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Nudge Your Customers Toward Better Choices

Key ideas from the [Harvard Business Review](#) article By Daniel G. Goldstein, Eric J. Johnson, Andreas Herrmann, Mark Heitmann

The Idea in Brief

A car rental agency includes insurance unless you specifically decline it. A software vendor recommends clicking "next" for a quick install. These companies have designed **defaults** for customers.

Well-designed defaults simplify decision making, enhance customer satisfaction, and drive profitable purchases--benefiting companies *and* consumers. Ill-conceived defaults can backfire. When Facebook began displaying members' purchases by default, users screamed "Privacy invasion!" and launched a class action lawsuit.

Defaults have strategic importance, so don't leave them to programmers or forms designers, say Goldstein and his coauthors. To design effective defaults, understand which types to use when. For example:

If you expect most of your customers would prefer a basic product or service configuration, use a **mass default**. Online retailers' standard shipping default is an example.

If you think customers would value options tailored to their preferences, use a **personalized default**. For instance, a hotel makes nonsmoking rooms the default for guests who requested them before.

The Idea in Practice

Mass Defaults

These generic defaults are useful when the majority of customers prefer one basic product or service configuration or can benefit from standardized recommendations (for example, the default ensures maximum safety). If you lack information about customers' preferences, mass defaults may be your only option.

Type	Explanation	Example
Benign	You make your best guess about which configuration would be most acceptable to most customers.	Maxi-Cosi sells its car seat configured for newborns (straps threaded through a lower set of holes), even though the seat belts can also be set up for older children (straps threaded through a higher set of holes). The newborn configuration is the best choice, as the older-child configuration could endanger newborns.
Random	You assign customers arbitrarily to one of several defaults.	An online marketer randomly sends half of its e-mails as plain text and half as HTML, with links allowing recipients to switch. By monitoring how many people switch from each default, and seeing which browsers and operating systems they use, the marketer can deliver future e-mails in each segment's preferred format.
Hidden option	You present the default as customers' only choice, though hard-to-find alternatives exist.	Microsoft Windows XP users can download an unadvertised toolset called "PowerToys," many of which alter the operating system configuration—if customers can find them. This prevents confusion among novice users.

Personalized Defaults

These capitalize on your knowledge about customers and can be tailored to better meet their needs.

Type	Explanation	Example
Smart	You apply what you know about an individual customer or segment to tailor default settings.	Age and income are taken into account when determining investment allocations for new employees who are enrolled in retirement plans. Employees can opt out by rejecting the default investment allocations in favor of a different allocation.
Persistent	You use customers' past choices to create new defaults.	An airline automatically assigns aisle seats to customers who have previously chosen them. To allow for possible changes in preferences, it makes opting out simple and transparent.
Adaptive	Defaults update themselves based on current (often real-time) decisions a customer has made.	In Web-based automobile configurators, buyers who select a high-horsepower engine are shown a three-spoke sporty steering wheel by default. Such defaults are also influenced by the preferences of other consumers in the company's database.

Further Reading

Articles

Understanding Customer Experience

Harvard Business Review

February 2007

by Christopher Meyer and Andre Schwager

Anyone who has signed up for cell phone service, attempted to claim a rebate, or navigated a call center has probably suffered from a company's apparent indifference to what should be its first concern: the customer experiences that culminate in either satisfaction or disappointment and defection. Many executives don't appreciate how analysis of customer experience differs from CRM or just how illuminating the data can be. For instance, the majority of the companies in a recent survey believed they have been providing "superior" experiences to customers, but most customers disagreed. The authors describe a customer experience management (CEM) system that helps companies discover which customers are prospects for growth and which require immediate intervention.

The Quest for Customer Focus

Harvard Business Review

April 2005

by Ranjay Gulati and James B. Oldroyd

Companies have poured enormous amounts of money into customer relationship management, but in many cases the investment hasn't really paid off. That's because getting closer to customers isn't about building an information technology system. It's a learning journey that begins with the creation of a companywide repository containing every customer interaction with the company, organized by customer. During the first stage, each group contributes its information to the data pool and then taps into it as needed. In the second stage, one-way serial coordination from centralized analytical units out to the operating units allows companies to go beyond just assembling data to drawing inferences. In stage three, information flows back and forth between central analytic units and various organizational units like marketing, sales, and operations, as together they seek answers to questions like "How can we prevent customers from switching to a competitor?" and "Who would be most likely to buy a new product in the future?" In stage four, firms bring an integrated understanding of their customers to bear in all day-to-day operations.

Companies and the Customers Who Hate Them

Harvard Business Review

June 2007

by Gail McGovern and Youngme Moon

Why do companies bind customers with contracts, bleed them with fees, and baffle them with fine print? Because bewildered customers, who often make bad purchasing decisions, can be highly profitable. Most firms that profit from customers' confusion are on a slippery slope. When a rival comes along with a friendlier alternative, customers defect. Adversarial value-extracting strategies are common in such industries as cell phone service, retail banking, and health clubs. Overly complex product and pricing options, for example, may have been designed to serve various segments. But in fact they take advantage of how difficult it is for customers to predict their needs (such as how many cell phone minutes they'll use each month) and make it hard for them to choose the right product. Similarly, penalties and fees, which may have been instituted to offset the costs of undesirable customer behavior, like bouncing checks, turn out to be very profitable. As a result, companies have no incentive to help customers avoid them. Tactics like these generate bad publicity and fuel customer defections, creating opportunities for competitors. Companies that dismantle these harmful practices and design a transparent, value-creating offer can head off customer retaliation and spur rapid growth.

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About the Authors

Daniel G. Goldstein is an assistant professor of marketing at London Business School.

Eric J. Johnson is the Norman Eig Professor of Business and director of the Center for Excellence in E-Business at the Columbia Business School in New York.

Andreas Herrmann is a professor of marketing and director of the Center for Business Metrics at the University of St. Gallen in Switzerland.

Mark Heitmann is a professor of marketing at Christian-Albrechts University in Kiel, Germany.

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