptable to user behavior. These include:

1

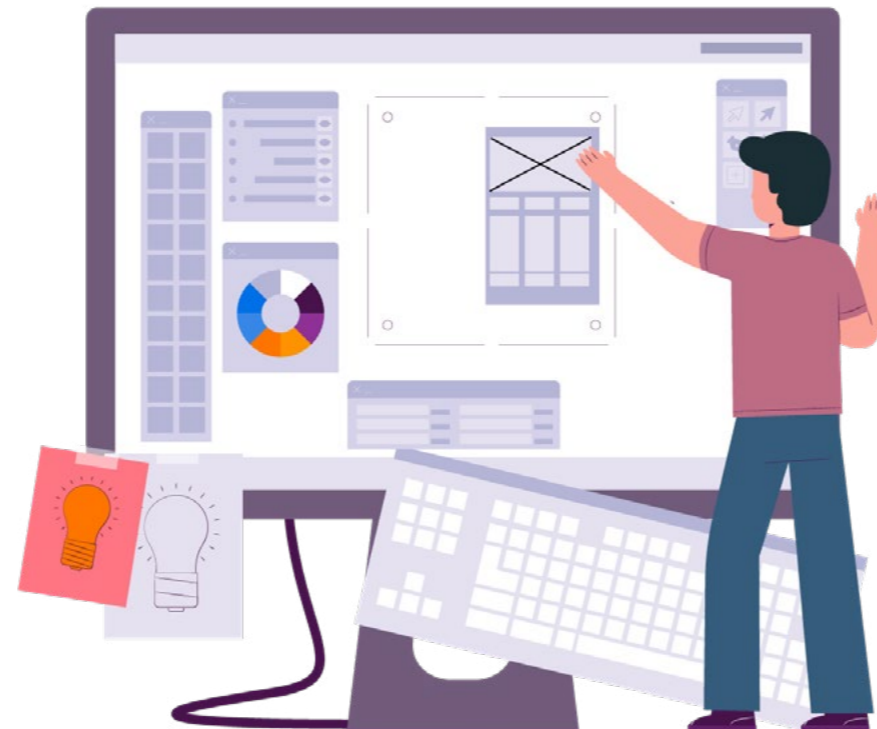
User Surveys and Testing

Conducting user surveys and testing can help designers identify areas where the product is failing to meet user needs. This process can help ensure that the product is more responsive to users' needs, ultimately leading to improved user engagement and growth.

2

Data Analysis

Analyzing user data can help designers identify user behavior patterns and make necessary adjustments to improve the user experience.



3

User-centred Design

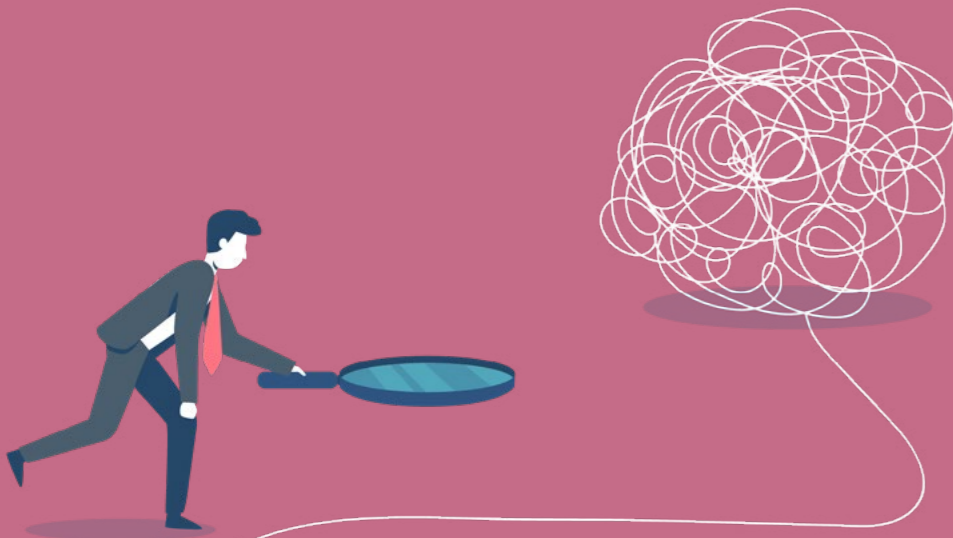
Designing products with the user in mind can help to ensure that the product is more responsive to user needs and ultimately lead to improved user engagement and growth.

4

A/B Testing

A/B testing can help designers identify which design elements are most effective in engaging users and make necessary adjustments to improve the user experience.

Final Thoughts



In conclusion, behavioral economics offers a robust framework for designing products that are more responsive to user behavior. By understanding the underlying patterns of user behavior and designing products that consider psychological factors like cognitive biases, social norms, and heuristics, designers can create more engaging products that ultimately lead to improved growth. Furthermore, by incorporating practical strategies like user testing, data analysis, user-centred design, and A/B testing, designers can ensure that their products are adaptable to user behavior and ultimately lead to improved user engagement and growth.



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How Can Worxwide Help You?

We at Worxwide Consulting have a team of choice architects, UI/UX Specialists, researchers, and highly skilled UX Consultants who can help you understand and implement behavioral economics in your design to attain the desired results.

So, what are you waiting for? Get in touch with us today!

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